

Annual Report 2007/2008



OÜ Põhivõrk was founded on April 1, 2004 and is 100% owned by Eesti Energia AS

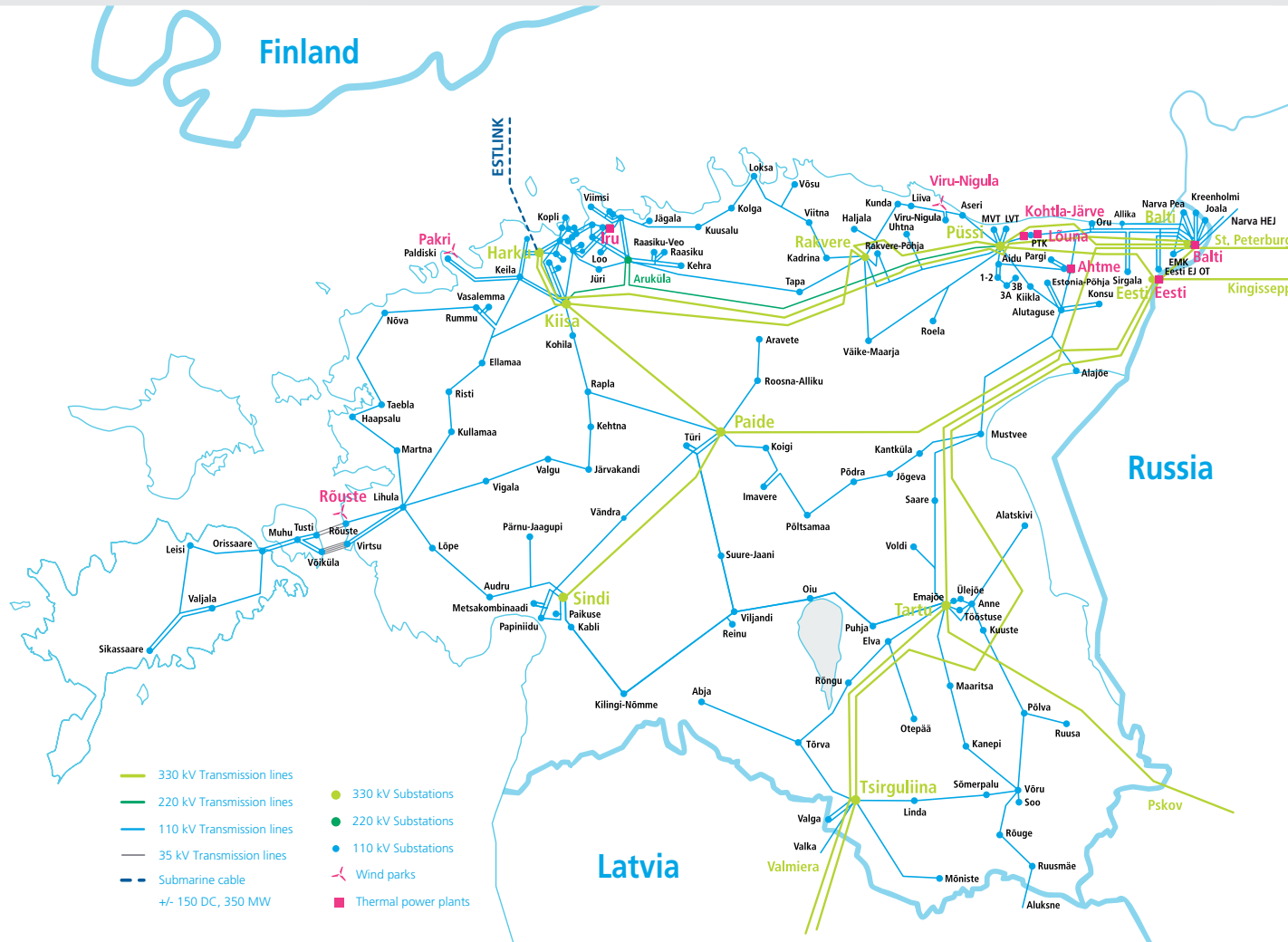
Põhivõrk's main functions include:

- Uniting Estonia's major electricity producers and consumers into an electrical power system
- Transmitting electricity at voltages of 6–330 kV from producers to distribution networks and major corporate consumers
- Ensuring the functioning of the Estonian electrical power system as a whole
- Ensuring Estonia's national energy balance
- Providing the services of a system operator
- Purchasing and selling balancing electricity

Key facts about OÜ Põhivõrk

- Under the Electricity Market Act, OÜ Põhivõrk is the Estonian electrical power system operator and is responsible for the functioning of the system and the security of supply. OÜ Põhivõrk has to ensure that Estonian consumers have access to electricity from sockets now and in the future.
- Põhivõrk's transmission network is the backbone of the Estonian electrical power system. Põhivõrk unites Estonia's major producers, distribution networks and large consumers in a unified electrical power system, transmitting electricity both on the domestic market and abroad.
- Working with the system operators of the neighbouring countries to develop the regional electricity market of the European Union and cross-border interconnections is of ever greater importance to Põhivõrk
- Põhivõrk accommodates the control centre of the Estonian electrical power system, which runs the whole electrical power system in real time and is responsible for the country's electricity balance.
- Põhivõrk is a neutral provider of an electricity transmission service independent of traders and other market participants. Põhivõrk is a marketplace where other parties can trade and a market operator that does not trade in electricity itself.

Estonian Transmission Network



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Management Report

Põhivõrk Strategy

Our Mission is to Ensure the Sustainability of Estonia's Electricity Supply, and for us this means:

- *ensuring the conditions required for the electricity market to function*
- *ensuring that the power network has sufficient capacity and ensuring the quality of electricity*
- *ensuring the proper functioning of the electrical power system*



Our vision for 2025 is to be The Best Transmission Network in Europe.

For us, this means:

- functioning efficiently as a transmission network
- ensuring a supply of electricity without interruptions
- ensuring the provision of good quality electricity
- getting high customer satisfaction ratings
- having a good reputation among important stakeholders
- ensuring the efficient functioning of the electricity market
- ensuring the presence of qualified and motivated personnel

Põhivõrk's strategic goals for 2008–2015 are to:

- ensure the conditions required for the electricity market to function.
- keep the part of the transmission tariff set by Põhivõrk low
- transmit good quality electricity
- offer services that achieve high customer satisfaction
- ensure the functioning of the electrical power system
- make sure that important stakeholders are satisfied with Põhivõrk
- keep our highly-skilled employees well motivated
- fulfil all financial goals

Dear Reader

In the coming years, the main challenges facing Põhivõrk will come in the three areas of most importance to the company: the administration of the Estonian electrical power system; the opening of the electricity market; and the efficient development and administration of our assets.



Lembit Vali



Kalle Kilk



Peep Soone

As the operator of the Estonian electrical power system, we have to ensure the security of the country's power supply, whatever may be the future balance of production capacity in the region and dominant method of production. As the guarantor and developer of the power network, we must follow the forecasts for production and consumption, as only then can we fulfil our most important future role and be a fair marketplace for all energy traders.

The importance of the electricity market for us is increasing rapidly each year. For 35% of the electricity market to be opened at the beginning of 2009, and 100% by 2013, Põhivõrk as a marketplace has a lot of work to do to ensure that the market can really start functioning in a way that satisfies all the needs of the market participants.

With the market due to open, the market participants have already for a long time been looking beyond their national borders, and so it is extremely important for Põhivõrk to work with neighbouring systems on various fronts: the operational management of the electrical power system,

the security of supply and the coordinated development of power networks. As a result, one of the most important focuses of the next few years will be on expanding the marketplace through international connections. The electrical power system has long since ceased to be a mere network of domestic lines and substations but has become a wide cross-border marketplace for energy trading.

All those who work in Põhivõrk share a long-term passion for energy, the desire to be the key player in ensuring Estonia's sustainable power supply, and the courage to make decisions, and all this will guarantee the quality of life for the Estonian people for decades. The whole Põhivõrk team works hard to achieve our eight important strategic goals and make Põhivõrk one of the best network operators in Europe.



Lembit Vali
Chairman of the
Management Board



Kalle Kilk
Member of the
Management Board



Peep Soone
Member of the
Management Board

Highlights of the Financial Year 2007/2008

Under the Electricity Market Act, Põhivõrk is responsible for the functioning of the Estonian electrical power system – for making sure that Estonian consumers have access to electricity from sockets now and in the future. This responsibility to all the people of Estonia is the absolute priority in all Põhivõrk's activity.

One of the most important events of the past financial year in the management of the electrical power system was the implementation of SCADA, a new electrical power system management tool. SCADA improved both the monitoring of the Estonian power system and the readiness for the free electricity market, and the new system increased the reliability of the system control centre; if the system fails there is now a similar but fully independent back-up for it.

The importance of Estonia's merger with the pan-European inter-TSO (transmission system operator companies) compensation mechanism for electricity transit flow should also be stressed, as it considerably simplifies cross-border electricity trade by relieving traders of the need to pay cross-border export and import fees.

In cooperation with the neighbouring electrical power systems, we started the project of expanding NordPool, a Nordic power exchange, into the Baltic States in the past financial year in order to give all electricity producers and consumers in the Baltic States an opportunity to buy and sell electricity via a power exchange using a uniform market price. This will significantly expand the trading options for electricity producers and consumers in the Baltic States and the Nordic countries.

