

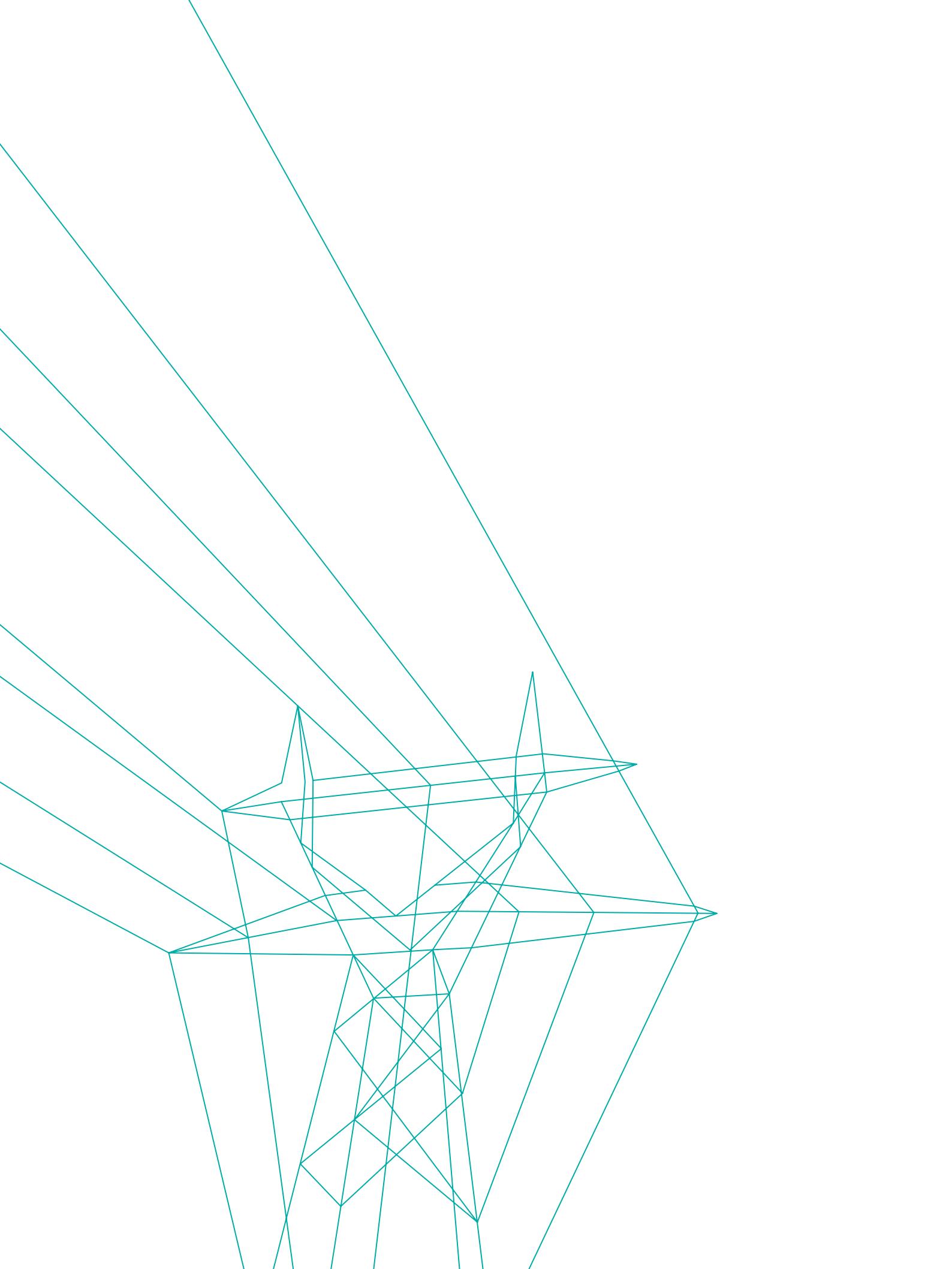
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GENERATING OPPORTUNITIES

Annual Report **2014**



elering





Management Report of Elering's Annual Report

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TAAVI VESKIMÄGI
Chairman of the Management Board

Five years of Elering's independence

Success story of the Estonian electricity market

The beginning of 2015 marked the 5th anniversary of the formation of Elering, an independent electricity transmission system operator. These five years of independent operations of Elering have confirmed that the decision to separate the transmission system operator from Eesti Energia was a right one. Setting up an independent system operator has created a possibility to create a competitive electricity market in Estonia with multiple market participants.

Before the partial opening of the electricity market for large consumers on 1 April 2010, essentially all electricity consumers in Estonia were purchasing electricity from Eesti Energia at a fixed price. Today, Estonia has a functioning power exchange characterised by multiple products, tens of electricity sellers, most consumers having electricity supply contracts, many buying electricity at the day-ahead exchange price and the biggest market participant with a market share of around 60%.

Since 2014 when the EstLink 2 interconnector was launched, we can talk about a common hourly Estonian-Finnish electricity market that is part of the wider Nordic-Baltic electricity market. All this has been accomplished in less than five years. For an Estonian consumer, electricity has become a commodity like any other. And this is exactly how it should be.

The opening of the Estonian electricity market has been a success story and Elering with its independent operations has been one of its architects. As a company, Elering believes in the market. We believe that in the long run, functioning energy markets are the cheapest way to ensure security of supply for energy consumers.

Attention on management quality

Elering's goal is to prove in practice that a state-owned enterprise can be well managed. On the basis of external assessment, it seems that this can be possible. Among business enterprises, Elering has the highest credit rating in the Baltic States (A3 from Moody's). According to the report of the State Audit Office, Elering is the best managed state enterprise in Estonia. In a survey of European regulators, Elering posted a 100% score. These are only some examples of comparisons that highlight the management quality of Elering.

It is all based on clear strategic definition of Elering's risk profile. We have defined ourselves as a low-risk enterprise that is operating in a fully regulated business. Elering will not be expanding into other economic sectors than regulated energy-related business.

Although we act in the public interest, all our current and future activities as a business enterprise

are targeted at creating added value for our owner. In five years of independent operations we have generated 63.6 million euros of added value for our owner, as compared to the capital return approved by the regulator. We are proud of this. Behind this significant achievement are a good financing system, cost efficiency and an efficient electricity transmission system.

We understand that the tasks set on Elering by law and the state ownership also mean higher expectations on corporate governance. Implementation of good corporate governance practices and detailed procedures must ensure that the owner has confidence in the efficient management of the company. Development of good corporate governance is a precondition for continuing the development that has been achieved until now.

In this regard, the central task for 2015 is to formulate the strategy of a joint transmission operator based on the knowhow, skills and experience of employees of Elering and EV Võrguteenus, operator of the natural gas transmission network.

Successful major projects

In a way, 2014 is an interim finish for us. Many objectives that were set when Elering was formed have been achieved. This is especially true with regard to large investments. Speaking of five years of independent Elering, one should mention major projects aimed at supporting the development of the regional electricity market and at ensuring supply of quality electricity for all Estonian consumers at any time. In five years, Elering has invested approximately 500 million euros in achieving the above objectives. Key projects include Estonian-Finnish interconnections EstLink 1 and EstLink 2, emergency reserve power plants in Kiisa and the new Tartu-Viljandi-Sindi high-voltage line.

Vision of a united system administrator electricity balance

The company's long-term strategy is to become a joint system operator for electricity and gas in order to better fulfil Elering's mission to ensure Estonian consumers security of energy supply at all times.

Joint management of electricity and gas transmission networks also enables to improve energy security of consumers, to create more value for the owner and to achieve more efficient management of energy networks.

The activity of Elering in developing the Estonian energy sector in both electricity and gas system is based on the fundamental principle of the EU energy policy – a single energy network and a common energy market in Europe. In our opinion the future possibilities of the Estonian energy sector are in the integration of energy systems. The connection of energy networks and liberalization of energy markets creates the preconditions for strengthening energy security and security of supply through the diversification of fuels, expansion of generation prospects and increasing the flexibility of system management.

The vision that was confirmed in December in Elering's "Integration of Energy Systems Strategy 2024" lays down the three most strategic areas of activity for the next decade: first, synchronisation of the Baltic electricity systems with the electricity system of continental Europe; secondly, final development of the regional electricity market as part of the pan-European electricity market; third, creating a competitive regional gas market with many market players together with the necessary infrastructure.

Overview of Elering

Elering is a transmission system operator that manages Estonia's electricity system in real time and is responsible for its functioning. Our goal is to ensure that our customers enjoy a consistent, high-quality electricity supply at all times. To ensure security of supply, we create conditions for the functioning of the electricity market and develop cross-border interconnections.

482

million euros in investments
from 2010-2014

2014

completed major projects:

- EstLink 2
- Emergency reserve power plants
- Tartu-Viljandi-Sindi 330/110 kV high-voltage line



2
DC converter
stations

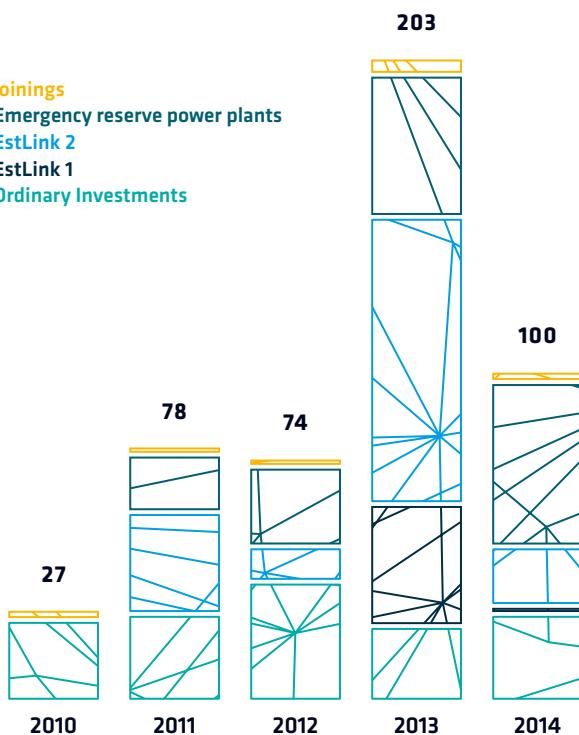
139
km of
DC cable lines

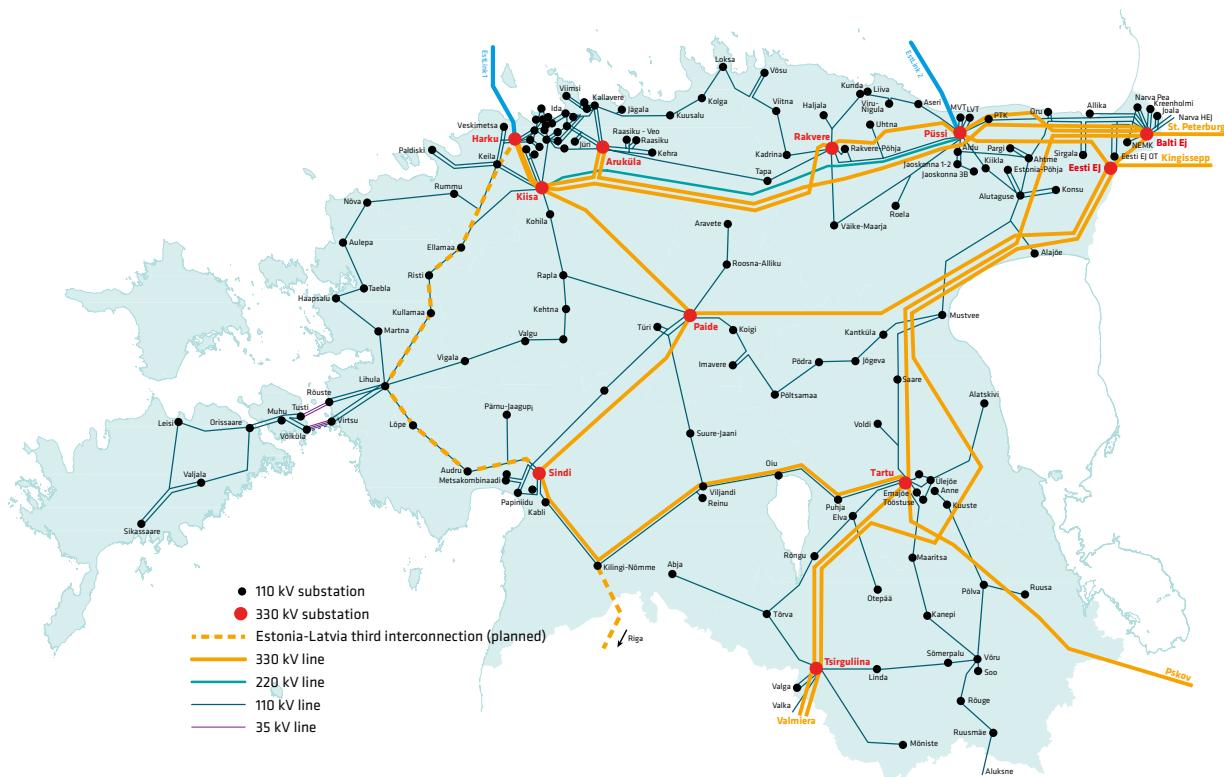


5539
km of high-voltage overhead
and underground lines

146
substations

Elering's investments in fixed assets (MEUR)





Average age **42**

Average length
of employment **16**



146

employees, the share
of women is 25%



interconnections
with Finland,
Russia and Latvia

Financial figures (MEUR)

	2011	2012	2013	2014
Revenue	94.4	109.5	134.4	130.8
Operating expenses	65.8	68.2	81.1	80.0
Operating profit	28.6	41.3	53.3	50.8
Net profit	20.5	34.9	49.0	40.7
Borrowings	221.6	227.0	312.4	347.9
Equity	190.3	225.1	274.1	314.8
Assets	486.4	515.7	670.9	790.0
EBITDA	49.8	64.1	77.0	82.0
Investments	78.1	73.9	203.3	100.5

Financial Ratios

ROE	11.7%	16.8%	19.6%	13.8%
Equity/Assets	39%	44%	41%	40%
Net Borrowings/EBITDA	4.0	3.3	4.0	3.9

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

Net Borrowings = interest-bearing liabilities - cash and cash equivalents

EBITDA = Operating profit + depreciation and amortization

Key indicators of the Estonian electricity system

Electricity balance

In 2014, Estonia's electricity consumption, including network losses, increased by 1% and amounted to 8.1 TWh. Elering's domestic transmission service (without network losses) was unchanged year on year. Elering's network losses increased due to the inclusion of the losses of two DC power lines (EstLink 1 and EstLink 2) in Elering's balance.

Electricity production in Estonia decreased by 6% from a year earlier, totalling 10.9 TWh. Production of renewable energy increased in all types of renewable sources. The biggest growth was recorded in the production of electricity from biomass, biogas and waste (26%), followed by wind energy (9%) and hydroenergy (3%).

For the year, electricity production in Estonia exceeded electricity consumption by 34% and net electricity exports amounted to 2.8 TWh.

Electricity balance, GWh

	2014	2013	Change
Electricity production in Estonia	10,905	11,655	-6%
Electricity provided to Elering network	10,638	11,410	-7%
Production of renewable energy in Estonia	1,356	1,151	18%
Electricity imports from cross-border power lines	3,764	2,416	56%
· incl. physical transmission from Finland	3,517	1,513	132%
· incl. physical transmission from Latvia and Russia	247	903	-73%
Total electricity provided to network	14,669	14,071	4%
 Electricity consumption in Estonia	 8,121	 8,060	 1%
Elering's domestic transmission service for consumption	7,473	7,466	0%
Elering network losses	381	349	9%
Electricity exports through cross-border power lines	6,548	6,011	9%
· incl. physical transmission to Finland	42	506	-92%
· incl. physical transmission to Latvia and Russia	6,506	5,505	18%
Total electricity taken from network	14,669	14,071	4%
 Balance	 2,784	 3,595	 -23%

A busy year



The year 2014 was important for Elering in many ways. Several large projects that had been in progress for a number of years were completed, including the Estonian-Finnish interconnector EstLink 2, the emergency reserve power plants complex in Kiisa and the new high-voltage line Tartu-Viljandi-Sindi. Preparations for the acquisition of the gas transmission network were successfully completed. The European Union decided to support the development of the third Estonian-Latvian interconnector and cover 65 percent of the construction cost. In addition, preparations continued for the synchronisation of the Baltic electricity systems with the synchronous grid of Continental Europe by 2025.





Electricity trade balance

The electricity trade balance in 2014 can be characterised by the 99/1 ratio: 99% of total electricity imports came from Finland (1% from Latvia) and 99% of total electricity exports went to Latvia (1% to Finland).

In 2014, net electricity exports decreased by 26% from a year earlier, attributable to the addition of the 650 MW transmission capacity of the EstLink 2 interconnector between Estonia and Finland that enables a notable increase in electricity imports from the Nordic countries.

The cross-border trade balance consists of trade supplies planned by market participants.

Cross-border electricity trade (GWh)

	2014	2013	Change
Total exports	6,346	6,207	2%
Exports on Estonian-Latvian border	6,252	5,639	11%
Exports to Finland	94	568	-83%
· incl. exports through power exchange	6,346	5,288	20%
· incl. exports under bilateral contracts	0	919	-100%
Total imports	3,669	2,609	41%
Imports on Estonian-Latvian border	46	989	-95%
Imports from Finland	3,622	1,620	124%
· incl. imports through power exchange	3,668	2,008	83%
· incl. imports under bilateral contracts	0	601	-100%
Electricity trade balance *	2,677	3,598	-26%
· incl. net exports on Estonian-Latvian border	6,205	4,650	33%
· incl. net exports on Estonian-Finnish border	-3,529	-1,052	235%

* The trade balance excludes the system's imbalance and regulation deliveries made to balance the system, the total of which equals the difference between the trade balance and the physical balance of the electricity system.

Electricity balances in the Nordic countries and Baltic States

The annual balance of the electricity systems of the Baltic States posted a deficit of 7.1 TWh, which shows 52% growth in imports compared to 2013: Estonia's net exports decreased and imports of electricity in both Latvia and Lithuania increased.

In Latvia, electricity production decreased for the year by 19% to 4.9 TWh. Production decreased mainly in co-generation heat and power plants (36%), but also in hydro-power plants (33%), which was attributable to lower average inflow into the Daugava river (373 m³/s in 2014 and 603 m³/s in 2013). Latvia imported 31% of its electricity to cover domestic needs.

In Lithuania, electricity production decreased by 14% in a year to 3 TWh, forcing Lithuania to import 72% of its electricity to cover its domestic needs.

The total deficit in the Baltic States was covered almost equally by imports from the Nordic countries (49%) and third countries (51%).

