PROSPECTUS

ELERING AS

(*incorporated as a public limited liability company under the laws of the Republic of Estonia*)

€225,000,000 4.625 per cent. Notes due 2018
Issue price: 98.812 per cent.

The €225,000,000 4.625 per cent. Notes due 2018 (the **Notes**) are issued by Elering AS (the **Issuer**).

The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes as described under "*Terms and Conditions of the Notes – Redemption and Purchase*". In addition, upon the occurrence of a change of control of the Issuer as described under "*Terms and Conditions of the Notes - Redemption at the Option of the Holders on a Change of Control*", holders of the Notes may require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes at par plus accrued interest. The Notes mature on 12 July 2018.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Notes to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

The Notes will be rated A3 by Moody's Investors Service Limited (**Moody's**). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Moody's is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009 (the **CRA Regulation**), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 12 July 2011 (the **Closing Date**) with a common safekeeper for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 22 August 2011 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances – see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 6.

Joint Lead Managers and Joint Bookrunners

DEUTSCHE BANK **NORDEA**

Joint Lead Manager

SWEDBANK

The date of this Prospectus is 7 July 2011

This Prospectus comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the **Prospectus Directive**).

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that this Prospectus contains all material information with respect to the Issuer and the Notes (including all information which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes), that the information contained or incorporated in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

Save for the Issuer, no party has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and the Republic of Estonia; see "*Subscription and Sale*".

IN CONNECTION WITH THE ISSUE OF THE NOTES, DEUTSCHE BANK AG, LONDON BRANCH AS STABILISING MANAGER (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to (a) **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union, as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998, on the introduction of the euro, as amended and (b) **EEK** and **Estonian Kroon** are to the lawful currency of the Republic of Estonia prior to the adoption of the euro on 1 January 2011.

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PRESENTATION OF FINANCIAL INFORMATION

This Prospectus presents audited financial statements of the Issuer as at and for the years ended 31 December 2010 and 31 December 2009 (the **Financial Statements**) prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Certain arithmetical data presented in the Prospectus, including financial and operating information, has been subject to rounding. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables in the Prospectus may not conform exactly to the total figure given.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes

Risk of fluctuating revenues / unanticipated increase in costs or decrease in income

As almost all of the costs of the Company are fixed costs (i.e. they are not dependent on the volumes of transmitted electricity), the Company is especially vulnerable to any decline in revenues. The occurrence of any such decline would result in the corresponding reduction of net profit.

Network tariffs are calculated based on the forecasted amount of transmitted energy. In the periods when the economy is declining, the amount of actual transmitted energy may fall short of the forecasted amount, resulting in decreased revenue.

Currently, nearly 100 per cent. of the tariffs are based on domestic consumption, which is more stable than cross border transmission. However, there is no guarantee that tariffs will continue to be based on domestic consumption in the future. As revenues are calculated on assumed consumption over a future period, if consumption is lower than expected in that period then revenues will be lower. As almost all costs are fixed a decrease in revenue will have a direct impact on profit. In the event that a significant part of tariffs were to be based on power generation or cross border energy flows (including congestion management i.e. revenue from the auction of cross border capacity which is used in calculating grid tariffs), revenue may fluctuate significantly more from year to year. Such fluctuating revenues, taken together with fixed costs, may have an adverse effect on the financial position of the Company.

Unanticipated increases in operating costs related to reserves, construction, counter-trade or commodities; any unexpected repair or maintenance costs; decreases in electricity consumption; or structural changes in electricity production or consumption may have negative effects on the Company's financial position. The sum of operation and maintenance costs that are recovered through the tariffs is fixed each year according to a standard methodology set by the Regulator. In the event that actual costs are higher then there will be no compensation in the following years for the Company. Unanticipated increase in costs may occur due to several reasons: the increase in procurement prices; the emergencies in the network as a result of severe weather conditions; or breakage of submarine transmission cables etc.

Currently, the Company procures replacement of electricity lost through transmission with bilateral contracts at a regulated price. From 2013 onwards, the Company will have to buy electricity from an open market, where the price is likely to be more volatile. Increased prices contribute to increased costs and the recovery of these costs through the adjusted tariffs may be delayed. Any such delayed recovery of costs may have an adverse impact on the Company's financial position.

Risks related to the functioning of the power system

Major disturbances or power shortages in the Estonian power system could occur due to: severe and simultaneous faults in the grid; the malfunctioning of the network control system; adverse weather conditions; terrorism or vandalism; human error; emergencies resulting in power generation failures in the power stations; or an external incident, any of which could prevent the operation of the grid in whole or partially. In certain cases (such as human error by the Company's employees) the Company's customers may claim compensation for direct damages. Although the Company is prepared for these situations with various reserves, operational codes, manuals, emergency provisions and protective clauses in the network contracts, such disturbances or shortages may still occur and such occurrence could have a material adverse effect on the Company's financial position and results of operations or its reputation.

Risks related to changes in legislation or regulation

The Company operates as the sole Transmission System Operator in Estonia under a licence granted to the Company for an unlimited period. However, changes in Estonian legislation or European regulation could result in the removal or suspension of the Company's license.

Unfavourable changes in either European regulation or Estonian legislation may have a material adverse effect on the Company's financial position. Stricter regulation on environmental matters and complicated permit processes for the building of new transmission lines may negatively influence the Company's ability to fulfil its development targets and this may negatively influence the Company's financial position and/or reputation.

Electricity network tariffs regulation risk

Although the current regulatory regime has been in place since 2003 and has so far proven to be stable, there is no guarantee that the network tariff regulations may not change in the future. For a regulated company, revenue from tariffs is the major contributor to total revenues and hence profits. An unfavourable change in the tariff regulations could result in a significant decrease in the revenues and profit generated by the Company and weaken the Company's financial position.

Risks related to changes in Taxation

Currently, there is no corporate income tax levied by the Estonian authorities on reinvested profit but that may change in the future. Changes in applicable tax laws (in this regard or otherwise) may have an impact on the profitability of the Company.

Risk of breaching financial covenants

There are two financial covenants in the long-term loan agreements that the Company is required to meet: net debt to EBITDA and equity to assets ratios. Whilst the Company has not breached such covenants in the past, in the event that these covenants were to be breached, the relevant creditors would be able to declare an Event of Default pursuant to the relevant Facility Agreements and require prepayment of the entire outstanding amount. Due to the cross default clauses in such loan agreements and the Notes upon issue, the Company may need to refinance all outstanding debt. In such a situation there could be no assurance that the Company would be able to refinance such outstanding debt on terms acceptable to it, or at all, and accordingly would significantly impact on the ability of the Company to reach its repayment obligations, including in respect of the Notes. For further information please see "*The Business of Elering AS - Financing*".

Risks related to health and safety matters and the environment

The Company transmits electricity via high voltage lines and substations. When working with high voltage and large structures, there are inherent risks to persons and a risk of damage to property. Accidents may occur due to a fault in the Company's own power system operation, due to the action or inaction of a third party or due to circumstances outside of the Company's control, such as adverse weather conditions. The effects of electric and magnetic fields pose further potential risks to the Company. In addition, the Company's high voltage equipment contains substances which are hazardous for the environment (such as sulfur hexafluoride, oil etc.) which, in case of a leak, may contaminate the environment. If any of these risks materialise, including any such damage to person or property, leaks, contamination or attribution of damage to the Company in respect of its operations, the Company could be exposed to significant liability, damages and/or clean up costs, as well as material adverse publicity from such events which may have a material adverse effect on the condition of the Company.

Interest rate risk

The Company has fixed and floating rate debt. Fixed rate loans may result in financial losses in the event that the relevant benchmark market interest rate falls. Floating interest rate loans may result in financial losses in the event that the relevant benchmark market interest rates rise. Although the regulator's methodology takes the actual market interest rate into account while calculating the weighted average cost of capital for the Company, there may be a delay of up to three years before the adjustment by the regulator, during which time the increased interest expense will not be completely covered by the tariffs and that may weaken the Company's financial position.

Refinancing risk

The Company has amortising and bullet repayment debt obligations. The Company has not breached such obligations in the past. In the event that the maturity date of a bullet debt falls during a period of unfavourable market conditions, the costs of refinancing, if available at all, may be significantly more and result in the weakening of the Company's financial position. For further information please see "*The Business of Elering AS - Financing*".

State Ownership

The sole shareholder of the Company is the Republic of Estonia and its representatives in the Supervisory Board are usually either politicians or civil servants. As such, their decisions may not always be primarily or exclusively driven by profitability or other business considerations. State ownership of the Company may therefore negatively impact the Company's financial performance.

Power generation subsidies' administration risk

Pursuant to the energy subsidy scheme of the Republic of Estonia the Company collects subsidies from the electricity distribution companies and consumers, which the Company in turn pays out to the eligible power generation companies. The subsidy tariff is calculated by the Company for the whole calendar year, based on the Company's forecasts of the consumption and eligible generation in Estonia. In the event that the Company underestimates the amount of eligible generation and/or overestimates the consumption, the Company has to finance the deficit. However, both the surplus and deficit will be taken into account when calculating the following year's subsidy tariff.

Counterparty risk

In conducting its business the Company, as with any other business, faces counterparty risk. Counterparty risk may result in financial losses (including, but not limited to, funds deposited at banks, partners in long term construction projects and transmission revenues to be received from customers as well as balancing service revenues received from balance providers). Although the Company monitors its counterparty risks and has a risk management policy that includes the management of counterparty risks, there is a possibility that if these risks are realised, they may impact the Company's financial performance.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes may be redeemed prior to maturity

If, as a result of any change in, or amendment to, the laws or regulations of the Republic of Estonia or any political subdivision or any authority thereof or therein having power to tax, or any change in the official interpretation of the laws or regulations of any such jurisdiction, which change or amendment becomes effective after 12 July 2011, on the next Interest Payment Date the Issuer would be required to make a withholding or deduction (in respect of which the Issuer will be required to pay additional amounts under Condition 7 in order that the net amounts received by Noteholders are the same as would have been receivable in the absence of the withholding or deduction), and the requirement to pay such additional amounts cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may, at its option, redeem all of the Notes in accordance with the conditions of the Notes. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons*" and "*Terms and Conditions of the Notes – Taxation*".

On any such redemption of the Notes, it may not be possible for a Noteholder to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Certification of non-Estonian residency in respect of Notes in definitive form

Holders should be aware that, if definitive Notes are issued, holders of any definitive Notes that are not held through Euroclear or Clearstream, Luxembourg will be required to present evidence of non-Estonian residency to the relevant Paying Agent in order to receive payments of interest in respect of the Notes free of Estonian withholding tax (which, as at the date of this Prospectus, is charged at a rate of 21 per cent.).

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction, or collected by such a person for, to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent having its specified office in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The terms and conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Denominations involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum of €100,000 plus one or more higher integral multiples of €1,000. It is possible that the Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to €100,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

Sovereign Immunity and Immunity of Assets

Pursuant to Condition 14.4 the Issuer has irrevocably and unconditionally waived and agreed not to raise with respect to the Notes and the Coupons, to the extent permitted by applicable law, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, should any such immunity become available to it.

There is no law or jurisprudence of Estonian courts in respect of sovereign, diplomatic or any other immunity. Accordingly, if, notwithstanding the provisions of Condition 14.4, the Issuer sought to claim immunity in respect of any action or proceeding brought in connection with the Notes, there is no guarantee that such claim of immunity by the Issuer would not be successful.

In addition, the Estonian Code of Enforcement Procedure (*täitemenetluse seadustik*) provides a list of assets against which a claim for payment cannot be made and/or which may not be sold in the course of enforcement proceedings. Therefore, if the Issuer owns any assets the seizure or transfer of which is in conflict with good morals or public interest, such assets would be immune from the enforcement of any judgment or claim in respect of the Notes and the Coupons.

The Estonian Law on Restructurings

Pursuant to the Estonian Law on Restructurings (*Saneerimisseadus*) of 2008, as amended (the **Restructuring Act**), companies may make an application to court for the commencement of restructuring proceedings, and in the event that the court commences such restructuring proceedings, any enforcement proceedings against, or bankruptcy applications in respect of, such company will be stayed until the reorganisation plan is approved or restructuring proceedings are terminated. In addition, the Restructuring Act provides that, in connection with any reorganisation plan, creditors may agree to certain modifications to the terms of any obligations owed by the relevant company to its creditors.

Any application by the Issuer to the Estonian courts for the commencement of restructuring proceedings under the Restructuring Act would constitute an Event of Default under Condition 9.1. However, if restructuring proceedings were commenced and/or a reorganisation plan was approved by the relevant court in respect of the Issuer, there is no guarantee that Noteholders would be able to enforce the payment of amounts due and payable under or in respect of the Notes, either immediately or during restructuring proceedings. If approved by the creditors of the Issuer (including creditors of the Issuer other than the Noteholders), amounts due and payable by the Issuer in respect of the Notes may also be subject to modification in connection with any such restructuring proceedings and/or reorganisation plan, including, inter alia, by way of an extension of the due date for the payment of any such amounts or a reduction in any such amounts.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

Credit ratings may not reflect all risks

Moody's has assigned a credit rating to the Notes. This rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:

The €225,000,000 4.625 per cent. Notes due 2018 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 13 and forming a single series with the Notes) of Elering AS (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated 12 July 2011 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer and Deutsche Bank AG, London Branch as fiscal agent and principal paying agent (the **Fiscal Agent** and, together with any other paying agents appointed pursuant to the Agency Agreement, the **Paying Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** respectively) at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000, each with Coupons attached on issue. No definitive Notes will be issued with a denomination above €199,000. Notes of one denomination may not be exchanged for Notes of any other denomination.

1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. STATUS

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. NEGATIVE PLEDGE

3.1 Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Agency Agreement) the Issuer will ensure that no Relevant Indebtedness (as defined below) will be secured by any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the

Issuer or any of its Subsidiaries (as defined below) unless the Issuer, in the case of the creation of the Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it under the Notes and the Coupons are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or

(b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Agency Agreement as a resolution duly passed by a majority of not less than three-quarters of the votes cast) of the Noteholders.

3.2 Interpretation

For the purposes of these Conditions:

(a) **Relevant Indebtedness** means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) which is in the form of or represented by any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market and (ii) any guarantee or indemnity of any such indebtedness; and

(b) **Subsidiary** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

4. INTEREST

4.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 12 July 2011 at the rate of 4.625 per cent. per annum, payable annually in arrear on 12 July in each year (each an **Interest Payment Date**). The first payment (representing a full year's interest) shall be made on 12 July 2012.

4.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 11.

4.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

5. PAYMENTS

5.1 Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

5.2 Method of Payment

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

5.3 Missing Unmatured Coupons

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 8) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

5.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

5.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 8):

(a) is or falls after the relevant due date;

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and

(c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET2 Settlement Day.

In this Condition:

(i) **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place; and

(ii) **Target2 Settlement Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system is open.

5.6 Initial Paying Agents

The name of the initial Paying Agent and its initial specified office are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

(a) there will at all times be a Fiscal Agent;

(b) there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having its specified office in a European city which, so long as the Notes are admitted to the official list of the UK Listing Authority, shall be London or such other place as the UK Listing Authority may approve;

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent having its specified office in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any termination or appointment and of any changes in specified offices given to the Noteholders promptly by the Issuer in accordance with Condition 11.

6. REDEMPTION AND PURCHASE

6.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 12 July 2018.

6.2 Redemption for Taxation Reasons

If:

(a) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (as defined in Condition 7), or any change in the official interpretation of the laws or regulations of the Relevant Jurisdiction, which change or amendment becomes effective after 12 July 2011, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

6.3 Redemption at the Option of the Holders on a Change of Control

If, at any time while any of the Notes remains outstanding, a Change of Control (as defined below) occurs, each Noteholder shall have the option (unless, prior to the giving of the Change of Control

Notice (as defined below), the Issuer shall have given notice under Condition 6.2) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Noteholder's Note(s) at their principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date (as defined below). Such option (the **Put Option**) shall operate as set out below.

If a Change of Control occurs the Issuer shall, within 14 days of the occurrence of such Change of Control, give notice (a **Change of Control Notice**) to the Noteholders in accordance with Condition 11 specifying the nature of the Change of Control and the procedure for exercising the option contained in this Condition 6.3.