Several important investments in Põhivõrk's equipment were completed. The biggest were the renovation of the 110 kV substations of Papiniidu, Kohila and Rummu. Total investments in the financial year reached 227 million kroons, which should increase again in the next financial year to nearly 700 million kroons.

Main Objectives for the Next Financial Years

One of Põhivõrk's strategic goals is to create the conditions for free competition on the open electricity market by 2015. In practice this means establishing new electrical interconnections, strengthening the domestic power network and harmonising energy-related regulations in the countries participating in the single market (Estonia, Latvia, Lithuania, Finland), and we will concentrate our efforts on all of these in the next financial years.



Preparations for the unification of the energy systems of the Baltic States and Poland are still being carried out jointly by the Estonian, Latvian, Lithuanian and Polish transmission system operators; this, in turn, is the first step towards making the Baltic States part of the synchronised operations of UCTE, the common energy system of Central Europe.

The preparatory work for a second undersea cable between Estonia and Finland, which started in the past financial year, will also continue. Route selection has started and calculations have been made of the possible benefits the cable would bring to electricity consumers. Põhivõrk is working to activate Estlink 2 in 2013, simultaneously with the opening of the Estonian energy market.

In order to improve the security of the Estonian electricity supply, we are continuing to prepare to build an independent gas-turbine power station which would enable domestic emergency reserves to be activated rapidly in case of outages in the power system, avoiding the risk of systemic breakdown.

Economic Activity and Assets

In the coming years, we are expecting the company to develop sustainably, fulfilling customers' expectations of a good quality service at a reasonable price, and the company's owner's expectations of profitability.

Under Estonian law, the Estonian Competition Authority regulates Põhivõrk's economic activity and monitors the company's operations. The tariffs for Põhivõrk's transmission services are fixed by the Competition Authority on the basis of justified costs and the return on assets. This makes it relatively easy to predict the company's economic results.

Changes in the general economic environment usually lead to changes in the level of domestic electricity transmission. However, the impact on Põhivõrk's economic results is not significant in the longer perspective as the changes are factored in afterwards, in the next regulation period.



Economic activity by service

- *electricity transmission service (~90% of revenues)*

The essence of this service is the transmission of electricity from one point of the power network to another at the request of the customer. We provide an electricity transmission service to Estonian customers who are connected to Põhivõrk's grid and to the transmission network of the Russian Federation. Our customers are primarily power stations, distribution networks and corporate consumers totalling 6 electricity producers and 11 consumers as at the end of the financial year.

- *balancing service (~6% of revenues)*

The essence of this service is ensuring the energy balance of those customers who act as balance providers, through which we keep the Estonian electrical power system as a whole in balance.

By law, the balance sheet of every market participant has to be in balance. This means that the amount of electricity they produce and purchase has to be equal to the amount of electricity they sell and use. In hours when the balance of a market participant is negative, Põhivõrk sells it the missing electricity; when the balance is positive, Põhivõrk buys the excess.

- *rental of fibre optic cables*

The fibre optic cable installed on Põhivõrk's transmission lines is used to pass important technical information to Põhivõrk. Those fibres of the fibre optic cable that Põhivõrk does not itself need it rents to Televõrgu AS who uses it to provide communication services to its customers.

Electrical energy transmitted:

GWh	2004/2005	2005/2006	2006/2007	2007/2008
Domestic	6,814	7,088	7,343	7,630
Exports	2,783	2,686	2,181	4,037
Total	9,597	9,774	9,524	11,667
Losses	284	289	296	369

%	2004/2005	2005/2006	2006/2007	2007/2008
Losses as a percentage	2,9	2,9	3,0	3,1

Põhivõrk's transmission network is the backbone of the Estonian electrical power system. Our 110–330 kilovolt high-voltage equipment unites the producers, distribution networks and major consumers into a single electrical power system which can transmit energy both on the domestic market and abroad to neighbouring countries. As at the end of the financial year, Põhivõrk has electrical connections with the energy systems of Latvia, Russia and, since the beginning of 2007, Finland.

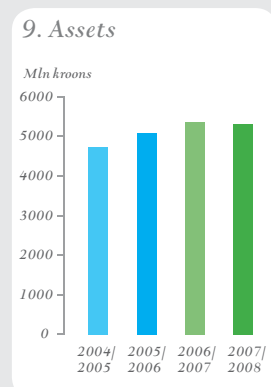
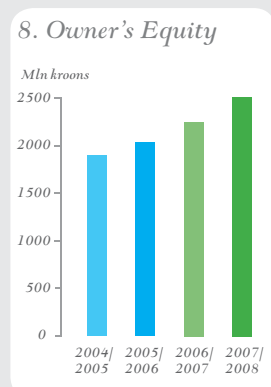
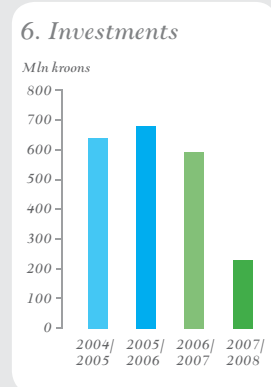
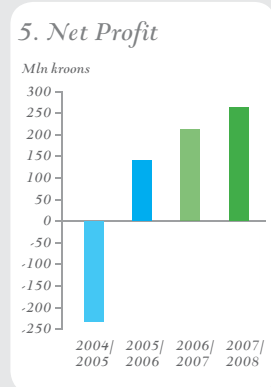
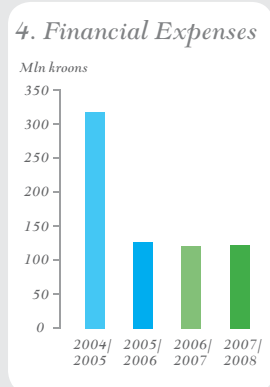
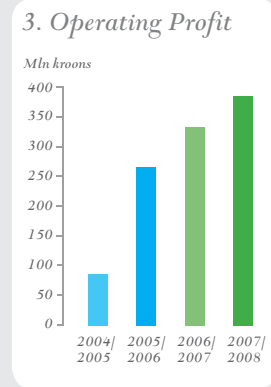
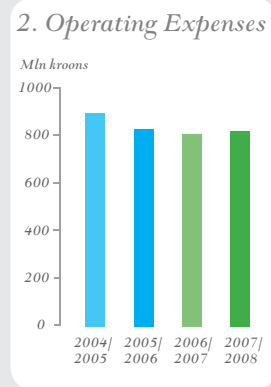
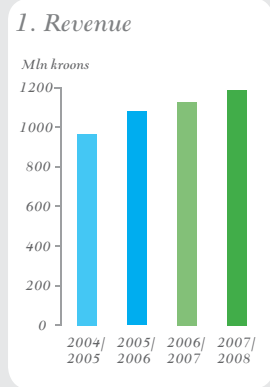
	2004/2005	2005/2006	2006/2007	2007/2008
Number of substations	142	144	144	144
110 kV substations	133	133	133	133
220 kV substations	1	1	1	1
330 kV substations	8	10	10	10
Length of lines, km	5,193	4,991	5,212	5,206
35 kV underground cables	54	54	53	53
35 kV overhead lines	8	8	7	7
110 kV underground cables	25	37	32	32
110 kV overhead lines	3,370	3,412	3,420	3,414
220 kV overhead lines	439	184	184	184
330 kV overhead lines	1,298	1,298	1,515	1,515

Data as at the last day of the financial year

Main financial indicators

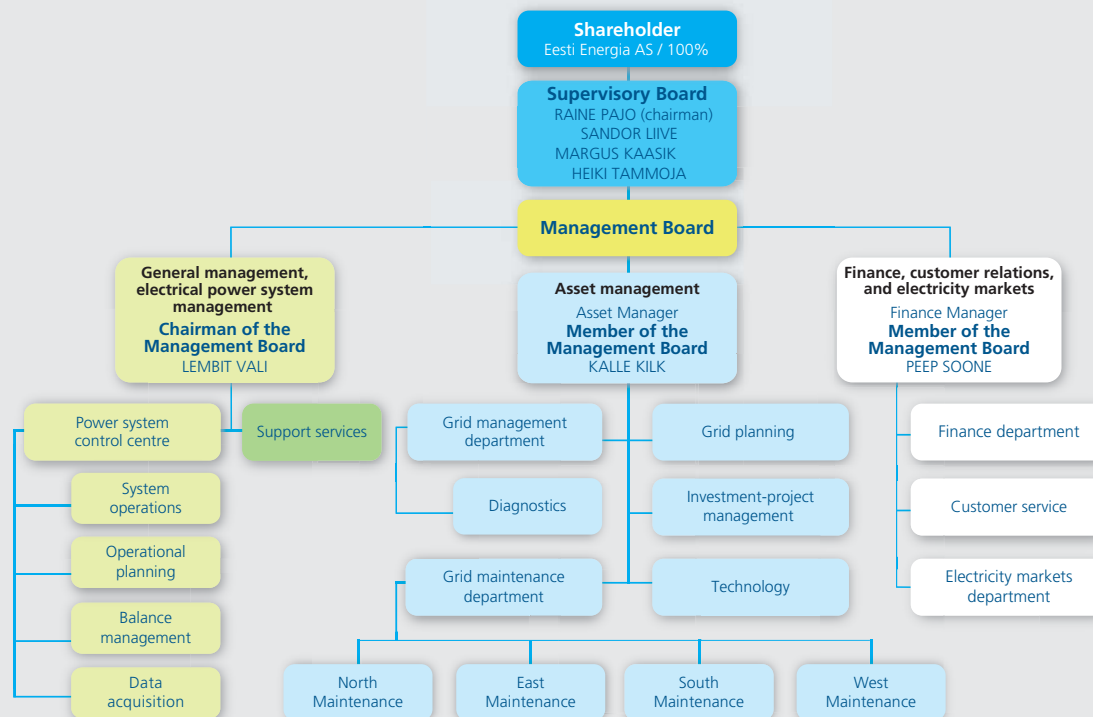
Balance sheet data as at the last day of the financial year.

