Eesti Energia

Annual Report 2008/09

CREATING NEW ENERGY!

THE TIME FOR BIG DECISIONS

Certain events have an impact that goes far beyond a single economic cycle. If Eesti Energia had not been founded by the first President of the Republic of Estonia 70 years ago, we would not be here today, participating in events that have a major impact on the future development of the whole of Estonia.

In spring 2009, we concluded the third biggest investment agreement in the history of Eesti Energia, which will see us install desulphurisation equipment at our oil shale-fired power stations. During the past year, we expanded our environmentally friendly energy production, constructing the largest nominal capacity wind park in the Baltic States at Aulepa, and beginning preliminary work for an Estonian nuclear power plant, while cutting electricity losses dramatically. We achieved a 5% share on the Latvian energy market in addition to the 90% market share we are proud to possess in Estonia. For the first time ever, we also produced more than a million barrels of shale oil. Despite the global recession that begun during the past year, we managed to increase our profitability and earned 87 million euros in net profit.

Eesti Energia is a strong international company with an integrated value chain, and from May 2009 we are accepting new challenges under a unified brand and the common energy signature. We are broadening considerably the range of services we offer our clients, and we are working to complete the Estlink 2 undersea cable quickly. We have started to expand the Estonian oil industry with the more efficient and environmentally sustainable Enefit technology. In order to modernise electricity production we are continuing our preparation work for new oil shale-fired generation blocks, offshore wind parks and a possible new nuclear power plant.

Decisions made in the energy industry tend to have an effect that lasts for decades, and I am proud to say that Eesti Energia is a company standing on a strong foundation, while looking into the future. Although economically, times may be difficult, we can economise our costs while at the same time making far-reaching strategic decisions.

Sandor Liive

Management Report

CREATING NEW ENERGY!

Energy always surrounds us, everywhere, in nature and in every person. Natural energy cannot be created or destroyed, only transformed from one type to another, but by working together we can produce **energy in people**.

We are responsible for creating the maximum possible value from the natural resources, the technology and the power grid that we control. We take responsibility for our actions, decisions and attitudes and we are making energy generation more environmentally sustainable.

We are dedicated to our work and are constantly looking for ways to improve our service and our energy system. **We are enterprising.**

Our people are the best in the business and we bring together **experts**, exponentially multiplying their knowledge and skills through **teamwork** to create a powerful force.

We certify the value created with our signature – the **energy signature**.

EESTI ENERGIA IN BRIEF

Eesti Energia is an international energy company offering energy solutions ranging from electricity, heat and fuel production to sales, customer service and consulting. The company operates in all three Baltic States, in Finland and in Jordan, using the company name Eesti Energia in Estonia, and, since May 2009, the brand name Enefit for international operations.

Our comprehensive approach to energy generation and customers' energy needs helps us create value and increase security in Estonia and the wider world.

- We are the only energy company in **Estonia** operating across the entire value chain, from the upstream operations of oil shale mining, electricity and heat production and unique oil production, through to client service and sales.
- In the **Baltic Sea region**, we sell electricity to customers in all three Baltic States and in Finland.
- Our unique know-how and technology in oil shale processing is in high demand **around the world**, and is a key exports in our business portfolio.

Mission:

All of our energy for the good of people.

Vision:

- We will sell energy to two million customers in the Baltic Sea region.
- We will be the undisputed world leader in producing liquid fuels from oil shale.

Eesti Energia

- Founded in 1939; 100% of shares held by the Republic of Estonia
- Total revenue and other income of 677 million euros in FY 2008/09, assets of 1802 million euros, net profit of 87 million euros
- 470 000 private customers and 26 000 business customers.
- Over 8000 employees
- Bonds listed on the London Stock Exchange
- S&P credit rating of A-/negative outlook, Moody's credit rating A1/negative outlook (5 June 2009)
- Second-best customer service company and employer in Estonia (TNS Emor, 2008)
- The most reputable government-owned company in Estonia (TNS Emor, 2009)

THE 2008/09 FINANCIAL YEAR IN BRIEF

Strong Financial Result

- Sharp growth in profit and revenue, with net profit up 121%, operating profit up 61%, and operating income up 17%
- Investments of 226 million euros, the largest in past six years
- Increased efficiency and lower costs, with growth in business expenses down from 31% to 11%, and a fall of 370 in the number of employees

Key Events

- Market penetration of 5% in the Latvian electrical market, with electricity sold to 110 clients
- Reduction of grid losses to 9.5%
- Signing of a 100 million-euro agreement to install desulphurisation technology, the third-largest energy investment in Estonia
- Record production of one million barrels of shale oil
- Growth of 47% year-on-year in customer numbers for the KÕU Internet service, reaching 23 000 customers
- Entry into the mini-CHP market in Estonia

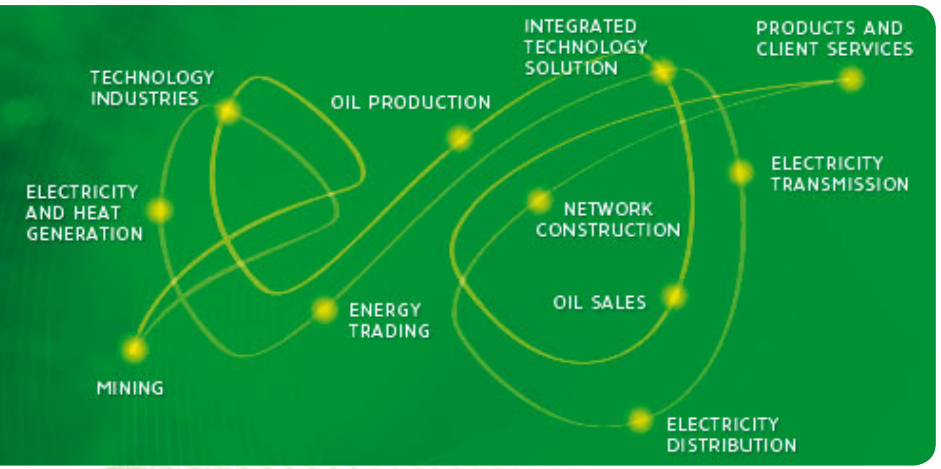
Business Portfolio Expanded

- Preparations well underway for a second undersea cable between Estonia and Finland. The European Commission supports the construction of Estlink 2 with 100 million euros
- Start of project work for an Estonian nuclear power plant, with preliminary mapping of locations completed
- Preliminary studies into offshore wind farms
- Development of new oil production technology in partnership with Outotec
- Preparations for the Ahtme CHP project as well as the Iru waste-to-energy CHP project
- Start of close cooperation with the world's largest wind turbine manufacturer Vestas
- Completion approaching at Aulepa wind farm, the wind farm with the largest nominal capacity in the Baltics
- Negotiations for an oil production concession and an electricity generation agreement in Jordan reaching conclusion

Key Figures for the Group

		2008/09	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
TOTAL ELECTRICITY SALES, of which	GWh	9 541	9 716	7 841	8 002	7 983	7 674	6 931
domestic electricity sales	GWh	7 077	6 992	6 634	6 235	5 947	5 702	5 369
electricity exports	GWh	2 464	2 725	1 230	1 733	2 036	1 973	1 562
SALES OF HEAT	GWh	1 690	1 739	1 822	1 981	1 977	2 168	2 361
SALES OF OIL SHALE	thous. tonnes	1 730	1 796	1 737	1 789	1 841	2 047	2 088
SALES OF SHALE OIL	thous. tonnes	139	128	109	117	113	82	88
TOTAL DOMESTIC POWER GRID LOSSES, including	%	9.5	10.2	10.6	12.1	12.5	13.9	15.6
distribution grid losses	%	6.7	7.8	8.3	9.8	10.2	11.1	11.9
REVENUE	MEUR	668	574	482	453	395	377	366
EBITDA	MEUR	217	173	291	264	149	133	132
NET PROFIT	MEUR	87	39	168	135	43	33	41
CASH FLOW FROM OPERATING ACTIVITY	MEUR	166	148	257	228	125	117	115
INVESTMENTS	MEUR	226	171	140	153	160	198	238
ASSETS AT THE END OF THE YEAR	MEUR	1 802	1 694	1 667	1 497	1 318	1 245	1 185
BORROWINGS AT THE END OF THE YEAR	MEUR	329	337	342	345	309	295	276
EQUITY AT THE END OF THE YEAR	MEUR	1 160	1 055	1 116	971	840	795	762
EQUITY/ASSETS AT THE END OF THE YEAR	%	64	62	67	65	64	64	64
ROIC	%	8.1	5.4	16.2	14.4	5.6	4.9	6.1
NET DEBT / EBITDA		1.0	0.8	0.3	0.7	1.8	1.9	1.4
INTEREST COVERAGE RATIO		11.8	9.4	15.5	9.0	7.5	7.0	8.2
AVERAGE NUMBER OF EMPLOYEES		8 349	8 417	8 576	8 983	9 542	9 754	9 768

STRATEGY



Eesti Energia is an international energy company with an integrated value chain, and our comprehensive approach to energy production and meeting energy needs gives our customers security. Our business activities each have a different risk profile, and we use a unified management to ensure faster growth and create more value for our shareholders. Eesti Energia operates under a single brand and manages its operations in four divisions.

Retail Business

Eesti Energia's retail strategy centres on supplying electrical services to residential and corporate customers to achieve the stated aim of "More products. More customers. More business." The primary financial goal of retail operations is to increase revenue per customer.

In the years ahead we will significantly expand the product portfolio we offer to our customers. Alongside our current network service and electricity sales, we launched our KÕU Internet service in 2007, and in spring 2009 we relaunched Green Energy. Our next move will be to start offering electrical works, energy audits, energy performance labelling, and customer consultation on energy saving.

Our core services have about 90% of the Estonian market and our strategy for maintaining that share of the market is focused on increasing customer loyalty. In order to improve our network service, we are working to reduce as economically as possible the number and duration of power outages experienced by customers. For the same reason, we are replacing existing power lines with underground cables or building new overhead lines and new substations. We are working with our customers to tailor individual solutions for improving the reliability of supply, and we are adopting the next generation of systems for managing the power grid, measuring electrical energy and reducing losses.

Constantly improving the quality and efficiency of our customer service is very important to us. We are developing our e-business environment to further complement our customer service offices and call centres, and we are introducing a new customer information system, while our personal customer account managers and network account managers are working hard to provide even better service to corporate clients.

In the Latvian and Lithuanian markets, we are focusing on our aggressive growth strategy to increase our customer numbers there. Our advantages are our long-term power generation portfolio, flexible product offers and energetic sales work. In Latvia, we are aiming for market share of at least 15% in the next two years, and in Lithuania market share of five percent.

Electricity and Heat Generation

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

In order to ensure its clients a sufficient power supply, Eesti Energia is looking to invest in new power generation capacities in Estonia, Latvia, Lithuania, Finland or Scandinavia, while reducing CO_2 emissions from power generation and diversifying its electricity generation portfolio. Eesti Energia's long-term goal is to own enough power generation capacity to cover at least Estonia's electricity consumption and help ensure Estonia's energy security.

To make better use of our power generation capacity, power generation at Eesti Energia is closely linked to the buying and selling of electricity on the regional electricity market. Eesti Energia uses consistent risk management in the electricity market.

By 2015 Eesti Energia will reduce the CO_2 emissions of its electricity generation portfolio to 0.8 t/MWh, down from 1.1 t/MWh in 2007, and by 2025 to 0.3 t/MWh or less. Achieving this will require a significant holding in a nuclear power plant, the maximum use of biofuels and waste to produce heat and power, electricity generation by wind parks, and an expansion of co-generation of heat and power. Investment decisions are taken one at a time, dependant on the legislative environment and the electricity market.

To lower the environmental impact of production, Narva Elektrijaamad (Narva Power Plants) is investing in increasing the environmental safety of ash handling, and in removing sulphur and nitrogen emissions from exhaust gases, ensuring that the plants can continue to function after stricter environmental requirements come into effect in 2012 and 2016. New production capacity for generating electricity from oil shale will also be built.

We will also use our knowledge and experience to start generating electricity from oil shale in other countries that are looking to use their oil shale reserves.

Minerals, Oil, Biofuels

Eesti Energia's success in producing fuels draws from the efficiency of oil shale mining and the development of technology for liquid fuels production, maximising the value of the company's oil shale resources.

In mining and transporting oil shale our priorities are increasing productivity, planning our resources for the maximum sustainability, and reclaiming mined areas. We want to ensure that Eesti Energia's oil shale resources are used for electricity generation and liquid fuel production in Estonia, which will require mining rights for 18 million tonnes of oil shale per year and sufficient production capacity from 2016 onwards.

Eesti Energia has a unique technology for producing liquid fuels from fossil minerals, allowing the overwhelming majority of the energy contained in oil shale to be harnessed with significantly less environmental impact. By 2016 Eesti Energia aims to produce at least 1.3 million tonnes per year of liquid fuels that are suitable for refining and twice as valuable as the current product, and to build a shale oil processing plant in Estonia with a production capacity of 30 000 barrels per day. A decision about the first stage of the expansion is made in 2009.

We are working with our strategic partner Outotec to develop a solid heat carrier technology for liquid fuel production, and are selling our know-how and key technical components to countries wishing to utilise their oil shale reserves. The first such country is Jordan, which plans to open an electricity and liquid fuels production complex in cooperation with Eesti Energia.

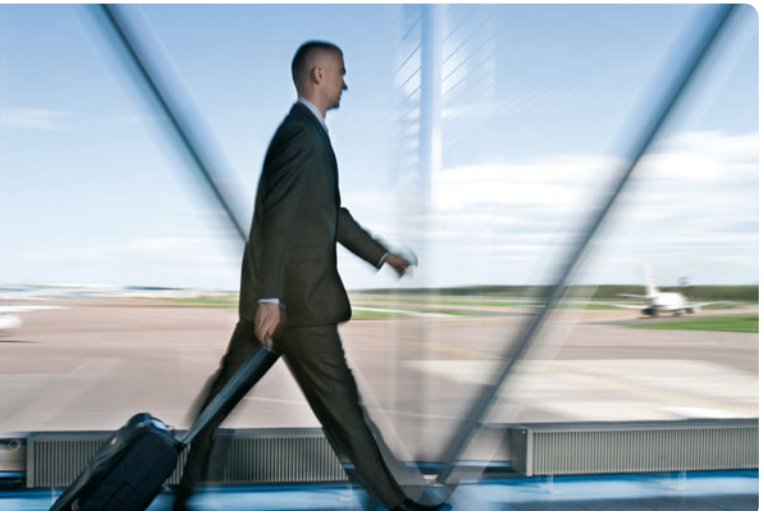
Electricity Transmission

Increasing Estonia's energy security means improving the interconnections between Estonia and other participants in the European Union's electricity market, and rolling out the European Union's electricity market system in Estonia and the other Baltic States. Estonian transmission system operator Põhivõrk ensures that all market participants in Estonia are treated equally.

The most important investment for Põhivõrk is to build a second undersea cable between Estonia and Finland by 2014. To ensure the security of the electrical power system, Põhivõrk will have gas turbines of at least 400 MW by 2018. Põhivõrk is the leader among Baltic energy companies in creating a market region uniting the Baltic States, the Nordic countries and Poland. A top priority is to open an energy exchange in Estonia at the end of 2009 in cooperation with the Nordic exchange Nord Pool.

The Estonian transmission system operator grid Põhivõrk ensures the operational reliability of the Estonian electrical power system as a whole.

A VALUE-GENERATING INTERNATIONAL COMPANY



As preparation for the deregulation of the electricity market, in the 2008/09 financial year Eesti Energia made the transition to a management model based on business divisions. Dividing the company into four divisions lays a foundation for the Eesti Energia Group to create more added value and be more successful in the international market.

Significant added value was created by directly linking Members of the Management Board with the management of specific business divisions, also there was an increase in the number of joint projects between companies and closer teamwork. The value added was already reflected in the improved business results in the third quarter.

To bring about a clearer customer orientation, several companies were restructured. Eesti Energia Võrguehitus (Network Construction) and the consumer supplier Eesti Energia Elektritööd (Electrical Works) grew out of the former Retail Business division subsidiaries Elektriteenused and Elpec. In the Electricity and Heat Generation division the former subsidiary Iru Elektrijaam (Iru Power Plant) became an Eesti Energia business unit from the beginning of FY 2009/10.

Other units are now able to draw on the results of the work of development teams which were previously company-based. For example, a development suggestion system that worked well in the Sales and Customer Service business unit has now been adopted throughout the Retail Business division, while the team that developed electricity retail sales in Latvia is

putting its good experience to work for the entire Group, and the experience of the Minerals, Oil and Biofuels division in protecting intellectual property is also benefiting the Group. To maximise value, inter-division development teams have also been formed, for example, oil shale supply logistics are being developed jointly by the Minerals, Oil and Biofuels division and the Electricity and Heat Generation division.

As the divisions have similar needs, the management of the support functions for the primary activities of the Group, including IT, accounting, management accounting, communications and human resources, was consolidated. Merging the support activities, which had previously been managed locally in each subsidiary, has raised the level of professionalism of these services and increased the productivity of the work by cutting costs.

The growth of Eesti Energia's market share in neighbouring countries poses challenges at an international level, as the increasing customer base made it necessary to expand Eesti Energia's Latvian subsidiary E.Energy (renamed Enefit SIA in summer 2009) while Finnish subsidiary Solidus became more tightly integrated.

A Transparent and Future-Oriented Organisation

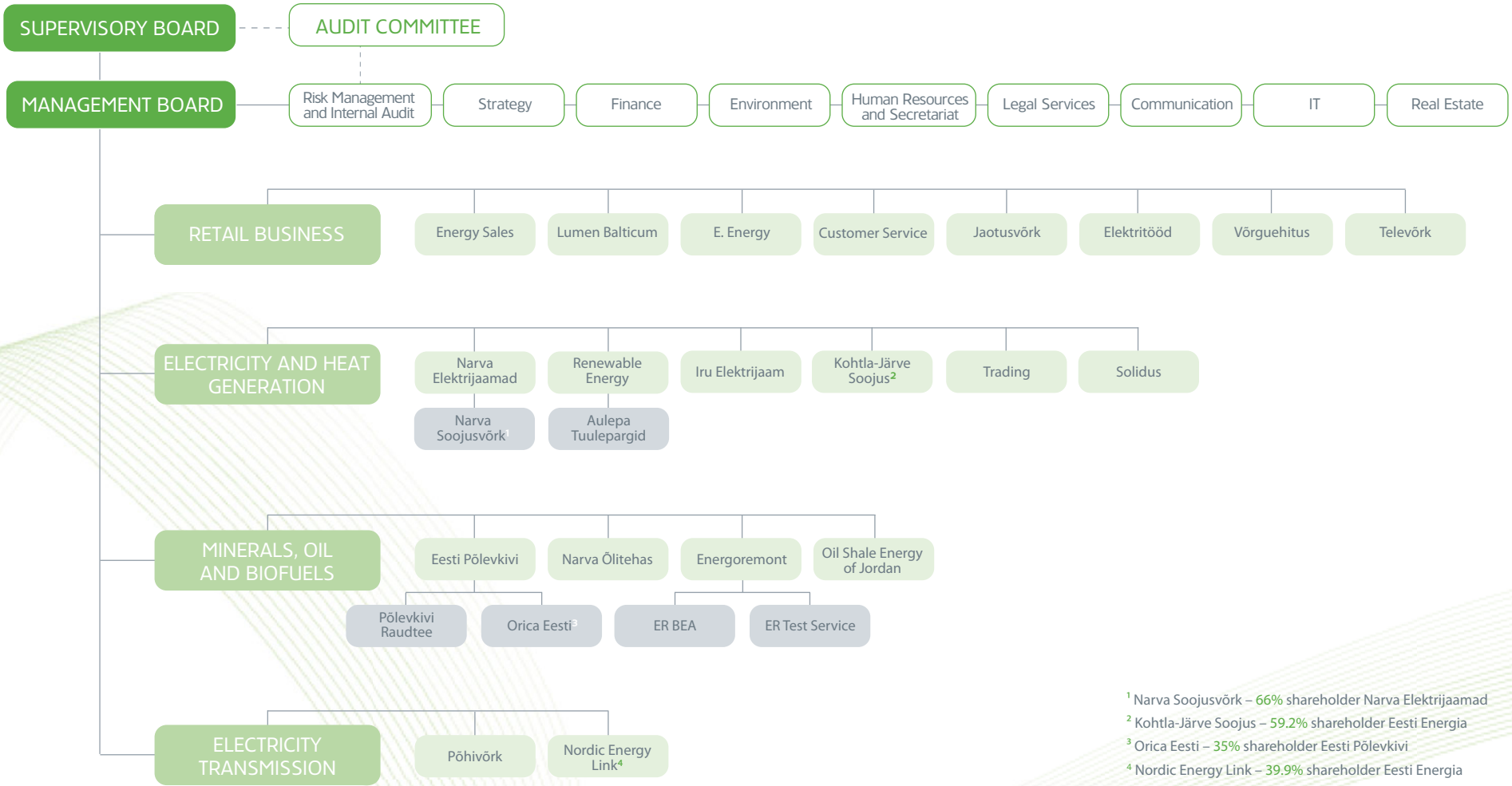
Eesti Energia's business is sustained through transparency and the high value placed on open and fair competition. It is an integral part of the corporate culture that Eesti Energia's employees maintain high ethical standards, avoid conflicts of interest and take responsibility for their actions.

Working with the Supervisory Board and the Audit Committee, Eesti Energia increased the efficiency of its group audit environment in FY 2008/09, as a result of which, supervisory information available to the owner became more systematic and transparent. As a consequence, Eesti Energia has placed great emphasis on increasing interaction between Risk Management and Internal Audit.

Risk management is integrated into each process to ensure that the company's business conforms to its rules, that the company assets are preserved, that resources are used in a targeted, efficient manner, and that management information is reliable and comprehensive. Further development of the audit environment will draw on the continuous and systematic management of risks affecting the company's business.

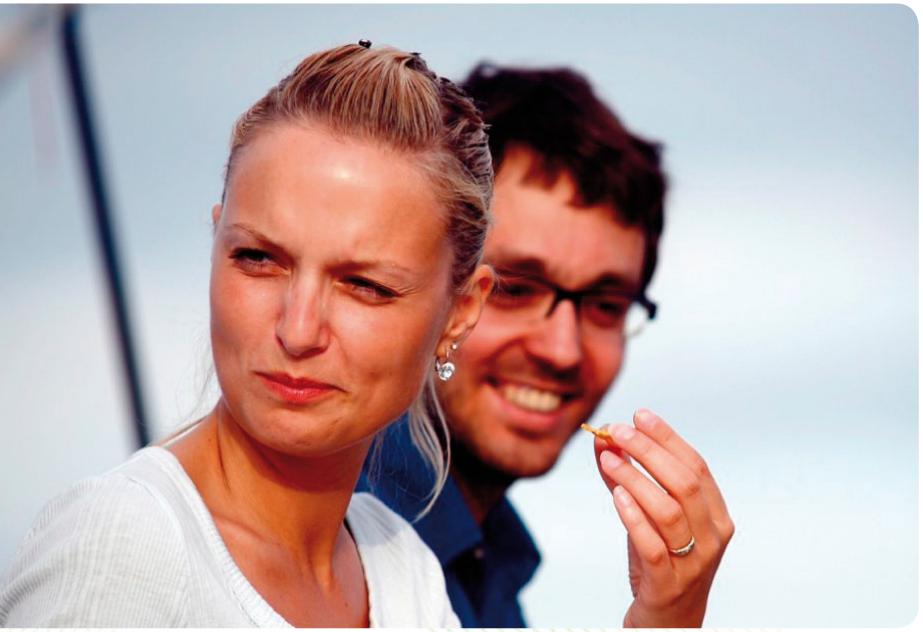
Structure

31.03.2009



[1] Narva Soojusvõrk – 66% shareholder Narva Elektrijaamad
[2] Kohtla-Järve Soojus – 59.2% shareholder Eesti Energia
[3] Orica Eesti – 35% shareholder Eesti Põlevkivi
[4] Nordic Energy Link – 39.9% shareholder Eesti Energia

SUCCESS IN BUSINESS COMES FROM ENTERPRISING AND KNOWLEDGEABLE PEOPLE



The transition to a management model based on business divisions meant that the 2008/09 financial year was a time of changes and adaptation for Eesti Energia and for all of the Group's employees. The need to optimise and manage the organisation more efficiently was also driven by a sharp deterioration in the general economic climate.

The Group's move to a unified management and the restructuring of the companies laid the foundation for more systematic and focused business operations. The more productive organisation of work meant that employee numbers could be reduced to 8131 employees by the end of FY 2008/09 compared to 8501 employees at the end of FY 2007/08. The average age of the Group's employees was 46.5 and their average length of service for the company is 15.3 years. Most employees – 79% – are male, and skilled workers, 61%, make up the largest group in the job structure, 17% are office staff, 11% managers, and 5% top managers. Customer service associates and unskilled personnel each account for 3% of employees.

Inspired People Give Results

One of the key goals of Eesti Energia's human resources strategy is to retain highly capable staff. To increase motivation, Eesti Energia will be implementing a performance-based management system from FY 2009/10. At the beginning of the period, specific strategy-based goals will be agreed with employees, and bonuses will be paid when the goals are fulfilled or exceeded. In the previous year, business divisions started quarterly reporting of results in preparation for the new system, and this intermediate step between annual planning and continuous performance tracking has improved both the flow and the quality of feedback to employees from the heads of the business divisions.

As an employer Eesti Energia always strives to support its employees as much as possible, with an orientation day to help new employees settle in, and speciality training and numerous development opportunities offered later. In order to make employee incentives more effective, Eesti Energia has started reorganising the current benefits system.

In the human resources strategy, much attention is paid to developing managers, as the transformation of the current Eesti Energia into a successful company on the deregulated market depends on the managers.

Special events have helped foster a shared view of Eesti Energia's surrounding business environment and of successful ways of doing business. Nearly 500 managers took part in a leadership day focusing on efficiency and cooperation, while the internal training programme "ABC for Managers" was continued, also focusing on leadership skills. The first of these events was designed for top and mid-level managers, and the second programme is for all of the company's junior managers.

To be a better partner for its customers, Eesti Energia is implementing Standards for Good Service in the Retail Business division. Within this programme about 2000 Eesti Energia employees will undergo quality service training. The programme will also look at developing employees' sales skills, as these have an important impact on the company's success both now and after the deregulation of the market. A "Weekend University" programme gave participants a better understanding of Eesti Energia's aims and key activities outside their direct area of responsibility. This training programme is highly regarded by employees and in FY 2008/09 it was also run in Russian for the first time.

Tomorrow's New Employees will Bring the Future's Success

As Estonia's most important energy company, Eesti Energia works with educational institutions, both in professional and vocational higher education and on master's and doctoral programmes, to ensure a sufficient supply of energy specialists and to guarantee the sustainability of energy as a science subject.

In FY 2008/09, Eesti Energia awarded a total of 49.5 thousand euros in scholarships to 14 young students, and in addition, we are supporting three Estonian university students in Sweden who are studying nuclear energy. Eesti Energia offers internship opportunities for the best students, so that they can gain wider experience. In FY 2008/09, a total of 181 interns gained practical experience working in Eesti Energia's companies, and several of them have shown future potential for the Group.

Eesti Energia is a partner for many schools in developing energy studies. In 2008, Eesti Energia signed a cooperation agreement with the Estonian University of Life Sciences covering research and development, academic education and in-service training. Eesti Energia also provided 25.6 thousand euros toward the launch of the subject of power grid planning, and also contributed to the development of study programmes at Tallinn University of Technology's Institute of Power Engineering. Eesti Energia's managers and specialists also shared their knowledge with future energy specialists as course instructors. So that there would be a faculty of energy in future too, we announced a special scholarship for doctoral students.

To increase the interest of young people in energy studies, Eesti Energia held a physics competition called "Energetic Energy", aimed at schoolchildren, for the third time, and 430 students from 64 schools in Estonia participated. With the Danish Embassy, Tallinn University of Technology and the Ministry of Education and Research, Eesti Energia helped organise a competition called "Energiasäästlik kool" (Energy Saving at School). School field trips to Eesti Energia companies and sites also help to promote education about energy and inspire young people to choose it as a subject.

RESPONSIBILITY TOWARDS OTHERS

As one of the country's leading companies, Eesti Energia is well aware of its responsibility to society, and supports energy-related projects that translate into benefits for as many residents of Estonia as possible. In the 2008/09 financial year, Eesti Energia provided 300.4 thousand euros of support for various projects.

Environmentally Friendly Energy

Eesti Energia's goal is to generate electricity in a manner that has the least possible impact on nature. For this reason Eesti Energia invests in renewable energy solutions, including wind parks and biofuel-powered CHP plants, and is working hard to reduce the environmental impacts from oil shale mining and from oil shale based electricity generation and transmission. To achieve its environmental goals and to search for innovative solutions, Eesti Energia has joined forces with a number of scientific and research establishments, most notably the Tallinn University of Technology, the University of Tartu and the Estonian University of Life Sciences.

Energy Saving Builds the Future

Eesti Energia considers energy saving to be very important, as it saves customers money and helps reduce the environmental impact of power generation. Eesti Energia has posted information on the internet about increasing energy efficiency on its Energy Saving portal (kokkuhoid.energia.ee). Eesti Energia was represented on the jury of the Green Key annual award for excellence in tourism, and contributed awards to raise awareness about energy saving. The company also provided support to produce teaching materials on energy saving called "Teistmoodi energia" (Alternative Energy), aimed at young people and children.

Together, We Can Achieve More

Eesti Energia supports institutions in the social sector by constructing electrical lighting systems and supplying electricity to sites such as a home for young people with mental disabilities, the Maarja Village (Maarja küla). Eesti Energia values the power of cooperation and initiatives within the company that promote environmentally-friendly lifestyles, and encourages its employees to use energy more economically, while tree planting in the spring has become a tradition. In a similar vein to the nationwide clean-up campaign of 2008, "Teeme ära", Eesti Energia is taking part in the country-wide brainstorming sessions of 2009 as well. Eesti Energia is one of the founders of the Energy Centre, which organises energy-related exhibitions aimed at science buffs big and small.

Good Energy in a Healthy Body

Eesti Energia encourages good physical and mental health for people living in Estonia and has contributed to developing recreational sports opportunities that are within the means of as many people as possible. Eesti Energia supported the recreational trails project, which offers people the chance to exercise year-round free of charge, by building its lighting systems. For the third time, a Nordic Walking series was held to promote a sport that is suitable for anyone, no matter what their age or condition.

THE BUSINESS ENVIRONMENT

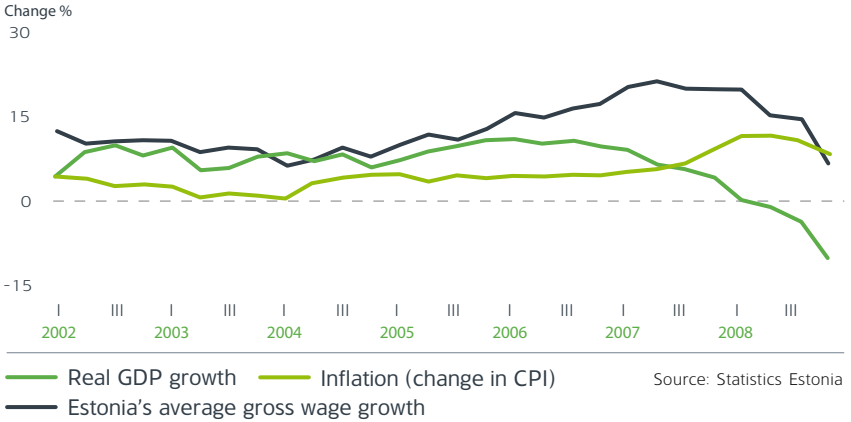
Data released by the Statistics Estonia shows that real GDP growth in 2008 was the lowest in the last 15 years at -3.6%. Growth fell steadily from 0.2% in Q1 2008 to -9.7% in Q4.

The reason for the decline was lower domestic demand, which fell 7.4% in 2008, and lower exports, which were down 1.1%. The slow-down in the growth of wages, tighter loan conditions and pessimistic future prospects have strongly discouraged consumer spending. As a result, spending on private consumption dropped by 4.0%. Due to the drop in demand both in Estonia and abroad and the limited availability of credit, companies cut investments by -8.6%. The economic slow-down in Estonia's trading partners pulled exports down by 1.1%, while imports also dropped markedly, by 7.9%, due to the drop in domestic demand.

The companies that consume the most electricity and have the greatest impact on the Group's electricity sales are in the manufacturing sector. The value added by manufacturing sector has also decreased in the recession and faster than the economy as a whole, and was down 4.0% in 2008. The decline is expected to deepen in 2009 as the index of industrial output, which shows the change in industrial output compared to the previous period, has slowed dramatically. Between January and March 2009 the index was on average 30% lower than in the same months in 2008.

In 2008 the consumer price index (CPI) registered a 10.4% rise in prices, which is the highest level in the last 11 years. Increase in domestic consumer prices was supported by strong domestic demand, and was strongly influenced by record high energy prices and world food prices. A number of legislative amendments which came into force in 2008 raised excise duty rate on alcohol, tobacco and fuel. At the end of the year, inflation started easing off and in the beginning of 2009 the rise in prices slowed to 2-3% according to figures from the Statistics Estonia.

The Business Environment



The recession has also slowed the rate of growth of average gross wages in Estonia. The average 18% growth in gross wages seen in 2006 and 2007 slowed to 13.8% in 2008, and in Q4 2008 the rate of growth was 6.9%. At the same time unemployment has increased from 4.1% in Q4 2007 to 7.6% by Q4 2008. There were 53 500 unemployed people in Estonia at the end of Q4 2008.

Electrical Energy

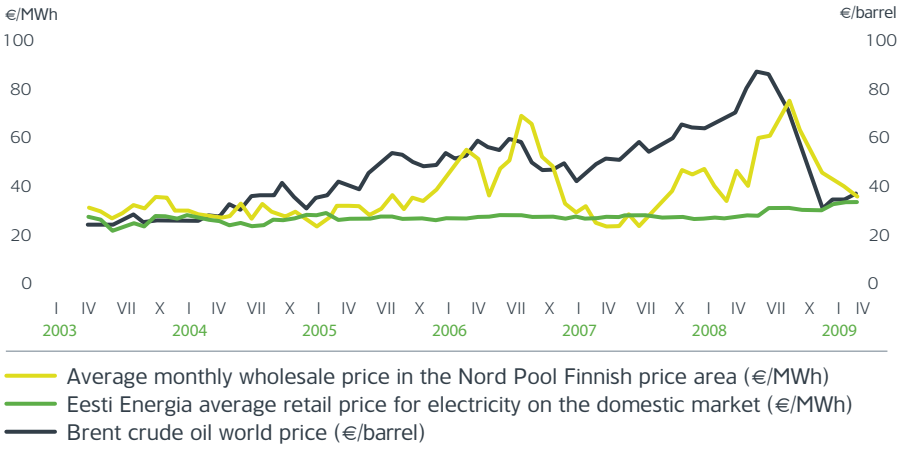
The companies in the Eesti Energia Group both generate and sell electricity. The Group's electricity generation portfolio contains renewable and non-renewable energy sources, of which oil shale is by far the largest. The electricity sales portfolio encompasses retail customers in the Baltic States' electricity market and electricity wholesale through the Nordic power exchange Nord Pool to Finland.

Estonia has the Lowest Electricity Prices in the European Union

The primary raw material used by Eesti Energia to generate electricity is oil shale. The price of electricity produced from oil shale is relatively stable because the price of oil shale does not depend directly on world prices for crude oil and other sources of energy.

According to Eurostat the average price of electricity for residential customers in Estonia in the six months to 1 July 2008 was among the lowest in the European Union, and for industrial consumers with annual consumption of 2-20 GWh the price was the lowest. More stringent environmental requirements and increased investment by the Group are two factors that will put pressure on the price of electricity in the near future.

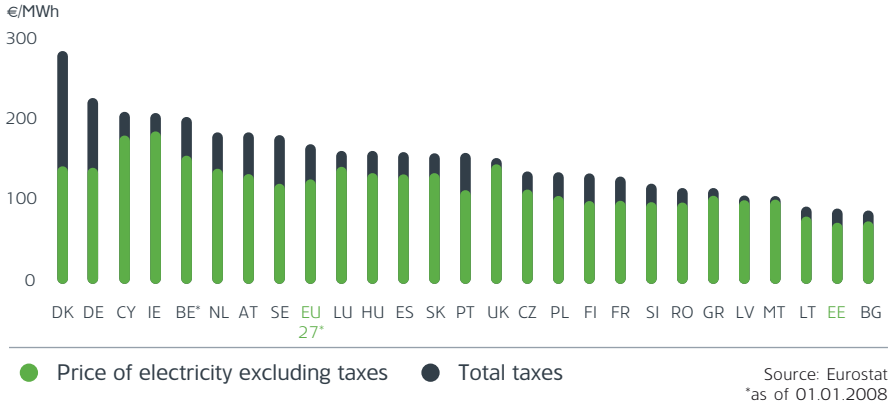
Prices of Electricity and Crude Oil



Source: Eesti Energia, Reuters

Past Six-Month Average Electricity Price for EU Residential Customers

with an annual consumption of 2500–5000 kWh, as of 1 July 2008



Source: Eurostat
*as of 01.01.2008

Past Six-Month Average Electricity Price for EU Industrial Consumers

with an annual consumption of 2–20 GWh, as of 1 July 2008

Source: Eurostat
*as of 01.01.2008

Price of Electricity on the Estonian Electricity Market

The domestic electricity market is divided into two parts, the open market and the closed market. Customers who consume more than 2 GWh[1] per year of electricity through one connection point have the right to buy electricity on the open market, where the price of electricity should theoretically be determined by supply and demand. The price of electricity on the closed market, on the other hand, is regulated and agreed with the Estonian Competition Authority. The Electricity Market Act allows open market customers to buy electricity on the closed market as well, which is why the price of electricity on the closed market sets the upper limit for the price of electricity on the open market and prevents the price of electricity on the open market from being determined freely. By 2013, however, the market will be completely open, *id est* the price of electricity will be determined by market conditions for all customers.

Under Estonian legislation, the Competition Authority is responsible for approving the limit on the price of electricity sold by Narva Elektrijaamad to the closed market segment and the limit of the weighted average price of the electricity sold under the Group's sales obligation and network charges.

From 1 January 2009, indexing methods approved by the Competition Authority have been used to adjust the price of the electricity sold from Narva Elektrijaamad to the closed market segment and also the weighted average price of electricity. Although regular indexing results in more frequent price adjustments, it prevents one-time steeper changes.

When approving prices, the Competition Authority considers the cost to the company of complying with laws and licences, and of ensuring the reasonable profitability of the invested capital. The Competition Authority considers the invested capital to be the residual value of

[1] Up to 1 January 2009, the market was open to customers whose electricity consumption through one connection point exceeded 40 GWh.

the company's annual average non-current assets plus 5% of the company's revenue outside the company. The reasonable return is the company's weighted average cost of capital (WACC). The methods for calculating prices are posted on the Competition Authority's website.

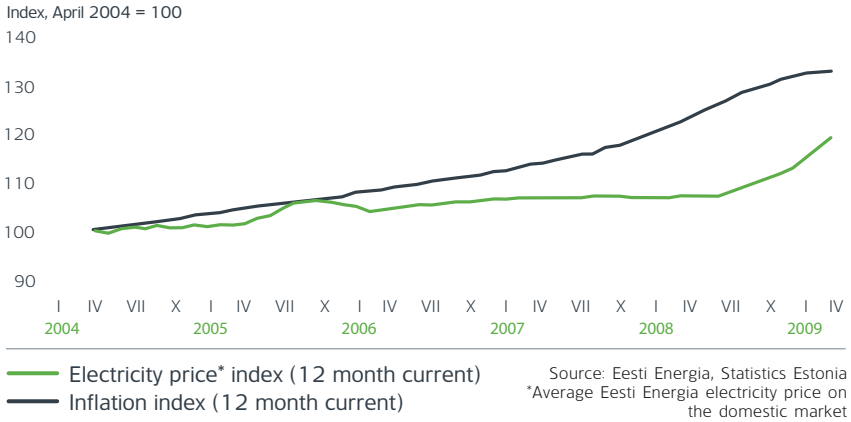
The maximum weighted average price for the electricity sold by the Group changed on three occasions in FY 2008/09: on 1 July 2008 due to a change in the price of electricity generated by Narva Elektrijaamad; on 1 January 2009 due to changes in costs beyond the control of the Group (indexation of prices), and on 1 March 2009 in a regular adjustment to network charges.

The change in the price of electricity on 1 July 2008 was above all the result of an increase in the price of oil shale, which accounts for nearly half of the price of the electricity generated by Narva Elektrijaamad. In the last ten years cost reductions and more efficient working practices have allowed Eesti Energia to avoid a rise in the price of oil shale, but cost pressures from larger production volumes and the external environment made it difficult for the Group to defer the rise in price. Moreover, the cost of electricity generation has been raised by the increased cost of providing competitive wages for employees and higher costs for power plant maintenance due to the rapid growth in the general levels of prices and wages.

The price of electricity has been indexed since 1 January 2009. The primary reasons for the price rise were a rise in the environmental fees set by law, and price rises for many of the inputs in oil shale mining and power generation beyond the control of Eesti Energia, such as transport, explosives and chemicals.

As with the maximum weighted average price for electricity, network charges are also agreed with the Competition Authority, but unlike the maximum weighted average price, specified charges are approved for a specified term.

The Price of Electricity and Inflation



Source: Eesti Energia, Statistics Estonia
*Average Eesti Energia electricity price on the domestic market

On 1 March 2008, a three-year network charges regulation period came into effect. Within this period, all network charges are adjusted after 12 months depending on:

- changes in sales volume compared to the previous period (predefined when the price is approved);
- changes in costs beyond the Group's control;
- increase in inflation (change in CPI) and productivity in the previous 12 months;
- changes in the cost of capital and reasonable profitability of previously agreed investments.

The changes in network charges as a result of the adjustment are generally small, only 1-2%. The network charges may also decrease as a result of changes in the factors used in their calculation.

Network charges were adjusted on three occasions in FY 2008/09: on 1 July 2008, when the new price of electricity came into effect; on 1 January 2009 in connection with indexing of the price of

electricity; and on 1 March 2009 in a regular annual adjustment to network charges. Jaotusvõrk's charge for electricity distribution fell by an average of 1.5% in FY 2008/09 and the average rise from FY 2007/08 in Põhivõrk's network charge for electricity transmission was 3.6%.

Under the Electricity Market Act, Põhivõrk calculates and publishes by 1 December each year the fee for financing renewable energy subsidies and sales obligations for the next calendar year. The fee is calculated on the basis of the cost of financing the subsidy and the obligation to buy and the estimated volume of network services. From 1 January 2009, the price of the renewable energy subsidy, not including VAT, has been 0.39 euro cents per kWh.

Temperature

Sales of electricity are affected by two major factors, economic growth and temperature. If the temperature is lower from the long-term average, then consumption of electricity and heat increases, especially in the winter period. Analysis has shown that a one-degree deviation in the average temperature from the long-term average affects annual electricity consumption by approximately 120-150 GWh.

