Annual Report
2012

Creating New Energy!

Eesti Energia

We will release the Group's consolidated interim reports for the financial year 2013 as follows:

- 1st quarter – 30 April 2013
- 2nd quarter – 31 July 2013
- 3rd quarter – 31 October 2013

The audited results for the financial year 2013 will be released on 28 February 2014

Click here to read the Corporate Social Responsibility Report

Contents

Consolidated Financial Statements

Dear readers,

We can be proud of our excellent financial results despite the economic recession that has now lasted several years.

Our EBITDA increased by 5% amounting to 278 million euros. We can say that the previous year was good for us in many ways, although our operating environment saw significant changes.

Group´s operating profit for the financial year was lower than in recent years. It is crucial to note though that impairment of our power generation assets does not impact the Group´s cash flow for the year. The competitive position of the Group´s power generation assets partly depends on circumstances beyond our control such as changes in certain legal acts and price fluctuations on the power exchange. Oil shale resource fees increased unexpectedly from 2013 and we stopped using biomass at the Balti power plant in October following the publication of draft amendments to the Electricity Market Act. As a result, our electricity generation profitability forecasts for 2013 and for the more distant future are more conservative than before. It is crucial to have the flexibility to exploit the oil shale in economically most feasible operations. As of today the sales of liquid fuels is growing while the profitability of electricity is in decline. Estonian electricity market is open and as a country with strong external connections we are free to produce electricity and oil in proportions most beneficial to us.

Our investments reached an all-time record in 2012 and several major projects will soon be completed. To make electricity generation profitable in circumstances where the market price is low, we have diversified our production portfolio. We commissioned two major wind parks in Paldiski and Narva and opened our first CHP plant outside Estonia, in Valka. The installation of new desulphurisation equipment on the oldest generating units of

Eesti power plant helped us to reduce the SO_2 emissions more than two times and allows us to keep the electricity generation capacity largely unchanged,while meeting environmental requirements. To fund the investment program we successfully issued new Eurobonds to international bond investors (issue size 300 million euros), while the state decided to increase the company's equity by 150 million euros.

The new Enefit280 oil plant produced the first barrel of shale oil shortly before the end of the year, and is expected to significantly increase our revenues from liquid fuel sales in 2013. The new oil plant will double our existing oil production capacity. As the profitability of producing shale oil out of oil shale is higher compared to power generation, higher capacity will contribute to maintaining our strong financial results The Enefit280, with its unique world-class technology, has proven itself and has been a huge achievement. However, our quest is far from over as major research and development needs to be performed to implement this technology in other areas of the world. Properties of oil shale in different regions vary greatly and we need to be flexible to maximize its value. We will proceed with our projects in Utah, USA, and in Jordan.

The investments will decrease this year due to the completion of several projects, but we will continue to seek the right moment for new investment decisions. We are glad to note that the state has expressed its intent to further support the implementation of our investment plan.

This year has commenced differently for Eesti Energia. All electricity consumers in Estonia can now choose the electricity seller of their liking. We are happy that a large number of customers in Estonia decided in favour of signing an electricity contract, with over 400,000 customers trusting Eesti Energia as their first open-market electricity seller. Although we have experience in selling electricity on the open market and have also seen success in the latter, we still need to make an even stronger effort than before in getting to know our customers. Every market has its own distinct characteristics and can produce surprises. We will work to face the new circumstances with an open mind and a thirst for knowledge.

We expect moderate growth in revenues and EBITDA in 2013. As the market opening implies higher volatility in electricity sales profitability, we expect the newly commissioned oil plant to help us maintain strong results. We also expect the distribution network subsidiary to continue to achieve good results. In addition, the new CHP plant in Paide and the first waste-to-energy unit in Estonia generating electricity and heat will be opened in Iru.

Sandor Liive
Eesti Energia,
Chairman of the Management Board

In Brief

Eesti Energia is an international energy company operating in the unified energy market of the Baltic and Nordic countries. 100% of the shares of Eesti Energia are owned by the Republic of Estonia.

Eesti Energia sells its customers electricity, network services, liquid fuels and other related products. Internationally, we operate under the name of Enefit. Our unique experience in processing oil shale and our skills and technology are held in high regard around the world. Oil shale resource belonging to Eesti Energia in Estonia, Jordan and the US are estimated at 11 billion tonnes. With over 7,500 employees, Eesti Energia is one of the largest employers in Estonia.

REVENUES

868.5 million euros

+1.3%

EBITDA

278.4 million euros

+5.0%

NET PROFIT

76.9 million euros

(48.5)%

INVESTMENTS

513.5 million euros

+1.12%

CREDIT RATING

BBB+/Baa1

stable / negative* outlook

SALES OF ELECTRICITY

10.0 TWh

(6.4)%

SALES OF NETWORK SERVICES

6.4 TWh

+3.2%

SALES OF LIQUID FUELS

189.2 th t

+15.3%

* Changed in January 2013

Key Events in the 2012 Financial Year

Increase of share capital by 150 million euros to 621.6 million euros through monetary payment.

The European Commission approved Estonia's application for the allocation of free emission allowances for 2013–2020. This enables Estonia to allocate Eesti Energia 18 million tonnes of free allowances for the partial financing of the construction of the Auvere power plant.

Sale of 100% subsidiary, Televõrk AS to Tele2 Eesti. The value of the transaction was 25 million euros.

Issue of 300 million euro 4.25% notes due in 2018.

January | February | March | April | May | June

July | August | September | October | November | December

Start of hot commissioning of the Enefit280 oil plant.

Call for the construction tender for the Jordan oil shale fired power plant.

Completion of Narva wind park construction with annual production capacity of 39 MW.

Project to install approximately 630,000 smart meters by 2017 in cooperation with Ericsson Eesti, is launched.

Completion of Paldiski wind park construction with annual production capacity of 22.5 MW.

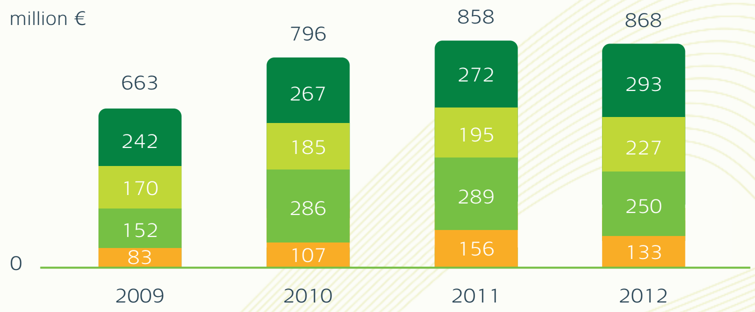
First barrel of shale oil produced in Enefit280 oil plant.

We started selling open market electricity packages in late September. By the end of the financial year we had concluded around 408,000 contracts covering approximately 58% of all supply points in Estonia.

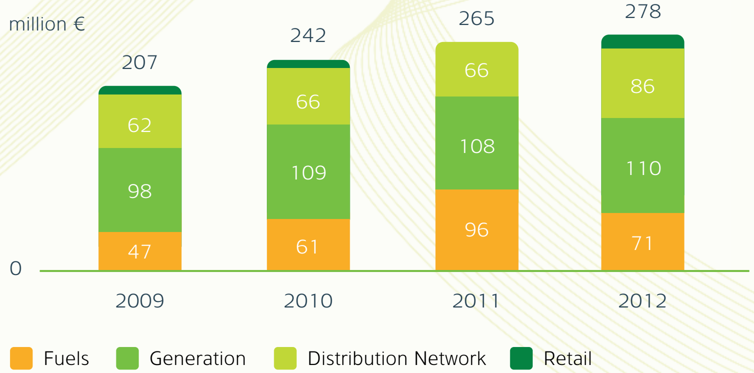
Group's Financials 2009-2012

		2009	2010	2011	2012
Revenues	million €	663.3	796.3	857.5	868.5
EBITDA	million €	207.1	242.3	265.1	278.4
Operating profit	million €	102.7	148.9	168.0	100.1
Net Profit	million €	88.9	117.0	149.2	76.9
Fixed assets	million €	1,221.2	1,329.4	1,769.5	2,101.9
Equity	million €	1,103.4	1,107.1	1,236.6	1,409.1
Net debt	million €	320.7	112.3	380.2	581.0
Investments	million €	208.3	219.0	507.8	513.5
Cash flow from operating activities	million €	174.5	198.1	161.8	185.2
FFO	million €	208.2	187.3	200.9	220.6
Dividends	million €	86.9	109.2	56.1	65.2
Net debt/EBITDA	times	1.5	0.5	1.4	2.1
Leverage	%	22.5	9.2	23.5	29.2
ROIC	%	7.6	12.6	11.8	5.5
FFO/interest cover	times	12.9	11.5	10.5	7.2
FFO/net debt	times	0.6	1.7	0.5	0.4
EBITDA/interest cover	times	12.8	14.9	13.8	9.1
EBITDA margin	%	31.8	30.9	31.9	33.9
Operating profit margin	%	15.8	19.0	20.2	12.2

Revenues



EBITDA



Net debt
debt obligations less cash and cash equivalents, units in money market funds, investments into fixed income bonds

Leverage
net debt / (net debt + equity)

ROIC
operating profit / average invested capital

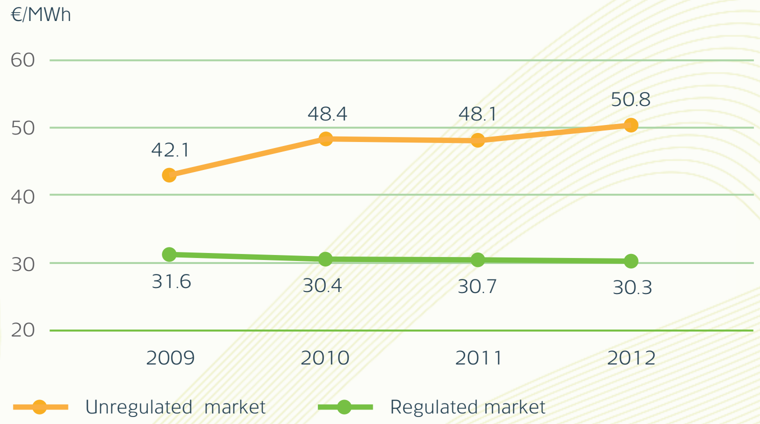
FFO
cash flow from operations, excl. change in working capital

EBITDA margin
operating profit before depreciation divided by revenues

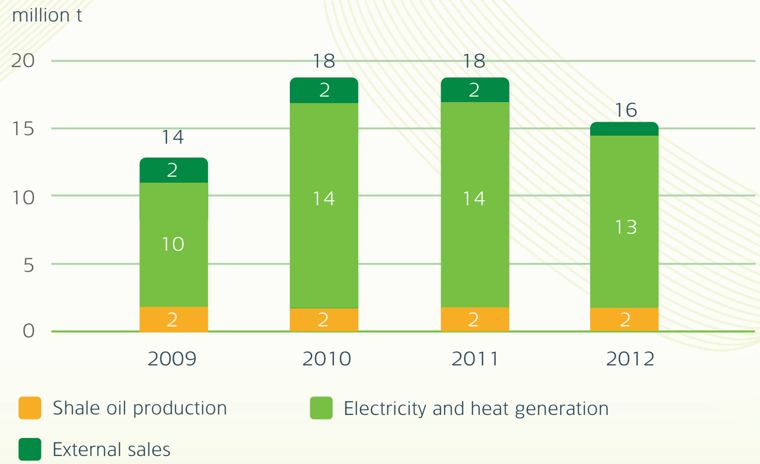
Group's Operating Indicators 2009-2012

		2009	2010	2011	2012
Total electricity sales, of which	GWh	9.541	10,714	10,707	10,022
Regulated price	GWh	7,075	6,079	5,473	5,644
Non-regulated price	GWh	2,466	4,635	5,234	4,378
Heat sales	GWh	1,381	1,427	1,074	919
Network sales	GWh	5,964	6,311	6,170	6,365
Distribution grid losses	%	7.8	6.6	5.8	6.0
Total oil shale sales, of which	th t	12,940	17,906	18,017	16,195
Oil shale sales outside the Group	th t	1,662	1,966	2,120	1,423
Shale oil sales (outside the Group)	th t	154	181	164	189
Average number of employees	no.	7,812	7,423	7,585	7,573

Average External Electricity Sales Price



Sales of Oil Shale



Strategy

Eesti Energia operates in the converging Baltic and Nordic energy market. Our knowledge and skills of processing oil shale are held in high regard around the world.

Our success rests on a careful balance between providing the local distribution network service in Estonia, selling generated power in the regional electricity market and producing oil for global liquid fuel market. We work constantly to develop electricity generation and liquid fuel production projects. We also aim to improve the technology for shale oil production and the services related to the abovementioned products, paying special attention to improving the efficiency of services and product profitability. The unified management of businesses with different risks **allows us to grow faster** and create more value for our shareholder.

We work in an open and responsible manner. Our highest priority is meeting environmental and safety requirements. We consider the interests of the communities affected by our activities and take responsibility for the development of the local energy industry.

Vision

We are the largest
oil shale-to-energy company
in the world and offer
new energy solutions in the Baltic Sea region

Mission

All our energy for
clients´ benefit

Distribution Network

The quality of the distribution network services provided by Elektrilevi has to develop alongside the expectations of our customers and the regulator. At the centre of our strategy is finding an appropriate balance between ever more rapidly developing technology, the ever higher expectations of our customers, the long life cycle of our network assets and our large-scale capital needs.

Our biggest challenge is improving the resistance of the distribution network to stormy weather conditions, its 100% change to the smart meter reading system by 2017 and improving network efficiency. Elektrilevi guarantees equal access to network services for all the market participants at any time and ensures meeting the quality requirements set forth by the regulator. In the next several years we will be investing all of Elektrilevi's operating profit in the development of its distribution network, which will increase the size of the regulated asset base.

Electricity

Eesti Energia has enough generation capacity in the regional electricity market to cover all of Estonia's electricity consumption at a minimum, thus helping to ensure energy security of the country. We support the regional electricity market deregulation. We have rented our share of the Estlink 1 electricity cable between Estonia and Finland out to the Nord Pool Spot power exchange. We also actively support maximising the usage of transmission lines in the Baltic states. We are an active and responsible participant in the power exchanges.

We make changes in our generation portfolio to match the European Union's energy, climate and environmental policies and the demands of competition in the regional electricity market. We do this firstly by making maximum use of the potential of our current generation capacity and diversifying the fuel used at power plants while making sure that we meet all the environmental requirements that are becoming stricter. Secondly, we have significantly increased the CO_2-neutral generation capacity in the Baltic states. Thirdly, we also develop distributed generation of electricity and heat in CHP plants and wind parks. Each individual investment decision is taken carefully with due consideration to the legislative environment and the electricity market.

… we have significantly increased the CO_2-neutral generation capacity in the Baltic states.

Our greatest challenge is to ensure the return on new investments needed to decrease the CO_2 emissions, where there is extensive underused generation capacity in the Baltic states, the climate policy of the European Union is not functioning as it was initially supposed to, and we have to fight off competition from a number of electricity suppliers from beyond the borders of the European Union.

We are a client service organisation providing energy products as well asenergy saving solutions to our clients. By selling electricity to end-users in Estonia, Latvia and Lithuania we expect to maintain the market share that corresponds to our electricity generating assets over the long term.

Liquid Fuels

Eesti Energia's strategy is founded on extracting value from oil shale reserves and developing the technology needed to do that. We study underground oil shale resources around the world, strive for obtaining mining rights and are working on oil shale development projects. We also aim to license our oil shale technology for others to use and manufacture critical parts for the technology. The greatest potential for growth in value lies in proving that the development of oil shale deposits will be technically and economically feasible (resources to reserves) and thereafter converting the right to use the deposits into operational production facilities. We have developed Enefit technology, the world's leading technology for producing liquid fuels from oil shale. Enefit technology is an efficient industrial process, which uses all of the oil shale that is mined, including the fine particles. Operational oil shale to liquid fuels industry in Estonia will demonstrate to the international market that Enefit technology is essentially efficient and environmentally safe. Our strategic cooperation with Outotec, an engineering company, ensures that the peculiarities of various types of oil shale and the local environment are considered in the process of developing and introducing new technological solutions.

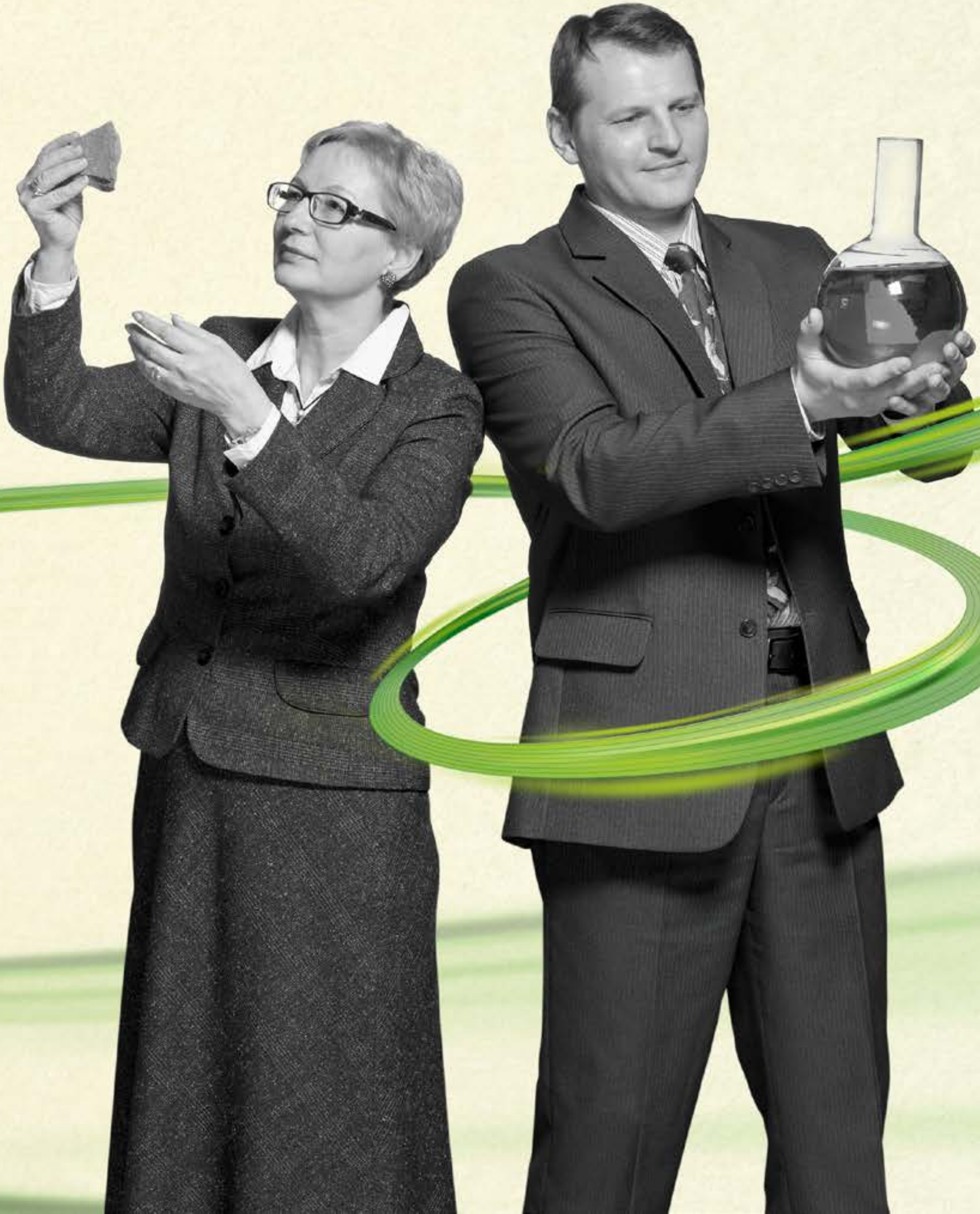
We have mining rights in Estonia, Jordan and the USA. In Estonia, we use the oil shale resources to ensure national energy security, whereas outside Estonia we cooperate with other investors and partners to develop the production of liquid fuels and electricity from oil shale.

Efficiency

To achieve our goals, we pay special attention to increasing efficiency and therefore implement special programmes covering the entire group. We give the highest priority to increasing personnel efficiency, so that labour productivity increases faster than the company's labour costs.

Secondly, we focus on neutralising the impact of increasing environmental charges on Eesti Energia. We strive for turning an increasing share of the of energy generation leftovers into a variety of marketable products, thereby reducing the environmental costs of the Group.

Expertise



Jelena Obolonskaja,
Aleksandr Mosnikov
Achiever of the Year 2012

Business Environment

Global energy markets were influenced by a variety of factors in 2012 - uncertainty over the health of the global economy, conflicts in the Middle East and North Africa, the hurricane season in the Gulf of Mexico and market regulations in the European Union concerning CO_2 emission allowances, aimed at increasing energy efficiency.

Compared to the previous two years, the global economy was characterised by slower growth in the past year. According to the IMF* estimate, in 2012, the global economy expanded by 3.2% (compared to 3.9% in 2011), with the US economy growing by 2.3% (1.8%) and euro area shrinking by 0.4% (compared to growth of 1.4% in 2011). Estonian economy expanded by 2.4% (7.6%) in 2012 according to IMF forecast.

The debt crisis in the euro area was one of the main sore spots in the global economy in 2012. While move towards a banking union beckoned, capital requirements for financial institutions in the euro zone were still becoming stricter and the regulatory mechanism was under development. Unemployment having increased to 11.2% in the euro zone by the end of 2012 according to the IMF was a major problem for Member States in the euro zone, and this indicated that the economic recession was not yet over. The US economy was characterised by moderate growth compared to the previous year with unemployment at 8% according to the IMF, which is 0.7pp lower than in 2011. The US was also expecting the government to decide on extending tax cuts and increase the debt limit but conclusive resolutions were not reached during the year 2012.

The financial markets displayed signs of improvement in the first half of 2012, as bond interest rates fell, bank lending increased and asset prices climbed higher. Focus was still on country risks and weak economic growth in the euro area. The events in the euro area were also of great importance in the second half of the year as financial markets were influenced by capital outflow from problematic countries. The ratification of the European Stability Mechanism (ESM) treaty in Germany and measures taken by central banks in order to boost the economies contributed to the recovery of the markets.

Compared to the previous two years, the global economy was characterised by slower growth in the past year.

* Macroeconomic data concerning the year 2012. is based on IMF estimates. Source: IMF, 2013 January WEO Update (Gradual Upturn in Global Growth During 2013).

Price of Liquid Fuels

Brent crude price was at 86.0 €/bbl (112.2 $/bbl) in the beginning of 2012 and at 84.6 €/bbl (111.6 $/bbl) by the end of the year. Oil price fluctuations were characterised by higher volatility in 2012 compared to 2011. In the beginning of 2012, oil prices increased due to better than expected economic indicators in the USA and China and the continuing geopolitical tensions in the Middle East and North Africa, which did not cease in the second half of 2012. Oil prices dropped to yearly lowest levels in June, due to abundant crude oil supplies and worsening economy predominately in the euro zone but also in USA and China, indicating that worries are not limited to the euro area alone. Oil prices rose during July and August, due to the news of measures taken by the European Central Bank and US Federal Reserve to boost the economy as well as news of the limits on production in the North Sea. Starting in September 2012, there was a downward trend in crude oil prices on account of increasing concerns about the cooling of the euro area economy.

Fuel oil (1% sulfur content) price decreased during the year of 2012. Fuel oil started the year trading at 521.8 €/tonne (681.0 $/tonne) and finished the year at the level of 450.9 €/tonne (595.0 $/tonne). Crack spread, describing the price difference between crude oil and fuel oil extracted from it, was more volatile in 2012 than in 2011. Prices were affected by seasonal factors as well as maintenance works in refineries and global demand for bunker

Price of Liquid Fuels

Fuel	Minimum	Maximum	Average price	Change compared to 2011
Brent crude (€/bbl)	71.1	99.1	87.4	8.5%
Fuel oil (1%) (€/tonne)	443.6	577.8	515.7	13.0%
Fuel oil 1% crack spread (€/bbl)	(11.9)	(0.4)	(4.8)	(37.7)%

Prices of Liquid Fuels

Fuel Oil Crack Spread

source: Thomson Reuters

fuel. In the first half of the past year price spread between crude oil and fuel oil narrowed due to a increase in the price of fuel oil resulting from increased demand for fuels to replace nuclear energy in Japan and South Korea. Following the power plant accident in Japan in March 2011, the use of nuclear energy in the country was limited in 2012. The end of 2012 saw a major decrease in the price of fuel oil compared to the price of crude oil resulting from the accumulation of stocks and the increased supply of fuel oil in the global market.

In August 2012, a regulation setting the sulphur content limit for bunker fuel at 1% entered into force in the North American region. In Baltic Sea region, the sulphur content limit will be decreased tenfold compared to the existing 1% limit (i.e. to 0.1%) from 2015.

Emission Allowances Prices

In 2012 emission allowance prices remained at the same level as by the end of 2011. The December 2012 CO_2 emission allowance futures started the year trading at 6.6 €/t and finished trading at 6.5 €/t by the end of the year. At the beginning of 2012, the price rose due to cold weather in Europe and expectations that the supply of emission allowances would be decreased. The prices of emission allowances were lower compared to 2011 due to the excess supply of allowances resulting from the continuing economic slowdown. The price of CO_2 allowances was positively influenced by the downward trend in coal prices, which boosted demand for emission allowances. In September, the natural gas price, which had increased compared to the price of coal, contributed to the increase in demand for emission allowances.

In November 2012, the European Commission came out with several proposals for public discussion concerning the future development of emissions trading, which implies that the emissions trading regulation of the European Union may change which would have a substantial impact on the energy sector as well.

In 2012, the state allocated 10.3 million tonnes of free CO_2 emission allowances to Eesti Energia to cover the emissions of the year. From 2013, the state will not be allocating free emission allowances for electricity generation.

Emission Allowances Prices

	Minimum (€/t)	Maximum (€/t)	Average price (€/t)	Change compared to 2011
CO_2, December 2012	5.7	9.5	7.5	(45.7)%
CO_2 December 2013	6.0	10.3	7.9	(46.3)%

Prices of CO_2 Emission Allowances

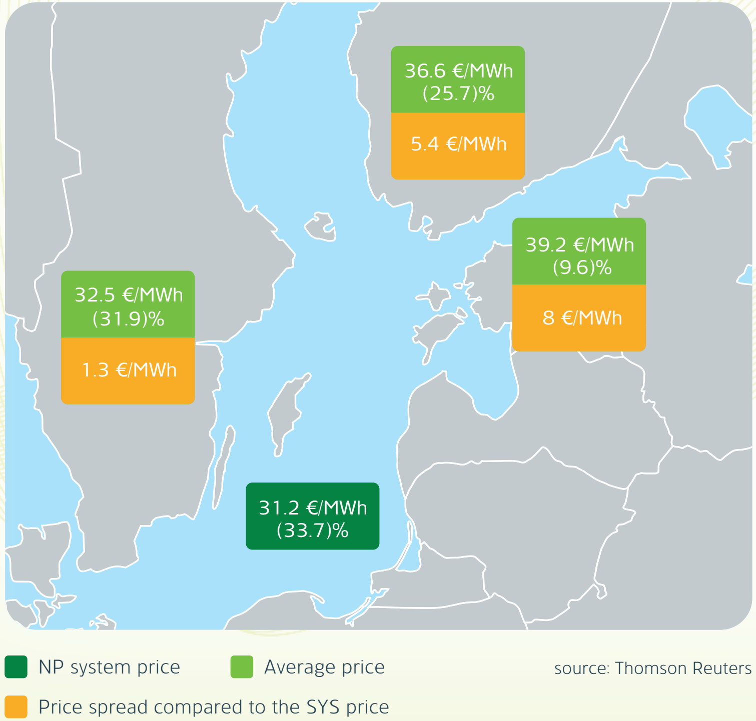
source: Thomson Reuters

Electricity Prices

The whole of 2012 saw exceptionally high levels of water in Nordic reservoirs, which allowed electricity to be generated at lower costs. While the high level of water reservoirs mainly affected the Nord Pool Spot system price, to an extent it has also put electricity prices under pressure in Finland and the Baltic States. At the beginning of 2012, electricity prices in Nordic countries rose due to a drop in the amount of nuclear energy generated. In the middle of 2012, high levels of water in the Nordic reservoirs contributed to the drop in prices. While the filling of the reservoirs slowed in the second half of 2012, still the water balance reached a record level for the last 12 years in October 2012.

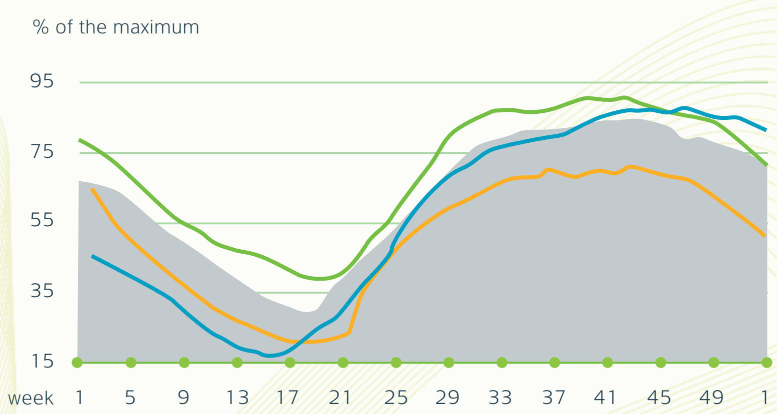
2012 still saw a bottleneck effect between Sweden and Finland resulting from insufficient transmission capacity, and the average price spread between the regions was -4.1 €/MWh (compared to -1.6 €/MWh in 2011). The average price spread between Estonia and Finland in 2012 was 2.6 €/MWh (compared to -6.0 €/MWh in 2011).

On 18 June 2012, the ELE price area was established on the Estonian-Latvian border in connection with transmission capacity limitations on the border. The average price spread between Estonia and the ELE area in the past year was -3.4 €/MWh, which means that transporting electricity to Latvia and Lithuania was relatively expensive due to the shortage of transmission capacity.



source: Thomson Reuters

Levels of Nordic Water Reservoirs



*1990-2011
source: Thomson Reuters

At the end of 2012, NASDAQ OMX opened the electricity derivatives market in the Estonian price area, which will allow electricity price risks to be hedged. CfD* futures for the Estonian price area can be traded for a period of up to three years. The price of CfD derivatives depends on the difference between the price in the Estonian price area and the price in the Nord Pool Spot system. NASDAQ OMX provides opportunities for trading in electricity price derivatives in most Nord Pool Spot price areas.

