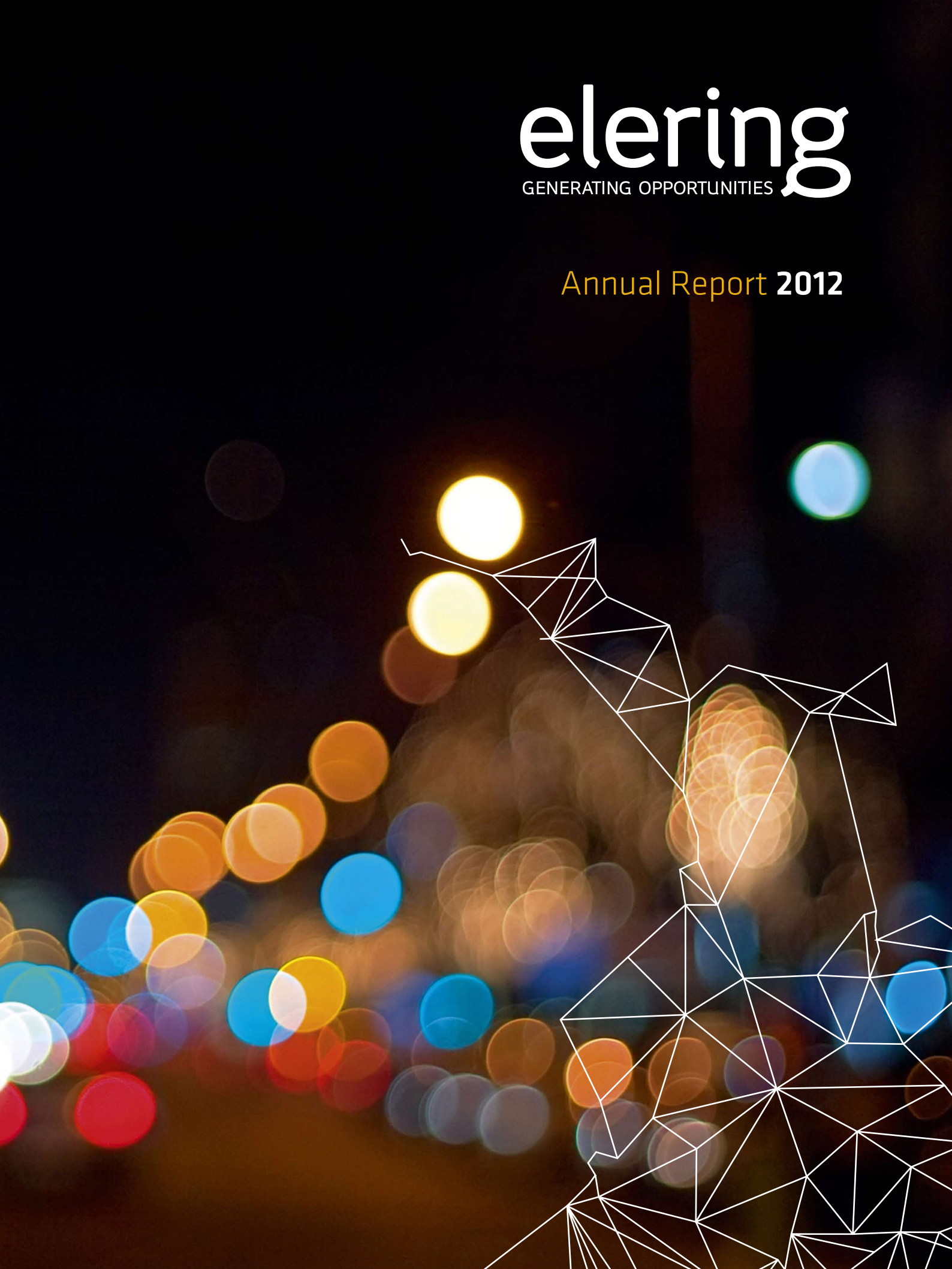
elering

GENERATING OPPORTUNITIES

Annual Report **2012**



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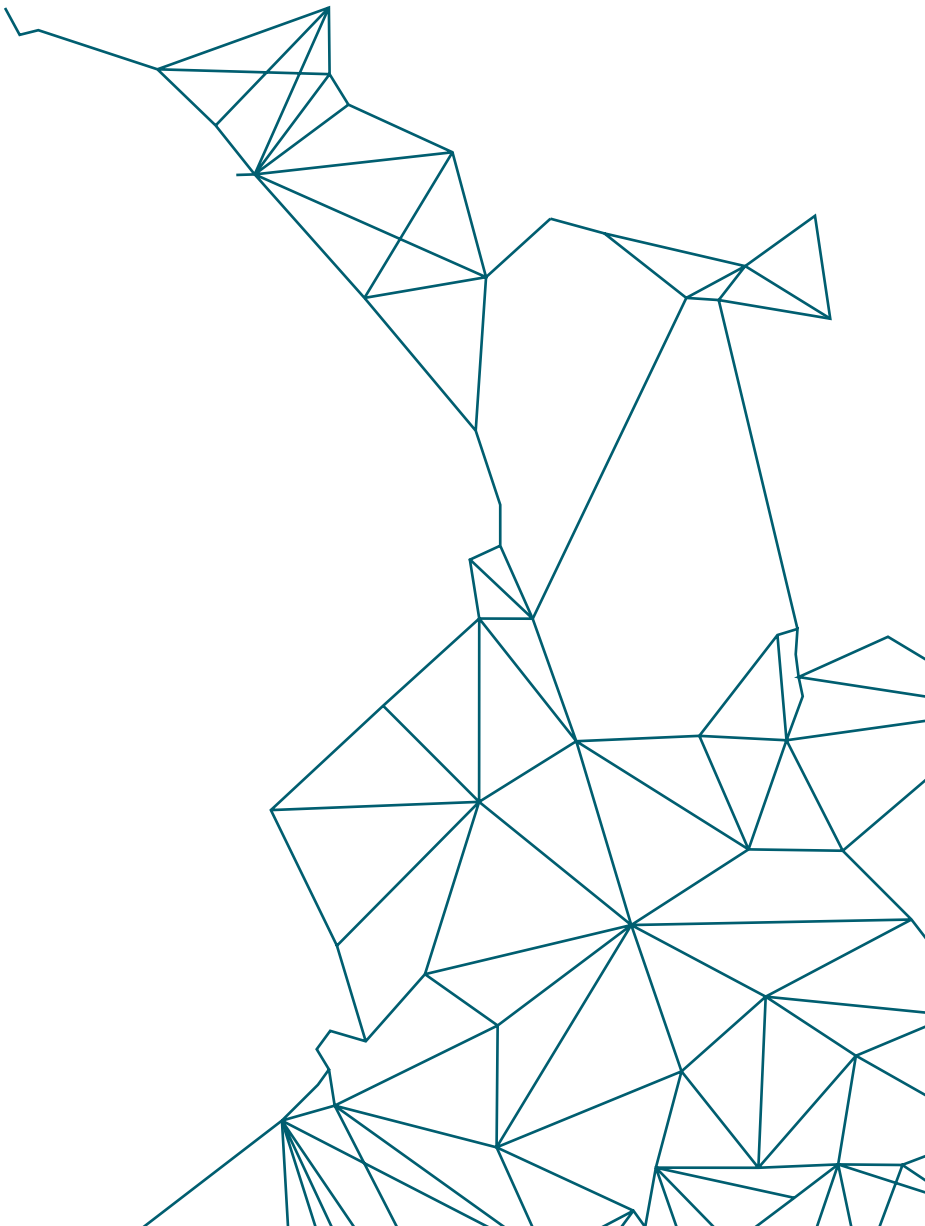
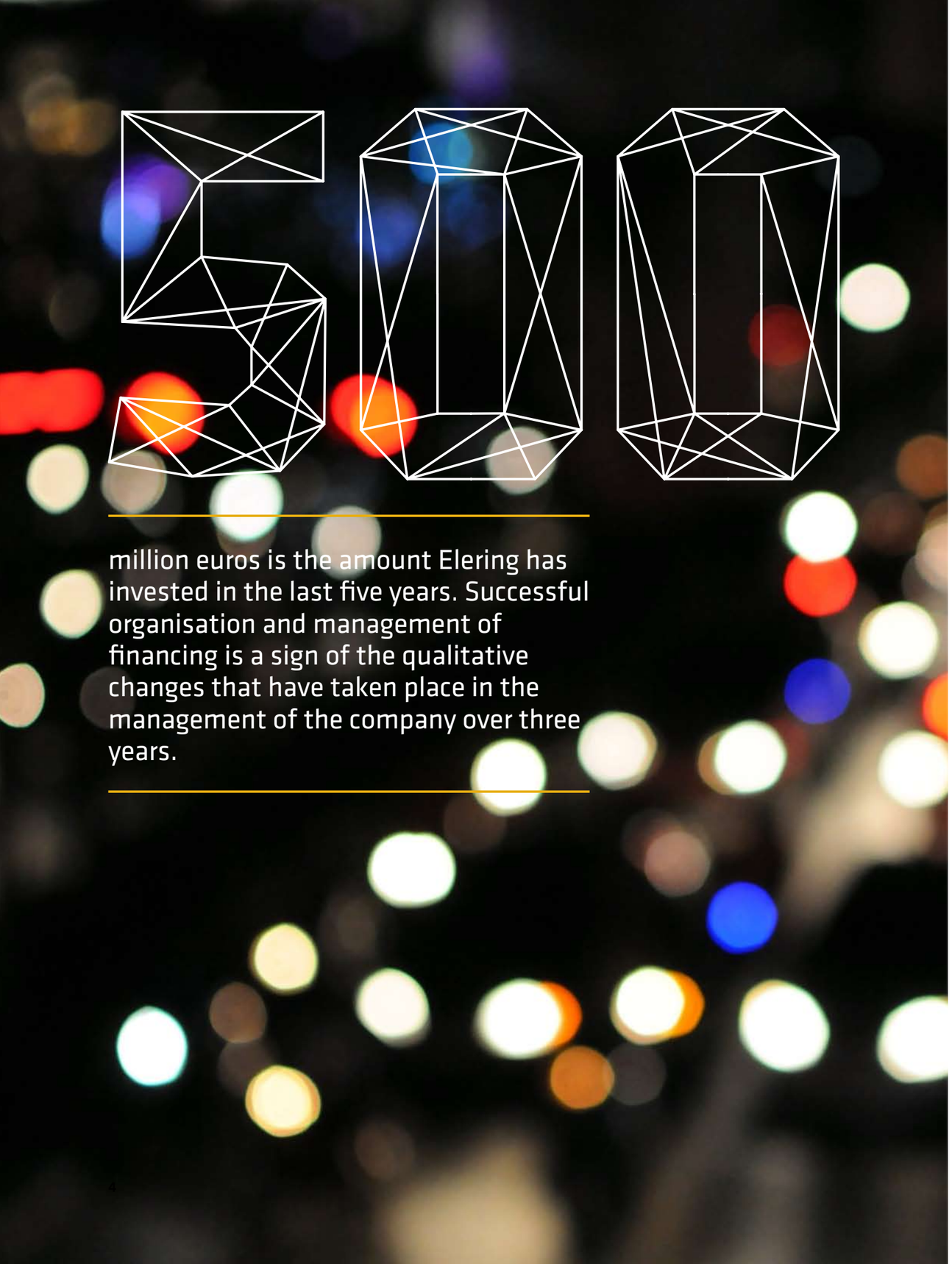


Management Report of Elering's Annual Report



million euros is the amount Elering has invested in the last five years. Successful organisation and management of financing is a sign of the qualitative changes that have taken place in the management of the company over three years.

TAAVI VESKIMÄGI
Chairman of the Management Board

Statement by the Chairman of the Management Board

Path: qualitative change

As of the end of 2012, Elering has been operating independently for three years. The time has shown that it was the right decision to create, by way of separation from Eesti Energia, an independent transmission system operator. The creation of Elering was a basis for the opening of the electricity market to free competition in Estonia. We see our mission in providing preconditions for the emergence of competition-based electricity market in Estonia as part of the single Nordic-Baltic electricity market with Nord Pool Spot electricity exchange through developing market rules, system management, construction of connections as well as creation of information systems. In connection with the full opening of the retail market to competition on 1 January 2013, besides the ordinary activities in 2012 we had an important task to educate the public on a regular basis about the everyday operation of energy systems and strategic choices of the Estonian energy sector.

In 2012, we entered a period of most intensive investments throughout the history of the company, as a result of which the assets of Elering will increase to nearly 800 million euros. A rapid growth in investments, due to which cash flows into investing activities exceed significantly income from operating activities on a short-time basis, makes it especially important to raise loan capital on favourable conditions. For financing investments on favourable conditions, Elering successfully carried out the issue of euro bonds

in the amount of 225 million euros, which substantially covers the financing in the given period. Because of an exponential increase in investments and growth in expenses related to developing the organisation in the period of 2011-2014, Elering faces a challenge to maintain the existing capability to create economic value added. Under those circumstances, the return of 16.8% on equity in 2012 may be considered to be an excellent result, which was largely achieved owing to the successful arrangement of financing and continuous improvement of the company's cost-effectiveness.

Effective management of five years' investments – nearly 500 million euros and successful arrangement of financing are signs that point to qualitative changes in the management of the company over three years. Elering has become the highest rated company in Estonia. Tasks assigned to Elering by legislation and its state ownership mean higher expectations for corporate governance. In accordance with the best corporate governance and Enterprise Risk Management principles, Elering's internal procedures were finalised in 2012, giving a feeling of security to the owner, bond investors and clients with regard to efficient and transparent management of the company.

Based on Elering's obligation to provide Estonian consumers with high-quality electricity supply at all times, we are a company with a low risk tolerance. Due to this, Elering's risk profile remains very clear – we have been operating in the 100% regulated business and it will remain so also in the future.

The European Union's vision with regard to the energy sector – common network, single market – is in the interests of the Estonian energy system and Elering's strategy is based on that development perspective. The future opportunities of Estonia's energy lie in the networking of energy systems. Connection of energy networks and liberalisation of energy markets create preconditions for strengthening energy security and security of supply through diversification of used fuels, expansion of electricity generation perspectives and increase in flexibility of management of systems.

Future prospects for security of supply are regional prospects. The electricity system of Estonia and Baltic States are ever more integrated with the neighbouring systems – connection capacity with Finland will be 1000 MW (2014), with Sweden 700 MW (2016), with Poland 500 MW (2015) and 1000 MW (2020), with Russia and Belarus 2600 MW. Therefore, it is important to look at developments of production and consumption in a wider, regional context. The regional approach, based on the common Nordic-Baltic electricity market, towards sufficiency of production resources allows to achieve satisfaction of consumption need with a lower social total cost and gives the producers a possibility to use more efficient production capacities.

In developing the Estonian energy sector, a possibility should be considered that the peak load does not need to be, but may be covered (on the basis of market) by local power plants. Thus, during those few hours when there is a peak load in the system, it may be considered to use the cross-border connections as well as the production resources in the common Nordic-Baltic market region as a possibility to cover the peak load. It is a situation where the load of Estonian electricity system during the last four years has been only on the average 13 per cent of the annual hours with regard to two-thirds of the peak load.

Elering is a company that believes in the market forces. We believe that the consumers' long-term security of energy supply can be guaranteed at the lowest cost through the functioning energy markets. Elering's one strategic package of activities is aimed at the complete development of the single Nordic-Baltic electricity market and the ensuring of its efficient functioning. The electricity market in Estonia was opened to large consumers in 2010 and to all consumers at the beginning of 2013. Elering played a central role in opening the market through developing the Data Warehouse as a central information system. The Data Warehouse includes the measured data of electricity consumers, and the network operators and the sellers receive through it data with regard to electricity sales volumes, breakdown by consumers. The Data Warehouse is used for data exchange by network operators and electricity sellers. By midnight of 31 December 2012, nearly 65% of electricity consumers had signed contracts with sellers, the others remained still the consumers of the universal service. Compared to the market-opening statistics of other countries, it represents a very high activity in choosing electricity sellers.

The Estonian electricity market is part of the single Nordic and Baltic electricity market. The expansion of Nord Pool Spot electricity exchange into all Baltic States and the completion of EstLink 2, the second interconnection between Estonia and Finland and the interconnection NordBalt between Lithuania and Sweden create preconditions for the efficient functioning of the electricity market, which guarantees the best prices to the consumers and gives the suppliers a better possibility to develop their economic activities. New cross-border interconnections, which ensure smooth transmission of electricity among neighbouring systems and markets, make up a significant part of our investment plan.

The money that Elering collects from consumers is invested in the electricity network, and in addition a lot more is invested. For example, the investments exceed the network fees manyfold in 2013. As all the incoming cash flows are used in the development of the electricity system, then in connection with evaluating the tariff, it is necessary to discuss whether the investments that Elering makes are necessary or not.

It should be mentioned that the intensive investment period of Elering lasts for another two years and the pressure on the tariff will disappear in 2015.

Elering's second strategic package of activities is based on the final conclusions of the European Council of February 2010 and the objectives jointly set by the Prime Ministers of the Baltic States to desynchronise the electricity systems of the Baltic States from the integrated Russian electricity system and to join the synchronous grid of Continental Europe. This objective is a big challenge for Estonian and other Baltic states' electricity sector during the next 10-15 years. The Estonian new long-term energy sector development plan must be prepared on the basis of that understanding. In essence, it is the next step in the series of steps towards accession to the European Union, NATO, OECD, monetary union and other networks, which ensure a balance between Russia and our interests. Connection of the electricity networks to the relevant systems of Continental Europe is the next long step that moves us off the east to the west. Like accession to the euro area, the meaning of that step is also much wider, having not only an economic and financial-political meaning, but also a wider meaning related to security policy, participation in the European policy and being part of the common value space.