Calculations of the long-term average temperature are based on data recorded by the Estonian Meteorology and Hydrology Institute since 1989. The average temperature in the last financial year was 6.6 °C, which was 0.9 °C lower than that in FY 2007/08, but 0.4 °C higher than the long-term average.

The temperature was higher than the long-term average primarily in Q3 of FY 2008/09, by 2.0°C. Usually a greater amount of electricity and heat is sold in Q3 of Eesti Energia's financial year than in other quarters, so the impact of the higher temperature was significantly larger than in the summer months.

Effect of Temperature on Electricity Sales

The Nordic Electricity Market

Eesti Energia buys and sells electricity in the Finnish price area of the Nordic power exchange Nord Pool and supplies electricity to its Finnish contractual partner via the Estlink undersea cable.

Electricity prices on Nord Pool are primarily influenced by the water level at Norwegian and Swedish hydroelectric plants, as nearly 99% of the electricity produced in Norway and 46% of the electricity produced in Sweden is generated in hydro plants. In addition to the water level, the Nord Pool electricity prices are affected by significantly higher or lower temperatures in the Nordic countries and by changes in the prices of fossil fuels and emissions allowances.

The monthly average spot prices for electricity in Nord Pool's Finnish price area ranged from 35.3 to 73.9 €/MWh in FY 2008/09, and the average for the financial year was 51.2 €/MWh. From 40 €/MWh at

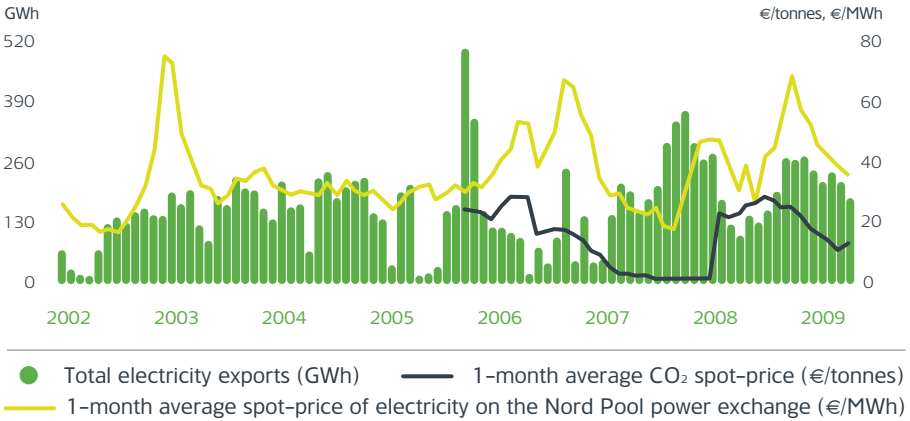
the beginning of the financial year, prices rose to 70–80 €/MWh by September, but then fell to 35–40 €/MWh by late March.

In a climate of the rapidly increasing energy prices, the Nord Pool *spot*-price for electricity also increased in FY 2008/09. The level of hydro reserves stayed higher than average during the financial year until August 2008 and then fell below average. Due to problems with the cable link between Norway and Sweden, the price in the Finnish price area was significantly higher than the Nord Pool base price of electricity in the first half of the financial year.

In FY 2008/09 the average price of electricity in the continental Europe power exchange EEX was 69.6 €/MWh, which was 24.6 €/MWh higher than the wholesale price of electricity on Nord Pool at 45.0 €/MWh, and 40.2 €/MWh higher than the weighted average retail price of electricity sold by the Group on the domestic market for 29.4 €/MWh. Research was conducted during the financial year into connecting Nord Pool and EEX but due to technical problems the connection between the trading systems was postponed to 2009.

In FY 2008/09 NorNed, a 700 MW network cable connecting the electricity systems of Norway and the Netherlands, was put into operation, increasing exports from the Nordic region to Central Europe and contributing to price conversion in the two regions.

Electricity Exports



The Baltic Electricity Market

The Baltic electricity market covers the Baltic States and north-western Russia and contains four major suppliers of electricity. Although the Baltic electricity market is gradually opening up, thanks to, for example, the Estlink cable between Estonia and Finland and diminishing market regulation, there are still several obstacles to a completely open market in these countries.

In Estonia and Lithuania the development of a free market for electricity is hindered because open market customers can buy electricity at the closed-market price. In FY 2008/09 the Latvian electricity market law changed so that companies with over 50 employees and at least 10 million euros in turnover must buy electricity on the open market. This significantly advanced the open market in Latvia. For electricity producers, in contrast, it is easier to access the electricity market in Estonia than in Latvia or Lithuania.

In April 2009 the prime ministers of the Baltic States signed a joint declaration on the energy market, setting out their goal of establishing new network connections with the Nordic countries and Poland, and creating a single energy market. One of the most important steps towards this goal is to restrict the right of consumers on the open market in Estonia and Lithuania to buy electricity at closed market prices, starting in 2010. The declaration also stated that an undersea cable connecting the Baltics and Sweden would be built via Lithuania and that work would begin between the European Commission, Finland and the Baltic States to create a single set of rules for electricity imported from third countries.

In early 2009 a joint analysis of the TSOs of Baltic Sea states was conducted to evaluate the economic benefits of potential new network connections in the Baltic States using market models. Participants in the project were the TSO organisations from the Nordic countries (NORDEL), the Baltic countries (BALTSO) and Central Europe (UCTE). The most profitable connections proved to be the Estonian-Finnish (Estlink 2) connection and the Lithuanian-Polish connection, which could be used to join the Nordic, Baltic and Central European electrical systems. The least profitable potential connection in this assessment was the Swedish-Baltic connection. In terms of security of supply and the creation of a common market area, the best solution would be to build all three of these connections.

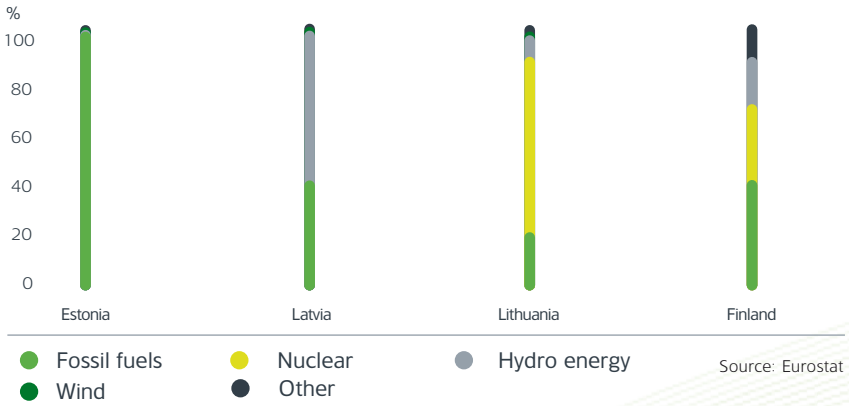
An important part of the economic stimulus package proposed by the European Commission and approved by the European Parliament was the plan to improve the security of electricity supply in the Baltics, with 100 million euros planned for the Estlink project and 175 million euros for the Swedish-Baltic link.

In FY 2007/08, the Nord Pool Spot Baltic project was launched, aiming to connect the Baltic region with the Nord Pool power exchange. Even though the project was halted in the following financial year, the European Parliament's decision to provide support and the joint declaration from the Baltic prime ministers gave a positive signal that the project should continue.

The Baltic States' electricity market will be affected significantly by the closure of the Ignalina nuclear power plant in late 2009 as this will significantly reduce Lithuania's electricity production and exports, and push up the price of electricity in Lithuania. The closure of the Ignalina plant will significantly reduce the production capacity of the Baltic States and increase the need to invest in new production capacity.

Net Electricity Production

weighting of primary energy sources in net electrical production in 2007



Source: Eurostat

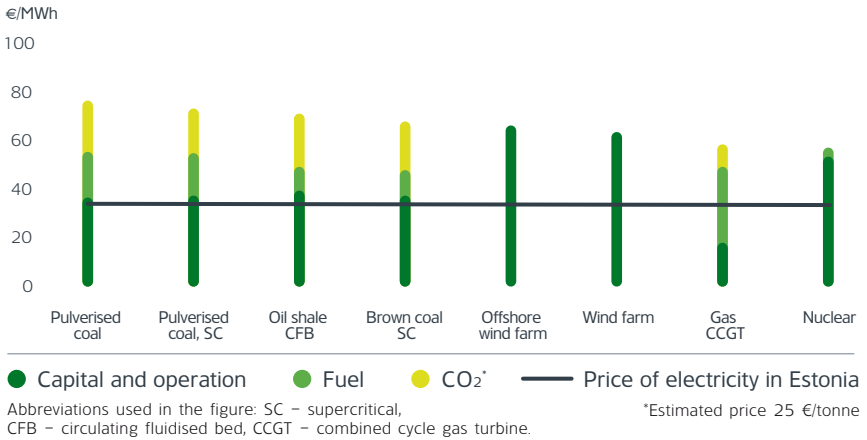
Investments in New Production Capacity

Increasing energy consumption demands more capacity for production. As it is expected that in the near future existing capacity will depreciate partially, it will be necessary to invest in new capacity just to supply existing consumption and to cover any future rises. It is also a priority to minimise the impact of human activity on the climate by reducing greenhouse gas emissions and increasing production from renewable energy sources. The best possible solution to these issues will balance the impact of production on the climate, the price of the electricity produced, and energy security.

An important consideration for investment in new production capacity is the production price of the electricity generated and factors that affect the price. The figure on the right shows the cost of electricity produced from various sources, covering the cost of capital, fuel costs and CO_2 emission allowance costs. The cheapest electricity is generated in nuclear power plants, but nuclear plants have low flexibility because of their high cost of capital and operating costs. Electricity from modern oil shale and coal-burning plants is the most expensive, because although they have a lower cost of capital than nuclear plants, volatile world fuel prices in recent years and the lack of certainty about CO_2 emissions allowances after 2013 make building them risky. Wind farms benefit not only from a number of state subsidies designed to increase the percentage of renewable energy sources in energy production, but also from relatively low construction costs. Compared to the electricity price in Estonia at the end of FY 2008/09, the price from any of these new production sources would be higher.

Eesti Energia's strategic objective is to possess a diversified production portfolio, allowing it to remain competitive on the regional electricity market. A large percentage of the Group's electricity generation is

Investments in New Production Capacity



Abbreviations used in the figure: SC – supercritical, CFB – circulating fluidised bed, CCGT – combined cycle gas turbine.

*Estimated price 25 €/tonne

currently based on oil shale, which is very CO_2 intensive. Therefore has the Group taken steps to diversify its production portfolio and reduce the percentage of greenhouse gas emitting production sources. The biggest project in the medium term is the construction of new CFB (Circulating Fluidised Bed) energy units at Narva Elektrijaamad. Summer 2009 will see the completion of the largest wind park in the Baltics at Aulepa, and in 2012 desulphurisation equipment will be installed on the old pulverised firing units at Eesti Power Plant. In summer 2008 the Group's renewable energy company started research into offshore wind farms in Estonian waters and is analysing the feasibility of a wind farm on the closed ash field at Narva Elektrijaamad.

Emission Trading

The European Union Emission Trading System was founded in 2005 to help member states comply with their obligations under the Kyoto Protocol to reduce greenhouse gas emissions. In national allocation

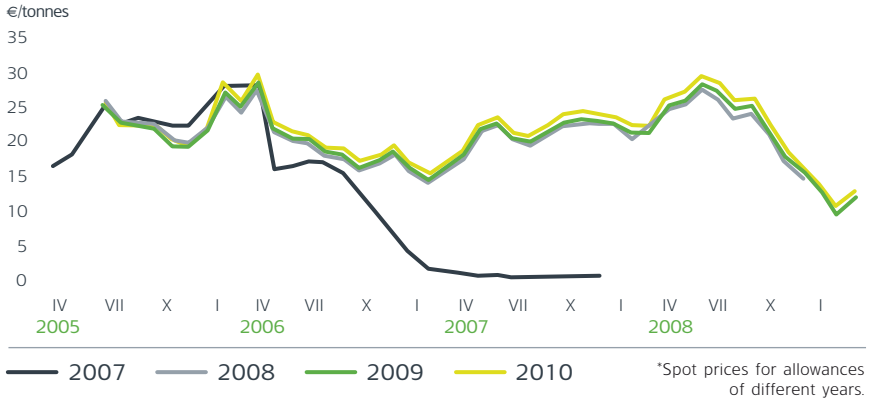
plans approved by the European Commission, carbon dioxide emissions allowances are allocated to companies that discharge greenhouse gases, each emissions allowance giving its holder the right to emit one tonne of CO_2. If a company discharges less emissions than it holds allowances for, it may trade the allowances on the various markets accepted by the European Commission. Emissions allowances are approved on a yearly basis, but allowances not used within one year can be transferred to the next year. The allowances allocated in the first trading period could not be transferred to the second trading period, however.

The Estonian government allocated Eesti Energia Group companies a total of 9.2 million tonnes of greenhouse gas emissions allowances in the second allocation plan for 2008-2012, which is about 40% less than in the first allocation plan. The figure was cut primarily because the European Commission set the Estonian national annual allowance for greenhouse gas emissions at 12.72 million tonnes instead of the 24.38 million tonnes sought. The government has appealed against this decision at the European Court of First Instance, citing as the primary reason the inaccuracy of the assumptions behind the calculations on which the allocation of emissions allowances to Estonia were based, for example those concerning electricity produced from natural gas.

Initial data shows that a total of 2.1 billion tonnes of CO_2 was discharged in 2008 in Europe, which is 7.9% more than was allocated to companies in the national allocation plans (not including allowances allocated for reserve), and about 5% more than in 2007.

The price of CO_2 emissions allowances was extremely volatile in FY 2008/09, for instance, the price of an allowance in early July 2008 was 30 €/t, but it was only 8 €/t in February 2009. The prices of

Spot Prices of Carbon Dioxide Emission Allowances on the Nord Pool Power Exchange*



emission allowances primarily follow the movements of crude oil, natural gas and coal prices on the world market. In autumn 2008 the emissions allowance market was struck by the global economic crisis and the limited availability of credit, which reduced demand for electricity and forced companies to sell allowances to generate funds, causing a drop in the price of allowances. In the short term, the prime factor affecting prices will be the state of the world economy, and if it remains in the doldrums, electricity consumption will drop along with demand for additional allowances.

In FY 2008/09 the European Parliament and the Council of the European Union agreed on the general principles for the greenhouse gas allowance trading system after the end of the second allocation period in 2013. Each member state will be allocated a number of allowances, which it can sell at auction. Even though the ultimate goal is to sell all of the allowances to companies at auction, there are

certain exceptions that allow countries to allocate allowances free of charge. For example, a member state can allocate companies generating electricity up to 70% of their average emissions certified in 2005-2007 if the companies meet certain conditions, but the free of charge allocation will end by 2020. The principle that each member state will invest up to 50% of the income received from the auctions in environmentally friendly production, such as development of renewable energy sources, was also agreed.

Heat

The main factor affecting sales of heat is the temperature in the heating period. Between November 2008 and March 2009 the temperature was 1.8 °C lower than it was in those months of FY 2007/08, boosting sales of heat. However, total sales during the period were slowed by the drop in sales at Iru Power Plant due to the emergence of a new producer, Väo Power Plant, in the heating market in Tallinn's Lasnamäe-Kesklinn district. From the beginning of January 2009, consumers in this district have been supplied with heat by Estonia's largest CHP plant, Iru, the Väo Power Plant owned by Tallinna Küte, and, if necessary, the Ülemiste boiler house.

Tallinn and Maardu District Heating Market

estimate for FY 2008/09

%

Source: Eesti Energia

The price of the heat sold in Estonia is regulated and agreed with the Competition Authority. The maximum price for heat lets companies cover their operating expenses, investments for fulfilling operational and developmental obligations, compliance with environmental requirements, compliance with quality and safety requirements and reasonable profitability.

During the financial year, new sales prices for heat were agreed with the Competition Authority. The maximum price for heat from Kohtla-Järve Soojus changed twice in FY 2008/09 on 1 April and 1 September 2008. The first adjustment of the sales price, which had been valid for four years, was due to higher prices for fuels, materials and services, and higher pollution fees. The second was dictated by a shift from oil shale towards shale oil in heat production in the summer period.

The maximum price of heat sold by Narva Soojusvõrk was adjusted twice, on 1 October 2008 and 1 March 2009. In both cases the change was the result of a rise in the price of heat energy purchased from Narva Elektrijaamad, which in the first case was caused by the rise in the price of oil shale from 1 July 2008, and in the second case by higher prices for the inputs for heat production beyond Group's control, such as environmental charges, explosives and transport, since 1 January 2009.

The primary factor affecting the cost of heat production at Iru Power Plant is the cost of natural gas, which makes up around 85% of the cost base. The price of natural gas is related to world fuel oil prices of the previous six months, as a result of which the price of natural gas varies each month and so does the price of heat sold to Tallinna Küte. As the price of natural gas was lower in the last quarter of FY 2008/09, the production price of heat at Iru Power Plant also fell.

Oil Shale

The Group sells oil shale within the Group to Narva Elektrijaamad and Narva Õlitehas as well as to clients outside the Group. The Competition Authority approves the price of oil shale; from the beginning of January 2009 regular indexing has been used to set the price limit.

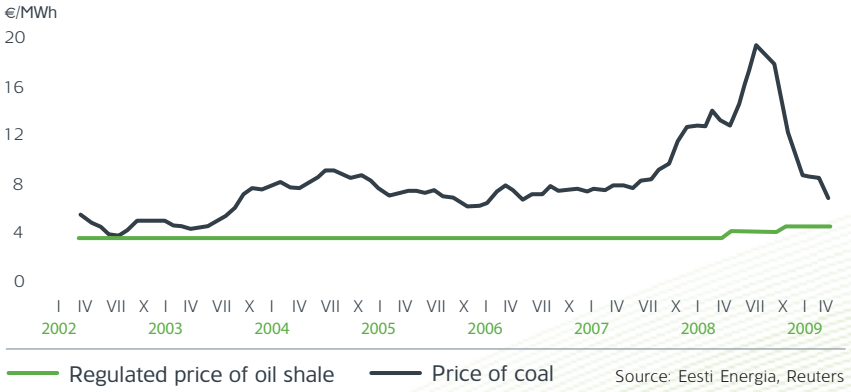
Under the Electricity Market Act, the price of oil shale sold by a company mining oil shale in Estonia to electricity producers with generating equipment with a net capacity of at least 500 MW must not exceed the level approved by the Competition Authority. In reality, only Narva Elektrijaamad fits this criterion; it produces heat and electricity from oil shale and is the largest oil shale consumer in Estonia. The drop in sales of electricity and the rise in imports reduced Narva Elektrijaamad's production in FY 2008/09, which also resulted in lower demand for oil shale.

Oil shale is used as a raw material to produce shale oil. In recent years fuel oil prices have been at record levels, making the production of shale oil more profitable and increasing demand for oil shale. Up to one-fifth of total oil shale output is sold for shale oil production. The price of the oil shale sold to Narva Õlitehas and clients outside the Group is similar to the regulated price, the only difference being due to the calorific value of the oil shale.

In FY 2008/09, the price of oil shale was adjusted twice, on 1 April 2008 and on 1 October 2008. The price, which had long been unchanged, rose from 8.5 euros to 9.4 and then to 10.06 euros per tonne as a result of changes in recent years in the labour market and the macroeconomic environment, and also due to higher pollution fees and costs the Group cannot influence, such as transport and explosives.

Oil Shale and Coal Prices

oil shale with a heating value of 2.33 MWh/kg; coal with heating value of 7.0 MWh/kg (Rotterdam)



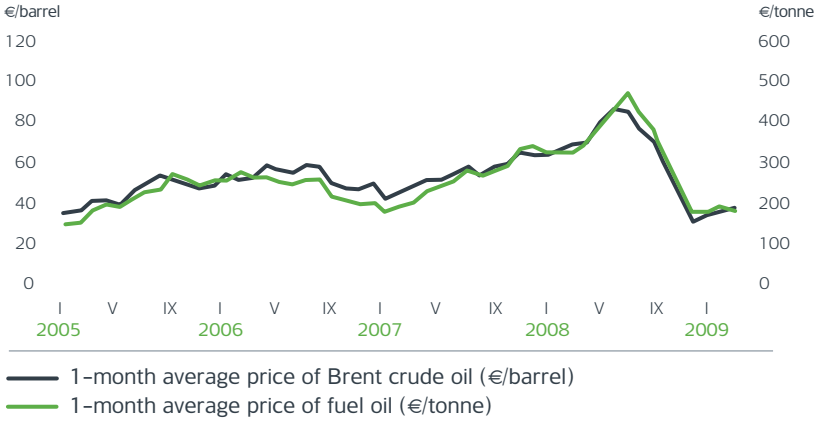
Liquid Fuels

The Group sells various liquid fuels both to local heat producers and for export. The raw material used to produce liquid fuels is the oil shale mined by Eesti Põlevkivi. Eesti Energia uses patented solid heat carrier technology in the production of liquid fuels, re-branded in May 2009 as Enefit Technology.

Of major importance in the sale of liquid fuels are world prices for fuel oil, which follow trends in the crude oil market. The price of Brent crude oil in FY 2008/09 was extremely volatile, ranging from 24 to 91 €/barrel (closing prices). Strong demand in developing countries, a shortage of spare production capacity and an increase in speculative transactions were the main reasons for the rise in world oil prices, which reached a record level of 94 €/barrel in July 2008. This was followed by a rapid decline in 2008 on the back of the global financial and economic crisis. Since early 2009 the price has stabilised at around 30–35 €/barrel.

Like the world crude oil price, the fuel oil price also reached a record level in FY 2008/09, when it reached nearly 504 €/tonne in July 2008, but it fell to 170–180 €/tonne by the end of the financial year. The price of domestic liquid fuels followed the same movements, as it is tied to the world market price for fuel oil.

Prices of Liquid Fuels



THE GROUP'S FINANCIAL RESULTS

Eesti Energia Group's total revenue and other income in financial year 2008/09 was 677.2 million euros, which was 16.6% more than in the previous financial year. The biggest increase in total revenue was posted by the Electricity and Heat Generation (+23.4%) division.

In other divisions revenue growth was slower. Total revenue and other income in the Retail Business and Electricity Transmission divisions was affected by the slowdown in the growth of network charges, while the 12.6% fall in the sales volume of oil shale reduced growth in the revenue of the Minerals, Oil and Biofuels division.

Total revenue and other income (million euros)	2008/09	2007/08	Change /	%
RETAIL BUSINESS	418.4	377.8	40.6	10.7
ELECTRICITY AND HEAT GENERATION	429.7	348.3	81.4	23.4
MINERALS, OIL, BIOFUELS	212.8	208.5	4.3	2.1
ELECTRICITY TRANSMISSION	81.7	76.0	5.7	7.4
OTHER, INCLUDING ELIMINATIONS	-465.4	-430.0	-35.4	8.2
CONSOLIDATED TOTAL REVENUE AND OTHER INCOME	**677.2**	**580.6**	**96.6**	**16.6**

Total Revenue and Other Income

Eesti Energia Group's biggest source of revenue continued to be domestic sales of electricity, which grew 14.0% (+26.2 million euros) in FY 2008/09 compared to FY 2007/08 to 212.7 million euros. Sales volumes outside the Group (7077 GWh) were approximately the same as in FY 2007/08, and the increase in revenue stemmed above all from the rise in the annual average sales price of domestic electricity. Greater exports and higher prices in Nord Pool's Finnish price area increased Eesti Energia's export revenue significantly. The growth in the sales of electricity to local retail clients by Eesti Energia's subsidiary E.Energy in Latvia also had a positive effect on export revenues. Export revenues for the whole year grew 33.7% (+28.7 million euros).

Revenue from network services was 174.4 million euros in FY 2008/09, up 2.1% (+3.6 million euros) on FY 2007/08. Unconsolidated revenue from the sales of network services at Jaotusvõrk (the Distribution Network) and Põhivõrk (the Transmission Grid) were 161.4 million euros (-1.2%) and 71.7 million euros (+3.3%) respectively. Network charges changed on three occasions in FY 2008/09, on 1 July 2008 and 1 January 2009 following changes in the price

of electricity and on 1 March 2009 due to a regular adjustment to network charges. On average the distribution network charge was 1.5% lower than in FY 2007/08, while the transmission network charge was 3.6% higher.

Revenue from heat amounted to 57.0 million euros in FY 2008/09. The average temperature in Estonia was about one degree lower than in the previous financial year and heat tariffs were pushed up by the higher price of natural gas, resulting in a 51.5% increase in revenue.

The revenue from oil shale was 24.5 million euros in FY 2008/09, 33.4% higher than in FY 2007/08. The lower sales by volume were compensated for by the new sales prices of oil shale which came into effect on 1 April 2008 and 1 October 2008.

The 23.2% rise in shale oil revenue compared to FY 2007/2008 was the result of increases in both the volume sold and the sales price.

Crude oil and fuel oil prices reached record levels in the second and third quarters of the financial year, lifting the sales price of shale oil. Revenue from shale oil was 35.4 million euros.

The 20.9% (–2.9 million euros) drop in revenue from energy equipment was due to lower exports.

Revenue from services totalled 26.6 million euros, up 25.7% (+5.4 million euros). Sales of communications services at 9.4 million euros accounted for the largest share of revenue and were 54.8% higher than in FY 2007/08, mainly due to continued growth in the number of clients using the mobile Internet service KÕU. In addition to this, revenue from new connection services rose to 6.8 million euros (+21.4%, 1.2 million euros), while revenue from repair and construction services fell to 2.9 million euros (–12.1%, –0.4 million euros).

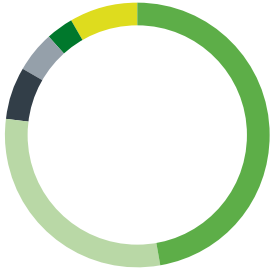
Consolidated Revenue Structure 2008/09

million euros

326	Sales of electricity
174	Sales of network services
57	Sales of heat
35	Sales of shale oil
24	Sales of oil shale
50	Other products and services

Consolidated Revenue Structure 2007/08

million euros



272	Sales of electricity
171	Sales of network services
38	Sales of heat
29	Sales of shale oil
18	Sales of oil shale
47	Other products and services

Expenses and Operating Profit

Eesti Energia's operating profit in FY 2008/09 was 102.0 million euros, which was 60.6% (38.5 million euros) more than in the previous financial year. The growth rate of expenses slowed from 30.7% in FY 2007/08 to 11.2% in FY 2008/09, which significantly affected operating profit. The increase in fixed costs was markedly slowed by the optimization of operational processes and the changes in the economic environment, and this also had an impact on overall operating expenses.

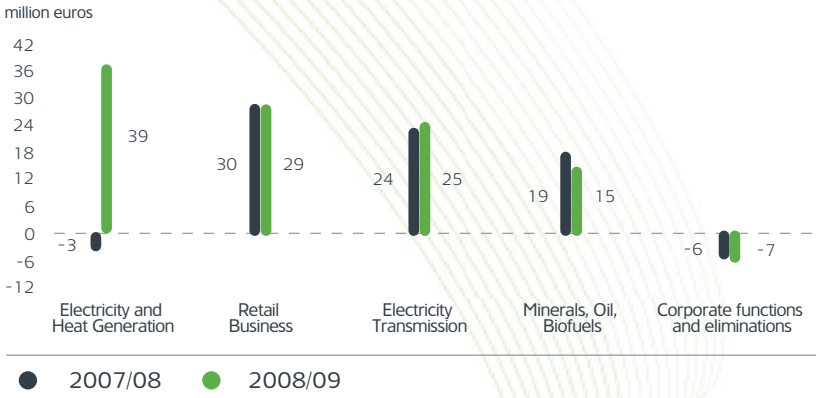
Operating profit (million euros)	2008/09	2007/08	Change /	%
RETAIL BUSINESS	29.3	29.6	-0.3	-1.1
ELECTRICITY AND HEAT GENERATION	39.4	-3.4	42.8	-1258.8
MINERALS, OIL, BIOFUELS	15.3	18.7	-3.4	-18.4
ELECTRICITY TRANSMISSION	24.9	24.3	0.6	2.4
OTHER, INCLUDING ELIMINATIONS	-6.8	-5.7	-1.0	18.4
CONSOLIDATED OPERATING PROFIT	**102.0**	**63.5**	**38.5**	**60.6**

The most important item in the Group's operating expenses is payroll expenses, which were 134.9 million euros in FY 2008/09, 12.0% (+14.5 million euros) higher than in the previous financial year. The growth rate of average monthly pay per employee slowed from 31.3% to 10.9% in FY 2008/09 and the average number of employees was reduced by 68 through optimisation over the year, and this had an impact on payroll expenses.

Expenses on the maintenance and repair of equipment fell by 11.8% to 41.9 million euros in FY 2008/09, mainly due to the lower expenses at Narva Elektrijaamad.

Lower production volumes decreased environmental pollution charges by 9.8%, even though the deposition charge for each tonne of ash was 40.5% higher than in FY 2007/08.

Operating Profit by Divisions



Expenses Structure 2008/09

million euros

135	Payroll expenses
115	Depreciation
57	Electricity and transmission services
43	Technological fuel
42	Maintenance and repairs
30	Environmental pollution charges
28	Greenhouse gases emissions expenses
124	Other expenses

Expenses on the CO_2 emissions allowances necessary for producing electricity and heat were 27.8 million euros in the FY 2008/09, up 205.9% on FY 2007/08. This rise was due to a reduction of approximately 40% in the amount of CO_2 emissions allowances allocated to Group companies in the framework of the second trading period (2008-2012) compared to the first period (2005-2007).

The growth of investments in recent years has also resulted in increased depreciation, which totalled to 114.9 million euros, an increase of 4.6%.

The division that posted the biggest operating profit was Electricity and Heat Generation with 39.4 million euros, which was 42.8 million euros more than in the previous financial year. Operating profit was mainly influenced by high prices on the Nord Pool power exchange in the second and third quarters of the financial year, successful trading in energy markets, the rises in the domestic price of electricity on 1 July 2008 and on 1 January 2009, the increase in the volume of imported electricity, and cuts in fixed costs.

The primary reason for the fall in operating profit in the Minerals, Oil and Biofuels division is the decline in oil shale sales volumes due to lower demand from Narva Elektrijaamad and the high share of fixed costs in oil shale production costs that could not be compensated for by the rise in the sale price of oil shale or the increase in revenue from shale oil.

The operating profit of the Retail Business division was boosted by the rise in the sales price of electrical energy, but pulled down by the decrease in the volume of electricity sold domestically, particularly in the second half of the financial year.

The increase in operating profit in the Electricity Transmission division slowed primarily because operating expenses were driven up by increased spending on purchases of electricity.

The increase in operating profit substantially strengthens the Group's ability to invest. Every additional euro we earn enables us to include about three euros of external capital and invest a total of four euros.

Net Profit

Eesti Energia's net profit in the financial year was 86.9 million euros, which was 121.3% (47.6 million euros) more than in the previous financial year.

Financial income in 2008/09 was 12.4 million euros, 1.7 million euros (16.0%) more than in the previous financial year. Interest income was affected by the smaller volume of cash and cash equivalents and deposits with maturities greater than three months, and at the same time by higher interest rates. Financial income was also increased by profit received from the realisation of changes in exchange rates.

Interest expenses on borrowings fell and on provisions increased, as a result of which financial expenses remained the same as in the previous financial year. In addition to this, net profit was adversely affected by income tax paid on dividends in FY 2007/08 (41.7 million euros). The Group paid the state a total of 10.7 million euros in income tax.

Net profit (million euros)	2008/09	2007/08	Change /	%
OPERATING PROFIT	**102.0**	**63.5**	**38.5**	**60.6**
INTEREST EXPENSES ON BORROWINGS	16.5	16.7	-0.2	-1.4
INTEREST EXPENSES ON PROVISIONS AND OTHER LIABILITIES	1.9	1.7	0.2	14.3
OTHER NET FINANCIAL INCOME	12.3	10.5	1.8	16.8
PROFIT FROM INVESTMENTS IN ASSOCIATES	1.7	1.4	0.3	20.4
INCOME TAX	10.7	17.8	-7.1	-39.8
NET PROFIT	**86.9**	**39.3**	**47.6**	**121.3**

Economic Value Added (EVA)[3]

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

The Group's EVA in 2008/09 was -14.4 million euros. Compared to FY 2007/08 the Group's operating profit increased (+60.6%), as did

EVA (million euros)	2008/09	2007/08	Change
RETAIL BUSINESS	-10.3	-2.5	-7.8
ELECTRICITY AND HEAT GENERATION	6.6	-36.5	43.0
MINERALS, OIL, BIOFUELS	-0.3	7.5	-7.8
ELECTRICITY TRANSMISSION	0.6	2.6	-2.1
OTHER, INCLUDING ELIMINATIONS	-10.9	-9.2	-1.7
GROUP EVA	**-14.4**	**-38.0**	**23.7**

[3] EVA = operating profit – annual average invested capital * Weighted Average Cost Of Capital

the average invested capital (+8.4%). The Group's weighted average capital cost in FY 2008/09 was 9.2%, 0.5 percentage points higher than in FY 2007/08.

Spending cuts and strong growth in revenue increased the EVA of the Electricity and Heat Generation division significantly. EVA reached 6.6 million euros, which was 43.0 million euros more than in the previous financial year.

The EVA of the Minerals, Oil and Biofuels division fell, mainly because the operating profit of the division was lower. Although the operating profit of the Retail Business division was almost the same as in FY 2007/08, EVA decreased as invested capital rose faster than operating profit. The EVA of the Electricity Transmission division also fell due to increased investments in electricity networks, which raised the amount of invested capital.

Investments

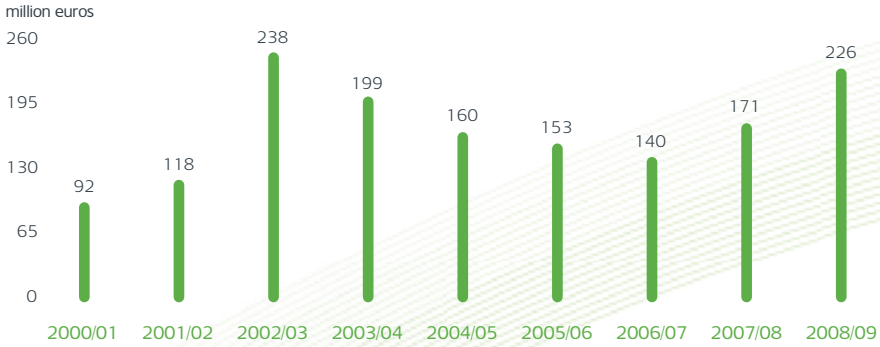
Investments made in FY 2008/09 were the largest in the past six years, reaching 226.3 million euros, 32.2% more than in the preceding year. As in recent years the focus of investment activity remained on the electricity networks, where 140.5 million euros was invested, which was 62.1% of total investments. Jaotusvõrk received the largest share of investments with 101.7 million euros (+13.4 million euros), followed by Põhivõrk with 38.8 million euros (+24.4 million euros) and Eesti Põlevkivi with 23.2 million euros (–3.6 million euros).

One of the most important investments in FY 2008/09 was by Electricity and Heat Generation in the Aulepa wind farm, where more than 28 million euros were invested. At the same time we continued to invest to improve the quality of services offered by the Group. Jaotusvõrk's investments were focused on building new network connections (45.8 million euros) and improving the reliability and quality of the electricity network (55.9 million euros).

Põhivõrk's investments were directed at renovating substations, the most important of which were the Kiisa switchyard (7.3 million euros) and the Veskimetsa switchgear (2.9 million euros), and laying the Ülemiste–Lasnamäe underground cable line (2.6 million euros). Eesti Põlevkivi invested primarily in renovating production equipment at the Estonia mine (13.0 million euros) and the Narva quarry (3.3 million euros).

At Narva Elektrijaamad, 10.3 million euros was invested, 1.3 million euros of which went into setting up a new ash removal system. At Narva Õlitehas the biggest investment, 2.7 million euros out of a total of 8.4 million euros, was in the replacement of the electrical filter and the routing of fly ash to the drying and retorting unit.

Investment Volume



Eesti Energia Group's principle in deciding investments is that they must help the Group to achieve the goals on the balanced performance scorecard. The most important among the financial criteria is the growth of our EVA. Taking into account the core activity of each company and other parameters, Eesti Energia has set the cost of capital for each of the Group's companies. For an investment to be economically profitable, its return must exceed the weighted average cost of capital of the company making the investment. Investments with a lower return are justified only if they are essential for ensuring the continuity of operations.

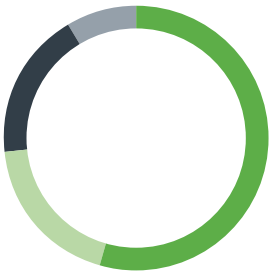
Investments Structure 2008/09

million euros

106	Retail Business
50	Electricity and Heat Generation
39	Electricity Transmission
32	Minerals, Oil, Biofuels

Investments Structure 2007/08

million euros

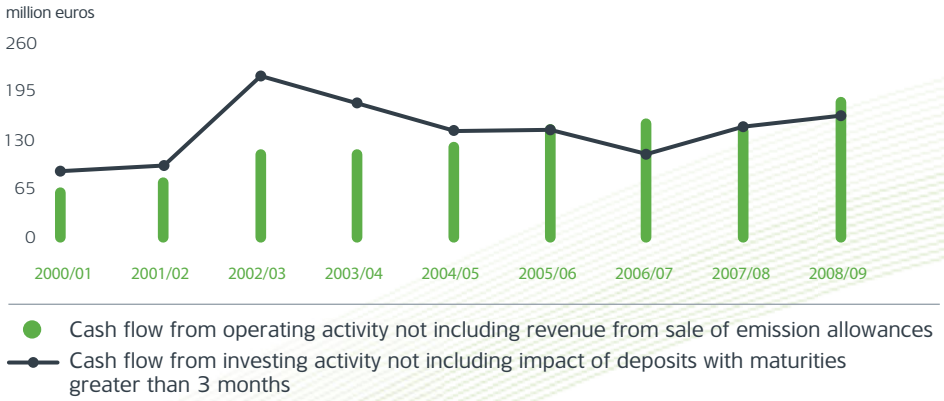


94	Retail Business
33	Electricity and Heat Generation
31	Minerals, Oil, Biofuels
14	Electricity Transmission

Cash Flow

Eesti Energia's cash flow from operating activities in FY 2008/09 totalled 166.0 million euros, which was 12.1% more than in the previous financial year. Cash flows from investing activity were affected by the 225.0 million euros paid to acquire non-current assets and saw an increase of 56.1 million euros. The cash flow from financing activity was –49.6 million euros, which was 20.9 million euros more than a year before, mainly due to dividend payments being cut to 41.7 million euros from 63.9 million euros in the previous financial year. Net cash flow for the Group totalled 34.3 million euros, an increase of 4.8 million euros from FY 2007/08.

Cash Flows



Credit Ratings

Eesti Energia's credit ratings did not change in FY 2008/09. The Group's credit ratings reflect not only the Group's own activities but also factors beyond the Group's control, most notably Estonia's sovereign rating.

Moody's has given Eesti Energia a credit rating of A1 with negative outlook, and a rating of A1 for unsecured debt obligations. Moody's lowered the outlook for long-term obligations to negative on 10 November 2008 in connection with the lowered outlook for Estonia's rating for domestic and foreign long-term currency obligations.

S&P has given Eesti Energia a credit rating of A- with negative outlook and a rating of A- for unsecured debt.

Financing

As at 31 March 2009, the average interest rate on Eesti Energia's borrowings was 4.41%, a fall of 0.16 percentage points during the financial year. Borrowings with a fixed interest rate made up 93% of the borrowings portfolio, and borrowings with a floating interest rate made up 7%. The weighted average interest rate on borrowings with a fixed interest rate was 4.51% and on borrowings with a floating interest rate it was 0.43% plus the last six-month Euribor. The base currency of all borrowings is the euro.

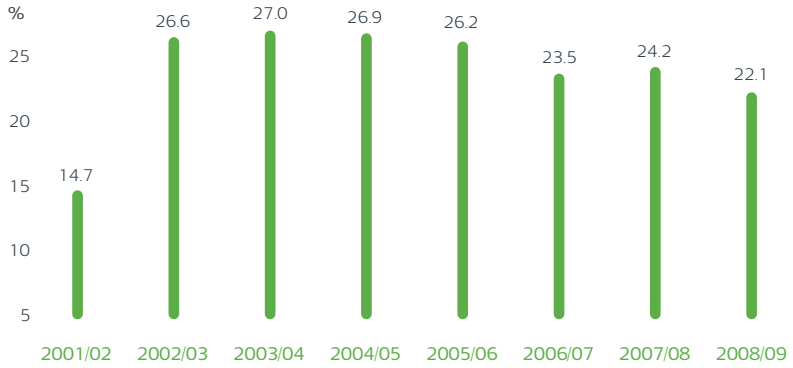
Eesti Energia's biggest long-term borrowing is a Eurobond emitted on the London Stock Exchange for 300 million euros with an interest rate of 4.5% and a redemption date of 2020. No new long-term borrowings were taken on in the financial year. As at 31 March 2009, the balance of loans taken was 42.0 million euros and the balance of undrawn loans was 40 million euros. The Group's net debt grew to 207.1 million euros, up 71.6 million euros compared to the end of the previous financial year. The change in net debt is due to a reduction in cash and deposits with maturities greater than three months.

The interest coverage ratio[4] increased by the end of FY 2008/09 from 9.4 in the previous financial year to 11.8. The amount of long-term bank loans fell, meaning interest expenses on borrowings dropped, and operating profit increased. Not including revenue from the sale of extraordinary CO_2 emissions allowances in FY 2005/06 and 2006/07, the interest coverage ratio has risen to its highest level in the last eight years.

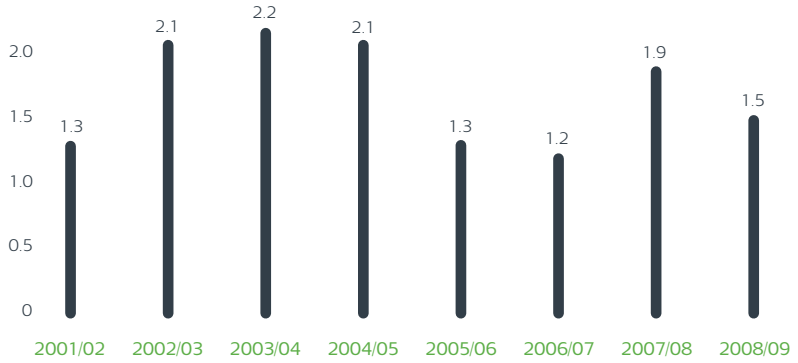
In the financial year cash flow from operating activities (not including changes in current capital) grew faster than investments, as a result of which the ratio of these figures increased from 82.0% in FY 2007/08 to 85.8% in FY 2008/09.

[4] Interest coverage ratio = EBITDA* / interest expenses on borrowings, provisions and other obligations
* EBITDA – earnings before interest, taxes, depreciation and amortisation

Financial Leverage



Borrowings / EBITDA



Eesti Energia's balance sheet structure has remained conservative in recent years, and by the end of FY 2008/09, the ratio of borrowings / (borrowings + equity) had dropped to 22.1%. Borrowings fell in the financial year by 7.2 million euros, but equity increased due to changes in the size of the hedge reserve. In subsequent financial years, it is expected that the percentage of external capital will increase in the balance sheet due to increasing investments.