To exercise the Put Option, if the relevant Note is held outside Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), the Noteholder must deliver such Note to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 5.5) in London and in the place of such specified office falling within the period (the **Put Period**) of 45 days after that on which a Change of Control Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **Put Notice**) and in which the holder may specify a bank account complying with the requirements of Condition 5 (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6.3. All unmatured Coupons shall be dealt with as per the provisions of Condition 5.3. The Issuer shall redeem or, at its option, purchase (or procure the purchase of) the relevant Note on the date (the **Put Date**) being the fifteenth day after the date of expiry of the Put Period, unless previously redeemed or purchased and cancelled. The Paying Agent to which such Note and Put Notice are delivered shall issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made on the Put Date, by transfer to that bank account (or, if an address is specified for payment by cheque, by cheque sent by first class post to such address) and, in every other case, on or after the Put Date, in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Notice, once given, shall be irrevocable.

If the relevant Note is held through Euroclear or Clearstream, Luxembourg, to exercise the Put Option the Noteholder must, within the Put Period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg, as applicable, (which may include notice being given on such Noteholder's instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear or Clearstream, Luxembourg, as applicable.

A **Change of Control** will be deemed to occur if (i) the Republic of Estonia ceases to own, directly or indirectly (through any governmental agency or political subdivision thereof) 100 per cent. of the issued share capital of the Issuer; or (ii) the Republic of Estonia ceases to have the power, directly or indirectly, to cast, or control the casting of, 100 per cent. of the maximum number of votes that might be cast at a general meeting of the Issuer.

6.4 Purchases

The Issuer or any of its Subsidiaries (as defined above) may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. Such Notes may be held, reissued, resold or surrendered by the purchaser through the Issuer for cancellation. Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will cease to carry the right to attend and vote at meetings of Noteholders and will not be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Agency Agreement.

6.5 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries and are surrendered for cancellation by the Issuer will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be reissued or resold.

6.6 Notices Final

Upon the expiry of any notice as is referred to in paragraph 6.2 or 6.3 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

7. TAXATION

7.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or

(b) presented for payment in the Republic of Estonia; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

(e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date (as defined in Condition 5).

7.2 Interpretation

In these Conditions:

(a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 11; and

(b) **Relevant Jurisdiction** means the Republic of Estonia or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes and Coupons.

7.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

8. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 5.

9. EVENTS OF DEFAULT

9.1 Events of Default

The holder of any Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (**Events of Default**) shall have occurred and be continuing:

(a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in respect of principal or 14 days in respect of interest; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) if:

(i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Subsidiaries becomes, or becomes capable of being declared, due and repayable prematurely by reason of an event of default (however described);

(ii) the Issuer or any of its Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, as extended by any originally applicable grace period;

(iii) any security given by the Issuer or any of its Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or

(iv) default is made by the Issuer or any of its Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person;

provided that the amount of Indebtedness for Borrowed Money referred to in sub-paragraphs (i) to (iii) above and/or the amount payable under the guarantee or indemnity referred to in (iv) above, individually or in the aggregate, exceeds EUR10,000,000 (or its equivalent in any other currency or currencies); or

(d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Subsidiaries; or

(e) if the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(f) if (i) proceedings are initiated against the Issuer or any of its Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Subsidiaries or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator), unless initiated by the relevant company, is not discharged within 30 days; or

(g) if the Issuer or any of its Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, without limitation, any application by the Issuer or any of its Subsidiaries for the commencement of restructuring proceedings pursuant to the Estonian Law on Restructurings (*Saneerimisseadus*) of 2008, as amended and/or the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

9.2 Interpretation

For the purposes of this Condition, **Indebtedness for Borrowed Money** means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

10. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. NOTICES

11.1 Notices to the Noteholders

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

11.2 Notices from the Noteholders

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Fiscal Agent or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with the standard rules and procedures.

12. MEETINGS OF NOTEHOLDERS AND MODIFICATION

12.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

12.2 Modification

The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein. Any modification shall be binding on the Noteholders and the Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 11.

13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

14. GOVERNING LAW AND SUBMISSION TO JURISDICTION

14.1 Governing Law

The Agency Agreement, the Notes and the Coupons, and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes and the Coupons, are governed by, and will be construed in accordance with English law.

14.2 Jurisdiction of English Courts

The Issuer has irrevocably agreed for the benefit of the Noteholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons (including any disputes relating to any non-contractual obligations arising out of or in connection with the Notes and the Coupons) and accordingly has submitted to the exclusive jurisdiction of the English courts. The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

The Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Notes or the Coupons respectively (including any suit, action or proceeding relating to any non-contractual obligations arising out of or in connection with the Notes and the Coupons) (together referred to as **Proceedings**) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

14.3 Appointment of Process Agent

The Issuer hereby irrevocably and unconditionally appoints Trusec Limited at its registered office for the time being as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

14.4 Sovereign Immunity

Should such immunity become available to the Issuer, to the extent permitted by applicable law the Issuer hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Notes and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, including in relation to the recognition of any judgement or court order, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

14.5 Other Documents

The Issuer has in the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above. In addition, the Issuer has, in such document, waived any rights to sovereign immunity and other similar defences which it may have.

15. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the ***Global Notes****) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if:

(a) an event of default (as set out in Condition 9) has occurred and is continuing; or

(b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or

(c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. In the case of (a) or (b) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent and, in the case of (c) above, the Issuer may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 30 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 22 August 2011, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. The Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg and the nominal amount of the Notes recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Note will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge.

Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to Condition 6.3 and Condition 9) other than with respect to the payment of principal and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

4. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 11. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Fiscal Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Put Option

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 6.3 may be exercised by an Accountholder giving notice to the Fiscal Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Fiscal Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Fiscal Agent for notation accordingly within the time limits set forth in that Condition.

8. Euroclear and Clearstream, Luxembourg

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate.

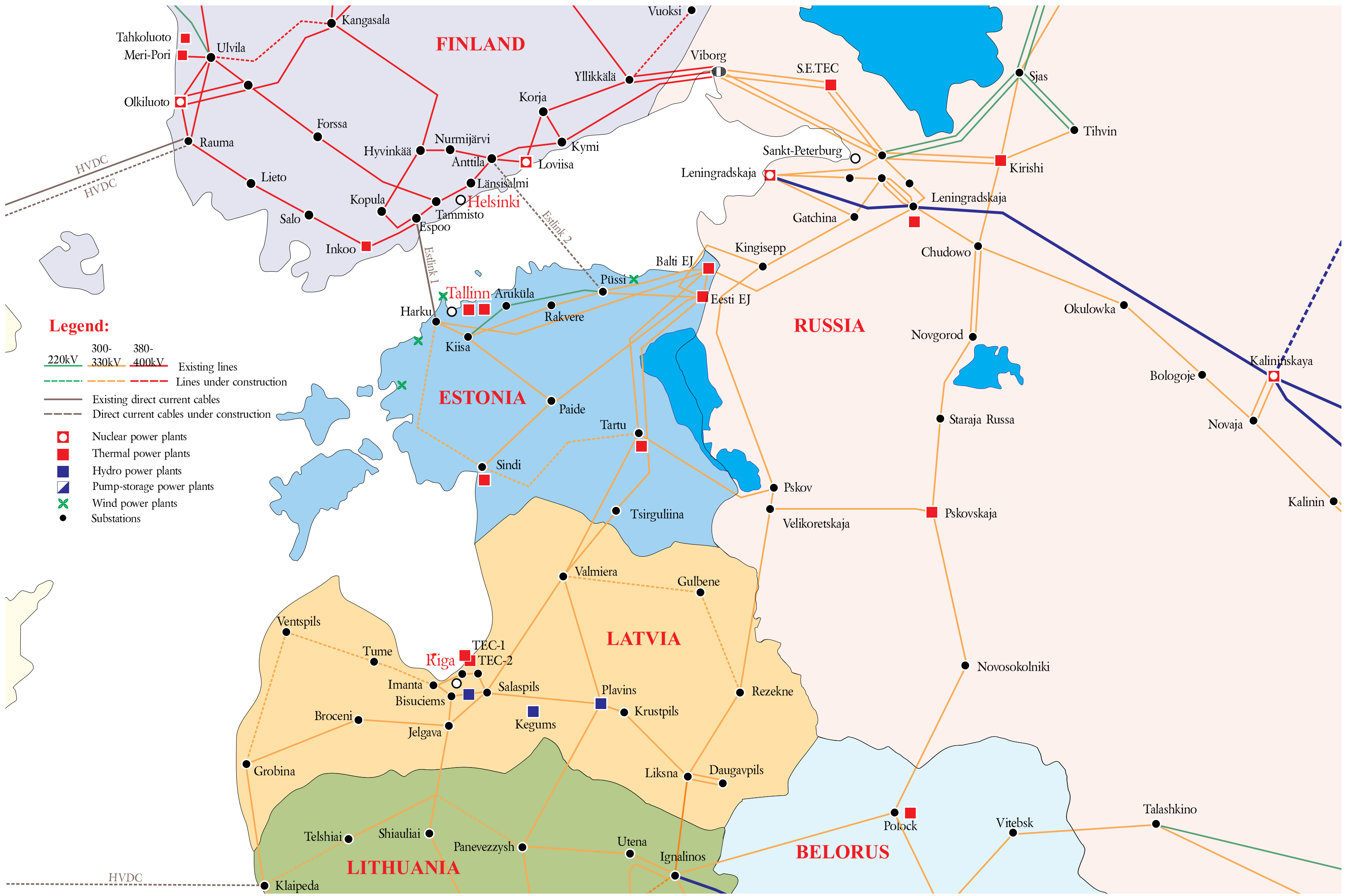
9. Eurosystem Eligibility

The Global Notes will be issued in New Global Note (NGN) form. This means that the Notes are intended to be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg (each acting in its capacity as International Central Securities Depositary) and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem, either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria established by the European Central Bank from time to time.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately €221,845,000, will be applied by the Issuer for its general corporate purposes, refinancing existing indebtedness and financing the investment programme.

The Extra High Voltage (220-330kV lines) Main Grid of Estonia, its Interconnection to Neighbouring Countries and the Location of Key Power Generation Plants



THE BUSINESS OF ELERING AS

Introduction

Overview

The Issuer's legal and commercial name is Elering AS (the **Company**). The Company is a public limited liability company (*aktsiaselts*), which is wholly-owned by the Republic of Estonia (**Estonia**) and is engaged in the transmission of electric power. The Company owns and operates the Estonian high voltage electricity transmission grid (the **Main Grid**) which unites power stations, distribution networks and corporate consumers in an integrated electricity system. The Company is the sole transmission system operator (**TSO**) in Estonia and has a natural monopoly in the transmission of electricity within Estonia.

The Company is organised as a public limited liability company for an unlimited duration under the laws of Estonia. Its registered office is located at Kadaka tee 42, 12915 Tallinn, Estonia and its telephone number is +372 71 51222.

The Company is governed by the Estonian Commercial Code together with the specific obligations imposed by other legislation such as the Electricity Market Act 2003, as amended (the **EMA**) and the State Assets Act 2009, as amended (the **SAA**). The Company must comply with legislation applicable to public limited liability companies and, as a state-owned company, the Company must also comply with the additional corporate governance controls imposed by the SAA.

As the Company owns and operates a key component of the Estonian infrastructure, the Main Grid, special public service duties are imposed on the Company by law to maintain the electricity system in Estonia.

The Company has no subsidiaries.

In addition to the extra high voltage lines and substations (220-330kV) illustrated in the diagram above, the Company also owns and operates 110kV and 35kV lines and substations. The transmission lines total approximately 5,252 kilometres in length and the Company owns and operates approximately 150 substations as part of the Main Grid.

The tables below show the recent financial performance of the Company in 2010 and 2009.

	As at and for the years ended 31 December	
	2010	**2009**
	(EUR millions)	
Revenue	89	75
Operating profit	21	20
Income tax expense	0	8
Profit for the year	14	5
Total equity	160	141
Total assets	419	368
EBITDA[(1)]	44	40
Investments[(2)]	27	31
Dividends paid	0	31

(1) EBITDA refers to operating profit plus depreciation, amortisation and impairment. EBITDA is calculated by the Company and is not a figure that has been audited or is contained in the Financial Statements.

(2) Investments refers to the amount spent during the relevant financial year on fixed assets.

	For the year ended 31 December	
	2010	2009
	(unaudited)	
	(per cent.)	
Return on Equity[(1)]	9.0	3.4
Equity/Assets[(2)]	38.1	38.2
Net Debt/EBITDA[(3)]	3.3	4.7

(1) Return on equity refers to profit for the year divided by the average total equity during the relevant financial year.

(2) The equity/assets ratio has been calculated by the Company by dividing total equity by total assets as at the end of the relevant financial year.

(3) The net debt/EBITDA ratio has been calculated by dividing net debt (i.e. borrowings minus cash and cash equivalents) by EBITDA, in each case as at the end of the relevant financial year.

History

The Company was established on 24 March 2004 as a private limited liability company and operated under the legal name of Põhivõrk OÜ as a wholly-owned subsidiary of the state-owned Estonian energy utility company, Eesti Energia AS (**Eesti Energia**). On 18 June 2009, the commercial and legal name of the Company was changed to Elering OÜ.

Following the decision to separate the system management and transmission system assets from the rest of Eesti Energia, the Minister of Economic Affairs and Communications was authorised by the Government of Estonia to purchase the Company in 2009. Prior to the demerger, Eesti Energia was engaged in the production, sale and transmission of electric and thermal power. The decision to separate the system management and transmission system was part of the implementation of EC Directive 2009/72/EC, which requires that transmission system operators function independently from production and sales activities. To ensure compliance, the sale of the Company was completed on 27 January 2010.

On 8 April 2011, the Company was transformed from a private limited liability company into a public limited liability company and renamed Elering AS.

Main Activities

The Company is responsible for the day-to-day management of the Main Grid and cross-border interconnections for the use of electricity producers, sellers, distribution networks and balance providers within Estonia. The EMA prohibits the Company from carrying on any business other than network business, or certain other business activities such as balancing services.

The Company's main activities are:

- operating and developing the Main Grid;
- securing the functioning of the Estonian energy system by maintaining the short term energy balance; and
- developing and facilitating the functioning of the energy markets.

Public Service

The Company's activities in relation to the operation and administration of the Main Grid are also considered to be "vital services" under the Estonian Emergency Act of 2007, as amended. As a provider of vital services, the Company must comply with several additional reporting requirements, including preparing a risk assessment of the continuous operation of the vital services and an emergency plan for ensuring the continuous operation of the vital services.

Strategy

The Company's strategic aims are two-fold; firstly, to provide its customers with a high quality supply of electricity and secondly, to facilitate the efficient functioning of the energy markets in Estonia.

To ensure the supply of high quality electricity, the Company aims to:

- *maintain and develop the Main Grid*. In order to ensure high quality network service to the customers, continuous development is required to minimise grid faults; and

- *maintain the short term energy balance of the country*. The Company constantly monitors the country's energy balance and if needed, reduces the imbalances by ordering electricity producers to increase or decrease production. The remaining imbalances are settled commercially. The Company operates Estonia's energy balancing system by selling and buying the balancing energy to/from the Estonian balance providers. The net balance of the Estonian energy system will be settled against the Latvian balance provider SIA Latvenergo. For a more detailed description of the balancing service, please see – *Principal Areas of Business – Balancing Service.*

To facilitate the efficient functioning of the energy markets, the Company is focused on increasing the efficiency of the energy markets by:

- *introducing power exchanges as the most efficient means of energy trading*. Together with the Nordic power exchange operator, NordPool Spot, the Company has already introduced the spot (day ahead) and intraday markets in Estonia by expanding the corresponding power exchanges in Scandinavia (NordPool Spot) and Elbas in Estonia. In the mid-term, the Company, together with NordPool Spot, aims to expand these markets in the Baltic region and the introduction of the intra-hour market is currently under development; and,

- *facilitating the cross border energy trade*. For this purpose, the Company allocates the existing cross border transmission capacities in cooperation with the neighbouring TSOs to the traders, using market based allocation mechanisms (namely explicit and implicit auctions). A new cross border transmission line is being developed: in December 2010, the Company signed an agreement with the Finnish TSO (Fingrid OYJ) to build the second interconnector between Estonia and Finland (Estlink 2, as further discussed below).

The underlying principle of the Company's strategy is to create value for its shareholder.

Shareholders

The Company's share capital consists of 140,000 fully paid up shares, each with a nominal value of EUR 1,000. Estonia is the sole shareholder in the Company and The Ministry of Economic Affairs and Communications (the **Shareholder**) holds the shares of the Company on behalf of Estonia and is the registered shareholder in the Estonian Central Depositary for Securities.

The relationship between the Shareholder and the Company is conducted through the members of the Supervisory Board, who are nominated by the Shareholder and the Ministry of Finance.