By a decision of the Estonian government of 2010, Elering was obligated to develop also gas-related competence in addition to electricity-related competence. Elering's third clearly defined package of activities relies on the issued guidelines. Estonia has set an aim to liberalise the gas market. For this reason, the Riigikogu (Parliament) adopted amendments to the Natural Gas Act in June 2012, according to which the administration of the gas transmission system must be separated, in terms of ownership, from the supply and sales activities by the beginning of 2015. Elering's objective is to acquire the natural gas transmission network on the economic grounds. Combined administration of the electricity and natural gas network allows increasing the value of the company and offer socio-economic benefit to society through lower network tariffs. It is important to emphasise here that the development of natural gas business line does not change the company's risk profile and Elering will fully remain the regulated business similarly to the economic activities of the electricity transmission network operator.

The direction of activity, which is highlighted to a greater extent in Elering's new strategy approved in 2012, lies in the systematic development of wider energy competence. We see Elering, a centre of competence in energy, as part of the network encompassing universities, state agencies and system operators of other countries. Under the framework of the competence centre, we have started cooperation with Tallinn University of Technology and with Tartu University in 2012. The cooperation includes scholarship programmes as well as specific research work and traineeship possibilities. In addition, Elering consolidates the best know-how of Estonian experts through the councils for development of the electricity market and electricity network established at the company.

Brief overview of Elering

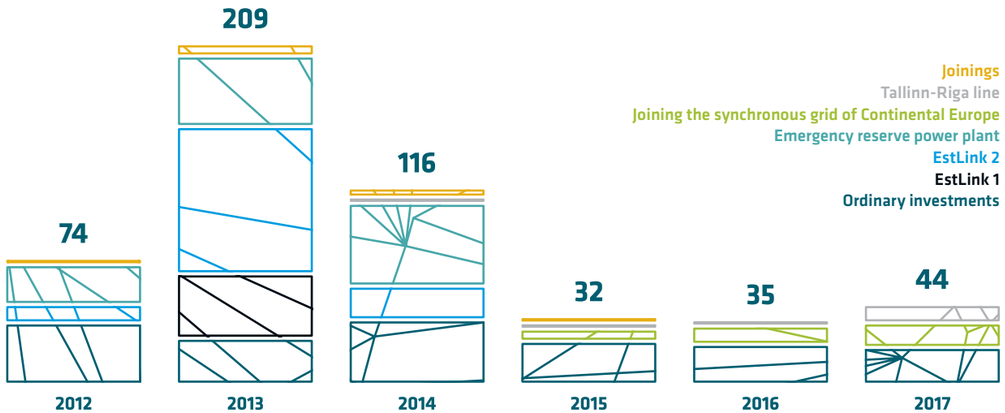
Elering is an electricity system operator that manages the Estonian electricity system in real time and is responsible for its functioning. Our goal is to ensure supply of high quality electricity to our customers at all times. For this purpose we are creating conditions for the functioning of electricity market and building cross-border interconnections.

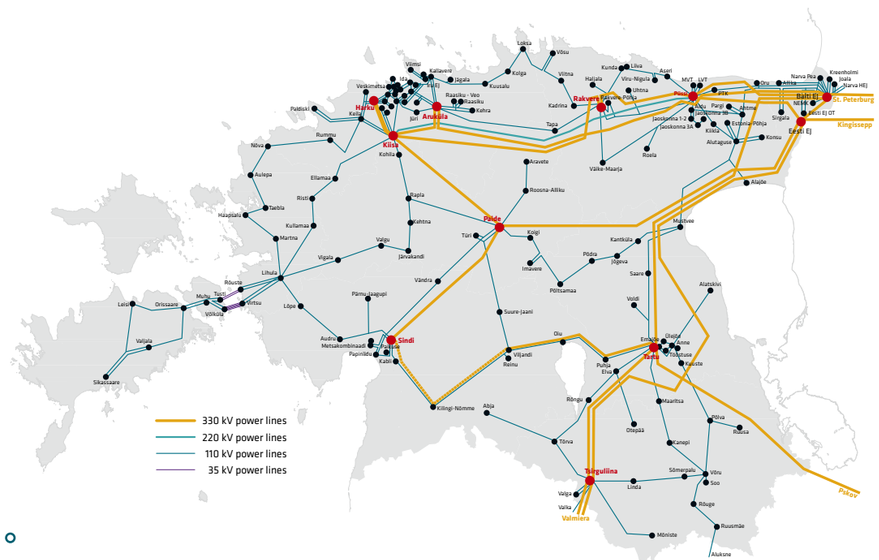
146
substations

Cross-border interconnections with Finland, Latvia and Russia

5223
kilometres of high-voltage overhead and cable lines

Distribution of Elering's investments in fixed assets 2012-2017 (MEUR)





350
MW of capacity of EstLink 1 cable connection between Estonia and Finland

average age **42**
average length of employment **15**

145
employees, the share of women is 26%

Financial figures (MEUR)

	2012	2011	2010	2009
Revenue	**109**	94	89	76
Operating profit	**41**	29	21	20
Income tax	**0**	0	0	8
Net profit	**35**	21	14	5
Equity	**225**	190	160	141
Assets	**516**	486	419	368
EBITDA	**64**	50	44	40
Investments	**76**	78	27	31
Dividends	**0**	0	0	31

Financial ratios

ROE	**16.8%**	11.7%	9.0%	3.4%
Equity/ Assets	**44%**	39%	38%	38%
Net borrowings/ EBITDA	**3.3**	4.0	3.3	4.7

$$ROE = \frac{\text{Net profit}}{\text{Average equity}}$$

Net borrowings = interest-bearing liabilities – cash and cash equivalents
EBITDA = operating profit + depreciation

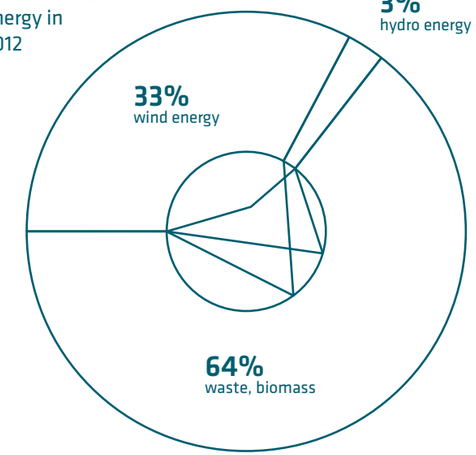
Key indicators of the Estonian electricity system

Electricity balance

In 2012, Estonia's electricity consumption, including network losses, constituted 8.1 TWh, which is up by 4% year-on-year. The increase in electricity consumption was caused by colder temperatures compared to the same period a year ago, as well as by the economic growth in 2012 (3.2% growth of GDP according to the preliminary data).

In 2012, the Estonian electricity output totalled 10.5 TWh, which is by 8% down year-on-year. In 2012, electricity generated by the Estonian electricity system exceeded the domestic consumption by 29%, making up the annual balance of the system at 2.3 TWh.

Distribution of renewable energy in 2012



Electricity balance (GWh)

	2012	*2011*	*Change*
Electricity output in Estonia	**10,459**	**11,387**	**-8%**
Electricity output directed to Elering's network	9,200	11,179	-18%
Output of renewable energy in Estonia	1,367	1,159	18%
Electricity output directed to network from cross-border lines	**2,585**	**1,499**	**72%**
· incl. electricity output directed to network from Finland	1,458	460	217%
· incl. electricity output directed to network from Latvia and Russia	1,127	1,039	8%
Total electricity output directed to network	**13,044**	**12,886**	**1%**
Electricity consumption in Estonia	**8,139**	**7,824**	**4%**
Elering's domestic transmission service for consumption	7,545	7,261	4%
Elering's network losses	352	356	-1%
Electricity transmission to cross-border lines	**4,905**	**5,062**	**-3%**
· incl. electricity transmission to Finland	393	1,734	-77%
· incl. electricity transmission to Latvia and Russia	4,512	3,328	36%
Total electricity output transmitted through network	**13,044**	**12,886**	**1%**
Balance	**2,320**	**3,563**	**-35%**

Cross-border electricity trade

In 2012, exports to Latvia, Lithuania and Finland accounted for 49%, 42% and 9%, respectively, of the total Estonian electricity exports.

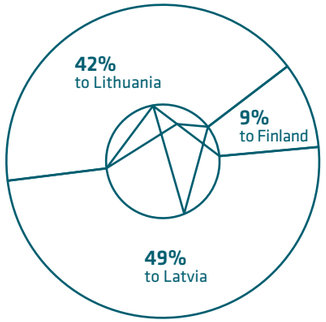
During the same period, imports from Finland, Lithuania and Latvia accounted for 61%, 20% and 19%, respectively, of the total Estonian electricity imports.

Cross-border electricity trade (GWh)

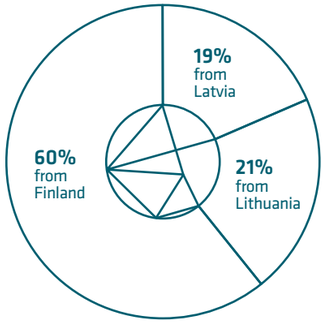
	2012	*2011*	*Change*
Total exports	**4,841**	**5,172**	**-6%**
export to Latvia	2,391	2,011	19%
export to Lithuania	2,022	1,464	38%
export to Finland	428	1,697	-75%
· incl. exports through electricity exchange	3,547	3,769	-6%
· incl. exports based on bilateral agreements	1,294	1,403	-8%
Total imports	**2,652**	**1,627**	**63%**
import from Latvia	496	752	-34%
import from Lithuania	545	374	46%
import from Finland	1,611	501	222%
· incl. imports through electricity exchange	2,391	1,053	127%
· incl. imports based on bilateral agreements	261	574	-55%
Balance	**2,189**	**3,545**	**-38%**

* *Cross-border electricity trade balance comprises balance providers' deliveries and deliveries stated by the power exchange operator. Cross-border electricity trade balance does not include system imbalancing and cross-border regulation of supplies.*

Distribution of electricity trade export in 2012



Distribution of electricity trade import in 2012



Electricity balances of the Nordic Countries and Baltic States

In 2012, electricity production increased by 7% and electricity consumption by 2% in the Nordic Countries year-on-year. The main reason for the growth in electricity production lies in the above-average level of hydro-reservoirs, which increased by 20% from the last year. A total of 15.8 TWh electricity was imported from the Nordic Countries in 2012. The increase in electricity production in the Nordic Countries also boosted import of electricity from Finland to Estonia – in 2012 the amount of electricity imported from Finland was more than three times bigger than in 2011. At the same time, Finland was importing electricity in the amount of 17 TWh in 2012.

In 2012, electricity generation in the Baltic States decreased by 5% in total. Shortage of Baltic electricity totalled 5.9 TWh in 2012, which was up by 36% year-on-year. Of the Baltic States, Lithuania was the largest importer, importing nearly 65% of electricity necessary to cover its consumption.

Moody's agency confirmed Elering's long-term obligations with a credit rating of

PEEP SOONE
Member of the Board

Summary of the financial year

Although growth in Estonia's GDP dropped in 2012 year on year – from 8.3% to 3.2% according to the preliminary data, it is still a significantly better result than that in the whole European Union, where a small economic decline is forecasted. Eurostat forecasts for Estonia a significantly higher economic growth (3.1%) also in 2013 than the average in the euro area (1.4%). In the context of those figures, the effect of weather should be also considered in the energy sector. It has a particularly large role in countries with colder climate, such as Estonia, because a large part of energy is used for heating the buildings. The year 2012 was a little colder than 2011, but still warmer than the average temperatures of many years. Electricity transmission for domestic consumption increased by 3.9% in total.

The most important area of activity is the network service

The provision of the network service is by far the most important area of activity for Elering, it constituted 84% of the total income. Of the network services, 93% of the total revenue is received from the transmission of electricity to domestic customers, which is a regulated activity. Elering's network tariffs are approved by the Estonian Competition Authority in accordance with the methodology established by the latter. There are altogether 26 customers of the network service in Estonia, six of them are distribution network operators, six are large consumers and 14 are electricity producers. In addition, network service income is also

received from cross-border transmission capacity auctions, electricity transit through Estonia and network connection fees.

The second important area of activity is the balancing service, which accounts for 12% of the total revenue. According to the legislation, the energy balance of each market participant must be balanced each hour. Most of the market participants purchase the balancing service from balance providers. Elering in turn provides to the balance providers the service of balancing their energy balance. The balancing service has virtually no effect on the company's profit, since the price of the balancing service is calculated so that the earned revenue would cover the expenses necessary for providing the service.

The other revenue is mainly received from the power regulating service to the neighbouring electricity systems and the rental of fibre-optic communication cable installed on Elering's poles to a telecommunication company.

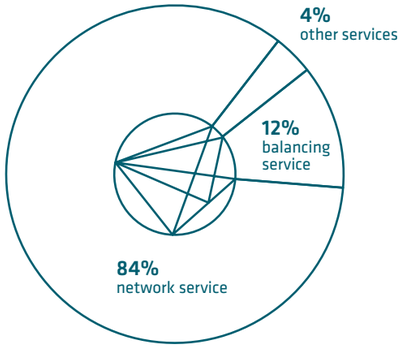
Growth in consumption influenced results of operations

In 2012, Elering's revenue was 109.5 million euros (2011: 94.4 million euros), operating expenses were 68.2 million euros (2011: 65.8 million euros), operating profit was 41.3 million euros (2011: 28.6 million euros) and net profit was 34.9 million euros (2011: 20.5 million euros).

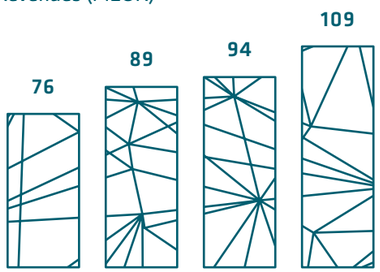
The main reasons for the revenue´s growth were an increase in the volumes of domestic transmission of electricity, growth in network tariffs and a rise in income from cross-border transmission capacity auctions. The reasons for operating expenses´ increase were growth in expenses of power regulating service related to a larger volume of services and a rise in depreciation deriving from growth in assets due to large-scale investments. Financial expenses dropped mainly as a result of growth in capitalised interest. In accordance with the international financial reporting standards (IFRS), the interest expense of loan capital necessary for acquiring certain investments (mainly long-term investments) must be added to the acquisition cost of the investment and therefore is not recognised as an interest expense in the income statement.

Cash flows from the operating activities totalled 44.8 million euros (2011: 38.3 million euros), whereas cash

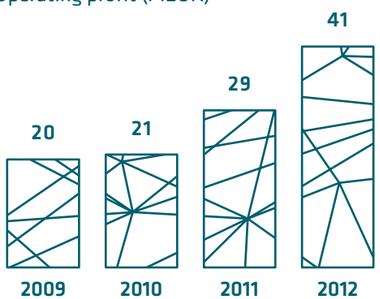
Distribution of revenues in 2012



Revenues (MEUR)



Operating profit (MEUR)



flows from the purchased fixed assets were 79.7 million euros (2011: 69.2 million euros). The difference was covered by deposits and reduction of cash (29.6 million euros) and a loan from the Nordic Investment Bank (5.0 million euros) and from other sources (0.2 million euros).

We have retained a high credit rating

Rating agency Moody's confirmed the credit rating of Elering's long-term borrowings at a high level of A3 with a stable outlook.

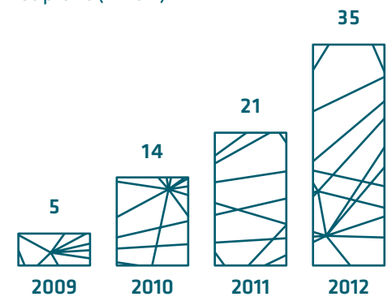
Based on the loan agreements, Elering is obligated to maintain the following ratios within the required limits:

	Requirement	Actual
Equity/assets	>30%	44%
Net borrowings/EBITDA	<7.0	3.3

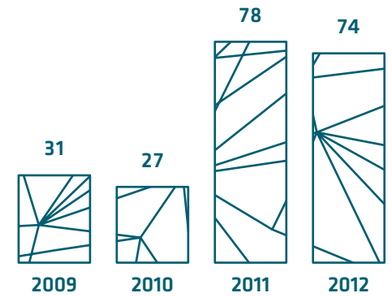
Elering signed a loan agreement in the amount of 15 million euros with the Nordic Investment Bank for financing future investments. The company has loan agreements not yet withdrawn in the total amount of 110 million euros, the EU aid not yet withdrawn in the amount of 35 million euros and unused overdraft in the amount of 20 million euros. Elering is ready to finance the investments planned for the coming years.

Elering signed a 15 million-euro loan agreement with the Nordic Investment Bank

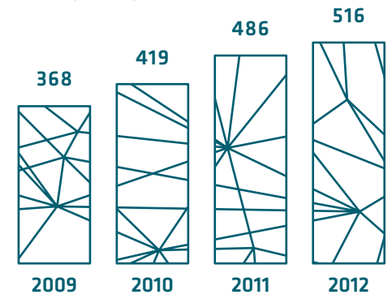
Net profit (MEUR)



Investments in fixed assets (MEUR)



Assets (MEUR)



145

kilometres of the EstLink 2 submarine cable were laid on the bottom of the Gulf of Finland in autumn 2012.

KALLE KILK
Member of the Board

Development of the electricity network in 2012

In 2012, Elering continued to implement the large-scale investment plan which was launched in the previous year – a total of 74 million euros were invested during the year, which is approximately the same amount as in 2011. Like in 2011, a significant portion of it, i.e. 35 million euros made up the construction of large projects EstLink 2 and emergency reserve power plant. At the same time, also many other construction works improving the security of supply of the electricity system were successfully performed.

In 2012 Elering invested 74 million euros

A significant progress was made with regard to the DC interconnection EstLink 2 between Estonia and Finland, when an undersea cable of 145 kilometres was managed to be installed on the bottom of the Gulf of Finland, despite the unstable autumn weather conditions. An underground pipeline was constructed for preparing the installation of an underground cable remaining on the Estonian mainland. Thus, the underground cable manufactured by Nexans and transported to Estonia can be installed in the pipeline and connected when the weather conditions are suitable for this. The construction of converter stations, one of which is located in Püssi (Estonia) and the second

one is located in Anttila (Finland), progressed at a pace that secures their completion by the beginning of 2014. The equipment necessary for the converters are mostly ready and they have to be installed during 2013.

