annual report 2004/05

Major events at Eesti Energia

Organisational changes

- 1 April 2004 – OÜ Põhivõrk was established as an independent legal entity
- 28 June 2004 – the metal testing company OÜ ER Test Service was established
- 1 July 2004 – OÜ Jaotusvõrk was established as an independent legal entity
- 5 July 2004 – AS Kohtla-Järve Soojus' business units – power plant and heat network –were sold

Major investment projects

- Power units 8 and 11 were completed in Narva Power Plants
- The slope shaft was completed in the Estonia mine
- The shale-oil based boilerhouse is put into operation in the Viru mine
- Chimney No. 5 is reconstructed in the Balti Power Plant
- The railway freight car tilting device is reconstructed in the Eesti Power Plant
- The shutdown of ash field 2 was started in the Balti Power Plant
- Heat network insulation was replaced in the city of Narva
- The 330 kV Kiisa-Harku overhead transmission line and 330/110 kV Harku substation were completed
- The 110/10 kV Järve substation was completed
- The 110 kV Otepää overhead transmission line and 110/10 kV substation were completed
- The 110/20 kV Järveküla substation was completed
- The 110/10 kV Endla substation was reconstructed
- The Keila-Joa hydroelectric power plant was reconstructed

Highlights of the financial year

- Launch of the fluidised bed technology-based power unit
- Application of new electricity tariffs in the Eesti Energia service area
- Completion of the preparatory work for construction of Estlink, the undersea cable connecting the Baltic States and Nordic countries.
- Elimination of the January 9 storm damage
- Export of a record-breaking volume of electrical energy to Latvia – 1.39 TWh
- Production and sale of a record-breaking volume of shale oil
- Establishment of a fiber-optic connection to improve data communication with Russia
- Reorganization of strategic planning process
- Integration of economic value added (EVA) and balance scorecard
- Implementation of ISO 14001 environmental management standards in AS Narva Elektrijaamad, OÜ Jaotusvõrk, AS Energoremont, the Iru Power Plant and Televõrk AS
- Development and implementation of the occupational health and safety management system standard OHSAS 18001 in AS Eesti Põlevkivi and OÜ Põhivõrk
- Installation of flue gas monitoring equipment on the chimneys of Narva electric power plant
- Elimination of environmental pollution in Vastseliina substation and Koeru substation
- Establishment of the energy conservation portal (www.kokkuhoid.energia.ee)
- Energy conservation project competition
- Transition to the new versions of Lotus Notes, Oracle Financial Analyzer and Xpower
- Development and implementation of a remote controlled video system for strategic substations.

Main financial indicators of the Group

	2004/05	2003/04	2002/03	2001/02	2000/01	1999/00
Sales of electric energy, GWh	7,983	7,674	6,931	6,067	5,948	6,227
Incl domestic sales, GWh	5,947	5,702	5,369	5,276	4,972	5,205
export, GWh	2,036	1,973	1,562	791	976	1,022
Sales of thermal power, GWh	1,977	2,168	2,361	2,169	2,190	2,215
Revenue, MEUR	395	377	366	313	276	263
Operating profit before depreciation, MEUR	149	133	132	98	46	39
Net profit, MEUR	43	33	41	22	(301)	(20)
Cash flow from operating activities, MEUR	125	118	115	77	62	34
Investments, MEUR	160	199	238	118	92	73
Assets at the end of the year, MEUR	1,318	1,245	1,185	947	886	1,113
Borrowings at the end of the year, MEUR	309	295	276	124	102	66
Owner's equity at the end of the year, MEUR	840	795	762	719	698	991
Owner's equity/assets at the end of the year	64%	64%	64%	76%	79%	89%
Return on investment	5.5%	4.7%	5.7%	3.4%	(31.1%)	(1.9%)
Net debt/operating profit before depreciation	1.8	1.9	1.4	0.9	1.5	1.7
Interest cover ratio	8.1	7.5	9.1	15.8	7.6	11.8
Average number of employees	9,542	9,754	9,768	10,349	10,930	12,870

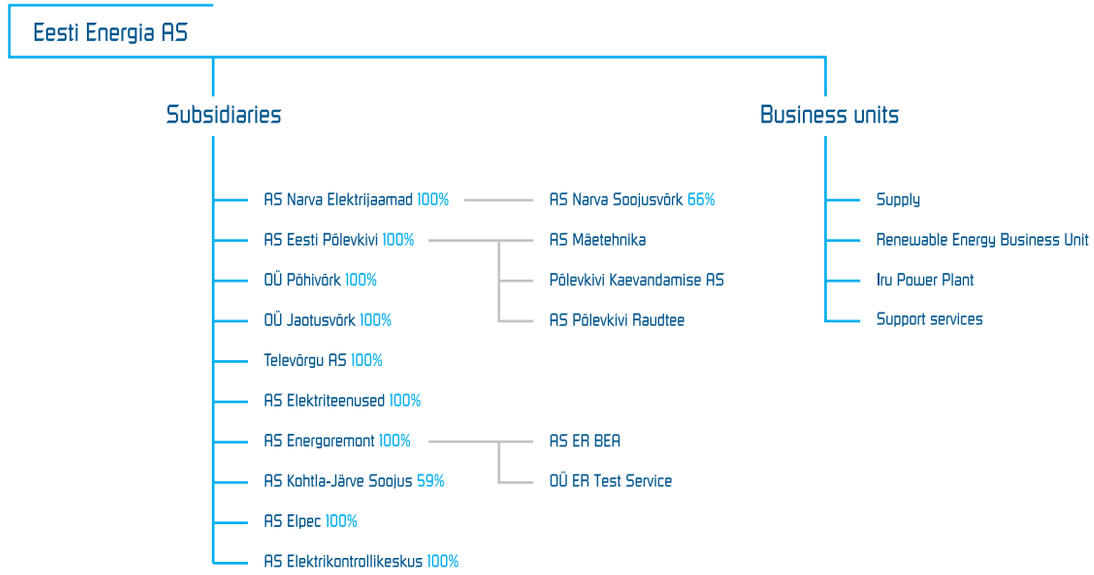
Contents

Eesti Energia in brief

Eesti Energia is a state-owned company engaged in the production, sale and transmission of electric and thermal power. The main raw material for energy production – oil shale – is extracted from mines owned by the company. Eesti Energia is also involved in the construction and maintenance of energy systems.

- Eesti Energia was established in 1939.
- Eesti Energia is fully owned by the Republic of Estonia
- The Estonian energy system is the only predominantly oil-shale-based energy production system in the world
- With a total of 479,111 customers (92% of all power consumers), Eesti Energia has the biggest customer base in Estonia
- The total length of Eesti Energia's power lines is 66,059 kilometres. If stretched out, the power lines would circle the globe one and a half times
- Eesti Energia companies employ 9,284 people all over Estonia
- Standard & Poor's has given Eesti Energia an A rating. The Moody's rating of the company is A3.

Eesti Energia structure



History of power production in Estonia

1219

The first written record of the exploitation of a stationary source of energy on Estonian soil. Historically, watermills were the first stationary sources of energy in the world.

The LIBER CENSUS DANIAE – the Danish evaluation book, which was written in Latin by the baptising priests and edited by the Tallinn bishop Thorkill, describes, for the first time in history, the location of a watermill in Koila village near Jägala river.

1279

The first written record of a watermill in Tallinn.

The Chancellery of the King of Denmark confirms in a letter to the St. John's almshouse infirmary that the watermill on Härjapea riverbank has been the property of the almshouse since time immemorial.

Vision of Eesti Energia Group

To be the leader in the Baltic market for electric and thermal power

Mission of Eesti Energia Group

To provide customers with reliable and convenient energy supply solutions

Main strategic goals of Eesti Energia Group for 2005-2009

1. To bring operations fully into line with the conditions of the free market for electric and thermal power
2. To enhance significantly the quality of services and customer service
3. To strengthen the financial position of Eesti Energia Group
4. To adhere to the EU environmental requirements

1341
The first written record of a windmill in Estonia.

1345
Waldemar IV Atterdag, the King of Denmark, grants permission for construction of three watermills on the Tallinn moat – in front of Harju, Karja and Viru gates.

1555
The first record of a watermill in Keila-Joa.

1688
Samuel Waxelberg's map of Tallinn depicts eight watermills on Härjapea River – the foundation for the town's industry.

Letter from the Chairman of the Management Board

The Holgersson Effect
or the alternative of being small

At first Nils Holgersson could not believe that he had been turned into a dwarf. "Surely, this is a dream and a figment of my imagination", thought the character from Selma Lagerlöf's beloved children's book when he discovered how tiny he had become. Nils's further adventures, however, taught him the importance of being small, consideration towards the weak, respect for one's surroundings and the significance of alliances. Let us call this the Holgersson Effect – a phenomenon faced by all companies from time to time, when they discover that they are no longer that big or unique.

To all intents and purposes, Eesti Energia, too, feels like a dwarf in the new and bigger European market, which has opened up, revealing big and powerful competitors. Perhaps the only difference is that we have foreseen the inevitability of the Holgersson Effect for several years, and have made the necessary preparations while eagerly awaiting it. In the meantime, we have learned to think long-term, and to think big, while paying more attention to our surroundings and seeking out partners with similar interests.

The Estonian power system is currently among the smallest in the European Union – we outrank only Cyprus and Malta. On the European map, Eesti Energia is minute – dozens of times smaller than our direct competitors. As a result of the decreasing importance of state borders as well as the opening of markets, we will soon lose our monopoly status. The only way for us to prove ourselves is to do a good job as well as to ensure quality and internal efficiency.

Any problem can be viewed as an opportunity, or challenge. Accession to the European Union in May 2004 opened our eyes to many of these new opportunities and challenges. In the near future, we must end the use of old technology for producing oil shale electricity – under the conditions of an opening electricity market, we must be able to join up with the Nordic power networks, while the tightening economic competition forces us to choose partners wisely.

Last spring and summer, we brought the Eesti Energia Group structure into line with the EU Electricity Directive and the Estonian Electricity Market Act. This involved the establishment of independent legal entities – OÜ Põhivõrk was established in April and OÜ Jaotusvõrk in July. A second power unit utilising the new oil shale burning technology was put into operation in Narva power plants. In the financial year, one-fifth of the total volume of electricity consumed in Estonia was produced by power units that comply with all the EU environmental requirements. EU environmental laws also conditioned wide-scale work on modernising the ash removal system of the Narva power plants.

Eesti Energia raised the price of electricity last year so as to continue our investment programmes and reconstruct power networks. To pave the way for the price increase, the company held the most intense and substantial negotiations with the Energy Market Inspectorate ever. At the same time, we took a big step towards enhancing efficiency and cutting network losses. The best financial results in the company's history were also facilitated by record-breaking electricity exports and shale oil sales.

1725
The first written record of oil shale in Estonia. The globetrotter J.A. Gültenstädt mentions in his journals that local shepherds near Jewe (present-day Jõhvi) burn certain rocks for fuel.

1744
For the first time in history, Russia starts research into electrical technology under the supervision of Georg Wilhelm Richmann, who was born in Pärnu and educated in Tallinn.

1771
The first written record of Estonia's biggest windmill on Tõnismägi in Tallinn. The windmill at Delhio square on Tõnismägi is purchased, together with the house and the garden, by Johann Georg Tiersch, a mechanic and master builder.

One of the most significant events was the establishment of the Nordic Energy Link for the purpose of implementing Estlink, the undersea cable to be set up between Estonia and Finland on Eesti Energia's initiative. This project would never have come into being without extensive preliminary work, and without our key partners – Latvian, Lithuanian and Finnish power companies. The original project undertaken by Estonia and Finland has become a true partnership between the Baltic States and the Nordic countries.

The Holgersson Effect involves a change of viewpoint or perspective. We now have the opportunity to experience the world from both the point of view of the dwarf and from the back of a flying goose. Changes in perspective also help us to evaluate the actual environmental effect of power production more objectively in various countries. Eesti Energia is not merely committed to oil-shale-based power production; the company also continues to contribute to the development of renewable energy.

Once again, we were the biggest producer of renewable energy in Estonia last year. After extensive restoration, the Keila-Joa hydroelectric power plant started generating power this winter. The 16th century mill was turned into a power plant in 1928. The power plant underwent extensive renovation, reclaiming its original exterior. We reconstructed the saddle stone and pedestrian bridges. We also built a visitor platform from which to observe the waterfall. The power plant was provided with a study room as well as a permanent exhibition on the history of hydro energy in Estonia.

The current environmental policy of Eesti Energia Group fully complies with the requirements of the international ISO 14001 standard. By the end of the last financial year, the respective environmental management systems were implemented in the majority of the group companies. AS Eesti Põlevkivi and OÜ Põhivõrk were additionally awarded the OHSAS 18001 occupational health and safety management system certificate. This serves to validate our continual development and desire to set the bar even higher.

At the end of the book, Nils becomes an ordinary boy again. As it happens, a much better boy. Eesti Energia, too, is becoming an ordinary European power company. Still, we have a lot of growing and improving to do. Today's Eesti Energia does not strive to be big, but we do our utmost to be significant: in Europe; in Estonia; within the company; at home and on the streets.

Gunnar Okk
Chairman of the Management Board

1827
The first steam engine is put into operation at the Joala paper plant in Narva.

1835
Moritz Hermann Jacoby, inventor of the electric motor, electric torpedo and electric measuring instruments, starts researching electromagnetism and galvanic elements at the University of Tartu.

1842
The first Estonian steamboat – the Julianne Clementine – is built.

1855
A physics textbook is issued for students of Estonian schools, introducing "matters of electricity" and the "might of electricity" for the first time.

The Eesti Energia management board and the Kiisa command centre, which allows monitoring of one of Europe's smallest electrical systems.
From the left: Eesti Energia management board members Mati Jostov, Lembit Vali, Marko Allikson, Gunnar Okk and Sandor Liive.

Opening Europe's
electricity market is a new challenge
and opportunity for our team.

Summary of the financial results

Overview

The following were the three most significant events in the economic activities of Eesti Energia in the financial year 2004/2005: the launch of the new fluidised bed technology-based power unit, the introduction of new electricity tariffs in the service areas of Eesti Energia power network companies, and the completion of preparatory work for construction of the undersea cable connecting the Baltic States and the Nordic countries. Enhanced domestic sales of electrical energy and the optimisation of production expenses also contributed to the positive results. Both turnover and profit margin increased.

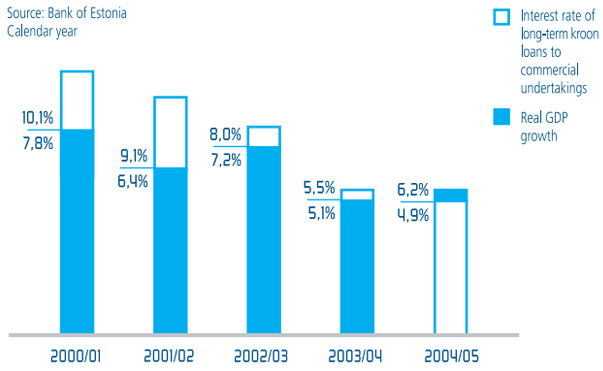
Economic environment

Similarly to December, the economic analysts polled by the Estonian Institute of Economic Research gave Estonia's overall economic situation 7.9 points (on a 9-point scale) in March 2005. This result surpassed the poll results for the previous three quarters, and exceeded the historical average by nearly one-third.

Real GDP growth in the fourth quarter of the calendar year 2004 was 5.9%, while the current real growth for the four quarters amounted to 6.2%. According to the Ministry of Finance, the economic growth was generated by the increase in domestic demand, which in turn was based on low interest rates, favourable loan terms and growth in disposable income. The relatively high economic growth was facilitated by a conservative inflation rate and positive developments in the labour market. The real growth of Estonian GDP still surpasses the economic growth of the EU-25.

The most significant events in the Baltic power market in the financial year included the shutdown of a unit of the Ignalina nuclear power plant (1,300 MW) and the conclusion of the construction agreement on the Estonian-Finnish undersea cable (350 MW). Five parties are involved in the project – Eesti Energia, Latvenergo (Latvia), Lietuvos Energija (Lithuania), Pohjolan Voima (Finland) and Helsinkin Energia (Finland). According to the preliminary estimates, the project will cost a total of 110 million euros. The commercial project was launched as a result of the exception made by the European Commission on April 27, allowing the project to be financed by the customers who use the cable, rather than at the expense of the local consumer. On 29 April 2005, the partners concluded a construction agreement with the Swedish-Swiss group ABB. Construction is scheduled to be completed by the end of 2006. The significance of the project lies in uniting of the Baltic electric energy systems with the Nordic systems. The benefits can be measured in several

GDP and interest rates



1857

Two 360-horsepower water wheels are mounted in the spinning plant of Narva Kreenholm Manufactory to power the spinning machines.

With a diameter of nearly 10 meters and a weight of one hundred tons, the metal water wheels generated 4 full revolutions per minute – the most powerful water wheels in the history of the world, surpassing the New York water wheel by 80 horsepower.

1868

The water wheels at Narva Kreenholm Manufactory are replaced with a 1,300-horsepower hydro turbine whose 30-blade wheel generates 60 revolutions per minute.

It remained the world's most powerful turbine for 27 years, until the upper hydroelectric power station was put into operation on the Niagara.

dimensions: first, the reliability of the Baltic system will be enhanced; secondly, the cable will provide the option of power trading between the Baltic and Nordic markets; and thirdly, the cable will also provide various system services (load balancing, emergency back up, black-start).

Emission trading

Aimed at reducing environmental pollution, environmental policy is one of the EU areas that directly affect the power production sector. Required for the emission of carbon dioxide (CO_2) into the atmosphere during oil shale burning, the emission allowances serve as one of the applications of this policy. On the basis of a national allocation plan, the Estonian government allocated emission allowances for a total of 46.7 million tons of CO_2 to Eesti Energia for the purpose of covering domestic consumption and the demand for electric energy exports.

Tariffs

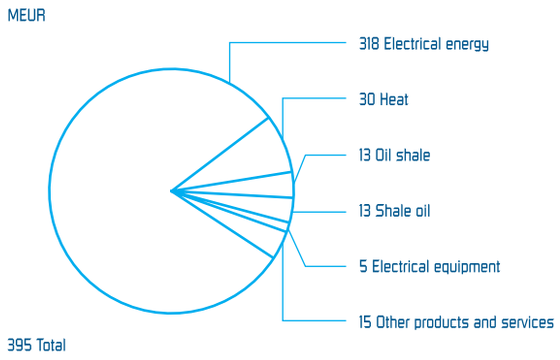
New electricity tariffs were established on 1 March 2005. The tariffs are calculated based on a method where the tariff is composed of the expenses approved by the regulator, plus the operating profit, which depends on the invested capital. Operating profit is calculated based on the returns of comparable energy companies, by taking into account the specifics of the Estonian economic environment. Tariffs enable the earning of operating profit on the invested capital – 7.4% by OÜ Jaotusvõrk and 6.9% by OÜ Põhivõrk. The regulator has approved investments in the networks averaging 70 million euros from the financial year 2004/2005 to financial year 2007/2008.

Economic activities

Sale of electric power was the biggest contributor to the financial results of Eesti Energia Group. The electric power sales of the Group increased by 308 GWh (+4.0%) to 7,983 GWh.

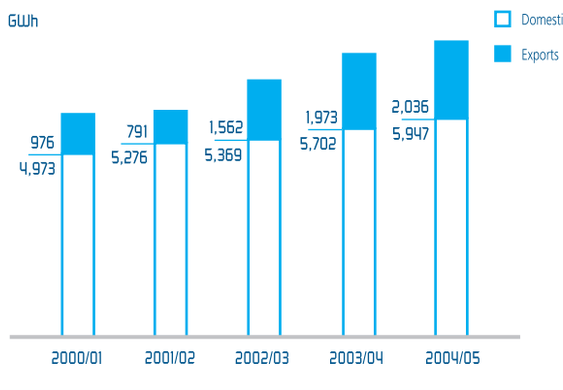
Domestic sales of electric power increased to 284.3 million euros (+4.9%, or 13.4 million euros, compared to the financial year 2003/04). Sales of electricity to the regulated market amounted to 270.3 million euros (a 4.5% increase), and sales to eligible customers to 14.0 million euros (a 14.5% increase). The new tariffs applied from 1st of March 2005 increased sales by an estimated 1.3 million euros in the financial year 2004/05. The electric power market is currently open to those customers who consume in excess of 40 GWh per year (i.e. 14% of the electricity market). 35% of the market will be opened on 1st of January 2009; the whole market will be opened on 1st of January 2013. Eesti Energia has proven its competitive ability in the open market – the company has obtained a 94% market share of the Estonian open market for electric power.

Net sales 2004/05



Revenue (in millions of euros)	2004/05	2003/04
Oil shale production	112	117
Power production	264	263
Transmission of electric power	62	58
Distribution of electric power	138	133
Sales and customer service	325	320
Support services	46	40
Eliminations	(549)	(551)
Consolidated revenue	**397**	**379**

Sales of electricity



1882
The first generators and arc lamps are installed in the Wiegand factory in Tallinn and in the Kreenholm Manufactory in Narva to provide light for the premises. The first article on the practical use of electricity is published in the daily Tartu Eesti Seitung.

1883
Street lights are powered with electricity in Tallinn.

The daily Revalische Zeitung states that the lighting set up by industrialist Chr. Rotermann is so bright that "gas lanterns in the neighbourhood are blinded by electricity".

1892
A power station consisting of a steam engine and a dynamo is put into operation at the Wöhrmann tobacco factory in Tartu, powering the 180 electric lamps and outdoor lamps of the factory.

As regards volume, domestic sales of electric power amounted to 5,947 GWh (+ 4.3%). Sales grew in all three segments: sales to corporate customers by 3.7%, sales to households by 4.3% and sales to resellers by 7.4%. Economic growth is the motive power behind the increase in local demand for electric energy. The effect of temperature on the change in electricity sales was relatively small – the average temperature was only 0.1 degrees higher than that of the financial year 2003/04.

Eesti Energia's revenue from **electric power exports** amounted to 33.7 million euros (+8.0%, i.e. 2.5 million euros). The export volume increased to 2,036 GWh (+3.2%); exports to Latvia reached 1,391 GWh (+10.5%), while Eesti Energia obtained a 50% market share in the import of Latvian electric power. At the same time, exports to Russia dropped to 645 GWh (-9.6%), compared to last financial year. The transaction concluded with the Russian energy company Lenslanets essentially involved provision of the service of reprocessing oil shale into electricity: the company imported oil shale free of charge, and sold the electricity at a price which did not contain fuel expenses.

The sales of **heat** dropped by 3.7 million euros to 30.4 million euros in the financial year 2004/05. The volume dropped to 1,977 GWh (-8.8%): heat sales dropped by 6 GWh (1.0%) in AS Narva Elektrijaamad; by 63 GWh (5.0%) in Iru Power Plant; and 122 GWh (38.2%) in AS Kohtla-Järve Soojus. Nearly 90% of the sales drop of AS Kohtla-Järve Soojus was due to the disposal of the Järve district power plant and heating network in the second quarter. The sale of assets was conducted through a public auction. The Järve district property was sold to AS Viru Õlitööstus, who made the best bid of the four bids submitted.

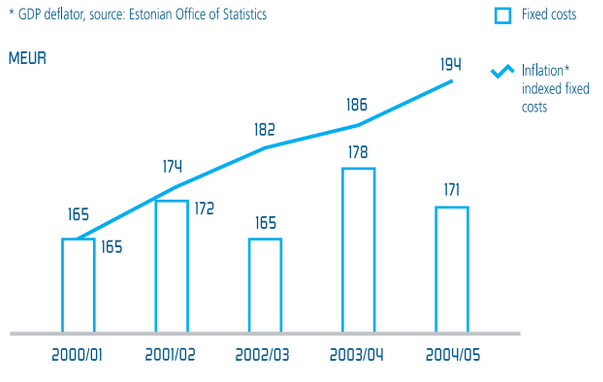
Oil shale sales dropped by 8.9% in the financial year 2004/05 compared to the financial year 2003/2004. This drop was based on the 10.1% decrease in the sales volume. The company's main customers were those Estonian oil industries that purchase enriched oil shale with a high heating value. The decrease in extra-group sales was conditioned by a customer resolving to open a mine of his own. Extra-group oil shale sales comprise less than 20% of total oil shale sales. Therefore, the decrease has had no material effect on Eesti Energia's operating profit.

Shale oil sales increased by 42.7% (3.8 million euros) – mostly due to growth in the sales volume to 113 thousand tons (+38.6%). The main consumers of Eesti Energia's shale oil are small Estonian boilerhouses. Shale oil has remained competitive due to the global increase in oil and gas prices, which has raised the price of heavy fuel oil, shale oil's main competitor. The increase in sales volume was made possible by enhanced capacity exploitation in the Oil Plant of AS Narva Elektrijaamad. Revenue was boosted by the high oil price and enhanced oil production efficiency.

The sales of other **products and goods** amounted to 8.9 million euros in the financial year – a 9.2% decrease compared to the same period last year. The export of AS Energoremont power production equipment was the biggest contributor to the sale of other products and goods, increasing by 0.4 million euros (9.5%) to 5.2 million euros in the financial year. However, the decrease was mostly conditioned by the 2.1-million-euro drop in the domestic sales of AS Energoremont power production equipment.

The sale of **services** amounted to 11.4 million euros in the financial year 2004/05 – a 49.2% increase compared to the same period last year. The biggest contributors to the sale of services included the sale of telecommunication services, which increased to 2.6 million euros (+53.0%); and repair and construction services, which amounted to 2.7 million euros (+30.6%).

Fixed costs and inflation



Operating expenses

Financial year operating expenses amounted to 336.1 million euros, having increased by 6.4 million euros (2.0%) during the financial year, though the expense increase rate was significantly lower than the revenue increase rate (+4.8%). It should be pointed out that influencable fixed costs dropped to 170.5 million euros (-4.3%).

1893
The first industrial 200 kW power plant is put into operation in Port-Kunda cement factory – the most contemporary hydroelectric power plant in the Baltic States and Russia.

In addition to the raw flour mill, the power plant starts powering the hoisting crane at Kunda port via a two-kilometre overhead transmission line.

1899
Estonia's first 450 kW AC generator is mounted in the Dvigatel factory in Tallinn.

1907
The first national power plant is put into operation in Pärnu. With 108 kW of capacity, the plant is designed for powering street lights and for commercial sales of electric power. Wood scrap, chips and peat are used for fuel.

Operating profit

Four factors should be brought out with respect to investments and operating results. Firstly, the rapid increase in investments and depreciation – depreciation increased by 4.5 million euros in the financial year. Secondly, the decrease in fuel expenses as a result of the investments made in the new fluidised bed technology-based power units. The third most important effect of the investments and reorganisation of internal operations was the 0.9% decrease in the distribution network losses compared to the financial year 2003/2004, enabling the company to save an estimated 50 GWh of electrical energy. The fourth factor is the 2.1% decrease in personnel expenses.

Comparison of the above effects with the growth in production volume, the speed of growth of the average salary in Estonia (over 7% in the recent quarters), the inflation rate (approximately 4% per year) and the relatively small growth of expenses reflect the efficiency of the company's operations and the profitability of the investments made. The company's operating profit for the financial year 2004/2005 amounted to a total of 61.4 million euros.

The results for the financial year 2004/05 were affected most by the increase in the domestic sale of electrical energy and cost management. Revenue increase (+4.8%) exceeded the increase of operating expenses (+2.0%) by 2.8%, whereas the inflation rate reached 4%. Average invested capital increased by 5.4% from 31 March 2005. While operating profit increased by 24.0%, the return on invested capital rose from 4.7% to 5.5%. It is estimated that the one-month price increase contributed 0.1% to the ROIC increase.

Operating profit from oil shale production decreased by 2.4 million euros (22.8%), compared to the last financial year. This decrease was conditioned by the drop in both intragroup and extragroup oil shale sales. The decrease in intragroup sales was conditioned by two factors: first the implementation of the new and efficient fluidised bed technology-based oil shale units in the Narva power plants, which enabled the company to save 300,000 tons of oil shale fuel; and second the oil shale outsourced during the testing of the new power units (477,000 tons).

Operating profit from electricity and heat production increased by 4.7 million euros (13.3%), compared to the same period last year.