Million kroons	2004/2005	2005/2006	2006/07	2007/2008
Revenue	968	1,080	1,127	1,190
Operating Expenses	883	818	798	810
Operating Profit	85	263	329	380
Financial Expenses	314	125	120	121
Net Profit	-229	138	209	259
Investments	632	670	585	226
Liabilities	2,798	3,000	3,063	2,763
Owner's Equity	1,871	2,009	2,218	2,476
Assets	4,669	5,009	5,281	5,239



Organisation

To achieve Põhivõrk's strategic goals in the best way possible, we are using a process management system. The company's structure has been developed to fit with the system.



Our strategy is reviewed on an annual basis and we use the balanced scorecard method yearly to set our corporate goals, ascertain our critical success factors and establish the means for measuring success. From the beginning of the financial year we also implemented Põhivõrk's new management model based on business areas.

Põhivõrk's main function is energy transmission and therefore we outsource support services (legal services, real estate management, etc). Since the last financial year, maintenance services and the switching operations in Põhivõrk's substations and power lines have also been outsourced and are carried out by Empower EEE AS and AS Siemens Electroservices.

We also outsource research and development work, in which we invested almost 2 million kroons in the last financial year. The quality of electricity following a re-start of the Estonian electrical power system after a blackout was researched, calculation models were drawn up for Estonian power stations, and quality requirements compiled for the transmission network;

we also participated in ITOMS, a project comparing the maintenance and repair expenses of transmission companies.

EFQM, the European Foundation for Quality Management, has awarded us the R4E (Recognised for Excellence) certificate to prove that we have made considerable progress in improving the quality of our management and are well on our way to organisational excellence. Põhivõrk's management system complies with the requirements of the ISO 9001:2000 quality management standard, the ISO 14001:2004 environmental management standard and the OHSAS 18001:1999 occupational health and safety standard.

Põhivõrk's operations create several environmental risks and we have a duty to prevent environmental damage. We have identified the principal environmental concerns and established our environmental goals and responsibilities accordingly. To monitor how well we are achieving our goals, we use a specially designed surveillance system and keep a separate register of environmental complaints.

The electrical equipment in Põhivõrk's substations contains a total of nearly 6,000 tonnes of oil. In order to prevent oil leaks, we aim to renovate all the oil collection facilities located under the electrical equipment. At the moment, 22 oil tanks and 13 oil containers still need to be repaired. In recent years during renovations, we have replaced all the oil containers with ones that are a lot more cost-effective in operation. We have significantly reduced the number of bulk-oil circuit breakers, replacing them with gas-insulated disconnecting circuit breakers, which in total contain over five tonnes of sulphur hexafluoride gas.

Practically all the investments we make to renew our power network help to increase environmental sustainability. Last financial year, we invested 2.8 million kroons solely in environmental protection and additionally used 1.4 million kroons of our budget funds.

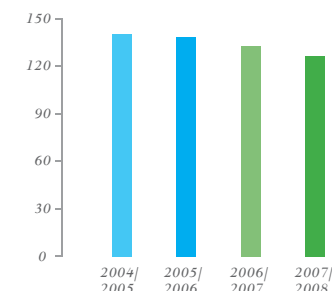
In order to reduce environmental risks we adhere to the following principles:

- *to inform our employees and suppliers of legislative and other requirements related to the environment and undertake to fulfil them*
- *to employ a management system meeting the requirements of the ISO 14001 standard and undertake to improve it constantly*
- *to avoid contaminating the environment and reduce waste generation, employing the best possible technology*
- *to use resources economically*

People

The right people filling the right positions and playing the most suitable roles for their personal qualities, knowledge and abilities are Põhivõrk's greatest asset.

Number of employees



The results of the values survey conducted by AS Fontes PMP in 2005 show that the personal values of the people working in Põhivõrk are consistent with our corporate values – responsibility, competence, cooperation and openness. The coherence of values between the levels of the company and the staff has created stable staffing conditions. This is shown by our staff turnover of only 2.5%, which is an extremely good result in the context of increasing competition and a lack of specialists in the energy sector.

In the financial year 2007/2008, the company employed an average of 127 people, 79% of them men and 21% women;

the average age of our employees was 45. A total of 54.1 million kroons was paid in wages and salaries during the financial year, including taxes. The total remuneration paid to the Management Board came to 4 million kroons, fringe benefits and taxes included. The members of the Supervisory Board, who did not receive any remuneration in the previous period, were paid 83,000 kroons this year.

The corporate traditions developed in our company, the events directed at our employees and the work environment promoting individual development help to ensure that our senior employees stay loyal to the company and young specialists



*Aivar Sarv
Head of Data
Acquisition Section*



*Mirjam Pihlak
Customer Manager*



*Nikolai Dorovatovski
Head of Diagnostics Section*



*Ingrid Arus
Head of Electricity
Markets Department*

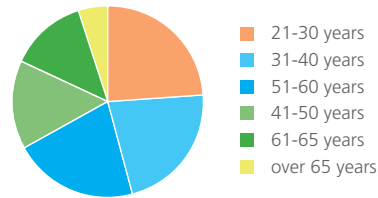


*Peep Teral
Budget Manager*

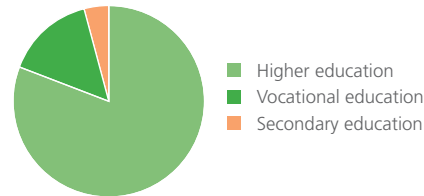


*Tamara Kovagina
Chief Accountant*

Distribution of employees by age as at 31.03.2008



Distribution of employees by education as at 31.03.2008



are interested in working in Põhivõrk. Indeed, the strength of the company is secured by the equal representation of different generations in our staff. Top specialists with years of professional experience and young graduates complement each other. The average length of employment in the company is 18.3 years.

In order to maintain Põhivõrk's stability and progressive approach, it is essential to ensure the presence of a future generation, and we are working with several institutions of higher education to offer practical training to their best students. Furthermore, our employees develop their skills in formal education programmes. In the spring of the current

year, 6% of Põhivõrk's employees graduated from various degree programmes.

The results of our annual staff satisfaction survey confirm that the people working in Põhivõrk are dedicated professionals. In the eyes of our employees, Põhivõrk's strength lies in constructive relationships between its employees and managers, the support of professional development, and the fact that the work lets them use their skills and abilities to the full. People who are internally motivated and ready to work in a team are Põhivõrk's strongest backbone and the real guarantee of our success.



*Kersti Prei
Assistant to the
Management Board*



*Toomas Laurand
Work Environment
Expert*



*Heldur Karjaherm
Head of Grid Maintenance
Section, North*



*Raivo Attikas
Head of Operational
Planning Section*



*Urmas Kriisa
IT Manager*



*Märt Allika
Head of System
Operations Section*



Financial Statements

Declaration of the Management Board on the Financial Statements

The Management Board confirms the correctness and completeness of the financial statements of OÜ Põhivõrk for the period 01.04.2007-31.03.2008 as presented on pages 18-47.

The Management Board confirms that:

- the accounting principles used in the preparation of the financial statements are in compliance with the generally accepted accounting principles of the Republic of Estonia;
- the financial statements give a true and fair view of the financial position of OÜ Põhivõrk, and the results of its operations and cash flows;
- OÜ Põhivõrk is a going concern.



Lembit Vali
Chairman of the
Management Board



Kalle Kilk
Member of the
Management Board



Peep Soone
Member of the
Management Board

Tallinn, 30 June, 2008

Balance Sheet

in thousands of kroons	31.3.2008	31.3.2007	Note
ASSETS			
Current assets			
Receivables and prepayments	165,380	118,173	2
Total current assets	165,380	118,173	
Non-current assets			
Tangible assets	5,059,543	5,159,385	4
Intangible assets	13,820	2,910	5
Total non-current assets	5,073,363	5,162,295	
Total assets	5,238,743	5,280,468	
LIABILITIES AND OWNERS' EQUITY			
Current liabilities			
Trade payables	66,541	48,069	6
Other payables	317,067	703,604	6,7
Taxes payable	5,100	2,921	6
Accrued expenses	23,168	4,752	6
Total current liabilities	411,876	759,346	
Non-current liabilities			
Other long-term payables	2,046,586	2,046,586	7
Deferred income	304,085	256,999	8
Total non-current liabilities	2,350,671	2,303,585	
Total liabilities	2,762,547	3,062,931	
Owner's equity			
Share capital	2,100,000	2,100,000	9
Statutory reserve	17,328	6,894	
Retained earnings	100,209	-98,033	
Net profit for the financial year	258,659	208,676	
Total owner's equity	2,476,196	2,217,537	
Total liabilities and owners' equity	5,238,743	5,280,468	

