Annual Report
2006/07

EESTI ENERGIA

The map of Northern European Transmission system (220–750 kV)

220 KV 300-330 KV 380-400 KV 500 KV 750 KV — Existing transmission lines

Transmission lines under construction / consideration

Lines for two circuits

Lines for two circuits under construction / consideration

Direct current high-voltage cable lines

HVDC cable for two circuits

HVDC cable lines under construction / consideration

HVDC cable lines for two circuits under construction / planning

Nuclear power plants

Thermal power stations

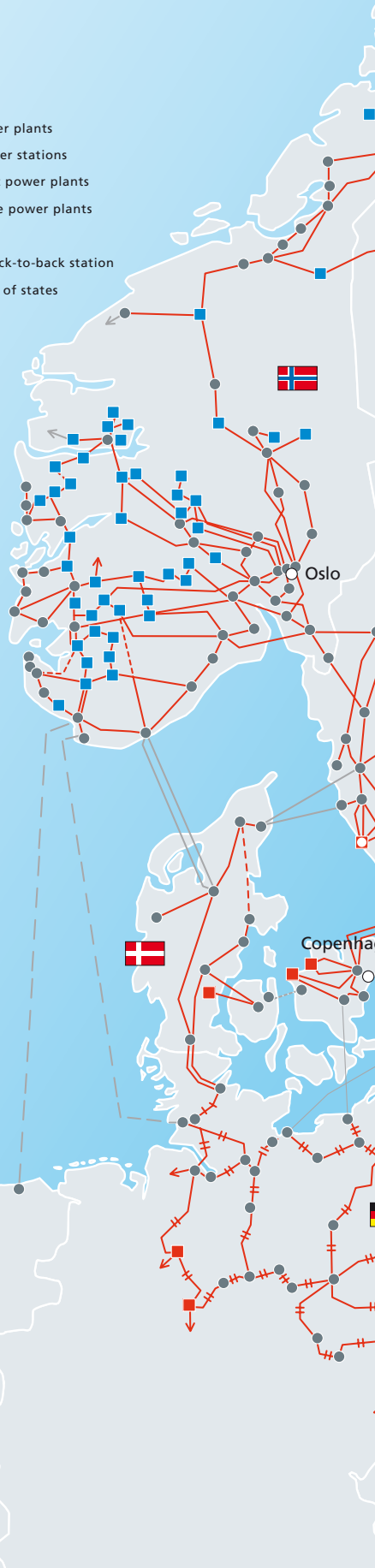
Hydroelectric power plants

Pump storage power plants

Substations

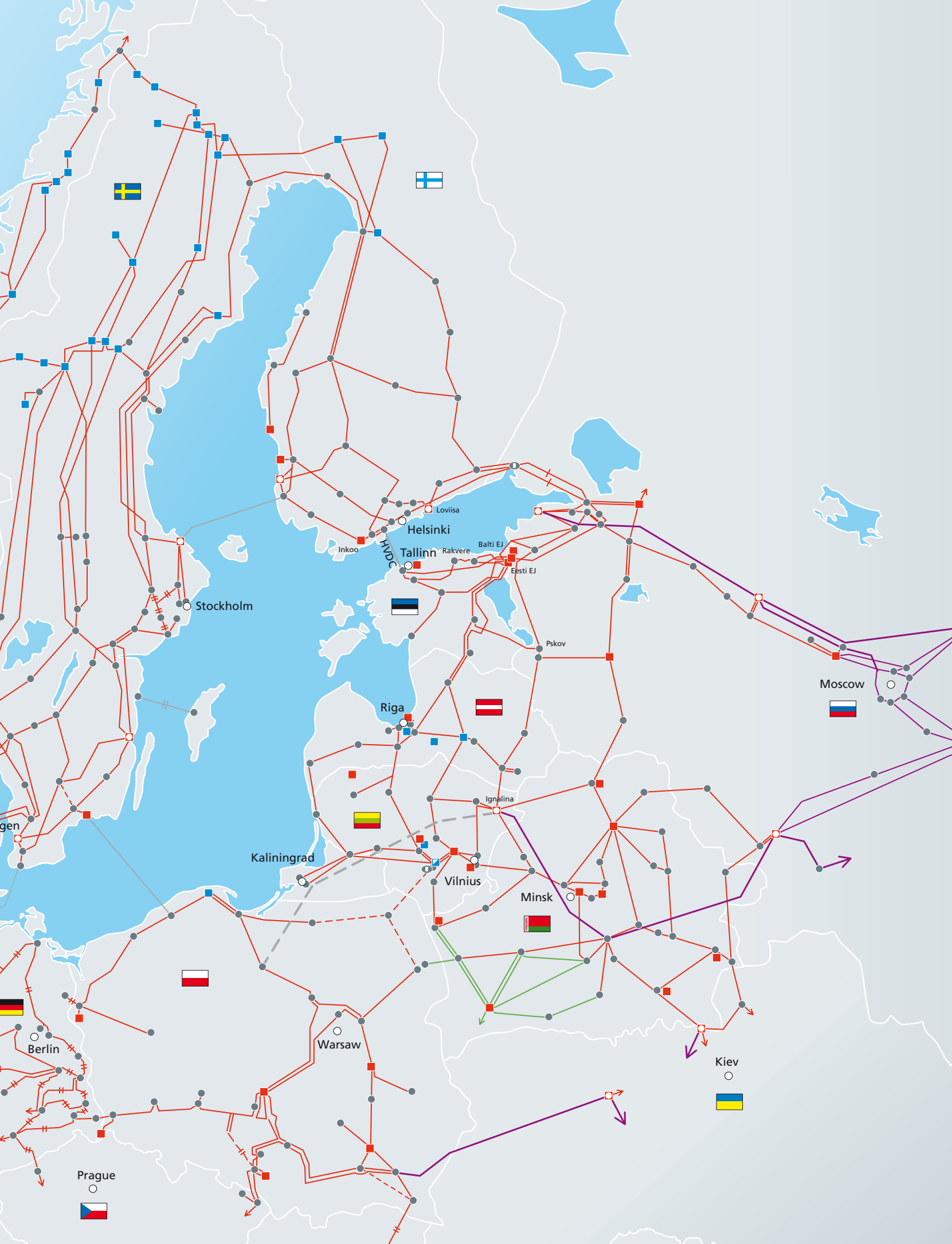
AC/DC/AC back-to-back station

Capital cities of states



Main Financial Indicators of the Group

		2006/07	2005/06	2004/05	2003/04	2002/03
Total sale of electrical power	GWh	7,818	8,002	7,983	7,675	6,931
of which domestic sales of electrical power	GWh	6,610	6,235	5,947	5,702	5,369
exports of electrical power	GWh	1,208	1,766	2,036	1,973	1,562
Sale of thermal power	GWh	1,822	1,981	1,977	2,168	2,361
Total losses in the domestic power transmission system		10.6%	12.1%	12.5%	13.9%	15.6%
of which losses in the distribution network		8.3%	9.8%	10.2%	11.1%	11.9%
Sales revenue	MEUR	482	453	395	377	366
Operating profit before depreciation	MEUR	291	264	149	133	132
Net profit	MEUR	168	135	43	33	41
Cash flow from operating activities	MEUR	257	228	125	117	115
Investments	MEUR	140	153	160	199	238
Assets at the end of year	MEUR	1,667	1,497	1,318	1,245	1,185
Debt obligations at the end of year	MEUR	342	345	309	295	276
Owner's equity at the end of year	MEUR	1,116	971	840	795	762
Owner's equity / assets at the end of year		67%	65%	64%	64%	64%
Return on invested capital		16.1%	14.3%	5.6%	4.9%	6.1%
Net debt / operating profit before depreciation		0.3	0.7	1.8	1.9	1.4
Interest cover ratio		15.5	9.0	7.5	7.0	9.1
Average number of employees		8,576	8,983	9,542	9,754	9,768


Loviisa
Helsinki
Inkoo
HVDC
Tallinn
Rakvere
Balti EJ
Eesti EJ
Stockholm
Pskov
Moscow
Riga
Ignalina
Kaliningrad
Vilnius
Minsk
Warsaw
Berlin
Kiev
Prague

Key Events Financial Year 2006/07

The financial year 2006/07 was the best year in the history of the Eesti Energia Group. The most important event of the financial year was the first linking of the energy systems of the Baltic and Nordic countries via the Estlink undersea cable. Eesti Energia's clients' assessments of its services increased, and its general reputation improved and Eesti Energia remained highly valued as an employer, attracting many new active and enthusiastic people to join the company in the 2006/07 financial year.

Highlights

Diversification of the production portfolio:

- Preparation of the environmental impact assessment for the new energy complex of the Narva Power Plants
- Completion of the feasibility study for the Ignalina Nuclear Power Plant, which showed that the project should continue
- Increase in the environmental friendliness of the Iru Power Plant production base
- Launch of renewable energy projects in Narva, on Ruhnu and in Viljandi
- Founding of a joint company in Jordan to research oil shale mining there
- Research into the expansion of shale oil production

Increase in the quality and efficiency of networks

Põhivõrk – investments of 37.4 million euros

- Completion of the Balti-Kiisa 330 kV overhead transmission line
- Installation of the Tartu substation 330 kV auto-transformers
- Completion of the Emajõe substation in Tartu
- Extension of the Harku 330 kV substation

Jaotusvõrk – investments of 51.1 million euros

- Decrease in the number of faults per client per year to 1.6 (from 1.7 in financial year 2005/06)
- Achievement of the lowest level of losses ever at 8.3% (from 9.8% in financial year 2005/06)

Customer service

- Launching of a personal notification service for scheduled supply interruptions
- Promotion of new solutions for settling accounts – the "Buy Electricity in the Shop" project

New connections

- Completion of Estlink undersea cable
- Carrying out of Estlink 2 feasibility analysis
- Preparations for the Baltic countries to join the Western European UCTE electricity system

Opportunities for growth in the neighbouring markets

- Purchase of the Finnish portfolio administration company Solidus
- Establishment of energy sales companies in Latvia and Lithuania to enter the end-user market

New products

- Preparation for market launch of mobile Internet
- Opening of the crushed stone complex at the Aidu quarry

Contents

All of Our Energy for the Good of the People

The financial year 2006/07 was a year of opening new doors for Eesti Energia. New opportunities have not simply fallen into our hands, we have worked hard for them, because the challenges of the future are greater and more interesting than ever before.

We have set ourselves a vision of selling energy to two million clients by the year 2015. This is a major challenge for us, given the threats and opportunities of the opening of the energy market in 2013. Until now Eesti Energia has been the only player in the tournament, but with the opening of the energy market we will have to prove ourselves in the European Champions' League, so the challenge is to become a successful free market economy company in order to realise our vision.

We have started by putting our own house in order. Eesti Energia's investments in the energy network, thanks to which outages will decrease by a half and voltage problems will disappear completely, are larger than ever. Our service is already now at the top level in Estonia and the level of satisfaction with our customer service has even overtaken that of the major banks, who are considered leaders in service quality. A traditional industrial company is growing into an exemplary sales and service organisation.

Our second priority is to secure the future by investing in electrical energy production. The lasting unique advantage Estonia has is its oil shale, but this must not become a weakness. Dependence on one source of production may, in the open market, become dangerous if the environment changes. Equally, limiting climate change is of great importance to us, and for these reasons we want to diversity our production portfolio with CO_2-free production, by investing in, for example, the Lithuanian nuclear power plant and renewable energy.

Oil shale is our national pride, and our internationally unique knowledge of processing oil shale is an even greater source of pride. The shale oil factory in Jordan is the first project in the international niche which can make us into an actor on the global stage.

The past financial year saw a monument built to our international commitment, as for the first time ever we saw the energy markets of the Baltics linked with the Scandinavian market. We also sold our first electricity in Finland, the first step on the road to linking the entire Baltic Sea area.

We give our energy not only to customers and people in Estonia, but also to our employees. Our reputation as an employer has increased tremendously and new projects and targets have increased the involvement of our employees, which has helped our team to recruit many new members and, moreover, encouraged the old ones to continue playing on the same field.

We have launched many new initiatives and set demanding goals. In the near future we shall prove to you that we can also enter through these open doors.

Sandor Liive
Chairman of the Management Board

Business Philosophy and Strategy

Mission of the Eesti Energia Group

To devote all of our energy for the good of the people

Vision of the Eesti Energia Group for the Year 2015

To sell energy to two million customers in the Baltic Sea region

Strategic Goals of the Eesti Energia Group for the Years 2006–2010

I Improvement in the Network Quality

- **By the year 2010 in the Distribution Network (Jaotusvõrk):**

- we will decrease Distribution Network faults by 50%
- we will decrease Distribution Network losses to 7%
- we will eliminate voltage problems for all customers.

- **By the year 2010 in the Transmission Grid (Põhivõrk):**

- we will decrease the number of faults on lines and at substations by 20%
- we will decrease the costs of maintenance of lines and substations by 20%
- we will modernise 80% of the 330 KV substations in the Estonian energy system.

The Eesti Energia vision is to sell energy to two million clients in the year 2015. This means that Eesti Energia must be a client-friendly company oriented towards sales, which grows in the conditions of the market and does not shrink. Today Eesti Energia is a successful company in the closed market, but it is striving to become a company that also succeeds in an open international energy market.

For this we need to put our own house in order. The power network used in Estonia was built during Soviet times and it no longer meets the modern requirements. Eesti Energia's goal is to bring the quality of the Jaotusvõrk services up to a level where the Estonian people and companies are satisfied.

By 2010 interruptions to our clients' supply will be reduced by a half. To achieve this, investments in the reliability of the network will increase about fourfold. This means considerable sums of money – 0.4 billion euros in the next five years – will be invested in the renovation of lines and substations. In order to reduce faults, the existing lines will be replaced with underground cables or new overhead lines will be installed and new substations built.

It is also planned to solve completely the voltage quality problems which afflict approximately 22,000 clients at the moment, predominantly in rural areas. Solving the voltage problem in Estonia entirely means that medium voltage has to be brought closer to customers and new substations have

to be built, which is going to cost approximately 100 million euros. The biggest voltage problems are in Tartu County and in South-East Estonia.

We plan to reduce the percentage of electric energy lost from today's 8.27% to 7%. The majority of the energy loss, or 5-6%, is commercial loss, the rest comes from meter errors and theft.

II Diversification of the Production Portfolio

- **We are continuing to develop the technology for the production of electricity from oil shale**
- By 2010 there must be a technological solution for reducing carbon dioxide, carbon and nitric oxide emissions, and for reducing the environmental hazard of ash.
- **We are participating in the development project for the construction of a nuclear power plant**
- **We have set co-generation and renewable energy as our priorities**
- **We are constructing gas turbines to guarantee a reserve for wind energy**

The Eesti Energia production portfolio is too one-sided, as more than 90% of the electricity is produced from oil shale and hence there is too much risk due to possible changes in the external environment. At the same time, Eesti Energia's production is currently very CO_2-intensive. To ensure its clients a sufficient supply of electrical power, Eesti Energia wishes to invest in new production capacity, to reduce the emission of CO_2 resulting from power production, and to diversify the production of electricity. In the field of energy, where important changes have recently taken place in connection with climate change measures and the introduction of emission trading, this matter is extremely topical.

During the last century, several serious climate changes have been observed on the Earth, which are considered to have been caused by human activity and in particular the intensive combustion of fossil fuels. It is forecast that if human activity continues as at present, then there could be a rise in the temperature of Earth of nearly 6°C, which could create serious consequences like a dramatic rise in the water level in the oceans, a drop in fresh water reserves, and a greater prevalence of severe storms and other extreme natural phenomena. To avert these climate changes which threaten mankind, the European Union (EU) has set the goal of keeping the rise of the average temperature of Earth below 2°C by significantly restricting the emission of CO_2 and other greenhouse gases into the air.
The energy sector as a big user of fossil fuels has a significant role to play in achieving this aim.
As a result of this, Eesti Energia wishes to lower significantly the CO_2 presence in the production portfolio. For this reason, opportunities for constructing bio-fuel co-generation plants are being sought and wind energy projects are being developed. In order to "smooth" the uneven production of wind energy, which is dependent on the weather, the plan is to invest in gas turbines.

With the future in mind, the question of the construction of a nuclear power plant is also very important for Eesti Energia. Today it is one of the alternatives for Eesti Energia in diversifying its energy production portfolio and guaranteeing sufficient production capacity. The feasibility study into the use of nuclear energy has today received confirmation that the new nuclear power plant project in Lithuania is worth continuing.

One of the essential choices to be made in the production of electricity from oil shale is whether to continue with the renovation of the existing Narva Power Plants production blocks, or whether to build entirely new ones alongside the existing power plants. A second issue is how to make the maximum use of the existing production potential. Today the biggest challenges in the use of the old blocks are the restrictions on sulphur and nitrogen emissions coming into force in 2012 and 2016, which will considerably reduce the ability of the Narva Power Plants to produce electricity. Implementing a solution to clean the smoke from the Narva Power Plants old blocks of sulphur and nitrogen is one of the priorities for investment in the coming years.

III New Connections, Products and Markets

- **Further uses for oil shale**
- **The construction of the second sea cable to Finland**
- **In 2010 a 10% market share of Internet services in Estonia**

Eesti Energia is continuing with its investments in wider uses of oil shale, particularly the production of shale oil liquid fuel from oil shale.

The production of shale oil has several advantages over other uses of oil shale. In the production process 70% of the energy within the oil shale is used, compared to 40% in the production of electricity. A by-product of the production of liquid fuels is gas, which can be burned to generate electricity.

The existence of this domestic oil production capacity is an important factor in creating security, as this can secure Estonia's need for liquid fuels. The production of shale oil has to be expanded step by step, depending on developments in the world's energy markets. By 2010 Eesti Energia is planning to build another new shale oil plant and take the sale of shale oil to 500,000 tonnes a year. Eesti Energia should also invest in production in those countries around the world, where a mineral similar to Estonia's oil shale is found. The interest in liquid fuels produced from oil shale is high everywhere and Eesti Energia is currently investigating a project in Jordan, but others are also on the radar.

In January 2007 the first sea cable linking the energy systems of the Baltic countries and Scandinavia was energised. With the commercial use of the Estlink undersea cable, energy trade between Estonia and Finland began. The second sea cable to Finland, uniting the Baltic and European electricity systems and creating a single market area, and thus ensuring the supply of electrical energy to Estonia will, according to the plan, be completed in 2013.

Eesti Energia would like to offer integrated solutions to the energy customer – services should not stop at the customer's supply point. For Eesti Energia there is a major opportunity for growth in businesses where it can satisfy the demands of new clients. By calling the Eesti Energia customer service line the customer should, in the future, be able to contact an electrician who will come and fix any fault at either the customer's home or work. One part of this is Eesti Energia's Internet service for end-users starting from July 2007. Eesti Energia's advantage here is the fact that a connection can be created for customers of the existing network anywhere within Estonia, including places where the internet has previously been inaccessible.

IV Opportunities for Growth in the Energy Business

In addition to being part of the growth of the domestic market, we want to:

- **start selling electricity on the Finnish market in 2007**
- **acquire regional distribution network companies**
- **cooperate with energy companies from the Nordic and Baltic countries.**

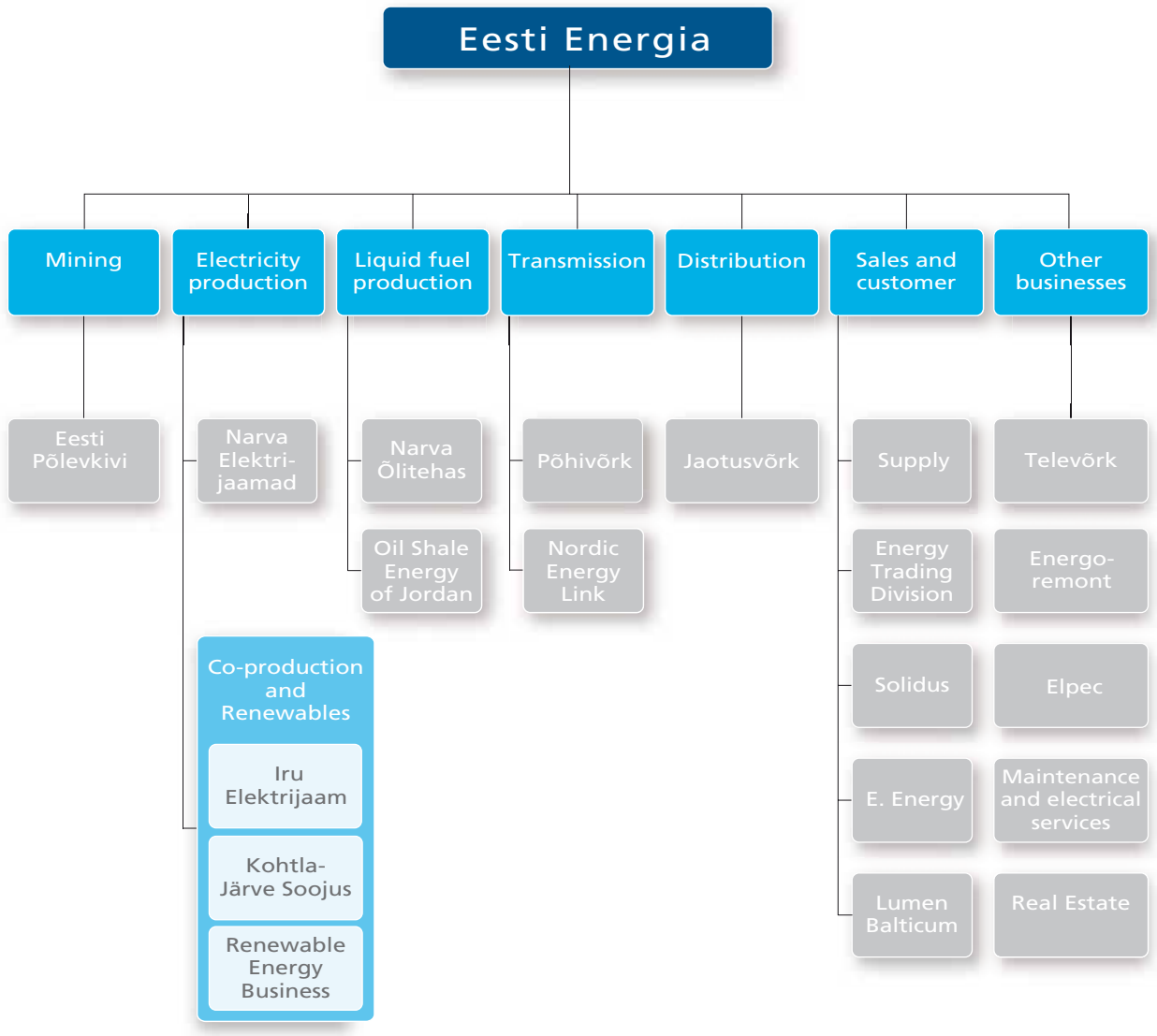
Eesti Energia has so far been a local energy producer and network operator, selling the electricity it produces in Estonia. The group's strategy for 2006–2010 also takes into account the fact that the surrounding environment is changing – competition in the production and sale of electrical energy will appear in Estonia. Network services will remain as natural monopolies and thus also regulated activities.

From 1st July 2007 all energy sale markets of the countries in the European Union surrounding Estonia are freely open for competition. If Eesti Energia cannot expand its activities, it will shrink as competition arises, because faced with competition, Eesti Energia can only lose market share and profit in Estonia. Energy trade is an international business and if Eesti Energia wishes to be successful in its business in the future, it cannot remain a local actor in such a situation

For the Baltic region to have a working energy market, it is necessary to build further connections alongside the Estlink undersea cable strengthen the cooperation between the transmission networks in the region. The market area can be widened by building more sea cables between the Baltic countries and Scandinavia, thus consolidating the cooperation between the two regions and joining the West-European energy system UCTE. The opportunity is here for Eesti Energia to become the leader in consolidating the Baltic energy companies, by bringing them together for cooperation and being able to compete, invest and develop.

We are striding boldly towards our goal of becoming the leading energy company in the Baltic Sea region. To achieve this we give every day all of our energy for the good of the people.

Margus Kaasik – Eesti Energia, Chief Financial Officer
Lembit Vali – Põhivõrk, Chairman of the Management Board
Raine Pajo – Eesti Energia, Technical Director
Sandor Liive – Eesti Energia, Chairman of the Management Board
Tiit Nigul – Eesti Energia, Sales and Trading Director
Margus Uudam – Jaotusvõrk, Chairman of the Management Board
Ilmar Petersen – Narva Elektrijaamad, Chairman of the Management Board
Harri Mikk – Eesti Energia, Development Director


Eesti Energia
Mining
Electricity production
Liquid fuel production
Transmission
Distribution
Sales and customer
Other businesses
Eesti Põlevkivi
Narva Elektri-jaamad
Narva Õlitehas
Oil Shale Energy of Jordan
Põhivõrk
Nordic Energy Link
Jaotusvõrk
Supply
Energy Trading Division
Solidus
E. Energy
Lumen Balticum
Televõrk
Energo-remont
Elpec
Maintenance and electrical services
Real Estate
Co-production and Renewables
Iru Elektrijaam
Kohtla-Järve Soojus
Renewable Energy Business

People and the Organisation

At the end of the financial year 2006/07 the Eesti Energia Group employed 8,411 people. As it had in previous years, the number of the employees continued to decline, which comes from the optimisation of the work organisation. Eesti Põlevkivi is the company in the group with the most employees, employing 3,754 people at the end of the financial year.

The average age of the employees within the Eesti Energia Group was 44.8 years and the average length of service was 14.8 years. The average basic monthly salary as at March 31, 2007 was 610 euros. 79% of the employees were men, 21% women. Of the total body of the employees of the Eesti Energia Group the largest share, or 63%, comprise skilled workers, 12% are specialists, 11% managers, 7% top managers, 4% service personnel and 3% unskilled personnel.

The reputation and attractiveness of Eesti Energia as an employer has grown throughout the years. This is shown by the study of companies' profiles and reputations conducted by TNS Emor in the spring of 2007, in which Eesti Energia achieved its best result ever. In all the subsections looked at, Eesti Energia was named among the ten most preferred companies, including the third favourite as an employer among all working people. The attractiveness of Eesti Energia as an employer is supported by the size of the organisation together with the opportunities for personal development and the rapid development of the company itself, which is all due to the opening of the energy market to competition in the year 2013.

In the financial year 2006/07 the first broad employee devotion study within the entire group was conducted. The study showed that Eesti Energia employees are motivated by interesting and flexible work which enables the full use of their skills and abilities, and they value highly the opportunity to work in a successful and developing company. In addition, the study showed that the managers are very devoted and innovative,

"It is most important in the near future to make decisions on remuneration policy, which defines a clear strategy in order to keep our salaries competitive."

Riina Varts
Eesti Energia, Head of HR

are able to create a pleasant work environment, and are well able to guide and support people in their everyday work.

The mission of Eesti Energia "all of our energy for the good of the people" was worded to refer to the leadership sense of the personnel as well as to the customers. Whereas until now the culture of Eesti Energia has been characterised by expertise and helpfulness, entrepreneurialism was also added to the list of values, the scope of which needs to be adopted by our employees. The need to be more entrepreneurial stems from the forthcoming opening of the market, and also from the general development of the organisation.

The most important event of the financial year 2006/07 in the human resources policy was the wording of the human resources strategy for the next three years and its launch. The strategy focuses on three principal topics: the development of managers, the building of the next generation reserve, and the retention and motivation of employees.

The Eesti Energia Group is a hierarchical organisation that stresses the importance of specialists and requires that people develop their skills. For this the Eesti Energia expectations of management have been defined, and following from this the assessment and development of managers has been systematised. The three values of the company, expertise, helpfulness and entrepreneurialism were worded as a model of skills for the managers, so that it would be easier to root them in everyday life. Personal development interviews are being re-introduced, and these must become more thorough than before.

As a leading energy company, one of the human resources priorities of Eesti Energia is to guarantee future experts within the field. The disappearance of professional higher education for energy specialists from the education system has left a gap on the labour market, which is why Eesti Energia works closely with educational institutions in order to restore this next wave of energy specialists.

An important part of the strategy is establishing the employer's brand within the company and presenting the employer's offer to the employee. Within the next three years the plan is to develop a clear background strategy and take important salary-related decisions that would help to offer a competitive salary within the different labour market segments of the company.

Eesti Energia employees are offered several benefits, which have to be structured and reasoned in the future so that employees would value them more. Eesti Energia considers it important that the employees perceive that the company cares wholeheartedly. The role of performance-related pay is also to be developed, which should motivate employees, as well as the issue of promotion and rotation within the company. The reserve bench of managers needs to be expanded too. Managers must begin to value more than before the development and promotion of their employees within the organisation.