Operating profit (in millions of euros)	2004/05	2003/04
Oil shale production	8.0	10.4
Power production	40.7	35.9
Transmission of electric power	5.4	3.4
Distribution of electric power	12.6	11.8
Sales and customer service	(6.3)	(12.5)
Support Services	0.7	0.6
Eliminations	0.3	0.1
Consolidated operating profit	**61.4**	**49.6**

This considerable increase was conditioned by the increase in the sale of electric power and the enhanced efficiency of energy production.

Power networks

Operating profit from transmission of electric power increasedby 2.0 million euros, compared to the last financial year, while operating profit from distribution of electric power grew by 0.9 million euros. The power networks results were based on the decrease in power loss and growth in electric power consumption. Losses in distribution networks have clearly been decreasing – from 17.4% to 10.2% of the electrical energy in the last five years.

Net profit (in millions of euros)	2004/05	2003/04
Operating Profit	**61.4**	**49.6**
Consolidated interest on borrowings	(18.4)	(17.7)
Consolidated interest expenses on provisions	(1.6)	(1.2)
Consolidated other net financial income	1.5	2.3
Consolidated net profit	**42.9**	**33.0**

Backed by low interest rates, current interest expenses have remained in the area of 18 and 18.5 million euros, in spite of the 7.6% increase in the average loan burden. While other net financial income decreased by 0.8 million euros, the net profit for the financial year increased by 9.9 million euros to 42.9 million euros.

1910
Tartu Power Plant is completed at Soola street by the river Emajõgi, generating 124 kW of capacity.

1913
Tallinn Power Plant is put into operation in front of the Great Coast Gate by the sea, and connected to an 18-kilometre power network. Electricity is produced by three coal-powered 166 kW AC generators.

1916
A vein of over 3 billion poods (1 pood = 16.38 kg) of oil shale is discovered in the course of geological surveys conducted under the supervision of N.F. Pogrebov in a 40 km^2 area in the vicinity of Rakvere-Jõhvi railway. The first pulverized oil shale burning tests are conducted at the Asserin and Port-Kunda cement factories.

National grid development department project manager Innar Kaasik and the 330 kV Balti-Kiisa aerial line set for completion in late 2006.
The line is an important link in raising supply reliability of Tallinn, central and western Estonia.


Today’s decisions
must ensure supply
of electricity for the
future as well.

EVA

For strategic management purposes, Eesti Energia started applying the concept of economic value added (EVA) in addition to the use of the balanced scorecard in the financial year 2004/2005. EVA compares operating profit with the volume and cost of invested capital (equity and debt). The experience of the world's leading companies has demonstrated that EVA is, in the long run, one of the most effective methods for measuring and enhancing the value of a company.

The average capital invested by Eesti Energia Group in the financial year 2004/05 amounted to 1.1 billion euros, with capital costs totalling 0.1 billion euros. Considering the capital costs, Eesti Energia's EVA amounted to -32.3 million euros in the financial year 2004/05.

As regards segments, the electric and thermal power production segment was the biggest creator of additional value, with EVA amounting to 3.1 million euros. The biggest negative value creators were the electric power transmission and distribution segments, with a combined -28.9 million euros of additional value in 2004/05.

EVA (in millions of euros)	Cost of capital	2004/05	2003/04
Oil shale production	8.4%	3.1	5.7
Power production	9.7%	3.1	3.4
Transmission of electric power	6.9%	(13.7)	(15.3)
Distribution of electric power	7.4%	(15.2)	(14.2)
Sales and customer service	8.9%	(7.8)	(14.7)
Support services	11.9%	(1.9)	(2.0)
Total	**8.7%**	**(32.4)**	**(36.9)**

On a positive note – regardless of the fact that the tariffs remained constant, Eesti Energia succeeded in creating 4.6 million euros more additional value compared to the financial year 2003/04.

We aim to achieve a positive EVA by the end of current three-year tariff period.

Investments

In the financial year 2004/05, Eesti Energia invested a total of 159.9 million euros. In the medium term, the most significant projects of the investment plan are associated with the development of the electric power transmission network in the Tallinn-Narva direction. Investments decreased by 38.6 million euros in the financial year. The biggest contributor to this decrease was the electricity and heat production segment, with investments decreasing by 68.1 million euros. Combined investments in the electric power transmission and distribution networks increased by 37.3 million euros in the financial year. This reflects the change of focus of Eesti Energia's investment plan from the production of electric power to the transmission and distribution of electric power.

Production

Investments in electric and thermal power production totalled 41.4 million euros in the financial year 2004/05, with investments in the new power units amounting to 8.4 million euros. The biggest

Investments (in millions of euros)	2004/05	2003/04
Oil shale production	16.1	21.6
Power production	41.4	109.3
Transmission of electric power	40.4	15.6
Distribution of electric power	61.3	45.7
Other; eliminations	0.8	6.3
Total investments	159.9	198.5

investment project of the segment was the construction of the peak and reserve boilerhouse in the Narva power plants at 14.6 million euros.

The first of the two new fluidised bed technology-based oil shale units (Eesti Power Plant unit 8) produced 1.1 TWh of electric power in the financial year 2004/05. The second unit (Balti Power Plant unit 11)

1918

Gottfried Hacker becomes the first Estonian engineer to design a high-voltage (15 kW) transmission line to connect two settlements. In the same year, the 60 kW power plant in Kunda-Aro peat bog is connected with Rakvere town.

Industrial oil shale mining is launched in Kohtla.

1919

Scottish and French oil shale is tested in National Port Factory in Tallinn. First attempts are made to produce oil from oil shale following the example of German brown coal processing.

1922

The Riigikogu passes a law granting national oil shale industry the rights of an independent legal person.

generated 0.4 TWh of electricity during the tests conducted in the financial year 2004/05.

Transmission of electric power

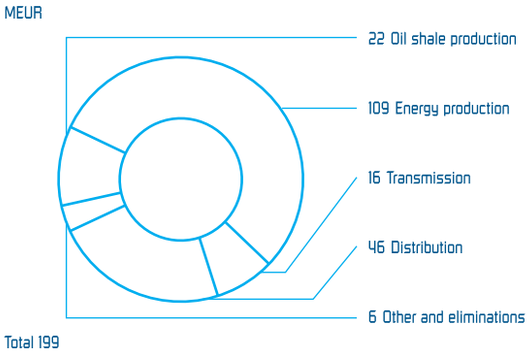
A total of 40.4 million euros was invested in the National Grid in the financial year 2004/05. OÜ Põhivõrk continued its major projects in the strategic Tallinn-Narva direction. The biggest investment project of the year was the reconstruction of the Balti 330 kV substation – the biggest in the Baltic States. OÜ Põhivõrk invested a total of 11.1 million euros in the project during the financial year. As regards the investments made in the electric power transmission network, the main milestones of the medium-term investment plan of OÜ Põhivõrk were the completion of the 330 kV Harku-Kiisa line (with 3.8 million euros invested during the financial year) and the 330 kV Harku substation (6.6 million euros). Other major projects included the reconstruction of the 330 kV Rakvere substation (2.9 million euros) as well as construction of the 330kV Paide switchyard (2.3 million euros) and the 110/10 kV Järveküla substation (1.4 million euros). Future milestones of the investment strategy include replacement of the Veskimetsa switchyard and reconstruction of the Balti substation (scheduled to be operational in the summer/autumn of 2006). OÜ Põhivõrk is also organising the connection of the Estonian-Finnish undersea cable. This project is also scheduled to be completed in the summer/autumn of 2006.

Distribution of electric power

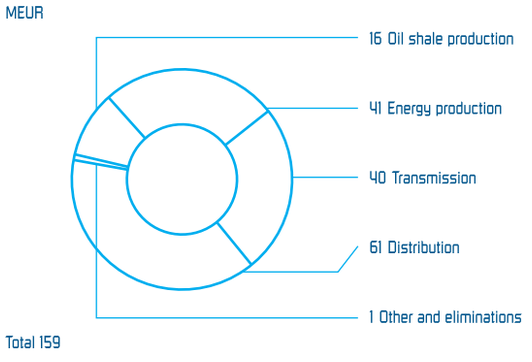
A total of 61.3 million euros were invested in the Distribution Network. For several years now building connections to the grid has been the biggest investment project. During the financial year OÜ Jaotusvõrk invested 24.7 million euros in the project (42% of the total volume of investments of OÜ Jaotusvõrk). Growth in the number of connections has been facilitated by the real estate market, enhanced by economic growth and favourable loan terms, as well as the real estate development-related increase in the demand for connection services (both apartment houses and private houses).

In addition to connections to the power network, major investment projects of OÜ Jaotusvõrk also included reconstruction of the 0.4-20 kV network, and the voltage quality programme (10.7 million euros), reconstruction of the distribution points of 35-330 kV substations (6.7 million euros) and transition of the 3x220 V network to 3x400 V (1.5 million euros).

Investments 2003/04



Investments 2004/05



1923

The 1,400 kW peat-fuelled Ellamaa Power Plant is designed and constructed under the supervision of Estonian engineers Aleksander Kink and Gottfried Hacker.

The 1,000 kW peat-fuelled Ulila Power Plant, which is designed to power the Karlova district in Tartu, is completed.

1924

With a daily capacity of 200 tons of oil shale, the Great Oil Factory is completed in Kohtla.

Estonian locomotives and warships start using oil shale fuel for powering their engines.

Ellamaa Power Plant starts powering the Tallinn-Pääsküla electrical railway via the first 35 kV transmission line in Estonia.

Cash flow and financing

Funds from operations amounted to 127.5 million euros in the financial year 2004/05, having grown by 13.4 million euros. Total cash flow from operating activities amounted to 125.2 million euros (+7.7 million euros).

Cash flow from investment activities amounted to -143.9 million euros. The company purchased 161.1 million euros worth of property, plant and equipment – i.e. a 39.1-million-euro decrease compared to the financial year 2003/04. The power units are in a post-construction stage and the company's main focus lies in investment in power networks.

Eesti Energia's net debt grew by 19.0 million euros in the financial year 2004/05, amounting to 268.7 million euros by the end of the financial year. This increase was mostly financed by a 15-million-euro loan from the European Investment Bank.

The euro is the underlying currency for Eesti Energia's borrowings. As at 31.03.2005, the weighted average interest rate of Eesti Energia's floating rate bank loans was EURIBOR+0.58% - a 7-base-point decrease in the financial year. The interest rate for the 200 million euro bond issue was fixed at 6%. The interest rates of the 50-million-euro syndicate loan and the 15-million-euro loan from the Nordic Investment Bank have been fixed by the interest swap. The interest rates of 91% of the loans in the portfolio are fixed.

The European financial markets currently offer loans with very low interest rates. The company plans to issue commercial papers on the Finnish market in the beginning of the next financial year in order to cover seasonal working capital needs.

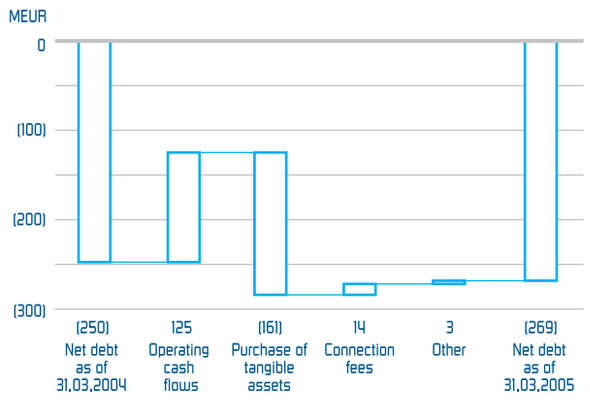
On April 29, Eesti Energia's associated company AS Nordic Energy Link (AS Nordic Energy Link is a company established for construction and operation of the Estonian-Finnish undersea cable) signed loan agreements with NIB (53 million euros) and SEB Eesti Ühispank (31 million euros). The loans have been secured with pro rata guarantees by the shareholders of the associated company. The balance sheet structure of Eesti Energia remained stable in the financial year 2004/05. Property, plant and equipment make up the majority (91%) of the assets. The capital structure is relatively conservative – debt(debt+equity) decreased from 27.0% to 26.9%.

The world's leading rating agencies, Standard & Poor's and Moody's, have assigned the company A- and A3 ratings respectively, to reflect Eesti Energia's financial strength. We aim to maintain these ratings via efficient economic activities and purposeful investments and to remain a strong and reliable partner for customers, suppliers and financial institutions.

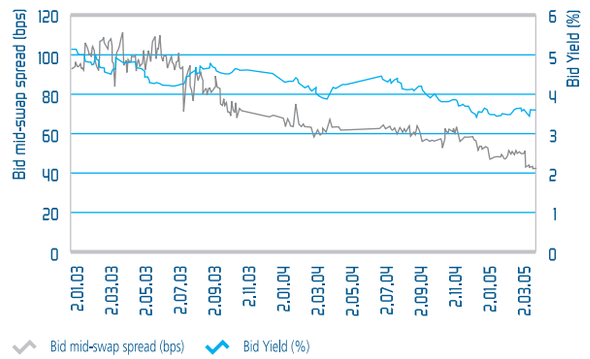
Regardless of the increase in the loan burden resulting from major investments, the interest cover ratio is increasing somewhat. In addition to the decreasing interest rates, the company's financial position was also strengthened by the new electricity tariffs established in March 2005.

Backed by the decrease in the general volume of investments and the strong financial results, the current FFO / investments ratio increased from 57.5% in March 2004 to 79.9% during the financial year.

Net debt 2004/05



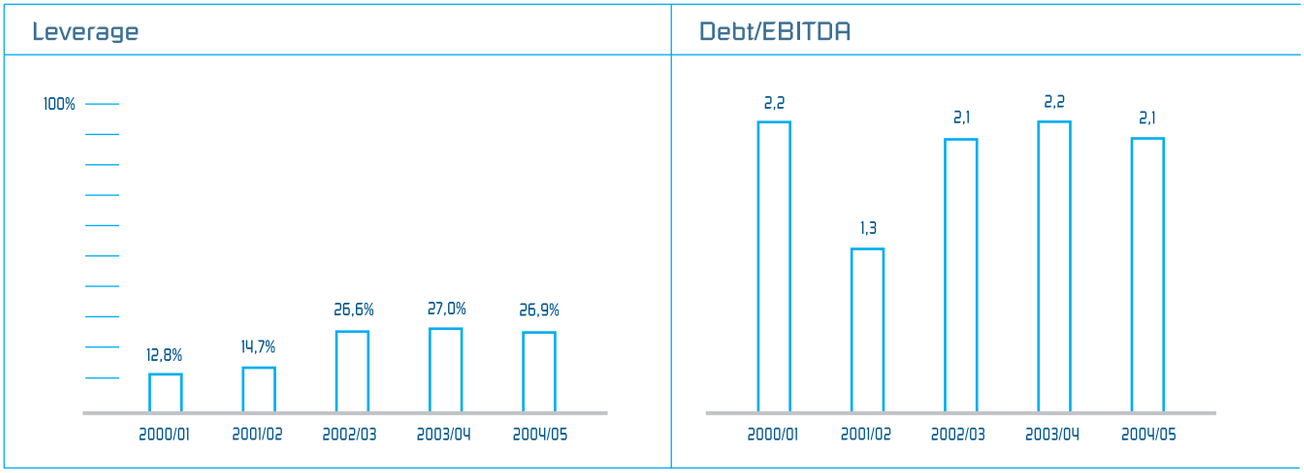
EE Eurobond (2009, 6%)



1926
Oil-shale-based asphalt is used for road construction for the first time in Estonia. The trademark "Estobituumen" is registered for the purpose.

1928
The Keila-Joa hydroelectric power plant is put into operation. The state grants the engineer Meyendorff a concession to turn a mill into a power plant. The old mill would still be used, together with the pisciculture facilities and the power plant.

1929
Ulila Power Plant starts powering the town of Viljandi via a new 15 kV transmission line.



Short-term forecast

The positive financial results for the financial year 2004/05 resulted from the increase in the sale of electrical energy as well as cost management. Economic growth and the structure of the economy are becoming the most important factors influencing the long-term demand for electric power.

The average temperature was only 0.1 degrees higher, than that of the financial year 2003/04. Nevertheless, domestic consumption of electric power increased. Analyses reveal that if the effect of temperature is eliminated from actual consumption data, electric power consumption is nearing its long-term growth estimate (approximately 3%). This trend should continue in the financial year 2005/06, with a potential negative factor being a temporary decrease in consumption as a result of the price increase (the effect will probably last for up to 6 months after the price increase).

A survey conducted by the Estonian Institute of Economic Research in March 2005 revealed that the expectations of the general economic situation for the next 6 months are positive, having improved by 0.3 points from December 2004. The seasonal recession of the confidence indicator among industrial companies at the end of the year has been replaced with positive expectations of the future. The actual growth in Estonian GDP has been 6% in the last four quarters. Analysts forecast this growth to fall between 5.5% and 6.0% in 2005, with some acceleration in 2006. The present level and structure of the Estonian economy is sufficiently strong to support a long-term increase in the consumption of electric power.

Distribution network losses dropped to 10.2%, the lowest level in recent years. The company will continue to reduce network losses in the financial year 2005/06 by implementing a meticulous investment plan and enhancing co-operation between business units. We expect power losses to drop below 10% by the end of the financial year.

In the coming quarters Eesti Energia will continue to implement the medium-term investment plan. At the core of the investment plan are the reconstruction of power networks and production capacity. We will focus on the successful application of the completed major investments and expect the results to be reflected by the continued growth of EBITDA margin.

Economic growth has increased consumption and sales of electrical energy in Estonia in recent years. Despite inflationary pressures, increase in the sales of electric power, optimisation of operating expenses and well-planned investments have facilitated the company in maintaining high productivity and an adequate return on invested capital (given the regulatory framework). In the financial year 2005/06, the above activities will be supported by new electricity tariffs.

1931

The oil-shale-based cracked gasoline factory is put into operation in Kohtla-Järve, capable of processing 60 tons of petroleum into gasoline per day.
AS Virumaa Elekter completes the 3,520 KW Narva hydroelectric power plant and Estonia's first 55 kV line on the 75 km section between Narva and Kiviõli.

1935

The Riigikogu passes a law on the establishment of the Estonian National Power Committee.
The Committee is assigned the task of researching sources of power and propagating its uses, as well as developing a plan for providing the country with electricity and monitoring hazardous power equipment.

Narva Elektrijaamad senior inspector Andrei Jermolajev and the first renovated block at Eesti Power Plant.
Producing electricity from oil shale is now more efficient and environmentally friendly.


We adopt
the best possible technology.

Electricity price regulation in Estonia

Electricity prices are established on the basis of the Electricity Market Act. The Electricity Market Act brought the procedures for the establishment of the electricity price into line with the price mechanisms already applied by the open electricity markets. A distinction has been made between the monopoly network service tariffs and electric energy, the price of which is already established on the open market for customers who purchase over 40 GWh of electricity per year. By 1st of January 2013 at the latest, the Estonian electricity market will be open and the price of electricity will be established for all customers by the electricity market.

Pursuant to the law, the Energy Market Inspectorate approves:

- the price limits for oil shale to be sold to AS Narva Elektrijaamad for production of heat and electrical energy;
- the price limits for electric power to be sold by AS Narva Elektrijaamad to the regulated market;
- the weighted average price limits for electric power to be sold to regulated market customers;
- the network tariffs.

In order to approve the price, the Energy Market Inspectorate has established methods for price calculation. These methods have been made available for review on the web page of the Energy Market Inspectorate.

In approving the above prices, the Energy Market Inspectorate will consider the expenses that enable the company to fulfil the obligations arising from legal acts and the conditions of the license, and ensure a reasonable return on the invested capital. As a rule, the Energy Market Inspectorate will deem the average net book value of non-current assets + 5% of the extragroup revenue of the company as being the invested capital. The rate of the reasonable return is the company's weighted average cost of capital (WACC).

As regards electric energy, the Energy Market Inspectorate will not approve specific charges, but rather the weighted average price limit within which the company will establish the suitable prices. The price limit and the actual weighted average price will be compared on an annual basis. If the company has sold electric energy at an average price which is higher than the limit, the company must compensate for the excess by establishing a lower price for the next year. If the company discovers that the weighted average price is lower than the allowed minimum, the sales prices can be adjusted. No expiry terms have been established for the price limits – the prices will remain in effect until the company or the Energy Market Inspectorate finds that changed circumstances require the filing of an application to establish a new price limit.

As regards network services, the specific tariffs are established for a certain period of time. For instance, network tariffs that entered into force on 1st of March 2005 have been approved for a three-year period. Thereafter the term of tariff period may be extended to four or five years. Every 12 months the network tariffs are adjusted in accordance with the changes in specific parameters: once a year, all network charges are multiplied by the adjustment factor. The adjustment factor considers:

- the change in sales volume compared to the previous period (set upon price approval);
- the change in non-controllable expenses (e.g. purchase of renewable energy, or compensation therefor);
- inflation for the previous 12 months (CPI) and increase in efficiency (X);
- investments in the previously agreed volume, and the consequent change in capital cost and reasonable return.

In general, the adjustments made in the network tariffs are small (1-2%), and network tariffs can also be reduced depending on the change in the above components. If we neglect the change in non-controllable expenses (e.g. change in the purchase amount and the price of renewable energy and possible fees to be paid to landowners for tolerating network facilities), the network charges should remain relatively stable.

Eesti Energia will submit the calculation of the adjustment factor to the Energy Market Inspectorate by 30th October 2005. The adjusted network tariffs will be published by 30th November 2005 at the latest and will come into force on 1st of March 2006.

Glossary

EBITDA	–	earnings before interest, taxes, depreciation and amortisation
Net debt	–	debt less cash and equivalents
Invested capital	–	equity plus debt
FFO	–	funds from operations; operating cash flows, excl. changes in working capital
ROIC	–	return on invested capital; operating profit divided by invested capital
interest coverage ratio	–	EBITDA divided by interest on debt

1936

The Estonian engineer Helmuth Freymuth designs and constructs Estonia's first high-frequency-impulse-based switch system for remote streetlight management and double-tariff electricity meters in Tallinn.

With a daily capacity of 320 tons of oil shale, the second shale oil factory is put into operation in Kohtla-Järve.

1937

The World Power Conference in Paris accepts Estonia as the full member of the World Energy Council.

The oil-shale-based 3,740 kW Püssi Power Plant is completed. The station uses a 55 kV transmission line in parallel with the Narva hydroelectric power plant. Since it produces cheaper electricity, Narva bears the majority of the burden.

Fields of activity

Supply and Customer service

The mission of the Supply division of Eesti Energia is to save the customers energy – customer service must be simple, comprehensible, and quick.

Modernisation of the structure of the Supply and focus on the customer has yielded excellent results. The number of queries sent to the Estonian Consumer Protection Board and the Energy Market Inspectorate concerning Eesti Energia decreased by 28% during the financial year (i.e. one query per 20,000 customers). As regards customer satisfaction, Eesti Energia's most important achievement was the smoothness of the tariff change process for the customers. Customer satisfaction with the account settlement procedures rose to 94 points, and satisfaction with customer service to 83 points on a 100-point scale.

In co-operation with OÜ Jaotusvõrk, customer service reduced network losses –primarily at the expense of commercial losses. The cost-efficiency of the operations was also improved: nominal customer service operating expenses decreased by 2%, compared to the last financial year –primarily at the expense of doubtful receivables.

Wholesale department also broke the record for sales to Latvia (1.39 TWh) and prepared for the launch of the Estlink project.

As at the end of the financial year, the Supply section employed 390 people.

OÜ Jaotusvõrk

On 1 July 2004, OÜ Jaotusvõrk (Distribution Network) started operating as an independent company, adhering to the requirements established by the European Union on the management of power companies in connection with the exposure of the electricity market to competition.

OÜ Jaotusvõrk is assigned the task of distributing electricity to the final consumer via the 35 kV low-voltage and medium-voltage network and of managing these networks.

The customer base of OÜ Jaotusvõrk is one of the biggest among Estonian companies. The company manages more than 18,000 substations and over 60,000 kilometres of power lines. OÜ Jaotusvõrk cut power losses to 10.2% in the financial year. The number of re-occurring malfunctions was reduced by 10%. The term for subscriptions was also significantly shortened.

The company's total investments amounted to 61.3 million euros. Major investment items include the distribution boards of Harku, Järveküla, Paide, Järva, Elektrijaama, Endla and Otepää substations. The company also made environmental protection investments by setting up oil collectors for nine big transformers.

Following the certification audit conducted in November, auditors deemed the OÜ Jaotusvõrk management system to be in compliance with

1938
The Estonian National Power Committee prepares the plan for providing the entire country with electricity between 1938 and 1947.
Tallinn Power Plant achieves a capacity of 19,200 kW, effectively becoming Estonia's most powerful plant.
With a daily capacity of 650 tons, the third oil shale factory is put into operation in Kohtla-Järve.

1939
The Riigikogu passes a law on the establishment of the public limited company Electricity Centre – the predecessor of present-day Eesti Energia AS. The director of the Estonian National Power Committee – engineer Johannes Voldemar Veerus – is appointed the Chairman of the Management Board of the company.

the requirements of the quality management standard ISO 9001:2000 and the environmental management system standard ISO 14001:1996. The company has launched the implementation of the occupational health and safety management standard system which complies with the requirements of the OHSAS 18001:1999 standard.

Since 2004, the company has been a member of the CIGRE (International Council on Large Electric Systems) organisation.

As at the end of the financial year, OÜ Jaotusvõrk employed 993 people.

OÜ Põhivõrk

OÜ Põhivõrk (the National Grid) was established as an independent company on the basis of the Eesti Energia AS business unit on 1 April 2004.

The aim of the establishment of OÜ Põhivõrk was to separate from Eesti Energia the function of network service provision via the National Grid in accordance with the requirements of the Electricity Market Act.

The main task of OÜ Põhivõrk is to render network services via high-voltage power network – i.e. to transmit electric power from the producer to major consumers and distribution networks. OÜ Põhivõrk also unites the Estonian power system with those of neighbouring countries and is responsible for the continual and reliable operation of the system. The power system management centre that the company operates, keeps capacity balanced and manages the power system in real time.

OÜ Põhivõrk has a total of 5,193 km of high-voltage power lines, including 3,395 km of 110 kV lines, 439 km of 220 kV lines and 1,297 km of 330 kV lines. OÜ Põhivõrk operates 142 substations in Estonia.

The new standard network service conditions approved by the Energy Market Inspectorate were implemented in customer service. This major change helps us to ensure the equal treatment of customers. As at the end of the financial year 2004/2005, OÜ Põhivõrk had 13 customers.

Several important projects were completed by OÜ Põhivõrk in the financial year. The company set up modern substations in Paikuse and Otepää and completed the 330 kV Harku-Kiisa overhead transmission line as well as the 330/110 kV Harku substation. OÜ Põhivõrk invested a total of 41.4 million euros in the financial year.

We also launched the procurement of an update to the power system management system (SCADA) so as to enhance the reliability of the system. The principal changes involve a bigger dispersal of SCADA centres and a reliability guarantee in the situation where a dispersed centre is incapable of fulfilling its tasks. We also plan to replace the dispatcher board, the capacity and options of which are out of date.

OÜ Põhivõrk's power losses were smaller in the financial year 2004 than in previous periods. While in previous years the lowest loss percentage was 3.36% (in 1999) and the average remained around 3.6%, power losses in the financial year 2004/2005 only amounted to 2.87% of the power generated.

OÜ Põhivõrk's quality and environmental management system complies with the requirements of the ISO 9001:2000 and ISO 14001:1996 standards. In the last financial year, the company was also deemed compliant with the requirements of the occupational health and safety standard OHSAS 18001:1999.

OÜ Põhivõrk is an associate member of the European Transmission System Operators (ETSO) and a full member of BRELL, the co-operation organisation of five countries: Estonia, Latvia, Lithuania, Russia and Belarus.

As at the end of the financial year, OÜ Põhivõrk employed 143 people.

AS Narva Elektrijaamad

The main activity of AS Narva Elektrijaamad (Narva Power Plants) is the production of electrical and thermal power from oil shale, and the sale thereof. The company owns two power plants in the vicinity of Narva – the Balti Power Plant and the Eesti Power Plant – these are the biggest oil-shale-based power plants in the world. The Narva plants have become the traditional centre for Estonian power production – the Balti Power Plant was launched in 1959, and the Eesti Power Plant ten years later.