Compared to 2011, the clean dark spread excl. oil shale and CO_2 costs in the Estonian exchange price for electricity rose to 21.3 €/MWh (+1.2 €/MWh or +6% on the value for 2011). Oil shale and CO_2 costs decreased by 23% compared to 2011 mainly due to the downward trend in prices for CO_2 emission allowances.

In 2012, the regulated electricity price in Estonia was 30.7 €/MWh (approved by the Competition Authority on 1 June 2010).

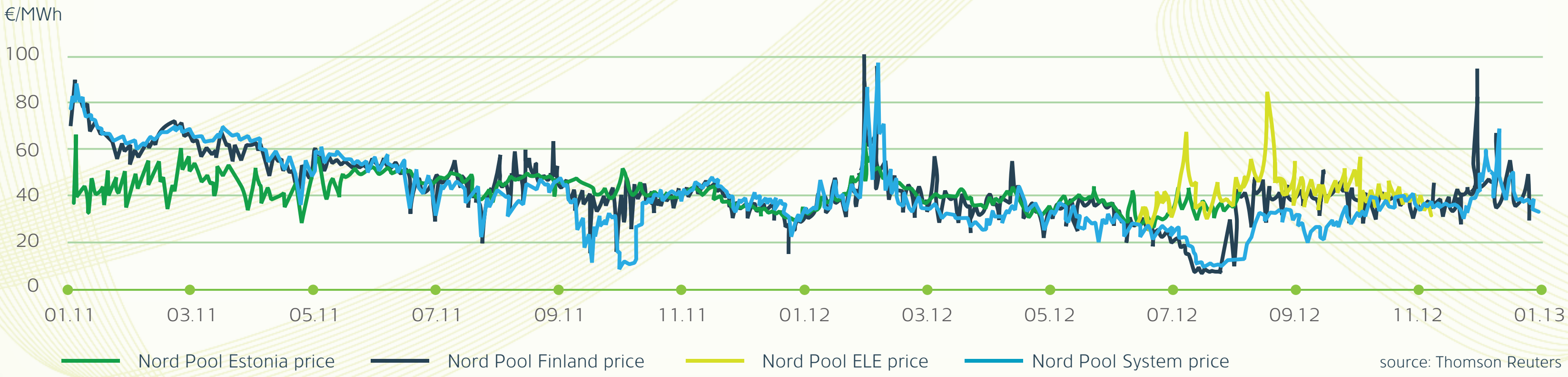
Eesti Energia Narva Power Plant's producer price for electricity in Estonia was 29.4€/MWh (approved by the Competition Authority on 28 July 2009).

Due to the opening of the electricity market, free market prices for electricity apply to Estonia in 2013 instead of the regulated prices. Domestic consumers in Estonia could already sign open market electricity contracts in September 2012.

Minimum and Maximum Daily Electricity Prices in 2012

Price area	2012 minimum (€/MWh)	2012 maximum (€/MWh)
Estonia	22.5	76.5
Finland	7.4	101.3
ELE	25.2	84.9
SYS	7.9	96.2

Daily Average Electricity Prices

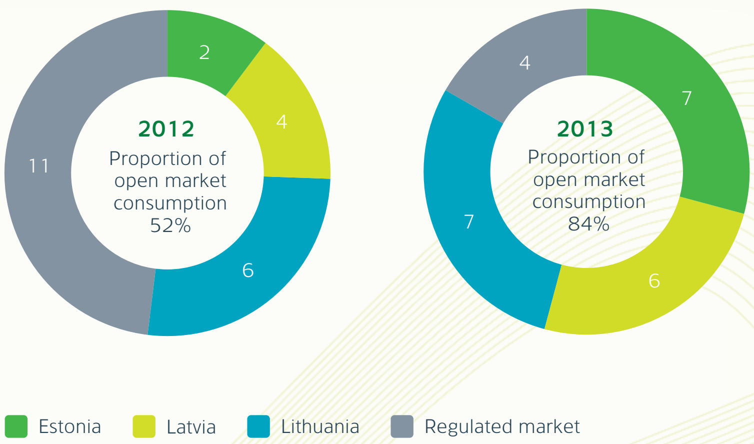


* Contract for Difference i.e. a derivative which allows traders to speculate on the price movement of underlying assets without actually owning the underlying assets.

The electricity markets of Latvia and Lithuania were partially open for business customers in 2012. Clients accounting for approximately 63% of the Latvian electricity consumption in 2012 were in the open market. The Latvian Nord Pool Spot price area is expected to be opened in 2013.

In Lithuania, only larger companies have bought electricity on the open market since January 2012. The Lithuanian market was open to the extent of 61% of the volume of electricity consumption. All Lithuanian companies will become open market participants at the beginning of 2013. The Lithuanian Nord Pool Spot price area was opened on 18 June 2012. The area operated autonomously as it was not connected to other Nord Pool price areas.

Electricity Consumption on the Baltic Open Market (23 TWh)



source: Eesti Energia forecast

Janis Bethers
Achiever of the Year 2012

Entrepreneurial spirit

Financial Results

Total revenues for the financial year 2012 remained at the same level as a year ago. The revenues from the sale of electricity dropped mostly due to low power market prices, which decreased the sale of electricity at unregulated prices to power markets and wholesale companies almost twice compared to a year before. However, higher revenues from the sale of network services and liquid fuels compensated the decline in elelctricity sales. Impairment of power generating assets in the amount of 63.3 milliion euros had a significant non-cash impact on the Group's profitability. The impairment was driven by low price levels in power exchanges as well as several changes in the legal acts regulating electricity generation.

REVENUES

868.5 million euros

+1.3%

EBITDA

278.4 million euros

+5.0%

OPERATING PROFIT

100.1 million euros

(40.4)%

NET PROFIT

76.9 million euros

(48.5)%

OPERATING CASH FLOW

185.2 million euros

+14.5%

INVESTMENTS

513.5 million euros

+1.1%

DIVIDENDS

65.2 million euros

+16.2%

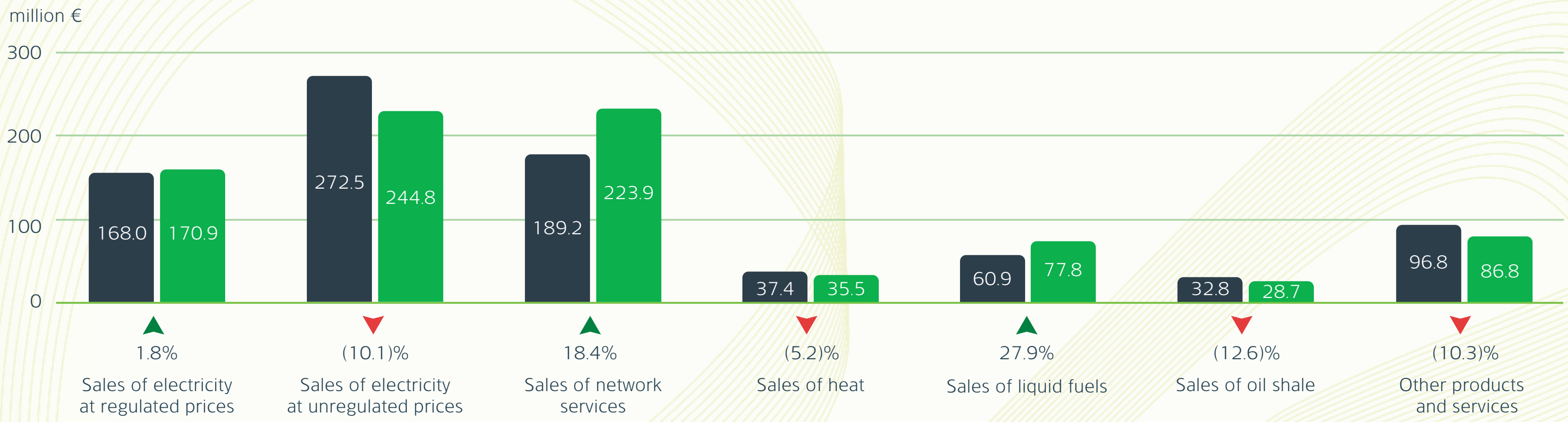
EQUITY

1,409.1 million euros

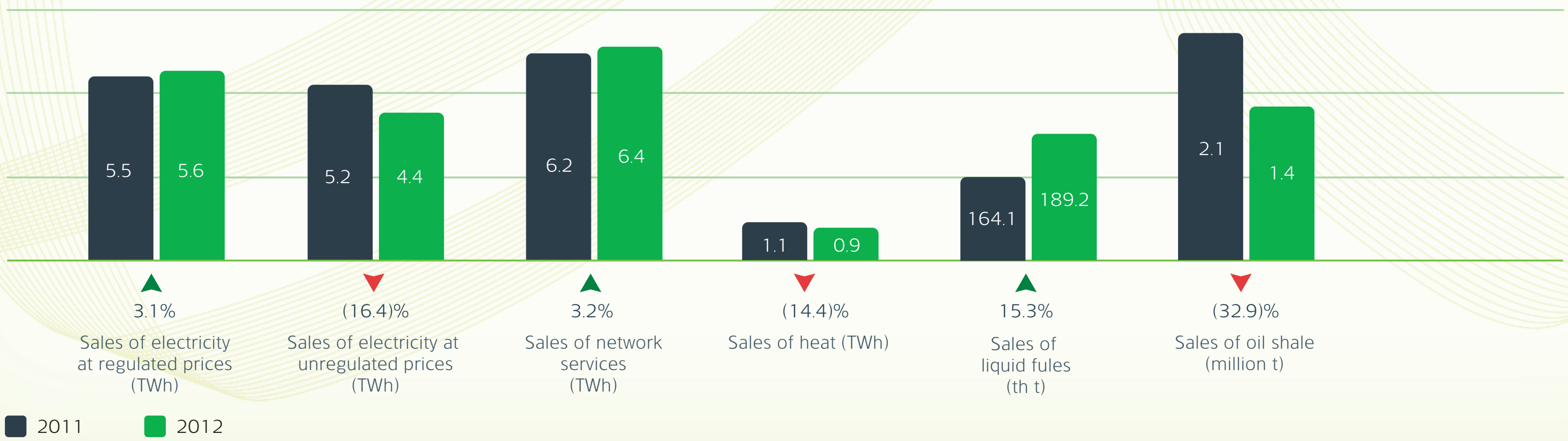
+13.9%

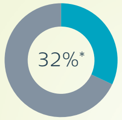
Revenues

Change in Revenues



Sales Outside the Group





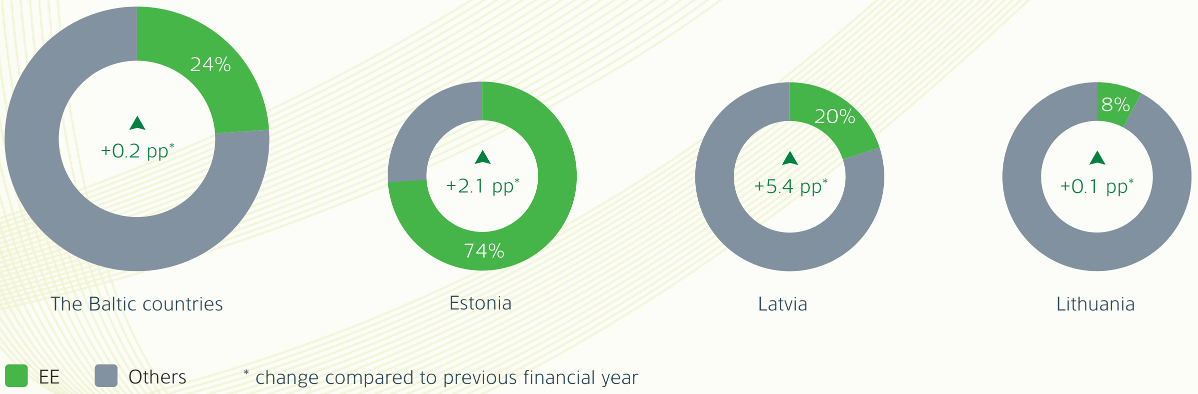
Retail

The Retail division's revenues rose by 6.1% or 19.5 million euros to 339.6 million euros. The division was influenced by the preparations for the opening of Estonian electricity market, expanding client base and sales in the Baltic retail market and one-off income from the sales of telecommunications company Televõrgu AS in the first quarter.

Sales of electricity in the Baltic open market proved to be more successful than planned. While the aim in Estonia was to retain the market share, new clients were actively searched for in Latvia and Lithuania where Eesti Energia operates under the trademark of Enefit. The number of clients has tripled and sales doubled in Latvia and Lithuania year-on-year. In December 2012, Eesti Energia had 1,317 open market clients in Latvia (up by 1,044 clients) and 316 clients in Lithuania (up by 201 clients). The 2012 Enefit brand awareness survey in Latvia showed that Enefit's brand awareness has increased to 75%. Only a year ago, 39% of Latvian companies were aware of Enefit as an electricity seller. In Lithuania, Enefit's brand awareness has increased to 28%, which is a good result, given that nearly 20 active electricity sellers are operating in the electricity market in Lithuania. A year ago, 17% of Lithuanian companies were aware of Enefit as an electricity seller.

2012 was the last year when electricity was sold in Estonia at the price regulated by the Estonian Competition Authority. In 2012, the Retail division had signed more than 645,000 contracts for selling electricity at regulated prices to approximately 471,000 private and 27,000 business clients thus covering more than 91% of all connection points in Estonia. As all existing contracts lapsed due to market opening the clients purchasing electricity at regulated prices could choose a new electricity seller or remain purchasing universal electricity service. On 1 January 2013, the

Electricity Sales Market Shares in the Baltics



* change compared to previous financial year

* Of external revenues

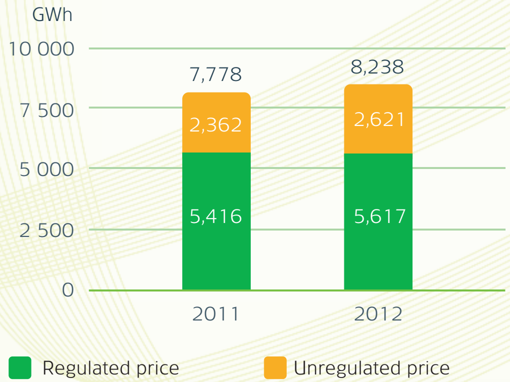
Estonian electricity market was fully opened to all electricity consumers. Eesti Energia commenced conclusion of new contracts in September 2012. As at the end of the financial year, Eesti Energia had concluded over 408,000 open market electricity contracts, covering more than 58% of all Estonian connection points and exceeding the initial forecasts several times.

Revenue from other services of the Retail division fell by 11.7 million euros or 31.7% to 25.2 million euros, mainly due to exit from the telecommunications business in the first quarter of the financial year (2.1 million euros vs. 10.9 million euros in the previous financial year). Sales of repair and construction services were up 1.2 million euros or 5.7% at 21.9 million. Võrguehituse AS, which is part of the Retail division, is one of the main partners of Elektrilevi in the area of designing, construction and maintenance works.

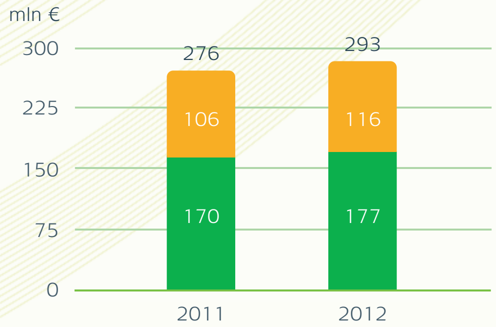
Sales of Electricity by Retail Division

GWh	2011	2012	Change
Retail sales of electricity at regulated prices, of which	5,416	5,617	3.7%
sales outside the Group	4,994	5,160	3.3%
Sales of electricity at unregulated prices, of which	2,362	2,621	11.0%
in the Estonian unregulated market	1,211	1,310	8.2%
sales outside the Group	1,058	1,110	4.8%
Sales in the Latvian open market	430	874	103.2%
in the Lithuanian open market*	720	436	(39.4)%
Total retail sales of electricity	7,778	8,238	5.9%

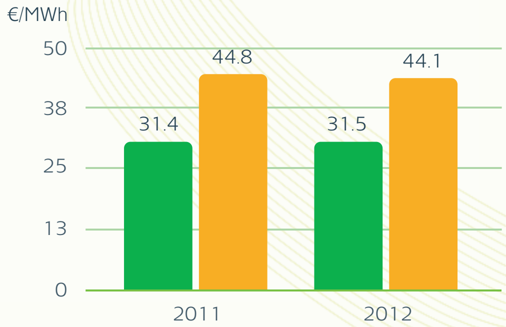
Retail Division's Electricity Sales Volume



Retail Division's Electricity Sales Revenue



Retail Division's Average Electricity Sales Price



* Sales in the Lithuanian open market represents a decrease in quantities due to the introduction of netting of Baltpool's exchange transactions. By using the earlier method, the sales to the unregulated market would have increased by 13,9% (820.1 GWh in 2012 vs. 720.0 GWh in 2011)

25%*

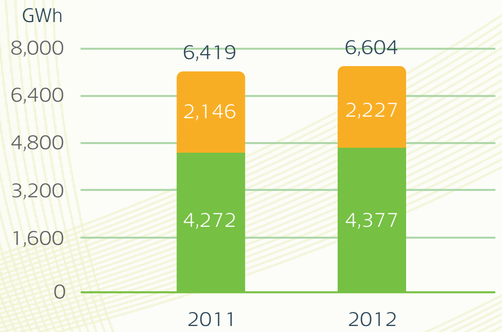
Distribution Network

Distribution Network's revenue for the financial year increased by 33.4 million euros or 16.8% to 232.3 million euros mainly as a result of a change in the network tariffs on 1 August 2011. In 2012, network losses were 423 GWh or 6.0%, increasing by 24.8 GWh (0.2 percentage points) year-on-year. Network reliability indicators have improved compared to the previous year, Number of failures was 22,975 (down by 4,920), the average duration of planned interruptions was 91 and that of unplanned interruptions was 187 minutes (by 20 and 194 minutes less, respectively, than in 2011).

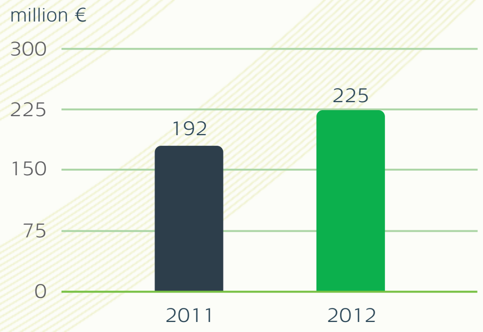
The other revenues of Distribution Network amounted to 6.2 million euros (+7.7%, +0.4 million euros) of which approximately 76% came from the sale of connection services.

Distribution Network's revenue for the financial year increased to 232.3 million euros

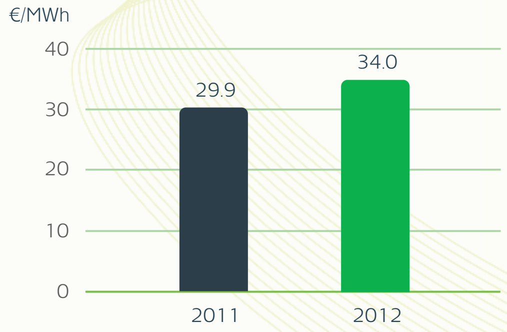
Distribution Network's Network Services Sales Volume



Distribution Network's Network Services Sales Revenue

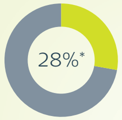


Distribution Network's Average Network Services Sales Price



Sale of medium-voltage network services (GWh)
Sale of low-voltage network services (GWh)

* Of external revenues



Generation

The Electricity and Heat Generation division's revenues for the financial year 2012 amounted to 494.9 million euros, down by 11.5 million euros or 2.3% or year-on-year.

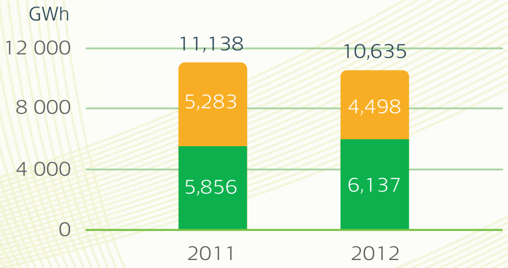
The Division's electricity sales revenues amounted to 424.8 million euros (down 6.3% or 28.7 million euros) including renewable energy subsidies, revenue from Estlink underwater power cable and financial hedges.

The Division's sales to the unregulated market fell by 785 GWh (down by 14.9%) to 4,498 GWh, due to lower generation resulting from low market prices. In the financial year 2012, the average electricity sales price to unregulated market exclusive of the renewable energy subsidies was 48.5 €/MWh. The financial hedges increased sales price by 3.7 €/MWh and revenues from Estlink underwater power cable by 2.1 €/MWh.

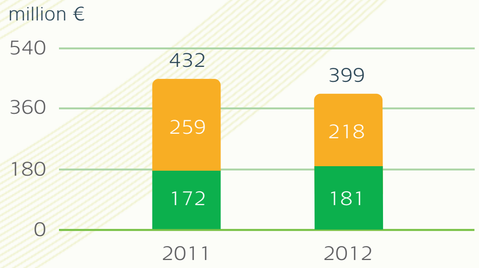
Lower revenue from Estlink underwater power cable of 9.3 million euros (down by 6.5 million euros or 41.4%) was caused by a smaller price difference of 2.3 €/MWh (down by 1.3 €/MWh or -36.7%) as well as by lower use of the cable. Namely, in 2012 the cable was fully utilised 36.5% of the time (2011: 49.3%).

In the financial year, the annual net generation of electricity was 9,374 GWh, which was a reduction of 1,054 GWh or 10.1% year-on-year. Electricity purchases totalled 1,272 GWh (an increase of 550 GWh or 76.2 %) and the average purchase price was 40.9 €/MWh (an increase of 2.0 €/MWh or 5.2 %)

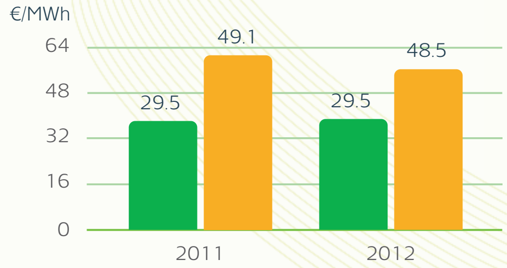
Generation Division's Electricity Sales Volume**



Generation Division's Electricity Sales Revenue**



Generation Division's Average Electricity Sales Price**



Regulated price   Unregulated price

* Of external revenues

** Excluding renewable energy subsidies

We generated 531 GWh (+123 GWh, +30%) of electricity from renewable resources of which biofuels accounted for 385 GWh (+77.2 GWh or 25.1%), wind for 135.1 GWh, water for 9.5 GWh and in an efficient cogeneration mode for 1.5 GWh.

The Group received 25.1 million euros in renewable energy subsidies, an increase of 3.8 million euros or 18.1% year-on-year. The growth of subsidy was mainly impacted by generation of electricity from biofuels in the first half of the financial year. In October 2012, electricity generation from biofuels at Narva Power Plant was discontinued. As to the current draft amendments to Electricity Market Act, Narva Power Plants will not be receiving renewable energy support for biomass-fired generation in the coming years. In summer, Narva and Paldiski wind parks started to generate electricity to the network. The generated quantities do not yet qualify for renewable energy subsidy as the network connection tests are still underway and approval from Elering is being applied for.

In 2012, revenue of heat fell by 1.6 million euros or 4.2% to 37.3 million euros. Revenue of heat was reduced due to sales of Kohtla-Järve Soojus in March 2011and lower demand for output of Iru CHP. The average external sales price of heat was 38.1 €/MWh (up by 3.2 €/MWh or 9.3%).

Other revenues of the Generation division were up by 18.8 million euros or 134.5% at 32.8 million euros, a significant part of it (19.7 million euros) was earned from selling the CO_2 emission allowances not necessary for generation.

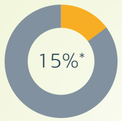
Sales of Electricity by Generation Division

GWh*	2011	2012	Change
Sales of electricity at regulated prices, of which	5,856	6,137	4.8%
external sales	479	484	1.0%
Sales of electricity at unregulated prices, of which	5,283	4,498	(14.9)%
external sales	4,259	2,859	(32.9)%
Total electricity sales	11,138	10,635	(4.5)%

Sales of Heat by Generation Division

GWh	2011	2012	Change
Sales of heat, of which	1,177	1,031	(12.4)%
external sales	1,074	918	(14.5)%

* The Generation division's results are presented as a net amount of purchases and sales of the power exchange.



Fuels

The Fuels division's revenues totalled 302.8 million euros, which was a decrease of 40.7 million euros or 11.9%.

In the financial year, the decrease of external sales of oil shale was caused by smaller demand for oil shale due to reduced electricity generation output as well as by lower sales of concentrate externally. Production of oil shale was down by 1.0 million tonnes or 5.8% at 16.9 million tonnes and the average sales price was 11.4 €/t (up by 0.2 €/t or 2.2%). The decline in production resulted from the closing of Aidu quarry in July 2012.

Higher reliability of the Enefit140 equipment is the key factor contributing to growth in sales of liquid fuels. The average external sales price of liquid fuels in the financial year was up by 40.4 €/t or 10.9% at 411.5 €/t, it followed the global market price of heavy fuel oil, averaging 515.7 €/t, which was by 13.0% higher year-on-year. Without considering the impact of derivative transactions, the sales price of liquid fuels was 480.5 €/t, up by 62.9 €/t or 15.1%.

The external revenues of EE Tehnoloogiatööstus amounted to 42.8 million euros, which was 29.6 million euros or 40.9% lower year-on-year. The decline was mainly resulting from the completion of a new oil plant and decreased work volume related to Narva Power Plants.

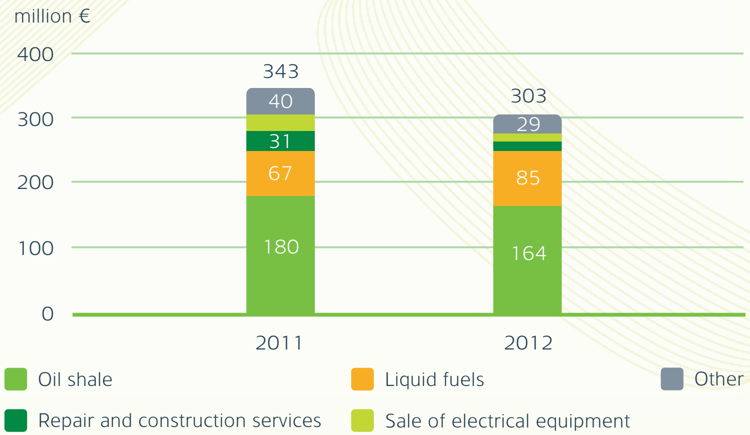
Sales of Oil Shale by EE Kaevandused

thousand tonnes	2011	2012	Change
Intra-Group sales of oil shale for electricity production	14,254	12,900	(9.5)%
Intra-Group sales of oil shale for oil production	1,642	1,872	14.0%
Oil shale sales outside the Group	2,120	1,423	(32.9)%
Total oil sale sales	18,017	16,195	(10.1)%

Sales of Fuel Oil by Fuels Division

thousand tonnes	2011	2012	Change
Sale of liquid fuels, of which	178	203	14.4%
External sales	164	189	15.3%

Change in Revenues of the Fuels Division



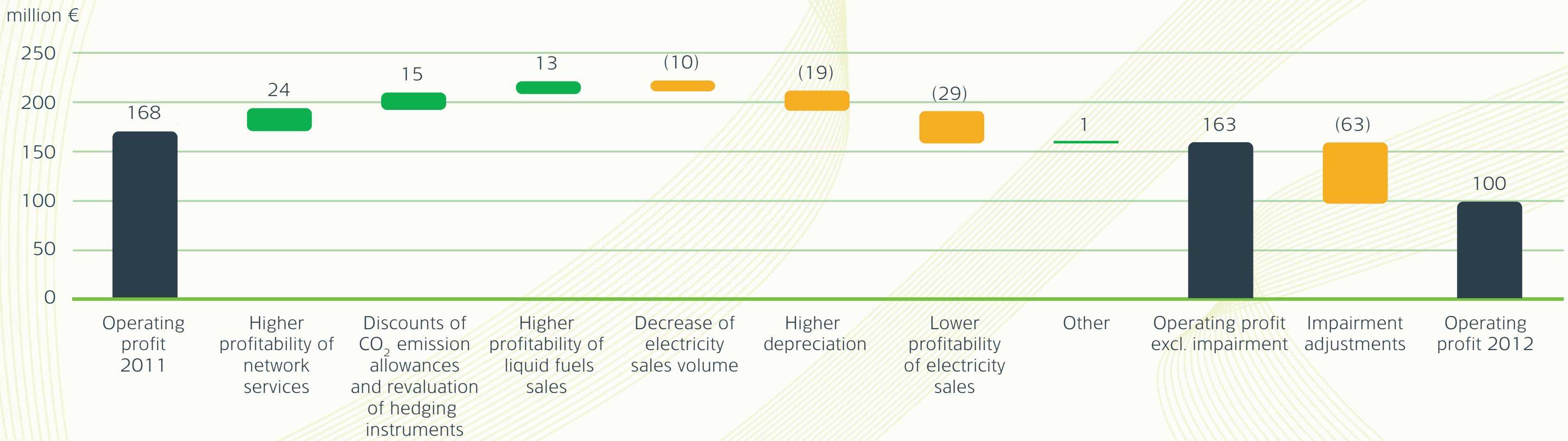
* Of external revenues

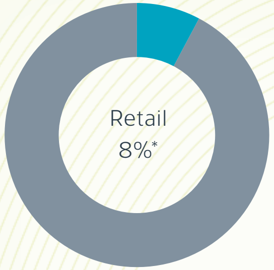
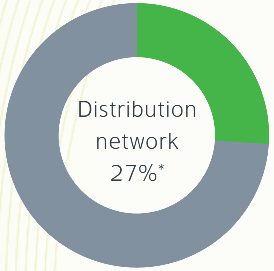
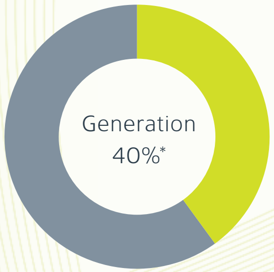
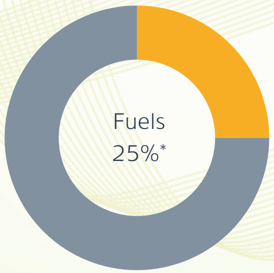
Profitability

The Group's EBITDA for the financial year 2012 was 278.4 million euros, an increase of 13.3 million euros or 5.0%. Operating profit before impairment adjustments amounted to 163.4 million euros, down by 3.7 million euros or 2.2%. Impairment of electricity generating assets in the amount of 63.3 million euros reduced the Group's operating profit to 100.1 million euros.