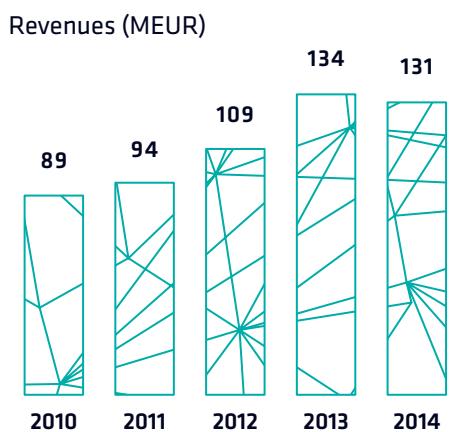
The annual balance of the electricity systems of the Nordic countries posted a surplus of 11.6 TWh in 2014. In 2013 the annual balance of the Nordic countries had posted a deficit of 0.9 TWh. The electricity systems of Sweden and Norway had surplus production (both of 16 TWh), whereas the level of hydroreservoirs was higher than the 2013 level almost year-round. The Finnish and Danish electricity systems were importing electricity (respectively 17.8 TWh and 2.8 TWh). The share of the Baltic States in the net exports of the Nordic countries was 31%.



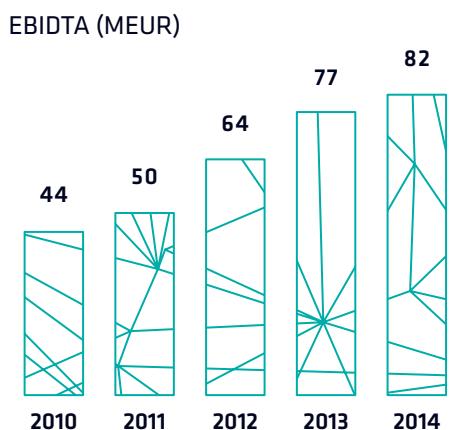
PEEP SOONE

Member of the Management Board

Summary of the financial year



Elering ended the financial year with total revenue of 130.8 million euros (2013: 134.4 million euros), operating expenses of 80.0 million euros (2013: 81.1 million euros) and net profit of 40.7 million euros (2013: 49.0 million euros). EBITDA amounted to 82.0 million euros (2013: 77 million euros).



Revenue

Network services revenue amounted to 110.7 million euros, accounting for 85% of total revenue.

Traditionally, the most significant source of revenue among network services was domestic transmission of electricity for network tariffs: 88.4 million euros, or 5.3 million euros less than a year earlier. This is due to the decrease in tariffs by approximately 7% since 1 April 2014 in connection with refunding consumers with auction revenue earned in cross-border transmission capacity auctions in previous years. Elering provides a domestic transmission service to a total of 28 customers, including 15 electricity producers, eight major consumers and five distribution network enterprises.

Among other network services, the most important is revenue from cross-border transmission capacity auctions in the amount of 15.8 million euros. In situations

in cross-border electricity trade where market participants wish to transmit more electricity than is technically possible, transmission system operators from both countries sell transmission capacity at auction.

Sales of the **balancing service** amounted to 15.0 million euros, accounting for 11% of revenue.

In order to ensure stable frequency in the electricity system it is necessary to keep the system balanced, i.e. production must equal consumption at all times. This means that all market participants must also be balanced, and most of them buy their balancing service from balance providers. Elering itself provides the seven balance providers with the service of balancing their energy balance. This service has virtually no impact on Elering's profit because the price of the balance service is calculated so that its earnings cover the costs of providing it.

Expenses

Operating expenses totalled 80.0 million euros (2013: 81.1 million euros) and financial expenses amounted to 10.0 million euros (2013: 4.5 million euros).

The main changes were related to the completion of large investment projects in 2013 and 2014. Over the past years, Elering invested almost 200 million euros in the EstLink 1 and EstLink 2 interconnectors between Estonia and Finland, and 134 million euros in an emergency reserve power plant. The completion of these projects increased depreciation by 7.6 million euros and increased financial expenses included in the income statement by 5.6 million euros. At the same time, the completion of the emergency reserve power plant enabled the expenses of the acquisition of emergency reserve services to be reduced by 4.3 million euros.

Financing

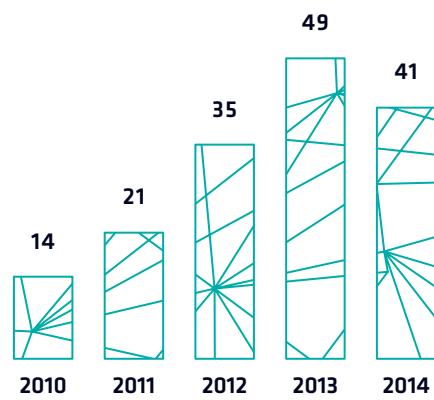
Cash flow from operating activities amounted to 60.5 million euros (2013: 80.5 million euros). Acquisition of fixed assets totalled 105.7 million euros, but considering the 20.0 million euros in EU aid for the financing of the interconnector EstLink 2 and the fund of future investments set up using income earned from cross-border transmission capacity auctions in the amount of 21.0 million euros, the total cash flow from invest-

ments amounted to 64.7 million euros. During the year, Elering drew loans granted in earlier years from the Nordic Investment Bank in the amount of 35.0 million euros, as a result of which the cash balance reached 31.9 million euros by year-end. In addition, the company signed a new loan contract with the European Investment Bank in the amount of 32 million euros which at the balance sheet date was undrawn.

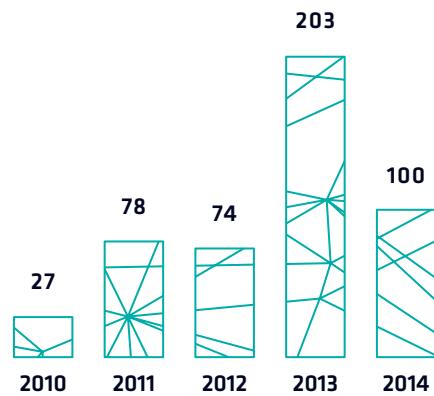
Summary

In spite of lower network tariffs, 2014 was financially successful for Elering – the return on equity was 13.8%. Such a strong financial position enables the company to pay dividends to its shareholder. The enterprise has maintained a high credit rating of A3 (Moody's).

Net profit (MEUR)



Investments in fixed assets* (MEUR)



* Recognised in acquisition cost



KALLE KILK

Member of the Management Board

Development of the electricity network

2014 was a calm year for Elering's electricity network. For the year as a whole, both the number of electrical equipment outages and the volume of energy not served due to the outages were relatively lower than the statistical average. But while consumers experienced a functioning and stable electricity network, there were a lot of things happening within the network: by the end of the year several important development projects had been completed and we made a significant contribution to increasing the reliability of the existing network.

Large-scale projects completed

The EstLink 2 DC interconnector was delivered by our contractors in 2014. The project and its preparations were launched in 2007, with construction contracts being signed in December 2010. EstLink 2 was launched on the electricity market in a limited capacity in December 2013 and, after a test period, was declared acceptable in February 2014. From the start the whole project has run to schedule – and this was especially significant because of the positive influence of the interconnector on the electricity market. The total cost of the project was approximately 320 million euros, which was divided equally between Elering and Fingrid. The project was co-funded via the European Energy

Programme for Recovery in the amount of 100 million euros.

In 2014, the second emergency reserve power plant with a capacity of 140 MW was completed in Kiisa. The first such plant, with a capacity of 110 MW, had been completed in 2013. For Elering, this project started in 2007 with preparations (a preliminary study, a detailed plan, the strategic assessment of environmental impact and the preparation of procurement documentation). The procurement was launched in 2010 and resulted in the signing of an EPC construction contract in June 2011. Actual construction commenced as early as December 2011, enabling the first plant to be delivered by the contractor in November 2013 and the second in June 2014. The second plant was completed ahead of schedule: the contractual delivery deadline was October 2014. Early delivery also enabled the EstLink 2 project to be completed ahead of schedule, since the second emergency reserve power plant is designed as a reserve for EstLink 2 in emergency situations and without an additional reserve the possibilities for electricity trade from Finland to Estonia would have been limited. The cost of the turnkey contract for the emergency reserve power plants was approximately 129 million euros. The total investment came to approximately 135 million euros. The lion's share of the costs was in the connection to gas mains and the building of 330 kV, 110 kV and 10 kV connection points at Kiisa substation.

The largest construction of an overhead power line in recent years – that which connects Tartu and Sindi – was also completed. The cost of the construction contract, involving both 330 and 110 kV circuits on the

common pylons, was 34 million euros. This contract was signed in October 2010. The power line was completed by the due date, i.e. October 2014. Timely delivery was significant, especially when considering the length of the power line, the need to build in complex conditions and the large number of properties and landowners who were involved in the project.

Of our other large-scale construction projects in 2014 it is worth mentioning the completion of the Volta-Ranna 110kV underground cable and the Illuka 110kV substation; the completion of construction on the new Sillamäe 110/6kV substations for the connection of the Sillamäe thermal power plant; and the completion of the renovated Kilingi-Nõmme 110kV substation.

Further development of the electricity network

An important agreement was signed between Elering and Elektilevi OÜ in 2014 in the field of electrical network development and planning. The objective of the good-will cooperation agreement signed on 28 October was to increase the satisfaction of customers with the service quality of connecting to the electrical network as well as to improve coordination between network enterprises in long-term network development plans. Actions were launched in the joint planning and mapping of development visions, aimed at achieving the lowest social expenses and the most suitable technical solution. As a result of the cooperation, several prospective solutions for the development of the electricity network have been prepared, the implementation of which has also been approved by the



Elering's emergency reserve power plants complex

management boards of enterprises. Cooperation with Elektrilevi continues and there are plans to publish a joint development plan.

During the preparation of the network development plan in 2014, a new pan-European 10-year development plan was also drawn up, with Elering participating in the Baltic Sea region workgroup. Elering's employees were closely involved in the coordination of activities linked to the development plan and analysis as well as drafting a regional development plan.

In the context of the Baltic States, the main activity related to strategic developments was the preparation of an action plan for joint synchronisation with continental Europe. On 2 December, an action plan entitled "Roadmap towards the synchronisation of the Baltic States' power system with the continental Europe network" was signed by Baltic TSOs and then submitted to the Baltic Council of Ministers. The objective of the action plan is to ensure that the Baltic States are prepared for the synchronisation of Baltic networks through Poland with the rest of continental Europe by 2025. This requires building interconnectors between Lithuania and Poland, reinforcing networks in Poland and the Baltic States and building DC converters between the Baltic States and Russia's United Energy System. For the Estonian network, the plan primarily means that some investments will have to be made earlier than if no resynchronisation were being planned.

One essential investment for achieving capability for synchronisation with continental Europe and for reducing the existing bottleneck in energy trading on the Estonian-Latvian border is the preparation of the Harku-Lihula-Sindi and Kilingi-Nõmme-Riga lines, i.e. the third Estonian-Latvian interconnector. 2014 was significant in terms of developing this project – it was decided that 65% of project costs would be funded from the Connecting Europe Facility.

Reliability of the electricity network

In the area of operating the electricity network, the implementation of a programme to improve the operational reliability of the electricity network continued in 2014. The objective of the programme is to reduce the number of disruptions caused by the network and the volume of energy not served to customers. Activities

to improve the quality of the transmission service are targeted at clearing electricity lines of trees, deterring birds from line pylons, ensuring the necessary safety perimeters for overhead lines' conductors, replacing fault-prone individual gear with reliable gear in substations and preventing disruptions caused by the human factor. Programme activities implemented in 2014:

- New conductor, insulation and bird deterrents were installed on the line L199B (Kolga–Loksa) – 14.83 km
- New insulation and bird deterrents were installed on lines L132C (Põltsamaa–Imavere) – 20.52 km, L042 (Tsirguliina–Mõniste) – 42.61 km, L145 (Tsirguliina–Tõrva) – 28.71 km, L103 (Püssi–Rakvere) – 50.42 km, L104 B/C (Mustvee–Alajõe–Alutaguse) – 70.82 km, L194 and L195 (Aruküla–Kehra) – 43.71 km
- Perimeters were maintained on 330 kV lines in sections L301 (Tartu–Valmiera) – 84.34 km and L360 (Püssi–Rakvere) – 56.73 km
- Isolators and shorting switches were replaced with a new circuit breaker at the Valjala, Ruusmäe, Maaritsa, Rõuge, Alajõe, Vigala and Kabli substations
- The MKP type oil-filled circuit breaker at Vändra substation was replaced with a new SF6 circuit breaker

Therefore, 15 km of new conductor on the 110 kV line was maintained, new insulators and bird deterrents were installed on 250 km, and 140 km of perimeters on 330 kV lines were maintained.

In the course of expanding the routes, the ground of line protection zones was cleared of forest in an area of around 250 hectares. If clearing works continue at the same pace, power outages caused by trees falling on Elering's high-voltage lines will become a fairly rare event within a few years.

In summary, 2014 was a positive year for the Elering network – negative attention from customers was limited and many important steps were taken to ensure that electricity smoothly reaches the sockets of every consumer.

Estonian-Finnish transmission capacity tripled



The Estonian-Finnish interconnector was delivered by the contractor in February 2014. EstLink 2 increased cross-border transmission capacity by almost three times to 1,000 MW. This multi-year project was implemented exactly as scheduled. Essentially, EstLink 2 connected the Estonian and Finnish electricity markets. November was the first month in history when Estonian and Finnish electricity prices converged in all hours.

Europe's largest interconnection between Lithuania and Poland and the Baltic borders between the Baltic Energy System. For the time being, this primarily means that some imports made earlier than if no re-synchronisation had been planned.

One essential investment for achieving cross-border synchronisation with continental Europe and for reducing the existing bottleneck in energy trading on the Estonian-Latvian border is the preparation of the Lelje-Sindi and Kihnu-Tamme-Riga lines, i.e. the Estonia-Latvia interconnector. 2014 was the year of developing this project – it was decided to build a 330 kV facility.

Electricity network

In the electricity network, the main objective of the operator is to ensure the continued and safe operation of the power system and the reliability of activities.

The new plant Väinamägi with a new S

The four 330 kV lines were reconnected to the 330 kV network.

In the course of the protection of around 300 km of the state power grid, the offering's

summit of the network was reconnected and that the connection





INGRID ARUS
Head of the Electricity Markets Department

Development of the electricity market

In 2014, Estonia continued to develop the principles of the open electricity market, especially in the field of data exchange. In cross-border trade, the main focus was on the continued harmonisation of European rules in the Baltic region. Also, trade with electricity produced in third countries remains important.

Data warehouse and statistics

The data exchange platform managed by Elering, i.e. the Data Warehouse, simplifies the functioning of the electricity market, ensuring transparent management of the customer agreement, an efficient supplier switching process and other data exchange that is extremely important on the open electricity market (in particular, measurement data). The Data Warehouse is a solution that was successfully developed in Estonia and which is attracting attention in other European countries, especially those that wish to increase the efficiency of process implementation on the open electricity market.

The Data Warehouse provides an accurate overview of the measuring data and contracts of consumption points in the Estonian electricity system. At the end of 2014, approximately 570,000 consumption points

had a contract for the purchase of electricity, including 413,000 consumption points with fixed-term contracts and 157,000 with contracts entered into for an unspecified term.

141,000 customers are using the universal service, i.e. customers who have not signed any contract with a seller for the purchase of electricity and who are provided with a service by the network operator with whom the customer has a connection. Although users of the universal service make up 20% of all consumption points, their share in total consumption in 2014 was just 6.6%.

The average market shares of suppliers in 2014 are set out in the table below. Distribution of portfolios was calculated on the basis of consumption volumes measured in the balancing areas that include network losses of distribution network operators and, in addition, volumes of universal service. These figures do not include fixed deliveries to consumers, which is why actual shares of suppliers may be slightly different from those given in the table.

Market share by consumption of electricity	2014 average
Eesti Energia AS balance portfolio	59.4%
Elektrum Eesti OÜ balance portfolio	15.1%
Baltic Energy Services OÜ balance portfolio	10.3%
· incl. VKG Energia	2.6%
· incl. 220 Energia OÜ	1.9%
· incl. VKG Elektrivõrgud OÜ	1.2%
· incl. TS Energia OÜ	1.1%
· incl. Sillamäe SEJ AS	0.7%
· incl. AS Loo Elekter	0.3%
· incl. ELVESO AS	0.2%
· incl. Starman AS	0.2%
Nordic Power Management OÜ balance portfolio	6.6%
· incl. Imatra Elekter AS	1.8%
· incl. Eesti Gaas AS	0.1%
Alexela Energia AS balance portfolio	2.1%
Inter Rao Eesti OÜ balance portfolio	1.8%
Balance portfolio of Elering network losses	4.7%
 Share of sale without electricity contracts of network enterprises in electricity consumption	 6.6%

Administration of certificates of origin and AIB

With the adoption of the Renewable Energy Directive (2009/28/EC), Estonia imposed on the transmission system operator two obligations: to issue certificates of origin to electricity produced from renewable energy sources or produced via efficient co-generation; and to set up a database for their administration.

For renewable energy producers, applying for and trading with certificates of origin is an additional source of potential income in addition to that from electricity sales and renewable energy aid. **In order to simplify trading with certificates of origin not only domestically but also internationally, in September 2014 Elering joined the Association of Issuing Bodies (AIB), which brings together issuers of electricity certificates of origin.** Through AIB Hub, the central electronic register of certificates of origin that is managed by AIB, Estonian electricity producers and traders can sell their certificates of origin without compliance problems in the other 16 countries that are parties to AIB because there are standard rules and requirements for all members.

A certificate of origin is an electronic document that can be procured separately from produced electricity and that guarantees that one megawatt-hour of electricity is produced from renewable energy or by efficient co-generation. The document is issued to electricity producers on the basis of an application in accordance with the Electricity Market Act and pursuant to the EU Renewable Energy Directive. The origin of consumed electricity is proven by a certificate of origin issued in Estonia or in another EU Member State. Thus the certificates provide the electricity consumer with trusted and fraud-free confirmation that the electricity consumed was produced from a renewable energy source or via efficient co-generation.

The database of certificates of origin created by Elering enables Estonian electricity producers and traders (registered traders may also come from outside of Estonia) to apply for a certificate of origin to be issued for their production, to engage in the trading of certificates with other market participants within and outside of Estonia and, after proving the origin of the electricity consumed by consumers, to annul the certificates of origin in the respective volume.

Regional development

In terms of regional development, Elering focused mainly on the integration of the Estonian and EU electricity markets in 2014.

At the European level, a major step was taken in May 2014 when the day-ahead markets of Southwest Europe (SWE) and Northwest Europe (NWE) were coupled. This connects the day-ahead electricity markets of Belgium, Denmark, Estonia, Finland, France, Germany/Austria, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland (through the SwePol interconnector), Portugal, Spain, Sweden and the UK, covering 80% of all European electricity consumption.