Dividends

Cash flows in FY 2008/09 were significantly affected by the decision, proposed by the Management Board to the shareholders general meeting, to pay 41.7 million euros in dividends for the results of FY 2007/08. Dividends were paid out in October 2008.

The owner has requested dividends of 14.3 million euros for the results of FY 2008/09.

FORECAST

The outlook for the Estonian economy, which has seen rapid growth in recent years, is pessimistic, and the decline that started in 2008 will continue in 2009 as well. Although many institutions forecast a return to economic growth by 2010, this may be postponed if the domestic and external environments are unfavourable. In the forecast for the Group we have used conservative assumptions.

The forecast released by the Ministry of Finance on 31 March 2009 predicted an 8.5% fall in real GDP in 2009, a 2.5% fall in 2010 and growth of 1.5% in 2011. The forecast released by the Bank of Estonia on 22 April 2009 expects a 12.3% fall in 2009, followed by growth of 0.2% and 4.7% in the next two years. Growth in domestic demand, which was exceptionally rapid in the last few years, should bottom out in 2009 according to the forecasts as consumers' insecurity about the future and more limited access to credit, together with the slowdown in wage growth and rise in unemployment, are having an impact on private consumption. At the same time, investments are falling as loan conditions become more stringent and demand for corporate products and services drops. The economic slowdown in Estonia's trade partners will make it hard to boost the economy by increasing exports.

The forecasts predict that in 2009 domestic prices will be approximately the same as in 2008, and that they will fall in 2010. Domestic price pressure has abated because private consumption has dropped and the rise in some excise duty rates has ceased to have an impact, and at the same time external pressure on consumer prices is lower due to lower crude oil and food prices on the world markets. As economic activity declines, unemployment is expected to increase and average gross wages to decrease.

Estonian GDP, Inflation and Average Gross Wage

Source: Statistics Estonia, Ministry of Finance*
*Forecast until 2010, published on 31 March 2009

Sales of Electricity

We are forecasting that the economic decline will lead to a sudden slowdown in sales of domestic electricity outside the Group, and in FY 2009/10 we expect sales to be 6.2 TWh, which is about 10% less than in FY 2008/09. Sales volumes to business and residential clients will decrease by about 10%, and sales to network operators by 2%. As economic growth recovers, we expect sales volumes to gradually increase and for growth to resume starting in FY 2011/12.

The drop in demand for electricity in Latvia and Finland caused by the slowdown in economic growth will result in a fall in the Group's electricity export volumes. We forecast total exports in FY 2009/10 of 1.8 TWh, which is about 30% less than in FY 2008/09.

Price of Electricity

The price of electricity on the domestic closed market is agreed with the Competition Authority. The regulated price of electricity can be changed twice a year, on the first of January when oil shale and electricity prices are indexed and on the first of March after the network charges are corrected. Starting from 1 March 2009, the limit for the weighted average price of electricity sold is 32.5 €/MWh.

At the end of March 2009, the wholesale price of electricity in the Nord Pool power exchange's Finnish area was nearly 38 €/MWh. Futures transactions conducted at the end of March 2009 imply that the price is expected to fall in summer 2009 to around 33 €/MWh and then rise to 38-39 €/MWh by the beginning of 2010. Changes in the temperature, the amount of precipitation and world energy prices are the main factors that may result in significant price corrections.

Crude Oil Prices

The price of Brent crude oil on the world market fell from a record level of over $145/barrel (94 €/barrel) in September 2008 to $40–50/barrel (30–35 €/barrel) in early 2009. Futures transactions concluded at the end of May 2009 suggest the price is expected to increase to about 65 $/barrel (48 €/barrel) at the end of March 2010.

In the forecast for the Group in March 2008, we estimated that the average price of crude oil during FY 2009/10 would be about $50/barrel (37 €/barrel) following a downturn in world economy.

Emission Allowances Market

By the end of May 2009, the prices for CO_2 emission allowances for both 2009 and 2010 were at 15–16 €/t. In the near future the prices of CO_2 emission allowances will depend both on how the recession affects electricity consumption, and on global prices of the raw materials used in energy generation. In our forecasts we have assumed that the average price of CO_2 emission allowances will be around 16 €/t.

Operating Profit

The decrease in domestic electricity sales and exports, and in sales of heat will push the Group's revenue down in FY 2009/10.

To maintain profitability we have made our production processes more efficient. Cutting the growth of maintenance and repair costs and payroll costs have helped to lower fixed costs in FY 2009/10.

As the global financial crisis has raised the price of capital, our expectations for the rates of return on our investment projects have risen and we are financing only the most profitable projects.

Investments

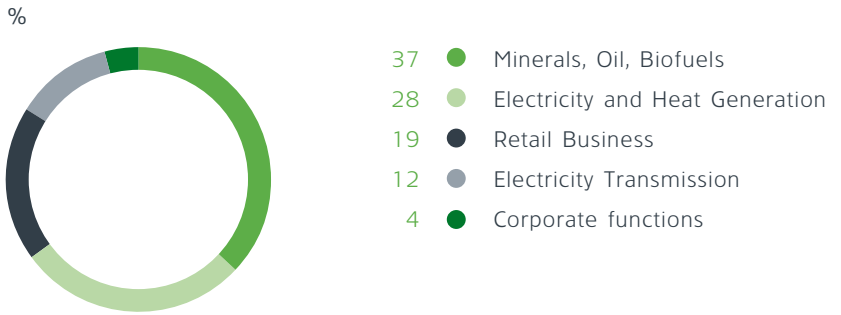
Investments in FY 2008/09 were the biggest in the past six years, totalling 226 million euros. For FY 2009/10 we forecast that investments will increase to about 255 million euros.

We forecast that investments in ensuring the sustainability of our operating activities will be 96 million euros in FY 2009/10, of which the largest share, 64 million euros, will be invested in improvements in the reliability and quality of power grids. The 19 million euros to be invested in the Minerals, Oil and Biofuels division is meant above all for oil shale mining equipment and the 13 million euros invested in the Electricity and Heat Generation division will primarily go to Narva Elektrijaamad.

Investments in various bigger projects will be around 160 million euros in FY 2009/10 according to our forecast. The primary projects for FY 2009/10 are the completion of construction at the Aulepa wind park, installation of desulphurisation equipment on the energy units at Narva Elektrijaamad, preparation work for the undersea cable Estlink 2, building of a peak and reserve boiler unit in Ahtme, and investments in environmental protection at Narva Elektrijaamad. Additionally it was decided in May 2009 to start the preparations for the construction of a shale oil plant operating with the new, more efficient Enefit technology.

To achieve the Group's strategic goals we are analysing other possible investments in building additional wind parks, a new CHP (combined heat and power) generation unit at Ahtme, a new energy unit at Narva Elektrijaamad, a mine at Uus-Kiviõli, and additional shale oil plants operating with the new Enefit technology together with a hydrogen processing plant for shale oil.

Investment Forecast 2009/10



Cash Flow

We project a moderate decrease in cash flows from operating activity in FY 2009/10 and an increase in investments. Although we mainly rely on the Group's bank deposits and on realising other short-term financing instruments to finance our investments, it will be necessary to use external capital as well. To do this, we will take out 40 million euros in unused credit in FY 2009/10 and conclude new loan contracts. The owners desire to take dividends of 14 million euros will significantly affect cash flows from our financing activities.

OVERVIEW OF THE RETAIL BUSINESS DIVISION

The Retail Business division supplies electricity, network services and additional services to residential and business customers. Having all the companies that deal with end customers together in one division generates more added value for customers and makes existing clients more loyal, while helping the division to engage with an increasing number of customers by introducing new services.

Key Events in the 2008/09 Financial Year:

- A 5% share of the Latvian electricity market achieved
- Electricity distribution losses were cut from 9.8% to 6.7% in three years
- Eesti Energia was named as the second-best customer service enterprise in Estonia in a TNS Emor survey
- The number of KÕU Internet customers rose to 23 000
- New companies were established to provide electrical services for households and network construction

Financial Highlights:

	2008/09	2007/08
REVENUE (MILLION EUROS)	414.9	376.1
- electricity sales (million euros)	224.2	190.6
- network service sales (million euros)	162.7	164.6
- communications services sales (million euros)	11.6	8.2
- electrical work and network construction (million euros)	7.3	3.3
OPERATING PROFIT (MILLION EUROS)	29.3	29.6
INVESTMENTS (MILLION EUROS)	106.1	94.1
RATIO OF CASH FLOW FROM OPERATING ACTIVITY TO INVESTMENTS	0.4	0.4
AVERAGE NUMBER OF EMPLOYEES	1 766	1 797

Eesti Energia's Retail Business division began marketing new products and services in FY 2008/09. In March 2009 we started offering our Estonian customers Green Energy produced from renewable sources, and whereas before our services had only extended as far as the customer's metering board, from this year customers can order the services of an electrician for small jobs on their side of the electrical system aswell.

The KÕU Internet service launched in FY 2007/08 continued to grow strongly and added 7000 customers during the year. In this financial year we expanded in Latvia and gained a 5% share of the local electricity market. In Estonia we sold 7213 GWh of electricity, which was 1.2% more than in the previous financial year.

This year we focused a lot on the reliability and quality of the power grid, and 101.7 million euros, slightly less than half of the entire Group's investments, went into the renovation of the distribution network. We continued to provide high quality customer service and were placed second in TNS Emor's Estonian customer service index.

Improving Customer Experience through Major Investments to the Electricity Network

In bringing electricity to customers, Eesti Energia's priority is to improve the quality of electricity distribution in the most economical way possible. In FY 2008/09 Jaotusvõrk (the Distribution Network) invested 47.3 million euros in improving the reliability of supply, while 45.8 million euros were invested in establishing new connections and 8.6 million euros in improving voltage quality. The remote-read meter installation project was put on hold as the economic environment declined.

To improve the operational reliability of the power grid, nearly 100 automatic circuit breakers were installed on Jaotusvõrk lines in FY 2008/09. The device is triggered automatically if there is a power outage and cuts the breakdown off from the rest of the grid, allowing the number and duration of outages to be reduced. To prevent failures occurring, Jaotusvõrk has started regular grid inspections using portable computers. The information entered on the spot directly into online databases offers a rapid and comprehensive overview of the grid situation, making renovation work and investment planning easier.

To ensure better reliability of supply, Jaotusvõrk's technology policy approved in FY 2008/09 calls for a gradual transition from overhead lines to underground cables. In order to reduce the impact of failures and environmental conditions on the power grid as rapidly as possible, the changeover has started in places where buried cable offers the greatest benefit. Cable ploughing, a new, cheaper and quicker method of cable laying, is increasingly used to install the cables.

Eesti Energia Võrguehitus, a new subsidiary founded in early 2009, constructs, repairs and maintains networks and carries out design work, land use contract drafting and geodetic services for customers both in Eesti Energia and outside the Group. Võrguehitus bought three cable ploughs to ensure a top quality cable laying service for Jaotusvõrk, and spent a total of 1.8 million euros on purchasing new technology to raise the quality of construction projects and make the company highly competitive.

For the second year in a row power grid losses dropped notably, and electricity distribution losses, which covers both technical losses and unpaid consumption, stood at 6.7% at the end of the financial year, down from 7.8% at the end of the previous year and 9.8% in the year before that. A systematic search for losses in districts where there were significant differences between quantities of electricity transmitted and sold was a major factor in reducing losses, and loss diagnostics were made easier by state-of-the-art technology which can detect illegal meter bypasses and illegal buried cables.

Jaotusvõrk completed a new substation in Liikva in Harju County, which improved the reliability of supply and quality of electricity in the Kakumäe, Rannamõisa and Vääna area. Renovation of the electrical system in Tallinn's Old Town continued, and 2/3 of the work was completed in FY 2008/09. A new substation was completed in Rummu, which will supply both the village of Rummu and Rummu prison with electricity.

November 2008 witnessed one of the largest snowstorms in the last few decades in Estonia, as a consequence of which the SAIFI indicator of customer power outages was higher than in the previous financial year. The annual average indicator for customer power outages was 2.39, which means there was an average of 2.39 power outages per customer during the year. If that extraordinary snowstorm is excluded, the number of customer power outages was 2.17, which is lower than the year before. Eesti Energia coped better with the extreme weather than in previous similar extensive power outages, and was able to direct its partner firms to work significantly faster than in the past, keeping a better overview of the grid status. The information system allowed failures to be eliminated in a more organised manner as well.

Good Customer Service and Successful Sale of Products at the Centre of Attention

Eesti Energia considers it very important to continue to improve the quality and efficiency of its customer service. Eesti Energia's Sales and Customer Service unit aims to be recognised by its partners as the best possible sales and customer service channel for cost and efficiency, sales and customer service skills, and knowledge of products and services.

The Sales and Customer Service unit aims to be the flagship for sales-oriented customer service in Estonia. This requires impeccable customer service, and the customer service personnel must be skilled at recognising customers' broader electricity-related needs and satisfying them in sales work. To achieve a uniform level of high service quality, the Sales and Customer Service unit has a single retail customer service standard, and the Customer Service Quality Department organises, monitors and improves the quality of customer service in all of the Retail Business division, covering all employees who have contact with customers from customer service associates to electricians. The second place that Eesti Energia gained in the Estonian customer service index in 2008, a study conducted by TNS Emor, served as recognition of the continuing high level of customer service at Eesti Energia.

Despite the cooling of the economy, the sales and customer service unit has been able to keep the share of debt relatively low. In combating electricity thefts, 11 400 illegal acts of electrical consumption were identified, 35% more than in the previous financial year, generating an additional 0.7 million euros.

More and More Customers are Running Their Electrical Affairs Electronically

Customers increasingly prefer to use simpler and more convenient electronic channels when dealing with Eesti Energia. The use of e-invoices grew by nine percentage points during the year, accounting for 28% of all agreements, while 38% of all agreements had a direct deposit arrangement by the end of the financial year, a rise of three percentage points.

In the immediate future, the priority for Eesti Energia is to develop internet-based customer service and to become Europe's number one energy-related electronic business environment in terms of use per capita. In addition to developing e-channels, Eesti Energia is also increasing the capacity of the call centre in order to shorten customer waiting times.

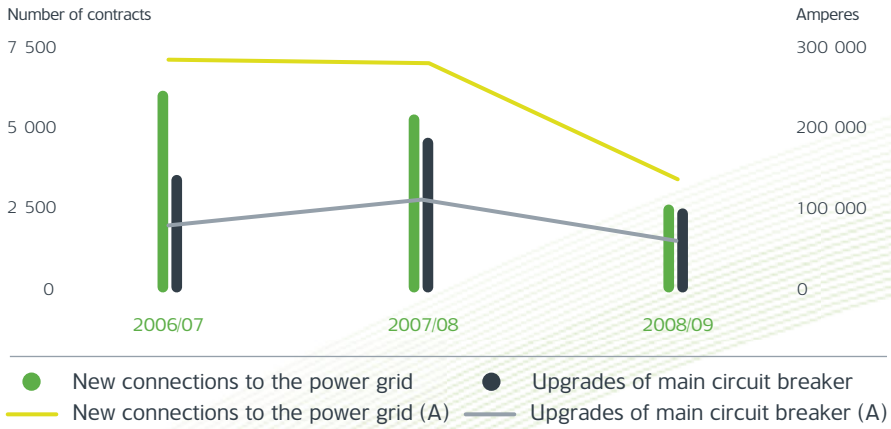
From July 2009, Eesti Energia customer service offices will stop accepting payments and will focus on sales and consultation services. In future it will be possible to pay electricity bills at all Eesti Post branches and bank offices as well as through the web-based system. The reorganisation of the payment system will allow Eesti Energia to save up to 0.6 million euros per year.

Electricity Sales are Stable in Estonia and Growing Strongly in Latvia

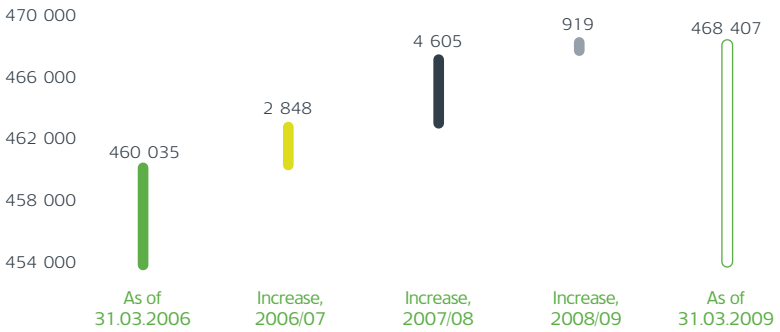
In FY 2008/09 Eesti Energia's Retail Business division sold 7213 GWh of electricity in Estonia, which was 1.2% more than in the previous year. The rise in sales showed significant signs of slowing in the second half of the financial year when the 4.2% growth of the first half-year became a 1% contraction. Among corporate customers a major fall in consumption was especially noticeable in the second half of the year, but among residential customers, electricity consumption increased by 7.2% during this period.

The numbers of both new customers and new connections fell in FY 2008/09 compared to the previous financial year. The primary reason for this is that the number of new real estate developments was lower and real estate transactions dropped.

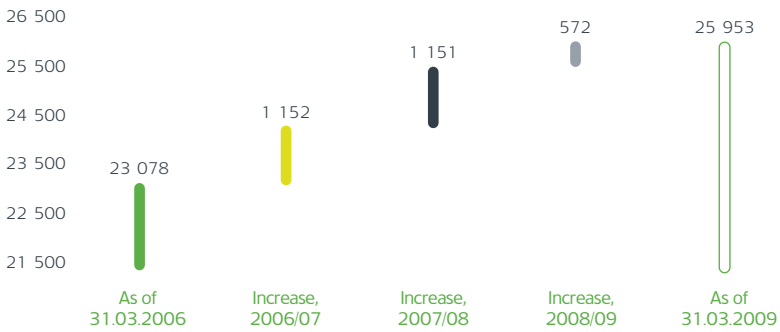
Increasing Network Capacity



Number of Residential Customers



Number of Business Customers



Eesti Energia has a market share of approximately 90% for energy sales in the Estonian market and has captured 5% of the Latvian market, a share it plans to increase to at least 15% within the next two years. In Lithuania, the plan is to achieve market share of 5% within two years. Eesti Energia's advantages in the other Baltic States are its long-term production portfolio, flexible products and dynamic sales work.

The mobile Internet service KÕU, launched in summer 2007, continued its successful expansion in FY 2008/09. The service's main competitive advantage is that the Internet connection is also available in rural areas. Within FY 2008/09 KÕU gained 7000 new users and reached the 23 000 customer mark. The customer base continued to grow steadily despite the sudden worsening of the economic environment in the last quarter of 2008, which gives us confidence that there is clear demand for the service in the Estonian market

Televõrk continued to expand the KÕU network by adding new radio transmitter stations and upgrading the core network software. The network currently covers more than 98% of Estonian territory. KÕU's new home terminals also came onto the market, offering greater bit rates and the option of creating local wifi networks. On top of satisfying customers in Estonia, KÕU has earned wider recognition. At the European Business Awards, a pan-European competition, KÕU was selected as one of the ten best products, while the Estonian Association of Information Technology and Telecommunications awarded the Televõrk team a top award for marketing KÕU. Awards were also won in the Golden Egg and Golden Hammer advertising competitions.

Expanding the Range of Additional Services

Eesti Energia entered the market for small electrical jobs, supplementing the range of services, which had thus far extended only up to the customer's connection point with the distribution network, with works within customers' private electrical systems. In FY 2008/09 electrical work was done for 378 customers, mainly by subcontractors, for a total of 0.6 million euros. In early 2009, Eesti Energia established a new subsidiary, Eesti Energia Elektritööd, to provide troubleshooting, electrical repair and maintenance services for internal electrical systems inside households and businesses. In its first three months it offered two of the most highly-sought after products, repairs to faults in the customer's internal electrical network and small electrical jobs. More extensive electrical work will be available from May 2009, and Eesti Energia is aiming to become the most preferred company for work on internal electrical networks in Estonia.

In March 2009 Eesti Energia started a service that lets Estonian customers purchase energy generated exclusively from renewable sources – mostly wind – at a set rate. In the first month, about fifty customers signed up for the Green Energy price package, and by the end of April more than a hundred customers had signed renewable energy purchasing agreements worth a total of about 6 GWh in a year. Even though Green Energy costs 0.6 euro cents more per kilowatt-hour, than the electricity produced from oil shale, interest in environmentally friendly renewable energy was greater than expected, which shows how environmentally conscious Eesti Energia's customers are. Buying renewable energy is important for companies, as it helps them to win over environmentally conscious consumers. By the end of the financial year, ABB and the Rocca al Mare shopping centre were among the business customers who had signed a Green Energy agreement.

In FY 2008/09 Televõrk, Eesti Energia's telecommunications company, won the GEANT2 procurement for trunk line communications connecting international research and educational institutions. Under this procurement Televõrk, together with its Baltic and Polish partners, will guarantee a speed of 10 Gbit/s for customers on the Tallinn–Poznan line. As part of the project, a trunk communications system rated at up to 160 Gbit/s using DWDM technology was set up in this financial year, with key hubs in Tallinn, Narva, Tartu and Tsirguliina.

Televõrk extended its trunk communications network service agreements with energy companies in the Baltic States for the next few years, and is continuing to work with major telecom operators such as Tele2 Eesti, Elisa Corporation and Linx Telecommunications Eesti. Televõrk also continued working with the Latvian Internet service provider Globalcom, and will supply Globalcom with an average of 60-70% of the Internet coverage for the Latvian retail market.

Eesti Energia's Retail Business division is planning to expand its product portfolio further by introducing an energy audit and energy-performance labelling service in FY 2009/10 and offering consultation services in energy saving.

High Value Placed on Services to Other Companies in Eesti Energia

In FY 2008/09 Televõrk entered into an agreement to modernise the communications systems at 97 Põhivõrk's key substations. Fifty of these will make a complete transition to IP-protocol-based communications by the end of FY 2009/10. Data communications at substations represents a major breakthrough, as the new IP-solution will allow the SCADA systems, failure protection equipment, commercial meters and similar equipment in the substations to be fully controlled and monitored remotely.

Elpec, the predecessor of Võrguehitus, brought to completion about 200 projects a month for Jaotusvõrk in 2008. Major jobs included completing the plan for the new energy unit at Narva Elektrijaamad, the plan for the waste-to-energy project at Iru Power Plant, and the environmental impact assessment for the Estonian-Finnish undersea cable Estlink 2; land use agreements were signed for all of these projects and building permits were obtained. Elpec also developed a compensation scheme for land owners for accepting technical networks on their land. This scheme was taken over at the end of the financial year by Eesti Energia's Real Estate unit, along with the role of land planning.

Jaotusvõrk established Estonia's first modern electrical network training centre, designed and built by Võrguehitus in Tallinn, where Group companies and partners can learn about and practice fixing failures and carrying out other electrical network jobs using actual electricity distribution equipment.

Major IT Developments Ensure More Efficient Data Interchange

In January Eesti Energia signed agreements with Oracle, one of the world's largest suppliers of business software, for the purchase of new customer information system licences and the implementation of the system. The new, modern customer information system is very important in preparing for the opening of the electricity market, as it helps the Group organise its customer relations better, and simplifies the marketing of new products and other developments that customers should know about. Roll-out of the new customer information system is planned for the first half of 2010.

Preparations for the network management software system were completed in FY 2008/09, allowing the first phase of the network management software to be launched in June 2009; the first phase to come online will be the electrical safety process and the processes supporting the operation of primary and secondary equipment. The goal of the network management software is to bring together in one IT environment power grid management, construction and renovation planning, and orders.

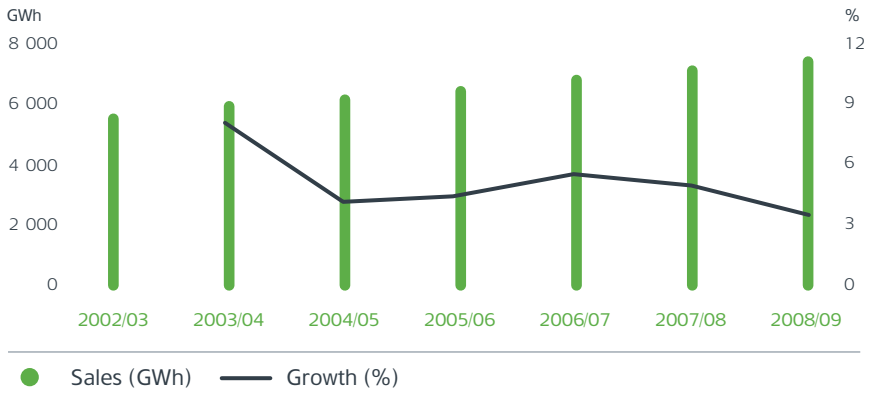
Financial Results for the Retail Business Division

Retail Business' largest source of revenue in FY 2008/09 was the sale of electricity, which grew 3.4% in the year to 7381 GWh, primarily due to expanded sales in Latvia. Revenue from electricity was 224.2 million euros, an increase of 17.6% over the previous financial year. The increase in revenue was mainly due to higher sales to Latvia, but a major role was also played by three price changes in Estonia's closed market on 1 July 2008, 1 January and 1 March 2009. The average price of electricity approved by the Competition Authority rose by 11.7% in Estonia during the financial year.

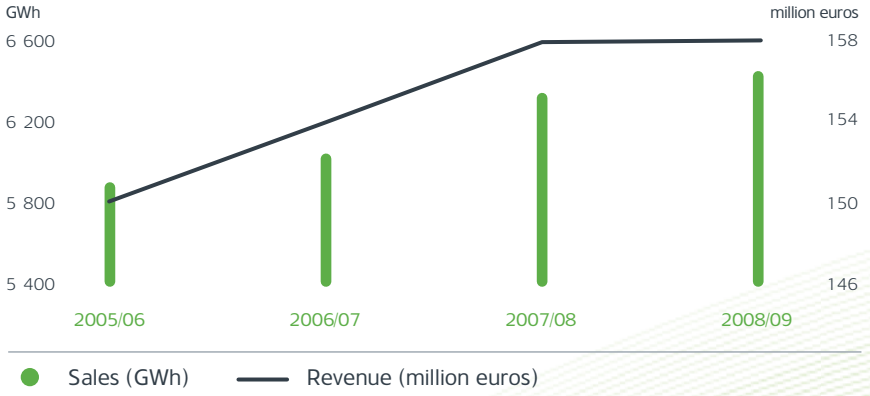
The major factor behind Retail Business' profit margin was the sale of network services, which totalled 6447 GWh in the financial year, an increase of 1.7% in the year. However, revenue from network services fell by 1.1% because of a price reduction in network charges on 1 March 2008 which meant the average price in FY 2008/09 was 1.5% less than in the previous year. Revenue from network services was also hit by the fall in income from sales of reactive energy. In addition, because of problems with voltage quality and power outages, Jaotusvõrk reduced the amounts payable for customers' network service by 0.9 million euros, which was 7.4 times more than in FY 2007/08. All the revenue from network services is invested in improving the network service.

Another good result was posted in loss reductions, as losses in Jaotusvõrk fell from 7.8% to 6.7%, meaning that 67 GWh of energy was sold that would previously have been lost, as the losses eliminated were mostly commercial losses.

Total Electricity Sales in Estonia and Latvia



Sales of Network Services

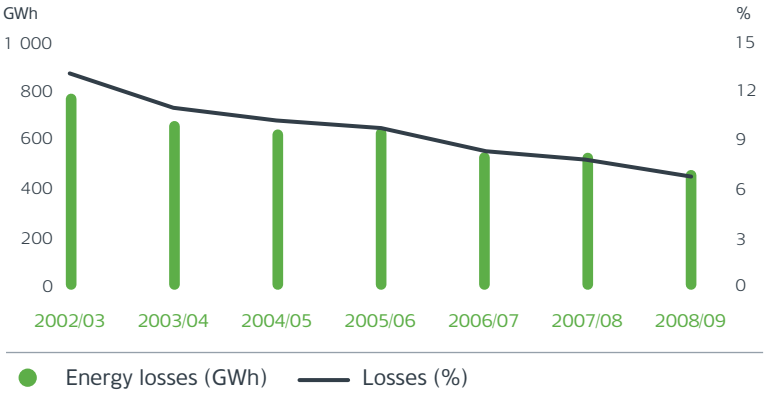


Retail Business' largest investments were in developing the distribution network where a total of 45.8 million euros went on new connections and 55.9 million euros was invested in improving network quality. With the new connections the network capacity was increased by about 140 500 amperes. The network capacity added through upgrades of circuit breakers was about 60 000 amperes.

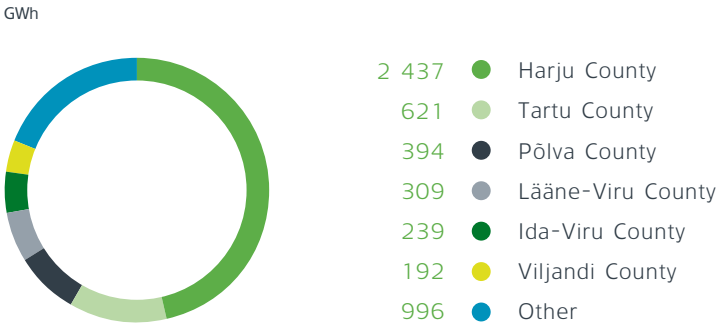
Restructuring the companies' operations made the division more efficient, but it also resulted in redundancies and the number of employees in Retail Business division dropped from 1825 to 1656 in FY 2008/09, and a total of 1.0 million euros in redundancy payments was paid out.

The priority for FY 2009/10 will be to deal with the Estonian and global recession with the focus continuing to be on lowering fixed costs and making operational processes more efficient.

Distribution Losses



Sales of Electricity on the Closed Market by County



OVERVIEW OF THE ELECTRICITY AND HEAT GENERATION DIVISION

The primary goals of the Electricity and Heat Generation division are to maintain and expand production capacity and increase value added, by improving internal efficiency and through international energy trading.

Key Events in the 2008/09 Financial Year:

- Signing of an agreement for the installation of desulphurisation equipment on up to four units at Eesti Power Plant
- Major savings on fixed costs at Narva Elektrijaamad
- Preliminary mapping of the potential location of a nuclear power plant for Estonia
- Procurements for a peak boiler unit in Ahtme and a peat and bio-fuel-powered CHP plant
- A hybrid wind and diesel solution for Ruhnu island's electricity supply and progress in constructing Aulepa wind farm

Financial Highlights:

	2008/09	2007/08
REVENUE (million euros)	424.9	346.0
- electricity sales (million euros), of which	357.4	295.8
domestic electricity sales	246.7	213.3
electricity exports	110.7	82.6
- heat sales (million euros)	58.6	38.9
OPERATING PROFIT (million euros)	39.4	-3.4
INVESTMENTS (million euros)	49.6	32.8
RATIO OF CASH FLOW FROM OPERATING ACTIVITY TO INVESTMENTS	0.2	1.0
AVERAGE NUMBER OF EMPLOYEES	1 855	1 918

Eesti Energia must be a competitive producer in today's partially open electricity market and also in the open market of the future. This calls for investments and development, and preparations must be made now.

The major investments that Eesti Energia will make in the coming years are specifically aimed at achieving the objectives of the Electricity and Heat Generation division. An agreement was signed in March 2009 to install desulphurisation equipment on up to four units at Eesti Power Plant as this will allow the Group to maintain its long-term production capacity, and another major project in FY 2009/10 was the preparation and start of a procurement for one or two new oil shale units at Narva Elektrijaamad.

The most important goal for the Electricity and Heat Generation division in FY 2008/09 was to create economic value added in all production companies by optimising fixed costs. This was a big challenge for Narva Elektrijaamad especially, where not only was economic efficiency significantly increased, but the structure was reorganised for FY 2009/10 to fit better with the core activity.

Competitiveness Ensured by a Diverse Energy Production Portfolio

Eesti Energia currently has a very competitive production portfolio compared to the energy companies of the other Baltic States. In order to achieve long-term sustainability it will undoubtedly be necessary in future to reduce the average CO_2 emissions in Eesti Energia's electricity generation portfolio. We took important steps toward creating a less CO_2 intensive production portfolio by starting a study to map suitable locations in Estonia for a nuclear plant, and by starting construction at Aulepa wind farm in western Estonia, which will have 13 wind turbines.

In FY 2009/10 it is planned that preparations will continue for nuclear energy launch in Estonia and that new renewable energy projects such as wind farms and the Iru waste-to-energy plant will be developed, and ways to set up a network of small CHP plants all over Estonia will be researched.

In electricity generation strong link is needed with energy trading. We are more successful if we optimise our portfolio in the free market by importing electricity more cheaply than we produce it, and increase the value added from electricity sales. Our energy traders have also successfully conducted futures transactions with both CO_2 and electricity for the purpose of risk management.

Lessening the Environmental Impact of Generating Electricity from Oil Shale

The top priority for Eesti Energia's Electricity and Heat Generation division both now and in future is to maintain current production capacity. Above all, this will require key investments to make Narva Elektrijaamad's production units more environmentally sustainable so that they can remain in operation after stricter environmental requirements come into effect in 2016. One such investment, for which we are preparing a procurement in 2009, will see one or two new circulating fluidised bed (CFB) units built.

In March 2009, an agreement was signed with the major international engineering company Alstom to install desulphurisation ($deSO_X$) equipment on up to four energy units at the Eesti Power Plant by 2012. At nearly 100 million euros, this project represents one of Eesti Energia's biggest investments ever, after the two new energy units completed in 2004. In FY 2009/10 it is planned to analyse the installation of denitrification ($deNO_X$) technology on the same units by 2016.

Installing desulphurisation equipment is an important investment when looking into the future and will allow Narva Elektrijaamad's current level of electricity generation of about 9 TWh/year to be maintained.

Equipping the same four Eesti Power Plant units with denitrification equipment will maintain Narva Elektrijaamad's production capacity after 2016 at about 7 TWh/year.

To increase the percentage of renewable energy, the use of biofuels at Narva Elektrijaamad has also been tested. The technology in the new CFB units installed at the Eesti and Balti Power Plants allows them to burn a fuel mixture with up to 10% biofuel and the rest oil shale, and so the use of biofuels in energy unit no. 11 at Balti Power Plant was first studied in 2007. In 2008, the studies continued and a total of 8049 tonnes of biofuels were burned in the boilers of this unit. It was discovered that the best available fuel was wood briquettes due to their low moisture content (12%) and high calorific value (~4.6 MWh/t). The moisture content in the wood chips that were tested varies between 30 and 55%, but they are also fairly practical for power plant systems. In 2009, negotiations with various suppliers continued and if they are successful it is planned to use biofuel continuously.

Efficiency at Combined Heat and Power Units is Improved

In order to increase efficiency and meet environmental standards, the Iru Power Plant has been under continuous renovation that has seen more than 50 renovation and reconstruction projects carried out in the last 10 years. The biggest project in recent years has been the upgrade of the control system and installation of the new emissions measurement system at a cost of 3.5 million euros. Under the agreement signed in April 2008, the modernisation will be finished by the end of 2009. In the interests of simplifying management and saving on costs, Iru Power Plant became a business unit of Eesti Energia and ceased to operate as a separate legal entity.

As part-owner of Kohtla-Järve Soojus and Narva Soojusvõrk, Eesti Energia aims to expand the heating network and reduce heating losses ever further. Effective investments have left the heating networks administered by the Group in a satisfactory state, and as a result of continuous hard work, commercial losses from illegal consumption have also been reduced.

Preparations for Nuclear Energy

Today over 90% of electricity in Estonia is produced from oil shale and so CO_2 emissions are among Europe's highest per unit of energy generated. In 2013, however, CO_2 emissions trading will come into full effect in the European Union, and the reliance on oil shale will no longer be sustainable in the long term. To ensure Eesti Energia's competitiveness we must find ways of diversifying the production portfolio and cutting greenhouse gas emissions significantly. The planned renewable energy projects are intended only to enrich the production portfolio with additional sources of energy, but nuclear energy is a potential source of baseload electricity and a future replacement for oil shale electricity.

There are currently a number of possibilities for Eesti Energia to take a stake in nuclear energy including the project for the new Lithuanian nuclear plant, a new reactor to be built in Finland and a nuclear plant on Estonian territory. The possibility of participating in the Lithuanian and Finnish projects has been discussed in the past, but Estonia's new long-term development plan for the energy sector was approved by the government in early 2009 and includes a possibility of developing nuclear energy in Estonia. Although the Riigikogu, the Estonian parliament, has not yet approved the plan – discussions were still in progress in the Economic Committee in spring 2009 – remarks by representatives of the parties in parliament left no doubt that Estonia's legislature would accept the development plan.

Although a lot of political decisions must be taken at many different levels before a nuclear plant can be built, the fundamental non-negotiable requirement for such a project is the existence of a suitable location where the plant can be built. For this reason Eesti Energia conducted preliminary studies in 2008 to map possible locations

for an Estonian nuclear power plant. Studies using data from Estonian geological databases and the safety criteria for Finnish nuclear plants indicated that there are locations compatible with the requirements, although few. The research showed that there are two locations in Estonia's coastal area that have significant advantages over others, the northern part of Suur-Pakri island and an old gravel quarry on Keibu Bay. Following the approval of the Ministry of Economic Affairs and Communications, Eesti Energia is planning additional geological studies in these locations.

The nuclear power plant project is dependent on a great many unpredictable circumstances and requires a lot of preliminary work, meaning that no final decision on building a nuclear power plant can possibly be made in the near future. Before any work can be considered the government will have to change the law to accommodate such a plant and set up an independent regulator for nuclear energy. Eesti Energia needs to work with Estonian universities to identify the most suitable technology for Estonian conditions and to help develop curricula and qualifications so that there would be trained staff to work at the plant.

Power from Wind, Water and Waste

The largest project of Eesti Energia's Renewable Energy unit in final phase of construction is the wind farm opened in 2009 at Aulepa, which has the biggest production capacity in the Baltic States at 39 MW, and a planned yearly production of more than 100 GWh. The production from the 13 turbines erected at Aulepa in spring 2009 can cover 1.3% of end electricity consumption in Estonia, or the average electricity consumption of about 35 000 Estonian families. A very important benefit of the windpark is that it will save nearly 120 000 tonnes of CO_2 emissions from the energy portfolio. The total cost of the Aulepa wind farm is nearly 58 million euros, and is being covered by Eesti Energia's own resources.

The company is planning its next wind energy project in eastern Estonia on Narva Elektrijaamad's second ash field, which closed in early 2009, and where preparations for a wind farm have started. Land has also been purchased in Paldiski for a wind farm. Eesti Energia's Renewable Energy unit plans to develop off-shore wind farms in Estonian coastal waters, but it must wait for changes to the law to enter into force in the next financial year. To add to the two hydro plants operated by the company at Keila-Joa and Linnamäe, Eesti Energia is also renovating the Põltsamaa hydroelectric plant.

Waste can be used in the combined generation of heat and power, and so Eesti Energia is working with Iru Power Plant to enter the waste handling market and start recovering waste for fuel. By 2012 the plan is to have built alongside Iru Power Plant a waste energy unit generating 17 MW of electricity and 50 MW of heat, and able to burn up to 220 000 tonnes of household waste. In parallel to the preparations for the plant, negotiations are in progress for obtaining the necessary waste.

Preparations for a Biofuel-powered CHP Plant

The greatest changes in combined heat and power generation in FY 2008/09 were at Kohtla-Järve Soojus. As the old Ahtme CHP plant is permitted to operate only until the end of 2010 under international agreements, a new biofuel powered CHP plant is being built on the current site of the power plant, along with a boiler unit which will help cover capacity during peak heat consumption.

The company ran a public procurement in the last financial year for a peat and biofuel CHP plant which should be completed by December 2011. Plants capacity for electricity production will be 25 MW and for district heating the capacity for heat will be 50 MW. Around 75 million euros is invested in building the plant.

Next to the CHP plant is a site for a peak load boiler unit, which should be completed by November 2010. The planned reserve and peak load boiler unit would operate on gas and shale oil and its total capacity is planned at 100 MW, 20 MW of which is covered by two new boilers started up in summer 2008. Building the new boiler unit and the gas pipeline will require 13 million euros in investments.

We Entered the Mini-CHP Field in Estonia

In early 2009, Eesti Energia entered the mini-CHP field by purchasing from BLRT Group two gas-powered CHP units in the Kopli district of Tallinn with a total capacity of 2.4 MW. The heat produced by the first mini-CHP plant is used to heat the BLRT Group's production complex on the Kopli peninsula and the electricity goes to the Eesti Energia power grid.

The field is a promising one, as local mini-CHP plants reduce electricity transmission losses, ensure the supply of electricity to small settlements and reduce the price of heat for consumers. In future, Eesti Energia plans to build small biomass (wood chips, timber cutting waste, bark and other renewable solid fuels) or gas powered CHP plants in other suitable locations in Estonia, such as small settlements and villages where heating is needed, and for industrial companies, shopping centres, large office buildings and sports facilities.

Profitability of Energy Trading Increased

Several factors increased the profitability of energy trading in FY 2008/09, including successful futures transactions, new transaction structures on the Baltic wholesale market, and the appraisal of existing purchase and sale contracts.

The new management structure at Group level was of great importance as electricity generation and wholesale trading were merged into one division. Division-based goal setting and evaluation made the Trading unit more flexible and reactive to key market changes.

The greatest challenge for energy trading in FY 2008/09 was the steep decline in energy prices. In 2008 the highest base contract price for electricity on the Nordic power exchange Nord Pool was 70 €/Mwh, but by the end of the financial year the reference prices had dropped to 30 €/MWh. Increasing the effectiveness of various types of risk hedging transactions and inter-division physical operations was a key factor that allowed the division to generate positive value added in FY 2008/09 after the negative operating results of FY 2007/08.

Financial Results for the Electricity and Heat Generation Division

Operating profit in Electricity and Heat Generation division was 39.4 million euros in FY 2008/09, an increase of 42.8 million euros over the year. The EVA created in the division was positive and totalled 6.6 million euros, which was a significant rise from the −36.5 million euros in the previous financial year. The division fulfilled its primary goal for FY 2008/09 of creating positive EVA.

The division's profitability was helped by the favourable price of imported electricity, the rise in the regulated sales price at the primary producer of electricity, Narva Elektrijaamad, and the savings on fixed costs achieved in all production units. The economic results were pulled down by economic growth giving way to decline, as a result of which demand for electricity dropped.

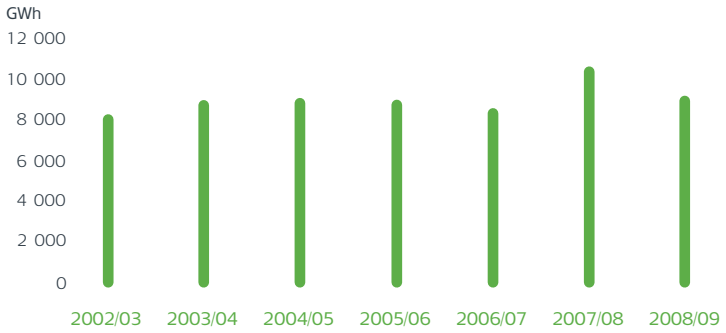
Even though the market price of electricity on the primary export market, Nord Pool's Finnish price area, rose more than 50% over the year to 50.9 €/MWh, this did not lead to greater profitability for sales of the electricity produced in Narva Elektrijaamad. The reason was the increase in the price of the CO_2 emissions allowance for electricity exports, which essentially cancelled out the rise in the price of electricity. Primarily due to a combination of these two factors, the division's electrical output fell by about 13% in the financial year to 9045 GWh. The estimated CO_2 emissions allowances deficit in FY 2008/09 was about 1.5 million tonnes and the additional cost of this was 27.7 million euros.