The impairment of electricity generating assets was driven by low electricity market prices, the decision by European Commission not to allocate free CO2 for electricity generation starting form 2013 and higher environmental tax rates. The impairment of Narva Power Plants amounted to 58.3 million of total annual impairment.

Change in Operating Profit



Division	Positive impact	Negative impact	Change in operating profit (million €)
	+12.1 million euros Higher electricity sales margin +9.3 million euros Revenue from the sale of Televõrgu AS adjusted by ungained revenue and costs +1.4 million euros Higher electricity sales volume	(5.1) million euros Higher fixed costs	
	+20.6 million euros Higher network services sales margin +3.6 million euros Higher network services sales volume	(3.2) million euros Higher depreciation (2.1) million euros Higher fixed costs (1.4) million euros Higher repair expenses	
	In the financial year 2012, Elektrilevi's rate of justified profitability (profit earned on regulated assets), established by the Competition Authority, was 7.83%. The average regulated amount of Elektrilevi's assets was 580 million euros.		
	+18.3 million euros Lower discounts of CO_2 emission allowances +9.3 million euros Lower repair expenses +7.1 million euros Lower environment protection provisions +4.4 million euros Lower fixed costs	(63.3) million euros Higher impairment of electricity generating assets (27.9) million euros Lower electricity sales margin (12.5) million euros Higher depreciation (7.5) million euros Lower electricity sales volume	
	+7.9 million euros Higher liquid fuels sales volume +5.2 million euros Higher liquid fuels sales margin	(16.2) million euros Lower non-recurring revenues (15.1) million euros Lower profitability of oil shale mining (5.0) million euros Lower profitability of Tehnoloogiatööstus (4.1) million euros Lower depreciation	

* operating profit excl. impairment

Cash Flows

In the financial year 2012, the Group's cash flows from operating activities amounted to 185.2 million euros.

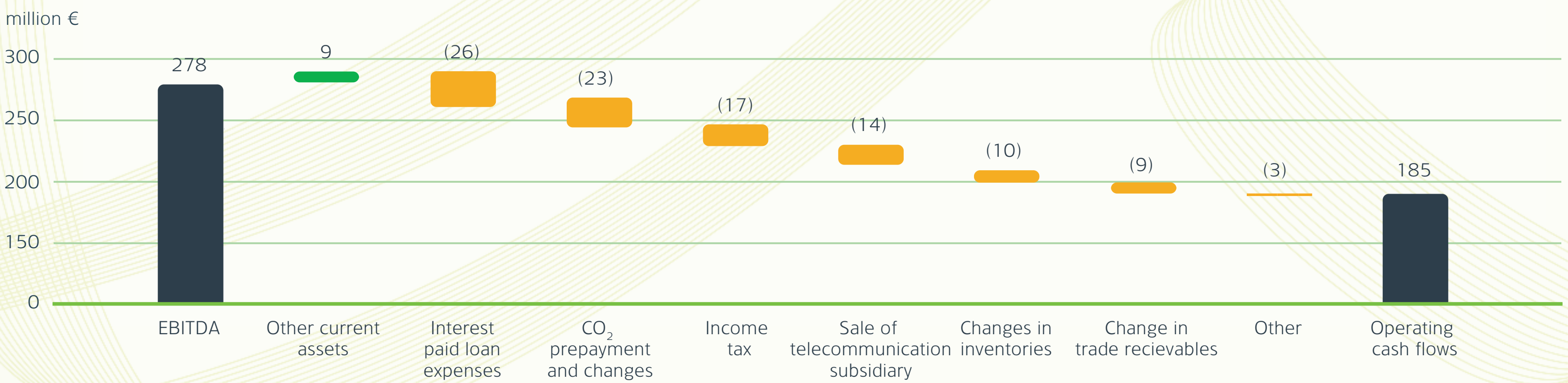
n the financial year 2012, the Group's cash flows from operating activities increased by 14.5% year-on-year, up by 23.4 million euros. Cash flows from operating activities were increased by a decrease in prepayment for CO_2 emissions allowance, which added 34.0 million euros and a change in the EBITDA, adding 13.3 million euros. The main negative factors included an increase of receivables by 17.0 million euros and an increase of 9.1 million euros in loan and interest expenses.

Compared to the Group's EBITDA in the amount of 278.4 million euros, the cash flows from operating activities were significantly reduced by different changes related to the working capital in the amount of 35.4 million euros as well as interest and borrowing expenses related to bonds issued in the amount of 300 million euros.

The Group's cash flows from investments in the total amount of 548.9 million euros, up by 350.2 million euros, were influenced, apart from investments (514.1 million euros) also by cash flows from the sales of the telecommunications company (22.1 million euros).

The Group's financing cash flows were influenced by the issued bonds in the amount of 300 million euros, the increase of share capital by 150 million euros and dividend payment in the amount of 65 million euros.

Development of Operating Cash Flows



Financing and Investments

Credit Ratings

At the end of the financial year, Eesti Energia had a credit rating of Baa1 with stable outlook from Moody's and BBB+ with stable outlook from Standard & Poor's. On 8 January 2013, Moody's changed the rating outlook to negative. Eesti Energia's credit ratings are at the investment grade level that allows the Group to access debt capital markets if needed.

Financing

Eesti Energia's substantial investment plan triggers a need to raise debt and maintain a sufficient liquidity buffer.

As at 31 December 2012, Eesti Energia's equity amounted to 1,409.1 million euros. The shares of Eesti Energia are 100% held by the Republic of Estonia. In 2012, Eesti Energia's share capital increased from by 150 million euros to 621.6 million euros when the sole shareholder of Eesti Energia increased the Company's share capital by a monetary contribution. The share capital was received from the state on 10 July 2012.

As at the end of 2012, the Group's balance of liquid assets was 151.8 million euros (including deposits with maturities of more than three months and liquid financial assets).

As at the end of the last financial year, Eesti Energia's total nominal borrowings amounted to 744.9 million euros (+66.9%, +298.5 mln euros). The amortised borrowings amounted to 732.7 million euros (up by 68.0%, +296.5 million euros year-on-year). The significant borrowings of the Group included:

- The Eurobonds listed on the London Stock Exchange in the amount of 600 million euros. In addition to the earlier Eurobonds in the amount of 300 million euros (with a fixed coupon rate of 4.5% and with a maturity date in 2020), the Group carried out a new bond issue in April 2012 in the amount of 300 million euros for long-term financing of investments. The annual coupon rate of bonds is 4.25% and the maturity date is 2 October 2018.
- The loans received from the European Investment Bank Capital accounted for 144.3 million euros of the raised debt.

The Group's undrawn loans amounted to 495.0 million euros as at the end of 2012:

- In September 2011, we signed bilateral revolving credit facilities with five regional banks. These credit facilities are aimed to provide a sufficient liquidity buffer to the Group. These will also provide flexibility with regard to the timing of raising long-term funding. The financing transactions that were successfully conducted during 2012 decreased somewhat Eesti Energia's need for the liquidity buffer, which enabled the Group to reduce the initial amount of liquidity facilities of 500 million euros by 100 million euros. As at the end of 2012, the credit lines in the amount of 400 million euros have not been drawn. The facilities will expire in September 2014.
- In December 2011, we signed two loan agreements for 95 million euros with the European Investment Bank to finance the Iru waste-to-energy unit and the wind parks. These loans remained undrawn at the end of the financial year. An agreement has been reached to extend the deadline for drawing the loans by one year until December 2013.

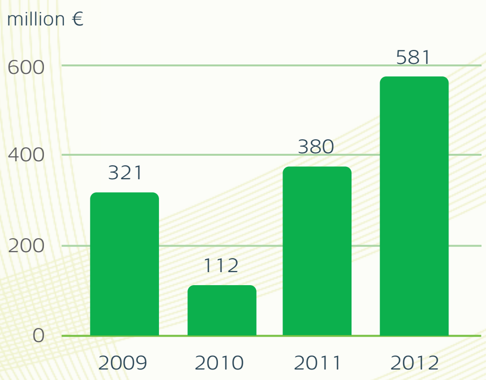
The weighted average interest rate of the Group's borrowings at the end of 2012 was 4.12%, which represented a fall of 7 basis points over the financial year. The weighted average rate of borrowings with fixed interest rates was 4.16% and that for borrowings with floating interest rates was 0.76% (including the base rate). Borrowings with fixed interest rate made up 99% of the total Group's debt as at the end of the financial year. All borrowings are denominated in euros.

As at the end of 2012, the Group's net debt* stood at 581.0 million euros, having risen by 190.6 million euros during the year. The rise in net debt was caused by the Group's substantial investment programme, whose expenditure significantly exceeds the cash flows from operating activities. The ratio of EBITDA to net debt also rose, although it remained at a conservative level of 2.1 in 2012. The ratio of net debt to equity reached 41% at the end of the year, a rise of 10 percentage points over the year. Based on its loan agreements, Eesti Energia is bound to conform to certain financial covenants. As at the end of 2012, the Group complied with these financial covenants.

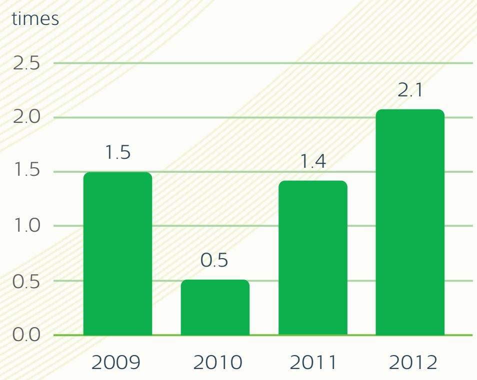
Dividens

The Group paid its owners dividends of 65.2 million euros in 2012. The dividends were paid out in the second quarter of the year, The state budget for 2013 plans to receive net dividends from Eesti Energia of 73.5 million euros and the Company must also pay tax on top of the dividends, calculated as 21/79 on the net dividends.

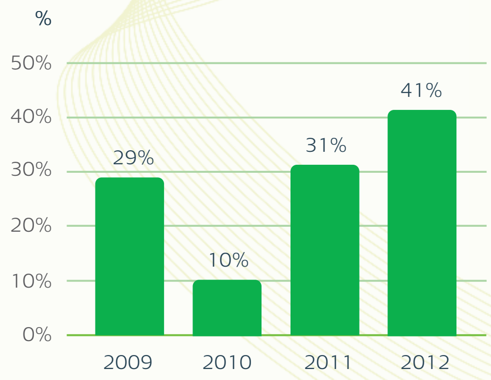
Net Debt



Net Debt/EBITDA



Net Debt/equity

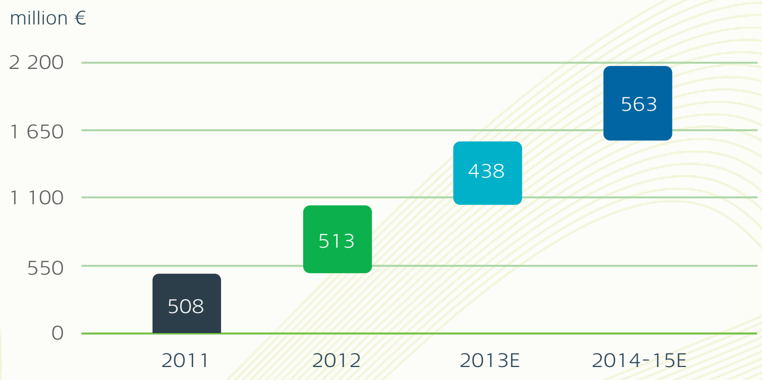


* Net debt – debt obligations less cash and cash equivalents, units in money market funds, investments into fixed income bonds.

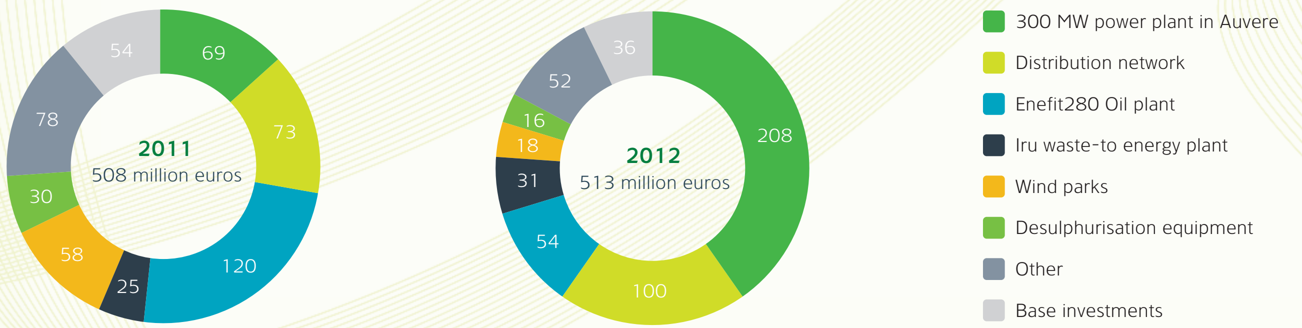
Investments

In the financial year 2012, the Group invested 513.5 million euros, which was by 5.7 million euros or 1.1% more than in the previous year. The construction of Narva and Paldiski wind parks was completed and just before the year end, we received the first barrel of shale oil from the new Enefit280 oil plant. In 2013, the Iru waste-to-energy unit and the installation of desulphurisation equipment and lime systems at Narva Power Plants will be completed; the oil shale infrastructure development in Auvere and Jordanian preliminary development project for electricity generation will come to an end. Of the major development projects, the construction of a new 300 MW power plant and the preliminary development of international projects oil production will continue in the next years.

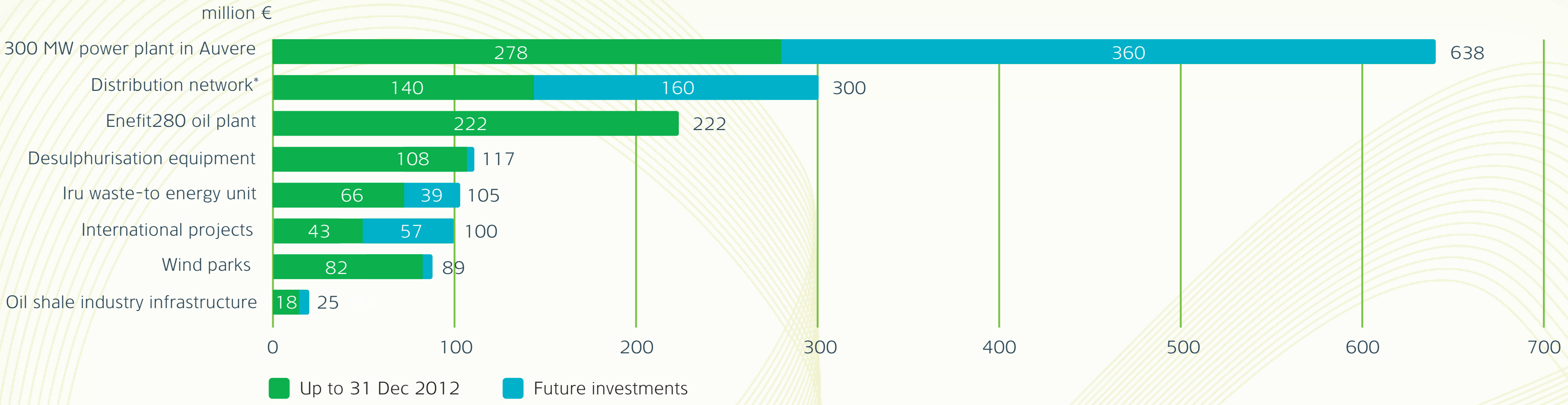
Approved Investment Projects and Base Investments



Major Investment Projects



Main Investments



As at the end of the financial year, a total of 1,005 million euros was invested in the on-going development projects and we plan to invest another 636 million euros to complete them.

Construction of the New 300 MW Circulating Fluidised Bed (CFB) Power Plant

In summer 2011, Eesti Energia started the construction of a new power plant running on the modern circulating fluidised bed technology in Auvere. The new power plant, which should be completed in 2015, allows alongside oil shale to burn biofuels for up to 50% of its fuel intake and helps to bring the waste of the plant to the level of a modern gas plant. The maximum annual net generation of the new power plant is 2,192 GWh.

For financing the construction of Auvere power plant, the European Commission allocated for Eesti Energia a total of 18 million tonnes of greenhouse gas emission allowances free of charge for 2013–2020.

* From the beginning of the new regulation period 1 August 2011

Improving the Quality of the Network Service

For improving the quality of the network service, we invested a total of 99.6 million euros in 2012. In the financial year, the Group built 707 substations and 1,750 kilometres of underground and overhead cables. From the beginning of the new regulation period (1 August 2011 - 1 August 2014), we have invested a total of 140.0 million euros in the electricity network. The total budget for the investment plan of the regulation period is 300 million euros.

Construction of the New Enefit280 Oil Plant in Auvere

The Group started the construction of the oil plant, with the annual production capacity of approximately 257,000 tonnes of shale oil, in summer 2009. At the maximum capacity, the plant burns nearly 2.3 million tonnes of oil shale per annum. The construction of the oil plant was completed by the end of the financial year and the focus is now on the commissioning of the plant. With the completion of the new Enefit280 oil plant, we will increase our total shale oil production capacity to nearly 500,000 tonnes per annum. The plant is expected to generate its first production at the beginning of 2013.

Installation of Desulphurisation Equipment at Narva Power Plants

For reducing sulphur emissions, we installed desulphurisation equipment on four of the generating units of the Eesti power plant. After the installation, the net capacity of those units is 674 MW and the annual production capacity is 4.9 TWh. By the project commenced in spring 2009, we took an obligation to reduce sulphur emissions at Narva power plants 2.5 times, while maintaining the production capacity at the current level. Under the same project, we also commenced the installation of lime dosing systems in order to achieve the required cleaning level of exhaust gases, irrespective of the quality of burnt oil shale. The lime systems will be completed in the first quarter of 2013.

Construction of Iru Waste-to-Energy Unit

In summer 2013, the first waste-to-energy unit in the Baltic States will be started up next to the Iru combined heat and power plant, with the heat generation capacity of 50 MW and electricity generation capacity of 17 MW. The maximum annual generation of the unit is 330 GWh of heat and 136 GWh of power. The unit will use up to 220,000 tonnes of unsorted municipal waste as fuel source per annum. The quantity of waste necessary for the whole next year is covered by contracts as at the end of the financial year. The waste-to-energy unit, which will run on the most modern combustion technology, is able to turn nearly 85% of energy contained in waste into electricity and heat.

Preliminary Development of International Projects

The preliminary development of the Jordanian electricity project will last until 2013. Procurement for construction of a power plant was announced in July and procurement for mining in December 2012. The winners of both procurements will be identified during the first half of 2013. The planned capacity of the Jordanian first oil shale power plant is 460 MW and its completion is planned to take place in 2016. Eesti Energia holds 65% in the Jordanian development project. The project partners (including Jordanian oil production) are YTL Power International Berhad with a holding of 30% and Jordanian partner Near East Investment with a holding of 5%.

The preliminary development of the Jordanian oil project is expected to last until 2016. During the preliminary development phase, Eesti Energia will develop a part of the Attarat Um Ghudran mine. Area under research is estimated to contain 3.5 billion tonnes* of oil shale of which 0.9 billion tonnes represents measured resource for developing electricity project. In 2012, test runs with the Jordanian oil shale were performed in Frankfurt and the process of adjusting the Enefit technology to the Jordanian oil shale commenced.

In March 2011, Eesti Energia acquired the oil shale resourcein Uintah County, Utah (USA), which is estimated at 6.6 billion tonnes*. We plan to use our oil shale resources in Utah as a base for the liquid fuels' industry with a capacity of 50,000 barrels of oil shale per day. The preliminary phase should be completed by 2016. In Utah, we continue to operate under the name of Enefit American Oil.

* For more information see page 137 (Note 34)

Construction of Wind Parks

In the financial year, Eesti Energia completed the construction of two wind parks. A wind park with a capacity of 39 MW was established on Narva ash field and a wind park with a capacity of 22.5 MW in Paldiski. They increase the total wind energy generating capacity to 111 MW. For building the wind park on Narva ash field, we used the plot of land that has been the deposition place of oil shale ash for over 30 years. The estimated annual generation of new wind parks is 133 GWh, which significantly helps diversify Eesti Energia's energy generation. In the next few months, the recently completed wind parks should undergo a testing process, on the success of which the receipt of renewable energy subsidy depends.

Development of Oil Shale Industry Infrastructure in Auvere

The Group will build a fuel handing system, which will supply oil shale to the existing oil plant, the new Enefit280 power plant and CFB power plant. The estimated completion date is March 2013.

Groups Electricity and Heat Generation Capacities

	Net electricity capacity (MW, 2012)	Annual net electricity generation (GWh, 2012)	Added net electricity capacity (MW)	Net heat capacity (MW, 2012)	Annual net heat generation (GWh, 2012)	Added net heat capacity (MW)	Year of construction
Eesti Power Plant	1,369	7,636	–	84	109	–	1963-73
Balti Power Plant	654	1,564	–	400	491	–	1956-66
New CFB Power Plant	–	–	274	–		–	2011-16
Iru	156	27	-	625	415	–	1980-82
Iru WtE	–	–	17	–	–	50	2010-13
CHP projects	2	3	2	–	–	8	2011-13
Wind parks	111	135	–	–	–	–	2009-12
Other	3	12	–	62	99	–	n/a
Enefit280	–	–	35	–	–	–	2009-12
Total	2,296	9,378	328	1,171	1,113	58	

Outlook for 2013

The year 2013 is a landmark year for Eesti Energia Group in many respects – a new, third phase of the EU emissions trading system will begin, the Estonian electricity market will be become fully open to the end consumers and the investments projects to be completed will boost our production and sales capacity.

Outlook of the Group's Financial Results

million euros	2012	Outlook* for 2013
Revenue	868.5	Growth
EBITDA	278.4	Growth
Investments	513.5	Decline
Net debt/EBITDA	2.1	G rowth

The added production capacities and the opening of Estonian electricity market have the major positive impact on the Group's revenue.

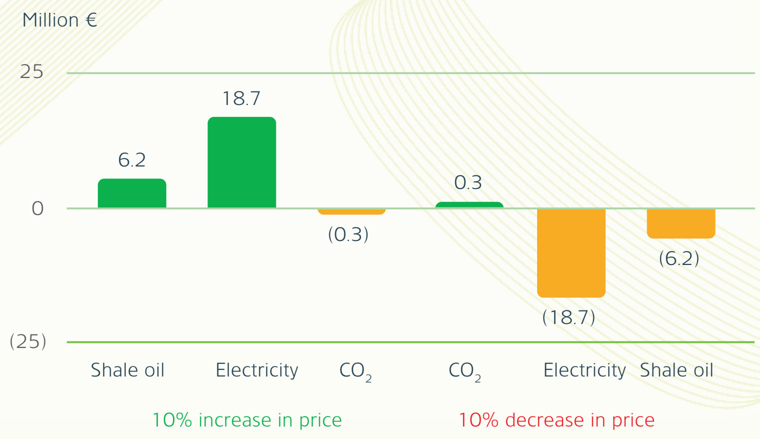
In 2013, the Group's electricity generating capacity is increased mainly by completion of new generation projects. Year-round operation of Narva and Paldiski wind farms increases the Group's annual production capacity by 133 GWh and the timing of renewable energy subsidy also has an impact on the revenue. The construction of the Iru waste-to-energy unit will be completed in the first half of 2013, with the expected annual additional production capacity of 136 GWh of electricity and 330 GWh of heat. Electricity produced as a by-product in the Enefit280 oil plant, with the estimated annual output of 276 GWh, will be also added to the Group's electricity generation portfolio.

The Enefit280 oil plant marks a significant growth in the production capacity of shale oil and we expect it to become fully operable in 2013.

Growth in profitability will be significantly increased by the added output of shale oil after the launch of the Enefit280 oil plant, while the addition of full CO_2 expenditure related to electricity generation will have a negative impact since unlike in 2012, emissions allowances will not be allocated for generation of electricity free of charge. In the income statement for 2012, only 6.1% or 6.5 million euros of the allowances necessary for emissions were recognised as expenditure.

Because of substantial investments, the Group is expected to continue generating negative cash flows in 2013, but significantly less than in 2012.

Group's EBITDA Sensitivity to Market Fluctuations



* Slight growth up to 5%
Growth more than 5%
Slight decline up to 5%
Decline more than 5%

Closed Positions

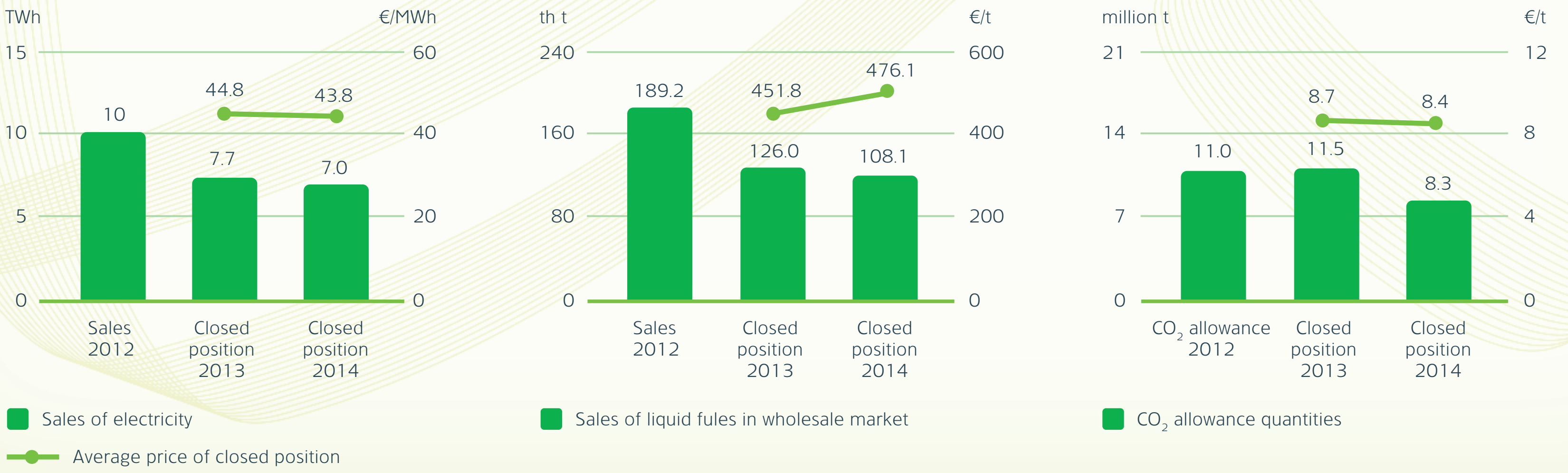
In 2013, the electricity market will become open to all Estonian end consumers, which will increase the price of electricity sold by the Group, while also adding significant volatility to the revenue. For reducing the impact of volatility deriving from the electricity price on the Group's financial results, we have concluded electricity sales contracts at a fixed price in the Baltic retail market and also acquired the Nord Pool's derivatives traded on Nasdaq OMX, which close the electricity price position. To guarantee revenue from the sale of liquid fuels, we have concluded future transactions with derivatives traded on ICE trade platform as well as with counterparty banks.

The Group's revenue from the sales of electricity and liquid fuels substantially depend on the prices of raw materials prevailing in the global and regional markets. The Group's financial results are mainly impacted by the electricity price in the Nord Pool trading system, the price difference of the Finland Price Area and Estonia Price Area of Nord Pool compared to the system price and the price of fuel oil with 1% sulphur content being the reference product of shale oil in the global market.

To cover the production portfolio's CO_2 emission expenses, the Group has concluded future transactions for 2013, mainly through futures traded on the ICE platform and option transactions. In addition, the Group has also retained the CO_2 emissions allowances from the second trading phase.

By way of derogation, the European Commission has granted Estonia the right to allocate free-of-charge emission allowances to the existing manufacturers for making more environment-friendly production investments. The new 300 MW power plant being built by Eesti Energia at Auvere may receive under that measure up to 18 million tonnes of CO_2 allowances in the period of 2013–2020. Eesti Energia will account for the allowance as a government grant at a market price and depreciate it periodically in the revenue upon completion of the power plant.

Closed Positions of Electricity, Liquid Fuels and CO_2 Allowances



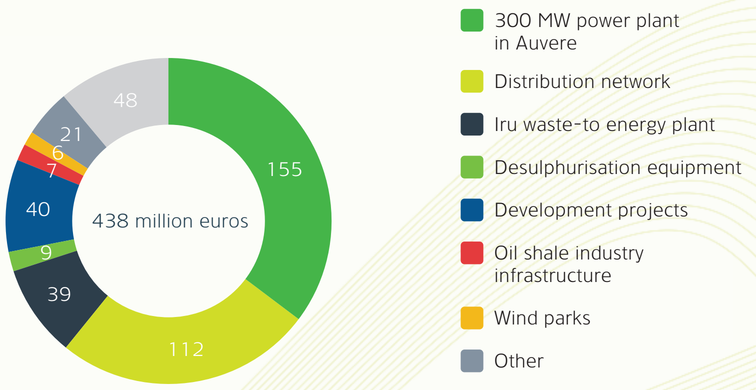
Investments

The investments for 2013, which are estimated to be significantly lower than in 2012, are reduced by completion of the projects. In 2103, Eesti Energia intends to invest 438 million euros in the already decided projects.

In 2014–2015, the total amount of investments decided by Eesti Energia will continue to decrease and the main investment, apart from the base investments, is the 300 MW power plant to be built in Auvere.

An investment not yet decided, but being considered by Eesti Energia is the construction of additional production capacities of liquid fuels in Auvere on the basis of the new Enefit280 technology and also the construction of a shale oil refinery. The business prerequisite for the next investment decisions is the achievement of sufficient reliability of the new Enefit280 oil plant in 2013 and cost-effectiveness of the projects. Given the Group's current debt capacity, additional investment decisions most likely depend on addition of equity, is no equity is added such investment decisions may be postponed into far away future.

Investments Decided



Responsibility

Viktor Dobrovolskihh

Achiever of the Year 2012, honorary award

The Environment

In the past financial year, Eesti Energia's environmental activities mainly focused on reducing the emission levels, diversifying our electricity generation and increasing the efficiency of the use of resources.

Reducing Air Emissions

We started with extensive investments already in 2009 to significantly reduce emission levels from pulverised oil shale combustion technology based energy generation units at the Eesti power plant. The installation of NID desulphurisation equipment in four generating units helped us remarkably reduce SO_2 emissions in 2012. In addition, we created a supplementary system to improve the binding of sulphur in other pulverised oil shale combustion technology based generating units. The solution that features adding limestone to the combustion chamber improves the binding of the sulphur emitted in the burning or thermal treatment of oil shale. As a result of all the measures described above, we have managed to reduce more than twice the SO_2 emissions from the Eesti power plant and they now remain below 25,000 tonnes per annum. This allows us to keep the electricity generation capacity largely unchanged, while meeting environmental requirements.