Income Statement

in thousands of kroons	1.4.2007-31.3.2008	1.4.2006 - 31.3.2007	Note
OPERATING INCOME			
Net sales	1,184,758	1,125,208	10,12
Other operating income	4,766	1,694	11
Total operating income	1,189,524	1,126,902	
OPERATING EXPENSES			
Goods raw materials and services	-395,770	-402,634	13
Other operating expenses	-45,174	-42,209	14
Staff costs	-54,098	-42,762	15
Depreciation and impairment losses	-314,080	-309,634	4,5
Other expenses	-458	-1,020	16
Total operating expenses	-809,580	-798,259	
Operating profit	379,944	328,643	
Financial income/expenses			
Financial income/expenses from associates	-153	2,468	3
Interest expenses	-121,119	-122,461	17
Foreign exchange gains/losses	50	27	
Other financial income/expenses	-63	-1	
Total financial income/expenses	-121,285	-119,967	
Net profit for the financial year	258,659	208,676	

Cash Flow Statement

in thousands of kroons

1.4.2007 - 31.3.2008 1.4.2006 - 31.3.2007

Note

CASH FLOW FROM OPERATING ACTIVITIES

Operating profit	379,944	328,643	
Adjustments			
Proceeds from sale of tangible assets	-171	-530	
Depreciation and impairment losses	314,080	309,634	4,5
Amortisation of connection and other fees	-11,356	-4,880	8
Total adjustments	302,553	304,224	
Net change in current assets related to operating activities			
Change in trade payables	-13,695	-816	
Other net change in current assets related to operating activities	-35,980	7,515	
Total net change in current assets related to operating activities	-49,675	6,699	
Net change in liabilities related to operating activities			
Change in trade payables	20,382	-6,970	
Other net change in liabilities related to operating activities	42,289	5,046	
Total net change in liabilities related to operating activities	62,671	-1,924	
Connection and other fees received	58,442	59,948	8
Interest and loan expenses paid	-122,014	-122,187	
Foreign exchange losses	50	27	
Other financial expenses	-63	-1	
Total cash flow from operating activities	631,908	575,429	

CASH FLOW FROM INVESTING ACTIVITIES

Purchases of tangible and intangible assets	-227,482	-628,929	
Proceeds from tangible assets	595	536	
Proceeds from the liquidation of associates	2,315	0	
Total cash flow from investing activities	-224,572	-628,393	

CASH FLOW FROM FINANCIAL ACTIVITIES

Net change in intragroup overdraft	-407,336	52,964	7
Total cash flow from financing activities	-407,336	52,964	

Total cash flow

	0	0	
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Cash and cash equivalents at the beginning of the period

0	0
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Cash and cash equivalents at the end of the period

0	0
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Net increase in cash and cash equivalents

0	0
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Statement of Changes in Equity

in thousands of kroons	Share capital	Statutory reserve	Retained earnings/loss	Total	Note
Owners' equity as at 31.03.2006	2,100,000	0	-91,139	2,008,861	9
Net profit for the financial year 2006/2007	0	0	208,676	208,676	
Transfer of retained earnings to statutory reserve	0	6,894	-6,894	0	
Owners' equity as at 31.03.2007	2,100,000	6,894	110,643	2,217,537	9
Net profit for the financial year 2007/2008	0	0	258,659	258,659	
Transfer of retained earnings to statutory reserve	0	10,434	-10,434	0	
Owners' equity as at 31.03.2008	2,100,000	17,328	358,868	2,476,196	9

More detailed information on share capital and changes to it is disclosed in Note 9

Notes to the Financial Statement

1 | Accounting principles and assessment standards used in the preparation of the financial statement

The financial statement of OÜ Põhivõrk has been prepared in accordance with the generally accepted accounting principles of the Republic of Estonia.

The generally accepted accounting principles are prescribed by the Accounting Act of the Republic of Estonia, and supplemented by the guidelines issued by the Accounting Standards Board of the Republic of Estonia.

The financial statement is prepared using the acquisition cost principle except where other accounting principles have been used as detailed below.

The financial statements have been prepared in thousands of Estonian kroons.

• Cash and cash equivalents

For the purposes of the balance sheet and cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (excluding overdrafts), term deposits with original maturities of three months or less, and money market fund shares. Overdrafts come under short-term borrowings in the balance sheet.

Foreign currency transactions; financial assets and liabilities denominated in foreign currencies

Foreign currency transactions are recorded in Estonian kroons, using the official exchange rates of the Bank of Estonia prevail-

ling at the date of the transaction. Foreign exchange gains and losses arising from the exchange rate differences between the transfer date and the transaction date are recorded in the income statement. Assets and liabilities denominated in foreign currencies have been translated based on the currency exchange rates of the Bank of Estonia prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the revaluation are recorded in the income statement.

• Trade receivables

Short-term receivables generated in the ordinary course of business (excluding receivables from group companies and affiliates) are classified as trade receivables. Trade receivables are recorded at their acquisition cost (i.e. original invoice amount less provisions made for impairment).

Write-downs are registered where there is objective evidence that not all sums of receivables were transferred in accordance with the initial contract conditions.

Among the circumstances that may lead to impairment is the bankruptcy or serious financial problems of the debtor as well as violations of payment deadlines.

Impairment of important receivables (including the need for any write-downs) is evaluated individually for each buyer on the basis of the present value of the sums anticipated to be received in the future. For receivables that are not individually important, and where it is not directly known that their value

was impaired, the impairment losses are evaluated as an aggregate taking into consideration statistics for receivables that were not transferred during the previous years. The sum of doubtful receivables is the difference between the balance value of such receivables and the present value of future cash flows, and is calculated using the internal interest rate method. The balance value of receivables is reduced by the doubtful part and losses are recorded as other operational expenses. Where a receivable is considered irrecoverable it and its write-downs are written off the balance sheet. The group of doubtful receivables that have previously been written down is recorded as a decrease in doubtful receivables.

• *Other receivables*

All other receivables (accrued income, loans granted, other short-term and long-term receivables), except for receivables held for trading purposes, are recorded at acquisition cost.

The acquisition cost of short-term receivables normally equals their original invoice amount (less any possible write-downs); therefore, short-term receivables are recorded in the balance sheet at the collectible amount. In order to calculate the acquisition cost of long-term receivables, they are initially recorded at fair value and interest income is calculated for future periods using the effective interest rate method. Receivables held for trading purposes are recorded at their fair value.

All other receivables are recorded from the moment of their registration in the balance sheet to the moment of their sale at a fair price. Changes in the fair price of a particular receivable are recorded in the income statement for the period as profit or loss. Changes in fair price of receivable purchased for resale are also recorded in the income statement for the period as profit or loss.

• *Tangible fixed assets*

Assets used in the company's operations with a useful life of more than 1 year and a cost of more than 30,000 kroons are accounted for as tangible fixed assets. Assets with a useful life of over 1 year, but a cost of less than 30,000 kroons, are recorded as low-value items (in inventories) and are fully expensed when the asset is taken into use. Low-value items that have been expensed are accounted for off-balance sheet.

a. **Cost**

Tangible fixed assets are initially recorded at the cost, which consists of the purchase price (including customs duties and other non-refundable taxes) and expenses directly related to the acquisition, incurred for bringing the assets to their present operating condition and location. A tangible fixed asset is reflected in the balance sheet at its cost, less any accumulated depreciation and any accumulated impairment losses. Tangible fixed assets acquired under finance leases are recorded similarly to acquired non-current assets. Where the non-current asset's carried forward value is greater than its estimated recoverable value (higher than an asset's net selling price and its value in use), it is written down immediately to its estimated recoverable value.

b. **Depreciation**

Depreciation is calculated using the linear method. Depreciation rates are set separately for each non-current asset, depending on its useful life. For assets with a significant residual value, only the depreciable portion between the cost and the residual value is depreciated over the useful life of the asset. Once the recoverable value reaches the residual value of the asset, the depreciation of the asset is terminated. If a fixed tangible asset consists of distinguishable components with

different useful lives, these components are recorded separately as assets, and separate depreciation rates are set for them depending on their useful lives. Assets with an indefinite useful life (land, etc.) are not subject to depreciation.

Depreciation is calculated from the moment the asset can be used for the purposes set by the management and is terminated when recoverable value of the asset reaches its residual value, until the final removal of the asset from use or upon the asset's reclassification as 'available-for-sale'. The validity of depreciation rates, depreciation methods and residual values is evaluated at each balance sheet date.

The following depreciation periods are used for different categories of tangible fixed assets:

	Useful life of new non-current assets (in years)	Average remaining useful life as at 31.03.2008 (in years)
Buildings	25–40	23
Power lines	30–60	25
Other facilities	10–30	13
Power transmission equipment	7–25	16
Other non-current assets	3–20	8

c. Improvements, repairs and maintenance

Subsequent expenditure is added to the cost of the asset if it meets the definition of tangible fixed assets and the criteria for recognition of assets in the balance sheet. If a component of a tangible fixed asset is replaced, the cost of the replaced item is added to the cost of the item and the replaced component or a proportion of the replaced non-current asset is taken off the balance sheet.

Costs related to ongoing maintenance and repairs are charged to the income statement.

d. Impairment losses

Assets with indefinite useful lives (e.g. land) are not subject to depreciation, but they are tested annually for impairment, by comparing the carried forward value of the assets to their recoverable value.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carried forward value may not be recoverable. If any such indication exists, the recoverable value of the assets is measured against the carried forward value..