The division's cash flow from operating activities was hit by the outflow of funds deposited in foreign banks in order to secure guarantee claims for futures transactions and by an increase in internal Group debt and income tax paid.

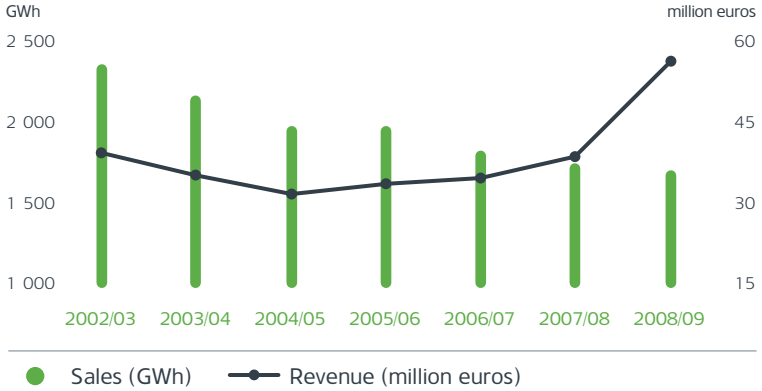
The cash flow from investments was mainly influenced by investments in the construction of Aulepa wind farm. Other major investments included the purchase of land for a wind farm in Paldiski, the construction of a gas pipeline and two small boiler units in Ahtme, the renovation of the second energy unit at Iru Power Plant and investments in ensuring the sustainability of operating activities at Narva Elektrijaamad.

In FY 2009/10 the financial results of the division are expected to worsen, as demand for electricity and heat will decrease due to the recession and favourable electricity import agreements will expire.

Net Production of Electrical Energy



Sales of Heat



OVERVIEW OF THE MINERALS, OIL AND BIOFUELS DIVISION

The Minerals, Oil and Biofuels division consists of three complementary areas – liquid fuels production, oil shale mining and technology industry. The division's strategy focuses on increasing the quality of the crude oil produced from oil shale, increasing production volumes, reducing environmental impacts and developing and implementing Eesti Energia's unique oil shale technology.

Key Events in the 2008/09 Financial Year:

- Annual production and sale of over one million barrels of shale oil for the first time
- Preparations for the expansion of the oil industry and development of a new generation of oil production technology in cooperation with Outotec
- Successful testing of hydrogen processing to process shale oil into a higher-value fuel
- Granting of exclusive rights by the Jordanian government to build a power plant in Jordan and the start of concession negotiations to establish an oil industry there

Financial Highlights:

	2008/09	2007/08
REVENUE (million euros),	211.8	207.4
- oil shale (million euros)	140.1	140.4
- shale oil (million euros)	37.8	32.4
- industrial engineering (million euros)	31.1	33.3
OPERATING PROFIT (million euros)	15.2	18.7
INVESTMENTS (million euros)	32.0	31.4
RATIO OF CASH FLOW FROM OPERATING ACTIVITY TO INVESTMENTS	1.5	0.1
AVERAGE NUMBER OF EMPLOYEES	4 404	4 396

Eesti Energia has a unique experience in large-scale oil shale mining and producing electricity and liquid fuels from oil shale. The function of the Minerals, Oil and Biofuels division is to enhance the value of oil shale to the maximum by producing high-quality liquid fuels and developing oil production and oil shale utilization technology. In the next ten years, Eesti Energia will more and more shift the focus of the oil shale sector towards oil production and processing.

The World's Most Efficient Technology for Producing Liquid Fuels from Oil Shale

Eesti Energia possesses a unique plant for producing liquid fuels from oil shale, and the patented solid heat carrier technology it uses, named Enefit since May 2009, was developed by Eesti Energia engineers. This production technology, currently the most efficient available, allows liquid fuels to be produced from low-heating-value oil shale with a minimal level of CO_2 emissions.

Narva Õlitehas (renamed Eesti Energia Oil and Gas as of summer 2009) produced a record amount of liquid fuels in FY 2008/09 with 1.03 million barrels or 158 200 tonnes of oil shale liquid fuels, which is 22% more than in the previous financial year. Constant investments and improvements in production process have allowed the plant to increase its production volumes continually.

The total revenue and other income of Narva Õlitehas in FY 2008/09 grew 23.7%, reaching 41.7 million euros. Operating profit was 10.6 million euros, which is 9.4% less than in the previous financial year. In the financial year a total of 8.4 million euros was invested in the liquid fuels production and 2.4 million euros were paid in environmental charges.

The average sales price of shale oil was 255.3 euros per tonne, 31.1 euros per tonne more than in the last financial year, an increase of 13.8%. The sales price of shale oil follows the world market for heavy fuel oil, which in turn follows movements on the crude oil market.

In the financial year prices on the world market were extremely volatile, with, for example, the price of heavy fuel oils ranging from 183 to 825 $/tonne. Eesti Energia has concluded future transactions in order to minimise the price risk, which allows to maintain profitability even at lower prices.

Narva Õlitehas exports an average of 55% of its production through various sales channels, and the rest is consumed on the domestic market for producing heat and asphalt. Fuel oils make up 70% of Narva Õlitehas's production of liquid fuels, naphtha gas 18-20%, and light fuel oils 10-12%. The primary consumers of the liquid fuels produced from oil shale are boiler houses and producers of ship fuels. The new principles governing the sale of liquid fuel, which were updated in this financial year, allow smaller consumers to purchase fuels directly from the oil production plant as well. This resulted in some growth in the customer base.

Besides liquid fuels, Narva Õlitehas produces about 43 million m^3 of retort gas annually, which is used for electricity generation at Narva Elektrijaamad. Using retort gas reduces the amount of oil shale required to generate electricity and also reduces CO_2 emissions. Another production by-product which Eesti Energia is finding additional use for is the ash created by the oil shale industry. Oil shale ash has been tested for use in stabilising soil when backfilling mines, and it is also used in the construction industry and in road construction.

Technology Improvements Ensure Future Success

In FY 2008/09, one of Narva Õlitehas's existing solid heat carrier units (previously called TSK by its Estonian initials, since May 2009 renamed Enefit) was successfully renovated. In the course of this work, the electric filter was replaced with a new-generation filter, and the dust chamber and heat carrier cyclones were renovated.

As well as renovating the existing production equipment, Eesti Energia plans to expand Estonian production of liquid fuels from oil shale using technology with significantly larger capacity per unit. In this financial year Eesti Energia improved the design of the solid heat carrier technology by increasing operating reliability, reducing environmental emissions and, above all, increasing the capacity of the equipment. The new Enefit-280 unit, designed in Estonia and rated at twice the previous capacity, is more than just the successful and proven technology already in use, it represents a major advance for the production of liquid fuels from oil shale. The low environmental emissions and greater capacity of the unit allow it to use on different kinds of oil shales from around the world, and this will open the way to expanding production of liquid fuels from oil shale and raising product quality. Eesti Energia expects to make the decision on investment in the new plant in early summer 2009.

Eesti Energia's liquid fuels strategy plans for Narva Õlitehas are to produce about 1.5 million tonnes per year in high-value liquid fuels from oil shale. Instead of the current heavy fuel oil, we plan to produce light fuel oil, diesel fuel and petrol for end consumers. For this purpose, we will build three more solid heat carrier units by 2015 as well as a unit for the hydrogen treatment of shale oil.

More Effecient and Environmentally Sustainable Mining

The aim of Eesti Energia Group's mining company Eesti Põlevkivi, renamed Eesti Energia Kaevandused (Mining) from summer 2009, is the sustainable mining of the oil shale to supply fuel and raw materials to electricity and shale oil producers. After the extraordinarily high production volumes a year earlier, the company's primary goals in FY 2008/09 were to make production more efficient and lower its environmental impact. Cost-cutting will also be a prime objective in FY 2009/10.

The company's oil shale output dropped 8.0% in FY 2008/09 compared to the previous year and was just over 15 million tonnes.

The bulk of the products were sold within the Group to Narva Elektrijaamad (79.7%) and Narva Õlitehas (8.8%); the rest was sold to VKG Oil (10.6%) and Kunda Nordic Tsement (0.8%). A total of 23.2 million euros was invested during the financial year in improving production processes. Among other projects, construction of a new gravel plant costing 6.4 million euros was completed at the Estonia mine.

Though the financial year saw two oil shale price rises of 11.0%, to 9.4 euros per tonne, and 11.8%, to 10.6 euros per tonne, the company will have to continue to reduce its fixed costs in order to improve profitability.

A total of 21.3 million euros was paid in environmental charges in FY 2008/09, which is 16% more than last year.

To replace wells in areas affected by mining, new water lines were established at a cost of 0.4 million euros, and 207 hectares in mined areas were re-forested, an area equal to about 250 football pitches.

Making Use of Mining By-products

One way Eesti Energia aims to limit oil shale production's environmental impact is to make better use of the residue from oil shale enrichment, using the residues in the production of construction materials and crushed stone. As well as reducing the environmental impact, this also has economic benefits, as the company has to pay environmental charges for the 6 million tonnes of unused mine waste produced each year.

The Aidu quarry's gravel plant, opened in 2006, was complemented in this financial year by a similar plant at the Estonia mine. The Aidu gravel line produced a total of 300 000 tonnes of high-quality crushed stone in the financial year. It is planned in FY 2009/10 to produce a total of about 1.1 million tonnes of gravel at the two plants.

Integral Industrial Technology Solutions from Eesti Energia

Eesti Energia subsidiary Energoremont, renamed Eesti Energia Technology Industries from summer 2009, in international markets operating under the Enefit trademark, offers a wide selection of technical design solutions from simple metal structures to turn-key engineering projects; the goal is to offer full industrial technology solutions. The company's work falls into two primary areas, developing and producing machinery and equipment for the oil shale industry, and designing and manufacturing other energy and environment-related equipment and metal structures. The company's goal is to become a provider of full industrial technology solutions and to steadily increase the share of its own products in what it offers.

The operating profit of Energoremont together with its subsidiaries in FY 2008/09 was 2.3 million euros and revenue 31.1 million euros. The operating results were largely due to the production of industrial energy and environment-related equipment, including various conveyor systems and mining machinery. A major part of the revenue came from installing equipment and installing and maintaining electrical and automatic computerised equipment.

A total of 38% of Energoremont's revenue in FY 2008/09 came from exports, totalling 11.7 million euros, a 17.9% fall from a year

ago. The company's main partners in the last few years were companies from Scandinavian countries, who act as worldwide distributors for Energoremont products, but direct sales to Central Europe is becoming a new direction for exports. In FY 2008/09, Energoremont started producing and finishing wind generator components, an area in which the company sees great potential for growth in the near future.

In the Eesti Energia Group, Energoremont is the main partner in designing and manufacturing oil plant and power plant equipment and in implementing several development projects. The biggest job ahead is manufacturing new Enefit-280 equipment for the new generation of shale oil plants in partnership with the international engineering company Outotec.

Focus on Business Development and Technology Development

The main developments for Eesti Energia's Minerals, Oil and Biofuels division in FY 2008/09 were the signing of a partnership agreement with the international engineering group Outotec, successful shale oil processing experiments and progress in preparations for building an shale oil plant in Jordan.

In this financial year Eesti Energia and Outotec signed an agreement to start work on developing and marketing a new generation oil shale processing technology by uniting Eesti Energia's long experience in mining and processing oil shale with Outotec's expert knowledge in the field of circulating fluidised bed (CFB) technology and processing for various kinds of ore. In FY 2009/10 the partnership will be deepened by the creation of a joint venture in which Eesti Energia will hold a 60% stake. The technical development, in the form of a joint project, is expected to be used in Eesti Energia's oil production operation in Estonia and around the world in oil shale deposits. The decision on whether to build the first Estonian oil plant operating using the improved technology will be made in early summer 2009, according to the plans.

FY 2008/09 also brought progress in the development of liquid fuels from oil shale. Tests to refine the oil produced from oil shale into a higher-value fuel were completed successfully, and the liquid fuels were tested at the Intertec PARC laboratory in the USA. Shale oil is a black-oil-like product, but after hydrogen processing it has qualities similar to those of diesel. The experiments conducted in FY 2008/09 showed that hydrogen processing allows shale oil to be used to produce motor fuels that can be successfully sold to refineries to produce consumer products.

The third main development area is the oil shale industry in Jordan, where the government in April 2008 approved oil industry profitability studies carried out by Eesti Energia and proposed starting negotiations on a concession agreement for shale oil production. The negotiations will conclude with the signing of a concession agreement, most probably in autumn 2009, after which the agreement will go to Jordan's parliament to be ratified and enter into force. At that point, Eesti Energia will have the right to use oil shale reserves of more than two billion tonnes in Jordan's Attarat Um Ghudran oil shale deposit.

In April 2008, Eesti Energia signed an agreement with the Jordanian government and the state-owned electricity firm National Electric Power Company to build the first oil shale fired power plant in Jordan. The agreement gives Eesti Energia sole rights to develop the project, the aim of which is to build a power plant with a capacity of up to 900 MW. In the next three years, Eesti Energia will lead studies and make the necessary preparations to begin the design and construction of the power plant. The preparatory phase of the project is long and the likely start date for construction of the production complex is 2012. For Eesti Energia this is a unique opportunity to export its skills and experience. Besides Jordan, a number of other oil shale countries are interested in Eesti Energia's unique knowledge of oil shale processing.

Financial Results for the Minerals, Oil and Biofuels Division

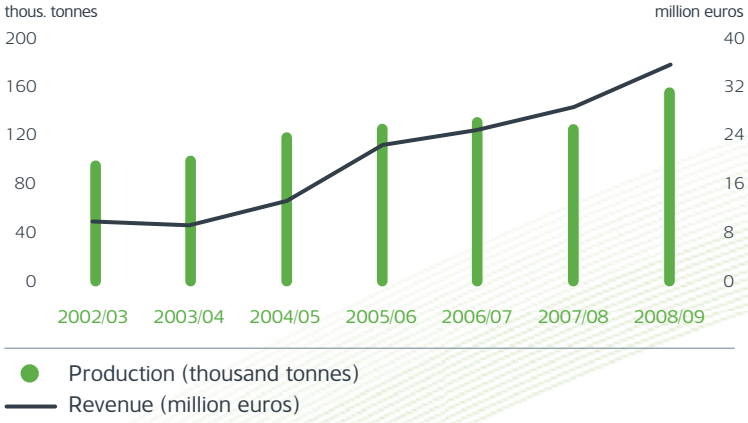
Operating profit for the Minerals, Oil and Biofuels division was 15.3 million euros in FY 2008/09, a drop of about 3.4 million euros or 18.4% from the previous financial year. The greatest increase in revenue was in the sale of shale oil (+16.9% or 5.4 million euros), while the largest increases in expenses in this division were on electricity (+37.1% or 3.6 million euros), environmental charges (+18.9% or 3.7 million euros) and payroll expenses (+9.4% or 5.6 million euros).

The shale oil revenue of 37.8 million euros, which represented an increase from FY 2007/08, benefited from both the greater quantity sold and the higher sales price, which was pushed up by the world crude oil price and fuel oil price, which reached record levels in the second and third quarters of the financial year.

The revenue from oil shale was 140.1 million euros in the financial year, a drop of 0.2% from the previous financial year. The 12.6% drop in sales by volume was balanced by the new sales prices of oil shale that came in on 1 April and 1 October 2008. Energoremont's revenue fell by 6.7% and operating profit by 16.5%, mostly because of reduced export revenues as a result of the steep decline in target markets in the second half of the financial year.

The main reason for the lower operating profit in the Minerals, Oil and Biofuels division in the financial year was lower oil shale sales as a consequence of lower demand from Narva Elektrijaamad, a rapid increase in such input prices as payroll expenses, environmental charges, electricity and explosives, and the high fixed share of oil shale production costs, which could not be compensated for by the rise in the sale price of oil shale or the increase in sales revenue from shale oil. EVA for the Minerals, Oil and Biofuels division was −0.3 million euros in FY 2008/09.

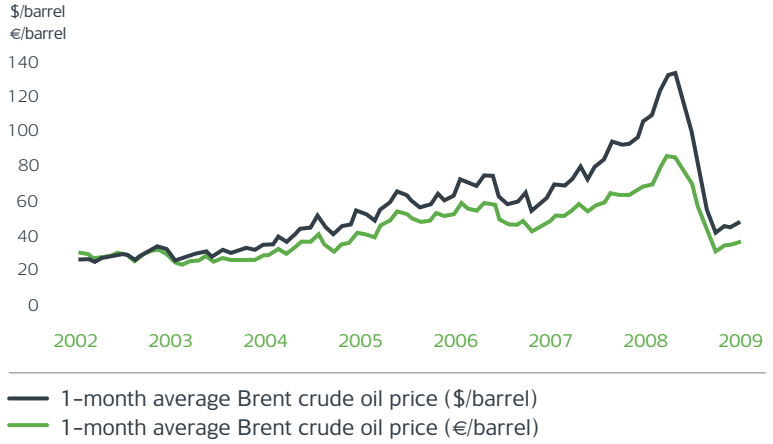
Shale Oil Production and Sales



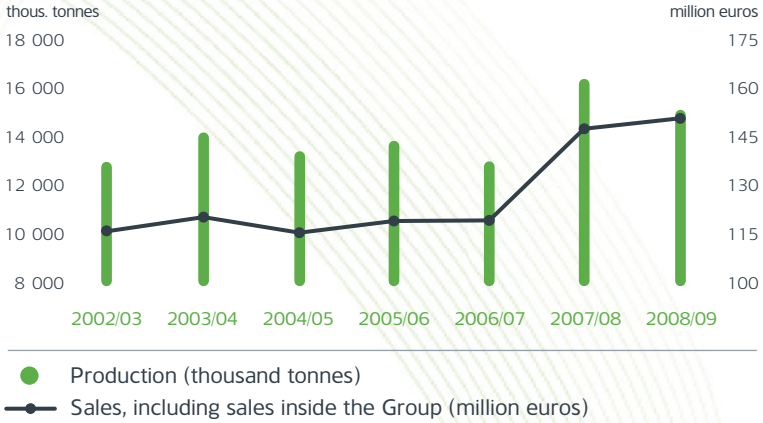
A total of 32.0 million euros was invested in the division in FY 2008/09, which is 2.1% more than in the previous financial year. Eesti Põlevkivi received the bulk of the investments, 23.2 million euros, of which about 5.8 million euros went on building the new gravel plant at the Estonia mine.

In FY 2009/10, we expect the results for the division to improve, despite the decline in oil shale production, primarily due to lower input prices and savings on fixed costs.

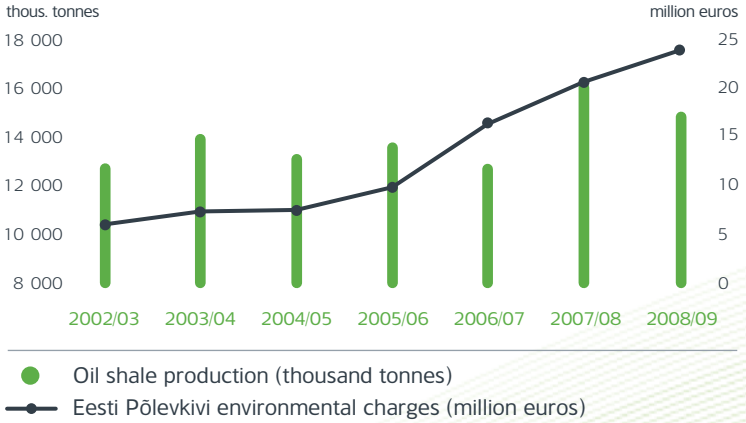
Crude Oil Price



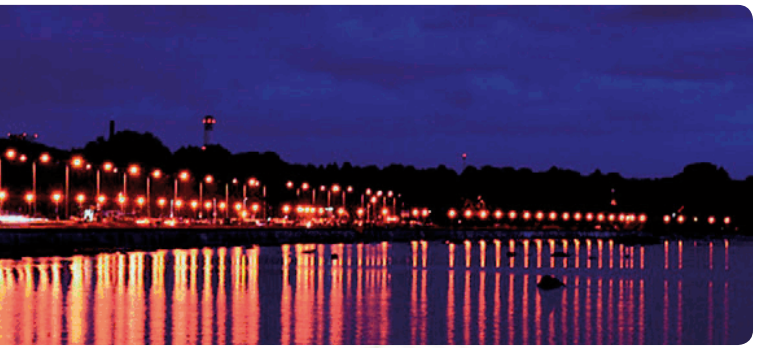
Oil Shale Production and Sales



Oil Shale Production and Environmental Charges



OVERVIEW OF THE ELECTRICITY TRANSMISSION DIVISION



Põhivõrk, renamed Elering from summer 2009, is the Estonian transmission system operator, and is responsible for maintaining the operational reliability of the Estonian power system, ensuring sustainable security of supply, and creating the playing field on which the electricity market can function successfully. Põhivõrk operates independently and treats all market participants equally and without favour.

Key Events in the 2008/09 Financial Year:

- Preparations for Estlink 2
- Preparations for preliminary research into the construction of an emergency reserve power plant
- Start of a procurement for new balance provider software
- Start of technical research into synchronised operation of the united Baltic and Central and Eastern European energy systems
- Founding of the European national transmission system operators' organisation ENTSO-E

During FY 2008/09 Põhivõrk transmitted over 7590 GWh of energy within Estonia, which is similar to the 7630 GWh of the previous year. During the financial year a total of 4383 GWh was exported and 3232 GWh imported, which is 8% and 108% more respectively than in the previous year. The major increase in imports is due above all to the increased trade between Estonia and Lithuania. Põhivõrk's losses totalled 3.2% in the financial year, an increase of 0.1 percentage point in the year due to increased energy trading with Finland.

Financial Highlights:

	2008/09	2007/08
REVENUE (million euros), including	80.5	75.7
- transmission of electricity in Estonia (million euros)	60.8	63.4
- transmission of electricity via the Estlink cable (million euros)	7.8	2.8
- sale of balancing energy (million euros)	7.0	4.7
OPERATING PROFIT (million euros)	24.9	24.3
INVESTMENTS (million euros)	38.8	14.4
RATIO OF CASH FLOW FROM OPERATING ACTIVITY TO INVESTMENTS	1.1	2.6
AVERAGE NUMBER OF EMPLOYEES	128	127

Põhivõrk Supervises the Reliability of the Electrical System

A preliminary study into a power plant for use in emergencies was completed in FY 2008/09. The gas turbine power plant will be with capacity 120 MW and cost about 50 million euros, and is to be used if there are major disruptions in the electrical system. It will enter into operation around 2012, and until this time backup capacity in Latvia will help Estonia prevent any major outages affecting the entire system and will ensure uninterrupted power supply to consumers in the event of major disruptions to the electrical system.

To increase security, the Ülemiste substation, a key link in supplying all of Tallinn with electricity, was renovated in the financial year ended.

The security of supply to consumers in the capital, especially in the Kesklinn (centre) and Lasnamäe districts, was improved by the completion of the Ülemiste-Lasnamäe underground cable. To receive the output from the largest wind farm in the Baltics at Aulepa a new Aulepa substation was built, while the expansion of the Aseri substation was also due to wind farm project demands. Põhivõrk won a second award from the town of Rakvere for its renovation of the Rakvere substation, while preparations for the construction of the Tartu–Sindi high voltage line continued.

New Connections to Europe will Ensure Security of Supply and Energy Security for Estonia

It is very important to connect Estonia's transmission network to European systems because of the small size of Estonia and the Baltic States and the low level of competition in the local energy market. As well as ensuring energy security, close connections with neighbouring systems also create the operating conditions for a free electricity market. The governments and transmission system operators of the Nordic countries have made sure that the establishment of new connections is closely linked with the development of the Baltic States' electricity market.

Now that the first Estonian-Finnish undersea cable is successfully in operation, Põhivõrk's most important investment will be to build a second undersea cable linking the two countries by 2014. In FY 2008/09 the connection points for the 600-800 MW direct current cable Estlink 2 were chosen at Püssi in Estonia and the Anttila substation in Finland. The route of the land cable from Püssi substation to the sea has been decided, and the initial clearances for the sea cable and the Finnish aerial line have also been put in place. The environmental impact assessment for the Estonian underground cable was completed during the financial year, and in 2009 it is planned to conduct acoustic and geo-technical research on the sea bed, continue the process of selecting the clearance for the cable, carry out the required environmental studies and start defining the technical specifications.

To ensure the sustainable work of European electricity transmission systems, Põhivõrk joined 36 TSOs in the European Union in founding the cooperation organisation ENTSO-E at the end of 2008. This laid a strong foundation for improving cooperation between European TSOs, and agreeing common energy-related positions in dealings with the European Commission and European regulators' group. From mid-2009, ENTSO-E will take over the functions of the regional TSO organisations, which will then be dissolved, including BALTSO and the existing European TSOs' cooperation organisation, ETSO.

The TSOs of the Baltic States continued their work to bring the local energy systems into synchronisation with the united energy systems of Central and Eastern Europe. This means that in future Estonia, Latvia and Lithuania will belong to the same frequency area as other continental European countries. The working group preparing for accession has begun to develop possible technical solutions for the transition to synchronised operation, and has ascertained that it will be necessary to overhaul thoroughly Poland's TSO and establish powerful electrical connections between Lithuania and Poland. In addition a study is planned into the feasibility of leaving the Kaliningrad region in the Russian frequency zone, of which the Baltic States are currently also members.

The European Commission has started developing a Baltic Interconnection Plan for the electricity markets in the Baltic Sea region. The final report, which will be completed by mid-2009, will reveal which energy projects will receive European Union support, and will also determine the future design of the common electricity market of the Baltic States and a plan for integrating the Baltic States with the electricity markets of other states around the Baltic Sea.

Energetic Preparations for the Creation of a Free Electricity Market

For effective energy trading to be possible, the infrastructure for the traders and the traders themselves need to be in place. To create this, work has begun to bring Nord Pool Spot, the power exchange which operates in the Nordic countries, to the Baltics. Membership of the power exchange would allow more efficient use of the Estlink undersea cable and the hourly rate of electricity would start to be set at auction as a result of trading by all market participants. In addition, an efficient electricity market would allow a fair market price to be set for electricity, which has an important influence on investment decisions throughout the economy.

The likely start date of Nord Pool Spot trading in the Baltics is set for the first half of 2010. This will require changes in Estonian law to establish a free market by removing the right of open market customers to buy electricity at closed market price meant for residential consumers and small and medium-sized companies. The creation of the energy market will entail additional work for Põhivõrk in developing and implementing Estonian market rules.

In preparing for the opening of the electricity market, Põhivõrk is working in cooperation with Process Vision, a company specializing in IT-solutions for energy sector, to develop balance management software. In a market with more market participants and more transactions the new software must allow the required quantities of electricity for the next day to be calculated rapidly and easily and allow plans to be adapted to fit changes made by balance providers. The software

solution will also make it possible to manage the operation of the electrical system effectively and ultimately prepare system and balance providers' balances. The new application is scheduled to be completed by the end of FY 2009/10.

In a free electricity market it is vital that Põhivõrk be transparent and neutral, and in order to ensure equal treatment of all market participants, Põhivõrk – which is legally a subsidiary of Eesti Energia – already now acts independently in its work and decisions. The Estonian electricity sector development plan for 2008-2018 proposes that Põhivõrk should be directly owned by the state by 2010.

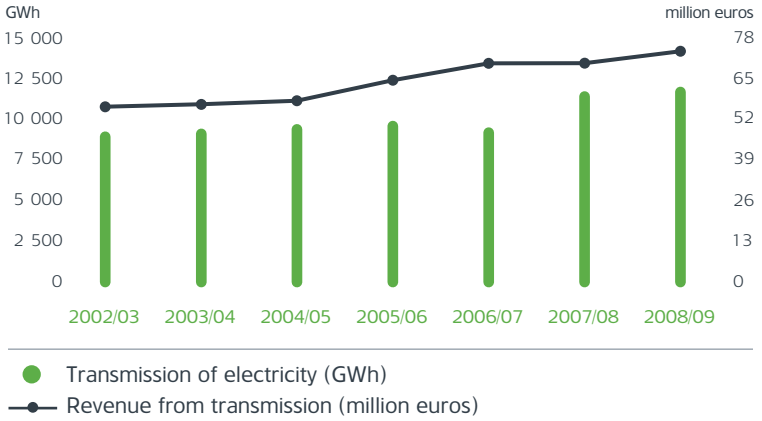
Financial Results for the Electricity Transmission Division

Like the rest of the Estonian economy, Põhivõrk experienced growth followed by decline in FY 2008/09. After the economy grew in the first half of the year, a recession began in the second half, and was accompanied by a drop in electricity consumption which pulled the revenue of Põhivõrk down.

Despite the negative economic trends, Põhivõrk successfully fulfilled all of its financial goals. Net profit was a record 17.6 million euros, which exceeded the expected profit by nearly 5.1 million euros, and a result of which economic value added (EVA) was positive.

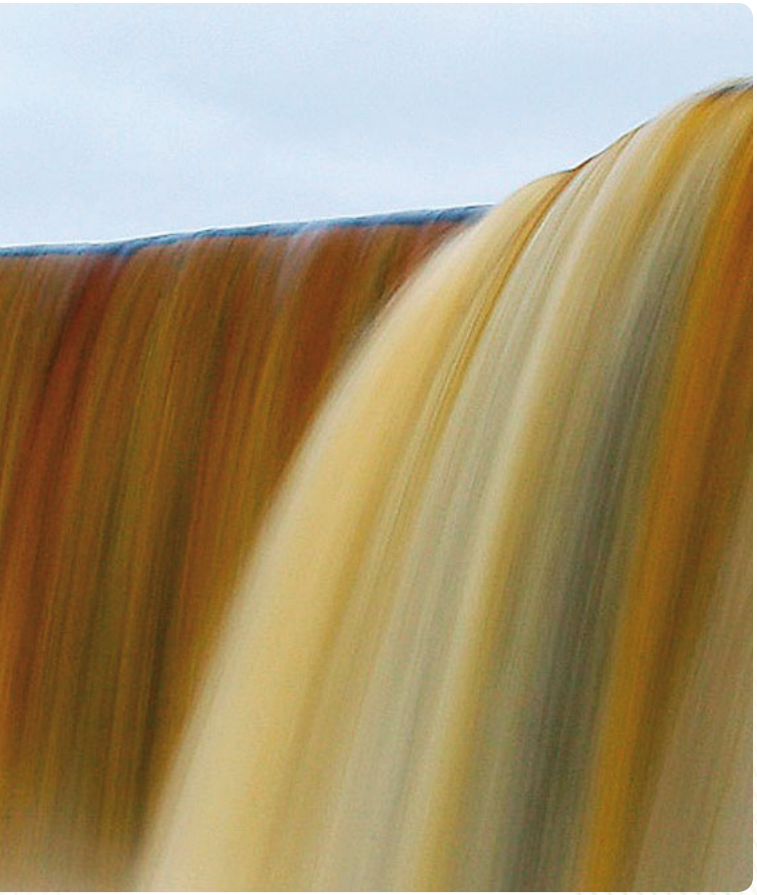
The main reason for this success was international energy trading, especially in the transmission of electricity to Finland. Keeping fixed costs under control also proved to be very important. Total investments in the financial year amounted to 38.8 million euros, of which the biggest share was spent on renovating the existing power grid, while a smaller amount went on building connections for producers of renewable electricity.

Transmission of Electricity and Revenue from Transmission



FY 2009/10 will be difficult due to the recession. A number of industrial enterprises have already halted production, which is why a drop in revenue and profit from the transmission of electricity is forecasted. Despite this, Põhivõrk remains a strong company and will be able to implement its planned investments and achieve its goals.

RISK MANAGEMENT



As an international energy company, Eesti Energia will be increasingly exposed to risks as the electricity market opens. Effective risk management ensures competitiveness and contributes to achieving the company's goals and to the growth of corporate value.

Eesti Energia's risk management is based on a common set of risk management principles. Risk management is a continuous process that requires immediate response to changes and involves the entire organisation from the Supervisory Board and Management Board to each individual employee. The Group's risk management covers all of Eesti Energia's processes and activities.

In FY 2008/09 regular risk reporting was introduced in order to give a more comprehensive overview, and an Energy Trading Risk Manager and Retail Risk Manager were employed to improve risk management support. The risks of Narva Elektrijaamad, Eesti Põlevkivi and Energo-remont were included in the Group's unified risk management system.

Successful identification, evaluation and mitigation of risks is achieved through systematic work by the risk management network, supported by regular risk reporting and close adherence to the rules of Eesti Energia's audit environment. Cooperation with the Group's Internal Audit functions is also important for successful risk management. In FY 2009/10, Eesti Energia will continue work on a description of the Group's unified risk profile, and on moving to a risk management system based on business divisions.

Business and Financial Risks

As business risks have the greatest impact, managing them involves Eesti Energia's Management Board and steering groups from each business division.

Eesti Energia's economic results are impacted by business risks arising from both the Estonian and the Baltic and Nordic economic environments, the most important risks being changes in domestic electricity demand and the general cost of living. Eesti Energia keeps continuous track of short and long-term economic trends and forecasts (see p 18–29 and 39–42 for a more detailed explanation).

In the semi-open Estonian electricity market, Eesti Energia's economic results are subject to many business risks arising from possible changes in legislation, regulations and regulatory acts. Political and regulatory risks also include agreements with the Estonian Competition Authority about the prices of network services and electricity on the closed market. In FY 2008/09 it was agreed that annual price indexing will be used for electricity prices as well. Previously it was only used for network service prices. This approach prevents sudden price changes for end consumers.

Eesti Energia's financial results are significantly affected by the European Union's emission trading. Under the second CO_2 emissions allocation plan, Eesti Energia was allocated nearly 40% less emission allowances for 2008-2012 than under the first distribution plan, forcing Eesti Energia to buy the shortfall on the allowance market. The European Union's Energy and Climate Package, approved in December 2008, allows Estonian electricity producers a free CO_2-quota allowance in 2013 of up to 70% of their average emission level of 2005-2007. It was previously predicted that the entire emission allowance would have to be purchased at auction from 2013 on, but under the new agreement, the free allowance allocation for electricity producers will only disappear in 2020.

Certainly market risks are also significant. The most important risks that have an impact on Eesti Energia's financial results are changes in the international oil price, fluctuations in the price of electricity on the open market, and the prices of emissions. When the Estonian electricity market opens completely in 2013, the activity of competitors will also be added to the market risk category. For a more thorough explanation of market risk management see Note 3 to the Financial Statements p 120-122.

The Eesti Energia Group's financial risks are managed using principles approved by the Management Board at the group level. Eesti Energia's primary financial risks are credit and liquidity risk. Mitigation of these risks reduces the volatility of financial results. For a more thorough review of the management of financial risks see Note 3 to the Financial Statements, p 120-126.

Operating Risks

Management of operating risks takes place locally in the Group's companies and business units. To prevent losses being caused by badly designed processes, employee error, equipment failure or external events such as natural phenomena, accidents and crime, Eesti Energia focuses on three ways of managing operating risks:

1. Occupational safety and security: we follow all legal requirements, and most subsidiaries with major risk factors have certified occupational health and safety management systems that meet the requirements of standard OHSAS 18001.
2. Environmental safety: we follow international standards ISO 14001 and EMAS. For a more thorough explanation of the management of environmental risks see the Environmental Report, p 74–91.
3. Ensuring readiness for emergencies and uninterrupted electricity supply to customers: we follow the Emergency Act and the principles of British standard BS 25999.

In addition, most of the Group's companies use a quality management system corresponding to the ISO 9001 standard.

Insurance is one way of mitigating operating risks at Eesti Energia. The assets of the Narva Elektrijaamad, the Iru Power Plant and the Narva Õlitehas are insured with an indemnity limit of 250.0 million euros per event. In addition to property, these companies are insured against interruption of business and potential related expenses. Major office buildings and other key assets are insured for a total of 63.8 million euros following the Group's insurance principles. In addition the Group has a liability insurance policy against claims related to operating risks with a total limit of 50.0 million euros.

Environmental Report

ENVIRONMENTAL REPORT

It is vital for our own and for future generations that we preserve a clean and healthy environment. This requires us to work to protect the environment in everything we do, to use natural resources sparingly and efficiently, and make every effort to reduce the environmental impact of our activities.

The environmental impact of the energy industry is among the largest of any industrial sector, and limiting that impact is a major factor in decision-making in the industry. The transformation of primary energy, both fossil fuels and renewable energy, into a form that people can use has environmental consequences, as do the transmission and distribution of energy, and everything else we do. As a responsible company we are working hard to reduce our environmental impact across the whole range of our activities.

Energy efficiency is more and more seen as a key measure in limiting environmental pollution and we take seriously our role in increasing Estonian public awareness of energy conservation. We publicise and promote ways that everyone can contribute, and put our experience of energy issues to public benefit, for example by organising public events or supporting others in doing so to help clean up the environment.

Eesti Energia's Common Environmental Policy

Eesti Energia's environmental activity is based on principles encompassed by the Group's common environmental policy in order to address environmental impacts in systematic fashion:

1. We use environmental management systems that conform to the international standards ISO 14001 and EMAS.
2. We follow all applicable Estonian, European Union and international environment-related legal acts, conventions and agreements.
3. We analyse the environmental impact of our operations in advance and use our management systems to reduce the negative impact of energy production and transmission by using technological solutions and innovation, and by increasing efficiency, reducing losses and reusing materials.
4. In order to reduce our environmental impact, we are diversifying our production portfolio. We use renewable sources of energy using the best available technology (BAT) as far as is technologically and economically rational.
5. We are open to new solutions and cooperate with Estonian and international research and consultation firms to achieve our environmental goals.
6. Under equal conditions in procurement tenders we prefer suppliers with certified environmental management systems who use environmentally clean technologies and materials.
7. We use the BAT and support sustainable development in Estonia through waste prevention, waste recycling, improved efficiency in the power system, and energy conservation

Eesti Energia's environmental policy is a public document and it is disseminated to employees, suppliers and all other interested parties.

Eesti Energia's Environmental Impact

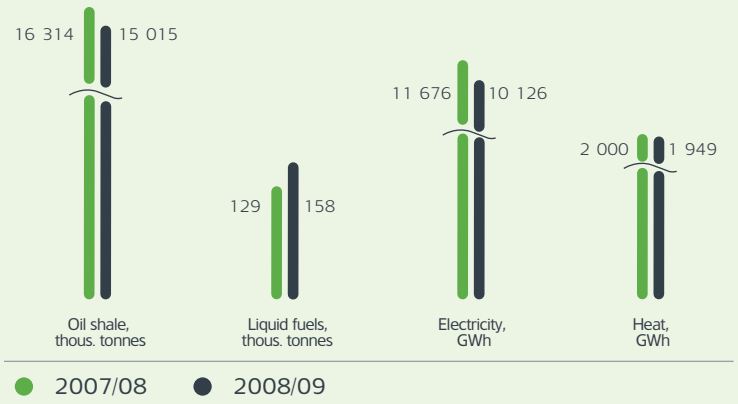
Energy consumption is constantly growing worldwide. The ever-decreasing quantities and availability of natural resources require energy production to become more efficient so that more energy can be produced from each unit of raw material and that smaller production volumes may reduce the impact of production on the surrounding environment. Environmental restrictions that Estonia took on by joining the European Union in 2004 also encourage greater energy efficiency, and although lessening the high environmental impact of the energy sector is costly and time-consuming, it is essential and is a process that also offers us opportunities.

Eesti Energia's principal environmental impact comes from the supply and manufacture of fuels. As state subsidies have grown, Estonia has seen increased interest in wind and biomass as fuels, but the primary fuel underpinning the national security of supply is Estonian oil shale. Although this mineral is difficult to process and use and has a high environmental impact, interest in it as a primary source of energy has risen elsewhere in the world. A second environmental concern comes with the transformation of primary energy into the secondary energy that can be delivered to consumers. Eesti Energia supplies its customers

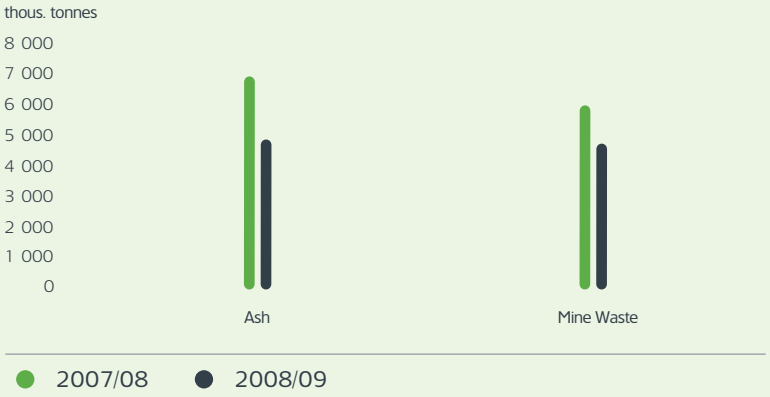
with energy in the forms of electricity, heat and liquid fuel. The small amounts of gas generated in the production of liquid fuels are mixed with oil shale and used in the electricity generation process.

Eesti Energia's results show a clear link between production volumes, including those for fuels, and environmental impact. Production volumes in the 2008/09 financial year were up to 13% lower than in the previous financial year while related emissions fell by 68%. The amount of mine waste deposited was similar to that of the previous financial year but the volume of oil shale ash deposited fell by more than 13%, while weather conditions meant that the amount of water pumped out increased by more than 50% to 265 million m^3.

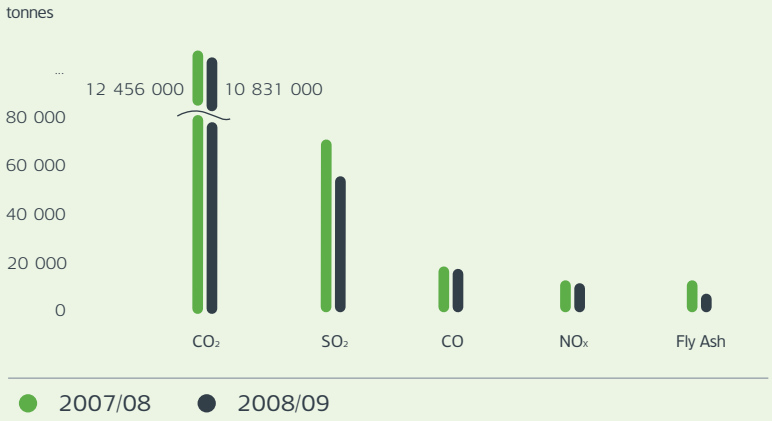
Eesti Energia Production



Waste from Production



Eesti Energia Atmospheric Emissions



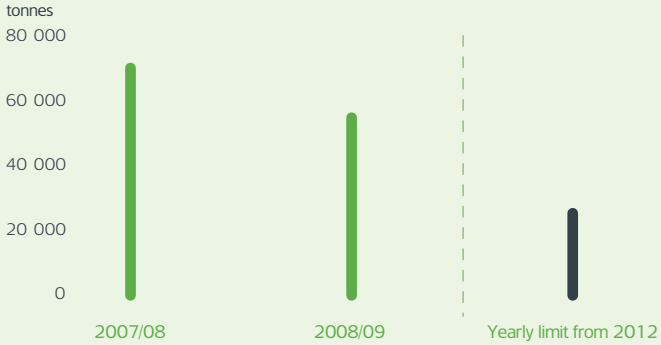
Taking Steps to Make Energy More Environmentally Sustainable

In the last financial year Eesti Energia took a number of steps to reduce the direct link between production volumes and emissions. In order to diversify production with renewable energy, work was started on the largest wind farm in the Baltic States at Aulepa in Western Estonia. As part of the research into ways of using biomass, a total of 8049 tonnes of biofuels were incinerated in the Balti Power Plant circulating fluidised bed boiler units together with oil shale.