In essence, this means that there is now pan-European competition, with the electricity sold/purchased on the power exchanges of, for instance, Portugal and Estonia, competing on the basis of the same trading rules.

In order to ensure that the restrictions on the electricity system have the minimum possible impact on the integration of Estonia and the Baltic States with the electricity markets of the rest of Europe and to efficiently use cross-border transmission capacities, transmission system operators from the Baltic States analysed the principles of calculation and allocation of the cross-border capacities that are in force within the framework of regional cooperation on the EU's internal borders and on borders with third countries. As a result of consultations conducted with market participants and in agreement with regulators, a decision was made that the methods used in 2014 would continue to be used in 2015. On the EU's internal borders, all capacities that are available for the day-

ahead and intraday market are distributed via implicit auctions. To date, trading with third countries has only been possible in the day-ahead timeframe and capacities are distributed using the capacity optimisation methodology.

In a competitive situation, the transparency and publication of information are becoming ever more important. Whereas Elering had solely published data on the Estonian electricity system and market on its website in the past, extensive preparations were made in 2014 to also publish data on a pan-European platform. Namely, European Commission Regulation 543/2013 provides that a minimum set of joint data on electricity generation, transmission and consumption must be made available to market participants from 5 January 2015. A central data transparency platform (the ENTSO-E Transparency Platform) was set up at ENTSO-E, the European network of transmission system operators, to which Elering submits all required data about the Estonian electricity system and market.

Risk management instruments on the electricity market

Under an agreement between the Estonian and Latvian transmission system operators Elering and Augstprieguma tīkls, limited Physical Transmission Rights (PTR-limited) auctions have been in force on the border between Estonia and Latvia since 2014, enabling market participants to hedge cross-border price risk and/or price volatility. **In 2014, Baltic TSOs carried out two consultations to map the needs of electricity market participants, as a result of which it was decided to continue the offering of Limited PTRs**

NPS Estonian price area

	2014	2013	2012
Openness of electricity market	100 %	100%	37,6%
Eligible consumers	all	all	213
Volume of electricity bought on NPS EE day-ahead market (TWh)	7.0	7.3	6.0
Volume of electricity sold on NPS EE day-ahead market (TWh)	9.8	10.7	4.9
Congestion income from implicit auction between Estonia and Finland (MEUR)	2.39	7.40	12.94
Congestion income from implicit auction between Estonia and Latvia (MEUR)*	38.9	28.24	6.52
Congestion income from explicit auction between Estonia and Latvia (MEUR)**	-	0.17	1.54
Limited PTR net expense (-)/ revenue (+) for annual and monthly products, total (MEUR)	- 4.24	-	-

* Since the NPS ELE price area was opened on 18 June 2012

** Since 3 June 2013 total capacity has been allocated through an implicit auction

in 2015. In addition, the consultations revealed the need of market participants for a quarterly Limited PTR product, which was added to existing annual and monthly products.

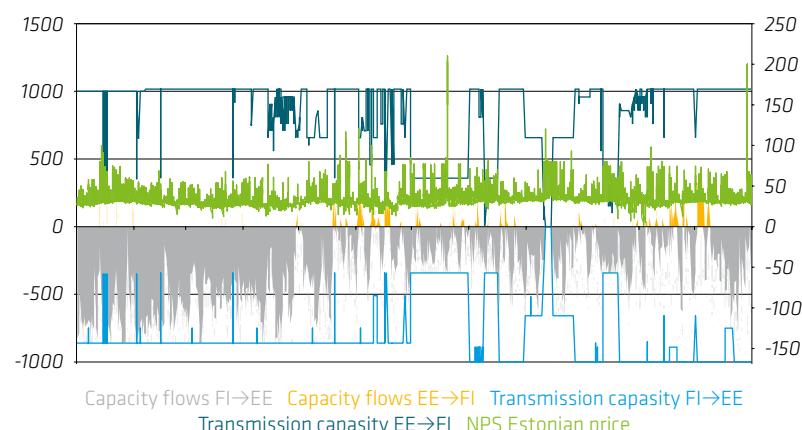
For hedging risks arising from differences in area prices, the EPAD (Electricity Price Area Differentials) can also be used – region-based financial instruments nominated by Nasdaq OMX Commodities. Elering and other Baltic transmission system operators are working with Nasdaq OMX Commodities to find the best solution for the Baltic States. While market participants in the Estonian price area have been able to make use of EPAD since 2012, EPAD Riga has been listed on the Nasdaq OMX Commodities platform since 11 November 2014. This platform provides an additional possibility for hedging the cross-border price risk between Estonia and Latvia.

2014 (EUR/MWh)

	Average price	Max price	Min price	Average price 2013
NPS system	29.61	67.83	2.0	38.10
NPS Finland	36.02	200.05	1.95	41.16
NPS Estonia	37.61	210.08	1.95	43.14
NPS Latvia*	50.12	300.01	5.08	52.40
NPS Lithuania	50.13	300.01	5.08	48.93

* The NPS Latvian price area was opened on 3 June 2013

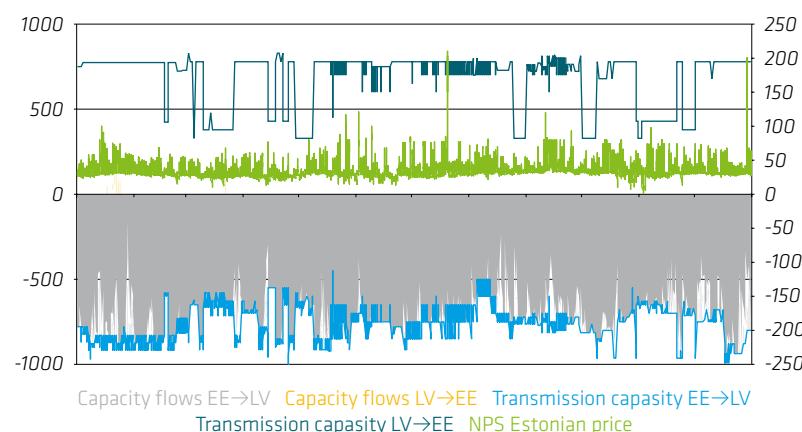
Power flows on the Estonian-Finnish border in 2014 (MW)



Summary of 2014 in NPS Estonian price area

- The average price in the NPS Estonian price area was 37.61 EUR/MWh, i.e. 13% lower than the average price in 2013
- The average NPS system price was 29.61 EUR/MWh, i.e. 22% lower than the average price in 2013
- To cover domestic consumption, Estonian market participants purchased a total of 7.1 TWh of electricity from the day-ahead and intraday market, representing 87.2% of total consumption

Power flows on the Estonian-Latvian border in 2014 (MW)



- Of the 10.9 TWh of electricity produced in Estonia in 2014, 90.2% or 9.8 TWh was sold on the day-ahead and intraday markets
- The NPS Estonian and NPS Latvian price areas converged on the day-ahead market for 30.4% of hours
- The NPS Estonian and NPS Finnish price areas converged on the day-ahead market for 90.7% of hours

In comparison with 2013, the average NPS system price decreased by 22% to an average of 29.31 EUR/MWh (2013: 38.10 EUR/MWh). The main reason for this price reduction in comparison with 2013 was the higher hydroenergy level in the Nordic countries, while consumption remained more or less unchanged. In comparison with 2013, the price only increased in the NPS Latvian and NPS Lithuanian price areas, where the average price increased by 2% in a year. Also, in this case the price change was connected to the production of hydroenergy, but unlike in the Nordic countries, water intake growth in Latvia was low.

The operation of EstLink 2 (additional 650MW between Estonia and Finland) has converged prices in Estonia and Finland and increased price differences between Estonia and Latvia.

The average price difference in 2014 between Estonia and Finland was just 1.59 euros and prices differed only 9.3% of the time. In comparison, prices in Estonia and Finland differed 31% of the time in 2013. At the same time, the average price difference between the NPS Estonian and NPS Latvian price areas in 2014 increased: the price in the Latvian price area was on average 12.50 euros higher than in the Estonian price area (2013: 9.26 euros). In 2014, prices in the NPS Estonian and NPS Latvian price

areas differed in 69.6% of hours, while in 2013 prices differed 33% of the time.

In 2013, power flows were directed from Finland to Estonia 95% of the time and from Estonia to Finland 4% of the time. The share of hours where the trade between Estonia and Finland was interrupted because of emergency maintenance on the interconnector totalled 1%. The prices of the NPS prices in Estonia and Finland converged 90.7% of the time or for 7,949 hours. On the basis of day-ahead trading results, the EstLink interconnections between Estonia and Finland were divided from Estonia to Finland for max. 1% of hours and from Finland to Estonia for max 9% of hours.

In 2014 as a whole, the commercial flow of electricity after day-ahead and intraday trade was from Estonia to Latvia in 99.8% of hours. By day-ahead trade results, the NPS Estonian and NPS Latvian connections were in the direction from Estonia to Latvia at max 70% of the hours, and after intraday trading 66% of hours. In normal mode (i.e. during the time when transmission capacity was not limited because of maintenance) there was a transmission capacity bottleneck in 16% of hours.

ELBAS – intraday trading of NPS

Starting from the beginning of 2014, the cross-border capacities on the Estonian-Latvian border were given for allocation to the NPS Elbas platform. Volumes purchased from the Elbas market totalled 103.2 GWh in 2014, which is 1.5% of the total volume purchased in the Estonian price area. The volumes sold in 2014 amounted to 35.9 GWh, which is 0.4% of the total in the Elspot and Elbas NPS price area.



MÄRT ALLIKA

Head of Power System Control Centre

Operation of the Estonian electricity system

The domestic electricity transmission network that belongs to Elering and its cross-border connections with neighbouring countries form an inseparable part of the Estonian electricity system. As an electricity system operator, Elering is responsible for planning the reliable operation of the entire Estonian electricity system and for its real-time management. Elering ensures the functioning of the transmission network, maximum cross-border transmission capacities and balance between electricity generation and consumption in Estonia.

Achieving these objectives requires constant analysis of the reliability of the electricity system, assessment of the impact on the electricity system of the tripping of an electricity transmission line, DC connection or power station generator, or of changes in consumption or wind farm production as compared to forecasts. All events that may occur in the electricity system require constant readiness. In certain cases it is necessary to respond to situations by taking preventive measures, while in other cases there must be action plans for a situation when an event has already occurred. All of these activities must ensure that Estonian consumers are supplied with quality electricity at all times.

2014 – a good year for the reliability of the electricity system

2014 was a successful year in the operation of the electricity system. The most important changes that influenced the planning of its operation and real-time management in 2014 were EstLink 2, the second DC interconnector between Estonia and Finland and the launch of two emergency reserve power plants in Kiisa. This meant that the transmission capacity between Estonia and Finland increased to 1000 MW in both directions and that Elering gained access to 250 MW of emergency reserve capacity which can be activated within 15 minutes in the event of accidents or disruptions.

There were no events and situations in 2014 that put the operational reliability of the Estonian electricity system at risk or created problems in ensuring security of supply for Estonian consumers.

It was possible to achieve good operational reliability in spite of continuing renovation works on electricity transmission lines that are important for the functioning of the Estonian electricity system and its substations. As always, possibilities had to be found to make the necessary disruptions for the maintenance of electric network equipment and to respond to emergency trippings of electrical equipment. Transit flows passing through the Estonian electricity system from north to south increased significantly. Considerable attention was paid to managing changes in cross-border power flows from one hour to the next and maintaining the voltage in permitted limits. There were no accidents in our neighbours' electricity networks or with production equipment that notably influenced the functioning of the electricity system in Estonia.

Cross-border power flows

The Estonian electricity system forms part of the same frequency area as the electricity systems of Latvia, Lithuania, Russia and Belarus. Estonia and Latvia are connected by two 330 kV voltage transmission lines while Estonia and Russia are connected by three 330 kV transmission lines. In addition, the Estonian electricity system has two DC interconnectors, EstLink 1 and EstLink 2, for connection to the Finnish electricity system.

Following the completion of EstLink 2, the second DC interconnector between Estonia and Finland, the Estonian electricity system is strongly integrated into the electricity systems of the Nordic countries.

The existence of cross-border connections means that events occurring in the electricity systems of neighbouring countries influence the Estonian electricity system and vice versa. Calculation of cross-border transmission capacity that is made available to the electricity market, precise planning of physical cross-border power flows and keeping power flows within permitted limits to ensure the reliable operation of the electricity system can only be successful in close and constructive cooperation between transmission system operators in neighbouring countries.

Since the decommissioning of the Lithuanian Ignalina nuclear power plant in early 2010, Lithuania has been covering most of its consumption of electricity with imports. Regionally, this means that since then, physical power flows have been moving in the Baltic States from north to south. The commissioning of EstLink 2 notably increased cross-border transmission capacity between Estonia and Finland and created an opportunity for the large-scale transit of Scandinavian electricity to Latvia and Lithuania via the Estonian electricity system. The trend of cheaper electricity from the Nordic countries moving to Latvia and Lithuania through Estonia was dominant throughout 2014.

In regard to the real-time management of the electricity system, the most problematic areas are the cross-border connections between Estonia and Latvia. In 2014, Estonian and Latvian transmission system operators were forced to engage in countertrade to avoid overloading and to ensure the reliability of the electricity system, i.e. activating reserve capacities to bring the power flows on these transmission lines to within the permitted limits.

Countertrade on the Estonian-Latvian border in 2014 amounted to 10.3 GWh over 161 hours.

At the same time, the situation on the Estonian-Latvian border was significantly better than in 2013, when countertrading was carried out in a total of 329 hours. Congestion was caused by the deficit in the Latvian and Lithuanian electricity systems and the influence of the Russian electricity system on the operation of the systems of the Baltic States.

Higher security of supply through domestic reserves



The second emergency reserve power plant near Kiisa that was delivered before Midsummer completed Elering's emergency reserve power plants' complex. If necessary, the 140 MW and 110 MW emergency reserve power plants will reach full capacity in ten minutes. The facilities are used mainly in case of possible production disruptions in the electricity system. The existence of emergency capacity is equally important for using the full potential of the Estonian-Finnish interconnections.

and to make the use of electricity more efficient. The energy efficiency of the electricity system in Estonia has been improving over the past few years, with significant improvements in the last three years. This is due to several factors, including the introduction of new technologies and the implementation of energy efficiency measures. The government has also taken steps to encourage the use of renewable energy sources, such as wind and solar power. The electricity system in Estonia is currently undergoing significant changes, with the aim of making it more sustainable and efficient. The government is working to develop a national energy strategy that will guide the future development of the electricity system in Estonia.

Order power flows

The electricity system forms part of the same interconnected electricity systems of Latvia, Estonia and Belarus. Estonia and Latvia are connected by HV voltage transmission lines. The two countries are connected by three 330 kV lines and one 110 kV line. The connection between the two countries is also secured by two 110 kV lines.

At the same time, the Latvian border was closed when countermeasures were taken against the hours. Congestion at the border between Latvia and Lithuania was caused by the influence of the system of traffic regulation of the system.



Maximum and minimum consumption and production in the Estonian electricity system in 2014

	<i>Value</i>	<i>Time period</i>
Maximum net consumption in Estonia	1,510 MW	30.01.14 from 17.55-18.00
Minimum net consumption in Estonia	480 MW	20.07.14 from 05.10-05.15
Average net consumption in Estonia	901 MW	
Maximum net generation in Estonia	1,919 MW	18.12.14 from 19.15-19.20
Minimum net generation in Estonia	628 MW	17.03.14 from 04.45-04.50
Average net generation in Estonia	1,224 MW	
Maximum generation of wind farms	270 MW	10.12.14 from 14.05-14.10

On the Estonian-Finnish border, countertrade amounted to 8.7 GWh over 44 hours. Counter-trade on the Estonian-Finnish border was caused by emergency trippings of cross-border DC interconnectors.

A shortage of electricity in Latvia and Lithuania and increased interconnection capacity between Estonia and Finland also influenced cross-border trade in Estonia.

In 2014, commercial flows of electricity between Estonia and Finland moved from Finland to Estonia in 95% of hours and from Estonia to Finland in 4% of hours. In 1% of hours no capacity transmission took place. In 2013 these figures were 67%, 30% and 3%, respectively. In 2014, commercial flows of electricity between Estonia and Latvia were divided as follows: 99.8% of hours from Estonia to Latvia and just 0.2% of hours from Latvia to Estonia. In 2013 the respective figures were 94% and 6%.

Outlook in 2015

For the planning and real-time management of the electricity system in 2015, it is likely that the trends that developed in 2014 will have to be observed. The situation in Estonia and Finland, where power flows are moving mainly from Finland to Estonia, is expected to remain unchanged. Since Latvia and Lithuania having a power deficit and additional transmission capacity between the Baltic States and Nordic countries will only become available at the start of 2016 (via the direct current interconnector NordBalt linking Lithuania and Sweden), it is expected that power will keep flowing from Estonia to Latvia and Lithuania. It should be said that ensuring the transit of Scandinavian electricity to Latvia and Lithuania will be one task of the Estonian electricity system.

One significant topic in 2015 will also be the preparation of the Baltic desynchronisation test.

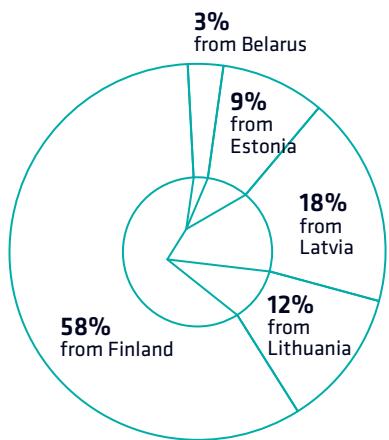
The technical preparation of this test is planned to take place in 2015, while the test itself will take place in 2016. The test should reveal the current readiness of the Baltic States to work independently of the Russian electricity system. It will involve all three Baltic transmission system operators.

Developments and the implementation of systems necessary for the technical management of the electricity system and IT solutions continue. In 2015 it is planned to start upgrading the control system used for the technical management of the electricity system (SCADA) and to procure a training simulator with which to train employees. The central part of the new control system will be complex solutions of applications of the next-generation SCADA/EMS (Energy Management Systems) that ensure better monitoring of the electricity system and its operability in rapidly changing operational conditions. In addition, Elering is actively participating in the development of principles for a pan-European grid model and preparation of practical implementation within the framework of ENTSO-E, a European umbrella organisation of transmission system operators. This network model is a pre-condition for meeting several pan-European network requirements.