On 15 December 2010, the Supervisory Board approved the policy of the Company not to pay dividends from 2011 to 2014, with the view to strengthening the Company's balance sheet prior to implementing the investment plan (*see – Capital Expenditure*). From 2015, the amount of dividends will be determined so as to ensure that the Company is able to comply with its loan covenants, taking into account predetermined safety margins. The Company has two covenants in its loan contracts: Equity to Assets and Net Debt to EBITDA ratios.

Under the Estonian Commercial Code, the shareholders of a public limited liability company (including the State) are neither liable for the debts of the company nor obliged to supply additional capital in the event of a financial crisis. Save for an obligation of the Company to notify the Estonian Competition Board should bankruptcy procedures be initiated against it, there are no special laws for bankruptcy of public service entities, nor are there any derogations from the normal bankruptcy procedures.

The Government of Estonia views the operations of the Company as of vital importance to the national infrastructure and the Company is unaware of any plans that may result in a change of ownership. The Shareholder has publicly supported the Company's strategy on several occasions, including issuing two comfort letters to the creditors of long term loans and increasing the Company's share capital in December 2010. On 17 May 2011 the Shareholder decided to increase the share capital of the Company by a further EUR 9.89 million, which according to the law has to be paid to the Company within 6 months of the decision being taken. The Company does not receive any subsidies from the Government of Estonia.

Principal Areas of Business

Electricity Network Service

The permitted business activities of the Company are prescribed under the EMA. The Company's principal business is the provision of electricity network services, which accounted for 80 per cent. of total revenues (with balance of supply services making up the majority of the remainder), 89 per cent. of total profit for the year and 92 per cent. of operating profit in 2010. The EMA requires that any company providing electricity network services be licensed by the Estonian Competition Authority (**ECA**) to operate. Currently, only one licence may be issued in Estonia at any one time and this was issued to the Company on 9 February 2006 for an indefinite period.

The electricity network service is provided through the Main Grid. Prior to reaching the retail distribution network, electricity generated by power generation plants is transferred by means of the Main Grid through high voltage transmission lines that connect the power generation plants with the medium voltage distribution networks and the largest industrial consumers. The Main Grid is essentially comprised of power lines and transformer substations, connecting high voltage lines with lower voltage installations.

The Main Grid comprises 150 substations and approximately 5,252 km of transmission lines at a rated voltage of 35kV, 110kV, 220kV and 330kV. The Company currently owns 100 per cent. of the Main Grid (i.e. the power lines and transformer stations).

Transmission equipment breakdown by voltage:

Voltage (kV)	Transmission lines (km)	Substations
35	*60*	*0*
110	*3,464*	*139*
220	*184*	*1*
330	*1,544*	*10*

Cross Border Interconnections

The Main Grid is directly connected to the Russian, Latvian and Finnish transmission systems through a number of transmission lines. These cross border interconnections form an integral part of the Main Grid and are used for several purposes, including:

- cross border electricity trade;
- mutual support with access to the emergency reserves of the neighbouring energy systems. The total required amount of emergency generation reserves are shared among the five neighbouring TSOs (Russia, Belarus, Latvia, Lithuania and Estonia), according to the contract between them signed in December 2010, resulting in a more cost-efficient system for emergency reserves;
- shared system services such as voltage support and frequency regulation; and
- ordering an increase or decrease in electricity production from neighbouring countries with the purpose of maintaining the country's energy balance.

The cross border transmission capacities are as follows:

Cross Border Interconnection	**Capacity in MW**
From Estonia to Finland	*350-365*
From Finland to Estonia	*350-365*
From Estonia to Latvia	*700-1150*
From Latvia to Estonia	*750-1150*
From Estonia to Russia	*400-850*
From Russia to Estonia	*550-1000*

Total transmission capacity depends on, amongst other factors, weather, configuration of the grid, generation and consumption.

Balancing Service

Pursuant to the EMA, the balance of each market participant must be in equilibrium, i.e. the amount of electricity produced and/or purchased by it must correspond to the amount of electricity sold and/or consumed by it. As it would not be cost efficient for each market participant to take care of its hourly balance, this service is usually provided by balance providers. Balance providers make the consumption and production forecasts for their clients and procure any required energy. As it is not possible to accurately predict the level of demand for electricity at all times there are imbalances in the amount of electricity in the system.

Currently, there are four balance providers in Estonia, apart from the Company. In turn, the Company is also a balance provider to these balance providers and the Latvian energy utility company SIA Latvenergo is a balance provider to the Company. During those hours when the balance of a balance provider is negative, the Company sells to the market participant the missing amount and, during those hours when the balance of a balance provider is positive, the Company purchases the excessive amount. In those hours when the country's balance is negative, the Company procures the required energy from its balance provider (Latvenergo) and, if needed, from the power stations. In those hours when the country's balance is positive, the Company sells the excessive energy to Latvenergo and, if needed, then to the power stations.

The Company calculates the purchasing and selling prices of balancing energy on an hourly basis. These prices are calculated on the cost basis. Therefore, the revenues from selling balancing energy are equal to the sum of the cost of purchasing balancing energy, inclusive of the nominal administration costs. As a result, the provision of the balancing services does not affect the Company's profitability. The potential credit risk of the balance providers is mitigated through the guarantees they have to provide to the Company according to the EMA.

Other Services

The Company also leases fibre optic cables installed on the transmission lines to a telecom company, Televõrgu AS, which uses them to supply communication services to its customers. The Company also leases office space in its building at Kadaka tee 42, Tallinn.

In addition to the business areas outlined above, the Company also has certain public service operations which do not generate revenue or incur costs.

Energy Subsidy Scheme

In order to achieve the objectives set by the EU Renewable Energy Directive 2009/28/EC, Estonia must ensure that the share of renewable energy accounts for 25 per cent. of the final consumption of energy, including 10 per cent., of fuels used in transport by 2020. In order to achieve this, Estonia has established a subsidy scheme with a view to increase investments in: (a) the production of electricity from renewable energy sources; and (b) the efficient combined production of heat and power. The Company's role is to pay such subsidies and collect service fees to finance the subsidies. Such service fees are paid by all distribution network operators that provide network services and the large industrial consumers directly connected to the

Main Grid. In 2010, subsidies totalling EEK 711 million (nearly EUR 45 million) were paid, of which EEK 651 million (EUR 41.6 million) was paid to renewable energy producers and EEK 63 million (EUR 4 million) was paid in respect of small efficient co-generators, representing an increase in subsidies of 76 per cent. compared to 2009. Subsidies paid to wind turbines amounted to EEK 128 million (EUR 8.2 million), to biomass electricity generation amounted to EEK 450 million (EUR 28.9 million), to hydro-energy amounted to EEK 63 million (EUR 4 million), and subsidies for biogas electricity generation amounted to EEK 9 million (EUR 0.6 million).As the Company is merely a paying agent, the subsidies collected and paid out are not shown in the income statement of the Company. In case the amount of subsidies collected differs from that paid out, the difference will be taken into account by the Company in the calculation of the next year's subsidy tariff.

Recent Developments

Estlink 2

In December 2010, the Company, together with the Finnish TSO (Fingrid OYJ), signed the main tender contracts relating to the construction of a new 650 MW high voltage direct current link from the Püssi substation in Estonia to the Anttila substation in Finland (**Estlink 2**). Completion of Estlink 2 is scheduled for 2013.

The total length of the Estlink 2 line is approximately 170 kilometres, including 145 kilometres of submarine cables, 12 kilometres of land cable in Estonia and 14 kilometres of overhead line in Finland. Estlink 2 will operate at 450 kV. The total estimated cost of the entire project, including reinforcements of existing AC networks in Estonia and Finland is approximately EUR 320 million, of which converter stations cost EUR 100 million and cables EUR 180 million.

The European Commission allocated a EUR 100 million grant to the project which will be divided equally between the Company and Fingrid OYJ. The first instalment of the grant, in the amount of EUR 30 million, was paid on 12 October 2010. The remaining instalments of EUR 40 million and EUR 30 million are scheduled in 2013 and 2014 respectively.

Share increase

On 17 May 2011 the Shareholder decided to increase the share capital of the Company by EUR 9,890,000 upon issue of 9,890 new shares to the Republic of Estonia. Upon completion and registration of such share capital increase, the Company's share capital will consist of EUR 149,890 shares, each with nominal value of EUR 1,000 held by the Ministry of Economic Affairs and Communications on behalf of the Republic of Estonia.

Revenue

Overview

The Company's revenues derive principally from two sources: firstly, from the users of the Main Grid (the Company receives revenues from distribution network operators and a few directly connected customers for the provision of transmission services); and secondly, from the provision of the balance services. However, as described above, almost no profit is generated from the balance services.

For the year ended 31 December 2010, the Company generated a total revenue of EEK 1,390.4 million (EUR 88.9 million) (an increase of 17.7 per cent. compared to EEK 1,181.3 million (EUR 75.5 million) for the year ended 31 December 2009). The Company generated total profit for the year of EEK 212 million (EUR 13.5 million) (compared to EEK 82 million (EUR 5.2 million) in 2009), a year-on-year increase of 158 per cent. The main reasons for the increase in profit for the year are the income tax that was paid on dividends in 2009 and the tariff increase since 1 June 2010.

Electricity Network Services

In 2010, 80 per cent. of the Company's revenue, EEK 1,106.6 million (EUR 70.7 million) in 2010 (compared to EEK 1,061.7 million (EUR 67.9 million) in 2009), was generated from its network services, including: EEK 1,052.1 million (EUR 67.2 million) from transmission fees (compared to EEK 1,010.8 million (EUR 64.6 million) in 2009), EEK 17.9 million (EUR 1.1 million) from connection fees (EEK 15.4 million (EUR 1.0 million) in 2009); and, EEK 36.6 million (EUR 2.3 million) (compared to EEK 35.5 million (EUR 2.3 million) in 2009) from other network services.

Of the total profit for the year of EEK 212 million (EUR 13.5 million), 89 per cent. (EEK 187.4 million, or EUR 12.0 million) was attributable to the network services through the Main Grid.

The Company receives the bulk of the network service revenues from six distribution network companies, which account for 91 per cent. of the total revenues generated by network services. Six customers who are directly connected to the Main Grid account for 7 per cent. of network services revenues. Any customers who apply for a new grid connection have to pay the connection fees in advance; the Company amortises this connection fee over 20 years and such amortised fee accounts for 2 per cent. of network services revenues per annum. There are also 13 power stations connected to the Main Grid which, pursuant to the tariff system, are not required to pay a fee for the energy that they input to the grid.

A very high proportion of the network services revenues are generated from the distribution network companies, which are natural monopolies and therefore a stable source of revenue. The Company did not incur any bad debts in 2010 and the amount of overdue receivables at 31 December 2010 was 0.06 per cent. of the total revenue.

Of the total revenue, EEK 1,361 million (EUR 87.0 million) was generated in Estonia in 2010 (compared to EEK 1,109 million (EUR 70.9 million) in 2009). Latvia accounted for EEK 19.5 million (EUR 1.2 million) of the revenue in 2010 (compared to EEK 36.0 million (EUR 2.3 million) in 2009) and was the biggest market for the Company outside of Estonia. Russia accounted for EEK 5.9 million (EUR 380 thousand) in 2010 (compared to EEK 35.9 million (EUR 2.3 million) in 2009), Lithuania accounted for EEK 3.7 million in 2010 (EUR 240 thousand) (compared to EEK 293 thousand (EUR 18 thousand) in 2009) and Finland accounted for EEK 264 thousand in 2010 (EUR 17 thousand). In 2010, cross border interconnections generated 2.1 per cent. of the total revenue. The decline in the revenue from Russia was caused by the sharp decrease in the electricity transit volumes through Estonia because of the completion of a new power station in the Kaliningrad region of the Russian Federation.

The Company's revenue is regulated by the ECA. The permitted regulated revenue for each year is calculated according to justified costs plus a reasonable return on the regulated assets. The return on assets (i.e. operating profit) is determined by multiplying the regulated assets by the weighted average cost of capital (**WACC**). The WACC is calculated by the regulator. For the purposes of the calculation, the cost of debt is based on the 10 year German government bond yield to which a country risk margin and the company risk margin are added. For the purposes of the calculation of the cost of equity, the beta of similar companies is used, assuming the equity to assets ratio of 0.5. The WACC is set for 3 year periods, with the current WACC for 2011 to 2013 set at 7.56 per cent. As a result of the above formulation, if there is any increase in investment by the Company this will increase the amount of regulated assets held by the Company and ultimately increase the revenue of the Company as well.

Balancing Services

Balance of Supply services accounted for 17.8 per cent. of revenues, EEK 247.7 million (EUR 15.8 million), in 2010 (compared to EEK 102.4 million (EUR 6.5 million) in 2009).

As discussed in the *Principal Areas of Business* section above, the net profit generated by the balancing service is always close to zero. The increase in balancing revenues and costs were caused by a larger amount of forecast errors by the balance providers, along with the higher price of balancing energy bought from the balance provider of the Company, the Latvian energy utility SIA Latvenergo.

Other Services

Sales of other goods and services (as described above under "*Principal Areas of Business – Other Services*") represented 2.6 per cent. of revenues, EEK 36.1 million (EUR 2.3 million), in 2010 (compared to EEK 17.2 million (EUR 1.1 million) in 2009).

The following table shows a breakdown of revenue by source for the years ended 31 December 2009 and 2010.

	For the year ended 31 December					
	2010			2009		
	(EEK millions)	*(EUR millions)*	*(percentage)*	*(EEK millions)*	*(EUR millions)*	*(percentage)*
Sales of network services	1,106.6	70.7	79.6	1,061.7	67.9	89.9
Transmission fees	1,052.1	67.2	75.7	1,010.8	64.6	85.6
Connection fees	17.9	1.1	1.3	15.5	1.0	1.3
Other network services	36.6	2.3	2.6	35.5	2.3	3.0
Sales of balancing and control electricity	247.7	15.8	17.8	102.4	6.5	8.7
Sales of other goods and services	36.1	2.3	2.6	17.2	1.1	1.5
Total	**1,390.4**	**88.9**	**100**	**1,181.3**	**75.5**	**100**

The contribution of each business area to total revenues and total operating profit, as a percentage of the total operating profit for the year ended 31 December 2010 is shown in the table below:

	Network Services	**Balancing Services**	**Other Services**
		(per cent.)	
Revenue	80	18	3
Operating profit	92	1	7

Capital Expenditure

For regulatory purposes, all the Company's assets are divided into two groups: regulated assets and non-regulated assets. The difference is that depreciation and cost of capital of regulated assets are included in the grid tariffs whereas the costs of non-regulated assets are not included. The main type of non-regulated assets are those built for the connection of new clients' equipment to the Main Grid. In this case the client pays for 100 per cent. of the cost of building these connections.

Investments of the Company in regulated assets are classified under two headings: regular investments and extraordinary investments.

Regular Investments

The annual sum of the regular investments was set in 2004 by the ECA at EUR 29.8 million per annum. From 2005 the regulatory tariff period has been set at three years and within this period the Company may decide how much to invest in each of the three years provided that the average amount invested is EUR 29.8 million per annum. The purpose of the regular investments is to replace the aging transmission equipment and to develop the Main Grid so that it meets the needs of growing domestic consumption. The Company is confident that this amount of regular investment is sufficient to maintain the required quality standards of the network service. The Company submits a detailed plan of regular investment to the ECA each time the new tariffs are applied for.

Extraordinary Investments

A schedule for proposed extraordinary investments until 2018 is set out under the Electrical Energy Sector Development Plan of Estonia (the **Development Plan**), which was approved by the Government of Estonia on 26 February 2009.

Pursuant to the Development Plan, the Company prepared a detailed plan of extraordinary investments and submitted it to the ECA along with the tariff application. The ECA approved the plan and these investments were included in the calculation of tariffs for the tariff period of 2011 to 2013. This Development Plan includes the following investments:

Estlink 1

Estlink 1 is an existing interconnector between Estonia and Finland with a maximum capacity of 350MW. It consists of two converter stations (one in Estonia, and one in Finland), a land cable and a submarine cable. Estlink 1 currently belongs to Nordic Energy Link AS which is owned by private investors. Nordic Energy Link AS has committed to sell Estlink 1 to the Company and the Finnish TSO, Fingrid OYJ, at a predetermined price of approximately EUR 80 million at the latest on 31 December 2013. The Company's share of the acquisition price will be approximately EUR 40 million.

Estlink 2

Estlink 2 is a new interconnector between Estonia and Finland that is expected to be completed by 2013 (see - *Recent Developments – Estlink 2*). See "*Total Investments*" below for details of the scheduled annual investments in respect of Estlink 2.