AS Narva Elektrijaamad provides Estonian consumers with electricity and the city of Narva with heat, as well as exporting electric power to Latvia. The plants also used to process Russian oil shale. In addition, the company produces and sells shale oil as well as oil shale ash, which can be used in the manufacture of construction materials and for agricultural purposes (alkali soil amendment for the purpose of fertilizing fields and managing soil acidity).

As of the end of the financial year 2004/2005, the total electrical capacity of Narva Power Plants amounts to 2,705 MW – Eesti Power Plant with 1,615 MW and Balti Power Plant with 1,090 MW. The installed heat energy capacity is 505 MW and 84 MW, respectively.

Shale oil production and sales increased significantly in the financial year. The company sold 114,000 tons of shale oil – a 37% increase compared to the last year. This is a record for the company.

1941
Power plants in Tallinn and Ellamaa are blown up by the (Soviet) Russian army.

1944
Ulila Power Plant is destroyed by the German army.

1945
The USSR Commissariat of Power Plants establishes the Estonian National Board of Energetics – Eesti Energia. The USSR West Region Coal Industry Ministry establishes the integrated plant Eesti Põlevkivi for the purpose of mining for oil shale.

The year's most important event for AS Narva Elektrijaamad was the implementation of the new fluidised bed technology in the power plants. The two modern energy blocks have made electricity production from oil shale even more efficient and environment-friendly.

In order to guarantee thermal power supply to the city of Narva during the reconstruction of the Balti Power Plant and during peak hours, the company launched the construction of a gas-powered back-up boiler-house in the financial year 2004/2005.

In 2004 a social plan was signed between AS Narva Elektrijaamad and the AS Narva Elektrijaamad Social Fund, establishing the principles for financing the former power plant employees' social and retraining programmes, thus alleviating the effect of structural reorganisations and lay-offs.

The environmental management system of AS Narva Elektrijaamad was deemed compliant with the requirements of the ISO 14001:1996 standard last year. The electricity, automated machinery, and chemical laboratory of the plants were deemed compliant with the requirements of the international laboratory quality system ISO 17025.

As at the end of the financial year, the company employed 1,855 people.

Iru Power Plant

Iru Power Plant is a combined power and heat energy plant located just outside Tallinn. Natural gas is the predominant fuel used, with liquid fuels providing back-up. The electrical capacity of Iru Power Plant is 190 MW, and heat capacity 648 MW (398 MW in combined mode).

Iru Power Plant was the biggest thermal power producer and the third biggest electrical power producer in Estonia in 2004. The plant had the biggest market share of the Tallinn district heating market (approximately 50%) and Maardu (nearly 100%). Thermal power was supplied via the AS Tallinna Küte district-heating network.

The financial year 2004/2005 proved successful for Iru Power Plant, despite the decrease in production volume, caused by the warm weather. A total of 414 GWh of electric power and 1,201 GWh of thermal power were produced in the financial year. The sales price did not change.

The investment policy focused on enhancing reliability and hedging various risks. Iru Power Plant modernised its cable lines and reconstructed its fire control and compressed air systems. A fully automatic hydrogen electrolytic device was purchased for feeding the gas cooling systems of the generators.

The environmental management system of Iru Power Plant was deemed compliant with the requirements of the ISO 14001:1996 standard in the financial year. In addition, Iru Power Plant is currently applying for the certification of its quality management system. Iru Power Plant is also involved in an environmental management system-related pilot project with the aim of becoming the first Estonian company to implement EMAS (environmental management and auditing system).

In the course of optimising its processes and enhancing efficiency, the corporate structure and the employees' fields of responsibility were changed so as to increase the competitiveness of the company. The number of employees was cut by 30% - i.e. to 110.

AS Kohtla-Järve Soojus

AS Kohtla-Järve Soojus (Kohtla-Järve District Heating Network), which is located in Ida-Virumaa, owns the 30 MW oil-shale-based Ahtme combined power production plant, and the associated thermal power networks. The company supplies heat to the Ahtme district of Kohtla-Järve and Jõhvi town. These areas are served via a total of 98 km of thermal power lines, of which 73 km are owned by AS Kohtla-Järve Soojus.

In the financial year 2004/2005, AS Kohtla-Järve Soojus sold 204.1 GWh of thermal power and 30.5 GWh of electric power.

The highlight of the financial year 2004/2005 was the sale of the assets related to the production, distribution and sales of thermal power and electric power to the Järve district of Kohtla-Järve. With the sales transaction concluded on 5 July 2004, the company transferred the assets, liabilities and staff to the new owner, thus downsizing the company by approximately 40%.

The company changed its sales strategy at the beginning of the heating period – the provision of in-house thermal power distribution services was terminated and the company made a transition to the issue of joint invoices. As a result, receipt of payments for invoices was significantly improved and in-house overview of debtors enhanced.

The company invested 0.3 million kroons in the financial year. Major projects included the installation of pre-insulated pipes and heat meters.

As at the end of the financial year, the company employed 128 people.

Renewable Energy Business Unit

The Renewable Energy Business Unit handles the establishment and operation of power plants processing renewable energy in the Eesti Energia Group. The company has succeeded in completing the Virtsu

1949
The first 12 MW generator is put into operation in Kohtla-Järve thermal power plant.

1951
The first 22.5 MW generator is put into operation in Ahtme thermal power plant.

The first 110 kV high-voltage power line is set up between Ahtme and Tallinn.

1953
High-voltage power lines are installed between Ahtme and Tartu; the Tartu substation is completed.

Eesti Energia sales representative Marika Vomm and ETV's studio,
which like every part of our information society, could not do what it does without electricity.


We want to deserve
the trust of every client.

windmill with a capacity of 0.6 MW, reconstructed the Linnamäe hydroelectric plant with a capacity of 1.1 MW, and the Keila-Joa hydroelectric plant. Electrical power production was resumed in Keila-Joa in January 2005, after a five-year break. With the reconstruction, the capacity of the power plant was enhanced from 250 kW to 365 kW. The planned annual capacity of the power plant is 2.5 GWh.

In the financial year 2003/2004, Estonian renewable energy companies produced a total of 37.5 GWh of electric power, of which the Renewable Energy Business Unit's share was 10.4 GWh. Eesti Energia is currently the biggest renewable energy producer in Estonia.

The Linnamäe hydroelectric plant broke all records in the financial year. Due to the rainy summer and autumn, the annual capacity amounted to 8.4 GWh (previously estimated average: 6.9 GWh). The last record – 6.5 GWh – had stood since 1925.

The company also continued the building of the Ruhnu windmill/diesel plant, and the preparatory work for the restoration of the Põltsamaa hydroelectric power plant. With the help of the EC aid programme, the company started designing the wind park for Balti Power Plant ash field 2 in Narva, and carried out preliminary surveys related to the construction of a renewable energy-based thermal power plant.

AS Eesti Põlevkivi

AS Eesti Põlevkivi (Estonian Oil Shale Company) is one of the most important employers in Ida-Virumaa. The company mainly handles oil shale production and sales. Eesti Põlevkivi is the father of oil shale mining in Estonia, and the initiator of the related research. Industrial oil shale mining began in Ida-Virumaa in 1916.

AS Eesti Põlevkivi consists of the parent company and three subsidiaries. In addition to the mining company (incorporating two mines and two quarries), AS Eesti Põlevkivi owns a rail transport undertaking and a machine building and metal processing company.

In the financial year 2004/2005, AS Eesti Põlevkivi mined 13.3 million tons of oil shale. The company's turnover amounted to 112 million euros – i.e. an 5.4 million euro decrease compared to the last financial year. In 2004, oil shale was extracted from 188.4 hectares of mines and 150.1 hectares of quarries.

The biggest investments were made in modern technology. Major investments include eleven dump trucks with a 42-ton capacity at a total cost of 1.5 million euros, three Komatsu bulldozers at a total cost of 1.2 million euros and six Toro shovel loaders at a total cost of 1.8 million euros.

The company launched underground testing of safer emulsion explosives – a new oil shale mining technology which is bound to enhance efficiency. The company also put the slope shaft of the Estonia mine into operation, enabling costly rail transport to be replaced with road transport. The full transition to road transport will be made in October 2005.

Major improvements in the AS Eesti Põlevkivi working environment included implementation of the occupational health and safety management system in accordance with the OHSAS 18001:1999 requirements, and receipt of the relevant certificate on April 25. This improved all the management principles of AS Eesti Põlevkivi. The occupational health and safety management system complies with the existing quality and environmental management systems.

In co-operation with the Estonian Qualification Authority, the company developed professional standards for the mining industry so as to specify the employee qualification requirements, to ascertain the need for training, and to evaluate staff qualification.

The main strategic goal for the company is to keep the oil shale price as low as possible for as long as possible.

As at the end of the financial year, AS Eesti Põlevkivi employed a total of 4,361 people. The number of employees decreased by 222 during the year.

AS Elektriteenused

The main field of activity of AS Elektriteenused (Electrical Services) is the construction, maintenance and repair of power networks, inspection of electrical installations, and evaluation of adherence to the related requirements.

AS Elektriteenused actively analysed its strategy during the year, and prepared a five-year strategic development plan as a result.

To enhance its flexibility on the construction market, AS Elektriteenused reorganised the structure of its medium and low-voltage construction sectors from 1 July 2004 onwards. In the field of high-voltage equipment and diagnostics, the company mainly focused on construction – the company's relevant competence was centred on a single unit.

The management system of AS Elektriteenused has been deemed compliant with the requirements of the international ISO 9001:2000 standard. The operations of AS Elektriteenused comply with the requirements of the ISO 14001:1996 environmental management system standard.

As at the end of the financial year, the company employed 359 people.

1955
Ahtme thermal power plant achieves full capacity at 72 MW.

1959
Balti Power Plant starts generating electricity at the capacity of 100 MW.

In addition to electricity, Tallinn Power Plant starts providing the city with thermal power.

1961
The power networks Agricultural Electricity and Utility Electricity are incorporated under Eesti Energia.

Estonia's largest, 22 kV Veskimetsa substation is put into operation, significantly enhancing power supply to Tallinn, Northern and Western Estonia. The first 220 kV power line is set up between Balti Power Plant and Veskimetsa substation.

AS Elpec

The main activity of AS Elpec is the implementation of electrical projects, the provision of solutions to land use-related problems of power companies, and the timely performance of projects.

In the financial year 2004/2005, the turnover of AS Elpec grew many times compared to the previous period, from 0.8 million to 2.6 million euros. This increase was mostly brought about by the structural reorganisation of the company and the expansion of the range of services offered.

Approximately 4,000 land agreements are concluded every year; 75% of them for OÜ Jaotusvõrk. The volume of services rendered to OÜ Põhivõrk is also continually increasing, especially as regards land services. The company handled several important projects in the financial year – the Balti Power Plant-Kiisa power line, the Estlink underwater cable line, the Tõnismäe-Endla cable line and the design work on several substations.

The most significant achievement of AS Elpec in the financial year was the structural reorganisation of the company, and the establishment of a unified team – structural reorganisation was carried out in the end of the financial year on the basis of the employees of the company and the former Eesti Energia land service unit. The company also implemented a performance pay system.

The quality management system of AS Elpec was deemed compliant with the ISO 9001:2000 requirements in 2003. As at the end of the financial year, AS Elpec employed 74 people – a 30% increase compared to the last financial year.

AS Energoremont

The main activities of AS Energoremont (Equipment Maintenance and Supply) include:

- the design, manufacture and installation of metal products
- the inspection of metal and welded accessories; training and qualification of welders
- the maintenance and repair of electrical installations and automatic equipment
- the maintenance and repair of power production equipment

AS Energoremont's turnover amounted to 13.4 million euros in the financial year 2004/05.

The company launched complex turnkey services and started providing new products, including pressure equipment, ventilators, conveyor belts and elevators. The finishing plant started operating at full capacity. Although an increase in the metal price tightened competition, the company succeeded in expanding its customer base by 10%.

A new subsidiary – OÜ ER Test Service – was established in the financial year. The operation procedures of the subsidiary have been deemed compliant with the EN ISO/IEC 17025 (accreditor: Deutsches Akkreditierungssystem Prüfwesen) and EN ISO/IEC/17024 (accreditor: Estonian Accreditation Centre) standards.

As at the end of the financial year, AS Energoremont employed 580 people.

Televõrgu AS

The main activity of Televõrgu AS (Telecommunications Network) is the provision of telecommunication services to power companies for the purpose of ensuring the quality and safety of the services rendered to customers, while also guaranteeing the reliability of the power systems in case of crisis, and cutting the group's communication-related expenses.

Televõrgu AS operates one of the biggest communication mains in Estonia, the operational radio communication network of the entire country and Estonia's biggest governmental telephone and computer network. Televõrgu AS exploits the existing communication main to the maximum – the company also renders out-of-house communication services.

In March 2005, the operations of Televõrgu AS were deemed compliant with the requirements of the ISO 14001:1996 and ISO 9001:2001 environmental and quality management standards.

As at the end of the financial year, the company employed 42 people.

AS Elektrikontrollikeskus

The main activities of AS Elektrikontrollikeskus (Power Control Centre) are the inspection of electrical installations and evaluation of their compliance with the requirements, and the assessment of the competence of and organisation of enrichment training for sole proprietors involved in the field of electricity.

In general, the year 2004 was quite demanding – the company worked on maintaining service volume stability and bringing the structure and composition of the services offered into line with the market requirements.

Among other things, AS Elektrikontrollikeskus liquidated the unprofitable Jõgeva subunit. The company made preparations for joining the EU business environment and tried to adapt to the changes in the business environment that arose from the amendment of and entry into force of EU directives on the main activities of the company.

As at the end of the financial year, the company employed 33 people.

1962
The first 330 kV high-voltage power line is set up between Balti Power Plant and Riga (Valmiera-Salaspils).

1964
Saaremaa is connected to the mainland power network via underwater cable lines.

1966
The oil-shale-based Balti Power Plant achieves the world's greatest capacity – 1,624 MW.

1969
With a capacity of 200 MW, Eesti Power Plant is put into operation.

Personnel

Personnel policy

A new personnel policy was established in the group in 2004. We also refreshed the rules and regulations for human resource-related work. Our personnel policy provides the prerequisites for equal treatment of employees and harmonised human resource management in the entire group. Adherence to the personnel policy facilitates the development of an organisational culture which promotes co-operation, professionalism, openness and customer-friendliness.

Many principles regarding the new personnel policy have been specified in more detail than in the policy to date. We have stipulated the work arrangement and management principles as well as the regulations for human resource employment and development. All employees must be aware of their role in the effort to achieve the corporate goals. All employees are also provided with equal opportunities for work and development. We prefer in-house candidates with the required know-how and personal characteristics to fill vacant jobs – we aim at providing employees with new challenges and some space for growth. We lay more emphasis on the importance of co-operation between the employees and between the group companies, as well as on the significance of honest and open information exchange. We have specified the responsibilities of direct managers for the development, evaluation and motivation of employees. The need for training is decided, above all, on the basis of professional goals. We attach importance to in-house training and training-related co-operation between the group companies. Remuneration is established on the basis of the complexity of work tasks, scope of responsibility, the employee's contribution, knowledge, and skills and experience, as well as on the wage levels in the labour market. We consider it important to acknowledge our employees' work results. In addition, we promote a healthy way of life by supporting our employees' health- and sport-related initiatives.

Audit of values

Eesti Energia has consciously handled value-related issues since 1998. In 2004, we started modernising our vision and mission and reviewing our main organisational values by setting strategic goals for the future. We have included employees of various companies, areas and levels in the process. To keep the values alive, we must "translate" them into the language of actions. The audit of values provides us with information on the changes that need to be made for our actions to reflect our values.

Structure and work arrangement

The biggest structural reorganisation in the financial year involved the establishment of OÜ Põhivõrk and OÜ Jaotusvõrk. Reorganisation also involved Eesti Energia AS's Iru Power Plant and AS Kohtla-Järve Soojus. Structural changes serve the purpose of evening the organisations out and bringing the work arrangement into line with the corporate goals.

Major training and development projects
For the first time in the company's history, we trained employees who have been granted the authorisation of an employer themselves, so as to clarify the employer's role and responsibility, and give theoretical and practical knowledge for performing this role.

We also organised the training of the heads and representatives of trade unions for the first time. The training served the purpose of giving a thorough overview of our strategy, economic results, labour and wage market, wage system principles, job evaluation, professional succession and other important issues. Since we have taken the dialogue with trade unions to a new level and specified the role of corporate managers in interaction with the employees' representatives, this sort of training is vital for developing partnerships. We also continued developing the new employee primary training programme.

The joint development programme for first-line managers of OÜ Jaotusvõrk and the customer service was highly important, improving professional skills and knowledge and significantly enhancing mutual co-operation.

We also continued the evaluation of our service staff. For the first time, the company implemented an additional remuneration system on the basis of the evaluation. More first-line managers were involved in the evaluation process than ever before.

Professional succession

As the biggest employer in the Estonian energy sector, we are naturally concerned about succession. This year, we were involved (in co-operation with the National Examination and Qualification Centre) in the establishment of professional standards for electricians, and, once again, participated in the "Key to the Future" fair.

1973
Eesti Power Plant achieves a capacity of 1,610 MW.

The 330 kV Kiisa substation is put into operation, significantly enhancing reliability of the power supply between Tallinn and Western Estonia.

1978
Iru Power Plant starts providing Lasnamäe district in Tallinn with heat.

1980
The biggest amount of oil shale in history is extracted in Estonia – a total of 31 million tons.

Wage survey

The wage survey of the energy sector was launched in the financial year on Eesti Energia's initiative. These types of surveys are required for making fair decisions concerning the remuneration policy in our main fields of activity, and create additional value for all the participating companies.

Future priorities

The personnel-related priorities for the next financial year include the development of material and non-material motivation systems and the enhancement of professional and managerial competence. We will also actively handle succession-related issues. We plan to introduce the field of power production in comprehensive schools, and become more involved in the preparation of study programmes by introducing Eesti Energia to the educational establishments that train the specialists in the field.

Supporting development in Estonia

In addition to taking business-related responsibility, Eesti Energia also wishes to make a contribution to social development in general. Therefore, we support various initiatives and projects to help as many Estonians as possible.

- Tallinn University of Technology Development Fund. Young people with a good and broad education are an undisputed asset for Eesti Energia. Wanting people working toward a degree in a technical field to study in their field, Eesti Energia is a long-term supporter of the Tallinn University of Technology's Development Fund.

- The Energy Centre. Eesti Energia is one of the founders of the Tallinn Science and Technology Centre (Energy Centre) and a loyal supporter of its activity.

- Energy conservation portal. The Energy Conservation Portal created on the initiative of Eesti Energia is the first opportunity for business, home and corporate consumers to get clear, simple and diverse information on energy-saving products, technologies and measures. The goal of the webpage is to raise the efficiency of energy use for electricity consumers (especially households).

- Conservation project competition. Each year, Eesti Energia organizes a competition for projects that propagate the philosophy of energy conservation. Entries must be targeted at promoting heat conservation in either households or the activity of organizations, institutions and companies. Eesti Energia offers 6400 euros (100,000 kroons) of support for the best projects. Examples of projects that have received support are an energy conservation game and a programme of promoting energy conservation among schoolchildren.

- Estonian Fund for Nature. From 2000, Eesti Energia has been working with the Estonian Fund for Nature, in the framework of which Eesti Energia supports projects in the field of nature, nature education and sustainable development. Among others, Eesti Energia is one of the supporters, promoters and participants in the Fund for Nature project "The Green Bicycle Tour".

- Trails and footpaths. Eesti Energia together with Hansapank and Merko Ehitus initiated a project for lighting suitable sporting locations and making them more functional. When upgrading trails and paths, Eesti Energia is responsible for lighting, while Merko Ehitus designs the paths and partially carries out construction, and Hansapank finances the purchase of maintenance and trail building machinery and snow-making machines. The project is also supported by the Ministry of Culture, the ski association and numerous other firms, such as Eesti Põlevkivi, part of the Eesti Energia group. In the last financial year, new lighting was installed in Tallinn on the Pirita path, in Pärnu on Jõulumäe, and in Tartu in the Supilinn sports park, and additional lighting was provided for the Nõmme ski trail.

- Internal initiatives. Eesti Energia companies have a tradition of being engaged in various socially beneficial initiatives such as tree-planting, or disposing of paper, old batteries and computer components. We offer our customers the option of e-invoices to save paper.

1982
Iru Power Plant combines the production of electric and thermal power.

1987
330 kV power lines are set up between Narva electric power plant and Kiisa substation.

1991
State enterprises Eesti Energia and Eesti Põlevkivi are established.

1998
Eesti Energia AS is established. Estonia restores its membership with the World Energy Council.

Eesti Energia Renewable Energy operations manager Raimo Pirksaar and the thoroughly revamped Keila-Joa hydro plant, where environmentally friendly electricity production began back in 1928.


EESTI EN

Environmental Report

Environmental policy of Eesti Energia

1. We analyse the environmental impact of our operations in advance and take precautionary actions to reduce this impact in every way possible.
2. We follow all relevant domestic and international environment-related legal acts.
3. Waste prevention, waste re-utilization and improved efficiency of the power system are our contribution to sustainable development in Estonia.
4. Human health and safety is of paramount importance in our operation.
5. We apply the best available technology (BAT) for reducing the negative environmental impact of energy production and transmission.
6. We co-operate with scientific research establishments to achieve our environmental goals.
7. We use and develop an environmental management system which complies with the requirements of the ISO 14001:1996 standard.
8. We keep all stakeholders informed about the environmental impact of our operation; the Eesti Energia environmental policy is made available to the public.
9. Under equal conditions, we prefer subcontractors and suppliers who have established a certified environmental management system.

Environmental aspects of Eesti Energia

The specifics of power production and transmission in Estonia include:

1. Emission of pollutants generated by the use of fossil fuel – nitrogen dioxide (NO_x), sulphur dioxide, carbon monoxide, particulates and volatile organic compounds – into the atmosphere (Narva Elektrijaamad (Narva Power Plants), AS Kohtla-Järve Soojus (Kohtla-Järve District Heating Network) and Iru Power Plant).
2. Emission of carbon dioxide gas generated by the use of fossil fuel (Narva Elektrijaamad, AS Kohtla-Järve Soojus and Iru Power Plant).
3. Water used for oil shale mining, and sulphate pollution in water pumped out from the mines (AS Eesti Põlevkivi).
4. Large amounts of hazardous waste generated during the hydro-transportation of oil shale ash; and the depositing of such waste in violation of the requirements (Narva Elektrijaamad and AS Kohtla-Järve Soojus).
5. Land use and the risk of oil pollution from the oil switches and transformers used in power transmission (OÜ Põhivõrk (National Grid) and OÜ Jaotusvõrk (Distribution Network)).
6. Network losses (Põhivõrk and Jaotusvõrk)
7. The impact of electromagnetic fields on living organisms (Põhivõrk, Jaotusvõrk and Televõrk (Telecommunications Network))

Environmental objectives of Eesti Energia

1. Certifying the environmental management systems of Eesti Energia's production units and network companies in accordance with the ISO 14001:1996 standards by the end of 2005
2. Transitioning oil shale power plants' to fluidised bed technology
3. Increasing the renewable energy production capacity
4. Reducing network losses
5. Bringing those oil facilities which are in violation of the requirements into compliance with legal acts: by 2012 in the Põhivõrk and by 2015 in the Jaotusvõrk
6. Shutting down ash field no. 2 of Balti Power Plant by 2006.
7. Transitioning Ahtme Power Plant to environmental friendly solution by 2009.
8. Preparing the applications for integrated environmental permits for Eesti Energia's power plants by the end of 2005.
9. Implementing the new oil shale ash removal technology by 2009.
10. Conducting the oil shale electricity life cycle assessment (LCA) in accordance with the methods set forth in the ISO 14041-14044 standards by the end of 2005, and preparing the environment product declaration (EPD) for oil shale electricity in accordance with the ISO 14024-14025 standards by 2007.

Highlights and major environmental investments

The 2004/2005 financial year was undoubtedly a special one for several reasons. All activities took on a new, broader dimension in connection with Estonia's accession to the European Union as of 1 May 2004. Estonia's entire environmental sphere began to be influenced by a European approach to natural conservation and markedly more stringent pollutant regulations and environmental regulations. Although negotiations secured transition time for resolving some of the issues, the deferral is temporary and intended for making up lost ground. Every energy-related change is costly. The developing issue of CO_2 commerce/quotas, which received wind under its wings in 2004, merits separate mention; theoretical discussions became a realistically functioning system. Ecological tax reform continued to develop, establishing new principles for the field of environmental regulation. Both as dictated by European Union member status as well asand in the framework of domestic changes, Eesti Energia continued environment-related activities in every area it touched.

Most of the changes in the natural environment are associated with the mining of natural resources. The allocations for environmental protection expenditures by the group ensure the existence of the necessary investments for improving the state of the environment. We cannot make the effect of mining on the environment non-existent, but we can soften and lessen the blow.

As of 1 May 2005, there are 510.9 million tons of active oil shale reserves in the areas belonging to Eesti Põlevkivi companies (including reserves of 25.5 million tons in the inactive Tammiku and Sompa mines).

Groundwater has risen to pre-mining levels in mines closed in previous years. In connection with long mild spells in December 2004 and January 2005, the amount of water removed from mines and quarries rose significantly. A total of 238 million m^3 of water was pumped out, 25 million m^3 more than in previous financial years. 0,46 million euros was invested into alternative drinking water supplies for villages in the mining area. As a result of the project, a new supply of water conforming to all European Union requirements has been ensured. 182 hectares of slag heaps and 121 hectares of mined area were levelled.

The new oil shale-based boiler house erected on the industrial territory of the Viru mine contributed to reductions in atmospheric pollutants. Compared to the technology that has been in use so far, the new boiler house significantly reduces the amount of air pollutants and the amount of waste produced.

Rail transport at the Estonia mine began to be replaced with road transport. The transition to road transport allows expenditures to be reduced and allows savings on the wagons used for conveying the sleepers, struts, copper wiring and mineral raw material used to construct railways. In addition to reducing monetary expenditures, we also use natural resources more wisely.

In the 2004/2005 financial year, Eesti Põlevkivi paid the state and municipalities a total of 6,6 million euros in environment usage fees, including 5,6 million euros for use of natural resources and a pollution fee of 1 million euros.

Mining impact studies continued, including studies on the effect of mining work on the cultivation value of cropland, forest growth conditions and the state of groundwater. The effect of mining on bird populations was also studied.

Another important stage before electricity reaches the consumer is the production of electricity from the burning of oil shale. Estonia is the only country in the world that covers its basic power needs by burning oil shale. There are those who consider this Estonia's great fortune and positive side, but there are those who feel that this is a great misfortune for Estonia in the environmental sense. Eesti Energia on its behalf does all it can to mitigate the environmental effects of producing electricity from oil shale. In the 2004/2005 financial year, two energy blocks based on the new fluidised bed technology were launched, one at the Eesti and the other at the Balti Power Plant. This is undoubtedly Estonia's largest environment-related investment in the protection of the atmosphere, and exceeds the volume of all projects implemented so far and to be implemented in Estonia in the coming years. The advantage of the new energy blocks over the dust furnace technology is the minimal atmospheric discharge for sulphur, nitrogen and ash. The greater efficiency of the blocks allows fuel expenditures to be reduced about 20%, as a result of which the amount of CO_2 discharged will be reduced and likewise the amounts of solid waste generated.

Based on ever more stringent laws, Narva Elektrijaamad is building a monitoring system in order to assay its waste products. The system installed on the new smokestacks allows major classes of substances discharged into the air (SO_2, NO_X, ash) to be measured in real time. In terms of the size of Estonia neighbouring states, this is a large project, and the size is already dictated by the capacity of the devices of Narva Elektrijaamad. The new system being implemented, the installation of which at Eesti Power Plant is already in the testing phase, allows a better overview to be gained regarding the dynamics of discharge and makes reporting easier as well.

Besides CO_2 discharge, solid waste is one of the more serious problems associated with producing electricity from oil shale. We looked all year long for solutions to the problem of bringing Narva Elektrijaamad ash

disposal system into conformity with the requirements of the law, which will be implemented in summer 2009. The international tender proclaimed for this purpose had to be declared unsuccessful due to the unsatisfactory nature of the solutions submitted. At the same time, consultations continued with the Ministry of the Environment over the conditions for the technical structure and exploitation of the system. As a result of long-term solutions, an officially confirmed comprehensive program was submitted, which, in addition to a new ash disposal system, outlines maintenance work to be performed on operational ash fields. The objective of the work is significantly to reduce the amount of circulating water and thereby reduce the danger the system poses to the environment. Corresponding new tests to implement the system began at the beginning of 2005. In addition to the tests, the technical assistance project 50% co-financed by the European Union Cohesion Fund is contributing to finding a solution to the problem.