First stage of Kiisa emergency reserve power plant will be ready in spring 2013

The construction of the first stage of the emergency reserve plant in Kiisa, which task is to guarantee the supply of electricity to the consumers in case of failures of the electricity system, reached a phase where it can be tuned and tested. That stage of the power plant must be ready for use by the end of March 2013. The second stage of the construction is still in a phase where the main focus is on the general construction work since the completion deadline of that stage is a little later – in September 2014.

The usual development and renovation works proved to be equally successful in 2012. For example, the construction of 330/110 kV substation in Aruküla was completed significantly earlier before the deadline. Aruküla substation is one of the main substations on which the electricity supply of Tallinn and Harju County relies and which was the last one not modernized. Since the old 220 kV voltage system was replaced with the 330 kV system during renovation of the substation and a new 330 kV line was built for feeding it, in addition to the improved reliability of the electricity network related to the new equipment, the network transmission capacity also increased, which enables to better satisfy the increasing consumption demand of the region. It also improves the functioning of the electricity market, since the need to limit under certain conditions the electricity volumes passing through EstLink 1 will decrease.

Despite the extremely difficult construction conditions related to a very rainy year, a section from Tartu to Vilandi was completed by the deadline as part of the construction of the 330/110 kV electricity line of Tartu-Viljandi-Sindi.

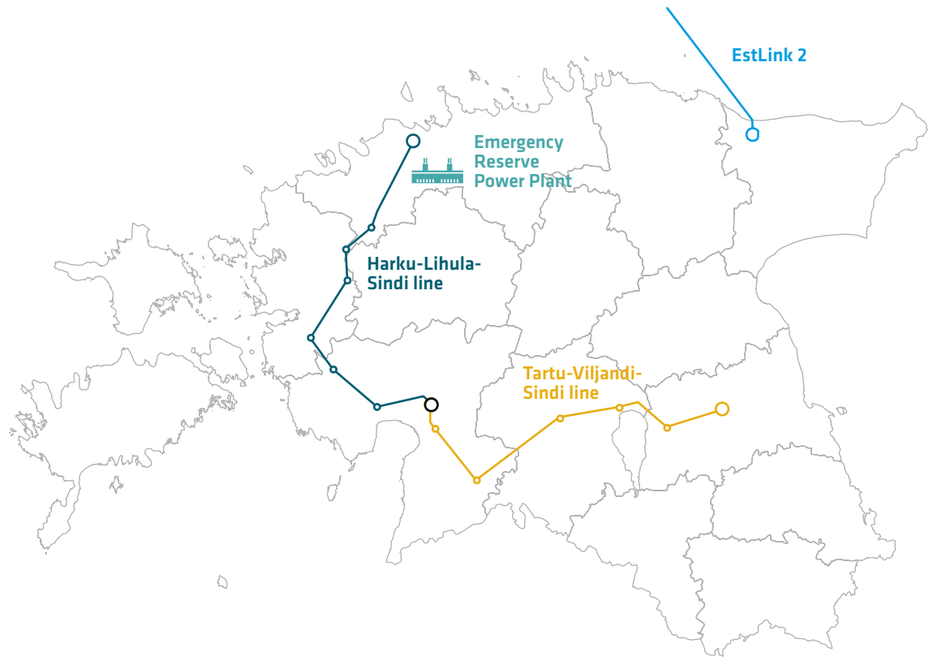
The old switchyard with very large operation costs at the 110 kV substation in Tsirguliina was replaced by a new one that is significantly more cost-effective. The Ahtme substation, where Elering's oldest operational equipment was located, was also completely modernized. The work related to partial renovation was finished in Tapa substation, network connection for connecting a wind park to the electricity network was completed at Balti substation.

Of minor renovation works of the electricity network, mention should be made of the activities towards the improvement of the condition of overhead transmission lines and the reduction of failures. During the partial renovation of the lines, 48 kilometres of conductors were replaced by conductors with a larger cross-section, 21 kilometres of out-of-date overhead earth wires were renovated, 10 kilometres of insulators were replaced and nearly 50 kilometres of traverses were equipped with bird barriers to prevent soiling and flashovers. Fibre-optic earth wires and cables were installed to the extent of 58 kilometres.

The objective of investments and maintenance work is first and foremost to ensure the functioning of Elering's electricity network without interruptions disturbing the consumers. Compared to 2010 and 2011, when many storms, thunderstorms, technical failures and interruptions deriving from the human activities occurred, the year 2012 was significantly more peaceful. Owing to that the reliability indicators of the electricity network, such as energy not served and the number of outages of equipment, improved.

However, based on the reliability statistics of the previous years, an action plan was prepared and incorporated into the budget, it helps to reduce the dependence of the electricity network on external factors and, based on this, to achieve a more stable transmission service with improved quality. The action plan is used to promote the activities related to the electricity lines mainly on the basis of a priority table, i.e. with regard to lines which would pose a real threat to the supply to a larger number of consumption places due to falling trees. The expansion of line routes progressed rapidly in 2012 and approximately 250 hectares were deforested in line corridors. As a result of this, the corridor part – it is where the lines are protected against trees that might fall on the lines from inside the protection zone – became longer by nearly 100 kilometres for the 330 kV lines and by 60 kilometres for the 110 kV lines. In addition, the plan for improving reliability of the electricity network includes partial renovation of many lines and replacement of individual devices in many substations where renovation of the substation as a whole is not planned in the near future, but a clear risk of client's power outage deriving from a specific device can be identified.

The expansion of line routes ensures more stable transmission service with improved quality



is the total number of consumption points in Estonia whose data is transmitted by the Data Warehouse information system completed in 2012.

INGRID ARUS
Head of Electricity Markets Department

Developments of the electricity market in 2012

In developing the electricity market in 2012, Elering mainly focused on preparing for the full opening of the electricity market from the beginning of 2013. Elering was responsible for the management and implementation of the development project of a platform supporting data exchange between market participants in the open electricity market – the Data Warehouse.

At the regional level, Elering focused on participation in negotiations over the technical cooperation agreement (EURUBY) between Russia, Belarus and the European Union, and on the preparation of principles under the framework of the agreement for connection of two market areas operating on the basis of very different rules – the Russian energy market and the EU energy market.

Creation of Data Warehouse

The objective of creating the Data Warehouse was and is to support the processes taking place in the open electricity market, mainly supplier change, also forwarding of the measurement data from the network operator to the Data Warehouse and from it to the electricity seller. The latter is especially important, since from 2013 each customer may have two different contractual partners – a network operator and electricity seller.

Discussions over data exchange started already in 2007 when market participants became increasingly aware of such need and the obligations arising from legislation. At first, it was not difficult under the conditions of the regulated market, but since the changeover to the free market was a known fact, it was reasonable to begin to tackle the matter more profoundly. It mainly included defining the roles of market participants and the business processes, as well as determining the entire information exchange necessary to guarantee the effective functioning of the market.

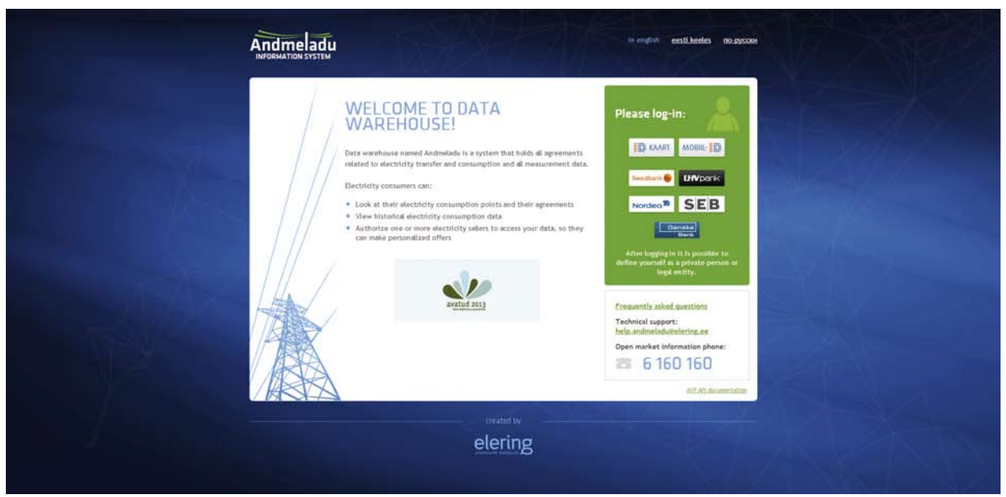
At the same time, also other actions were launched, above all the development of the third energy package in the European Union, which mainly lied in separating the activities of network operators from vertically integrated energy groups. The same change also took place in Estonia by separating Elering from Eesti Energia and the data exchange project of that period was put on hold before completion, but the work was certainly not in vain, since a clearer understanding was obtained as to what is required to be made for the open market.

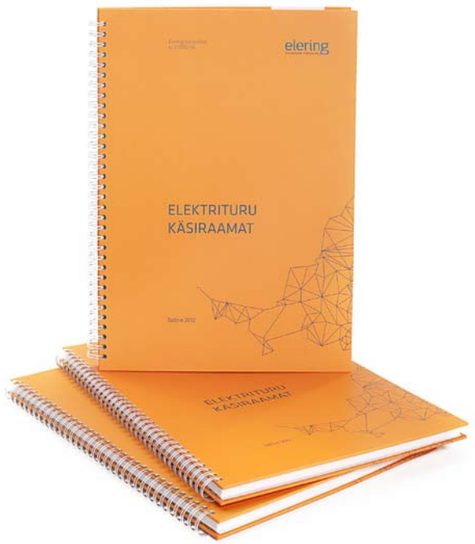
The purpose of the Data Warehouse is to guarantee effective data exchange on an open electricity market

In 2009 and 2010, the main themes were the partial opening of the electricity market and launching of the electricity exchange in Estonia. Both day-ahead and intraday market was implemented through expansion of Nordic electricity exchange Nord Pool Spot (NPS) into Estonia. In 2011, the main theme in the electricity market was preparation for the full opening of the market in 2013. Therefore, Elering returned to the topic of effective data exchange.

We commenced the Data Warehouse project with the network operators in May 2011 and the substantive work of the Data Warehouse IT system was completed during 2012. The system was put into use by stages, starting from entry of the network operators´ measurement points in August 2012 and ending with the development of everyday data flow movements, which was completed in November 2012.

Now we can confirm that the first stage of the Data Warehouse has been implemented in the agreed functionality. The further developments mainly include the granting of access to third parties (e.g. price comparison portals, persons authorised by the consumer), also consolidating the billing of network and sales service into one invoice even when the contractual partners are different.





Publication of the Electricity Market Handbook

In view of the electricity markets, the publication of the Electricity Market Handbook in Elering's series of publications in 2012 was of significant importance. The handbook covers all areas that Elering is responsible for and which are related to the electricity market and its processes. The handbook gives an overview of the shaping of electricity policy in the European Union and Estonia, the Estonian electricity system, its parts and operation, the electricity market in general and the trading rules in the Estonian electricity market. It also encompasses themes about guaranteeing the electricity balance necessary for the operation of the electricity system. It is planned to update the handbook in the future according to the new and/or improved processes in the electricity market.

Third countries' border

The expert group of ENTSO-E and Russian system operator, set up at the end of 2011, convened only once. After the first meeting, the European Commission received a mandate from the member states, on the basis of which negotiations over the wider use of the currently valid technical cooperation agreement (EURUBY) were commenced. The negotiations have been fraught with difficulties, as the expectations of Russia and the European Union, mainly Estonia, Latvia and Lithuania, are different. While the European Union considers the agreement mainly as an interim stage that enables the Baltic States to leave the Russian synchronous area, the objective of Russia is to tie the Baltic States even more strongly into the synchronous area.

The preconditions to leave the Russian synchronous area are established

The representatives of system operators are involved in the contractual negotiations as technical experts, both with regard to operational management and harmonisation of market rules. Negotiations are continuing and both parties have expressed their hope that the agreement will take effect at the beginning of 2014. Of course, this is possible only if a cooperation form is found which would be acceptable to both parties.

No changes took place with regard to trading rules applicable on the border of third countries. In this field, it is required to develop common principles at the regional level. The Baltic States propose the creation of a single virtual price area on the border of third countries, where the market participants of third countries can place their bids. Transmission capacities are calculated and distributed among different systems according to physical electricity flows, which are based on the forecasted work modes of the systems, taking into account all bottlenecks between the systems, mainly on the border of Estonia and Latvia.

Summary of NPS Estonia price area in 2012

The average price of NPS Estonia price area was down by 9.6% at 39.20 euros last year, but unlike 2011 it remained higher than the system and Finnish price. Comparison of prices of different price areas shows that the main factors that influenced the prices during the year included the high levels of hydro-reservoirs in the Nordic countries, deficit in transmission capacities between Finland and Sweden, Latvia's and Lithuania's large demand from the Estonian price area, also crea-

tion of NPS ELE price area on the border between Estonia and Latvia (the opening of NPS ELE highlighted the earlier impact of Latvia and Lithuania on the Estonian price). At the end of the year, the price was also influenced by surplus of hydro energy in Latvia, bottlenecks between Estonia and Finland and, during the summer period, also on the border of Estonia and Latvia.

On 18 June 2012, NPS ELE price area was launched on the border of Estonia and Latvia, where Latvian and Lithuanian market participants may engage in trading, and where 80% of the transmission capacity placed in the market is available to them. Estonian and Latvian transmission operators earned congestion income in the total amount of 6.5 million euros due to insufficiency of transmission capacity (price differences). That amount is equally divided between respective transmission network operators.

The remaining 20% of transmission capacity on the border of Estonia and Latvia is distributed at a capacity auction, where the income from selling capacities is intended to be used for subsequent investments by the transmission network operators in order to reduce the deficit of transmission capacities or cover the expenses arising from countertrade.

In 2012, a total of 1.54 million euros was earned from the capacity auction compared to 0.4 million euros a year ago. The highest price that the market participants had to pay for transmission capacity per hour in the direction from Estonia to Latvia was 5.88 euros per megawatt paid in the third week of July.

In addition to the launch of NPS ELE area, another significant event was launching of the CfD market (Market of Contract for Difference) – a financial

NPS Estonia 2012	*2012*	*2011*
Share of electricity bought from the electricity exchange in domestic consumption	37.6%	33.2%
Eligible consumers	213	201
Volumes of electricity bought in NPS Estonia and NPS ELE price area	6.0 TWh	4.6 TWh
Volumes of electricity bought by the Estonian market participants	3.0 TWh	2.6 TWh
Volumes of electricity sold in NPS Estonia and NPS ELE price area	4.9 TWh	5.8 TWh
Volumes of electricity bought by the Estonian market participants	4.1 TWh	5.3 TWh
Congestion income earned by EstLink 1 cable owners	12.94 MEUR	19.58 MEUR
Congestion income from the energy auction between NPS Estonia and NPS ELE price areas *	6.52 MEUR	-
Congestion income from capacity auction organised on the border of Estonia and Latvia *	1.54 MEUR	0.4 MEUR

** is distributed between Elering and Latvian system operator AST*

Comparison of prices in different price areas

2012 (EUR/MWh)	*Average price*	*Max daily price*	*Min daily price*	*Average price in 2011*
NPS system	31.20	96.15	7.85	47.15
NPS Estonia	39.20	76.49	22.50	43.37
NPS Finland	36.64	101.26	7.38	49.44
NPS ELE*	42.63	84.94	25.20	-
NPS Lithuania*	45.50	123.38	16.62	-
Baltpool*	43.74	72.11	18.15	45.26

** NPS ELE and Lithuanian price areas opened on 18 June 2012 and at the same time Baltpool price area terminated its activities.*

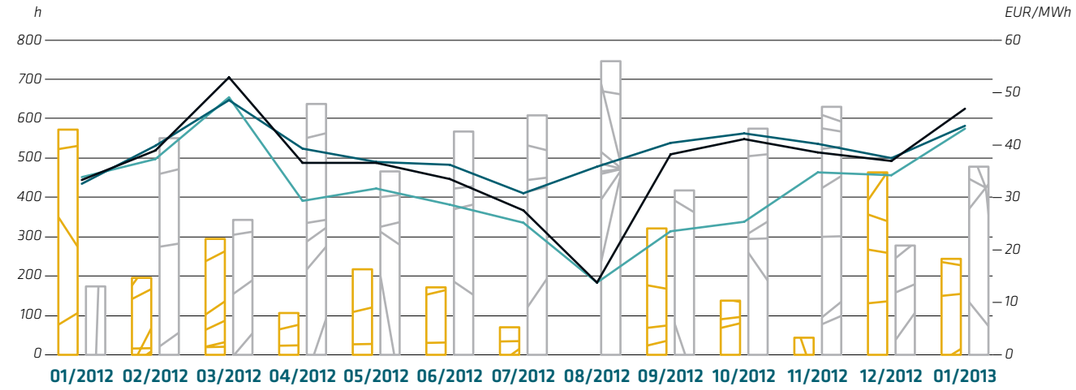
Launching of the CfD market enables to hedge energy trade risks

instrument intended for hedging energy trade risks – by NASDAQ OMX in Estonia in November 2012. This should increase the feeling of security for the market participants who will get a possibility to hedge risks related to fluctuations of the electricity price.