Impairment losses are recorded at the amount by which the carried forward value of the asset exceeds its recoverable value. The recoverable value of the asset is either the fair value of the asset less selling expenses or its value in use whichever is higher. For the purposes of assessing impairment, the recoverable value of the asset is assessed either for each asset or the smallest group of assets for which it is possible to distinguish cash flows (a cash generating unit).

The amount of the write-down is charged to period expenses.

At each following balance sheet date, assets which have once been written down are assessed for impairment to see if their value might have increased (except for company value, where impairment is not cancelled). Cancellation of a write-down is recorded as a reduction of the write-down of non-current assets in the income statement of the financial year.

e. Sale of fixed assets

Crains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the income statement.

Operating and financial leases

Leases where all significant risks and rewards of ownership have been transferred to the lessee are classified as finance leases. Other lease contracts are classified as operating leases.

Operating lease payments are recorded in the income statement as expenses on an accrual basis over the lease term.

Assets leased out under operating lease terms are recognised in the balance sheet similarly to fixed assets. Leased out assets are depreciated using the depreciation methods which are applied to similar assets at the company. Operating lease payments are recognised in the income statement over the lease term as a linear income.

Intangible fixed assets

Intangible fixed assets are only reflected in the balance sheet if the following conditions are satisfied:

- the assets are controlled by the company;
- it is clear that the company will receive income from the future use of assets;
- the acquisition value of assets can be determined with reasonable certainty.

Intangible fixed assets are initially recorded at their cost, which consists of the purchase price and expenses directly

related to the acquisition. An intangible fixed asset is reflected in the balance sheet at its cost, less any accumulated depreciation and any accumulated impairment losses.

Depreciation of intangible fixed assets is calculated using the linear method during their estimated useful life period. Justification for depreciation periods and methods is calculated for each balance day. Depreciation periods for intangible fixed assets are as follows:

- Software and licenses 3 years
- Personal rights of use 50 – 100 years

Impairment of intangible fixed assets is assessed in circumstances similar to those that result in the assessment of impairment of tangible fixed assets.

Financial liabilities

All financial liabilities (trade payables, loans taken, accrued expenses, other short-term and long-term borrowings) are initially recorded at their acquisition costs, which include all expenses directly related to the acquisition. Subsequently, financial liabilities are recorded using the adjusted depreciated cost method.

The adjusted acquisition cost of short-term financial liabilities is normally equal to their nominal value. Therefore, short-term financial liabilities are recorded in the balance sheet at their redemption value. The adjusted acquisition cost of long-term liabilities is calculated using the internal interest rate method.

Financial liability is regarded as current if it is subject to repayment within 12 months of the balance sheet date, or where company has no rights to suspend repayment of obligations for more than 12 months after the balance sheet date.

Borrowings which are subject to repayment within 12 months of the balance sheet date but which are refinanced as long-term liabilities after the balance sheet date but before the approval of the annual report are recorded in the balance sheet as current liabilities. Borrowings that the creditor has the right to recall at the balance sheet date due to the violation of the provisions stipulated in the loan agreement are also recorded as current liabilities.

Provisions and contingent liabilities

Contingent liabilities which have become evident as a result of events taking place before the balance sheet date, and whose amount or due date cannot be determined, are recorded as provisions in the balance sheet. Provisions are recorded in the balance sheet based on the management's estimates of the amount required to settle the obligation and the time when the provision becomes due. Provisions are recorded in the balance sheet at the amount which the management board believes is required at the balance sheet date to settle the obligation related to the provision, or to transfer it to third parties.

If a provision is expected to be settled later than 12 months after the balance sheet date, the provision will be recorded at the discounted value (at the present value of the payments related to the provision), unless the effect of discounting is immaterial.

Other potential or existing commitments, which have a probability of becoming liabilities of less than 50%, or the amount

of which cannot be reliably determined, but which in certain cases may become liabilities, are disclosed as contingent liabilities in the notes to the financial statements.

a. Debt with regard to easement of technical facilities

According to the Law of Property Act a land owner in Estonia is required to tolerate technical facilities located on his land. The law demands that the owner of technical facilities pays compensation to the land owner at the level stipulated by law unless the parties agreed otherwise. As at 31 March 2008 OÜ Põhivõrk had an obligation to pay 945,000 kroons in easement fees to land owners. As at 31 March 2007 this obligation was 670,000 kroons. The fees are calculated retrospectively from 1 November 2004.

Tax obligations

Under current legislation the annual profit earned by companies is not taxed in Estonia and thus there are no obligations with regard to carried forward income tax. Income tax is paid for dividends, fringe benefits, gifts, donations, representation expenses, non-operational expenses and the correction of transfer prices. Since 01.01.2008 the tax rate applied to profits distributed as dividends is 21/79 from the sum of net dividends paid (until 31.12.2007 the valid tax rate was 22/78, until 31.12.2006 it was 23/77 and until 31.12.2004 it was 26/74). In certain situations it is possible to distribute dividends without additional income tax expenses. Income tax law lays out a further decrease of income tax until 2011: in 2009 the tax rate applied to the net dividends paid is to be 20/80, in 2010 it is to be 19/81 and in 2011, 18/82.

The following taxes also affect the company's expenses:

Tax	Tax rate until 31.12.2006	Tax rate until 31.12.2007	Tax rate from 01.01.2008	
Social security tax	33%	33%	33%	of the disbursements and fringe benefits to employees
Unemployment insurance	0.3%	0.3%	0.3%	of the disbursements to employees
Income tax on fringe benefits and corporate income tax on non-operational expenses	23/77	22/78	21/79	of the fringe benefits to employees and non-operational expenses
Land tax	0.8–2.5%	0.6–2.5%	1.0–2.5%	of the taxable value of land per year

The corporate income tax on the payment of dividends is recorded as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The obligation to pay income tax for distributed dividends is created on the 10th day of the month following the month of actual distribution of dividends.

Revenues and expenses

Revenues and expenses are recorded using the matching principle – the expenses incurred upon generating revenue are deducted from the revenues earned during the period. Revenues from the sale of goods are recorded at the fair value of the consideration received or receivable, taking account of all discounts and benefits. Revenues from the sale of goods are recorded when all material risks relating to the ownership of the asset have been passed to the buyer, the amount of revenue and expenses relating to the transaction can be reli-

ably measured, and the receipt of the revenue is probable. Revenues from the rendering of services are recorded when such services are rendered.

Connection fees are recorded as revenue from connection fees during the probable period of doing business with clients, which is estimated to be 20 years. Connection fees that were not recognised as revenues are recorded in the balance sheet as long-term future periods revenues.

Statutory reserve capital

The company has set up a statutory reserve in accordance with the Commercial Code of the Republic of Estonia. The statutory reserve is set up from annual net profit allocations. At least 1/20 of the net profit shall be transferred to reserve capital each financial year, until reserve capital amounts to at least 1/10 of company's share capital. Reserve capital can be used to offset losses or to increase share capital. No distributions can be made from statutory reserve capital.

Associated companies

Associated companies are companies over which the parent company has significant influence but which it does not control. Generally significant influence is presumed to exist when the company holds 20%-50% of the voting power of the associated company.

The acquisition of associated companies is recorded using the purchase method (except for business combinations under common control which are accounted for under the depreciated cost method). Pursuant to the purchase method, the assets, liabilities and contingent liabilities (i.e. the net assets acquired) of acquired associated companies are recorded at their fair value, whereas the difference between the cost of acquisition and the fair value of the net assets acquired is recorded as positive or negative company value.

Investments in associated companies are recorded in the balance sheet using the equity method. Pursuant to the equity method, the investment is initially recorded at a cost which is adjusted in subsequent periods with the company's changes in the equity of the investee (changes both in the profit/loss of the investee and in other equity items).

Outstanding profits are eliminated to the extent of the Company's interest in the associated company. Outstanding losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

When the company's share of losses in the investee accounted for under the equity method equals or exceeds the net book value of the investment, the investment is reported at nil value and further losses accounted for as off-balance sheet items. If the Company has guaranteed or is obliged to satisfy the obligations of the investee, both the obligation and the loss under the equity method will be recorded in the balance sheet.

The share in the assets and liabilities of the acquired associated company, as well as the company's value generated upon acquisition, are recorded at their net amount under "Long-term financial investments" in the balance sheet.

Cash flow statement

The cash flow statement of OÜ Põhivõrk has been prepared under the indirect method – in order to calculate the cash flow from operating activities the operating profit has been adjusted by eliminating the effect of non-monetary transactions, changes in the balance of current assets and current liabilities related to operating activities.

2 | Receivables and prepayments

in thousands of kroons	31.3.2008	31.3.2007	Note
TRADE RECEIVABLES			
Accounts receivable			
Receivables for power network services	21,840	10,612	
Other accounts receivable	4	4	
Total accounts receivable	21,844	10,616	
Total trade receivables	21,844	10,616	
Receivables from the related parties	135,110	96,577	3
Other receivables	164	11	
Prepayments			
Prepaid taxes			
Prepaid value added tax	7,203	9,773	
Total prepaid taxes	7,203	9,773	
Other prepayments			
Insurance premiums	57	517	
Prepayments for services	387	209	
Other prepaid expenses	615	470	
Total other prepayments	1,059	1,196	
Total prepayments	8,262	10,969	
Total receivables and prepayments	165,380	118,173	

With regard to receivables, write-downs in financial year 2007/2008 are not registered in the same manner as in financial year 2006/2007.