Aside from the ash problems, which require a comprehensive approach, the closing of Balti Power Plant ash field no 2 was commenced, and this is also being funded by the European Union. The inactive ash field will be closed in conformity with requirements and precipitation will be prevented from making contact with the ash, which would produce alkaline water. According to plans, the work should be completed in 2006. Along with the closing of the ash field no 2, the plant's industrial waste dump was closed and the corresponding new dump will be constructed on top of the ash field to be closed. According to test results, the wind conditions on the ash field are sufficient for a large-scale wind park to be erected there, with a corresponding aid project to be launched.

In addition to solving the refuse problems of Balti Power Plant, Eesti Power Plant's industrial waste dump was also cleaned up, the channelling and cleaning of wastewater was reorganized, and storage tanks for petroleum products were brought into conformity. At the same time that technical solutions were developed, the procedures for determining and responding to environmental impacts was improved at Narva Elektrijaamad. This activity culminated at the beginning of 2005 in the certification of an environmental management system conforming to the ISO 14001:1996 standard. Pursuant to Estonian legal acts brought into conformity with EU requirements, efforts are under way to apply for other necessary environmental permits in addition to certification of the environmental management system.

Kohtla-Järve Soojus operates Ahtme Power Plant as the smaller sibling of Narva Elektrijaamad; Ahtme is currently the oldest electrical power plant operating on oil shale. In 2004 the existing ash field leachate pumping system was supplemented with new pumps and a new device installed for determining the solid particulate content of smoke. A large project was also prepared whose objective is to replace the current old-technology-based oil shale plant with a new, modern power plant operating on peat and biofuel.

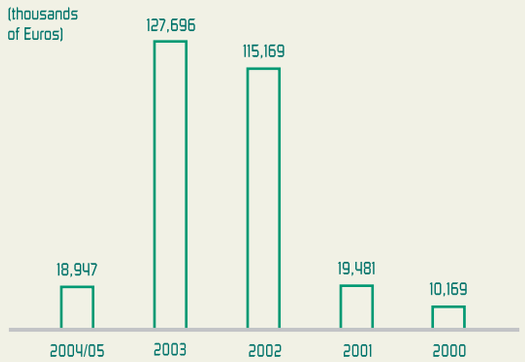
Co-production of electricity and heat also takes place at Iru power plant, where gas is used for that purpose. Even though gas is considered an environmentally friendly fuel, additional measures must be implemented at Iru Power Plant in order to comply with environmental regulations. At the end of 2004, a process for obtaining technical assistance for a major future project, the goal of which is to reduce NO_x components in the exhaust gases of Iru Power Plant to the required levels, was launched. In addition, Iru Power Plant's environmental management system's conformity to the ISO 14001:1996 standard was certified and progress is being made in the direction of other environmental certificates.

Electricity can be produced from wind, water, biomass and other sources of renewable energy. Eesti Energia completed renovation of Keila-Joa's historical hydroelectric power plant at the beginning of 2005. The power plant building was restored in its original form, and its power was increased. The Keila-Joa power plant also has an exhibit on the history of hydro-energy and renewable energy. Even though the production of the Keila-Joa hydroelectric facility is modest, it will still contribute to the use and popularisation of renewable energy. The criteria for electricity from renewable resources sold under the Green Energy trademark were specified at many round tables made up of players dealing with environmental protection and renewable energy in order to dispel suspicions as to whether it is harmful to the environment.

As regards environmental impact, we should also mention transmission of electricity alongside oil shale mining and burning, since it is through transmission cables and transformer substations that electricity reaches us. Last year, renovation of both the OÜ Põhivõrk and OÜ Jaotusvõrk older substations and transmission lines began. In order to improve the quality of the clearances under aerials, negotiations were held with several interested parties, and the requirements of the corresponding procurement proceeding supplemented.

From the standpoint of environmental conservation, it is important that large and oil-reliant devices be replaced with other technologies and that the obsolete oil collection and safety systems be renovated and renewed. The number of OÜ Jaotusvõrk and OÜ Põhivõrk substations with obsolete oil collection systems is decreasing year by year.

Environmental investments



Last year, the Põhivõrk renovated many substations, which are important from the point of view of ensuring a reliable supply, in the course of which the environmental security of those substations increased. In addition, a contemporary substation was built at Harku for the future Estlink cable. We continue to seek to join with possible electricity producers who use renewable energy (primarily wind).

One of the environmental activities of the Jaotusvõrk is the reconstruction of poles with nesting storks and the construction of new nest supports. In 2004, relocation of storks' nests continued in critical areas to avoid accidents and technical problems caused by nesting birds.

Besides its main activity, Eesti Energia pursues a number of other activities that may have an effect on the environment. The communications firm Televõrgu AS has continually developed optical communications systems on 110/330 kV lines, which will replace the previous system based on radio waves. AS Energoremont - Equipment Maintenance and Supply - invested in making its component processing more environmentally friendly, and renovating the painting plant, which consists of a paint chamber and shot cleaning facility. In order to deal more systematically with environmental issues, environmental management systems have been created and certified at nearly all of Eesti Energia's companies.

The environmental impact of energy in Estonia

In assessing the environmental impact of energy, three major areas of action should be examined, from production of electricity to the way it is delivered to the consumer.

These areas are the mining and transport of oil shale, the main fuel used to make electricity; the production of electrical and heat energy; and the transfer of energy. All of these stages have an effect on the environment, as described below. The necessary environmental permits have been obtained for all of Eesti Energia's units, and certified environmental management systems that conform to the ISO 14001:1996 standard have been set up at all mining, manufacturing and grid companies.

Environmental impact of oil shale mining

Oil shale comprises 95% of the fuel necessary for production of electricity. Mining of oil shale is the province of the Eesti Energia company AS Eesti Põlevkivi, which consists of the parent company and three subsidiaries. In addition to Põlevkivi Kaevandamise AS's two mines and two quarries, the group also includes a railway transport company and a machining-metallurgical company.

As of 1 May 2005, there are 510.9 million tons of active oil shale reserves in the areas belonging to Eesti Põlevkivi companies, which at current production volumes will be enough for thirty years. In 2004, 13.1 million tons of commercial oil shale was mined. Since 1916, nearly 1 billion tons of oil shale has been mined in Estonia, and there will be enough of this combustible mineral for more than a hundred more years.

Up to 30 meters in depth, oil shale is quarried (open-pit mines). In underground mines, room-and-pillar mining is used, where the "ceiling" is held up by column-shaped pillars. Shrink in open-pit mining is 8.9%, and 27.6% in room-and-pillar mines. Mining methods where the integrity of the surface of the earth is compromised are no longer used today.

The mineral obtained in mines and Aidu quarry undergoes enrichment. Waste rock is cast off into dump heaps. In 2004, 4.3 million tons of waste rock accumulated in heaps at mines. At Narva quarry, limestone sediments are cast off into heaps during the mining process. At Aidu quarry, waste rock obtained during enrichment is sent back to the quarry heaps. Over the years a total of over 180 million tons of production surplus has accumulated into the "hills" of waste rock that characterize the terrain of Ida-Viru County. Part of the material is used to produce gravel and filler for road construction use.

The area mined in oil shale quarries is predominantly levelled and replanted. In 2004, 121 hectares of mined area were reforested. In restoring mined areas, fields have been created and small ponds retained. A total of 11,400 hectares of land has been restored in AS Eesti Põlevkivi quarries since the beginning of operations, including forested area of a total of 10,200 hectares and 169 hectares of agricultural land.

In the mining process, the ground water level is lowered to below the level of the oil shale layer. The water pumped out is routed through ditches and rivers to the Gulf of Finland and some to Lake Peipsi as well. In connection with long mild spells in December 2004 and January 2005, the amount of water removed from mines and quarries rose significantly. A total of 238 million m^3 of water was pumped out, 25 million m^3 more than in the previous financial year. Mining water undergoes filtration (primarily of suspended solids) in settling pools. Mining water does not have a major impact on natural water composition, with only sulphate concentrations increasing significantly.

Wells in the immediate vicinity of mining work that are higher than the mine level have gone dry. To supply villages with water, water pipes have been laid and deep wells drilled. In 2004, 0.5 million euros was spent on alternative drinking water supply arrangements.

To prevent mining from having an impact on the groundwater and lake levels of the Kurtna preserve, mining work in the Viivikonna district of Narva quarry will be continued according to a special project. The work is divided into small lots, and seepage barriers and infiltration pools constructed, allowing maximum exploitation of oil share reserves on the border of the preserve.

Following the closing of exhausted mines in the northern part of the deposit, the level of groundwater has risen, approaching the natural pre-mining level. A monitoring network has been set up in the mining area, with over 100 drilled holes and ground water locations under observation. Water samples taken from old mines show a marked decrease in sulphate concentrations, even to below the levels established for drinking water.

In May 2004 AS Eesti Põlevkivi organized a traditional environment day for its companies' environmental employees, scientific institutions that have worked with the firm and environment officials from county and municipality governments, on the very salient topic of mining and protected areas, which primarily looked at the feasibility of oil shale mining in the vicinity of natural preserves and Natura 2000 areas.

Environmental effects of energy production

Energy (heat and electricity) are produced at Eesti Energia by AS Narva Elektrijaamad with its two oil-shale-based power plants (Eesti Power Plant, Balti Power Plant), the gas-based Iru Power Plant, the oil-shale-based Ahtme Power Plant operated by Kohtla-Järve Soojus, the Linnamäe and Keila-Joa hydroelectric plants, and the wind turbine in Virtsu. Balti, Iru and Ahtme power plants work in "combined" mode, which means they produce heat as well as electricity simultaneously. Eesti Power Plant produces only electricity.

Energy is usually derived from solid and liquid fuels by way of gasification and combustion. As a result of the process, the heat derived is either transformed to electricity or delivered to consumers in the form of heat. The process is similar for both fossil fuels and renewable bio fuels. The greatest environmental effects of the stage are related to atmospheric pollution, but an impact is also felt due to the storage of solid residuals.

With regard to air pollution, the following major pollutants should be considered:

- SO_2 emissions. A high atmospheric content of sulphur dioxide can increase acidity of precipitation and create acid rain. Acid rain has an effect on forests along with other parts of the environment, and may have an especially serious impact on sensitive plant species, which may be destroyed.

Electric and thermal power production in Eesti Energia

	Electricity	Heat
1997	8,046 GWh	2,974 GWh
1998	7,409 GWh	2,742 GWh
1999	7,235 GWh	2,424 GWh
2000	7,389 GWh	2,613 GWh
2001	7,351 GWh	2,219 GWh
2002	7,403 GWh	2,657 GWh
2003	8,912 GWh	2,593 GWh
2004	9,005 GWh	2,392 GWh

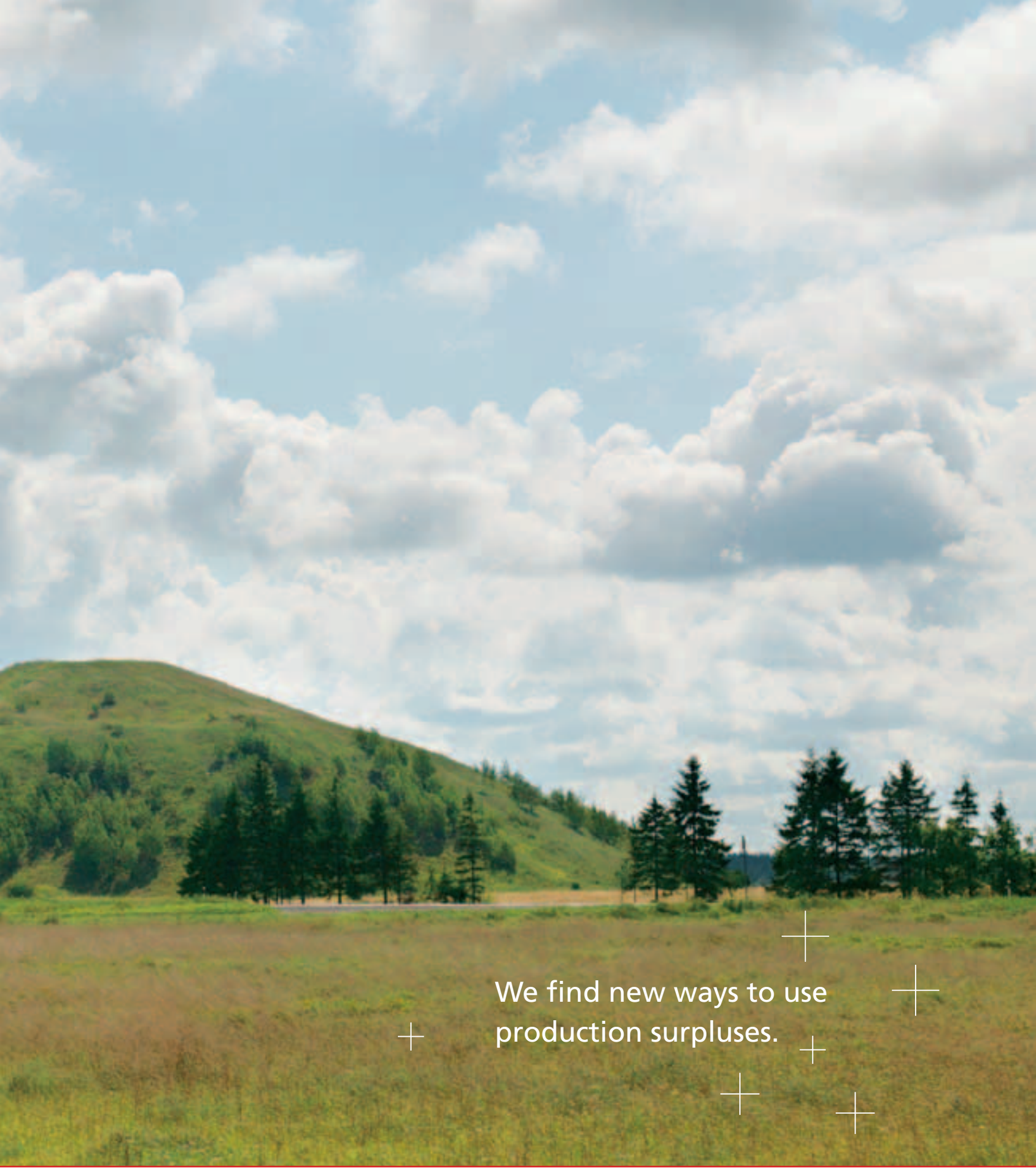
- NO_x emissions have an impact similar to that of SO_2 emissions, but additionally nitrogen is a significant fertilizer and can cause eutrophication (proliferation of vegetation in water bodies), which has an effect on the diversity and quality of bodies of water. The level of NO_x emissions from oil-shale-based power plants is very low compared to similar coal-based plants

- CO_2 emissions create a carbon dioxide surplus in the atmosphere and cause a greenhouse effect, resulting in a raise in average atmospheric temperatures. CO_2 is naturally present in the air and is a significant component in the process of photosynthesis, the production of new biomass. In addition, a certain amount of CO_2 is absorbed by major bodies of water. CO_2 becomes a problem when concentration begins to increase in comparison to the natural level. In the last few decades, a significant rise in atmospheric CO_2 has been detected, a clear sign that nature is not keeping up with the amount of CO_2 being released.

- Fly ash, the only atmospheric pollutant that can be made out with the naked eye, causes respiratory disorders and lung diseases. The concentration of solid particulates in the layer of air close to the ground is limited, including that of fly ash. The environmental impact of fly ash depends in great measure on the fuel used by the power plant. Fly ash from power plants that use anthracite coal as a fuel has predominantly acidic properties and poses an additional acidic burden on the environment. The fly ash of power plants that use oil shale as a fuel is, however, alkaline. Alkaline fly ash works to neutralize acidic soils. In addition, it works to neutralize the acidic discharge of anthracite-coal-based power plants. This is apparently one reason why there is no acid rain in Ida-Viru County.

In the financial year 2004/05, Eesti Energia power plants released a total of 68,782 tons of SO_2, 11,578 tons of NO_x and 16,624 tons of solid particles. In absolute terms, these are significant quantities. But if we take into account the increase in production, this year saw a drop in all of the primary pollutants discharged into the atmosphere.

Kukruse “hill”, now a popular tourist attraction, features concrete steps to make the ascent easier.


We find new ways to use
production surpluses.

The currently most problematic group, SO_2, has decreased around 6,500 tons compared to the previous financial year. Solid particles have decreased around 4,100 tons from the previous financial year, NO_x by around 1,300 tons and CO_2 by around 380,000 tons. The main reason for the drop is the launch of two new fluidised bed technology-based boilers at Narva Elektrijaamad. The new boilers have reduced SO_2 to practically zero. The new technology is also more effective, since it uses less fuel and consumes less electrical energy. Along with the lower decomposition rates of the carbonates (limestone) found in oil shale, the technology makes the new boilers give off less CO_2. Thanks to new and more modern exhaust filtering equipment, the amount of fly ash released into the atmosphere is also less. Based on all of the above results, the new blocks–based on the circulating fluidised bed technology and running on oil shale–are in line with all EU environmental requirements. On the strength of data received in the course of the renovation of the first boiler, it is possible to continue the renovation of the other major oil-shale-based combustion chambers in order to significantly reduce the burden placed on the environment while preserving optimal productivity. Thus we will be able to comply with our obligations to the European Union, which will be fully implemented after the end of the transitional period in 2016.

Iru Power Plant is currently running on 100% natural gas, which is currently considered the most environmentally friendly and efficient non-renewable type of fuel. Based on the smaller production volumes, but the cleaner fuel as well, the amounts of exhaust gas given off by the Iru plant are smaller, and there is no sulphur or solid particulate problem. Yet the equipment at Iru plant require renovation, since today the amount of NO_x discharged is nearly twice as high as the norms established by the European Union.

Alongside air pollution, the treatment of solid waste is the most important environmental issue associated with energy production. With the exception of natural gas, ash or mineral waste is formed to a greater or lesser extent whenever any fuel is burned. A unique feature of oil shale is its high level of mineral substances; around 45-50% of the original mass is left following combustion. The ash formed at Narva Elektrijaamad and Ahtme Power Plant is deposited in ash fields next to the power plants. Hydro transport is used to convey the large quantities of ash. The situation is made more complicated by the fact that the oil shale ash contains a high concentration of CaO–unslaked lime, which reacts with the transport water and renders it alkaline. For this reason, closed systems are used for ash disposal: the transport water is re-circulated and does not come into contact with the environment. Surpluses of water created by precipitation are neutralized and processed as required, then rerouted to an environment that conforms to the terms and conditions specified in the environmental permits. Taking into account the large amounts of water that circulate in the system, the risk of environmental contamination with basic water is a persistent one in the event of an accident or technical problem. Under requirements deriving from European Union legal acts, the current ash disposal system will have to be replaced. To this end, it is planned to convert ash disposal to a new semi-dry fine pulp technology and clean up the current ash fields. The changes will markedly decrease the quantities of circulating water and new bodies of water created by precipitation. This in turn will make the whole system more secure.

Oil shale ash can also be put to other uses, and Narva Elektrijaamad is involved in developing such applications. Oil shale ash obtained from the production of electricity can be used in the construction materials industry as a raw material, for example, as an additive in the manufacture of cement, in producing construction materials and as a filler material. Since oil shale ash has alkaline properties, it is also used to neutralize acidic soils.

Water is used in power plants as a cooling liquid as well as to conduct heat in combined-mode plants. Natural surface water from nearby bodies of water is used in all power plants. When cooling water is used, the environmental effects include a rise in the temperature of surface water in connection with rerouting the water used for cooling back into the environment. The cooling water used by Narva Elektrijaamad raises the temperature of surface water up to an estimated 7 degrees per year. The new fluidised bed technology will also reduce the amount of water necessary for cooling.

Lately there has been much discussion over whether the production units that use renewable sources of energy have an impact on the environment, and if so, what the effects are. Wind energy is seen by some as a danger to birds and bats. Wind turbines also have an aesthetic effect–such installations may not grace every landscape–and create low-frequency noise. Wind turbines used by Eesti Energia should conform to the current environmental and health safety requirements. Environmental effects in the case of hydro plants involve ground problems arising from blocking and swelling bodies of water and

Atmospheric emissions

	2004	2003	2002	2001	2000
Sulphur dioxide (t)	67,966	81,618	65,640	69,655	74,447
Nitrogen dioxide (t)	11,606	13,524	11,008	11,149	10,323
Particulates (t)	17,111	21,736	25,082	46,056	47,841
Carbon monoxide (t)	11,800	12,393	10,967	8,897	8,209

hindering the movement of fishes, especially rare species. Eesti Energia has been involved only with restoring existing old hydro plants–new dams and catchment ponds have not been built and existing ones have been renovated in line with all requirements. Any disruptions in the course of construction work have been compensated with corrective environmental action on the rivers affected.

Environmental impact of transmission of electricity

Discussing the environmental impact of the energy industry without considering the effect of electrical transmission would be leaving the picture incomplete. Transfer of electricity is important since electricity reaches every consumer through high and low-voltage lines. In reality we do not realize how many different types of devices and cables are required for each consumer to use electricity. The Jaotusvõrk alone has a total of around 53,000 km of aerial, 8,000 km buried cables and over 18,000 substations. The Põhivõrk has an additional approximately 5,200 km of high-voltage aerial lines and around 140 substations.

Electrical networks, too, have an effect on the environment, although this effect is different from those of the other stages described so far. The following environmental influences should be noted:

- Restrictions on use of the land underneath distribution and transmission lines. The area under lines and the surroundings should be maintained and kept free of higher plant cover. Forestry issues related to line maintenance crop up from time to time.
  The construction of security zones that are sufficiently free of trees is necessary to ensure safety and reliability, as we saw vividly during the storm in early 2005.
- In addition to usage restrictions, aerial lines and substations are visually unappealing and often it is necessary to cut down forest or do excavation work in order to build these, which reshapes the natural setting significantly.
- The devices in substations, mainly transformers and the main components of aerial lines, produce noise in the surrounding area. Noise becomes a problem especially when residential areas are located in the vicinity of aerial lines or substations.
- Electromagnetic fields that may affect many aspects of life are created in the immediate vicinity of high-voltage transmission lines and substation equipment. Many studies have been conducted with regard to their effects, but no conclusive answer as to the precise effect the electromagnetic fields have on living organisms has been received. To reduce the possible effects, restrictions have been established on development in the possible danger zone of high-voltage devices and cables.
- Special lubricants or transformer oils are used as an insulator in substations. In case of leak or accident there is a possibility that the oil will come into contact with the environment and cause contamination of the surface and groundwater. Transformer oils are also associated with such environmentally harmful substances as PCBs and PCT. Oils and transformers containing these elements have never been used in the Põhivõrk. There are still PCB- and PCT-containing transformers in two places in the Jaotusvõrk. They were acquired when former Soviet army substations were repossessed and are accounted for separately. According to current plans, the PCB- and PCT-containing devices should be finally removed according to requirements by 2010 at the latest.
- In repairing, renovating or liquidating transmission lines, a noteworthy amount of refuse is produced (primarily posts) which needs to be handled accordingly.

Constant, systematic work is performed to alleviate all of the environmental effects described. A more stringent and thorough set of rules for work in maintaining lines and clearing forest has been adopted. In addition, negotiations have been held with various interest groups in order to find and implement solutions that satisfy all of the parties. To reduce unsightliness and noise, a shift is being made to buried cable. There are still certain restrictions on land use in the case of the latter. In building substations, the use of more compact and quieter devices is favoured, which in turn reduces the bulk of substations.

As for devices that use oil, here, too, a shift is being made to environmentally safer solutions. If this is not possible, the necessary security systems are built in the form of safety pools, oil separators and collectors. In developing and constructing safety systems, we try to find the optimised end result not only from the standpoint of security but maintenance costs. The few remaining and separately-accounted-for PCB devices are being removed according to a coordinated schedule.

Eesti Energia's activities naturally affect the environment, but every day we work to reduce the effects, and major sums have been invested to remedy the situation.

Energy conservation activities

Compliance with the energy conservation information plan launched by the supervisory council of Eesti Energia on 29 September 2001 continued in 2004. Energy conservation in the broader sense is a holistic approach that ranges from fuel production and delivery (manufacturing/mining of resources, transport, storage, transformation into energy, distribution) to rational and conservationist consumption. Energy conservation also helps reduce environmental pollution.

To propagate energy conservation, Eesti Energia in cooperation with AS Enprimo Estivo launched in autumn 2004 the Internet-based energy conservation portal www.kokkuhoid.energia.ee, which contains authoritative and well-presented information on pertinent products, technologies and measures.

The website offers both household and industrial consumers reliable information on changing their consumption habits, views and values. The portal has a feedback page for viewer comments, suggestions and energy conservation-related questions.

In 2004, Eesti Energia continued the traditional energy conservation contest for non-profit organizations. Interest in the contest was great and 13 projects were received, of which the jury selected the two best and the project that would receive support. The criteria for the selection were the extent of the project and the effectiveness of the measures for developing energy conservation measures and raising consciousness as well as achieving realistic energy conservation. The total support fund was 6400 euros (100,000 kroons).

The following projects shared the fund in the 2004 competition: the Juventus youth movement's "Conservation Mosaic", the goal of which was to instil a conservationist ethos in the youth of the town and region of Põltsamaa, and a project from MTÜ Virumaa Teabekeskus, "Forming consumption habits at school and at home", which was aimed at young people living outside Tallinn. Both of the projects will be realized during 2005.

In addition, there was active cooperation with the Estonian Green Movement on the project "The bicycle became a power plant", which gave students of Tallinn's secondary schools information on the production and nature of electricity, and on the necessity and impact of energy conservation. The Ministry of the Environment recognized this project at the end of 2004 as a significant environmental action. Cooperation has also taken place in the field of distributing energy conservation-related information together with the Energy Centre in Tallinn.

The issue of energy conservation is becoming more important with each passing year, since growing energy consumption can no longer be covered by increased production volumes. Both industrial and private consumers must start using energy more thriftily and thereby contribute to slowing the growth of energy consumption. Eesti Energia will continue its activity in this field in the future as well.

ISO 14001 and Eesti Energia

From 2002 on, the Eesti Energia group has systematically been engaged in introducing environmental management systems, which conform to the ISO 14001:1996 standard. One of Eesti Energia's primary environmental goals is to introduce environmental management systems that conform to ISO 14001 in all of the group's manufacturing companies and units.

The International Standards Organization (ISO) standard 14001:1996 describes the requirements to which a company's environment-related management is subject. Conformity to the requirements of the standard is assessed by independent auditors accredited for that purpose by accreditation organizations. In the event that the auditors do not find any conflicts between the requirements of the standard and the actual events at the company, the company is issued a corresponding certificate.

The environmental management system certificate does not directly prove that the products produced by a company are environmentally friendly. Nor need the certificate mean that a company does not have any environmental problems. Still, a certificate is a sure sign that the company is conscious of its relationship with the environment, has outlined its environmental policy, identified important environmental aspects and is involved in improving the situation. ISO 9001:2000 and its outgrowth, the ISO 14001:1996 standard, are united by the principle of continual improvement and preventive actions, which have been recognized as effective in environmental protection and the right approach to solving problems.

2004 was a breakthrough year in implementing environmental management systems in the Eesti Energia concern. The pilot project launched back in spring 2002 achieved success on 17 December 2002, when the Põhivõrk's environmental and quality management system was certified by Bureau Veritas Quality International (BVQI). The experience gained was actively adopted in designing the environmental management systems of the group's other companies and preparing them for certification.

The environmental and quality management system for the companies in the Estonian Oil Shale Company – AS Põlevkivi Raudtee, AS Mäetehnika and Põlevkivi Tootmise AS (production units the Estonia and Viru mines, Aidu and Narva quarry)–was certified by Det Norske Veritas on 5 May 2003.

Following this, an environmental management system conformity certificate was issued to Iru Power Plant on 30 June 2004 by AS Metrosert. Iru Power Plant is also taking part in the pilot project for Europe's environmental management and audit system (EMAS).