To cut the environmental impact of current electricity production from oil shale, an agreement was signed at the end of the year to install sulphur reduction equipment for the fluegases on the pulverised firing technology based units. This should allow the SO_2 content of emissions from the power plant to be halved by 2012.

It has become increasingly clear that many environmental problems need to be dealt with across the whole Eesti Energia production chain. An example of this is the Group-wide study into oil shale enrichment, the process by which the mineral part of oil shale is separated from the mined rock. Enrichment means that less raw material is needed to produce a given amount of electricity, heat or shale oil, and this reduces pollution. However, more energy is needed for processing the fuels, and this results in larger quantities of waste being produced. The research will continue, as there are economic as well as environmental benefits to be had from using the right technology to enrich oil shale.

Air Pollution from SO_2



Equally important is Eesti Energia's research and development into ways of using the solid waste generated by oil shale processing. Burning oil shale to generate heat and electricity and the thermal processing used in shale oil production both generate a lot of ash and we are constantly looking for new ways to use this ash, most of which is deposited in ash fields. Mine waste, or a mix of crushed limestone and ash produced from it, could be used to reinforce ceilings in underground oil shale mining chambers. Laboratory tests have shown that this is feasible in theory, and the challenge now is how to apply it in practice. Eesti Energia companies have been joined in this development project by a number of Estonian higher educational establishments and international consultants.

Environmental Conservation Requires Joint Efforts and Exchange of Information

Protecting the environment is of great importance, even though it requires large amounts of time and resources. To help Eesti Energia reach its environmental goals, the Group's environmental activities were centralised in the 2008/09 financial year. It is very important to instil in the Group a common understanding of environmental impacts and consequences, and the changes that they demand, and for this reason we publicise environmental information through our internal channels.

Nearly every Eesti Energia company has environmental systems corresponding to the ISO 14001 standard, and we are working to obtain an EMAS certificate covering the whole Group. EMAS is a European Union environmental management system, which helps companies to report better the environmental impact of their activities and their attempts to reduce it. In 2008 Eesti Energia was rewarded with the international Energy Globe award for our work in implementing EMAS.

Eesti Energia has systematically improved the availability outside the Group of environmental information about ourselves. In the last financial year our analysis of the life cycle of electricity produced from oil shale was brought up to date and all the environmental impacts of producing electricity from oil shale were re-examined. Using this we completed an environmental product declaration about electricity produced from oil shale using the circulating fluidised bed technology, which allows every electricity consumer to calculate the environmental impact of the electricity they consume in terms of both emissions and use of resources, and to plan consumption decisions accordingly, for instance by using Green Energy, which has a lower environmental impact.

Alongside our work to make production cleaner, we can all individually help our environment through our choices and actions. Employees of the Eesti Energia Group are actively involved in a number of environmental and conservation events and projects. Key among these in this financial year was the Teeme Ära campaign to clear rubbish and litter from the countryside, and Eesti Energia played a major role in supplying both helping hands and technology. As in previous years many Eesti Energia employees volunteered this year to help plant trees in forests across the country.

Eesti Energia is an active member of the Estonian Association for Environmental Management (EKJA), the Estonian Waste Management Association, the Estonian Society for Nature Conservation and through EKJA, the Sustainable Estonia Committee. Through conservation organisations we contribute to the preservation of Estonia's environment and help find the best ways to achieve this. Through the energy-saving Energiasäästu website, the Energy Centre and many other future-focused projects we are making our environmental expertise available to future generations.

Environmental Impacts of the Retail Business Division

The Retail Business division is the part of Eesti Energia that is closest to our consumers, and it often shapes customers' impressions of the entire Group. The two main areas where the division has an environmental impact are electricity distribution and the clean consumption of energy.

If There were No Forest...

Distributing electricity without wires is impossible, and Jaotusvõrk, Estonia's largest electricity distribution company, has nearly 53 000 km of overhead lines and 7900 km of underground cables, enough to go one and a half times around the world. When building new lines and renovating old ones, Eesti Energia tries to avoid going through forests and prefers underground cables in order to avoid one of the main problems of electricity transmission, the need to maintain the surroundings and underlying area of overhead lines to ensure a stable electricity supply.

Depending on the voltage of the lines, the width of the corridor that has to be maintained ranges from four to 20 metres. A total of 17 000 km of overhead lines pass through forested land, and maintaining these lines means trees have to be cut down in the corridor. For lines passing through nature reserves and national parks, the corridors are not cleared to the prescribed widths and only the crowns of trees which grow nearby and pose a risk to the electricity supply are pruned and cut.

In the 2008/09 financial year cutting work was done on nearly 3000 hectares of land under power lines, such a large area that the quality of the cutting work and correct handling of the cut material is very important. The area underneath the lines is a place where biomass can be grown, and in the future this could be a solution for line maintenance that works well for everyone. This would be very beneficial for the environment, but as yet it does not make economic sense.

One Man's Dirt is Another Man's Gold

Nearly 19 000 km of Jaotusvõrk's overhead lines are on wooden pylons which have been impregnated with chemical agents to stop them rotting and extend their lifespan. The list of permitted impregnation agents has been significantly restricted in recent years, and, for example, compounds containing arsenic that have been used since the 1940s are no longer allowed, and the European Union is discussing what to do about creosote, which has been used for nearly 100 years.

Every year nearly 10 000 impregnated wooden pylons are taken down in the course of maintenance and upgrading. As this wood has a high heating value, we are looking for ways in which the pylons can be used. Depending on the amount of residue in them, the pylons can be incinerated in various places so that maximum use can be made of the energy they contain.

Compounds that cannot reused, such as oils containing PCBs, must be destroyed following strict requirements, because toxic dioxin is formed if they are incinerated in the wrong conditions. Equipment containing PCB oils has to be treated in line with regulations, and it will be strictly prohibited to use any such equipment from 2010 on.

After this date, hazmat processors will take the last of Jaotusvõrk's equipment containing PCB along with the oil in them, but until then all required records will be kept on PCB compounds.

Better Safe than Sorry

Jaotusvõrk is responsible not only for electrical lines, but also for over 18 000 transformers containing oil. Many of these transformers are so large that if they break or suffer some other technical fault a lot of transformer oil could be spilled, and if it gets into the ground the oil can spread rapidly, so a small quantity of oil may contaminate a large area and possibly groundwater as well.

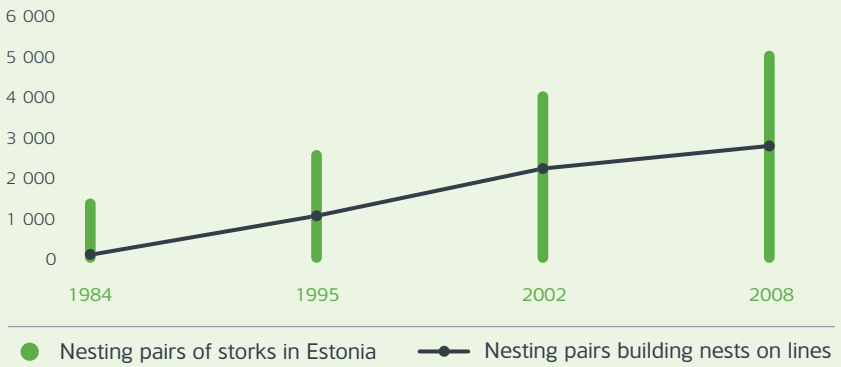
To prevent environmental pollution from transformer oil, the larger transformers have been installed in safety or collection basins which prevent the oil from leaking out into the environment in the event of an accident. Old safety basins do not conform to current requirements and do not offer sufficient protection to the environment against the oil, and so the safety basins for the larger transformers are being rebuilt with the appropriate collection equipment in order to reduce the risk of a pollution incident. The rebuilding work is an ongoing process, but there is so much to do that it will take many years before all of the transformers' safety basins can guarantee a sufficient level of environmental protection.

Real Estate Planning for Estonia's Other Residents

The climate is not the only part of the natural world to affect the stability of electricity distribution, as animal and bird activity can also have an impact, causing up to 850 major and 4500 minor faults a year. Problems have been caused by the increase in the population of white storks, from about 175 nests in 1985 to about 2000. This rise in bird numbers is proof of improved environmental conditions for them, but the acidic droppings of the birds can damage aluminium cables, increasing the chances of faults and short-circuits.

To ensure security of supply, nests on the most important lines must be removed carefully while their occupants are absent. In a joint project with the Estonian Environmental Investment Centre, nearly 200 new artificial nest platforms were built five years ago in the vicinity of existing stork's nests. It is quite probable that the artificial nests will be settled but this is hard to predict accurately, and so it is planned in the future to replace the aluminium overhead lines with underground cables or insulated wires. In this way the white storks can live in peace in their natural nests without disturbing the transmission of electricity.

Nest-building by Storks on Electric Lines



The Cleanest Energy is Unused Energy

Eesti Energia's environmental impact is directly linked to the actions of our customers as consumers of electricity. Although it may seem logical that an energy company is always interested in producing and selling as much energy as possible, in fact this is not the case. If energy is used efficiently and sparingly, then fluctuations in the quantities of energy consumed are more even and as a producer we can organise our investments in production better. Furthermore, energy conservation directly reduces the environmental consequences of energy production, as the only energy with no environmental impact is energy that is not produced or used.

At Eesti Energia we are working to make ever more information available to customers about the environmental impact of energy consumption and ways to save energy, principally through our energy-saving website. The site describes simple and cheap ways of saving energy which can lead to greater energy efficiency and significant cost savings. We are also in the process of developing additional energy conservation services which we will be able to offer to our customers in the future. We also plan to carry out assessments of the energy consumption in all our buildings and facilities as part of our energy conservation programme, and work on ways to optimise energy consumption.

Eesti Energia is working with University of Tartu researchers in developing the Estonian passive house concept. A passive house consumes much less energy than an ordinary building while preserving all creature comforts and offering a better microclimate. The building's low energy cost is the product of good insulation, energy-recycling ventilation and solar energy. The goal of the project is to develop general principles that are suited to the local climate and to promote the idea of passive houses suited to Estonia more broadly to architects and designers.

As Pure as Can be

We believe each electricity consumer should be free to make their own choices about their environmental impact. One option is more efficient energy use, but from March 2009 consumers can also opt to use only energy that is produced from renewable sources, which has a much lower environmental impact than does oil shale energy.

We all consume some renewable energy because of the state renewable energy levy, but Eesti Energia's Green Energy product offers us the option of electricity that is produced entirely from renewable sources of primary energy. Green Energy consumers have a minimum environmental footprint and help to lower the environmental impact of energy production throughout Estonia.

ROHELINE ENERGIA

Environmental Impacts of the Electricity and Heat Generation Division

The Electricity and Heat Generation division is the central link in the Eesti Energia value chain, as it is here that the primary energy sources are transformed into a form that consumers can use. Energy production has many obvious environmental implications, including the use of natural resources, atmospheric emissions, production of waste, and its contribution to climate change, which has become a very important topic. Each year Eesti Energia makes great efforts to reduce and control the environmental impacts of its production, investing in improving existing production plants and building new plants which are less environmentally damaging.

Where There's Smoke There's Fire

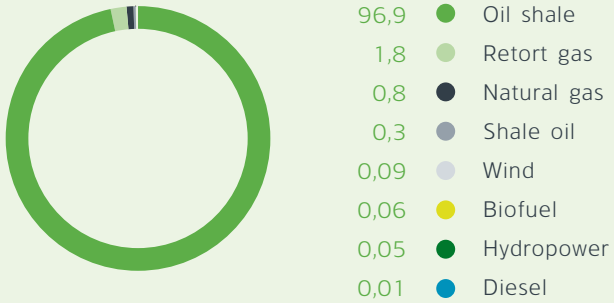
The production of electricity and heat at Eesti Energia is currently based mostly on burning fossil fuels. Narva Elektrijaamad and the Ahtme power plant primarily use oil shale, while the Iru Power Plant runs primarily on natural gas. A small amount of energy is generated from wind and water and from burning biofuels together with fossil fuels. A significant part of Eesti Energia's environmental impact comes from the atmospheric emissions from burning fuels.

Eesti Energia's biggest investment to date in refurbishing production plants to reduce emissions was its first such investment in 2004, when the reconstruction of four pulverised firing technology based boiler units into circulating fluidised bed boilers was completed. As a result, the efficiency of the units rose and many types of emission fell significantly, most importantly SO_2 emissions, which fell practically to zero even without additional filtration equipment being installed.

In early 2009, Eesti Energia signed an agreement to fit up to four pulverised firing energy producing units with filters that will significantly cut SO_2 emissions. The filters also reduce the amount of solid particles or fly ash discharged. Due to the nature of oil shale ash, the filters to be installed in the Narva Elktrijaamad do not use lime or any other chemical to bind sulphur, as the level of CaO in the oil shale ash is enough to lower the SO_2 content of the smoke to 400 mg/nm^3 or less.

Fuels Used in Electricity Production 2008/09

%



Fuels Used in Heat Production 2008/09

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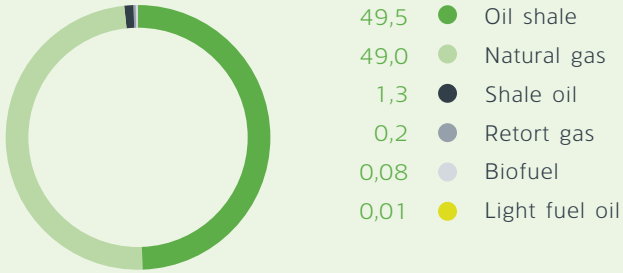


Installing SO_2 filters on up to four energy producing units and adding further NO_X filters will maintain the production capacity Estonia needs even after environmental requirements become more stringent in 2016. The restrictions will also force Eesti Energia to act earlier than this, as regulations state that from 2012 the SO_2 emissions from Narva Elektrijaamad may not exceed 25 000 tonnes a year. Various methods of lowering the SO_2 level have been tested, but none has produced satisfactory results, and research continues. Ahtme power plant, which also runs on oil shale as fuel and where the equipment is significantly older than that at Narva Elektrijaamad, will be closed at the end of 2010.

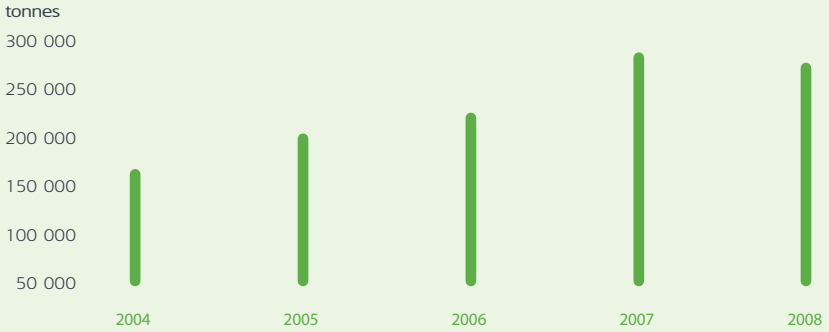
Natural gas is the cleanest fossil fuel, but additional steps to lower pollution from NO_X emissions even further have been taken at Iru Power Plant, which runs on natural gas. By using more efficient furnaces with lower NO_X and optimising the location of the furnaces, the Iru plant was able to achieve the required level of emissions in smoke of 200 mg/nm^3.

Waste Not Want Not

One of the greatest environmental impacts of electricity and heat generation and of Eesti Energia as a whole is that when oil shale is burned, up to half is left over as solid mineral waste or ash. This is a serious problem, as the ash contains a high level of CaO, which creates a strongly alkaline environment when it comes into contact with water, complicating waste handling. However, ash is a valuable raw material because its chemical composition means that it can help to conserve supplies of other natural resources.

Ash is used in Estonia primarily as an additive in the production of some cement products and is also used in making panels for the construction industry. Ash is also being looked into for use in road

Sales of Oil Shale Ash



construction and as backfill in underground mines. As a very large quantity of ash is produced each year, we are looking for consumers outside Estonia, while at the same time developing large-scale solutions for using ash within Estonia.

Today the areas where ash can be used are still restricted, as ash is classified as hazardous waste and using such waste requires a lot of bureaucracy to secure permits. Nevertheless, Eesti Energia has begun preparing for the recognition of shale ash as a product, based on the European Union's REACH regulation (Registration, Evaluation, Authorisation and Restriction of Chemical Substances). The goal of these efforts is to increase significantly the amount of oil shale ash used and to reduce the percentage of ash dumped in landfills in future.

Like several other countries, Estonia also uses hydro transport to deposit oil shale ash. Water carries the non-recoverable part of the ash to deposit sites, where the ash settles into a stable layer over time due to gravity. The water is then re-used. Besides its transporting function, the water circulating in the closed system also cools and chemically stabilises the ash. In the course of this process, the high CaO content in the ash makes the pH of the transport water strongly

alkaline. Recent studies show that if sufficient amounts of water are used for ash transport, a stable deposit area is formed that conforms to the requirements for the bottom of landfills. Additional measures are being developed with European Union experts to increase the environmental safety of the deposit areas and the holding basins.

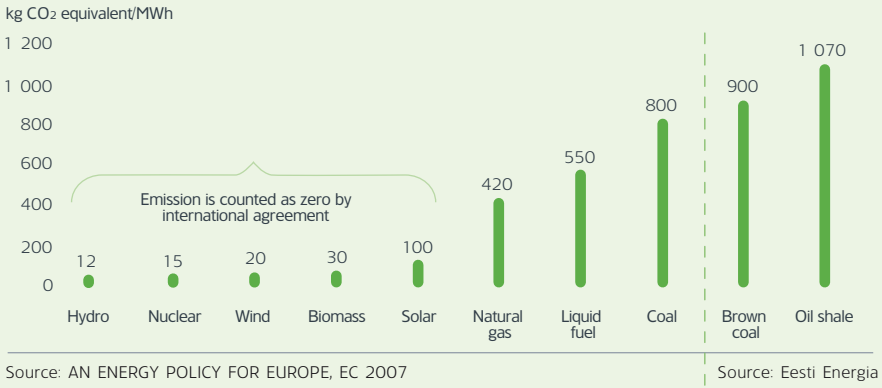
Last year, the closure of the old ash field at the Balti Power Plant was completed. The entire project took nearly five years and cost more than 7 million euros, and in the course of it more than 5 million m^3 of water was removed from the ash fields, neutralised and released into the environment. In addition, the top of the ash field was levelled, a road was built and the rest of the area was landscaped. The result of the work, which was 84% co-financed by the European Union, is a well-ordered area that poses minimum environmental risk. Here a new industrial waste landfill will be built in 2009, and in the near future a 36 MW wind farm.

One Step at a Time

Eesti Energia's production portfolio is today mainly based on one fuel, a fossil fuel which leads us to discharge significant quantities of CO_2, a prime agent of climate change. The emission of CO_2 when fossil fuels are burnt cannot be prevented, but carbon capture and storage (CCS) technology can be used to isolate and deposit the CO_2. CCS is being researched and developed worldwide, as energy generation largely depends on fossil fuels just about everywhere. Additional impetus for CCS came from the European Union's final approval late in 2008 of a package of climate change legislation including the CCS directive.

CCS is conventionally broken down into three separate stages, the capture, transport and storage of CO_2. Large energy companies and research institutions are developing many technologies for removing

Greenhouse Gas Emissions by Primary Energy Source



Source: AN ENERGY POLICY FOR EUROPE, EC 2007

Source: Eesti Energia

CO_2 from smoke, while the development of transport solutions is aided by several countries' experience of transporting natural gas, with the choice of system depending primarily on the distance to the storage area and the quantities of CO_2 to be transported. The primary focus for storing the CO_2 lies on the use of exhausted oil and natural gas deposits or deep layers of ground water with high salinity.

Under the CCS directive adopted at the end of 2008, all power plants of at least 300 MW capacity must be CCS ready from 2009. This means that building new energy units at Narva Elektrijaamad also requires analysis of the CCS stages and selection of the best solutions. It is not reasonable for Eesti Energia to invest in study projects for CO_2 capture technology, as it is better to make use of solutions that will enter commercial use in the near future. However, together with the Tallinn University of Technology's Institute of Geology we have started research to map potential geological storage sites near to Estonia, as the current understanding is that there are no suitable places for geological storage of CO_2 within Estonia.

Estonia, however, is uniquely able to bind CO_2 directly into a stable mineral compound by using oil shale ash. During the process of oil shale burning, the partial decomposition of the limestone in the oil shale adds CaO into the ash, and this process can be partially reversed and a part of the CO_2 emissions bound to the CaO, creating a stable compound. In addition, alkaline ash transport water contains ions that bond with CO_2, and this can be used to sequester the CO_2.

In practice, passive sequestration at ash dump sites is already happening in the transport water basins. It is estimated that about 3-4% of the CO_2 emitted into the atmosphere is sequestered in this process without human intervention. To speed up the process and make it economically profitable, Eesti Energia is working with both Tallinn University of Technology and the Finnish research laboratory VTT to collect input data on which experimental designs for industrial sequestration equipment can be based. The goal is to reduce, at least partially, the CO_2 emissions from Eesti Energia's energy generation operations by mineral sequestration of CO_2.

A Stable World Rests on More than One Foundation

Eesti Energia must diversify its production in order to reduce CO_2 emissions and other environmental impacts. Renewable energy has risen to the forefront, primarily in wind farm development, alongside oil shale energy production. In addition to the Aulepa wind farm, the wind turbines planned for the closed ash field at the Balti Power Plant are important, as they profit from the advantageous conditions at this former waste dump to generate electricity.

As well as developing wind energy, Eesti Energia experimented in the 2008/09 financial year with combined biofuel and oil shale combustion in the Balti Power Plant's circulating fluidised bed units. It is fairly common practice worldwide for a certain percentage of fossil fuels to be replaced by biofuels in order to reduce CO_2 and SO_2 emissions, as it has been agreed not to count CO_2 emissions from biomass because they are quickly compensated for by new growing biomass. The low sulphur content of biomass reduces the SO_2 emissions from incineration, and though the amount of NO_x emissions depends largely on the chemical composition and combustion conditions of the biomass, adding biomass to oil shale generally reduces environmental emissions. Eesti Energia burned a total of 8049 tonnes of various biofuels in tests of the technical feasibility of the process.

Eesti Energia continues to study ways of using household waste in CHP generation both at the Iru Power Plant in Tallinn and in Tartu in southern Estonia. When burning household waste, great attention must be paid to the proper cleaning of the fluegases, and the solid waste, especially fly ash, generated in the process must be handled in line with regulations to avoid harmful environmental effects. At the same time, burning household waste reduces CO_2 emissions, because by agreement emissions from waste burning are not included in CO_2 calculations. As burning consumes organic and decomposing household waste, which is the source of methane and other waste gases from landfills, incinerating rubbish significantly reduces the effect on climate change.

Environmental Impacts of the Minerals, Oil and Biofuels Division

The Minerals, Oil and Biofuels division is another part of the Eesti Energia value chain that works with Estonia's main source of primary energy, oil shale, through mining and processing it and producing liquid fuels from it, fuels that are commonly known as shale oil. This is an industry with significant environmental impacts that cannot be ignored or avoided, but they can be mitigated or used to diversify the surroundings.

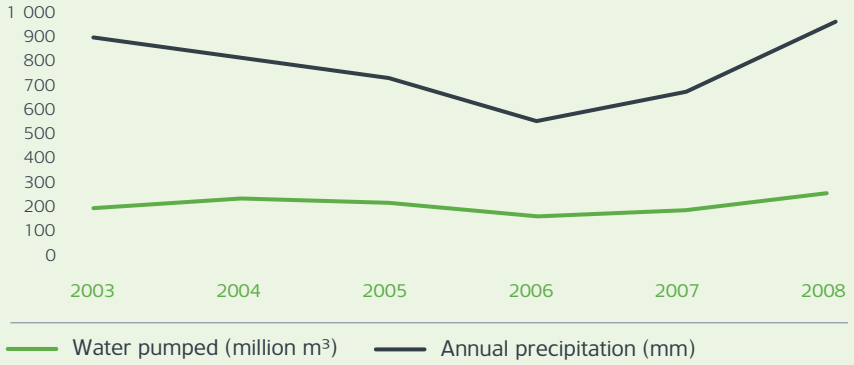
You Can't Make an Omelette Without Breaking Eggs

Mining the nearly 500 million-year-old deposits of oil shale is the reason new settlements have been built in Ida-Viru county, but it has led to major changes in the natural environment, as mining cannot take place without making changes to the landscape, generating waste and, in Estonian conditions, requiring the pumping of groundwater.

Oil shale mining began in Estonia in 1916, and by now over one billion tonnes has been extracted. Deposits at depths of up to 30 metres are extracted by open-pit mining, while resources deeper underground are brought to the surface using chamber mining, where columns of rock are left in place to keep the ceiling rock from caving in. Today, all mining takes place using the chamber method and leaving the columns untouched means that up to 27.6% of the rock is lost. Losses in open pit mining are estimated at a maximum 8.9%.

To ensure dry conditions for mining, the ground water level must be lowered in mines and quarries until it is lower than that of the oil shale being mined. In the last financial year Eesti Põlevkivi pumped out a total of over 250 million m³ water, which was redirected via ditches and rivers, mostly into the Gulf of Finland, and partly into Lake Peipus. The amount of water pumped depends directly on the annual precipitation.

Water Pumped and Precipitation by Year



Before being routed into the environment, the mining water is purified in settling tanks to prevent pollution. The impact of routing such water into the environment is low and is primarily that the water's sulphate content, its natural mineral content and hardness, rises; oil shale does not create any problem of acidic mining water. The main concern is that lowering the level of the water table in the vicinity of mineral extraction leaves nearby wells dry, and to restore the water supply in these affected areas, Eesti Põlevkivi each year drills deep bore wells and lays new water pipelines costing many thousands of euros.

When an oil shale deposit runs out, the pumping of water is stopped after the mine closes, and the ground water rises back to its natural

pre-mining level. Samples taken from water-filled mines show that sulphate concentrations drop fairly quickly in underground reservoirs, but Eesti Põlevkivi keeps continuous track of the ground water quality using a monitoring network consisting of more than one hundred bore holes and ground water points.

It is not possible to lower the ground water everywhere by pumping. In order to minimise the impact on the Kurtna Nature Reserve, work in the Narva quarry in Viivikonna district takes place within a special project designed to ensure minimal impact on the water regime of the reserve. The primary technological solution used is the short work face with seepage barriers and infiltration pools, which allow the oil shale reserves on the border of the nature reserve to be exploited to the maximum degree without impacting the ground water level.

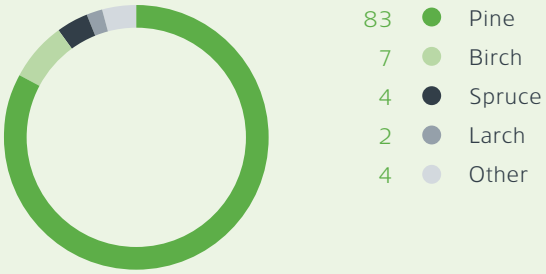
After the Party, the Clean-up

The visual impact of mining is most obvious with open pit mining, which directly transforms the landscape. The times when exhausted quarries were simply abandoned in disorder are long past, and today legislation obliges the complete restoration of former quarry areas.

The recultivation of exhausted quarries means resurfacing and afforestation. Depending on the needs of the local government, the previously flat surface relief can be made more diverse so that the land can be used for recreational purposes in future. As well as ordinary forest areas, crops have been planted on recovered areas and smaller lakes have been reshaped. The natural bodies of water that developed in the deeper quarry areas after pumping was completed help add variety to the landscape. Eesti Põlevkivi has started working more and more with various higher educational establishments to find new solutions and achieve the best possible results when recultivating quarry areas.

Trees Planted in Quarry Landscaping by Type

%



Through its work in recultivating quarries, Eesti Põlevkivi is the country's biggest forest planter – each year up to 180 hectares of former mining land is afforested, and the total was 207 hectares last year. Over the years nearly 11 800 hectares of forest have been planted. The trees are planted or sown on areas that have been resurfaced after the land has been allowed to stabilise for one or two years. Pines are most commonly planted, accounting for about 83% of all stock, but about 7% of the trees are birch, planted to create fire safety zones, and other broad-leaved trees and, to a lesser extent, spruce and larch have been planted. Of the afforested areas, 12% of the young stands are in very good condition, 31% in good condition and 44% in satisfactory condition. The quality of the pine stands conforms to the average for Estonian state forests, and this is a very good result, but we still want to increase the effectiveness of afforestation in the future.

Mine Waste is a Useful Asset

The mine waste generated in the enrichment of oil shale in open pit mining is returned to the heaps, to be used later in the recultivation of quarries, while mine waste from underground mines is collected near enrichment plants. It is estimated that at least 190 million tonnes

of production waste has been collected into such hills of mine waste during the history of mining in Ida-Viru county, with another 4-5 million tonnes accruing each year.

The amount of mine waste generated has partially been reduced by the use of selective mining technology, where the limestone and oil shale deposits are mined separately. This specially designed technology is used at Narva quarry where the interbed limestone layer in the oil shale deposit is left in the quarry. This method cannot be used in underground mines and enrichment plants above the ground must be relied on to separate the limestone from the oil shale.

Eesti Põlevkivi has more than ever started considering the mine waste an untapped resource rather than a residue of production. Mine waste can be further crushed and sifted and used to produce quality crushed limestone, and a certificate was issued in 2008 for crushed limestone produced from oil shale mine waste from the Aidu quarry; the product can be used in construction work and road building.

Aidu quarry is capable of producing nearly 400 000 tonnes of crushed stone, to which the processing complex for mine waste from the Estonia mine adds at least another million tonnes. Removing this valuable limestone from the mine waste reduces both the quantities of waste that must be deposited, and the need to mine limestone separately elsewhere, so the crushed stone produced from oil shale mine waste can be used in other places in Estonia besides Ida-Viru county. This means pressure on the natural resources in the limestone deposits around Tallinn can be reduced.

From Dust to Dust

The problems related to depositing ash and the possibilities for using ash have already been discussed under the Electricity and Heat Generation division overview. A major place where this issue intersects with the Minerals, Oil and Biofuels division is the blend of oil shale ash and crushed mine waste, which in certain conditions forms a material similar to concrete which can be pumped and which hardens, and which could be used as backfill for chambers in the underground mines.

Sales of Mine Waste and Crushed Rock

A key goal of backfill is to increase the stability of the earth surface above old mine chambers. It would also be possible to reduce losses by reorganising mining methods and replacing the monolithic columnar supports with cast forms. It should certainly be remembered that in the future the units that produce energy products from oil shale will be located near the mines, and so the solid precipitate created there in the production process will also require a handling solution.

Before ash can begin to be used as backfill, thorough research must be carried out to develop a recipe for a blend of ash and crushed mine waste that would have the optimum properties. The speed at which it hardens, its further behaviour and the environmental impact from dissolution must be studied. Like the oil shale ash hydro transport system

at Narva Elektrijaamad, this type of backfill may also change the pH of the water in the chambers. As very large quantities of water are pumped out in the mining process it is especially important to calculate the effect of the backfill on the aquatic environment in the area.

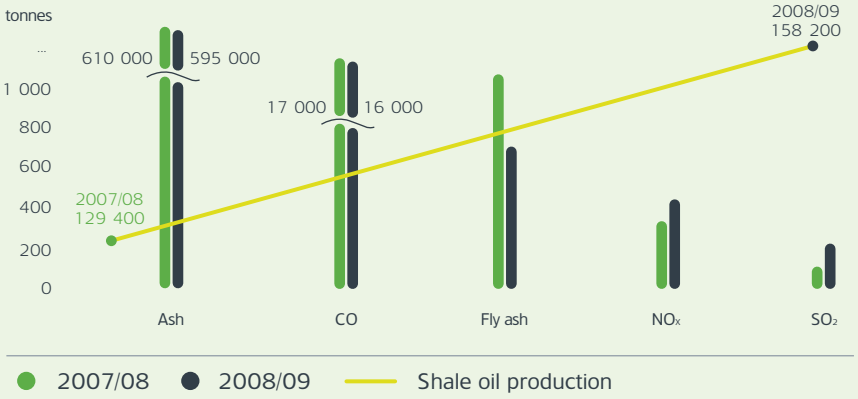
Today the Tallinn University of Technology has completed testing to find a suitable composition and the University of Tartu has evaluated the environmental impact of various blends. Underground testing is planned for the mine chambers, with assistance for logistical and technical solutions from experts from the German firm DMT GmbH, which has worked on similar backfill solutions for mines. We expect results for further technological and economic analysis by the end of the 2009/10 financial year.

You Can Squeeze Oil Out of a Rock

Producing liquid fuels from oil shale is, alongside mining, another important activity for the Minerals, Oil and Biofuels division. Development work over many years has minimised the environmental impact from liquid fuel production, thanks to Narva Õlitehas's solid heat carrier technology TSK, renamed Enefit Technology in May 2009. The hot ash produced in the post-combustion of the semi-coke created in the production process is re-used in the process as a heat carrier, and the result is that the waste is nearly 100% mineral and, unlike semi-coke, no longer contains organic carbon. For CO_2 emissions, the production of liquid fuels from oil shale is less environmentally damaging than electricity generation, as a majority of the carbon from the rock ends up directly in the chemical structure of the fuel.

In the 2008/09 financial year, Narva Õlitehas discharged a total of 114 tonnes of SO_2, 247 tonnes of NO_X, 399 tonnes of fly ash and 16 345 tonnes of CO, and 595 402 tonnes of ash was pro-duced as production waste. Post-combustion of the TSK-140 gaseous emissions

Rise in Shale Oil Production and Parallel Fall in Environmental Pollution



that are used for producing oil can lower the emissions of toxic CO and H_2S even further, and this is especially important because of the unpleasant odour of H_2S.

In the course of its development the TSK-technology has been improved so much that now a new oil plant is being built, as the reliability of the oil production equipment and the efficiency of the process have been increased. At the same time, the environmental emissions from the process have been reduced. The largest change in the new improved technology is the replacement of the old semi-coke post-combustion process with circulating fluidised bed boilers, allowing the emissions from the post-combustion process to be reduced without the installation of additional filters, which experience of circulating fluidised bed technology in electricity generation has shown to be unnecessary. In addition, circulating fluidised bed technology improves the quality of ash in oil production, expanding the possibilities for making use of the waste. Use of the heat given off by oil production and small-scale electricity production allows the maximum energy value to be extracted from the oil shale.

Environmental Impacts of the Electricity Transmission Division

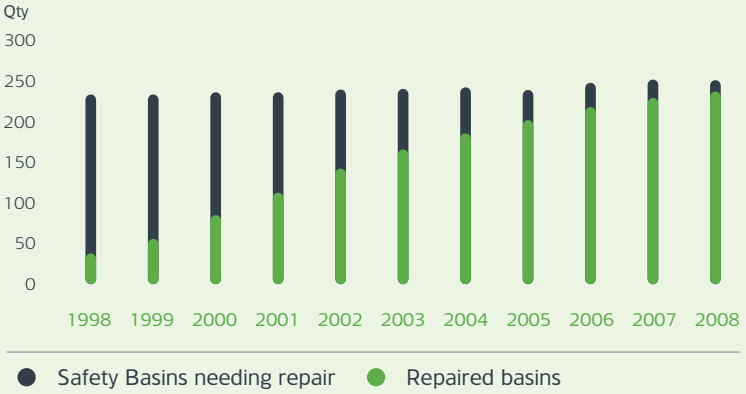
Transmitting electricity requires cables and overhead lines to transport high-voltage electricity. The first environmental impact that is associated with transmission is a long row of high pylons stretching over fields and forests in a corridor. Indeed, the majority of the transmission network Põhivõrk's 5261 km of transmission lines are overhead lines, and only 95 km of high-voltage lines are buried cable. The Estlink cable on land and under the sea also transmits electricity. With overhead lines, the visual impact is what is noticed first, but with buried cable the main environmental impact occurs only during installation.

We Can't Manage Without Oil

In addition to lines, electricity transmission requires substations with transformers, switches and other equipment. Põhivõrk's transmission transformers are much bigger than the transformers used in the distribution of electricity and they contain more transformer oil, a total of around 5000 tonnes in the last financial year. Due to their low viscosity and high temperature in working conditions, these fluids can spread over wide areas if spilled, and so to reduce the environmental risk, safety basins are required for all such transformers.

The safety basins belonging to Põhivõrk are in very good condition; 94% of them conform completely to all requirements and the rest are being repaired according to a fixed schedule up to 2013. The structure of the basins has also been improved as they are upgraded, so that, for example, the conventional basin collection system has been given an additional oil separation function, which allows ordinary rainwater and water contaminated with oil to be separated so that they can either be released to nature or directed for treatment.

Repair of Safety Basins for Põhivõrk Transformers



The PCB compounds used in the transmission of electricity at Põhivõrk are strictly monitored, both to account for equipment that contains PCBs and to guard against potential contamination. The 7.2 tonnes of PCB oils remaining in the condenser batteries at the Viljandi substation by the end of the financial year will be eliminated when the substation is renovated by 2010.

There are Two Sides to Every Coin

Although oils are essential in some substation equipment, in switches oil can be successfully replaced by sulphur hexafluoride (SF_6), which reduces the size of the equipment and removes the risk of spills. Põhivõrk has replaced its oil switches with SF_6-switches when renovating substations in the last few years. In 2003 there was a total of 968 tonnes of oil in the switches, but today only 476 tonnes are left.

SF_6-switches are the best alternative to oil switches, as the switch does not break or leak, but if SF_6 is released into the environment it creates serious problems as it has been declared a greenhouse gas and a key contributor to climate change. Scientists consider the impact of one tonne of SF_6 to be the equivalent of 22 800 tonnes of CO_2 released into the atmosphere. As of the end of the financial year, Põhivõrk's switches and tanks contained a total of over seven tonnes of SF_6, and this is accounted for with meticulous precision and the risk of leaks, though negligible, is carefully monitored.

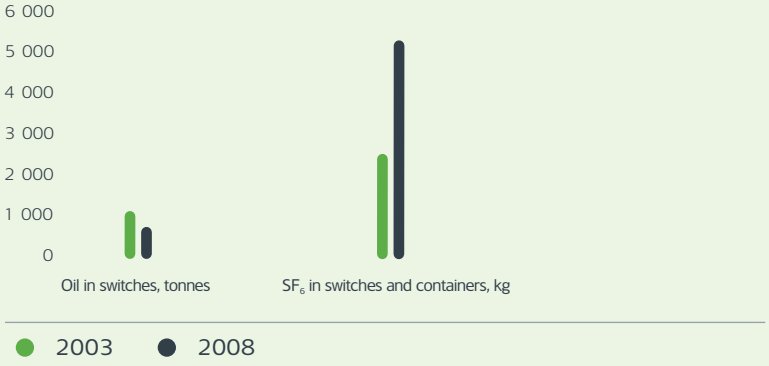
The Good Things in Life are Usually Bad for You

All live electrical wiring and equipment is surrounded by an electromagnetic field that cannot be seen, heard or smelt. The strength of an electrical field depends on the voltage, while magnetic fields depend on the current; both are strong only in the immediate proximity of the source of the voltage. Scientific data indicates that magnetic fields have a warming effect on living tissue and have some impact on the function of the nervous system.

Knowledge of electromagnetic fields is important in designing safety corridors for overhead lines and determining the boundaries of real estate developments. It was only recently, during the building boom, that houses were constructed in the immediate vicinity of high voltage lines or right below them, and such buildings may later have problems with TV and radio interference. For the same reason there are restrictions on human presence in electromagnetic fields in order to minimise health risks.

Noise from substation power transformers may also be disruptive to people nearby. The main solution to this is to build noise shields around the transformers, which Põhivõrk has also done successfully

Replacement of High Pollution Risk Oil Switches in Põhivõrk Substations with Safer SF_6-Switches



to solve noise problems. For the compact substations to be built and renovated in the future, the need to invest in noise-proof walls is already factored in.

Problems with birds also affect Põhivõrk, but unlike Jaotusvõrk it cannot make major concessions due to the higher voltage levels and the obligation to guarantee the national electricity supply. This means that all problem stork's nests must be removed from high voltage lines and artificial nesting platforms installed next to them. This is a very important issue, as the stork population has been growing continually in Estonia and short-circuits affecting the quality of supply for many consumers have been caused by animal activity.

Consolidated Annual Financial Statements

DECLARATION OF THE MANAGEMENT BOARD

The Management Board confirms the correctness and completeness of the consolidated financial statements of Eesti Energia AS (Parent Company) and its subsidiaries (Group) which have been prepared for the period 1 April 2008 – 31 March 2009 and set out on pages 92–172. The Management Board declares that, to the best of its knowledge:

- the financial statements have been prepared in accordance with the International Financial Reporting Standards as they have been adopted in the European Union;
- the financial statements present a true and fair view of the financial position, the cash flows and the results of operations of the Group;
- all known material circumstances that became evident before the date of preparation of the financial statements (5 June 2009) have been appropriately accounted for and presented in the financial statements.