3 | *Receivables from related parties* *Receivables from group companies*

in thousands of kroons	31.3.2008	31.3.2007	Note
OÜ Jaotusvõrk	126,455	83,021	
Eesti Energia AS Energiakaubandus	983	0	
Televõrgu AS	979	861	
Põlevkivi Kaevandamise AS	814	511	
OÜ Iru Elektriijaam	101	0	
AS Narva Elektriijaamad	92	96	
Kohtla-Järve Soojus AS	35	32	
Eesti Energia AS	0	3,837	
Total receivables from group companies	129,459	88,358	
Receivables from associated companies			
SIA Baltijas Energosistemu Dispeceru Centrs	0	2,468	
Total receivables from associated companies	0	2,468	
Other receivables from the related parties			
Nordic Energy Link AS	5,651	5,751	
Total other receivables from related parties	5,651	5,751	
Total receivables from related parties	135,110	96,577	2

The liquidation of SIA Baltijas Energosistemu Dispeceru Centrs, an associated company of OÜ Põhivõrk, was finished in March 2007. According to the liquidation balance sheet, 2 468 thousand kroons of the divided property belongs to OÜ Põhivõrk, and that part was recorded in the balance sheet as a short-term receivable on 31.03.2007.

In May 2007 2 315 thousand kroons were transferred. The difference of 153 thousand kroons, which was paid in bonuses to the management of DC Baltija, is recorded for financial year 2007/2008.

Other receivables from related parties were not transformed to write-downs in the financial years 2007/2008 or 2006/2007.

4 | Tangible fixed assets

in thousands of kroons	Land	Buildings	Facilities	Machinery and equipment	Total
Tangible fixed assets as at 31.3.2006					
Acquisition cost	27,739	129,107	3,069,467	1,579,569	4,805,882
Accumulated depreciation	0	-18,307	-371,954	-250,036	-640,297
Net book value	27,739	110,800	2,697,513	1,329,533	4,165,585
Construction-in-progress	445	0	235,089	478,148	713,682
Prepayments	0	0	0	7,472	7,472
Total tangible fixed assets as at 31.3.2006	28,184	110,800	2,932,602	1,815,153	4,886,739
Movements in the period from 1.4.2006 to 31.3.2007					
Total investment in acquisition of fixed assets	0	35,697	222,421	324,169	582,287
Depreciation charge	0	-8,517	-147,917	-151,973	-308,407
Impairment losses*	0	0	-181	-64	-245
Reclassification into net book value	0	0	0	0	0
Acquisition cost of the written-off fixed assets	0	663	12,688	4,498	17,849
Depreciation of the written-off fixed assets	0	-663	-12,688	-4,498	-17,849
Net book value of sold assets	0	0	0	-7	-7
Write-off of construction-in-progress	0	0	0	-982	-982
Total movements in the period from 1.4.2006 to 31.3.2007	0	27,180	74,323	171,143	272,646
Tangible fixed assets as at 31.3.2007					
Acquisition cost	27,739	164,142	3,459,226	2,138,857	5,789,964
Accumulated depreciation	0	-26,160	-507,366	-396,625	-930,151
Net book value	27,739	137,982	2,951,860	1,742,232	4,859,813
Construction-in-progress	445	0	55,063	244,064	299,572
Total tangible fixed assets as at 31.3.2007	28,184	137,982	3,006,923	1,986,296	5,159,385

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4 | Tangible fixed assets (continued)

in thousands of kroons	Land	Buil- dings	Facilities	Machinery and equip- ment	Total
Movements in the period from 1.4.2007 to 31.3.2008					
Total investment in acquisition of fixed assets	207	17,005	28,340	175,668	221,220
Depreciation charge	0	-7,842	-146,753	-155,697	-310,292
Impairment losses*	0	-34	-194	-3,048	-3,276
Reclassification into net book value **	0	-838	-5,862	0	-6,700
Acquisition cost of the written-off fixed assets	0	-1,215	-5,226	-52,329	-58,770
Depreciation of the written-off fixed assets	0	1,215	5,226	52,329	58,770
Net book value of sold assets	-67	-237	0	-120	-424
Write-off of construction-in-progress	0	0	-369	-1	-370
Total movements in the period from 1.4.2007 to 31.3.2008	140	8,054	-124,838	16,802	-99,842
Tangible fixed assets as at 31.3.2008					
Acquisition cost	27,879	178,806	3,502,727	2,399,310	6,108,722
Accumulated depreciation	0	-32,770	-648,925	-502,219	-1,183,914
Net book value	27,879	146,036	2,853,802	1,897,091	4,924,808
Construction-in-progress	445	0	28,283	106,007	134,735
Total tangible fixed assets as at 31.3.2008	28,324	146,036	2,882,085	2,003,098	5,059,543

* The company's fixed assets were written off due to the removal of these assets from use.

** Personal rights of use on the land recorded as tangible fixed assets until 31.03.2007 are reclassified into intangible fixed assets for the current financial year.

Information on leased-out fixed assets has been disclosed in Note 18.

5 | Intangible fixed assets

in thousands of kroons	Software	Personal rights of use	Total
Total intangible fixed assets as at 31.3.2006	0	0	0
Movements in the period from 1.4.2006 to 31.3.2007			
Unfinished acquisition of software	2,910	0	2,910
Total intangible fixed assets as at 31.3.2007	2,910	0	2,910
Total movements in the period from 1.4.2007 to 31.3.2008			
Total investment in fixed assets acquisition	1,334	3,018	4,352
Calculated depreciation	-56	-86	-142
Reclassification into net book value *	0	6,700	6,700
Total movements in the period from 1.4.2007 to 31.3.2008	1,278	9,632	10,910
Intangible fixed assets as at 31.3.2008			
Acquisition cost	202	9,901	10,103
Accumulated depreciation	-56	-269	-325
Net book value	146	9632	9,778
Unfinished acquisition	4,042	0	4,042
Total intangible fixed assets as at 31.3.2008	4,188	9,632	13,820

Software licenses and personal rights of use are recorded as intangible fixed assets.

* Personal rights of use on the land recorded as tangible fixed assets until 31.03.2007 are reclassified into intangible fixed assets for the current financial year.

6 | Current liabilities

In thousands of kroons 31.3.2008 31.3.2007

Trade payables

Payables for fixed assets	28,443	30,352
Other payables for goods and services	38,098	17,717
Total trade payables	66,541	48,069

Other payables

Short-term payables to the group companies (Note 7)	288,767	703,604
Other payables	28,300	0
Total other payables	317,067	703,604

Taxes payable

Social security tax	2,213	1,737
Income tax	1,317	1,030
Unemployment insurance payments	45	36
Contributions to the mandatory funded pension	77	58
Land tax	98	60
Excise tax	1,350	0
Total taxes payable	5,100	2,921

Acquired expenses**Payables to contractors**

Remuneration payable	1,871	1,605
Bonuses accrued	3,217	215
Vacation pay accrual	2,124	1,639
Social security tax and unemployment insurance payments	1,776	617
Amounts withheld from remuneration	9	6
Easement of technical facilities	945	670
Other acquired expenses (note 13)	13,226	0
Total accrued expenses	23,168	4,752

Total current liabilities

411,876 759,346

7 | Payables to related parties

in thousands of kroons	31.3.2008	31.3.2007	Note
Payables to group companies			
Short-term payables			
Eesti Energia AS	277,020	681,875	
Narva Elektriijaamad AS	9,149	9,158	
Jaotusvõrk OÜ	265	2,419	
Elektriteenused AS	444	8,268	
Televõrgu AS	1,143	1,076	
Kohtla-Järve Soojus AS	19	147	
Elpec AS	691	549	
Iru EJ OÜ	27	31	
ER Baltic Elektrotechnics and Automation AS	9	81	
Total short-term payables to group companies	288,767	703,604	6
Long-term payables			
Eesti Energia AS	2,046,586	2,046,586	
Total long-term payables to group companies	2,046,586	2,046,586	
Total payables to group companies	2,335,353	2,750,190	
Total payables to related parties	2,335,353	2,750,190	

OÜ Põhivõrk uses two types of loans for financing:

- the short-term loan is, in essence, an overdraft on the OÜ Põhivõrk account, which forms a part of the Eesti Energia AS cash pool account. As at 31.03.2008, the overdraft balance amounted to 260,161 thousand kroons (31.03.2007: 667,497 thousand kroons). A 4.65% annual interest rate was charged on the overdraft line in the financial year 2007/2008 (2006/2007: 4.35%);
- the long-term loan agreement was concluded on 31.03.2005. Under the agreement, Eesti Energia AS lends OÜ Põhivõrk 2,046,586 thousand kroons for an unspecified term, with the right of recall with advance notice of 13 months. The interest rate for both 2006/2007 and 2007/2008 is the same as that of the overdraft. The interest rates are established by Eesti Energia AS for a period of one year in accordance with the average actual interest rate charged on the loan, and the risk margin established by OÜ Põhivõrk. The currency of the loan is the Estonian kroon.

The interest expense charged on the financing liability has been disclosed in Note 17.