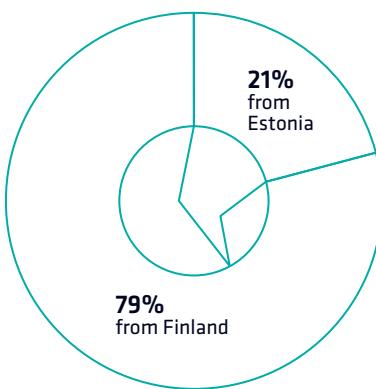
Balancing deliveries

The total volume of imbalance energy sold and purchased by the system operator to cover the imbalances of balance providers decreased by 10% in comparison with a year earlier, when large-scale changes related to the opening of the electricity market caused growth in imbalance energy. Changes that took place in port-

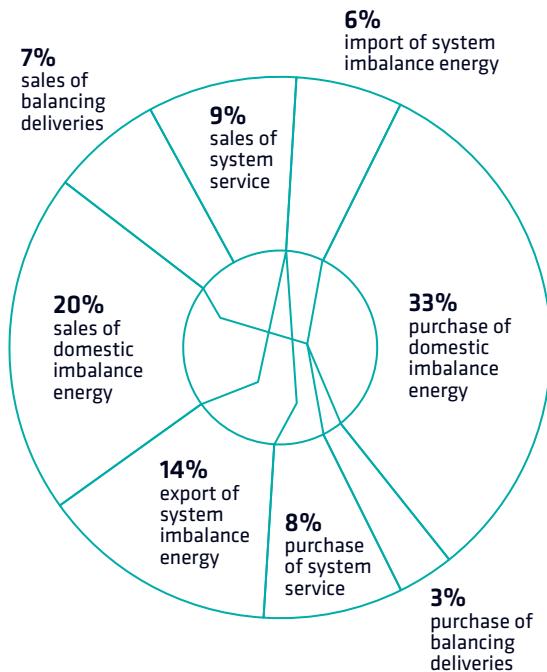
Distribution of upward regulation deliveries to maintain balance of Estonian electricity system (incl. activated emergency reserves) by country



Distribution of downward regulation deliveries sold to maintain balance of Estonian electricity system by country



Balancing deliveries in 2014



folios in 2014 were more stable, and the total volume of imbalance energy that the transmission system operator sold to balance providers amounted to 197 GWh, while that purchased amounted to 311 GWh of the surplus imbalance energy in portfolios.

To balance the power balance of the Estonian electricity system, the transmission system operator purchased upward regulation deliveries and deliveries for the activation of emergency reserves in a total volume of 30 GWh, where 58% of the volume was upward regulation deliveries through EstLink connections from Finland, followed by purchases of regulation energy offered by the transmission system operators of Lithuania, Latvia and Belarus and, in smaller volumes, the purchase of Estonian domestic generation for upward regulation. In the hours when the system had a high surplus of imbalance energy, downward regulation deliveries were sold to balance the capacity balance of the Estonian electricity system in a total volume of 59 GWh, 79% of which was sold to the Finnish electricity system, while the remaining 21% was used for the downward regulation of Estonian domestic generation.

During the year as a whole, the total cross-border imbalance of the Estonian electricity system that was exported to Latvia amounted to 138 GWh and imports to 62 GWh. As an hourly balance, imbalance energy was exported from the system for 65% of hours.

In 2014 the volume of system services was around 25% lower in comparison with 2013. This drop was mainly attributable to the decrease in mediation of the regu-

Imbalance energy prices (€/MWh)

	Average price	Max price	Min price
Imbalance energy prices in 2014			
Sale price of imbalance energy	44.65	200.85	4.51
Purchase price of imbalance energy	40.88	189.5	3.11
Imbalance energy prices in 2013			
Sale price of imbalance energy	51.11	279.39	10.10
Purchase price of imbalance energy	46.93	121.90	3.9

lation service to neighbouring transmission system operators and to the lower volume of countertrade deliveries. Among system services, it is also worth mentioning the use of EstLink interconnections by Fingrid for the use of the automatic frequency regulation function to adjust the frequency in the synchronisation area of the Nordic countries. Over the year, purchases of system services and of EstLink management services as balance energy totalled 81 GWh, with a sales volume of 87 GWh.

Prices of imbalance energy

The highest sale price of imbalance energy was 200.85 EUR/MWh, which was attributable to the high price of upward regulation deliveries on 29 December between 16.00 and 17.00.

The lowest purchase price of imbalance energy in 2014 was 3.11 EUR/MWh, which was registered on 3 November between 04.00 and 05.00 and which was due to the price of downward regulation deliveries to balance the Estonian electricity balance in that hour.

In comparison with a year earlier, prices of imbalance energy were lower, due to the fact that there was a balance energy surplus in the system.



KALLE KUKK
Strategy Manager

Research and development

Elering has prepared an annual research and development (R&D) plan and a corresponding budget since 2012. At the level of ENTSO-E, R&D has received increasing attention since 2010.

The EU requirements for R&D were established for Member States, regulators and network operators in 2011 with the third energy market package.

In accordance with these obligations, in 2010 ENTSO-E drew up an R&D roadmap that was targeted at European electricity system operators for the first time. The existing R&D roadmap for 2013-2022 was published at the end of 2012 and has been supplemented with R&D implementation plans that focus on the next few years.

ENTSO-E has made a recommendation to raise R&D spending to 1% of the turnover of transmission system operators.

Also, the European Commission considers it necessary to ensure R&D funding through R&D framework programmes and other funding measures. While framework programmes concern the financing of cross-border projects, funds should be allocated on account of the transmission tariff for own financing and the financing of projects of national importance.

According to the strategy of Elering that was approved by the Supervisory Board in December 2014, one priority will be developing a centre of competence in the energy sector:

- Increasing the share of R&D to 1% of the company's revenue, including research in such priority areas as smart grid projects, desynchronisation from Russia, raising electricity security of supply and the development of a regional electricity market (2015)
- Participation in preparing R&D cooperation projects within the framework of ENTSO-E (2015)

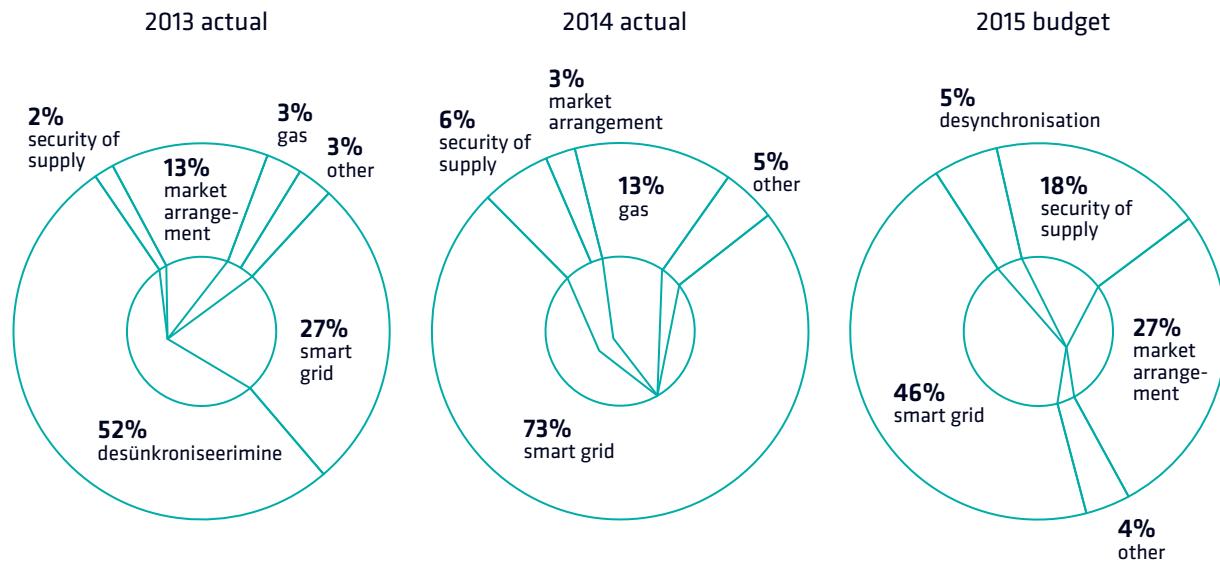
R&D and technical research expenses by functionality, 2012-2015

<i>in euros</i>	2012 actual	2013 actual	2014 actual	2015 budget
Development	6 500	11 472	5 003	74 000
Base and applied research	175 670	284 482	380 799	710 000
Total R&D	182 170	295 954	385 802	784 000
Technical studies	201 575	404 901	101 998	136 000
TOTAL	383 745	700 855	487 800	920 000

R&D expenses and expenses of technical studies 2012-2015 by field of study

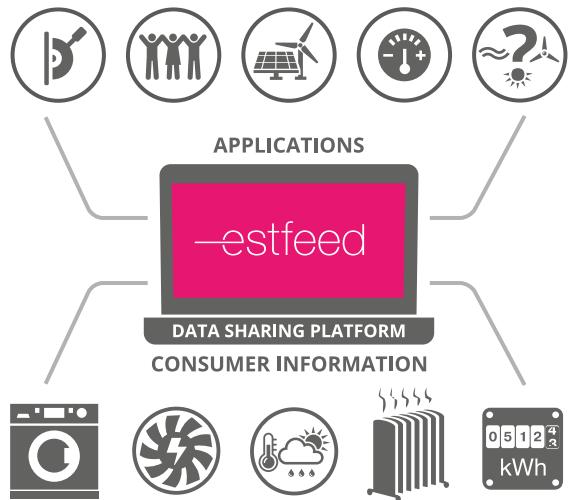
<i>in euros</i>	2012 actual	2013 actual	2014 actual	2015 budget
Smart grid	88 170	187 916	356 803	414 000
Desynchronisation	103 235	363 025	0	50 000
Security of supply	5 000	12 400	28 999	170 000
Market arrangement	82 500	94 500	13 205	250 000
Gas	92 540	21 065	65 644	0
Other	12 300	21 950	23 149	36 000
TOTAL	383 745	700 855	487 800	920 000

Share of R&D and technical research expenses by functionality, 2013-2015



Estfeed

This project is an initiative to shape, implement and test an open software platform that can be used for the monitoring and administration of energy consumption. It enables interactive communication with energy networks and makes energy consumption more efficient by the use of data flows. The aim of the project is to build a software platform for the integration of different data sources and to offer suitable services for turning data into valuable information in the management, auditing and comparison of energy flexibility. It has been decided that the central platform will be the X-Road infrastructure used by the state (servers, secure data communication channels, message formats and chip cards). The software components required to ensure consumers' privacy and the functionality of the sector are to be added to it in the course of the project. The first pilot applications built on the initial platform are planned to be made available to users in summer 2015.



Analysis of consumption patterns of large consumers and possibilities for demand management

The analysis covers measures that enable consumers to save electricity and shift activities to hours with lower electricity prices. In addition, demand management enables consumption to be temporarily increased or decreased so as to adjust the balance of electricity production and consumption. According to the analysis, in theory demand management can be implemented in Estonia for 200 to 400 MW depending on the season, which makes up approximately 25% of Estonia's peak consumption. Possible solutions and further steps for implementing wide-based demand management include deployment of new information and communication technologies and market platforms.

WAMS system analysis and development

The objectives of this project are to study applications of the WAMS system and possible development trends for the future; to develop the existing system in Elering in the optimum way; and to monitor the possibilities of a wide-area measurement system for the develop-

ment of a system that could improve the operational planning, control and protection of the system. The project provides an overview of the new concept of the control system and must provide an answer on the parameters of the system in order to implement them in Elering's control system. Part of the research is also an emergency fire automation application on the basis of the WAMS/WAMPAC system.

Electrical transport and its impact on the functioning of the electricity system

The objective of this project is to study the impact of large-scale electrical transport on the Estonian electricity system and on the energy sector in general. The main reasons for the project are two electric transport systems that are under development – electric cars and the planned European interstate rapid railway project. Within the framework of the ELMO project, Estonia was covered with rapid charging points by the end of 2012 and procurement of 1000 electric cars was supported. In addition, in the course of the Rail Baltic railway project, extensive research has been conducted and preliminary design work has started. In 2015 the plan is to study the socio-economic impact on Estonian society of the transition to electric transport.

Estonia's long-term electricity production scenarios

This study looks at different electricity production scenarios in Estonia until 2030 and with a vision until 2050. Its objective is to model development scenarios in the electricity sector for the new Estonian energy sector development plan 2030+ which is currently being prepared. Modelled scenarios confirm that the long-term security of supply of Estonian consumers is ensured via domestic production and transmission capacities. Preserving the 110% requirement of domestic production capacity for peak consumption in Estonia after 2024 will add around 6 euros to every consumed MWh. Electricity production subsidies are only required in scenarios which do not consider import possibilities in the supply of electricity to consumers. If current plans are realised, Estonia's interconnections with other countries will be sufficient until 2035 and will ensure supply to consumers.

Power-to-gas

The power-to-gas project studies solutions for the valorisation of the CO₂ produced when burning fossil fuels and for the storing of renewable energy. A synthesis of CO₂ and water vapour with "residue" renewable electricity enables methane and methanol to be produced. This also provides an opportunity to use renewable resources to produce automotive fuels (methane), by using surplus wind and solar energy or the nighttime electricity of a thermal power plant.

Synchronisation with the frequency area of continental Europe and reduction of technical dependence on third countries

Research for the preparation of an action plan of measures aimed at synchronisation with the frequency area of continental Europe and reduction of technical dependence on third countries looks at periods where Estonia remains synchronised with Russia and when it is synchronised with continental Europe or Scandinavia. The research also looks at Estonia's own technical solutions and the need for the readjustment/rebuilding of power plants in different time horizons and synchronisation options.

Demand side response to increase electricity market flexibility

The objective of this research is to provide recommendations for the better use of the benefits of demand side response (DSR) in order to ensure the long-term security of supply of the Estonian electrical system, a functioning energy market and the integration of renewable energy sources. The research proposes DSR mechanisms that provide the greatest socio-economic benefit in the medium and long term and that take into consideration the ever-changing environment.

Increasing the electricity security of supply of Hiiumaa

The goal of this research was to assess the socio-economic and environmental impact of alternative solutions to increase the electricity security of supply of Hiiumaa island and to analyse technical solutions. The preferred socio-economic option was connecting Kärdla and Saaremaa with a 110 kV line. This would require the renovation of Leisi substation on Saaremaa, the installation of a new submerged power cable between Saaremaa and Hiiumaa, switching Kärdla substation to 110 kV and building a 110 kV overhead line to Kärdla as well as the renovation of Hiiumaa's medium-voltage substations and 35 kV electricity network. The socio-economic feasibility was assessed on the basis of socio-economic current value (creation of additional businesses and jobs), reduction of damage from power outages and estimated environmental impact.

Measuring and mapping of electromagnetic fields at Elering's 330kV substations

This research involved the measuring of electromagnetic fields and the mapping of areas with higher health risks at Elering's 330 kV substations and beyond the perimeters of these substations. The outcome is an assessment of whether these areas pose a risk to people. In 2014, the strength of low-frequency magnetic and electrical fields was measured at the Aruküla 330/110/20/10 kV substation, the Endla 110/35/6 kV substation and the Tartu 330/110/35/20/15/10 kV substation.

**330 kV electricity
network covering
all of Estonia**



In October 2014, the contractor delivered to Elering the new Tartu-Viljandi-Sindi 330/110 kV high-voltage overhead line. The objective of building the new line is to increase the security of supply of consumers in Central and Western Estonia, while reducing dependence on the concentrated electricity network of Northeast Estonia. Elering has set the objective to build a 330 kV circular connection on the continental part of Estonia, to increase the operational reliability of the electricity network. The newly-built Tartu-Viljandi-Sindi line is also important in connecting the Baltic countries with the synchronous grid of Continental Europe.

orisation of the CO₂ market and for the storing of renewable energy sources and for the synthesis of CO₂ and water vapour. This will enable electricity engines methanol to be produced. This also provides another way to use renewable resources to produce alternative energy (methanol), by using surplus wind and solar energy to generate electricity of a thermal power plant.

cooperation with the European Union, the frequency area of continental Europe and reduction of technical debts on third countries.

implementation of actions plan of the national legislation with the frequency area of continental Europe and reduction of technical debts on third countries. This looks at periods where there is no power in Russia and when it is available in Scandinavia. It also looks at the technical debt of the power system, the rebuild- ing of the power system and

This is to assess the magnetic field exposure and health risks of the population of the power system. An assessment of whether there is a risk to people. In 2014, the strength of the magnetic and electrical fields was measured in the 330/110 kV/110/10 kV substation in Tartu, the Tartu 110 kV substation and the Tartu 10 kV substation.



Social responsibility

The objective of Elering as a socially responsible enterprise is to develop life in Estonia by supporting energy education and raising energy-related awareness in society. As such, we work with universities to promote the self-development possibilities of students and research in the field of energy, we support energy-related books and study materials, we showcase the energy sector and we distribute information about the development of the electricity system and key investments.

Elering as a competence centre

As a centre of competence in the field of energy, Elering searches for and develops new areas of activity to make the Estonian energy economy more innovative and competitive. We use Elering's publications and cooperation projects to raise public awareness of key issues, problems and challenges in the energy sector. In its annual security of supply and generation adequacy reports, Elering provides an opinion on the key indicators and development prospects of the Estonian electricity system. In addition to these publications, in 2014 Elering released studies on long-term electricity production scenarios and consumption management in Estonia. The centre of competence of the energy sector is a network that includes universities, public institutions, transmission system operators in other countries and other partners.

The main forms of cooperation in the field of R&D were established in framework agreements signed with Tallinn University of Technology in 2011 and the University of Tartu in 2012. In addition, Elering contributed with other partners to the preparation of the new energy sector development plan in 2012. Participation in the work of the R&D Committee of ENTSO-E creates an opportunity to actively participate in the prioritisation of future development trends in the European energy sector as laid down in the R&D plan, a regular publication of ENTSO-E.

Elering as a supporter of energy awareness

Elering awards grants and makes donations in compliance with the State Asset Act and the company's internal regulations. As a socially responsible enterprise, Elering's grants are aimed at promoting energy-related education, raising overall energy awareness and ensuring energy security of supply, including:

- grants for research into energy-related topics;
- promotion of study, research and development activities in the field of energy; and
- support for the organisation of energy-related events and the distribution of energy information.

Elering can also provide grants to enhance the living environment of communities affected by the company's investments.