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

Sandor Liive
Chairman of the Management Board

Margus Kaasik
Member of the Management Board

Harri Mikk
Member of the Management Board

Raine Pajo
Member of the Management Board

Margus Rink
Member of the Management Board

CONSOLIDATED BALANCE SHEET

in thousand EUR	31 March 2009	31 March 2008	Note
ASSETS			
Non-current assets			
Property, plant and equipment	1 459 292	1 351 144	6
Intangible assets	11 138	8 320	8
Investments in associates	11 412	10 820	9
Derivative financial instruments	7 862	-	12
Long-term receivables	338	15	10
Total non-current assets	**1 490 042**	**1 370 299**	
Current assets			
Inventories	29 313	26 604	11
Greenhouse gas allowances	25 780	-	8
Trade and other receivables	114 599	87 928	10
Derivative financial instruments	18 166	910	12
Held-to-maturity financial assets	-	5 113	15
Financial assets at fair value through profit or loss	2 014	1 630	16
Deposits with maturities greater than three months at banks	25 100	138 190	17
Cash and cash equivalents	97 181	62 861	18
Total current assets	**312 153**	**323 236**	
Total assets	**1 802 195**	**1 693 535**	

in thousand EUR	31 March 2009	31 March 2008	Note
EQUITY			
Capital and reserves attributable to equity holder of the Parent Company			
Share capital	471 817	467 909	19
Unregistered share capital	-	3 907	19
Share premium	259 833	259 833	
Statutory reserve capital	47 182	46 490	19
Hedge reserve	24 549	-34 954	21
Unrealised exchange rate differences	-13	10	
Retained earnings	353 581	308 899	19
Total equity and reserves attributable to equity holder of the Parent Company	**1 156 948**	**1 052 094**	
Minority interest	**3 232**	**3 353**	
Total equity	**1 160 180**	**1 055 447**	
LIABILITIES			
Non-current liabilities			
Borrowings	321 654	328 593	22
Other payables	86	600	23
Derivate financial instruments	740	28 280	12
Deferred income	125 184	109 444	24, 25
Provisions	20 186	26 279	26
Total non-current liabilities	**467 848**	**493 197**	
Current liabilities			
Borrowings	7 687	7 922	22
Trade and other payables	125 616	116 377	23
Derivative financial instruments	1	8 032	12
Deferred income	215	314	25
Provisions	40 647	12 246	26
Total current liabilities	**174 166**	**144 892**	
Total liabilities	**642 014**	**638 089**	
Total liabilities and equity	**1 802 195**	**1 693 535**	

The notes on pages 97-172 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

in thousand EUR	1 April - 31 March 2008/09	2007/08	Note
Revenue	667 640	574 445	27
Other operating income	7 181	4 038	28
Government grants	2 338	2 117	25
Change in inventories of finished goods and work-in-progress	3 890	-360	
Raw materials and consumables used	-267 388	-207 841	29
Other operating expenses	-61 749	-78 528	30
Payroll expenses	-134 924	-120 451	31
Depreciation, amortisation and impairment	-114 942	-109 899	6, 8
OPERATING PROFIT	**102 044**	**63 522**	
Financial income	12 423	10 707	32
Financial expenses	-18 581	-18 615	32
Total financial income and expenses	**-6 158**	**-7 908**	32
Gain from associates using equity method	1 742	1 452	9
Loss from impairment of associate	-	-10	
PROFIT BEFORE TAX	**97 628**	**57 056**	
Corporate income tax expense	**-10 704**	**-17 771**	33
NET PROFIT FOR THE FINANCIAL YEAR	**86 924**	**39 285**	
ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**87 044**	**39 231**	
Minority interest	**-120**	**54**	

The notes on pages 97-172 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousand EUR	1 April - 31 March 2008/09	2007/08	Note
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	182 669	173 180	34
Interest and loan fees paid	-15 929	-16 102	
Interest received	9 982	8 937	
Corporate income tax paid	-10 752	-17 921	
Net cash generated from operating activities	**165 970**	**148 094**	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	-225 039	-168 890	
Proceeds from connection and other fees	22 609	26 271	24
Proceeds from sale of property, plant and equipment	2 435	1 393	
Dividends collected from associates	-	1 229	9
Proceeds from sale of a business unit	-	29	37
Acquisition of subsidiaries, net of cash acquired	-	-1 835	36
Net change in deposits with maturities greater than 3 months	113 090	97 065	17
Purchase of short-term financial investments	-18 862	-29 216	15, 16
Proceeds from sale and redemption of short-term financial investments	23 709	25 834	15, 16
Net cash used in investing activities	**-82 058**	**-48 120**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank loans	-7 687	-6 325	22
Repayments of other borrowings	-	-345	22
Repayments of finance lease liabilities	-52	-51	22
Change in overdraft	-183	183	22
Dividends paid	-41 670	-63 912	20
Net cash used in financing activities	**-49 592**	**-70 450**	
NET CASH FLOWS	**34 319**	**29 525**	
Cash and cash equivalents at beginning of the period	62 861	33 337	18
Cash and cash equivalents at end of the period	97 181	62 861	18
Net increase/(-)decrease in cash and cash equivalents	**34 319**	**29 525**	

The notes on pages 97-172 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousand EUR	Attributable to equity holder of the Company								
	Share capital	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total	Minority interest	Total equity	Note
Equity as at 31 March 2007	**464 900**	**259 833**	**46 490**	**8 087**	**333 579**	**1 112 888**	**3 299**	**1 116 187**	
Change in hedge reserve	-	-	-	-43 041	-	-43 041	-	-43 041	21
Currency translation differences attributable to foreign subsidiaries	-	-	-	11	-	11	-	11	
Net income recognised directly in equity	**-**	**-**	**-**	**-43 030**	**-**	**-43 030**	**-**	**-43 030**	
Net profit for 2007/08 financial year	-	-	-	-	39 231	39 231	54	39 285	
Total recognised income and expenses for 2007/08	**-**	**-**	**-**	**-43 030**	**39 231**	**-3 799**	**54**	**-3 745**	
Increase of share capital in accordance with order no. 368 of the Government of the Republic of 2 August 2007	3 010	-	-	-	-	3 010	-	3 010	19
Increase of share capital in accordance with order no. 97 of the Government of the Republic of 27 February 2008 (unregistered)	3 907	-	-	-	-	3 907	-	3 907	19
Dividends paid	-	-	-	-	-63 912	-63 912	-	-63 912	20
Equity as at 31 March 2008	**471 817**	**259 833**	**46 490**	**-34 944**	**308 899**	**1 052 094**	**3 353**	**1 055 447**	
Change in hedge reserve	-	-	-	59 503	-	59 503	-	59 503	21
Currency translation differences attributable to foreign subsidiaries	-	-	-	-23	-	-23	-	-23	
Net income recognised directly in equity	**-**	**-**	**-**	**59 480**	**-**	**59 480**	**-**	**59 480**	
Net profit for 2008/09 financial year	-	-	-	-	87 044	87 044	-120	86 924	
Total recognised income and expenses for 2008/09	**-**	**-**	**-**	**59 480**	**87 044**	**146 524**	**-120**	**146 404**	
Transfer of retained earning to reserve capital	-	-	692	-	-692	-	-	-	
Dividends paid	-	-	-	-	-41 670	-41 670	-	-41 670	20
Equity as at 31 March 2009	**471 817**	**259 833**	**47 182**	**24 536**	**353 581**	**1 156 948**	**3 232**	**1 160 180**	

The notes on pages 97-172 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General Information

The consolidated financial statements of Eesti Energia Group for the year ended 31 March 2009 include the financial information in respect of Eesti Energia AS (parent company, legal form: public limited company) and its subsidiaries (hereinafter the Group) and the Group's participation in associated entities.

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

The registered address of the Parent Company is Laki 24, Tallinn 12915, Republic of Estonia.
The sole shareholder of AS Eesti Energia is the Republic of Estonia.
The bonds of AS Eesti Energia are listed on London Stock Exchange.

These consolidated financial statements of the Group were authorised for issue by the Management Board on 5 June 2009. Pursuant to the Commercial Code of the Republic of Estonia, the annual report needs to be additionally approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

2 Summary of Principal Accounting and Reporting Policies

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

2.1 Basis of preparation

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

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

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

2.2 Changes in accounting policies

(a) Amendments to published standards which became effective for the Group from 1 July 2008 but which do not have a material effect on the Group's financial statements

- *Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments:* Disclosures" *and consequential amendment "Reclassification of Financial Instruments: Effective Date and Transition".* The amendments allow entities the following options: (a) to reclassify a financial asset out of the held-for-trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale or held-for-trading asset to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). Reclassifications decided before 1 November 2008 could be made retrospectively as at 1 July 2008. Reclassifications decided after 1 November 2008 are allowed to be made prospectively. Financial assets have not been reclassified in the financial statements of Eesti Energia Group.,

(b) New standard adopted early from 1 April 2008

- *IFRS 8 "Operating Segments".* The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or another regulatory agency for the purpose of issuing any class of instruments in a public market. The standard requires an entity to report financial and descriptive information about its operating segments on the same basis to that used for internal reporting purposes. From 1 April 2008, according to the requirements of IFRS 8, operating segments have been specified and information about operating segments has been disclosed at the Group similarly to how reporting is prepared for making management decisions and analysis of the results internally in the Group. As the presentation of reporting prepared and used internally changed from 1 April 2008 due to the change in the Group's management structure, the presentation of prior period's comparative information has also been changed.

(c) Adopted new standards, amendments and interpretations to existing standards that are not yet effective but are relevant to the Group's operations and financial reporting

By the time of preparing these financial statements, the following new International Financial Reporting Standards, amendments to standards and International Financial Reporting Interpretations Committee interpretations have been published which will become mandatory for the Group from the reporting period beginning at or after 1 April 2009 and which the Group has not adopted early:

- *IAS 1 "Presentation of Financial Statements" (amendments).* The amended standard will be mandatory for the Group from 1 April 2009. The main amendment to IAS 1 is the replacement

of the income statement with the statement of comprehensive income which also includes non-owner changes in equity, such as changes in the revaluation reserve of available-for-sale assets. Two statements are allowed to be presented as an alternative: a separate income statement and a statement of comprehensive income. The amended standard also requires the disclosure of the financial position (balance sheet) for the opening balances of the comparable period when comparative information has been adjusted due to reclassifications, changes in accounting policies or correction of errors. The amended standard will primarily have an effect on the presentation of financial statements but not the recognition of transactions and balances as well as accounting policies. The Group is expected to present a separate income statement and a statement of comprehensive income.

- *IAS 23 "Borrowing Costs" (amendments).* The amended standard will be mandatory for the Group from 1 April 2009.

The amended IAS 23 requires borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale to be immediately capitalised as part of the cost of the asset. The standard eliminates the option of immediately recognising such borrowing costs as expenses. The amended standard will be effective prospectively for asset-related borrowing costs to be incurred after 1 April 2009. The amendment to the standard requires a change in the Group's accounting policies.

- *IAS 27 "Consolidated and Separate Financial Statements" (amendments).* The amended standard will be mandatory for the Group from 1 April 2010. The amended standard requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (in most cases, the current standard requires the excess losses to be allocated to the owners of the parent). The amended standard specifies that changes in the parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on a loss of control over a subsidiary. The adoption of the amendment to the standard may have an effect on the recognition of future transactions related to current non-controlling interests.

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

- *IAS 39 "Financial Instruments: Recognition and Measurement (amendment)* – Eligible Hedged Items. The amended standard will be mandatory for the Group from 1 April 2010. The amendment clarifies how the principles that determine whether hedged risk or a portion of cash flows is eligible for hedge requirements should be applied to particular situations. The adoption of the amendment to the standard may have an effect on the Group's hedging transactions.

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

- *IFRS 3 "Business Combinations" (amendments).* The amended standard will be effective for business combinations set up in the Group the acquisition date of which is after 1 April 2010. The amended standard includes the option to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The amended IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a

step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs shall be accounted for separately from the business combination and are therefore recognised as expenses rather than included in goodwill. At the acquisition date, an acquirer will have to recognise a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date shall be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The amended IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The adoption of the amendment to the standard may have an effect on the recognition of future transactions related to current ownership interests.
As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard.

- *IFRS 7 "Financial Instruments: Disclosures (amendment) – Improving Disclosures about Financial Instruments.* The amendment to IFRS 7 will be mandatory for the Group from 1 April 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee and in the earliest period in which the guarantee can be collected; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable the readers of the financial statements to evaluate the nature and extent of liquidity risk. The amendment to the standard requires enhanced disclosures in the Group's financial statements.
As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard.
- *IFRIC 17 "Distribution of Non-cash Assets to Owners".* IFRIC 17 will be mandatory for the Group from 1 April 2010. The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as dividends to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets shall be recognised in profit or loss when the entity settles the dividend payable. The adoption of the standard may have an effect on recognition of future transactions related to the transfer of current assets.
As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the interpretation.
- *IFRIC 18 "Transfers of Assets from Customers".* IFRIC 18 will be mandatory for the Group from 1 April 2010. The interpretation clarifies the accounting for transfers of assets from customers, 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 adoption of the interpretation may have an effect on recognition of future transactions related to the transfer of assets from customers.

As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the interpretation.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method for making necessary, but non-urgent, amendments to IFRS. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental purposes and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36 clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner for determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group estimates that the amendments will not have a material effect on the financial statements, except for:

1. *IAS 23 "Borrowing Costs" (amendment).* The amended standard will become mandatory for the Group from 1 April 2009. The definition of borrowing costs is revised to specify that interest expense forming part of borrowing costs is to be calculated using the effective interest rate method as described in IAS 39. The Group will use the aforementioned amendment after the commencement of capitalisation of borrowing costs from 1 April 2009;
2. *IAS 36 "Impairment of Assets" (amendment).* The amended standard will become mandatory for the Group from 1 April 2009. The amendment requires increased disclosure of underlying assumptions where the recoverable amount of a cash generating unit (or group of units) is based on fair value less costs to sell determined using discounted cash flow projections. The adoption of the amendment to the standard is expected to require additional disclosures in the financial statements;
3. *IAS 39 "Financial Instruments: Recognition and Measurement" (amendments).* The amended standard will be mandatory for the Group from 1 April 2009. The revised standard allows movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge; and where financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4. The amendment also clarifies that when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used. The adoption of the amendment to the standard may have an effect on the accounting of possible transactions involving currently owned financial instruments;

4. *IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (amendment) and related IFRS 1 "First-time Adoption of International Financial Reporting Standards" (amendment).* The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The adoption of the amendment to the standard may have an effect on the accounting of future transactions involving current subsidiaries.

(d) New standards, amendments to standards and interpretations that have been published but are not yet effective and are not expected to have a material effect on Group's financial reporting

By the time of preparing these financial statements, the following new International Financial Reporting Standards, amendments to standards and International Financial Reporting Interpretations Committee interpretations have been published that will be mandatory for the Group from reporting periods beginning at or after 1 April 2009 and that the Group has not adopted early:

- *IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" (amendment) – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation.* IAS 32 and amendment to IAS 1 will be mandatory for the Group from 1 April 2009. The amendment requires classification of some financial instruments that meet the definition of a financial liability as equity instruments. The adoption of the amendment is not expected to have an effect on the Group's financial reporting because the Group does not own any such financial instruments.
- *IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" (amendments) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.* The amended standards will be mandatory for the Group from 1 April 2009. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying amount as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The adoption of the amendments is not expected to have an effect on the Group's financial reporting because the Group is not the first-time adopter of IFRSs.
- *IFRS 1 "First-time Adoption of International Financial Reporting Standards" (amendment).* The amended standard will be mandatory for the Group from 1 April 2010. The amended IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The adoption of the amendment will not have an effect on the Group's financial reporting because the Group is not the first-time adopter of IFRSs.

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

- *IFRS 2 "Share-based Payment" (amendment) – Vesting Conditions and Cancellations.* The amendment to IFRS 2 will be mandatory for the Group from 1 April 2009. The amendment clarifies that vesting conditions include only service conditions and performance conditions. Other features of share-based payments are not vesting conditions. According to the amendment, all cancellations whether by the Group or other parties, should be accounted for in the same way. The adoption of the amendment is not expected to have an effect on the Group's financial reporting because the Group does not have any such transactions.

- *IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" (amendments).* The amendment will be mandatory for the Group from 1 April 2010. The amendments clarify that upon classification of financial assets out of the category 'at fair value through profit or loss', embedded derivatives shall be assessed and if necessary, recognised separately. The adoption of the amendments is not expected to have an effect on the Group's financial reporting because the Group does not have any embedded derivatives.
As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard.
- *IFRIC 12 "Service Concession Arrangements".* IFRIC 12 will be mandatory for the Group from 1 April 2009. The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. The interpretation pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price. The adoption of the interpretation is not expected to have an effect on the Group's financial reporting because the Group does not have any service concession arrangements.
- *IFRIC 13 "Customer Loyalty Programmes".* IFRIC 13 will be mandatory for the Group from 1 April 2009. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The adoption of the interpretation is not expected to have an effect on the Group's financial reporting because the Group does not have any customer loyalty programmes.
- *IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions".* IFRIC 14 will be mandatory for the Group from 1 April 2009. The interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, the interpretation explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan. The adoption of the interpretation is not expected to have an effect on the Group's financial reporting because the Group does not have any pension plans.
- *IFRIC 15 "Agreements for the Construction of Real Estate".* IFRIC 15 will be mandatory for the Group from 1 April 2009. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 15 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The adoption of the interpretation is not expected to have an effect on the Group's financial reporting because the Group does not generate any revenue from construction of real estate.
As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the interpretation.
- *IFRIC 16 "Hedges of a Net Investment in a Foreign Operation".* IFRIC 16 will be mandatory for the Group from 1 April 2009. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create

an exposure to which hedge accounting could be applied. The interpretation allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities shall apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The adoption of the interpretation is not expected to have an effect on the Group's financial reporting because the Group does not have hedge transactions.
As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the interpretation.

- *Improvements to IFRSs (issued in April 2009).* The amendments will become mandatory for the Group from 1 April 2010. 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 Group estimates that the adoption of the amendments will not have any impact on Group's financial statements.
  As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed these amendments.

2.3 Preparation of consolidated financial statements

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.
Subsidiaries are fully consolidated from the date at which control is

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

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

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

(c) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses (Note 2.10).

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

For the purpose of segment reporting, operating segments and information regarding operating segments is disclosed in the same manner that reporting is performed internally to the chief operating decision-maker in order to make management decisions and analyse the results.

The chief operating decision-maker which makes decisions regarding allocation of resources to the segment and evaluates the segment results, is the Management Board of the Parent Company.

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

Functional and presentation currency

(a) Functional and presentation currency

Group entities use the currency of their primary economic environment. The consolidated financial statements have been prepared in Estonian kroons which is the functional currency of the Parent Company.

For the convenience of the users, these financial statements have been presented in euros, rounded to the nearest thousand, unless stated otherwise. As the Estonian kroon is pegged to euro at the fixed exchange rate of 1 euro = 15,6466 Estonian kroons, no currency translation differences arise from the translation of kroons to euros.

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

Foreign currency transactions are translated into Estonian kroons using the official exchange rates of the Bank of Estonia prevailing at the transaction date. When the Bank of Estonia does not quote a particular currency, the official exchange rate of the central bank issuing the currency with regard to the Euro is used as the basis. Exchange rate differences resulting from settlement of such transactions are reported in the income statement. Assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the Bank of Estonia prevailing at the balance sheet date or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency when the Bank of Estonia does not quote the particular currency. Profits and losses from translation are reported in the income statement, except for gains and losses from revaluation of cash flow hedging instruments recognised as effective hedges, which are recognised directly in equity.

Gains and losses from revaluation of borrowings and cash and cash equivalents are reported as finance income and costs; gains and losses arising from changes in other exchange rates are reported as operating income and operating expenses.

(c) Consolidation of foreign subsidiaries

When the subsidiary's functional currency is different from the presentation currency of the Parent Company, the following exchange rates are used to translate the financial statements:

- asset and liability items are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at weighted average exchange rate of the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rate at the dates of the transactions); and;
- the resulting exchange differences are recognised is a separate equity item "Currency translation differences".

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

None of the subsidiaries in the Group operates in a hyperinflationary economy.

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

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

2.7 Property, plant and equipment

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

If an item of property, plant and equipment consists of components with significantly different useful lives, these components are depreciated as separate items of property, plant and equipment. Interest charges on loans are not capitalised in the cost of non-current assets.

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

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

Buildings	25–40 years
Facilities, incl.	
electricity lines	20–60 years
other facilities	10–30 years
Machinery and equipment, incl	
transmission equipment	7–40 years
power plant equipment	7–30 years
other machinery and equipment	3–20 years
Other property, plant and equipment	3–8 years

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

Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount (Note 2.10).

To determine the gains and losses from the sale of property, plant and equipment, the residual value of the sold assets is subtracted from the proceeds. The respective gains and losses are reported in the income statement items "Other operating income" or "Other operating expenses".

2.8 Intangible assets

Intangible assets are recognised in the balance sheet only if the following conditions are met:
- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Intangible assets (except for goodwill) are amortised using the straight-line method over the useful life of the asset not exceeding 20 years.
Intangible assets are tested for impairment if there are any signs of impairment, similarly to the testing of impairment for items of property, plant and equipment (except for goodwill). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amount with their recoverable amount.

(a) Goodwill
Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired as at the date of acquisition. Goodwill acquired in a business combination is recognised as an intangible asset in the balance sheet (Note 2.3). Goodwill which arises on acquisition of an associate is included in the cost of the investment and it is evaluated together with the evaluation of the investment.

Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at each balance sheet date (or more frequently if an event or change in circumstances indicates it). The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose identifies according to operating segment. Goodwill is written down to its recoverable amount when it is lower than the carrying amount. Impairment losses on goodwill are not reversed. Goodwill is reported in the balance sheet at the carrying amount (cost less any impairment losses) (Note 2.10). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Development costs
Development costs are costs that are incurred for the implementation of research findings for developing new specific products or services. Development costs are capitalised in case there exists a schedule for utilising the project and the future revenues from the intangible asset can be determined.
Expenses related to starting up a new business unity, research carried out for collecting new scientific or technical information and training costs are not capitalised.

(c) Contractual rights
Contractual rights acquired in a business combination are recognised at fair value on acquisition and after initial recognition, at cost less any accumulated amortisation. Contractual rights are amortised to costs using the straight-line basis over the expected duration of the contractual right.

(d) Computer software

Acquired computer software which is not an integral part of the related hardware is recognised as an intangible asset. Software development costs are recognised as intangible assets when they are directly associated with the development of such hardware products which are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalised software development costs include payroll expenses and an appropriate portion of relevant overheads. Computer software development costs are amortised over their estimated useful lives (not exceeding three years) using the straight-line method.

Costs related to ongoing maintenance of computer software are charged to profit or loss. Expenditures incurred for software which are initially recognised as costs are not recognised as intangible assets in a subsequent period.

(e) Right of use of land

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

(f) Patents, brand names, licenses and certificates

Expenses related to patents, brand names, licenses and certificates are capitalised when it is probable that the future economic benefits that are attributable to them will flow to the Group. Patents, brand names, licenses and certificates are recognised at fair value. Such intangible assets are depreciated using the straight-line method over the useful lives of assets not exceeding 20 years. Patents, brand names, licenses and certificates are reported in the balance sheet at the carrying amount (at cost less any accumulated amortisation).

(g) Greenhouse gas emission allowances

Greenhouse gas emission allowances if those are controllable by the Group are accounted for as current or non-current intangible assets depending on the expected realisation period.

The cost of greenhouse gas emission allowances received from the state free of charge is considered 0 euro.

In case the quantity of emitted greenhouse gases exceeds the quantity of greenhouse gas emission allowances allocated by the state free of charge, the allowances additionally purchased are recognised at cost.

2.9 Exploration and evaluation assets of mineral resources

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

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

At each balance sheet date, exploration and evaluation assets are tested for impairment (Note 2.10). Impairment of exploration and evaluation assets is assessed when one or more of the following circumstances are present:

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

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

2.10 Impairment of non-financial assets

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

- fair value of the asset less costs to sell; and;
- value in use.

In case the fair value of the asset less costs to sell cannot be determined reliably, the recoverable amount of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.

An impairment test is carried out if any of the following indicators of impairment exist:

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

The Group can identify other evidence of impairment, the recoverable amount of the asset is also determined, or in case of goodwill, an impairment test is performed.

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

At each balance sheet date, it is assessed whether there is any evidence that the impairment loss recognised in the previous year (except that of goodwill) no longer exists or it has decreased. If such evidence exists, the recoverable amount is reassessed. According to the results of the assessment, the write-down can be partially or wholly reversed. Goodwill impairment losses are not reversed in the next period.

2.11 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity investments, and loans and receivables. The classification depends on the purpose for

which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

(b) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments which the Group has the intention to hold until maturity. In case the Group sells held-to-maturity investments in a quantity which is larger than insignificant before the redemption, all financial assets in this category are reclassified as available-for-sale financial assets. Held-to-maturity investments are reported as long-term financial investments unless the maturity is less than 12 months as at the balance sheet date.

(c) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. In such case, they are accounted for as non-current assets. The Group's loans and receivables are included in the balance sheet lines "Cash and cash equivalents", "Bank deposits with maturities greater than 3 months", "Trade and other receivables".

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

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line "Financial income or expenses" (net) in the period in which they arise or are incurred (Note 32). Interest income on held-to-maturity investments as well as loans and receivables is reported in the income statement line "Financial income" (Note 32). The Group has not received any interest income or dividend income on financial assets recognised at fair value through profit or loss in the current and comparable reporting period.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Evaluation of impairment losses in respect of trade receivables is described in Note 2.14.

2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value at the date a derivative contract is entered into. After initial recognition they are remeasured to their fair value at each balance sheet date. The method for recognising the resulting gains or losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has cash flow hedging instruments with the goal of hedging the risk of changes of the prices of shale oil and electricity.

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

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

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

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

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

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

2.13 Inventories

Inventories are stated in the balance sheet at the lower of cost or net realisable value. The weighted average method is used to expense inventories. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production

overheads (based on normal operating capacity), it excludes borrowing costs. The cost of raw and other materials consists of the purchase price, expenditure on transportation and other costs directly related to the purchase.

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

2.14 Trade receivables

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

Long-term receivables from customers are recognised at the present value of the collectible amount. The difference between the nominal value and the present value of the collectible receivable is recognised as interest income during the period remaining until maturity date using the effective interest rate.

2.15 Cash and cash equivalents

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

2.16 Share capital and statutory reserve capital

Ordinary shares are included within equity. No preferred shares have been issued. The transactions costs directly related to issuance of shares are recognised as a reduction of equity under the assumption that they are treated as directly attributable incremental costs.
The shares approved at the General Meeting but not yet registered in the Commercial Registry are recognised in the equity line "Unregistered share capital".
According to the requirements of the Commercial Code, the Company needs to set up statutory reserve capital from annual net profit allocations, the minimum amount of which is 1/10 of share capital. The amount of annual statutory reserve capital is 1/20 of the net profit of the financial year until the reserve reaches the limit set for reserve capital. Reserve capital may be used to cover a loss when it cannot be covered from distributable equity, or to increase share capital.

2.17 Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the cost and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method. The amortisation of transaction costs is recognised in the income statement together with interest charges.

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

2.19 Taxation

(a) Corporate income tax on dividends in Estonia

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 (in 2007: 22/78 and in 2006: 23/77). In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The Income Tax Act stipulates a further reduction of the income tax rate until 2012: in 2010, the tax rate will be 20/80, in 2011: 19/81 and from 2012, the tax rate will be 18/82 of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. 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 entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise due the payment of dividends is not recognised in the balance sheet. The maximum income tax liability which would accompany the distribution of retained earnings is disclosed in the notes to the financial statement.

(b) Other taxes in Estonia

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

Tax	Tax rate
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	0.3% of the paid payroll to employees
Fringe benefit income tax	21/79 of fringe benefits paid to employees (until 1 January 2008: 22/78 of fringe benefits paid to employees)
Pollution charges	Paid for contamination of the air, water, ground water, soil and waste storage, and is based on tonnage and type of waste
Fee for extraction fight of oil shale	0.77 euros per ton of extracted oil shale (until 1 January 2009: 0.73 euros per ton of extracted oil shale)
Water utilization charges	1.60–109.29 euros per 1000 m^3 of used ground water (until 1 January 2009: 1.60–99.70 euros per 1000 m^3 of used ground water)
Land tax	0.1–2.5% on taxable value of land per annum
Tax on heavy trucks	3.20–232.64 euros in a quarter per truck
Excise tax on electricity	3.20 euros per MWh of electricity
Excise tax on natural gas	10.03 euros per 1000 m^3 of natural gas
Excise tax on shale oil	15.02 euros per 1000 kg of shale oil
Corporate income tax on non-business related expenses	21/79 on non-business related expenses (until 1 January 2008: 22/78 on non-business related expenses)

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

Jordan	Income earned by resident legal persons in Jordan is taxed with the income tax rate of 25%, in the event of certain activities, a lower tax rate of 15% may be applied
Latvia	Income earned by resident legal persons is taxed with the income tax rate of 15%
Lithuania	Income earned by resident legal persons is taxed with the income tax rate of 20%
Finland	Income earned by resident legal persons is taxed with the income tax rate of 26%

(d) Deferred income tax

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

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

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

As at 31 March 2009 and 31 March 2008, the Group had neither any deferred income tax assets nor deferred income tax liabilities

2.20 Employee benefits

Short-term employee benefits

Short-term employee benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable after the end of the period during which the employee worked.
If during the reporting period, the employee has provided services in return for which benefits are expected to be paid, the Group will set up an undiscounted liability (accrued expense) in the amount of the forecast benefit, from which all paid amounts are deducted (unless labour costs are capitalised in the cost on non-current assets or are covered from provisions). Expenditures are not discounted.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably comitted to either: terminating the employment of current employee or employees before the normal retirement date; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Redundancy provision are set up for redundancies occurred in a cource of restructurings (Note 2.21).

Other employee benefits

Provisions have been set up for covering the benefits arising from collective agreements and the compensation for work-related injuries (Note 2.21).

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures necessary for the settlement of the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.
Provisions are recognised based on management's estimates. If required, independent experts may be involved. Expenditures related to the termination of employees are recognised only when the Company has announced a restructuring plan, identifying the expenditure and the approximate number of employees subject to compensation. Provisions are not set up to cover future operating losses.

In case of several similar obligations (for example, product warranties or similar contracts), the probability of reduction in resources required to meet the obligation is determined by viewing all liabilities as a whole. Although the probability of a decrease in resources may be small for each individual asset, a certain reduction in all liabilities may be probable. In such a case, the provision is recognised (when other recognition criteria are met).
Provisions are reviewed annually to address the need for setting up new provisions and revaluing existing provisions using circumstances which have become evident by the balance sheet date and possible scenarios. Costs related to setting up provisions are charged to operating expenses or are included within the acquisition cost when setting up of provisions is related to acquisition of new assets.
Provisions are used only for covering the expenses which they were set up for.

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

(b) Environmental protection provisions
Environmental protection provisions are recognised to cover environmental damages occurred before the balance sheet date when it is provided for by law or the Group's past environmentally friendly policies have demonstrated that the Group will voluntarily liquidate these environmental damages.
Experts' opinions as well as prior experience for performing environmental works are used to set up provisions.

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

(d) Provision for redundancies
Provisions for redundancies have been recognised to cover the costs related to employee redundancy if the Group has prepared a detailed formal restructuring plan before the balance sheet date which among other issues describes the planned changes in the number of employees, the related costs and the planned schedule, and whether the main issues of the restructuring plan have been disclosed or steps have been taken to implement it, causing reasonable expectations in other related parties in respect of the implementation of the restructuring plan.

(e) Provision for dismantling of assets
The provisions for dismantling of assets are set up to cover the estimated costs relating to future dismantling of assets if the dismantling of assets is provided for by law or the Group's past practice has demonstrated that the Group intends to incur these costs. The present value of dismantling costs of assets is included within the cost of non-current assets.

(f) Provisions for greenhouse gas emissions
A provision for greenhouse gas emissions is set up to meet the obligations arising from legislation relating to greenhouse gas emissions

according to the quantity of greenhouse gases emitted when the quantity of greenhouse gases emitted exceeds the quantity of greenhouse gas emission allowances allocated free of charge by the state. The provision is set up using the carrying amounts of greenhouse gas emission allowances. If the quantity of emitted greenhouse gases exceeds the quantity of greenhouse gas emission allowances allocated free of charge by the state or those acquired in a transaction, a provision is set up using the market prices of greenhouse gas emission allowances at the balance sheet date or the price fixed with future transactions as the basis.

2.22 Contingent liabilities

Promises, guarantees and other potential or current commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

2.23 Revenue recognition

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

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

(b) Recognition of connection fees
When connecting to the electricity network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect 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.

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

(d) Interest income
Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Interest income is

recognised taking into account the effective interest rate, except if the receipt of interest is uncertain. In such cases the interest income is accounted for on a cash basis.

2.24 Government grants

Government grants are recognised at fair value, when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate. If government assistance cannot be reliably estimated (e.g. free consultations), it is not recognised as government grants. Information about such assistance is disclosed in the notes to the financial statements.
Assets acquired via government grants are initially recognised in the balance sheet at cost, the amount received as a government grant is recognised as deferred income related to the government grant. Related assets are depreciated and the grant is recognised as income over the estimated useful life of a depreciable asset.

2.13 Leases

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

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

(b) The Group as the lessor
The Group does not have any assets leased out under finance lease terms. The accounting policies for items of property, plant and equipment are also applied to assets leased out under operating lease terms. Rental income is recognised in the income statement on a straight-line basis over the lease term.

2.26 Dividends

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

2.27 Related party transactions

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

3 Financial Risk Management

3.1 Financial risks

The Group's activities are accompanied with a variety of financial risks: market risk (which includes currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.
The purpose of financial risk management is mitigating financial risks and minimising the volatility of financial results. The risk and internal audit department under the Chairman of the Management Board is engaged in risk management and responsible for the development, implementation and maintenance of the Group's risk management system. The Group's financial risks are managed in accordance with the principles established by the Management Board at the Group level. The Group's liquidity, interest rate and currency risks are managed in the finance department of the Parent Company.

(a) Market risks

1. Currency risk

Currency risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to exchange rate changes. The amounts denominated in euros are considered to be liabilities and receivables free of currency risk. All long-term borrowings and electricity export contracts are also concluded in euros to avoid currency risk. Also for mitigating currency risk the future transactions for sale of shale oil were also translated into euros during the reporting period.

The Group's main currency risk arises in connection with a part of sales transactions of shale oil that is not hedged with future transactions (Note 12). In addition, a few other procurement and sales contracts have been concluded in a currency other than the functional currency of the Group. The majority of such transactions have been concluded in US dollars or euros. In 2009, 79% of expected sales volume of shale oil is covered by future transactions as at 31 March 2009; in 2010–2012, 34%–55% of the expected sales volume of shale oil is covered.

Receivables and liabilities denominated in US dollars:

In thousand EUR	31 March 2009	31 March 2008
Receivables related to realised derivatives (Note 12)	240	0
Trade receivables	1 625	2 871
Trade payables	412	235
Derivatives (liability) recognised as hedging instruments (Note 12)	0	36 058

Had the US dollar's exchange rate at 31 March 2009 been 28% (31 March 2008: 19%) higher or lower (with other factors remaining constant), the Group's profit for the financial year would have been EUR 407 thousand higher/lower (2007/08: by EUR 394 thousand higher/lower) and the hedge reserve by EUR 0 thousand higher/lower (2007/08: by EUR 6744 thousand higher/lower) as a result of the appreciation/depreciation in the fair value of shale oil and revaluation of the balances of trade receivables and trade payables.

2. Price risk

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

The most significant price risks of goods and services are the price risks related to the sale of electricity and shale oil, as well as to the purchase of greenhouse gas emission allowances. The Group uses different derivatives to hedge the price risks related the sale of goods and services and purchases of greenhouse gas emission allowances.

Forward contracts are used to hedge the risk related to changes in the price of electricity which have been entered into for the sale of a specific volume of electricity at each trading hour. The volume of electricity sold through the Nordic energy exchange Nord Pool and hedged with derivative transactions depends on the price difference between the market price of electricity and the quantity greenhouse gas emission allowances and may reach up to 65% of the maximum sales volume.

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

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

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

Had as at 31 March 2009 the net asset value of the financial assets recognised at fair value through profit or loss been 3% (31 March 2008: 4%) higher/lower, the Group's net profit (with all other factors remaining constant), would have been EUR 60 thousand higher/lower (2007/08: EUR 65 thousand higher/lower) due to the loss arising in the revaluation of financial assets at fair value through profit or loss to fair value.

3. Cash flows and fair value interest rate risk

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

Interest rate risk of cash flows arises to the Group from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase.

Overnight deposits and term deposits have been entered into with fixed interest rates and they do not result in an interest rate risk of cash flows for the Group.

Sensitivity analysis is used to assess the interest rate risk. For hedging the Group's interest rate risks, the principle that the share of fixed interest rate loans should be over 50% in the portfolio is followed.

As at the financial year-end, 93% of the Group's borrowings were fixed and 7% were with floating interest rates. As at 31 March 2008, the respective figures stood at 91% and 9%, respectively.

Had as at 31 March 2009 the market interest rate (6-month EURIBOR) been 90 basis points (31 March 2008: 90 basis points) higher/lower, the net profit for the financial year (with all other factors remaining constant) would have been EUR 37 thousand lower/higher (2007/08: EUR 53 thousand lower/higher) as a result of the increase/decrease in the interest expense of long-term borrowings with floating interest rates.

(b) Credit risk

Credit risk is the risk that the Group will incur a monetary loss caused by the other party to the financial instrument because of the latter's inability to meet its obligations.

Cash in bank deposits, held-to-maturity financial assets, derivatives with positive value, as well as trade and other receivables are exposed to credit risk.

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

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

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

- ensuring liquidity;
- preservation of capital;
- earning of income.

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

Financial instrument	Criteria
Deposits of domestic credit institutions	Domestic credit institutions has the activity license established by the Credit Institutions Act and the credit rating of at least Baa3 from Moody's rating agency or its equivalent.
Deposits of foreign credit institutions	Foreign credit institution has the rating of least Aa3 from Moody's rating agency or its equivalent.
Securities and bonds of domestic issuer	Domestic issuer has the rating at least Baa3 from Moody's rating agency or its equivalent and the bonds are freely tradable on the market.
Securities and bonds of foreign issuer	Foreign issuer has the rating of at least Aa3 from Moody`s rating agency or its equivalent. and the bonds are freely tradable on the market.
Interest and money market funds	The fund manager has the activity license established by the Investment Fund Act and the credit rating of at least Baa3 from Moody's rating agency or its equivalent.

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

The maximum amount exposed to credit risk was as follows as at the balance sheet date:

In thousand EUR	31 March 2009	31 March 2008
Deposits with maturities greater than 3 months at banks (Notes 13 and 17)	25 100	138 190
Trade and other receivables (Note 10)*	90 237	82 892
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 18)**	97 145	62 828
Held-to-maturity financial assets (Notes 13, 14 and 15)	0	5 113
Derivatives with positive value (Notes 12, 13 and 14)	26 028	910
Total amount exposed to credit risk	**238 510**	**289 933**

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

Impairment losses have been deducted from trade receivables. Although the collection of receivables can be impacted by economic factors, management believes that there is no significant risk of loss beyond the provisions already recorded.
More detailed information on credit risk is disclosed in Notes 10 and 14.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations due to insufficient cash inflows. Liquidity risk is hedged through the use of different financial instruments such as loans, bonds and securities.

In order to finance its extensive capital expenditure programme, the Group has issued 15-year international bonds in the amount of EUR 300 million (Note 22) and has entered into four loan contracts in the amount of EUR 103 million (Note 22). To lower the level of the interest rate on borrowings, the Group has obtained credit rating from the agencies Standard & Poor's and Moody's, as at 31 March 2009, the ratings were A- negative and A1 negative. For the bond transaction which took place in October 2005, Standard & Poor's assigned the rating A- and Moody's assigned the rating A1.

As at 31 March 2009, the Group had undrawn loan facilities in the amount of EUR 40 million (31 March 2008: EUR 40 million) (Note 22). As at the end of the financial year, the Group had spare cash balances (including term deposits with maturities of three months or more) in the amount of EUR 122 million (31 March 2008: EUR 201 million). Bank account limits are used at the Group to manage liquidity of subsidiaries.

The following liquidity analysis includes the division between the Group's current and non-current liabilities (incl. derivatives with net payments) by the maturity dates of liabilities. All amounts shown in the table are contractual undiscounted cash flows. The amount payable within 12 months after the balance sheet date equals their carrying amount.

Division of liabilities by maturity dates as at 31 March 2009 (in thousand EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 13 and 22)*	17 302	76 651	409 810	503 763	329 341
Derivatives (Notes 12 and 13)	1	739	0	740	740
Trade and other payables (Notes 13 and 23)**	125 530	86	0	125 616	125 616
Liability related to payment of dividends (Notes 19 and 20)	14 316	0	0	14 316	0
Total	**157 149**	**77 476**	**409 810**	**644 435**	**455 697**

* Interest expenses have been estimated on the basis of interest rates prevailing as at 31 March.
** Total trade and other payables less prepayments

Division of liabilities by maturity dates as at 31 March 2008 (in thousand EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 13 and 22)*	18 243	83 610	427 840	529 693	336 515
Derivatives (Notes 12 and 13)	8 032	28 280	0	36 312	36 312
Trade and other payables (Notes 13 and 23)**	115 377	496	0	115 873	115 862
Liability related to payment of dividends (Note 20)	41 670	0	0	41 670	0
Total	**183 322**	**112 386**	**427 840**	**723 548**	**488 689**

* Interest expenses have been estimated on the basis of interest rates prevailing as at 31 March 2008.
** Total trade and other payables less prepayments.

3.2 Management of equity risk

Eesti Energia AS is an entity, all shares of which belong to the state. Decisions concerning dividend distribution, increasing or decreasing of share capital are made by the Republic of Estonia (through the Ministry of Economic Affairs and Communications). Each financial year, the dividends payable by AS Eesti Energia to the state budget are determined by the order of the Government of the Republic of Estonia (Notes 19 and 20).

The Group follows the strategy according to which the ratio of total debt to equity ratio should not exceed 50%. As at 31 March 2009 and 31 March 2008, the total debt to equity ratio and the net debt to total capital ratio was as follows (in thousand EUR):

	31 March 2009	31 March 2008
Debt (Notes 3.1, 13 and 22)	329 341	336 515
Less: cash and cash equivalents and bank deposits with maturitiy longer than 3 months (Notes 3.1, 13, 17 and 18)	122 281	201 051
Net debt	207 060	135 464
Equity	1 160 180	1 055 447
Total capital (net debt + equity)	1 367 240	1 190 911
Debt to total capital ratio	24%	28%
Net debt to total capital ratio	15%	11%

3.3 Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost in the balance sheet as at 31 March 2009 and 31 March 2008 do not materially differ from the carrying amounts reported in the consolidated financial statements, except for bonds (Note 22). As most of the Group's long-term borrowings have floating interest rates that change according to changes in money market interest rates, then their fair value does not significantly differ from the carrying amounts. The carrying amount of accounts receivable and unpaid invoices less impairment provision is estimated to be approximately equal to their fair value. For the disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market interest rate which is available for similar financial instruments of the Group.

3.4 Effects of the economic crisis on the Group

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

- the Group may not be able to find capital to fund its investment plans at reasonable prices;
- due to a prolonged decline in demand, the profitability of the Group may fall;
- potential solvency problems of debtors may lead to impairment of the Group's receivables and larger than previous impairment losses;
- higher unemployment may lead to an increase in crime and standby losses.

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

4 Critical Accounting Estimates and Assumptions

Accounting estimates and assumptions

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

The changes in management's estimates are recognised in the income statement of the period of the change.

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

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

The estimated useful lives of items of property, plant and equipment are based on management's estimate regarding the period during which the asset will be used. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 March 2009, the net book amount of property, plant and

equipment of the Group totalled EUR 1.5 billion (31 March 2008: EUR 1.3 billion), the depreciation charge of the reporting period was EUR 106 million (2007/08: 106 million) (Note 6). If depreciation rates are reduced by 10%, the annual depreciation charge would decrease by EUR 11 million (2007/08: EUR 11 million).