In addition to reducing SO_2 emissions, the NID desulphurisation equipment we installed also helped to reduce the amount of fly ash in emitted flue gases. The reduction of fly ash emissions contributes to our goal of reducing the environmental impact of energy generation and allows us to increase the amount of oil shale to be processed while meeting environmental requirements.

We reduced more than twice the SO_2 emissions

In the past financial year we also commenced preparations for installing equipment to reduce NO_x emissions. The equipment will be installed in energy generating units already fitted with NID systems, and the process is to be completed by the end of 2015 at the latest.

Diversification of Energy Generation Portfolio

Eesti Energia is constantly focusing on reducing the CO_2 intensity of the electricity it generates. To achieve this goal, we are diversifying the fuels we use with the share of biomass increasing, maximising the use of new equipment to improve the efficiency of electricity generation, implementing the combined production of liquid fuels and electricity in Enefit280 and increasing the use of wind power .

The new 300 MW power plant at Auvere will have a capacity to burn up to 50% biomass or 20% peat alongside oil shale, which will make Eesti Energia's energy generation portfolio more diverse. By using solid biomass that conforms to the sustainability criteria to diversify fuels, and increasing overall efficiency, we can reduce the emission of greenhouse gases in the electricity generation process.

In 2012, Eesti Energia started using a feeding system for co-combustion of biofuels and oil shale in the Balti power plant, which will allow the share of biofuel in CFB boilers to be increased to at least 50% of the fuel intake. In 2012, almost 365 GWh of renewable energy were generated from biomass, as woodchips weremainly co-fed into the fluidised bed boiler of the Balti power plant. Besides wood, peat can also be burnt algonside oil shale in CFB boilers.

Increasing the Resource Usage Efficiency

The large amounts of waste produced in the process of oil shale mining and the usage of oil shale for power generation make us the largest waste-generating company in Estonia. We consider maximising the recycling of waste and by-products generated in the process, especially mine waste and oil shale ash, extremely important for reducing our environmental impact. In 2012, we continued working to increase the efficiency of resources used mainly by creating more opportunities for recycling mine waste and oil shale ash.

Although Eesti Energia has sufficient capacity for making crushed stone from mine waste (mainly used in engineering of infrastructure objects), its use is mainly restricted by the distances between mine and the areas where construction activity is most intensive, and the inadequate logistics system that relies on rail transport. We continue to use mine waste for the construction of facilities in Ida-Virumaa region.

To increase the use of recycled oil shale ash, we continued working on several development projects in 2012 in order to test new areas of application. For example, the OSAMAT project explores using oil shale ash as a foundation for the mass-stabilisation of road embankments in road construction. We also continue studying major mass-stabilisation projects in the ports of the Baltic Sea. In addition to new solutions, we have started to research opportunities for using granulated oil shale ash in agriculture to neutralise acidic soils. We have started to develop a new oil shale ash standard in cooperation with construction material industry and Tallinn University of Technology.

Key Environment Figures

PRODUCTION	2011	2012
Electricity (GWh)	10,428	9,378
Heat (GWh)	1,263	1,137
Liquid fuels (t tonnes)	184.5	211.1
Producer gas (million m³)	58.1	65.2

USED RESOURCES	2011	2012
Commercial oil shale (million tonnes)	15.8	14.8
Natural gas (million m³)	98.2	59.4
Biofuels (million tonnes)	0.4	0.5
Cooling water (million m³)	1,522.9	1,307.2
Pumped mining water (million m³)	224.8	203.0
incl. water from quarries (million m³)	131.8	112.2
incl. water from underground mines (million m³)	93.0	90.8

EMISSIONS	2011	2012
SO_2 (th tonnes)	56.8	23.2
incl. the Narva power plants (th tonnes)	56.6	23.1
NO_x (th tonnes)	12.8	9.9
Fly ash (th tonnes)	28.3	6.5
CO_2 (million tonnes)*	12.3	11.0

WASTE	2011	2012
Oil shale ash (million tonnes)	7.1	6.9
incl. recycled (th tonnes)	97.5	121.3
Mine waste (million tonnes)	9.0	8.1
incl. recycled (million tonnes)	8.1	7.6

WATER POLLUTANTS	2011	2012
Suspended matter (th tonnes)	1.7	1.1
Sulphates (th tonnes)	131.5	76.0

ENVIRONMENTAL FEES PAID	2011	2012
Resource fees (million euros)	28.7	30.4
Pollution fees (million euros)	19.8	17.8

* Preliminary figures

Teamwork

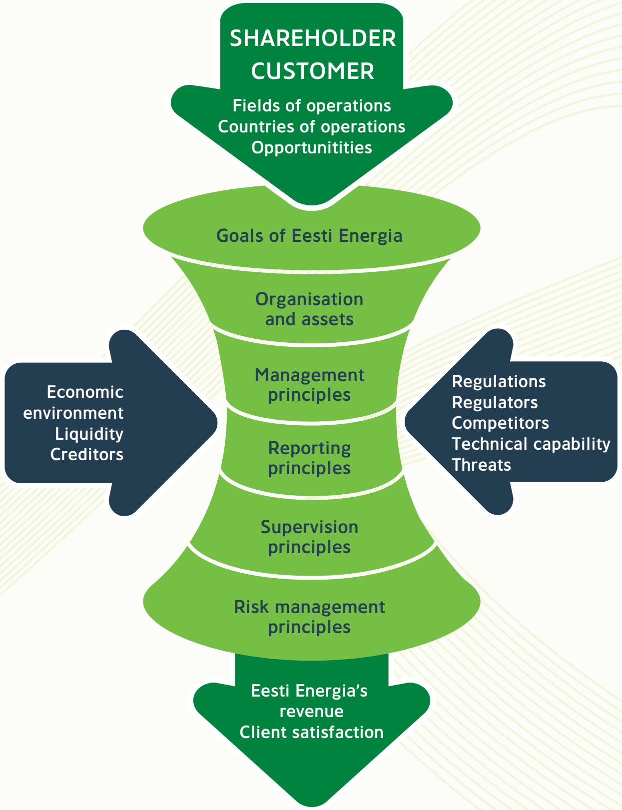
Katrin Tamsar, Katriin Loorents, Krista Tammäe, Erkki Lindepuu

Achiever of the Year 2012

Corporate Governance

The shares of Eesti Energia are owned by the Republic of Estonia. Due to the fact that the eurobonds of Eesti Energia are listed on London Stock Exchange and following the company's structure of ownership, we observe the following principles and laws in our corporate governance:

- The Combined Code on Corporate Governance (hereinafter the Combined Code), the set of principles of the United Kingdom's Financial Reporting Council;
- Selected principles of the Baltic Guidance on the Governance of Government-owned Enterprises (hereinafter the Baltic Guidance), drawn up by the Baltic Institute of Corporate Governance, which cover the expectations for management, financial reporting and auditing;
- The State Assets Act;
- The Commercial Code of Estonia;
- Eesti Energia's Articles of Association.



To make Eesti Energia's governance even more efficient, we have developed a corporate governance model using the following inter-linked components to ensure transparent and sound governance:

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

Supervisory Organisations and Legal Acts Regulating and Impacting the Operations of Eesti Energia

STATE SUPERVISION

Competition Authority

Technical Surveillance Authority

Environmental Inspectorate

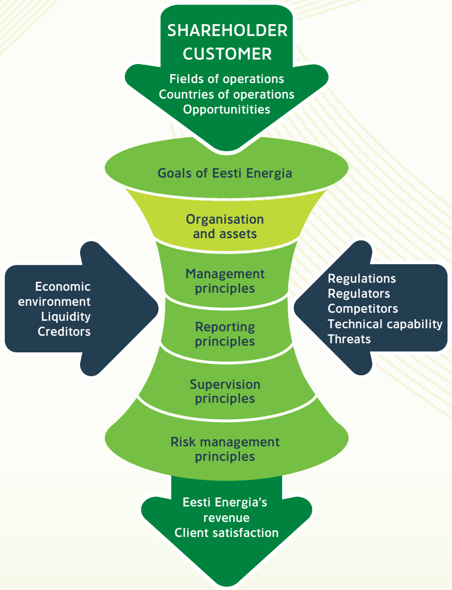
EESTI ENERGIA

LEGAL ACTS

- Earth's Crust Act
- Electricity Market Act
- District Heating Act
- Mining Act
- Grid Code
- Liquid Fuels Act
- Electrical Safety Act
- Water Act
- Chemicals Act
- Competition Act
- Metrology Act
- Environmental Impact Assessment Act
- Environmental Management System Act

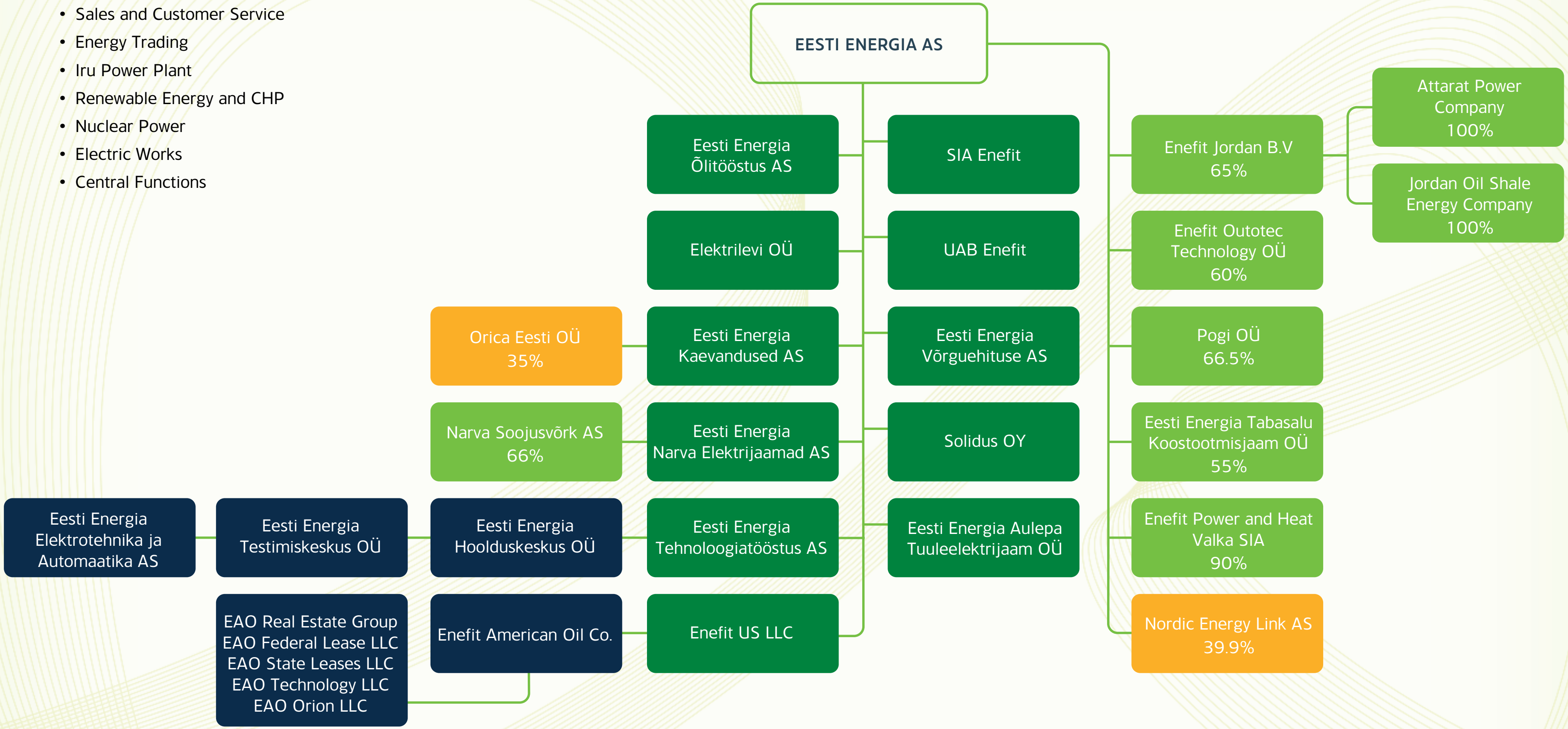
A Single Organisational Structure and Our Authority

It has been crucial for us to keep the organisation structure of Eesti Energia simple and rely above all on the Group's goals and requirements. Therefore we have separtaed the management structure from legal structure.



Legal Structure

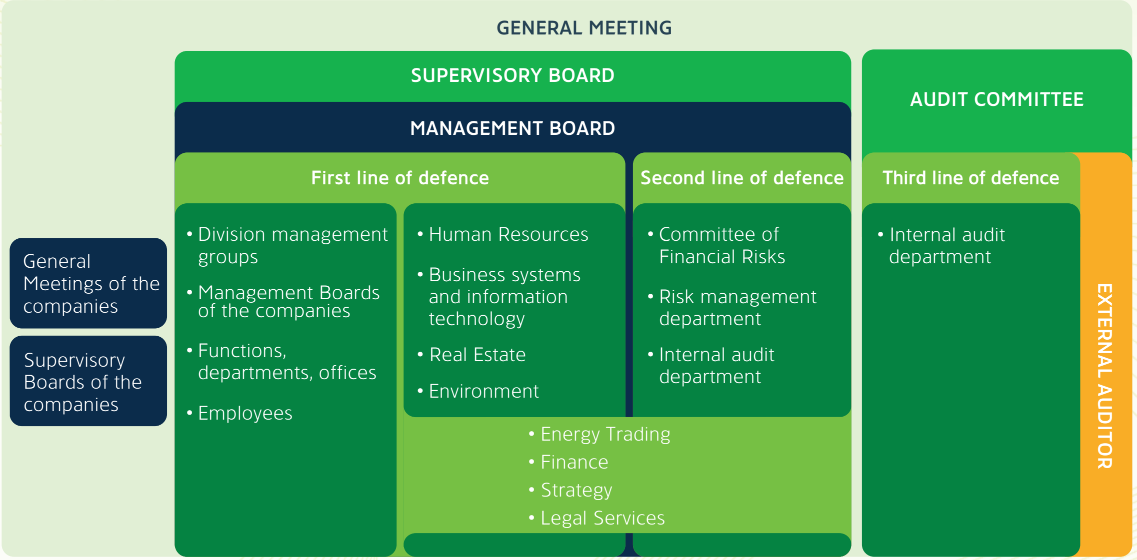
- Energy Sales
- Sales and Customer Service
- Energy Trading
- Iru Power Plant
- Renewable Energy and CHP
- Nuclear Power
- Electric Works
- Central Functions



- Owned 100% by Eesti Energia AS
- Owned 100% by Eesti Energia AS subsidiary
- Joint venture supported by Eesti Energia's corporate governance
- Minority interests

Our management structure is based on the acknowledged model where the operational management of the companies and its direct support functions form the first line of defence are responsible for the timely risk management and availability of sufficient internal control mechanisms.

The second line of defence ensures the efficient risk management of the Group, and the internal audit department, which is the third line of defence, provides to the assurance to the management bodies of the Group.



General Meeting

The shares of Eesti Energia are owned by the Republic of Estonia. The Ministry of Economic Affairs and Communications, represented by the Minister of Economic Affairs and Communications in the general meeting, holds sole shareholder rights.

The annual general meeting to approve the annual report is held at least once a year and no later than four months after the end of the financial year.

In 2012 the general meeting approved the decision to increase the share capital by 150 million euros by means of issuing new shares.

In the 2012 financial year Group subsidiary Televõrgu AS was sold in accordance with an earlier decision of the sole shareholder.

Other decisions:

- Approval of Eesti Energia's results for the financial year 2011 and the distribution of net profit;
- Extension of Supervisory Board members´ appointment terms;
- Discontinuation of electricity generation from renewable energy sources in the 11th power generation unit of Eesti Energia Narva Elektrijaamad AS.

Five general meetings were held.

Supervisory Board

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

Jüri Käo (47)

Chairman
Date appointed: 30 May 2007
Expiration of term: 25 May 2013

Meelis Atonen (46)

Member
Date appointed: 16 May 2005
Expiration of term: 19 May 2014

Rein Kilk (59)

Member
Date appointed: 30 May 2007
Expiration of term: 25 May 2013

Märt Vooglaid (44)

Member
Date appointed: 21 September 2011
Expiration of term: 20 September 2014

Kalle Palling (27)

Member
Date appointed: 26 November 2009
Expiration of term: 26 November 2015

Andres Saame (53)

Member
Date appointed: 1 July 2011
Expiration of term: 30 June 2014

Toomas Tauts (40)

Member
Date appointed: 1 July 2011
Expiration of term: 30 June 2014

Toomas Luman (53)

Member
Date appointed: 17 March 1998
Expiration of term: 20 September 2015

The primary functions of the Supervisory Board are:

- to enforce the strategy agreed at the General Meeting,
- to approve major strategic and tactical decisions, and to supervise the work of the Management Board of the Group.

The work of the Supervisory Board is organised by the Chairman of the Supervisory Board. The requirements and expectations for the Supervisory Board members are set forth in the State Assets Act. The Eesti Energia Supervisory Board is guided by its own rules of procedure, the Articles of Association, the General Meeting and the State Assets Act. No changes took place in 2012 among Supervisory Board members.

Supervisory Board meetings generally take place once a month, except during the summer. In the financial year 2012 the Supervisory Board held 10 meetings. The Supervisory Board fulfilled all its legal obligations and approved the following:

- Group´s budget for the financial year 2012;
- Group´s annual report for the financial year 2011;
- Issuance of Eurobonds worth 300 million euros;
- Dicontinuation of electricity generation from renewable energy sources in the 11th power generation unit of Eesti Energia Narva Elektrijaamad AS;
- Withdrawal of Harri Mikk, member of the Management Board and head of the Minerals, Oil and Biofuels Division.

The work of the Supervisory Board is organised by attorney at law Sven Papp of the law firm of Raidla Lejins & Norcous. The principles of remuneration for the members of the Eesti Energia Supervisory Board are regulated by the State Assets Act, under which the decisions on the level and conditions of payment are taken by the sole stockholder or sole shareholder. A regulation from the Minister of Finance sets the limits on the remuneration of the members of the Supervisory Board. A further payment can be made for participation in the work of bodies such as the Audit Committee run by the Supervisory Board. Members of the Supervisory Board are not paid severance pay or other additional payments beyond those for participation in the work of the Supervisory Board.

Participation of Supervisory Board Members in Meetings and the Total Remuneration Paid:

Name	Participation in meetings	Total remuneration in 2011(€)	Total remuneration in 2012 (€)	Change
Jüri Käo	10	5,675.40	5,808.40	2.3%
Rein Kilk	10	4,256.52	4,256.52	0.0%
Kalle Palling	10	4,256.52	4,256.52	0.0%
Meelis Atonen	9	3,901.81	3,990.52	2.3%
Toomas Luman	5	2,482.97	2,128.26	(14.3)%
Andres Saame*	9	2,128.26	3,990.52	87.5%
Toomas Tauts*	8	1,773.55	3,547.10	100.0%
Märt Vooglaid*	8	1,418.84	3,547.10	150.0%

Supervisory Boards of Subsidiaries

The powers and responsibilities of the Supervisory Boards of Eesti Energia's subsidiaries are set forth in their Articles of Association. The Supervisory Boards are generally comprised of members of the Eesti Energia Management Board. The exceptions include the following subsidiaries and associates:

- Enefit American Oil
  (Harri Mikk, Rikki Lauren Hrenko, Margus Kaasik, Stuart Rose),
- Enefit Jordan B.V.
  (Harri Mikk, Margus Kaasik, Andres Anijalg, Swee Huat Chan, Seok Yeoh Hong, Mohammad Maaitah),

* Andres Saame and Toomas Tauts were appointed on 1 July 2011 and Märt Vooglaid on 21 Septembril 2011

- Enefit Outotec Technology OÜ
  (Harri Mikk, Margus Kaasik, Indrek Aarna, Peter Weber, Andreas Orth, Mathias Noll),
- Narva Soojusvõrk AS
  (Tõnu Aas, Valery Trubin, Vladimir Šiškov, Vladimir Kalatš, Aleksei Mägi).

Meetings of the Supervisory Boards of subsidiaries take place as needed and are called for in accordance with the Group's internal rules, the subsidiary's Articles of Association, the law and the agreements with the company's other shareholders.

Management Board

The Management Board of Eesti Energia AS is responsible for operational management. There are five members of the Management Board, who are appointed by the Supervisory Board. The Chairman of the Board, who also performs the functions of the Managing Director, is appointed separately. At the end of financial year 2012 Harri Mikk withdrew from the Management Board. His resignation was approved by the Supervisory Board on 20 December. Management Board meetings generally take place once a week and if necessary voting can take place electronically. During the financial year 2012, 44 meetings and 4 electronic meetings were held.

The principles of remuneration for the members of Eesti Energia Management Board are regulated by the State Assets Act, under which the level of remuneration is set by the Supervisory Board. Members of the Management Board are paid their remuneration for fulfilling their responsibilities as Members of the Board. The remuneration is set out in the agreement signed with the Management Board member and can only be amended by mutual agreement. Management Board members are also paid bonuses within the restrictions set by the State Assets Act and the results of the Group, with maximum bonus of four monthly salaries. Bonus must be justified and reflect achievement of the Group's targets, value added and its market position. Severance pay may be paid only if the Supervisory Board recalls a member of the Management Board at its own initiative before the completion of the member's term. The amount of severance pay may not exceed three months' remuneration for the Management Board member.

Participation of Management Board Members in Meetings and the Total Remuneration Paid:

Name	Participation in meetings	Participation in electronic voting	Total remuneration in 2011 (€)	Total remuneration in 2012 (€)	Change
Sandor Liive	42	1	135,826.09	150,971.50	11.2%
Margus Kaasik	41	3	93,322.62	102,639.18	10.0%
Margus Rink	41	4	93,459.15	103,880.16	11.2%
Raine Pajo	40	2	93,353.72	102,838.59	10.2%
Harri Mikk	35	3	92,604.13	109,552.54	18.3%

The CEO and members of the Management Boards of the subsidiaries are appointed by the Supervisory Boards of the subsidiaries.

MEMBERS OF THE BOARD: | EXPERIENCE: | EDUCATION:

Sandor Liive (42)
Chairman of the Board and CEO

Date appointed:
1 December 2005
(Member of the Board
since 31March 1998)

Expiration of term:
30 November 2014

Experience:

- 1998–2005 CFO, Eesti Energia
- 1995–1998 CFO, head of Treasury, Tallinna Sadam

Education:

- Tallinn Technical University, degree in Financial Management
- Tallinn Technical University, studying for doctorate
- Stanford Graduate School of Business (The effective use of power, 2012)
- IMD, Lausanne, Switzerland (2012, 2004)
- INSEAD (Advanced Management Program, 2007)

Margus Kaasik (39)
Member of Board, CFO

Date appointed:
1 December 2005

Expiration of term:
30 November 2014

Experience:

- 2001–2005 Head of Management Accounting, Eesti Energia
- 2000–2001 Financial Manager, Distribution network service provider Jaotusvõrk
- 1994–1999 CFO, Koger & Sumberg Grupp

Education:

- Tallinn university of Technology, Faculty of Economics, diploma in Business Administration
- Tallinn university of Technology, Faculty of Economics, Master in Business Administration

Margus Rink (40)
Member of Board,
Head of Retail Business division

Date appointed:
14 April 2008

Expiration of term:
13 April 2016

Experience:

- 1996–2008 different positions including Head of Personal and Retail Banking, Hansapank (current Swedbank)

Education:

- University of Tartu, degree in Financial Management
- University of Tartu, MA of Business Administration
- INSEAD (International Executive Programme, 2005)
- Oxford Said Business School (Advanced Management and Leadership Programme, 2012)

Raine Pajo (36)
Member of Board,
Head of the Electricity and
Heat Generation division

Date appointed:
1December 2006

Expiration of term:
30 November 2014

Experience:

- 2000–2006 various positions including Member of the Board, Head of Development Department, Director of the Electrical Grid Planning Division, Põhivõrk (current Elering)
- 1999–2000 Finnish TSO Fingrid

Education:

- Tallinn University of Technology, degree in Electrical Engineering
- Tallinn University of Technology, M.Sc. and Doctor of Engineering
- Tallinn University of Technology, MA in Business Administration

Harri Mikk (39)
Member of Board,
Head of Minerals,
Oil and Biofuels division

Date appointed:
1 December 2006

Expiration of term:
31 December 2012

Experience:

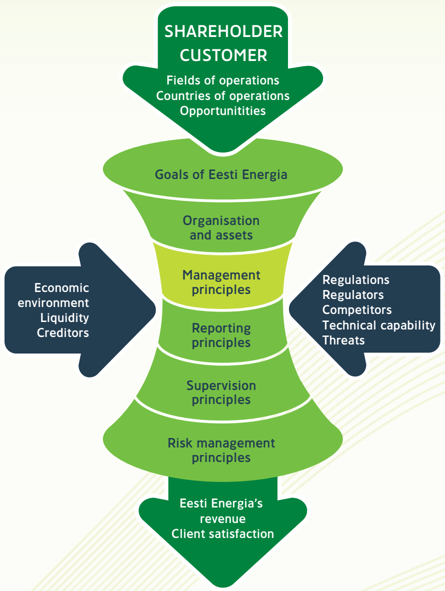
- 2001–2006 General Counsel, Eesti Energia
- 2000–2001 Domestic Policy Advisor, Office of the President of the Republic of Estonia
- 1994–2000 various positions, Ministry of Justice of the Republic of Estonia

Education:

- University of Tartu, BA in Law
- University of Hamburg, Master of Laws

Clear and Accepted Principles of Management

Eesti Energia treats the unambiguous and simple principles of management as a whole supporting integrated multi-directional exchange of information. The Group's Management Board is responsible for the development and implementation of these principles.



Business Divisions

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

- to coordinate and monitor the implementation of key decisions;
- to ensure cooperation between the companies in the division;
- to develop a strategic plan for the division;
- to approve the strategic decisions of the division;
- to approve transactions over 300,000 euros in value except for sales transactions and transactions in the Electricity and Heat Generation Division, for which the limit is 60,000 euros;
- to approve the initiation of investment projects over 300,000 euros in value and the addition of such projects to the strategic plan, including the preliminary analysis and research, before the project is discussed by the Group's Management Board or the company's Supervisory Board;
- to set transfer prices within the division;
- to monitor strategic projects within the division;
- to monitor the results of the division and the division's companies, and to update forecasts;
- to give feedback to companies in the division;
- to organise the exchange of information and cooperation between the companies in the division, and to resolve disagreements between them.

The meetings of the division management groups generally take place once a week. No material changes took place during the financial year 2012 in the work of the division management groups.

Support Services

The support services that are run at Group level to help us achieve our business goals are:

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

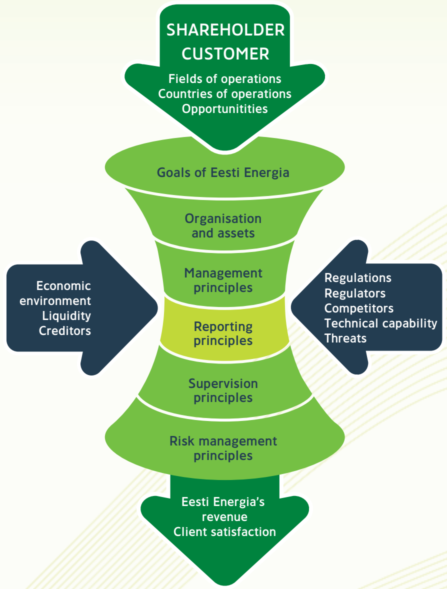
Exception from the Management Structure

Under the Electricity Market Act, Elektrilevi, as the distribution network operator, must ensure, among other things, that the access to customer and business data is separated between network operators and electricity sellers by procedures and technological solutions. For this purpose Eesti Energia has implemented exceptions from the management structure, which ensure independence when deciding on investments, conducting procurements and maintaining the confidentiality of information about customer contracts. We also clearly separate Elektrilevi from other segments as far as financial reporting is concerned.

In the financial year 2012 there were no major changes to our management principles. The focus still remains on increasing efficiency, maximising the use of the Group's resources and on optimal outsourcing of services. Two new members were added to Elektrilevi Management Board in 2012; the name of the company was changed and the organisation was reformed. Major developments in the information systems supporting the management structure also took place to provide services to various electricity sellers in the light of electricity market opening for all retail customers from the beginning of 2013.

Agreed Reporting Principles

Getting sufficient and timely information is the basis of top-quality management. It is important that reporting is factual and forward-looking, allowing the best information to be used to avoid risks being realised and to turn them instead into competitive advantage.

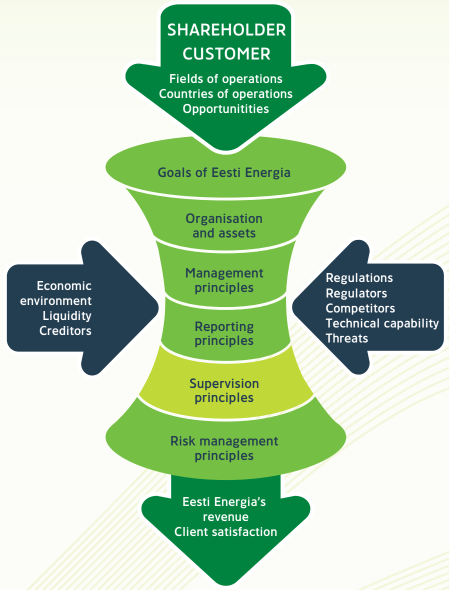


Financial reporting mainly focuses on the consolidated reporting of financial results of the Group's units. We give out information that concerns company operations and that may have an impact on the price of the Eurobond in accordance with the rules of the London Stock Exchange using its information system. We release information that is expected not to impact the Eurobond price through domestic media channels. In both cases, we adhere to the Group's rules for handling insider information before releasing the information.

Management reporting is mainly used internally within the Group. There is a distinction between the performance based reporting which focuses on a variety of the Group's and companies' results, and the project based reporting which focuses on analysing the application of investments and developments. We constantly review the factors that influence the achievement of the agreed goals in order to improve our reporting. We update the information about various management and product levels at different intervals, which have been set depending on how urgent a matter is. In the financial year 2012 the Group made further investments in the development of independent reporting, which will contribute to the separation of reporting from current management and responsibility and increase its reliability. Management reporting is the task of the Group's Management Reporting Department.

Effective Supervision

Eesti Energia Group has implemented multi-level and balanced supervision system, which focuses on the most serious risks. Risk-based supervision allows us to adapt our activities in a flexible manner and support the achievement of our goals as much as possible.