Main keywords related to development of the electricity market in 2013

From the regional perspective, the most significant activities in developing the market include the planned launch of NPS Latvia price area this summer, development of NPS intraday trading market

Average price of the NPS system, Estonia and Finland (EUR/MWh) vs. energy flows between Estonia and Finland (h)



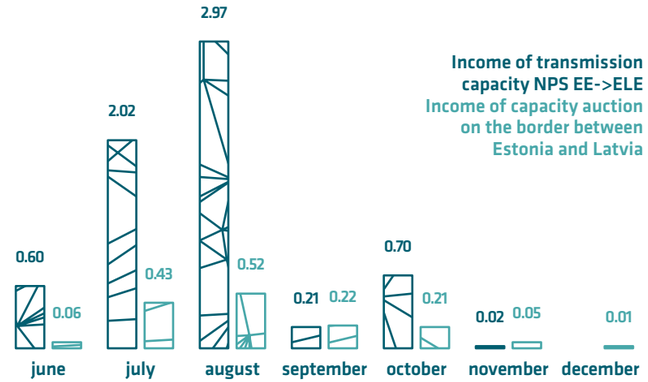
NPS Finland price | **NPS Estonia price** | NPS system price | Capacity flows from Estonia to Finland | Capacity flows from Finland to Estonia

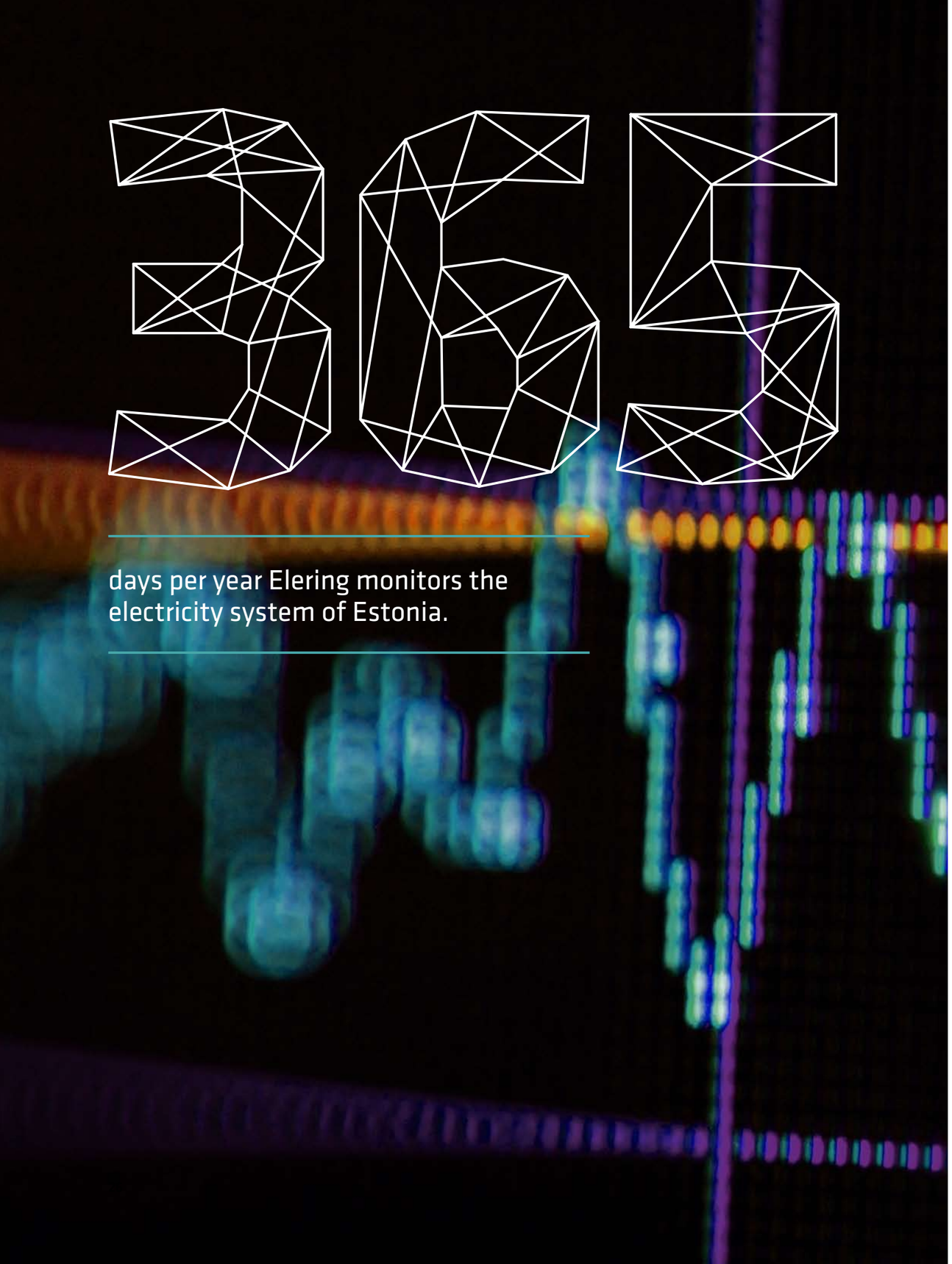
platform in the Baltic States and updating of rules for distribution of connection capacities between countries.

Negotiations for renewal of the BRELL cooperation agreement and harmonisation of the operation principles of market areas will continue under the EURUBY agreement.

Elering will implement the new developments of the Data Warehouse as a market support measure and continues the fine tuning of the information system.

Income of transmission capacity and capacity auction between NPS Estonia and NPS ELE





MÄRT ALLIKA
Head of Power System Control Centre

Operation of the Estonian electricity system in real time

The Estonian electricity transmission network, which is owned by Elering, and cross-border interconnections with the neighbouring countries constitute an integral part of the Estonian electricity system. Elering as an electricity transmission system operator is responsible for planning the reliable operation of the entire Estonian electricity system and managing it in real time. Elering's successful performance of those duties provides Estonian consumers with electricity at the required quality level at all times.

In order to plan reliable operation of the electricity system, it is necessary to first and foremost draw up a specific schedule for operation of the electricity system in real time. The programme of activities includes the analysis of possibility to undertake planned outages of different network components and power plants, impact of possible emergencies, impact of production of the wind parks, changes in consumption, considerations concerning transmission capacities of cross-border lines and capacity of transit flows. The planned operation must comply with the requirements of reliability and security of supply, guarantee optimal network losses and make the maximum possible cross-border capacity available to the electricity market.

New technical solutions

In connection with the opening of the electricity market and an increase in the share of renewable energy, particularly wind parks, in electricity generation in Estonia, the preparation of forecasts is becoming more difficult. It means that new technical solutions are required for planning and operation of the electricity system. Therefore, Elering adopted the load forecast system and the service for forecasting production of wind power plants. Those systems based on mathematical models allow improving the quality of planning the operation of the electricity system and its management in real time. The forecast systems are used, among other things, for analysing the operational security of the electricity system, assessing the admissibility of planned interruptions of the electricity network equipment and calculating the transmission capacities provided to the market.

From 1 January 2013 all electricity for network losses must be purchased from the electricity exchange

In addition to the analysis necessary for guaranteeing reliability and security of supply, the forecast systems are also necessary for forecasting the network losses of Elering with the greatest possible accuracy. The year 2012 was the last year when Elering purchased electricity to cover losses at regulated prices on the basis of a bilateral contract, from 1 January 2013 all electricity necessary to cover network losses must be purchased from the electricity exchange. Most of the electricity required for offsetting the network losses are purchased by Elering from the electricity exchange one day in advance and a correction is made during a day – additional electricity is purchased to cover losses or the surplus is sold on the electricity exchange.

Reliable operation of the electricity system is guaranteed

The management of the operation of the Estonian electricity system in 2012 was quite similar to that in the earlier years. In connection with the renovation of Elering's important lines and main substations (e.g. Aruküla, Paide, Eesti Power Plant's substation, 330 kV line between Eesti Power Plant and Püssi substation), it was necessary to make many complicated and quite long-term outages in the operation of substation's equipment and important electricity transmission lines. It was a notably more difficult task to ensure reliable operation of the electricity system during these outages than to do so under normal conditions. However, all necessary works were completed successfully owing to high-quality planning and good cooperation of all parties.

In order to guarantee reliable operation of the Estonian electricity system, close cooperation between the electricity transmission system operators of neighbouring countries is very important, because situations may occur in the operation of the electricity system where the effective solution may lie only in international cooperation. The most problematic place in 2012 was still the cross-section between Estonian/Russian and Latvian cross-border lines, where in the summer of 2012 overloads were repeatedly identified. In order to solve such situations and ensure reliable operation of the electricity network, the Estonian and Latvian system operators had to use countertrade, i.e. to jointly activate reserve capacities in order to return the power flows of those electricity transmission lines within the allowed limits. Overloads were mainly caused by a big deficit of the Latvian and Lithuanian electricity systems and unfavourable distribution of generation in electricity systems of the BRELL states. It was required to use countertrade to eliminate overloads of cross-border lines between Estonia/Russia and Latvia on 17 occasions in total.

Close cooperation with the neighbouring countries is essential for reliable system operation

In addition to those incidents, it was necessary to use countertrade in cooperation between the Estonian and Finnish system operators on six occasions mainly due to failures of the DC connection EstLink 1 between Estonia and Finland. In 2012, reserve capacities were mainly used for balancing deviations of the Estonian electricity system, which were caused by unplanned changes in generation and production.

Level of cross-border transmission capacities remained the same

The cross-border transmission capacities made available to the electricity market between Estonia and Finland and between Estonia and Latvia remained approximately at the same level as in the previous years.

Commercial electricity flows between Estonia and Finland were 71.8% of the hours from Finland to Estonia, 26% of the hours from Estonia to Finland and during 2.2% of the hours no transmission took place. At the same time, the direction of power flow in the interconnection EstLink 1 could change several times within a day.

Commercial electricity flows between Estonia and Latvia were 94.4% of the hours from Estonia to Latvia and 5.6% of the hours from Latvia to Estonia. In particular during the summer months there were periods where the transmission capacity was used 100%. Those few hours when electricity flows were from Latvia to Estonia generally fell at the high-flow time of the Daugava River when the generation of Latvian hydropower plants was significantly larger than normally.

Elering's control centre is preparing for the commissioning of EstLink 2 and Kiisa emergency reserve power plant

New challenges related to investments

In 2013, the significant activities in the area of management of the electricity system include preparation for the launch of DC connection EstLink 2 between Estonia and Finland. After completion of EstLink 2, the transmission capacity between Estonia and Finland will be 1,000 MW instead of the current 350 MW. Management of such capacity flows in the electricity system, with the annual average consumption a little over 900 MW, will certainly be one of the most important new tasks.

Another new task is the management of Kiisa emergency reserve power plant. It is the first power plant whose real-time management will take place through Elering's control centre, not via the employees of the power plant.

Consumption and generation of the Estonian electricity system in 2012

Maximum net consumption in Estonia	1,572 MW	06.02.2012 10:00-10:05
Minimum net consumption in Estonia	477 MW	25.06.2012 04:15-04:20
Average consumption in Estonia	929 MW	
Maximum net generation in Estonia	1,964 MW	08.02.2012 17:55-18:00
Minimum net generation in Estonia	565 MW	29.04.2012 08:10-08:15
Average net generation in Estonia	1,192 MW	
Maximum generation of wind parks	205 MW	07.11.2012 15:10-15:15

* *Net consumption means consumption without self-consumption of power plants and net generation means the output of power plants without self-consumption.*

Balancing energy supplies

In 2012, imbalancing energy was sold 62% of the hours outside the system in Estonia and the export of imbalancing energy exceeded the import nearly two times – cross-border balancing energy exports amounted to 109 GWh and balancing energy was imported from Latvia in the amount of 59 GWh.

In order to secure Estonia's capacity balance, Elering purchased a total of 32 GWh of upward regulation of supplies and emergency reserves and sold 20 GWh of downward regulation of supplies.

In 2012, the volume of system services increased manyfold due to the provision of the regulation service through EstLink 1 cable to the Finnish transmission system operator, as well as the brokering of the regulation service to the Lithuanian system operator in a significant amount. In addition, the system service supplies also include countertrade supplies made due to the overloads at the crossing between Estonian and Latvian cross-border lines (in the total amount of 3.76 GWh), as well as the countertrade supplies made due to interruption of the EstLink 1 cable (in the total amount of nearly 24 GWh). The regulations made for the system service are not included in the price of the imbalancing energy.

Domestically Elering sold a total of 255 GWh of imbalancing energy and purchased a total of 218 GWh of imbalancing energy. The sales and purchase of domestic imbalancing energy include the balancing energy volumes of the balance providers, transmission network losses of imbalancing energy and imbalancing energy resulting from interruptions of the EstLink 1 cable.

Prices of imbalancing energy

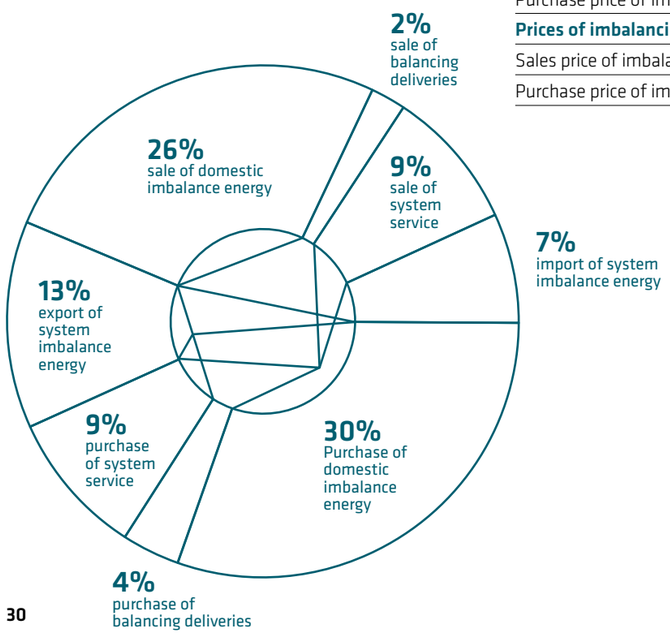
In 2012, the highest sales price of imbalancing energy was 168.82 EUR/MWh, which was caused by a high price of upward regulation of supplies on 3 February.

The lowest purchase price of imbalancing energy in 2012 was 1.90 EUR/MWh, which derived from the downward regulation price set to balance the Estonian balance on 17 June.

Compared to 2011, the prices of Estonian imbalancing energy were lower on the average, since there was more surplus of imbalancing energy in the Estonian electricity system.

	Average price	*MAX price*	*MIN price*
Prices of imbalancing energy in 2012 (EUR/MWh)			
Sales price of imbalancing energy	41.75	168.82	9.50
Purchase price of imbalancing energy	39.26	95.80	1.90
Prices of imbalancing energy in 2011 (EUR/MWh)			
Sales price of imbalancing energy	47.43	131.75	7.64
Purchase price of imbalancing energy	42.95	95.81	0.00

Balancing energy supplies in 2012



different research projects were in progress in 2012.

Feasibility study on interconnection variants for the integration of the Baltic States to the EU Internal Electricity Market

Applicability of non-conventional instrument transformers

Impact of electric vehicles on the electricity system

Studies on wider usability of natural gas

Development of the functionalities of BALMOREL model

Feasibility studies on LNG terminal

Analysis of consumption patterns and consumption management possibilities

Quantitative study of energy market scenarios

Development of the smart grid services

Elering as a competence centre

In accordance with the vision of Elering, we look for and develop new business lines for making the Estonian energy sector more innovative and competitive through development of a competence centre. The competence centre encompasses active participation in research and development projects, promotion of energy education and raising of general awareness of energy-related key issues.

For us, the compentence centre also means:

- implementation of Elering's research plan in cooperation with the partners;
- participation in international research and development projects;
- increasing internal competence in the issues of the energy sector on a wider scale, including in the area of natural gas,
- promoting energy education through Elering's scholarships and internship programme;
- organising the annual seminar on security of energy supply;
- developing the series of Elering's publications.

Promoting cooperation with research institutions

We see Elering as part of the network encompassing universities, state agencies, system operators of other countries and other partners. The main cooperation forms in research and development activities were determined by a framework contract with Tallinn University of Technology in 2011 and with the University of Tartu in 2012. Elering also commenced the updating of the national energy strategy with the other parties in 2012. We continued active participation and involvement in the Research and Development Committee of the European Network of Transmission System Operators for Electricity (ENTSO-E) as well as in the cooperation groups of the Baltic Sea region.

Elering is cooperating with Tallinn University of Technology and University of Tartu

Participation in the work of the Research and Development Committee (ENTSO-E) gives a possibility to have an active say in prioritising the development directions of the European energy sector, which are set out in the research and development roadmap and implementation plan both regularly prepared by ENTSO-E. The plan is also an important input for the European Commission in preparing and implementing the support measures for research and development activities. The 7th framework programme is the main support measure for carrying out the research in pan-European cooperation. The projects to be co-financed

from the framework programme with Elering's potential participation and to be implemented in the near future are related to the demand side management, development of smart substations and the testing of technologies that facilitate greater grid flexibility and more efficient network management.

Research commenced in 2012

The following table summarises the significant research projects (research and development activities and other technical studies) which were carried out or commenced in 2012, and their expenses. Of the expenses incurred after the reporting year, only such expenses are shown which have been approved in Elering's research plan.

	Cost (EUR)	
Project	*2012*	*2013 and later*
Development of the functionalities of BALMOREL model	6,500	19,800
Development of the smart grid services	2,000	200,000
Quantitative study of energy market scenarios	82,500	82,500
Analysis of consumption patterns and consumption management possibilities	47,000	83,800
Applicability of non-conventional instrument transformers	25,000	-
Impact of electric vehicles on the electricity system	14,100	98,400
Feasibility study on interconnection variants for the integration of the Baltic States to the EU Internal Electricity Market	103,200	374,700
Studies on wider usability of natural gas	5,600	40,000
Feasibility studies on LNG terminal	29,400	30,000

For modelling the electricity market, Elering uses the market model Balmorel. For developing the functionality of the model, the development of the user interface of the input data and the development of the link with the network planning model will be carried out and a new user interface of output data will be acquired in 2012-2013. In 2012, a memorandum of cooperation was signed between Elering and Latvian and Lithuanian transmission system operators to implement and develop the Balmorel model also in our Baltic neighbour countries.