AS Energoremont's environmental management system was certified on 4 September 2004 by Lloyd`s Register Quality Assurance Ltd.

(LRQA OÜ Jaotusvõrk environmental and quality management system was certified by BVQI on 2 December 2004. Televõrgu AS environmental and quality management systems were certified on 21 March 2005 by LRQA. Implementation of the environmental management system at Eesti Energia attained a new level with the certification of the system of Narva Elektrijaamad on 14 April 2005 by Metrosert Ltd.

By the end of the 2004/2005 financial year, the environmental management system had been implemented and certified in a major part of the manufacturing companies of the Eesti Energia group. Implementation of the system is sure to be continued next year in those companies where it has not yet taken place. The final goal of implementing an environmental management system in conformity with the requirements of ISO 14001:1996 should be the creation of a unified environmental management system covering the entire group. There is still a long way to go.

In addition to successful implementation of the environmental management system in 2004, the Eesti Energia group's new environmental policy–in conformity with the requirements of the ISO 14001:1996 standard–was formulated.

Renewable energy and Green Energy

In addition to producing electricity from oil shale and natural gas, in the 2004/2005 financial year energy was also produced at Eesti Energia from renewable sources. Eesti Energia currently administers Estonia's largest hydroelectric power plant at Linnamäe. In addition, the Keila-Joa hydroelectric power plant also resumed electricity production at the beginning of 2005. In the future, the Põltsamaa hydroelectric power plant is to be restored as well.

Besides hydroelectric energy, the potential for which is limited in Estonia, Eesti Energia also uses one wind turbine at Virtsu. A wind turbine-diesel power plant is planned to be built on the island of Ruhnu. Preparatory studies are under way to build a large wind park on the Baltic Power Plant ash field, which is to be closed. When the plan to renovate the Ahtme Power Plant and adapt it to peat and biofuel becomes a reality, the amount of electricity produced from renewable sources should increase even further in the future.

Due to the last financial year's rainy summer and autumn, electricity production at the Linnamäe hydroelectric power plant was record-breaking. Compared to the projected annual average production volume of 6.9 GWh, 8.4 GWh of electrical energy was produced in the 2004/2005 financial year. All told, Eesti Energia's renewable energy unit produced 10.4 GWh of electricity in the 2004/2005 financial year. Of the total Estonian hydroelectric plant output (23.1 GWh), Eesti Energia provided 35% (or 8.2 GWh). The Virtsu wind turbine accounted for 22% (1.7 GWh) of the total electricity produced from wind (7.7 GWh).

To support and promote the production of electricity from renewable sources, the Green Energy project was launched in 2001 in conjunction with Eesti Energia, the Estonian Fund for Nature and hundreds of supporters. It is a stakeholder scheme to support and promote renewable energy. Buyers of Green Energy use electricity produced from renewable sources of energy (wind, or water) and thereby support the wider adoption of renewable energy sources in Estonia.

Due to the physics of delivery of electricity, consumption of Green Energy is conceptual. Renewable energy from various producers is supplied to a single network and it reaches the consumer along with electrical energy produced from oil shale. At the same time, precise accounting is kept regarding the quantities of Green Energy – the amount of Green Energy sold per year does not exceed the amount of renewable energy sold via the Eesti Energia Jaotusvõrk. Thus it is guaranteed that every Green Energy kilowatt sold is in actuality covered with renewable energy. Green Energy, primarily produced from wind and water, is an image and status product, which shows the environmental consciousness of

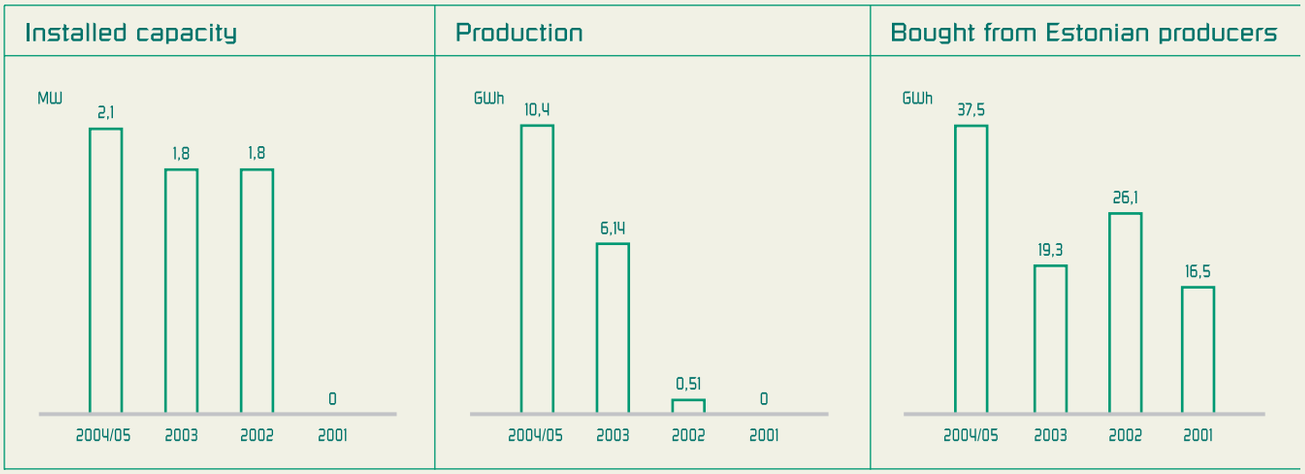
buyers and their sense of social responsibility. In the 2004/2005 financial year, Eesti Energia sold 2,626,800 kWh of Green Energy.

Green Energy certificates were sold as follows:

- RE I category certificate, 120,000 kWh renewable energy per year – 5
- RE II category certificate, 60,000 kWh renewable energy per year – 14
- RE III category certificate, 6,000 kWh renewable energy per year – 157
- RE home client certificate, 1,200 kWh renewable energy per year – 190.

In 2004, cooperation with educational institutions increased in order to introduce environmentally friendly production of electricity and conservational consumption and this will be one of the primary priorities in years to come.

All buyers of Green Energy also made their contribution to the renovation of the Keila-Joa hydroelectric power plant, which was completed in spring 2005. Revenue from the sale of Green Energy was channelled into cooperation with the Estonian Fund for Nature to promote the adoption of renewable energy and environmental conservation.



Ecological Laboratory of Eesti Energia

The company performs systematic and regular monitoring in order to evaluate the company's environmental effectiveness. Pursuant to current legislation, a major part of Eesti Energia's companies must have dedicated monitoring equipment and those that do not must conduct regular assays for various polluting substances. Pollutant readings are a basis for calculating pollution fees, and they are also necessary for gauging the company's effectiveness in the environmental field. For the optimal and flexible organization of monitoring, there is an ecological laboratory at the environment department of Eesti Energia Support Services.

The ecological laboratory was founded in August 1992 to measure objectively the amount of environmentally deleterious waste discharged into the atmosphere by Eesti Energia companies and thus gain a better understanding of the impact the group has on the environment. In addition to taking direct readings, the laboratory is charged with managing the methods used in measuring the waste generated by Eesti Energia companies and testing new or reconstructed measurement and monitoring equipment. From 1994 the laboratory has been taking both pollutant and workplace readings for other companies and individuals besides the companies of the Eesti Energia group. To ensure an impeccable standard for the readings, the laboratory was accredited by the Estonian Accreditation Centre on 3 July 2001 and accreditation certificate no. L052 has been issued as verification.

For the more flexible and efficient organization of work, technicians have access to a mobile laboratory that allows quality measurements to be made throughout the entire country.

The current procedures are within the scope of the laboratory:

- Environmental protection measurements at companies, measurements of the working environment at companies and private contractors
- Consultations for reducing harmful discharge for tested boiler arrangements and for optimising the combustion process
- Determining the sulphur content of fuel by making, or participating in, comparative inter-laboratory measurements
- Maintenance and calibration of monitoring devices for gaseous discharge.

In connection with new environmental requirements established on accession to the European Union providing compulsory fixed monitoring for major combustion devices, 2004 was characterized by a reduced number of periodic measurements with regard to these very devices. As a result, the laboratory focused on calibrating automated measurement systems and quality management as dictated by the standard, performed by comparative measurements (QAL 2).

Working environment

Electricity plants and grid companies have many different professions and workplaces with conditions that are harmful to health, dangerous or difficult, with physical, chemical, biological, physiological and psychological risk factors.

The main risk factors at electricity plants are dust content in air, noise, vibration, chemicals, air temperature, drafts and moisture. The most severe and deleterious working conditions are those at oil shale electricity plants–employees are exposed to oil shale dust, oil shale ash and asbestos. In years past, insulating material containing asbestos was used to insulate vats and turbine components, which can cause respiratory disease when they are released into the air. A concentration of dust that is several times greater than the allowable limits has been detected in vat repair areas.

We implement many measures to reduce the health risks from risk factors established in risk analysis:

- Improving the technical condition of equipment and continually monitoring their performance;
- Replacement of insulation containing asbestos with safer alternatives when repairing equipment;
- In constructing the new fluidised bed blocks for the Balti and Eesti power plants, we avoided insulation containing asbestos entirely, and insulation containing asbestos in the old pipes and devices serving these blocks was replaced with safer alternatives.

To ensure safe working conditions, employees are equipped with appropriate protective clothing and other equipment.

The working conditions for electrical grid employees are quite difficult, since work in outside conditions (climate, high places, ticks) and with high voltage is quite stressful. Here too employees are provided the appropriate protective clothing, footwear, tools and safety devices.

To inspect the safety and technical situation of electrical installations, a consistency and working environment department has been accredited. It performs technical inspections in accordance with procedure established by law. Employees undergo health checkups as required by law.

Pursuant to legislative requirements in the area of the workplace and occupational safety, and taking into account Eesti Energia's structural and operational connections in organizing work and use of equipment, a set of internal rules has been devised.

An occupational health and safety management system in conformity with the OHSAS standard 18001:1999 has begun to be implemented by the companies. In 2004, OÜ Põhivõrk and AS Eesti Põlevkivi were declared worthy of an OHSAS 18001:1999 conformity certificate.

We must find a compromise between the environment and people's needs.


We must be the stewards
of hope, passing it on to future
generations undimmed.

Financial statements

Declaration of the Management Board

The Management Board confirms the correctness and completeness of the financial statements of Eesti Energia AS (the parent company) and the consolidated financial statements of the parent company and its subsidiaries (the group) which have been prepared for the period 01.04.2004–31.03.2005 and set out on pages 48–82, and declares that, to the best of its knowledge:

- the financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS);
- the financial statements give a true and fair view of the financial position of the parent company and the group, and the results of their operations and cash flows;
- any known material circumstances that became evident before the date of preparation of the financial statements have been appropriately accounted for and presented in the financial statements.

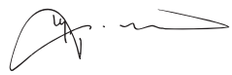
According to the Management Board, Eesti Energia AS and its subsidiaries are able to continue as a going concern.

These financial statements have been approved for issue by the Management Board on 31 May 2005.

Gunnar Okk
Chairman of the
Management Board

Sandor Liive
Member of the
Management Board

Lembit Vali
Member of the
Management Board



Mati Jostov
Member of the
Management Board

Marko Allikson
Member of the
Management Board

Balance sheet

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent company 31.3.2005	Parent company 31.3.2004	Note
ASSETS					
Current Assets					
Cash and cash equivalents	40,301	45,110	40,301	45,110	4
Available-for-sale financial assets	0	354	0	350	5
Trade receivables	49,891	46,046	40,471	37,607	6
Other receivables	85	85	248,749	163,647	7
Accrued income	2,194	1,742	1,358	1,362	8
Prepayments	1,716	916	420	346	9
Inventories	18,312	16,592	50	474	10
Total current assets	**112,499**	**110,845**	**331,348**	**248,896**	
Non-current assets					
Investments in subsidiaries	0	0	580,518	274,322	11
Investments in associates	2,701	2,756	128	614	12
Trade receivables	0	0	285,681	0	31
Property, plant and equipment	1,199,979	1,128,979	50,188	681,838	13
Intangible assets	2,494	2,494	2,485	2,485	14
Total non-current assets	**1,205,175**	**1,134,230**	**919,000**	**959,259**	
Total assets	**1,317,674**	**1,245,075**	**1,250,348**	**1,208,155**	
LIABILITIES					
Current liabilities					
Borrowings	2,374	1,192	2,364	1,182	16
Trade and other payables	89,982	85,886	99,774	75,940	17
Derivative financial instruments	2,672	4,468	2,672	4,468	18
Provisions	6,016	5,884	35	39	19
Deferred income	618	45	0	45	20
Total current liabilities	**101,661**	**97,475**	**104,845**	**81,675**	
Non-current liabilities					
Long-term borrowings	306,602	293,498	306,600	293,486	16
Provisions	18,593	20,186	261	270	19
Deferred income	50,709	38,468	0	38,468	20
Total non-current liabilities	**375,903**	**352,152**	**306,861**	**332,224**	
Total liabilities	**477,564**	**449,627**	**411,706**	**413,899**	
SHAREHOLDERS' EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	464,900	464,900	464,900	464,900	21
Share premium	259,833	259,833	259,833	259,833	
Statutory reserve	41,692	40,020	41,692	40,020	
Hedging reserve	(2,137)	(3,930)	(2,137)	(3,930)	18
Retained earnings	31,762	0	31,762	0	
Net profit for the period	42,594	33,433	42,594	33,433	
Total capital and reserves attributable to the Company's equity holders	**838,643**	**794,256**	**838,643**	**794,256**	
Minority interest	**1,468**	**1,192**	**0**	**0**	
Total shareholders` equity	**840,110**	**795,448**	**838,643**	**794,256**	
Total liabilities and equity	**1,317,674**	**1,245,075**	**1,250,348**	**1,208,155**	

Income statement

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group company 1.4.2003 - 31.3.2004	Parent company 1.4.2004 - 31.3.2005	Parent 1.4.2003 - 31.3.2004	Note
Sales	394,726	377,113	343,465	329,838	22
Other revenue	2,512	2,024	910	1,446	23
Government grant	181	120	51	83	24
Changes in work-in-progress and finished goods	(1,120)	3,020	0	0	
Materials, consumables and supplies	(121,391)	(120,485)	(314,773)	(245,758)	25
Other operating expenses	(36,933)	(38,571)	(8,121)	(12,977)	26, 27
Payroll expenses	(87,879)	(89,789)	(11,666)	(20,432)	28
Depreciation and impairment of fixed assets	(87,618)	(83,094)	(10,530)	(49,184)	13, 14
Other expenses	(1,114)	(705)	(380)	(210)	29
OPERATING PROFIT/LOSS	**61,365**	**49,633**	**(1,044)**	**2,806**	
Financial income and expenses					
Share of results of subsidiaries	0	0	11,772	37,876	11
Share of results of associates	827	1,121	0	(112)	12
Net interest expense	(19,459)	(17,707)	31,714	(7,054)	30
Foreign exchange gains	(3)	27	(5)	31	
Other financial income and expenses	140	(115)	157	(113)	
Total financial income and expenses	**(18,495)**	**(16,675)**	**43,638**	**30,627**	
NET PROFIT FOR THE PERIOD	**42,870**	**32,958**	**42,594**	**33,433**	
Attributable to:					
-Equity holders of the Parent Company	**42,594**	**33,433**	**42,594**	**33,433**	
-Minority interest	**275**	**(475)**	**0**	**0**	

Statement of changes in shareholders' equity

in thousands of euros	Capital and reserves attributable to the Company's equity holders							
	Share capital	**Share premium**	**Statutory reserve**	**Hedging reserve**	**Retained earnings**	**Minority interest**	**TOTAL**	Note
Balance as at 31.3.2003	**464,900**	**259,833**	**23,489**	**(4,474)**	**16,532**	**1,668**	**761,946**	
Transfer to statutory reserve	0	0	16,532	0	(16,532)	0	0	
Revaluation of cash-flow hedges	0	0	0	544	0	0	544	18
Net profit for the period	0	0	0	0	33,433	(475)	32,958	
Balance as at 31.3.2004	**464,900**	**259,833**	**40,020**	**(3,930)**	**33,433**	**1,192**	**795,448**	
Transfer to statutory reserve	0	0	1,672	0	(1,672)	0	0	
Revaluation of cash-flow hedges	0	0	0	1,793	0	0	1,793	18
Net profit for the period	0	0	0	0	42,594	275	42,870	
Approximation	0	0	0	0	0	0	1	
Balance as at 31.3.2005	**464,900**	**259,833**	**41,692**	**(2,137)**	**74,356**	**1,468**	**840,110**	

Additional information about share capital, share premium and statutory reserve is provided in Note 21.

Cash flow statement

in thousands of euros	Group	Group company	Parent company	Parent	Note
	1.4.2004 - 1.3.2005	1.4.2003 - 31.3.2004	1.4.2004 - 31.3.2005	1.4.2003 - 31.3.2004	
Cash flows from operating activities					
Net profit for the financial year	**42,870**	**32,958**	**42,594**	**33,433**	
Adjustments					
Depreciation and impairment	87,618	83,094	10,530	49,184	13, 14
Amortisation of connection fees	(1,545)	(1,288)	(324)	(1,288)	20
Profit from sale of property, plant and equipment	(373)	(562)	(151)	(510)	23, 29
Profit from sale of business unit	(449)	0	0	0	3, 23
Group's share of associates' profit	(827)	(1,121)	(11,772)	(37,763)	
Other profit from investments	(209)	0	(209)	0	
Profit from sale of financial investments	(1)	(6)	0	(6)	
Exchange gain from borrowings in foreign currency	(1)	0	(1)	0	
Interest expenses on borrowings	18,362	17,734	19,353	18,159	30
Interest income	(510)	(1,198)	(51,086)	(11,098)	
Adjusted net profit	**144,935**	**129,611**	**8,935**	**50,111**	
Net change in current assets relating to operating activities					
Loss from doubtful receivables	676	1,773	436	769	6
Increase in trade receivables	(4,482)	(1,596)	(3,888)	(968)	
Change in inventories	(1,745)	(4,991)	(74)	122	
Net change in other current assets relating to operating activity	(1,282)	8,030	(3,123)	51	
Net change in current assets relating to operating activities	**(6,834)**	**3,216**	**(6,649)**	**(27)**	
Net change in liabilities relating to operating activities					
Change in provisions	(1,790)	2,030	39	309	
Change in trade payables	3,596	(2,737)	(996)	(730)	
Net change in other liabilities relating to operating activities	2,765	925	29,285	1,557	
Net change in liabilities relating to operating activities	**4,571**	**218**	**28,328**	**1,136**	
Interest and loan fees paid	**(17,951)**	**(16,910)**	**(18,732)**	**(16,994)**	
Interest received	**514**	**1,407**	**50,633**	**11,307**	
Net cash flow from operating activities	**125,235**	**117,542**	**62,515**	**45,533**	
Cash flows from investing activities					
Purchase of fixed assets	(161,133)	(200,329)	(18,182)	(68,643)	
Proceeds from connection fees	13,786	10,316	2,261	10,316	20
Proceeds from sale of fixed assets	663	2,199	408	853	
Proceeds from sale of business units	1,945	0	578,805	0	3
Finance lease principal payments received	0	0	4,940	0	3
Dividends received from associates	1,009	1,139	0	0	12
Purchase of long-term financial assets	(128)	0	(293,994)	(128)	11, 12
Proceeds from sale of financial investments	5	6	614	6	
Change in overdraft to the subsidiaries	0	0	(367,722)	(57,045)	31
Loan repayments from subsidiaries	0	0	0	83	31
Net cash used in investing activities	**(143,852)**	**(186,669)**	**(92,871)**	**(114,557)**	
Cash flows from financing activities					
Proceeds from long-term bank loans	15,000	20,000	15,000	20,000	16
Repayment of long-term bank loans	(1,182)	(1,055)	(1,182)	0	16
Finance lease principal payments	(11)	(12)	0	0	16
Change in the overnight deposit received from subsidiaries	0	0	6,807	2,442	31
Change in the overnight deposit received from associates	0	0	128	0	
Short term loans received from subsidiaries	0	0	15,019	32,211	31
Repayment of short term loan from subsidiaries	0	0	(10,226)	(2,556)	31
Net cash used in financing activities	**13,808**	**18,933**	**25,546**	**52,097**	
Net increase/(decrease) in cash and cash equivalents	**(4,809)**	**(50,193)**	**(4,810)**	**(16,927)**	
Cash and cash equivalents at the beginning of period	45,110	95,303	45,110	62,037	4
Cash and cash equivalents at the end of period	40,301	45,110	40,301	45,110	4
Change in cash and cash equivalents	**(4,809)**	**(50,193)**	**(4,810)**	**(16,927)**	

Notes to the financial statements

1. Accounting Policies

Eesti Energia AS (hereinafter the Company or the Parent Company) is a company incorporated under the laws of the Republic of Estonia on 31 March 1998. The consolidated financial statements for the year ending 31 March 2005 include the financial information in respect of the Company and its subsidiaries (hereinafter the Group) and the Group's participation in associated companies. In order to comply with the Estonian laws and regulations, the financial statements of the Parent Company have also been presented.

Basis of preparation

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).
The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and derivatives, which have been accounted for at fair value.
Group companies use the same accounting principles in all material aspects. In case the accounting principles are changed, the comparative data from previous periods is also changed retrospectively.

Functional and presentation currency

(a) Functional currency
The Parent Company and its subsidiaries use the currency of their primary economic environment – the Estonian kroon – as the functional currency.
(b) Presentation currency
For the convenience of the users, these financial statements have been presented in euros, rounded to the nearest thousand, unless stated otherwise. As the Estonian kroon is pegged to euro at the fixed exchange rate of 1 euro = 15,6466 Estonian kroons, no currency translation differences arise from the translation of kroons to euros.

Changes in accounting principles

The following standards revised during 2003 have early been adopted for the preparation of the financial statements of the Group and the Company:
IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events After the Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures

The adoption of all abovementioned standards was first applied in preparation of the financial statements for the period ending 31.3.2004. These abovementioned standards shall become obligatory for the Group for the financial year beginning on 1 April 2005. The early adoption of the above standards caused no significant changes to the existing recognition and measurement policies and had no impact on the profit of the Group or the Company. However, the adoption of the above revised standards has resulted in certain changes in the disclosure and presentation of financial information.

The Group has adopted for the first time in this financial period the standards IAS 36 (revised 2004), IAS 38 (revised 2004) and IFRS 3, which became obligatory for the Group from 1 April 2004. The main impact of the adoption of these standards is related to the accounting for goodwill. According to the new standards the amortisation of goodwill shall be ceased and from the adoption year onwards, goodwill will be annually tested for impairment.

No early adoption has been made for the standards IAS 27 (revised 2003), IAS 28 (revised 2003), IAS 32 (revised 2003) and IAS 39 (revised 2003). The adoption of these standards becomes obligatory for the Group from 1 April 2005. The adoption of IAS 27 (revised 2003) and IAS 28 (revised 2003) will result in the termination of using the equity method of accounting for investments in subsidiaries and associates in the stand-alone financial statements of the Parent Company. According to estimations, the value of investments in subsidiaries will decrease by 36 million Euros. The adoption of IAS 32 (revised 2003) and IAS 39 (revised 2003) may cause limited changes to the accounting and disclosure of financial instruments.

Neither has there been an early adoption of IFRIC 3, developed by International Financial Reporting Interpretations Committee, which covers the emission rights of greenhouse gases calculation and IFRS 6, which covers the accounting for expenses of new mine facilities. The adoption of IFRIC 3 becomes obligatory from1.4.2005 and the adoption of IFRS 6 from 1.4.2006.

According to IFRIC 3, the company must recognise pollution quotas of greenhouse gases as intangible assets. Pollution quotas allocated by the State shall be recognised at fair value and recorded as government grant. Government grant will be amortised to income proportionally to the issued emission in the reporting period. Emissions made shall be recorded in the accounting period at the current market value as an expense in the income statement and as a provision in the balance sheet. According to IAS 38, the Group has a choice between recording the intangible asset at historical cost or revaluation method. According to the initial estimates of the Group, the adoption of IFRIC 3 will result in an increase of assets and liabilities of around 194 million euros.

Consolidation

(a) Subsidiaries
Subsidiaries, which are those entities, where the Group has control over the financial and operating policies of the entity, are consolidated. The existence of control is assumed when the Group's share in the subsidiary is more than 50%.
Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases.
The purchase method of accounting is used to account for the acquisition of subsidiaries, except for the transactions between entities under common control. The excess of the cost of the acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.
In preparing the consolidated financial statements, the financial statements of the parent and its subsidiaries are combined on a line-by-line basis. Intragroup balances and intragroup transactions and resulting unrealised profits and losses are eliminated in full.

In the Parent Company's financial statements the investments in subsidiaries are accounted for using the equity method. Under this method the unrealised gains and losses on transactions between the Group and its subsidiaries are eliminated to the extent of the Group's interest in the subsidiaries.
The current accounting treatment will be changed from 1 April 2005, when

the Company applies IAS 27 (revised 2003). Under that revised standard, in the stand-alone financial statements of the Parent Company, the investments in subsidiaries shall be accounted for either at cost or fair value.

(b) Associates

An associate is an investment, over which the Parent Company has direct or indirect significant influence, but not control over the financial and operating policies. Significant influence is assumed to exist when the Group's share in the entity is 20-50%.

Group's share in the associates' results is accounted for from the date on which significant influence is obtained by the Group and it is no longer accounted for from the date when significant influence ceases.

Investments in associates are accounted for by the equity method in the Group's as well as the Parent Company's financial statements.

Under this method the unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

In the stand-alone financial statements of the Parent Company, the current accounting treatment will be changed from 1 April 2005, when the Company applies IAS 28 (revised 2003). Under that revised standard, in the Parent Company's financial statements, the investments in associates shall be accounted for either at cost or fair value.

The Current/Non-current Distinction

In the balance sheet, assets and liabilities are classified as current or non-current. The assets are regarded as current if they are expected to be realised, or are held for sale or consumption within one year or in the course of the normal operating cycle. The liabilities are regarded as current if they are due to be settled or are expected to be settled within one year or in the course of the normal operating cycle. All other assets and liabilities are regarded as non-current.

Cash and cash equivalents

Cash and cash equivalents (monetary stock) include:

- Cash in hand;
- Bank account balances and cash in transit;
- Short-term deposits in banks (with the remaining maturity of up to 3 months);
- Holdings in highly liquid money market and interest funds.

The spare cash is invested into highly liquid money market and interest rate funds in order to earn interest income. The holdings in funds are carried at market value and are regarded as cash and cash equivalents because of their high liquidity. The difference between the cost and the market value is recorded in the income statement as financial profit or loss.

Investments in Shares and Securities

Investments in shares and securities (except for the investments in subsidiaries or associated companies, which are either consolidated or accounted for by using the equity method) are presented either as short-term or long-term investments depending on the estimated timing of their realization. Investments that are expected to be held for more than one year are considered as long-term.

Investments held for trading and available-for-sale assets are normally carried at their fair value. Changes in the fair value are recorded in the income statement as financial income or expenses. If the fair value of available-for-sale investments cannot be determined reliably, the investments are carried at cost less any impairment write-downs.

Purchases and sales of financial investments are recognised at the settlement date.

The Group has no investments in held-to-maturity securities.

Customer Receivables

Trade receivables are carried at the original invoice amount less a provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Long-term accounts receivable are recorded at the present value of the recoverable amount. The difference between the nominal value and the present value of the receivable is recognised as interest income over the period until the account receivable is collected.

The estimated collectibility of accounts receivable is assessed on an individual basis for each customer. In case individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables with similar credit risk characteristics and are collectively assessed for impairment, using previous years' experience on impairment. The receipt of the receivables that have been previously written down is accounted for as a reduction of operating expenses.

Inventories

Inventories are stated in the balance sheet at the lower of acquisition cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The write down of inventories is recorded in the income statement as an operating expense. Cost is determined using the weighted average method.

Raw materials are recorded at the acquisition cost consisting of the purchase price, transportation costs and other direct costs related to the purchase. The acquisition cost of work-in-progress and finished goods is the average production cost that is calculated based on direct and indirect production expenses. Marketing, non-production overhead and financial expenses are not capitalised.

Property, plant and equipment

Property, plant and equipment (PPE) are tangible items that are used in operations with a useful life of over 1 year. PPE are presented in the balance sheet at the net carrying amount, which is the cost less depreciation and impairment.