*Emergency Reserve Power Plant (**ERPP**)*

The Company has received tenders for the construction of a combined fuel (light fuel oil and gas) power plant with a capacity of 250MW, which is scheduled for completion in 2014. The sole purpose of this plant will be to provide emergency backup power in the event that an existing power generating unit stops production unexpectedly. In such case, it is intended that the ERPP will start generating electricity quickly in order to restore the country's power balance. As soon as the operator of the power plant that ceased production finds a replacement (by either commencing its own back-up unit or contracting from other power plants), the ERPP will stop producing electricity. The produced energy is sold as balancing energy to the balance provider whose client's power generating unit ceased production.

Further extraordinary investments may have to be carried out in the future, pursuant to decisions made by the Government and the ECA. Both the regular and extraordinary investments will be part of the Company's regulated assets and will be funded through the tariff.

Total investments

After completion the above extraordinary investments, the total level is expected to drop back to the historical level of the regular investments, i.e. EUR 29.8 million per annum. The scheduled annual investments, along with historical annual investments in 2009 and 2010, are listed in the following table in EUR millions.

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
				(EUR millions)				
Regular	31	26	31	34	25	26	29	203
Estlink 2		1	41	32	68	20	0	162
ERPP			19	46	13	50	0	128
Estlink 1					40			40
Total	**31**	**27**	**91**	**112**	**146**	**96**	**29**	**533**

The Company is currently budgeting for a total capital expenditure of approximately EUR 475 million between 2011 and 2015. The Company's medium term investment plan is focused on the renovation of existing power lines and substations and the construction of new power lines and substations to improve the quality of the network service, mainly through reducing the risk of outages.

Financing

The Company has funded and expects to fund its capital expenditures using a combination of internally generated funds, increases in share capital, borrowings and grants from the European Union.

Internally Generated Funds

The Company generates significant cash flows from its operating activities. In the financial year ended 31 December 2010, cash flow from operating activities for the Company was EUR 46.6 million. As the Company invests further in regulated assets, the regulated assets and tariff will increase and consequently the cash flow from operations as well.

Increase In Share Capital

In 2010 the Shareholder increased the share capital of the Company by EUR 5.8 million in order to strengthen the Company's balance sheet in the light of forthcoming investments. The total share capital of the Company as at the date of this Prospectus is EUR 140 million. On 17 May 2011 the Shareholder decided to increase the share capital by EUR 9.89 million. According to the law, this sum has to be paid to the Company within 6 months of the decision being taken. The Company has resolved to pay no dividends until 2015.

Borrowings

In 2010, the Company concluded two long term loan agreements, each of which was for the purpose of funding the Estlink 2 project: a EUR 75 million loan from the European Investment Bank (**EIB**), maturing in 20 years from the drawdown of each tranche; and a EUR 25 million loan from the Nordic Investment Bank (**NIB**) which is due in 2025. These are both amortising loans with a grace period of 5 years.

Grants from the European Union

In 2010, the European Commission decided to grant EUR 100 million to the Estlink 2 project which will be divided equally between the Company and Fingrid OYJ. The first instalment of the grant (in the amount of EUR 15 million) was received by the Company in 2010.

Scheduled Financing of Capital Expenditure for 2011 to 2015

As stated above (see *Capital Expenditure – Total Investments*) the Company is currently budgeting for a total capital expenditure of approximately EUR 475 million in the period from 2011 to 2015. This is budgeted to be financed from the following sources: EUR 234 million is budgeted to be provided from the internally generated funds from the regulated tariffs; EUR 75 million has been provided under the current loan from the EIB; EUR 25 million has been provided under the current loan from NIB; and EUR 50 million has been provided in the form of a grant from the EU. Each of the loans from EIB and NIB are completely undrawn as at the date of this Prospectus. The remaining EUR 91 million is budgeted to be financed from a combination of part of the proceeds of the issue of the Notes as well as further bilateral loans between 2013 and 2015.

Management

Overview

In shareholders' meetings of the Company, the Shareholder is represented by the Minister of Economic Affairs and Communications. The Minister exercises all of the Shareholder's powers in a general meeting and has authority to decide, with authorisation from the Government of Estonia, matters relating to setting up, terminating, consolidating and reorganisating of the Company, changing its charter, the election of members of the Supervisory Board and changing its share capital.

The Supervisory Board and the Management Board are responsible for the management of the Company. The Supervisory Board is constituted on the basis of the requirements specified in the Commercial Code, the SAA and the Company's Articles of Association.

The Management Board of the Company undertakes the day-to-day management of the Company and its rules of procedure are set out in the Commercial Code, the SAA and the Company's articles of association.

Supervisory Board

The Supervisory Board comprises three to five members. The number of members of the Supervisory Board is decided, and the members elected, by The Minister of Economic Affairs and Communications and The Minister of Finance as representatives of the Shareholder. Compensation of the members of the Supervisory Board are determined by a directive of The Minister of Economic Affairs and Communications. Currently, the Supervisory Board of the Company has five members, appointed for a term of five years and may be re-elected.

The Articles of Association set out restrictions on the selection of members of the Supervisory Board. In order to ensure independence, a declaration of interests of members of the Supervisory Board is submitted to The Ministry of Economic Affairs and Communications.

The Supervisory Board meets quarterly and is responsible for strategic planning and supervises the Management Board's activities. The Supervisory Board also monitors and approves decisions that are beyond the ordinary course of business activities.

The current members of the Company's Supervisory Board are set out below:

Name	Position	Current Employment
Lauri Tammiste	Chairman	Head of the Energy Department, Ministry of Economic Affairs and Communication
Heiki Tammoja	Member	Director of Electrical Power Engineering Institute, Tallinn University of Technology
Thomas Auväärt	Member	Head of the Financial Markets Department, Ministry of Finance
Jüri Raatma	Member	Adviser of the Ministry of Economic Affairs and Communications
Aivar Sõerd	Member	Member of Parliament (Riigikogu)

The business address of each member of the Supervisory Board is Kadaka tee 42, 12915 Tallinn, Estonia.

No member of the Supervisory Board has any actual or potential conflict of interest between his or her duties to the Company and his or her private interests and/or other duties.

Management Board

The Management Board comprises three members, elected by the Supervisory Board for a term of five years and may be re-elected for further terms of up to five years. The Chairman of the Management Board organises the work of the Management Board. The Management Board organises the everyday management and economic activities of the Company.

As with the Supervisory Board, the Articles of Association of the Company also set out certain requirements in relation to the selection of members of the Management Board. In order to ensure independence, a declaration of interests of members of the Management Board is submitted to The Ministry of Economic Affairs and Communications.

The current members of the Management Board are set out below.

Name	Date appointed from	Date appointed until	Position	Relevant Experience
Taavi Veskimägi	1 December 2009	30 November 2014	Chairman	Minister of Finance, Member of Parliament
Peep Soone	2 August 2006	31 December 2014	Member	CFO of Elering since 2001
Kalle Kilk	13 February 2007	7 January 2015	Member	Head of Operational Planning since 2003

The business address of each member of the Management Board is Kadaka tee 42, 12915 Tallinn, Estonia.

No member of the Management Board has any actual or potential conflict of interest between his or her duties to the Company and his or her private interests and/or other duties. No member of the Management Board has any outside activities which are significant with respect to the Company.

Audit Committee

The Audit Committee was established by a resolution of the Supervisory Board dated 18 June 2010. The Audit Committee is comprised of five members, elected by the Supervisory Board for a term of three years and may be re-elected. It is currently chaired by Thomas Auväärt and its other current members are Lauri Tammiste, Heiki Tammoja, Jüri Raatma and Aivar Sõerd.

The Audit Committee exercises supervision over the Company's internal accounting, risk management and internal controls policies and reports directly to the Supervisory Board. Most of the internal audits are outsourced to be performed by PricewaterhouseCoopers Consulting.

Risk Management

The Management Board is responsible for having in place a risk management policy (the "**Risk Management Policy**") to monitor and assess the risks that the Company faces. The Risk Management Policy was reviewed and updated in February 2010. The new risk management and internal control system is based on the Enterprise Risk Management Model, developed by the Committee of Sponsoring Organisations of the Treadway Commission (a voluntary organisation that promotes good corporate governance).

Kalle Kukk has been appointed as the risk manager to implement the Risk Management Policy and report to the Management Board. The risk manager is supported by risk administrators who include the head of the Power System Control Centre of the electricity system, the head of the electricity markets department, the financial manager, the head of the legal division and the strategy manager.

On the basis of the information received from the risk administrators, the risk manager prepares an overview of the functioning of the risk management of the Company. The risk manager then reports the risks to the Management Board twice a year. The report includes an overview of the identified risks, probability of risk occurrence, their potential impact on the Company's activities, and the control mechanisms for risk management.

The main categories of risks within which risk administrators identify and assess risks are as follows:

- risks to the sustainable functioning of a service of vital importance (i.e. security of the Main Grid and risks related to management of the system);

- risks to the functioning of the Main Grid (i.e. related to identification of the balance, movement of market information and disclosure of data);
- financial risks (i.e. credit, liquidity, currency and other risks that have a direct impact on the financing and profitability of the Company);
- risks arising from the external environment (i.e. including regulatory, legal and other external risks over which the Company does not have any direct control); and
- strategy risks (i.e. risks related to the strategic planning of the Company, network planning, IT developments, work environment and personnel policy).

The risk manager meets with the Management Board twice a year to discuss the identified risks. On the basis of information received, the Management Board reviews the identified risks and gives an assessment as to whether all relevant risks arising from the Company's activities have been taken into account. The Management Board then reports its conclusions to the Supervisory Board.

Employees

The Company employed an average of 139 full time employees in the year ended 31 December 2010, of whom 76 per cent. were men and 24 per cent. women. The average age of employees as at 31 December 2010 was 43. The Company considers that relations with the labour force and with unions are good, and there have been no stoppages owing to employment disputes. The employees of the Company relating to maintenance work are predominately comprised of project team leaders for grid planning and maintenance. The construction and maintenance work (including emergency maintenance) itself is predominately sub-contracted outside of the Company.

Insurance

The Company does not maintain any insurance cover in respect of its assets or operations. The Company has an internal policy to insure assets with an individual value above a certain threshold, however, no assets above such threshold are currently held by the Company.

SELECTED FINANCIAL INFORMATION

The selected financial information included below has been extracted without material adjustment from the Financial Statements which are included in full in the "Financial Statements" section of this Prospectus.

Statements of Financial Position

	As at 31 December	
	2010	**2009**
	(EEK thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	626,866	0
Trade and other receivables	342,159	208,568
Total current assets	969,025	208,568
Non-current assets		
Property, plant and equipment	5,544,548	5,516,156
Intangible assets	48,497	31,001
Total non-current assets	5,593,045	5,547,157
TOTAL ASSETS	6,562,070	5,755,725
LIABILITIES		
Current liabilities		
Borrowings	0	2,935,838
Trade and other payables	568,608	273,838
Total current liabilities	568,608	3,209,676
Non-current liabilities		
Borrowings	2,905,493	0
Deferred income	349,385	346,541
Prepayments related to government grants	237,033	0
Total non-current liabilities	3,491,911	346,541
TOTAL LIABILITIES	4,060,519	3,556,217
EQUITY		
Share capital	2,190,524	2,100,000
Statutory reserve capital	44,039	44,039
Retained earnings	266,988	55,469
TOTAL EQUITY	2,501,551	2,199,508
TOTAL LIABILITIES AND EQUITY	6,562,070	5,755,725

Statements of Comprehensive Income

	For the year ended 31 December	
	2010	**2009**
	(EEK thousands)	
Revenue	1,390,429	1,181,313
Other income	1,348	283
Goods, raw materials and services	-590,753	-452,203
Other operating expenses	-46,045	-47,888
Staff costs	-59,521	-56,574
Depreciation, amortisation and impairment	-369,872	-304,826
Other expenses	-649	-770
Operating profit	**324,937**	**319,334**
Finance income	1,356	0
Finance costs	-114,774	-109,736
Profit before income tax	**211,519**	**209,598**
Income tax expense	0	127,619
Profit for the year	**211,519**	**81,979**
Total comprehensive income for the year	**211,519**	**81,979**

Cash Flow Statements

	For the year ended 31 December	
	2010	**2009**
	(EEK thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	211,519	209,598
Adjustments for:		
– Profit from sale of property, plant and equipment	-961	-244
– Depreciation, amortisation and impairment	369,872	304,826
– Interest expenses	114,674	109,716
– Interest income	-1,334	0
Changes in working capital:		
– Changes in receivables and prepayments related to operating activities	-136,568	-13,084
– Changes in liabilities and prepayments related to operating activities	256,143	66,947
– Changes in deferred income from connection and other service fees	2,844	26,580
Cash generated from operations, excl. interest and income tax	**816,189**	**704,339**
Income tax paid	0	-127,619
Interest paid	-87,501	-109,716
Interest received	1,061	0
NET CASH USED IN OPERATING ACTIVITIES	**729,748**	**467,004**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment, and intangible assets	-408,392	-490,408
Foreign grants to acquire non-current assets	237,033	0
Proceeds from sale of property, plant and equipment	5,059	365
NET CASH USED IN INVESTING ACTIVITIES	**-166,300**	**-490,043**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short-term borrowings	-2,046,586	0
Net change in overdraft	-889,252	503,131
Long-term bank loans received	2,908,732	0
Contribution to share capital	90,524	0
Dividends paid	0	-480,092
NET CASH USED IN FINANCING ACTIVITIES	**63,418**	**23,039**
Net increase/(decrease) in cash and cash equivalents	**626,866**	**0**
Cash and cash equivalents at the beginning of the year	**0**	**0**
Cash and cash equivalents at the end of the year	**626,866**	**0**

Statements of Changes in Equity

	Share Capital	Statutory reserve capital	Retained Earnings	Total
		(EEK thousands)		
Balance as at 1 January 2009	**2,100,000**	**30,261**	**467,360**	**2,597,621**
Comprehensive income for financial year	0	0	81,979	81,979
Transfers to statutory reserve capital	0	13,778	-13,778	0
Dividends paid	0	0	-480,092	-480,092
Balance as at 31 December 2009	**2,100,000**	**44,039**	**55,469**	**2,199,508**
Contribution to share capital	90,524	0	0	90,524
Comprehensive income for financial year	0	0	211,519	211,519
Balance as at 31 December 2010	**2,190,524**	**44,039**	**266,988**	**2,501,551**

REGULATION

EU Energy Regulation: The Third Energy Package

The European Union institutions have adopted the third legislative package (the **Third Energy Package**) for the internal EU gas and electricity market, aimed at completing the liberalisation of both the electricity and the gas markets. The Third Energy Package consists of three regulations and two directives. The regulations became directly applicable in the Republic of Estonia as of 3 March 2011. The directives in the package are Directive 2009/72/EC, in relation to the electricity market, and Directive 2009/73/EC, in relation to the gas market. The transposition date for both directives was set for 3 March 2011 as well, but these have not yet been transposed into Estonian legislation. The draft amendments to the Electricity Market Act 2003 (the "**Act**") which seek to transpose Directive 2009/72/EC into Estonian legislation, are in the preparatory stages.

Pursuant to the Third Energy Package, the Company, as the TSO, has already been legally unbundled. However, the Republic of Estonia remains the shareholder of both the Company and the power generation utility company, Eesti Energia. The administrator of state assets is in both cases The Ministry of Economic Affairs and Communications (the **MEAC**). This currently does not satisfy the requirement of Directive 2009/72/EC, which states that two separate public bodies, or two separate persons, need to exercise control over the TSO on the one hand, and over an undertaking performing any of the functions of generation or supply on the other.

The deadline to achieve the unbundling is 3 March 2012 or, if the Government of Estonia exercises its option to derogate, by 3 March 2013. According to the draft amendments, the Republic of Estonia intends to exercise the derogation and extend the deadline to 3 March 2013. As the Government of Estonia has not expressed any intentions to transfer the shares in either the Company or Eesti Energia to a private investor, it is envisaged that the solution will be to change the administrator of the shares in either the Company or Eesti Energia to another Ministry of the Government.

The MEAC commission responsible for the unbundling resolved on 24 August 2009 that it would be advisable to leave the MEAC as the administrator of the shares of the Company and appoint the Ministry of Finance as the new administrator of the shares of Eesti Energia.

After the transposition of Directive 2009/72/EC into Estonian legislation, the Company will have to be certified according to the procedures laid down in Directive 2009/72/EC and designated as a TSO. To the best of the Company's knowledge, the Company currently satisfies the requirements for the certification of TSOs under Directive 2009/72/EC as well as under the draft amendments to the Act.