For creating and developing the market of smart grid services, a project for providing the smart grid standards and the necessary IT environment will be launched in 2013. Aid is applied for from the Norwegian financial mechanism to cover expenses up to the extent of 75%. The participation of other project partners is added to the project cost.

Elering's contribution to the process for updating the national energy strategy, which started in 2012, mainly lies in describing the long-term development scenarios of the energy market sectors (electricity, fuels, heat, transport) and conducting the quantitative impact assessment for the scenarios. During the study, impacts on the infrastructure and market are analysed. The project is implemented in cooperation with Danish consultancy company Ea Energy Analyses.

During the analysis of consumption patterns and consumption management of large consumers, an overview of the behaviour of different consumer groups is prepared, which can be generalised to the system and used as a basis for studying new possibilities to develop the power network. On the basis of the obtained results and knowledge, it is possible to ensure more effective planning and functioning of both the electricity system and electricity market.

The objective of the electro-mobility project is to study the impact of large-scale electro-mobility on the Estonian electricity system and generally on the energy sector. The reason for this arises mainly from two electro-mobility systems being developed – electric cars and the planned pan-European express train project.

In 2013, the technical and socio-economic feasibility study will be completed, which focuses on possible connection possibilities for integrating the Baltic States with the single EU electricity market. The EU will cover 50% of the project expenses, the expenses of Latvian and Lithuanian system operators will be added to the cost shown in the table describing the research projects.

Increasing gas market related competence

Since Elering has set an objective to develop the gas market related competence, the research activities also included the following projects:

- Usability of LNG in boiler plants – according to the research made by scientists of Tallinn University of Technology, as commissioned by Elering AS and Eesti AGA AS, there exist both technical and economic preconditions for replacing shale oil with liquefied natural gas (LNG) in small boiler plants;
- Research on possibilities to facilitate the use of LNG in the shipping industry and proposing possible facilitating measures;
- Mapping of possibilities for switching to natural (bio) gas and the market participants' readiness to switch to methane fuel in public service vehicles.

In 2012, preliminary feasibility studies on the liquefied natural gas (LNG) terminal planned to be built in Muuga were completed. Danish consultancy firm Ramboll Oil & Gas A/S has finalised a preliminary feasibility study of Tallinn LNG terminal project, developed at the port of Muuga. According to the study, the total investment required to construct the Tallinn terminal would be approximately one third less than the cost of creating a similar terminal in any other location. The purpose of the planned terminal is to ensure the security of supply in the Baltic States and Finland which are currently dependent on a single gas supplier, as well as to satisfy the commercial demand. An analysis of pipeline options for connecting the LNG terminal to the transmission network was also made. In 2013, it is planned to make in cooperation with partners a risk analysis concerning the marine transportation of LNG and its use as fuel for vessels.

Based on a government decision, Elering spent 108,119 euros in 2012 conducting research and analyses to develop its competence in the gas industry.

The planned LNG terminal would ensure the alternative suplier and the security of supply in the region

2015

January 1st is the date by which the production and sale of natural gas in Estonia should be completely separated.

JANEK PARKMAN
Business Developer, Natural Gas

Developments of natural gas business line in 2012

As a follow-up to the development activities of the natural gas market launched in 2011, Elering in cooperation with the Ministry of Economic Affairs and Communications contributed to the further liberalisation of the Estonian natural gas market also in 2012. Amendments to the Natural Gas Act adopted in 2012 are of significant importance, according to such amendments the production and sales of natural gas must be fully unbundled from the transmission of natural gas in Estonia by 1 January 2015. That requirement arises from the objective set under the EU third energy package to reduce dominant influence of single market participant and avoid market distortions arising from this. This decision also guarantees the existence of basic preconditions for continuing the development of the gas market.

In addition to a wider impact on the natural gas market, that decision may also have a more specific effect on Elering's business activities. Namely, Elering sees that the purchase of natural gas transmission network may make Elering a combined power and gas TSO, similarly to Denmark and the United Kingdom. This would make it possible to use Elering's experience in administration of the electricity system and development of the electricity market also in the natural gas sector. The resultant synergy, joined competences and integrated administration of common systems leads to savings in terms of personnel and financial resources and finally resulting in lower network tariffs to the consumers. Elering is preparing to commence negotiations in 2013 with Eesti Gaas for purchasing transmission assets under commercially reasonable conditions.

Location of the planned LNG terminal in Muuga harbour

The joint administration of electricity and gas grid would bring synergy and cost-effectiveness

Since for a real developmental leap the Baltic region needs the entry of new gas suppliers into the natural gas market and it is possible only through creation of new supply routes, in 2012 Elering was actively engaged with the Ministry of Economic Affairs and Communications in preparing the investment plan for the regional gas infrastructure. The pipeline between Estonia and Finland, regional LNG terminal, expansion of the Latvian gas storage facility and the pipeline between Lithuania and Poland are included in the list of projects of common interest (so called PCI project list) of the European Union, as a result of which those projects can be supported from the EU funds. During the last year, such projects and other gas infrastructure projects were analysed and it was attempted to find the best technical and economic solution that would meet the development needs of the whole region. The analysis of the European Commission with regard to the most favourable location for the regional LNG terminal, which was completed at the end of 2012, showed that the projects in Muuga, Paldiski and in Inkoo (Finland) would be suitable to solve the needs of the regional gas market. In 2013, the Estonian and Finnish governments face the task to select the best candidate from among those three projects and present it to the application round to be opened in 2014.

In addition to development of the LNG terminal, the Baltic States and Finland have to continue the work commenced in 2012 and prepare a new market model that could be applied in the whole region. It should equitably determine the contribution of each country in the region to the future gas infrastructure and explain the socio-economic benefits to be received by consumers of each country. The updated tariff model, covering the entire region, with fairer distribution of costs among the consumer groups, must ensure the creation of new gas infrastructure and its further management for the common benefit of all countries in the region.

1000

hours were contributed by Elering employees to charity and support projects in 2012.

Social responsibility

Elering and society

As a responsible company, Elering is guided by the principles of improving the well-being of society and promoting healthy living environment. It does not mean only the measurement and reduction of the ecological footprint, but also the support to environmental protection related to the principal activity and the sustainable management.

We make cooperation with partners and subcontractors who follow the environmental requirements in their activities and use environmentally sound solutions. Elering's employees also contribute to preservation of the natural environment and, in cooperation with the Estonian Fund for Nature, bees have been organised in Matsalu National Park where several hectares of wooded meadows and pastures were cleared from bushes and shrubs.

By our example and activities, we attempt to encourage all our cooperation partners and the public to contribute to preservation of Estonia on a large scale and to support the local community. One of the main ways to achieve this is through the grant distribution system, which is clearly focused on promotion of

energy related education as well as on development of innovative solutions and technologies supporting the living environment.

Awarded grants

Elering awards grants and makes donations in accordance with the State Property Act and the company's internal rules. The grants must contribute to the achievement of Elering's operational and financial targets to have the security of energy supply guaranteed to Estonian consumers at all times.

As a socially responsible company, Elering awards grants to guarantee security of energy supply, promote energy related education and raise general awareness of energy through:

- paying scholarships to students related to the energy sector;
- promoting educational, research and development activities in the area of energy;
- supporting the organisation of energy related events and distributing information on energy.

Energy grants awarded in 2012:

- Grant to the publication of textbook "Stability of electricity system" of Tallinn University of Technology's Electrical Power Engineering Institute;
- Grant to the organisation of the annual conference of Electrical Engineering Students' European Association EESTEC held in Tallinn on 29.03-6.04.2012;
- Grant to the conference "2012 Electric Power Quality and Supply Reliability" organised by the Tallinn University of Technology for the eighth time, which is the only event of such kind that deals with the problems related to power quality and security of supply in the Nordic and Baltic region;
- Grant to the publication of the jubilee book of the Estonian Society for Electrical Power Engineering.

Elering launched scholarship programme for energy students

In 2012, Elering launched its scholarship programme. Elering's energy scholarship is a 10-month scholarship granted by the company to two energy students. Under Elering's scholarship programme, the master's students and doctoral students are supported for studying the topical issues of energy. In 2012, the study themes of grant holders were the development of possibilities for electricity demand side management and analysis of impacts of electricity transport on the Estonian electricity system.

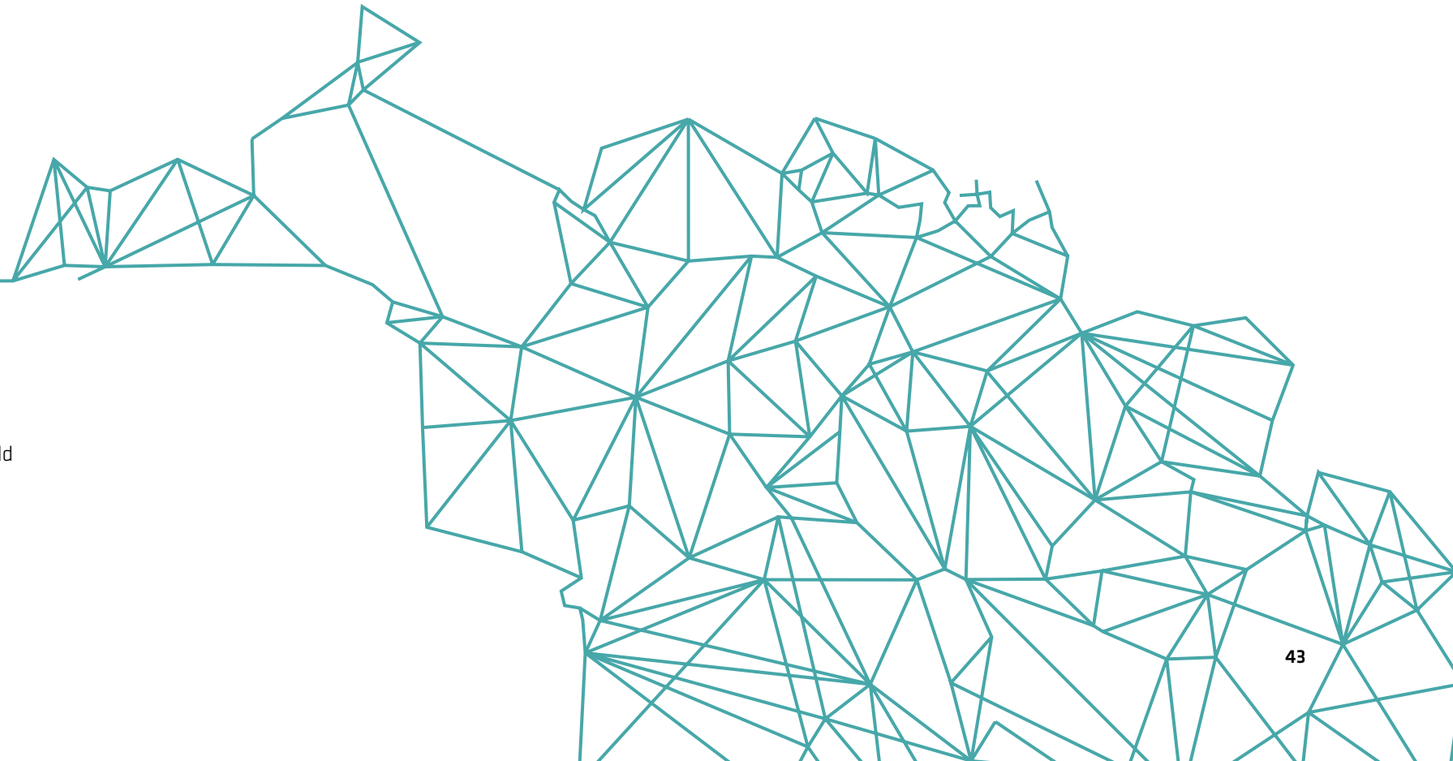
Elering also provides aid to communities affected by company´s investments to improve the environment. In 2012, Elering signed an agreement with Estonian Fund for Nature to support establishment of a hospital for wild animals located in Raasiku Municipality. Elering gave over its former substation and territory belonging to it free of charge to Estonian Fund for Nature.

Elering supported the establishment of a hospital for wild animals in Raasiku Municipality

The grant is aimed at improving the environment through the establishment of a hospital for wild animals that will serve a unique purpose of environmental protection on the eastern coast of the Baltic Sea. Aruküla is a very suitable place for the hospital for wild animals, since most of the injured wild animals are found in the region of Tallinn and Harju County.

The building of Elering's former substation has a sufficient size, but needs to be rebuilt. The project has been negotiated with the local population, who have a positive attitude towards the hospital. The initiative has been supported by Raasiku Rural Municipality Government and Council.

An overview of the grants awarded by Elering is available on its website.



of Elering's employees have received a university degree. One fifth combined work and studies.

KALLE KUKK
Strategy Manager

Corporate governance

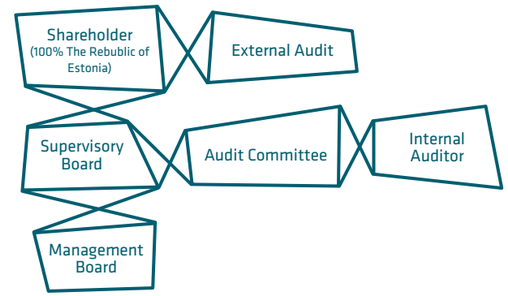
Elering is dedicated to complying with corporate governance best practices and to continuous improvement in that area. We consider this as a prerequisite for achieving our strategic objectives and designing our organisational culture.

We confirm as the principles for our activities, that:

- the company's risk management and internal control system are functioning and efficient;
- the company's financial reporting and annual report are based on a functioning system of risk management and internal control.

Elering publishes its corporate governance report on website www.elering.ee.

Management



Elering is a fully state owned company, which is represented at the general meeting by the Minister of Economic Affairs and Communications. Competence of the company's owner includes: to amend the articles of association; to increase and decrease share capital; to elect and remove members of the Supervisory Board; to elect auditors; to designate a special audit; to approve the annual report and allocate profit; to decide on merger, division, transformation and/or dissolution of the company.

Supervisory Board

In the company, the owner's interests are guaranteed by members of the Supervisory Board (representatives of the Ministry of Finance and the Ministry of Economic Affairs and Communications). The Supervisory Board gives the Management Board instructions for organising the management of the company and exercises supervision over the activities of the company's Management Board. The Supervisory Board determines, regularly reviews and assesses the company's strategy, general action plan, principles of risk management and annual budget.

The Supervisory Board comprises from three to five members. The number of the members of the Supervisory Board is decided and the members are elected by the representative of the owner. Currently the Supervisory Board of Elering has five members. The articles of association set out restrictions on the selection of members of the Supervisory Board, members of the Supervisory Board are elected and removed by the representative of the owner, i.e. the Minister of Economic Affairs and Communications. Fees of the members of the Supervisory Board are determined by a directive of the Minister of Economic Affairs and Communications.

Members of the Supervisory Board:

- **Ando Leppiman**, Chairman of the Supervisory Board, Head of the Energy Department, Ministry of Economic Affairs and Communications (until 23.03.2012)
- **Timo Tatar**, Chairman of the Supervisory Board, Head of the Energy Department, Ministry of Economic Affairs and Communications (from 23.03.2012)
- **Heiki Tammoja**, Director of Electrical Power Engineering Institute, Tallinn University of Technology
- **Thomas Auväärt**, Head of the Financial Market Policy Department, Ministry of Finance
- **Jüri Raatma**, Adviser of the Ministry of Economic Affairs and Communications
- **Aivar Sõerd**, Member of Riigikogu

The Audit Committee, established by a resolution of the Supervisory Board, is responsible for exercising supervision over risk management, internal control and financial reporting. The Audit Committee is an advisory body of the Supervisory Board in the area of accounting, audit, risk management, internal control and audit, exercise of supervision and preparation of the budget, legality of activities.

The Audit Committee comprises of five members. Members of the Audit Committee are elected and removed by a decision of the Supervisory Board. Members of the Audit Committee are elected for a term of three years. Members of the Audit Committee elect from among themselves the chairman to organise the activities of the Audit Committee. The Chairman of the Supervisory Board shall not hold a position of the Chairman of the Audit Committee. The members of the Supervisory Board are paid an additional fee for participation in the Audit Committee.

The Chairman of the Audit Committee is Thomas Auväärt. Members of the Audit Committee are Ando Leppiman / Timo Tatar, Heiki Tammoja, Jüri Raatma and Aivar Sõerd.

Management Board

The Management Board of Elering has complete freedom of decision and everyday management decisions are made independently, without interference by the owner and the Supervisory Board. The Management Board needs the consent of the Supervisory Board for transactions and operations that are beyond the everyday economic activities of the company. The Management Board ensures that the members of the Supervisory Board have sufficient information of the company's economic condition as well as more important matters related to the economic activities, and informs the Supervisory Board of the more important matters of the economic activities as necessary.

The Management Board comprises three members. Members of the Management Board are elected by the Supervisory Board for a term of five years. The Chairman of the Management Board organises the work of the Management Board as well as the everyday management and economic activities of the company. The person authorised by the Supervisory Board concludes contracts with the members of the Management Board which set out the rights and obligations of the Management Board with regard to the company in a greater detail.

A member of the Management Board may be paid a fee only on the basis of a contract of management board member concluded with him or her. A member of the Management Board may be also paid an additional fee based on his or her performance in the amount of up to four months' fee. Bonuses may be paid on the basis of the annual results or any other grounds based on a resolution of the Supervisory Board. Fees of the members of the Supervisory Board are fixed and provided in a management board member contract. Elering has not established any long-term bonus systems. A member of the Management Board may be paid severance compensation only upon removal at the initiative of the Supervisory Board before expiry of the term of his or her authorities in the amount of up to three months' fees.

Members of the Management Board:

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

In order to ensure independence, a declaration of interests of members of the Management Board is submitted to the Ministry of Economic Affairs and Communications. Transactions concluded with related parties are also declared upon approval and audit of the annual report.