Eesti Energia is also a good employer, as it invests sufficiently and with dignity in the development of its employees. There is room for development in that the training choices for employees should be more systematic, and should be based on a strategy and proceed from the individual development needs of each employee. The group has taken action in developing managers, the next step from here is the level of specialists.

Eesti Energia has been the leading employer among energy companies in Estonia over the past few years, and has contributed more and more to the next generation of young energy specialists.

Basic school and secondary school graduates who are about to make their first decision about their professional career can order tours from Eesti Energia, in the course of which they can learn about various energy-related sites, for example the Keila-Joa Hydro Power Station, the Narva Power Plants, the Iru Power Station and others. During the academic year 2006/07 more than 3500 basic school and secondary school pupils visited the different energy system sites. Eesti Energia also works with many other companies in the same field to promote the energy industry.

Eesti Energia supports the writing of additional materials for different subjects (physics, mathematics, economics, domestic science etc.) in general education schools; actively participates

in the development and renewal of professional standards; and participates in the development of the vocational education national curricula for energy courses, and additionally Eesti Energia employees work as lecturers at establishments of higher education teaching energy-related subjects. In order to develop adult education and energy-related in-service training, Eesti Energia has started a project with energy companies and training institutions in Finland, Sweden and Latvia.

Under Eesti Energia's leadership, the Virumaa College of the Tallinn University of Technology is going to admit students in the field of energy technology in the autumn of 2007. The Estonian University of Life Sciences has also approved a curriculum providing professional higher education for power engineers. The Engineering Faculty of the Tallinn University of Technology is also launching a new Master's programme in the autumn of 2007 in energy trading. Via the development foundations of the establishments of higher education, Eesti Energia also awards Bachelor's, Master's and Doctoral studies scholarships and orders research papers and studies on different fields of energy that are worth developing.

In the financial year 2006/07 the management board of Eesti Energia decided to make several changes to the structure of the group with the aim of increasing the efficiency of the Eesti Energia Group and guaranteeing the better operation of the companies and business units.

Firstly it was decided to establish an independent incorporated entity on the basis of an oil plant which currently belongs to Narva Power Plants by June 2007 at the latest, as this will allow the financing of investments in electricity and oil production, and also the risks of the two different operations, to be separated more clearly. Furthermore, this change will allow each company to focus more on their core activity.

Secondly, at the end of the financial year Eesti Energia's subsidiary AS Energoremont took over AS Mäetehnika from AS Eesti Põlevkivi. The main activity of both companies is the production and maintenance of metal constructions. AS Energoremont purchased the shares of AS Mäetehnika to complete the takeover.

On top of these changes within the group, Eesti Energia also changed it's structure by creating two new business units, Energiakaubandus (Energy Trading) and Renewable Energy. The job of the Energy Trading business unit is to manage the portfolio of Eesti Energia Group's electricity production, purchase and sales, and to trade in electrical power in the Nord Pool electricity exchange. The job of the Renewable Energy business unit is to manage development projects in this area.

The last structural change was the decision to sell the group's interests in OÜ Elektrikontrollikeskus. Elektrikontrollikeskus'es main functions are to inspect the technical condition of electrical installations and to attest to their conformity to regulations, and to evaluate and certify the competence of people working in electricity. OÜ Elektrikontrollikeskus is an authority which gives expert assessments, it is very important that it be independent, and as Eesti Energia didn't have any strategic interest in the business, it was decided to sell the share. The sales contract was concluded on May 16, 2007 and the buyer was OÜ Tehnokontrollikeskus. The value of the transaction was 0.1 million euros.

Social Responsibility

As a company of vital importance for the Estonian state, its people and its businesses, Eesti Energia wants to contribute more broadly to the development of society. Eesti Energia supports many initiatives and projects from which as many people as possible may gain in Estonia, focusing on endeavours that bring energy to society.

Altogether the Eesti Energia Group supported various endeavours in the financial year 2006/07 with 0.4 million euros.
In the financial year 2006/07 the projects supported came into several categories:

- **The popularisation of education in the field of energy and engineering**
- The Tallinn University of Technology Development Foundation received support, as Eesti Energia wishes that those in technical higher education should have good opportunities to study and that current engineers should be followed by a next generation of diligent young people. The Development Foundation received 40 thousand euros for scholarships, and a physics competition on the topic of energy for Tallinn schools also received funding.
- Energiakeskus. Eesti Energia is one of the founders of the Tallinn Centre for Research and Science, or the Energy Centre, and is an avid supporter of its activities. During the past financial year in the course of the energy week the Energy Centre organised events for kindergarten children and school pupils.
- In the financial year 2006/07 the Executive Assembly of the World Energy Council (WEC) took place in Tallinn, which Eesti Energia supported with 0.1 million euros.

- **Eesti Terviserajad (Estonian Recreational Trails)**
- The Estonian Recreational Trails is a project initiated by Merko Ehituse, Eesti Energia and Hansapank with the Ministry of Culture and the Estonian Ski Association in order to renovate Estonia's natural sports centres.

"As an important company for whole Estonia we are dedicated to helping with issues of concern to society. We want to place power engineer on young people's list of career choices as an interesting and popular profession."

Kristi Liiva
Eesti Energia, Head of Corporate Communications

The aim is to support the development of recreational and sports trails in Estonia, and we would like to ensure the year-round free of charge availability of recreational trails for all who are interested. In the spring of 2007 over 30 sports centres across Estonia were making use of the Recreational Trails. In renovating the trails Eesti Energia builds lighting for the trails, Merko Ehitus designs and partially builds them, and Hansapank finances the purchase of maintenance and track machinery and snow making technology. Several other companies have also joined in the project, for example Elektriteenused and Eesti Põlevkivi from the Eesti Energia Group. In the last financial year the Kuremaa ski trail was lighted, and the Nõmme-Harku ski trail lighting was completed. In total the Eesti Energia Group supported the Estonian Recreational Trails project with 0.2 million euros in the financial year 2006/07.

- Energy saving and environmental protection
- The Energy Saving Portal created by Eesti Energia provides the first opportunity for business and residential clients and large commercial consumers to get simple, clear and multifold information from one channel on products, technologies and means of energy saving. The aim of the website is to raise the energy-efficiency of both business and residential clients.
- Every year Eesti Energia organises a competition for projects promoting energy saving. The projects to be presented at the competition must be aimed at promoting energy and/or heat saving in domestic households or organisations, or in the activities of institutions and businesses. Eesti Energia supports the best energy saving projects with 6 thousand euros, and support has been given to the interactive science bus Suur Vanker (Ursa Major), and studies into the construction of energy saving passive houses.

- The social sphere

  The companies of the Eesti Energia Group have supported social institutions and sports facilities by building electric lighting or improving it, for example, 20 thousand euros to supply electricity to the Maarja Village Foundation and 32 thousand euros to the Defence Forces Promotion Foundation.

- Initiatives within Eesti Energia

  Eesti Energia companies are regularly engaged in various socially beneficial initiatives – planting trees, collecting scrap paper, old batteries and computers etc. In order to save paper we offer our customers e-bills.

Summary of Key Events Affecting Economic Results

In the financial year 2006/07 Eesti Energia achieved its best ever results, with operating revenues of 584.6 million euros (+9.6%), operating profit of 189.1 million euros (+15.0%) and net profit of 168.4 million euros (+24.4%).

The most significant event in the financial year 2006/07 was the completion of the Estlink undersea cable, which connected the Baltic power system with that of the Nordic countries for the first time.

Alongside the construction of the cable, the most important events were the confirmation from a feasibility study carried out jointly with Latvian and Lithuanian partners that it is realistic to continue with the project for a new nuclear power plant in Lithuania, and the cut in the network's power losses in Estonia to their lowest ever level.

The significance of the Estlink cable reaches beyond the opportunity to buy and sell electricity. One of the most important strategic goals of Eesti Energia is to guarantee energy independence, and in the context of electricity, the key to achieving this goal is the connection of the Estonian and Baltic power systems with the Nordic power system Nordel and the European power system UCTE. Estlink is the first step towards achieving this target – now, for the first time, Estonia and the other Baltic states are connected with the power system of the Nordic countries by an undersea cable.

In the financial year 2006/07 domestic sales amounted to 6,610 GWh, which is 6.0% or 375 GWh more than in the financial year 2005/06. Sales rose primarily as a result of the remarkable growth of the Estonian economy. Sales of electrical energy on the domestic open market increased by 29.8% (168 GWh), sales to business clients on the closed market by 3.1% (107 GWh), to residential customers by 3.7% (53 GWh) and to network operators by 6.3% (47 GWh).

The economic performance of the financial year was largely affected by above-average temperatures in the third and fourth quarters. The average air temperature was 2.2 degrees higher in the fourth quarter of 2006 and 3.8 degrees higher in the first quarter of 2007 than it was a year earlier. The average temperature in the whole financial year was 1.9 degrees higher than the temperature in the previous financial year. The higher average temperature is estimated to have pushed down domestic sales of electrical energy by 200–220 GWh.

The focus of investments in the financial year was on power networks, accounting for approximately 65% of all investments. The construction of the largest overhead line and high-voltage substation since independence was regained, the Balti-Kiisa 330 kV line, was completed by OÜ Põhivõrk. The main investment projects in power generation and oil shale were moves to meet stricter environmental requirements and to increase efficiency in production. Total investments of the financial year 2006/07 were 139.6 million euros.

Distribution network losses in 2006/07 fell to 8.3% by the end of the financial year, which is the lowest ever for the company. The fall in losses is due to efficient cooperation within the company in reducing commercial losses and due to investments made in the Estonian power network to raise the quality of the network. Total investments in the distribution network amounted to 51.1 million euros in the past financial year.

An increase in the price of electricity exports and an abundance of water in Latvia led to a marked decrease in the volumes of electrical energy exports. Compared to the previous financial year the export of electrical energy to the Baltic countries decreased by 54.3% (960 GWh) and stood at 806 GWh. The decrease in export volumes to Baltic countries was to some extent balanced by the export of electrical energy to Finland via the Estlink cable which amounted to 401 GWh in the first quarter of 2007. Revenues from electricity exports totalled 34.5 million euros in the financial year 2006/07 (5.7 million euros down compared to the financial year 2005/06).

Sale of heat totalled 1,822 GWh in the financial year 2006/07, which was 159 GWh down compared to the financial year 2005/06. The sales results were affected by an exceptionally warm December and March – in these two months the sales of heat were lower than in the previous financial year by a total of 146 GWh. Total sales revenue from thermal energy was 33.5 million euros, showing a growth of 3.6% or 1.2 million euros. The increase in sales revenue was due to higher heat tariffs stemming from the rise in the gas price during the financial year.

The world market price of liquid fuels is closely related to the world market price of oil, which fluctuated between 52 and 79 dollars per barrel in the financial year. In the financial year 2005/06 the average oil price was 59 dollars per barrel, whereas in the financial year 2006/07 the average oil price was 7 dollars per barrel higher at 66 dollars per barrel. The increase in the prices of oil products caused the average sales price of shale oil to rise to 224.2 euros per ton in the financial year 2006/07.

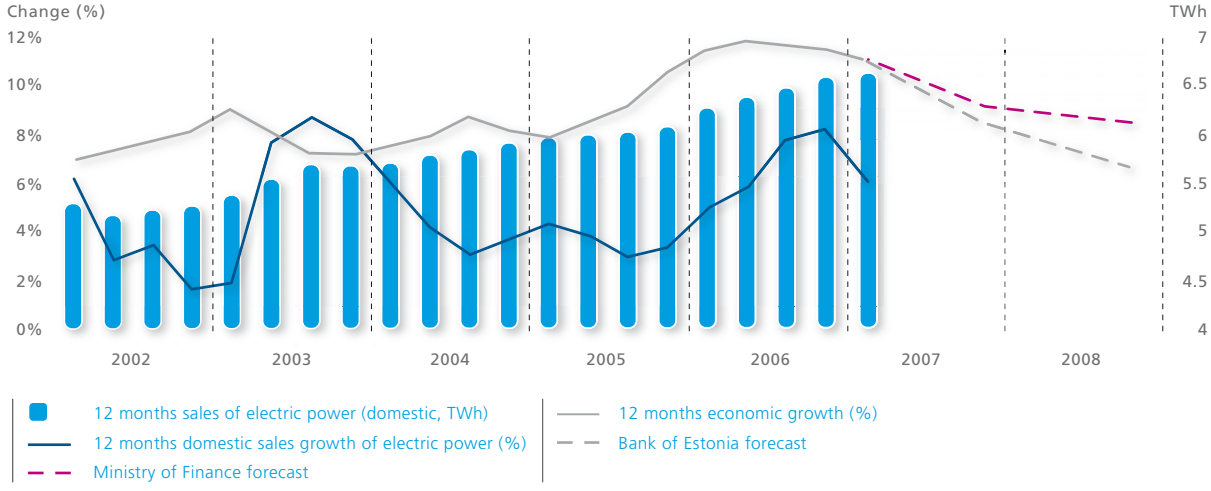
In accordance with the national allocation plan, the Government of the Republic of Estonia allocated 46.7 million tons of CO_2 emission allowances to the companies of the Eesti Energia Group to cover domestic demand for electrical energy and exports of it for the period of 2005–2007. Some of the emission allowances allocated to Eesti Energia remained unused as exports were lower than had been estimated at the time the application for investments in environment protection and allowances was made.
Emissions trading increased Eesti Energia's profit for the financial year 2006/07 by 96.4 million euros, while in the financial year 2005/06 the positive impact of emission trading on profits was 74.0 million euros.

Overview of the Economic Environment

As nearly 90% of the group's sales revenues come from Estonia, the general economic environment in Estonia has a very strong influence on the economic performance of Eesti Energia.

An upturn in the economic environment will raise domestic sales of electricity as the demand for electrical energy rises, primarily among large and medium-size companies. As a rule, the increase in the domestic sales of electrical energy is half the growth rate of Estonian Gross Domestic Product (GDP), but in some years it could be quite different in either direction, mostly because of major new clients or temperatures that depart from the average for a long time.

According to Statistics Estonia, the Estonian national statistics office, Estonian GDP has been rising in steady prices by an average of 8.8% per year since 2000, even exceeding 10% in the last six consecutive quarters. This strong economic growth is mainly due to a significant increase in domestic demand, supported primarily by a sudden increase in people's consumption power and investments. The main reason for the sudden increase in consumption power is a high employment rate and the resulting shortage of labour. These factors have given rise to a rapid increase in salaries and wages and a better credit status for private persons, and also to greater indebtedness and larger expenditures. Both domestic production and imports have grown due to the increased domestic demand. Their sound financial position has enabled companies to invest in expansion, while at the same time they are being compelled



to make additional investments in improving their efficiency of production due to the increasing labour costs.

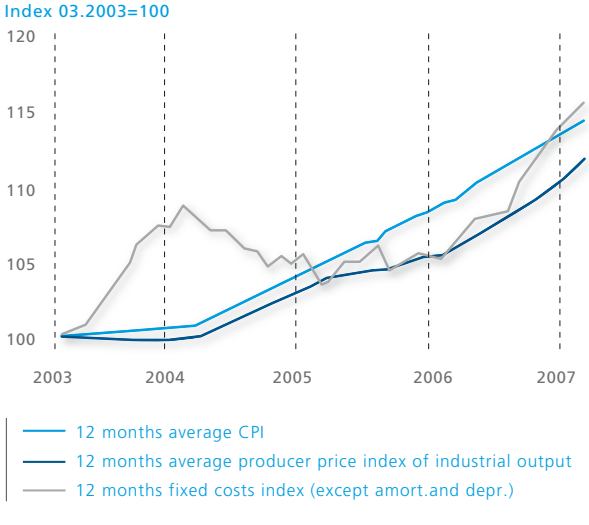
According to Statistics Estonia, the Estonian economy grew by 11.4 % in 2006, which is 0.9% more than in the previous year. According to the preliminary estimate of June 11, 2007 the Estonian economy grew by 9.8% in the first quarter compared with the same period in the previous year, while the growth over the current 12 months is at 11.0%.

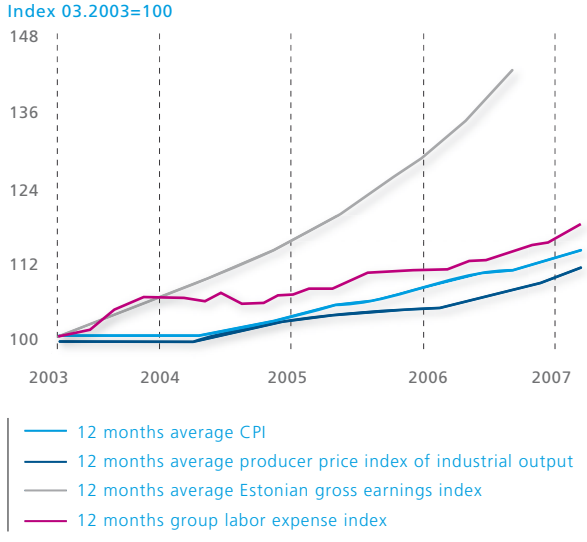
The consumption of domestic electricity grew by 6.0% in the financial year 2006/07, compared to growth in the previous year of 4.9%. This means that sales growth in domestic electrical energy increased by 1.2% even though, according to a preliminary estimate, there was a 0.3% fall in economic growth over these years and the average temperature in the financial year was 1.9°C higher than it was in the previous year. The higher than usual domestic sales growth was caused by new large consumers and the general favourable economic outlook, which led to a rise in electricity consumption (+6.7%) by business customers, including network customers.

The real growth of Estonian exports and imports was 10 and 14.7 per cent respectively in the calendar year 2006.

Inflation

Inflation, or a change in the cost of living, is an important factor influencing the fixed costs of the Eesti Energia Group. The charts show a remarkable increase in the growth rate of prices after May 2004 when Estonia joined the European Union. Joining the common market gave an additional impetus to the development of entrepreneurship and investments, leading to substantial economic growth, a reduction in unemployment and an increase in people's income, and thus in domestic demand. The general improvement in the standard of living has accelerated the rise of local prices into line with prices in the European common market. However, as much importance should be attached to a rise in fuel prices, especially oil, which coincided with the expansion of the European Union in May 2004, as to the factors conducive to inflation. Within the last

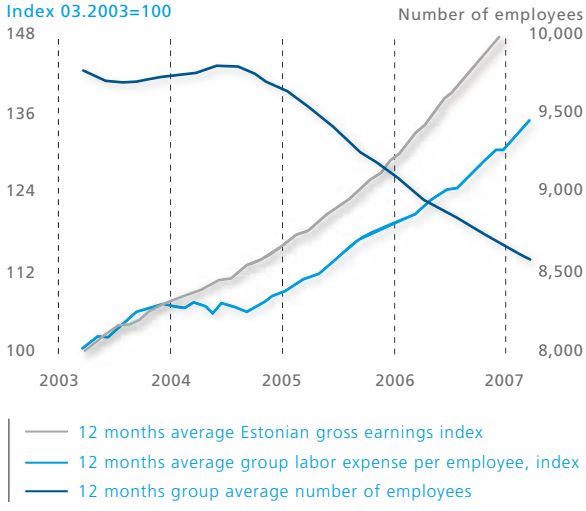




three years the oil price has more than doubled, leading to a dramatic growth in the prices of different fuels and fuel oils. The rise in fuel prices will lead to higher manufacturing costs in most sectors and it will eventually have an impact on prices for end-users.

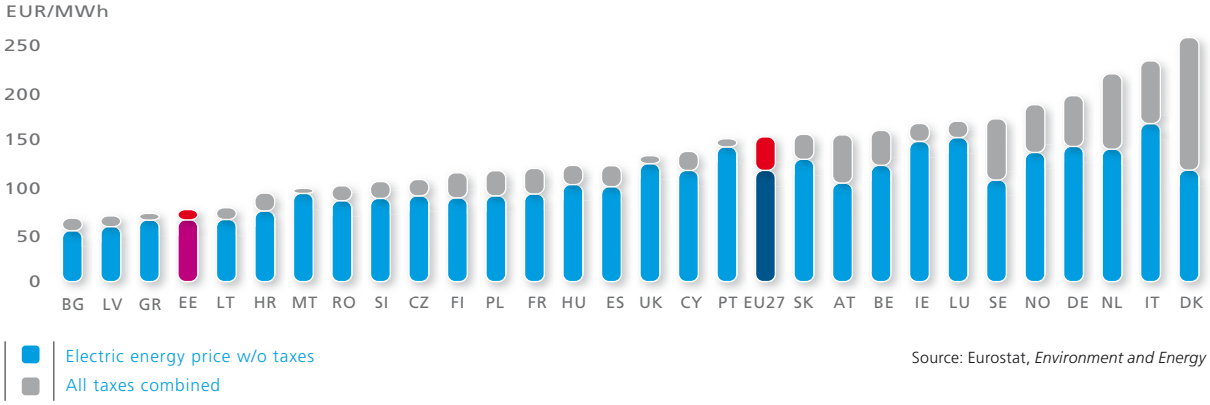
The fixed costs of the group increased 10.4% in the financial year 2006/07. Since the financial year 2003/04, the fixed costs have increased by an average of 4.1% a year and during the last four years by a total of 17.2%. Over the same period, the consumer price index has increased by an average of 3.4% a year and over the four years by a total of 14.3%.

As Eesti Energia is the largest employer in Estonia, more than half of the group's fixed costs are labour costs, and these are directly influenced by a rise in the cost of living and the related changes in the labour market. In recent years Estonia has seen a dramatic rise in salaries and wages, which has also raised the group's labour costs. In the financial year 2006/07 Eesti Energia's labour costs totalled 95.8 million euros, growing by 5.4 million euros (6.0%) in one year. In spite of the strong external pressure on salaries and wages, the group's average labour cost per person has been growing at



a slower rate than average gross wages in Estonia; the growth of costs has also been slowed down by increases in the efficiency of production. Compared to the previous year the number of people working for the group had fallen by 345 to 8,411 people (-3.9%) by the end of the financial year.

Electric Energy Prices for EU Domestic Consumers 01.01.2007, Yearly Consumption 3 500 kWh

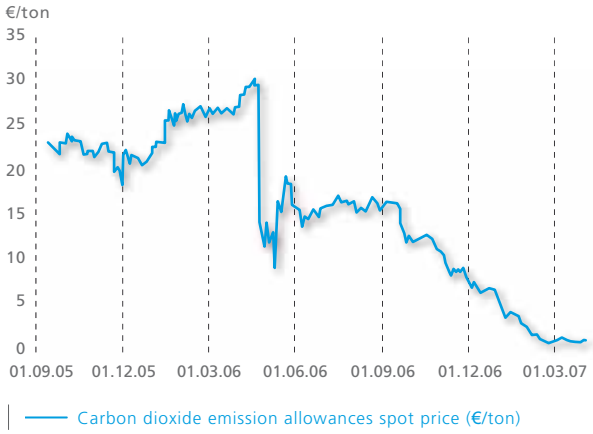


Source: Eurostat, *Environment and Energy*

Approximately 95% of the group's production of electrical energy in the financial year 2006/07 was based on oil shale, whose price is not directly related to oil price fluctuations on the world market. This has enabled the group to keep manufacturing costs, and thus also the price of electricity, relatively stable and it is one of the reasons why the Estonian electricity price is one of the lowest in the European Union[1], at less than half of the average EU level. Only Bulgaria, Latvia and Greece have a lower electricity price, taxes included, than Estonia for a typical residential customer. In the short-term, increasing investments, higher labour costs and stricter environmental regulations will lead to a rise in the price of electricity.

Emission Allowances Market

In the last financial year the average spot price for CO_2 emission allowances was around 12 €/tonne, which is half the average price of the financial year 2005/06. Within the year there were significant fluctuations with the price remaining stable at 20–27 €/tonne in the earlier months, but the peak of 30 €/tonne in late April 2006 was followed by a sharp fall to 9 €/tonne, and the price levelled off at 15–16 €/tonne by the summer. The rapid decline in the spring was caused by the public announcement about the use of CO_2 emission allowances allocated to countries, which led to the conclusion that for several countries the quantities of emission allowances initially allocated for the years 2005–2007 would exceed the amounts actually emitted. In autumn, after the price of emission allowances had stabilised in summer, prices continued to fall, reaching as low as 1 €/tonne by the end of the financial year.



Eesti Energia earned 96.4 million euros from the sale of emission allowances in the financial year 2006/07.

In early May 2007 the new CO_2 emission allowances were allocated to Estonia by the European Commission for the years 2008–2012 in accordance with the second national allocation plan for greenhouse gases, and they have been radically reduced compared to the previous allocation plan[2]. According to the first allocation plan the yearly emission allowances allocated to Estonia were 19 million tonnes, but in the new plan they have been reduced to 12.72 million tonnes, a cut of 33%. Compared to the yearly emission allowances of 24.38 tonnes for the years 2008–2012 that Estonia applied for, the reduction was an even more dramatic 48%. When drawing up the new allocation plan the European Commission drew mainly upon the real quantities of CO_2 emissions in the year 2005, the correlation between GDP and CO_2, and economic growth. Besides Estonia, the emission allowances applied for by the other Baltic countries and Poland, Slovakia, Malta and Luxembourg were also dramatically reduced.
For Eesti Energia, this decision means that CO_2 allowances suffice only to cover the demand for electrical power in the Estonian closed domestic market. In the short-term, the emission allowances have to be treated at their full value as variable costs when selling electrical power to the open market.

[1] Eurostat, Environment and Energy
http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136239,0_45571447&_dad=portal&_schema=PORTAL
[2] Emissions trading: Commission took a decision about the Estonian national allocation plan for greenhouse gas allowances for the years 2008- 2012.
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/613&format=HTML&aged=0&language=ET&guiLanguage=en

Member state	Allocation plan 1 yearly CO_2 quantity, million tons	2005 actual quantity, million tons	Country's proposal 2008-2012, million tons	EC allocated quantity 2008-2012, million tons
Austria	33.00	33.40	32.80	30.70
Belgium	62.10	55.58	63.30	58.50
Czech Republic	97.60	82.50	101.90	86.80
Estonia	19.00	12.62	24.38	12.72
France	156.50	131.30	132.80	132.80
Hungary	31.30	26.00	30.70	26.90
Germany	499.00	474.00	482.00	453.10
Greece	74.40	71.30	75.50	69.10
Ireland	22.30	22.40	22.60	21.15
Latvia	4.60	2.90	7.70	3.30
Lithuania	12.30	6.60	16.60	8.80
Luxembourg	3.40	2.60	3.95	2.70
Malta	2.90	1.98	2.96	2.10
Netherlands	95.30	80.35	90.40	85.80
Poland	239.10	203.10	284.60	208.50
Slovakia	30.50	25.20	41.30	30.90
Slovenia	8.80	8.70	8.30	8.30
Spain	174.40	182.90	152.70	152.30
Sweden	22.90	19.30	25.20	22.80
Great Britain	245.30	242.4	246.20	246.20
Total	1,834.70	1,685.16	1,845.92	1,663.47

The size of the emission allowances allocated to countries are of vital importance in setting the price of emission allowances in the secondary market, which will eventually have an impact on the electrical energy produced from fossil fuels. Therefore electricity producers are seeking to optimise CO_2 emissions in electricity production by both implementing innovative production technologies and restructuring production capacities.

Producing electrical energy from oil shale is one of the production methods which generates most CO_2 emissions. Producing one MWh of electrical energy from oil shale with up-to-date technology causes approximately 1 tonne of CO_2 to be emitted. For coal the amount is about 0.8 tonnes and for natural gas around 0.4 tonnes. Therefore the price of electricity produced from oil shale is strongly affected by the quantity of CO_2 emission allowances allocated to the group's electricity producers and the price of emission allowances in the secondary market.

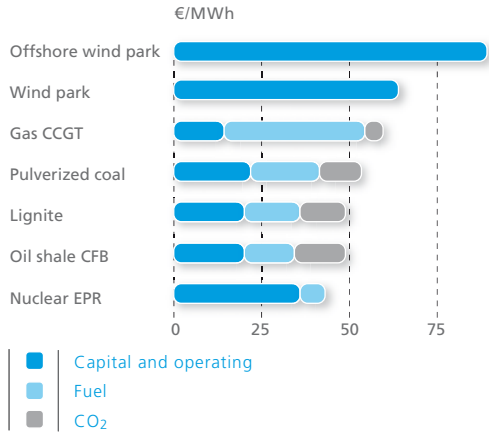
As there is still some confusion about the development of the allocation system for emission allowances after the year 2012, long-term investments in production capacities which generate large quantities of CO_2 involve an additional risk on top of changes in fuel prices and other tightenings of environmental regulations.

One of Eesti Energia's goals is to extract the maximum value from oil shale while taking into account the risks arising from emissions trading. To manage this we are looking to increase the efficiency of our production facilities working with oil shale, while at the same time raising the proportion of energy sources free from carbon dioxide in our production portfolio. As a result, the near future will require greater investments in the production of electrical and thermal energy.