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

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

(c) Recognition and revaluation of provisions

As at 31 March 2009, the Group had set up provisions for environmental protection, termination of mining operations, compensation for work-related injuries, scholarships, liabilities arising from the collective agreement, redundancies and greenhouse gas emission provisions in the total amount of EUR 61 million (31 March 2008: EUR 39 million) (Note 26). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. In setting up provisions, grants from the EU funds have also been considered when the respective applications to receive funds have been submitted and according to management, the receipt of grants is more or less certain. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(d) Inventory valuation

Upon valuation of inventories, the management relies on its best knowledge and it takes into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of goods for resale is considered. As at 31 March 2009, the Group had inventories in the total amount of EUR 29 million (31 March 2008: EUR 27 million) (Note 11).

(e) Contingent assets and liabilities

In estimating the probability of realisation of contingent assets and liabilities, the management considers historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

(f) Recognition of connection and other service fees

Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years. The estimated customer relationship period is based on management's estimate. In the reporting period, connection and other service fees totalled EUR 7 million (2007/08: 6 million). If the estimated customer relationship period is reduced by 10%, the annual income from connection fees would increase by EUR 682 thousand (2007/08: 562 thousand) (Notes 24, 27 and 34).

(g) Evaluation of doubtful receivables

The collection of material receivables is assessed individually. The remaining receivables are assessed as a group. The circumstances indicating an impairment loss may include the bankruptcy or major financial difficulties of the debtor and inability to meet payment terms (delay of payment over 90 days). As at the balance sheet date, the Group had over 500 000 invoices due (incl. the due date of which had not come yet). All receivables which are 90 days overdue are written down in full. The amount of doubtful receivables is adjusted as at each balance sheet date using previous years' experience on how many doubtful receivables will be collected in subsequent periods and how many doubtful receivables more than 90 days due as at the balance sheet will not be collected in a subsequent period. During adjustments performed at 31 March 2009, a potential increase in doubtful receivables due to the economic crisis was taken into consideration. As at March 2009, the Group's doubtful receivables totalled EUR 7.3 million (31 March 2008: EUR 7.5 million) (Note 10).

(h) Effectiveness testing of hedging instruments

The Group has conducted a significant number of future transactions to hedge the risk of the changes in prices of electricity and shale oil with regard to which risk hedge accounting is applied, i.e. the gains and losses from changes in the fair value of effective hedging instruments are accounted through respective equity reserve. The evaluation of the effectiveness of hedging is based on management's estimates with regard to future sales transactions concerning electricity and liquid fuels. When hedging instruments turn out to be ineffective, the total gain/loss from the changes in the fair value should be recognised in the income statement. As at 31 March 2009, the amount of the hedge reserve was 25 million euros (31 March 2008: −35 million euros) (Note 21).

5 Segment Reporting

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

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

- Retail Business
- Electricity and Heat Generation
- Minerals, Oil, Biofuels
- Electricity transmission

In addition Corporate Functions are considered a separate business segment.

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

Operating income and expenses are allocated to different segments based on internal invoicing prepared by business units. The prices for inter-segmental transfers are based on the prices approved by the Estonian Competition Authority or are agreed based on market prices. Under the Electricity Market Act of Estonia, the following indicators need to be approved by the Estonian Competition Authority

- the price limit for oil shale sold to Narva Elektrijaamad for the production of heat and electricity
- the price limit for electricity sold from Narva Elektrijaamad to the closed market
- the weighted average price limit for electricity sold to meet sales obligations
- network fees
- rate of subsidy paid for electricity produced from a renewable energy source or in an efficient co-generation regime.

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

For segment reporting purposes, companies and business units are divided into the following business segments:

- Retail Business - Energiamüük, UAB "Lumen Balticum", SIA "E. Energy", Teenindus ja Müük, Eesti Energia Elektritööde AS, Eesti Energia Võrguehituse AS, OÜ Jaotusvõrk, Televõrgu AS;
- Electricity and Heat Generation - AS Narva Elektrijaamad, Taastuvenergia, OÜ Iru Elektrijaam, AS Kohtla-Järve Soojus, Energiakaubandus, Solidus Oy, AS Narva Soojusvõrk, Aulepa Tuulepargid OÜ;
- Minerals, Oil, Biofuels - companies in the Eesti Põlevkivi Group (Estonian Oil Shale Company), AS Narva Õlitehas, companies in the Energoremont Group, Oil Shale Energy of Jordan;
- Electricity transmission - OÜ Põhivõrk;
- Corporate Functions - administration and other support services of the Group

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

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

5 Segment reporting, continued

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

in thousand EUR	Retail Business	Electricity and Heat Generation	Minerals, Oil, Biofuels	Electricity transmission	Corporate Functions	Eliminations	Total Group
Total revenue (Note 27)	414 923	424 898	211 823	80 493	10 305	-474 802	667 640
Inter-segment revenue	-19 150	-256 407	-129 410	-60 052	-9 784	474 802	-
Revenue from external customers	**395 774**	**168 491**	**82 413**	**20 441**	**522**	**-**	**667 640**
Depreciation and amortisatsion (Notes 6, 8 and 34)	-32 935	-35 074	-18 309	-19 526	-1 250	412	-106 681
Impairment loss (Notes 6 and 34)	-	-8 261	-	-	-	-	-8 261
Recognition and change in provisions (Note 26)	-8	-21 346	-1 663	-	-66	-	-23 084
Operating profit	**29 320**	**39 360**	**15 256**	**24 871**	**63 538**	**-70 301**	**102 044**
Interest income (Note 32)	626	1 625	376	-	33 907	-28 785	7 748
Interest expenses (Note 32)	-13 514	-5 336	-2 206	-7 257	-18 922	28 785	-18 450
Gain from associates using equity method (Note 9)	-	-	1 250	491	-	-	1 742
Corporate income tax (Note 33)	-125	-8 187	-2 392	-	-	-	-10 704
Total assets	**662 966**	**553 192**	**196 990**	**355 445**	**1 294 749**	**-1 261 148**	**1 802 195**
including investments in associates (Note 9)	-	-	2 492	8 920	-	-	11 412
Additions to non-current assets (Notes 6 and 8)	106 069	49 593	32 031	38 757	7 215	-7 379	226 286
Total liabilities	**433 288**	**201 495**	**72 584**	**179 428**	**386 021**	**-630 801**	**642 014**

5 Segment reporting, continued

Segment information for reportable segments for the year ended 31 March 2008

in thousand EUR	Retail Business	Electricity and Heat Generation	Minerals, Oil, Biofuels	Electricity transmission	Corporate Functions	Eliminations	Total Group
Total revenue (Note 27)	376 084	345 995	207 377	75 720	8 780	-439 510	574 445
Inter-segment revenue	-12 867	-216 476	-138 078	-63 812	-8 278	439 510	-
Revenue from external customers	**363 218**	**129 519**	**69 299**	**11 907**	**502**	**-**	**574 445**
Depreciation and amortisatsion (Notes 6, 8 and 34)	-29 888	-36 138	-19 603	-20 073	-1 017	-5	-106 724
Impairment loss (Notes 6 and 34)	-	-3 175	-	-	-	-	-3 175
Recognition and change in provisions (Note 26)	7	-13 148	-1 852	-	-126	-	-15 121
Operating profit	**29 650**	**-3 397**	**18 700**	**24 283**	**81 180**	**-86 894**	**63 522**
Interest income (Note 32)	74	1 675	591	-	32 821	-24 502	10 658
Interest expenses (Note 32)	-10 898	-4 124	-1 189	-7 741	-19 069	24 584	-18 437
Gain/loss from associates using equity method (Note 9)	-	-	1 565	-113	-	-	1 452
Corporate income tax (Note 33)	-833	-8 661	-8 276	-	-	-	-17 771
Total assets	**582 806**	**486 739**	**157 104**	**334 473**	**1 302 597**	**-1 170 184**	**1 693 535**
including investments in associates (Note 9)	-	-	2 391	8 429	-	-	10 820
Additions to non-current assets (Notes 6 and 8)	94 127	32 796	31 374	14 417	2 464	-3 996	171 182
Total liabilities	**372 545**	**154 192**	**85 188**	**176 559**	**395 351**	**-545 747**	**638 089**

5 Segment reporting, continued

The amounts provided to the management board of the parent company for the assets of reportable segments are measured in a manner consistent with that of the consolidated financial statements. The assets of a segment include the assets used in the operations of the segment.

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

in thousand EUR	31 March 2009	31 March 2008
Segment assets for reportable segments	3 063 343	2 863 719
Eliminations:		
Intra-segment receivables	-621 289	-536 132
Un-depreciated price differences of intra-segment sales of non-current assets and unamortised intra-segment connection fees	-12 741	-10 282
The carrying amount of investments in subsidiaries*	-628 660	-625 042
Elimination of unrealised profit	-943	-1 214
Unallocated goodwill (Note 8)	2 485	2 485
Total assets per consolidated balance sheet	**1 802 195**	**1 693 535**

* recognised as assets of Corporate Functions

The amounts provided to the management board of the parent company for the liabilities of reportable segments are measured in a manner consistent with that of the consolidated financial statements. The liabilities of a segment include the liabilities that have arisen from the operations or the financing of the segment.

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

in thousand EUR	31 March 2009	31 March 2008
Segment liabilities for reportable segments	1 272 816	1 183 835
Eliminations:		
Intra-segment payables	-621 289	-536 132
Unamortised intra-segment connection fees	-9 512	-9 615
Total liabilities per consolidated balance sheet	**642 014**	**638 089**

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

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

in thousand EUR	1 April - 31 March 2008/09	1 April - 31 March 2007/08
Segment operating profits for reportable segments	172 345	150 416
Eliminations:		
Dividends charged by Corporate Functions*	-41 670	-63 862
Interest charged by Corporate Functions*	-26 339	-22 205
Profits/losses from intra-segment sales of property, plant and equipment	-2 434	-23
Other eliminations	143	-804
Total operating profit per consolidated income statement	**102 044**	**63 522**

* recognised as other operating income of Corporate Functions segment

5 Segment reporting, continued

Information about revenues of products and services sold is disclosed in Note 27.

The Group operates mostly in Estonia, but electricity and some other goods and services are also sold in other countries. The Group's main geographical regions are Estonia, the Nordic countries and Latvia.

External revenue by location of clients

in thousand EUR	1 April - 31 March 2008/09	2007/08
Estonia	521 574	464 549
Nordic countries	94 960	68 809
Latvia	32 901	32 055
Other countries	18 204	9 033
Total external revenue (Note 27)	**667 640**	**574 445**

Allocation of non-current assets by location*

in thousand EUR	31 March 2009	2008
Estonia	1 470 311	1 359 374
Nordic countries	92	59
Latvia	13	16
Other countries	13	14
Total (Notes 6 and 8)	**1 470 429**	**1 359 464**

* other than financial instruments and investments in associates

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

6 Property, Plant and Equipment

in thousand EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 March 2007						
Cost	5 072	155 655	855 029	1 101 806	4 067	2 121 629
Accumulated depreciation	-	-74 176	-351 540	-466 192	-3 270	-895 177
Net book amount	**5 072**	**81 480**	**503 489**	**635 614**	**797**	**1 226 452**
Construction in progress	-	604	28 505	28 617	-	57 726
Prepayments	273	-	245	2 277	-	2 794
Total property, plant and equipment as at 31 March 2007	**5 345**	**82 084**	**532 239**	**666 508**	**797**	**1 286 973**
Movements, 1 April 2007-31 March 2008						
Total purchases of property, plant and equipment (Note 5)	190	5 979	62 078	98 692	511	167 451
Received as a non-monetary contribution to share capital (Note 19)	6 917	-	-	-	-	6 917
Investment in subsidiary (Note 36)	14	-	-	275	-	288
Depreciation charge (Note 4, 5 and 34)	-	-5 208	-30 460	-70 082	-458	-106 208
Impairment loss (Notes 5 and 34)	-	-	-	-3 175	-	-3 175
Net book amount of non-current assets disposed	-14	-56	-	-287	-	-358
Transferred in disposal of subsidiary and business unit (Note 37)	-	-	-	-255	-	-255
Reclassified at net book amount (Note 8)	-506	16	-	1	-1	-490
Total movements, 1 April 2007-31 March 2008	**6 601**	**731**	**31 618**	**25 169**	**52**	**64 171**
Property, plant and equipment as at 31 March 2008						
Cost	11 640	160 497	910 438	1 180 569	4 487	2 267 631
Accumulated depreciation	-	-79 163	-377 463	-521 273	-3 638	-981 536
Net book amount	**11 640**	**81 334**	**532 975**	**659 297**	**849**	**1 286 095**
Construction in progress	-	1 368	30 480	18 371	-	50 219
Prepayments	305	114	401	14 010	-	14 830
Total property, plant and equipment as at 31 March 2008 (Notes 4 and 5)	**11 945**	**82 815**	**563 857**	**691 677**	**849**	**1 351 144**
Movements, 1 April 2008-31 March 2009						
Total purchases of property, plant and equipment (Note 5)	5 774	5 498	78 511	132 399	629	222 811
Depreciation charge (Note 4, 5 and 34)	-	-4 601	-31 023	-69 966	-434	-106 023
Impairment loss (Notes 5 and 34)	-	-	-8 063	-198	-	-8 261
Net book amount of non-current assets disposed	-108	-35	-	-236	-	-379
Reclassified at net book amount	-	-	-19	19	-	-
Total movements, 1 April 2008-31 March 2009	**5 666**	**862**	**39 405**	**62 018**	**196**	**108 147**
Property, plant and equipment as at 31 March 2009						
Cost	17 485	166 025	974 897	1 260 473	5 012	2 423 891
Accumulated depreciation	-	-82 756	-403 719	-576 676	-3 967	-1 067 119
Net book amount	**17 485**	**83 269**	**571 177**	**683 796**	**1 045**	**1 356 773**
Construction in progress	-	404	30 104	57 462	-	87 971
Prepayments	127	4	1 980	12 437	-	14 548
Total property, plant and equipment as at 31 March 2009 (Notes 4 and 5)	17 612	83 677	603 262	753 695	1 045	1 459 292

6 Property, plant and equipment, continued

In the reporting period, the residual value of the construction in progress of the oil shale ash processing and storage system of EUR 8261 thousand was written down, as the system installed as a pilot project did not succeed and it will not be put into operation in its present condition.

In the comparable period, the residual value of block I of Iru Power Plant was written down, in the course of which EUR 3175 thousand was recognised as an impairment loss. Due to the changes in environmental requirements, the use of block I after 1 January 2008 without additional capital expenditures to make the block's technology less environmentally harmful was not permitted. As the Group has not made any decisions regarding the these capital expenditures, the recoverable amount of the block was estimated at EUR 0.

Assets leased out under operating lease terms

	31 March	
in thousand EUR	2009	2008
Cost	5 935	5 729
Accumulated depreciation at beginning of the financial year	-2 537	-2 304
Depreciation charge	-177	-176
Net book amount	**3 222**	**3 248**

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

Property, plant and equipment acquired under finance lease terms (Group is the lessee)

in thousand EUR	Balance as at 31 March 2008	Depreciation charge	Terminated lease	Balance as at 31 March 2009
Cost	169	-	-169	-
Accumulated depreciation	-56	-16	73	-
Net book amount	**113**	**-16**	**-97**	**-**

	Balance as at 31 March 2007	Depreciation charge	Terminated lease	Balance as at 31 March 2008
Cost	169	-	-	169
Accumulated depreciation	-32	-24	-	-56
Net book amount	**137**	**-24**	**-**	**113**

Special equipment was leased under finance lease terms.
The lease agreement expired on 24 November 2008.

7 Operating Lease

in thousand EUR	1 April - 31 March 2008/09	2007/08
Rental income		
Buildings	1 423	1 211
including contingent rent	609	549
Facilities	806	607
Total rental income (Note 27)	**2 229**	**1 818**
Rental expense		
Buildings	428	549
Transport vehicles	1 584	1 432
Other machinery and equipment	960	384
Total rental expense (Note 30)	**2 972**	**2 365**

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

in thousand EUR	1 April - 31 March 2008/09	2007/08
Rental income		
< 1 year	989	905
1 - 5 years	4 761	3 558
> 5 years	16 969	17 443
Total rental income	**22 719**	**21 906**

The mazut farm and the administrative building have been leased out under non-cancellable lease agreements. The lease agreements will expire in 2033 and 2035.
Operating lease agreements (the Group is lessee) are mostly cancellable with short-term notice.

8 Intangible Assets

Intangible non-current assets

in thousand EUR

	Goodwill	Software	Right of use	Exploration and evaluation assets	Contractual customer relationships	Total
Intangible assets as at 31 March 2007						
Cost	2 494	19	-	656	697	3 866
Accumulated amortisation	-	-1	-	-	-122	-123
Net book amount	**2 494**	**18**	**-**	**656**	**575**	**3 744**
Intangible assets not yet available for use	-	855	-	-	-	855
Total intangible assets as at 31 March 2007	**2 494**	**873**	**-**	**656**	**575**	**4 599**
Movements, 1 April 2007-31 March 2008						
Total purchases of intangible assets (Note 5)	-	1 112	2 361	259	-	3 731
including intangible assets identified in a business combination (Note 36)	-	-	*1 915*	-	-	*1 915*
Received in acquisition of a subsidiary (Note 36)	-	-	16	-	-	16
Reclassified from PPE (Note 6)	-	-	490	-	-	490
Amortisation charge (Note 5 and 34)	-	-94	-71	-	-351	-517
Total movements, 1 April 2007-31 March 2008	**-**	**1 018**	**2 796**	**259**	**-351**	**3 721**
Intangible assets as at 31 March 2008						
Cost	2 494	731	2 883	915	697	7 721
Accumulated amortisation	-	-95	-87	-	-473	-655
Net book amount	**2 494**	**637**	**2 796**	**915**	**224**	**7 066**
Intangible assets not yet available for use	-	1 254	-	-	-	1 254
Total intangible assets as at 31 March 2008 (Note 5)	**2 494**	**1 891**	**2 796**	**915**	**224**	**8 320**
Movements, 1 April 2008-31 March 2009						
Total purchases of intangible assets (Note 5)	-	3 153	268	55	-	3 476
Amortisation charge (Note 5 and 34)	-	-352	-82	-	-224	-658
Total movements, 1 April 2008-31 March 2009	**-**	**2 801**	**185**	**55**	**-224**	**2 818**
Intangible assets as at 31 March 2009						
Cost	2 494	1 424	3 151	970	-	8 039
Accumulated amortisation	-	-446	-170	-	-	-616
Net book amount	**2 494**	**978**	**2 981**	**970**	**-**	**7 423**
Intangible assets not yet available for use	-	3 715	-	-	-	3 715
Total intangible assets as at 31 March 2009 (Note 5)	**2 494**	**4 692**	**2 981**	**970**	**-**	**11 138**

8 Intangible assets, continued

Goodwill

Allocation of goodwill by cash-generating units in thousand EUR	Eesti Põlevkivi	Võrgu-ehitus	Narva Elektri-jaamad	Total goodwill
Carrying amount at 31 March 2009	2 470	15	9	2 494
Carrying amount at 31 March 2008	2 470	15	9	2 494

The recoverable amount of assets is determined on the basis of their value in use and using the cash flow forecast prepared up to the next 25 years. Budgets are used to make forecasts for the next 5 years, the remaining years are estimates. The selection of the periods is based on an investment horizon regularly used in the electricity business. The cash flow forecasts are based on historical data and the estimate of the Estonian energy balance.
The weighted average cost of capital (WACC) is used as the discount rate, which has been determined on the basis of area of operations of the Company and its risk level. No impairment was identified during the test.

Key assumptions used in determining value in use

	31 March 2009			31 March 2008		
	Eesti Põlevkivi	Võrguehitus	Narva Elektrijaamad	Eesti Põlevkivi	Võrguehitus	Narva Elektrijaamad
Growth rate of cash flows used after 5 years	0.0%	2.0%	-10.4%	-11.1%	0.9%	-6.9%
Discount rate	7.9%	11.0%	8.0%	7.9%	16.3%	8.0%

Exploration and evaluation assets of mineral resources

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

Cash flows from investing activities relating to the exploration for and evaluation of mineral resources

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Payment for exploration work	-78	-171

8 Intangible assets, continued

Contractual customer relationships

As at 31 March 2008 the carrying amount of rights arising from the contract for EUR 224 thousand entered into between Solidus Oy and its former parent company, which was recognised as an intangible asset when the subsidiary Solidus Oy was acquired, was recognised as a contractual customer relationship. According to the contract, the previous parent company of Solidus Oy undertook to purchase services from Solidus Oy.

As at 31 March 2009 the carrying amount of these rights was EUR 0.

Intangible current assets - greenhouse gas allowances

The cost of greenhouse gas allowances acquired is recognised as intangible current assets.
In the reporting period 1149 thousand tons of greenhouse gas allowances were acquired.

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Greenhouse gas allowances at beginning of the period	**-**	**-**
Acquired	25 780	-
Greenhouse gas allowances at end of the period	**25 780**	**-**

9 Investments in Associates

Change in investments in associates

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Book value at the beginning of the period	**10 820**	**10 597**
Gain/loss under the equity method (Note 34)	1 742	1 452
Dividends recognised	-1 149	-1 229
Book value at end of the period (Note 5)	**11 412**	**10 820**

9 Investments in associates, continued

Information on associates

in thousand EUR

Company	Location	Assets	Liabilities	Operating income	Net profit	Ownership (%)
		31 March 2009	31 March 2009	1 April 2008–31 March 2009	1 April 2008–31 March 2009	31 March 2009
Nordic Energy Link Group	Estonia, Finland	98 751	75 734	23 655	790	39.9
Orica Eesti OÜ*	Estonia	13 395	6 275	20 332	3 572	35.0
		112 146	**82 009**	**43 988**	**4 362**	

Company	Location	Assets	Liabilities	Operating income	Net profit	Ownership (%)
		31 March 2008	31 March 2008	1 April 2007–31 March 2008	1 April 2007–31 March 2008	31. March 2008
Nordic Energy Link Group	Estonia, Finland	98 565	76 337	16 741	261	39.9
Orica Eesti OÜ*	Estonia	8 936	2 104	18 048	4 472	35.0
		107 501	**78 441**	**34 789**	**4 733**	

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

10 Trade and Other Receivables

in thousand EUR	31 March 2009	2008
Short-term trade and other receivables		
Trade receivables		
Accounts receivable	84 398	73 770
Allowance for doubtful receivables (Note 4)	-7 259	-7 470
Total trade receivables	**77 139**	**66 300**
Accrued income		
Estimated receivable under the stage of completion method (Note 14)	2 995	3 277
Estimated receivable for electricity from unreported or delayed meter readings, or estimates (Note 14)	329	1 173
Accrued interest (Note 14)	1 296	3 593
Other accrued income (Note 14)	1	-
Total accrued income	**4 621**	**8 043**
Prepayments	24 376	5 051
Receivables from associates (Note 14)	2 282	427
Other receivables (Note 14)	6 181	8 107
Total short-term trade and other receivables	**114 599**	**87 928**
Long-term receivables		
Long-term guarantee fees	15	15
Prepayments	324	-
Total long-term receivables	**338**	**15**
Total trade and other receivables (Notes 3.1 and 13)	**114 937**	**87 943**

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

Analysis of accounts receivable

in thousand EUR	31 March 2009	2008
Accounts receivable not yet due (Note 14)	**68 686**	**60 710**
Accounts receivable due but not classified as doubtful		
1-30 days past due	6 737	4 397
31-60 days past due	1 687	884
61-90 days past due	600	251
Total accounts receivable due but not classified as doubtful	**9 023**	**5 531**
Accounts receivable classified as doubtful		
more than 3 months but less than 6 months past due	619	386
more than 6 months past due	6 070	7 142
Total accounts receivable classified as doubtful	**6 690**	**7 528**
Total accounts receivable	**84 398**	**73 770**

Under the accounting policies of the Group, all receivables 90 days past due are written down in full. The total amount of receivables 90 days past due is adjusted using prior experience on how many of the receivables classified as doubtful are collected in a later period and how many of the receivables not more than 90 days past due are not collected in a later period. Also other individual and extraordinary impacts like the global economic recession is taken into account during evaluation. As at 31 March 2009 EUR 569 thousand (31 March 2008: EUR -58 thousand) was additionally written down.

10 Trade and other receivables, continued

Changes in doubtful receivables

in thousand EUR	1 April - 31 March 2008/09	2007/08
Doubtful receivables at the beginning of the period	**-7 470**	**-8 382**
Classified as doubtful during the accounting period (Note 34)	-3 574	-1 323
Collections in the accounting period (Note 34)	1 819	1 659
Classified as irrecoverable	1 965	569
Transferred during disposal of subsidiary (Note 37)	-	8
Doubtful receivables at the end of the period (Note 4)	**-7 259**	**-7 470**

The types of other receivables do not contain any assets written down.

Revenue under the stage of completion method

in thousand EUR	31 March 2009	2008
Unfinished projects at the end of the period		
Sales revenue of unfinished projects	8 077	5 696
Progress billing submitted	-5 101	-2 422
Unfinished, unbilled projects	**2 995**	**3 277**
Unfinished, prepaid projects (Note 23)	**-20**	**-3**
Total expenses on unfinished projects in the financial year	-7 831	-6 010
Gains/losses calculated on unfinished projects	246	-314
Total income from construction projects in the financial year	19 139	20 859
Total expenses on construction projects in the financial year	-18 033	-19 345
Total gains calculated on construction projects	**1 106**	**1 513**

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

11 Inventories

in thousand EUR	31 March 2009	2008
Raw materials and materials at warehouses	**13 989**	**15 045**
Work-in-progress		
Stored oil shale	8 898	6 732
Stripping works in quarries	2 179	1 838
Other work-in-progress	886	876
Total work-in-progress	**11 964**	**9 447**

in thousand EUR	31 March 2009	2008
Finished goods		
Shale oil	3 085	1 648
Other finished goods	150	216
Total finished goods	**3 236**	**1 864**
Prepayments to suppliers	**125**	**249**
Total inventories (Notes 4 and 34)	**29 313**	**26 604**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials totalling EUR 567 thousand (2007/08: EUR 369 thousand).

12 Derivative Financial Instruments

in thousand EUR	31 March 2009		31 March 2008	
	Assets	Liabilities	Assets	Liabilities
Forward and option contracts for buying and selling electricity	9 893	740	821	254
Option contracts for buying and selling greenhouse gas emissions allowances	445	-	-	-
Swap and futures contracts for selling shale oil (Note 3.1)	15 690	-	-	36 058
Forward contract to sell a currency	-	-	89	-
Total derivative financial instruments (Notes 3.1, 13 and 14)	**26 028**	**740**	**910**	**36 312**
including non-current portion:				
Forward and option contracts for buying and selling electricity	1 155	740	-	254
Option contracts for buying and selling greenhouse gas emissions allowances	445	-	-	-
Swap and futures contracts for selling shale oil (Note 3.1)	6 262	-	-	28 026
Total non-current portion	**7 862**	**740**	**-**	**28 280**
Total current portion	**18 166**	**1**	**910**	**8 032**

Forward and option contracts for buying and selling electricity

The goal of the forward and option contracts for buying and selling electricity is to hedge changes in the price of electricity or earn income on changes in the price of electricity on the Nordic electricity exchange Nord Pool. All forward contracts have been entered into for the sale or buying of a fixed volume of electricity at each trading hour and their price is denominated in euros. The transactions, the goal of which is to hedge the risk in the price of electricity, are designated as cash flow hedging instruments, where the underlying instrument being hedged is the estimated electricity transactions of high probability on the Nordic electricity exchange Nord Pool. The effective portion of the change in fair value of transactions concluded for hedging purposes is included in the appropriate reserve in equity and is accounted for either as a gain or loss at the time the sales transactions of electricity occur or when it is evident that sales transactions are unlikely to occur in a given period. Fair value changes of the transactions for the purpose of earning income from the change in prices of electricity are recognised as gains or losses in the income statement. The forward contracts of buying and selling electricity the goal of which is to hedge the risk in the price of electricity will realise in 2009-2011 (31 March 2008: in 2008-2009). As at 31 March 2009 343 191 MWh had been hedged for year 2009 (31 March 2008: 147 633 MWh for year 2008 and 192 720 MWh for year 2009). The basis for determining the fair value of transactions is the quotes on Nord Pool.

12 Derivative financial instruments, continued

Changes in forward and option contracts for buying and selling electricity

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Fair value at the beginning of the period	**567**	**8 087**
Change in fair value, incl.	13 092	1 786
change in fair value recognised in the income statement	891	28
change in fair value recognised in the hedge reserve (Note 21)	12 202	1 758
Settled in cash (collected)	-4 507	-9 306
Fair value at the end of the period	**9 152**	**567**

Option contracts for buying and selling greenhouse gas emissions allowances

The option contracts for buying and selling greenhouse gas emission allowances are concluded together with electricity option contracts and their goal is to earn income from the change in prices. The fair value changes of these transactions are recognised as gains or losses in the income statement. The basis for determining the fair value of transactions is the quotes on SEB Futures. The prices are denominated in euros.

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

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Fair value at the beginning of the period	**-**	**-**
Change in fair value recognised in the income statement	174	-
Settled in cash (paid)	271	-
Fair value at the end of the period	**445**	**-**

Swap and futures contracts for selling shale oil

The goal of the swap and futures contracts for buying and selling shale oil is to hedge the risk of price changes for shale oil. The transactions have been concluded for the sale of a specified volume of shale oil in future periods and they are designated as cash flow hedging instruments, where the underlying instrument to be hedged is highly probable shale oil sales transactions. The basis for determining the fair value of transactions is the quotes by Platt´s European Marketscan and Nymex. The prices are denominated in euros.
The swap contracts of selling shale oil the goal of which is to hedge the risk of price changes of shale oil will realise in 2009-2012 (31 March 2008: in 2008-2012). As at 31 March 2009 71 100 tons had been hedged for year 2009, 65 400 tons for year 2010, 40 800 tons for year 2011 and 44 400 tons for year 2011 (31 March 2008: 75 900 tons for year 2008, 100 800 tons for year 2009, 97 200 tons for year 2010, 99 600 tons for year 2011 and 98 400 tons for year 2012).

Changes in swap and futures contracts for selling shale oil

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Fair value at the beginning of the period	**-36 058**	**111**
Change in fair value, including	47 151	-37 672
change in fair value recognised in income statement	-	-535
change in fair value recognised in hedge reserve (Note 21)	47 151	-37 136
Settled in cash (paid)	4 598	1 502
Fair value at the end of the period	**15 690**	**-36 058**

12 Derivative financial instruments, continued

Forward contract for foreign currency sale

As at 31 March 2008 the foreign currency forward contract comprised the contract entered into on 10 January 2008 for the sale of EUR 10 000 thousand, at an exchange rate which is higher than the official exchange rate of the Bank of Estonia.

Changes in forward contract for the sale of foreign currencies

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Fair value at the beginning of the period	**89**	**-**
Change in fair value recognised in the income statement	-	89
Settled in cash (collected)	-89	-
Fair value at the end of the period	**-**	**89**

13 Division of Financial Instruments by Categories

in thousand EUR	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity financial assets	Derivatives for which hedge accounting is applied	Total
As at 31 March 2009					
Financial asset items in the balance sheet					
Trade and other receivables (Note 10)*	97 497	-	-	-	97 497
Derivative financial instruments (Notes 3.1, 12 and 14)	-	495	-	25 533	26 028
Term deposits with maturities greater than 3 months at banks (Notes 3.1, 3.2 and 17)	25 100	-	-	-	25 100
Financial assets at fair value through profit or loss (Note 16)	-	2 014	-	-	2 014
Cash and cash equivalents (Notes 3.1, 3.2 and 18)	97 181	-	-	-	97 181
Total financial asset items in the balance sheet	**219 778**	**2 509**	**-**	**25 533**	**247 820**

* trade and other receivables less doubtful receivables and prepayments

As at 31 March 2008					
Financial asset items in the balance sheet					
Trade and other receivables (Note 10)*	90 361	-	-	-	90 361
Derivative financial instruments (Notes 3.1, 12 and 14)	-	104	-	806	910
Held-to-maturity financial assets (Notes 3.1, 14 and 15)	-	-	5 113	-	5 113
Term deposits with maturities greater than 3 months at banks (Notes 3.1, 3.2 and 17)	138 190	-	-	-	138 190
Financial assets at fair value through profit or loss (Note 16)	-	1 630	-	-	1 630
Cash and cash equivalents (Notes 3.1, 3.2 and 18)	62 861	-	-	-	62 861
Total financial asset items in the balance sheet	**291 412**	**1 735**	**5 113**	**806**	**299 066**

* trade and other receivables less doubtful receivables and prepayments

13 Division of financial instruments by categories, continued

in thousand EUR As at 31 March 2009	Liabilities at fair value through profit or loss	Derivatives for which hedge accounting is applied	Other financial liabilities	Total
Financial asset items in the balance sheet				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	329 341	329 341
Supplier and other payables (Notes 3.1 and 23)**	-	-	125 616	125 616
Derivative financial instruments (Notes 3.1 and 12)	740	1	-	740
Total financial liability items in the balance sheet	**740**	**1**	**454 956**	**455 697**

** supplier and other payables less prepayments

As at 31 March 2008				
Financial liability items in the balance sheet				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	336 515	336 515
Supplier and other payables (Notes 3.1 and 23)**	-	-	115 862	115 862
Derivative financial instruments (Notes 3.1 and 12)	-	36 312	-	36 312
Total financial liability items in the balance sheet	**-**	**36 312**	**452 377**	**488 689**

** supplier and other payables less prepayments

14 Credit Quality of Financial Assets

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

in thousand EUR	31 March 2009	31 March 2008
Trade receivables		
Receivables from new clients (settled in less than 6 months)	1 415	1 236
Receivables from existing clients (settled in 6 months or later), who in the last 6 months have not exceeded the due date	31 302	25 699
Receivables from existing clients (settled in 6 months or later), who in the last 6 months have exceeded the due date	35 968	33 775
Total trade receivables (Note 10)	**68 686**	**60 710**
Accrued interest		
Receivables from banks with Moody's credit rating of Aa1	150	1 897
Receivables from banks with Moody's credit rating of Aa2	-	776
Receivables from banks with Moody's credit rating of Aa3	30	-
Receivables from banks with Moody's credit rating of A1	1 116	920
Total accrued interest (Note 10)	**1 296**	**3 593**
Bank accounts and deposits in banks		
At banks with Moody's credit rating of Aa1	36 667	100 050
At banks with Moody's credit rating of Aa2	-	38 954
At banks with Moody's credit rating of Aa3	6 895	-
At banks with Moody's credit rating of A1	78 683	62 015
Total bank accounts and deposits in banks (Notes 17 and 18)	**122 245**	**201 018**

in thousand EUR	31 March 2009	31 March 2008
Receivables from associates and other accrued income		
Receivables from associates and other accrued income without credit rating of an independent party (Note 10)	5 607	4 877
Other receivables		
Security deposits paid to financial institution with Moody's credit rating of Aa3	-	6 966
Receivables without credit rating from an independent party	6 181	1 141
Total other receivables (Note 10)	**6 181**	**8 107**
Held-to-maturity financial assets		
Bonds and commercial papers without a credit rating from an independent party (Notes 3.1, 13 and 15)	-	5 113
Derivative financial instruments		
Derivatives with positive value with Moody's credit rating of Aa1	5 307	-
Derivatives with positive value with Moody's credit rating of Aa3	3 331	-
Derivatives with positive value with Moody's credit rating of A1	7 053	-
Derivatives with positive value without a credit rating from an independent party	10 337	910
Derivatives with positive value (Notes 3.1, 12 and 13)	**26 028**	**910**

As at 31 March 2009 and 31 March 2008, the Group did not have any major credit risk concentrations.

15 Held-to-Maturity Financial Assets

in thousand EUR	31 March 2009	31 March 2008
Unquoted financial assets (at amortised cost):		
Bonds of Kesko OYJ (fixed interest rate 7.3%, maturity date: April 2008)	-	2 296
Commercial papers of AS SEB (fixed interest rate 4.6-6%, maturity date: June - October 2008)	-	2 817
Total held-to-maturity financial assets (Notes 3.1, 13 and 14)	**-**	**5 113**

Changes in held-to-maturity financial assets

in thousand EUR	1 April - 31 March 2008/09	1 April - 31 March 2007/08
Amortised cost at the beginning of the period	**5 113**	**2 842**
Acquired	-	9 987
Redeemed	-5 177	-7 958
Amortisation of difference between cost and nominal value (Note 32)	64	241
Amortised cost at the end of the period (Notes 3.1, 13 and 14)	**-**	**5 113**

Held-to-maturity financial assets as at 31 March 2008 were denominated in Estonian kroons. Held-to-maturity financial assets have been neither sold nor reclassified, neither in the reporting period nor in the comparable period.
The fair values of held-to-maturity financial assets do not materially differ from their carrying amounts.

16 Financial Assets at Fair Value through Profit or Loss

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

in thousand EUR	1 April - 31 March 2008/09	1 April - 31 March 2007/08
Fair value at the beginning of the period	**1 630**	**235**
Acquired	18 862	19 230
Disposed	-18 533	-17 876
Gain from change in fair value (Note 32)	54	42
Fair value at the end of the period (Note 13)	**2 014**	**1 630**

in thousand EUR	31 March 2009	31 March 2008
Unquoted financial assets:		
Units of Danske Invest Liquidity Fund (Note 13)	2 014	1 630

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

17 Deposits with Maturities Greater than 3 Months at Banks

Short-term receivables

in thousand EUR

	31 March 2009	31 March 2008
Deposits with maturities greater than 3 months at banks		
Security deposits at banks	25 100	10 100
Other deposits with maturities greater than 3 months at banks	-	128 090
Total deposits with maturities greater than 3 months at banks (Notes 3.1, 3.2 and 13)	**25 100**	**138 190**

In the financial year, the effective interest rates of term deposits with maturities greater than 3 months were between 4.5 and 8.1% (2007/08: 3.8-8.1%). The due dates of deposits were up to 418 days (2007/08: 418 days). The security deposits at SEB bank secure the commitments of Eesti Energia AS which may arise from forward contracts of electricity sales and spot contracts on the electricity exchange Nord Pool. The interest rates of the security deposits were 3.5-5.1% (2007/08: 3.5-4.7%).

18 Cash and Cash Equivalents

in thousand EUR

	31 March 2009	31 March 2008
Cash in transit	9	7
Cash on hand	27	26
Bank accounts	10 306	8 234
Short-term deposits	86 839	54 594
Total cash and cash equivalents (Notes 3.1, 3.2 and 13)	**97 181**	**62 861**

Cash and cash equivalents by currencies

in thousand EUR

	31 March 2009	31 March 2008
Estonian kroon	78 568	36 319
Euro	17 950	26 508
Latvian lat	536	33
Other	127	1
Total cash and cash equivalents (Notes 3.1, 3.2 and 13)	**97 181**	**62 861**

In the financial year, the effective interest rates of term deposits with maturities up to 3 months were between 0.9 and 8.1% (2007/08: 3.9-7.2%).

19 Share Capital, Statutory Reserve Capital and Retained Earnings

As at 31 March 2009, Eesti Energia AS had 73 823 266 registered shares (31 March 2008: 73 211 896). The nominal value of shares is 100 EEK. The sole shareholder is the Republic of Estonia. The administrator of the shares and the exerciser of the rights of shareholders is the Estonian Ministry of Economic Affairs, represented by the Minister of Economic Affairs at the General Meeting of Shareholders.

According to the articles of association of AS Eesti Energia, the minimum share capital is EUR 159 779 and the maximum share capital is EUR 639 116 thousand. No changes have been made to the amount of the minimum and maximum share capital in the reporting period or the comparable period.

In the comparable period, two share issues were carried out. Order no. 368 of Government of the Republic of 2 August 2007 increased the share capital of Eesti Energia AS by EUR 3 010 thousand (Notes 6 and 40), from EUR 464 900 thousand to EUR 467 910 thousand by issuing 470 896 new share with a nominal value of 100 EEK. To increase the share capital, 1090 registered immovable properties were transferred to Eesti Energia AS as a non-monetary contribution, valued at EUR 3 010 thousand. AS PricewaterhouseCoopers was in charge of overseeing the regular value evaluation. The issue of share capital was registered in the Commercial Register on 31 January 2008.

Order no. 97 of the Government of the Republic of 27 February 2008 increased the share capital of Eesti Energia AS by EUR 3 907 thousand (Notes 6 and 40), to EUR 471 817 thousand by issuing 611 370 new shares with a nominal value of 100 EEK. To increase the share capital, 165 registered immovable properties were transferred to Eesti Energia AS, valued at EUR 3 907 thousand. AS PricewaterhouseCoopers was in charge of overseeing the regular value evaluation. As at 31 March 2008, no application had been filed with the Commercial Register regarding the issue of share capital and therefore this amount was reported as unregistered share capital in the balance sheet.

Order no. 502 of the Government of the Republic of 11 December 2008 reduces the share capital of Eesti Energia AS by EUR 171 thousand by annulling 26 742 shares, and obliges Eesti Energia AS to transfer to the Republic of Estonia a real estate property located in Tallinn at Telliskivi 59. The annulling of shares was not registered in the Commercial Register as at 31 March 2009.

As at 31 March 2009, the Group's statutory reserve capital totalled EUR 47 182 thousand (31 March 2008: EUR 46 490 thousand). As at 31 March 2009, Eesti Energia AS had an obligation to transfer an additional EUR 0 to statutory reserve capital (31 March 2008: EUR 692 thousand)

As at 31 March 2009, the Group's available equity was EUR 353 581 thousand (31 March 2008: EUR 308 207 thousand, taking into account the statutory requirement to increase statutory reserve capital to 1/10 of share capital). Corporate income tax is payable upon the distribution of dividends to shareholders (from 1 January 2008, the corporate income tax on dividends is 21/79, until 31 December 2007: 22/78 of the amount payable as net dividends). If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 74 252 thousand (31 March 2008: EUR 64 723 thousand). It is possible to pay out EUR 279 329 thousand (as at 31 March 2008: EUR 243 484 thousand) as net dividends.

19 Share capital, statutory reserve capital and retained earnings, continued

Order no. 68 of the Government of the Republic of 26 February 2009 requires Eesti Energia AS to pay EUR 14 316 thousand as dividends after the approval of the 2008/09 Annual Report by the General Meeting of Shareholders. The corresponding income tax totals EUR 3806 thousand (Note 3.1).

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

in thousand EUR	31 March	
	2009	2008
Retained earnings (Note 40)	353 581	308 899
Transfer to statutory reserve capital	-	-692
Distributable shareholder's equity	353 581	308 207
Corporate income tax on dividends if distributed	74 252	64 723
Net dividends available for distribution	**279 329**	**243 484**

20 Dividends per Share

In the financial year, Eesti Energia AS paid dividends of EUR 41 670 thousand to the Republic of Estonia or EUR 0.56 per share (2007/08: EUR 63 912 thousand, dividends per share EUR 0.88). The Management Board proposes to the Annual Meeting to pay dividends of EUR 0.19 per share for the financial year ended 31 March 2009, totalling EUR 14 316 thousand. These financial statements do not reflect this amount as a liability.