Grants issued in 2014

- Supporting the Lennart Meri Conference organised by the International Centre of Defence Studies. The theme of the 2014 conference was 'Security of Mare Nostrum and Beyond: The Return of Northern Europe to the World Scene?' The conference discussed so-called soft and military security issues, including the significant role of the Baltic Sea in the global transport and energy supply network. The conference also included a special energy-focused panel entitled 'Panel on Energy Security: Is Natural Gas Still a Geopolitical Tool in Europe?'
- Supporting the organisation of the '2014 Electric Power Quality and Supply Reliability' conference. The objective of the grant was to help Tallinn University of Technology host PQ2014, the 9th international conference on electrical quality and security of supply held in June 2014.
- Supporting the organisation of a topical exhibition entitled 'There is Electricity in the Air! From Luxury to Commonplace'. The objective of the support given to the Estonian History Museum was to raise awareness of energy-related knowledge. The exhibition is open to the public at Maarjamäe Castle from 23 October 2014 to 31 May 2015. The exhibits are everyday electrical appliances from different points in history. The exhibition focuses on the history of using electricity in Estonia.

- Supporting Tallinn University of Technology in publishing the textbook 'DC Connections'. This is the first Estonian-language university textbook in the field of high-voltage DC transmission systems (HVDC) and flexible alternating current transmission systems (FACTS).
- Supporting Tallinn University of Technology in publishing the textbook 'Energy Storage and Storage Technologies'. The textbook is targeted at students in Master's studies in the subjects of energy storage and energy consumption management and is also suitable as a tool for Master's degree studies in the field of electroenergy, dispersed energy, electric drivers, power electronics and the energy efficiency of buildings.
- Supporting Tallinn University of Technology in publishing the textbook 'Future Visions of Electricity Supply'. The textbook is targeted at students in the Faculty of Power Engineering and focuses on issues related to the massive implementation of new technology (renewable energy sources, energy storage, information technology, semiconductor technology, signal and power transformers and various automation systems) in the energy sector and the deployment of smart grids based on new technology. The textbook will also be useful to practising engineers in terms of acquiring knowledge about new technology and new principles.
- Supporting Tallinn University of Technology in publishing the textbook 'General Electrotechnics'. This university textbook is targeted at students in Bachelor's, Master's and Doctoral degree studies in the field of electricity to broaden their understanding of electricity and the transformation of energy.

Elering's energy grant

In 2014 Elering awarded four grants. Its grant programme supports students in Master's and Doctoral degree studies who are researching topical energy-related issues.

Topics studied by recipients of Elering grant in 2014:

- Modelling and analysis of electromagnetic transmission processes in the cable networks of the Estonian electricity system
- Implementability of the Balmorel electricity market model for short-term analysis
- Preparations for the final agreement of the United Nations Climate Change Conference COP21 (21st Conference of the Parties) agreement
- Preparation of an overview of 'power-to-gas' technologies and their implementability in the Estonian industry and energy sector

Support granted over the years is listed on the Elering website at elering.ee/valjaantud-toetused.

CSR programme – 'Sustainable Development Forum'

Starting in 2014, Elering is participating in the 18-month development programme of sustainable enterprises entitled 'Development of a Support Mechanism of Enterprises Promoting the Merger of Working, Family and Private Life' that is being organised by the Sustainable Enterprise Forum (csr.ee) and funded by both Norway Grants and the Ministry of Interior of the Republic of Estonia. Participating in the programme, seminars and development days and working with a personal mentor, Elering analysed the further growth opportunities of the company in order to manage working and family life in a better way and to map sustainability.

Elering and the public domain

In October 2014, Elering organised an open day for the residents of Kiisa municipality in Harju County at its emergency reserve power plants to present to them a unique facility that is otherwise not open to visitors. The event was attended by around 20 local residents, including several children interested in technology. The project manager and operations and maintenance coordinator conducted tours of the power plants, in the course of which the visitors were shown key equipment, including the motors, generators and management systems used to produce energy. A year ago a similar open day was held at the EstLink 2 converter station in Ida-Viru County.

In cooperation with Tallinn University of Technology, in the first half of 2014 Elering hosted groups of students from Grades 9-12 from four Estonian schools. Elering's engineers and project managers presented to the young people interested in technology the specific features of working in the field of energy and discussed their everyday work and the background to their career choices. The youngsters also gained an overview of large-scale projects in recent years. In addition, they were shown the control centre of the Estonian electricity system, which monitors and manages the entire electricity system in real time.

Cooperation with the Estonian Fund for Nature

Elering also continued its annual cooperation with the Estonian Fund for Nature. In the course of a joint clean-up event in October, Elering employees cleaned the shores of the Pärlijõgi river in the north-east of the country so as to improve the habitat conditions of the freshwater pearl mussel. In previous years, Elering's employees have contributed to the restoration of coastal and wooded meadows and planted forests.



Elering's staff restoring the coastal meadows in Matsalu National Park

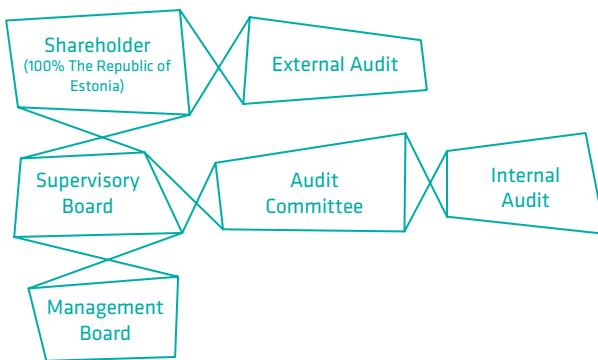
Corporate governance

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

We can confirm that:

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

Elering publishes its good corporate governance report on its 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. The competence of the company's owner includes amending the articles of association; increasing and decreasing share capital; electing and removing members of the Supervisory Board; electing auditors; designating a special audit; approving the annual report and allocating profit; and deciding on the merger, division, transformation and/or dissolution of the company.

Supervisory board

Within the company, the owner's interests are guaranteed by the 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 on organising the management of the company and exercises supervision over the Management Board's activities. The Supervisory Board regularly reviews and assesses the company's strategy, main actions, principles of risk management, annual report for the financial year and budget.

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

Members of the Supervisory Board:

Kajar Lember

Chairman of the Supervisory Board (from 12.09.2014),
Deputy Mayor, Tartu City Government

Timo Tatar

Head of the Energy Department, Ministry of Economic Affairs and Communications (Chairman of the Supervisory Board until 12.09.2014)

Heiki Tammoja

Chair of Power Systems at the Department of Electrical Power Engineering at Tallinn University of Technology

Thomas Auvärt

Head of the Financial Markets Department, Ministry of Finance

Tarmo Mänd

Member of Parliament

Jüri Raatma

(until 30.05.2014)

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 areas of accounting, the independence of the external auditor, risk management, internal control and audit, the exercising of supervision, preparation of the budget and the legality of activities.

The Audit Committee comprises five members who are elected and removed by a decision of the Supervisory Board. Members of the Audit Committee are elected for a term of three years, and they elect from among themselves the chairman who will organise the activities of the committee. The Chairman of the Supervisory Board cannot hold the position of Chairman of the Audit Committee. The members of the Supervisory Board are paid additional remuneration for their participation in the Audit Committee.

The Audit Committee reviewed the internal audits conducted in 2014: a follow-up audit, an investment management audit and a procurement process audit.

The Chairman of the Audit Committee is Thomas Auvärt and its members are Timo Tatar, Heiki Tammoja, Kajar Lember (Jüri Raatma) and Tarmo Mänd.

Management Board

The Management Board of Elering has complete freedom of decision and its everyday management decisions are made independently, without interference from the owner or the Supervisory Board. The Management Board requires the consent of the Supervisory Board for transactions and operations that go beyond the everyday economic activities of the company. The Management Board ensures that the members of the Supervisory Board have sufficient information on the company's economic condition and on key matters related to its economic activities, and informs the Supervisory Board of the most important matters in its 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 current members of the Management Board were reelected by the Supervisory Board in 2014.

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 enters into contracts with the members of the Management Board which set out the rights and obligations of the board with regard to the company more precisely.

A member of the Management Board may only be paid remuneration on the basis of a management board member contract entered into with him or her. A member of the Management Board may be also paid additional remuneration based on his or her performance in the amount of up to four months' base salary. Bonuses may be paid on the basis of annual results or any other grounds based on a resolution of the Supervisory Board. The salaries of the members of the Management Board are fixed and set out in the management board member contract. Elering has not established any long-term bonus systems. A member of the Management Board is entitled to severance

compensation only upon their removal at the initiative of the Supervisory Board before the expiry of the term of his or her authority in the amount of up to three months' base salary.

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 the interests of members of the Management Board is submitted to the Ministry of Economic Affairs and Communications. Transactions entered into with related parties are also declared upon the approval and auditing of the annual report.

Risk management and internal control system

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

The 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 and assessable and can be responded to; and
- to help management 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 the identification, management, monitoring and (where possible) the hedging 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 are taken into account in the management of the company's risks; and
- we are continuously improving risk management activities within the company.

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 internal auditor can be created on the basis of the articles of association, or the internal auditor service can be outsourced to an audit company. From 2014-2016 the internal audit service is being provided by KPMG Baltics OÜ. In providing the internal audit function, the company observes the legislation of the Republic of Estonia and the Internal Audit Guidelines published by the Institute of Internal Auditors (IIA).

An internal audit is an independent and objective assurance and advisory activity that is aimed at adding value to and further developing an organisation's activities. Using a systematic and structured approach, assessing and developing the impact of risk management as well as control and governance processes, it helps to achieve an organisation's objectives.

The internal audit function is independent of the areas being audited and reports to the company's audit committee.

Equal treatment

Elering as a transmission 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 transmission system operator exercises its rights and performs its obligations in compliance with the principles of equal treatment.

A transmission system operator may not produce or 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 or transmission capacity of the system or of an electricity system of another country electrically connected to the system or in the event of danger to the security of supply or when this is required for the purpose of the periodic testing of the emergency reserve power plant.

A transmission system operator may not simultaneously be a distribution network operator, or belong to the same group as any undertaking which engages in activities related to generating or selling electricity. Elering is not part of any group of electricity companies. It has no dominant influence over another electricity undertaking, and no other electricity enterprise has a dominant influence over Elering.

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

For the 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 and the terms and conditions for the issuing of guarantees of origin. The standard terms and conditions are public and approved by the Estonian Competition Authority.

Operation of the power system is conducted pursuant to the procedure for the 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. The confidentiality of the information submitted to Elering as the system administrator is set out in the standard

terms and conditions of balance agreements. The balancing electricity price is calculated on the basis of the common methodology for calculating this price, 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 needed to perform its obligations and when using other relevant services, the system administrator observes free market principles, acts with regard to all market participants in accordance with the principles of equal treatment and transparency, and avoids establishing unreasonable restrictions.

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

The setting of a network service fee and preparation of network contracts, as well as principles for refusing to provide the network service and interrupting the provision of the network service, are regulated by the procedure for the provision of the network service and the standard terms and conditions of provision of network services.

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

Disclosure of information

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

Independent management of the electricity system



The Estonian electricity system connects power plants, electricity networks and electricity consumers in Estonia into one integrated complex. The system is being managed in real time by the transmission system operator Elering that is responsible for the functioning of the system and ensuring quality electricity supply to consumers at any time. Elering creates the conditions for the functioning of the electricity market and builds cross-border connections in order for electricity to flow between neighbouring systems and markets without restrictions.

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On behalf of the
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and consumers,
consultation

for the efficiency of the system is established by the legislation, has been adopted to the transmission conditions and standard terms of supply and the terms of delivery of origin. These are published by the Competition Authority.

operation of the power system, the procedure for the operation of the power system and conformity with ensuring the continuous provision of important

balance responsibility is exercised pursuant to the procedure of balance management and the standard conditions and conditions for balance agreements. The accuracy of the information submitted

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Elering and the environment

The main area of activity of Elering – ensuring the supply of high-quality electricity to Estonian consumers – is an area that is directly related to the surrounding environment. High-voltage lines represent major infrastructure, and environmental considerations are important in their construction and maintenance. Because of possible leaks, large substations involve a risk of environmental pollution, which is what makes it especially important to map and manage risks. As an enterprise that is wholly owned by the state, Elering has a special responsibility to operate in a way that ensures the conservation of Estonia's natural environment and responsible and sustainable use of existing resources.

In its activities, Elering observes the following principles of environmental responsibility:

- *we inform our employees and suppliers of legislative and other environmental requirements and obligate them to meet them;*
- *we avoid environmental pollution and reduce waste generation, implementing the best possible technology to this end;*
- *we consume resources sustainably;*
- *we demand in our procurement documentation that our suppliers act in an environmentally sound nature and use environmental technologies; and*
- *our environmental policy and environmental aspects are public – any employee can distribute them freely outside of the company.*

Environmental impact of the construction of overhead lines

Planning of new overhead lines

Construction of new lines is necessary to increase national security of supply and to reduce transmission losses, as well as to create connection possibilities for new electricity producers. New lines are planned in close cooperation with the Environmental Board, local governments and landowners to ensure that neither construction nor the line itself affect people or the environment as a whole.

The Harku-Lihula-Sindi 330/110 kV power line, whose planning began in 2011 and which is one of Estonia's largest national infrastructure projects, will run through 11 municipalities in three counties. According to the current plan, construction of the power line will take place from 2017-2020. In 2014, work continued on the preparation of the planning solution, the environmental strategic assessment and approval of the completed solution. The environmental strategic assessment report also covers possible risks to birds arising from overhead power lines. Therefore, the report emphasises the need to mark the overhead lines on the birds' major migratory routes and to start monitoring birds on 330 kV overhead power lines so as to identify the real impact of the power lines on Estonia's birds.

In 2014, the company started planning the 13.8 km Kilingi-Nõmme-Riga TEC-2 330 kV overhead line up to Estonia's border with Latvia. The planning was adopted and put on public display together with the environmental strategic assessment report. Since the impact zone of the planned power line does not cover sensitive natural areas, any negative environmental impact on fauna and flora will be negligible and will

mainly be felt as a temporary disturbance during construction. One positive aspect with regard to the protection zones of electric lines that go through the forest is that plants that are rare and richer in species start to develop on the edges of such zones. The environmental strategic assessment report also noted that it is important to observe environmental requirements during line construction and to carry out supervision during the construction period.

Impact on the well-being of people and assets

In planning the lines, account is also taken of the overall well-being of people and assets, which is why it is preferred to have the line corridors on state forest land and, where possible, next to another technical infrastructure facility (e.g. a highway). Another factor that is always considered is ensuring that the existing landscape is affected as little as possible. Therefore, one objective has been to ensure that line corridors are as straight as possible, because masts used in straight lines are smaller than corner masts. From the human perspective, overhead line masts are planned so that they are not in the direct line of sight, i.e. in front of windows.

Construction of new lines

An environmental protection plan was prepared for the renovation of the Tartu–Viljandi–Sindi 110 kV line as a 330/110 kV transmission line. Construction works on the line were completed in 2014, during which the provider of environmental supervisory services visited the construction site three times. No irreversible environmental violations were detected during these visits, all environmental protection requirements were met and the overhead line was appropriately marked for birds. The final environmental supervision report noted that the line's builder had complied with the alleviation measures indicated in the environmental impact assessment and the environmental protection plan and that no environmental violations had been detected.

In large construction projects it is important to provide for environmental supervision. At the same time, this is done rarely in Estonia and without the involvement of specialists. With regard to increasing environmental protection awareness, it is important that these activities are provided for in the construction of power lines and serve as models to others.

Line maintenance work

In addition to building new lines, maintenance of existing lines is also important. This includes the regular clearing of brush to prevent potential flashovers, the felling of large trees and the widening of line corridors. The objective of line maintenance is to prevent high brush growth in the protection zone because this could cause power interruptions, electrical injuries to people and animals, brush fires and forest fires. In cleaning the protection zone of transmission lines, the environmental requirement is to leave junipers, rose hip and cultivated plants. In 2014, the company cut brush in the protection zone of overhead lines over a total surface of 2387 hectares.

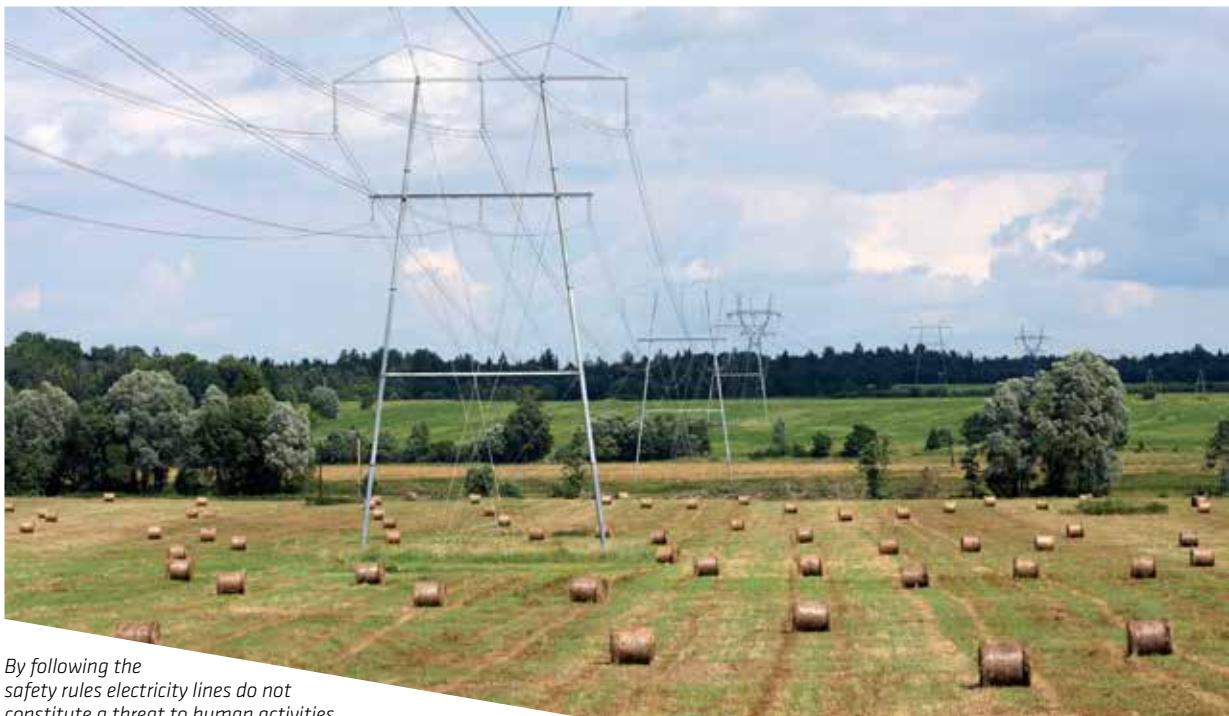
For environmental purposes it is important to replace old and obsolete oil-filled underground cables with dry cables. In 2014, oil was pumped from the decommissioned Ranna-Volta cables in Tallinn, while the old cables were left in the ground. The findings of the commissioned study confirm that leaving cables beneath the ground does not pose an environmental risk. In 2015 the company also plans to pump oil from the Ranna-Ida Cable in Tallinn.