Audit Committee

Eesti Energia Supervisory Board has appointed the Audit Committee primarily from its own members and assigned Audit Committee's rights and duties in accordance with the approved procedural rules. Work of the Audit Committee is governed principally by the statutes of the Audit Committee and the Authorised Public Accountants Act. The Audit Committee has four members. The number of committee members is decided by Eesti Energia Supervisory Board, which also nominates the chairman. The primary function of the Committee is to provide consultation to the Supervisory Board in supervision related matters.

The Committee reviews and monitors:

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

The Committee participates:

- in ensuring the independence of the external audit,
- in planning and evaluating the internal audit.

Meetings of the Audit Committee take place to an agreed schedule, and at least once a quarter. In the financial year 2012, seven ordinary meetings were held.

The Audit Committee submits a report to the Supervisory Board twice a year. Interim report was submitted to the Supervisory Board by the Audit Committee on 20 September 2012. The Audit Committee's report is submitted to the Supervisory Board before the Supervisory Board approves the annual report. The Audit Committee's approval is presented on page 70.

The work of the committee is organised by Heikko Mäe, Risk Management and Internal Audit Service Director of Eesti Energia. Subsidiaries do not have audit committees. The internal audit function of the Group allows the Audit Committee to get any information about subsidiaries that it needs for its analyses.

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

In the financial year 2012 the Audit Committee fulfilled its duties set forth in procedural rules.

The financial audit is based on the International Standards on Auditing. Under Eesti Energia's Articles of Association, the financial auditor is appointed by the General Meeting, which confirmed PwC as the financial auditor for the financial years 2011–2013 following a competition. Depending on the country where the company is located the signatory auditor may be different. Sworn Auditor Ago Vilu signs the consolidated annual report.

Members of Audit Committee




	Jüri Käo (47)	Meelis Atonen (46)	Andres Saame (53)	Meelis Vikerbau (54)
	Chairman	*Member*	*Member*	*Member*
Date appointed	17 December 2009	17 December 2009	22 September 2011	17 December 2009
Expiration of term	16 December 2015	16 December 2015	21 September 2014	16 December 2015

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

The audit plan for 2012 was approved by the Audit Committee. PwC presented its results in two stages:

1. the results of the interim audit were presented at the meeting of the Audit Committee on 20 December 2012, and
2. the results of the final audit, at the meeting of the Audit Committee on 28 February 2013.

The auditor' opinion on the annual report is presented on page 149.

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

In the financial year 2012, PwC did not provide Eesti Energia any services that could have compromised the auditor's independence. We find that the audit for 2012 meets all regulatory standards, international standards and other expectations.

Participation of Audit Committee Members in Meetings and the Total Remuneration Paid:

Name	Participation in meetings	Total remuneration in 2011 (€)	Total remuneration in 2012 (€)	Change
Jüri Käo	7	665.00	931.00	40.0%
Meelis Virkebau	7	889.35	1,424.00	60.1%
Meelis Atonen	7	354.84	620.97	75.0%
Andres Saame*	6	88.71	532.26	500.0%

* Andres Saame was appointed on 1 July 2011

Internal Audit

The procedure of internal auditing is based on the international audit standards of the International Professional Practices Framework. The work of the internal audit service covers the entire Group.

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

A system for reporting economic interests has been introduced where employees who may have conflicts of interest in their work can declare their own economic interests and confirm their independence through regular self-assessment. To the knowledge of Eesti Energia, the members of the Group's Management Board and of the Management Boards of subsidiaries had no conflicts of interest in the financial year 2012 and no transactions with associated parties dissimilar from market terms.

We consider the following to be associated parties:

- entities in which the shareholder of Eesti Energia has a material holding of more than 50%,
- Eesti Energia's associated companies, and
- members of the Management Board and Supervisory Board and companies associated with them.

Details of transactions with associated parties in the financial year 2012 can be found on page 143 of the financial statements.

The handling of insider information in Eesti Energia is subject to requirements concerning insider information as the Group has issued Eurobonds listed on the London Stock Exchange. Proper handling of insider information is important to protect the interests of bondholders and ensure the fair trading of bonds. All bondholders and potential investors must have access to significant information on Eesti Energia and its subsidiaries in a timely, consistent manner and on equal conditions, so that they all get the same amount of information at the same time and in the same manner.

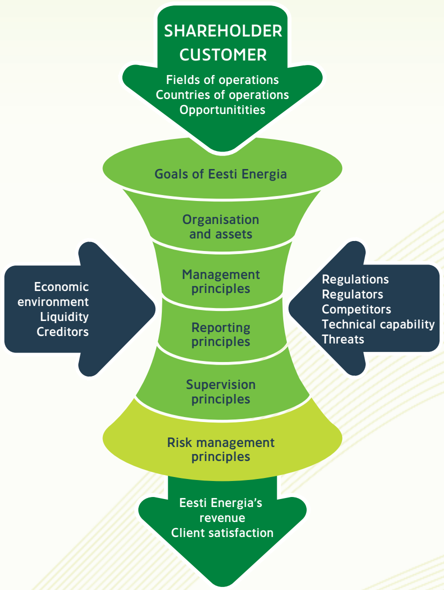
It is inevitable that at certain times, due to their position, some people connected with Eesti Energia will have more information about the Group than investors and the public. To prevent the misuse of such information, we have established procedures to protect insider information.

To our knowledge there were no cases of the misuse of insider information in the financial year 2012.

The management report for the financial year 2012 was submitted to the Audit Committee on 28 February 2013. The internal audit reports are available to the auditor as well.

Risk Management

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



Risk management is based on the Group's unified risk management principles. The process is coordinated by the risk management department. Each company in the Group ensures that risks are managed on an ongoing basis, and that they do not jeopardise achievement of the company's goals. Taking risks is a normal part of business, but there should be certainty that each unit can continue to carry out its functions sustainably, should the risks materialise. In other words, the Group must not incur losses that exceed the limits of its risk tolerance.

Risk reports for the whole Group and for each division are submitted to the management groups of the divisions, the Group's Management Board and the Audit Committee twice a year. If necessary, the risk report is also presented to the Group Supervisory Board. The risk report is a key input in the planning of internal audit activities.

Risk management is based on the Group's unified risk management principles.

For the implemented risk management model, we have distributed risks and our risk readiness into five major categories, and we use the operations and strategies customised for the specific group to manage those risks.

BUSINESS RISKS

We take those risks to increse revenues (except for compliance).

MARKET RISKS / **FINANCIAL RISKS**

We seek to control and minimise these risks, as they are an integral part of our business operations. However, taking these risks will not bring additional revenue to the company or it is not our core activity.

OPERATIONAL RISKS

ENVIRONMENTAL RISKS

HEALTH AND SAFETY RISKS

Risks we are not ready to take as taking them would threaten our reputation and would not bring us any revenue.

We seek to control and minimise these risks as they are an integral part of our business operations.

PROJECT RISKS

We take those risks to increase revenue.

In each category, we have developed specific risk management strategies, risk measurement related reporting, and determined the parties within the Group responsible for the management of those risks. To assess the Group's risk tolerance, we continued developing the analysis covering the Group's cumulative risk tolerance impact, which will allow us to make informed decisions about risk hedging, risk taking or refraining from taking risks.

We find that in the past financial year we based the risk management on our risk appetite and stayed within its limits.

BUSINESS RISKS

Identification	Assessment	Management	Summary
The identification of these risks is performed regularly by our business managers, product managers and legal advisors. Numerous business risks are associated with regulatory environment, and therefore we regard them as external risks.	The assessment of these risks is based on the levels of uncertainty.	We use the measures of the compliance process to manage these risks: identifying changes in regulations, participating in the development of such changes, implementing the changes within the organisation, ongoing compliance monitoring, identifying cases of non-compliance and working with them.	The most important change for us in the financial year 2012 was the closer monitoring of the conditions and regulations that affect business risk management. As far as Estonian regulations are concerned, the most attention was paid to the changes in legislation concerning the restrictions applied to the renewable energy generation subsidies as well as the Electricity Market Act and the Network Regulation that regulate the electricity market opening for retail customers from 1 January 2013.

MARKET RISKS

Identification	Assessment	Management	Summary
Market risks include the risks associated with electricity, oil and CO_2 emission allowance prices as well as exchange rate and interest rate changes. As we add new business activities, we always assess the probability of additional market risks.	The assessment of these risks is based on weighing various risk positions against our risk tolerance.	Risk management strategies vary depending on the risk position and the market. We also take the goals of the Group into consideration in managing these risks. One of the essential goals of market risk management is profit maximization.	As the result of the ongoing activities of the Energy Trading department, the Finance department and the Committee of Financial Risks, a crucial contribution was made to hedging market risk for future periods for us to achieve the expected profit set forth by the management strategy.

FINANCIAL RISKS

Identification	Assessment	Management	Summary
Financial risks include the credit risk and liquidity risk associated with our risk profile. As we add new business activities, we always assess the probability of new additional risks.	The assessment of these risks is based on weighing various risk positions against our risk tolerance.	Risk management strategies vary depending on the risk position, credit ratings and the limits applied to us by our creditors. Earning profit is never a goal of taking these risks.	There were no major changes in the management of these risks in the past financial year. The activities of the Finance department and the Committee of Financial Risks still aimed to assess the risks in more detail and to find better strategies for a more informed management of these risks. We found it crucial to keep our financing opportunities versatile and competitive and to diversify risks associated with partners.

OPERATIONAL RISKS

Identification	Assessment	Management	Summary
Identifying these risks is a regular task of almost all the employees of our organisation. We realise that reaching each and every employee to increase risk management awareness is not easy, so we have created intermediate levels of process owners who play an important role in the identification and management of operational risks.	Risk assessment categories have been unified throughout the Group and are based on the goals influenced by the risks and the extent of their influence.	Risk management measures include control and risk hedging measures on the levels of various processes. We use insurance to hedge major risks that can affect our risk tolerance.	Our risk management focuses on ongoing large-scale implementation of safety standards and regulations at all production stages. In addition to ensuring compliance, we manage other risks that can pose a threat to us achieving the goals of the organisation or separate processes. We also focus on the management of every possible risk that endangers the adequacy of performance values and indicators and use insurance to hedge major risks.

PROJECT RISKS

Identification	Assessment	Management	Summary
Experts who participate in the preparation, development and implementation of the Group's new development and investment projects identify these risks. We have systematically implemented individual processes and operating principles for that purpose.	The assessment of these risks is partly covered by the assessment of operational risks, but it is wider as we must take into consideration all the other risk categories. The categories we use to assess these risks depend on their influence on our goals.	To manage these risks, we mainly use systematic monitoring and planning of our activities so that we can minimise the impact of the risks and increase the profitability of our projects.	In managing these risks we mainly focused on analysing the risks associated with each stage of a particular project and taking the impact of the risks into consideration in the assessment of the project risk-return analysis. We have also organised regular reporting to the Management Board and the Supervisory Board to provide the management levels with the latest information.

Conformity to Principles of Good Corporate Governance

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

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

The following legislative non-conformities were found between the Combined Code and our activities in the 2012 financial year:

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

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

Representation of the Management Board

In the financial year 2012, the Eesti Energia Management Board complied as required with the duties of members of the Management Board, and led the Eesti Energia Group to achieve its targets. The Management Board has regularly reported to the Supervisory Board, has acted within its powers and has submitted all of the information necessary for decision-making to the Supervisory Board. The Management Board is aware of and hereby confirms its responsibility for the preparation of the annual report and for the data therein.

27 February 2013

Chairman of the Management Board

Sandor Liive

Members of the Management Board

Margus Kaasik

Raine Pajo

Margus Rink

Representation of the Audit Committee

The work of the Audit Committee in the financial year 2012 has been based on the statutes of the Committee and its plan of activity. No restrictions have been imposed on our actions, and the Group's representatives have made all necessary information available to us. Well-defined reporting lines have ensured a fluent flow of necessary information to us. We have informed the members of the Management Board of our opinions and related suggestions based on the work of the Committee.

During the financial year 2012, we have assessed the following points that have an impact on the operations of the Group:

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

he Audit Committee as the body that creates confidence and is responsible for supervision finds that the activities of the Eesti Energia Group do not show any flaws of which the management is unaware or which could have a material impact on the Annual Report for the financial year 2012.

We have submitted our assessments with the activity report to the Supervisory Board of Eesti Energia on 28 February 2013.

Andres Saame
Member of the Audit Committee
28 February 2013

Consolidated financial statements

Consolidated Income Statement

in million EUR	1 January - 31 December 2012	2011	Note
Revenue	822.1	831.9	5,26
Other operating income	46.4	25.6	27
Change in inventories of finished goods and work-in-progress	9.9	3.9	
Raw materials and consumables used	(380.4)	(389.7)	28
Payroll expenses	(151.6)	(135.6)	29
Depreciation and amortisation	(115.0)	(95.6)	5, 6, 8, 33
Impairment	(63.3)	(1.5)	5, 6, 33
Other operating expenses	(68.0)	(71.0)	30
OPERATING PROFIT	**100.1**	**168.0**	5
Financial income	3.2	4.1	31
Financial expenses	(8.4)	(7.3)	31
Net financial income (-expense)	**(5.2)**	**(3.2)**	31
Profit (loss) from associates using equity method	(0.2)	(0.9)	5, 9, 33

in million EUR	1 January - 31 December 2012	2011	Note
PROFIT BEFORE TAX	**94.7**	**163.9**	
Corporate income tax expense	**(17.8)**	**(14.7)**	5,32
PROFIT FOR THE YEAR	**76.9**	**149.2**	5
PROFIT ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**77.3**	**149.3**	
Non-controlling interest	**(0.4)**	**(0.1)**	
Basic earnings per share (euros)	*0.14*	*0.32*	38
Diluted earnings per share (euros)	*0.14*	*0.32*	38

The notes on pages 71-151 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

in million EUR	1 January - 31 December 2012	2011	Note
PROFIT FOR THE YEAR	**76.9**	**149.2**	
Other comprehensive income			
Revaluation of hedging instruments	11.9	34.2	21
Currency translation differences attributable to foreign subsidiaries	(1.1)	3.5	
Other comprehensive income for the year	**10.8**	**37.7**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**87.7**	**186.9**	
ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**88.1**	**187.0**	
Non-controlling interest	**(0.4)**	**(0.1)**	

The notes on pages 71-151 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

in million EUR	31 December 2012	31 December 2011	Lisa
ASSETS			
Non-current assets			
Property, plant and equipment	1,988.4	1,658.6	5, 6
Intangible assets	58.7	56.1	5, 8
Investments in associates	21.3	23.3	5, 9
Derivative financial instruments	7.5	13.6	11, 13, 4
Long-term receivables	26.0	17.9	12
Total non-current assets	**2,101.9**	**1,769.5**	
Current assets			
Inventories	48.3	37.9	10
Greenhouse gas allowances	11.6	28.0	8
Trade and other receivables	174.6	125.2	12
Derivative financial instruments	9.2	8.1	11, 13, 14
Available-for-sale financial assets	-	10.2	11, 14, 15
Financial assets at fair value through profit or loss	1.7	4.9	11, 16
Deposits at banks with maturities of more than three months	90.0	-	11, 14, 17
Cash and cash equivalents	60.1	40.9	11, 14, 18
Total current assets	**395.5**	**255.2**	
Assets of disposal group classified as held for sale	**-**	**11.8**	35
Total assets	**2,497.4**	**2,036.5**	5

in million EUR	31 December 2012	31 December 2011	Lisa
EQUITY			
Capital and reserves attributable to equity holder of the Parent Company			
Share capital	621.6	471.6	19
Share premium	259.8	259.8	
Statutory reserve capital	47.2	47.2	19
Hedge reserve	11.5	(0.4)	21
Unrealised exchange rate differences	2.4	3.5	
Retained earnings	465.6	453.5	19
Total equity and reserves attributable to equity holder of the Parent Company	**1,408.1**	**1,235.2**	
Non-controlling interest	**1.0**	**1.4**	
Total equity	**1,409.1**	**1,236.6**	
LIABILITIES			
Non-current liabilities			
Borrowings	731.4	434.7	11, 22
Other payables	2.4	0.4	23
Derivate financial instruments	0.3	1.9	11, 13
Deferred income	136.6	126.4	24
Provisions	23.9	31.1	25
Total non-current liabilities	**894.6**	**594.5**	
Current liabilities			
Borrowings	1.4	1.5	11, 22
Trade and other payables	174.9	176.1	23
Derivative financial instruments	2.1	9.2	11, 13
Deferred income	2.4	0.2	24
Provisions	12.9	14.4	25
Total current liabilities	**193.7**	**201.4**	
Liabilities of disposal group classified as held for sale	**-**	**4.0**	35
Total liabilities	**1,088.3**	**799.9**	5
Total liabilities and equity	**2,497.4**	**2,036.5**	

The notes on pages 71-151 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

in million EUR	1 January - 31 December 2012	1 January - 31 December 2011	Note
Cash flows from operating activities			
Cash generated from operations	227.4	187.9	33
Interest and loan fees paid	(26.2)	(17.1)	
Interest received	1.1	5.6	
Corporate income tax paid	(17.1)	(14.6)	
Net cash generated from operating activities	**185.2**	**161.8**	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	(499.4)	(417.3)	
Proceeds from connection and other fees	15.0	12.4	24
Proceeds from sale of property, plant and equipment	5.0	2.8	
Proceeds from grants of property, plant and equipment	2.2	-	
Dividens received from long-term financial investments	1.4	1.3	9
Net change in deposits at banks with maturities of more than 3 months	(90.0)	181.4	11, 14, 17
Net change in cash restricted from being used	(16.4)	46.1	12
Loans granted	(5.2)	(4.1)	
Loans repayments	2.9	5.3	
Purchase of short-term financial investments	(19.3)	(47.9)	16
Proceeds from sale and redemption of short-term financial investments	32.8	46.5	15, 16
Acquisiton of subsidiaries, net of cash acquired	-	(31.4)	37
Proceeds from disposal of subsidiaries	22.1	6.3	9, 36
Net cash used in investing activities	**(548.9)**	**(198.6)**	
Cash flows from financing activities			
Bank loans received	27.5	138.1	
Proceeds from bonds issued	297.0	-	22
Repayments of bank loans	(26.4)	(59.1)	
Proceeds from non-controlling interest	-	0.7	
Contribution to the share capital	150.0	-	19
Dividends paid	(65.2)	(56.1)	20
Net cash used in financing activities	**382.9**	**23.6**	
Net cash flows	**19.2**	**(13.2)**	
Cash and cash equivalents at beginning of the period	40.9	54.8	11, 14, 18
Cash and cash equivalents classified as held for sale	-	*0.3*	
Cash and cash equivalents of subsidiaries classified as associates	-	*(1.0)*	9
Cash and cash equivalents at end of the period	60.1	*40.9*	11, 14, 18
Net increase/(-)decrease in cash and cash equivalents	**19.2**	**(13.2)**	

The notes on pages 71-151 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in million EUR	Attributable to equity holder of the Company						Non-controlling interest	Total equity	Note
	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	Total			
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**(34.6)**	**360.3**	**1,104.3**	**2.8**	**1,107.1**	
Profit for the year	-	-	-	-	149.3	149.3	(0.1)	149.2	
Other comprehensive income for the year	-	-	-	37.7	-	37.7	-	37.7	
Total comprehensive income for the year	**-**	**-**	**-**	**37.7**	**149.3**	**187.0**	**(0.1)**	**186.9**	
Dividends paid	-	-	-	-	(56.1)	(56.1)	-	(56.1)	20, 32
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**(56.1)**	**(56.1)**	**-**	**(56.1)**	
Decrease in non-controlling interest due to the disposal of subsidiaries	-	-	-	-	-	-	(2.6)	(2.6)	9, 36
Increase in non-controlling interest due to the acqusition of a subsidiaries	-	-	-	-	-	-	0.6	0.6	37
Proceeds from non-controlling interest	-	-	-	-	-	-	0.7	0.7	
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**(56.1)**	**(56.1)**	**(1.3)**	**(57.4)**	
Equity as at 31 December 2011	**471.6**	**259.8**	**47.2**	**3.1**	**453.5**	**1,235.2**	**1.4**	**1,236.6**	
Profit for the year	-	-	-	-	77.3	77.3	(0.4)	76.9	
Other comprehensive income for the year	-	-	-	10.8	-	10.8	-	10.8	
Total comprehensive income for the year	**-**	**-**	**-**	**10.8**	**77.3**	**88.1**	**(0.4)**	**87.7**	
Contribution to the share capital	150.0	-	-	-	-	150.0	-	150.0	
Dividends paid	-	-	-	-	(65.2)	(65.2)	-	(65.2)	20, 32
Total contributions by and distributions to owners of the company, recognised directly in equity	**150.0**	**-**	**-**	**-**	**(65.2)**	**84.8**	**-**	**84.8**	
Equity as at 31 December 2012	**621.6**	**259.8**	**47.2**	**13.9**	**465.6**	**1,408.1**	**1.0**	**1,409.1**	

The notes on pages 71-151 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 December 2012 include the financial information concerning Eesti Energia AS (parent company, legal form: public limited company) and its subsidiaries (the Group) and the Group's participation in associated entities.

Eesti Energia is an international company that provides customers with complex energy solutions from heat, electricity and fuel to sales, maintenance and additional services. The Group operate in the Baltics, Finland, the USA and Germany. The Group has investments in associates which operate in Jordan.

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

These consolidated financial statements of the Group were authorised for issue by the Management Board on 27 February 2013. Under the Commercial Code of the Republic of Estonia, the annual report must additionally be approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

2. Summary of principal accounting and reporting policies

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

2.1 Basis of Preparation

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

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

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

2.2 Changes in Accounting Policy and Disclosures

(a) Adoption of New or Revised Standards and Interpretations

There are no new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact to the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

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

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

The adoption of the standard may have an effect on the measurement of the Group's financial assets. As at the date of authorisation of these consolidated financial statements for issue, the European Union had not yet endorsed this standard.

- IFRS 10, Consolidated Financial Statements. The standard will be mandatory for the Group from 1 January 2014. The standard replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The standard may have an effect on the recognition of subsidiaries and associated companies.
- IFRS 12, Disclosure of Interest in Other Entities. The standard will be mandatory for the Group from 1 January 2014. The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet

these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities The standard requires additional information to be disclosed in the consolidated financial statements.

- IFRS 13, Fair Value Measurement. The standard will be mandatory for the Group from 1 January 2013. The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard may have an effect on the estimation of the fair value of the assets and liabilities recognised in the fair value and the disclosures in the consolidated financial statements.
- IAS 27 (revised 2011), Separate Financial Statements. The amended standard will be mandatory for the Group from 1 January 2014. The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The standard may have an effect on the disclosures in the parent company's separate financial statements.
- Presentation of Items of Other Comprehensive Income, amendments to IAS 1. The standard will be mandatory for the Group from 1 January 2013. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine. The interpretation will be mandatory for the Group from 1 January 2013. The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. The interpretation may have an effect on the recognition of the mining costs in the consolidated financial statements.
- Offsetting Financial Assets and Financial Liabilities, amendments to IAS 32. The standard will be mandatory for the Group from 1 January 2014. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard may have an effect on the recognition of the financial assets and financial liabilities in the statement of financial position.
- Disclosures—Offsetting Financial Assets and Financial Liabilities, amendments to IFRS 7. The standard will be mandatory for the Group from 1 January 2013. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

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

2.3 Preparation of Consolidated Financial Statements

(a) Subsidiaries

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

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

(c) Disposal of subsidiaries

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

(d) Associates

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

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

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

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

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

2.4 Segment Reporting

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

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

(a) Functional and Presentation Currency

Group entities use the currency of their primary economic environment as their functional currency. The consolidated financial statements are presented in euros, that is the functional currency of the parent company and presentation currency of the Group. The financial statements have been rounded to the nearest million, unless stated otherwise.

(b) Foreign Currency Transactions and Assets and Liabilities Denominated in a Foreign Currency

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

(c) Consolidation of Foreign Subsidiaries

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

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

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

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

2.6 Classification of Assets and Liabilities as Current or Non-current

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

2.7 Property, Plant and Equipment

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

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

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

Subsequent expenditures incurred for items of property, plant and equipment are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the asset can be measured reliably. The replaced component or proportion of the replaced item of PPE is de-recognised. Costs related to ongoing maintenance and repairs are charged to the income statement. Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings	30-40 years
Facilities, including	
electricity lines	12.5-50 years
other facilities	10-40 years
Machinery and equipment, including	
transmission equipment	5-40 years
power plant equipment	7-20 years
other machinery and equipment	3-30 years
Other property, plant and equipment	3-8 years

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

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

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

2.8 Intangible Assets

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

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

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

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

(a) Goodwill

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

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

(b) Development Costs

Development costs are costs that are incurred in applying research findings for the development of specific new products or processes. Development costs are capitalised if all of the criteria for recognition specified in IAS 38 have been met. Capitalised development costs are amortised over the period during which the products are expected to be used. Expenses related to starting up a new business unity, research carried out for collecting new scientific or technical information and training costs are not capitalised.

(c) Contractual Rights

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

(d) Computer Software

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

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

- it is technically feasible to complete the software product so that it will be available for use;

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

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

(e) Right of Use of Land

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

(f) Greenhouse Gas Emission Allowances

Greenhouse gas emission allowances controllable by the Group are accounted for as current asset. Greenhouse gas emission allowances received from the state free of charge are recognised at zero cost. Any additionally purchased allowances are recognised at purchase cost or at the market price, if the Group has acquired the greenhouse gas emission allowances more than presumably needed and the Group has a plan to sell the allowances. If the quantity of greenhouse gases emitted exceeds allowances received, a provision is set up for the difference (Note 2.24).

(g) Exploration and Evaluation Assets of Mineral Resources

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

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

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

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;

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

(h) Mining Rights

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

2.9 Impairment of Non-financial Assets

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

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

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

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

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

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

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

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

2.10 Non-Current Assets (or Disposal Groups) Held-for-sale

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

2.11 Financial Assets

2.11.1 Classification

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

(a) Financial Assets at Fair Value Through Profit or Loss

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

(b) Available-for-sale Financial Assets

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

(c) Loans and Receivables

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

2.11.2 Recognition and Measurement

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

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

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

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

2.12 Offsetting Financial Instruments

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

2.13 Impairment of Financial Assets

(a) Assets Carried at Amortised Cost

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

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

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

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

(b) Assets Classified as Available for Sale

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

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

2.14 Derivative Financial Instruments and Hedging Activities

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

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

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

(a) Cash Flow Hedge

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

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

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

Hedging instruments, which are combined from various components of derivative instruments, are recognised at fair value with changes through profit or loss until the acquisition of all components.

(b) Derivatives at Fair Value Through Profit or Loss

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

(c) Derivatives at own use

Derivative contracts that are entered into use and continue to be held for the purpose of the receipt of the underlying commodity in accordance with the Group's expected purchase requirements are accounted for as regular purchases of underlying commodities. For example, any futures contracts for buying greenhouse gas emissions allowances that are necessary for the Group's electricity production purposes are not recognised as derivatives on the balance sheet; the emissions allowances purchased are recognised as intangible assets when settlement of future contract occurs and emissions allowances are transferred to the Group. Any payments made to the counterparty before the settlement date are recognised as prepayments for intangible assets.

If the terms of the contracts permit either party to settle it net in cash or another financial instrument or the commodity that is the subject of the contracts is readily convertible to cash, the contracts are evaluated to see if they qualify for own use treatment. Contracts that do not qualify for own use treatment, are accounted for as derivatives as described above

2.15 Inventories

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

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

2.16 Trade Receivables

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

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

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

2.17 Cash and Cash Equivalents

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

2.18 Share Capital and Statutory Reserve Capital

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

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

2.19 Trade Payables

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

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the cost and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method. Borrowing costs attributable to qualifying assets are capitalised in the cost of the assets.

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

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

2.21 Borrowing Costs

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

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

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

2.22 Taxation

(a) Corporate Income Tax on Dividends in Estonia

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

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

(b) Other Taxes in Estonia

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

Tax	Tax rate
Social security tax	33% of the payroll paid to employees and of fringe benefits
Unemployment insurance tax	1.4% of the payroll paid to employees
Fringe benefit income tax	21/79 of fringe benefits paid to employees
Sales Tax	Until 31 December 2011 1% from sale of goods and services to individuals in the territory of Tallinn (except of sales of electricity and heat and e-commerce)
Pollution charges	Paid for contamination of the air, water, ground water, soil and waste storage, and based on tonnage and type of waste
Fee for extraction right for oil shale	1.32 euros per tonne of oil shale extracted (in 2011 1.10 euros per tonne of oil shale extracted)
Water utilisation charges	1.59-145.46 euros per 1000 m3 of pond or ground water used (in 2011 1.59–132.23 euros per 1000 m3 of pond or ground water used).
Land tax	0.1–2.5% on taxable value of land per annum
Tax on heavy trucks	3.50 – 232.60 euros per truck per quarter
Excise tax on electricity	4.47 euros per MWh of electricity
Excise tax on natural gas	23.45 euros per 1000 m3 of natural gas
Excise tax on shale oil	15.01 euros per 1000 kg of shale oil
Excise tax on oil shale	0.15 euros per giga-joule
Corporate income tax on non-business related expenses	21/79 on non-business related expenses

(c) Income Tax Rates in Foreign Countries in Which the Group Operates

Jordan	Income earned by resident legal persons in Jordan is taxed at an income tax rate of 14-30%
Latvia	Income earned by resident legal persons is taxed at an income tax rate of 15%
Lithuania	Income earned by resident legal persons is taxed at an income tax rate of 15%
Finland	Income earned by resident legal persons is taxed at an income tax rate of 24.5% (until 31 December 2011 26%)
the USA	Income earned by resident legal persons is taxed at an income tax rate of 35%

(d) Deferred Income Tax

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

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

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

As at 31 December 2012 and 31 December 2011, the Group had neither any deferred income tax assets nor deferred income tax liabilities

2.23 Employee Benefits

Short-term Employee Benefits

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

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

Termination Benefits

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

Other Employee Benefits

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

2.24 Provisions

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

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

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

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

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

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

(a) Provisions for Post-employment Benefits and Work-related Injury Compensation

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

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

(b) Environmental Protection Provisions

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

(c) Provisions for the Termination of Mining Operations

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

(d) Provision for Termination Benefits

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

(e) Provision for the Dismantling Cost of Assets

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

(f) Provisions for Greenhouse Gas Emissions

A provision for greenhouse gas emissions is set up to meet the obligations arising from legislation relating to greenhouse gas emissions. If the quantity of greenhouse gases emitted exceeds allowances received free of charge from the state, a provision is set up for the difference. Provision that is expected to be covered by allowances acquired is measured at the cost of these allowances; the remaining provision is measured either based on the prices fixed in the committed purchase arrangements, if any, or at the market prices at the end of the reporting period. When the Group surrenders the greenhouse gas emission allowances to the state for the greenhouse gases emitted, both the provision and the intangible assets (Note 2.8) are reduced by equal quantities and amounts.