21 Hedge Reserve

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Hedge reserve at the beginning of the period	**-34 954**	**8 087**
Change in fair value of derivatives (Note 12)	59 353	-35 378
Included within revenue	-2 934	-9 305
Recognised as a reduction of revenue	3 085	1 641
Hedge reserve at the end of the period	**24 549**	**-34 954**

22 Borrowings

Borrowings at amortised cost

in thousand EUR

	31 March 2009	31 March 2008
Short-term borrowings		
Current portion of long-term bank loans	7 687	7 687
Overdraft	-	183
Finance lease liabilities	-	52
Total short-term borrowings	**7 687**	**7 922**
Long-term borrowings		
Bonds issued	288 499	287 780
Bank loans	33 155	40 813
Total long-term borrowings	**321 654**	**328 593**
Total borrowings (Notes 3.1, 3.2 and 13)	**329 341**	**336 515**

Changes in borrowings

in thousand EUR

	1 April - 31 March 2008/09	2007/08
Amortised cost at the beginning of the period	**336 515**	**341 983**
Movements in the period		
Loan balance of acquired subsidiary (Note 36)	-	345
Repaid long-term bank loans	-7 687	-6 325
Repaid other loans	-	-345
Change in overdraft	-183	183
Amortisation of loan fees	29	37
Amortisation of difference between the nominal amount and cost of bonds	719	687
Repaid finance lease liabilities	-52	-51
Amortised cost at the end of the period (Notes 3.1, 3.2 and 13)	**329 341**	**336 515**

Bonds

in thousand EUR

	31 March 2009	31 March 2008
Nominal value of bonds (Note 3.1)	300 000	300 000
Proceeds from the issue of bonds	286 205	286 205
Amortisation of the difference between nominal value and cost	2 294	1 575
Carrying amount of bonds	**288 499**	**287 780**
Market value of bonds on the basis of quoted sales price (Note 3.3)	255 274	275 700

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

22 Borrowings, continued

Principal amount at nominal value and terms of long-term bank loans

in thousand EUR Creditor	Total loan amount	As at 31 March 2009 balance of drawn loan	 undrawn (Notes 3.1 and 39)	 repaid	Final settlement
Nordic Investment Bank	13 000	2 364	-	10 636	2009
Nordic Investment Bank	15 000	8 571	-	6 429	2012
Nordic Investment Bank	60 000	16 364	40 000	3 636	2017
European Investment Bank	15 000	13 638	-	1 362	2019
Total long-term bank loans (Note 3.1)	**103 000**	**40 937**	**40 000**	**22 063**	

in thousand EUR Creditor	Total loan amount	As at 31 March 2008 balance of drawn loan	 undrawn (Note 3.1)	 repaid	Final settlement
Nordic Investment Bank	13 000	4 727	-	8 273	2009
Nordic Investment Bank	15 000	10 714	-	4 286	2012
Nordic Investment Bank	60 000	18 182	40 000	1 818	2017
European Investment Bank	15 000	15 000	-	-	2019
Total long-term bank loans (Note 3.1)	**103 000**	**48 623**	**40 000**	**14 377**	

All loans are denominated in euros. Most loans have floating interest rates, as at 31 March 2009 the interest rates on loans were between 2.2 and 5.4% (31 March 2008: 4.7-5.3%). As at 31 March 2009, the weighted average interest rate on loans with floating interest rates was 6-month EURibor+0.43% (31 March 2008: 6-month EURibor+0.42%).

As at 31 March 2009, the weighted average interest rate on loans was 3.73% (31 March 2008: 4.97%). The loan agreements concluded by Eesti Energia AS contain certain financial ratios that the Group needs to comply with. The Group has complied with all attached conditions.

Long-term bank loans at nominal value by due dates

in thousand EUR	31 March 2009	31 March 2008
< 1 year	7 687	7 687
1 - 5 years	19 149	23 656
> 5 years	14 101	17 281
Total	**40 937**	**48 623**

Under the agreement concluded on 30 November 2007, the Group will not draw the remaining portion of the loan granted by the European Investment Bank for EUR 65 000 thousand. The decision regarding the undrawn loan portion from Nordic Investment Bank must be made by 30 September 2009 at the latest (Note 39). The type of interest rate (fixed or floating) will be decided when the loan is taken. Management estimates that the fair value of the loans at the balance sheet date does not significantly differ from their carrying amounts.

22 Borrowings, continued

Finance lease liability (present value of lease payments)

in thousand EUR	Balance as at 31 March 2008	Rental payments made	Terminated rental agreement	Balance as at 31 March 2009
Original lease payments	169	-	-169	-
Repaid portion	-117	-52	169	-
Carrying amount of lease payments	**52**	**-52**	**-**	**-**

in thousand EUR	Balance as at 31 March 2007	Rental payments made	Terminated rental agreement	Balance as at 31 March 2008
Original lease payments	169	-	-	169
Repaid portion	-66	-51	-	-117
Carrying amount of lease payments	**103**	**-51**	**-**	**52**

31 March 2009, the interest rate of operating lease agreements was 4.7%.

Maturities of finance lease agreements

in thousand EUR	< 1 year	1 - 5 years	Total
As at 31 March 2009			
Minimum lease payments	-	-	-
Unrealised financial income	-	-	-
Present value of lease payments as at 31 March 2009	**-**	**-**	**-**
As at 31 March 2008			
Minimum lease payments	53	-	53
Unrealised financial income	-1	-	-1
Present value of lease payments as at 31 March 2008	**52**	**-**	**52**

Borrowings by period that interest rates are fixed for

in thousand EUR	31 March 2009	31 March 2008
< 1 year	26 367	32 456
1 - 5 years	7 238	7 235
> 5 years	295 736	296 824
Total (Notes 3.1, 3.2 and 13)	**329 341**	**336 515**

Weighted average interest rates of borrowings

	31 March 2009	31 March 2008
Long-term bank loans	3.8%	5.1%
Bonds	4.9%	4.9%
Finance lease liabilities	-	4.7%

All borrowings are unsecured.

23 Trade and Other Payables

in thousand EUR	31 March 2009	2008
Short-term payables		
Trade payables		
Payables for property, plant and equipment	34 942	33 695
Payables for fuel	3 760	5 759
Other payables for goods and services	19 182	22 194
Total trade payables	**57 884**	**61 648**
Accrued expenses		
Payables to employees	16 288	16 371
Interest liabilities	5 376	5 541
Payable related to the fee for toleration of utility works	-	1 812
Payables calculated under the stage of completion method (Note 10)	20	3
Other accrued expenses	973	1 249
Total accrued expenses	**22 658**	**24 975**
Other short-term payables		
Tax liabilities	31 986	24 934
Payables to associates	1 693	1 147
Prepayments	86	1 000
Other payables	11 310	2 673
Total other short-term payables	**45 075**	**29 754**
Total trade and other payables	**125 616**	**116 377**
Long-term payables		
Payables for goods and services	-	398
Fair value of financial guarantee issued (Notes 32 and 35)	86	87
Prepayments	-	115
Total long-term payables	**86**	**600**
Total long-term trade and other payables (Note 13)	**125 702**	**116 978**

Supplier payables

As at 31 March 2009, short-term payables included the amount withheld on the invoice submitted by Foster Wheeler Energia Oy for EUR 22 006 thousand (31 March 2008: EUR 22 006 thousand) (10% of the total invoice amount of EUR 220 055 thousand). Under the contract entered into with Foster Wheeler for the construction of new blocks for AS Narva Elektrijaamad, this amount was subject to withholding until the start-up of the power blocks. Due to its claims against Foster Wheeler Energia Oy, AS Narva Elektrijaamad has not paid the withheld amount to Foster Wheeler Energia Oy (Note 35).

Payable related to the fee for toleration of utility works

Under the Law of Property Act, a landowner in Estonia is required to tolerate utility works built on his or her immovable property. The law states that the owner of utility works is required to pay compensation for the toleration of utility works according to the rates and procedure provided for in the law, unless the parties have agreed otherwise.
As at 31 March 2008 the maximum value of the payable of EUR 1812 thousand was recognised in the balance sheet as an obligation that Group had to pay retrospectively to landowners from 1 November 2004. As the number of applications for compensation has been less than expected, no payable was recognised in the balance sheet as at 31 March 2009. In the reporting period, payments made amounted to EUR 16 thousand (2007/08: EUR 9 thousand).

Other short-term payables

As at 31 March 2009 the other short-term payables contained the collected renewable energy grant that had not been paid to the producers of renewable energy in the amount of EUR 10 037 thousand (31 March 2008: EUR 1674 thousand).

24 Connection and Other Service Fees

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Connection and other service fees at the beginning of the period not recognised as income	**108 976**	**88 325**
Connection and other service fees received	22 609	26 271
Connection and other service fees received recognised as income (Notes 4, 27 and 34)	-6 824	-5 619
Connection and other service fees at the end of the period not recognised as income (Note 4)	**124 761**	**108 976**

Connection and service fees are recognised as income over the estimated period of a client relationship, which is 20 years.

25 Government Grants

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Short-term grant prepayments at the beginning of the period		
ISPA, Cohesion Fund	314	799
Long-term grant prepayments at the beginning of the period		
ISPA, Cohesion Fund	374	243
PHARE	94	335
Other foreign grants	-	22
Total long-term grant prepayments at the beginning of the period	**468**	**600**
Movements in the period		
Grants received		
ISPA, Cohesion Fund	2 193	1 733
Total grants received	**2 193**	**1 733**
Taken into income		
ISPA, Cohesion Fund	2 311	2 086
PHARE	27	31
Total taken into income	**2 338**	**2 117**

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Payments transferred upon disposal of subsidiary		
PHARE	-	210
Other foreign grants	-	22
Total prepayments transferred upon disposal of subsidiary (Note 37)	**-**	**232**
Short-term grant prepayments at the end of the period		
ISPA, Cohesion Fund	215	314
Long-term grant prepayments at the end of the period		
ISPA, Cohesion Fund	355	374
PHARE	67	94
Total long-term grant prepayments at the end of the period	**423**	**468**

In the reporting period, the grants from the Cohesion Fund (ISPA) were used to fund the closing of the ash field no. 2 of the Baltic Power Plant.

In the comparable period, the grants from the Cohesion Fund (ISPA) were used to fund the closing of the ash field no. 2 of the Baltic Power Plant, to provide technical assistance to renovate Ahtme Power Plant and close its ash fields, and to build the Narva 50 MW wind park.

26 Provisions

in thousand EUR	Opening balance 31 March 2008	Recognition and change in provisions (Note 5)	Interest charge (Note 32)	Use	Closing balance 31 March 2009	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	19 202	-7 638	1 158	-2 247	2 043	8 433
Provision for termination of mining operations (Note 30)	5 839	1 402	467	-	-	7 709
Provision for post-employment benefits (Note 31)	786	84	52	-147	153	622
Provision for work-related injury compensation (Note 31)	2 502	173	175	-287	306	2 258
Provision for dismantling cost of assets	1 079	-	86	-	-	1 165
Provision for scholarships (Note 31)	43	-	1	-35	9	-
Provision for termination benefits (Note 31)	-	1 304	-	-	1 304	-
Provision for greenhouse gas emissions (Note 29)	9 074	27 758	-	-	36 832	-
Total provisions (Notes 4 and 34)	**38 525**	**23 084**	**1 939**	**-2 716**	**40 647**	**20 186**

	Opening balance 31 March 2007	Recognition and change in provisions (Note 5)	Interest charge (Note 32)	Use	Closing balance 31 March 2008	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	13 970	5 816	940	-1 524	2 689	16 513
Provision for termination of mining operations (Note 30)	5 088	368	403	-20	-	5 839
Provision for post-employment benefits (Note 31)	803	65	54	-136	139	647
Provision for work-related injury compensation (Note 31)	2 869	-262	202	-307	310	2 192
Provision for dismantling cost of assets	999	-	80	-	-	1 079
Provision for scholarships (Note 31)	-	60	-	-17	35	8
Provision for greenhouse gas emissions (Note 29)	-	9 074	-	-	9 074	-
Total provisions (Notes 4 and 34)	**23 730**	**15 121**	**1 679**	**-2 004**	**12 246**	**26 279**

26 Provisions, continued

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

- restoring land damaged by mining and bringing out underground equipment;
- cleaning contaminated land surfaces;
- restoring water supplies contaminated as a result of mining activities;
- closing landfills and neutralizing excess water;
- eliminating asbestos in power plants and Narva Õlitehas.

The amount for environmental protection provisions and provisions for the termination of mining operations takes into account that, in accordance with the memorandum between AS Narva Elektrijaamad and the European Commission, 84% of the cost of closing and restoring the ash field no.2 of the Baltic power plant (total cost: EUR 7106 thousand) is covered from the EU ISPA funds. All conditions set by ISPA are met. The grants received in the reporting period amounted to EUR 2193 thousand (2007/08: EUR 1461 thousand) (Note 25). It has also been taken into consideration that 50% of the cost of the ash field work and the clean-up of contamination of AS Kohtla-Järve Soojus will be covered by the grant from ISPA funds. Long-term environmental protection provisions will be settled at the Estonian Oil Shale Company in 2010 - 2012, at Kohtla-Järve District Heating Network in 2010 - 2013 and at Narva power plants in 2010 - 2037. Liabilities related to the termination of mining operations will be settled in 2013-2038. Provisions for the termination of mining operations do not include any termination payments to employees as no detailed plans for the closure of the mines and quarries have been announced.

A provision for post-employment benefits arising from collective agreements has been set up for benefits laid down in collective agreements and other acts, which are payable to former employees. The provisions will settle during the periods specified in the contracts that may equal the life expectancy of the previous employees.

The provision for work-related injury compensation has been set on the basis of the court ruling about amounts payable for work-related injuries and the payment period which normally equals the life expectancy of employees. The payment period was determined using data from Statistics Estonia on life expectancies by age group.

The provision for the dismantling costs of assets has been set up to cover the future dismantling costs of the renovated power blocks no. 8 and 11 of the Narva power plants. The present value of the dismantling costs of the assets was included in the cost of non-current assets. The provision is expected to be settled in 27 years.

The provision of termination benefits has been set up at Narva Power Plants for termination benefits that are payable according to the announced termination plans.

The provision for greenhouse gas emissions has been set up within the cost of new greenhouse gas emission allowances. The emission allowances received from the state free of charge have been deducted from the volume of emission allowances needed to cover greenhouse gas emissions.

The provision are discounted at the rate of 8% (2007/08: 8%).

27 Revenue

By activities

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Sale of goods		
Electricity	500 847	442 422
Heat	57 044	37 662
Shale oil	35 368	28 697
Oil shale	24 452	18 326
Power equipment	10 994	13 896
Oil shale ash	1 109	1 165
Other	3 209	1 749
Total sale of goods	**633 023**	**543 918**
Sale of services		
Sale of telecommunication services	9 432	6 093
Connection fees (Notes 4, 24 and 34)	6 824	5 619
Repair and construction services	2 913	3 315
Leasing and maintenance of real estate properties (Note 7)	2 229	1 818
Electricity brokerage services	591	835
Transport services	801	579
Other services	3 826	2 917
Total sale of services	**26 617**	**21 177**
Other goods		
Scrap metal	2 781	3 452
Other goods	5 218	5 899
Total sale of goods	**8 000**	**9 351**
Total revenue (Note 5)	**667 640**	**574 445**

Energy sales in quantitative terms

MWh	1 April - 31 March	
	2008/09	2007/08
Sale of electricity		
Estonia	7 077 168	6 991 917
Exports	2 463 633	2 724 547
Total sale of electricity	**9 540 801**	**9 716 464**
Sale of heat	1 690 075	1 738 889

28 Other Operating Income

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Fines, penalties and benefits received	3 193	2 068
Proceeds from sale of property, plant and equipment (Note 34)	2 062	1 059
Change in fair value of derivatives	1 176	253
Proceeds from sale of business unit (Notes 34 and 37)	-	24
Ineffective portion of a change in fair value of cash flow hedging instruments	-	17
Other operating income	749	615
Total other operating income	**7 181**	**4 038**

29 Raw Materials and Consumables Used

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Maintenance and repairs, including:		
Core activity facilities and equipment	32 608	36 290
Buildings and offices	4 210	5 267
Dismantling and waste management	2 176	3 790
Machinery and transport vehicles	2 240	2 141
Repair of storm damage	634	-
Total maintenance and repairs	**41 869**	**47 487**
Technological fuel, including:		
Oil shale	1 678	2 991
Other technological fuel	41 156	27 058
Total technological fuel	**42 834**	**30 049**
Other production-related materials	30 095	27 680
Repair materials	19 714	22 070
Electricity and transmission services	56 760	22 021
Resource tax on mineral resources	19 115	17 822
Fuel for machinery and means of transport	14 926	14 065
Greenhouse gases emissions expense (Note 26)	27 758	9 074
Other services	7 770	8 437
Subcontracting works	2 590	3 629
Goods sold	1 544	3 024
Heat, energy, water	1 141	1 295
Tools and fixtures	672	818
Write-down of inventories	601	370
Total raw materials and consumables used	**267 388**	**207 841**

30 Other Operating Expenses

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Environmental pollution charges	30 367	33 660
Consulting	6 190	9 161
Security, insurance and work safety	6 289	6 217
Miscellaneous office expenses	2 909	2 805
Telecommunications expenses	4 024	3 380
Information technology expenses	2 624	3 120
Rental expenses (Note 7)	2 972	2 365
Recognition/reversal of environmental and mining termination benefits (Note 26)	-6 235	6 183
Research and development costs	2 375	1 896
Public relations and information management	1 569	1 723
Miscellaneous charges and duties	3 643	1 593
Training expenses	1 223	1 541
Non-business related expenses	1 080	1 069
Office supplies and fixtures	652	877
Business travel	745	925
Change in fair value of derivatives	52	689
Fines, penalties, benefits	308	238
Loss from sale of property, plant and equipment (Note 34)	3	28
Loss from doubtful receivables	1 713	-394
Expenses related to land (Note 23)	-1 124	1 200
Other expenses	374	254
Total other expenses	**61 749**	**78 528**

31 Payroll Expenses

Number of employees

	1 April - 31 March	
	2008/09	2007/08
Number of employees at the beginning of the period	8 501	8 411
Number of employees at the end of the period	8 131	8 501
Average number of employees	8 349	8 417

The Management Board members are appointed by the Supervisory Board. The term of appointment for Management Board members is 3 years.

Payroll expenses

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Wages, salaries, bonuses and vacation pay	98 546	89 573
Average monthly pay (in euros)	**984**	**887**
Other payments to employees	3 573	4 014
Termination benefits	2 704	841
Total disbursements to employees	**104 823**	**94 428**
Social tax	35 273	31 833
Unemployment insurance premiums	309	277
One-time employment contract fees	678	445
Provision for termination benefits (Note 26)	1 304	-
Provision for work-related injury compensation (Note 26)	173	-262
Provision for post-employment benefits (Note 26)	84	65
Provision for scholarships (Note 26)	-	60
Other benefits	84	21
Fringe benefits	841	1 091
Income tax on fringe benefits	327	386
Total payroll expenses	**143 896**	**128 344**
Including remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	2 059	1 925
Termination benefits	76	91
Fringe benefits	69	102
Total paid to management and supervisory boards	**2 203**	**2 119**
Capitalised in the cost of company-built assets		
Wages and salaries	-6 443	-5 658
Social tax and unemployment insurance tax	-2 145	-1 884
Total capitalised amount	**-8 588**	**-7 542**
Covered from the provisions for the termination of mining operations and environmental protection		
Wages and salaries	-288	-263
Social tax and unemployment insurance tax	-96	-88
Total covered from provisions	**-384**	**-351**
Total payroll expenses	**134 924**	**120 451**

32 Financial Income and Expenses

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Financial income		
Interest income		
Interest income on bank accounts and deposits	7 585	10 404
Interest income on bonds and commercial papers (Notes 2.11 and 15)	64	241
Other interest income	100	12
Total interest income (Note 5)	**7 748**	**10 658**
Change in fair value of financial assets recognised at fair value through profit or loss (Notes 2.11 and 16)	54	42
Change in fair value of financial guarantee issued	1	4
Foreign exchange gains	4 619	3
Total financial income	**12 423**	**10 707**
Financial expenses		
Interest expenses on borrowings		
Interest expenses on long-term bonds	-14 195	-14 211
Interest expenses on long-term bank loans	-2 242	-2 518
Interest expenses on commercial papers	-13	-4
Interest expenses on other short-term loans	-62	-8
Total interest expenses on borrowings (Note 34)	**-16 511**	**-16 740**
Interest expenses on provisions (Note 26)	-1 939	-1 679
Interest expenses on other discounted payables	-	-17
Total interest expenses (Note 5)	**-18 450**	**-18 437**
Foreign exchange losses	-69	-100
Other financial income and expenses	-61	-78
Total financial expenses	**-18 581**	**-18 615**
Total financial income and expenses	**-6 158**	**-7 908**

The Group has granted a guarantee of up to 39.9% for the obligations arising from the loan contracts entered into between its associate AS Nordic Energy Link and the banks if the banks should require full payment of loans from AS Nordic Energy Link due to breach of contractual terms (Notes 23 and 35).
As at 31 March 2009, AS Nordic Energy Link had drawn loans of EUR 71 461 thousand (as at 31 March 2008: EUR 72 354 thousand).

33 Corporate Income Tax

Under the Income Tax Act, the dividends payable out of retained earnings are taxed in Estonia. From 1 January 2008, the income tax rate is 21/79 of the net dividend paid (in 2007: 22/78 of the net dividend paid). Corporate income tax received from other companies registered in Estonia can be deducted from corporate income tax payable, when the recipient of dividends owned at least 10% (until 31 December 2008: 15%) of the shares of the payer of dividends.

Average effective income tax rate

in thousand EUR

	1 April - 31 March	
Estonia	**2008/09**	**2007/08**
Net dividends	41 670	63 862
Income tax applicable for dividends	21/79	22/78
Theoretical income tax at applicable rates	11 077	18 012
Impact of dividends paid by associates	-327	-304
Effective income tax on dividends (Note 5)	**10 750**	**17 708**
Average effective income tax rate	20.4%	21.6%
Finland		
Profit before tax	61	-149
Income tax rate applicable to profits	26.0%	26.0%
Theoretical income tax at applicable rate	16	-39
Impact of previous tax losses	-16	-
Impact of other adjustments	2	8
Advance income tax expense	-55	55
Income tax expense (Note 5)	**-53**	**63**
Average effective income tax rate	-86.5%	-42.0%
Latvia		
Profit before tax	106	-
Income tax rate applicable to profits	15.0%	-
Theoretical income tax at applicable rate	16	-
Impact of non-deductible expenses	2	-
Impact of previous tax losses	-10	-
Impact of other adjustments	-2	-
Income tax expense (Note 5)	**6**	**-**
Average effective income tax rate	5.7%	-

As at 31 March 2009 and 31 March 2008, the Group did not have any deferred income tax assets and liabilities.

34 Cash Generated from Operations

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Profit before income tax	**97 628**	**57 056**
Adjustments		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	114 284	109 382
Amortisation of intangible assets (Notes 5 and 8)	658	517
Deferred income from connection and other service fees (Notes 4, 24 and 27)	-6 824	-5 619
Gain/loss on disposal of PPE (Notes 28 and 30)	-2 059	-1 032
Amortisation of government grant received to purchase non-current assets	-45	-31
Gain (loss) on sale of subsidiary and business unit (Notes 28, 30 and 37)	-	-24
Gains (losses) calculated under the equity method (Note 9)	-1 742	-1 452
Unpaid/unsettled gain/loss on derivatives	-1 186	559
Interest expense on borrowings (Note 32)	16 511	16 740
Interest and other financial income	-7 804	-10 700
Adjusted net profit before tax	**209 421**	**165 396**
Net change in current assets relating to operating activities		
Loss from doubtful receivables (Note 10)	1 755	-335
Change in receivables related to operating activities	-12 594	-13 602
Change in inventories (Note 11)	-2 709	-3 010
Net change in other current assets relating to operating activities	-43 107	-11 094
Total net change in current assets relating to operating activities	**-56 655**	**-28 042**
Net change in current liabilities relating to operating activities		
Change in provisions (Note 26)	22 307	14 796
Change in supplier payables	-5 526	7 871
Net change in liabilities relating to other operating activities	13 121	13 160
Total net change in liabilities relating to operating activities	**29 902**	**35 827**
Cash generated from operations	**182 669**	**173 180**

35 Off-balance Sheet Assets, Contingent Liabilities and Commitments

(a) Contingent liabilities

Requirement to comply with the environmental norms of the European Union

Under the accession agreement between the European Union and Estonia, the pollutants from oil shale boilers into atmospheric air need to comply with the requirements set for large combustion plants by the year 2016. Completing this obligation requires additional investment to be made.

Under the accession agreement between the European Union and Estonia, oil shale ash processing and storage must be in compliance with EU environmental regulations by 16 July 2009 at the latest.

Contingent liabilities arising from potential tax audit

Tax authorities have neither started nor performed any tax audits at the Company or single case audits at any group company. Tax authorities have the right to review the Company's tax records within 6 years after the reported tax year and if they find any errors they may impose additional taxes, interest and fines. The Company's management considers that there are not any circumstances which may give rise to a potential material liability in this respect.

Collaterals, guarantees and court actions

The loan agreements concluded by the Group set certain covenants on the Group's consolidated financial indicators. The covenants have been adhered to.

35 Off-balance sheet assets, contingent liabilities and commitments, continued

The Group has granted a guarantee to its associate AS Nordic Energy Link to guarantee the obligations arising from the loan contracts entered into (Notes 23 and 32).

Foster Wheeler Energia Oy has launched a commercial dispute against Narva Elektrijaamad in the arbitrage court of London and submitted its initial claim of EUR 31 170 thousand for the payment of renovation costs. By the end of the reporting period, the outstanding balance due from AS Narva Elektrijaamad amounted to EUR 22 006 thousand, subject to withholding until the start-up of the power blocks (Note 23). Due to the delay in the renovation works and violation of contractual terms, AS Narva Elektrijaamad has filed a counterclaim against Foster Wheeler Energia Oy for of EUR 44 514 thousand. Management believes the claim of Foster Wheeler Energia Oy is not founded in total amount. The dispute over responsibilities of the parties was delivered by arbitrage court in October 2008. The court proceeding over the financial claims will take place in September 2009.

(b) Off-balance sheet assets

Court actions

As at 31 March 2009 the amount of EUR 5697 thousand from an arbitrage judgement for infringement of sales contract was outstanding. This amount was not recognised as income in the reporting period, as the judgement could be appealed and realisation was not certain as at 31 March 2009. The amount of arbitrage judgement was received in April 2009.

Reserves of oil shale

As at 31 March 2009, the estimated reserves of mineable oil shale in the mines and quarries of Eesti Põlevkivi totalled 396 million tonnes (as at 31 March 2008: 418 million tonnes), including underground mining fields of 285 million tonnes (as at 31 March 2008: 302 million tonnes) and ground level mining fields of 111 million tonnes (31 March 2008: 116 million tonnes).

Emission rights

The allocation plan established by the decree of the Government of Estonia no. 257 of 20 December 2007 allocated to the companies of the Eesti Energia Group for the years 2008-2012 greenhouse gas emission allowances totalling 9.2 million tonnes per annum (the quantity allocated for the period 2005-2007 totalled 46.7 million tonnes).

(c) Capital commitments arising from construction contracts

As at 31 March 2009, the Group had contract liabilities relating to the acquisition of non-current assets totalling EUR 98 178 thousand (31 March 2008: EUR 81 960 thousand).

(d) The contracts of buying greenhouse gas emissions allowances

As at 31 March 2009 the group had concluded contracts for buying greenhouse gas emissions allowances in December 2009 and 2011 in the amount of EUR 46 084 thousand (31 March 2008: EUR 17 228 thousand).

36 Business Combinations

In the comparable period Aulepa Tuulepargid OÜ was acquired.

On 7 November 2007, Eesti Energia AS acquired 100% of the shares of Aulepa Tuulepargid OÜ. The goal of Aulepa Tuulepargid OÜ is to establish a wind park with 13 windmill in Noarootsi rural municipality.

Between 7 November 2007 and 31 March 2008, this company did not have any revenue and the Group's profit was reduced by the company's loss of EUR 40 thousand. Had the transaction taken place on 1 April 2007, the net profit for the 2007/08 financial year would have been EUR 39 163 thousand.

Information on the transaction

in thousand EUR

Cost of acquisition	
purchase price paid in the transaction	1 829
other directly attributable expenditure	6
Total cost of acquisition	**1 835**
Fair value of net assets acquired	1 835
Goodwill	**-**

Acquired net assets

	Fair value	Carrying amount
Prepayments	43	43
Property, plant and equipment (Note 6)	288	336
Intangible assets (Note 8)	1 931	16
Borrowings (Note 22)	-345	-345
Trade and other payables	-83	-1
Acquired net assets	**1 835**	**50**
Cash outflows in acquisition		
purchase price paid in the transaction		1 829
other directly attributable expenditure		6
Total cash outflows in acquisition		**1 835**

37 Disposal of Subsidiary and Business Unit

In the previous period the subsidiary OÜ Elektrikontrollikeskus was disposed of, and the mechanics shop of AS ER Baltic Electrotechnics and Automation was sold.

Disposal of the subsidiary OÜ Elektrikontrollikeskus

On 16 May 2007, a sales contract was entered into for the sale of the shares of OÜ Elektrikontrollikeskus. The shares were paid for in cash.

Sale of the mechanics shop of AS ER Baltic Electrotechnics and Automation

At 19 October 2007, a sales contract was entered into for the sale of a mechanics shop of the subsidiary AS ER Baltic Electrotechnics and Automation. 7 employees were transferred to the buyer in the sale of the mechanics shop. The business unit was paid for in cash.

Information on the sales transaction

in thousand EUR

Assets and liabilities of OÜ Elektrikontrollikeskus	
Cash and cash equivalents	83
Trade and other receivables	41
including allowance for doubtful receivables (Note 10)	8
Property, plant and equipment (Note 6)	247
Trade and other payables	-59
Deferred income (Note 25)	-232
Net assets	**80**
Sales price	80
Loss on disposal (Notes 30 and 34)	-
Cash outflows in transaction	
Proceeds from sale (Note 38)	80
Cash and cash equivalents of subsidiary	-83
Total cash outflows in acquisition	**-3**

Information on the transaction

in thousand EUR

Transferred assets	
Property, plant and equipment (Note 6)	8
Sales price	32
Gain on sale (Notes 28 and 34)	24
Cash inflows on sale of business unit:	
Proceeds from disposal	**32**

According to the Company's management, these disposals do not represent discontinued operations, because they did not constitute significant separate business areas of the Group.

38 Related Party Transactions

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

The remuneration paid to the members of the Management and Supervisory Board is disclosed in Note 31. Receivables from associates are disclosed in Note 10 and payables to associates in Note 23. No impairment loss from receivables was recognised in the reporting period and in the comparable period.

Upon premature termination of the service contract with a member of the Management Board, the service contracts stipulate the payment of 3 months' remuneration as termination benefits.

In purchasing and selling electricity, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

in thousand EUR	1 April - 31 March	
	2008/09	2007/08
Transactions with associates		
Purchase of goods and services	26 828	21 436
Proceeds from sale of goods and services	12 042	5 942
Transactions with state-controlled entities		
Proceeds from sale of goods and services	52 862	47 035
Fines, penalties, benefits received	28	15
Proceeds from sale of property, plant and equipment	2 821	2 818
Proceeds from sale of business unit (Note 37)	-	80
Purchases of goods and services	7 403	8 299
Purchases of property, plant and equipment	5 623	195
Sponsorship	87	73
Fines, penalties, benefits paid	3	26
Transactions with companies over which the members of Management and Supervisory Boards have significant influence		
Purchases of goods and services	132	801

in thousand EUR	31 March	
	2009	2008
Receivables and payables from operating activities relating to state-controlled entities		
Receivables	6 623	6 460
Payables	249	496

39 Events After the Balance Sheet Date

On 4 May 2009 the remaining portion of the loan granted by the Nordic Investment Bank of EUR 40 000 thousand was drawn by the group (Note 22).
On 25 May 2009 the Group entered into loan contract with European Investment Bank in order to borrow EUR 150 000 thousand.

40 Financial Information on the Parent Company

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

Balance Sheet

in thousand EUR	31 March 2009	31 March 2008
ASSETS		
Non-current assets		
Property, plant and equipment	38 239	31 065
Intangible assets	4 993	618
Investments in subsidiaries	632 801	631 668
Investments in associates	8 772	8 772
Derivative financial instruments	1 600	-
Receivables from subsidiaries	311 842	314 702
Total non-current assets	**998 246**	**986 825**
Current assets		
Inventories	52	44
Trade and other receivables	283 988	178 667
Derivative financial instruments	9 688	910
Held-to-maturity financial assets	-	5 113
Deposits with maturities greater than 3 months at banks	25 100	138 190
Financial assets at fair value through profit or loss	2 014	1 630
Cash and cash equivalents	88 343	55 972
Total current assets	**409 185**	**380 527**
Total assets	**1 407 431**	**1 367 352**

in thousand EUR	31 March 2009	31 March 2008
EQUITY		
Share capital	471 817	467 909
Unregistered share capital	-	3 907
Share premium	259 833	259 833
Statutory reserve capital	47 182	46 490
Hedge reserve	9 808	541
Retained earnings	187 286	155 926
Total equity	**975 925**	**934 606**
LIABILITIES		
Non-current liabilities		
Borrowings	321 654	328 593
Other payables	86	295
Derivative financial instruments	740	254
Deferred income	131	131
Provisions	352	347
Total non-current liabilities	**322 962**	**329 620**
Current liabilities		
Borrowings	7 687	7 870
Trade and other payables	100 781	94 602
Derivative financial instruments	1	563
Provisions	76	91
Total current liabilities	**108 544**	**103 126**
Total liabilities	**431 506**	**432 746**
Total liabilities and equity	**1 407 431**	**1 367 352**

40 Financial information on the parent company, continued

Income statement

in thousand EUR

	1 April - 31 March	
	2008/09	2007/08
Revenue	363 258	307 967
Dividend income from subsidiaries	41 670	63 862
Other operating income	28 494	23 472
Raw materials and consumables used	-324 055	-289 376
Other operating expenses	-13 630	-10 070
Payroll expenses	-13 562	-11 169
Depreciation and amortisation	-1 544	-1 244
Other expenses	-748	-711
OPERATING PROFIT	**79 884**	**82 730**
Financial income	12 205	10 699
Financial expenses	-18 367	-18 715
Total financial income and expenses	**-6 162**	**-8 015**
PROFIT BEFORE TAX	**73 722**	**74 715**
NET PROFIT FOR THE FINANCIAL YEAR	**73 722**	**74 715**

40 Financial information on the parent company, continued

Cash flow statement

in thousand EUR	1 April - 31 March 2008/09	2007/08
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**73 722**	**74 715**
Adjustments		
Depreciation of PPE	1 373	1 183
Amortisation of intangible assets	171	61
Profit/loss from sale of property, plant and equipment	-1 394	-448
Other gains/losses on investments	-41 670	-63 939
Gain/loss on unpaid/unsettled derivatives	-1 186	448
Interest expense on borrowings	18 179	18 635
Interest income	-32 730	-32 623
Adjusted net profit	**16 465**	**-1 969**
Net change in current assets relating to operating activities		
Loss from doubtful receivables	1 988	161
Change in receivables relating to operating activities	-10 167	-7 521
Change in inventories	-8	16
Net change in current assets relating to other operating activities	-15 132	-12 932
Total net change in current assets relating to operating activities	**-23 319**	**-20 276**
Net change in liabilities relating to operating activities		
Change in provisions	-10	81
Change in supplier payables	54	3 562
Net change in liabilities related to other operating activities	9 280	6 505
Total net change in liabilities relating to operating activities	**9 324**	**10 148**
Interest paid and borrowing costs	**-17 589**	**-17 732**
Interest received	**34 559**	**30 716**
Net cash flows from operating activities	**19 441**	**886**

in thousand EUR	1 April - 31 March 2008/09	2007/08
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	-11 928	-3 818
Proceeds from sale of PPE	3 763	2 085
Finance lease principal payments collected	2 288	2 060
Dividends received from subsidiaries	41 670	35 421
Net change in term deposits with maturities greater than 3 months	113 090	97 065
Purchase of short-term financial investments	-18 862	-29 216
Contribution to share capital of subsidiary	-	-1 835
Acquisition of subsidiaries	-3 619	-4 855
Proceeds from sale and redemption of short-term financial investments	23 709	25 914
Cash outflows on partial sale of business unit:	-82	-
Short-term loans paid by subsidiaries	776	776
Change in overdraft granted to subsidiaries	-84 160	-10 620
Net cash used in investing activities	**66 645**	**112 977**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of bank loans	-7 687	-6 325
Change in overdraft	-183	183
Change in overnight deposit received from subsidiaries	-1 172	-23 142
Short-term loans from subsidiaries	-	11 951
Short-term loans repaid to subsidiaries	-3 004	-4 474
Dividends paid	-41 670	-63 912
Total cash generated from financing activities	**-53 715**	**-85 717**
NET CASH FLOWS	**32 370**	**28 145**
Cash and cash equivalents at the beginning of the period	55 972	27 827
Cash and cash equivalents at the end of the period	88 343	55 972
Net increase/decrease in cash and cash equivalents	**32 370**	**28 145**

40 Financial information on the parent company, continued

Statement of changes in equity

in thousand EUR

	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 March 2007	464 900	259 833	46 490	8 087	-	145 123	924 433
Carrying amount of holdings under controlling and significant influence						-624 980	-624 980
Carrying amount of holdings under controlling and significant influence using equity method					-1	813 436	813 435
Adjusted unconsolidated equity as at 31 March 2007					**-1**	**333 579**	**1 112 888**
Change in hedge reserve	-	-	-	-7 546	-	-	-7 546
Net income directly recognised in equity	**-**	**-**	**-**	**-7 546**	**-**	**-**	**-7 546**
Net profit for 2007/2008 financial year	-	-	-	-	-	74 715	74 715
Total income and expenses recognised in 2007/2008	**-**	**-**	**-**	**-7 546**	**-**	**74 715**	**67 168**
Increase of share capital in accordance with order no. 368 of the Government of the Republic of 2 August 2007 (Note 19)	3 010	-	-	-	-	-	3 010
Increase of share capital in accordance with order no. 97 of the Government of the Republic of 27 February 2008 (unregistered) (Note 19)	3 907	-	-	-	-	-	3 907
Dividends paid	-	-	-	-	-	-63 912	-63 912
Equity as at 31 March 2008	**471 817**	**259 833**	**46 490**	**541**	**-**	**155 926**	**934 606**
Carrying amount of holdings under controlling and significant influence						-631 668	-631 668
Carrying amount of holdings under controlling and significant influence using equity method				-35 495	10	784 640	749 155
Adjusted unconsolidated equity as at 31 March 2008 (Note 19)				**-34 954**	**10**	**308 899**	**1 052 094**
Change in hedge reserve	-	-	-	9 267	-	-	9 267
Net income directly recognised in equity	**-**	**-**	**-**	**9 267**	**-**	**-**	**9 267**
Net profit for 2008/2009 financial year	-	-	-	-	-	73 722	73 722
Total income and expenses recognised in 2008/2009	**-**	**-**	**-**	**9 267**	**-**	**73 722**	**82 989**
Transfer of retained earnings to reserve capital	-	-	692	-	-	-692	-
Dividends paid	-	-	-	-	-	-41 670	-41 670
Equity as at 31 March 2009	**471 817**	**259 833**	**47 182**	**9 808**	**-**	**187 286**	**975 925**
Carrying amount of holdings under controlling and significant influence						632 801	632 801
Carrying amount of holdings under controlling and significant influence using equity method				14 741	-13	-466 506	-451 778
Adjusted unconsolidated equity as at 31 March 2009 (Note 19)				**24 549**	**-13**	**353 581**	**1 156 948**

Under the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which a public limited company can make payments to its shareholders.

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Eesti Energia AS

We have audited the accompanying consolidated financial statements of Eesti Energia AS and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 March 2009 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year (1 April 2008 to 31 March 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 consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 March 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.

/signed/

Ago Vilu
AS PricewaterhouseCoopers

/signed/

Laile Kaasik
Authorised Auditor

8 June 2009

* *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.*

AUDIT COMMITTEE'S REPORT

Eesti Energia's Audit Committee was set up by the Supervisory Board and consists of four Supervisory Board members. The Chairman of the Audit Committee is Jüri Käo and the other members are Jürgen Ligi, Meelis Virkebau and Rene Tammist.

The function of the Committee is to provide consultation to the Supervisory Board on supervision issues, including the monitoring of accounting principles, the performance of external audits, the development and operation of the internal audit system, the management of financial risks, and the legality of activities. The committee also provides consultation to the Supervisory Board on preparing the budget and approving the company's annual report.

In the 2008/09 financial year, there were five quorate regular meetings of the Audit Committee, and from October 2008 regular reporting by the risk management and internal audit services was started, the results of which reached the Audit Committee on three occasions. In its work the Audit Committee worked together with Eesti Energia's Supervisory Board, Management Board, and internal and external auditors, and with external experts.

The Risk Management and Internal Audit departments were reorganised with the approval and assistance of the Audit Committee, and from August 2008 they were subordinated to the Risk Management and Internal Audit Service Director.

On the basis of the information available, the assessments made by the internal auditors and comments from the external auditors, the Audit Committee finds that, within its area of supervision, Eesti Energia's business operations have improved compared to the 2007/08 financial year, becoming more transparent with better risk-assessment.

The Audit Committee has compiled a report based on its activity, which will be presented to the Supervisory Board of Eesti Energia and which forms the basis for the statement included in the Annual Report. The Audit Committee does not have any observations to which the Management of Eesti Energia has not already reacted or which could influence the Annual Report of the financial year 2008/2009 or its essential parts.

As a goal for the 2009/10 financial year, the committee has begun preparing a proposal for the Eesti Energia Supervisory Board to amend the statute of the Audit Committee in order to increase the efficiency and quantifiability of the work of the Committee.

Jüri Käo
Chairman of the Audit Committee 18.06.2009

PROFIT ALLOCATION PROPOSAL

The retained earnings of Eesti Energia Group as at 31 March 2009 was 353 581 051 euros.

Paragraph 1 of § 10 of the Participation in Legal Persons In Private Law by the State Act states that the dividends payable by a state-controlled entity shall be approved by the Government of Estonia at the proposal of the Minister of Finance. Under Order No. 68 of the Government of Estonia of 26 February 2009, Eesti Energia AS shall pay EUR 14 316 209 as dividends in 2009.

Additionally the Government of Estonia increased in the second negative state budget the expected amount of dividends from Eesti Energia Group by EUR 6 391 165.

The Management Board thus proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of Eesti Energia Group as at 31 March 2009 as follows:

1. to pay EUR 20 707 374 as dividends to shareholders;
2. not to distribute the remaining retained earnings of EUR 332 873 677, due to the continuing financing needs of the Eesti Energia Group.

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

The Annual Report of the Eesti Energia Group for the financial year to 31 March 2009 consists of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal. The Management Board of the public limited company has prepared the management report, the consolidated financial statements and the profit allocation proposal. The Supervisory Board of the public limited company has reviewed the Annual Report and approved it for presentation at the General Meeting of Shareholders.

MANAGEMENT BOARD
25.06.2009

Chairman of the Management Board

Sandor Liive

Members of the Management Board

Margus Kaasik

Harri Mikk

Raine Pajo

Margus Rink

SUPERVISORY BOARD
25.06.2009

Chairman of the Supervisory Board

Jüri Käo

Members of the Supervisory Board

Meelis Atonen

Rein Kilk

Jürgen Ligi

Toomas Luman

Aivar Reivik

Rene Tammist

Meelis Virkebau

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