Investment in New Production Capacity

The diagram on the right gives an overview of the cost price of electrical energy produced from different primary sources, taking account of capital cost, fuel cost and the cost of carbon dioxide emission allowances. As can be seen in the table, both nuclear and modern oil shale and coal plants are among the production units with the lowest cost price for electrical energy. Nuclear plants have low flexibility and high capital costs, while oil shale and coal based plants have a lower capital cost than a nuclear plant, but higher fuel costs and CO_2 emissions. Gas plants have a greater technical and economic flexibility and lower capital costs, but they have the highest fuel price. At today's construction prices continental wind parks in favourable places are only slightly more expensive than gas plants, and given the major subsidies that renewable energy attracts, wind energy seems really promising for investments in electricity production.

Electricity prices, including the prices of new production capacity, are highly dependent on hypotheticals. Today's electricity prices in Estonia and the other Baltic states are remarkably low when taken with the cost of new production capacity. The main reasons are that the capital costs of stations built several decades years ago are close to zero, and the price of emission allowances in 2007 has not been included in production costs. It is expected that in future prices in the Baltic states will rise to cover the full costs of new production capacity. The driving forces behind changes in the Estonian electricity price are the prices on the open market around us, and the need for new investment in production.

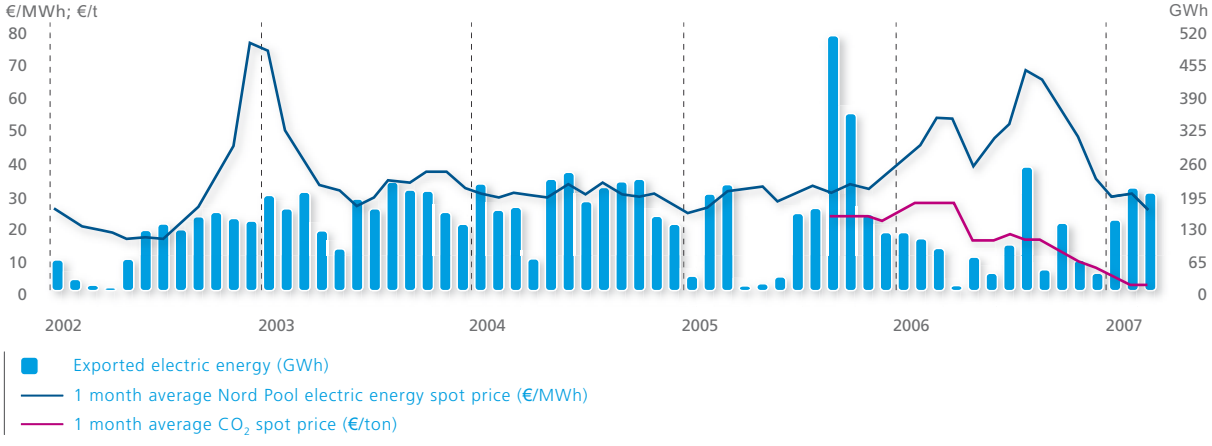


The Open Market

The Nordic Electricity Market

The most significant event for Eesti Energia's electricity sales in the past financial year was the energising of the Estlink undersea cable on January 4, 2007, allowing the export and import of electricity from the Nordic energy exchange Nord Pool.

The spot prices for electrical energy on Nord Pool fluctuated between 17 and 80 €/MWh in the financial year 2006/07. May 2006 saw a rapid price correction when the price of electrical energy fell from €55 to €35 per MWh. It was followed by a steady increase in prices and the peak of 80.4 €/MWh was reached in late August, after which, prices started to go down again and fell to 23 €/MWh by the end of the financial year. Despite these large fluctuations the average spot price of electrical energy on the electrical energy market Nord Pool was 44 €/MWh in the financial year 2006/07.



The prices of electrical energy on Nord Pool are mainly influenced by water levels in Norwegian and Swedish hydroelectric plants, fluctuations in outside temperatures, and changes in the prices of CO_2 emission allowances. The price level on Nord Pool is also affected by the prices of electrical energy on the energy market of Central Europe, especially Germany.

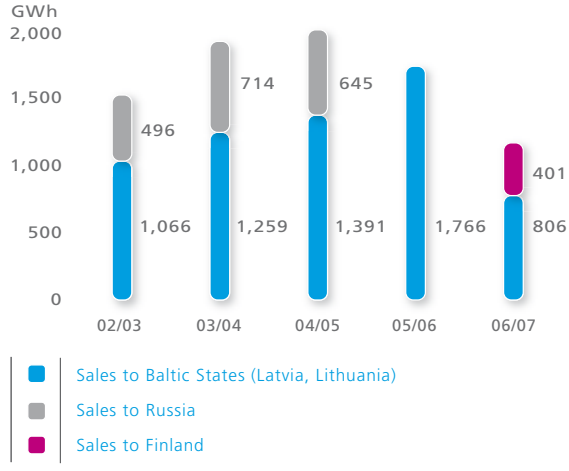
The low water level together with the highest oil price for decades caused price records in both the Nordic and European electrical energy markets in the summer 2006. The fall in the oil price in autumn, a price fall in CO_2 emission allowances, and the warm and rainy beginning to the autumn and early winter period caused the prices of electrical energy

on Nord Pool to decline and that trend in prices continued until the end of the financial year.

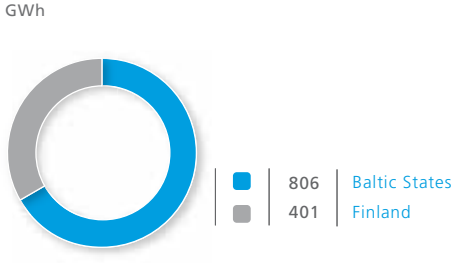
Eesti Energia started trading on Nord Pool in January 2007. The average sales price of electrical energy on Nord Pool in the last quarter of the financial year was 42.6 €/MWh, which is 15.9 euros higher than the average spot price of the period (26.7 €/MWh). A higher sales price than the market average was achieved due to previously signed futures contracts.

In addition to trading on the electrical energy market Nord Pool, Eesti Energia has direct contracts with Finnish business partners for the sale of electrical energy. Our total exports of electrical energy to Nordic countries were 401 GWh.

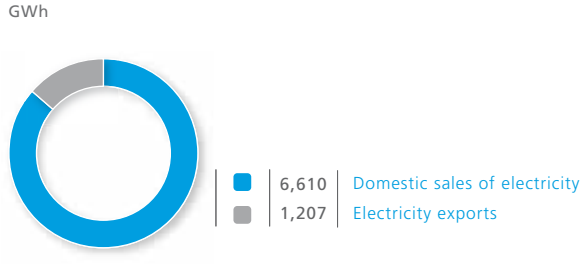
Electricity Exports



Exported Electric Energy Split Between Markets FY2006/07 (GWh)



Percentage of Export from Sales in FY2006/2007



The Baltic Electricity Market

The Baltic electricity market is not a conventional energy market with a large number of sellers and suppliers. Until 2007 it constituted an energy island consisting of the Baltic countries and North-western Russia, with only four major suppliers. The energising of the Estonian-Finnish undersea cable in January 2007 opened a route for Baltic electricity producers to sell electricity to Finland and via Finland also to other Nordic countries. In addition, Finnish and other Scandinavian producers could start selling electrical energy to the Baltic countries, increasing competition between the electricity producers in the region. Because of this, the prices of electrical energy on the electrical energy market Nord Pool affect energy prices in bilateral contracts signed in the Baltic countries.

In the financial year 2006/07 Eesti Energia set up electrical energy retailers in Latvia and Lithuania. Although energy markets were already opened to all business customers de jure in both countries in 2004, entering the market has been difficult up to now. Eesti Energia, however, sees an opportunity to act in the retail market of these countries and intensive sales activities are being launched in the financial year 2007/08. According to the international research company Datamonitor[3] both Latvia and Lithuania are among the European countries with the least open energy markets using the MCI criteria for the openness of the energy market.

It is essential for the further development of an efficient Baltic electricity market that additional links should be established with countries that neighbour the Baltic states, first and foremost between Lithuania and Poland, and that the link capacity between Estonia and Finland should be increased. At the moment the links between the Baltic countries do not have significant capacity restrictions.

In the long term, the logical route to follow is an amalgamation of the Baltic and Nordic electrical energy markets through the construction of new links.

General Trends in the Energy Market in the European Union

Record high oil prices, changes in the emission allowances market, the inelasticity of supply, and increasing demand caused electricity prices to rise in the EU market in 2006. Member states' increasing dependence on imported fuels together with the ageing infrastructure of the sector of power engineering, is compelling both producers and legislators to pay more and more attention to the security of supply and of energy.

The European Commission published the green book of power engineering "A European Strategy for Sustainable, Competitive and Secure Energy"[4] on March 8, 2006. The purpose of the book is to start a discussion about the creation of a common EU energy strategy, which would help guarantee security of supply, competitiveness and environmental sustainability.

According to the green book, joint action in energy politics in the European Union could be possible and necessary in the following priority areas: setting up a common and open internal energy market of the union; increasing the security of energy supply in the internal market of the union; developing the energy sources used in the internal market (using more economical, efficient and diverse energy sources); integrating the issue of control over climate change into power engineering; developing energy technologies; and dealing with energy issues in foreign relations.

It follows from this that creating new links between the Baltic and Nordic countries as well as with Central Europe can be considered a priority. Consequently, Estonia is making preparations to construct an additional undersea cable link with Finland, Estlink 2, which will raise the capacity of the energy link between the regions to around 1,000 MW.

The idea of creating an undersea cable link with a capacity of 1,000 MW between the Baltic countries and Sweden is being analysed, and a link between the Lithuanian and Polish electrical networks is also being considered.

Creating new links and cross-border free energy trade is one of the main prerequisites for the formation of an integrated European energy market.

[3] www.datamonitor.com
[4] European Commission "A European Strategy for Sustainable, Competitive and Secure Energy" http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

Impacts of Oil

Fluctuations in oil prices have a large impact on the performance and results of companies that operate in the power engineering sector.

Changes in oil prices have the most direct impact on the setting of the world market prices for different fuel oils, and other fuels and products made from oil. As long-term delivery contracts for natural gas are quoted on the basis of the prices of oil products, the price of oil also has an indirect impact on other major types of fuel such as natural gas and coal.

According to the EIA about a quarter[5] of the world's energy production is based on oil and natural gas and therefore sharp changes in the price of these raw materials are also reflected in the price of electricity in electrical energy markets. If the prices of oil and natural gas rise significantly, the proportion of electrical energy produced from coal will increase, which in its turn will increase demand for CO_2 emission allowances.

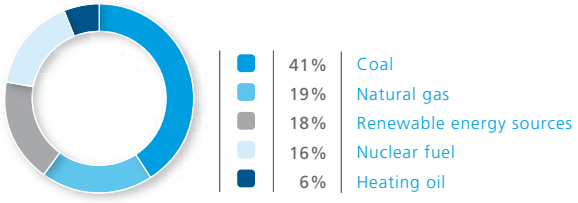
The electricity price in the open market depends not only on the price of oil in the world market, but also on several other important factors that might either compensate for or increase the impact of fluctuations in oil prices on the price of electrical energy. For instance, in the summer months of the past financial year the record high oil price compounded the price rise in electrical energy in the electrical energy market Nord Pool. The price rise was primarily caused by the lower production capacity of hydroelectric plants due to the low levels of water reservoirs. In the short term changes in outside temperature and the economic environment or in demand and changes in production capacity, including precipitation, wind, or supply have a significant effect on the price of electrical energy in open energy markets.

The price of crude oil reflected changes in oil prices, fluctuating between 52 and 79 dollars per barrel in 2006, reaching its peak in August 2006. After the correction in September 2006 the price per barrel of oil has stayed at 60 dollars.

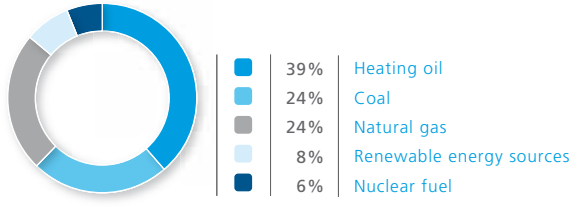
For Eesti Energia, oil price fluctuations have the greatest impact on the sales revenues from shale oil, as the sales price of shale oil is directly affected by the world market price of heavy fuel oils produced from oil.

The prices of oil products made from shale oil (heavy crude oil, light crude oil and natural gasoline) are linked to the price of fuel oil in Western and Northern Europe. The price

World Energy Consumption for Electricity Generation by Fuel Type



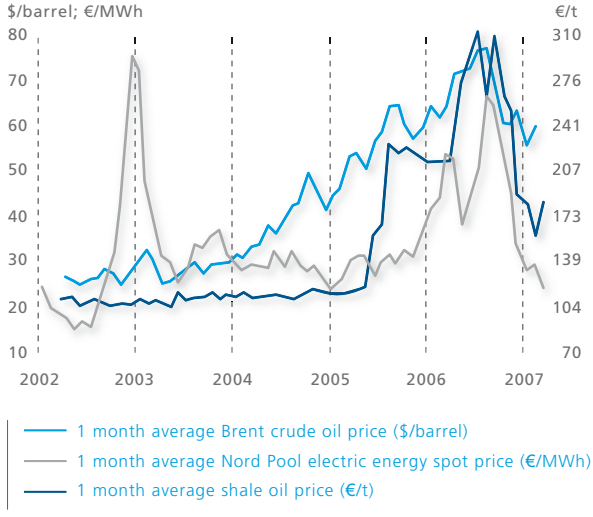
Fuel Shares of World Marketed Energy Use



[5] Energy Information Administration "International Energy Outlook 2006" http://www.eia.doe.gov/oiaf/ieo/highlights.html

difference between Northern Europe and the Baltic States is accounted for by transportation costs, which can reach 25–40 USD per tonne.

The oil price remaining high in the first half of the financial year enabled the company to sell shale oil at a high profit, then in the second half of the financial year a price correction occurred in correlation with the oil price. Future plans include selling shale oil at the spot price and using futures to spread risks.



The Estonian Market

Market Overview

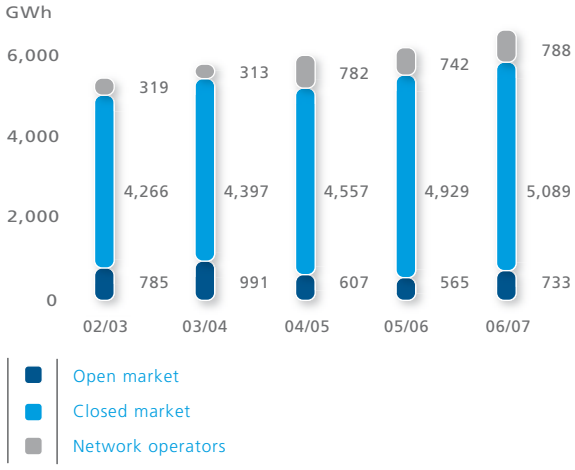
The domestic electrical energy market is divided into two parts, the open and the closed markets. Currently the market is open only to customers whose electrical energy consumption exceeds 40 GWh per year.

From January 1, 2009 35% of the market will be opened and whole market will be open from January 1, 2013. The Electricity Market Act states that a network operator may only sell electrical energy to clients in the closed market:

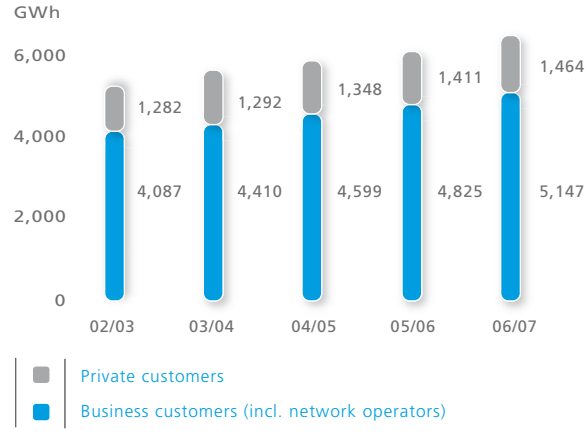
- if it has been produced from the oil shale mined in Estonia by machinery belonging to the producer of at least 500 MW net capacity;
- if it has been produced by a small producer with net capacity below 10 MW;
- if it has been produced using renewable energy sources;
- if it has been produced by a combined heat-and-power regime.

Eesti Energia's sales in the domestic market are divided into three categories, sales to the open market, sales to the closed market and external sales to network operators. In the financial year 2006/07 the sales of electrical energy to customers in the open market were 733 GWh, to customers in the closed market 5,089 GWh and to network operators 788 GWh. In 2006/07 the total sales in the domestic market came to 6,610 GWh, an increase of 375 GWh over the year or 6.0% compared to the financial year 2005/06.

Domestic Sales of Electricity



Domestic Sales of Electricity

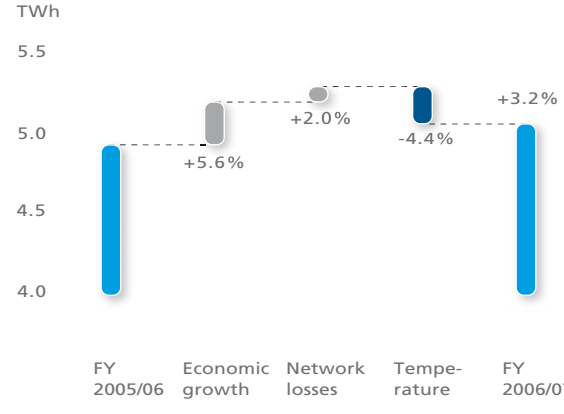


The sales of electrical energy in the open market increased by 168 GWh (29.8%), in the closed market by 160 GWh (3.2%), and to network operators by 47 GWh (6.3%) over the previous financial year. The sales to corporate customers (including network operators) increased by 322 GWh or 6.7% and to residential customers by 53 GWh or 3.7%.

The average price of electrical energy sold in the closed market by Eesti Energia Services was 2.68 cents/kWh (1 cent = 0.01 euro) in the financial year 2006/07, an increase of 0.08 cents over the year. The average price of electrical energy in the open market was 2.39 cents/kWh in the financial year 2006/07 and it remained the same throughout the year.

The customers of the open market, if they want, can also buy electricity in the closed market since the closed market basically determines the maximum limit of the price of electricity in the open market.

Factors that Influenced Sales in the Closed Electricity Market



Ordinary Tariff Change and Adjustments to Network Charges

On March 1, 2007 the third year of the regulation period for network charges began, and these charges were adjusted in line with the standard method of calculation. Under this system the network charges agreed for the first year of the regulation period are adjusted during the second and the third years by a correction factor that takes into account:

- changes in sales volume compared to the previous year;
- changes in uncontrollable expenses such as a change in the compensation for the purchasing costs of renewable energy compared to forecasts;
- increases in inflation (CPI) and efficiency in the preceding 12 months;
- investments at a previously agreed level and the consequent change in capital depreciation and operating profit and fair rate of return.

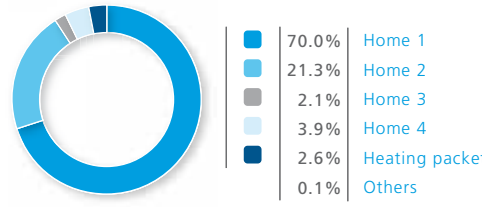
There was a moderate increase in network charges following the adjustment, with main network connections going up 1.55% and distribution network connections 0.34% compared to the network charges that came into force on March 1, 2006.

The price packages of electricity were not changed in line with the average price, and sales of electricity continued under the price packages that came into force on March 1, 2006.

The moderate increase in network charges did not cause a substantial increase in the price of electricity (electricity prices including network charges). The price for residential customers rose by up to 0.2%, for corporate customers with a distribution network connection by up to 0.18% and for corporate customers with main network connections by an average of 0.35%.

The change in tariffs did not cause residential customers to change their price packages. At the end of the financial year the 547,000 residential contracts were mostly divided between the packages Home 1 and Home 2.

Price Packages for Residential Customers



Temperature

A temperature below its long-term average increases the consumption of electricity and thermal energy during the winter period. Historically the situation has been such that a deviation of the average temperature by one degree from the long-term average has an effect on electricity consumption of 110–150 GWh. To calculate the long-term average temperature we have taken as a basis the temperature figures collected by Eesti Energia from different places in Estonia since 1992.

In the financial year 2006/07, the average temperature fluctuated during the autumn and winter months in a relatively wide

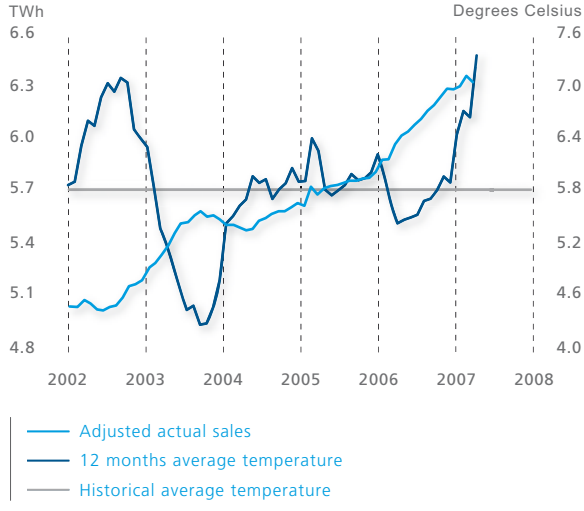
range compared to its long-term average. The third quarter of the financial year was on average 3.3°C warmer, but this was partially offset by the lower temperature in the fourth quarter, 5.0°C lower than the average in February. A 4.5°C warmer than average March compensated for this though, and as a result the fourth quarter was warmer than average by 0.6°C.

In the financial year 2006/07 the average temperature was 7.3°C, which is 1.5°C higher than the long-term average temperature and 1.9°C higher than the average figure for the financial year 2005/06.

An exceptionally warm December and March had a significant influence on sales results for thermal energy, as in those months the sales of thermal energy were down by a total of 146 GWh compared to the previous financial year. The sales of thermal energy amounted to 1,822 GWh in the financial year 2006/07, a drop of 159 GWh compared to the financial year 2005/06.

Despite the warmer winter, the sales of domestic electricity increased by 375 GWh (6%), but the growth was based on other factors, primarily the strong economic growth in Estonia and also the addition of new clients.

As a result, the higher average temperature decreased the sales of domestic electricity by approximately 200–220 GWh compared to the financial year 2005/06.



Regulation of Electricity Prices and Network Charges

Several acts, regulations and standards regulate the operating activities of the Eesti Energia Group. The regulations specify the network charges and electricity prices in the closed market as well as the size of investments in networks. By January 1, 2013 at the latest, the whole Estonian electricity market will be fully open and the price of electricity will be determined by the market for all customers.

Under the act the Energy Market Inspectorate approves:

- the maximum price of oil shale sold to Narva Power Plants for the production of thermal energy and electricity;
- the maximum price of electricity sold by Narva Power Plants to the closed market;
- the weighted average maximum price of electricity sold to meet sales obligations;
- network charges.

In order to set prices the Inspectorate has established a method for calculating them which is available on its homepage. When setting these prices the Energy Market Inspectorate takes costs into account, as companies must fulfil the obligations set in the regulations and conditions of the operating licence, and ensure a fair rate of return on invested capital.

The Inspectorate generally counts as invested capital the residual value of the average fixed assets of a company, to which

5% of external sales revenue has been added. The fair rate of productivity is the company's weighted average cost of capital (WACC).

On the electricity side only the weighted marginal price rate is set, based on which the company itself draws up suitable prices. The marginal rate and the actual weighted average prices are compared once a year and if the company has sold electricity at a higher price than the allowed average, then the excess revenue must be compensated to consumers through a lower price the next year. If the company discovers that the weighted average price of electricity is lower than the allowed maximum price, then it is allowed to adjust the current sales prices.

The maximum prices do not have a validity period, but they apply until the company or the Energy Market Inspectorate finds that changed conditions demand the submission of a new marginal price application. On the network side specific tariffs are determined and set for a fixed period.

For example, since March 1, 2005 the fixed network charges have been set for three years at a time. Every 12 months, the network charges are adjusted in accordance with the changes in certain parameters: once a year, network charges are multiplied by a correction factor.

The correction factor considers:

- changes in sales volume compared to the previous year (the amount predetermined when prices were set);
- changes in uncontrollable expenses;
- increases in inflation (CPI) and efficiency (X) in the preceding 12 months;
- investments at a previously agreed level and the consequent change in capital depreciation and operating profit and fair rate of return.

As a result of the correction the changes in the network charges are small, generally 1–2%, and the network charges may even decrease depending on the changes in the criteria listed above. The network charges remain at the same level if the changes in uncontrollable expenses are not counted for.

On March 1, 2008 a new three-year period for price regulation starts, and in summer 2007 Eesti Energia will submit a new application to the Energy Market Inspectorate concerning weighted average price. The new prices will be made public at the latest 90 days before they take effect.

Amendments to the Electricity Market Act

On December 7, 2006 the amendments to the Electricity Market Act entered into force. The most important amendments in the Electricity Market Act concerned the obligation to buy electrical energy. Under the new act the price for renewable energy was increased to 7.35 cent/kWh. The obligation to buy was limited to producers up to 100 MW and the scope of obligation to buy was extended to energy produced in a co-generation regime where waste, peat or semi-coking gas from oil shale production are the source of energy, and to co-generation energy from sources established in the place of existing boiler-houses where the electrical capacity of the machinery does not exceed 10 MW. For the energy produced by a co-generation regime the obligation to buy is 5.18 cent/kWh.

The amendment to the act improves significantly the cost benefit of investments made in electricity production and will act as a catalyst for small- and medium-size producers and heat-and-power stations that use renewable energy.

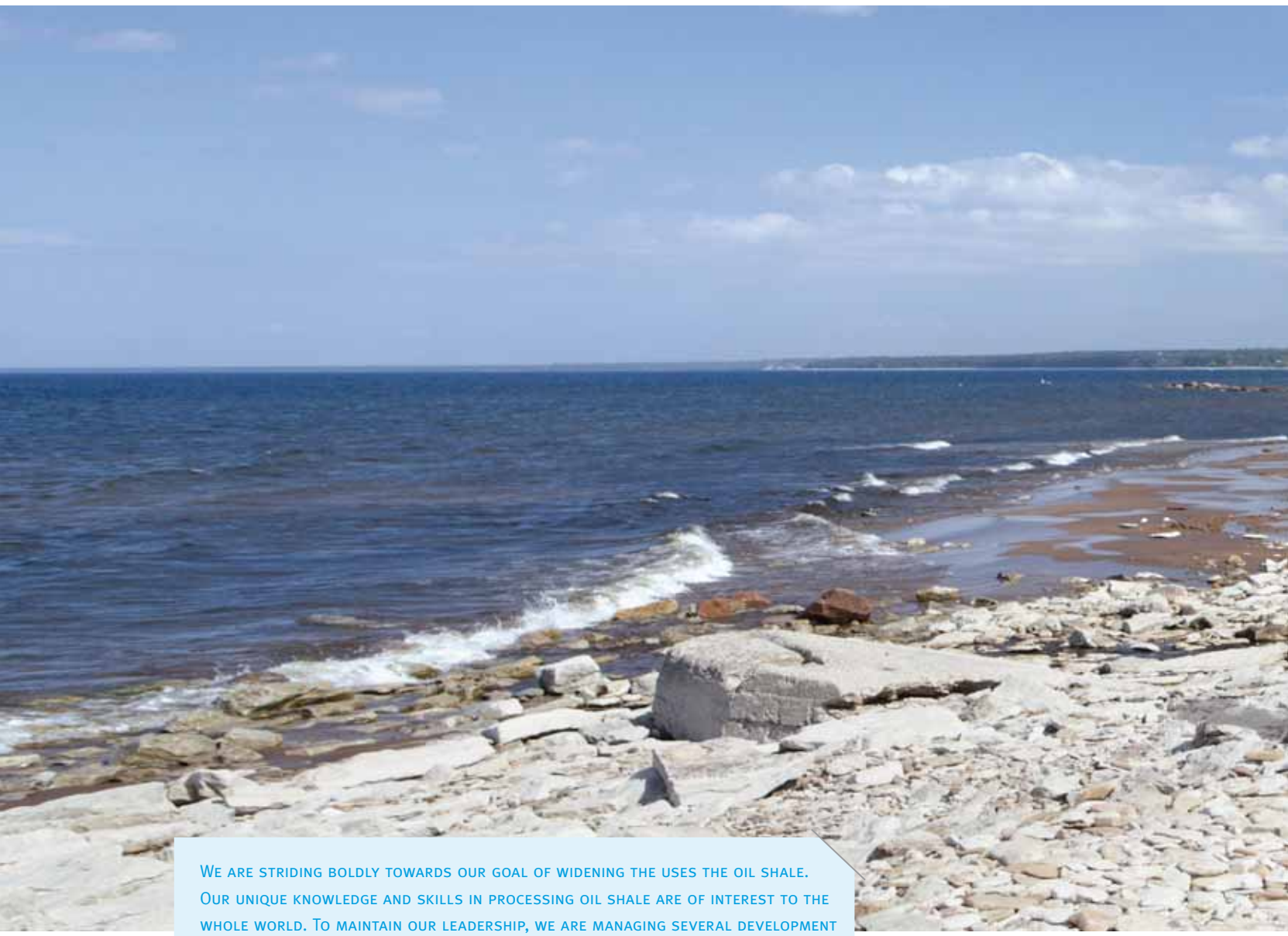
In place of the obligation to buy, the new act gives these producers the right to sell energy to the market themselves and get support in accordance with the set amounts. Support is paid at 5.37 cent/kWh for renewable energy and 3.20 cent/kWh for co-generated energy. Wind energy production receives support up to a maximum of 400 GWh.