Installation of bird barriers

Equipping overhead lines with bird barriers is an annual activity whose objective is to reduce the negative impact of overhead lines on birds, but also to avoid the soiling of electric equipment with bird excrement. Last year, bird barriers (mast gear) were installed on a total of 1874 masts and bird deterrents on 22 110 kV overhead lines over a total length of approximately 420 km.

Environmental impact related to substations

The biggest environmental hazards where Elering substations are concerned are oil that can leak from transformers, chemicals and hazardous waste (mainly batteries). Waste handling and disposal of materials is the responsibility of licensed subcontractors. One possible environmental risk at substations is the release of a small quantity of a hazardous substance into the environment when taking samples of oil from transformers and electrolytes from batteries. To avoid possible leaks, Elering has drawn up guidelines on how



By following the safety rules electricity lines do not constitute a threat to human activities

to neutralise polluted earth and how to make electrolytes safe for the environment. Everyone who works at substations undergoes specific training and is competent to respond in the event of environmental risks.

SF6

In 2013, Elering acquired a measuring camera for 100,000 euros that helps find leaks of environmentally hazardous sulphur hexafluoride (SF6). SF6 is used mainly in switches of electrical gear as it helps to extinguish electrical arches. SF6 contains Freon, which damages the ozone layer and therefore has a major impact on the environment. In 2014, a total of six measurements were made to detect leaks of SF6, with leaks being found in two cases.

Oil collectors and oil traps

The power transformers at all Elering substations are now equipped with oil collectors. This prevents the release of oil into the environment in the case of possible oil leaks. Kiisa's emergency power stations are equipped with oil traps for the capturing of potential leaks of light heating oil which enable leaked chemicals to be pumped out for disposal. The oil traps are inspected and maintained regularly (at least once a year).

Noise

Elering is aware that the noise coming from substations could cause a significant disturbance, which is why the company prefers suppliers who offer transformers with lower noise levels. Noise reduction is also a priority in substations that are located near residential buildings or in environmentally sensitive areas. In 2014 the company replaced three old power transformers in the substations of Kilingi-Nõmme, Otepää and Kallavere with new, quieter equipment. In 2014, noise measurements were carried out at six substations, with the noise found to have exceeded the permitted level in one case. Therefore, additional research must be carried out to analyse possibilities for deploying alleviation measures.

Electrical and magnetic field

It is not possible to transmit electricity without an electrical and magnetic field. The strength of these fields depends on the voltage in the overhead power line and the amount of current flowing through the line. The biggest electrical and magnetic field is in the proximity of power lines, and decreases notably as the distance increases. The electrical and magnetic field also depends on the height of masts, the layout of cables on masts and the number of circuits on masts.

According to the data of the World Health Organization (WHO), electrical and magnetic fields do not affect human health if the indicators remain within the permitted limits. The new planned 330/110 kV power lines make sure that residential buildings are not nearer than 100 metres to new lines and that, therefore, excessive electrical and magnetic field does not pose a risk to human health.

In 2014, electrical and magnetic fields were measured at three substations and in the proximity of power lines. In the case of the substations, the objective of the measurements was to identify and map the areas on their territory where time restrictions are imposed on the presence of people. The magnetic field near power lines remained within the permitted levels.

Emergency reserve power plants

Elering's emergency reserve power plants in Kiisa are sites with a Category B major accident risk whose maximum risk area in the event of a major accident is 100 metres. We have developed an emergency resolution plan and a system for ensuring safety and have conducted risk analysis. These measures must ensure operational response in the event of a major accident. The personnel who work at the emergency reserve power plants on a daily basis have undergone specialist training.

Accident in the oil separation system of Elering's emergency reserve power plants

In August 2014 an event took place that Elering regards as a major incident with regard to the surrounding environment. On 6 August, for unknown reasons, a flame sensor in the storage tank area of the emergency reserve power plant was activated, launching the fire extinguishing system of the storage tanks. Because of the activation of the fire extinguishing system, a mix of water and extinguishing substance was released into the environment from the oil separation system that forms part of the emergency reserve power plants, including residue from environmentally hazardous substances that are used in the power plants, among them oil products.

After Elering discovered the pollution, it immediately launched activities for its localisation and liquidation, involving several companies specialised in the handling

of hazardous substances. In the planning and implementation of these activities Elering was advised by OÜ Hendrikson & Ko, a provider of environmental services.

The active period at the emergency reserve power plants and the Soo stream that was affected by the pollution ended in August. Water samples taken from different sections of the stream showed that the water quality had notably improved as a result of activities to reduce pollution and the concentration of oil products in the rainwater intake of the emergency reserve power plants was lower than the limit established for rainwater. On the basis of periodic water sampling, the water quality has now been restored to the pre-leak level.

Environmental activities in the development of the electricity system

To prevent potential environmental impact on our sites, at the end of 2014 we signed a contract for the procuring of environmental organization advisory services from Ramboll Eesti AS. The consulting services to be provided under the contract include the assessment of environmental risks on Elering sites, the monitoring and supervision of environmental legislation and the preparation of an action plan to reduce risks. At the start of 2015, an environmental audit that will include several Elering sites will be conducted. The results of the audit will enable the assessment of Elering's environmental footprint and the compliance of the company's activities with legislation and rules, and the proposal of recommendations for the reduction or prevention of potential environmental impact. There is also a plan to prepare an action plan for Elering's emergency reserve power plants in Kiisa, the company's site that poses the largest environmental risk, with the objective of establishing a code of conduct for possible environmental pollution.

Organisation and people

Our stable, highly educated and experienced staff are the foundation of Elering's sustainable economic growth.

We value experience – we secure the future

At the end of 2014 Elering employed 146 people. In its five years of independent operations, the company has been characterised by low employee turnover (4% in 2014), high average length of employment (16 years at the end of 2014) and highly educated specialists. The majority of our employees have higher education, and 65% have a Master's degree or Doctorate. In addition to specialists, the Elering team has in the last three years been joined by 20 young people who have chosen to start their career in the energy sector in Elering.

Taking into consideration the company's sector, it is difficult to overestimate the value of experience in Elering. Training of a new employee takes on average 9-12 months, while becoming a professional in one's area takes years. To promote energy education and assist young people in entering the labour market, Elering works closely with universities. The annual traineeship that the company organises for students from Tallinn University of Technology consists of eight weeks of studies in different departments of Elering and field work. In addition, in cooperation with the university in 2014 we organised four visits of high school students to Elering, and plan to make this a tradition. As well as guiding trainees, several Elering employees are also visiting lecturers at Estonian universities and have discovered that teaching others is also the best way to learn, test one's knowledge and highlight the value of one's specialisation and day-to-day work.



*Corporate events strengthen
the ties between generations*

We offer opportunities for development

There is no doubt that Elering's employees love their jobs, but it is important for us as an employer to contribute to their development and offer them an environment that promotes their self-advancement and professional challenges. In 2014, 24 employees participated in international workgroups and specialist forums, actively contributing to the development of the European energy sector and growing in awareness of the world's best practices. An example is participation in the workgroups of ENTSO-E, a European umbrella organization of transmission system operators, where the work of the Baltic Sea Region Subgroup of the ENTSO-E Market Committee was led by the head of the electricity market department of Elering. In addition, Elering has created opportunities for its employees to undertake a range of specialist supplementary training courses, to merge working life and university studies and for internal development. In 2014, every Elering employee participated on average in four specialist training days. 21% of employees are enrolled in degree studies in addition to their everyday work. More than half of Elering's executives started their professional

careers as trainees or primary level specialists in the company or its predecessor organisation.

Elering's personnel management principles and management culture provide for the promotion of the company's own employees to key positions and ensure support for their development, a recruitment process that is transparent and offers opportunities to our own employees, and the inclusion of all employees in setting specific objectives and preparing work plans.

United enterprise – better results

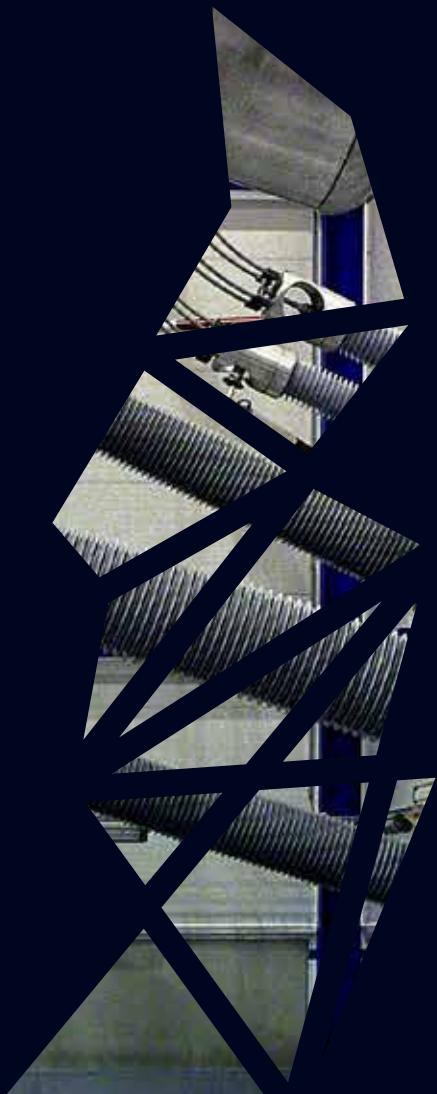
Elering's employees are active in sports and contribute to nature conservation. These two keywords also dominate the joint events organised by the company. In 2014, teamwork development events included a bicycle tour of Kõrvemaa in May and a joint cleanup event organised with the Estonian Fund for Nature in Lääne-Viru County in October to clean up the area near the Pärlijõgi river. In addition to our wage system, which monitors developments on the wage market, we offer our employees a motivating fitness package and additional leave in winter. The annual reception held

in January to celebrate Elering becoming an independent company has become a firm tradition. This event includes recognition of the best employees and a summary of the most important projects and events from the previous year

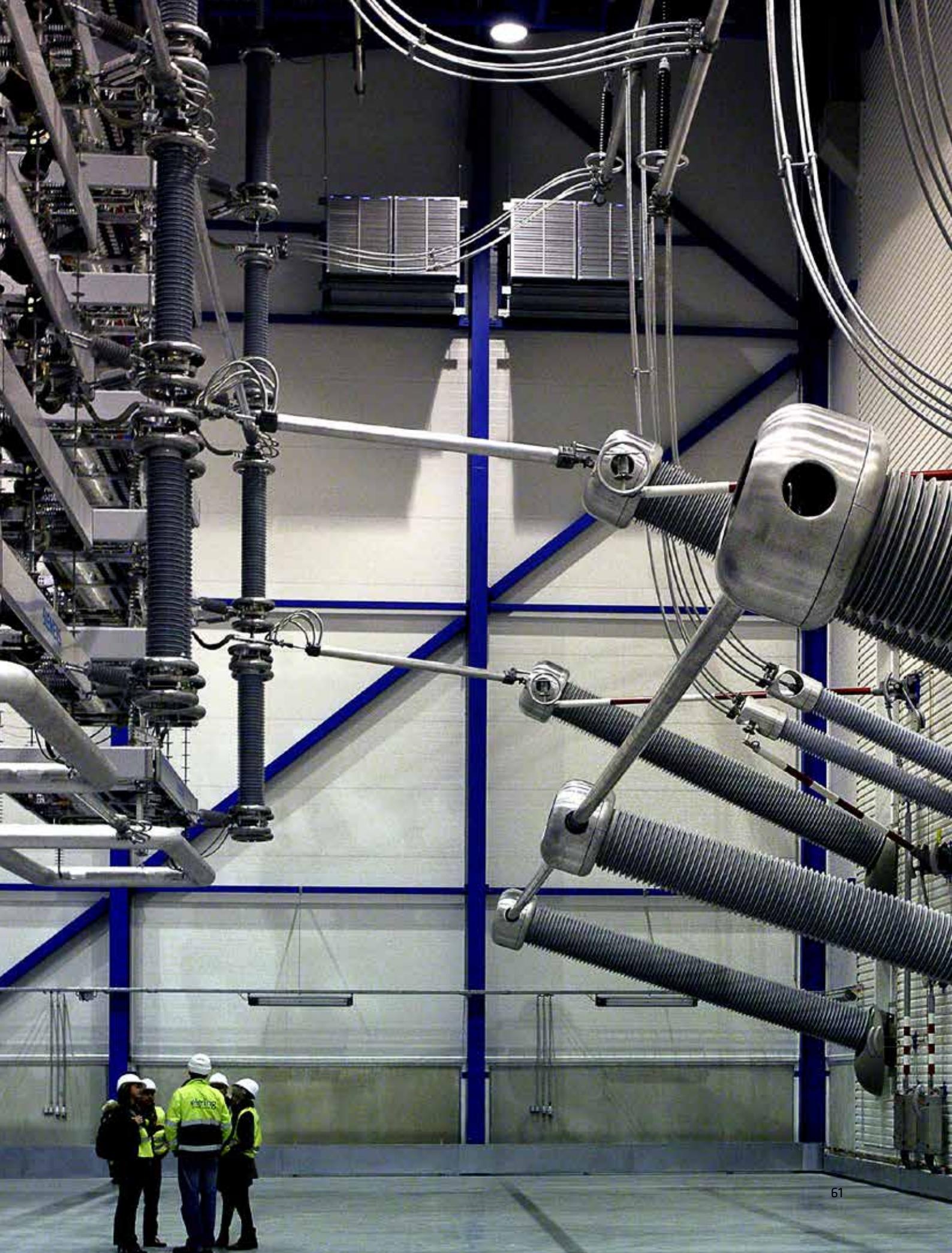
Elering's values are a sense of responsibility, equal treatment and commitment, which form an everyday part of our work culture and provide guidance for decision making, internal communication and inter-departmental cooperation.

Looking to 2015, which includes preparations for the creation of a joint transmission system operator for electricity and gas, the keywords will be shaping a common organisational culture and a management that is informed of the best knowledge and best practice in both companies. In addition to specialised supplementary training courses in the gas and electricity sector, we will provide for the development of the management competence of middle managers, mentoring them within the framework of network development projects and the rotation of employees so as to distribute the best work methods and processes.

Report of the financial year



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Statement of Financial Position

in thousands of euros

Note 31.12.2014 31.12.2013

ASSETS

Current assets

Cash and cash equivalents	6	31,869	1,145
Trade and other receivables	7	39,773	22,858
Inventories	8	2,631	347
Total current assets		74,272	24,350

Non-current assets

Available-for-sale financial assets	2	1,946	1,946
Property, plant and equipment	9	710,457	640,925
Intangible assets	10	3,374	3,713
Total non-current assets		715,777	646,584

TOTAL ASSETS		790,050	670,934
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LIABILITIES

Current liabilities

Borrowings	11	1,191	0
Trade and other payables	12	29,094	41,717
Total current liabilities		30,285	41,717

Non-current liabilities

Borrowings	11	346,666	312,390
Deferred income	13	98,280	42,740
Total non-current liabilities		444,945	355,130

TOTAL LIABILITIES		475,230	396,847
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EQUITY

Share capital	14	149,890	149,890
Statutory reserve capital	14	8,706	6,259
Retained earnings	14	156,223	117,939
TOTAL EQUITY		314,820	274,087

TOTAL LIABILITIES AND EQUITY		790,050	670,934
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The notes on pages 66 to 101 are an integral part of these financial statements.

Statement of Comprehensive Income

<i>in thousands of euros</i>	<i>Note</i>	2014	2013
Revenue	15	129,229	133,836
Other income	16	1,609	595
Goods, raw materials and services	17	-39,703	-48,885
Other operating expenses	18	-4,006	-3,899
Staff costs	19	-5,090	-4,670
Depreciation and amortization	9, 10	-31,273	-23,662
Operating profit		50,766	53,315
Financial income	20	4	103
Financial costs	20	-10,037	-4,467
Profit before income tax		40,732	48,951
 Profit for the year		40,732	48,951
Total comprehensive income for the year		40,732	48,951

The notes on pages 66 to 101 are an integral part of these financial statements.

Cash Flow Statement

in thousands of euros

Note	1.01.2014- 31.12.2014	1.01.2013- 31.12.2013
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Cash flows from operating activities

Profit before income tax	40,732	48,951
Adjustments for:		
· Profit from sale of property, plant and equipment	16	-18
· Depreciation, amortisation and impairment	9, 10	31,273
· Dividends received from long-term financial investments	16	-35
· Government grants expended and amortised	16	-1,086
· Subsidies received	13	0
· Interest expenses	20	10,034
· Interest income	20	-4
· Other gains/losses from investments	20	0
· Changes in inventories	8	-2,284
· Changes in receivables and prepayments related to operating activities	7	177
· Changes in liabilities and prepayments related to operating activities	12	-7,680
Changes in deferred income from connection and other service fees	13	739
Cash generated from operations	71,849	90,974
Interest paid	12, 20	-11,426
Interest received	20	4
Net cash from operating activities	60,427	80,495

Cash flows from investing activities

Purchases of property, plant and equipment and intangible assets	9, 10, 12	-105,694	-188,323
Deposits with maturities of over 3 months		0	11,000
Foreign grants to acquire non-current assets	13	19,995	0
Proceeds from sale of property, plant and equipment		31	90
Dividends received from long-term financial investments	16	35	0
Congestion fees received	13	20,974	0
Net cash used in investing activities		-64,658	-177,234

Cash flows from financing activities

Long-term bank loans received	11	34,955	84,895
Other financial income received	20	0	32
Net cash from financing activities		34,955	84,927

Net increase/decrease in cash and cash equivalents	30,724	-11,812
Cash and cash equivalents at the beginning of the year	6	1,145
Cash and cash equivalents at the end of the year	6	31,869

The notes on pages 66 to 101 are an integral part of these financial statements.

Statement of Changes in Equity

<i>in thousands of euros</i>	<i>Share capital</i>	<i>Statutory reserve capital</i>	<i>Retained earnings</i>	<i>Total</i>
Balance as of 01.01.2013	149,890	4,515	70,731	225,136
Comprehensive income for financial year	0	0	48,951	48,951
Transfers to statutory reserve capital	0	1,743	-1,743	0
Balance as of 31.12.2013	149,890	6,259	117,939	274,087
Comprehensive income for financial year	0	0	40,732	40,732
Transfers to statutory reserve capital	0	2,448	-2,448	0
Balance as of 31.12.2014	149,890	8,706	156,223	314,820

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

The notes on pages 66 to 101 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 2014 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 16.03.2015. 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.