Employees

In the financial year 2012, the average number of employees in Elering was 145, of whom 74% were men and 26% women. The share of women in the staff has continuously increased over the last years. Elering as an employer is characterised by low employee turnover (2012: 5%) and the above-average length of employment (15 years as at 31.12.12). Such stability of employees is based not only on the employees' dedication to their speciality, but also on the employer's support to professional development, the promotion of organisational culture favourable to dedication and performance, and the providing of recreational possibilities. The spirit of solidarity is also created by joint events, ranging from forest work bees to annual anniversary ceremonies of the company. At the latter event, we recognise our best colleagues with the "Best of the Year" title.

Succession planning and development of employees are of critical importance for ensuring continuous success of the company. We collaborate with several institutions of higher education and offer the selected students a thorough practical training programme. Of the employees, 82% have higher education and many employees combine work with studies. As of the end of 2012, approximately 20% of Elering's staff simultaneously studied for a degree in higher education institutions. In collaboration with Tallinn University of Technology, we organise energy-related in-service training courses to our engineering and technical staff.

As of the end of the year, the average age of employees was 42. One of the company's strengths lies in having representatives of different age groups in the staff mix.

Risk management and internal control system

The Management Board is responsible for the functioning of the internal control system of the company. To ensure the functioning of the internal control system, the position of an internal auditor will be created on the basis of the articles of association or the internal auditor service will be outsourced to an audit company. The Management Board has concluded a contract with AS PricewaterhouseCoopers Advisors for outsourcing

the internal auditor service. The risk management function of Elering is in compliance with the principles of Enterprise Risk Management (ERM) Model.

Risk management objectives in Elering are:

- to manage and describe the risk management processes in the company;
- to define the roles and responsibilities of the parties to the risk management process;
- to ensure that all risks are identifiable, assessable and they can be responded to;
- to help the managers better understand and manage risks.

The principles of risk management policy in Elering must ensure that:

- the culture, processes and structure of the company encourage the fulfilment of the company's strategic objectives and at the same time also the identification, management, monitoring and, if possible, the hedge of risks;
- the monitoring and management of the company's risks and the internal control system are based on the internationally recognised "Enterprise Risk Management (ERM) Model" developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), a voluntary organisation that promotes good corporate governance;
- all relevant legislation, standards, regulations and contractual obligations as well as requirements and expectations arising from society have been taken into account upon management of the company's risks;
- we are continuously improving the risk management activities in the company.

Equal treatment

Elering as a system operator bears system responsibility in accordance with the Electricity Market Act. System responsibility is the obligation to ensure, at all times, the security of supply and the balance of the system. The system operator exercises the rights and performs the obligations in compliance with the principles of equal treatment.

A transmission system operator may not produce nor sell electricity, except for performing the obligation of system responsibility. Electricity may be generated in the emergency reserve power plant in the event of an unexpected shutdown of the generation capacity or transmission capacity of the system or of an electricity system of another country electrically connected to the system or in the event of a danger to the security of supply or when it is required for the purpose of periodical testing of the emergency reserve power plant.

A transmission system operator may not at the same time be a distribution network operator, or belong to the same group with any undertaking which engages in activities related to generating or selling electricity. Elering is not a part of any group of electricity companies. Neither does Elering have any dominant influence over another electricity undertaking nor has any other electricity undertaking dominant influence over Elering.

All Elering's back-office functions (information technology, accounting, personnel, law, public relations, administration) are separated from the market participants. The company outsources the legal, audit and communications services and, as necessary, also consultations.

For efficient performance of its duties, Elering has established internal procedures and, based on legislation, has specified the conditions for connection to the transmission network, the standard terms and conditions for the provision of network services, the standard terms and conditions for balance agreements, the terms and conditions for issuance of guarantees of origin. The standard terms and conditions are public and approved by the Estonian Competition Authority.

Management Operation of the power system is conducted pursuant to the procedure for operation of the Estonian power system and in conformity with the action plan for ensuring the continuous provision of services of vital importance.

Balance responsibility is exercised pursuant to the procedure of balance management and the standard terms and conditions for balance agreements. Confidentiality of information to be submitted to Elering as the system operator is set out in the standard terms and conditions for balance agreements. Balancing electricity price is calculated on the basis of the common methodology for calculating balancing electricity, approved by the Estonian Competition Authority.

Regulating capacity is purchased on the basis of bilateral contracts in accordance with the conditions established in the Electricity Market Act: when purchasing the electricity and regulating capacity necessary to perform its obligations and when using other relevant services, the system operator shall observe free market principles, act with regard to all market participants in accordance with the principles of equal treatment and transparency, and avoid establishing unreasonable restrictions.

The setting of charges for connection to the transmission network, the preparation and conclusion of connection agreements, also the right to refuse connection to the network are provided in the connection procedure and the terms and conditions for connection to the transmission network.

The setting of a charge for using a network connection and preparation of network contracts, also the principles for refusing to provide the network service and interrupting the provision of the network service are regulated by the procedure for provision of the network service and the standard terms and conditions for provision of the network services.

The services and works may be purchased, inter alia from market participants, pursuant to the Public Procurements Act and the procedure for carrying out procurements.

The company's website presents a separate list of data that is subject to disclosure by Elering on the basis of the legislature. The website presents annual reports, financial results, operating information, main activities, structure, strategy, news and notices as well as other information that is necessary for investors and the public at large. The website is also available in English. The information on website www.elering.ee is continuously updated (incl. news and announcements).

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Statement of Financial Position

in thousands of euros	*Note*	*31/12/2012*	*31/12/2011*
ASSETS			
Current assets			
Cash and cash equivalents	6	12,957	23,550
Deposits at banks with maturities of over 3 months	7	11,000	30,000
Trade and other receivables	8	24,700	18,671
Total current assets		**48,657**	**72,221**
Non-current assets			
Available-for-sale financial assets	2	1,946	0
Property, plant and equipment	9	461,003	410,434
Intangible assets	10	4,123	3,723
Total non-current assets		**467,072**	**414,157**
TOTAL ASSETS		**515,729**	**486,378**
LIABILITIES			
Current liabilities			
Trade and other payables	12	24,319	35,348
Total current liabilities		**24,319**	**35,348**
Non-current liabilities			
Borrowings	11	227,013	221,639
Deferred income	13	24,487	24,077
Government grants	13	14,774	15,045
Total non-current liabilities		**266,274**	**260,761**
TOTAL LIABILITIES		**290,593**	**296,109**
EQUITY			
Share capital	14	149,890	149,890
Statutory reserve capital	14	4,515	3,490
Retained earnings	14	70,731	36,889
TOTAL EQUITY		**225,136**	**190,269**
TOTAL LIABILITIES AND EQUITY		**515,729**	**486,378**

The notes on pages 56 to 84 are an integral part of these financial statements.

Statement of Comprehensive Income

in thousands of euros	*Note*	*2012*	*2011*
Revenue	15	108,932	94,156
Revenue	16	551	247
Goods, raw materials and services	17	-37,374	-37,339
Other operating expenses	18	-3,605	-3,177
Staff costs	19	-4,250	-3,949
Depreciation and amortisation	9,10	-22,845	-21,245
Other expenses	20	-118	-126
Operating profit		**41,291**	**28,567**
Financial income	21	385	661
Financial costs	21	-6,809	-8,727
Profit before income tax		**34,867**	**20,501**
Profit for the year		**34,867**	**20,501**
Total comprehensive income for the year		**34,867**	**20,501**

The notes on pages 56 to 84 are an integral part of these financial statements.

Cash Flow Statement

in thousands of euros	*Note*	*1.01.2012–31.12.2012*	*1.01.2011–31.12.2011*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		34,867	20,501
Adjustments for:			
· Profit from sale of property, plant and equipment	16	-40	-22
· Depreciation, amortisation and impairment	9.10	22,845	21,244
· Expending government grants	13	-325	-105
· Interest expenses	21	6,806	8,724
· Interest income	21	-385	-661
· Changes in receivables and prepayments related to operating activities	8	-6,138	3,293
· Changes in liabilities and prepayments related to operating activities	12	-3,129	-10,985
Changes in deferred income from connection and other service fees	13	410	1,747
Cash generated from operations		**54,911**	**43,737**
Interest paid	21	-10,487	-6,056
Interest received	21	418	640
NET CASH USED IN OPERATING ACTIVITIES		**44,842**	**38,323**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	9.10	-77,708	-69,225
Net change in deposits with maturities of over 3 months	7	19,000	-30,000
Foreign grants to acquire non-current assets	13	54	0
Proceeds from sale of property, plant and equipment		165	60
Paid on acquisition of available-for-sale financial assets	2	-1,946	0
NET CASH USED IN INVESTING ACTIVITIES		**-60,435**	**-99,165**
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term bank loans received	11	5,000	0
Bank loans repaid	11	0	-187,000
Bonds issued	11	0	221,438
Contribution to share capital	14	0	9,890
NET CASH USED IN FINANCING ACTIVITIES		**5,000**	**44,328**
Net increase/decrease in cash and cash equivalents		**-10,593**	**-16,514**
Cash and cash equivalents at the beginning of the year	6	**23,550**	**40,064**
Cash and cash equivalents at the end of the year	6	**12,957**	**23,550**

The notes on pages 56 to 84 are an integral part of these financial statements.

Statement of Changes in Equity

in thousands of euros	*Share capital*	*Statutory reserve capital*	*Retained earnings*	*Total*
Balance as of 1.01.2011	**140,000**	**2,814**	**17,064**	**159,878**
Contribution to share capital	9,890	0	0	9,890
Comprehensive income for financial year	0	0	20,501	20,501
Transfers to statutory reserve capital	0	676	-676	0
Balance as of 31.12.2011	**149,890**	**3,490**	**36,889**	**190,269**
Comprehensive income for financial year	0	0	34,867	34,867
Transfers to statutory reserve capital	0	1,025	-1,025	0
Balance as of 31.12.2012	**149,890**	**4,515**	**70,731**	**225,136**

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

The notes on pages 56 to 84 are an integral part of these financial statements.

Notes to the Financial Statements

Note 1

ELERING AS AND ITS OPERATIONS

The financial statements of Elering AS (the "Company") for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The Company is domiciled in the Republic of Estonia. The Company's registered address is Kadaka tee 42, 12915 Tallinn, Estonia. The Company's principal business activity is electricity transmission within the Republic of Estonia. The economic activities of the Company are regulated by the Estonian and EU legislation. The Estonian Competition Board monitors the Company's network activities and provision of balancing service, and approves network tariffs and standard terms of respective contracts.

The sole shareholder of the Company is the Republic of Estonia.

The Management Board approved these financial statements on 11.03.2013. Pursuant to the Commercial Code of the Republic of Estonia, the annual report shall be presented for approval to the Company's Supervisory Board and the General Meeting of Shareholders.

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bases of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Operating segments
The chief operating decision maker has been identified as the Management Board, who is responsible for allocating resources and assessing performance of the Company. The Management Board has determined that the activities of the Company form a single operating segment. The internal reporting provided to the Management Board has been prepared using the accounting policies and presentation consistent with those used in preparation of the financial statements.

Functional and presentation currency
The Company's functional currency is euro and all amounts in financial statements are presented in thousands of euros.

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

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

Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are classified into the following categories at initial recognition according to IAS 39:

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

As at 31 December 2012, the Company had no other classes of financial assets than those classified under the category of 'loans and receivables' and 'available-for-sale financial assets' (as at 31 December 2011, 'loans and receivables'). As of balance sheet date the Company had no derivative instruments.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. Financial assets that are not recognised at fair value through profit or loss are initially recognised at fair value to which transaction costs are added. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method unless the payment date falls within 30 days.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Company uses to determine that there is objective evidence of an impairment loss include: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and a breach of contract, such as a default or delinquency in payments for more than 90 days.

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

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

The Company recognises the following financial assets in the category of 'loans and receivables': "Cash and cash equivalents", "Deposits at banks with maturities of over 3 months" and "Trade and other receivables".

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that the Company intends to sell immediately or in the short term or that are not classified in any of the others categories above. Available-for-sale financial assets are

carried as non-current financial investments except when the financial asset expires or the Company intends to sell it during 12 months after the end of the reporting period. Available-for-sale financial assets are initially recognised at fair value, including transaction costs. Available-for-sale financial assets are subsequently carried at fair value; gains and losses arising from changes in fair value of available-for-sale financial assets are included in the statement of comprehensive income. Generally, the basis to determine the fair value is considered to be the market price in the active market or if that is not considered reliable, then the value established by using commonly accepted valuation techniques. If the fair value of a financial asset cannot be measured reliably, they are measured at cost less any impairment losses.

Available-for-sale financial assets include shares of Nord Pool Spot AS. The principal business activity of Nord Pool Spot AS, registered in Norway, is operating of electricity exchanges in the Nordic countries, Great Britain and the Baltic States. The investment was made with a long-term strategic goal of taking part in the decision-making process concerning the development of electricity market in the Nordic-Baltic region.

As at the balance sheet date, the Company does not have any current financial information on AS Nord Pool Spot; shares are not traded in the financial markets and no share purchase-sales transaction has occurred after acquisition of the shares by the Company. It is also unlikely that those shares will be actively traded in the future or that the company will start publishing periodic information on future forecasts. Therefore, the fair value of those shares cannot be reliably measured. The Management of the Company decided to subsequently recognise those shares at their cost.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

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

Property, plant and equipment
Property, plant and equipment is property, plant and equipment that are used in business activities and the useful life of which exceeds one year. Property, plant and equipment is recognised in statements of financial position as carrying amount which constitutes historical cost less any accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Other than the purchase price, cost of the acquired property, plant and equipment includes transportation and installation expenses, as well as other expenses directly related to acquisition and putting such assets into operation. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only if they meet respective property, plant and equipment criteria. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

If property, plant and equipment consist of components with significantly different useful lives, the components are recognised as separate items of property, plant and equipment.

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

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

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

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

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

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

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

Personal right of use
Payments made for rights of superficies and servitudes meeting the criteria for recognition as intangible assets are recognised as intangible assets. The costs related to rights of use of land are depreciated according to the contract period, not exceeding 100 years.

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

	Useful lives in years
Software licences	3-5 years
Personal rights of use	50-100 years

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

Impairment of non-financial assets
Land and assets that are subject to depreciation/amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are

grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment loss are reviewed for possible reversal of impairment on each reporting date.

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

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

Other financial liabilities are initially recognised at fair value, net of transaction costs incurred and are subsequently carried at amortised cost. The amortised cost of current liabilities normally equals their nominal value; therefore current liabilities are stated in the statement of financial position in their redemption value. Non-current liabilities are subsequently carried at amortised cost. The difference between the amortised cost and the redemption value is recognised as interest expense in the income statement over the period of the borrowings using the effective interest rate method. The borrowing costs associated with the assets meeting respective requirements are capitalised as 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.

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

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

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

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

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

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

Dividends
Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the statement of financial position date and before the financial statements are authorised for issue are disclosed in the notes to the financial statements.

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

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

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

Sales of services are recognised in the accounting period in which the services are rendered.

- Recognition of connection fees. When connecting to the electricity network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect to the network. The revenue from connection fees is deferred and recognised as income evenly over the estimated customer relationship period. The amortisation period of connection fees is 20 years. Deferred connection fees are carried in the statement of financial position as long-term deferred income.

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

Recognition of government grants
Government grants are recognised at fair value when there is a reasonable assurance that the Company will comply with all the conditions attached to government grants and that the grant will be received. The government grants are recognised in profit or loss on a systematic basis over the periods in which the Company expenses the related costs for which the grants are intended to compensate.

Government grants are presented in the statement of financial position using the gross method, according to which the government grant is recognised at its cost, and if the government grant is received in the form of a transfer of a non-monetary asset, it is recognised at its fair value. The amount of the government grant received for the purpose of acquisition of assets is recognised as deferred income from government grants. The acquired asset is depreciated and the grant is credited to income over the estimated useful life of the asset.

Inter-transmission system operator compensation mechanism (ITC)
ITC is a mechanism for the compensation of cross-border energy flows, as designated by the EU regulation No 838/2010, in which transmission system operators of over 30 countries participate. The mechanism works under the principle that a transmission system operator of a country compensates, through the ITC fund, the other transmission network operators for additional expenses caused by cross-border energy flows in case if that country has exported or imported electricity during the reporting period, and it receives compensation from the fund if

a transit flow caused by market participants of other countries has crossed the country. Such accounting is kept by specifically authorised administrators in Switzerland, who submit to the members of the mechanism the data in the form of net amounts to be paid each month. The Company recognises the net amounts in the statement of comprehensive income depending whether it is net income or net expense under "Revenue" or under "Goods, raw materials and services" respectively.

Subsidies to electricity producers
The law obliges the Company to participate in supporting mechanism for eligible electricity producers (first and foremost power plants using renewable sources of energy). The Company collects subsidies from consumers and distribution network operators and pays it out to to those electricity producers who meet the criteria.

In accordance with current principles, the Company prepares an estimate of the amount of subsidies for the following calendar year, based on estimates on the amount of electricity produced by these producers, and the amount of network services to be provided to the end users in Estonia. The Company uses these estimates to determine the charge of subsidy for the following calendar year per kWh (kilowatt-hour) of network services, taking into account any difference between estimated and actual amounts of subsidies paid during the previous period (November through October).

The customers are charged according to the estimated charge per kWh. Due to the different reasons the actual amounts paid out and received as subsidies always differ from the estimated amounts. Over or under collected subsidies are shown in the statement of financial position as either Trade and other payables (in case of surplus) or Trade and other receivables (in case of deficit). These balances are taken into account when determining the charge for the next period as described above. Collecting and paying of subsidies has no impact on the comprehensive income of the Company. See also Notes 8 and 12.

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

If during the reporting period, an employee has provided services for which payment of compensation is to be expected, the Company will recognise a liability (accrued expense) in the amount of forecasted compensation, from which all amounts already paid will be deducted.