(g) Provisions for Onerous Contracts

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

2.25 Contingent Liabilities

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

2.26 Revenue Recognition

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

(a) Sale of Electricity and Grid Services

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

(b) Recognition of Connection Fees

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

(c) Revenue Recognition Under the Stage of Completion Method

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

(d) Interest Income

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

(e) Dividend Income

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

2.27 Government Grants

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

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

2.28 Leases

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

(a) The Group as the Lessee

Payments made under operating leases are charged to the income statement over the lease term in equal portions, reduced by incentives granted by the lessor.

(b) The Group as the Lessor

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

2.29 Dividend Distribution

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

2.30 Related Party Transactions

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

3. Financial Risk Management

3.1 Financial Risks

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

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

(a) Market Risks

1. Currency Risk

Currency risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to exchange rate changes. The financial assets and liabilities denominated in euros are considered to be free of currency risk. All long-term borrowings and electricity export contracts are also concluded in euros to avoid currency risk.

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

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

In million EUR	31 December	
	2012	2011
Cash and cash equivalents (Note 18)	7.3	0.1
Trade and other receivables	15.3	8.0
Trade and other payables	0.2	1.8

Had the US dollar's exchange rate at 31 December 2012 been 10% (31 December 2011: 13%) higher or lower (with other factors remaining constant), the Group's profit for the financial year would have been EUR 2.2 million higher/lower (2011: EUR 0.8 million higher/lower) as a result of the revaluation of the balances of cash and cash equivalents, trade and other receivables and trade and other payables.

The cash and cash equivalents by currencies is disclosed in Note 18.

2. Price Risk

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

2.1 The Price Risk of Commodities

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

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

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

2.2 The Price Risk of Financial Assets at Fair Value Through Profit or Loss

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

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

3. Cash Flow and Fair Value Interest Rate Risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. Cash flow interest rate risk arises to the Group from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase.

Sensitivity analysis is used to assess the interest rate risk. For managing the Group's interest rate risks, the principle that the share of fixed interest rate borrowings in the portfolio should be over 50% is followed. As at the financial year-end, 99% of the Group's borrowings were fixed and 1% had floating interest rates (31 December 2011: fixed 98% and floating 2%). Due to that the changes in the market interest rate don't have material effect on the Group's borrowings.

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

(b) Credit Risk

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

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

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

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

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

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

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

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

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

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

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

In million EUR	31 December 2012	31 December 2011
Deposits at banks with maturities of more than three months (Notes 11 and 17)	90.0	-
Trade and other receivables (Notes 11 and 12)*	160.3	122.3
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 11 and 18)	60.1	40.9
Available-for-sale financial assets (Notes 3.3, 11, 14 and 15)	-	10.2
Nominal amount of financial guarantee (Note 34)	20.4	22.5
Derivatives with positive value (Notes 3.3, 11, 13 and 14)	16.7	21.7
Total amount exposed to credit risk	**347.5**	**217.6**

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

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

(c) Liquidity Risk

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

In order to finance its extensive capital expenditure programme, the Group has issued 6- year international bonds for EUR 300 million and (31 December 2011: 0 million EUR) 15-year international bonds for EUR 300 million (31 December 2011: 300 million EUR) (Note 22) and has drawn loans for a total of EUR 144.9 million (31 December 2011: 146.3 million euros) (Note 22). To lower the level of the interest rate on the borrowings, the Group has obtained credit ratings from the agencies Standard & Poor's and Moody's; as at 31 December 2012, the ratings were BBB+ stable and Baa1 stable, respectively (31 December 2011: BBB+ stable ja Baa1 stable). On the 8th of January 2013 Moody's changed the outlook of the Group's credit rating Baa1 from stable to negative. Among the reasons for the change, the rating agency highlighted the increased competitive pressure related to the opening of the energy market and the volatility of prices and cash flows. For the bond transaction which took place in March 2012, Standard & Poor's assigned the rating BBB+ and Moody's assigned the rating Baa1.

As at 31 December 2012, the Group had undrawn loan facilities of EUR 495.0 million (31 December 2011: EUR 595.0 million) (Note 22). As at the end of the financial year, the Group had spare monetary balances (including cash and cash equivalents, deposits at banks with maturities of more than three months, financial assets at fair value through profit or loss and available-for-sale financial assets) of EUR 151.8 million (31 December 2011: EUR 56.0 million). The cash flow forecasts are prepared for a 12-month period and approved by the Supervisory Board once a year. Bank account limits are used within the Group to manage the liquidity of subsidiaries.

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

* Total trade and other receivables less prepayments

Division of liabilities by maturity date as at 31 December 2012 (in million EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 11 and 22)*	25.3	152.4	784.5	962.2	732.8
Derivatives (Notes 3.3, 11 and 13)	2.1	0.3	-	2.4	2.4
Trade and other payables (Notes 11 and 23)	123.3	2.4	-	125.7	125.7
Tax liabilities and payables to employees (Note 23)	50.9	-	-	50.9	50.9
Potential financial guarantee obligations (Notes 11, 23 and 34)	2.2	18.2	-	20.4	0.1
Total	**203.8**	**173.3**	**784.5**	**1,161.6**	**911.9**

Division of liabilities by maturity date as at 31 December 2011 (in million EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 11 and 22)**	16.0	89.8	503	608.8	436.2
Derivatives (Notes 3.3, 11 and 13)	9.2	1.9	-	11.1	11.1
Trade and other payables (Notes 11 and 23)	129.6	0.4	-	130.0	130.0
Tax liabilities and payables to employees (Note 23)	45.7	-	-	45.7	45.7
Potential financial guarantee obligations (Notes 11, 23 and 34)	2.1	20.4	-	22.5	0.1
Total	**202.6**	**112.5**	**503**	**818.1**	**623.1**

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

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2012.
** Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2011.

3.2 Management of Equity Risk

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

The Group follows a strategy according to which net debt should not exceed EBITDA more than three times and equity should be at least 50% of the total assets. As at 31 December 2012 and 31 December 2011, the net debt to EBITDA ratio and the equity to assets ratio were as follows (in million EUR):

In million EUR	31 December	
	2012	2011
Debt (Notes 3.1, 11 and 22)	732.8	436.2
Less: cash and cash equivalents, deposits at banks with maturities of more than three months, financial assets at fair value through profit or loss and available-for-sale financial assets (Notes 3.1, 11, 15, 16, 17 and 18)	(151.8)	(56.0)
Net debt	581.0	380.2
Equity	1,409.1	1,236.6
EBITDA	278.4	265.1
Assets	2,497.4	2,036.5
Net debt/EBITDA	2.09	1.43
Equity/assets	56%	61%

3.3 Fair Value

The Group estimates that the fair values of assets and liabilities reported at amortised cost in the statement of financial position as at 31 December 2012 and 31 December 2011 do not materially differ from the carrying amounts reported in the consolidated financial statements, with the exception of bonds (Note 22). The carrying amount of current accounts receivable and payable less impairments is estimated to be approximately equal to their fair value. For disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market interest rate which is available for similar financial instruments of the Group.

The following tables present the Group's assets and liabilities that are measured at fair value by the level in the fair value hierarchy as at 31 December 2012 and 31 December 2011:

In million EUR	31 December 2012	
	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	1.7	1.7
Trading derivatives (Notes 13 and 14)	3.2	3.2
Cash flow hedges (Notes 13 and 14)	13.5	13.5
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	18.4	18.4
Trading derivatives (Notes 11 and 13)	0.1	0.1
Derivatives used for hedging (Notes 3.1, 11 and 13)	2.3	2.3
Total financial liabilities (Notes 3.1, 11 and 13)	**2.4**	**2.4**

In million EUR

	31 December 2011		
	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with inputs not observable in markets (Level 3)	Total
Financial assets at fair value through profit or loss (Notes 11 and 16)	4.9	-	4.9
Available-for-sale financial assets (Notes 3.1, 11, 14 and 15)	-	10.2	10.2
Trading derivatives (Notes 13 and 14)	11.6	-	11.6
Cash flow hedges (Notes 13 and 14)	10,1	-	10,1
Total financial assets (Notes 3.1, 11, 13, 14 and 16)	**26.6**	**10.2**	**36.8**
Derivatives used for hedging (Notes 3.1, 11 and 13)	11.1	-	11.1
Total financial liabilities (Notes 3.1, 11 and 13)	**11.1**	**-**	**11.1**

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. An instrument is included in level 2 if all the significant inputs required to establish the fair value of the instrument are observable. If one or more significant inputs are not based on observable market data, an instrument is included in level 3. The fair value of the available-for-sale financial assets is based on the future cash flows that have been discounted with the interest rate 1.6%.

3.4 Impact of the Economic Crisis on the Group

Management has evaluated the effects of the global liquidity crisis and the impact of related general economic crisis on the Group's business.

In management's opinion, the major continuing short and long-term threats include:

- the potential solvency problems of debtors may lead to impairment of the Group's receivables and larger impairment losses than previously;
- the Group may not be able to get source of funds with a reasonable price to carry out investment plans.

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

4. Critical Accounting Estimates and Assumptions

Accounting Estimates and Assumptions

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

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

(a) Determination of the Useful Lives of Items of Property, Plant and Equipment

The estimated useful lives of items of property, plant and equipment are based on management's estimate of the period during which the asset will be used. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 December 2012, the net book amount of property, plant and equipment of the Group totalled EUR 2.0 billion (31 December 2011: EUR 1.7 billion), and the depreciation charge of the reporting period was EUR 110.5 million (2011: EUR 91.8 million) (Note 6). If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 11.1 million (2011: EUR 9.2 million).

(b) Evaluation of the Recoverable Amount of Property, Plant and Equipment

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

(c) Recognition and Revaluation of Provisions

As at 31 December 2012, the Group had set up provisions for environmental protection, termination of mining operations, employees related and greenhouse gas emissions totalling EUR 36.8 million (31 December 2011: EUR 45.5 million) (Note 25). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(d) Inventory Valuation

When valuing inventories, the management relies on its best knowledge and it takes into consideration historical experience, general background information and potential assumptions and the conditions of future events. When the impairment of inventories is determined, the sales potential and the net realisable value of goods for resale are considered. As at 31 December 2012, the Group had inventories totalling EUR 48.3 million (31 December 2011: EUR 37.9 million) (Note 10).

(e) Contingent Assets and Liabilities

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

(f) Recognition of Connection and Other Service Fees

Connection and other service fees are recognised as income over the estimated average useful lives of the assets acquired for connections, which is 32 years. In the reporting period, connection and other service fees totalled EUR 4.7 million (2011: EUR 4.6 million). If the estimated average useful lives of the assets acquired for connections were reduced by 10%, the annual income from connection fees would increase by EUR 0.5 million (2011: EUR 0.5 million) (Notes 24, 26 and 33).

(g) Evaluation of Doubtful Receivables

The collection of material receivables is assessed individually. The remaining receivables are assessed as a group. The circumstances indicating an impairment loss may include the bankruptcy or major financial difficulties of the debtor and the debtor's inability to meet payment terms (delay of payment of over 90 days). As at the end of the reporting period, the Group had over 500 000 invoices outstanding (including receivables not yet due). All receivables which are 90 days overdue are written down in full. The amount of doubtful receivables is adjusted as at the end of each reporting period using previous years' experience on how many doubtful receivables will be collected in subsequent periods and how many doubtful receivables overdue more than 90 days as at the end of reporting period will not be collected in a subsequent period. As at 31 December 2012, the Group's doubtful receivables totalled EUR 3.2 million (31 December 2011: EUR 3.5 million) (Note 12).

(h) Effectiveness Testing of Hedging Instruments

The Group has conducted a significant number of future transactions to hedge the risk of the changes in the prices of electricity and shale oil with regard to which hedge accounting is applied, meaning that the gains and losses from changes in the fair value of effective hedging instruments are accounted through other comprehensive income. The evaluation of the effectiveness of hedging is based on management's estimates for future sales transactions concerning electricity and liquid fuels. When hedging instruments turn out to be ineffective, the total gain/loss from the changes in the fair value should be recognised in the income statement. As at 31 December 2012, the amount of the hedge reserve was EUR 11.5 million (31 December 2011: EUR -0.4 million) (Note 21).

5. Segment Reporting

For segment reporting purposes, the division into operating segments is based on the Group's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the chief operating decision maker, the parent company's management board. In the segment reporting the relevant financial measures are presented that are regularly provided to the parent company's management board and evaluated by the parent company's management board. The internal management structure of the Group is divided into four operating segments based on the different types of products offered and the clients:

- Retail Business (consisting of companies and business units Energiamüük, Enefit UAB, Enefit SIA, Müük ja Teenindus, Eesti Energia Võrguehitus AS and until 17 February 2012 Televõrgu AS);
- Elektrilevi (consisting of company Elektrilevi OÜ);
- Electricity and Heat Generation (consisting of companies and business units Eesti Energia Narva Elektrijaamad AS, Taastuvenergia and Väikekoostootmine, Iru Elektrijaam, Energiakaubandus, Solidus Oy, AS Narva Soojusvõrk, Eesti Energia Aulepa Tuuleelektrijaam OÜ, Eesti Energia Tabasalu Koostootmisjaam OÜ, SIA Enefit Power & Heat Valka, OÜ Pogi);
- Minerals, Oil, Biofuels (consisting of companies and business units Eesti Energia Kaevandused Group, Eesti Energia Õlitööstus AS, Eesti Energia Tehnoloogiatööstus Group, Enefit Outotec Technology OÜ, Enefit U.S., LLC, Enefit American Oil Group).

In addition Corporate Functions, that covers administration and other support services, are presented separately, although these do not form a separate business segment.

In these consolidated financial statements the presentation of the segment reporting has been changed compared to the consolidated financial statements of the year 2011, as a result of which Elektrilevi OÜ has been separately disclosed as an operating segment and the Retail Business has been presented without Elektrilevi. The comparative figures have been changed accordingly. The change was caused due the need to emphasize independence of distribution network operator from electricity seller in the context of full opening of the electricity market. In earlier Group's internal management structure Elektrilevi was considered as part of the Retail Business segment.

The Retail Business covers the sale of electrical energy, distribution services, electrical installation work and other services to end consumers. Electrical energy is sold in Estonia, Latvia and Lithuania. Elektrilevi involves regulated business in providing distribution services and other related services. Electricity and Heat Generation covers the generation of electricity and heat in various power and combined heat-and-power stations, and energy trading in the wholesale market, both inside and outside Estonia. Minerals, Oil, Biofuels covers the mining and processing of oil shale, the production of liquid fuels, and the production and sale of power equipment.

For the benefits of the users of the financial statements additional information has been disclosed on Mining in Minerals, Oil and Biofuels segment, which was until 31. December 2012 a regulated business. Mining is not treated as a separate operating segment in the management structure.

On 8 March 2011 the transaction of the sale of the shareholding in AS Kohtla-Järve Soojus was completed (Note 36). Until its disposal, AS Kohtla-Järve Soojus was part of the Electricity and Heat Generation segment.

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

On 17 February 2012 the transaction of the sale of the 100% shareholding in Televõrgu AS was completed (Note 35 and 36). Until its disposal, Televõrgu AS was part of the Retail Business segment.

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, until 31. December 2012 the following indicators needed to be approved by the Estonian Competition Authority

- the price limit for oil shale sold to Narva Elektrijaamad for the production of heat and electricity
- the price limit for electricity sold from Narva Elektrijaamad to the closed market
- the weighted average price limit for electricity sold to meet sales obligations
- network fees.

The Estonian Competition Authority has an established methodology for calculating prices to be used when approving prices. When granting approval for these prices, the Estonian Competition Authority considers the costs which allow companies to fulfill the legal obligations and conditions attached to their activity licences and ensure justified profitability on invested capital. The Estonian Competition Authority considers the annual average residual value of non-current assets plus 5% of non-group sales revenue as invested capital. The rate for justified profitability is the Company's weighted average cost of capital (WACC). From 1 of January 2013 Estonian electricity market is completely open and only network fees need to be approved by the Estonian Competition Authority.

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

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

5. Segment Reporting, continued

Segment Information for Reportable Segments for the Year Ended 31 December 2012

in million EUR	Retail Business	Elektrilevi	Electricity and Heat Generation	Minerals, Oil, Biofuels		Corporate Functions	Eliminations	Total
				Total	*of which Mining*			
Total revenue (Note 26)	324.0	231.7	469.3	300.0	*203.4*	30.3	(533.2)	822.1
Inter-segment revenue	(46.0)	(4.9)	(282.5)	(169.9)	(171.3)	(29.9)	533.2	-
Revenue from external customers (Note 26), including	278.0	226.8	186.8	130.1	32.1	0.4	-	822.1
electricity exports	*62.8*	-	*34.9*	-	-	-	-	*97.7*
domestic electricity sales	*209.6*	-	*99.2*	-	-	-	-	*308.8*
sales of network services	-	*220.6*	*12.6*	-	-	-	-	*233.2*
heat	-	-	*35.5*	-	-	-	-	*35.5*
oil shale	-	-	-	*28.7*	*28.7*	-	-	*28.7*
shale oil	-	-	-	*77.8*	-	-	-	*77.8*
other goods and services	*5.6*	*6.2*	*4.6*	*23.6*	*3.4*	*0.4*	-	*40.4*
Depreciation and amortisatsion (Notes 6, 8 and 33)	(0.4)	(40.8)	(40.9)	(28.7)	*(24.9)*	(3.3)	(0.9)	(115.0)
Impairment loss (Notes 6 and 33)	-	-	(63.3)	-	-	-	-	(63.3)
Setting up of and change in provisions (Note 25)	-	-	3.2	1.6	*1.6*	0.2	-	5.0
Operating profit	13.6	45.4	5.5	42.7	2.4	(5.1)	(2.0)	100.1
Interest income (Note 31)	-	-	-	-	-	51.0	(47.8)	3.2
Interest expenses (Note 31)	(0.3)	(10.6)	(26.0)	(12.8)	*(3.1)*	(30.4)	72.2	(7.9)
Profit (loss) from associates using equity method (Note 9)	-	-	0.7	(0.9)	*1.5*	-	-	(0.2)
Corporate income tax (Note 32)	(0.9)	-	(8.0)	(8.9)	*(0.9)*	-	-	(17.8)
Profit for the year	12.5	34.8	(27.9)	20.1	*(0.2)*	79.7	(42.3)	76.9
Total assets	**101.7**	**774.9**	**995.3**	**506.0**	**158.4**	**1,711.4**	**(1,591.9)**	**2,497.4**
including investments in associates (Note 9)	-	-	*11.1*	*10.2*	*1.9*	-	*0.0*	*21.3*
including property, plant and equipment, and intangibles	*0.9*	*735.4*	*833.1*	*411.6*	*96.9*	*29.5*	*36.6*	*2,047.1*
Capital expenditure (Notes 6 and 8)	0.1	99.6	284.8	111.4	31.3	1.8	15.7	513.4
Total liabilities	**70.2**	**488.1**	**567.4**	**342.7**	*115.3*	**758.9**	**(1,139.0)**	**1,088.3**
Average number of employees (Note 29)	**613.2**	**817.3**	**988.1**	**4,648.0**	*3,120.2*	**506.0**	-	**7,572.6**

5. Segment Reporting, continued

Segment Information for Reportable Segments for the Year ended 31 December 2011

in million EUR	Retail Business	Elektrilevi	Electricity and Heat Generation	Minerals, Oil, Biofuels		Corporate Functions	Eliminations	Total
				Total	*of which Mining*			
Total revenue (Note 26)	318.2	198.5	501.1	325.2	*213.3*	19.5	(530.6)	831.9
Inter-segment revenue	(47.8)	(4.2)	(272.1)	(187.6)	(178.2)	(18.9)	530.6	-
Revenue from external customers (Note 26), including	270.4	194.3	229.0	137.6	35.1	0.6	-	831.9
electricity exports	*54.1*	-	*38.2*	-	-	-	-	*92.3*
domestic electricity sales	*202.4*	-	*130.0*	-	-	-	-	*332.4*
sales of network services	-	*188.3*	*16.6*	-	-	-	-	*204.9*
heat	-	-	*37.4*	-	-	-	-	*37.4*
oil shale	-	-	-	*32.8*	*32.8*	-	-	*32.8*
shale oil	-	-	-	*60.9*	-	-	-	*60.9*
other goods and services	*13.9*	*6.0*	*6.8*	*43.9*	*2.3*	*0.6*	-	*71.2*
Depreciation and amortisatsion (Notes 6, 8 and 33)	(2.9)	(37.7)	(26.8)	(24.6)	*(22.0)*	(3.5)	(0.1)	(95.6)
Impairment loss (Notes 6 and 33)	-	-	(1.5)	-	-	-	-	(1.5)
Setting up of and change in provisions (Note 25)	-	-	14.6	0.7	0.7	-	-	15.3
Operating profit	(4.6)	27.9	79.9	70.9	17.5	(2.9)	(3.2)	168.0
Interest income (Note 31)	0.1	-	0.1	0.1	-	37.1	(33.4)	4.0
Interest expenses (Note 31)	(1.2)	(10.6)	(18.2)	(5.1)	*(2.1)*	(19.4)	47.0	(7.5)
Profit (loss) from associates using equity method (Note 9)	-	-	0.5	(1.4)	*1.4*	-	-	(0.9)
Corporate income tax (Note 32)	(1.0)	-	(10.1)	(3.6)	*(2.9)*	-	-	(14.7)
Profit for the year	(6.7)	17.3	52.1	60.9	*13.8*	74.0	(48.4)	149.2
Total assets	**88.7**	**708.0**	**791.2**	**415.3**	*138.4*	**1,293.3**	**(1,260.0)**	**2,036.5**
including investments in associates (Note 9)	-	-	*10.4*	*12.9*	*1.9*	-	-	*23.3*
including property, plant and equipment, and intangibles	*1.2*	*676.7*	*652.7*	*330.4*	*90.9*	*38.4*	*15.3*	*1,714.7*
Capital expenditure (Notes 6 and 8)	1.5	73.3	218.5	197.8	*31.7*	4.9	11.8	507.8
Total liabilities	**57.4**	**456.1**	**368.4**	**248.2**	*90.2*	**452.7**	**(782.9)**	**799.9**
Average number of employees (Note 29)	**655.0**	**816.7**	**1,343.5**	**4,455.2**	*3,131.8*	**314.9**	**-**	**7,585.3**

5. Segment Reporting, continued

Eliminations of sales revenue relate to inter-segment transactions, principally in connection with the sale of oil shale by Minerals, Oil and Biofuels to Electricity and Heat Generation, which accounted for EUR 134.9 million, of total eliminations of revenue (2011: EUR 147.1 million); and the sale of electricity by Electricity and Heat Generation to Retail, which accounted for EUR 274.9 million, of total eliminations of revenue (2011: EUR 265,4 million) and the sale of construction and repair services by Retail Business to Elektrilevi, which accounted of EUR 18.6 million of total eliminations of revenue (2011: EUR 15.7 million).

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

Reportable Segments' Assets are Reconciled to Total Consolidated Assets as Follows:

in million EUR	31 December	
	2012	2011
Segment assets for reportable segments	2,377.9	2,003.2
Assets of Corporate Functions	1,711.4	1,293.3
Eliminations:		
The carrying amount of investments in subsidiaries*	(488.2)	(489.9)
Intra-segment receivables	(1,128.7)	(776.5)
Unrealised profit/loss and other eliminations	25.0	6.4
Total eliminations	**(1,591.9)**	**(1,260.0)**
Total assets per consolidated statement of financial position	**2,497.4**	**2,036.5**

Other eliminations include the borrowing costs capitalised on the Group level in the cost of property, plant and equipment and intagible assets in the amount of EUR 45.2 million (31 December 2011: EUR 22.2 million). The amount of the borrowing costs capitalised during the reporting period is dislosed in Note 31.

Reportable Segments' Liabilities are Reconciled to Total Consolidated Liabilities as Follows:

in million EUR	31 December	
	2012	2011
Segment liabilities for reportable segments	1,468.4	1,130.1
Liabilities of Corporate Functions	758.9	452.7
Eliminations:		
Intra-segment payables	(1,128.0)	(775.1)
Other eliminations	(11.0)	(7.8)
Total eliminations	**(1,139.0)**	**(782.9)**
Total liabilities per consolidated statement of financial position	**1,088.3**	**799.9**

* Recognised as assets of Corporate Functions.

5. Segment Reporting, continued

Reportable Segments' Operating Profits are Reconciled to Total Consolidated Operating Profit as Follows:

in million EUR	1 January - 31 December	
	2012	2011
Segment operating profits for reportable segments	107.2	174.1
Operating profit of Corporate Functions	(5.1)	(2.9)
Eliminations:		
Other eliminations	(2.0)	(3.2)
Total operating profit per consolidated income statement	**100.1**	**168.0**

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

The Group operates mostly in Estonia, but electricity and some other goods and services are also sold in other countries. The Group's main geographical regions are Estonia, Latvia and Lithuania. In 2011, the Group acquired assets in the USA (Note 37), where it has started a development project for oil shale mining and shale oil production.

External Revenue by Location of Clients

in million EUR	1 January - 31 December	
	2012	2011
Estonia	642.5	675.0
Lithuania	44.5	74.7
Latvia	50.1	27.5
Nordic countries	9.4	6.3
Other countries	75.6	48.4
Total external revenue (Note 26)	**822.1**	**831.9**

Allocation of Non-current Assets by Location*

in million EUR	31 December	
	2012	2011
Estonia	1,994.8	1,672.8
USA	37.5	33.7
Latvia	10.0	8.2
Germany	4.8	-
Total (Notes 6 and 8)	**2,047.1**	**1,714.7**

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

* Other than financial instruments and investments in associates.

6. Property, Plant and Equipment

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 December 2010						
Cost	41.2	149.0	719.5	1,201.0	4.9	2,115.6
Accumulated depreciation	-	(84.8)	(297.0)	(600.4)	(4.3)	(986.6)
Net book amount	41.2	64.3	422.6	600.6	0.6	1,129.0
Construction in progress	-	0.7	21.8	98.8	-	121.4
Prepayments	-	-	0.3	42.8	-	43.2
Total property, plant and equipment as at 31 December 2010 (Notes 4 and 5)	**41.2**	**65.0**	**444.6**	**742.2**	**0.6**	**1,293.6**
Movements, 1 January - 31 December 2011						
Purchases (Note 5)	0.2	3.4	57.6	404.9	0.2	466.3
Acquisition of subsidiary (Note 37)	1.5	0.3	0.8	1.1	-	3.7
Depreciation charge (Notes 4, 5 and 33)	-	(4.3)	(22.2)	(65.1)	(0.2)	(91.8)
Impairment loss (Notes 4, 5 and 33)	-	-	-	(1.5)	-	(1.5)
Disposals	(0.8)	(0.3)	-	(0.4)	-	(1.5)
Disposal of subsidiary (Note 9)	-	-	(0.2)	-	-	(0.2)
Classified as held for sale (Note 35)	-	-	(2.2)	(8.0)	-	(10.2)
Exchange differencies	0.1	-	0.1	-	-	0.2
Total movements, 1 January - 31 December 2011	**1.0**	**(0.9)**	**33.9**	**331.0**	**-**	**365.0**
Property, plant and equipment as at 31 December 2011						
Cost	42.2	150.6	756.8	1,289.2	4.9	2,243.7
Accumulated depreciation	-	(87.8)	(311.6)	(627.9)	(4.3)	(1,031.6)
Net book amount	42.2	62.8	445.2	661.3	0.6	1,212.1
Construction in progress	-	1.3	33.3	355.7	-	390.3
Prepayments	-	-	-	56.2	-	56.2
Total property, plant and equipment as at 31 December 2011 (Notes 4 and 5)	**42.2**	**64.1**	**478.5**	**1,073.2**	**0.6**	**1,658.6**

6. Property, Plant and Equipment, continued

miljonites eurodes	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Movements, 1 January - 31 December 2012						
Purchases (Note 5)	1.3	8.9	79.7	414.8	0.7	505.4
Depreciation charge (Notes 4, 5 and 33)	-	(5.1)	(26.0)	(79.1)	(0.3)	(110.5)
Impairment loss (Notes 4, 5 and 33)	-	(5.0)	(1.5)	(56.8)	-	(63.3)
Disposals	(0.8)	(0.8)	-	(0.2)	-	(1.8)
Total movements, 1 January - 31 December 2012	**0.5**	**(2.0)**	**52.2**	**278.7**	**0.4**	**329.8**
Materiaalne põhivara seisuga 31. detsember 2012						
Cost	42.7	157.1	815.3	1,455.6	5.5	2,476.2
Accumulated depreciation	-	(95.9)	(321.5)	(726.7)	(4.5)	(1,148.6)
Net book amount	42.7	61.2	493.8	728.9	1.0	1,327.6
Construction in progress	-	0.9	36.9	581.4	-	619.2
Prepayments	-	-	-	41.6	-	41.6
Total property, plant and equipment as at 31 December 2012 (Notes 4 and 5)	**42.7**	**62.1**	**530.7**	**1,351.9**	**1.0**	**1,988.4**

In 2011 the assets of Iru Power Plant and Energy Units 9, 10 and 12 of the Baltic power plant were tested for impairment. According to the results of the test an impairment loss of EUR 1.1 million of Iru Power Plant and EUR 0.4 million of Baltic Power Plant was recognised. The recoverable amount was determined based on the value in use of the assets. The expected future cash flows were discounted using the discount rate of 10%. The impairment was caused by the decreased demand on the production capacities of those assets.

In 2012 the assets of Iru Power Plant and Narva Power Plant were tested for impairment. According to the results of the test an impairment loss of EUR 2.8 million of Iru Power Plant and EUR 58.3 million of Narva Power Plant was recognised. The recoverable amount was determined based on the value in use of the assets. The expected future cash flows were discounted using the discount rate of 10% for Iru Power Plant and discount rate of 11% for Narva Power Plant.

In addition, the value of Painkula co-generation plant project was written down of EUR 2.2 million to the fair value of the assets.

The impairment of Narva Power Plant assets was mainly caused by free reasons. The most import of these is the decision by European Commission subject to which the power plants will no longer received three CO_2 emission allowances in 2013 and it has to be purchased from the market or at auctions. Also, use of biomass for electricity generation in Balti Power Plant is no longer supported from the beginning of 2013. In addition, several environmental tax rates related to the mining and usage of oil shale have increased significantly.

Assessing the value of the assets, electricity and CO_2 emission allowances are found using forward curve of the market at the moment of calculation. Until the year 2015 environmental charges are based on rates fixed by the law and from the year 2016 environmental charges have been increased by the evaluation of

6. Property, Plant and Equipment, continued

the management. Operating costs of the power plant for the year 2013 are based on the approved budget and for the following years costs have been increased by expected inflation.