(a) Cost

The cost comprises of the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed items of PPE includes the cost of materials, services and workforce.

If an item of PPE consists of components with different useful lives, these components are depreciated as separate items. Homogenous items with similar useful lives (e.g. electricity and heating networks, software and hardware) are accounted for in groups.

Borrowing costs are not capitalised.

(b) Depreciation

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Estimated useful lives are regularly reviewed during annual counts, in case of renovations and as a result of material changes in development plans. If the estimated useful life of the asset materially differs from the previous estimation, the remaining useful life of the asset is changed, resulting in a change in the depreciation expense of future periods.

The useful lives for PPE used by the Group are as follows:

	Useful life of new fixed assets	Derived actual average useful life*	
		1 April 2004 - 31 March 2005	1 April 2003 - 31 March 2004
Buildings	25-40 years	29.2 years	31.0 years
Electricity lines	33-60 years	26.9 years	26.3 years
Other facilities	10-30 years	18.5 years	20.9 years
Transmission equipment	7-25 years	17.8 years	17.5 years
Power plant equipment	7-20 years	15.9 years	15.8 years
Other machinery and tools	3-20 years	9.3 years	8.8 years
Other fixed assets	3-10 years	5.5 years	6.3 years

* Average acquisition cost of the fixed assets in use / depreciation of the reporting period

(c) Impairment of assets

The assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount is the higher of the asset's:

- Net realisable value;
- Value in use.

In case the net realisable value of the asset cannot be determined reliably, the recoverable value of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.

Impairment test is carried out when any of the following indicators of impairment exist:

- the market value of similar assets has decreased;
- the general economic environment and the market situation have worsened, and therefore it is likely that the future cash flows generated by the assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has considerably impaired;
- the revenues and cash flows generated by an asset or a cash generating unit are lower than expected;
- the activities of a cash generating unit are planned to be terminated.

Impairment tests are performed either for an individual asset or group of assets (cash generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows generated by other assets or groups of assets.

If after the impairment test there are indications that conditions have changed, the test would be repeated. According to the results of the assessment, the write down can be partially or wholly reversed.

The write down is recorded together with depreciation in the balance sheet.

(d) Improvements, repair and maintenance

Expenditure is added to the cost of the asset if it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Expenditures, which only restore the initial level of performance, are expensed and presented as repair and maintenance costs in the income statement.

Leases

Lease transactions where the lessee retains all the material risks and rewards connected with the ownership of the asset are accounted for as finance leases. All other lease transactions are accounted for as operating leases.

(a) A Group company is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding.

The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) A Group company is the lessor

The Group has no assets leased out under the terms of the finance lease. Items of property, plant and equipment leased out under operating leases are accounted for using the same accounting principles as in the case of other similar assets. Rental income is recognised on a straight-line basis over the lease term.

Intangible Assets

Intangible assets are recognised in the balance sheet only if the following conditions are met:

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

Intangible assets are depreciated using the straight-line method over the useful life of the asset not exceeding 20 years.

The intangible assets are written down to their recoverable amount, similarly to tangible assets, when respective indications exist.

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net assets of the acquired subsidiary/associate at the date of acquisition.

Beginning 1 April 2004, goodwill will be no longer amortised. Instead, it will be subject to annual impairment testing.

(b) Development, establishment, research and training costs

Development costs are expenditures that are incurred during the implementation of research findings for developing new specific products or services. Development costs are capitalised in case a schedule exists for utilising the project and the future revenues from the intangible asset can be determined. Expenses related to starting up a new economic entity, research carried out for collecting new scientific or technical information and training costs are not capitalised.

(c) Other intangible assets

Expenses related to patents, brand names, licenses and certificates are capitalised if it is probable that the future economic benefits that are attributable to them will flow to the Group. These intangible assets are depreciated using the straight-line method over the useful life of the asset not exceeding 5 years.

Borrowings and issued bonds

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred.

Borrowings and issued bonds are subsequently stated at amortised cost using the effective yield method. The effective yield is the rate that exactly discounts the expected stream of future cash payments through maturity to the current net carrying amount of the financial liability. The amortisation of the transaction costs is recognised in the income statement together with interest expenses. Interest expenses are recognised on an accrual basis in the income statement. The unpaid accrued interest at the balance sheet date is presented in the balance sheet as accrued expenses.

Taxes

(a) Corporate Income Tax

According to the Income Tax Act of the Republic of Estonia, the annual profit earned by enterprises is no longer taxed. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities. Instead of taxing the net profit, the distribution of retained earnings is subject to a dividend tax (24/76 of net dividend paid, until 1.12005 26/74 of net dividend paid). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

(b) Other taxes

The Group's results are affected by the following taxes:

Tax	Tax rate
Social insurance tax	33 % of the paid payroll to the employees and of the fringe benefits
Unemployment tax	0.5 % of the paid payroll to the employees
Fringe benefits tax	24/76 of the fringe benefits to the employees
Pollution charges	Paid for contaminating the air, water, ground water, soil and waste storage, and is based on tonnage and type of waste
Resource tax	0.332 euros (5.20 kroons) per ton of oil shale mined
Water utilization charges	0.002-0.07 euros per m^3(0.03-1.17 kroons/m^3) of used ground water

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Tax	Tax rate
Land tax	0.1-2.5 % of the taxable value of land per annum
Tax on heavy trucks	3.20-232.6 euros per quarter (50-3,640 kroons/quarter) per truck
Income tax on expenses not related to business activities	24/76 of the expenses not related to business activities

During the financial period, the fringe benefit and income tax hanged (until 31.12.2004 the rate was 26/74) and so did the oil shale use tax (until 31.12.2004 0.326 euros (5.10 kroons) per ton of oil shale mined.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimates. If required, an independent expert may be involved.
A provision is recognised when the probability that the obligation will realise is greater than 50%.
Employee termination benefits are recognised only if announced a detailed plan for restructuring, identifying the expenditure and the approximate number of employees subject to compensation.
Provisions are reviewed annually to address possible changes in conditions and estimates. The expenses incurred with the provisioning are recorded as operating expenses in the income statement.
Long-term provisions are carried at the present value. The difference between the nominal value and the present value of the provision is taken up as interest expense over the period until the provision is realised. Provisions are utilised only for covering expenses for which they were initially made.

(a) Provision for post-employment benefits and compensation for work-injuries

The Group does not run any regular post-employment benefit plans. However, if the Company has taken any post-employment obligations towards its former employees (e.g. based on collective agreement with trade unions), the respective provision is recognised. The provision is based on the terms of the obligation and the estimated amount of people eligible for the compensation. Provisions for injury compensation are recognised to cover expenditure related to future compensation payments to former employees according to court orders over the estimated period of such an obligation.

(b) Environmental provisions and provisions for restoration and rehabilitation of mining areas

Environmental provisions and provisions for restoration and rehabilitation of mining areas are recognised to cover environmental damages when it is required by the legislation or the Group by its past practice has created a valid expectation on the part of those other parties that it will liquidate environmental damages.
The amount of the provision is determined taking into consideration experts' opinions regarding the amount and timing of the expected outflows and the prior experience.

Derivatives

Derivative financial instruments are stated at their fair value. The derivatives with the positive market values are accounted for as assets and the derivatives with the negative values are accounted for as liabilities. Hedge accounting rules are applied when derivatives are used for hedging the risks of a specific transaction and the hedge is highly effective.
The Group has 2 effective interest rate swap contracts to fix the interest expense on loans with floating interest rates. The contracts are accounted for in accordance with IAS 39 as cash-flow hedges. The market value of the swap contracts is derived from price quotations of the international stock exchanges. The change in the market value of derivatives is charged to the hedging reserve in equity. The realised changes in the market value are recognised in the income statement as interest expenses.

Contingent liabilities

Contingent liabilities are possible obligations where the probability of the outflow of resources is less than 50% or for which no reliable estimate of the amount can be made. Contingent liabilities are recognised off balance sheet and are disclosed in the notes to the financial statements.

Recognition of revenue and expenses

Income and expenses are recognised based on accrual and matching principles, i.e. when they occur and not when cash is received or paid.
Revenue is measured at the fair value of consideration received or receivable. If the payment is deferred for more than 12 months, the receivable is discounted to its present value.
Revenue comprises the invoiced value for goods and services sold net of value-added tax, rebates and discounts. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer.

(a) Sales of electricity

Sales are recorded, based on invoice issued according to meter readings of customers. Meter readings are reported by customers, read by remote counter reading systems, or estimated based on past consumption patterns. Additionally, estimates are made regarding the potential impact of readings either not reported or incorrectly reported by the balance sheet date, resulting in a more precise estimation of the actual consumption and sale of electricity.

(b) Recognition of connection fees

When joining 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 a network. The revenue from connection fees is deferred and recognised as income evenly over the useful life of the underlying infrastructure built to connect the client to the network. Deferred connection fees are carried in the balance sheet as the long-term deferred income.

(c) Revenue recognition under the stage of completion method

Revenue from unfinished and finished, but undelivered services is recognised by using the stage of completion method. According to this method, the revenue from rendering the service is recorded in proportion to the costs incurred in rendering the service. Unbilled but recognised revenue is recorded as accrued income in the balance sheet.

(d) Interest income and expenses

Interest income and expenses are recognised on the accrual basis and calculated using the effective interest rate. Interest income and expenses are recorded in the income statement as financial income and expenses.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate, on a systematic basis. If the government assistance cannot be reliably estimated (e.g. free consultations), it is not recognised as government grants. Information about such assistance is disclosed in the notes to the financial statements. The Group has not received any grants related to assets.

Dividends

Dividends paid are recognised as a reduction of retained earnings at the moment of announcing the dividends.

Segment Reporting

As most of the activities of the Group take place in Estonia, it is regarded as one geographical segment from the viewpoint of International Financial Reporting Standards.
Segment reporting for business segments is carried out according to the Electricity Market Act of Estonia. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or a service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments

Financial Risk Management

The Group's overall risk management program focuses on the mitigation of financial risks and seeks to minimise potential adverse effects on the financial performance of the Group. The Treasury department of the parent company manages the liquidity, interest rate and exchange rate risks at the Group level.

(a) Liquidity risk

Liquidity risk is the risk arising from the Group's inability to cover its expenses and investment needs due to insufficient cash flows. Liquidity risk is managed through the use of different financial instruments such as loans, bonds and other borrowings.

In order to finance an extensive capital investment program, the Group has issued a 7-year international bond in the amount of 200 million euros and signed two 15-year loan agreements in the amount of 150 million euros.

To decrease the level of the interest rate on borrowings, Eesti Energia achieved the A- stable and Baa1 stable credit ratings from Standard&Poor's and Moody's rating agencies in 2002. The bond issue was rated by Standard&Poor's and Moody's respectively as A- by and A3, which at the moment of the issue was higher than the rating of the Republic of Estonia. In March 2004, Moody's raised Eesti Energia AS credit rating to A3.

To cover the shortage of operating capital, Eesti Energia concluded an agreement in November 2004 for the emission of commercial papers in the Finnish market. Until now Eesti Energia has not issued these commercial papers.

As at 31 March 2004 the group had undrawn loan facilities in the amount of 195 million euros.

As at the end of the financial year, the Group had spare cash balances in the amount of 40 million euros. The investment of the spare cash funds is regulated by the respective internal group instructions, which stipulate the terms and conditions of spare cash investment. There is a major requirement that cash may be invested only into those financial instruments that have a high investment rating.

Liquidity is managed both on a daily basis and over a longer time horizon. Risk management is supported by the Group's financial software, Oracle Financial, and the group bank accounts opened in Hansapank (Hansa Bank) and Eesti Ühispank (Estonian Union bank). The companies of the Group have group bank account limits.

(b) Credit risk

Credit risk is the risk that arising from the customers' and business partners' inability to fulfill their obligations. The overdue debts of the clients are checked in their respective divisions on a daily basis. The automated reminder and warning system sends messages to customers about overdue invoices with the warning that if not paid they will be switched off from the electricity network. After that, a collection petition is filed at a court or a collecting agency. Special agreements are in the jurisdiction of special credit committees. In the case of tenders, the background of suppliers is thoroughly examined. Only financial institutions with a high credit rating are used for cash depositing, derivative transactions, and as insurance partners. Cash balances are diversified in three different banks

(c) Interest rate risk

Interest rate risk emerges from floating interest rate borrowings, resulting in the risk that borrowing interest payments significantly increase when an interest rate increases. Sensitivity analysis is used for assessing interest rate risk. According to the Group's policy, over 50% of borrowings should have a fixed interest rate. To hedge the risk, the Group has entered into two interest rate swap agreements with maturity in summer 2006 in the base amount of 64 million euros. As at the end of the financial year, 91% of the Group's borrowings had a fixed interest rate (incl. an interest rate swap) and a 9% - floating interest rate.

(d) Exchange rate risk

Those liabilities and assets of the Group, which are denominated in euros, are considered to be free of any exchange rate risks. In order to manage exchange rate risks, all foreign contracts are concluded in euros. All long-term liabilities and electricity export contracts are also quoted in euros.

Operational risk management

Insurance contracts are used, among other measures, in order to minimize operating risks. The property of Narva Elektrijaamad and Iru Elektrijaamad is insured with the compensation limit of 200 million euros per incident.

In addition to assets, the possibility of interruption in operations and related additional expenses have been insured in power plants. The construction risks of new power blocks in Narva Power Plant are mitigated by special construction risk insurance. Other assets of the Group (except for Eesti Põlevkivi, Kohtla-Järve Soojus, and transmission lines more than 1000 feet away from the substation) are insured with the compensation limit of 50 million euros per incident.

In addition to property insurance, the Group's operational risks are insured in the amount of 50 million euros.

Prepaid insurance premiums are accounted for as prepaid expenses and they are taken up as an expense on a straight-line basis over the insurance term. Insurance compensations are recorded as income of the period in which the expenses related to the insurance occurred

Accounting estimates and used assumptions

The preparation of the financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current event and actions, actual results may ultimately differ from those estimates. The effects of changes in the management's estimates are recognised in the profit or loss of the period of the change.

The following are the most critical accounting estimates used in the preparation of these financial statements.

Critical accounting estimates

(a) Estimating the useful lives of fixed assets

The estimated useful lives of fixed assets are based on management's estimate regarding the period during which the asset will be used. Experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 March 2005, the Group had fixed assets in net book value of 1.2 billion euros (as at 31 March 2004 1.1 billion euros), the depreciation charge of the period was 88 million euros (82 million euros in the comparative period; see Note 13). If the depreciation rates are reduced by 10%, the annual depreciation charge would decrease and the net profit increase by about 8.8 million euros.

(b) Recognition and measurement of provisions

As at 31 March 2005, the group had recognised provisions for environmental obligations, restoration and rehabilitation of mining areas, injury compensation, and post-employment benefits in the total amount of 25 million euros (as at 31 March 2004: 26 million euros; see Note 19). The amount and timing of the realisation of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of the provisions, including the amount of the future expenditure, inflation and discount rates, and the timing of realisation of the expenditure. The actual expenditure may differ from the provisions recognised also as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(c) Estimating the recoverable amount of fixed assets

The Group regularly performs impairment tests for fixed assets. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. There were no write-downs during the current reporting period.

2 Segment reporting

For segment reporting purposes, the group's business units and subsidiaries are divided into business segments based on the internal management reporting structure and statutory requirements stipulated in the Electricity Market Act of Estonia. The Electricity Market Act of Estonia requires separate accounting for electricity production, transmission, distribution and sales. Operating revenues and expenses are allocated to different segments based on internal invoicing.
The pricing of inter-segment transfers is based on the prices approved by the Estonian Energy Market Inspectorate, or if not available, on the market prices. If no market prices exist, the internal prices are affirmed by the Management Board Electricity and heat, oil shale, production and sale of oil and ashes from oil shale and all supporting activities are considered as the main activities of the Group in the financial statements.
Other activities (incl. financing and investing activities) are considered as side activities whose results are recorded as other revenue and expenses; or as financial income and expenses.

No information on geographical segments is presented, as all significant activities of the group take place in Estonia.

For segment reporting purposes, the companies and business units are divided into the following business segments:
Oil shale mining - Eesti Põlevkivi (Estonian Oil Shale);
Production of electricity and heat - Narva Elektrijaamad, Iru Elektrijaam, AS Kohtla-Järve Soojus (Narva Powerplants, Iru Powerplant, Kohtla-Järve district CHP); Renewable energy;
Transmission of electricity - Põhivõrk (National Grid);
Distribution of electricity - Jaotusvõrk (Distribution Network)
Sales and customer service - Klienditeenidus (Customer service);
Support services - AS Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, AS Elektrikontrollikeskus, other support services and administration unit.

Business segments´ number of employees

	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Total group
Number of employees at 1.4.2004	4,680	2,290	141	988	415	1,270	9,784
Number of employees at 31.3.2005	4,361	2,133	143	993	390	1,264	9,284
Average number of employees	4,516	2,211	142	987	403	1,283	9,542
Number of employees at 1.4.2003	4,617	2,286	162	966	401	1,244	9,676
Number of employees at 31.3.2004	4,680	2,290	141	988	415	1,270	9,784
Average number of employees	4,680	2,287	144	976	406	1,261	9,754

Business segments' income statements for the period 1.4.2004-31.3.2005

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Sales								
External sales	15,537	50,901	3,066	19,799	292,746	12,678	0	394,726
incl. Estonia	15,275	45,298	2,557	19,799	265,009	6,519	0	354,455
incl. export	262	5,603	510	0	27,737	6,159	0	40,271
Intra-group sales	95,371	212,668	58,652	118,110	31,750	32,741	(549,293)	0
Total	**110,908**	**263,569**	**61,718**	**137,909**	**324,496**	**45,419**	**(549,293)**	**394,726**
Other revenue	745	374	128	191	697	287	272	2,693
Change in work-in-progress and finished goods	(496)	(403)	0	0	0	0	(221)	(1,120)
Externally purchased materials, consumables and supplies	(36,024)	(54,317)	(5,173)	(11,448)	(3,720)	(18,135)	7,426	(121,391)
Internally purchased materials, consumables and supplies	(9,118)	(99,756)	(25,853)	(73,757)	(318,440)	(691)	527,614	0
Total materials, consumables and supplies	**(45,142)**	**(154,072)**	**(31,026)**	**(85,205)**	**(322,159)**	**(18,826)**	**535,040**	**(121,391)**
Other operating expenses	(3,383)	(23,276)	(2,416)	(5,938)	(5,400)	(7,444)	10,925	(36,933)
Payroll expenses	(39,364)	(20,280)	(2,335)	(10,582)	(3,717)	(14,931)	3,330	(87,879)
Other expenses	(360)	(210)	(13)	(82)	(44)	(422)	17	(1,114)
Depreciation	(14,904)	(25,035)	(20,650)	(23,669)	(194)	(3,355)	188	(87,618)
Operating profit/loss	**8,004**	**40,667**	**5,407**	**12,623**	**(6,321)**	**727**	**258**	**61,365**
Share of results of associates	969		(143)					827
Other financial income and expenses								(19,322)
Net profit for the period								**42,870**

2 Segment reporting (continued)

Business segments' balance sheets as of 1.4.2003-31.3.2004

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Sales								
External sales	15,820	50,972	3,832	5,278	289,609	11,602	0	377,113
incl. Estonia	15,820	44,788	3,251	5,129	264,965	6,144	0	340,096
incl. exports	0	6,183	582	149	24,644	5,459	0	37,017
Intra-group sales	100,522	211,926	53,697	127,480	29,940	27,767	(551,332)	0
Total	**116,342**	**262,897**	**57,529**	**132,758**	**319,549**	**39,369**	**(551,332)**	**377,113**
Other revenue	413	191	75	92	751	641	(19)	2,144
Change in work-in-progress and finished goods	1,533	578	0	0	0	0	909	3,020
Externally purchased materials, consumables and supplies	(38,614)	(55,381)	(4,618)	(9,403)	(2,485)	(14,714)	4,730	(120,485)
Internally purchased materials, consumables and supplies	(9,996)	(103,758)	(24,687)	(72,684)	(320,933)	(752)	532,809	0
Total materials, consumables and supplies	**(48,610)**	**(159,139)**	**(29,305)**	**(82,087)**	**(323,418)**	**(15,465)**	**537,540**	**(120,485)**
Other operating expenses	(3,730)	(24,303)	(2,557)	(6,028)	(5,661)	(6,646)	10,354	(38,571)
Payroll expenses	(42,225)	(21,058)	(2,116)	(9,172)	(3,496)	(13,795)	2,072	(89,789)
Other expenses	(506)	142	(6)	(89)	(30)	(228)	11	(705)
Depreciation	(12,846)	(22,070)	(20,245)	(23,711)	(226)	(3,258)	310	(82,046)
Impairment	0	(1,312)	0	0	0	0	264	(1,048)
Operating profit/loss	**10,372**	**35,927**	**3,375**	**11,762**	**(12,530)**	**618**	**110**	**49,633**
Share of results of associates	1,234		(112)					1,121
Other financial incomes and expenses								(17,796)
Net profit for the period								**32,958**

Business segments' balance sheets as of 31.3.2005

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Current assets	27,840	40,816	6,960	16,866	42,388	55,052	(77,424)	112,499
Non-current assets	63,267	430,564	291,396	393,301	303	26,344	(0)	1,205,175
incl. shares in associates	2,102		599					2,701
Total assets	**91,107**	**471,380**	**298,357**	**410,167**	**42,691**	**81,396**	**(77,424)**	**1,317,674**
Liabilities related to operating activities								
Current liabilities	19,467	61,939	6,902	17,746	35,382	24,163	(66,440)	99,159
Non-current liabilities	8,951	9,295	6,638	47,154	0	269	(3,005)	69,301
Total liabilities related to operating activities	**28,418**	**71,234**	**13,541**	**64,899**	**35,382**	**24,432**	**(69,445)**	**168,461**
Bonds and borrowings								**309,103**
Total liabilities								**477,564**

2 Segment reporting (continued)

Business segments' balance sheets as of 31.3.2004

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Current assets	24,156	29,518	843	667	36,690	54,230	(35,259)	110,845
Non-current assets	62,102	415,331	271,268	359,240	391	25,898	0	1,134,230
incl. shares in associates	2,142		614					2,756
Total assets	**86,258**	**444,850**	**272,111**	**359,907**	**37,082**	**80,128**	**(35,259)**	**1,245,075**
Liabilities related to operating activities								
Current liabilities	17,786	60,584	3,721	8,109	11,844	54,827	(60,589)	96,283
Non-current liabilities	**10,075**	**9,786**	**1,245**	**37,270**	**0**	**277**	**0**	**58,654**
Total liabilities related to operating activities	27,861	70,371	4,966	45,379	11,844	55,104	(60,589)	154,936
Bonds and borrowings								**294,690**
Total liabilities								**449,627**

Business segments' capital expenditure

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Period 1.4.2004-31.3.2005	16,096	41,410	40,363	61,256	107	4,304	(3,646)	159,891
Period 1.4.2003-31.3.2004	21,556	109,323	15,559	45,705	243	6,035	60	198,481

Business segments' cash flows for the period 1.4.2004-31.3.2005

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Cash flows from operating activities	20,942	44,892	2,513	8,593	8,929	39,530	(163)	125,235
Cash flows from investing activities	(18,409)	(41,830)	(299,278)	(364,978)	(118)	286,534	294,227	(143,852)
Cash flows from financing activities	0	(2,891)	296,637	356,384	(8,813)	(326,984)	(300,526)	13,808
Net cash flow	**2,533**	**171**	**(128)**	**0**	**(2)**	**(920)**	**(6,462)**	**(4,809)**

Business segments' cash flows for the period 1.4.2003-31.3.2004

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Cash flows from operating activities	17,044	56,048	24,031	28,235	(16,077)	8,036	225	117,542
Cash flows from investing activities	(48,999)	(108,871)	(16,536)	(36,594)	(246)	(4,980)	29,558	(186,669)
Cash flows from financing activities	0	52,781	(7,367)	8,359	16,317	(18,932)	(32,225)	18,933
Net cash flow	**(31,955)**	**(42)**	**128**	**0**	**(6)**	**(15,876)**	**(2,442)**	**(50,193)**

3 Disposal of business units

Intra-group transactions

In the reporting period the subsidiaries of Eesti Energia AS -OÜ Põhivõrk and OÜ Jaotusvõrk; started as independent legal entities.
According to the agreement concluded on 1.4.2004, AS Eesti Energia leased to OÜ Põhivõrk of all assets, rights and obligations including 138 employees of the business unit Põhivõrk.
According to the agreement concluded on 1.7.2004, AS Eesti Energia leased to OÜ Jaotusvõrk of all assets, rights and obligations including 983 employees of the business unit Jaotusvõrk.
Both bargains were recogised as finance leases.
The lease agreements between Eesti Energia AS and OÜ Põhivõrk, OÜ Jaotusvõrk were terminated on 30.3.2005 and the corresponding sales agreements were concluded. The sales transactions were made in cash.

Information about sales transactions

in thousands of euros	Põhivõrk	Jaotusvõrk
Received finance lease principal payments	2,744	2,196
Received finance lease interest (Note 30)	18,445	17,626
Selling price	264,273	314,531
Business unit's nonmonetary assets and obligations		
Trade receivables	571	18
Other receivables	123	89
Accrued income	22	210
Inventories	0	498
Property, plant and equipment	271,268	364,574
Trade and other payables	(3,721)	(9,450)
Provisions	0	(52)
Deferred income	(1,245)	(39,160)
Total business unit's nonmonetary assets and obligations	**267,017**	**316,727**
Profit from sales	**0**	**0**

All above mentioned transactions are intra-group restructuring and therefore do not effect consolidated figures.
Additional information about Põhivõrk and Jaotusvõrk can be found in Note 2.

External transactions

AS Kohtla-Järve Soojus concluded an agreement on 5.7.2004 with AS Viru Õlitööstus for the sale of business activities in Järve district in Kohtla-Järve town. The sales bargain included the tranaction of all assets and liabilities and 92 employees related to Järve district operating activities.

Information about sales transactions

in thousands of euros	
Selling price	1,933
Other income	14
Expenses related to sale	(3)
Business unit's nonmonetary assets and obligations	
Trade receivables	0
Accrued income	31
Inventories	25
Property, plant and equipment	1,665
Trade and other payables	(109)
Provisions	(116)
Total business unit's nonmonetary assets and obligations	**1,495**
Profit from sales of operating activities in Järve district (Note 23)	**449**

According to the management estimates, the disposal of operating activities in Järve district should not be accounted for as discontinued operations because of it was only an insignificant part of the whole geographical area in where the group operates.

4 Cash and cash equivalents

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Cash in hand	14	8	14	8
On-demand deposits in banks	49	41	49	41
Cash in transit	29	37	29	37
Time deposits in banks				
Overnight deposits	933	2,467	933	2,467
Up to 3 months deposits	37,940	40,016	37,940	40,016
Shares in money market and interest funds	1,336	2,540	1,336	2,540
Total cash and cash equivalents	**40,301**	**45,110**	**40,301**	**45,110**

The effective interest rates on time deposits were between 1.9 - 2.4% (2003/2004 1.2 - 3.5%). Deposits' due dates were from 1 to 98 days. Accrued interest on bank deposits is disclosed in Note 8.

5 Investments and other securities

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Investment in AS Elektrikontrollikeskus (37,000 shares)	0	350	0	350
Investment in Krediidipank (6,600 shares)	0	4	0	0
Total investments and other securities	0	354	0	350

Changes in investments and other securities

	Group	Parent Company
Book value as of 31.3.2003	**354**	**350**
Book value as of 31.3.2004	**354**	**350**
Changes in the period 1.4.2004-31.3.2005		
Sold	(4)	0
Reclassified (Note 11)	(350)	(350)
Book value as of 31.3.2005	**0**	**0**

Beginning 1.4.2004, AS Elektrikontrollikeskus is consolidated on a line-by-line basis, as the time of its disposal can not be estimated reliably. In the stand-alone financial statements of the parent company these investments are accounted for using the equity method. In the previous periods investments in AS Elektrikontrollikeskus and Krediidipank were stated at cost.