Principles of consolidation

Subsidiaries

A subsidiary is an entity controlled by the Parent. Control is presumed to exist when the Parent owns, directly or indirectly through subsidiaries, more than 50% of the voting power of a subsidiary or otherwise has power to govern its financial and operating policies. Subsidiaries are consolidated from the date of their acquisition (obtaining of control) until the date of sale (loss of control).

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of acquisition is measured as the fair value of consideration paid upon acquisition (i.e. assets transferred, liabilities incurred and equity instruments issued by the acquirer for the purpose of acquisition) plus fair value of assets and liabilities of contingent consideration. Costs directly attributable to the acquisition are recorded as expenses. Acquired and separately identifiable assets, liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the date of acquisition. The Company chooses for each business combination whether to account for non-controlling interest at fair value or proportionally to net assets.

The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The company purchased shares of the subsidiary on 13 January 2015. Beginning from 2015, the Company will start to prepare consolidated financial statements, whereas the financial statements of the subsidiary are combined on a line-by-line basis. The receivables, liabilities, income, expenses and unrealised profits which arise as a result of transactions between the Parent and the subsidiary are eliminated. Accounting policies of the subsidiary will be changed, where necessary, to ensure consistency with the policies adopted by the parent company.

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. In 2013 and 2014 the Management Board determined that the activities of the Company form a single operating segment. In 2015, due to purchase of the subsidiary's shares a gas network segment will emerge. From that on, the Management Board will distinguish several operating segments. 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 financial statements of the Company are presented in thousands of euros which is the Company's functional and presentation currency.

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 2014, 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 2013, 'loans and receivables' and 'available-for-sale financial assets'). As of balance sheet date the Company had no derivative instruments.

Loans and receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. 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.

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

Available-for-sale financial assets entirely comprise of shares of Nord Pool Spot AS. The principal business activity of Nord Pool Spot AS Group, registered in Norway, is the organisation 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; nor are its shares traded in the financial markets. 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.

Inventories

Inventories are initially recorded at cost, consisting of the purchase costs, production costs and other costs incurred in bringing the inventories to their present location and condition.

The purchase costs of inventories include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour), and also a systematic allocation of fixed and variable production overheads (such as depreciation and maintenance of factory buildings and equipment, overhaul costs, and the labour cost of factory management engaged in production activities). Inventories are expensed using the FIFO method.

Inventories are measured in the balance sheet at the lower of acquisition/production cost and net realisable value. Net realisable value is calculated by deducting estimated expenses that are necessary for preparing the product for sale and for completing the sale from the estimated sales price used in the ordinary course of business.

Property, plant and equipment

Property, plant and equipment are tangible assets that are used in business activities and the useful life of which is longer than one year. Property, plant and equipment are recognised in the statement of financial position at the 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 criteria for property, plant and equipment. 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:

	<i>Useful lives in years</i>
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 and personal rights of use are amortised using the straight-line method over their useful lives:

	<i>Useful lives in years</i>
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 an 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.

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.

Provisions for greenhouse gas emissions

Provision for greenhouse gas emissions arises from the Company's obligation to deliver emission allowance that equals greenhouse gases emitted by its emergency reserve power plant during the accounting period. According to law, the greenhouse gas emission allowance must be delivered after the end of the calendar year in April. Calculation of the greenhouse

gas emission allowance is based on the pollution emitted during the accounting period and the price of the greenhouse gas emission allowance effective on the NASDAQ OMX stock exchange on the balance sheet day. See also Note 12.

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 balance sheet 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.

Transmission service

The Company measures the quantity of electricity transmission by remotely read metres in customers' connection points. The transmission service fees are calculated on the basis of the volumes of electricity transmitted in these points and regulated transmission tariffs.

Balancing service

The Company prepares on an hourly basis the energy balance in kilowatt-hours of the Estonian electricity system that consists of the energy balances of the Company itself and balance providers that have entered into a balance agreement with the Company. Energy balances

are prepared by comparing the measurement data of the Company and that received from distribution network operators with balancing plans of balance providers. In a trading period when the real consumption of electricity, based on the measurement data, is bigger than electricity volume presented in the energy balance, the Company sells the balance providers the shortage of energy. In a trading period when the situation is opposite, the Company buys from the balance providers the surplus of energy. The sale and purchase prices are calculated by the Company for each trading period on a cost basis.

Congestion income

In situations where market participants place more requests for cross-border transmission of electricity than is technically possible, transmission rights for cross-border electricity are sold at special auctions. Under the principle used in these auctions, 50% of auction income belongs to the transmission system operator of either country. Types of the auctions:

1. Hourly auctions. Revenue gained on the hourly auctions is essentially a price difference between Estonian and neighbouring countries electricity every hour, and it is allocated to counterparties through the Nord Pool Spot (hereinafter NPS) power exchange.
The auctions are organized by NPS and the latter shall transfer 50% to the relevant transmission system operators.
2. Physical Transmission Right auctions (hereinafter PTR auctions). The market participant that buys transmission capacity at PTR auction acquires the right for the hourly auction revenue in the same amount. The company distributes to the market participants hourly auction revenue that was received from the power exchange, proportionate to the PTR transmission capacity.

Net income from hourly and PTR auctions is recognised in compliance with the Article 16 of European Parliament and Council Regulation (EC) No 714/2009, according to which congestion income should be utilized for the construction of new interconnection capacities. If congestion income cannot be used for this purpose, then it is used for reduction of current period network tariffs.

If congestion revenue is used for the construction of new interconnection capacities, then it is recognized in the financial statements similarly to the government grants. Initially, it is recognized as deferred income, and then is credited to income over the estimated useful life of the asset. If congestion revenue is used for the reduction of tariffs, then revenue is recognized on an accrual basis in the period, when the Company established the right for net income from hourly and PTR auctions.

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 25 years. Deferred connection fees are carried in the statement of financial position as long-term deferred income.

Interest income

Interest income is recognised when it is probable that the interest will be received and the amount of revenue can be measured reliably. Interest income is recognized on an accrual 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 incurs the related costs 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 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 (from November to October), interest earned on over collected amounts or interest paid on under collected amounts and justified expenses incurred for management of subsidies.

The customers are charged according to the estimated charge per kWh. For 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 material impact on the comprehensive income of the Company. See also Note 12.

Employee benefits

Employee short-term benefits include wages, salaries and social taxes, benefits related to temporary suspension of employment contracts (holiday or other similar pay). These benefits 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. Income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate on the net dividends paid out of retained earnings is 21/79 in 2014 (starting from 2015, the tax rate is 20/80). 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:

<i>Tax</i>	<i>Tax rate</i>
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	1.0% 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:

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 useful 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 30,178 thousand (2013: EUR 22,107 thousand). If depreciation rates were increased/decreased by 10%, the depreciation charge for the year would increase/decrease by EUR 3,018 thousand (2013: EUR 2,211 thousand).

Congestion revenue

According to the accounting principles described in Note 2, congestion revenue depends on the purposes for which the revenue is used – for constructions of new interconnection capacities or reduction of current network tariffs. The purposes are outlined in the Article 16 of European Parliament and Council Regulation (EC) No 714/2009. Until 30 June 2014, the Company used congestion revenue to decrease current network tariffs, and hence, recognized revenue in the same reporting period as it occurred (EUR 14,208 thousand in 2013 and EUR 15,792 thousand in 2014). The management believes that construction of the new power line between Estonia and Latvia is probable. The Regulator (the Competition Authority) was notified of this resolution. Therefore, beginning from 1 July 2014, the Company has recognized congestion revenue in the amount of EUR 20,892 thousand as deferred revenue (Note 13).

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 2014 had no effect on the financial statements and have no importance with respect to the Company's business activity.

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 electricity price risk, 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 financial 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

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Loans and receivable		
Cash and cash equivalents (Note 6)	31,869	1,145
Trade and other receivables (Note 7)	39,577	22,698
Total loans and receivables	71,446	23,843
Available-for-sale financial assets	1,946	1,946
Total financial assets	73,392	25,789

Other financial liabilities

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Financial liabilities		
Trade and other payables (Note 12)	26,591	40,592
Borrowings (Note 11)	347,857	312,390
Total financial liabilities	374,448	352,982

Credit risk

The Company takes on exposure to credit risk, which is the risk that one party of 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 acceptable credit institutions or 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:

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Cash and cash equivalents (Note 6)	31,869	1,145
Trade and other receivables (Note 7)	39,577	22,698
Total exposure of assets to credit risk in the statement of financial position	71,446	23,843

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 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 7.

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 31.12.2014, the Company had one counterparty (31.12.2013: one counterparty) with an aggregated receivables balance of EUR 16,802 thousand (31.12.2013: EUR 17,473 thousand) or 68% of the total amount of accounts receivable (31.12.2013: 77%).

In 2014 as well as in 2013 the major part of receivables was to the wholly state owned company. The company acts as a natural monopolist in distribution network field. Therefore Management believes that the credit risk arising from the concentration of receivables is not significant.

Market risk

The Company is exposed to market risk. Market risk arises mainly from changes in the electricity price, as well as from open positions in foreign currencies and 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 the interest rate and changes in foreign currency rates.

Electricity price risk

For offsetting network losses, the Company primarily buys electricity in the electricity exchange. The average electricity exchange price of the last period is used for calculation of network charges. In a situation where the exchange price differs from the one used for calculation of tariffs, the difference is not offset in the next tariff period. As a result the Company may earn profit or loss from buying electricity in a short perspective. The Company believes the risk of creating big losses is not significant and therefore there are no financial instruments in place to reduce the risk.

Currency risk

Currency risk is the risk that in the future fair value of financial instruments of cash flow will fluctuate due to changes in 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 31.12.2014 and 31.12.2013.

Interest rate risk

The financial instruments with floating interest rate expose the Company to cash flow interest rate risk, i.e. the risk that an increase in market interest rates will cause an increase in the Company's interest expense. At the same time, in case of short-term deposits, a 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. To some extent, the Company is protected against interest rate risk, because according to tariff regulations, the average interest rate of the last five years is included in the calculation of network tariffs. 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.

As of 31.12.2014 borrowings with fixed interest rate constituted 64% (as of 31.12.2013 71%) of all borrowings carried at amortised cost; the remaining 36% (as of 31.12.2013 29%) of the abovementioned liabilities were long-term bank loans with a floating interest rate carried at amortised cost. Long-term bonds were issued on 12.07.2011 with the maturity of seven years and the nominal value of EUR 225 million. The bonds' coupon is fixed at 4.625% p.a. and interest payments are made once a year. The floating interest rate of bank loans is based on the 6-month Euribor and it is fixed twice a year.

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.

The table below summarises the Company's exposure to interest rate risks in 2014 and 2013. 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.

<i>in thousands of euros</i>	<i>On demand and less than 1 month</i>	<i>From 1 to 12 months</i>	<i>From 12 months to 5 years</i>	<i>Total</i>
31.12.2014				
Cash and cash equivalents (Note 6)	31,869	0	0	31,869
Current portion of long-term borrowings (Note 11)	0	-1,191	0	-1,191
Long-term borrowings (Note 11)	0	-123,615	-223,051	-346,666
Net interest sensitivity gap on 31.12.2014	31,869	-124,806	-223,051	-315,988

in thousands of euros	<i>On demand and less than 1 month</i>	<i>From 1 to 12 months</i>	<i>From 12 months to 5 years</i>	<i>Total</i>
31.12.2013				
Cash and cash equivalents (Note 6)	1,145	0	0	1,145
Current portion of long-term borrowings (Note 11)	0	0	0	0
Long-term borrowings (Note 11)	0	-89,832	-222,558	-312,390
Net interest sensitivity gap on 31.12.2013	1,145	-89,832	-222,558	-311,245

The Company did not have other financial instruments exposed to risk of change in 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 31.12.2014 and 31.12.2013 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 cash flows of subsequent periods are calculated on the basis of loan interest rates effective at balance sheet date.

The maturity analysis of financial liabilities on 31.12.2014 is as follows:

in thousands of euros	<i>On demand and less than 1 month</i>	<i>From 1 to 12 months</i>	<i>From 12 months to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Liabilities*					
Trade and other payables (Note 12)	17,640	3,741	0	0	21,380
Borrowings (Note 11)	0	12,966	280,894	108,923	402,783
Total future payments	17,640	16,707	280,894	108,923	424,164

* including interest expenses

The maturity analysis of financial liabilities on 31.12.2013 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)	23,868	11,607	0	0	35,475
Borrowings (Note 11)	0	11,278	284,791	91,419	387,488
Total future payments	23,868	22,885	284,791	91,419	422,963

* 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 31.12.2014, the Company's total available cash resources (cash and cash equivalents) amounted to EUR 31,869 (as of 31.12.2013: EUR 1,145 thousand). See further information in Note 6.

In addition, as of 31.12.2014 the Company had undrawn borrowing facilities amounting to EUR 32,000 thousand (31.12.2013: EUR 35,000 thousand). The Company was granted irrevocable 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 was transferred in 2010 and EUR 20,000 thousand in 2014. The remaining EUR 15,000 thousand will be collected by the Company in 2015, however, it has been recognized as other receivables (see Note 7) because the management believes that the Company has fulfilled all its obligations to meet the criterias set for the financial help granted.

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. The Company's target has been to preserve the ratio of equity to assets at 35% - 45%. The equity to asset ratio is presented in the table below:

in thousands of euros	31.12.2014	31.12.2013
Equity	314,820	274,087
Total assets	790,050	670,934
Equity to asset ratio	40%	41%

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.

The different levels have been defined as follows:

Level 1

quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2

inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3

inputs for the asset or liability that are not based on observable market data.

Estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. The additional estimations are used for interpreting 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 (level 3).

Liabilities carried at amortised cost

Carrying amounts of trade and other payables approximate their fair values (level 3).

The estimated fair value of non-current borrowings with a fixed interest rate is determined using their quoted price (level 1). The estimated fair value of non-current borrowings with a floating interest rate (level 3) 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 31.12.2014: bonds, the market value of which without accrued interest was EUR 249,278 thousand (nominal value EUR 225,000 thousand) and bank loans, the market value of which without accrued interest was EUR 120,522 thousand (nominal value EUR 125,000 thousand). The liabilities as of 31.12.2013 consisted of bonds the market value of which without accrued interest was EUR 255,415 thousand (nominal value EUR 225,000 thousand) and bank loans, the market value of which without accrued interest was EUR 79,121 thousand (nominal value EUR 90,000 thousand).

Note 6

CASH AND CASH EQUIVALENTS

in thousands of euros	31.12.2014	31.12.2013
Bank accounts	31,869	298
Short-term deposits	0	847
Total cash and cash equivalents	31,869	1,145

Bank accounts and deposits with maturities of up to 3 months

in thousands of euros	31.12.2014	31.12.2013
Bank accounts and short-term deposits at banks		
· with Moody's credit rating of Aa3	35	6
· with Moody's credit rating of A2	664	793
· with Moody's credit rating of A1*	31,170	346
Total bank accounts and short-term deposits at banks	31,869	1,145

* 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

Note 7

TRADE AND OTHER RECEIVABLES

in thousands of euros	31.12.2014	31.12.2013
Trade receivables		
Accounts receivable	24,577	22,653
· PRT-Limited auction receivables	2,092	0
· allowance for doubtful receivables	0	-12
Other receivables		
· government grant to be collected (Note 5)	15,000	45
Total financial assets within trade and other receivables in the statement of financial position	39,577	22,698
Tax receivables	47	5
Prepayments	148	154
Total trade and other receivables	39,773	22,858

Analysis by credit quality of trade receivables is as follows:

<i>in thousands of euros</i>	<i>31.12.2014</i>	<i>31.12.2013</i>
Accounts receivable not yet due		
▪ Distribution networks	18,179	18,987
▪ Other clients	5,131	3,345
Total accounts receivable not yet due	23,310	22,332
Accounts receivable past due but not classified as doubtful (IAS 39)		
▪ 1 to 90 days overdue	1,267	321
Total accounts receivable past due but not classified as doubtful	1,267	321
Accounts receivable classified as doubtful		
▪ over 90 days overdue	0	12
Total accounts receivable classified as doubtful	0	12
Total accounts receivable past due	1,267	333
Total trade receivables	24,577	22,653

In the financial year, the Company wrote off uncollectible receivables in amount of EUR 22 thousand, which were not settled as at 31.12.2014 (in 2013 the respective amount was EUR 3 thousand).

Further information on receivables from related parties is disclosed in Note 22.

Note 8

INVENTORIES

<i>in thousands of euros</i>	<i>31.12.2014</i>	<i>31.12.2013</i>
Raw material and materials at warehouses	2,631	347
Total inventories	2,631	347

The Company keeps inventories of reserve fuel for emergency reserve electricity plants.

Note 9

PROPERTY, PLANT AND EQUIPMENT

<i>in thousands of euros</i>	<i>Land</i>	<i>Buildings</i>	<i>Facilities</i>	<i>Machinery and equipment</i>	<i>Other</i>	<i>Construction in progress</i>	<i>Total</i>
Property, plant and equipment on 01.01.2013							
Cost at 01.01.2013							
Cost at 01.01.2013	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 01.01.2013	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 01.01.2013	5,224	14,278	156,693	166,217	8	118,583	461,003
Movements 01.01.2013-31.12.2013							
Additions	0	1,665	13,651	23,056	0	157,262	195,634
Reclassified from construction in progress	0	10,958	100,393	101,185	0	-212,536	0
Capitalised borrowing costs (Note 20)	0	0	0	0	0	6,755	6,755
Disposals and write-offs at carrying amount	-6	0	0	-78	0	0	-84
Depreciation charge	0	-559	-9,590	-11,952	-6	0	-22,107
Impairment	-3	0	-4	-268	0	0	-275
Total movements 01.01.2013-31.12.2013	-9	12,064	104,450	111,943	-6	-48,519	179,923
Cost at 31.12.2013							
Cost at 31.12.2013	5,215	30,687	354,542	361,072	54	0	751,570
Accumulated depreciation	0	-4,345	-93,399	-82,912	-52	0	-180,708
Carrying amount on 31.12.2013	5,215	26,342	261,143	278,160	2	0	570,862
Construction in progress	0	0	0	0	0	70,063	70,063
Total property, plant and equipment on 31.12.2013	5,215	26,342	261,143	278,160	2	70,063	640,925
Movements 01.01.2014-31.12.2014							
Additions	103	0	0	73	11	97,916	98,103
Reclassified from construction in progress	0	12,903	53,325	88,760	8	-154,996	0
Capitalised borrowing costs (Note 20)	0	0	0	0	0	1,996	1,996
Disposals and write-offs at carrying amount	-12	0	-2	0	0	0	-14
Depreciation charge	0	-1,175	-12,182	-16,816	-5	0	-30,178
Impairment	0	-11	0	-364	0	0	-375
Total movements 01.01.2014-31.12.2014	91	11,717	41,141	71,653	14	-55,084	69,532

in thousands of euros	<i>Land</i>	<i>Buildings</i>	<i>Facilities</i>	<i>Machinery and equipment</i>	<i>Other equipment</i>	<i>Construction in progress</i>	<i>Total</i>
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Property, plant and equipment on 31.12.2014

Cost on 31.12.2014	5,306	43,488	406,909	448,408	73	0	904,184
Accumulated depreciation	0	-5,429	-104,625	-98,595	-57	0	-208,706
Carrying amount on 31.12.2014	5,306	38,059	302,284	349,813	16	0	695,478
Construction in progress	0	0	0	0	0	14,979	14,979
Total property, plant and equipment on 31.12.2014	5,306	38,059	302,284	349,813	16	14,979	710,457

In the financial year, the second emergency reserve electricity plant with the cost of EUR 68,185 thousand has been put into operation.