The impairment of the other assets was caused by the decreased demand on the production capacities of those assets.

The capitalisation rate of 4.7% (2011: 4.6%) was used to determine the amount of borrowing costs eligible for capitalisation (Note 31).

7. Operating Lease

in million EUR	1 January - 31 December	
	2012	2011
Rental and maintenance income		
Buildings	1.2	1.2
of which contingent rent	0.8	0.6
Facilities	0.1	0.7
Total rental and maintenance income (Note 26)	**1.3**	**1.9**
Rental expense		
Buildings	1.3	0.6
Transport vehicles	0.6	0.9
Other machinery and equipment	1.6	2.9
Total rental expense (Note 30)	**3.5**	**4.4**

Buildings and facilities leased out under operating lease terms

in million EUR	31 December	
	2012	2011
Cost	5.4	5.3
Accumulated depreciation at the beginning of the financial year	(2.7)	(2.5)
Depreciation charge	(0.2)	(0.2)
Net book amount	**2.5**	**2.6**

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

Future Minimum Lease Receivables Under Non-cancellable Operating Lease Contracts by Due Dates

in million EUR	1 January - 31 December	
	2012	2011
Rental income		
< 1 year	0.8	0.9
1 - 5 years	3.0	3.7
> 5 years	11.6	14.9
Total rental income	**15.4**	**19.5**

The oil terminal has been leased out under non-cancellable lease agreement. The lease agreement will expire in 2033.

Operating lease agreements, where the Group is lessee, are mostly cancellable with short-term notice.

8. Intangible Assets

Intangible Non-current Assets

in million EUR	Goodwill	Computer software	Right of use of land	Exploration and evaluation assets for mineral resources	Contractual rights	Total
Intangible assets as at 31 December 2010						
Cost	2.5	6.3	2.4	1.1	0.3	12.5
Accumulated amortisation	-	(2.1)	(0.2)	-	(0.1)	(2.4)
Net book amount	2.5	4.1	2.2	1.1	0.2	10.0
Intangible assets not yet available for use	-	13.2	-	-	-	13.2
Total intangible assets as at 31 December 2010 (Note 5)	**2.5**	**17.3**	**2.2**	**1.1**	**0.2**	**23.3**
Movements, 1 January - 31 December 2011						
Purchases	-	5.0	-	2.9	0.1	8.0
Acquisition of subsidiaries (Note 37)	1.0	-	-	-	27.9	28.9
Amortisation charge (Notes 5 and 33)	-	(3.5)	(0.2)	-	(0.1)	(3.8)
Classified as intangible assets of associates (Note 9)	-	-	-	(2.7)	-	(2.7)
Classified as held for sale (Note 35)	-	-	-	-	(0.1)	(0.1)
Exchange differencies	-	-	-	(0.2)	2.7	2.5
Total movements, 1 January - 31 December 2011	**1.0**	**1.5**	**(0.2)**	**-**	**30.5**	**32.8**
Intangible assets as at 31 December 2011						
Cost	3.5	21.8	2.5	1.1	30.7	59.6
Accumulated amortisation	-	(5.5)	(0.5)	-	-	(6.0)
Net book amount	3.5	16.3	2.0	1.1	30.7	53.6
Intangible assets not yet available for use	-	2.5	-	-	-	2.5
Total intangible assets as at 31 December 2011 (Note 5)	**3.5**	**18.8**	**2.0**	**1.1**	**30.7**	**56.1**
Movements, 1 January - 31 December 2012						
Purchases	-	4.6	-	3.1	0.3	8.0
Amortisation charge (Notes 5 and 33)	-	(4.5)	-	-	-	(4.5)
Exchange differencies	-	-	-	(0.3)	(0.6)	(0.9)
Total movements, 1 January - 31 December 2012	-	0.1	-	2.8	(0.3)	2.6
Intangible assets as at 31 December 2012						
Cost	3.5	23.6	2.5	3.9	30.4	63.9
Accumulated amortisation	-	(9.3)	(0.5)	-	-	(9.8)
Net book amount	3.5	14.3	2.0	3.9	30.4	54.1
Intangible assets not yet available for use	-	4.6	-	-	-	4.6
Total intangible assets as at 31 December 2012 (Note 5)	**3.5**	**18.9**	**2.0**	**3.9**	**30.4**	**58.7**

8. Intangible Assets, continued

Goodwill

Allocation of goodwill by cash-generating units

in million EUR	Mining	Paide co-generation plant	Valka co-generation plant
Carrying amount at 31 December 2012	2.5	0.6	0.4
Carrying amount at 31 December 2011	2.5	0.6	0.4

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

Key Assumptions Used in Determining Value in Use

	31 December	
Discount rate	2012	2011
Mining	11.0%	11.0%
Valka co-generation plant	10.0%	10.0%
Paide co-generation plant	10.0%	10.0%

Exploration and Evaluation Assets of Mineral Resources

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

Contractual Rights

The amount of contractual rights acquired in theyear 2011 contains the value of mining rights acquired in the state of Utah, USA in the amount of EUR 27.7 million (Note 37), which estimated useful life is 20 years. Management has evaluated the need for the evaluation of the assets. No indications were identified, that would indicate impairment of the assets.

Intangible Current Assets - Greenhouse Gas Allowances

The value of greenhouse gas allowances acquired is recognised as intangible current assets. In 2012, 2,109,141 tonnes (2011: 3,533,000 tonnes) of greenhouse gas allowances were acquired and 3,454,141 tonnes (2011: 0 tonnes) were sold. In 2012, 12,304,855 tonnes (2011: 12,373,576 tonnes) of greenhouse gas emission allowances were surrendered to state.

in million EUR	1 January - 31 December	
	2012	2011
Greenhouse gas allowances at the beginning of the period	**28.0**	**45.2**
Acquired	17.8	51.8
Sold	(25.8)	-
Surrendered to state for the greenhouse gas emissions (Note 25)	(10.0)	(49.1)
Surrendered to other legal person	(0.2)	-
Revaluation (Note 28)	1.8	(19.9)
Greenhouse gas allowances at the end of the period	**11.6**	**28.0**
of which recognised in the fair value	*-*	*18.0*
of which recognised in cost	*11.6*	*10.0*

9. Investments in Associates

Change in Investments in Associates

in million EUR	1 January - 31 December	
	2012	**2011**
Book value at the beginning of the period	**23.3**	**11.8**
Profit (loss) from associates using equity method	(0.5)	(0.3)
of which recognised in the income statement (Notes 5 and 33)	(0.2)	(0.9)
of which recognised in other comprehensive income	(0.3)	0.6
Dividends declared by the associate	(1.5)	(1.4)
Recognition of associates at fair value	-	13.2
Book value at the end of the period (Note 5)	**21.3**	**23.3**

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

Derecognised Assets and Liabilities

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

9. Investments in Associates, continued

Andmed sidusettevõtjate kohta

in million EUR

Company	Location	Assets	Liabilities	Operating income	Net profit	Ownership (%)
		31 December 2012		1 January - 31 December 2012		31 December 2012
Nordic Energy Link Group	Estonia, Finland	81.2	52.9	14.4	1.7	39.9
Enefit Jordan B.V. Group	Netherlands Jordan	15.3	21.3	-	(4.0)	65.0
Orica Eesti OÜ*	Estonia	13.4	8.0	25.0	4.3	35.0
		109.9	**82.2**	**39.4**	**2.0**	

in million EUR

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

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

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

10. Inventories

in million EUR	31 December 2012	31 December 2011
Raw materials and materials at warehouses	**17.7**	**17.4**
Work-in-progress		
Stored oil shale	24.7	14.8
Stripping works in quarries	1.7	2.4
Other work-in-progress	1.1	1.2
Total work-in-progress	**27.5**	**18.4**
Finished goods		
Shale oil	2.7	1.7
Other finished goods	0.2	0.3
Total finished goods	**2.9**	**2.0**
Prepayments to suppliers	**0.2**	**0.1**
Total inventories (Note 4)	**48.3**	**37.9**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials totalling EUR 1.6 million (2011: EUR 0.2 million).

11. Division of Financial Instruments by Category

in million EUR	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity financial assets	Derivatives for which hedge accounting is applied	Total
As at 31 December 2012					
Financial asset items in the statement of financial position					
Trade and other receivables excluding pre-payments (Notes 3.1 and 12)	160.3	-	-	-	160.3
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	3.2	-	13.5	16.7
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2 and 17)	90.0	-	-	-	90.0
Financial assets at fair value through profit or loss (Notes 3.1, 3.2, 3.3 and 16)	-	1.7	-	-	1.7
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	60.1	-	-	-	60.1
Total financial asset items in the statement of financial position	**310.4**	**4.9**	**-**	**13.5**	**328.8**
As at 31 December 2011					
Financial asset items in the statement of financial position					
Trade and other receivables excluding prepayments (Notes 3.1 and 12)	122.3	-	-	-	122.3
Derivative financial instruments (Notes 3.1, 3.3, 13 and 14)	-	11.6	-	10.1	21.7
Financial assets at fair value through profit or loss (Notes 3.1, 3.2, 3.3 and 16)	-	4.9	-	-	4.9
Available-for-sale financial assets (Notes 3.1, 3.2, 3.3 and 15)	-	-	10.2	-	10.2
Cash and cash equivalents (Notes 3.1, 3.2, 14 and 18)	40.9	-	-	-	40.9
Total financial asset items in the statement of financial position	**163.2**	**16.5**	**10.2**	**10.1**	**200.0**

11. Division of Financial Instruments by Category, continued

in million EUR	Liabilities at fair value through profit or loss	Derivatives for which hedge accounting is applied	Other financial liabilities	Total
As at 31 December 2012				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	732.8	732.8
Trade and other payables (Notes 3.1 and 23)	-	-	125.7	125.7
Derivative financial instruments (Notes 3.1, 3.3 and 13)	0.1	2.3	-	2.4
Total financial liability items in the statement of financial position	**0.1**	**2.3**	**858.5**	**860.9**
As at 31 December 2011				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	436.2	436.2
Trade and other payables (Notes 3.1 and 23)	-	-	130.0	130.0
Derivative financial instruments (Notes 3.1, 3.3 and 13)	-	11.1	-	11.1
Total financial liability items in the statement of financial position	**-**	**11.1**	**566.2**	**577.3**

12. Trade and Other Receivables

in million EUR	31 December	
	2012	**2011**
Short-term trade and other receivables		
Trade receivables		
Accounts receivable	115.3	104.8
Allowance for doubtful receivables (Note 4)	(3.2)	(3.5)
Total trade receivables	**112.1**	**101.3**
Accrued income		
Amounts due from customers under the stage of completion method (Note 14)	5.5	4.5
Accrued interest (Note 14)	0.2	-
Other accrued income (Note 14)	5.9	0.9
Total accrued income	**11.6**	**5.4**
Prepayments	28.3	10.3
Receivables from associates (Note 14)	2.4	2.4
Cash restricted from being used (Note 14)	18.7	2.3
Other receivables (Note 14)	1.5	3.5
Total short-term trade and other receivables	**174.6**	**125.2**
Long-term receivables		
Prepayments	12.0	10.5
Receivables from associates (Note 14)	13.0	7.4
Other long-term receivables (Note 14)	1.0	-
Total long-term receivables	**26.0**	**17.9**
Total trade and other receivables (Notes 3.1 and 11)	**200.6**	**143.1**

Prepayments include prepayments for greenhouse gas emission allowances totalling EUR 34.3 million (31 December 2011: EUR 13.1 million). The receivables from associates include the termless loan granted to the associate Enefit Jordan B.V. with the interest rate 15% (2011: 15%). Under cash restricted from being used are recognised financial resources that are held on SEB Futures account as a guarantee for the transactions.

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

Analysis of Accounts Receivable

in million EUR	31 December	
	2012	**2011**
Accounts receivable not yet due (Note 14)	**97.7**	**81.3**
Accounts receivable due but not classified as doubtful		
1-30 days past due	9.9	9.0
31-60 days past due	0.7	5.1
61-90 days past due	0.3	3.1
Total accounts receivable due but not classified as doubtful	**10.9**	**17.2**
Accounts receivable written down		
3-6 months past due	1.2	2.9
more than 6 months past due	5.5	3.4
Total accounts receivable written down	**6.7**	**6.3**
Total accounts receivable	**115.3**	**104.8**

Under the accounting policies of the Group, all receivables 90 days past due are written down in full. The total amount of receivables 90 days past due is monitored using prior experience of how many of the receivables classified as doubtful are collected in a later period and how many of the receivables not more than 90 days past due are not collected in a later period. Also other individual and extraordinary impacts like the global economic recession are taken into account during evaluation.

12. Trade and Other Receivables, continued

Changes in Allowance for Doubtful Receivables

in million EUR	1 January - 31 December	
	2012	2011
Allowance for doubtful receivables at the beginning of the period	**(3.5)**	**(3.3)**
Classified as doubtful and collections during the accounting period	(0.4)	(0.9)
Classified as irrecoverable	0.7	0.6
Classified as held for sale	-	0.1
Allowance for doubtful receivables at the end of the period (Note 4)	**(3.2)**	**(3.5)**

The other receivables do not contain any impaired assets.

Revenue Under the Stage of Completion Method

in million EUR	31 December	
	2012	2011
Unfinished projects at the end of the period		
Revenue of unfinished projects	42.4	24.0
Progress billing submitted	(37.0)	(19.5)
Amounts due from customers under the stage of completion method (Note 14)	5.5	4.5
Amounts due to customers under the stage of completion method	(0.1)	-
Total expenses on unfinished projects	(40.2)	(23.2)
Gains/losses calculated on unfinished projects	2.2	0.8
Total revenue from construction projects in the financial year	**20.7**	**40.9**
Total expenses on construction projects in the financial year	**(20.4)**	**(36.9)**
Total gains calculated on construction projects	**0.3**	**4.0**

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

13. Derivative Financial Instruments

in million EUR	31 December 2012		31 December 2011	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	12.5	-	9.6	-
Option contracts for buying and selling electricity as trading derivatives	-	0.1	1.4	-
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	3.2	-	10.2	-
Swap and option contracts for selling shale oil as cash flow hedges	1.0	2.3	0.5	11.1
Total derivative financial instruments (Notes 3.1, 3.3, 11 and 14)	**16.7**	**2.4**	**21.7**	**11.1**
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	7.1	-	1.6	-
Option contracts for buying and selling electricity as trading derivatives	-	-	1.4	-
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	-	-	10.1	-
Swap and option contracts for selling shale oil as cash flow hedges	0.4	0.3	0.5	1.9
Total non-current portion	**7.5**	**0.3**	**13.6**	**1.9**
Total current portion	**9.2**	**2.1**	**8.1**	**9.2**

Forward and Option Contracts for Buying and Selling Electricity

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

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 2013-2014 (31 December 2011: in 2012-2013). As at 31 December 2012, 2,242,214 MWh had been hedged for the year 2013 and 5,904,240 MWh for the year 2014 (31 December 2011: 605,558 MWh had been hedged for the year 2012 and 797,160 MWh for the year 2013). Option transactions are classified as trading derivatives carried at fair value with changes through profit or loss.

The basis for determining the fair value of the instruments is the quotes on Nord Pool.

13. Derivative Financial Instruments, continued

Option contracts for Buying and Selling Greenhouse Gas Emissions Allowances

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

Swap and Option Contracts for Selling Shale Oil

The goal of the swap and option 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 and US dollars. Hedging instruments, which are combined from various components of derivative instruments, are recognised at fair value with changes through profit or loss until the acquisition of all components. The swap- and option contracts for selling shale oil which aim to hedge the risk of price changes of shale oil will realise in 2013-2014. (31 December 2011: in 2012-2013). As at 31 December 2012 312 709 tonnes had been hedged for the year 2013 and 468 519 tonnes for the year 2014 (31 December 2011: 96 900 tonnes for the year 2012 and 96 000 tonnes for the year 2013).

14. Credit Quality of Financial Assets

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

miljonites eurodes	31 December 2012	31 December 2011
Trade receivables		
Receivables from new clients (client relationship shorter than 6 months)	8.1	0.6
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	35.5	39.1
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have exceeded the due date	54.1	41.6
Total trade receivables (Note 12)	**97.7**	**81.3**
Accrued interest		
Receivables from banks with Moody's credit rating of Aa3	0.1	-
Receivables from banks with Moody's credit rating of A1	0.1	-
Total accrued interest (Note 12)	**0.2**	**-**

in million EUR	31 December 2012	31 December 2011
Bank accounts and short-term deposits in banks		
At banks with Moody's credit rating of Aa3	23.0	16.0
At banks with Moody's credit rating of A1	31.9	12.0
At banks with Moody's credit rating of A2	4.5	12.8
At banks with Moody's credit rating of A3	0.1	0.1
At banks with Moody's credit rating of Aa2	0.6	-
Total bank accounts and short-term deposits in banks (Notes 3.1, 3.2, 11 and 18)	**60.1**	**40.9**
Deposits at banks with maturities of more than 3 months		
At banks with Moody's credit rating of Aa3	36.0	-
At banks with Moody's credit rating of A1	39.0	-
At banks with Moody's credit rating of A2	15.0	-
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 11 and 17)	**90.0**	**-**
Other receivables and accrued income		
Other receivables with Moody's credit rating of A1	18.7	2.3
Receivables without credit rating from an independent party	29.3	18.7
Total other receivables (Note 12)	**48.0**	**21.0**
Available-for-sale financial assets		
Fund units of a credit institution with Moody's credit rating of A2 (Notes 3.1, 3.3, 11 and 15)	-	10.2
Derivative financial instruments		**-**
Derivatives with positive value with Moody's credit rating of Aa1	-	0.2
Derivatives with positive value with Moody's credit rating of Aa3	0.3	0.2
Derivatives with positive value with Moody's credit rating of A1	3.2	21.3
Derivatives with positive value with Moody's credit rating of A2	0.7	-
Derivatives through Nasdaq OMX clearing house	12.5	-
Derivatives with positive value (Notes 3.1, 3.3, 11 and 13)	**16.7**	**21.7**

According to the estimate of the management the other receivables and accrued income without a credit rating from an independent party do not involve material credit risk, as there is no evidence of circumstances that would indicate impairment loss.

As at 31 December 2012 and 31 December 2011, the Group did not have any major credit risk concentrations.

15. Available-for-sale Financial Assets

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

Changes in Available-for-sale Financial Assets

in million EUR	1 January - 31 December 2012	1 January - 31 December 2011
Fair value at the beginning of the period	**10.2**	**10.0**
Amortisation of difference between cost and nominal value	0.1	0.2
Disposed	(5.0)	-
Redeemed	(5.3)	-
Fair value at the end of the period (Notes 3.1, 3.2, 3.3, 11 and 14)	**-**	**10.2**

The Swedbank savingsbonds were denominated in euros. The fair value of the savingsbonds was based on the future cash flows. The maximum exposure to credit risk at the reference date was the carrying value of the financial assets classified as available-for-sale.

16. Financial Assets at Fair Value Through Profit or Loss

in million EUR	31 December 2012	31 December 2011
Unquoted financial assets:		
Units of Danske Invest Euro Interest Fund	1.7	4.9
Total unquoted financial assets (Notes 3.1, 3.2, 3.3 and 11)	**1.7**	**4.9**

Changes in Financial Assets Reported At Fair Value Through Profit or Loss

in million EUR	1 January - 31 December 2012	1 January - 31 December 2011
Fair value at the beginning of the period	**4.9**	**3.2**
Acquired	19.3	47.9
Disposed	(22.5)	(46.5)
Gain from change in fair value	-	0.3
Fair value at the end of the period (Notes 3.1, 3.2, 3.3 and 11)	**1.7**	**4.9**

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

17. Deposits at Banks With Maturities of More than 3 Months

in million EUR	31 December	
	2012	2011
Deposits at banks with maturities of more than 3 months	90.0	-
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 11 and 14)	**90.0**	**-**

In the financial year, the effective interest rates of term deposits with maturities of more than 3 months were between 0.5-1.52% (2011: 1.2-4.7%). In the reporting period the due dates of deposits were 91 to 193 days (2011: 89-367 days).

18. Cash and Cash Equivalents

in million EUR	31 December	
	2012	2011
Bank accounts	17.5	12.5
Short-term deposits	42.6	28.4
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	**60.1**	**40.9**

Cash and Cash Equivalents By Currencies

in million EUR	31 December	
	2012	2011
Euro	52.0	39.7
Latvian lat	0.8	1.0
US dollar	7.3	0.1
Lithuanian lit	-	0.1
Total cash and cash equivalents (Notes 3.1, 3.2, 11 and 14)	**60.1**	**40.9**

In the financial year, the effective interest rates of term deposits with maturities of up to 3 months were between 0.2 and 1.8% (2011: 0.4-3.1%).

19. Share Capital, Statutory Reserve Capital and Retained Earnings

As at 31 December 2012, Eesti Energia AS had 621 645 750 registered shares (31 December 2011: 471 645 750 registred shares). The nominal value of each share is 1 euro. The sole shareholder is the Republic of Estonia. The administrator of the shares and the exerciser of the rights of shareholders is the Estonian Ministry of Economic Affairs, represented by the Minister of Economic Affairs at the General Meeting of Shareholders. According to the articles of association of Eesti Energia AS, the minimum share capital is EUR 250,0 million and the maximum share capital is EUR 1000,0 million.

Under Order No. 196 of the Government of Estonia of 3 May 2012 the share capital of Eesti Energia AS was increased by EUR 150 million on 10 July 2012 by a monetary contribution.

As at 31 December 2012, the Group's statutory reserve capital totalled EUR 47.2 million (31 December 2011: EUR 47.2 million). As at 31 December 2012, Eesti Energia AS had an obligation to transfer an additional EUR 3.9 million to statutory reserve capital (31 December 2011: EUR 0).

As at 31 December 2012, the Group's distributable equity was EUR 461,7 million (31 December 2011: EUR 453.5 million).Corporate income tax is payable upon the distribution of dividends to shareholders (from 1 January 2008, the corporate income tax on dividends is 21/79 of the amount payable as net dividends).

If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 97.0 million (31 December 2011: EUR 95.2 million). It is possible to pay out EUR 364.7 million (31 December 2011: EUR 358.3 million) as net dividends.

According to the dividend distribution plan disclosed by the Government of the Republic, Eesti Energia AS is required to pay EUR 73.5 million as dividends after the approval of the 2012 Annual Report by the General Meeting of Shareholders. The corresponding income tax totals EUR 19.5 million.

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

in million EUR	31 December	
	2012	2011
Retained earnings (Note 41)	465.6	453.5
Statutory reserve capital	(3.9)	-
Distributable shareholder's equity	461.7	453.5
Corporate income tax on dividends if distributed	97.0	95.2
Net dividends available for distribution	364.7	358.3

20. Dividends Per Share

In 2012, Eesti Energia paid dividends of EUR 65,2 million to the Republic of Estonia or EUR 0,14 per share (2011: EUR 56,1 million, dividends per share EUR 0,12).

The Management Board proposed to the Annual Meeting to pay dividends of EUR 0.12 per share for the financial year ended 31 December 2012, totalling EUR 73.5 million. These financial statements do not reflect this amount as a liability as the dividend had not been approved as at 31 December 2012.

21. Hedge Reserve

in million EUR	1 January - 31 December	
	2012	2011
Hedge reserve at the beginning of the period	**(0.4)**	**(34.6)**
Change in fair value of cash flow hedges	9.8	23.5
Recognised as a reduction of revenue	2.1	10.7
Hedge reserve at the end of the period	**11.5**	**(0.4)**

22. Borrowings

Borrowings at Amortised Cost

in million EUR	31 December	
	2012	2011
Short-term borrowings		
Current portion of long-term bank loans	1.4	1.5
Total short-term borrowings	**1.4**	**1.5**
Long-term borrowings		
Bonds issued	588.3	290.6
Bank loans	143.1	144.1
Total long-term borrowings	731.4	434.7
Total borrowings (Notes 3.1, 3.2 and 11)	**732.8**	**436.2**

Bonds

in million EUR	31 December	
	2012	2011
Nominal value of bonds (Note 3.1)	600.0	300.0
Market value of bonds on the basis of quoted sales price (Note 3.3)	653.2	286.5

The bonds are denominated in euros and listed on the London Stock Exchange. In the financial year Eesti Energia AS has issued new long-term bonds with a nominal value EUR 300 million and with the maturity date in 2018. The bonds have a fixed interest rate of 4.25%. Transaction costs related to the issuing of the bonds were EUR 3.0 million. Other long-term bonds are with the maturity date in 2020 and have a fixed interest rate of 4.5%.

22. Borrowings, continued

Long-term Bank Loans at Nominal Value by Due Date

in million EUR	31 December	
	2012	2011
< 1 aasta	1.4	1.5
1–5 aastat	30.2	17.8
> 5 aasta	113.3	127.0
Total	**144.9**	**146.3**

All loans are denominated in euros. As at 31 December 2012 the interest rates of loans were between 0.8 and 3.2% (31 December 2011: 2.0-3.2%).

As at 31 December 2012, the weighted average nominal interest rate on loans was 3.07% (31 December 2011: 3.13%). 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.

In 2011, the Group repaid prematurely the loans drawn form Nordic Investment Bank in the amount of EUR 32.1 million and loan drawn from Latvian SEB Bank in the amount of EUR 0.2 million.

As at 31 December 2012 the Group had undrawn loan facilities of EUR 495.0 million (31 December 2011: EUR 595.0 million), of which EUR 400 million can be taken into use until 22 August 2014 and has floating interest rate. The decision regarding the undrawn loan facilities of EUR 95 million must be made by 7 December 2013. Decision whether to fix the interest or not will be made when the loan is taken into use.

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

Borrowings by Period that Interest Rates are Fixed for

in million EUR	31 December	
	2012	2011
< 1 aasta	8.6	9.7
1–5 aastat	24.7	12.3
> 5 aasta	699.5	414.2
Total (Notes 3.1, 3.2 and 11)	**732.8**	**436.2**

Weighted Average Effective Interest Rates of Borrowings

miljonites eurodes	31 December	
	2012	2011
Long-term bank loans	3.1%	3.2%
Bonds	4.7%	4.9%

23. Trade and Other Payables

in million EUR	31.detsember	
	2012	**2011**
Financial payables within trade and other payables		
Trade payables	110.6	119.2
Accrued expenses	7.4	4.4
Payables to associates	4.9	2.9
Other payables	2.8	3.5
Total financial payables within trade and other payables (Note 3.1 and 11)	**125.7**	**130.0**
Payables to employees (Note 3.1)	21.9	19.2
Tax liabilities (Note 3.1)	29.0	26.5
Prepayments	0.7	0.8
Total trade and other payables	**177.3**	**176.5**
of which short-term trade and other payables	174.9	176.1
of which long-term trade and other payables	2.4	0.4

24. Deferred Income

Connection and Other Service Fees

in million EUR	1 January - 31 December	
	2012	**2011**
Deferred connection and other service fees at the beginning of the period	**125.7**	**117.9**
Connection and other service fees received	15.0	12.4
Connection and other service fees recognised as income (Notes 4 and 33)	(4.7)	(4.6)
Deferred connection and other service fees at the end of the period	**136.0**	**125.7**

Government Grants

in million EUR	1 January - 31 December	
	2012	**2011**
Deferred income from grant at the beginning of the period	**0.9**	**1.2**
of which short-term deferred income	0.2	0.5
which long-term deferred income	0.7	0.7
Grants received	3.1	0.4
Transferred grants	(0.5)	(0.3)
Recognised as income (Note 27)	(0.5)	(0.4)
Deferred income from grant at the end of the period	**3.0**	**0.9**
of which short-term deferred income	2.4	0.2
which long-term deferred income	0.6	0.7

Majority of the grants have been received from the Cohesion Fund (ISPA), Enterprise Estonia, Environmental Investment Center.

25. Provisions

in million EUR

	Opening balance 31 December 2011	Recognition and change in provisions	Interest charge (Note 31)	Use	Closing balance 31 December 2012	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	18.5	2.5	0.9	(1.3)	4.6	16.0
Provision for termination of mining operations (Note 30)	10.7	(6.0)	0.4	(3.2)	1.2	0.7
Employee related provisions (Note 29)	4.3	2.0	0.2	(0.8)	1.3	4.4
Provision for dismantling cost of assets (Note 6)	2.7	-	0.1	-	-	2.8
Provision for greenhouse gas emissions (Notes 8 and 28)	9.3	6.5	-	(10.0)	5.8	-
Total provisions (Notes 4 and 33)	**45.5**	**5.0**	**1.6**	**(15.3)**	**12.9**	**23.9**

in million EUR

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

Recognition and change in the provisions during financial year 2012 in the amount of EUR 0.8 million resulted from the change in discount rate.

25. Provisions, continued

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

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

Long-term environmental protection provisions will be settled at the Eesti Energia Kaevandused in 2014 - 2035, and at Narva Elektrijaamad in 2014 - 2058.

Provisions related to the termination of mining operations will be settled in 2013 - 2035.

Employee related provisions have been set up for:

- payment of benefits laid down in collective agreements and other acts;
- compensation of work-related injuries;
- payment of termination benefits;
- payments of scholarships.

Long-term employee related provisions will be settled during the periods specified in the contracts or during the remaining life expectancy of the employees, period of which is determined using data from Statistics Estonia on life expectancies by age groups. Employee related provisions include provisions for payments of termination benefits to Aidu quarry employees. No provisions for payments of termination benefits to employees of other quarries and mines have been set up as no detailed plans for the closure of these mines and quarries have been announced.

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

The provision for greenhouse gas emissions has been set up based on the cost of greenhouse gas emission allowances that need to be purchased additionally. The emission allowances received from the state free of charge have been deducted from the volume of emission allowances needed to cover greenhouse gas emissions. Setting up the provison for greenhouse gas emissions for 31 December 2011 and 31 December 2012 an additional amount of greenhose gas emission allowances, what was allocated to the Group for the years 2010-2012 by the decree of the Government of Estonia no. 183 of 22 December 2011, was taken into consideration (Note 34), which results in smaller provisions on these dates compared to 31 December 2010.

The provision are discounted at the rate of 1.75-5.44% (2011: 5.4%). From 2012 discount curve is used instead of average discount rate for discounting provisions. It allows more accurate evaluation of the provisions from different time horizon.

In determining the discount curve Group's risk margin for respective period is added to a base rate of the respective period. The group's risk margins are determined by interpolating the financing margins (loan lines, bonds) and evaluations of investment banks.