According to the draft amendments to the Act, the TSO may continue generating electricity to compensate for network losses and power outages in reserve power plants without violating the unbundling requirement. However, the draft amendments are subject to change and are not limited to the transposition of Directive 2009/72/EC. As such, the Company cannot make any statements as to the potential effect of such amendments on the Company.

Estonian electricity regulation

The Estonian electricity market is mainly regulated by the Act and its implementing acts. According to the Act, Estonia is to open the market for generation of electricity in full by 1 January 2013. Prior to 1 January 2013, at least 35 per cent. of the market for generation of electricity must be open to competition, i.e. the number of consumers who have the option to choose their electricity providers must be such that the total amount of electricity used by the relevant consumers makes up at least 35 per cent. of the total electricity consumption in Estonia.

The MEAC and the ECA share responsibility for the overall supervision and regulation of the Estonian electricity sector.

The MEAC establishes development guidelines for the electricity sector. The ECA's responsibilities include, but are not limited to, the responsibility to:

- issue and revoke activity licences, extend the terms of activity licences, establish and amend the conditions thereof and monitor compliance with the conditions of activity licences;
- monitor the prices of balancing electricity determined by the system operator and grant approval for the standard terms and conditions of balance agreements;
- grants approval for transmission charges, except for transmission charges for the transit of electricity, and for the standard terms and conditions for the provision of network services;
- monitor the charges for electricity transmission, connection charges and charges for the amendment of conditions collected by network operators;
- resolve disputes between market participants;
- check that market participants comply with the conditions set out in the Act and its implementing acts, and perform the relevant obligations;
- issue mandatory directions to market participants; and
- prepare and publish uniform methods for the calculation of justified network charges based on the weighted average capital cost, as well as other methods and guidelines.

The ECA has issued an activity licence to the Company for the provision of network services through the transmission network. The activity licence is for an unlimited duration.

The Company, as the transmission network operator, is also a system operator and holds a monopoly position. The statutory obligations of the Company as the TSO include, but are not limited to, the obligation to:

- collect and pay subsidies for renewable energy and energy produced in an efficient cogeneration regime (financed by the customers according to the volume of consumption of the network services);
- issue guarantees of origin to the producers at their request certifying that the producer generated electricity from renewable energy sources or in efficient cogeneration regime;
- comply with the requirements established for providers of services of vital importance;
- ensure security of supply and balance of the system at any moment in time, including entering into balance agreements with balance providers; and
- participate in the inter-TSO compensation mechanism as set out in Regulation 714/2009.

All network operators have an obligation to develop the network such that the continued provision of network services is ensured to all customers, producers, line possessors and any other network operators connected to the network. Upon revocation of the activity licence of the Company, the ECA has the right to request that the Company must continue to perform the obligations arising from legislation and the conditions of the activity licence for a period of time determined by the ECA.

Under the Act, the liability of the TSO is limited to the direct proprietary damage and damages caused by the fault of the TSO.

Regulation of network charges

All network charges must be transparent and in compliance with the principle of equal treatment. All transmission charges, except for transmission charges for the transit of electricity which is not regulated, need the prior approval of the ECA. Upon setting network charges, the necessity of ensuring security of supply and efficiency must be taken into account. The amount of network charges must enable network operators to perform the obligations arising from legislation and the conditions of the activity licence and to ensure justified profitability of the invested capital.

The ECA has prepared and published two guidelines regarding the calculation of justified network charges:

- Standard Methodology for Calculating Electricity Network Charges (**Standard Methodology**); and
- Guidelines for determination of Weighted Average Cost of Capital (**WACC Guidelines**).

According to the Standard Methodology, the ECA uses the revenue cap method. The allowed regulated revenue for each year is the sum of justified costs and a reasonable return on the regulated assets (operating profit = Regulated Assets x WACC). As a result, the investments are always rewarded as they increase the regulated assets and consequently operating profit. Network charges are calculated and approved for each year within a three-year regulation period at the request of the network operator. Each network charge will be adjusted once a year. Adjustments are made based on an adjustment formula for network charges approved by the ECA, taking into account the differences in forecasted and actual non-controllable costs, as well as actual transmission volumes, inflation, etc. In general, the adjustments are small. Currently, the ECA has approved a WACC of 7.56 per cent. for years 2011-2013 for the Company.

The ECA has approved investments in the networks in the amount of approximately EUR 56 million for 2011, EUR 63.7 million for 2012 and EUR 167.8 million for 2013. The most recently approved network charges entered into force on 1 January 2011.

The Company has a policy by which it prepares its budget for the next regulation period only once the ECA has approved the size of operating and capital costs for that same regulation period.

Estonian environmental legislation

The Company's operations are subject to environmental legislation and the Company has a responsibility to prevent any negative environmental effects. Estonian environmental legislation includes the Environmental Liability Act of 2007, as amended, which implements Directive 2004/35/EC of the European Parliament and of the Council on environmental liability with regard to the prevention and remedying of environmental damage.

The Company's activities give rise to several environmental risks, in particular due to noise generated from power transformers, electric and magnetic fields in the area surrounding power lines and oil contained in the electrical equipment in the Company's substations.

The Company is also engaged in the construction of one reserve power plant which give rise to additional environmental risks such as the emission of pollutants.

To the best of its knowledge, the Company is currently in compliance with all Estonian environmental requirements.

Estonian health and safety regulations

The Company's operations are subject to health and safety regulations. The Company transmits electricity via high voltage lines and substations and there is an inherent risk to employees of the Company, other personnel working in such an environment, as well as third persons. Accidents may occur for a variety of reasons.

The Company is also engaged in the construction of one reserve power plant which give rise to additional health and safety risks related to the generation of electricity.

According to the Occupational Health and Safety Act of 1999, as amended, an employer must ensure compliance with the occupational health and safety requirements in every aspect related to the work. Specific technical and safety requirements arise from the Electrical Safety Act of 2007 and the Grid Code.

To the best of its knowledge, the Company is currently in compliance with all Estonian health and safety requirements.

THE REPUBLIC OF ESTONIA

General Description

Estonia is located on the eastern coast of the Baltic Sea in the Nordic region. The territory of Estonia covers approximately 45,000 square kilometres and it is larger in area than Denmark, Switzerland or The Netherlands. Estonia is bordered to the north by the Gulf of Finland, to the west by the Baltic Sea, to the south by Latvia, and to the east by the Russian Federation. Its nearest overseas neighbour is Finland, which lies 85 kilometres across the Baltic Sea from Tallinn, Estonia's capital. According to a census conducted in 2010, the population of Estonia is approximately 1.34 million and with 69 per cent. of the total population living in urban centres.

Estonia, along with Finland, Lithuania and Latvia, first attained independence in 1918. Estonia was later occupied by the Soviet Union in 1940 and regained its independence in 1991 with the collapse of the communist regime. In June 1992, Estonia replaced the Russian rouble with the Estonian kroon and immediately began a programme of free market reforms. On 1 January 2011, Estonia adopted the euro, becoming the seventeenth member of the euro zone.

Estonia's new constitution was introduced in 1992 and provides for a unicameral 101-seat Parliament (*Riigikogu*) whose members are elected directly by proportional representation. Traditionally, centre and right wing parties have been more popular in Estonia. The current Government is formed by the coalition of two right wing parties: the liberal Reform Party Pro Patria and the conservative Res Publica Union in the Parliament (*Riigikogu*).

Estonia is listed as a High-Income Economy by the World Bank and is ranked as a High-Income Member of the Organisation for Economic Co-operation and Development. The United Nations lists Estonia as a developed country with a Human Development Index of "Very High".

Estonia is a member of a number of international organisations including the United Nations, NATO, the Organisation for Economic Co-operation and Development, the World Trade Organisation, the International Monetary Fund, the World Bank, European Bank for Reconstruction and Development and the Organisation for Security and Co-operation in Europe.

The Estonian Economy

General

Estonia has a modern market-based economy and one of the highest per capita income levels in Central Europe and the Baltic region. Estonia's successive governments have pursued a free market and pro-business economic agenda. The economy also benefits from strong electronics and telecommunications sectors and strong trade ties with Finland, Sweden and Germany.

Economic Growth

Between 2003 and 2007, Estonia's GDP increased at an average of approximately 8 per cent. per annum. From 2007, the growth rate began gradually decreasing and as a result of the sharp decline in trade volumes in the global economy at the end of 2008, Estonia's GDP decreased by 5.1 per cent. year on year. In 2009, due to decreased domestic and foreign demand, GDP decreased by 13.9 per cent.

Rising exports to Sweden and Finland led to an economic recovery in 2010. Despite the contracting of the economy between 2008 and 2009, the average annual GDP growth in the last ten years has remained at 4.1 per cent. The table below shows the percentage change in the GDP of Estonia between 2006 and 2010, compared to the average of the 27 EU Member States, as determined by Eurostat.

GDP change (per cent.)	2006	2007	2008	2009	2010
Estonia	10.6	6.9	-5.1	-13.9	3.1
EU-27 average	3.2	3.0	0.5	-4.2	1.8

Source: Eurostat

Inflation

The rate of inflation, as measured by the harmonised consumer price index, reached its peak in 2008. However, prices were corrected after the introduction of the euro and the increase in the rate of inflation in Estonia has since then been as a result of external aspects, such as the appreciation of oil and other raw materials. For the industrial goods and services, the price pressures have been marginal. The table below shows the percentage change in the Harmonised Index of Consumer Prices in Estonia between 2006 and 2010, compared to the average of the 27 EU Member States, as determined by Eurostat.

Harmonised Index of Consumer Prices (HICP)

change (per cent.)	**2006**	**2007**	**2008**	**2009**	**2010**
Estonia	4.4	6.7	10.6	0.2	2.7
EU-27 average	2.2	2.3	3.7	1.0	2.1

Source: Eurostat

Unemployment

Unemployment rates in Estonia rose in the years of the economic downturn. Although there are still approximately 66,000 registered unemployed, the numbers are steadily dropping. According to the International Labour Organisation's definition of unemployment rate, the second largest reduction in the EU was observed between the fourth quarters of 2009 and 2010 in Estonia, a decrease of 2.2 per cent.

Year	**2006**	**2007**	**2008**	**2009**	**2010**
Annual average rate of registered unemployment (per cent.)	2.4	2.1	3.0	10.2	12.3

Source: Estonian Unemployment Insurance Fund

Public Finances

Maintaining a balance of public expenditures and revenues has been a key priority of the Estonian Government. The table below shows the government surplus or deficit as a percentage of GDP in Estonia between 2006 and 2010, compared to the average of the 27 EU Member States, as determined by Eurostat.

Government surplus/(-)deficit as percentage of GDP	**2006**	**2007**	**2008**	**2009**	**2010**
Estonia	2.4	2.5	-2.8	-1.7	0.1
EU 27 average	-1.5	-0.9	-2.4	-6.8	-6.4

Source: Eurostat

Government debt has remained at low levels over the last 10 years. During growth years, the Government has regularly provided a budget surplus. In 2010, Estonia had the lowest public sector debt among the European Union Member States (6.6 per cent. of the GDP). The table below shows the government's gross debt as a percentage of GDP in Estonia, compared to the average of the 27 EU Member States, as determined by Eurostat.

Government gross debt as a percentage of GDP	**2006**	**2007**	**2008**	**2009**	**2010**
Estonia	4.4	3.7	4.6	7.2	6.6
EU 27 average	61.5	59.0	62.3	74.4	80.0

Source: Eurostat

Foreign Trade

Foreign demand increased sales volumes in both the production and service industries in Estonia. The reduction of operating costs, especially labour costs, was also significant, improving efficiency and competitiveness. In 2010, the export of goods already exceeded the pre-crisis levels. This was led by the effective use of the Estonian electronics industry's potential in the export chain for communication devices via Sweden, however the growth has been broad, as is shown by increases in wood products, metals, machinery and other branches of electronic equipment.

Estonia's main export partners are Sweden, Finland, Russia and Latvia and its main import partners are Russia, Finland, Sweden and Germany. Estonia's geographical position favours foreign trade in the region, with the availability of ice-free ports with a developed railway and road infrastructure.

Balance of Payments

Historically, the current account of Estonia has been in deficit and financed through capital inflow in the form of foreign direct investments and bank loans to the private sector. Since 2009, the current account balance has remained positive due to increased exports.

Year	**2006**	**2007**	**2008**	**2009**	**2010**
Current account balance/GDP (per cent.)..	-15.3	-17.2	-9.7	4.5	3.6

Source: Bank of Estonia

TAXATION

The following summary describes Estonian tax consequences to Noteholders. It is a general summary and should not be considered as a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Purchasers of the Notes should consult with their tax advisers as to the consequences of holding or transferring Notes under the tax laws of the respective country of which they are resident for tax purposes.

The summary herein regarding taxation is based on the laws in force in Estonia as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

Taxation of interest

Estonian Resident Noteholders

Pursuant to Article 17 (1) of the Estonian Income Tax Act 1999, as amended (the **EITA**), income tax at the rate of 21 per cent. is charged on all interest received by natural persons who are resident in Estonia. Income tax payable in respect of interest payments to be made to Estonian residents are to be withheld by the Company. The Company will not withhold income tax if the Estonian resident Noteholder, who is a natural person, has notified the Company that the interest was received on financial assets acquired for money held in an investment account as specified in Article 17 (2) of the EITA.

In general, interest income earned by resident legal entities is not subject to income tax. Such income is included in their profits and taxed upon distribution of profit pursuant to the respective procedures.

Non-resident Noteholders

The Company generally does not withhold any income tax on interest payments to non-residents i.e. non-resident legal persons, who have not registered a permanent establishment in Estonia, and natural persons. However, as specified by Article 29 (7) of the EITA, if the interest payment significantly exceeds the market rate interest (payable on similar debt obligations, both at the occurrence of the debt obligation and payment of interest), then income tax must be withheld on the exceeding amount at the rate of 21 per cent. by the Company. The exceeding amount is the difference between the interest received and the interest payable according to the market conditions on similar debt obligation.

If a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital (**Double Taxation Treaty**) limits taxation of interest income, the limitations of the Double Taxation Treaty apply.

In Estonia, the limitations arising from a Double Taxation Treaty apply if the Noteholder has certified its residence to the Estonian Tax and Customs Board.

The income earned by non-resident Noteholders may be subject to taxation in their country of residence.

Taxation of capital gains

Estonian Resident Noteholders

The income earned by resident individuals from the sale of Notes is taxed as profit from the transfer of property which is subject to income tax at the rate of 21 per cent. A Noteholder has to declare the income and pay the income tax.

Pursuant to Article 37 (1) of the EITA, a resident individual has the right to deduct certified expenses directly related to the sale of Notes from the resident's gain or to add such expenses to the resident's loss. The gain or loss derived from the transfer of Notes is the difference between the acquisition cost and the selling price of the Notes sold.

Different taxation rules apply for the sale of Notes if the Noteholder uses an investment account as specified in Article 17 (2) of the EITA for acquiring Notes and deposits the proceeds from the transfer of Notes in the investment account.

Income earned by resident entities from the sale of Notes is not subject to income tax. Such income is included in their profits and taxed upon distribution of profits pursuant to relevant procedures.

Non-resident Noteholders

Income earned from the sale of Notes is not subject to income tax in Estonia for non-resident Noteholders. The income earned by non-resident Noteholders may be subject to taxation in their country of residence.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch, Nordea Bank Finland Plc and Swedbank AB (publ) (together, the **Joint Lead Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 7 July 2011, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 98.812 per cent. of the principal amount of Notes. The Issuer has agreed to pay the Joint Lead Managers a combined management and underwriting commission, and will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Estonia

The offer of the Notes has not been and will not be registered under the Estonian Securities Market Act of Estonia of 2001, as amended (the **Securities Market Act**) as a public offering. Accordingly, each Joint Lead Manager has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Estonia or to or for the benefit of any resident of Estonia (which term as used in this paragraph means any person resident in Estonia, including any corporation or other entity incorporated under the laws of Estonia), or to others for re-offering or resale, directly or indirectly, in Estonia or to a resident of Estonia except in compliance with the Securities Market Act and any other applicable laws or regulations of Estonia.

General

No action has been taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it will not, directly or indirectly, offer or sell any Notes or distribute or publish this Prospectus or any other offering material relating to the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Supervisory Board of the Issuer dated 15 December 2010.

Listing and admission to trading

2. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Notes is expected to be granted on or about 12 July 2011, subject only to the issue of the Temporary Global Note.

   The total expenses related to the admission to trading of the Notes are expected to be approximately £4,200.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for this issue is XS0645947457 and the Common Code is 064594745. The WKN for this issue is A1GTC2.

   The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, société anonyme, 42 Avenue JF Kennedy, L 1855 Luxembourg.