Income tax
According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

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

Other taxes in Estonia

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

Tax	*Tax rate*
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	1.4% of the payroll paid to employees
Fringe benefit income tax	21/79 of fringe benefits paid to employees
Land tax	1%-2.5% on taxable value of land per annum
Excise tax on electricity	4.47 euros per MWh of electricity
Corporate income tax on non-business related expenses	21/79 on non-business related expenses

Note 3

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Revenue recognition (connection fees)
The Company recognises all connection and other service fees (Note 13) as income over the estimated customer relationship period as the Company has a constructive obligation to provide a supply of electricity to the end customer and to meet certain performance standards regarding availability of supply. The Company also has an ongoing obligation to maintain the connection. Thus a new connection has no standalone value without ongoing access to the network.

The customer relationship period is 20 years based on management's estimate. In the reporting period, income from connection and other service fees totalled EUR 1,280 thousand (2011: EUR 1,222 thousand). If the estimated customer relationship period were increased by 25%, the annual income from connection fees would decrease by EUR 256 thousand (2011: EUR 244 thousand).

Useful lives of property, plant and equipment
The estimated useful lives of items of property, plant and equipment (Note 9) are based on management's estimates regarding the period during which the asset will be used. The estimation of economic lives is based on historical experience and takes into consideration production capacity and physical condition of the assets. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. In the reporting period, depreciation amounted to EUR 21,547 thousand (2011: EUR 20,934 thousand). If depreciation rates were increased/decreased by 20%, the depreciation charge for the year would increase/decrease by EUR 4,309 thousand (2011: EUR 4,187 thousand).

Note 4

NEW ACCOUNTING PRONOUNCEMENTS

Adoption of new or revised standards and interpretations
The new standards, amendments to published standards and interpretations that became effective for the Company from 1 January 2012 had no effect on the financial statements and have no importance with respect to the Company's business activity.

Adoption of new or revised standards and interpretations before their effective date:

New or revised standards and interpretations
New or revised standards or interpretations that have not yet become effective are not expected to have significant effect on the Company.

Note 5

FINANCIAL RISK MANAGEMENT

The risk management function is performed at the Company in accordance with internationally approved Enterprise Risk Management Mode methodology, which has been developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's risks are assessed in four categories: strategic, operational, financial and external risks. Financial risk comprises market risk (including currency risk, interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then to ensure that exposure to risks stays within these limits. Risk management is monitored at the Management Board level and the results are reported to the Audit Committee. The Company's liquidity, interest rate and currency risks are managed at the Company's Finance Department.

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

Financial assets

Loans and receivables:

in thousands of euros	*31/12/2012*	*31/12/2011*
Cash and cash equivalents (Note 6)	12,957	23,550
Deposits at banks with maturities of over 3 months (Note 7)	11,000	30,000
Trade and other receivables (Note 8)	24,574	17,085
Total financial assets	**48,531**	**70,635**

Financial liabilities

Other financial liabilities:

in thousands of euros	*31/12/2012*	*31/12/2011*
Trade and other payables (Note 12)	21,329	34,401
Borrowings (Note 11)	227,013	221,639
Total financial liabilities	**248,342**	**256,040**

Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales on credit terms and other transactions with counterparties giving rise to financial assets. In accordance with the Company's risk management principles, the Company's short-term available cash resources can be deposited in the following domestic financial instruments: overnight deposits at credit institutions, term deposits at credit institutions. The following principles are followed when depositing short-term available cash resources: ensuring of liquidity, capital preservation, revenue generation.

The Company's assets exposed to credit risk as of balance sheet days were as follows:

in thousands of euros	*31/12/2012*	*31/12/2011*
Cash and cash equivalents (Note 6)	12,957	23,550
Deposits at banks with maturities of over 3 months (Note 7)	11,000	30,000
Trade and other receivables (Note 8)	24,574	17,085
Total exposure of assets to credit risk in the statement of financial position	**48,531**	**70,635**

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties or by applying additional instruments for credit risk management. The participants in the tender for building investment objects must meet requirements concerning amount of equity and provide bank guarantees the amount of which depends on the value of the contract. The Company established criteria for holding financial assets at credit institutions. According to the given criteria maximum permitted limits depend on the credit rating and equity of the credit institution. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on an ongoing basis and they are subject to a biannual review.

The Company's Accounting Department reviews ageing analysis of outstanding trade receivables and follows up on past due balances each week. The results are reported to the CFO of the Company. The Company has identified circumstances under which the collection of debt is passed over to a collection agency. Information about credit risk is disclosed in Note 8.

Credit risk concentration
The Company is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by reports, which list exposures to counterparty with aggregated balances in excess of 5% of the Company's equity. On 31.12.2012, the Company had 1 counterparty (distribution network operator) (31.12.2011: 1 counterparty) with an aggregated receivables balance of EUR 19,404 thousand (31.12.2011: EUR 13,614 thousand) or 79% of the gross amount of trade and other receivables (31.12.2011: 83%).

Market risk

The Company is exposed to market risk. Market risk arises from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities. Management sets limits on the value of exposed positions that may be accepted, which is monitored on a daily basis. However, the use of this approach does not completely prevent losses outside of these limits, but limits their maximum amounts.

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

Currency risk

Currency risk is the risk that in the future fair value of financial instruments of cash flow will fluctuate due to chances of currency rates. As most of the Company's transactions and balances are denominated in euros, the Company is not exposed to significant currency risk. The Company established separate limits for open currency positions depending on the currency and duration. Transactions in other currencies are insignificant; there were no financial instruments denominated in other currencies as of 31.12.2012 and 31.12.2011.

Interest rate risk

As of 31.12.2012 long-term bonds with fixed interest rate constituted 98% (as of 31.12.2011 100%) of long-term borrowings carried at amortised cost; the remaining 2% of the above mentioned liabilities was a long-term bank loan with a floating interest rate. Long-term bonds were issued on 12.07.2011 with maturity of seven years and the nominal value of EUR 225 million. Bonds' coupon is fixed at 4,625% p.a. and interest payments are made once a year.

Until 13.07.2011 the Company had a loan from a bank syndicate. The loan was denominated in euros and the interest rate on the loan was Euribor + 300 basis points.

The Company collected the first instalment of the loan from Nordic Investment Bank on 17 December 2012. The maturity date is 2025, the interest rate is floating and the loan will start to amortize since 2015.

The Company's interest-bearing financial assets are overnight deposits and term deposits. The rate for overnight deposits is being fixed once a day and term deposits have a fixed interest rate for the whole term of the deposit.

Floating interest financial instruments (since 17.12.2012 Nordic Investment Bank loan and until 13.07.2011 syndicate loan) expose the Company to cash flow interest rate risk, i.e. the risk that increase in market interest rates will cause increase in the Company's interest expense. At the same time, in case of short-term deposits, change in market interest rates has effect on the Company's interest income arising from investment of available resources into new deposits. The Company established the minimum limit for fixed interest-bearing liabilities at 60% of all liabilities. Fixed interest financial instruments create fair value interest rate risk. Since the Company does not recognise interest-bearing financial instruments at fair value, change in market interest rates does not have effect on balance value of available assets or liabilities, nor interest income or expense arising from them.

The table below summarises the Company's exposure to interest rate risks in 2012 and 2011. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing and maturity dates.

in thousands of euros	*On demand and less than 1 month*	*From 1 to 12 months*	*Above 5 years*	*Total*
31.12.2012				
Cash and cash equivalents (Note 6)	12,957	0	0	**12,957**
Deposits at banks with maturities of over 3 months (Note 7)	0	11,000	0	**11,000**
Long-term bonds (Note 11)	0	-4,925	-222,088	**-227,013**
Net interest sensitivity gap on 31.12.2012	**12,957**	**6,075**	**-222,088**	**-203,056**

in thousands of euros	*On demand and less than 1 month*	*From 1 to 12 months*	*Above 5 years*	*Total*
31.12.2011				
Cash and cash equivalents (Note 6)	23,550	0	0	**23,550**
Deposits at banks with maturities of over 3 months (Note 7)	0	30,000	0	**30,000**
Long-term bonds (Note 11)	0	0	-221,639	**-221,639**
Net interest sensitivity gap at 31.12.2011	**23,550**	**30,000**	**-221,639**	**-168,089**

The Company did not have other financial instruments exposed to risk of change in interest rate.

As of 31.12.2012 and 31.12.2011, the Company was not exposed to material interest rate risk, as financial liabilities with a fixed interest rate constituted 98% (31.12.2011: 100%) of all interest-bearing financial liabilities. In 2011, the Company had a loan from a bank syndicate with a floating interest rate which was refinanced on 12.07.2011 by long-term bonds with a fixed interest rate.

Liquidity risk

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

The table below shows liabilities on 31.12.2012 and 31.12.2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing on the reporting date. Foreign currency payments are translated using exchange rate at the balance sheet date.

The maturity analysis of financial liabilities on 31.12.2012 is as follows:

in thousands of euros	*On demand and less than 1 month*	*From 1 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Total*
Liabilities*					
Trade and other payables (Note 12)	16,363	32	0	0	**16,395**
Borrowings (Note 11)	0	10,475	37,018	245,386	**292,879**
Total future payments	**16,363**	**10,507**	**37,018**	**245,386**	**309,274**

* *including interest expenses*

The maturity analysis of financial liabilities on 31.12.2011 is as follows:

in thousands of euros	*On demand and less than 1 month*	*From 1 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Total*
Liabilities*					
Trade and other payables (Note 12)	29,436	61	0	0	**29,497**
Borrowings (Note 11)	0	10,406	36,151	251,344	**297,901**
Total future payments	**29,436**	**10,467**	**36,151**	**251,344**	**327,398**

* *including interest expenses*

For ensuring liquidity and better management of cash flows, the Company has concluded an overdraft contract amounting to EUR 20,000 thousand and holds its money in liquid bank deposits. As of 31.12.2012 the Company's total available cash resources (cash and cash equivalents, as well as deposits with maturities of over 3 months) amounted to EUR 23,957 thousand (as of 31.12.2011: EUR 53,550 thousand). See further information in Notes 6 and 7.

In addition, as of 31.12.2012 the Company had undrawn borrowing facilities amounting to EUR 110,000 thousand (31.12.2011: EUR 100,000 thousand). The Company was granted irrecoverable financial help amounting to EUR 50,000 thousand from the European Union for building of Estlink 2 electricity interconnector between Estonia and Finland, of which EUR 15,000 thousand were transferred in 2010. The Company is eligible to receive the remaining part over 2012-2014 in accordance with completion of the project stages.

Capital Management

The Company's main goal in capital risk management is to ensure the Company's sustainability of operations in order to generate return for its shareholder and provide a sense of security to creditors and thereby, preserve an optimal capital structure and lower the cost of capital. In order to preserve or improve the capital structure, the Company can regulate the dividends payable to the shareholders, buy back shares from shareholders, issue new shares or bonds and take new loans.

According to the widespread industry practice, the Company uses the equity to asset ratio for monitoring the Company's capital structure, arrived at by dividing total equity by total assets as of the balance sheet date. Starting from 2011 the Company's goal has been to preserve the ratio of equity to assets at 35% - 45%. The equity to asset ratio was 44% as of 31.12.2012 and 39% as of 31.12.2011.

in thousands of euros	*31/12/2012*	*31/12/2011*
Equity	225,136	190,269
Total assets	515,729	486,303
Equity to asset ratio	**44%**	**39%**

Fair Value of Financial Instruments

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

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

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

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

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

The Company had the following borrowings as of 31.12.2012: bonds, the market value of which without accrued interest was EUR 251,739 thousand (nominal value EUR 225,000 thousand) and the bank loan, the market value of which without accrued interest was EUR 4,578 thousand. The only liabilities as of 31.12.2011 were bonds the market value of which without accrued interest was EUR 227,624 thousand (nominal value EUR 225,000 thousand).

Note 6

CASH AND CASH EQUIVALENTS

in thousands of euros	*31/12/2012*	*31/12/2011*
Bank accounts	861	465
Short-term deposits	12,096	23,085
Total cash and cash equivalents	**12,957**	**23,550**

Bank accounts and deposits with maturities of 3 months or less

in thousands of euros	*31/12/2012*	*31/12/2011*
Bank accounts and deposits:		
· with Moody's credit rating of Aa2	0	10,000
· with Moody's credit rating of Aa3	38	0
· with Moody's credit rating of A1	0	11,148
· with Moody's credit rating of A2	10,821	0
· with no Moody's credit rating*	2,098	2,402
Total bank accounts and deposits	**12,957**	**23,550**

* *Two banks without credit rating at which the Company holds its money are Estonia-based subsidiaries of international banks with Moody's credit ratings of A1 and A2.*

Note 7

DEPOSITS AT BANKS WITH MATURITIES OF OVER 3 MONTHS

in thousands of euros	*31/12/2012*	*31/12/2011*
Deposits at banks with maturities of over 3 months	11,000	30,000
Total deposits at banks with maturities of over 3 months	**11,000**	**30,000**

Deposits at banks with maturities of over 3 months

in thousands of euros	*31/12/2012*	*31/12/2011*
Deposits at banks:		
· with Moody's credit rating of Aa2	0	4,000
· with Moody's credit rating of Aa3	6,000	0
· with Moody's credit rating of A1	0	18,000
· with Moody's credit rating of A2	5,000	0
· with no Moody's credit rating*	0	8,000
Total deposits at banks	**11,000**	**30,000**

* *Two banks without credit rating at which the Company holds its money are Estonia-based subsidiaries of international banks with Moody's credit rating of A1 and A2.*

During the financial year effective interest rates of deposits with maturities of over 3 months amounted to 0.37%-1.88%. During the financial year deposit maturities amounted to 98-201 days (2011: 1.4%-1.88% and 122-188 days).

Note 8

TRADE AND OTHER RECEIVABLES

in thousands of euros	*31/12/2012*	*31/12/2011*
Trade receivables		
Accounts receivable	24,524	16,386
· incl: allowance for doubtful receivables	-7	-12
Other receivables	50	699
· incl: subsidies due to electricity producers	0	587
· incl: other receivables	45	75
· incl: interest receivable	5	37
Total financial assets within trade and other receivables	**24,574**	**17,085**
Tax receivables	3	1,438
· incl: VAT recoverable	0	1,435
Prepayments	123	148
Total trade and other receivables	**24,700**	**18,671**

Analysis by credit quality of trade receivables is as follows:

in thousands of euros	*31/12/2012*	*31/12/2011*
Accounts receivable not yet due		
· Distribution networks	21,053	14,641
· Other clients	3,417	1,709
Total accounts receivable not yet due	**24,470**	**16,350**
Accounts receivable past due but not classified as doubtful (IAS 39)		
· 1 to 90 days overdue	54	36
Total accounts receivable past due but not classified as doubtful	**54**	**36**
Accounts receivable classified as doubtful		
· over 90 days overdue	7	12
Total accounts receivable classified as doubtful	**7**	**12**
Total accounts receivable past due	**61**	**48**
Total trade receivables	**24,524**	**16,386**

In 2012, the Company wrote off uncollectible receivables in amount of EUR 7 thousand, which were not settled as at 31.12.2012 and which due date was 31.12.2011 and earlier.

See further information on receivables from related parties in Note 23.

Note 9

PROPERTY, PLANT AND EQUIPMENT

in thousands of euros	*Land*	*Buildings*	*Facilities*	*Machinery and equipment*	*Other*	*Construction in progress*	*Total*
Property, plant and equipment on 1.01.2011							
Cost at 1.01.2011	4,247	16,835	235,498	201,518	49	0	458,147
Accumulated depreciation	0	-2,878	-66,046	-52,134	-21	0	-121,079
Carrying amount on 1.01.2011	**4,247**	**13,957**	**169,452**	**149,384**	**28**	**0**	**337,068**
Construction in progress	0	0	0	0	0	17,167	17,167
Prepayments	126	0	0	0	0	0	126
Total property, plant and equipment on 1.01.2011	**4,373**	**13,957**	**169,452**	**149,384**	**28**	**17,167**	**354,361**
Movements 1.01.2011-31.12.2011							
Additions	592	0	0	64	5	74,703	75,364
Reclassified from construction in progress	0	537	1,593	15,492	0	-17,622	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	1,868	1,868
Disposals in carrying amount	0	0	0	-37	0	0	-37
Prepayments	-126	0	0	0	0	0	-126
Depreciation charge	0	-485	-9,794	-10,643	-12	0	-20,934
Impairment	0	0	-31	-31	0	0	-62
Total movements 1.01.2011-31.12.2011	**466**	**52**	**-8,232**	**4,845**	**-7**	**58,949**	**56,073**
Cost at 31.12.2011	4,839	17,326	236,957	216,322	54	0	475,498
Accumulated depreciation	0	-3,317	-75,737	-62,093	-33		-141,180
Carrying amount on 31.12.2011	**4,839**	**14,009**	**161,220**	**154,229**	**21**	**0**	**334,318**
Construction in progress	0	0	0	0	0	76,116	76,116
Total property, plant and equipment on 31.12.2011	**4,839**	**14,009**	**161,220**	**154,229**	**21**	**76,116**	**410,434**
Movements 1.01.2012-31.12.2012							
Additions	387	0	0	0	0	68,162	68,549
Reclassified from construction in progress	0	784	5,795	23,256	0	-29,835	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	4,140	4,140
Disposals in carrying amount	-2	0	0	-123	0	0	-125
Depreciation charge	0	-515	-10,049	-10,970	-13	0	-21,547
Impairment charge	0	0	-274	-175	0	0	-449
Total movements 1.01.2012-31.12.2012	**385**	**269**	**-4,528**	**11,988**	**-13**	**42,467**	**50,568**
Property, plant and equipment on 31.12.2012							
Cost on 31.12.2012	5 224	18,064	240,959	237,383	54	0	501,684
Accumulated depreciation	0	-3,786	-84,266	-71,166	-46	0	-159,264
Carrying amount on 31.12.2012	**5,224**	**14,278**	**156,693**	**166,217**	**8**	**0**	**342,420**
Construction in progress	0	0	0	0	0	118,583	118,583
TOTAL PROPERTY, PLANT AND EQUIPMENT ON 31.12.2012	**5,224**	**14,278**	**156,693**	**166,217**	**8**	**118,583**	**461,003**

Construction in progress mainly consists of construction of DC interconnection EstLink 2 between Estonia and Finland, emergency reserve plant in Kiisa, substations and electricity transmission lines. Upon completion, cost of these assets is recognised as cost of buildings, machinery and equipment and facilities.