The costs of support and the obligation to buy are not calculated in the network tariffs and to that extent the network tariffs decreased from May 1, 2007. The costs of renewable energy are separated from the network charges and the price of electricity in end-user invoices.

The misdemeanour of illegal use of electricity or network services has replaced that of unauthorised use of electricity or network services. This makes it more possible to use means set in the code of practice to detect and to identify illegal consumption and gives the legal right to involve the police to record the offence.

From January 1, 2008, excise duty will be applied to sales of electrical power in Estonia. The main payer of the excise duty will be the network operator which forwards electrical power to the consumer or consumes it itself. As a member of European Union, Estonia is obliged to impose the excise duty for electrical power at the latest by January 1, 2010.

Electrical power will be taxed from 2008 at 3.2 euros/MWh; the minimum rate of European Union excise duty for electrical power is 1.0 euros/MWh for electricity used for non-commercial purposes and 0.5 euros/MWh for electricity used for commercial purposes. In Estonia, the money collected from electrical power excise duty will be used for environmental protection. When the excise duty for electrical power comes into force, the CO_2 pollution charge will be abolished. When the excise duty is applied, Eesti Energia's electrical power will be more competitive on the open market, because consumption of electrical power will be taxed instead of production.



We are striding boldly towards our goal of widening the uses the oil shale. Our unique knowledge and skills in processing oil shale are of interest to the whole world. To maintain our leadership, we are managing several development and marketing projects and working together with research institutions.

Mati Uus – Narva Elektrijaamad, Development Manager
Aksel Ers – Narva Elektrijaamad, Head of HR
Igor Kond – Narva Õlitehas, Managing Director

Review of Activities

Oil Shale Mining by Eesti Põlevkivi

The sales revenue from oil shale production totalled 121.0 million euros in the financial year 2006/07, an increase of 3.4 million euros (2.9%) over the year. The growth stemmed from the increase in external sales revenue, which grew by 2.7 million euros (15.0%) over the year. Intra-Group sales revenue remained stable, reaching 100.7 million euros, an increase of 0.8% over the year or 0.8 million euros.

The sales revenue from oil shale sold amounted to 112.7 million euros in the last financial year, which was nearly at the same level as the previous year (-0.2%).

The sales of oil shale fell by 547,000 tonnes (-3.9%), but this was compensated by the higher price of oil shale. In the financial year 2006/07 a total of 13.5 million tonnes of oil shale was sold. The majority of the sales (87.1%) went to energy producers in the Eesti Energia Group as they did in the preceding financial year.

The external sales volume fell by 51,000 tonnes (-2.8%), which is the result of the decision by one client to open their own oil shale mine.

The production and sales of oil shale are directly linked to the demand for electricity and shale oil.

The business income totalled 125.1 million euros in the financial year 2006/07, an increase of 6.3 million euros or 5.3%.

The operating profit of the oil shale production segment grew by 1.6 million euros (18.9%) over the previous financial year, amounting to 9.8 million euros. The considerable growth of environmental charges (primarily the oil shale extraction charge) since January 1, 2006 had a negative effect on the oil shale production segment. The environmental charges that were paid amounted to 14.6 million euros in the financial year 2006/07, an increase of 69.1% over the year or 5.9 millions euros.

The operating profit grew mainly due to the increase in the external sales of oil shale and from the extraordinary gain from the internal sale of AS Eesti Põlevkivi's daughter company AS Mäetehnika to AS Energoremont.

"Last financial year was a year of technological breakthrough for Eesti Põlevkivi. We started to use several new production technologies and entered new product markets."

Erik Väli
Eesti Põlevkivi, Development Director

The majority of the investments in the oil shale production segment went on the purchase of new machinery and equipment (13.9 million euros).

The financial year 2006/07 was a year of ground-breaking technological advances for Eesti Põlevkivi.

Several limestone quarries are due to be closed down in the next few years, and with oil shale reserves declining, more intensive efforts are being made to utilise the waste rock produced by mining. One example of this is a gravel production operation which was launched in September 2006, and which is capable of producing 400,000 tons of gravel annually.

In January 2006 the Wirtgen 2500 SM surface miner began tests at Narva quarry to ascertain its suitability for working with oil shale. The miner helps to reduce losses, meaning that the rock can be used more effectively, the quality of oil shale which is sold to power stations can be increased, and atmospheric emissions can be lessened.

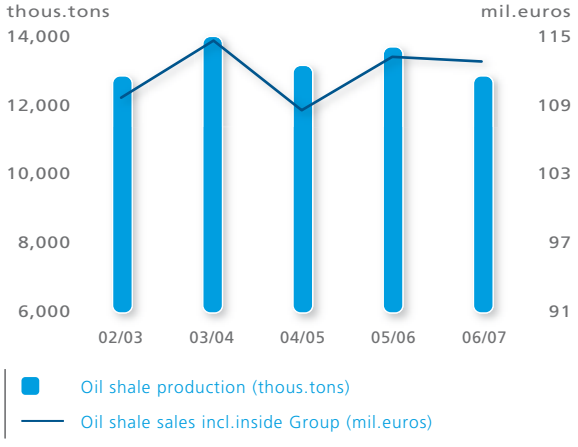
The development project of the Estonia mine was successfully tested in 2006. Pumped emulsion explosive is now the only method used in the Estonia mine, while new drilling technology was brought into use at 20% of capacity, and these moves are spurring the transition to new drilling and blasting technology in the financial year 2007/08. Both above-ground and underground operations are seeing continuous redevelopment, with a system for the mechanised anchoring of the ceiling being introduced in the financial year 2006/07.

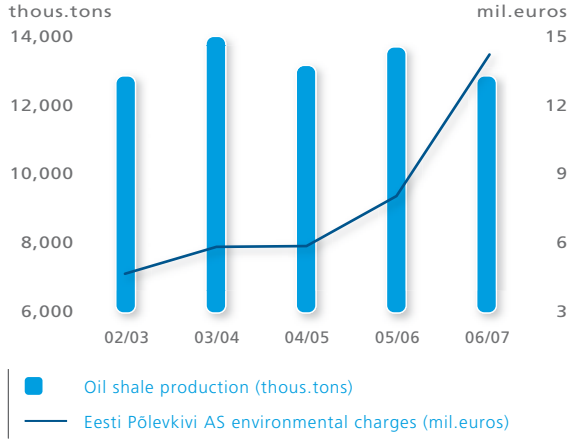
In April 2006, a new production software suite Axapta was introduced, allowing enhanced flexibility in production process management and more efficient monitoring of production quality. The SCADA centre was brought online allowing a better overview of auxiliary processes, and IT updates in operations processes are under way.

In the spring of 2006 Eesti Põlevkivi succeeded again in passing the certification requirements for quality management, environmental management, and occupational health and safety standards.

Main Financial Indicators of AS Eesti Põlevkivi

million euros	2006/07	2005/06
Sales	121.0	117.6
Operating profit	9.9	8.3
Net profit	7.7	8.4
Investments	19.5	16.7
Operating cash flow / Investments	0.9	1.4





Eesti Põlevkivi's commitment to environmental responsibility saw 183 hectares of mined areas afforested and the old boiler house and ash field of the Viru mine closed. Research into the environmental impact of mining was continued throughout the financial year and the condition of ground water in closed and moth-balled mines was surveyed.

The remuneration policy was improved in the financial year 2006/07 as a comprehensive analysis of work paid by the hour and piece work was carried out and used to amend job classifications, and rules for performance related salaries were drawn up. An agreement on work together was concluded with Ida-Viru Vocational Education Centre, and the Eesti Põlevkivi statutes of scholarship were improved in cooperation with the Viru College of Tallinn University of Technology and the Development Fund of Tallinn University of Technology.

Eesti Põlevkivi's main focus for the next few years is to make oil shale mining and use even more efficient. One potential way of achieving this is to sell oil shale of higher calorific value to power stations in order to reduce both the emissions and ash produced by oil shale burning in power stations. Eesti Energia, Eesti Põlevkivi, Narva Elektrijaamad and Tallinn University of Technology signed an agreement for the year 2007 to work together to produce technical surveys and economic profitability assessments.

Another project is to extend the Narva Oil Factory as quickly as possible in order to make maximum use of our current production capacity, and we are also looking into options for building a similar factory on the territory of the Estonia mine.

At the same time, it is planned that construction of a new gravel production plant at the Estonia mine will begin soon.

Demand for energy-producing oil shale fluctuates with the seasons and therefore the construction of weather-proof storage facilities is being considered.

Electricity and Heat Production

In the financial year 2006/07 electricity sales declined by 4.2% (366 GWh) to 8,396 GWh. The decrease in sales was mainly due to the decline in exports to the Baltic Countries due to higher export prices and high water levels in Latvia. The decline in production due to the decrease in exports was compensated for by exports to the Nordic Countries via Estlink in the fourth quarter of the financial year.

Sales of thermal energy came to 1,822 GWh in the financial year 2006/07, a decline of 159 GWh compared to the financial year 2005/06. A significant impact on sales results came from the exceptionally warm December and March, as during these two months the sales of thermal energy declined in total by 146 GWh compared to the previous financial year. The decrease in sales of thermal energy was divided as follows: Iru Power Plant -7.7% (-95 GWh), Narva Soojusvõrk -8.3% (-45 GWh) and Kohtla-Järve Soojus -8.6% (-18 GWh).

The revenue from sales of thermal energy was in total 33.5 million euros, an increase of 3.6% over the year or 1.2 million euros. The increase in sales turnover was due to higher gas prices and, as a result of that, higher heat tariffs during the financial year.

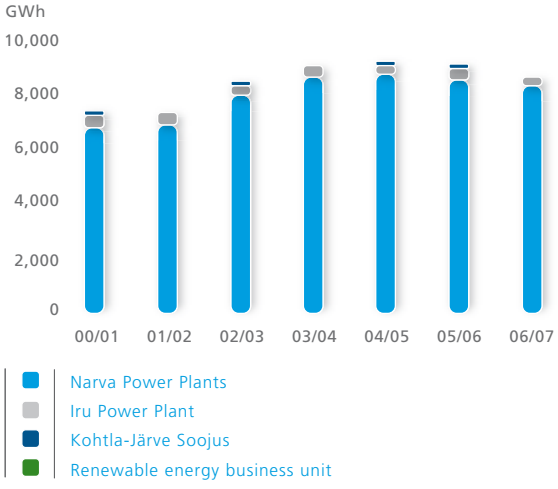
The segment's operating revenue amounted to 357.3 million euros, an increase of 22.9 million euros (6.8%) mainly due to the sale of emission allowances, which brought in 20.4 million euros more during the financial year.

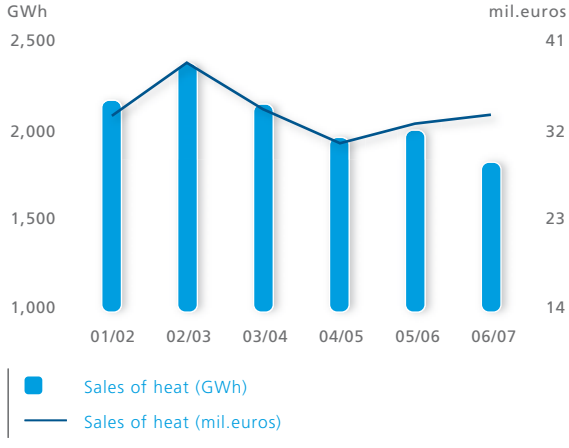
Compared to the preceding financial year, the operating profit of the electricity and heat production segment grew by 7.8 million euros (8.0%) in 12 months, totalling 105.6 million euros. The growth in operating profit was supported by the sales of emission allowances. The rapidly increasing environmental charges, the decline in exports and the increase in the

gas price had a negative effect on operating profit, while at the same time an increase in the efficiency of electricity production had a positive effect.

Among the investments in the electricity and heat production segments, the construction of the new ash-handling system in Eesti and Balti Power Plants (5.4 million euros) and the renovation of the second block of Iru Power Plant and the installation of the new burners (1.0 million euros) are particularly significant. The main investment projects of the energy production segment are mostly connected with fulfilling rigid environmental requirements and increasing the efficiency of production.

Net Electricity Production





Narva Elektrijaamad (Narva Power Plants)[6]

Narva Elektrijaamad produced 93% of electricity in Estonia with Eesti Power Plant producing 77% and Balti Power Plant 16%.

The financial year 2006/07 saw the start of detailed planning for a 2x300 MW power plant and for the expansion of the shale oil factory at Eesti Power Plant. A programme was also started to measure the plants' environmental impact on the surrounding areas in order to minimise it.

Balti Power Plant was issued with the integrated environmental permit and the monitoring audit of the environment management system was concluded, allowing the quality management certificate ISO 14001:2004 of Narva Power Plants to be renewed.

Main Financial Indicators of AS Narva Elektrijaamad

In millions of euros	2006/07	2005/06
Sales	221.4	223.0
Operating profit	93.7	89.9
Net profit	88.1	80.0
Investments	18.7	24.2
Operating cash flow / Investments	6.8	4.7

Following successful operational testing, the gas boiler house of Balti Power Plant was fired up in February 2007 with a nominal production capacity of 240 MW.

[6] Excluding Shale Oil

The neutralisation system for ash slurry was brought into use as ash field nr 2 of Balti Power Plant was closed down, a process that also involved draining ponds, landscaping, and building a new dump for industrial waste. The alkaline water neutralisation plant at ash field nr 1 is now in operation and tests using CO_2 have been completed, while construction work started on the pilot plant for ash removal using thick slurry technology for blocks one and two of Eesti Power Plant in accordance with environmental requirements.

Sales of oil shale ash increased markedly from 155,000 tonnes in the financial year 2005/06 to 209,000 tonnes in this financial year, the primary buyer being the cement industry.

Research into the optimal use of oil shale along the whole technological chain continued in cooperation with Eesti Põlevkivi and Tallinn University of Technology, with the aim of improving the efficiency of electricity production and cutting ash and CO_2 production.

Next year's major projects will see preparatory work for the construction of a new energy complex and the continued modernisation of ash disposal systems.

Iru Elektrijaam (Iru Power Plant)

Iru Power Plant, which primarily generates electricity and heat from natural gas, launched two major projects in the financial year 2006/07, aiming to make the operation of the plant more environmentally friendly and efficient.

About 5.1 million euros will be invested in technologically upgrading the plant and replacing outdated gas burners with more environmentally friendly ones. The Low NOx project will also allow the modernisation of the automatic systems of the co-generation plant and the reconstruction of the boilers. When the new equipment comes into operation, it will considerably reduce harmful atmospheric emissions from the co-generation of heat and electricity and improve the efficiency of electricity production.

Another important project is the construction of the heat and power co-generation unit burning waste fuel in Iru Power Plant. It aims to re-use the waste in the heat and power co-generation process, thus cutting down on waste dumped in landfills. It will also allow a reduction in the quantity of natural gas imported from Russia and extend the range of fuels used at Iru Power Plant, which will improve its security of supply.

"One of the principal goals of investment for Iru Power Plant in the coming years is modernising our technology and making it more environmentally friendly."

Toomas Niinemäe
CHP & Renewable Energy, Director;
Iru Elektrijaam, Chairman of the Management Board

Iru Power Plant, the biggest producer of thermal power and the third biggest producer of electrical power in Estonia, produced 1,139 GWh of thermal power and 377 GWh of electrical power in the financial year 2006/07. The company's largest markets are the district heating markets of Maardu, where it has 100% of the market, and Tallinn, where it has 50%.

The company has ISO 9001:2000 and 14001:2004 quality certificates and was also awarded the EMAS environmental quality management certificate of EU, only the second ever issued in Estonia. The company has started the application process for the occupational health and safety management system certificate EVS 18001:2006.

The Low NOx project will be completed in December 2007. The construction of the heat and power co-generation unit burning waste fuel will continue and will be completed in late 2010.

Main Financial Indicators of AS Iru Elektrijaam

in millions of euros	2006/07	2005/06
Sales	31.4	29.6
Operating profit	9.1	6.4
Net profit	6.1	6.7
Investments	2.2	1.4
Operating cash flow / Investments	4.1	6.2

Production of Heat and Electricity by Kohtla-Järve Soojus (Kohtla-Järve Heat and Power)

There were changes in the ownership of AS Kohtla-Järve Soojus, a heat and electricity producer, as Kohtla-Järve town administration sold its share (40.8% of shares) in the financial year 2006/07. 59.2% of the shares of Kohtla-Järve Soojus now belong to Eesti Energia and 40.8% of the shares to VKG Energia OÜ.

In the financial year 2006/07 Kohtla-Järve Soojus sold 196.8 GWh of thermal power and 17.1 GWh of electricity. The company sold its unused three year CO_2 allowance in the previous financial year and made a profit of 2.0 million euros from allowance trading.

The company also agreed a compromise with the Kohtla-Järve town administration over the town's debt for heat and concluded a schedule of payments. By the end of the financial year the town's debt totalled 0.3 million euros which will be paid off in equal payments by December 2008.

Main Financial Indicators of AS Kohtla-Järve Soojus

in millions of euros	2006/07	2005/06
Sales	5.0	6.0
Operating profit	2.4	1.5
Net profit	2.4	1.5
Investments	0.1	0.2
Operating cash flow / Investments	30.0	9.7

Due to environmental demands the existing ash fields need to be closed by the summer of 2009 and production should become more environmentally friendly. Work on the project for a new bio-fuel plant in Ahtme was continued.

One of the larger investments in the next financial year will be a heat pipeline connecting Viru Prison, the largest consumer of recent years, to the system.

We are striding boldly towards our goal of taking the production and use of renewable energy in Estonia to new level. To achieve this, we are developing projects to increase the amount of energy produced from renewable sources.

Sven Aasa – Renewable Energy Business Unit, Project Manager
Raimo Pirksaar – Renewable Energy Business Unit, Project Manager
Eero Saava – Renewable Energy Business Unit, Project Manager

Environmental Charges

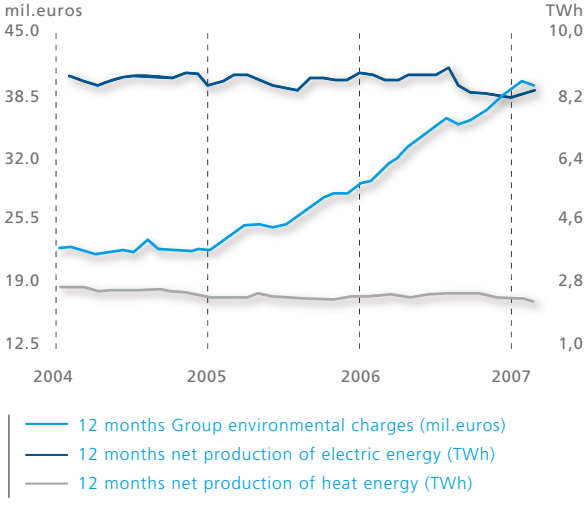
The environmental charges constitute a significant part of the expenses of the Eesti Energia Group. In recent years the environmental charge rates have significantly increased and will continue to grow rapidly until at least 2009, influencing the productivity ratio of Eesti Energia Group as well as the price of electricity.

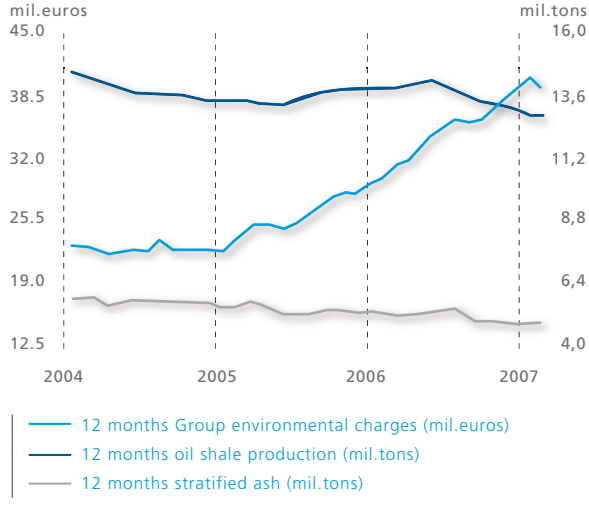
The pollution charges increased significantly in the financial year 2006/07. The tariff for carbon dioxide (CO_2) grew by 39%, for sulphur compounds (SO_2 etc) 101%, for nitrogen compounds (NOx) 100%, for fly ash 101% and for ash storage 28%. The rapid increase in pollution charges has continued in 2007 with SO_2 rising 20%, NOx 20%, fly ash 20% and ash storage 15%. The effect on the Eesti Energia Group profit of the increase in pollution charges was 10.3 million euros. The impact of the increase in tariffs on environmental costs was reduced by a decline in production volume.

Environmental Charges in Estonia*

€/ton	2005	growth (%)	2006	growth (%)	2007
CO_2	0,72	38	1,0	0	1,0
SO_2	8,76	101	17,58	20	21,03
NO_x	20,13	100	40,20	20	48,25
Solid Particles	8,76	101	17,58	20	21,03
Ash	0,33	27	0,42	15	0,48

* http://estlex.ee/estlex/kehtivad/AktTekst.jsp?id=72104





Production of Electricity and Heat from Renewable Sources

In January 2007 Eesti Energia concentrated its previously separate renewable energy and co-generation projects into a single unit in order to achieve a more efficient performance. Toomas Niinemäe was appointed to coordinate the field of renewable energy and co-generation while also managing Iru Power plant.

The Eesti Energia Renewable Energy Business Unit's first project under this re-structuring was to issue an invitation to tender to find a construction company for the 50-MW wind park which will be built on the now-closed ash field of Balti Power Plant. The planned Narva Wind Park will become the biggest in Estonia, providing around 1.5% of the annual electricity production of Eesti Energia, and being able to cover the power consumption needs of a town of 15,000 inhabitants. Electrical energy produced at the new Narva Wind Park, as well as at other Eesti Energia wind parks, will be sold within the Green Energy scheme.

An agreement was concluded in March 2007 to build two wind turbines with a total capacity of 150 kW on the island of Ruhnu. The turbines will be connected to the island's power system and will produce 50–75% of the power required by island residents. The wind park will come into operation in November 2007.

Eesti Energia, Ragn-Sells and Ekseko signed an agreement in March 2007 to establish a joint unit in Viiratsi municipality in Viljandi County for the production of electrical energy and fertilisers from biomass and liquid pig manure. The electrical capacity of the planned co-generation plant will be about 1.7 MW and the thermal power capacity about 1.9 MW. Thermal power will be used in the production of biogas and to cover the heat requirements of the pig farm.

Power plants using renewable energy, such as Virtsu wind turbine and Linnamäe and Keila-Joa hydroelectric plants, produced a total of 7.3 GWh of electrical energy in the financial year 2006/07. 112.3 GWh of renewable energy was produced in Estonia, accounting for 1.6% of the annual net electrical energy consumption of Estonia.

The Renewable Energy Business Unit invested 0.5 million euros in the past financial year.

In the financial year 2007/08 equipment will be selected and an agreement concluded for the construction of the Ekseko biogas unit. Planning will be completed for the construction of the wind park on the ash field of Balti Power Plant, equipment will be chosen and a construction agreement will be signed. November 2007 will see the completion of an extension to Virtsu Wind Park, where one 0.8 MW wind turbine will be added to the three existing turbines.

Shale Oil Production

The operating revenues of the shale oil segment totalled 29.0 million euros in the financial year 2006/07, an increase of 14.7%. The economic value created by the production and sales of shale oil formed a significant proportion of the Eesti Energia asset portfolio. The operating profit of the oil production segment was 13.2 million euros in the financial year 2006/07, an increase of 1.1 million euros over the year (9.2%).

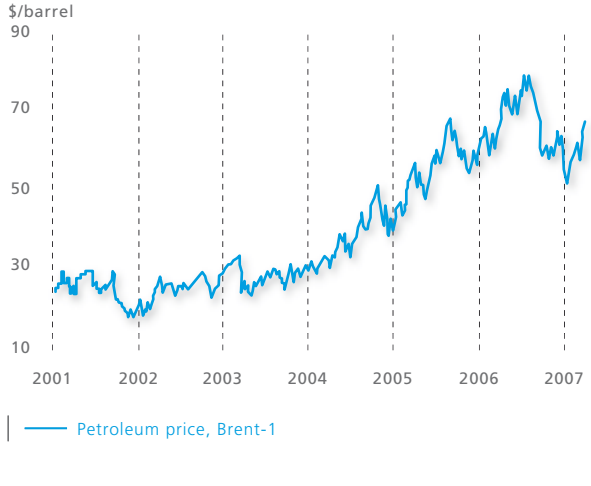
The price of heavy fuel oil in the world market influences the sales revenue from shale oil, and is closely linked with world market prices for oil. This moved above its average level for recent years, in the range of 52 to 79 dollars per barrel in the financial year 2006/07, and that increased also the price of fuel oil.

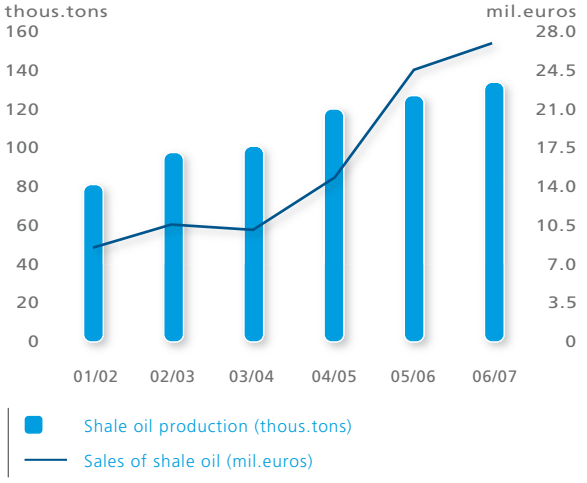
Sales of shale oil increased by 10.4% (2.3 million euros) and the sales of shale oil in total were 109,144 tonnes. The average price of shale oil was 224.2 euros per tonne, which is 20% more than in the financial year 2005/06.

Main Financial Indicators of AS Narva Õlitehas

In millions of euros	2006/07	2005/06
Sales	28.8	25.3
Operating profit	13.2	12.1
Net profit	13.2	12.1
Investments	3.1	0.9
Operating cash flow / Investments	4.6	12.4

Following the principle of transparency, Eesti Energia started the process of spinning off the shale oil factory which had been part of the Eesti Power Plant by establishing an independent enterprise AS Narva Õlitehas (Narva Oil Factory). Eesti Energia considers that the production of shale





oil is a valuable independent business line and intends to expand it, the strategic aim being to increase the production of shale oil from 134,000 tonnes in the past financial year to 500,000 tonnes a year within the next five years. The efficiency of the existing equipment and facilities will be improved and investment in the construction of new production facilities will begin in the next financial year.

Another strategic aim is to expand the production of shale oil beyond Estonia, as Estonian technology for producing oil from various shale types is at the cutting edge globally.

Eesti Energia's first practical step was to acquire a majority holding in a business in Jordan, which has concluded an agreement with the Jordanian government on the construction of a shale oil factory in Jordan. If research results are promising, negotiations with the company will begin in order to conclude a concession contract allowing the company to allocate resources for long-term use. This may be followed by technological development and investments.

On top of these two strategic projects, Eesti Energia is looking for other opportunities, similar to the Jordan project, in order to develop the production of shale oil in large oil shale deposits outside Estonia.

Electricity Transmission

In the financial year 2006/07 9,821 GWh of electricity was put into national grid and 9,524 GWh of electricity was transmitted through the grid, with losses in the grid of 296 GWh (3%). In 2005/06 10,062 GWh of electricity was put into the grid and 9,773 GWh of electricity was transmitted through it, with losses of 289 GWh (2.9%). Sales revenue from electricity transmission amounted to 71.9 million euros in the financial year, an increase of 3.8 million euros over the year (5.6%).

The operating revenue of the segment was 72.0 million euros, an increase of 3.0 million euros over the year (4.3%). The operating profit of the electricity transmission segment was 21.0 million euros, an increase of 4.2 million euros (25.2%) compared to the previous financial year.