No significant change

4. There has been no significant change in the financial or trading position of the Issuer since 31 March 2011 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2010.

Litigation

5. The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have, or have had in the recent past a significant effect on the Issuer's financial position or profitability.

Auditors

6. The auditors of the Issuer are AS PricewaterhouseCoopers (the **Auditors**), who have audited the Issuer's financial statements as at and for each of the years ended 31 December 2010 and 31 December 2009 (the **Financial Statements**) in accordance with the International Standards on Auditing, and issued an unqualified audit report on those Financial Statements.

   The business address of the Auditors is Pärnu mnt 15, 10141 Tallinn, Estonia. The Auditors have no material interest in the Issuer.

   The Auditors have given and have not withdrawn their written consent to the inclusion of their report in this document in the form and context in which it appears. The Auditors have authorised the contents of that report for the purposes of Prospectus Rule 5.5.4R(2)(f) and have taken all reasonable care to ensure that the information contained in this report is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

U.S. tax

7. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents Available

8. For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the specified office of the Paying Agent for the time being in London:

   (a) the constitutional documents of the Issuer (with an English translation thereof);

   (b) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2009 and 31 December 2010 together with the audit reports in connection therewith. The Issuer currently prepares audited accounts on an annual basis;

   (c) the unaudited interim financial statements of the Issuer for the period ended 31 March 2011 (prepared in accordance with the Estonian State Assets Act, not IFRS);

   (d) the Agency Agreement; and

   (e) the Temporary Global Note and Permanent Global Note.

Joint Lead Managers transacting with the Issuer

9. Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Yield

10. On the basis of the issue price of the Notes of 98.812 per cent. of their principal amount, the yield on the Notes is 4.829 per cent. on an annual basis.

    The yield is calculated on the Closing Date of the basis of the issue price of the Notes. It is not an indication of future yield.

Interests of natural legal persons involved in the issue of the Notes

11. Save for the commissions described under "*Subscription and Sale*" above, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

FINANCIAL STATEMENTS

Contents **Pages**

Statements of Financial Position

In thousands of Estonian kroons	Note	31.12.2010	31.12.2009	01.01.2009
ASSETS				
Current assets				
Cash and cash equivalents	6	626,866	0	0
Trade and other receivables	7	342,159	208,568	192,246
Total current assets		**969,025**	**208,568**	**192,246**
Non-current assets				
Property, plant and equipment	8	5,544,548	5,516,156	5,346,928
Intangible assets	10	48,497	31,001	17,837
Total non-current assets		**5,593,045**	**5,547,157**	**5,364,765**
TOTAL ASSETS		**6,562,070**	**5,755,725**	**5,557,011**
LIABILITIES				
Current liabilities				
Borrowings	11	0	2,935,838	386,121
Trade and other payables	12	568,608	273,838	206,722
Total current liabilities		**568,608**	**3,209,676**	**592,843**
Non-current liabilities				
Borrowings	11	2,905,493	0	2,046,586
Deferred income	13	349,385	346,541	319,961
Prepayments related to government grants	13	237,033	0	0
Total non-current liabilities		**3,491,911**	**346,541**	**2,366,547**
TOTAL LIABILITIES		**4,060,519**	**3,556,217**	**2,959,390**
EQUITY				
Share capital	14	2,190,524	2,100,000	2,100,000
Statutory reserve capital	14	44,039	44,039	30,261
Retained earnings	14	266,988	55,469	467,360
TOTAL EQUITY		**2,501,551**	**2,199,508**	**2,597,621**
TOTAL LIABILITIES AND EQUITY		**6,562,070**	**5,755,725**	**5,557,011**

The notes on pages 6 to 37 are an integral part of these financial statements.

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PricewaterhouseCoopers, Tallinn

Statements of Comprehensive Income

In thousands of Estonian kroons	Note	2010	2009
Revenue	15	1,390,429	1,181,313
Other income	16	1,348	283
Goods, raw materials and services	17	-590,753	-452,203
Other operating expenses	18	-46,045	-47,888
Staff costs	19	-59,521	-56,574
Depreciation, amortisation and impairment	8,10	-369,872	-304,826
Other expenses	20	-649	-770
Operating profit		**324,937**	**319,334**
Finance income		1,356	0
Finance costs	21	-114,774	-109,736
Profit before income tax		**211,519**	**209,598**
Income tax expense	14	0	127,619
Profit for the year		**211,519**	**81,979**
Total comprehensive income for the year		**211,519**	**81,979**

The notes on pages 6 to 37 are an integral part of these financial statements.

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Cash Flow Statements

In thousands of Estonian kroons	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		211,519	209,598
Adjustments for:			
- Profit from sale of property, plant and equipment	16	-961	-244
- Depreciation, amortisation and impairment	8,10	369,872	304,826
- Interest expenses	21	114,674	109,716
- Interest income		-1,334	0
Changes in working capital:			
- Changes in receivables and prepayments related to operating activities	7	-136,568	-13,084
- Changes in liabilities and prepayments related to operating activities	12	256,143	66,947
- Changes in deferred income from connection and other service fees	13	2,844	26,580
Cash generated from operations, excl. interest and income tax		**816,189**	**704,339**
Income tax paid	14	0	-127,619
Interest paid	21	-87,501	-109,716
Interest received		1,061	0
Net cash used in operating activities		**729,748**	**467,004**
Cash flows from investing activities			
Purchases of property, plant and equipment, and intangible assets	8,10	-408,392	-490,408
Foreign grants to acquire non-current assets	13	237,033	0
Proceeds from sale of property, plant and equipment		5,059	365
Net cash used in investing activities		**-166,300**	**-490,043**
Cash flows from financing activities			
Repayment of short-term borrowings	11	-2,046,586	0
Net change in overdraft	11	-889,252	503,131
Long-term bank loans received	11	2,908,732	0
Contribution to share capital	14	90,524	0
Dividends paid	14	0	-480,092
Net cash used in financing activities		**63,418**	**23,039**
Net increase/(decrease) in cash and cash equivalents		**626,866**	**0**
Cash and cash equivalents at the beginning of the year	6	**0**	**0**
Cash and cash equivalents at the end of the year	6	**626,866**	**0**

The notes on pages 6 to 37 are an integral part of these financial statements.

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Statements of Changes in Equity

In thousands of Estonian kroons	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 1.1.2009	**2,100,000**	**30,261**	**467,360**	**2,597,621**
Comprehensive income for financial year	0	0	81,979	81,979
Transfers to statutory reserve capital	0	13,778	-13,778	0
Dividends paid	0	0	-480,092	-480,092
Balance as at 31.12.2009	**2,100,000**	**44,039**	**55,469**	**2,199,508**
Contribution to share capital	90,524	0	0	90,524
Comprehensive income for financial year	0	0	211,519	211,519
Balance as at 31.12.2010	**2,190,524**	**44,039**	**266,988**	**2,501,551**

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

The notes on pages 6 to 37 are an integral part of these financial statements.

Notes to the Financial Statements

Note 1. Elering AS (Formerly Elering OÜ) and its Operations

These financial statements of Elering AS (the "Company") have been prepared for inclusion in prospectus of the Company in connection with the planned issue of debt notes. 2010 statutory financial statements of the Company prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the filing in the Estonian Commercial Registrar ("Statutory Annual Accounts") were issued on 11 April 2011. These financial statements do not differ from the Statutory Annual Accounts apart from the additional disclosure on segment reporting and other minor disclosure additions.

Elering AS (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 Estonian legislation, which stipulates that the Estonian Competition Board regulates the Company's economic activities, monitors its operations and fixes the tariffs for the transmission services.

From 27.01.2010, the sole shareholder of the Company is the Republic of Estonia, until then, the Company's immediate parent company was Eesti Energia AS whose sole shareholder is the Republic of Estonia.

The Management Board approved these financial statements at 11 April 2011. 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.

The Company changed its financial year in 2009. Before that, the Company's financial year lasted from 1 April to 31 March. The purpose of the change was to make financial years coincide with the calendar year. The Company's financial statements for the year ended 31.12.2009 presented the results of operations for the period of 1.04.2009-31.12.2009 (9 months) and the comparative period 1.04.2008-31.03.2009 (12 months). These financial statements present the results of operations for the periods 1.01.2009 - 31.12.2009 and 1.01.2010 - 31.12.2010, i.e. the length of the comparative period has been changed as compared to the period presented in the financial statements for 2009. The comparative period was changed to be 12 months long in order ensure better comparability of the financial statements across financial years.

Operating segments. The chief operating decision maker has been identified as the Management Board, who is responsible for allocating resources and assessing performance of the Company. The Management Board has determined that the activities of the Company form a single operating segment. The internal reporting provided to the

Management Board has been prepared using the accounting policies and presentation consistent with those used in preparation of the financial statements.

Functional and presentation currency. The functional currency of the Company is the Estonian kroon. All amounts in these financial statements are presented in thousands of Estonian kroons ("EEK"), unless otherwise stated.

Foreign currency translation. Foreign currency transactions are translated into the functional currency using the exchange rates of the Bank of Estonia prevailing at 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 statements.

Financial assets. The purchases and sales of financial assets are recognised at the trade date — the date at 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:
- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

At 31 December 2010 (as well as 31 December 2009 and 1 January 2009), the Company had no other classes of financial assets than those classified under the category 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. Loans and receivables are initially recognised at fair value plus transaction costs. After initial recognition, loans and receivables are accounted for at amortised cost using the effective interest rate method unless the payment date falls within 30 days.

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

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

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

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

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

Property, plant and equipment. Property, plant and equipment are stated at cost, less any accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statements during the financial period in which they are incurred.

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

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

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

At 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 statements. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

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

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

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

	Useful lives in years
Software licences	3 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 at 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 statements 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 balance sheet in their redemption value. Non-current liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statements over the period of the borrowings using the effective interest rate method.

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 are also classified as current liabilities.

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

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

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

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

Share capital. Ordinary shares are 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. Any dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the note "Events after the Balance Sheet Date".

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, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The sales of network services and balancing energy fall into this category.

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

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

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

Government grants are presented in the statements of financial position using the gross method, according to which the government grant is recognised as deferred income The acquired asset is depreciated and the grant is credited to income over the estimated useful life of the asset.

If the government grant is received in the form of a transfer of a non-monetary asset, the grant and the asset are recognised at the fair value of the asset transferred.

Subsidies to electricity producers. The Electricity Market Act obliges the Company to participate in supporting mechanism for renewable and efficient cogeneration electricity producers. The electricity consumer bears the costs of support in proportion to the volume of network services consumed. The Company collects subsidies on behalf of eligible producers and pays it out to them.

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

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

Employee benefits. Wages, salaries, contributions to the state pension, paid annual leave, sick leave and bonuses, along with social and unemployment taxes are recognised in the income statements 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 recognised a liability (accrued expense) in the amount of forecast compensation, from which all amounts already paid will be deducted.

Income tax. According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due at 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 balance sheet. The maximum income tax liability which would accompany the distribution of Company's retained earnings is disclosed in the notes to the financial statements.

Value added tax. Output value added tax related to sales is payable to tax authorities at the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

Other taxes in Estonia

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

Tax	Tax rate
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	Until 31.05.2009: 0.3%, until 31.07.2009: 1%, from 01.08.2009: 1.4% of the payroll paid to employees,
Fringe benefit income tax	21/79 of fringe benefits paid to employees
Land tax	1-2.5% on taxable value of land per annum
Excise tax on electricity	Until 28.02.2010: 50 kroons per MWh of electricity, from 01.03.2010: 70 kroons per MWh of electricity
Corporate income tax on non-business related expenses	21/79 on non-business related expenses

Note 3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

The customer relationship period is 20 years based on management's estimate. In the reporting period, income from connection and other service fees totalled EEK 17,942 thousand (2009: EEK 15,483 thousand). If the estimated customer relationship period were increased by 25%, the annual income from connection fees would decrease by EEK 3,588 thousand (2009: EEK 3,097 thousand).

Useful lives of property, plant and equipment. The estimated useful lives of items of property, plant and equipment (Note Note 8) are based on management's estimates regarding the period during which the asset will be used. The estimation of economic lives is based on historical experience and takes into consideration production capacity and physical condition of the assets. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. In the reporting period, depreciation amounted to EEK 307,472 thousand (2009: EEK 303,638 thousand). If depreciation rates were increased/decreased by 20%, the depreciation charge for the year would increase/decrease by EEK 61,494 thousand (2009: EEK 60,728 thousand).

Note 4. New accounting pronouncements

Adoption of new or revised standards and interpretations

Following new standards, amendments to published standards and interpretations became effective for the Company from 1 January 2010:

IFRIC 18, Transfers of Assets from Customers. The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost at initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Company assessed the effect of IFRIC 18 on recognition of connection fees and concluded that the current accounting method (connection fees are amortised into income over the estimated duration of the customer relationship) is in compliance with the principles of IFRIC 18, therefore, the interpretation had no effect on the financial statements.

Following new standards, amendments to published standards and interpretations became effective for the Company from 1 January 2010, but are not relevant for the Company's operations:

- Improvements to International Financial Reporting Standards, issued in April 2009
- IFRIC 12, Service Concession Arrangements
- IFRIC 15, Agreements for the Construction of Real Estate
- Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation

- IFRIC 17, Distributions of Non-Cash Assets to Owners
- IAS 27, Consolidated and Separate Financial Statements, revised in January 2008
- IFRS 3, Business Combinations, revised in January 2008
- Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)
- Eligible Hedged Items—Amendment to IAS 39
- IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1

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

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 (effective for annual periods beginning at or after 1 January 2011). IAS 24 was revised in 2009: (a) the definition of a 'related party' was simplified, its intended meaning was clarified and some inconsistencies were removed from the definition, and (b) disclosure requirements were reduced for public entities. Disclosures about related parties were prepared in accordance with the revised IAS 24 in these financial statements.

New or revised standards and interpretations not early adopted by the Company:

Following new or amended standards and interpretations were issued and will become effective for the Company from 1 January 2011 or later periods and which the Company has not early adopted

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning at or after 1 January 2013; not yet adopted by the EU). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning at or after 1 January 2011; the improvements have not yet been adopted by the EU).

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose the carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statements of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company is currently assessing the impact of the amended standard on its financial statements.

New or revised standards and interpretations that are not yet effective and not early adopted by the Company, and not expected to have a significant effect on the Company's financial statements:

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning at or after 1 July 2011; not yet adopted by the EU).

Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning at or after 1 January 2012; not yet adopted by the EU).

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning at or after 1 July 2011; not yet adopted by the EU).

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning at or after 1 February 2010).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning at or after 1 July 2010).

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning at or after 1 January 2011).

Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters - Amendment to IFRS 1 (effective for annual periods beginning at or after 1 July 2010). The Company does not expect the amendment to have any material effect on its financial statements.

IFRS 10, Consolidated financial statements; IFRS 11, Joint arrangements; IFRS 12, Disclosure of interests in other entities; IAS 27, Separate financial statements (revised 2011); and IAS 28, Investments in associates and joint ventures (revised 2011) (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU)

Note 5. Financial Risk Management

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

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

Loans and receivables

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Cash and cash equivalents (Note 6)	**626,866**	**0**	**0**
Trade and other receivables (Note Note 7)	**337,234**	**189,133**	**184,424**
- Trade receivables	336,949	189,115	184,377
- Other receivables	285	18	47
TOTAL FINANCIAL ASSETS	**964,100**	**189,133**	**184,424**

Financial liabilities at amortised cost

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Trade and other payables (Note 12)	558,430	257,366	180,566
Borrowings (Note 11)	2,905,493	2,935,838	2,432,707
TOTAL FINANCIAL LIABILITIES	**3,463,923**	**3,193,204**	**2,613,273**

Credit risk

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

The Company's maximum exposure to credit risk by class of assets is as follows:

In thousands of Estonian kroons	*31.12.2010*	*31.12.2009*	*01.01.2009*
Cash and cash equivalents (Note 6)	626,866	0	0
Trade and other receivables (Note Note 7)	337,234	189,133	184,424
- Trade receivables	336,949	189,115	184,377
- Other receivables	285	18	47
Total exposure of assets to credit risk in the statements of financial position	964,100	189,133	184,424

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. 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. Management therefore considers it appropriate to provide ageing and other information about credit risk as 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. At 31.12.2010, the Company had 1 counterparty (distribution network operator) (31.12.2009 and 1.1.2009: 1 counterparty) with an aggregated receivables balance of EEK 247,340 thousand (31.12.2009: EEK 142,722 thousand; 1.1.2009: EEK 127,808 thousand) or 73% of the gross amount of trade and other receivables (31.12.2009: 75%; 1.1.2009: 69%).