8 | *Deferred income*

in thousands of kroons

Long-term deferred income

Connection fees as at 01.04.2006	201,931
Movements in the period from 1.4.2006 to 31.3.2007	
Connection and other fees received	59,948
Depreciation charges (note 10)	-4,880
Connection fees as at 31.3.2007	
Connection fees received	264,676
Accumulated depreciation	-7,677
Total deferred income as at 31.03.2007	256,999
Movements in the period from 1.4.2007 to 31.3.2008	
Connection and other fees received	58,442
Depreciation charges (note 10)	-11,356
Connection fees as at 31.3.2008	304,085
Total deferred income as at 31.03.2008	304,085

The depreciation period for connection fees is 20 years – equal to the probable period of doing business with clients (see, Note 1)

9 | *Share capital*

Eesti Energia AS is the sole shareholder of OÜ Põhivõrk and owns a single share with a nominal value of 2,100 million kroons. According to the requirements of the Commercial Code the company has to set up a statutory reserve from annual net profit allocations, the minimum amount of which shall be at least equal to 1/10 of company's share capital. At least 1/20 of the net profit shall be transferred to reserve capital each financial year until the total amount of the reserve capital reaches the set minimum requirements. Reserve capital can be used to cover losses (if such losses are impossible to cover using equity) or in order to increase the share capital. As at 31.03.2008 equity amounted to 345,935 thousand kroons (given the requirement to transfer 1/20 of the annual net profits to the statutory reserve). As at 31.03.2008 OÜ Põhivõrk had to transfer 12,933 thousand kroons out of its net retained earnings to the statutory reserve (19,434 thousand kroons as at 31.03.2007). From 01.01.2007 the income tax rate on dividends is 21/79 (before 31.12.2007 it was 22/78 and before 31.12.2006 – 23/77). When paying the whole retained earnings out in dividends the company will have to pay 72,646 thousand kroons of income tax (22,046 thousand kroons as at 31.03.2007). 273,289 thousand kroons net could be paid in dividends (78,163 thousand kroons as at 31.03.2007).

10 | Net sales

in thousands of kroons	1.4.2007 - 31.3.2008	1.4.2006 - 31.3.2007
BY ACTIVITY		
Sales of balancing electricity	73,271	52,754
Total sales of balancing electricity	73,271	52,754
Sales of network services		
Transmission fee	483,799	350,958
Fee for the use of network connection	560,726	663,158
Depreciation of network connection fees (Note 8)	11,356	4,880
Other network services	40,624	42,801
Total sales of network services	1,096,505	1,061,797
Sales of other goods and services		
Lease of transmission equipment (Note 18)	11,469	10,101
Sales of scrap metal	2,927	56
Sales of other services	560	498
Sales of other goods	26	2
Total sales of other goods and services	14,982	10,657
Total revenues	1,184,758	1,125,208
By markets:		
Estonia	1,127,757	1,074,014
Latvia	37,218	36,106
Russia	18,190	12,491
Lithuania	1,593	2,597
Total revenues	1,184,758	1,125,208

By most important activities OÜ Põhivõrk revenues are distributed as follows: EMTAK* area of activity

35121	Transfer service transmission through the National Grid	1,096,505	1,061,797
35141	Sales of electric energy (balancing electricity)	73,271	52,754
77399	Lease of unclassified machines and equipment	11,469	10,101

* EMTAK - Classification system for areas of activity in the Estonian economy

11 | Other income

	1.4.2007 - 31.3.2008	1.4.2006 - 31.3.2007
Late-charges, fines, compensations received	4,496	1,158
Proceeds from disposals of fixed assets	171	530
Foreign exchange gains	99	6
Total other income	4,766	1,694

12 | Revenues from related parties

in thousands of kroons

1.4.2007 - 31.3.2008 1.4.2006 - 31.3.2007

Sales of balancing electricity

Eesti Energia AS	30,351	17,334
Narva Elektriijaamad AS	602	352

Total sales of balancing electricity

30,953	17,686
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Sales of network services

Jaotusvõrk OÜ	904,752	939,396
Eesti Energia AS	37,674	18,933
Põlevkivi Kaevandamise AS	5,917	5,836
Iru Elektriijaam OÜ	625	295
Narva Elektriijaamad AS	311	217
Kohtla-Järve Soojus AS	233	153

Total sales of network services

949,512	964,830
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Sales of other goods and services

Lease of transmission equipment (note 18)	11,469	10,101
Televõrgu AS	11,469	10,101
Real property lease and maintenance	441	394
Televõrgu AS	276	229
Narva Elektriijaamad AS	165	165
Sales of repair and construction services	7	9
Elektriteenused AS	3	4
Iru Elektriijaam OÜ	0	5
Jaotusvõrk OÜ	4	0
Sales of used products	15	0
Jaotusvõrk OÜ	12	0
Televõrgu AS	3	0

Total sales of other goods and services

11,932	10,504
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Total revenues from related parties

992,397	993,020
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Sales of tangible fixed assets

Narva Elektriijaamad AS	0	12
Eesti Energia AS	2	7

Total sales of tangible fixed assets

2	19
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Late-charges, fines, compensations

Elektriteenused AS	0	17
Eesti Energia AS	1	0

Total late-charges, fines, compensations

1	17
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13 | Goods, raw materials and services

in thousands of kroons

1.4.2007 - 31.3.2008 1.4.2006 - 31.3.2007

Electricity purchased to provide the balancing service		
Purchase of balancing electricity	70,253	51,299
Purchase of power regulation service	1,223	493
Total electricity purchased to provide the balancing service	71,476	51,792
System services expenses		
Purchased electricity reserves	51,819	49,248
Reactive energy	3,157	2,219
Total system services expenses	54,976	51,467
Electricity to compensate for network losses		
Electricity from renewable sources	8,360	70,989
Electricity from non-renewable sources	151,450	120,374
Total electricity to compensate for network losses	159,810	191,363
Maintenance and repair works		
On facilities and equipment related to core activities	62,855	70,210
On production buildings and sites	3,557	3,025
Disassembly works and waste processing	2,698	10,479
Other expenses	857	510
Total maintenance and repair works	69,967	84,224
Other expenses		
Operative switching and dispatching management expenses	7,743	20,165
Other expenses*	31,798	3,623
Total other expenses	39,541	23,788
Total goods, raw materials and services	395,770	402,634

* Following EU regulations the European national grids have concluded the ITC agreement (compensation for cross-border transit). It states that the European Transmission Systems Operators association – ETSO – calculates the amounts of compensation that should be paid by the states that receive energy to the state through the territory of which the energy is being transferred. By the time of preparing this Annual Report ETSO still has not calculated all compensation amounts. As a result OÜ Põhivõrk recorded 7,543 thousands kroons as sums of bills not presented in connection with ITC payments and 5,457 thousands kroons as unidentifiable compensation sums. The total of 13,000 thousands kroons is recorded as expenses and obligations with regard to other accruals.

14 | Other operating expenses

in thousands of kroons	1.4.2007 - 31.3.2008	1.4.2006 - 31.3.2007
Transportation and tools	1,677	1,545
Security, insurance and occupational safety expenses	3,400	3,713
Office expenses	6,943	7,058
Research and consulting expenses	2,885	4,258
Telecommunications expenses	13,949	13,431
IT expenses	5,087	4,781
Training expenses	1,452	1,692
Other operating expenses	9,781	5,731
Total other operating expenses	45,174	42,209

15 | Personnel expenses

in thousands of kroons	1.4.2007 - 31.3.2008	1.4.2006 - 31.3.2007
Basic salaries, additional remuneration, bonuses, vacation pay	38,122	29,385
Employees bonuses	688	731
Termination compensations	598	1,029
Other remuneration	1,121	648
Total for employees	40,529	31,793
Social security tax	13,462	10,643
Unemployment insurance payments	107	85
Income tax on fringe benefits		241
Total personnel expenses	54,098	42,762

Including attributable to the management board (CEO) and supervisory board

Basic salaries, additional remuneration, bonuses, vacation pay	2,834	2,196
Fringe benefits	178	51
Social security tax	994	742
Total personnel expenses attributable to the management board	4,006	2,989

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15 | Personnel expenses (continued)

Number of employees

Number of employees at the beginning of the period	134	140
Number of employees at the end of the period	128	134
Average number of employees	127	138

Average monthly wages amounted to 25 014 kroons (17 745 kroons in the previous period)

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

Supervisory board members were paid 83 thousand kroons for this financial year, they did not receive compensation during the previous financial year.