In the past financial year the largest investment project for OÜ Põhivõrk was the construction of the Kiisa-Balti overhead line at a cost of 12.1 million euros, as a result of which the security of supply to North- and West-Estonia and to Estlink increased. Total investment in the development of the 330kV line connecting the Balti substation near Narva and the Harku substation outside Tallinn amounted to 28.4 million euros.

Main Financial Indicators of OÜ Põhivõrk

In millions of euros	2006/07	2005/06
Sales	71.9	68.1
Operating profit	21.0	16.8
Net profit	13.3	8.8
Investments	37.4	42.9
Operating cash flow / Investments	0.9	0.7

Investments to guarantee the quality and reliability of the grid were made at a total cost of 10.5 million euros, of which the largest projects were the reconstruction of Püssi 110 kV switchyard (4.0 million euros), the reconstruction of Papiniidu 110 kV switchyard (1.7 million euros), and the updating of the operator management system of the electricity system (1.0 million euros).

In the past financial year 9.5 million euros were invested in the expansion of electricity transmission sales, of which the largest projects were the construction of Emajõe 110 kV substation (3.3 million euros), the reconstruction and enlargement of Ülejõe 110 kV substation (1.3 million euros), the integration of Viru-Nigula wind park (1.2 million euros), the connection of Estlink at Harku substation (1.0 million euros), the expansion of Iru substation (1.0 million euros), and the addition of the Kohila distribution network (0.7 million euros). The investments made in the segment totalled 37.4 million euros in the financial year.

The Eesti Energia Group's most important achievement of the financial year was the completion of Estlink, the undersea cable connecting the Baltic and Nordic electricity markets which links the Harku 330 kV substation near Tallinn and the Espoo 440 kV substation near Helsinki. As well as allowing power trading, the cable serves various technical functions essential for operations, such as maintaining the frequency of the power system, and has a black-start function which enables the Estonian power system to be restarted following a power outage.

Another international highlight was the establishment of BALTSO (Baltic Transmission Systems Operators) in March 2006, a cooperative organisation which brings together the transmission networks of Estonia, Latvia and Lithuania. The new organisation takes over from DC Baltija, the former common control centre for the power systems of the Baltic countries, and has divided the running of the power system among the three Baltic countries' transmission network operators.

Three of a new type of 110 kV gas-insulated switch yard were completed in the Tõnismäe and Elektrijaama substations in Tallinn, and in the Emajõe substation in Tartu. The new switch yard is a closed building measuring 20m by 10m, and is silent and less than one tenth of the size of traditional air-insulated switch yards, and as such it is especially suitable in urban conditions. The first unit of this kind in Estonia was installed in the Kivimäe substation in Tallinn in the previous year. Another 110 kV substation was completed in January and will enable the 25-MW wind park at Viru-Nigula, the most powerful in Estonia, to be connected to the grid.

During the financial year OÜ Põhivõrk and OÜ Jaotusvõrk started work on one of the biggest IT projects ever in Estonia, creating a new network management software suite in order to concentrate technical information concerning the equipment of the entire electricity system and data processing in a uniform environment. The software solution, which is specifically tailored to meet the needs of Eesti Energia and its customers, will be rolled out by the end of the current financial

"The main development goal for Põhivõrk for the coming years is creating connections with Western European transmission system."

Lembit Vali
Põhivõrk, Chairman of the Management Board

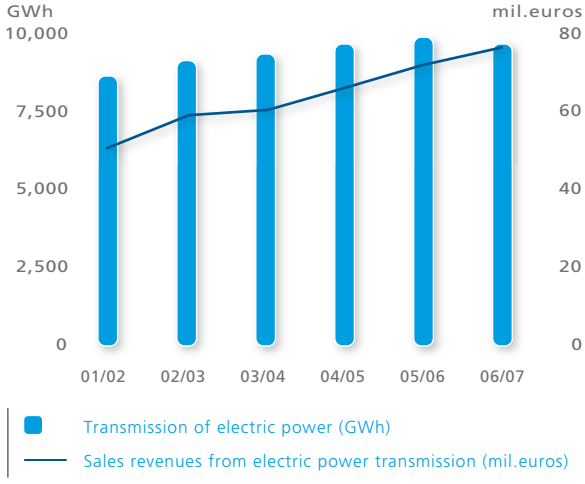
year, and facilitates the collection and analysis of data, and exchange of information.

The most important work-related organisational measure was the creation of a common network management unit, bringing together the former maintenance and development departments. This change enables power lines and substations which are part of the transmission grid to be more efficiently maintained. The framework agreements covering maintenance and switching operations concluded for the period of the next three years also aim to reduce the maintenance costs of electrical equipment.

The largest contractors for construction and renovation works in the financial year were AS ABB, AS Merko Ehitus, AS Siemens, AS Empower EEE and AS Elektriteenused.

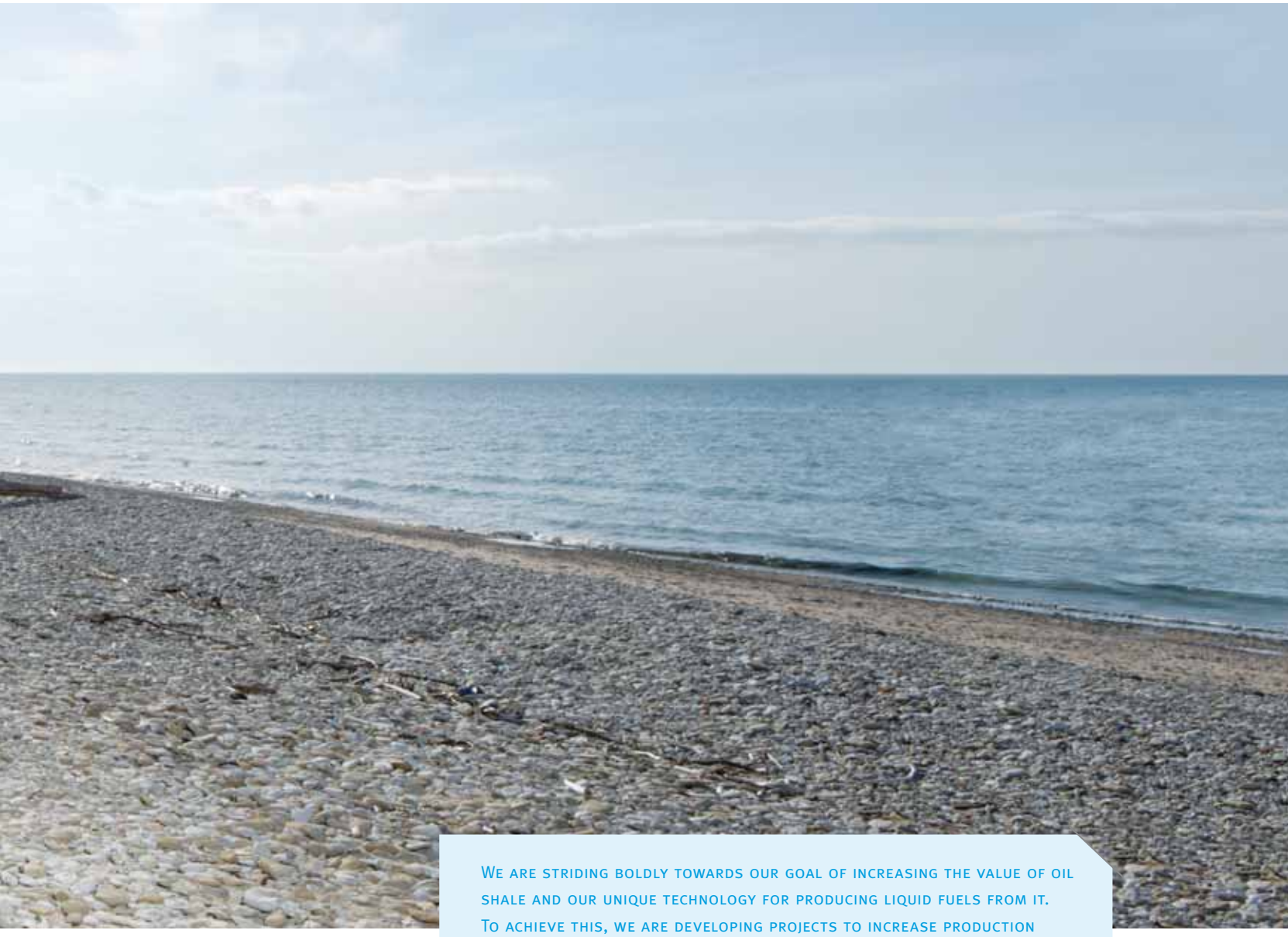
OÜ Põhivõrk's main objective is to integrate more closely with the power systems of the European Union. Analysis of the power systems of the Baltic states and their connections to the Western countries in 2025 is being carried out as the first stage in a strategic project to move the Baltic states over to the frequency used in the common Central European power system.

The major investment programme of the financial year 2007/08 foresees the continuation of renovations to the power system, and plans are being drawn up for the construction of another undersea cable between Estonia and Finland. A decision will be made on ways of securing emergency reserve power sources in the future either through an oil-fired gas turbine or an alternative method.



A few new electricity producers will join the grid in the new financial year, including a co-generation plant connecting at the Anne substation in Tartu, the Väo power plant in Iru near Tallinn, and several new wind parks across the country. Renovation work will be completed in a number of substations, including the Papiniidu, Rummu, Püssi, Virtsu, Keila substations, and the Ülemiste and Lasnamäe substations in Tallinn.

Boriss Kindorkin – Narva Õlitehas, Operation and Maintenance Services Manager
Priit Ploompuu – Eesti Energia, Manager of Development Projects
Aleksandr Kaidalov – Narva Õlitehas, Member of the Management Board
Andres Anijalg – Eesti Energia, Manager of Development Projects
Kirill Kaidalov – Narva Õlitehas, Project Manager



We are striding boldly towards our goal of increasing the value of oil shale and our unique technology for producing liquid fuels from it. To achieve this, we are developing projects to increase production capacity and working with international partners.

Electricity Distribution

In 2006/07 6,577 GWh electricity entered the distribution network and the throughput was 6,033 GWh, with losses in the distribution network of 544 GWh (8.3%). This is the best figure ever, and a year ago the losses were 9.8% of the electricity given to network. The sales revenue of the segment totalled 164.2 million, an increase of 5.7 million euros (3.6%). Out of that sales revenue, 158.7 million euros was the profit from the electricity distribution service and 5.5 million euros from other products and services, mainly users joining the network.

The operating revenue of OÜ Jaotusvõrk was 164.4 million euros in the financial year 2006/07, an increase of 5.6 million euros over the year (3.5%). The operating profit of the distribution segment was 22.4 million euros, the same as the year before (-0.3%).

Among the investments of the distribution network, the construction of new connections were again in first place with 26.3 million euros, followed by the voltage quality programme with 12.8 million euros, and the reconstruction of the network. Investments in the development of the electricity network were 2.8 million euros and in construction of new 10 and 110 kV distribution equipment in substations 2.6 million euros.

One of the strategic goals of the Group for 2010 is to reduce the losses in the distribution network to 7% and to eliminate voltage problems for all clients.

Main Financial Indicators of OÜ Jaotusvõrk

in millions of euros	2006/07	2005/06
Sales	164.2	158.5
Operating profit	22.4	22.5
Net profit	12.8	12.7
Investments	51.1	62.0
Operating cash flow / Investments	0.7	0.5

A fall in electricity losses to their all time lowest level, growth in domestic electricity consumption, and the new network charges applicable since March 2005 had a positive effect on electricity transmission and the operating profit of the distribution segment.

Network Losses

Reducing network losses and ensuring the reliability of the network are the main priorities of the Group in order to guarantee customers access to high-quality electricity and highly efficient networks. One of the key factors in the efficiency of networks is the percentage of network losses from the electricity put into the network.

"Increasing the reliability and efficiency of the distribution system and reducing network losses will remain the priorities for Jaotusvõrk in the next financial year."

Margus Uudam
Jaotusvõrk, Chairman of the Management Board

The historical trend of losses has been clearly downwards for years already. In the financial year 2006/07 the domestic network losses fell to 10.6% (-1.5%) and the distribution network losses to 8.3% (-1.5%), which is the lowest figure ever. As a result of the decrease in network losses approximately 132 GWh of the electricity was saved in the past financial year.

The reduction in losses has been achieved mainly through the decrease in commercial losses through systematic investments, the modernisation of the electricity network, and efficient control of energy consumption. In the financial year 2006/07, investments were made in the development of the national grid and the distribution network to a total of 89 million euros, which was approximately 65% of the total of the investments of the Group. In the last 8 years domestic network losses have fallen by about 10%, which has enabled the Group to save millions euros.

Eesti Energia will also continue to invest in increasing the efficiency of its networks in the coming years. In the financial year 2007/08, 89 million euros, or 45% all investments, will be directed to the development of networks.

OÜ Jaotusvõrk, the distribution network, embarked on a five-year strategy in the financial year 2006/07, aiming to halve the number of interruptions caused by power outages and to achieve a SAIFI rate (number of interruptions per client) of 0.83.

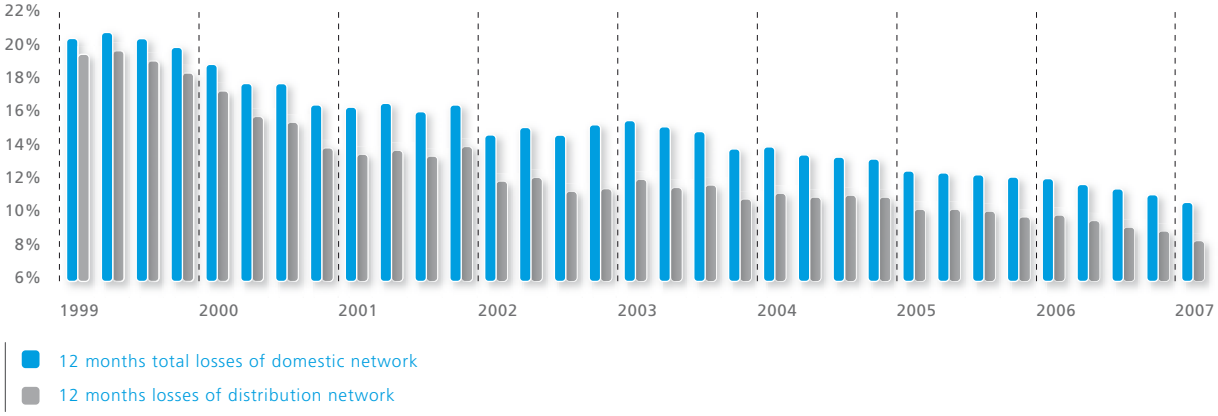
Other objectives include reducing the technical and commercial losses within the network to 7% and solving our customers' voltage problems. Customer satisfaction is expected to reach 85%, and Jaotusvõrk aims to increase employee dedication from its current index of 65. The financial target is to keep EVA, or the economic value added, positive.

In the financial year 2006/07 Jaotusvõrk substantially increased its investments in operational efficiency and power supply issues. The number of power outages per client, the SAIFI, dropped from 1.66 to 1.61 over the year due to investments and the maintenance of line routes.

Network losses fell from 9.82% to 8.27%, mostly thanks to close cooperation with customer service, and the adoption of new principles and new working methods and analysis.

In July 2007 Televõrk will launch a mobile internet communication network based on broadband technology in the 450 MHz frequency range, offering additional ways to manage networks more efficiently through remote electricity meter reading, distribution network isolator management, and automatic registration of interruptions to medium- and low-voltage lines.

The customer satisfaction rate grew from 76% to 78% over the year, with satisfaction surveys showing that customers'

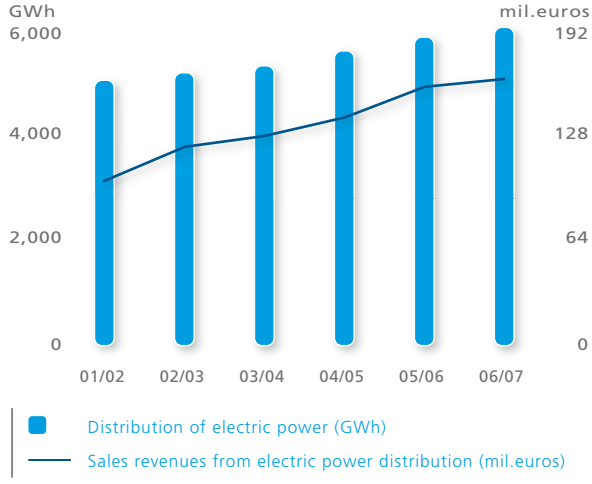


responses were in most cases related to the reduction in outages, and solutions to their voltage problems. Their expectations have been raised concerning the speed new connections are built, and they think highly of the quality of electricians' work, their competence, and their attitude.

The financial year started with a structural change whereby regional management was replaced by functional management, and this helped the Jaotusvõrk employee dedication index rise from 45 to 51 over the year. Employee dedication was also impacted by a rise in the amount of training, changes to the salary systems and improvements to the working environment.

In cooperation with Põhivõrk, Jaotusvõrk started an 18-month project to create and install a network management software suite, which aims to make management of the power system and planning of investments even more efficient, guaranteeing in turn better service to customers.

A priority for the coming years is to substantially increase the number of remote meter reading systems. Remote reading allows a more precise accounting and analysis of consumption, more efficient organisation of work and a simpler transfer to another power supplier when the market opens. Remote meters will be targeted as a priority at business



clients, detached houses and apartment blocks with high consumption over the next four years.

Jaotusvõrk is also taking thorough steps to prepare for the opening of the electricity market and to ensure a level playing field in electricity sales for all potential electricity sellers. The changes required will be implemented by 2009 at the latest, at which point 35% of the electricity market will open.

Sales of Electricity and Client Services

The sales revenue of the sales and customer service segment came to a total of 239.5 million euros in the financial year 2006/07, an increase of 7.3 million euros over the year (3.2%). The segment's sales revenue from exports was 32.4 million euros, decreasing 6.3 million euros over the year due to the decline in the volume of electricity exports to the Baltic Countries. Sales to the domestic market were 6,610 GWh in 2006/07, growing by 375 GWh or 6.0% over the year compared to the financial year 2005/06. Sales of electricity in the domestic open market grew 29.8% (168 GWh), sales in the closed market to corporate customers grew 3.1% (107 GWh), to private customers 3.7% (53 GWh) and to network operators 6.3% (47 GWh).

Main Financial Indicators of Client Service

In millions of euros	2006/07	2005/06
Sales	239.5	232.2
Operating profit	10.7	3.3
Net profit	10.4	1.3
Investments	0.7	0.0
Operating cash flow / Investments	20.2	N/A

The driving force behind the increasing demand for domestic electricity is rapid economic growth. In the financial year 2006/07 the growth was slowed by the average temperature, which was 1.9 °C higher than in 2005/06, and this pushed down the sales of domestic electricity by approximately 200–220 GWh.

Regionally, one-third of electricity was sold in Tallinn. The sales in Harju county as a whole made up approximately half the sales of Eesti Energia Services in the closed market.

The largest increase in extra-group sales was the 11.5% increase in sales to the closed market, where many new corporate customers were added. Harjumaa (except Tallinn) followed Ida-Virumaa with 8% growth, while in the remaining counties the growth was below 4%.

The average price of electricity sold by Eesti Energia Services in the closed market was 2.67 cents/kWh in the financial year 2006/07, an increase of 0.08 cents (100 cents = 1 euro). The average price of electricity in the open market was 2.39 cents/kWh in the financial year 2006/07 and it remained the same over the year.

The sales and customer services results were significantly affected by the decline in electricity exports of 559 GWh (-31.6%), and thus the profit from electricity exports also decreased. The main reasons behind the decline in electricity exports were the higher export price to the Baltic Countries, a warmer winter period, and the high water levels in hydroelectric power plants in Latvia. The decline in exports in the first quarter of 2007 was compensated for by the start of exports to Finland via the Estlink cable. Total electricity exports to Nordic countries were 401 GWh.

The operating profit of the sales and customer services segment increased by 7.4 million euros (+223.6%) over the financial year, to a total of 10.7 million euros.

A survey into customer satisfaction conducted in the spring of 2007 showed that residential customers were more satisfied with customer service, accounting, electricity supply quality and the Eesti Energia corporate image, with the highest rise, 6%, occurring in customer satisfaction with the electricity price. This is due to the electricity price having remained virtually unchanged for the last 24 months, and to smooth customer service over the price change period and a generally favourable economic climate in Estonia. Customer service staff and customer administrators, and the other specialists whom customers meet, are highly regarded, and, according to a service index survey carried out by the market research company Emor TNS in March 2006, Eesti Energia's customer service offices provide the best service amongst large companies in Estonia; a repeat survey in the autumn of 2006 again ranked Eesti Energia among the best companies.

Jüri Johannon – Head of Product Development and Administration
Andres Keba – Head of Business Clients and Electric Network Sales
Kätlin Sumberg – Head of Marketing
Priit Tampere – Head of Development and Maintenance for Business Systems
Andres Valgerist – Head of Retail

We are striding boldly towards our goal of becoming a top energy service provider for two million clients in international markets by the year 2015. We have taken steps towards becoming more international, crossing borders and creating strong partnerships. We aim to be a client-friendly energy company focusing on sales.

Sales of electrical energy, intra- and extra-group together, grew year-on-year by 5.7%, as a total of 6,810 GWh of electrical energy were sold. In monetary value sales increased by 8%, which was primarily due to general economic growth, efficient work together with Jaotusvõrk in reducing electricity losses, and a new large corporate customer. However, the temperature was two degrees above average values and this slowed sales. Eesti Energia acquired 4,000 new customers and 6,156 new connection contracts were concluded, a 23% increase over the previous year.

The service business unit launched several new products this year, for example whereas network connection is normally restored within ten days for residential customers, it can now be restored within 24 hours as a special service. Following requests from customers, Eesti Energia now repairs failures in sealed chains, issues electrical power consumption notices to apartment blocks in order to promote sustainable consumption, and performs restructuring work to the network if a customer wishes to relocate their meter or distribution panel.

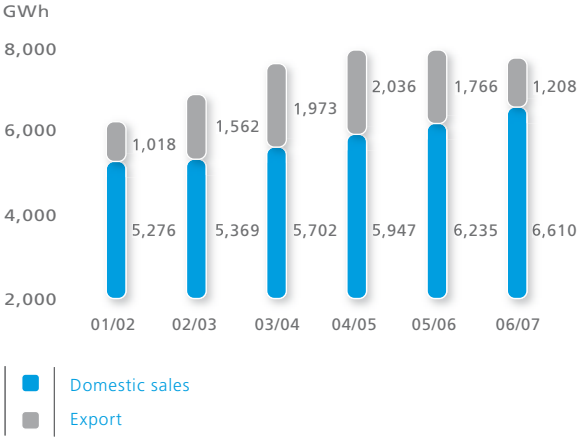
Client Service launched a power theft hotline in order to cut power losses, and this proved an important source of information in identifying power losses. Customers have reacted well to the project "Buy Electricity in the Shop", and in six months the number of people paying their electricity bills in shops increased by 125%. In the previous financial year the service was launched in the shops of the Konsum chain in Tallinn where loyal customers appeared very quickly.

The number of customers served by Eesti Energia call centres is constantly rising, and the percentage of calls answered has also grown, amounting today to nearly 87% of all incoming calls. 430,000 customer calls were handled in the year. Enquiries made by email increased by 21% within the year, and over the past year the number of customer communications via electronic channels a month has risen to 50,000 among residential customers and 10,000 among corporate customers. Customers send on average 14,000 text messages a month to report meter readings.

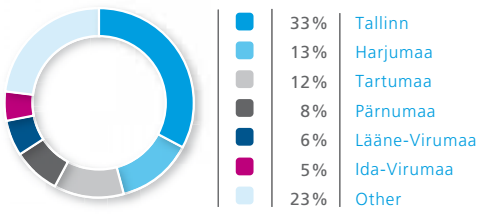
A strategic aim of the service is to increase electricity sales faster than the electricity market grows. Since the market will open very soon, other bigger network operators are preparing to become electricity sellers alongside Jaotusvõrk, and for this reason the focus is on increasing customer satisfaction and offering the client added value, by launching new products and distributing and selling products and offers from companies of the Eesti Energia Group.

Information systems are being updated to allow for the implementation of these plans. As many existing and new solutions as possible will be made available through electronic channels. In order to meet customers' expectations and create value for the company's sales and marketing activities, customer administration will be run following segment-based principles.

Sales of Electricity



Electricity Sales in Closed Market Across Counties



Energy Trading

In January 2007 Eesti Energia established a business unit dealing with energy trading, its primary aim being to manage the Eesti Energia Group's portfolios for electrical energy production and purchase and sales. Eesti Energia is involved in energy trading as a buyer and a seller in international markets, including the Scandinavian market, which was added when the Estlink cable was electrified in January 2007.
This unit is also a balance provider for Eesti Energia.

In August 2006 Eesti Energia bought Solidus, an energy broker company in Finland, which was thus the first energy company bought from outside Estonia. Solidus is a member of the electricity exchange Nord Pool, and administers clients' electricity portfolios and offers consultancy and expert service in the energy market and in risk management. By acquiring Solidus, Eesti Energia became a broker and able to operate in the Finnish market, as well as gaining a professional team and opportunities for further expansion. Successful work with Solidus allowed an excellent electricity sales portfolio to be put together for 2007, especially given the price fluctuations of 2006/07.

In early 2007 the spot price for the Helsinki district of the Nordic electricity exchange Nord Pool became the purchase and sales index price for electricity in the Baltic countries. This has resulted in simpler energy trading, and means the market is more transparent now.

Eesti Energia founded a subsidiary E Energy in Latvia which obtained permission from the Latvian regulatory bodies in September 2006 to sell electrical energy. The first clients have applied to change their electricity supplier and E Energy will start selling electricity in Latvia on 1 July 2007. The Eesti Energia subsidiary Lumen Balticum has been founded and entered in the business register in Lithuania, and will operate on the Lithuanian open energy market.

The objective for the 2007/08 financial year is to pursue development in three foreign markets, by launching the Lithuanian subsidiary and taking the next steps in the Scandinavian direction.

A vital issue is the development of market organisation, in order to unify energy market regulations in the region. It is also important to develop regulations pertaining to the purchase of electricity from producers from outside the EU in order to alleviate the unfair competitive position arising from CO_2 trading restrictions and differing environmental requirements.

It is expected that electricity trading will become simpler between Estonia and Finland as Estonia's system administrator has joined the European Transmission System Operators (ETSO) and that the charges for electricity transmitted from Estonia to Finland will decrease.

Ignalina nuclear power plant in Lithuania will be closed and thus preparatory work for the supply portfolio for use after 2010 is under way. Preparations are being made regarding supply principles and prices for when the electricity market opens further in 2009.

"Eesti Energia is best placed to become a long-term electricity supplier for companies in the Baltic region, because we have more capacity for producing the electrical power than the present demand now and after the year 2009."

Jaanus Arukaevu
Head of Energy Trading

Other Businesses

The sales of the other businesses segment were in total 55.4 million euros in the financial year 2006/07, up by 4.9 million euros (9.7%) over the year. 35.1 million euros of sales revenue came from intra-group revenue, while extra-group sales revenue amounted to 20.3 million euros, of which 60.8% came from exports.

The operating revenue of the segment increased by 6.5 million euros (12.6%) in the past financial year, totalling 57.8 million euros.

Revenues of Segments

in millions of euros	2006/07	2005/06	Change
Energoremont AS	16.4	15.0	9.8%
Elektriteenused AS	15.8	16.9	-6.1%
Televõrgu AS	6.7	5.6	18.5%
Elpec AS	2.8	2.7	3.0%
Real Estate Business Unit	6.9	4.7	48.1%
Other Support Services and Group Management	9.1	6.4	41.6%
Total Revenues of Segments	57.8	51.3	12.6%

Energoremont

Energoremont became the largest company in the segment in the past financial year, with operating revenue amounting to 16.4 million euros, an increase of 9.8%. Energoremont is the company which is mainly charged with designing metal constructions, and manufacturing, installing and maintaining equipment for the energy sector. The proportion of exports in the turnover has increased by more than 150% in recent years and products have been supplied to more than 30 countries all over the world. The company's operating profit doubled in the past financial year and exceeded 1.0 million euros. Energoremont quality and environmental management systems have been certified in accordance with ISO 9001 and ISO 14001 standards.

Energoremont supplies technological project solutions and achieved its vital strategic objective in the financial year 2006/07 as a company whose strength is organising projects and which is capable of managing projects through design solutions.

The purchase Mäetehnika, a subsidiary of Eesti Põlevkivi, was completed within the financial year and as of 1 April 2007 it was merged with Energoremont, flattening further the hierarchy of Eesti Energia Group and offering synergy in the activities of the group's members. The main activities of both

"The most important goal for the next financial year is to unite Mäetehnika and Energoremont and to sell complex services to the foreign market."