6 Trade receivables

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Short-term trade receivables				
Accounts receivable for				
Electricity	40,068	36,024	39,120	36,024
Heat	13,088	13,338	4,030	3,748
Other	6,971	6,870	378	1,089
Total accounts receivable	**60,128**	**56,231**	**43,528**	**40,861**
Allowance for doubtful receivables for				
Electricity	(1,629)	(1,856)	(1,629)	(1,856)
Heat	(7,244)	(7,669)	(1,312)	(1,342)
Other	(1,364)	(660)	(117)	(55)
Total allowance for doubtful receivables	(10,237)	(10,186)	(3,057)	(3,254)
Total short-term trade receivables	**49,891**	**46,046**	**40,471**	**37,607**

6 Trade receivables (continued)

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Allowance for doubtful receivables at beginning of period	**(10,186)**	**(9,641)**	**(3,254)**	**(3,674)**
Allowance made during the period	(3,444)	(5,414)	(2,054)	(2,794)
Receipt of receivables written down in previous periods	2,768	3,640	1,619	2,025
Receivables written off	629	1,228	606	1,188
Reclassified (Note 5)	(5)	0	0	0
Handed over with sale of trading unit (Note 3)	0	0	26	0
Allowance for doubtful receivables at end of period	**(10,237)**	**(10,186)**	**(3,057)**	**(3,254)**

7 Other receivables

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Receivables from subsidiaries (Note 31)	0	0	248,723	163,569
Receivables from associates	19	1	18	0
Other short-term receivables	66	84	8	78
Total other receivables	**85**	**85**	**248,749**	**163,647**

8 Accrued income

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Gross amount due from customers for construction contracts	836	381	0	0
Estimated accrued sales of electricity related to unsubmitted meter readings	1,318	1,318	1,318	1,318
Interest receivable	40	44	40	44
Total accrued income	**2,194**	**1,742**	**1,358**	**1,362**

Construction contracts and long-term projects

in thousands of euros	Group 31.3.2005	Group 31.3.2004
Work in progress by the end of the reporting period		
Recognised revenue from the work in progress	2,105	705
Progress billing	(1,269)	(324)
Gross amount due from customers	**836**	**381**
Aggregate amount of costs incurred and recognised	(2,184)	(630)
Profit recognised from work in progress	(79)	75
Total revenue from the construction contracts recognised during the period	7,467	8,641
Total costs incurred for the construction contracts	7,406	8,061

Construction contracts and long-term projects are related to the production of various power equipment and construction and design of networks.

9 Prepayments

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Prepaid taxes				
Prepaid VAT	0	38	0	0
Other	73	31	0	11
Total prepaid taxes	**74**	**69**	**0**	**11**
Other prepaid expenses				
Insurance premiums	299	356	47	83
Prepayments for services	961	84	135	43
Other	382	408	238	209
Total other prepaid expenses	**1,643**	**847**	**420**	**335**
Total prepaid expenses	**1,716**	**916**	**420**	**346**

10 Inventories

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Materials	**10,593**	**7,956**	**50**	**474**
Work in progress (at cost)				
Extracted oil shale	4,736	4,902	0	0
Stripping works in quarries	1,637	1,894	0	0
Other	346	755	0	0
Total work in progress	**6,719**	**7,552**	**0**	**0**
Finished goods (at cost)				
Shale oil	566	969	0	0
Other	147	45	0	0
Total finished goods	**714**	**1,014**	**0**	**0**
Prepayments to suppliers	**287**	**70**	**0**	**0**
Total inventories	**18,312**	**16,592**	**50**	**474**

During the financial year the Group wrote down damaged and slow-moving inventories in the total amount of 19 thousand euros (in 2003/2004 31 thousand euros).
As at 31.3.2005, inventory balances contained materials carried at the fair value in the total amount of 8 thousand euros (as of 31.3.2004 1 thousand euros).

11 Investments in Subsidiaries

in thousands of euros	Parent Company 31.3.2005	Parent Company 31.3.2004
AS Narva Elektrijaamad (Narva Power Plants)	201,075	176,707
OÜ Jaotusvõrk	149,274	0
OÜ Põhivõrk (National Grid)	119,365	128
AS Eesti Põlevkivi (Estonian Oil Shale)	96,621	87,534
Televõrgu AS	5,525	3,708
AS Energoremont	2,959	2,915
AS Elektriteenused	3,229	2,725
AS Kohtla-Järve Soojus (Kohtla Järve District Heat)	1,051	374
AS Elpec	816	231
AS Elektrikontrollikeskus	604	0
Total investments in subsidiaries	**580,518**	**274,322**

11 Investments in Subsidiaries (continued)

Changes in investments in Subsidiaries

in thousands of euros	Parent Company
Book value as of 31.3.2003	**236,318**
Changes during 1.4.2003-31.3.2004	
Purchase of long-term financial investments	128
Share of results	37,876
Book value as of 31.3.2004	**274,322**
Changes during 1.4.2004-31.3.2005	
Purchase of long-term financial investments	293,866
Reclassified (Note 5)	350
Revalued	209
Share of results	11,772
Book value as of 31.3.2005	**580,518**

In the current period, Eesti Energia AS paid in cash as paid-in capital 159,779 thousand euros to OÜ Jaotusvõrk and 134,087 thousand euros to OÜ Põhivõrk.

Company	Location	Core activity	Stake (%)
Subsidiaries belonging to the Parent Company			
AS Narva Elektrijaamad	Estonia	Generation of electricity and heat	100.0
OÜ Põhivõrk	Estonia	Network- and transit services through the main grid	100.0
OÜ Jaotusvõrk	Estonia	Distribution of electricity	100.0
AS Eesti Põlevkivi	Estonia	Oil shale mining	100.0
AS Kohtla-Järve Soojus	Estonia	Generation of electricity and heat	59.2
Televõrgu AS	Estonia	Telecommunication services	100.0
AS Energoremont	Estonia	Production of metal products	100.0
AS Elektriteenused	Estonia	Maintenance, repair and construction of networks	100.0
AS Elpec	Estonia	Design and engineering of energy systems	100.0
AS Elektrikontrollikeskus	Estonia	Control of electrical equipment	100.0
Subsidiaries belonging to the Subsidiaries			
Subsidiaries of AS Eesti Põlevkivi			
Põlevkivi Kaevandamise AS	Estonia	Oil shale mining	100.0
AS Põlevkivi Raudtee	Estonia	Transport	100.0
AS Mäetehnika	Estonia	Mining machinery repair	100.0
Subsidiaries of AS Narva Elektrijaamad			
AS Narva Soojusvõrk	Estonia	Sales and distribution of heat	66.0
Subsidiaries of AS Energoremont			
AS ER Baltic Electrotechnics and automation	Estonia	Equipment assembling	100.0
OÜ ER Test Service	Estonia	Welding control and metal quality tests	100.0

OÜ ER Test Service started its operating activities on 1.8.2004.

The ownership in the subsidiaries remained unchanged during the reporting period.

The parent company's governing power on OÜ Põhivõrk and OÜ Jaotusvõrk is limited by Electricity Market Act and the EU directives.

12 Investments in associates

Changes in the investments in associates

in thousands of euros	Group Company	Parent
Book value as at 31.3.2003	**2,774**	**727**
Changes during 1.4.2003-31.3.2004		
Share in the result	1,121	(112)
Dividends received	(1,139)	0
Book value as at 31.3.2004	**2,756**	**614**
Changes during 1.4.2004-31.3.2005		
Share in the result	827	0
Dividends received	(1,009)	0
Purchase of long-term investments	128	128
Sales return	0	(614)
Book value as at 31.3.2005	**2,701**	**128**

Eesti Energia AS founded AS Nordic Energy Link on 11.6.2004 and paid 128 thousand euros as paid-in capital.
The purpose of AS Nordic Energy Link is the ordering and subsequent maintenance of Estonia-Finland underwater cable ESTLINK.
AS Nordic Energy Link is accounted for as an associate, because after the capital enlargement, AS Eesti Energia will have a 39.9% stake.
As at 31.3.2005, AS Nordic Energy Link had not yet started its operating activities (Note 35).

After the foundation of OÜ Põhivõrk the participation of the parent comapny in DC Baltijas was sold to OÜ Põhivõrk for 614 thousand euros.

Information about associates

in thousands of euros Company	Location	Assets 31.3.2005	Liabilities 31.3.2005	Operating Income 1.4.2004 - 31.3.2005	Profit/ Loss 1.4.2004 - 31.3.2005	Stake (%) 31.3.2005
Associate belonging to the company						
AS Nordic Energy Link	Estonia	128	0	0	0	100.0
Associate belonging to the subsidiary						
DC Baltija	Latvia	1,707	214	1,615	(250)	33.3
Orica Eesti OÜ	Estonia	7,320	1,285	11,827	2,771	35.0

in thousands of euros Company	Location	Assets 31.3.2004	Liabilities 31.3.2004	Operating Income 1.4.2003 - 31.3.2004	Profit/ Loss 1.4.2003 - 31.3.2004	Stake (%) 31.3.2004
Associate belonging to the company						
DC Baltija	Latvia	2,021	167	1,553	(340)	33.3
Associate belonging to the subsidiary						
Orica Eesti OÜ	Estonia	6,758	611	12,802	2,992	35.0

13 Property, plant, equipment (PPE)

PPE of the Group in thousands of euros	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2003						
Cost	4,268	109,405	693,467	622,000	1,924	1,431,065
Accumulated depreciation	0	(61,728)	(251,571)	(279,392)	(1,149)	(593,840)
Opening net book value	4,268	47,678	441,896	342,608	775	837,225
Construction and renovation in progress	0	332	11,175	165,035	0	176,541
Prepayments	261	21	18	936	0	1,237
Total balance as at 31.3.2003	**4,529**	**48,031**	**453,089**	**508,580**	**775**	**1,015,004**
Changes during 1.4.2003-31.3.2004						
Additions	66	10,207	33,425	154,137	645	198,481
Depreciation	(1)	(3,723)	(28,909)	(48,826)	(355)	(81,813)
Impairment charge	0	(51)	(997)	0	0	(1,048)
Disposals	(27)	(390)	(95)	(1,131)	(1)	(1,644)
Total changes during 1.4.2003-31.3.2004	**39**	**6,044**	**3,423**	**104,180**	**290**	**113,976**

PPE of the Group in thousands of euros	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2004						
Cost	4,303	115,875	719,574	676,379	2,518	1,518,649
Accumulated depreciation	(1)	(64,909)	(277,116)	(320,233)	(1,453)	(663,712)
Opening net book value	4,301	50,967	442,457	356,146	1,065	854,937
Construction and renovation in progress	0	3,100	13,883	256,087	0	273,071
Prepayments	266	8	171	526	0	971
Total balance as at 31.3.2004	**4,568**	**54,075**	**456,512**	**612,760**	**1,065**	**1,128,979**
Changes during 1.4.2004-31.3.2005						
Acquisitions	341	20,172	46,473	92,481	424	159,891
Depreciation	(3)	(4,371)	(29,514)	(53,142)	(589)	(87,618)
Disposal of business unit's fixed assets (Note 3)	0	(169)	(1,127)	(368)	(1)	(1,665)
Other disposals	(9)	(177)	0	(106)	0	(292)
Reclassification	0	10,469	(1)	(10,558)	329	239
Provision for dismantling (Note 19)	0	34	0	411	0	445
Total changes during 1.4.2004-31.3.2005	**329**	**25,958**	**15,831**	**28,718**	**164**	**71,000**
Balance as at 31.3.2005						
Cost	4,642	127,323	756,913	854,424	3,429	1,746,730
Accumulated depreciation	(4)	(66,098)	(301,755)	(362,939)	(2,199)	(732,995)
Opening net book value	4,638	61,225	455,158	491,485	1,229	1,013,735
Construction and renovation in progress	0	18,808	17,176	147,471	0	183,456
Prepayments	259	0	9	2,521	0	2,789
Total balance as at 31.3.2005	**4,896**	**80,033**	**472,343**	**641,477**	**1,229**	**1,199,979**

During the periodfinalised the construction and testing of 8-th power block in Narva Powerpalnt was finalised.
The usuful live of the major items of plant and equipment were assesed 25 year. Future estimated expedinture to dismantle the plant have been recognised as provion at the present value of 444 thousand euros. This provision was included into cost of the power block.

Construction in progress balances include 119,293 thousand euros of the renovation cost of the Narva Power Plants' 11-th power block (as at 31.3.2004: 246,818 thousand euros).

During the previous reporting period the carrying amount of the heating system in Ahtme district belonging to Kohtla-Järve Soojus was partially written down. The recoverable amount of the assets was determined on the basis of 5 year cash-flow projections discounted at 16%.
The impairment was caused by the decrease in the number of customers and poor payment discipline, which is inherent in the region the company operates in.

13 Property, plant, equipment (PPE) (continued)

PPE of the Parent Company in thousands of euros	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2003						
Cost	4,095	30,767	605,018	334,830	687	975,397
Accumulated depreciation	0	(6,188)	(200,632)	(117,492)	(505)	(324,819)
Opening net book value	4,094	24,579	404,385	217,338	181	650,578
Construction and renovation in progress	0	265	7,384	6,099	0	13,749
Prepayments	261	0	0	0	0	261
Total balance at 31.3.2003	**4,356**	**24,844**	**411,769**	**223,437**	**181**	**664,588**
Changes during 1.4.2003-31.3.2004						
Acquisitions	62	3,081	27,466	35,811	145	66,565
Depreciation	(1)	(1,140)	(24,408)	(23,319)	(97)	(48,965)
Disposals	(30)	(301)	0	(18)	(1)	(350)
Total changes during 1.4.2003-31.3.2004	**31**	**1,640**	**3,058**	**12,474**	**47**	**17,250**

PPE of the Parent Company in thousands of euros	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2004						
Cost	4,121	33,329	625,939	364,284	814	1,028,487
Accumulated depreciation	(1)	(7,015)	(221,194)	(136,316)	(585)	(365,112)
Opening net book value	4,120	26,314	404,745	227,968	228	663,375
Construction and renovation in progress	0	171	10,082	7,940	0	18,192
Prepayments	266	0	0	4	0	270
Total balance as at 31.3.2004	**4,386**	**26,485**	**414,827**	**235,911**	**228**	**681,838**
Changes during 1.4.2004-31.3.2005						
Acquisitions	1	1,982	7,638	5,330	29	14,979
Depreciation	(1)	(1,061)	(3,331)	(6,043)	(95)	(10,530)
Disposal of buiness unit's fixed assets (Note 3)	(4,252)	(7,091)	(411,775)	(212,696)	(28)	(635,841)
Other disposals	(9)	(165)	0	(84)	0	(258)
Total changes during 1.4.2004-31.3.2005	**(4,260)**	**(6,335)**	**(407,468)**	**(213,492)**	**(94)**	**(631,650)**
Balance as at 31.3.2005						
Cost	125	25,397	11,065	41,390	568	78,544
Accumulated depreciation	(1)	(6,332)	(3,851)	(19,906)	(434)	(30,523)
Opening net book value	124	19,065	7,214	21,484	134	48,021
Construction and renovation in progress	0	1,084	145	935	0	2,165
Prepayments	2	0	0	0	0	2
Total balance as at 31.3.2005	**127**	**20,149**	**7,359**	**22,419**	**134**	**50,188**

AS Kohtla-Järve Soojus rents special equipment and computers under the finance lease terms. The lease will expire on 30.5.2006.

Assets leased under the finance lease (Group as the lessee)

in thousands of euros	Residual value 31.3.2004	Received	Depreciation	Closed lease	Residual value 31.3.2005
Cost	48	0	0	0	48
ccumulated depreciation	(15)	0	(9)	0	(23)
Net book amount	**34**	**0**	**(9)**	**0**	**25**

Assets leased out under the operating lease

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Cost	5,179	5,265	12,097	21,266
Accumulated depreciation in the beginning of period	(1,660)	(1,609)	(2,982)	(2,858)
Depreciation	(203)	(209)	(415)	(1,247)
Net book amount	**3,316**	**3,447**	**8,699**	**17,161**

The above numbers include only the respective proportion of the cost and depreciation in respect of the assets, which are partially leased out.

14 Intangible assets

Group's intangible assets

in thousands of euros	Goodwill			
	AS Eesti Põlevkivi	AS Elpec	AS Narva Soojusvõrk	Total goodwill
Balance as at 31.3.2003				
Cost	2,732	44	37	2,814
Accumulated amortization	(53)	(20)	(20)	(93)
Net book amount	**2,680**	**24**	**17**	**2,721**
Movements during 1.4.2003-31.3.2004				
Amortization	(210)	(9)	(7)	(226)
Balance as at 31.3.2004				
Cost	2,732	44	37	2,814
Accumulated amortization	(263)	(29)	(28)	(319)
Net book amount 31.3.2004	**2,470**	**15**	**9**	**2,494**
Net book amount 31.3.2005	**2,470**	**15**	**9**	**2,494**

As at 31.3.2005 the goodwill in the Parent Company was 2,485 thousand euros (as at 31.3.2004 also 2,485 thousand euros).

Since 1.4.2004 goodwill is not amortised and shall be annually tested for impairment.
During the reporting period the recoverable amount of net assets of subsidiaries was compared to their book value.
The recoverable amount of the net assets was determined on the basis of the cash flow projections for 2005-2021 discounted at 8%. The period is based on the estimated useful life of AS Narva Elektrijaamad power blocks.
Cash flow projections are based on historical data,energy consumtption forecasts and the assumption that AS Narva Elektrijaamad will remain as the main user consumer of oil shale.
Growth rate of 2-3%has been adjusted in some cases for the estimated influence of the opening of the Estonian electricity market and the effect of closing the old power block of Narva Elektrijaamad.

No impairment was identified.

15 Operating lease

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Revenue from operating lease				
Buildings	636	532	1,958	754
Constructions	270	206	1	560
Total revenue from operating lease (Note 22)	**906**	**738**	**1,959**	**1,314**
Operating lease expenses				
Buildings	251	272	175	178
Motor vehicles	1,549	1,490	405	815
Other equipment	200	63	24	33
Total expense from operating lease (Note 26)	**2,000**	**1,825**	**605**	**1,026**

Future minimum lease receivables under non-cancellable operating lease contracts in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Future operating lease receivables				
<1 year	236	143	236	143
> 1-5 years	944	573	944	573
> 5 years	5,391	3,436	5,391	3,436
Total future operating lease receivables	**6,571**	**4,152**	**6,571**	**4,152**

The operating lease contracts where the Group acts as a lessee are cancellable by a short-term notice.

16 Borrowings

Borrowings at amortised cost

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Short-term borrowings				
Current portion of long-term bank loans	2,364	1,182	2,364	1,182
Finance lease liabilities	10	11	0	0
Total short-term borrowings	**2,374**	**1,192**	**2,364**	**1,182**
Long-term borrowings				
Bonds issued	198,179	197,821	198,179	197,821
Long-term bank loans	108,421	95,666	108,421	95,666
Finance lease liabilities	1	12	0	0
Total long-term borrowings	**306,602**	**293,498**	**306,600**	**293,486**
Total borrowings	**308,975**	**294,690**	**308,964**	**294,668**

Changes in borrowings

in thousands of euros	Group	Parent Company
Amortised cost as at 31.3.2003	**275,214**	**274,127**
Movements for the period		
Long-term bank loans taken	20,000	20,000
Repayment of short-term bank loans	(1,055)	0
Amortisation of loan fees	203	203
Amortisation of the difference between the nominal amount and cost of bonds	338	338
New finance lease contracts	2	0
Repayment finance lease principle	(12)	0
Amortised cost as at 31.3.2004	**294,690**	**294,668**
Movements for the period		
Long-term bank loans taken	15,000	15,000
Repayment of long-term bank loans	(1,182)	(1,182)
Amortisation of loan fees	216	216
Paid loan fees	(96)	(96)
Amortisation of the difference between the nominal amount and cost of bonds	359	359
Paid finance lease liabilities	(11)	0
Foreign exchange loss	(1)	(1)
Amortised cost as at 31.3.2005	**308,975**	**308,964**

Principle amount of loans and maturity

in thousands of euros	Total amount	As at 31.3.2005			Final
Creditor	available	drawn	undrawn	Repaid	settlement
Nordic Investment Bank	13,000	11,818	0	1,182	2009
Nordic Investment Bank	15,000	15,000	0	0	2012
Syndicate loan	50,000	50,000	0	0	2006
Kreditinstalt für Wiederaufbau	90,000	0	90,000	0	2017
Nordic Investment Bank	60,000	20,000	40,000	0	2017
European Investment Bank	80,000	15,000	65,000	0	2019
Total long-term bank loans	**308,000**	**111,818**	**195,000**	**1,182**	

in thousands of euros	Total amount	As at 31.3.2004			Final
Creditor	available	drawn	undrawn	Repaid	settlement
Nordic Investment Bank	13,000	13,000	0	0	2009
Nordic Investment Bank	15,000	15,000	0	0	2012
Syndicate loan	50,000	50,000	0	0	2006
Kreditinstalt für Wiederaufbau	90,000	0	90,000	0	2017
Nordic Investment Bank	60,000	20,000	40,000	0	2017
Total long-term bank loans	**228,000**	**98,000**	**130,000**	**0**	

16 Borrowings (continued)

All loans are denominated in euros. Interest rates are floating, based on 6 month Euribor. As at 31.3.2005, the interest rates for loans ranged from 2.6-5.1% (As at 31.3.2004 2.8-5.2%) and the weighted average interest rate was 6 month Euribor + 0.6% (31 March 2003: 6 months Euribor + 0.7%). The floating interest rates of the syndicate loan in the amount of 782,330 thousand euros (until the end of the loan period) and of the Nordic Investment Bank loan in the amount of 234,699 thousand euros are fixed using an interest rate swap, having the weighted average interest rate of 5.8% (see Note 18). Considering the effect of derivative instruments the weighted average interest rate as at 31.3.2005 was 4.9% (31.3.2004: 5.3%).

The loan agreements concluded by the Group set certain financial ratios the Group should comply with.
Those ratios have not been exceeded.

The type of interest rate (fixed or floating) on undrawn loan facilities will be decided on the receipt of the loan. The decision regarding the usage of the loans from Nordic Investment Bank and Kreditinstalt für Wiederaufbau should be made by 30.9.2006 and regarding the loan from the European Investment Bank by 7.11.2006 .

Maturities of long-term bank loans (principal amounts)

in thousands of euros	31.3.2005	31.3.2004
< 1 year	2,364	1,182
1 - 5 years	76,205	69,520
> 5 years	33,250	27,299
Total	**111,818**	**98,000**

According to the management's estimates, the market value of the loans does not materially differ from their book value.

Bonds issued

in thousands of euros	31.3.2005	31.3.2004
Nominal value of the bonds	200,000	200,000
Proceeds from issue	197,260	197,260
Amortisation of the difference between the nominal value and the cost of the bonds	919	560
Currency exchange loss	(1)	0
Balance	**198,179**	**197,821**
Market value	219,940	219,485

Eesti Energia issued 7-year, 6% fixed interest rate bonds in July 2002.
The bonds are listed on the Luxembourg Stock Exchange.

Finance lease liabilities (principal amount)

in thousands of euros	Balance as at 31.3.2004	New contracts	Principle paid	Terminated contracts	Balance as at 31.3.2005
Original lease liabilities	48	0	0	0	48
Repaid portion	(26)	0	(11)	0	(37)
Carrying amount of lease liabilities	**22**	**0**	**(11)**	**0**	**12**

in thousands of euros	Balance as at 31.3.2003	New contracts	Principle paid	Terminated contracts	Balance as at 31.3.2004
Original lease liabilities	272	2	0	(225)	48
Repaid portion	(239)	0	(12)	225	(26)
Carrying amount of lease liabilities	**33**	**2**	**(12)**	**0**	**22**

As at 31.3.2005 the interest rates of the finance lease contracts were between 5.1-5.% (4.8-5.1% as at 31.3.2004).

16 Borrowings (continued)

Maturities of finance lease liabilities (principal amounts)

in thousands of euros	< 1 year	1- 5 years	> 5 years	Total
As at 31.3.2005				
Minimum lease payments	10	2	0	12
Future finance charges on finance lease	(0)	(0)	0	(0)
Present value of finance lease liabilities as at 31.3.2005	**10**	**1**	**0**	**12**
As at 31.3.2004				
Minimum lease payments	12	12	0	23
Future finance charges on finance lease	(1)	(0)	0	(1)
Present value of finance lease liabilities as at 31.3.2004	**11**	**12**	**0**	**22**

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates is as follows:

in thousands of euros	< 1 year	1 - 5 years	> 5 years	Total
As at 31.3.2005				
Borrowings	110,797	198,179	0	308,975
Effect of interest rate swap	(64,815)	64,815	0	0
Total balance as at 31.3.2005	**45,982**	**262,993**	**0**	**308,975**
As at 31.3.2004				
Borrowings	96,870	0	197,821	294,690
Effect of interest rate swap	(64,738)	64,738	0	0
Total balance as at 31.3.2004	**32,132**	**64,738**	**197,821**	**294,690**

Weighted average interest rates of borrowings

	31.3.2005	31.3.2004
Long-term bank loans	3.2%	3.3%
Bonds	6.3%	6.3%
Finance lease liabilities	5.1%	4.8%

17 Trade and other payables

in thousands of euros	Group 31.3.2005	Group 31.3.2004	Parent Company 31.3.2005	Parent Company 31.3.2004
Trade payables				
Payables for property, plant and equipment	35,959	37,201	396	6,410
Payables for fuel	3,001	2,627	3,001	2,627
Other payables for goods and services	14,394	11,198	937	3,812
Total short-term trade payables	**53,354**	**51,026**	**4,333**	**12,848**
Accrued expenses				
Payables to employees	10,395	9,827	980	1,995
Accrued interest	9,257	9,321	9,257	9,321
Other accrued expenses	20	1,657	19	1,237
Total accrued expenses	**19,672**	**20,804**	**10,257**	**12,553**
Tax liabilities	14,658	12,556	5,657	4,714
Liabilities to subsidiaries (Note 31)	0	0	78,267	44,634
Liabilities to associates	819	162	128	0
Customers advance payments	134	57	5	6
Other payables	1,344	1,281	1,127	1,185
Total short-term trade and other payables	**89,982**	**85,886**	**99,774**	**75,940**

According to the contract for the renovation of power blocks between Narva Elektrijaamad (Narva Power Plants) and Foster Wheeler Energia Oy (contractor), 10% of the contract payments are retained until the launch of the power blocks. As of the 31.3.2005, the retained amount included in payables for property totalled 22,006 thousand euros (as at 31.3.2004: 25,246 thousand euros).

18 Derivatives

The Group has entered into two interest rate swap agreements with Westdeutsche Landesbank Girozentrale to swap a floating interest rate for a fixed interest rate. Agreements were signed on 3.4.2002, and they meet the criteria for cash flow hedges.

Movements during 1.4.2004-31.3.2005
in thousands of euros

Signing date	Maturity date	Notional amount	Fair value as at 31.3.2004	Change in fair value	Cash settlement	Fair value as at 31.3.2005
1) 17.6.2002	16.6.2006	15,000	(1,063)	(32)	456	(640)
2) 21.6.2002	13.6.2006	50,000	(3,405)	(102)	1,474	(2,032)
Total		**65,000**	**4,468**	**(133)**	**1,930**	**(2,672)**

Movements during 1.4.2003-31.3.2004
in thousands of euros

Signing date	Maturity date	Notional amount	Fair value as at 31.3.2003	Change in fair value	Cash settlement	Fair value as at 31.3.2004
1) 17.6.2002	16.6.2006	15,000	(1,167)	(311)	414	(1,063)
2) 21.6.2002	13.6.2006	50,000	(3,711)	(1,025)	1,331	(3,405)
Total		**65,000**	**(4,878)**	**(1,336)**	**1,745**	**(4,468)**

Hedging reserve
in thousands of euros

Balance as at 31.3.2003	**(4,474)**
Movements during 1.4.2003-31.3.2004	
Change in the fair value of the swap agreements	(1,336)
Recognised in the income statement (Note 30)	1,880
Total movements during 1.4.2003-31.3.2004	**544**
Balance as at 31.3.2004	**(3,930)**
Movements during 1.4.2004-31.3.2005	
Change in the fair value of the swap agreements	(133)
Recognised in the income statement (Note 30)	1,926
Total movements during 1.4.2004-31.3.2005	**1,793**
Balance as at 31.3.2005	**(2,137)**

The market value is based on Westdeutsche Landesbank Girozentrale's notations.