Additions to construction in progress during financial year include capitalised borrowing costs of EUR 4,140 thousand (2011: EUR 1,868 thousand). The capitalisation rate was 4.9% (2011: 5.2%).

See further information on operating lease of property, plant and equipment in Note 22.

Note 10

INTANGIBLE ASSETS

in thousands of euros	*Acquired software and licenses*	*Right of use of land*	*Total*
Intangible assets on 1.01.2011			
Cost at 1.01.2011	215	1,195	1,410
Accumulated amortisation	-52	-45	-97
Carrying amount on 1.01.2011	**163**	**1,150**	**1,313**
Intangible assets not yet available for use	1,787	0	1,787
Total intangible assets on 1.01.2011	**1,950**	**1,150**	**3,100**
Movements 1.01.2011-31.12.2011:			
Additions	794	15	809
Capitalised borrowing costs (Note 21)	63	0	63
Amortisation charge	-237	-12	-249
Total movements 1.01.2011-31.12.2011	**620**	**3**	**623**
Intangible assets on 31.12.2011			
Cost at 31.12.2011	2,631	1,210	3,841
Accumulated amortisation	-289	-57	-346
Carrying amount on 31.12.2011	**2,342**	**1,153**	**3,495**
Intangible assets not yet available for use	228	0	228
Total intangible assets on 31.12.2011	**2,570**	**1,153**	**3,723**
Movements 1.01.2012-31.12.2012			
Additions	1,196	34	1,230
Capitalised borrowing costs (Note 21)	20	0	20
Amortisation charge	-835	-14	-849
Total movements 1.01.2012-31.12.2012	**381**	**20**	**401**
Intangible assets on 31.12.2012			
Cost at 31.12.2012	4,074	1,244	5,318
Accumulated amortisation	-1 123	-72	-1,195
Carrying amount 31.12.2012	**2,951**	**1,172**	**4,123**
Intangible assets not yet available for use	0	0	0
TOTAL INTANGIBLE ASSETS ON 31.12.2012	**2,951**	**1,172**	**4,123**

Note 11

BORROWINGS

in thousands of euros	*31/12/2012*	*31/12/2011*
Long-term borrowings		
Long-term bank loan	4,925	0
Issued bonds	222,088	221,639
Total long-term borrowings	**227,013**	**221,639**

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

in thousands of euros	*31/12/2012*	*31/12/2011*
Borrowings denominated in euros	227,013	221,639
Total borrowings	**227,013**	**221,639**

The average effective interest on borrowings was 4.8% in 2012 (2011: 5.1%).

The Company has used the following types of facilities for financing purposes:

The Company collected the first portion of the loan from Nordic Investment Bank on 17 December 2012. The maturity date is 2025, the interest rate is floating and the loan will start to amortize since 2015.

On 12.07.2011 the Company issued Eurobonds with maturity of seven years and the nominal value of EUR 225 million, used for refinancing the syndicate loan. Bonds' coupon is fixed at 4,625% p.a. and interest payments are made once a year. The initial offering price formed 98,812% of the nominal value and the arrangement expenses were EUR 479 thousand.

Until 13.07.2011 that Company had a syndicated loan in the amount of EUR 187 million. The currency was euro and the interest rate was Euribor + 3.00%.

As of 31.12.2012 and 31.12.2011, the Company had undrawn loan facilities which totalled EUR 110,000 thousand as of 31.12.2012 (31.12.2011: EUR 100,000 thousand). The right to take out a portion of the loan granted by the European Investment Bank (EUR 75,000 thousand) or the full amount of it is effective during 36 months from the signing of the contract on 18.11.2010. In accordance with the contract entered into with Nordic Investment Bank on 20.10.2010, either a portion or the full amount of the loan (EUR 25,000 thousand) can be taken during the period of 8.07.2011-31.12.2014, and in accordance with the contract entered into with Nordic Investment Bank on 26.04.2012, either a portion or the full amount of the loan (EUR 15,000 thousand) can be taken during the period of 01.01.2014-31.12.2014. For all three contracts, the interest rate will be agreed prior to taking out each portion.

Overdraft

During the financial year the Company used the overdraft facility with a floating interest rate and the limit of EUR 20,000 thousand. Until 13.07.2011, the Company used four overdraft facilities with limits amounting to EUR 20,000 thousand, all with floating interest rates.

As of 31.12.2012 and 31.12.2011 the Company did not use overdraft.

Note 12

TRADE AND OTHER PAYABLES

in thousands of euros	*31/12/2012*	*31/12/2011*
Trade payables	10,496	20,067
Payables for purchased property, plant and equipment and intangible assets	1,374	9,305
Subsidies due to electricity producers	4,397	0
Other payables	128	125
Total financial liabilities within trade and other payables without accrued interests	16,395	29,497
Accrued interests	4,934	4,904
Total financial liabilities within trade and other payables	**21,329**	**34,401**
Taxes payable		
VAT	2,152	0
Social security tax	172	169
Personal income tax	94	91
Unemployment insurance tax	16	18
Contributions to mandatory funded pension	8	6
Corporate income tax and income tax on fringe benefits	4	4
Excise tax	110	99
Total taxes payble	**2,556**	**387**
Accrued expenses - employee benefits		
Wages and salaries	198	184
Bonuses	85	90
Holiday pay	90	90
Social security and unemployment insurance tax	60	62
Total accrued expenses - employee benefits	**433**	**426**
Other payables	**1**	**134**
Total trade and other payables	**24,319**	**35,348**

See further information on payables to related parties in Note 23.

Note 13

DEFERRED INCOME AND GOVERNMENT GRANTS

Income from connection and other service fees

in thousands of euros	*2012*	*2011*
Deferred income from connection and other service fees at the beginning of the period	**24,077**	**22,330**
Connection and other service fees received	1,690	2,969
Connection and other service fees recognised as revenue	-1,280	-1,222
Deferred income from connection and other service fees at the end of the period	**24,487**	**24,077**

Income from government grants

in thousands of euros	*2012*	*2011*
Prepayments related to government grants at the beginning of the period	**15,045**	**15,149**
· incl. long-term prepayments	15,045	15,149
Subsidies received	54	0
Subsidies used	0	-98
Government grants recognised as revenue (Note 16)	-325	-6
Prepayments related to government grants at the end of the period	**14,774**	**15,045**
· incl. long-term prepayments	14,774	15,045

Note 14

EQUITY

The Company's share capital consists of 149,890 shares with the nominal value of EUR 1,000 thousand (31.12.2010: one share with the nominal value of EUR 140,000 thousand). The shares have been paid for in full.

In 2011, with the resolution of the sole shareholder, the share capital was increased by EUR 9,890 thousand with issue of 9,890 new common shares. The new shares were paid for in September 2011.

No dividends were paid in the financial years 2012 and 2011.

As of 31.12.2012 the Company's statutory reserve capital totalled EUR 4,515 thousand (31.12.2011: EUR 3,490 thousand). As at 31.12.2012 the Company has the obligation to additionally transfer EUR 1,743 thousand (31.12.2011: EUR 1,025 thousand) to reserve capital.

The retained earnings of the Company as of 31.12.2012 amounted to EUR 70,731 thousand (31.12.2011: EUR 36,889 thousand). The income tax applicable to the net profit distributable as dividends is 21/79 from 1 January 2008. As of 31.12.2012 it would be possible to distribute EUR 54,500 thousand as net dividends (31.12.2011: EUR 28,333 thousand) and the corresponding income tax would amount to EUR 14,487 thousand (31.12.2011: EUR 7,531 thousand).

Note 15

REVENUE

Analysis of revenue by activity

in thousands of euros	*2012*	*2011*
Sales of balancing and control electricity		
Balancing electricity	12,792	15,314
Control service	254	260
Total Sales of balancing and control electricity	**13,046**	**15,574**
Sales of network services		
Transmission fees*	84,727	75,147
Revenue from connection fees (Note 13)	1,280	1,222
Other network services*	5,559	565
Total sales of network services	**91,566**	**76,934**
Sales of other goods and services		
Lease of transmission equipment (Note 22)	840	820
Sales of scrap metal	181	91
Sales of other services	3,293	697
· Incl. lease of buildings (Note 22)	330	317
Other goods	6	40
Total sales of other goods and services	**4,320**	**1,648**
Total revenue	**108,932**	**94,156**

* *In 2011, the Company recognised the income of reactive energy under the other network services and in 2012, under the transmission fees. The income from transmission capacity auction and transmission charges of electricity transit was included under the transmission fees in 2011 and under the other network services in 2012. The comparative information is brought into conformity with the new presentation.*

Analysis of revenue by geographical location of customers

in thousands of euros	*2012*	*2011*
Estonia	99,480	91,284
Norway	3,258	0
Latvia	2,111	2,282
Finland	2,032	165
Lithuania	580	61
Russia	428	364
Other	1,043	0
Total revenue	**108,932**	**94,156**

Note 16

OTHER INCOME

in thousands of euros	*2012*	*2011*
Fines, penalties and compensations received	186	114
Profit on disposal of property, plant and equipment	40	22
Foreign grants for operating expenses	0	105
Government grants related to acquisition of property, plant and equipment	325	6
Total other income	**551**	**247**

Note 17

GOODS, RAW MATERIALS AND SERVICES

in thousands of euros	*2012*	*2011*
Electricity purchased to provide the balancing service		
Purchase of balancing electricity	10,398	9,570
Purchase of power regulation service	2,226	5,602
Total electricity purchased to provide the balancing service	**12,624**	**15,172**
System services		
Purchased electricity reserves	4,225	4,210
Reactive energy	423	283
Countertrade	806	503
Total system services expenses	**5,454**	**4,996**
Electricity to compensate for network losses		
Electricity from non-renewable sources	10,525	10,438
Total electricity to compensate for network losses	**10,525**	**10,438**
Maintenance and repair works		
On facilities and equipment related to core activities	4,093	4,362
On production buildings and sites	457	670
Disassembly works and waste processing	115	56
Other expenses	277	153
Total maintenance and repair works	**4,942**	**5,241**
Other expenses		
Operative switching and dispatching management expenses	665	601
Other expenses	3,164	891
Total other expenses	**3,829**	**1,492**
Total goods, raw materials and services	**37,374**	**37,339**

Note 18

OTHER OPERATING EXPENSES

in thousands of euros	*2012*	*2011*
Transportation and tools	122	97
Security, insurance and occupational safety	88	167
Office expenses	361	495
Research and development costs (R&D)	188	28
Research and consulting	450	481
Telecommunication	938	936
Information technology	439	365
Training and other operating expenses	1,019	608
Total other operating expenses	**3,605**	**3,177**

Note 19

STAFF COSTS

in thousands of euros	*2012*	*2011*
Basic salaries, additional remuneration, bonuses, vacation pay	3,043	2,804
Termination benefits	4	18
Other remuneration	119	118
Total remuneration to employees	**3,166**	**2,940**
Social security tax	1,046	972
Unemployment insurance tax	38	37
Total staff costs	**4,250**	**3,949**

- Including compensations to the members of the Management and Supervisory Board

Salaries, additional remuneration bonuses, vacation pay	233	205
Fringe benefits	23	29
Social security tax	84	77
Total compensations to the members of the Management and Supervisory Boards	**340**	**311**

The average monthly pay was EUR 1,749 thousand (2011: 1,706 thousand).

Termination benefits

The members of the Management Board receive compensation for premature termination of their employment contracts, such compensation amounts up to the three months' salary.

Lisa 20

OTHER EXPENSES

in thousands of euros	*2012*	*2011*
Non-business related expenses	62	44
Fines, penalties and compensations paid	34	24
Foreign exchange net losses	1	0
Income tax from expenses not related to business	13	1
Other expenses	8	57
Total other expenses	**118**	**126**

Note 21

FINANCIAL INCOME AND COSTS

in thousands of euros	*2012*	*2011*
Financial income		
Interest income	385	661
Total financial income	**385**	**661**
Financial costs		
Interest expenses	-10,966	-10,655
Foreign exchange losses	-1	-3
Other financial costs	-2	0
Total financial costs	**-10,969**	**10,658**
Capitalised borrowings costs (Notes 9 and 10)	4,160	1,931
Total financial income and costs recognised in the statement of comprehensive income	**-6,809**	**-8,727**
Net financial income (costs)	**-6,424**	**-8,066**

Note 22

OPERATING LEASE

Company as a lessor

Operating lease revenue

in thousands of euros	*2012*	*2011*
Buildings	330	317
Transmission equipment	840	820
Total operating lease revenue (Note 15)	**1,170**	**1,137**

Transmission equipment

The Company has an operating lease contract under which the free fibres of the fibre-optic cable fixed to the line masts are leased out. This cable also acts as a lightning protection cord for the lines and the fibres are used by the Company for its technical communication. The free fibres have been leased out to Televõrgu AS. The lease contract contains a restriction under which the Company cannot give its transmission equipment out for use by other companies operating in the telecommunications field. The contract is effective until 31.03.2025. Annual lease payments variy depending on the length of fibres leased out during the year.

Information about assets (facilities) leased out under operating leases

in thousands of euros	*31/12/2012*	*31/12/2011*
Cost	5,805	5,961
Accumulated depreciation at the end of period	-2,937	-2,601
Carrying amount	**2,868**	**3,360**

Depreciation charge

in thousands of euros	*2012*	*2011*
Depreciation charge	349	429

Estimated future lease payments under operating leases

in thousands of euros	*31/12/2012*	*31/12/2011*
Not later than 1 year	848	840
Later than 1 year and not later than 5 years	3,392	3,360
Later than 5 years	6,148	6,930
Total future minimum lease payments	**10,388**	**11,130**

Company as a lessee

Operating lease expenses

in thousands of euros	*2012*	*2011*
Buildings	36	36
Transport equipment	82	64
Other machinery and equipment	19	60
Total operating lease expenses	**137**	**160**

All operating leases where the Company is a lessee can be terminated upon short notice.

Note 23

BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form:

(I) Republic of Estonia and the entities under its control or significant influence
(II) Management and Supervisory Boards
(III) Close relatives of the persons described above and the entities under their control or significant influence

The outstanding balances with related parties were as follows:

in thousands of euros	*31/12/2012*	*31/12/2011*
Trade receivables		
Companies controlled or significantly influenced by the State	20,889	14,412
Total trade receivables	**20,889**	**14,412**
· incl. from network operators	19,640	13,775
Trade payables and other liabilities		
Companies controlled or significantly influenced by the State	2,981	12,644
Total trade payables and other liabilities	**2,981**	**12,644**

Income and expense items with related parties were as follows:

in thousands of euros	*Related party*	*2012*	*2011*
Revenue from sale of goods and services	Companies controlled or significantly influenced by the State	**86,166**	**81,994**
Purchase of goods and services	Companies controlled or significantly influenced by the State	**24,771**	**23,693**
Expenditures on non-current assets	Companies controlled or significantly influenced by the State	**1,932**	**1,302**

In 2012 as well as in 2011, there were no transactions with companies, in which the members of the Supervisory and Management Boards as well as their close relatives have significant influence.

Key management personnel compensations are disclosed in Note 19.

Receivables and payables to related parties are disclosed in Notes 8 and 12.
The receivables from related parties were not written off in 2012 and 2011.

Note 24

CONTINGENCIES AND COMMITMENTS

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

Capital expenditure commitments
On 31.12.2012, the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 232,678 thousand (31.12.2011: EUR 294,226 thousand). The largest of them are the contracts for the construction of the second undersea electricity cable Estlink 2 between Estonia and Finland (EUR 117,659 thousand) and expenditure on emergency reserve power plant (EUR 93,041 thousand).

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

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Elering AS

Report on the Financial Statements

We have audited the accompanying financial statements of Elering AS (the Company), which comprise the statement of financial position as of 31 December 2012 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Financial Statements

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

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

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

Opinion

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

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; Audit Company's Registration No.6
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Report on the Legal and Regulatory Requirements

During the audit we have not noted any material inconsistencies between the accompanying financial statements and the regulatory requirements as set out in Electricity Market Act and legislation established on the basis thereof.

AS PricewaterhouseCoopers

Tiit Raimla
Auditor's Certificate No.287

11 March 2013

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

PROFIT ALLOCATION PROPOSAL

The retained earnings of Elering AS as of 31.12.2012 were EUR 70,731 thousand.

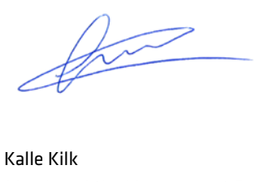
Management Board of Elering AS proposes to the sole shareholder to allocate the retained earnings as follows:

Statutory legal reserve	EUR 1,743 thousand
Retained earnings	EUR 68,988 thousand

SIGNATURES OF THE MANAGEMENT TO THE 2012 ANNUAL REPORT

The signing of Elering AS 2012 Annual Report on 11.03.2013

Taavi Veskimägi
Chairman of the Management Board



Kalle Kilk
Member of the Management Board

Peep Soone
Member of the Management Board

THE REVENUE OF ELERING AS ACCORDING TO EMTAK 2008

The revenue of Elering AS is divided by the main areas of activities as follows:

EMTAK area of activity*		*1.1.2012–31.12.2012*	*1.1.2011–31.12.2011*
35121	Transmission of electricity – transmission through the transmission network	94,529	77,314
35141	Trade of electricity (balancing electricity)	13,046	15,574
77399	Renting and leasing of other machinery, equipment and tangible goods n.e.c.	840	820
47770	Retail sale of other second-hand goods	187	131
68201	Renting and operating of own or leased real estate	330	317

* *EMTAK – classification of Estonian economic activities.*

elering
GENERATING OPPORTUNITIES

Kadaka tee 42 / 12915 Tallinn
ESTONIA
phone: +372 715 1222
fax: +372 715 1200
e-mail: info@elering.ee

www.elering.ee