Rein Ungert
Energoremont, Managing Director

Mäetehnika and Energoremont include the production and maintenance of metal goods and equipment.

The company started designing the thermal installations for the Narva Oil Factory. 30–40% of the work has been successfully completed and plans have been made to become involved throughout the modernisation project of the factory.

A universal fully automatic workbench, unique in the Baltic states, was brought out and can be used for interior and exterior work. Employee training courses were started.

A strategic aim of Energoremont is to increase the level of complex services in its export volumes. Four complex projects were successfully completed in the financial year 2006/07 and five new projects were embarked on in Finland and Sweden worth a total of 3.2 million euros. Exports accounted for 65% of total turnover.

Agreements were concluded with several new clients for the manufacturing of stainless steel equipment, including Camfil, Universal Silencer, ThyssenKrupp, Siemens and Indutec.

The main objective for the financial year 2007/08 is to finalise the process of restructuring AS Mäetehnika and make the company profitable. It is planned to extend the manufacturing facilities for stainless steel products, and also to develop project solutions and thus strengthen development in sub-units.

Operating Profit of Segments

in millions of euros	2006/07	2005/06	Change
Energoremont AS	1.0	0.5	93.1%
Elektriteenused AS	-0.3	0.5	-153.7%
Televõrgu AS	1.6	1.6	1.3%
Elpec AS	0.6	0.5	27.4%
Real Estate Business Unit	3.2	1.1	199.1%
Other Support Services and Group Management	1.5	-1.0	-253.9%
Total Operating Profit of Segments	7.7	3.2	138.3%

Elektriteenused

An important role in the development of the operating profit of the segment was also played by the results of Elektriteenused AS. The operating revenue of the company amounted to 15.8 million euros in the past financial year, a decrease of 1.0 million euros (6.1%). Elektriteenused was established to carry out the construction, repair and maintenance of power networks, and therefore the investments of Jaotusvõrk and Põhivõrk directly influence the results of the company. The level of investment from network operators in the Group decreased by 16.3 million

"The guarantee of success for us is close co-operation with Põhivõrk and Jaotusvõrk when carrying out construction projects for new substations and network."

Andry Pärnpuu
Elektriteenused, Chairman of the Management Board

euros (-15.6%) in 2006/07 and reduced the financial results of Elektriteenused AS. Compared to 2005/06, the operating profit of the company fell by 0.8 million euros. The company has received a quality management system certificate ISO 9001:2000, environmental management systems certificate ISO 14001:2004 and occupational health service and safety certificate OHSAS 18001:1999.

In March the company signed an agreement providing for the installation of two wind turbines with a total capacity of 150 kW on the island of Ruhnu.

In March, a three-year contract was signed with Jaotusvõrk to maintain the power networks in the Tartu and Virumaa regions, in the South-East of Estonia, and in the city of Tallinn.

In June, the company signed a contract with Põhivõrk to extend a 110 kV substation at Rummu. In the course of this complicated project, the outdated 110 kV equipment will be renovated within the substation, a new control building and a fence will be erected, and the lighting system will be improved. A new transformer will be installed in the substation which will allow repairs and maintenance of the substation to be performed in future without causing power outages for the consumers in Rummu settlement.

Contracts to service the street lighting systems in the cities of Tartu and Narva and in Rae rural municipality should extend the company portfolio. In February 2007 a lighting system for a 2.5 km trail was completed at Kuremaa within the Eesti Terviserajad (Estonian Recreational Trails) project, and was the first of the kind in Jõgeva County.

By the end of 2007 it is planned to complete the work in the extended Rummu substation and to erect the Ruhnu wind turbines and link them into the island's electricity network. The Ruhnu wind park project is the first of its kind for the company, but it plans to expand its market in the wind park maintenance sector.

A structural change will be carried through to concentrate better and stronger construction units in Tallinn, Tartu and Pärnu in order to set up a solid structure offering construction services. This will fit in with the investment plan of Jaotusvõrk for the renovation of electrical networks. Currently there is no office in Pärnu, and those in Tallinn and Tartu require development.

Andry Pärnpuu became the company manager on 2 April 2007.

Elpec

As with Elektriteenused, the results of Elpec are mainly dependent on the investments of network operators. The company designs power networks and also provides technical solutions and consultations in this field. In the past financial year the company's operating revenue remained steady, growing by 0.1 million euros (3.0%) compared to 2005/06. The operating profit increased by 0.1 million euros (27.4%) and amounted to almost 0.6 million euros.

"For Elpec, the most important of Eesti Energia 's strategic goals is "Kodu Korda!" (Putting the House in Order). The growth in demand for electrical network design services requires us to recruit new employees and retrain current ones in the coming financial year."

Veljo Aleksandrov
Elpec, Chairman of the Management Board

The Elpec quality management system is in compliance with the ISO 9001 standards.

Elpec's primary objective in the last financial year was to support an essential strategic project in Eesti Energia to improve network quality through investments in electrical network development, voltage stabilisation and network performance.

Elpec's key function is to complete the subscription projects for new Eesti Energia clients as soon as possible, and to meet the extensive needs of the voltage and performance projects of Jaotusvõrk. It also concluded contracts on the use of land with landowners in order to commence certain necessary electrical works.

The previous financial year was characterised by a huge number of subscription connections due to the rapid economic growth, which had an impact on Elpec's work. 1,145 projects were drawn up, at an average of 140 days each, while 4,087 contracts for land use were concluded, and 150 geodetic plans put together in the financial year 2006/07. Design accounted for 69% and land related services to 31% of the total turnover.

In the previous year Elpec had been restructured, and a high-voltage design company turned into a low-voltage design company. Restructuring was finished during the last year and high-voltage design work was wound up. These changes were brought about by changing demand within the Group, specifically that Jaotusvõrk required more medium- and low-voltage designs, while Põhivõrk no longer required preliminary designs. This caused major changes in personnel, but production output was maintained. The changes in the personnel structure saw older designers of high-voltage systems leave and young designers of medium- and low-voltage systems join the company.

Among the major construction projects, the design of the Tartu-Viljandi-Sindi 330 kV route selection was started and contracts for the use of land were concluded. It is a large project since agreements must be obtained from over 400 landowners in order to apply for a building permit. The process of detailed planning was begun for the construction of the new power blocks at Narva Power Plants.

A technical solution was found for the construction of lighting along the Nõmme-Harku recreational trails in the financial year 2006/07. The 1kV lighting project solution, which is safe for large public events, is the first of its kind in Estonia.

A major project of Elpec's is to register the land under Eesti Energia sites in the name of the state, so that this can be transferred to Eesti Energia by an increase in share capital. The project includes 4,933 registered properties. Elpec is also involved in the Estlink 2 project where it is responsible for selecting the route, concluding contracts for the use of land, and securing building permits.

The company employed 76 people at the end of the financial year. The ambitious plans of the Eesti Energia Group for the renovation of the electrical network suggest that the company needs to increase the number of staff sharply. Both training new staff and retaining the motivation of the current staff are important here.

Televõrk

Televõrk AS saw rapid growth, with its operating revenue increasing by 18.5% and reaching 6.7 million euros in the past financial year. The company provides national and international data trunk network services in the field of telecommunications to Telcom operators.

The company's operating profit did not change significantly, and growth was 1.3% in the financial year.

Televõrk continued to develop its voice communication system in the financial year 2006/07, in order to update it and improve its performance. The control centres of Põhivõrk now have a new commutation system with touch screens, and the company provided a VoIP solution at 400 work stations in the new Eesti Energia headquarters in Tallinn. Televõrk developed this in the course of updating a platform for the call centre with IVR voice recognition, in order to secure even faster

servicing of accounts related calls. The company started to develop an operational radio communication network between Narva Power Plants and Eesti Power Plant.

In the communication backbone of the Baltic energy companies, service contracts were extended in this financial year to larger operating companies such as Elisa Corporation, BITE, Hansapank, Lattelekom and Linx Telecommunications Eesti. To secure growth in international services the company has actively looked for contacts with end users. Sales of Internet services have increased during the year and new clients are mostly local internet providers in rural areas or smaller districts. A long-term contract was concluded with Levira AS for the transmission of digital TV signals in Estonia.

A significant event in the financial year 2006/07 was when Televõrk started to provide services to the European Education and Research Datanetwork DANTE, by launching a super-high-speed data channel (up to 2.5 Gbit/s) that goes through Estonia, Latvia and Lithuania, and which enables educational and research institutions in these countries to use 16 times higher data transfer rates within the European trunk network than previously. Secondly, the company won the competition held by the Communications Board to provide network services based on the broadband technology of the communications network in the 450 MHz frequency range and from July 2, 2007 Eesti Energia Group will start to provide an internet service through Televõrk and Client Service together, which will be similar to WiFi and will cover the whole of Estonia.

Major projects in the coming financial year are the building of the operational radio communication network in Narva Power Plants and the launch of sales of services in the wireless internet network. Televõrk aims to gain a 10% share of the internet services market in Estonia by 2010.

Real Estate

The auxiliary businesses segment also includes the Real Estate business unit. The aim of the unit is to provide services to the Group with the best quality-price ratio and to enable the development of a safe and high-quality working environment in accordance with the recognised standards, and also to guarantee the return on capital requested by the owner and help the Group achieve its main objectives. The operating revenue of the real estate unit increased by 2.2 million euros (48.1%) in the financial year 2006/07 and its operating profit by 2.1 million euros (199.1%). The economic results were significantly impacted by the increase in other business income from the sale of fixed assets for 1.8 million euros.

"In financial year 2007/08, in co-operation with Teenindus, Televõrk brought to the market a fast internet service, which offers network access all over the Estonia including places, where it has been unavailable until now."

Urmas Aiaste
Televõrk, Chairman of the Management Board

Consolidated Financial Information About the Group

Revenues

In the financial year 2006/07 the consolidated revenues of the Group increased by 51.1 million euros or 9.6%, compared to the previous year. The shale oil production segment showed the fastest growth, reaching 14.7%. Financially the most significant growth was shown by the electricity and heat production segment, which reached 22.9 million euros; this growth was largely caused by the increase in sales of emission allowances.

The biggest part of the Group's sales revenues in the financial year 2006/07 came once again from electricity sales with 372.3 million euros (77,3%), a financial increase of 16.2 million euros, but its share of total revenues decreased by 1.3%. In the financial year 2006/07 the group's net sales of network services reached 165.5 million euros, an increase of 8.4 million euros (5.3%) over 12 months. The unconsolidated net sales of network services of Jaotusvõrk totalled 158.6 million euros, and those of Põhivõrk 67.6 million euros. The average price of the sales of network services from Jaotusvõrk was 2.54 c/kWh.

Heat sales reached 33.5 million euros (7.1%), growing this financial year by 1.2 million euros. The proportion of shale oil sales in the Group's sales revenues increased this year by 0.2% or 24.5 million euros.

Revenues

In millions of euros	2006/07	2005/06	Change
Oil shale production	125.1	118.9	5.3%
Electricity and heat production	357.4	334.5	6.8%
Shale oil production	29.0	25.3	14.7%
Transmission of electrical energy	72.0	69.0	4.3%
Distribution of electrical energy	164.4	158.8	3.5%
Supply and customer services	240.2	235.1	2.2%
Support services	57.8	51.3	12.6%
Eliminations	-461.4	-459.4	0.4%
Consolidated revenues	584.6	533.5	9.6%

Consolidated Sales Revenues Structure 2006/07

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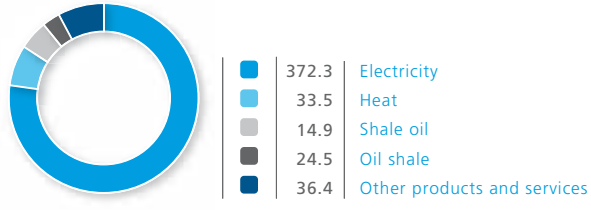

Consolidated Sales Revenues Structure 2005/06

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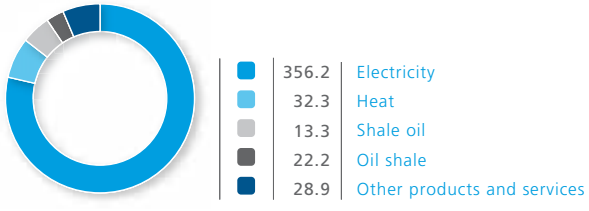

Operating Profit

Several factors must be mentioned with regard to the operating profit: first, the domestic sales of electricity increased on the strength of overall economic growth and the exports to Nordic countries that started in January 2007, while secondly the high global market price of fuel oil, resulted in about 20% growth in the average shale oil sales price in the last financial year. The third factor to have a positive effect on financial results was the increase in the efficiency of production and electricity networks. Already for two years in succession sales of CO_2 emission allowances have had the biggest impact on production segments and on shaping the Group's operating profit: the sales amounted to 96.4 million euros and the growth reached 20.4 million euros compared to the previous year. A decrease in exports caused by the relatively warm winter and the high water levels in Latvia had a negative effect on the operating profit. The second factor that lowered the operating profit was a rise in environmental charges in 2006; the adverse impact of this on the Eesti Energia Group's operating profits amounted to 10.3 million euros. Payroll expenses also grew considerably (+ 5.7 million euros, + 6%).

Although the total of investments in the past financial year were 139.6 million euros, depreciation costs remained relatively stable. Despite the overall rapid increase in average wages in the Estonian labour market and the resulting inflationary pressure, operating profit grew by 15% or 24.7 million euros.

The steadily rising financial indicators are clear signs of Eesti Energia's positive business development.

Operating Profit

In million of euros	2006/2007	2005/2006	Change
Oil shale production	9.9	8.3	18.9%
Electricity and heat production	105.6	97.8	8.0%
Shale oil production	13.2	12.1	9.2%
Transmission of electrical energy	21.0	16.8	25.2%
Distribution of electrical energy	22.4	22.5	-0.3%
Supply and customer services	10.7	3.3	223.6%
Support services	7.7	3.2	138.3%
Eliminations	-1.5	0.3	-518.3%
Consolidated operating profit	189.1	164.4	15.0%

Operating Profit 2006/07

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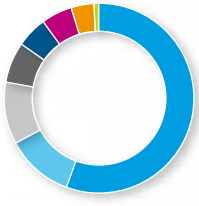

108.5	Electricity and heat production
22.4	Distribution of electric power
329	Transmission of electric power
21	Shale oil production
10.7	Supply and Customer Services
9.9	Oil shale production
7.7	Support services
-1.5	Eliminations

Operating Profit 2005/06

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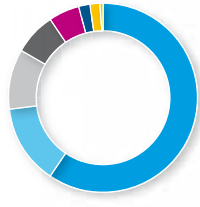


97.9	Electricity and heat production
22.5	Distribution of electric power
16.8	Transmission of electric power
12.1	Shale oil production
8.3	Oil shale production
3.3	Supply and Customer Services
0.2	Support services
0.3	Eliminations

Net Profit

As the average loan burden decreased in the financial year by 2%, the interest costs of borrowings decreased by a total of 38% to 17.2 million euros (-10.6 million euros). The 38% decrease in interest expenses was caused by the fact that interest rates were quite high in 2005/06, which, in turn, was the result of non-recurring expenses related to exchange transactions with bonds. Because of the growth of investments and the increase in the loan burden, depreciation and interest expenses can be predicted for the next periods.

The Group's financial expenses fell by 10.9 million euros during the past financial year and at the same time the consolidated financial income increased by 5 million euros. Besides this the amount of net profit was influenced by the income tax paid on the 32 million euros of dividends. The total amount of income tax paid by the Group was 9.4 million euros.

In the financial year 2006/07 the net profit amounted to 168.4 million euros, and grew by 33 million euros (24.4%). Leaving aside the influence of the trade in emission allowances the net profit reached 72 million euros.

Net Profit

in million of euros	2006/07	2005/06	Change
Operating profit	189.1	164.4	15.0%
Interest expenses related to borrowings	-17.2	-27.9	-38.2%
Interest expenses related to provisions and other obligations	-1.5	-1.5	2.3%
Other net financial income	6.6	1.2	469.5%
Profit from investments in associates	1.0	0.6	54.8%
Income tax	-9.4	-1.4	586.4%
Net profit	168.4	135.4	24.4%

Economic Value Added (EVA)[7]

Eesti Energia uses a balanced scorecard system in managing its business units. The most important financial measure is economic value added (EVA), which compares the company's operating profit with the volume and cost of the invested capital. Eesti Energia aims to achieve a positive EVA within the group.

EVA amounted to -10 million euros, not including the extraordinary revenue from the sales of emission allowances. The greatest contribution to the creation of additional value was made by liquid fuel production and sales of electrical power; the price of liquid fuel increased by 20% compared to the 2005/06 financial year. The results of electricity sales and customer service were underpinned by successful sales to the Nord Pool electricity market of Nordic countries where 401 GWh of electrical energy were sold. The decrease in the EVA of electricity and heat production and oil shale production was influenced by a rise in environmental charges whose impact on operating profit was 10.3 million euros.

EVA

million euros	2006/07	2005/06
Oil shale production	4.9	3.3
Electricity and heat production	-27.4	-13.9
Shale oil production	11.9	11.1
Transmission of electrical energy	-0.3	-3.5
Distribution of electrical energy	-5.5	-4.4
Supply and customer services	9.2	-0.5
Support services	-2.8	-0.1
EVA total (million euros)	-10.0	-7.9

[7] Profits from selling the emission allowances have not been taken into account.

Investments

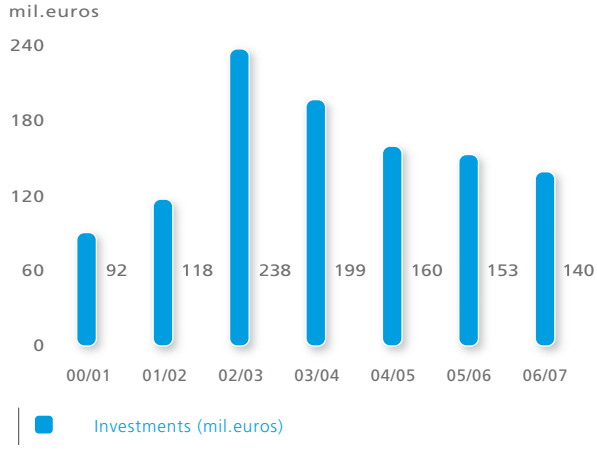
In the financial year 2006/07 Eesti Energia invested 140 million euros. The main focus of such investments (63% of the total amount) was once again the development of electricity networks; investments in distribution networks totalled 51.1 million euros and investments in transmission networks totalled 37.4 million euros. Other large investments were made in the segments of electricity and heat production (21.9 million euros) and oil shale production (19.5 million euros).

The average amount of annual investments during the last seven financial years was about 160 million euros. Although investments in financial year 2006/07 were smaller than in previous years, it would be reasonable to expect considerable growth in investments in the years to come.

Eesti Energia Group companies make investments based on the consideration that investments have to help fulfil the objectives established on the balanced scorecard. The most important financial criterion is economic value added (EVA). Eesti Energia Group sets capital cost for its companies on the basis of the particular company's field of activity and other parameters. In order for an investment to be economically rational, its return has to exceed the weighted average cost of the capital of the company making the investment.

Investments

million euros	2006/07	2005/06
Oil shale production	19.5	16.7
Electricity and heat production	21.9	26.1
Shale oil production	3.1	0.9
Transmission of electrical energy	37.4	42.9
Distribution of electrical energy	51.1	62.0
Other; including eliminations	6.6	4.2
Investments total	139.6	152.8



Distribution of Investments 2006/07

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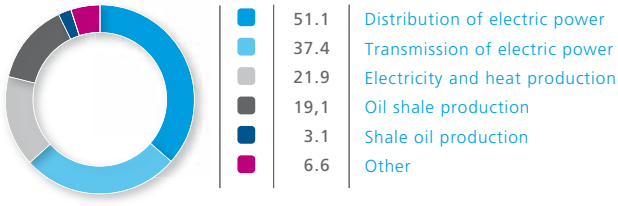

Distribution of Investments 2005/06

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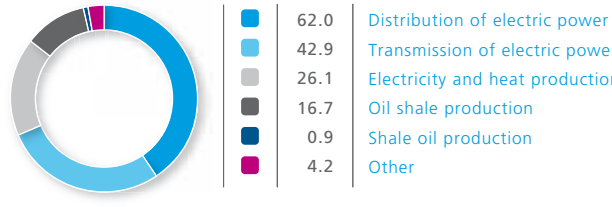


Cash Flows and Financing

In the financial year 2006/07 the cash flows from operations amounted to 256.6 million euros (leaving aside the effect of trading in emission allowances of 160.2 million euros), having grown by 28.9 million euros or 13% compared to the previous financial year. The cash flows from investment activities were -334.3 million euros; the cash flows from financial activities were –36.8 million euros, of which 32.0 million euros was paid in dividends. In accordance with international accounting standard IAS 7.7, investment related cash flows totalled -109.7 million euros, not including the cash flows resulting from the reclassification of cash and cash equivalents.

As at March 31, 2007 the weighted average interest rate of Eesti Energia's debt was 4.49%, having grown by 0.15% over the year. The base currency of Eesti Energia's borrowings is the euro. The interest rate increase is explained by the decrease in the proportion of credits with a floating interest rate tied to Euribor in the portfolio of loan-related obligations and the rise in Euribor rates. By the end of this financial year, 90% of the Group's loan portfolio consisted of loans with a fixed interest rate (taking only the drawn parts of loans). The average interest rate of floating rate loans was 6-month EURIBOR + 0.41%, while the average interest rate of fixed rate loans was 4.51%.

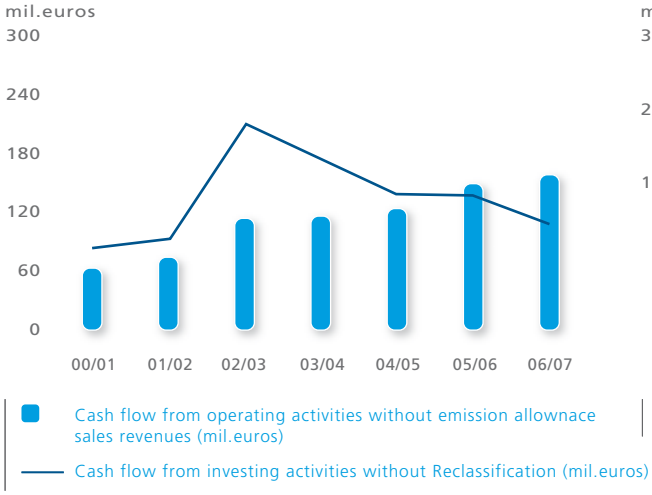
Credit Ratings

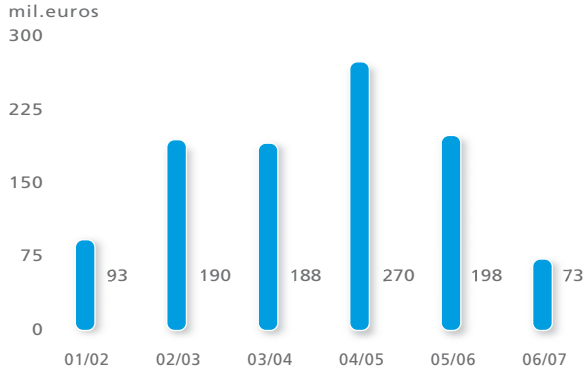
There were no changes in Eesti Energia's credit rating for the last financial year; Moody's has set the rating at A1 positive outlook and Standard & Poor's rating is A- (stable outlook).

Bonds Issued and Loans Taken

The largest of Eesti Energia's instruments of external financing are euro bonds worth 300 million euros with a fixed interest rate of 4.5% and a redemption term of 2020. In the last financial year no long term loans were taken and a total of 4.5 million euros were paid back. As at March 31, 2007 the balance of drawn bank loans taken by the Group was 55.0 million euros and the balance of undrawn bank loans 105 million euros. By the end of the financial year 2006/07 the net debt of the Group had decreased from 124.1 million euros to 73.4 million euros.

The growth in operating profit and decrease in interest expenses caused the interest cover ratio to rise by the end of financial year to 8.2, meaning it grew 2.3 times in the past year.





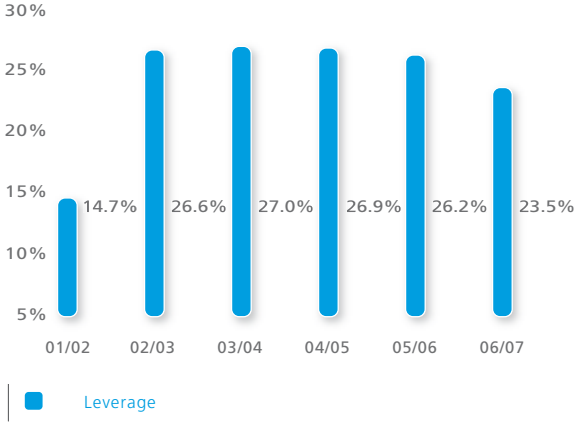
[8] Included deposit reserves.

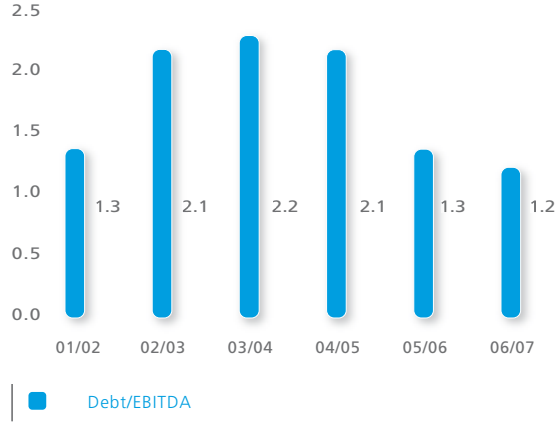
Backed by the decrease in the total volume of investments and the strong financial results, the current FFO / investment ratio of the financial year increased from 154.3% to 188.2%, which means that for two consecutive years Eesti Energia's investments have been financed solely from operating cash flows. Compared to the financial year 2005/06 the free cash flow in the financial year 2006/07 was also positive even without the effects of trading in emission allowances. This fact is especially significance, keeping in mind that Eesti Energia's electricity price is one of the lowest in Europe for both domestic and corporate customers. Eesti Energia's balance sheet structure remained stable during the financial year 2006/07.

Despite large investments, Eesti Energia has managed to maintain a relatively conservative capital structure. In the financial year 2006/07, the proportion of debt decreased and the debt/(debt+equity) ratio was reduced by 2.8% from 26.2% to 23.5%. Our strategy is to diversify our production portfolio, as a result of which we expect the flow of investments to increase in the coming years. Therefore we can expect the loan burden to increase in the medium term.

Dividends

The cash flows of the financial year 2006/07 considerably influenced the decision made at the general meeting of shareholders on the basis of the management's board proposal to pay 32 million euros in dividends due to the positive results of the financial year 2005/06. Dividends are paid out in September 2006. Based on the results of the financial year 2006/07 the owner expressed the desire to receive dividends of 63.9 million euros.





The Aims and General Principles of Risk Management

The goal of risk management in Eesti Energia is to provide professional and high quality identification, evaluation and management of all possible risks.
Risk management allows managers of the company to understand risks better and deal with them and to make informed decisions about them.

General Principles of Risk Management:

- Statements of the company's vision, mission and current goals and its environmental and occupational health and safety policies serve as the foundation for management.
- In making decisions and plans for the future we always take risk factors into account.
- We describe and evaluate risks according to a single set of rules.
- In order to identify and evaluate risks we work together with experts in the relevant fields and use their knowledge and experience. All opportunities discovered during the process of risk recognition are communicated to the management.
- We agree clear ownership for each identified and assessed risk. Risk owner is responsible for further management of this risk. Responsibility for particular risks lies with a manager or an employee dealing with the area where belongs the cause of the risk.
- Each employee and manager of Eesti Energia working in their particular field has a duty to avoid causing any damage to the company and should work to decrease the possibility of any risk materialising.
- Risk management is run by the risk management department accountable to Eesti Energia's Chairman of the Management Board. This department is responsible for developing, implementing and maintaining the Group's risk management system.

Risks and Risk Management

In the conditions of the opening energy market Eesti Energia feels progressively less secure about its operations. In the financial year 2006/07 the risk management development programme was launched, with the goal of developing and implementing the risk management system in the Group. Within the framework of this development programme on the basis of the common approach, recognition and evaluation of risks is performed for all areas related to the company's main activities and its subsidiaries.

Risks that influence the economic results of Eesti Energia can be grouped as follows: market risks; political and economic environment risks; strategic management risks; financial risks; operational risks.