Market risk

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

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

Currency risk

Currency risk does not arise from transactions and balances denominated in euros, as the Estonian kroon is pegged to euro at the fixed exchange rate. As most of the Company's transactions and balances are denominated either in Estonian kroons or euros, the Company is not exposed to significant currency risk.

Transactions in other currencies are insignificant; there were no financial instruments denominated in other currencies as at 31.12.2010, 31.12.2009 and 01.01.2009.

Interest rate risk

The Company is not exposed to fair value risk as it has no interest bearing financial instruments carried at fair value and no financial instruments with fixed rate. Cash flow interest rate risk arises from borrowings with a floating interest rate. Until 8.01.2010 the Company had a loan and overdraft agreement with its parent company. The interest rate for both of them was fixed once a year. At 8.01.2010, the aforementioned liabilities were refinanced through a borrowing from a bank syndicate. The interest rate on the new loan is Euribor + 300 basis points. Pursuant to the loan contract, the Company has the right to choose between 3-month and 6-month Euribor for each following interest period. Euribor is fixed one day prior to the beginning of the new interest period: the Company's management decides whether to fix the interest rate for three or six months, depending on which option is more favourable. The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing and maturity dates.

In thousands of Estonian kroons	On demand and less than 1 month	From 3 to 12 months	Total
31.12.2010			
Cash and cash equivalents (Note 6)	626,866	0	626,866
Long-term borrowings (Note Note 11)	2,905,493	0	2,905,493
Net interest sensitivity gap at 31.12.2010	**-2,278,627**	**0**	**-2,278,627**
31.12.2009			
Short-term borrowings (Note Note 11)	2,046,586	0	2,046,586
Overdraft (Note Note 11)	889,252	0	889,252
Net interest sensitivity gap at 31.12.2009	**-2,935,838**	**0**	**-2,935,838**
01.01.2009			
Long-term borrowings (Note Note 11)	0	2,046,586	2,046,586
Overdraft (Note Note 11)	386,121	0	386,121
Net interest sensitivity gap at 01.01.2009	**-386,121**	**-2,046,586**	**-2,432,707**

In the long run, the Company's interest rate risk is limited because the interest rate risks of income and expenses greatly offset each other. In accordance with the legislator's methodology in respect of determination of the tariffs, the market interest rate is used for determining the weighted average cost of capital (WACC) of regulated assets which is used for calculating regulated income. When market interest rates increase, the network tariffs increase as well.

If at 31.12.2010, interest rates had been 10 basis points lower (31.12.2009: 10 basis points) or 100 basis point higher (31.12.2009: 100 basis points) with all other variables held constant, profit for the year would have been EEK 2,905 thousand (2009: EEK 2,936 thousand) higher or EEK 29,055 thousand (2009: EEK 29,359 thousand) lower, mainly as a result of a lower/higher interest expense on variable interest liabilities.

The Company monitors interest rates of its financial instruments. The table below summarises effective interest rates during the respective financial years on the basis of reports reviewed by key management personnel:

In % p.a.	2010	2009
Liabilities		
Long-term borrowings (Note Note 11)	4.28	4.81
Overdraft (Note Note 11)	3.53	4.81

Other price risk. The Company has no exposure to equity price risk as it does not hold financial instruments open to price risk.

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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 debt securities. 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 at 31.12.2010, 31.12.2009 and 01.01.2009 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 at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities at 31.12.2010 is as follows:

In thousands of Estonian kroons	**On demand and less than 1 month**	**From 1 to 12 months**	**From 12 months to 5 years**	**Total**
Trade and other payables (Note 12), excl. accrued interest	531,257	0	0	**531,257**
Borrowings (Note 11), incl. accrued interest.	27,173	118,542	3,022,944	**3,168,659**
Total future payments	**558,430**	**118,542**	**3,022,944**	**3,699,916**

The maturity analysis of financial liabilities at 31.12.2009 is as follows:

In thousands of Estonian kroons	**On demand and less than 1 month**	**From 1 to 12 months**	**From 12 months to 5 years**	**Total**
Trade and other payables (Note 12)	257,366	0	0	**257,366**
Bank and parent company overdrafts (Note 11)	889,252	0	0	**889,252**
Borrowings (Note 11)	2,055,220	0	0	**2,055,220**
Total future payments	**3,201,838**	**0**	**0**	**3,201,838**

The maturity analysis of financial liabilities at 01.01.2009 is as follows:

In thousands of Estonian kroons	**On demand and less than 1 month**	**From 1 to 12 months**	**From 12 months to 5 years**	**Total**
Trade and other payables (Note 12)	180,566	0	0	**180,566**
Bank and parent company overdrafts (Note 11)	395,905	0	0	**395,905**
Borrowings (Note 11)	0	123,460	2,056,874	**2,180,334**
Total future payments	**576,471**	**123,460**	**2,056,874**	**2,756,805**

For ensuring liquidity and better management of cash flows, the Company has concluded overdraft contracts with the banks in the amount of EEK 312 932 thousand as at 31.12.2010. In addition to overdraft, the Company has undrawn loan facilities in the amount of EEK 1,564,660 thousand as at 31.12.2010. As at 1.1.2009 and 31.12.2009 the Company had overdraft and loan agreements with its then parent entity. See further information in Note 11.

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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 shareholders 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, take new loans, sell assets to reduce liabilities.

According to the widespread industry practice, the Company uses the equity to asset ratio for monitoring the Company's capital, arrived at by dividing total equity by total assets as at the balance sheet date. In 2010, similarly to 2009 and 2008, the Company's goal was to preserve the ratio of equity to assets at 35 - 55%.

According to the terms set forth in the loan contract, the Company also uses the equity ratio to monitor the Company's capital. The equity to asset ratio was 38% as at 31.12.2010, 38% as at 31.12.2009, and 47% as at 01.01.2009.

In thousands of Estonian kroons	*31.12.2010*	*31.12.2009*	*01.01.2009*
Interest-bearing liabilities (Note 11)	*2,905,493*	*2,935,838*	*2,432,707*
Cash and cash equivalents (Note 6)	*626,866*	*0*	*0*
Net debt	2,278,627	2,935,838	2,432,707
Equity	2,501,551	2,199,508	2,597,621
Total capital	**4,780,178**	**5,135,346**	**5,030,328**
Total assets	6,562,070	5,755,725	5,557,011
Equity to asset ratio	**38%**	**38%**	**47%**

Fair Value of Financial Instruments

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

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

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

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

The estimated fair value of non-current borrowings with a fixed interest rate or fixed risk margin 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.

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Management estimates that the fair value of loans as at 31.12.2010, 31.12.2009 and 01.01.2009 does not significantly differ from their carrying amount because the risk margins have not changed.

Note 6. Cash and cash equivalents

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Bank accounts	276,866	0	0
Short-term deposits	350,000	0	0
Total cash and cash equivalents	**626,866**	**0**	**0**

Bank accounts and deposits:

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
with Moody's credit rating of Aa3	350,139	0	0
with Moody's credit rating of Aa2	110,936	0	0
Without generally accepted credit rating*	165,791	0	0
Total accounts and deposits at banks	**626,866**	**0**	**0**

*SEB Pank AS and Swedbank AS no longer have a separate Moody's credit rating. The parent of Swedbank AS, Swedbank AB has Moody's credit rating of A2, the parent of SEB Pank AS, Skandinaviska Enskilda Banken AB has Moody's credit rating of A1.

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Note 7. Trade and Other Receivables

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Trade receivables			
Accounts receivable	336,949	189,115	184,377
incl: trade receivables from related parties (Note 22)	273,389	162,523	149,035
Allowance for impaired receivables	-376	-388	0
Other receivables	285	18	47
incl: interest receivable	274	0	0
Total financial assets within trade and other receivables	337,234	189,133	184,424
Tax receivables	3,958	15,371	6,402
incl :VAT recoverable	3,883	12,243	6,318
Prepayments	967	4,084	1,420
Total trade and other receivables	342,159	208,588	192,246

Analysis by credit quality of trade receivables is as follows:

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Accounts receivable not yet due			
- Related parties excluding distribution networks	22,944	19,801	21,227
- Distribution networks	267,818	154,008	135,870
- Other clients	45,710	14,755	23,547
Total accounts receivable not yet due	336,472	188,564	180,644
Accounts receivable past due but not classified as impaired			
- 1 to 30 days overdue	385	230	3,720
- 31 to 60 days overdue	80	179	8
- 61 to 90 days overdue	12	142	5
Total accounts receivable past due but not classified as impaired	477	551	3,733
Accounts receivable classified as impaired			
- 90 to 180 days overdue	32	345	0
- 180 to 360 days overdue	325	43	0
- over 360 days overdue	19	0	0
Total accounts receivable classified as impaired	376	388	0
Total accounts receivable past due	853	939	3,733
Total trade receivables	336,949	189,115	184,377

Note 8. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Estonian kroons	Land	Buildings	Facilities	Machinery and equipment	Other	Construction in progress	Total
Property, plant and equipment at 01.01.2009							
Cost at 01.01.2009	49,600	182,840	3,553,498	2,472,351	297	0	6,258,586
Accumulated depreciation	0	-37,336	-759,975	-594,246	-16	0	-1,391,573
Carrying amount 01.01.2009	**49,600**	**145,504**	**2,793,523**	**1,878,105**	**281**	**0**	**4,867,013**
Construction in progress	0	0	0	0	0	479,915	479,915
Total property, plant and equipment at 01.01.2009	**49,600**	**145,504**	**2,793,523**	**1,878,105**	**281**	**479,915**	**5,346,928**
Movements 1.1.2009-31.12.2009:							
Additions	8,554	0	0	1,675	465	453,312	464,006
Reclassified from construction in progress	0	76,116	92,276	455,042	0	-623,434	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	7,898	7,898
Disposals	-10	0	0	-110	0	0	-120
Depreciation charge	0	-7,337	-148,843	-147,330	-128	0	-303,638
Impairment charge	0	0	-12	-801	0	-80	-893
Total movements 1.1.2009-31.12.2009	**8,544**	**68,779**	**-56,579**	**308,476**	**337**	**-162,304**	**167,253**
Property, plant and equipment at 31.12.2009							
Cost at 31.12.2009	58,144	254,601	3,643,599	2,884,274	762	0	6,841,380
Accumulated depreciation	0	-40,318	-906,655	-697,693	-144	0	-1,644,810
Carrying amount at 31.12.2009	**58,144**	**214,283**	**2,736,944**	**2,186,581**	**618**	**0**	**5,196,570**
Construction in progress	0	0	0	0	0	317,611	317,611
Prepayments	1,975	0	0	0	0	0	1,975
Total property, plant and equipment at 31.12.2009	**60,119**	**214,283**	**2,736,944**	**2,186,581**	**618**	**317,611**	**5,516,156**
Movements 1.01.2010-31.12.2010:							
Additions	8,319	0	0	885	0	377,051	386,255
Reclassified from construction in progress	0	11,664	117,201	307,849	0	-436,714	0
Capitalised borrowing costs (Note 21)	0	0	0	0	0	15,361	15,361
Disposals	-18	0	0	-4,080	0	0	-4,098
Depreciation charge	0	-7,563	-146,758	-152,965	-186	0	-307,472
Impairment charge	0	0	-56,034	-909	0	-4,711	-61,654
Total movements 1.01.2010-31.12.2010	**8,301**	**4,101**	**-85,591**	**150,780**	**-186**	**-49,013**	**28,392**
Property, plant and equipment at 31.12.2010							
Cost at 31.12.2010	66,445	263,417	3,684,744	3,153,076	762	0	7,168,444
Accumulated depreciation	0	-45,033	-1,033,391	-815,715	-330	0	-1,894,469
Carrying amount 31.12.2010	**66,445**	**218,384**	**2,651,353**	**2,337,361**	**432**	**0**	**5,273,975**
Construction in progress	0	0	0	0	0	268,598	268,598
Prepayments	1,975	0	0	0	0	0	1,975
Total property, plant and equipment at 31.12.2010	**68,420**	**218,384**	**2,651,353**	**2,337,361**	**432**	**268,598**	**5,544,548**

Construction in progress mainly consists of construction of substations and electricity transmission lines. Upon completion, assets are transferred to buildings and facilities.

In the financial year ended 31.12.2010, additions to construction in progress include capitalised borrowing costs of EEK 15,361 thousand (2009: EEK 7,698 thousand). The capitalisation rate was 4.4%.

In 2010, the Company launched preparations for the construction of the second connection between Estonia and Finland (Estlink 2), including thorough renovation of the current lines for the purpose of increasing their throughput capacity. As a result of the activities mentioned above, some of the obsolete assets related to the lines were written down (2010: EEK 42,930 thousand, 2009: EEK 0) and the lines were renovated.

Note 9. Operating Lease

Company as a lessor

Operating lease revenue:

In thousands of Estonian kroons	2010	2009
Buildings	6,434	1,525
Transmission equipment	12,823	9,618
Total operating lease revenue (Note 15)	**19,257**	**11,143**

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 payment varies depending on the length of fibres leased out during the year.

Information about assets (facilities) leased out under operating leases:

In thousands of Estonian kroons	31.12.2010	31.12.2009	1.1.2009
Cost	90,675	73,811	71,024
Accumulated depreciation at the end of period	-33,975	-28,097	-22,489
Carrying amount	**56,700**	**45,714**	**48,535**

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Depreciation charge

In thousands of Estonian kroons	2010	2009
Depreciation charge	5,709	5,621

Estimated future lease payments under operating leases:

In thousands of Estonian kroons	31.12.2010	31.12.2009
Not later than 1 year	12,824	12,823
Later than 1 year and not later than 5 years	51,296	51,292
Later than 5 years	118,622	131,436
Total future minimum lease payments	**182,742**	**195,551**

Company as a lessee

Operating lease expenses:

In thousands of Estonian kroons	2010	2009
Buildings	564	6,537
Transport equipment	873	1,368
Other machinery and equipment	1,470	26
Total operating lease expenses	**2,907**	**7,931**

All lease contracts are cancellable at short notice.

Note 10. Intangible Assets

In thousands of Estonian kroons	Acquired software	Right of use of land	Total
Intangible assets at 1.1.2009			
Cost at 1.1.2009	262	12,141	12,403
Accumulated amortisation	-110	-360	-470
Carrying amount at 1.1.2009	152	11,781	11,933
Intangible assets not yet available for use	5,904	0	5,904
Total intangible assets at 1.1.2009	6,056	11,781	17,837
Movements 1.1.2009-31.12.2009:			
Additions	9,181	3,935	13,116
Capitalised borrowing costs (Note Note 21)	344	0	344
Amortisation charge	-146	-150	-296
Total movements 1.1.2009-31. 12.2009	9,379	3,785	13,164
Intangible assets at 31.12.2009			
Cost at 31.12.2009	630	16,075	16,705
Accumulated amortisation	-257	-509	-766
Carrying amount at 31.12.2009	373	15,566	15,939
Intangible assets not yet available for use	15,062	0	15,062
Total intangible assets at 31.12.2009	15,435	15,566	31,001
Movements 1.01.2010-31.12.2010			
Additions	14,780	2,621	17,401
Capitalised borrowing costs (Note Note 21)	841	0	841
Amortisation charge	-556	-190	-746
Total movements 1.01.2010-31.12.2010	15,065	2,431	17,496
Intangible assets at 31.12.2010			
Cost at 31.12.2010	3,364	18,696	22,060
Accumulated amortisation	-813	-699	-1,512
Carrying amount at 31.12.2010	2,551	17,997	20,548
Intangible assets not yet available for use	27,949	0	27,949
Total intangible assets at 31.12.2010	30,500	17,997	48,497

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Note 11. Borrowings

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Overdraft (Note Note 22)	0	889,252	386,121
incl: bank overdraft	0	243	0
Current portion of long-term loans from parent company	0	2,046,586	0
Total current borrowings	**0**	**2,935,838**	**386,121**
Long-term bank loan	2,905,493	0	0
Long-term loan from parent company (Note Note 22)	0	0	2,046,586
Total non-current borrowings	**2,905,493**	**0**	**2,046,586**
Total borrowings	**2,905,493**	**2,935,838**	**2,432,707**

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

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Borrowings denominated in: EEK	0	2,935,595	2,432,707
Borrowings denominated in: EUR	2,905,493	243	0
Total borrowings	**2,905,493**	**2,935,838**	**2,432,707**

The Company has used two types of credit for financing purposes:

Loan. At 28.12.2009, the Company entered into a syndicated loan contract in the amount of EUR 187 million (EEK 2,925,914 thousand) with the due date of 28.12.2012. The total loan amount was taken out at 8.01.2010. The interest rate is Euribor + 3.00%.