Construction in progress mainly consists of 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 the financial year include capitalised borrowing costs of EUR 1,996 thousand (2013: EUR 6,755 thousand). The capitalisation rate was 3.4% (2013: 3.7%).

Further information on operating lease of property, plant and equipment is disclosed in Note 21.

Note 10

INTANGIBLE ASSETS

in thousands of euros	<i>Acquired software & licenses</i>	<i>Right of use of land</i>	<i>Total</i>
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Intangible assets on 01.01.2013

Cost at 01.01.2013	4,074	1,244	5,318
Accumulated amortisation	-1,123	-72	-1,195
Carrying amount on 01.01.2013	2,951	1,172	4,123
Intangible assets not yet available for use	0	0	0
Total intangible assets on 1.01.2013	2,951	1,172	4,123

Movements 01.01.2013-31.12.2013:

Additions	525	344	869
Capitalised borrowing costs (Note 20)	1	0	1
Amortisation charge	-1,266	-14	-1,280
Total movements 1.01.2012-31.12.2012	-740	330	-410

<i>in thousands of euros</i>	Acquired software & licenses	Right of use of land	Total
Intangible assets on 31.12.2013			
Cost at 31.12.2013	3,265	1,587	4,852
Accumulated amortization	-1,276	-85	-1,361
Carrying amount on 31.12.2013	1,989	1,502	3,491
Intangible assets not yet available for use	222	0	222
Total intangible assets on 31.12.2013	2,211	1,502	3,713
Movements 01.01.2014-31.12.2014			
Additions	365	15	380
Capitalised borrowing costs (Note 20)	1	0	1
Amortisation charge	-703	-17	-720
Total movements 01.01.2014-31.12.2014	-337	-2	-339
Intangible assets on 31.12.2014			
Cost at 31.12.2014	3,800	1,602	5,402
Accumulated amortisation	-1,980	-102	-2,082
Carrying amount 31.12.2014	1,820	1,500	3,320
Intangible assets not yet available for use	54	0	54
Total intangible assets on 31.12.2014	1,874	1,500	3,374

Note 11

BORROWINGS

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Short-term borrowings		
Current portion of long-term bank loans	1,191	0
Total short-term borrowings	1,191	0
 <i>in thousands of euros</i>		
Long-term borrowings		
Long-term bank loan	123,615	89,832
Bonds issued	223,051	222,558
Total long-term borrowings	346,666	312,390

The Company's borrowings are denominated in the following currencies:

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Borrowings denominated in euros	347,857	312,390
Total borrowings (Note 5)	347,857	312,390

The average effective interest on borrowings was 3.4% in 2014 (2013: 3.7%).

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

- Loan from the European Investment Bank
The loan is in the amount EUR 75,000 thousand. The maturity date of the loan is 2033, the interest rate is floating which is the sum of 6-month Euribor and the margin. The repayments of the loan will start in 2018.
- Loans from the Nordic Investment Bank
The Company has three loans in the total amount of EUR 50,000 thousand. The repayments will start in 2015-2018 and will end in 2025-2033. Interest rate is floating which is the sum of 6-month Euribor and margin.
- Eurobonds
In 2011, the Company issued Eurobonds with the maturity of seven years and the nominal value of EUR 225 million and these bonds are listed on London stock exchange. Bonds' coupon is fixed at 4.625% p.a. and interest payments are made once a year.
- Overdraft
The Company has an overdraft contract in the amount of EUR 20,000 thousand. The contract is valid until 2016 and it can be terminated with a 6-month notice. The interest payable on the used portion is floating. As of 31.12.2014 and 31.12.2013, the Company did not use overdraft.

As of the balance sheet date, the undrawn loan limit of the Company's valid loan contract with the European Investment Bank totalled EUR 32,000 thousand (31.12.2013: EUR 35,000 thousand). The entire loan or part of it can be withdrawn until 11.06.2015. The interest on the undrawn loan is floating and it is determined immediately prior to the withdrawal of the loan.

Under its loan agreements, the Company has undertaken to comply with certain financial covenants. At the end of 2013 and 2014, the Company's financial indicators complied with all contractual covenants.

Note 12

TRADE AND OTHER PAYABLES

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Trade payables	15,298	14,314
▪ Including payables for PRT-Limited auction	2,175	0
Payables for purchased property, plant and equipment and intangible assets	2,342	9,554
Subsidies due to electricity producers	3,447	11,326
Other payables	294	281
Total financial liabilities within trade and other payables without accrued interests	21,380	35,475
Accrued interests	5,211	5,117
Total financial liabilities within trade and other payables in the statement of financial position	26,591	40,592
 Taxes payable		
VAT	1,275	147
Social security tax	207	229
Personal income tax	112	128
Unemployment insurance tax	14	18
Contributions to mandatory funded pension	10	11
Corporate income tax and income tax on fringe benefits	10	6
Excise tax	174	169
Pollution tax	1	0
Total taxes payable	1,803	708
 Accrued expenses - employee benefits		
Wages and salaries	226	208
Bonuses	240	75
Holiday pay	89	79
Social security and unemployment insurance tax	111	52
Total accrued expenses - employee benefits	666	414
Other payables	33	3
▪ Including Provisions for greenhouse gas emissions	29	0
Total trade and other payables	29,094	41,717

Further information on payables to related parties is disclosed in Note 22.

Note 13

DEFERRED INCOME

Income from connection and other service fees

<i>in thousands of euros</i>	2014	2013
Deferred income from connection and other service fees at the beginning of the period	28,176	24,487
Connection and other service fees received	1,997	4,753
Connection and other service fees recognised as revenue (Note 15)	-1,258	-1,064
Deferred income from connection and other service fees at the end of the period	28,915	28,176

Income from government grants

<i>in thousands of euros</i>	2014	2013
Prepayments related to government grants at the beginning of the period	14,564	14,774
Subsidies received (Note 5 and 7)	35,136	117
Subsidies used to cover operating expenses (Note 16)	-141	-152
Government grants recognised as revenue (Note 16)	-1,086	-175
Prepayments related to government grants at the end of the period	48,473	14,564

Congestion revenue

<i>in thousands of euros</i>	2014	2013
Congestion revenue at the beginning of the period	0	0
Congestion revenue recognised during the period	20,892	0
Congestion revenue at the end of the period	20,892	0

Note 14

EQUITY

The Company's share capital consists of 149,890 shares with the nominal value of EUR 1,000 (31.12.2013: 149,890 shares with the nominal value of EUR 1,000). The shares have been paid for in full.

No dividends were paid in the financial years 2014 and 2013.

As of 31.12.2014, the Company's statutory reserve capital totalled EUR 8,706 thousand (31.12.2013: EUR 6,259 thousand). As at 31.12.2014, the Company has the obligation to additionally transfer EUR 2,037 thousand (31.12.2013: EUR 2,448 thousand) to reserve capital.

The retained earnings of the Company as of 31.12.2014 amounted to EUR 156,223 thousand (31.12.2013: EUR 117,939 thousand). The income tax applicable to the net profit distributable as dividends is 20/80 (2013: 21/79). As of 31.12.2014, it would be possible to distribute EUR 123,349 thousand as net dividends (31.12.2013: EUR 91,238 thousand) and the corresponding income tax would amount to EUR 30,837 thousand (31.12.2013: EUR 24,253 thousand).

Note 15

REVENUE

Analysis of revenue by activity

<i>in thousands of euros</i>	2014	2013
Sales of balancing electricity and regulation services		
Balancing electricity	13,360	19,630
Regulation services	1,638	629
Total Sales of balancing electricity and regulation services	14,998	20,259
Sales of network services		
Transmission fees	88,432	93,716
Other network services	21,020	15,492
▪ Including congestion revenue (Note 2)	15,792	14,208
Revenue from connection fees (Note 13)	1,258	1,064
Total sales of network services	110,711	110,272
Sales of other goods and services		
Lease of transmission equipment (Note 21)	855	848
Sales of scrap metal	114	333
Sales of other services	2,547	2,119
Other goods	3	5
Total sales of other goods and services	3,520	3,305
Total revenue	129,229	133,836

Analysis of revenue by geographical location of customers

<i>in thousands of euros</i>	2014	2013
Estonia	101,012	114,810
Norway	18,013	14,122
Latvia	2,835	2,094
Finland	3,340	579
Lithuania	700	972
Russia	114	383
Other	3,214	876
Total revenue	129,229	133,836

Note 16**OTHER INCOME**

<i>in thousands of euros</i>	2014	2013
Government grants related to acquisition of property, plant and equipment (Note 13)	1,086	175
Fines, penalties and compensations received	235	262
Gain on disposal of property, plant and equipment	18	5
Foreign grants for operating expenses (Note 13)	141	153
Income related to administration of renewable energy	91	0
Dividends from long-term financial investments	35	0
Other income	2	0
Total other income	1,609	595

Note 17**GOODS, RAW MATERIALS AND SERVICES**

<i>in thousands of euros</i>	2014	2013
Electricity purchased to provide the balancing service		
Purchase of balancing electricity	12,289	16,373
Purchase of power regulation service	2,098	3,316
Operating expenses of emergency reserve power plant	110	0
Total electricity purchased to provide the balancing service	14,497	19,688
System services		
Purchased electricity reserves	15	4,323
Reactive energy	409	431
Countertrade	343	947
Operating expenses of emergency reserve power plant	257	3
Total system services expenses	1,024	5,704
Electricity to compensate for network losses		
Electricity from non-renewable sources	15,024	15,694
Total electricity to compensate for network losses	15,024	15,694
Maintenance and repair works		
On facilities and equipment related to core activities	5,209	4,420
On production buildings and sites	341	510
Disassembly works and waste processing	140	109
Other	202	184
Total maintenance and repair works	5,892	5,223

in thousands of euros 2014 2013

Other costs		
Operative switching and dispatching management expenses	665	669
Other costs	2,600	1,907
Total other costs	3,265	2,576
Total goods, raw materials and services	39,703	48,885

Note 18

OTHER OPERATING EXPENSES

<i>in thousands of euros</i>	2014	2013
Transportation and tools	131	131
Security, insurance and occupational safety	170	74
Office expenses	300	322
Research and development costs (R&D)	386	296
Research and consulting	537	717
Telecommunication	1,022	971
Information technology	445	466
Training and other miscellaneous operating expenses	857	799
Other expenses	158	123
Total other operating expenses	4,006	3,899

Note 19

STAFF COSTS

<i>in thousands of euros</i>	2014	2013
Base salaries, additional remuneration, bonuses, vacation pay	3,650	3,338
Termination benefits	7	10
Other remuneration	117	113
Total remuneration to employees	3,775	3,461
Social security tax	1,284	1,178
Unemployment insurance tax	32	31
Total staff costs	5,090	4,670
▪ Including compensations to the members of the Management and Supervisory Board		
Salaries, additional remuneration bonuses, vacation pay	269	250
Fringe benefits	26	24
Social security tax	97	90
Total compensations to the members of the Management and Supervisory Boards	392	364

The average monthly pay was EUR 2,084 (2013: EUR 1,892).

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

Note 20

FINANCIAL INCOME AND COSTS

<i>in thousands of euros</i>	2014	2013
Financial income		
Interest income	4	71
Other financial income	0	32
Total financial income	4	103
Financial costs		
Interest expenses	-12,031	-11,220
Foreign exchange losses	-1	-1
Other financial costs	-2	-2
Total financial costs	-12,034	-11,223
Less: capitalised borrowings costs (Notes 9 and 10)	1,997	6,756
Total financial costs recognised in the statement of comprehensive income	-10,037	-4,467
Net financial income (costs)	-10,033	-4,364

Note 21

OPERATING LEASE

Company as a lessor

Operating lease revenue

<i>in thousands of euros</i>	2014	2013
Buildings	197	203
Transmission equipment	855	848
Total operating lease revenue	1,052	1,051

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 vary depending on the length of fibres leased out during the year.

Information about assets (facilities) leased out under operating leases

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Cost	6,112	5,707
Accumulated depreciation at the end of period	-3,725	-3,326
Carrying amount	2,387	2,381

Depreciation charge

<i>in thousands of euros</i>	2014	2013
Depreciation charge	399	399

Estimated future lease payments under operating leases

<i>in thousands of euros</i>	31.12.2014	31.12.2013
Not later than 1 year	908	855
Later than 1 year and not later than 5 years	3,632	3,420
Later than 5 years	4,767	5,344
Total future minimum lease payments	9,307	9,619

Company as a lessee

Operating lease expenses

<i>in thousands of euros</i>	2014	2013
Buildings	36	36
Transport equipment	85	86
Other machinery and equipment	21	21
Total operating lease expenses	142	143

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

Note 22

BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

- 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	31.12.2014	31.12.2013
Trade receivables		
Companies controlled or significantly influenced by the State	18,340	19,162
Total trade receivables	18,340	19,162
▪ incl. from network operators	16,989	17,661

Trade payables and other liabilities		
Companies controlled or significantly influenced by the State	3,976	3,524
Total trade payables and other liabilities	3,976	3,524

Income and expense items with related parties were as follows

<i>in thousands of euros</i>	<i>Related party</i>	2014	2013
Revenue from sale of goods	Companies controlled or significantly influenced by the State	8,223	14,120
Revenue from sale of services	Companies controlled or significantly influenced by the State	80,316	85,255
Revenue from sale of goods and services		88,539	99,375
Purchase of goods	Companies controlled or significantly influenced by the State	6,073	3,132
Purchase of services	Companies controlled or significantly influenced by the State	3,351	6,407
Purchase of goods and services		9,424	9,539
Expenditures on non-current assets	Companies controlled or significantly influenced by the State	0	39,299
• Incl. purchase of electricity interconnector EstLink 1 between Estonia and Finland		0	38,499

- Revenue from sale of goods is incurred by the sale of reactive power and imbalance energy.
- Revenue from sale of services is incurred mainly from sale of network services and in 2013 lease of fibre-optic cable.
- The purchase of goods results from the purchase of imbalance energy and reactive energy and in 2013 purchase of electricity to compensate losses.
- The purchase of services results from regulation, operative switching, dispatching management and maintenance and repair services.

Transactions with companies under the significant influence of the members of the Supervisory and Management Boards or their close relatives

<i>in thousands of euros</i>	2014	2013
Sales of services	47	51
Purchase of services	13	0

Key management personnel compensations are disclosed in Note 19.

Receivables and payables to related parties are disclosed in Notes 7 and 12. The receivables from related parties were written off neither in 2014 nor 2013.

Note 23

CONTINGENT LIABILITIES AND BINDING 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.

Obligation to tolerate utility networks

On the basis of a ruling of the Supreme Court, current amounts of fees paid for tolerating utility networks and structures have been annulled and lawmakers have not yet adopted new regulation. This means that the situation remains unclear and while landowners are still entitled to claim payment for tolerating utility networks and structures, the method for determining justified fees is unclear and unregulated. The time of introduction of new regulation is also unknown and it is unclear whether the regulation will be effective since introduction or it will be applied retrospectively. Although at present Elering has only one pending court dispute related to tolerating utility networks, the above situation creates a major ambiguity with regard to contingent financial claims for tolerating utility networks. According to the tariff regulation, the aforementioned costs are included in the calculation of network service fees, but there may be a time lag between the payment of compensations and receiving compensations via network tariffs. Therefore the Company may temporarily need to finance these costs from other sources of income.

Capital expenditure commitments

On 31.12.2014, the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling EUR 26,322 thousand (31.12.2013: EUR 100,999 thousand).

Tax legislation

The tax authorities have the right to verify the Company's tax records up to 5 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.

Note 24

EVENTS AFTER THE REPORTING PERIOD

Business combination

On 13 January 2015, the Company acquired 51.38% of the share capital of AS Võrguteenus Valdus, a parent company of AS EG Võrguteenus which is a company operating the gas transmission system network in Estonia. The purpose of the acquisition was diversification of the risks by adding new operating activity and expanding the customer base, cost savings on overheads and better access to the international capital markets due to the Company's growth.

The cash consideration amounted to EUR 27,573 thousand, paid in January 2015. The direct costs of acquisition, which were charged to the income statement, were EUR 218 thousand.

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

<i>in thousands of euros</i>	<i>Fair value</i>
Cash and cash equivalents	989
Trade and other receivables	1,642
Inventory	405
Property, plant and equipment	54,364
Intangible assets	124
Trade and other payables	-692
Long-term provisions	-234
Net assets acquired	56,598
Purchase consideration	
▪ Cash paid	27,573
Fair value of net assets acquired (see above)	-56,598
Non-controlling interest 48.62%	27,515
Negative goodwill	-1,510

Non-controlling interest was measured at the non-controlling interest's proportionate share in the identifiable net assets.



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 2014 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 2014, 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.

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Report on Other 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

A blue ink signature of the name "Stan Nahkor".

Stan Nahkor
Auditor's Certificate No. 508

16 March 2015

* 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 31.12.2014 were EUR 156,233 thousand.

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

To pay as dividends to the shareholder EUR 20,000 thousand

Statutory legal reserve EUR 2,037 thousand

Retained earnings EUR 134,186 thousand

SIGNATURES OF THE MANAGEMENT TO THE 2014 ANNUAL REPORT

The signing of Elering AS 2014 Annual Report on 16.03.2015.



Taavi Veskimägi
Chairman of the Management Board



Peep Soone
Member of the Management Board



Kalle Kilk
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:

<i>EMTAK* area of activity</i>	<i>01.01.2014 - 31.12.2014</i>	<i>01.01.2013 - 31.12.2013</i>
35121 Transmission of electricity – transmission through the transmission network	113,060	112,188
35141 Trade of electricity (balancing electricity)	14,998	20,259
77399 Renting and leasing of other machinery, equipment and tangible goods n.e.c.	855	848
47770 Retail sale of other second-hand goods	118	338
68201 Renting and operating of own or leased real estate	197	203

* EMTAK – classification of Estonian economic activities.

Photos: Annika Haas, Egert Kamenik, Ain Köster, Margus Vilisoo, Aivo Kallas, Oleg Hartsenko



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