Market Risks

Market risks are risks that are external to the company and that can provoke possible changes in the prices of Eesti Energia products and services, and price fluctuations on the markets for resources necessary for their production. The principal risks are electrical energy price risk, CO_2 price risk and fuel price risk.

1.1 Electricity price risk

Eesti Energia operates on the electricity wholesale market. 28% of all electric power produced by Eesti Energia is sold in Estonia under free market conditions and exported to Latvia, Lithuania or to Finland. In doing this the company remains vulnerable to price fluctuations on the Nord Pool Nordic countries energy market. Eesti Energia uses forward contracts in order to hedge the price risk.

1.2 CO_2 price risk

During its operations Eesti Energia emits CO_2. Production units of Eesti Energia belong to the European Union greenhouse gas emission trade system and thus the company must take into account the CO_2 emission allowances necessary for the production process and must consider fluctuations in their price. Eesti Energia constantly monitors CO_2 prices and takes them into account in its decision making.

1.3 Fuel price risk

95% of the fuel used by Eesti Energia is oil shale, the price of which is controlled by the company. An Eesti Energia subsidiary – Narva Õlitehas (Narva Oil Factory) – produces liquid fuel from oil shale and sells this fuel. The price of this product depends on the fluctuations of oil prices on the global market. Another subsidiary of Eesti Energia – Iru Elektrijaam (Iru Power Plant) – hedges price risks related to natural gas by concluding long term contracts. Eesti Energia constantly monitors price changes on the oil market and the influence of such changes on the company's operations, and on the purchasing and producing of liquid fuels and other resources.

Political and Economic Environment Risks

Political and economic environment risks are risks that are external to the company and that result from political decisions and changes in the economic environment. The most important of these are CO_2 emission allowances and the risk of certain amendments being introduced to the regulations.

2.1 CO_2 emission allowances

In the financial year 2006/07 Eesti Energia sold 96.4 million euros worth of excess CO_2 emission allowances. The amount of CO_2 emission allowances necessary for Eesti Energia's own production for the period 2008–2012 depends on the allocation plan for Estonia issued by the EU Commission and the actual distribution of allowances between companies by the Estonian Government. There is a risk that the allowances allocated for Eesti Energia may be insufficient for the production of electricity and heat from domestic oil shale and natural gas. Thus it might be necessary to purchase the shortfall of greenhouse emission allowances and the expenses related to this might result in a rise in the price of energy. There are no clear prospects for the development of the CO_2 emission allowances system in Europe after 2012. One of the strategic priorities of Eesti Energia is to diversify its production portfolio and develop the possibility of using renewable sources of energy in Estonia, and in Lithuania by participating in the new nuclear power station project in Ignalina.

According to the European Commission's preliminary assessment, the allocation request filed by the Republic of Estonia will be significantly reduced, as a result of which Eesti Energia will be allotted emission allowances comparable with the emissions resulting from the electricity produced for the Estonian closed market in 2008.

2.2 Risk of amendments to regulations

Eesti Energia operations are regulated by several European Directives and by Estonian legislation. Amendments introduced to such regulations will certainly have an impact on the company's economic performance.

Strategic Management Risks

Strategic management risks are internal company risks resulting from the strategic decisions of the company's management and the successful execution of the decisions. The most important risks in this category are development of the new connections, the existence of competitive production capacities, and the success of strategic projects.

Financial Risks

Financial risks are internal company risks related to the company's financial management. The most important risks in this category are liquidity risk, credit risk, interest rate risk and exchange rate risk.

4.1 Liquidity risk

Liquidity risk is the risk arising from Eesti Energia'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. For the last two financial years the Group's cash flows have been positive.

4.2 Credit risk

Credit risk is the risk arising from customers' and business partners' inability to fulfil their obligations. The overdue debts of clients are checked in the relevant departments on a daily basis. The carrying amount of accounts receivable, net of provision for the impairment of receivables, represents the maximum amount exposed to credit risk. The level of credit risk and efficiency of dealing with debts affects the amount of doubtful receivables, which in the financial year 2006/07 amounted to 2.4 million euros or 0.5% of the total turnover.

4.3 Interest rate risk

Interest rate risk emerges from floating interest rate borrowings, resulting in the possibility of higher interest rates leading to higher financial expenses. At the end of the financial year Eesti Energia Group had a total of 35 million euros of borrowings with floating interest rates (9% of all borrowings).

4.4 Exchange rate risk

Eesti Energia avoids exchange rate risks by making sure that all long-term liabilities and electricity export contracts are made in euros.

Operational Risks

Operational risks are possible future events that may result in damages for the company and may be the result of deficiencies in certain processes, mistakes by employees, technological failures or such external events as the mistakes of business partners, acts of nature or crime. Periodical recognition and evaluation of risks has been conducted in Eesti Energia since 1998. A good risk management tool is the implementation of international standards for quality, occupational safety and environment management systems (ISO 9001:2000, OHSAS 18001:1999 and ISO 14001:2004) in the Group's subsidiaries.

Insurance Programme

Insurance contracts are used, alongside other measures, to minimise operational risks. The property of Narva Elektrijaamad and Iru Elektrijaam is insured with a compensation limit of 200 million euros per incident. In addition to assets, the risk of an interruption to operations and related additional expenses has also been insured in the power plants.

Other important assets are insured with a compensation limit of 50 million euros per incident. In addition the Group have also public and product liability insurance with limit of 50 million euros.

Forecast

Economic Growth

According to the Bank of Estonia and Estonian Ministry of Finance forecasts, in 2007 and 2008 the growth of Estonian exports will remain at 8–10% and imports growth at 8–13%. The growth of imports is at its highest point ever in 2007 and starting from 2008 its growth rate must decrease to the levels of export growth, or, perhaps, a little further. Real growth of private consumption reached 15.8% in 2006 and according to forecasts should fall to 8–10% in 2008.

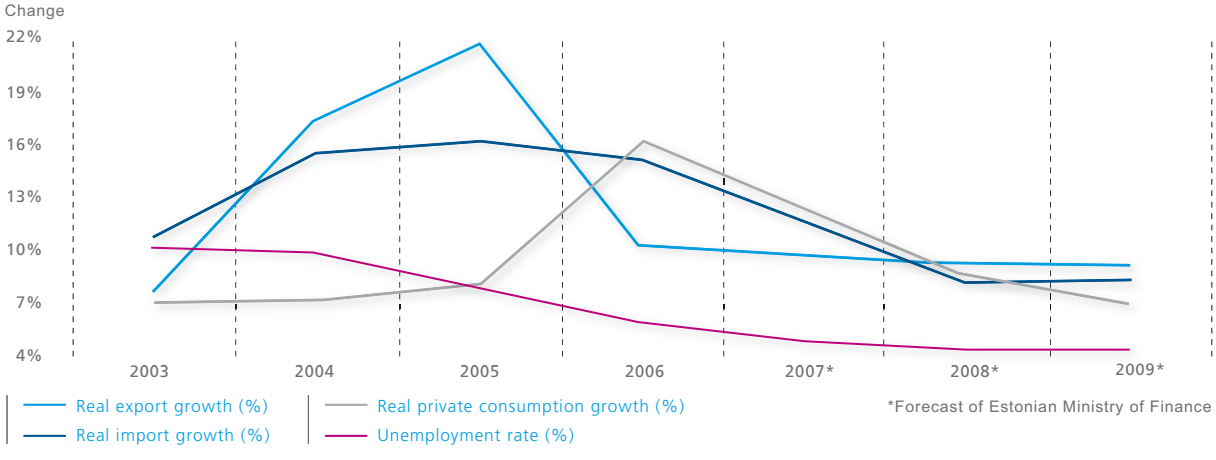
In the long term it is important to monitor how Estonian companies will be able to adapt to more expensive production inputs without losing their competitiveness. The decrease in companies' competitiveness may lower their effective output and considerably slow economic growth.

According to the economic forecast issued by the Ministry of Finance on March 21, 2007 the Estonian economy will grow by 9.2% in 2007 and by 8.3% in 2008. The Bank of Estonia is being more cautious and in its economic forecast issued on April 18, 2007 predicts that economic growth in 2007 and 2008 will be 8.4% and 6.5% respectively. On the basis of the Bank of Estonia and the Ministry of Finance forecasts we assume that during the next two years growth in domestic electric power consumption will be about 4% per year.

Electrical Energy Price

As the electricity prices on the Nordic countries market will continue changing, having fallen to the level of 20 €/MWh, we are able to forecast, on the basis of derivative contracts, a gradual rise in electricity prices on the Nord Pool energy market to 40–45 €/MWh in the beginning of 2008. As the price depends on the air temperature and the amount of precipitation, it is likely that these factors will result in considerable changes in electricity prices. The level of water basins is lower than its normal average. Electricity prices are suppor-

Primary Macro Economical Factors that Influence Economic Growth



ted by rigid European Commission policies with regard to the emissions allowances allocation programmes for 2008-2012. Thus there are some grounds to assume that compared to the previous year electrical energy prices in 2008 will rise rather than fall.

The launch of Estlink influenced the Baltic market by linking the price of some electricity supply contacts with Nord Pool prices.

Oil Price

Our forecast was that in 2007 oil prices would rise steadily to 60-70 dollars per barrel. As the price of oil is sensitive to various events in the production, supply and refinery process, we cannot exclude the possibility of these factors causing considerable growth in crude oil prices. On the basis of future transaction prices on the crude oil market we assume that the oil price in this financial year will remain below 70 dollars per barrel.

Emission Allowances Market

According to our forecast about emission allowance trading in 2007 and about the 2005-2007 European Commission emission allowances allocation programme for countries, CO_2 emission allowances will remain at a price lower than 1 euro, as less allowances were used than was initially planned. On the basis of future transactions concluded in May 2007 it is possible to predict that by the end of 2007 the price of emission allowances will be 0.3 €/tonne. Under the new allocation programme for 2008–2012 the allowances provided by the European Commission were considerably reduced, which caused the allowance prices for the following years to rise. In future transaction contracts concluded in May 2007 the price of CO_2 emission allowances for 2008 has risen to 24 €/tonne.

Investments

According to the Group's strategic goals the majority of investments in the following years will be directed to developing new energy-generating capacity and to reconstructing and further developing the existing electricity networks.

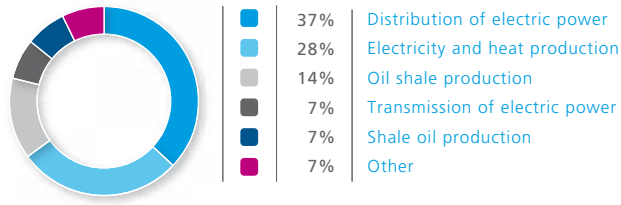
The aim of the Group's strategy for 2006-2010 is to solve all the customers' voltage problems, to cut network losses to 7% and to reduce network failures by 35%. Due to the more stringent environmental requirements we shall further develop the technology for producing electrical energy from oil shale and diversify our production portfolio. We consider the value of oil shale resources to be of great importance and by 2010 we plan to increase our shale oil production capacity to 500,000 tonnes per year. There are plans to start constructing a second undersea cable to Finland in 2010, which will increase the transmission capacity between Estonia and Finland to 1,000 MW.

The forecast for the amount of investment for the financial year 2007/08 is 190 million euros. 45% of this will be directed to improving the reliability of electricity networks and the quality of energy distribution and to creating new connections; 28% will go to electricity and heat production, 14% to oil shale production and 7% to shale oil production.

In the financial year 2007/08 we plan to invest a total of 70 million euros in electrical energy distribution. The biggest investment categories are the creation of new connections (25 million euros) and investments in the reliability and quality of work (32 million euros).

There are plans to invest 13 million euros during this financial year in the transmission of electrical energy. The focus of such investments is to improve the reliability and quality of networks. The most important investment target is the start of construction of the 300 kV Tartu-Viljandi-Sindi overhead line.

Investment Forecast 2007/08



The total amount of investments planned for the energy production segment is 50 million euros, the lion's share of which will go to Narva Elektrijaamad (45 million euros). The major investment projects in this segment are related to complying with stringent environmental requirements and improving the efficiency of production. Based on the results of a pilot project, a new ash transport system in Eesti and Balti Power Plants will be started, as will the reconstruction of the 2nd block of Iru Elektrijaam and the installation of the new burners there.

Investments in energy production have a serious impact on the CO_2 emission allowances given to states and the market price of such allowances. As there is little clarity with regard to the carbon dioxide emission allowances allocation programme after 2012, any investment in energy production resulting in heavy CO_2 emissions carries additional risks, and these should be taken into account when decisions on investments are made.

The total investment budget for oil shale production for the financial year 2007/08 is 25 million euros. The majority of these investments are aimed at improving the efficiency of production, first of all through the purchase of new machinery and other production devices. More investments will also be made in the Estonia quarry, in order to satisfy the growing demand for gravel in Estonia.

The planned investment in shale oil production for the financial year 2007/08 is 13 million euros. This investment will be made in the shale oil refinery enlargement project and in the ash handling devices.

Operating Profit Forecast

In total we predict an operating profit of 83–89 million euros for Eesti Energia for the financial year 2007/08. In making this forecast we assumed that the average air temperature throughout the financial year will be similar to the long term average. Compared to the financial year 2006/07, the impact on the free market for electrical power of the period following the second pan-European allocation plan for CO_2 emission allowances will be more important in influencing the results of our operations, as a result of which companies participating in the market will account for the allowances needed for CO_2 emissions as variable costs. The actual operating profit of the 2007/08 financial year may be influenced both positively and negatively by the changes in Estonian demand for electrical energy, oil prices and emission allowances prices.

Cash Flows

The planned cash flow related to the company's operating activities for the financial year 2007/08 is 179 million euros and the cash flow related to investment activity will be 173 million euros, including 192 million euros in investments. Good economic results are the prerequisite for the large cash flows related to commercial operations. Eesti Energia investments will considerably increase as a result of the launch in 2007/08 of several investment projects. Dividends distributed in 2006/07 will also have a significant impact on financing operations; the estimated total of such dividends together with taxes reaches 83 million euros.

Environmental Report

Introduction

One of Eesti Energia's strategic aims is to diversify our production portfolio in the light of climate change and EU environmental regulations. Eesti Energia's environmental management activities are systematic and meet international standards, holding all the required environmental permits and renewing them as necessary.

We are continually developing our environmental, quality, and occupational health and safety management systems. In order to gain a better overview of its environmental impact, towards the end of the financial year 2005/06 Eesti Energia brought in a new method for assessing the integrated environmental impact of electricity produced from oil shale. In the financial year 2006/07 another impact survey was started which enabled Eesti Energia to apply for an environmental product declaration, an internationally acknowledged environmental certificate, for its primary product, oil shale electricity. In the past financial year the electricity life cycle assessment which Eesti Energia carried out won international acclaim and an award at the international Energy Globe competition.

Since the amount of oil shale used by Eesti Energia is currently a topical issue, the group's companies have started looking into ways of getting better value from oil shale in both environmental and economic terms through new products and through enrichment of the oil shale. Finding environmentally friendly and economically sound uses for oil shale ash is becoming increasingly important. One new development project is carbon sequestration, and the group is looking to identify solutions for air pollution reduction through the use of new technologies and by installing treatment facilities.
In the financial year 2007/08, we are planning to implement an environmental management system and database for the whole group in order to ensure better access to environmental information.

Environment protection and environmentally sustainable activities are essential and topical issues both for Eesti Energia and the whole of Estonia, often featuring in public debates, and Eesti Energia regularly presents details of the company's environment-related activities and achievements to various interest groups. One method of raising awareness and disseminating information is our long-standing regular environmental report.

"Getting greater value from oil shale through product development and oil shale enrichment is among the most important joint development projects for Eesti Energia's environmental and technical spheres."

Tõnis Meriste
Eesti Energia, Environmental Manager

Eesti Energia's Environmental Policy

The Eesti Energia Group adheres to the following environmental principles:

1. We have adopted and use an environmental management system that complies with international standards (ISO 14001 and EMAS).
2. We follow all the relevant Estonian and international environment-related legal acts.
3. We analyse the environmental impact of our operations in advance and reduce the negative impact of power production and transmission by using technological solutions and innovation as well as by increasing efficiency, reducing losses and implementing management systems.
4. We apply the best available technology (BAT) and support sustainable development in Estonia through waste prevention, waste recycling and improved efficiency in the power system.
5. We use the best available technology to make use of renewable energy sources to a technologically and economically rational extent.
6. We are open to new solutions and cooperate with scientific research establishments and consultation firms to achieve our environmental goals.
7. Under equal conditions in procurement tenders, we prefer suppliers who have established a certified and verified environmental management system.

The environmental policy of Eesti Energia is public and it is disseminated to employees, suppliers and other interested parties.

Eesti Energia's Environmental Objectives

1. To replace the existing oil shale ash hydro transport system with thick slurry technology at Narva power plants by 2009 and to remediate the existing ash storage sites in order to reduce environmental hazards by 2013.
2. To shut down ash field nr 2 of the Balti Power Plant by the end of 2008 in readiness for the wind park to be erected there, and the Ahtme ash field by 2013 at the latest.
3. To renovate Ahtme Power Plant to meet environmental requirements and with the aim of converting to a co-generation plant using biofuels by 2010.
4. To establish a 50 MW wind park on the closed ash field of the Balti Power Plant and to develop further renewable energy capacity while also introducing gas turbines to ensure the reserve capacity for wind energy.
5. To install additional SO_2 and NOx removal systems on the pulverised firing technology based energy blocks at Narva Power Plant by 2012.
6. To cut network power losses to 3% by 2008 and distribution losses to 7% by 2010.

7. To bring such oil-based facilities as are in violation of the requirements into compliance with legal acts, by 2012 in OÜ Põhivõrk and by 2015 in OÜ Jaotusvõrk.
8. To conduct feasibility and environmental studies into the increase in the diversity of energy sources, the gasification of oil shale, and the use of carbon capture technologies within the next three years.
9. To conduct research into oil shale enrichment from the point of view of mining and consumption by the end of 2008.
10. To certify the management systems of all Eesti Energia subsidiaries pursuant to standard ISO 14001 and to verify the EMAS environmental management system covering the whole group in 2008.
11. To conduct an environmental audit of between one and three third parties from among Eesti Energia's suppliers and subcontractors by the autumn of 2008.
12. To carry out measures derived from the oil shale electricity life cycle assessment, including the preparation and verification of the oil shale electricity Environment Product Declaration (EPD) in 2007 and the Life Cycle Costing pilot project in 2008.
13. To continue to work for energy saving and to promote natural sciences among young people.
14. To quadruple the re-utilisation of oil shale ash over the next five years. To conduct research into sequestering CO_2 with oil shale ash and to construct a test facility.
15. To develop a waste treatment accounting system for the whole Eesti Energia Group, and to develop new and existing waste treatment technologies in the next five years.
16. To develop and improve Eesti Energia's environmental information system over the next four years.

The Environmental Impact of Power Production in Estonia

In order to evaluate the environmental impact of power production as comprehensively as possible, it is necessary to look at the entire chain of power production.

The chain of power production and consumption may be broken down into the following stages:

- preparation of sources of primary energy
- transformation of sources of primary energy into a form conveniently used by humans (electricity, heat)
- transportation of the transformed energy to the consumer
- consumption of energy.

Each stage involves different processes in terms of technology and environmental impact, and the environmental impacts of each part of the production chain are described below. All units in the Eesti Energia Group which come within this chain operate under the conditions determined by the environmental permits we have been issued. Environmental management systems, which meet ISO 14001 standards and are certified, have been set up in mining, production and network units to reduce the environmental impact and improve performance.

The Environmental Impact of Preparing Sources of Primary Energy

Primary energy resources are a prerequisite for the production of power, and the main source of primary energy in Estonia today is oil shale. About 95% of electricity and close to 300,000 tons of shale oil is produced from oil shale. Beside oil shale the primary sources are biomass (wood, plants and so on) and wind. There is practically no gas in Estonia, except for the producer gas which is a side product of the production of oil from oil shale. There are very few hydro and solar energy resources in Estonia.

One of the Eesti Energia Group companies, Eesti Põlevkivi, which consists of the parent company and three subsidiaries, mines oil shale. Eesti Põlevkivi owns the two mines and one quarry of Põlevkivi Kaevandamise, and also a railway transport company.

Unfortunately, changes in the natural environment are an inevitable consequence of mining. The mining of 450 million-year-old oil shale, has not only given rise to new settlements and towns in Ida-Virumaa, but it has also caused changes in the natural environment of the region. Eesti Põlevkivi has a long experience of working systematically, and as such the impact of mining has been well managed, and consistent environmental investments play an essential role in lessening the impact from mining.

In terms of how long oil shale will last, active resources should last for another 30 years if current volumes of production are maintained. The Estonian Government has monitored and managed oil shale resources through the national development plan for oil shale mining and use since 2006.

Oil shale mining dates back to 1916 and over 1 billion tons of oil shale has been excavated in Estonia. Oil shale is quarried in open-pit mines from deposits up to 30 metres deep with losses not exceeding 8.9%. Room-and-pillar mining is used in underground mines where resources lie deeper under the ground, and where the mine roof is held up by columns and pillars. Today, all underground mining is done using the room-and-pillar method but this method creates losses of up to 27.6%.

Traditional mining takes both oil shale and limestone to the ground from quarries or from underground mines. The mineral from the mines and the Aidu quarry is enriched in enrichment plants where limestone is removed from the oil shale. Narva quarry has been using a surface miner since 2006 to sort oil shale. The limestone which is removed in enrichment plants is called waste rock and is cast off onto slag heaps, and about 4-5 million tons of this waste rock is generated every year. At Narva quarry, limestone sediments are cast off onto heaps during the mining process, while at Aidu quarry, waste rock from enrichment is sent back to the quarry heaps. Over the years, a total of over 190 million tons of production waste has accumulated in the "hills" of waste rock that characterise the terrain of Ida-Virumaa. Following the Environmental Charges Act, adopted in 2005, dumped minerals are considered waste and are taxed. However, not all enrichment waste makes it to the "hills", and Eesti Energia is making extensive efforts to reduce the proportion even further. An increasing amount of the material is used to produce gravel and filler for use in road construction. The waste rock crushing facility for

gravel production has been completed in the Aidu quarry and another will soon join it at the Estonia mine.

The area mined in oil shale quarries is mostly levelled and replanted, making Eesti Põlevkivi the biggest tree planter in Estonia at present. When mined areas have been restored, fields have been created and small ponds retained, and every year, up to 180 hectares of former excavation sites are reforested. A total of 11,800 hectares of land have been restored in Eesti Põlevkivi quarries since the beginning of operations, including a total forested area of 11,600 hectares and 170 hectares of agricultural land. When quarries are restored, the wishes of local governments are also taken into consideration, and, for example, otherwise flat surfaces are made more diverse and varied.

In order to ensure dry conditions for excavation in both quarries and mines, the level of groundwater is in these areas is kept below the level of the oil shale layer. In 2006, 155 million cubic metres of water was pumped out of the mines and quarries and directed mainly into the Gulf of Finland and partly into Lake Peipsi via ditches and rivers. Before being directed into the environment, mine water is cleaned, mainly of suspended matter, in sedimentation tanks. The amount of water pumped out depends mainly on the weather conditions and the amount of precipitation. Following the closing of exhausted mines in the northern part of the deposit, the level of groundwater has risen, approaching the original 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, and water samples taken from old mines show quite a rapid decrease in sulphate concentrations in underground reservoirs. Treated mine water does not have a significant effect on the environment as only the proportion of sulphates is noticeably increased. Coal mines have problems with acid mining waters but that is not the case with oil shale. Wells in the immediate vicinity of mining work that are higher than the mine level have dried up, so to alleviate the situation Eesti Põlevkivi spends millions of kroons each year boring deep wells and laying pipelines to restore the water supply.

This cannot, however, be done everywhere. In the Viivikonna district of Narva quarry, located immediately by the Kurtna Nature Reserve, mining work has been conducted within a special project designed to ensure minimal impact on the reserve. The primary technological solution is a short work face and seepage barriers and infiltration pools, allowing oil shale reserves on the border of the reserve to be exploited.

After the Environmental Charges Act came into effect in 2005, Eesti Põlevkivi paid about 10 million euros in environmental charges. A rise in the charges is expected in the coming years. In order to limit the environmental effects of mining, monitoring has been carried out of groundwater, the composition of mine water routed to rivers, and land subsidence. The studies addressed the effect of mining on the farming value of agricultural land, on forest growth conditions and bird populations, and on the condition of groundwater. In conducting environmental research we have worked together with numerous research organisations in Estonia, including the Estonian Research Institute of Agriculture, the Excavation Institute of Tallinn University of Technology and the Estonian Geology Centre. Every spring, Eesti Põlevkivi organises an environment day for its companies' environmental employees, scientific institutions that have worked with Eesti Põlevkivi and environment officials from county and municipality administrations.

Renewable energy sources such as water and wind are little used by Eesti Energia. Biomass was not used in the last financial year. Wind energy has great potential in Estonia but resources for hydro energy are quite limited as the estimated maximum production capacity of water energy is 30–40 MW. The largest hydroelectric power plant today is at Linnamäe. Production of electricity from water power is limited by the shortage of suitable rivers and restrictions stemming from the need to permit fish migration. Wind resources are mostly concentrated on the mainland, but in the last financial year the first steps were taken to make use of off-shore wind resources. In the case of both mainland and off-shore wind parks, the main environmental impacts are the visual intrusiveness of the parks, and their impact on wild birds.

The Environmental Impact of Transforming Sources of Primary Energy

Eesti Energia mostly transforms primary energy into electricity and heat, but more recently also into shale oil liquid fuel. Most of the production of these energy types is done by Eesti Energia's oil shale based Eesti and Balti Power Plants in Narva and the Oil Factory.

Balti Power Plant produces both electricity and heat but Eesti Power Plant electricity only. Electricity and heat are also produced by the gas-fired Iru Power Plant and the oil shale fired Ahtme Power Plant, and electricity is produced in the hydroelectric power plants at Linnamäe and Keila-Joa and by the windmill at Virtsu, so the main available sources of energy in Estonia are all used. Iru Power Plant is planning in future to co-generate electricity and heat by using waste as fuel.

Eesti Energia produces the majority of its energy, heat and shale oil by burning or processing the local fossil fuel, oil shale. For this reason, Eesti Energia's activities have an impact on air quality through the substances emitted into the atmosphere, as well as impacting on surface and groundwater through the storage of the solid waste generated from combustion. In addition, the condensation method uses substantial amounts of cooling water to produce electricity, and so the group's activities have an effect on all parts of the environment.

Complete combustion of the fuel generates CO_2 and H_2O, and depending on the features of the fuel used, combustion may also produce NOx, SO_2, CO, heavy metals and fly ash.

SO_2 is generated by the oxidation of sulphur when fuels containing sulphur are burnt. NOx is generated by the oxidation of organically bound nitrogen contained in fuels, or, nitrogen contained in the air may oxidise during high-temperature burning processes. Similar to SO_2, NOx gases are acidic and create acid rain which impacts heavily on the natural environment. Coniferous forests and certain plants are especially sensitive to acid rain and may be destroyed as a result. In addition, nitrogen is an important nutrient in nature and therefore NOx emissions cause the proliferation of vegetation, or eutrophication in bodies of water. Both gases are mostly local pollutants which impact within a limited distance from the pollution source and have no global impact. N_2O is one of the so called greenhouse gases with a global effect. However, its share in the total volume of NOx is insignificant.
CO_2 is an important product of the degradation of organic matter in the combustion process. CO_2 is a gas that is produced as a result of life processes, but while it is an important component in photosynthesis, as a result of human activities considerably more CO_2 is released today than the carbon cycle is able to consume in regenerating biomass. When fossil fuels are burnt in large amounts, the carbon that has so far stayed out of the cycle is introduced into it. CO_2 is considered to be one of the causes of global warming, or the greenhouse effect, and in the last few decades, a significant rise in atmospheric CO_2 has been detected, mainly due to the activities of humans, and measures have been taken to reduce climatic change at both European and global levels. Estonia has ratified the Kyoto Protocol and all four large production units of Eesti Energia belong to the EU greenhouse gas emission trade system.

Fly ash is generated mainly by burning solid fuels and is the only atmospheric pollutant that can be made out with the

naked eye. Heavy metals are also released into the environment mainly through fly ash. The fly ash released into the air causes respiratory disorders and pulmonary diseases, and these created the need to limit solid particles or fly ash concentration in the layer of air closest to the ground. Fly ash generated by burning oil shale is alkaline and the oil shale fly ash released into the environment reduces the acidity of the environment and thus alleviates the environmental impact of acid rain. The discharge of alkaline fly ash may be one explanation as to why there is no acid rain in Ida-Virumaa.

In the last financial year, Eesti Energia power plants released a total of 50,085 tons of SO_2, 8,886 tons of NOx and 4,702 tons of fly ash. Emissions were lower than they were in the previous financial year, as emissions of SO_2 were reduced by 4,507 tons or by 8%, and the emissions of solid particles by a dramatic 33% or 2,564 tons. NOx emissions were cut by 528 tons, and CO_2 by about 5%.