16 | Other expenses

in thousands of kroons

1.4.2007 - 31.3.2008 1.4.2006 - 31.3.2007

Expenses not related to operating activities	371	384
Late-charges, fines, compensations	33	559
Foreign exchange losses	4	1
Corporate income tax	50	76
Total other expenses	458	1,020

17 | Goods and services purchased from related parties

in thousands of kroons

01.4.2007 - 31.3.2008 01.4.2006 - 31.3.2007

Electricity purchased to provide balancing service

Purchased balancing electricity		
Eesti Energia AS	38,333	36,418
Purchase of power regulation service		
Narva Elektriijaamad AS	1,223	493
Total electricity purchased to provide balancing service	39,556	36,911

System services expenses

Purchased power services		
Narva Elektriijaamad AS	41,586	43,588
Reactive energy		
Narva Elektriijaamad AS	3,022	2,075
Iru Elektriijaam OÜ	135	144
Total system services expenses	44,743	45,807

17 | Goods and services purchased from related parties (continued)

in thousands of kroons

01.4.2007 - 31.3.2008

01.4.2006 - 31.3.2007

Electricity to compensate for network losses

Electricity from renewable sources		
Eesti Energia AS	348	2,150
Electricity from non-renewable sources		
Narva Elektriijaamad AS	150,071	117,920
Total electricity to compensate for network losses	150,419	120,070

Maintenance and repair works

On facilities and equipment related to core facilities		
Elektriteenused AS	4,425	22,306
Narva Elektriijaamad AS	3,631	4,156
ER Baltic Elektrotechnics and Automation AS	5,775	5,723
Jaotusvõrk OÜ	0	1,549
Kohtla-Järve Soojus AS	149	388
Energoremont AS	0	21
Elpec AS	1,334	1,237
Elektrikontrollikeskus AS	3	18
Eesti Energia AS	133	698
Televõrgu AS	116	0
Total maintenance and repair works	15,566	36,096

Other expenses

Operative switching and dispatching management expenses		
Narva Elektriijaamad AS	2,352	2,286
Jaotusvõrk OÜ	1,560	1,748
Elektriteenused AS	0	10,023
Kohtla-Järve Soojus AS	0	420
Other expenses		
Narva Elektriijaamad AS	919	1,012
Eesti Energia AS	0	10
Total other expenses	4,831	15,499

continued p. 44

17 | Goods and services purchased from related parties (continued)

in thousands of kroons	1.4.2007 - 31.3.2008	1.4.2006 - 31.3.2007	Note
Other operating expenses			
Security, insurance and occupational safety expenses			
Eesti Energia AS	2,741	2,629	
Expenses for office buildings, rooms and territory			
Eesti Energia AS	6,266	6,200	
Consulting			
Eesti Energia AS	285	285	
Telecommunication expenses			
Televõrgu AS	13,497	12,932	
IT expenses			
Eesti Energia AS	2,645	2,646	
Other business services			
Eesti Energia AS	1,888	670	
Total other operating expenses	27,322	25,362	
Other expenses			
Late-charges, fines, compensations			
Eesti Energia AS	5	5	
Total other expenses	5	5	
Interest expenses			
Eesti Energia AS			
Interest expenses on finance lease	121,119	122,461	7
Total interest expenses	121,119	122,461	
Transactions with associated companies			
SIA "Baltijas Energosistemu dispeceru centrs"			
Dispatching management expenses	0	3,053	
Other expenses	0	683	
Total expenses	0	3,736	

18 | Operating lease

in thousands of kroons	1.4.2007 - 31.3.2008	1.4.2006 - 31.3.2007
Lease income		
Buildings	544	433
Transmission equipment * (note 10)	11,469	10,101
Total lease income	12,013	10,534

in thousands of kroons	1.4.2007,-31.3.2008	1.4.2006,-31.3.2007
Lease expenses		
Buildings	6,069	6,004
Transport equipment	1,628	1,489
Other machinery and equipment	29	10
Total lease expenses	7,726	7,503

Operating lease contracts can, for the most part, be cancelled with short advance notice, except for transmission equipment.

Future lease payments under non-cancellable operating lease contracts (based on contract dates)*

in thousands of kroons	31.3.2008	31.3.2007
Lease income		
< 1 year	12,033	11,469
1 - 5 years	48,132	45,876
> 5 years	60,165	68,814
Total lease income	120,330	126,159

Assets leased under operating lease terms

in thousands of kroons	31.3.2008	31.3.2007
Acquisition cost	68,623	65,181
Depreciation	-18,492	-13,281
Book value	50,131	51,900

* OÜ Põhivõrk has one non-cancellable operating lease contract under which the free fibres of the fibre-optic cable fixed to the line masts are leased out. This cable also acts as a lightning protection cord for the lines; the fibres are used by OÜ Põhivõrk for its technical communication. The free fibres are taken on lease by Televõrgu AS. The lease contract contains a restriction under which OÜ Põhivõrk cannot give its transmission equipment out for use by other companies operating in telecommunications. The lease contract will end on 31.03.2018. The currency of this lease contract is Estonian kroon; the interest rate is 13%.

19 | Transactions with related parties

For the purposes of preparing the annual report of OÜ Põhivõrk the following parties are regarded as related parties:

- a. owners (parent company and persons who control the parent company or can significantly influence the parent company);
- b. subsidiaries of the parent company (group companies);
- c. associated companies;
- d. other companies belonging to the same consolidated group;
- e. management and top management;
- f. relatives of the above persons and companies controlled or significantly influenced by them.

The parent company of OÜ Põhivõrk is Eesti Energia AS; its shares belong to the state.

As at 31.03.2008 the following companies belong to AS Eesti Energia group:

AS Narva Elektriijaamad	Eesti Põlevkivi AS
AS Narva Elektriijaamade Õlitehas	Põlevkivi Kaevandamise AS Estonia Kaevandus
Narva Soojusvõrk AS	Põlevkivi Kaevandamise AS Viru Kaevandus
OÜ Iru Elektriijaam	Põlevkivi Kaevandamise AS Aidu Karjäär
Energoremont AS	Põlevkivi Kaevandamise AS Narva Karjäär
AS Mäetehnika	AS Põlevkivi Raudtee
OÜ ER Test Service	Elpec AS
ER BEA AS	OÜ Aulepa Tuulepargid
Elektrikontrollikeskus AS (was sold in May 2007)	SIA E. Energy
OÜ Jaotusvõrk	Solidus Oy
Elektriteenused AS	Oil Shale Energy of Jordan
Televõrgu AS	UAB Lumen Balticum
Kohtla-Järve Soojus AS	

Current accounts of OÜ Põhivõrk in AS Hansapank and AS Ühispank are part of AS Eesti Energia group account. Information on the interests paid and current interest rates can be found in Note 7.

Note 7 lists payables to associated companies.

Note 3 lists receivables from group companies,

Note 12 - revenues from related parties,

Note 15 - remuneration paid to members of the management and supervisory boards,

Note 17 - goods and services purchased from related parties.

20 | *Off-balance-sheet liabilities*

Binding commitments:

- a. Network development obligations
Under the Electricity Market Act, the network operator must develop the network within its service area in a way that ensures the continued provision of network services in accordance with the set requirements.
- b. Fixed assets
As at 31.03.2008, OÜ Põhivõrk had commitments related to the purchase of fixed assets for a total of 536,927 thousand kroons (123,879 as at 31.03.2007).

Contingent liabilities:

The tax authority has the right to audit the company's accounting for up to 6 years after submission of the tax declaration and, upon discovering mistakes, impose additional taxes, interest and fines. No corporate tax audits or individual case audits were initiated by the tax authority in the financial year. The company's management believes there are no circumstances which may lead the tax authority to impose significant additional taxes.

Other legal requirements which have an effect on profitability:

- c. Pursuant to the network charge calculation methods implemented by the Competition Board, the tariffs are established for a period of three years on the basis of the power transmission volumes estimated by the Estonian Energy Market Inspectorate. If the actual transmission volumes fall short of this forecast, OÜ Põhivõrk will fail to receive a part of the revenues. Such unreceived revenues are not subject to compensation in the next tariff period.
- d. The European Commission has started work on the third energy acts package. It contains several draft laws aimed at supporting the internal EU electricity market. It provides for national grids to be taken out of a group of companies involved in the production and sale of electrical energy. At the time of preparing this report these acts had not yet been adopted at EU level and it is impossible to predict what particular changes will be implemented or when. However, the management does not see the possible changes as presenting a danger to the company's sustainability, as, according to the calculation methods implemented by the Competition Board, reasonable production is always guaranteed to the power transmission system.

21 | *Negative working capital*

As at 31 March 2008, the company had negative working capital. The company's financial statements have been prepared based on the principle of going concern. The company's management believes negative working capital will not cause any financial difficulties for the company in 2008. According to the cash flow forecast, the company will be able to fulfill all of its current liabilities. Under an agreement concluded with the parent company, the parent company is ready to provide immediate financial assistance to the company in case of financial difficulties, and to make additional investments to ensure the sustainability of the company's economic operations.

Independent Auditor's Report


AS PricewaterhouseCoopers

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of OÜ Põhivõrk

We have audited the accompanying financial statements of OÜ Põhivõrk (the Company) which comprise the balance sheet as of 31 March 2008 and the income statement, statement of changes in equity and cash flow statement for the financial year (1 April 2007 to 31 March 2008) then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Estonia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 March 2008, and of its financial performance and its cash flows for the financial year then ended in accordance with accounting principles generally accepted in Estonia.

/signed/

Ago Vilu
AS PricewaterhouseCoopers

20 June 2008

/signed/

Laile Kaasik
Authorised Auditor

* This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Profit Allocation Proposal

The management board has made a proposal to the general meeting of shareholders to distribute 258,659 thousand kroons of the financial year 2007/2008 net profits in the following manner:

Statutory reserve	12,933	thousand kroons
Retained earnings	245,726	thousand kroons

Declaration of the Management Board and Supervisory Board

The management board of OÜ Põhivõrk has prepared the annual report for the financial year 01.04.2007 – 31.03.2008. The company's supervisory board has reviewed the annual report and approved its presentation to the general meeting of shareholders.

Management Board 30.06.2008

Lembit Vali
CEO



Peep Soone
Member of the Management Board



Kalle Kilk
Member of the Management Board



Supervisory Board 30.06.2008

Raine Pajo
Director of the Supervisory Board



Sandor Liive
Member of the Supervisory Board



Margus Kaasik
Member of the Supervisory Board



Heiki Tammoja
Member of the Supervisory Board



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