19 Provisions

in thousands of euros	As at 31.3.2004	Recognition and changes in provisions	Interest charge	Utilisation	Reduced as a result of sale of business unit	Balance as at 31.3.2005 Short-term	Long-term
Environmental and mining termination provisions	21,285	(1,038)	1,308	(1,645)	(101)	4,915	14,895
Provision for post-employment benefits	2,219	272	121	(687)	0	792	1,133
Provision for injury compensations	2,566	20	178	(319)	(15)	308	2,120
Provision for dismantling	0	445	0	0	0	0	445
Total provisions	**26,070**	**(301)**	**1,607**	**(2,651)**	**(116)**	**6,016**	**18,593**

19 Provisions (continued)

in thousands of euros	As at 31.3.2003	Recognition and changes in provisions	Interest charge	Utilisation	Reduced as a result of sale of business unit	Balance as at 31.3.2004 Short-term	Long-term
Environmental and mining termination provisions	22,066	(412)	1,064	(1,433)	0	4,859	16,426
Provision for post-employment benefits	1,920	647	103	(451)	0	696	1,523
Provision for injury compensations	0	2,583	11	(29)	0	328	2,237
Provision for retraining allowances	53	0	0	(53)	0	0	0
Total provisions	**24,039**	**2,818**	**1,179**	**(1,967)**	**0**	**5,884**	**20,186**

Environmental and mining termination provisions are established for:
- restoring land damaged by mining;
- cleaning contaminated land surface;
- restoring the contaminated water supply as a result of mining activities;
- closing landfills and utilising waste;
- liquidating asbestos in power plants.

The amount of environmental and mining termination provisions takes into account the fact that in accordance with the financial memorandum between AS Narva Elektrijaamad and the European Commission, 84% (7,106 thousand euros) of the costs related to the closing and re-cultivating of the Baltic powerstation ashfield No. 2 will be covered from the EU ISPA funds. All the conditions set by ISPA fund have been met by 31.1.2005.
Total grants received during the reporting period were 618 thousand euros (Note 20).

Long-term environmental provisions will realise in Eesti Põlevkivi 2006-2010, in Kohtla-Järve Soojus 2008-2013 and Narva Elektrijaamad 2006-2015.
The provisions related to the termination of the mining works within 17 years. The mining termination provision does not include termination payments for the employees as no detailed plans for the termination of mining have been announced yet.

A provision for post-employment benefits has been recognised in respect of constructive obligations arising from the collective agreement with trade unions of Group companies. The provision also covers pensions paid by AS Eesti Põlevkivi. Pensions will be paid accordingly to those employees who have left in 1.4.2001- 31.12.2006. Payments will be made until 1.1.2007. In Eesti Põlevkivi this includes also the company's pension payable to certain former employees who retired between 1.04.2001-31.12.2006. No pensions will be paid after 1.01.2007.

During the reporting period, a provision was recognised Eesti Energia, Narva Elektrijaamad, Eesti Põlevkivi, Energoremont and Kohtla-Järve Soojus in order to cover compensations payable to former employees who were injured while fulfilling work duties. The provision has been determined based on the court decisions regarding the amounts payable and the estimates regarding the expected remaining lives of injured employees (based on data from the Estonian Statistical Office).

During the reporting period a provision was set up for future dismantling of the renovated power block number 8 in the amount of 445 thousand euros. The provision for dismantling discounted to present value was added to the cost of the plant (Note 13). The provision is estimated to realize within 30 years.

Provisions are discounted by 8% rate.

20 Deferred income

in thousands of euros	Group	Parent Company
Short-term deferred income		
Government grants		
Movements during 1.4.2003-31.3.2004		
Grants received from LIFE Environment program	131	131
Recognised as income (Note 24)	(86)	(86)
Total short-term deferred income 31.3.2004	**45**	**45**
Movements during 1.4.2004-31.3.2005		
Recognised as income (Note 24)	(45)	(45)
Grants received from ISPA fund (Note 19)	618	0
Total short-term deferred income 31.3.2005	**618**	**0**
Long-term deferred income		
Connection fees as at 31.3.2003		
Connection fees received up to date	32,040	32,040
Accumulated amortisation	(2,600)	(2,600)
Deferred connection fees as at 31.3.2003	**29,440**	**29,440**

20 Deferred income (continued)

in thousands of euros	Group	Parent Company
Movements during 1.4.2003-31.3.2004		
Connection fees received	10,998	10,998
Charged to income to cover operating expenses related to connections	(682)	(682)
Amortised to income	(1,288)	(1,288)
Connection fees as at 31.3.2004		
Connection fees received up to date	42,356	42,356
Accumulated amortisation	(3,888)	(3,888)
Deferred connection fees as at 31.3.2004	**38,468**	**38,468**
Movements during 1.4.2004-31.3.2005		
Connection fees received	14,555	2,547
Charged to income to cover operating expenses related to connections	(769)	(286)
Transfer on sale of business units	0	(40,405)
Amortised to income	(1,545)	(324)
Connection fees as at 31.3.2005		
Connection fees received up to date	56,142	0
Accumulated amortisation	(5,433)	0
Deferred connection fees as at 31.3.2005	**50,709**	**0**
Total deferred income	**51,327**	**0**

Connection fees are amortised to income over 20 - 33 years.

21 Share capital and share premium

Eesti Energia AS has 72,741,000 registered shares. The par value of a share is 100 kroons. The sole shareholder is the Republic of Estonia. The administrator of the shares and the proxy of the shareholder's rights is the Ministry of Economic Affairs. At the general meeting, the Ministry is represented by the Minister of Economic Affairs.

All 72,741,000 shares issued are fully paid as at 31.3.2005.
The Commercial Code requires companies to establish a statutory reserve. The minimum amount of the reserve is 1/10 of the share capital. Until the required level has been attained, companies have to transfer to the reserve 1/20 of their net profit for the financial year. In accordance with the Commercial Code, the statutory reserve and share premium may only be used to cover retained losses and to increase share capital.

As at 31.3.2005, the Group shall transfer at least 2,130 thousand euros from retained earnings to the statutory reserve (31.03.2004 : 1,672 thousand euros). The maximum possible tax liability which would become payable, if the remaining retained earnings were fully distributed amounts to 17,334 thousand euros (31.3.2004 : 8,258 thousand euros). Thus it would be possible to pay 54,892 thousand euros (31.3.2004 : 23,501 thousand euros) as net dividends.

Considering that in state owned private entities' dividends are determined by the Government and that according to regulation No. 161 of 21.3.2005 AS Eesti Energia shall pay 6,199 thousand euros as dividends in 2005, the Management Board has proposed to pay 6,199 thousand euros as dividends.

22 Sales

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Sales by activity				
Sale of goods				
Electricity	317,998	302,103	321,009	306,555
Heat	30,428	34,111	16,442	18,072
Oil shale	13,239	14,526	0	0
Shale oil	12,814	8,980	0	0
Power equipment	5,305	7,358	0	0
Oil shale ash	462	409	0	0
Other	601	199	0	0
Total sale of goods	**380,847**	**367,686**	**337,451**	**324,627**
Sale of services				
Repair and construction services	2,654	2,032	511	585
Connection fees (Note 1)	2,314	1,970	609	1,970
Telecommunication services	2,540	1,660	0	0
Leasing of premises (Note 15)	906	738	1,959	1,314
Transport services	262	210	33	2
Other	2,712	1,024	2,824	927
Total sale of services	**11,387**	**7,634**	**5,937**	**4,798**

22 Sales (continued)

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Sales by activity				
Other sales				
Scrap metal	1,900	1,585	57	336
Other	592	208	20	77
Total sale of goods	**2,492**	**1,793**	**77**	**413**
Total net sales	**394,726**	**377,113**	**343,465**	**329,838**
Sales by market				
Estonia	354,455	340,096	315,727	304,463
Export				
Latvia	28,131	24,934	27,737	24,644
Russia	5,971	6,556	0	516
Finland	4,940	4,832	0	215
Other	1,229	695	0	0
Total export	**40,271**	**37,017**	**27,737**	**25,375**
incl. export of electricity and transmission services	33,688	31,180	27,737	25,160
Total net sales	**394,726**	**377,113**	**343,465**	**329,838**

MWh	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Energy sales in quantitative terms				
Sales of electricity				
Estonia	5,946,735	5,701,636	6,654,303	5,920,808
Export	2,036,049	1,972,709	1,391,079	1,259,149
Total sales of electricity	**7,982,784**	**7,674,345**	**8,045,382**	**7,179,957**
Sales of heat	1,977,139	2,168,186	1,201,185	1,264,512

23 Other revenue

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Fines received for late payments and penalties	978	1,000	712	875
Gains on sale of trading unit	449	0	0	0
Gains on sale of property, plant and equipment	416	751	191	513
Other revenue	669	272	7	57
Total other revenue	**2,512**	**2,024**	**910**	**1,446**

24 Government grants

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
European Commission	98	86	46	86
Ministry of the Environment	27	37	0	0
Centre of Environmental Investments (Estonia)	55	(4)	4	(4)
Other grants	1	1	1	1
Total grants	**181**	**120**	**51**	**83**

On 17.9.2003, AS Eesti Energia signed a contract with the European Commission according to which the latter will finance the project „Oil shale electricity life-cycle analyses" by using 50% LIFE-Environment funds, which are administered by the Environmental Directorate. The overall cost of the project is 662 thousand euros. The partners in the project for Eesti Energia are the Finnish Environmental Institution SYKE and an environmental consulting company CyclePlan OÜ.

In accordance with the agreements concluded between the Ministry of Environmental Affairs and AS Narva Elektrijaamad (Narva Powerplant), AS Narva Elektrijaamad committed to renovate the power plant's electrostatic filters and to reduce the air pollution to the agreed extent. In exchange, AS Narva Elektrijaamad acquired the right to reimburse the pollution charges. According to the agreement from 3.12.2003 the reimbursement of pollution charges will take place in 3 years.

Eesti Energia AS and the Foundation of Environmental Investment Centre (KIK) signed a contract to build nests for storks. AS Narva Elektrijaamad and the Foundation of Environmental Investment Centre (KIK) agreed to draw up the tender documents of closing the ash field nr. 2.

25 Materials, consumables and supplies

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Maintenance and repair relating to:				
Core activity facilities and equipment	23,897	27,875	3,418	16,557
Buildings and premises	5,038	5,504	872	2,300
Disassembly and waste management	1,713	1,423	173	948
Machinery and transport vehicles	1,680	1,174	293	466
Liquidation of storm damages	1,916	0	0	17
Total maintenance and repair	**34,243**	**35,977**	**4,756**	**20,288**
Technological fuel				
Oil shale	6,981	5,350	0	0
Other technological fuel	15,291	17,497	15,232	17,497
Total technological fuel	**22,272**	**22,847**	**15,232**	**17,497**
Repair supplies	18,759	22,081	789	1,539
Other production-related materials	18,809	16,345	79	83
Tax for use of natural resources	7,626	7,462	4	5
Fuel for machinery and transport vehicles	7,939	6,007	192	691
Electricity	6,756	4,327	293,519	205,275
Other services	1,671	1,908	28	39
Sub-contracting	1,425	1,599	3	35
Tools, other equipment and fixtures	647	892	47	143
Heat, steam, water	820	877	124	159
Goods sold	383	134	1	0
Write-down of inventories	39	31	0	5
Total materials, consumables and supplies	**121,391**	**120,485**	**314,773**	**245,758**

26 Other operating expenses

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Environmental pollution charges	16,423	14,750	239	199
Security, insurance and work safety	7,513	9,139	1,066	1,845
Miscellaneous office expenses	2,709	2,881	2,052	2,226
Research and consultations (Note 27)	1,714	1,834	603	1,195
Operating lease (Note 15)	2,000	1,825	605	1,026
Loss from doubtful receivables	621	1,744	387	740
Telecommunications expenses	2,102	1,654	1,075	2,871
IT expenses	1,412	1,394	968	1,020
Office supplies	778	1,215	202	528
Training (Note 27)	1,005	964	310	488
Public relations and information management	755	712	404	434
Business travel	433	485	129	250
Miscellaneous charges and duties	506	386	81	155
Recognition/reversal of environmental and mining termination provisions (Note 19)	(1,038)	(412)	0	0
Total other operating expenses	**36,933**	**38,571**	**8,121**	**12,977**

27 Research and development costs

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Technical consultations	885	702	124	370
Legal advice	211	335	126	238
Business and management consultations	115	303	67	296
Other consultations	502	495	286	292
Total research and consultations	1,714	1,834	603	1,195
Training	1,005	964	310	488
Total research and development costs	2,718	2,798	912	1,683

28 Payroll expenses

	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Number of employees				
Number of employees at beginning of period	9,784	9,676	1,886	1,888
Number of employees at end of period	9,284	9,784	676	1,886
Average number of employees	9,542	9,754	1,022	1,879
Payroll expenses				
in thousands of euros				
Wages, salaries, bonuses and vacation pay	63,646	63,916	7,724	13,852
Average monthly wages (euros)	**556**	**546**	**630**	**614**
Other payments to employees	2,627	1,658	317	586
Termination benefits	1,024	433	220	110
Total disbursements to employees	**67,298**	**66,008**	**8,262**	**14,548**
Social tax	22,732	22,267	2,908	5,055
Unemployment insurance premiums	329	324	39	71
Provision for injury compensation (Note 19)	20	2,583	0	60
Provision for post-employment benefits (Note 19)	272	647	58	250
Other benefits	138	363	2	35
Non-recurring contractor's fees	334	322	84	117
Fringe benefits	585	468	228	308
Income tax on fringe benefits	296	296	105	169
Total payroll expenses	**92,002**	**93,277**	**11,686**	**20,613**
Incl. remunerations to management and supervisory boards (incl. subsidiaries):				
Salaries	1,162	854	416	324
Fringe benefits	46	48	37	41
Social tax	376	282	137	107
Total remunerations to board members	**1,584**	**1,184**	**590**	**472**
Capitalised in the cost of self-constructed assets:				
Wages and salaries	(2,870)	(2,453)	(15)	(135)
Social tax and unemployment insurance tax	(961)	(821)	(5)	(45)
Total capitalised amount	**(3,831)**	**(3,274)**	**(20)**	**(180)**
Covered with mining termination provision				
Wages and salaries	(219)	(160)	0	0
Social tax and unemployment insurance premiums	(74)	(54)	0	0
Total covered with provisions	**(293)**	**(214)**	**0**	**0**
Total payroll expenses	**87,879**	**89,789**	**11,666**	**20,432**

In the case of expiry or termination of the service contract, members of the management boards are entitled to an indemnification equal to their 3–6 months' salary.

29 Other expenses

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Non-business expenses	767	663	263	111
Loss from sale of property, plant and equipment	43	189	40	4
Fines for late payments and other penalties	151	(303)	38	82
Other	153	157	39	13
Total other expenses	**1,114**	**705**	**380**	**210**

As a result of the cancellation of the social tax interest payable in AS Kohtla-Järve Soojus, the respective expenses for late payments and other penalties were decreased by 468 thousand euros.

30 Net interest expense

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Interest income				
Interest income from bank deposits and short-term placements to money market and interest funds	501	1,195	486	851
Interest income from discounted receivables	0	7	0	7
Interest income from trade receivables	0	3	0	0
Interest income from loans to subsidiaries	0	0	14,529	10,246
Interest income of finance lease from subsidiaries (Note 3)	0	0	36,070	0
Other interest income	9	0	0	0
Total interest income	**510**	**1,205**	**51,086**	**11,105**
Interest expense				
Interest expense on liabilities				
Interest expense on long-term bonds	(12,348)	(12,349)	(12,348)	(12,349)
Interest expense on long-term bank loans	(4,087)	(3,429)	(4,087)	(3,429)
Loss on interest rate swaps (Note 18)	(1,926)	(1,880)	(1,926)	(1,880)
Interest expense on short-term bonds and loans	0	(66)	0	0
Interest expense on finance lease	(1)	(1)	0	0
Other	0	(9)	(992)	(502)
Total interest expense	**(18,362)**	**(17,734)**	**(19,353)**	**(18,159)**
Interest expense on provisions (Note 19)	(1,607)	(1,179)	(19)	0
Total interest expense	**(19,969)**	**(18,912)**	**(19,372)**	**(18,159)**
Net interest expense	**(19,459)**	**(17,707)**	**31,714**	**(7,054)**

31 Related party transactions

For the purpose of the Group's financial statements, the related parties include the associates owned by the Group, the members of the parent company's management board, supervisory board and other individuals who have had significant influence over the Group.
For the purpose of preparation of the Parent company's financial report, the subsidiaries and their board members are also considered related parties in addition to the aforementioned entities.

Parent company's transactions with related parties

in thousands of euros	1.4.2004 - 31.3.2005	1.4.2003 - 31.3.2004
Sales to:		
OÜ Jaotusvõrk	17,516	0
Eesti Põlevkivi	8,922	9,773
OÜ Põhivõrk	4,317	0
Narva Elektrijaamad	311	1,244
AS Elektriteenused	287	383
AS Kohtla-Järve Soojus	199	173
Televõrgu AS	149	711
Energoremont	105	102
AS Elpec	87	20
AS Elektrikontrollikeskus	18	0
Total sales	**31,911**	**12,407**
Goods and services purchased from:		
Narva Elektrijaamad	182,809	200,170
OÜ Jaotusvõrk	87,182	0
OÜ Põhivõrk	19,456	0
AS Elektriteenused	1,267	7,403
Televõrgu AS	880	2,519
Energoremont	993	1,109
AS Kohtla-Järve Soojus	652	1,066
AS Elpec	33	139
AS Elektrikontrollikeskus	5	0
Total operational expenses	**293,278**	**12,237**

31 Related party transactions (continued)

in thousands of euros	1.4.2004 - 31.3.2005	1.4.2003 - 31.3.2004
Purchase of property, plant and equipment from:		
AS Elektriteenused	978	5,460
AS Elpec	257	382
AS Elektrikontrollikeskus	158	0
Energoremont	131	336
Televõrgu AS	22	3
AS Kohtla-Järve Soojus	2	2
Total purchase of PPE	**1,548**	**6,184**
Sale of property, plant and equipment to:		
AS Kohtla-Järve Soojus	2	0
OÜ Jaotusvõrk	1	0
AS Elpec	0	4
AS Elektriteenused	0	16
Energoremont	0	1
Total sale of PPE	**2**	**21**
Financial income and (expenses) from:		
OÜ Põhivõrk	19,901	0
OÜ Jaotusvõrk	18,849	0
Narva Elektrijaamad	11,567	9,923
AS Kohtla-Järve Soojus	163	249
Energoremont	94	42
AS Elektriteenused	3	25
AS Elpec	(4)	(2)
AS Elektrikontrollikeskus	(10)	0
Televõrgu AS	(44)	(1)
Eesti Põlevkivi	(908)	(478)
Total financial income and (expenses)	**49,613**	**9,758**

Parent company's receivables from the subsidiaries

in thousands of euros	31.3.2005	31.3.2004
Short-term receivables		
Overdraft to OÜ Jaotusvõrk	44,750	0
Overdraft to OÜ Põhivõrk	34,493	0
Overdraft to Narva Elektrijaamad	161,608	157,263
Overdraft to AS Kohtla-Järve Soojus	723	3,743
Overdraft to Energoremont	1,793	251
Overdraft to AS Elektriteenused	0	69
Total loans to the subsidiaries	**243,367**	**161,326**
Receivables for goods and services from:		
OÜ Jaotusvõrk	3,001	0
Narva Elektrijaamad	988	1,108
Eesti Põlevkivi	635	959
OÜ Põhivõrk	579	0
AS Elektriteenused	67	46
AS Kohtla-Järve Soojus	34	47
Energoremont	19	10
Televõrgu AS	19	67
AS Elpec	9	6
AS Elektrikontrollikeskus	4	0
Total receivables for goods and services	**5,356**	**2,243**
Total parent company's short-term receivables from the subsidiaries (Note 7)	**248,723**	**163,569**
Long-term receivables		
Overdraft to OÜ Jaotusvõrk	154,880	0
Overdraft to OÜ Põhivõrk	130,801	0
Total parent company's long-term receivables from the subsidiaries	**285,681**	**0**

31 Related party transactions (continued)

Parent company's payables to the subsidiaries

in thousands of euros	31.3.2005	31.3.2004
Amounts due to subsidiaries (overnight deposits)		
Eesti Põlevkivi	3,829	1,297
Televõrgu AS	2,831	865
AS Elektriteenused	1,105	0
Energoremont	427	310
OÜ Põhivõrk	0	128
AS Narva Soojusvõrk	190	19
AS Elpec	466	4
AS Elektrikontrollikeskus	581	0
Total payables to the subsidiaries for overnight deposits	**9,428**	**2,622**
Payables to Eesti Põlevkivi for short-term deposits	34,448	29,655
Payables for goods and services to:		
Narva Elektrijaamad	18,352	9,898
OÜ Jaotusvõrk	14,614	0
Eesti Põlevkivi	542	339
OÜ Põhivõrk	510	0
Energoremont	121	53
AS Kohtla-Järve Soojus	116	129
AS Elektriteenused	74	1,526
Televõrgu AS	57	221
AS Elpec	1	190
AS Elektrikontrollikeskus	4	0
Total payables for goods and services	**34,391**	**12,357**
Total parent company's payables to the subsidiaries (Note 17)	**78,267**	**44,634**

According to the agent agreement between Eesti Energia AS and OÜ Jaotusvõrk, Eesti Energia AS intermediates the sales of network services and its related services and products (connection products, circuit connecting transactions, counter change etc.)
During the reporting period services in the amount of 25,925 thousand euros were intermediated.

in thousands of euros	Group 1.4.2004 - 31.3.2005	Group 1.4.2003 - 31.3.2004	Parent Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2003 - 31.3.2004
Transactions with associates				
Operating expenses	10,563	11,682	0	471
Operating income	20	33	0	0
Purchases from companies where the state has material influence				
Operating expenses	4,019	4,027	2,203	1,938
Operating income	40,971	39,098	35,467	34,712
Purchases from companies where Board members of the Group have significant influence				
Operating expenses	503	399	234	386

Remunerations of the members of the Supervisory and Management Boardsare disclosed in Note 28.

In the case of sales of electricity, the prices are set by the Estonian Energy Market Inspectorate.
All other transactions are carried out at market prices, or if no market price exists, the negotiated prices are used

32 Pledged Assets, Collaterals and Guarantees

The loan agreements concluded by the Group set certain limits on the Group's financial indicators. Those limits have not been exceeded.

As at 31.3.2005, the following warranties were valid:
1) Eesti Energia AS has issued a guarantee to Foster Wheeler Energia OY in respect of the liabilities of the Group's subsidiary Narva Elektrijaamad arising from the contract between the latter and Foster Wheeler Energia OY.
The above contract was signed for the renovation of two power blocks at AS Narva Elektrijaamad in the total amount of about 256 million euros.
As at 31.03.2005, AS Narva Elektrijaamad had not yet paid, according to the agreement, the amount of 22,006 thousand euros, which is kept until the launch of the two power blocks.
2) On 29.1.2003 Eesti Energia AS gave a guarantee in respect of possible liabilities in the amount of 1,137 thousand euros, which may arise from the agreement of ISPA consolidated financing project between AS Narva Elektrijaamad and the Ministry of Finance. The guarantee is valid until 31.12.2006
2) As at 31.03.2005, the Group's subsidiary AS Energoremont had 18 active warranty contracts with Hansapank in the total amount of 549 thousand euros with the latest maturity date of 25.5.2008 (at the end of the previous reporting period 19 contracts in the total amount of 446 thousand euros with maturity date up to 27.12.2006).

33 Contingencies and Commitments

Electricity Prices

As the Group has a monopoly on the production, transmission and distribution of electricity in the Estonian market, the prices' upper limits for the closed market are set by the Estonian Energy Market Inspectorate. According to the agreement with the European Union, Estonia is obliged to open up one third of its electricity market by 2009, and the whole market for business clients by 2013. The date for opening up the whole market will be agreed upon before 2013.

Network development obligation

According to the Electricity Market Act, a network company is obligated to administer the network in a way that ensures a continuous and satisfactory network service in the service area.

Requirement to comply with the air pollution limits of the European Union

The EU has accepted the environmental measures taken by the Government of Estonia, which include investment plans of Narva Elektrijaamad (Narva Powerplant) for the years 2002-2006, and has extended the transition period for bringing the oil shale fired power plants into compliance with air pollution limits until 2016.

According to the accession agreement between the EU and Estonia, the oil shale ashes processing and storage must be in compliance with the EU environmental regulations by 16.7.2009 at the latest.

Renewable Energy Purchase Obligation

In accordance with the Electricity Market Act, the main grid is obliged to purchase all electricity generated from renewable sources at the price stated in the Electricity Market Act.

Construction agreements

As at 31.3.2005, the Group had liabilities from future fixed assets acquisitions in the amount of 54,656 thousand euros (As at 31.3.2004: 51,516 thousand euros).

34 Off-Balance Sheet Assets

As at 31.3.2005, Eesti Põlevkivi had 507 million tons of active oil shale reserves (As at 31.3.2004: 549 million tons), incl. underground mines - 355 million tons (As at 31.3.2004: 375 million tons), surface quarries - 152 million tons (As at 31.3.2004: 174 million tons).

According to the government decree No. 14 of 27.1.2005 Eesti Energia Group received 46,730,352 tons of greenhouse gases quotas for the period 2005-2007.

35 Subsequent Events

On 29.4.2004, AS Nordic Energy Link increased its share capital, whereby Eesti Energia paid the complementary sum of 8.6 million euros and the rest of the shareholders 13.2 million euros. After the enlargement of the share capital, Eesti Energia owns 39.9% in AS Nordic Energy Link.

On the same date, Eesti Energia isseud a guarantee in respect of loan agreements between AS Nordic Energy Link and Nordic Investment Bank and SEB Eesti Ühispank to guarantee the liabilities at 39.9% amount, in case the banks require repayment of the loans arising from non-fulfilment of loan conditions. The guarantee amount depends on the loan balance, with the maximum of 36.9 million euros. At 31.12.2004, the value of guarantees was 0.

On 10.5.2005, at Eesti Energia's Board meeting it was decided that Eesti Energia's structural unit Iru Elektrijaam will be spun off as a separate legal entity.

Profit Distribution Proposal

Net profit of Eesti Energia AS for the financial year 2004/05 is 666,453,223 kroons (42,594,124 euros).

According to §10 section 1 of State's Participation In Private Entities Act the Government shall confirm, at the proposition of the Minister of Finance, the sum paid out as dividends by state owned legal entities. According to Government regulation number 161 of 21.3.2005, Eesti Energia shall pay 97,000,000 kroons (6,199,430 euros) dividends in 2005.

Taking into account the continuous need for capital investments financing the Management Board recommends to the General Meeting of Shareholders to allocate the remaining net profit as follows:

1) 33,322,661 kroons (2,129,706 euros) to be transferred to statutory reserve;
2) 536,130,562 kroons (34,264,988 euros) to be transferred to retained earnings.

Signatures of the Management Board and Supervisory Board to the Annual Report

The Annual Report of Eesti Energia AS and the Group for the financial year ended on March 31, 2005, consists of the management report, financial statements, the auditor's report and the profit distribution proposal.
The Management Board of the Company has prepared the management report, financial statements and profit distribution proposal. The Supervisory Board of the Company has reviewed the annual report and approved it for submission to the annual general meeting.

Management Board
31.05.2005

Chairman of the Management Board	Members of the Management Board			
Gunnar Okk	**Sandor Liive**	**Lembit Vali**	**Mati Jostov**	**Marko Allikson**

Supervisory Board
08.06.2005

Chairman of the Supervisory Board	Members of the Supervisory Board			
Urmas Sõõrumaa	**Meelis Atonen**	**Värner Lootsmann**	**Toomas Luman**	**Janno Reiljan**
	Mihhail Stalnuhhin	**Tiit Tammsaar**	**Heido Vitsur**	

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AUDITOR'S REPORT

To the shareholder of Eesti Energia AS

We have audited the financial statements of Eesti Energia AS (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the financial year (1 April 2004 to 31 March 2005) ended 31 March 2005 as set out on pages 48 to 82. These financial statements are translated into euros from the original in Estonian kroons. These financial statements are the responsibility of the Parent Company's Management Board. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Parent Company and the Group as at 31 March 2005 and of the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Vladimir Mironov
Authorised Auditor

1 June 2005