26. Revenue

in million EUR	1 January - 31 December	
	2012	**2011**
By activity		
Sale of goods		
Electricity (Note 5)	406.5	424.7
Shale oil (Note 5)	77.8	60.9
Heat (Note 5)	35.5	37.4
Oil shale (Note 5)	28.7	32.8
Power equipment	10.8	24.4
Other goods	7.1	8.2
Total sale of goods	**566.4**	**588.4**
Sale of services		
Sales of network services (Note 5)	233.2	204.9
Repair and construction services	10.5	17.1
Sale of telecommunication services	1.8	10.9
Connection fees (Notes 4, 24 and 33)	4.7	4.6
Rental and maintenance income (Note 7)	1.3	1.9
Other services	4.2	4.1
Total sale of services	255.7	243.5
Total revenue (Note 5)	**822.1**	**831.9**

27. Other Operating Income

in million EUR	1 January - 31 December	
	2012	**2011**
The greenhouse gas allowances sold	19.7	-
Gain on disposal of subsidiaries and reclassification as associates (Notes 9, 33 and 36)	13.6	18.7
Fines, penalties and compensations	8.0	3.1
Gain on disposal of property, plant and equipment	3.1	1.4
Government grants (Note 24)	0.5	0.4
Other operating income	1.5	2.0
Total other operating income	**46.4**	**25.6**

In fines, penalties and compensations of the financial year 2012 are recognised an insurance compensation for the loss of income and repair due to the breakdown of the Energy Unit 8 in Eesti power plant in the amount of EUR 5 million.

28. Raw Materials and Consumables used

in million EUR	1 January - 31 December	
	2012	**2011**
Transmission services	85.1	76.7
Electricity	60.9	41.6
Technological fuel	46.9	49.2
Maintenance and repairs	33.2	41.3
Resource tax on mineral resources	30.4	28.7
The greenhouse gas allowances sold	19.7	-
Greenhouse gases emissions expense (Note 25)	6.5	11.3
Revaluation of the greenhouse gas allowances (Note 8)	(1.8)	19.9
Other raw materials and consumables used	99.5	121.0
Total raw materials and consumables used	**380.4**	**389.7**

29. Payroll Expenses

	1 January - 31 December	
	2012	**2011**
Number of employees		
Number of employees at the beginning of the period*	7,631	7,455
Number of employees at the end of the period*	7,560	7,631
Average number of employees (Note 5)	7,573	7,585

in million EUR	1 January - 31 December	
	2012	**2011**
Payroll expenses		
Wages, salaries, bonuses and vacation pay	118.4	110.9
Average monthly pay (in euros)	1,303	1,218
Other payments and benefits to employees	5.4	5.5
Payroll taxes	42.7	39.7
Recognition/reversal of employee related provisions (Note 25)	2.0	0.5
Total calculated payroll expenses	**168.5**	**156.6**
Of which remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	1.8	1.8
Fringe benefits	0.1	0.1
Total paid to management and supervisory boards	1.9	1.9
Capitalised in the cost of self-constructed assets	(15.7)	(20.8)
Covered from the provisions for the termination of mining operations and environmental protection	(1.2)	(0.2)
Total payroll expenses	**151.6**	**135.6**

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

* Without the employees of disposal groups

30. Other Operating Expenses

in million EUR	1 January - 31 December	
	2012	2011
Environmental pollution charges	17.8	19.8
Miscellaneous office expenses	14.1	7.4
Rental expense (Note 7)	3.5	4.4
Recognition of environmental and mining termination provisions (Note 25)	(3.5)	3.5
Research and development costs	2.7	2.6
Other operating expenses	33.4	33.3
Total other expenses	**68.0**	**71.0**

31. Net Financial Income (-expense)

in million EUR	1 January - 31 December	
	2012	2011
Financial income		
Interest income	3.2	4.0
Total interest income (Note 5)	**3.2**	**4.0**
Other financial income		0.1
Total financial income	**3.2**	**4.1**
Financial expenses		
Interest expense		
Interest expenses on bonds and loans	(30.6)	(19.2)
Amounts capitalised on qualifying assets	24.3	13.8
Total interest expenses on borrowings (Note 33)	**(6.3)**	**(5.4)**
Interest expenses on provisions and reimbursements from another parties (Note 25)	(1.6)	(2.1)
Total interest expenses (Note 5)	**(7.9)**	**(7.5)**
Foreign exchange losses	(0.3)	0.3
Other financial expenses	(0.2)	(0.1)
Total financial expenses	**(8.4)**	**(7.3)**
Net financial income (-expense)	**(5.2)**	**(3.2)**

32. Corporate Income Tax

Under the Income Tax Act, the dividends payable out of retained earnings are taxed in Estonia. From 1 January 2008, the income tax rate is 21/79 of the net dividend paid. If the Group receives dividends from other companies registered in Estonia where the Group has at least 10% of the shares, then the amount of income tax paid to the state by the distributer of the dividends can be deducted by the Group from the corporate income tax payable once the Group distributes its dividends.

Average Effective Income Tax Rate

in million EUR	1 January - 31 December	
	2012	2011
Estonia		
Net dividends	65.2	56.1
Income tax applicable for dividends	21/79	21/79
Theoretical income tax at applicable rates	17.3	14.9
Impact of dividends paid by associates	(0.4)	(0.3)
Effective income tax on dividends	16.9	14.6
Average effective income tax rate	20.5%	20.6%
Income tax from liquidation proceeds	0.2	-
Income tax expense arising from the subsidiaries in Finland and Latvia	0.7	0.1
Total income tax expense (Note 5)	**17.8**	**14.7**

As at 31 December 2012 and 31 December 2011, the Group did not have any deferred income tax assets and liabilities.

33. Cash Generated From Operations

in million EUR	1 January - 31 December	
	2012	**2011**
Profit before income tax	**94.7**	**163.9**
Adjustments		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	173.8	93.3
Amortisation of intangible assets (Notes 5 and 8)	4.5	3.8
Deferred income from connection and other service fees (Notes 4, 24 and 26)	(4.7)	(4.6)
Gain on disposal of subsidiaries (Note 27 and 36)	(13.6)	(2.4)
Gain on disposal of property, plant and equipment	(3.1)	(1.4)
Amortisation of government grant received to purchase non-current assets	-	(0.1)
Profit (loss) from associates using equity method (Note 9)	0.2	0.9
Other gains from investments (Notes 9 and 27)	-	(16.3)
Unpaid/unsettled gain/loss on derivatives	7.9	(12.2)
Interest expense on borrowings (Note 31)	6.3	5.4
Interest and other financial income	(3.2)	(3.4)
Adjusted net profit before tax	**262.8**	**226.9**
Net change in current assets relating to operating activities		
Change in receivables related to operating activities	(11.7)	5.5
Change in inventories	(10.4)	(8.5)
Net change in other current assets relating to operating activities	(10.4)	(1.2)
Total net change in current assets relating to operating activities	**(32.5)**	**(4.2)**
Net change in current liabilities relating to operating activities		
Change in provisions (Note 25)	(8.7)	(33.0)
Change in trade payables	1.2	0.4
Net change in liabilities relating to other operating activities	4.6	(2.2)
Total net change in liabilities relating to operating activities	**(2.9)**	**(34.8)**
Cash generated from operations	**227.4**	**187.9**

34. Off-balance Sheet Assets, Contingent Liabilities and Commitments

(a) Off-balance sheet assets

Oil Shale Resources

The overview of the resources of oil shale in the possession of the Group and its associates is presented in the table below. The resources of oil shale of Estonian Republic represent the resources of oil shale in the official balance of natural resources. The resources of oil shale of international development projects are recognised based on the disclosure requirements of international standards of evaluation of resources and reserves. The classification of the resource is performed by the authorized experts and is proved appropriate according to the standard both by the level of exploration and economical perspective. Depending on the development phase the known technical, environmental and social-economical restrictions have been adjusted and taken into account when recognising the resources.

in millions of tonnes	31 December	
	2012	**2011**
Estonia		
Measured*	542	559
Jordan		
Measured*	930	
Inferred**	2,604	
USA**		
Measured **	3,680	
Indicated**	2,540	
Inferred**	368	

* Resource represents a part of in place Resource, after it has been modified by desired cut-off grade, technical, economical and already defined modifying factors.
** Resource is defined as amount of total in place oil shale, that has high possibility for commercial interest. This definition is applied for resources before the pre-technical analyses, to which possible modifying factors have not been applied.

34. Off-balance Sheet Assets, Contingent Liabilities and Commitments, continued

Emission Rights
The allocation plan established by the decree of the Government of Estonia no. 183 of 22 December 2011allocated to the companies of the Eesti Energia Group for the years 2008 - 2012 greenhouse gas emission allowances totalling 49.0 million tonnes (the quantity allocated for the period 2005 - 2007 totalled 46.7 million tonnes) (Note 8). According to the mentioned decree the amount of the greenhouse gas emission allowances allocated to the Group was increased compared to the previous allocation plan for the same period. For the years 2010 and 2011 2.5 million tonnes and for the year 2012 1.3 million tonnes of greenhouse gas emission allowances were additionally allocated (Note 25).

On implementation of article 10c of EU Emissions Trading System the Group may receive for the purpose of modernisation of electricity production up to 18 million tonnes of greenhouse gas emission allowances free of charge in the period 2013 to 2019.

(b) Contingent Liabilities

Contingent Liabilities Arising From Potential Tax Audit
Tax authorities have neither started nor performed any tax audits at the Company or single case audits at any group company. Tax authorities have the right to review the Company's tax records within 6 years after the reported tax year and if they find any errors they may impose additional taxes, interest and fines. The Group's management considers that there are not any circumstances which may give rise to a potential material liability in this respect.

Collaterals, Guarantees and Court Actions
The loan agreements concluded by the Group set certain covenants on the Group's consolidated financial indicators. The covenants have been adhered to.

The Group has granted a guarantee of up to 39.9% for the obligations arising from the loan contracts entered into between its associate AS Nordic Energy Link and the banks if the banks should require full payment of loans from AS Nordic Energy Link due to breach of contractual terms (Notes 3.1). As at 31 December 2012, AS Nordic Energy Link had drawn loans of EUR 51.2 million (as at 31 December 2011: EUR 56.5 million).

(c) Commitments

Requirement to Comply with the Environmental Norms
According to the legislation of European Union and Estonia, the pollutants from oil shale boilers into atmospheric air need to comply with the environmental requirements which will become more rigorous from year 2016. Completing this obligation requires additional investment to be made.

Capital Commitments A Rising from Construction Contracts
As at 31 December 2012, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 404.9 million (31 December 2011: EUR 1,111.6 million).

Contracts for Buying Greenhouse Gas Emissions Allowances
As at 31 December 2012 the group had concluded contracts for buying greenhouse gas emissions allowances in December 2013, 2014 and 2015 in the amount of EUR 136.6 million (31 December 2011: EUR 34.0 million).

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

As at 31 December 2011 the assets and liabilities of Televõrgu AS were presented as held for sale in these financial reports as the Group was in the middle of the sale process of Televõrgu AS and was conducting negotiations with the potential buyer. On 16 January 2012 the Group entered into a sales contract for the sale of the shareholding in Televõrgu AS (Note 36).

Assets of Disposal Group Classified as Held for Sale

in million EUR	31 December	
	2012	2011
Trade and other receivables	-	1.4
Inventories	-	0.1
Property, plant and equipment and intangible assets (Notes 6 and 8)	-	10.3
Total assets classified as held for sale	**-**	**11.8**

Liabilities of disposal group classified as held for sale

in million EUR	31 December	
	2012	2011
Trade and other payables	-	4.0
Total liabilities classified as held for sale	**-**	**4.0**

36. Disposal of subsidiaries

(a) Televõrgu AS

On 17 February 2012 the transaction of the sale of the 100% shareholding in Televõrgu AS was completed. Until its disposal, Televõrgu AS was part of the Retail Business segment.

Net Assets of the Subsidiary Disposed

in million EUR	17 February 2012
Cash and cash equivalents	0.3
Trade and other receivables	2.0
Inventories	0.1
Property, plant and equipment	10.2
Intangible assets	0.1
Trade and other payables	(3.9)
Total net assets of th subsidiary disposed	**8.8**
Sales price	22.4
Gain on sale (Note 33)	13.6
Cash in flows in transaction	
Proceeds from sale	22.4
Cash and cash equivalents of subsidiary in bank accounts	(0.3)
Total cash inflows in transaction	**22.1**

36. Disposal of Subsidiaries, continued

(b) AS Kohtla-Järve Soojus

22 December 2010 the Group entered into a sales contract for the sale of the shareholding in AS Kohtla-Järve Soojus to OÜ VKG Energia. The transaction was completed on 8 March 2011 after the Estonian Competition Authority had given the permission to concentrate. Until its disposal, AS Kohtla-Järve Soojus was part of the Electricity and Heat Generation segment.

Net Assets of the Subsidiary Disposed

in million EUR	8 March 2011
Cash and cash equivalents	1.5
Trade and other receivables	4.3
Inventories	0.2
Property, plant and equipment	16.0
Borrowings	(3.4)
Trade and other payables	(7.7)
Deferred income	(0.1)
Provisions	(5.8)
Total net assets of th subsidiary disposed	**5.0**
Non-controlling interest's share of the net assets	(2.0)
The obligation to compensate the amount of greenhouse gas allowances	0.2
Sales price	5.6
Gain on sale (Note 33)	2.4
Cash in flows in transaction	
Proceeds from sale	5.6
Cash and cash equivalents of subsidiary in bank accounts	(1.5)
Total cash inflows in transaction	**4.1**

37. Business Combinations and Other Entities Acquired

No business combinations occurred in 2012.

(a) SIA Enefit Power & Heat Valka

On 17 January 2011 the Group acquired 75% of the shares of Latvian company SIA "Valkas Bioenergo Kompanija" (new name SIA Enefit Power & Heat Valka) and increased the share capital, after which the Group owns 90% of the enterprise. The acquired company generates thermal energy in two boiler plants that operate on biofuel and fuel oil and in 2012 the building of a new biofuel-fired electricity and heat co-generation plant was completed.

The purpose of the acquisition of the company was to diversify generation portfolio of the Group and to develop effective co-generation of electricity and heat. The goodwill arising from the acquisition, that did not qualify for separate recognition, amounted to EUR 0.6 million and is attributable to the development project of the co-generation plant.

The following table summarises the consideration paid for SIA Enefit Power & Heat Valka, the fair value of assets aquired, liabilities assumed and the non-controlling interest at the acquisition date.

37. Business Combinations and Other Entities Acquired, continued

in million EUR	
Consideration	
Cash paid	0.6
Cash to be paid in the future	0.2
Total cost of acquisition	**0.8**
Recognised amounts of identifiable assets acquired and liabilites assumed	
Trade receivables	0.1
Property, plant and equipment (Note 6)	0.3
Intangible assets (Note 8)	0.2
Borrowings	(0.2)
Trade and other payables	(0.1)
Total identifiable net assets	**0.3**
Non-controlling interest	**(0.1)**
Goodwill (Note 8)	**0.6**
Total	**0.8**

Acquisition-related costs have been charged to the other operating expenses in the consolidated income statement for the year ended 31 December 2011. According to the contract an additional consideration of EUR 0.2 million will be paid after the receipt of the subsidy from the European Union.

The fair value of the trade receivables at the acquisition date was EUR 0.1 million, that was equal to the contractual amount of the receivables.

The fair value of the non-controlling interest in SIA Enefit Power & Heat Valka was estimated according to the non-controlling interest in the fair value of the net identifiable assets acquired.

The revenue included in the consolidated statement of comprehensive income from 17 January 2011 to 31 December 2011 contributed by SIA Enefit Power & Heat Valka was EUR 0,6 million. SIA Enefit Power & Heat Valka also contributed loss of EUR 0,3 million over the same period.

(b) Osaühing Pogi

On 10 October 2011 the Group acquired 66.5% share in Osaühing Pogi, whose primary activities include the production of heat and sales of heat in town Paide. The company has started building a new effective and environmentally friendly co-generation plant using biomass. The new co-generation plant will be completed in 2013.

The purpose of the acquisition of the company was to diversify generation portfolio of the Group and to develop effective co-generation of electricity and heat. The goodwill arising from the acquisition, that did not qualify for separate recognition, amounted to EUR 0.4 million and is attributable to the development project of the co-generation plant.

The following table summarises the consideration paid for Osaühing Pogi, the fair value of assets aquired, liabilities assumed and the non-controlling interest at the acquisition date.

in million EUR	
Consideration	
Cash paid	1.2
Total cost of acquisition	**1.2**
Recognised amounts of identifiable assets acquired and liabilites assumed	
Trade and other receivables	0.3
Inventories	0.4
Property, plant and equipment (Note 6)	1.3
Borrowings	(0.2)
Trade and other payables	(0.5)
Total identifiable net assets	**1.3**
Non-controlling interest	**(0.5)**
Goodwill (Note 8)	**0.4**
Total	**1.2**

37. Business Combinations and Other Entities Acquired, continued

Acquisition-related costs have been charged to the other operating expenses in the consolidated income statement for the year ended 31 December 2011.

The fair value of the trade receivables at the acquisition date was EUR 0.2 million, that was equal to the contractual amount of the receivables.

The fair value of the non-controlling interest in Osaühing Pogi was estimated according to the non-controlling interest in the fair value of the net identifiable assets acquired.

The revenue included in the consolidated statement of comprehensive income from 10 October 2011 to 31 December 2011 contributed by Osaühing Pogi was EUR 0.6 million. Osaühing Pogi also contributed profit of EUR 0 million over the same period. Had Osaühing Pogi been consolidated from 1 January 2011, the consolidated statement of income 2011 would show revenue of EUR 1.6 million and profit of EUR 0 million.

Other Entities Acquired

(c) Enefit American Oil

On 14 January 2011 the Group signed a contract for acquiring 100% of the shares of the Oil Shale Exploration Company (new name Enefit American Oil) in the USA for the purchase price of USD 42 million (EUR 29.6 million). The transaction was completed on 30 March 2011. The management estimates that the transaction was not a business combination as the assets that were acquired do not constitute a business.

Allocation of the cost between the identifiable assets and liabilities	
Property, plant and equipment (Note 6)	2.1
Contractual rights (Note 8)	27.7
Trade and other payables	(0.2)
Total assets and liabilities	**29.6**

38. Earnings Per Share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the company by the weighted average number of ordinary shares outstanding. As there are no potential ordinary shares, diluted earnings per share equal to basic earnings per share all the periods. Under Order No. 196 of the Government of Estonia of 3 May 2012, the share capital of Eesti Energia AS was increased by EUR 150 million by releasing 150 million new shares with the nominal value of one euro per share (Note 19).

	1 January - 31 December	
	2012	2011
Profit attributable to the equity holders of the company (million EUR)	77.3	149.3
Weighted average number of shares (million)	571.2	471.6
Basic earnings per share (EUR)	0.14	0.32
Diluted earnings per share (EUR)	0.14	0.32

39. Related Party Transactions

The sole shareholder of Eesti Energia AS is the Republic of Estonia. In preparing the Group's financial statements, the related parties include associates, members of the management and supervisory boards of the parent company, and other companies over which these persons have control or significant influence. Related parties also include entities under the control or significant influence of the state.

in million EUR	1 January - 31 December	
	2012	2011
Transactions with associates		
Purchase of goods and services	26.5	27.4
Proceeds from sale of goods and services	2.9	3.5
Financial expenses	1.7	0.6
Loans granted	4.2	4.0
Transactions with entities over which the members of Management and Supervisory Board have significant influence		
Purchases of goods and services	2.3	3.2

In 2012 the Group didn't conclude any individually-significant transactions with the entities over which the state has control or significant influence.

The remuneration paid to the members of the Management and Supervisory Boards is disclosed in Note 29. Receivables from associates are disclosed in Note 12 and payables to associates in Note 23. No impairment loss from receivables was recognised in the reporting period or in the comparative period.

Upon premature termination of the service contract with a member of the Management Board, the service contracts stipulate the payment of 3 months' remuneration as termination benefits.

In purchasing and selling electricity, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

40. Events After the Reporting Period

From 1 January 2013 Estonian electricity market is completely open for all the clients and former electricity price regulation has ended. Customers conclude contracts with the electricity sellers based on the market price or they stay using universal service. The price of the electricity sold as the universal service is calculated by the price of Nord Pool Spot and a reasonable commercial profit of the electricity seller is added.

41. Financial Information on the Parent Company

Financial information disclosed on the parent company includes the primary separate financial statements of the parent company, the disclosure of which is required by the Accounting Act of Estonia. The primary financial statements of the parent company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements. Investments in subsidiaries and associates are reported at cost in the separate financial statements of the parent company.

Income Statement

in million EUR	1 January - 31 December	
	2012	2011
Revenue	412.3	391.5
Other operating income	28.3	29.2
Government grants	0.1	0.2
Raw materials and consumables used	(355.7)	(356.8)
Other operating expenses	(27.2)	(18.7)
Payroll expenses	(30.6)	(23.3)
Depreciation, amortisation and impairment	(12.5)	(6.8)
Other expenses	(8.4)	(1.2)
OPERATING PROFIT	**6.3**	**14.1**
Financial income	107.1	84.1
Financial expenses	(31.5)	(16.2)
Total financial income and expenses	**75.6**	**67.9**
PROFIT BEFORE TAX	**81.9**	**82.0**
NET PROFIT FOR THE FINANCIAL YEAR	**81.9**	**82.0**

Statement of Comprehensive Income

in million EUR	1 January - 31 December	
	2012	2011
PROFIT FOR THE YEAR	**81.9**	**82.0**
Other comprehensive income		
Revaluation of risk hedge instruments	2.9	37.7
Other comprehensive income for the year	**2.9**	**37.7**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**84.8**	**119.7**

41. Financial Information on the Parent Company, continued

Statement of Financial Position

in million EUR	31 December 2012	31 December 2011
Assets		
Non-current assets		
Property, plant and equipment	194.8	157.8
Intangible assets	9.6	15.6
Investments in subsidiaries	497.1	498.8
Investments in associates	22.0	22.0
Derivative financial instruments	7.0	13.1
Receivables from subsidiaries	221.9	208.6
Total non-current assets	**952.4**	**915.9**
Current assets		
Inventories	0.1	0.1
Trade and other receivables	992.7	617.0
Derivative financial instruments	8.7	8.1
Available-for-sale financial assets	-	10.2
Financial assets at fair value through profit or loss	1.7	4.9
Deposits at banks with maturities of more than 3 months	90.0	-
Cash and cash equivalents	45.1	33.9
Total current assets	**1,138.3**	**674.2**
Total assets	**2,090.7**	**1,590.1**
Equity		
Share capital	621.6	471.6
Share premium	259.8	259.8
Statutory reserve capital	47.2	47.2
Hedge reserve	12.4	9.5
Retained earnings	299.1	282.4
Total equity	**1,240.1**	**1,070.5**

in million EUR	31 December 2012	31 December 2011
Liabilities		
Non-current liabilities		
Borrowings	731.3	434.7
Other payables	0.1	0.1
Deferred income	0.2	0.3
Provisions	0.9	0.9
Total non-current liabilities	**732.5**	**436.0**
Current liabilities		
Borrowings	1.4	1.4
Trade and other payables	116.1	81.3
Derivative financial instruments	0.4	0.8
Provisions	0.2	0.1
Total current liabilities	**118.1**	**83.6**
Total liabilities	**850.6**	**519.6**
Total liabilities and equity	**2,090.7**	**1,590.1**

41. Financial Information on the Parent Company, continued

Cash Flow Statement

in million EUR	1 January - 31 December 2012	2011
Cash flows from operating activities		
Profit before tax	**81.9**	**82.0**
Adjustments		
Depreciation of property, plant and equipment	10.5	4.6
Amortisation of intangible assets	2.0	2.2
Amortisation of government grant received to purchase non-current assets	-	(0.1)
Profit/loss from sale of property, plant and equipment	(1.1)	(3.2)
Profit from sale of a subsidiary	(20.8)	(5.3)
Other gains/losses on investments	(65.8)	(69.1)
Gain/loss on unpaid/unsettled derivatives	7.9	(12.2)
Interest expense on borrowings	30.4	19.2
Interest income	(41.9)	(27.4)
Adjusted net profit	**3.1**	**(9.3)**
Net change in current assets relating to operating activities		
Loss from doubtful receivables	0.4	0.7
Change in receivables relating to operating activities	(14.9)	13.5
Change in inventories	0.1	-
Net change in current assets relating to other operating activities	(22.8)	9.0
Total net change in current assets relating to operating activities	**(37.2)**	**23.2**
Net change in liabilities relating to operating activities		
Change in provisions	0.2	0.1
Change in trade payables	4.0	(7.5)
Net change in liabilities related to other operating activities	30.2	(0.6)
Total net change in liabilities relating to operating activities	**34.4**	**(8.0)**
Interest paid and borrowing costs	**(26.2)**	**(17.2)**
Interest received	**35.9**	**27.9**
Net cash flows from operating activities	**10.0**	**16.6**

in million EUR	1 January - 31 December 2012	2011
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(53.9)	(79.7)
Proceeds from sale of property, plant and equipment	8.9	4.6
Net change in cash restricted from being used	(16.5)	46.1
Dividends received from subsidiaries	65.2	56.1
Net change in term deposits with maturities of more than 3 months	(90.0)	181.4
Purchase of short-term financial investments	(19.3)	(17.9)
Contribution to the share capital of subsidiaries	-	(0.3)
Proceeds from sale and redemption of short-term financial investments	32.8	16.3
Proceeds from sale of subsidiaries	22.4	7.8
Proceeds from liquidation of subsidiary	0.7	-
Purchase of subsidiaries	-	(2.3)
Loans granted to subsidiaries	(3.6)	(37.8)
Repayments of loans granted to subsidiaries	0.6	7.4
Change in overdraft granted to subsidiaries	(325.3)	(208.1)
Other loans granted	(4.2)	(4.1)
Repayments of other loans	3.0	0.1
Net cash used in investing activities	**(379.2)**	**(30.4)**
Cash flows from financing activities		
Proceeds from bonds issued	297.0	-
Bank loans received	25.0	136.0
Repayments of bank loans	(26.4)	(58.9)
Change in overnight deposit received from subsidiaries	-	(19.7)
Contribution to the share capital	150.0	-
Dividends paid	(65.2)	(56.1)
Total cash generated from financing activities	**380.4**	**1.3**
Net cash flows	**11.2**	**(12.5)**
Cash and cash equivalents at the beginning of the period	33.9	46.4
Cash and cash equivalents at the end of the period	45.1	33.9
Net increase/decrease in cash and cash equivalents	**11.2**	**(12.5)**

41. Financial Information on the Parent Company, continued

Statement of Changes in Equity

in million EUR

	Share capital	Share premium	Statutory reserve capital	Hedge Reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**(28.2)**	**-**	**256.7**	**1,007.2**
Carrying amount of holdings under controlling and significant influence						(501.3)	**(501.3)**
Carrying amount of holdings under controlling and significant influence using equity method				(6.4)	-	604.8	**598.4**
Adjusted unconsolidated equity as at 31 December 2010 (Note 19)				**(34.6)**	**-**	**360.3**	**1,104.3**
Profit for the year	-	-	-	-	-	82.0	**82.0**
Other comprehensive income for the year	-	-	-	37.7	-	-	**37.7**
Total comprehensive income for the year	**-**	**-**	**-**	**37.7**	**-**	**82.0**	**119.7**
Dividends paid	-	-	-	-	-	(56.1)	**(56.1)**
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**(56.1)**	**(56.1)**
Business combination under common control	-	-	-	-	-	(0.2)	(0.2)
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**(56.3)**	**(56.3)**
Equity as at 31 December 2011	471.6	259.8	47.2	9.5	-	282.4	**1,070.5**
Carrying amount of holdings under controlling and significant influence						(498.8)	**(498.8)**
Carrying amount of holdings under controlling and significant influence using equity method				(9.9)	3.5	669.9	**663.5**
Adjusted unconsolidated equity as at 31 December 2011 (Note 19)				**(0.4)**	**3.5**	**453.5**	**1,235.2**

41. Financial Information on the Parent Company, continued

Statement of Changes in Equity

in million EUR

	Share capital	Share premium	Statutory reserve capital	Hedge Reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2011	**471.6**	**259.8**	**47.2**	**9.5**	**-**	**282.4**	**1,070.5**
Carrying amount of holdings under controlling and significant influence						(498.8)	(498.8)
Carrying amount of holdings under controlling and significant influence using equity method				(9.9)	3.5	669.9	663.5
Adjusted unconsolidated equity as at 31 December 2011 (Note 19)				**(0.4)**	**3.5**	**453.6**	**1,235.2**
Profit for the year	-	-	-	-	-	81.9	81.9
Other comprehensive income for the year	-	-	-	2.9	-	-	2.9
Total comprehensive income for the year	**-**	**-**	**-**	**2.9**	**-**	**81.9**	**84.8**
Contribution to the share capital	150.0	-	-	-	-	-	150.0
Dividends paid	-	-	-	-	-	(65.2)	(65.2)
Total contributions by and distributions to owners of the company, recognised directly in equity	**150.0**	**-**	**-**	**-**	**-**	**(65.2)**	**84.8**
Total transactions with owners of the company, recognised directly in equity	**150.0**	**-**	**-**	**-**	**-**	**(65.2)**	**84.8**
Equity as at 31 December 2012	**621.6**	**259.8**	**47.2**	**12.4**	**-**	**299.1**	**1,240.1**
Carrying amount of holdings under controlling and significant influence						(497.1)	(497.1)
Carrying amount of holdings under controlling and significant influence using equity method				(0.9)	2.4	663.6	665.1
Adjusted unconsolidated equity as at 31 December 2012 (Note 19)				**11.5**	**2.4**	**465.6**	**1,408.1**

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, which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eesti Energia AS and its subsidiaries as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

Kristi Hõrrak
Auditor's Certificate No.548

27 February 2013

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

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Profit Allocation Proposal

The retained earnings of Eesti Energia Group as at 31 December 2012 were 465,623,346.80 EUR.

Paragraph 1 of § 77 of the State Assets Act states that the dividends payable by an entity where the state has controlling interest shall be approved by the Government of Estonia at the proposal of the Minister of Finance. According to the dividend distribution plan disclosed by the Government of the Republic, Eesti Energia AS is required to pay 73,480,000 EUR as dividends in 2013.

The Management Board thus proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of Eesti Energia Group as at 31 December 2012 as follows:

1. to pay 73,480,000.00 EUR as dividends to shareholder;
2. to transfer to the statutory reserve capital 3,866,205.99 EUR;
3. not to distribute the remaining retained earnings of 388,277,140.81 EUR, due to the continuing financing needs of the Eesti Energia Group.

Signatures of the Management Board to the Annual Report for Financial Year 2012

The Annual Report of the Eesti Energia Group for the financial year ended on 31 December 2012 consists of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal.
The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

MANAGEMENT BOARD

27 February 2013

Chairman of the Management Board

Sandor Liive

Members of the Management Board

Margus Kaasik

Raine Pajo

Margus Rink

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