In 2009, the Company had a loan agreement with Eesti Energia AS. According to the agreement, Eesti Energia AS lent the Company EEK 2 046 586 thousand for an unspecified term, with the right of recall with advance notice of 13 months. Interest rates were established by Eesti Energia AS for a period of one year in accordance with the average actual interest expenses charged on the borrowings of Eesti Energia AS, and the Company's risk margin. The effective interest rate of the loan was 4,88% in 2009. The syndicated loan agreement obliged the Company to return the loan to the parent company in full. On 8.1.2010 the Company repaid the loan to the Parent company.

As at 31.12.2010, the Company had undrawn loan facilities in the amount of EEK 1,564,660 thousand. The right to take out a portion of the loan granted by the European Investment Bank (EEK 1,173,495 thousand) or the full amount of it is effective during 36 months from the signing of the contract at 18.11.2010. In accordance with the contract entered into with Nordic Investment Bank at 20.10.2010, either a portion or the full amount of the loan (EEK 391,165 thousand) can be taken during the period of 8.07.2011-31.12.2014. For both contracts, the interest rate will be agreed prior to taking out each portion.

Overdraft. During the period of 1.01.2010-8.01.2010 and in 2009, the Company used the overdraft obtained from its then parent Eesti Energia AS. The interest rate was 4.88% (2009: 4.81%). At the date of taking out the syndicated loan referred to in the previous section, the total amount of the overdraft was paid back to Eesti Energia AS and the respective overdraft contract was terminated. Simultaneously with the conclusion of the syndicated loan contract, four overdraft contracts were concluded with the banks which participate in the syndicate with the total limit amount of

EUR 20 million (EEK 312,932 thousand). The due dates of all contracts and interest on the drawn portion are the same as those of the syndicated loan. As of the balance sheet date, the Company had not used the overdraft (31.12.2009: EEK 889,252 thousand, 01.01.2009: EEK 386,121 thousand).

Note 12. Trade and Other Payables

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Trade payables	255,207	124,847	71,195
Incl: trade payables to related parties (Note Note 22)	126,913	59,490	32,049
Payables for purchased property, plant and equipment and intangible assets	38,824	27,393	30,428
Incl: payables to related parties (NoteNote 22)	53	36	0
Subsidies due to electricity producers (Note Note 2)	236,021	104,126	77,803
Accrued interest	27,173	0	0
Other payables	1,205	1,000	1,140
Incl: payables to related parties (NoteNote 22)	500	500	500
Total financial liabilities within trade and other payables	**558,430**	**257,366**	**180,566**
Taxes payable:	**6,522**	**5,017**	**4,950**
Social security tax	2,910	2,241	2,215
Personal income tax	1,692	1,302	1,236
Unemployment insurance tax	306	232	50
Contributions to mandatory funded pension	72	22	82
Corporate income tax and income tax on fringe benefits	49	0	37
Excise tax	1,493	1,220	1,330
Accrued expenses - employee benefits:	**3,491**	**5,245**	**6,999**
Wages and salaries	0	2,301	2,203
Bonuses	782	0	1,474
Holiday pay	1,816	2,186	2,117
Social security and unemployment insurance tax	893	751	1,195
Withheld amounts	0	7	10
Other payables	**165**	**6,210**	**14,207**
Total trade and other payables	**568,608**	**273,838**	**206,722**

Note 13. Income from Connection and Other Service Fees

In thousands of Estonian kroons

Deferred income from connection and other service fees at 1.1.2009	**319,961**
Movements 1.1.2009-31.12.2009:	
Connection and other service fees received	42,063
Connection and other service fees recognised as revenue	-15,483
Deferred income from connection and other service fees at 31.12.2009	**346,541**
Movements 1.01.2010-31. 12.2010:	
Connection and other service fees received	20,786
Connection and other service fees recognised as revenue	-17,942
Deferred income from connection and other service fees at 31.12 2010	**349,385**

Prepayments related to government grants at 01.01.2009	**0**
Prepayments related to government grants at 31.12.2009	**0**
Subsidies received from European Union*	237 033
Prepayments related to government grants at 31.12.2010	237 033
Incl. Non-current prepayments	237 033

* See additional information in Note 23.

Note 14. Equity

The Company' share capital consists of one share with the nominal value of EEK 2,190,524 thousand (31.12.2009: EEK 2,100,000 thousand, 01.01.2009 EEK 2,100,000 thousand) . The share has been paid for in full.

In 2010, with the resolution of the sole shareholder, the share capital was increased by EEK 90,524 thousand. The payment for the increase in the nominal value of the share was made in December 2010.

In the financial year 1.1.2010- 31.12.2010, no dividends were paid (in 2009 dividends were declared and paid in the amount of EEK 480,092 thousand and the resulting income tax amounted to EEK 127,619 thousand).

As at 31.12.2010, the Company's statutory reserve capital totalled EEK 44,039 thousand (31.12.2009: EEK 44,039 thousand, 01.01.2009: EEK 30,261 thousand). As at 31.12.2010, the Company has the obligation to additionally transfer EEK 10,576 thousand (31.12.2009: EEK 0, 01.01.2009: EEK 13,778 thousand) to reserve capital.

The retained earnings of the Company as at 31 December 2010 amounted to EEK 266,968 thousand (31.12.2009: EEK 55,469 thousand; 01.01.2009: EEK 467,360 thousand). The income tax rate applicable to the net profit distributable as dividends is 21/79 from 1 January 2008. As at 31.12.2010, it would be possible to distribute EEK 202,565 thousand as net dividends (31.12.2009: EEK 43,821 thousand, 01.01.2009: EEK 358,330 thousand) and the corresponding income tax would amount to EEK 53,847 thousand (31.12.2009: EEK 11,648 thousand, 01.01.2009: EEK 95,252 thousand).

Note 15. Revenue

Analysis of revenue by activity:

In thousands of Estonian kroons	2010	2009
Sales of balancing and control electricity	**247,736**	**102,385**
Sales of network services		
Transmission fees	1,052,067	1,010,800
Revenue from connection fees (Note Note 13)	17,942	15,483
Other network services*	36,598	35,490
Total sales of network services	**1,106,607**	**1,061,773**
Sales of other goods and services		
Lease of transmission equipment (Note 9)	12,823	12,626
Sales of scrap metal	11,048	634
Lease of buildings (Note 9)	6,434	1,525
Sales of other services*	5,739	2,309
Other goods	42	61
Total sales of other goods and services	**36,086**	**17,155**
Total revenue	**1,390,429**	**1,181,313**

* In the financial statements of 2009, the dispatcher and regulation services were classified within network services. In these financial statements these services are included within other services and the expenses in the comparative period in the amount of EEK 2,089 thousand have been reclassified accordingly.

In 2010 and 2009, revenue from one customer of the Company individually exceeded 10% of the Company's revenues. Revenue from that customer (Distribution Network of Estonian Energy) amounted to EEK 972,611 thousand in 2010 (EEK 852,756 thousand in 2009).

Analysis of revenue by geographical location of customers:

In thousands of Estonian kroons	2010	2009
Estonia	1,360,985	1,109,117
Latvia	19,511	35,976
Russia	5,945	35,927
Lithuania	3,724	293
Finland	264	0
Total revenue	**1,390,429**	**1,181,313**

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Note 16.Other Income

In thousands of Estonian kroons	2010	2009
Fines, penalties and compensations received	308	0
Profit on disposal of property, plant and equipment	961	244
Net gain from exchange rate changes	0	37
Other	79	2
Total other income	**1,348**	**283**

Note 17. Goods, Raw Materials and Services

In thousands of Estonian kroons	2010	2009
Electricity purchased to provide the balancing service		
Purchase of balancing electricity	149,132	94,871
Purchase of power regulation service	92,212	5,313
Total electricity purchased to provide the balancing service	**241,344**	**100,184**
System services expenses		
Purchased electricity reserves	67,246	64,903
Reactive energy	2,528	2,391
Total system services expenses	**69,774**	**67,294**
Electricity to compensate for network losses		
Electricity from non-renewable sources	178,317	174,170
Total electricity to compensate for network losses	**178,317**	**174,170**
Maintenance and repair works		
On facilities and equipment related to core activities	68,175	66,276
On production buildings and sites	11,414	6,514
Disassembly works and waste processing	2,028	2,693
Other expenses	3,077	1,163
Total maintenance and repair works	**84,694**	**76,646**
Other expenses		
Operative switching and dispatching management expenses	9,024	9,054
Other expenses	7,600	24,854
Total other expenses	**16,624**	**33,909**
Total goods, raw materials and services	**590,753**	**452,203**

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Note 18. Other Operating Expenses

In thousands of Estonian kroons	2010	2009
Transportation and tools	1,235	1,596
Security, insurance and occupational safety	4,323	3,335
Office expenses	6,456	8,229
Research and consulting	6,169	5,781
Telecommunication	14,065	14,024
Information technology	6,752	6,484
Training and other operating expenses	7,045	8,439
Total other operating expenses	**46,045**	**47,888**

Note 19. Staff Costs

In thousands of Estonian kroons	2010	2009
Basic salaries, additional remuneration, bonuses, vacation pay	42,607	39,611
Other benefits	236	289
Termination benefits	187	1,247
Other remuneration	1,267	898
Total remuneration to employees	**44,297**	**42,045**
Social security tax	14,669	14,131
Unemployment insurance tax	555	398
Total staff costs	**59,521**	**56,574**
Including compensations to the members of the Management and Supervisory Board:		
Salaries, additional remuneration bonuses, vacation pay	3,140	2,836
Fringe benefits	278	143
Termination benefits	0	340
Social security tax	1,151	1,095
Total compensations to the members of the Management and Supervisory Boards	**4,569**	**4,414**

The average monthly pay was EEK 26,301 (2009: EEK 26,198).

Termination benefits

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

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Note 20. Other Expenses

In thousands of Estonian kroons	2010	2009
Non-business related expenses	434	606
Fines, penalties and compensations paid	1	23
Net loss from exchange rate changes	5	2
Income tax from expenses not related to business	75	136
Other	134	3
Total other expenses	**649**	**770**

Note 21. Finance Income and Costs

In thousands of Estonian kroons	2010	2009
Finance income		
Interest income	1,334	0
Foreign exchange gains	22	0
Other	0	0
Total finance income	**1,356**	**0**
Finance costs		
Interest expenses	-130,876	-117,958
Foreign exchange losses	-100	-20
Total finance costs	**-130,976**	**-117,978**
Less: capitalised finance costs (Notes 8, 10)	16,202	8,242
Total finance costs recognised in the statements of comprehensive income	**-114,774**	**-109,736**

Detailed information about the borrowings is disclosed in Note 11.

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 the Company's financial statements, 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;

(iv) until 27.01.2010 parent company and other entities in the consolidation group of the parent company (i.e fellow subsidiaries)

The outstanding balances with related parties were as follows:

In thousands of Estonian kroons	31.12.2010	31.12.2009	01.01.2009
Trade receivables (Note 7)			
Parent company	0	4,033	118
Fellow subsidiaries	0	144,403	135,699
Companies controlled or significantly influenced by the State	273,389	14,087	13,218
Total trade receivables (Note 12)	**273,389**	**162,523**	**149,035**
incl. from network operators	250,445	144,500	128,928
Trade payables and other liabilities			
Parent company	0	17,539	13,206
Fellow subsidiaries	0	42,290	19,316
Companies controlled or significantly influenced by the State	127,466	197	27
Total trade payables and other liabilities	**127,466**	**60,026**	**32,549**
Overdraft (Note 11)			
Parent company	0	889,009	386,121
Current borrowings (Note 11)			
Parent company	0	2,046,586	0
Non-current borrowings (Note 11)			
Parent company	0	0	2,046,586

Income and expense items with related parties were as follows:

In thousands of Estonian kroons	**Related party**	2010	2009
Revenue from sale of goods and services	Parent company*	7,839	30,473
	Fellow subsidiaries*	131,239	871,589
	Companies controlled or significantly influenced by the State	1,090,187	93,990
Total revenue from sale of goods and services		**1,229,265**	**996,052**
Purchase of goods and services	Parent company*	5,427	57,949
	Fellow subsidiaries*	29,550	212,071
	Companies controlled or significantly influenced by the State	214,891	3,970
Total purchase of goods and services		**249,868**	**273,990**
Interest cost	Companies controlled or significantly influenced by the State	0	0
	Parent company*	2,783	117,950

In thousands of Estonian kroons	Related party	2010	2009
Incl. Capitalised borrowing costs (Note 21)		-301	-8,242
Expenditures on non-current assets	Parent company*	379	65,247**
	Fellow subsidiaries*	2,108	16,436
	Companies controlled or significantly influenced by the State	928	3,805
Total expenditures on non-current assets		**3,415**	**85,488**

*the Company was part of Eesti Energia Group until 27.01.2010. The sales to related parties in 2010 also include the transactions with the entities of Eesti Energia Group concluded in January 2010.

**the Company separated from Eesti Energia Group: it purchased a commercial building at Kadaka tee 42 and the adjoining land for the total amount of EEK 64 million.

Transactions with companies, in which the members of the Supervisory and Management Boards as well as their close relatives have significant influence

In thousands of Estonian kroons	2010	2009
Sales of services	5	5
Purchases of services	21	0

Key management personnel compensations are disclosed in Note 19.

Note 23. Contingencies and Commitments

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

Capital expenditure commitments At 31.12.2010, the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling EEK 3,618,496 thousand (31.12.2009: EEK 283,748 thousand, 01.01.2009: EEK 233,565 thousand). The largest of them are the contracts for the construction of the second undersea electricity cable Estlink 2 between Estonia and Finland in 2011-2014. The contribution of Elering is EEK 2,845,299 thousand.

As at 31.12.2010, the Company had already concluded two long-term (15-20 years) loan contracts in the total amount of EUR 100 million (EEK1,564,660 thousand) for funding the commitments related to Estlink 2. Also, the European Union has allocated non-returnable aid in the amount of EUR 50 million (EEK 782,330 thousand) for the construction of Estlink 2, of which EUR 15 million (EEK 234,699 thousand) had already been paid out to the Company. The Company believes that future net income and funding will be sufficient to cover these and any similar commitments.

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

Other legal requirements which have an effect on profitability:

In accordance with the methodology for calculating the network fees of electricity networks used by the Competition Board, the network tariffs are calculated for each year, using the known electricity transmission throughput over the 12 months prior to the tariff application. When the actual transmission throughput falls short of the budgeted one, the Company will not receive a portion of revenue and compensation for it. But when the actual transmission throughput turns out to be larger than that used in the calculation, the Company does not need to repay the excess revenue in the following periods.

Note 24. Events after the Balance Sheet Date

Adoption of the euro.

At 01.01.2011, the Republic of Estonia joined the Euro area and adopted the euro as its national currency, replacing the Estonian kroon. Therefore, starting from 01.01.2011, the functional currency of Elering AS is the euro and the statutory financial statements of future periods will be presented in euros. The comparative figures will be recalculated into euros using the conversion rate of EUR 1 / EEK 15.6466 which was also the fixed exchange rate during previous periods.

Transformation of the Company into a public limited company.

At 25.02.2011, the Company's sole shareholder proposed to transform Elering AS into a public limited company. The share capital of the public limited company will consist of 140,000 shares with the nominal value of EUR 1,000 each. According to the resolution, the members of the Management and Supervisory Boards and the auditor will remain the same. The aforementioned transformation entry was made with the Commercial Register on 08.04.2011.a.

INDEPENDENT AUDITOR'S REPORT

To the Management Board of Elering AS (formerly Elering OÜ)

Report on the Financial Statements

We have audited the accompanying financial statements of Elering AS (the Company), set out in Section 'Financial Statements' of the prospectus of the Company (the Prospectus), which comprise the statements of financial position as of 31 December 2010 and 31 December 2009, and the statements of comprehensive income, statements of changes in equity and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

These financial statements have been prepared by the Company for inclusion in the Prospectus in accordance with Annex IX, item 11.1 of Commission Regulation (EC) No.809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (the "EU Prospectus Regulation").

Management Board's Responsibility for the Financial Statements

The Management Board is responsible for the preparation, and true 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 true 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.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2010 and 31 December 2009, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the Prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex IX and item 1.2 of Annex XIII of the EU Prospectus Regulation.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

Aleksei Kadõrko
Auditor's Certificate No.557

31 May 2011

Signatures of the Management to the 2009 and 2010 Annual Report

The signing of Elering AS 2010 Annual Report on May 31 2011.

Chairman of the Management Board
Taavi Veskimägi

Member of the Management Board
Peep Soone

Member of the Management Board
Kalle Kilk

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