The majority of the overall emissions are from Eesti Power Plant and Balti Power Plant, which also have the highest production volumes. The main reason for the drop in atmospheric emissions, especially for CO_2, is the two new circulating fluidised bed (CFB) technology based boilers at the Narva power plants, while the quantities of fly ash released into the atmosphere have been successfully reduced by using more efficient filters. CFB boilers are more efficient and consume less fuel to produce the same amount of electricity, and they demand less power themselves. The reduced fuel consumption together with the low decomposition level of the carbonates (limestone) contained in oil shale makes the new boilers give off less CO_2. In addition to the existing energy blocks, a new and modern natural gas based peak load reserve boiler has been established at Balti Power Plant in order to guarantee the stable provision of heat to residents of Narva. In order to ensure the constant monitoring of all emissions and a satisfactory level of response to them, a emission monitoring system was set up at the Narva power plants.

Iru Power Plant, which originally was intended to also use liquid fuel is currently running 100% on natural gas which is a non-renewable fossil fuel, but the most environmentally friendly and efficient non-renewable type of fuel. Due to the production volumes and total installed capacity being smaller than those of Balti and Eesti power plants, the amounts of exhaust gases emitted (mostly NOx) by the Iru plant are smaller. Nevertheless, major investments should be made in the Iru Power Plant to ensure compliance with all EU environmental requirements. Volumes of NOx can be brought down to the EU levels by using the so-called primary methods, and the first stage of works for this should be completed by the beginning of 2008. Alongside renovation of the gas-fired equipment at the Iru plant, preparatory work is being undertaken to produce electricity and heat from waste.

Like the Narva power plants, Ahtme Power Plant uses oil shale as fuel, and thus the gases and pollutants discharged from that power plant are the same but the emission quantities are considerably smaller than those of Narva. Ahtme Power Plant has to be brought into compliance with the requirements of the EU Large Combustion Plant directive by 2010 according to Estonia's Accession Treaty with the EU. To this end the plant needs to make significant investments being considered.

Analysis of the amounts and character of the emissions generated in the Eesti Energia production process shows that the treatment of solid waste has a vital role. In addition to gas, mineral waste or ash is formed to a greater or lesser extent whenever any fuel is burned. A peculiarity of oil shale is its high mineral content, meaning that around 45–50% of the original mass is left after combustion. The ash formed at the Narva Power Plants and Ahtme Power Plant is deposited in ash fields next to the power plants, and a low proportion is re-used. Hydro-transport is used to convey large quantities of ash, that is, ash is pumped to the place of storage mixed with water.

Oil shale ash contains a high concentration of calcium oxide (CaO), or quicklime, which reacts with the transport water in a process known as slaking and renders it strongly alkaline, and for this reason oil shale ash is classified as hazardous. Today, ash is transported in closed systems, where the transport water circulates several times and does not come into contact with the environment. However, the amount of transport water is affected by precipitation, the quantity of which exceeds vaporisation in Estonia. Surpluses of water created by precipitation are neutralised and processed as required, then rerouted to the environment in accordance with the terms and conditions specified in the environmental permits. Despite

the system being a closed one, the large quantities of strongly alkaline (with pH up to 13) water circulating in the ash transport system pose a risk of environmental pollution, especially if water were to be released into the environment as a result of an accident or technical problem.

It is planned to establish a 50 MW wind park on the closed ash field nr 2 of Balti Power Plant within the framework of EU financing for managing environmental risks. Using CO_2 gas instead of strong acids has been considered as one option for neutralising alkaline wastewater in the existing operating ash fields, which would be considerably more environmentally friendly. In addition to this, we are making efforts to bring ash removal and storage into compliance with the Best Available Technology (BAT) which would also ensure compliance with EU requirements regarding waste depositing. Compliance must be achieved by the summer of 2009 at the latest when Estonia's transition period will end. One potential solution today is to convert ash disposal to use a new semi-dry thick slurry technology and remediate the current ash fields. This scenario ensures a considerable reduction in the amounts of circulating water in the system and also, the impact of climatic conditions – precipitation – on the system's stability should diminish. In order to solve the waste problem, the company has started building a thick slurry based transport system to service two energy blocks, and has drawn up a project for the whole system and conducted economic and environmental analysis of different options.

Oil shale ash may be used as a raw material in various ways, and not only deposited in storage sites. Narva power plants are looking into finding and developing possibilities for its use, aiming to increase the recycling rate of ash. Currently about 2-3% of oil shale ash is recycled. Oil shale ash can be used as a raw material in the manufacturing of construction materials, notably cement, or in building sites as a filler or substitute material. A major application would be to use ash in large-scale stabilisation projects as a cement substitute, or to reduce the acidity of soils or as fertiliser.

It is also worth mentioning oil shale ash can be neutralised with the CO_2 contained in smoke where a back reaction of limestone decomposition takes place. Binding CaO, a hazardous substance found in oil shale ash, with CO_2 in stable carbonates will stop the creation of strongly alkaline contact water, and a material with such properties can be used in cleaning up mines or quarries or in other construction projects, and thus the volume of oil shale ash recycling can be significantly enlarged. At the same time, CO_2 which is otherwise emitted into the environment can be bound into a minerally stable compound, and this can be seen as the removal of CO_2 from smoke.
No pilot testing unit is complete as yet, but this solution has great potential in oil shale ash treatment.

Water is used as a cooling liquid in power plants working in condensation mode and as a heat-carrier in co-generation power plants. Natural surface water from nearby bodies of water is generally used in all power plants. When cooling water is used, the environmental effects include a rise in the temperature of surface water, resulting from the re-routing of the water used for cooling back into the environment. The cooling water used by the Narva power plants raises the temperature of surface water by up to an average of 7 degrees. The new CFB technology will also reduce the amount of water necessary for cooling. When water is used as a heat carrier, it is necessary to treat it chemically first, which may have an environmental impact if chemicals leak into the environment should treatment fail to follow the set requirements.

It is clear that any process of transformation of primary energy into a form more suitable for humans has some environmental impact and the same is also true for renewable sources. Wind energy is seen by some as a danger to birds and bats, and wind turbines also have an aesthetic effect – such installations may not suit every landscape – and create low-frequency noise and vibration. The wind turbines used by Eesti Energia today and in the future conform to all current and to known future environmental and health protection requirements and are of high quality. Environmental effects from hydro plants involve ground problems arising from the blocking and swelling of bodies of water, and the hindrance to the movement of fishes, especially rare species, to their spawning areas. Eesti Energia has been involved only with restoring existing old hydro plants – new dams and catchment ponds have not been built and the existing ones have been renovated in line with all requirements. Any disruptions in the course of construction works have been compensated for by corrective environmental action on the rivers affected.

The Environmental Impact of the Transmission of Electricity

After primary energy has been transformed into a more suitable form, this transformed energy must reach the consumers. The effects of transmission and distribution should be considered for both electricity and heat. The transfer of electricity is important since electricity reaches every consumer through high- and low-voltage lines. In reality most people do not realise how many different types of devices and cables, transmission lines or heat pipelines are required for each consumer to use electricity or heat.

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OÜ Jaotusvõrk alone has a total of around 59,000 km of transmission lines, of which about 49,600 are overhead lines, and over 19,000 substations. OÜ Põhivõrk has approximately 5,300 km of high-voltage overhead lines and around 140 substations.

Transmission networks also have an effect on the environment, as did the earlier stages of power production, but the environmental effects of electricity transmission are concerned with issues related to the use of land, and the physical properties of electricity transmission. For heat the issue is mostly connected to the presence of physical pipelines in the human environment.

One of the largest groups of effects are the restrictions applied to the use of land underneath the electricity transmission and distribution lines, which has to be properly maintained. It is necessary to establish around the lines sufficient security zones that are free of trees to ensure the safety and reliability of the lines. In addition to usage restrictions, overhead lines and substations are visually unappealing and often it is necessary to cut down forest or carry out excavation work in order to build them, which reshapes the natural setting significantly.

Eesti Energia has a total of over 19,000 transformer substations. The devices in substations, mainly transformers and the main components of overhead lines, produce noise in the surrounding area, and this becomes a problem especially when there are residential areas in the immediate vicinity of substations or overhead lines. In addition to this, transformer oils are used as an insulator in substations. If there is a leak or accident there is a danger that the oil may disperse into the environment and contaminate the surface and groundwater. Transformer oils are often associated with such environmentally harmful substances as PCBs and PCTs. Oils and transformers containing them have never been used in OÜ Põhivõrk, but there are still transformers containing PCBs and PCTs in two places in OÜ Jaotusvõrk. They were acquired when former Soviet army substations were repossessed and are accounted for separately. According to current plans, the PCB and PCT devices should be finally removed in accordance with the requirements by 2010 at the latest.

As with other electrical processes, electromagnetic fields, which may have various effects, 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 has been established as to the precise effect that the electromagnetic fields created around substations or high-voltage lines have on living creatures. To reduce the possible effects of electromagnetic fields on humans, restrictions have been established on development in the possible danger zone.
When transmission lines are repaired, renovated or removed, a significant amount of waste is produced, primarily pylons, which needs to be handled appropriately.

Constant, systematic work is done to alleviate all of the environmental effects of transmission. A more stringent and thorough set of rules for work in maintaining lines and clearing forest has been adopted and in order to improve the quality of line maintenance, the company cooperates with the State Forest Management Centre (Riigimetsa Majandamise Keskus – RMK). For private forests, negotiations are held with various interest groups in order to find and implement solutions that satisfy all of the parties, and in certain cases overhead lines have been replaced with underground cables in order to increase reliability and reduce unsightliness and noise. The use of underground cables helps avoid many of the problems mentioned, but certain restrictions on land use still remain. When substations are built, the use of more compact and quieter devices is favoured, reducing the size of substations.

With oil devices too a shift is being made to environmentally safer solutions, and if this is not possible, the necessary security systems are built in the form of safety pools, oil separators and collectors. In the last financial year, we renovated and modernised these security systems, investing over 0.7 million euros in reducing the risk of contamination from oil devices in at least 25 substations. In developing and constructing safety systems, we try to find the optimum end result from the standpoint not only of security but also of maintenance costs.

The Environmental Impact of Sales and the Consumption of Electricity

An important role in the chain of power production is also played by the consumption of electricity, or how clients use energy According to the latest estimates, Estonia's potential energy saving is at least 20–30% of today's consumption. Eesti Energia launched an internet-based energy saving portal to provide better information to customers on energy saving.

The aim of the energy saving portal is to present various energy saving measures to consumers interested in optimising their energy consumption. The portal provides an overview of products and technologies that save energy and contains links to internet sites on the same subject. The portal has a constantly updated news section and a feedback page for viewer comments, suggestions and questions about energy saving.

The portal has three subject areas: energy saving at home, energy saving at work and energy saving in industry. The subject areas cover articles on insulation, lighting, heating systems, efficient electrical devices, the development of pricing systems etc. The contents of the energy saving portal are constantly supplemented and updated. Interest in the portal has been consistently high; at least 3,500 people visit the portal every month.

Eesti Energia also continued the traditional energy saving project contest, where the best entries are supported with funds of up to 6.4 thousand euros. The contest is aimed first of all at non-profit associations and foundations and primarily supports projects related to the dissemination of knowledge and information. It is very important since it allows information to be spread about energy saving and reasonable consumption to children and young people. Eesti Energia plans to invest even more in various projects and activities dealing with energy saving and the optimal use of energy.

Eesti Energia's product selection includes Green Energy, which is electrical energy produced 100% from renewable energy sources. Green Energy is produced in compliance with all environmental requirements, and by buying it customers support research into the development of renewable energy in Estonia. Eesti Energia has concluded an agreement with the Tallinn Centre of the Estonian Institute for Sustainable Development to achieve this.

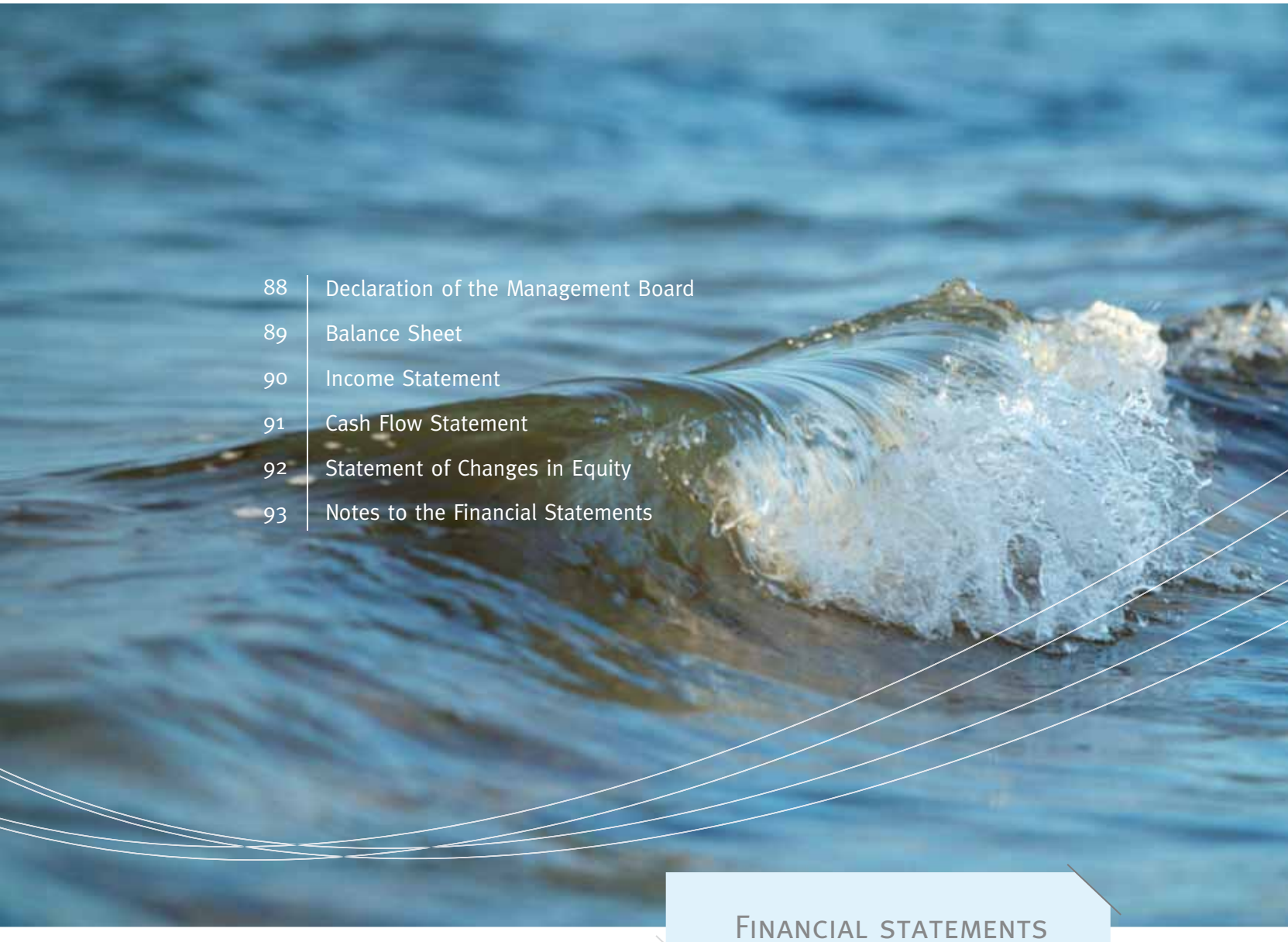
The amount of renewable energy produced in the year of the launch of Green Energy, 2001, was extremely modest in Estonia. Small hydroelectric plants produced a total of around 6 GWh of environmentally friendly electricity per year, which made up only 0.1% of all the electricity consumed in Estonia. Today, this has already changed and will change even more in the future, as a consequence of climate change, Estonia's obligations within the EU in renewable energy production and other processes which affect this field. Dozens of large and small hydroelectric power plants, some wind turbines and several biogas plants currently produce energy compliant with the Green Energy criteria in Estonia, and in the near future this list should be lengthened by co-generation plants producing electricity from biomass. The total volume of energy produced from renewable energy sources and compliant with the Green Energy criteria has increased almost twentyfold over the last five years.

Eesti Energia produced a total of 7.301 GWh of electricity from renewable energy sources at the Linnamäe and Keila-Joa hydroelectric power plants and in the Virtsu wind park in the last financial year. Private producers produced a total of 112.3 GWh of electricity from renewable energy sources, which was purchased by Eesti Energia. This amount is increasing year on year and is clearly facilitated by the beneficial rates for electricity from renewable energy sources set by the government.

In order to keep providing Green Energy, Eesti Energia is continuing to develop various renewable energy projects. One major project is to establish a 50 MW wind park on the Balti Power Plant ash field when it is closed. For biomass, the establishment of a thermal power plant at Ekseko pig farm is being discussed, which would solve the waste problems both for Ekseko and for several cattle and poultry farmers and improve their overall quality of life. We are still considering renovating a former hydroelectric plant in Põltsamaa which needs to be done in line with other infrastructural developments in this region.

At the end of the past year Eesti Energia completed an assessment of all the environmental impacts made by electricity produced from oil shale, using the internationally recognised methodology of the oil shale electricity life cycle assessment, allowing a comparison of oil shale electricity on an equal basis with, for example, coal-based electricity. The company is encouraged by the positive results to continue with this work, and hopes to compile by the end of the financial year 2007/08 an environment product declaration for oil shale electricity which meets international standards and is approved by a third party. This will be an additional source of information for clients on the environmental impacts caused by the products they purchase.

Eesti Energia considers it important that customers have sufficient information on the products and services provided by Eesti Energia to enable the reasonable, sustainable and environmentally friendly use of energy.



Financial statements

Declaration of the Management Board

The Management Board confirms the correctness and completeness of the financial statements of the consolidated financial statements of the Parent Company (Eesti Energia AS) and its subsidiaries (Group) which have been prepared for the period of 1 April 2006 – 31 March 2007 set out on pages 88 – 141 and declares that to the best of its knowledge:

1. the financial statements have been prepared in accordance with International Financial Reporting Standards as they have been adopted in the European Union;
2. the financial statements present a true and fair view of the financial position, the cash flows and the results of operations of the Parent Company and the Group;
3. all known material circumstances that became evident before the date of preparation of the financial statements at 8 June 2007 have been appropriately accounted for and presented in the financial statements.

Accordingly the Management Board finds that Eesti Energia AS and its subsidiaries are going concerns.

Sandor Liive
Chairman
of the Management Board

Margus Kaasik
Member
of the Management Board

Tiit Nigul
Member
of the Management Board

Harri Mikk
Member
of the Management Board

Raine Pajo
Member
of the Management Board

CONSOLIDATED BALANCE SHEET

in thousands of euros

	31 March		
	2007	2006	Note
ASSETS			
Current assets			
Cash and cash equivalents	33,337	147,809	6
Deposits with maturities greater than 3 months at banks	235,255	-	10
Financial assets at fair value through profit or loss	235	1,598	7
Held-to-maturity financial assets	2,842	-	8
Derivative financial instruments	8,199	-	9
Trade and other receivables	61,402	62,038	10
Inventories	23,594	19,556	11
Total current assets	**364,864**	**231,001**	
Non-current assets			
Trade and other receivables	15	-	10
Investments in associates	10,597	10,833	12
Property, plant and equipment	1,286,973	1,252,487	13
Intangible assets	4,599	2,494	14
Total non-current assets	**1,302,184**	**1,265,814**	
Total assets	**1,667,048**	**1,496,816**	
LIABILITIES			
Current liabilities			
Borrowings	6,376	4,558	16
Trade and other payables	94,648	86,082	17
Derivative financial instruments	-	798	9
Provisions	2,739	4,907	18
Deferred income	799	764	25
Total current liabilities	**104,562**	**97,109**	
Non-current liabilities			
Long-term borrowings	335,607	340,729	16
Trade payables	776	34	17
Provisions	20,991	18,718	18
Deferred income	88,925	68,850	19,25
Total non-current liabilities	**446,299**	**428,330**	
Total liabilities	**550,861**	**525,439**	
EQUITY			
Capital and reserves attributable to equity holders of the Parent Company			
Share capital	464,900	464,900	20
Share premium	259,833	259,833	
Statutory reserve capital	46,490	43,822	20
Hedging reserve	8,087	-82	22
Unrealised exchange rate differences	-1	-	
Retained earnings	333,579	200,836	20
Total equity and reserves attributable to equity holders of the Parent Company	**1,112,888**	**969,307**	
Minority interest	**3,299**	**2,070**	
Total equity	**1,116,187**	**971,377**	
Total liabilities and shareholders' equity	**1,667,048**	**1,496,816**	

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

in thousands of euros

	1 April - 31 March		Note
	2006/07	2005/06	
Revenue	481,550	452,861	23
Gain on disposal of emission rights	96,379	75,964	
Other operating income	5,217	4,298	24
Government grants	1,435	404	25
Change in inventories of finished goods and work-in-progress	3,137	1,100	
Raw materials and consumables used	-147,187	-136,129	26
Other operating expenses	-54,036	-43,916	27
Payroll expenses	-95,825	-90,427	28
Depreciation and amortisation	-101,604	-99,781	13, 14
OPERATING PROFIT	**189,065**	**164,374**	
Financial income	6,769	1,699	29
Financial expenses	-18,957	-29,912	29
Total financial income and expenses	**-12,188**	**-28,212**	29
Share of (-) loss/profit of associates	801	1,091	12
Loss from impairment of associate	158	-471	12
PROFIT BEFORE TAX	**177,836**	**136,781**	
Corporate income tax expense	**-9,404**	**-1,370**	30
NET PROFIT FOR THE FINANCIAL YEAR	**168,432**	**135,411**	
ATTRIBUTABLE TO:			
Equity holders of the Company	**167,367**	**134,809**	
Minority interest	**1,064**	**602**	

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros

	1 April - 31 March		Note
	2006/07	2005/06	
Cash flows from operating activities			
Cash generated from operations	277,550	251,389	31
Interest and loan fees paid	-16,676	-23,644	
Interest received	4,950	1,302	
Corporate income tax paid	-9,200	-1,370	30
Net cash generated from operating activities	**256,624**	**227,678**	
Cash flows from investing activities			
Purchase of property, plant and equipment	-137,539	-155,044	
Proceeds from connection and other fees	23,803	20,304	19
Proceeds from sale of property, plant and equipment	4,819	2,182	
Grant for non-current assets received	23	-	
Dividends collected from associates	1,038	1,132	12
Repaid loans granted to employees	0	0	
Investments in associates	-	-8,644	12
Acquisition of subsidiaries, net of cash acquired	-461	-	32
Net change in deposits with maturities greater than 3 months	-224,605	-	10
Purchase of short-term financial investments	-19,691	-8,883	7
Proceeds from sale of long-term financial investments	8	-	
Proceeds from sale and redemption of short-term financial investments	18,322	8,646	7
Net cash used in investing activities	**-334,283**	**-140,308**	
Cash flows from financing activities			
Proceeds from issue of long-term bonds	-	183,337	16
Long-term bonds redeemed	-	-103,091	16
Repayments of bank loans	-4,506	-52,364	16
Repayments of other borrowings	-300	-	16
Repayments of finance lease liabilities	-51	-26	16
Commercial papers issued	-	24,819	16
Commercial papers redeemed	-	-25,000	16
Dividends paid	-31,956	-6,199	21
Net cash used in financing transactions	**-36,814**	**21,475**	
Net cash flows	**-114,473**	**108,845**	
Cash and cash equivalents at beginning of the period	147,809	38,965	6
Cash and cash equivalents at end of the period	33,337	147,809	6
Net increase/(-)decrease in cash and cash equivalents	**-114,473**	**108,845**	

The notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros

GROUP	Attributable to equity holders of the Company								Note
	Share capital	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total	Minority interest	Total equity	
Equity as at 31 March 2005	**464,900**	**259,833**	**41,692**	**-2,137**	**74,356**	**838,643**	**1,468**	**840,110**	
Change in hedging reserve	-	-	-	2,055	-	2,055	-	2,055	22
Net income recognised directly in equity	**-**	**-**	**-**	**2,055**	**-**	**2,055**	**-**	**2,055**	
Net profit for 2005/2006 financial year	-	-	-	-	134,809	134,809	602	135,411	
Total recognised income and expenses for 2005/2006	**-**	**-**	**-**	**2,055**	**134,809**	**136,864**	**602**	**137,466**	
Transfer of retained earnings to reserve capital	-	-	2,130	-	-2,130	-	-	-	
Dividends paid	-	-	-	-	-6,199	-6,199	-	-6,199	21
Equity as at 31 March 2006	**464,900**	**259,833**	**43,822**	**-82**	**200,836**	**969,307**	**2,070**	**971,377**	
Change in hedging reserve	-	-	-	8,170	-	8,170	-	8,170	22
Currency translation differences	-	-	-	-1	-	-1	-	-1	
Net income recognised directly in equity	**-**	**-**	**-**	**8,169**	**-**	**8,169**	**-**	**8,169**	
Net profit for 2006/2007 financial year	-	-	-	-	167,367	167,367	1,064	168,432	
Total recognised income and expenses for 2006/2007	**-**	**-**	**-**	**8,169**	**167,367**	**175,536**	**1,064**	**176,601**	
Transfer of retained earnings to reserve capital	-	-	2,668	-	-2,668	-	-	-	20
Increase of minority interest due to acquisition of subsidiary	-	-	-	-	-	-	165	165	32
Dividends paid	-	-	-	-	-31,956	-31,956	-	-31,956	21
Equity as at 31 March 2007	**464,900**	**259,833**	**46,490**	**8,087**	**333,579**	**1,112,888**	**3,299**	**1,116,187**	

The notes are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. General Information

Eesti Energia AS (hereinafter the Parent Company) is a company incorporated under the laws of the Republic of Estonia on March 31, 1998. The consolidated financial statements of the Parent Company for the year ended March 31, 2007 include the financial information covering the Parent Company and its subsidiaries (the group) and the group's participation in associated companies.

Eesti Energia Group is engaged in the production and sale of electricity and thermal energy and its delivery to end consumers. The group owns oil shale mines, and the oil shale extracted from which is used as the main raw material in energy production. The group is also engaged in building and maintaining energy systems.

The address of the Parent Company's registered office is Laki 24, Tallinn 12915, Estonian Republic.

The sole shareholder of AS Eesti Energia is the Republic of Estonia. The bonds of AS Eesti Energia are listed on London Stock Exchange.

These group consolidated financial statements were authorised for issue by the Management Board on 8 June 2007.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all reporting periods presented, unless otherwise stated (Note 34).

2.1 Basis of Preparation

The consolidated financial statements of the group have been prepared in accordance with the **International Financial Reporting Standards (IFRS)** as adopted by the European Union.
The consolidated financial statements have been prepared under the historical cost convention, as modified by certain financial assets and liabilities (including derivative financial instruments), which have been measured at fair value through profit and loss.

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

2.2 Changes in Accounting Policies

(a) New standards, and amendments and interpretations to published standards which became mandatory for the Group from April 1, 2006 and which are relevant to the group's financial statements

- IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 (Amendment) – Financial Guarantee Contracts. This amendment requires the recognition of financial guarantees issued by the Company as a liability in the balance sheet of the issuer of the financial guarantee. In accordance with the enforced requirements, the financial guarantee contracts issued by the Group are reported at fair value in the balance sheet. Additional information on financial guarantee contracts is disclosed in Note 29;
- IAS 21 Net Investment in Foreign Operation (Amendment) – Net Investment in a Foreign Operation. This amendment requires recognition of exchange rate differences arising from the translation of monetary assets and liabilities which are part of the net investment in a foreign operation in the equity reserve;
- IFRS 6 Exploration for and Evaluation of Mineral Resources. According to the standard, expenditures incurred in the exploration for and evaluation of mineral resources need to be recognised as items of property, plant and equipment, or intangible assets using either cost or revaluation methods. Information regarding the group's exploration and evaluation assets of mineral resources is disclosed in Note 14;
- IFRIC 4 Determining whether an Arrangement Contains a Lease. In accordance with IFRIC 4, arrangements which fulfilment depend on the use of certain assets, or which grant a right to use the assets, shall be classified either as finance or operating leases in accordance with IAS 17. According to the management, the Group did not have any arrangements in the accounting period and the comparable period which need to be reclassified either as finance or operating leases according to the requirements of IFRIC 4.

(b) New standards, amendments and interpretations to published standards that are effective for the group from April 1, 2006, but are not relevant to the Group's operations

The following new International Financial Reporting Standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations are mandatory for the Group from April 1, 2006, but have no material impact on the Group's financial statements:

- IAS 19 Employee Benefits (Amendment) – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 39 Financial Instruments: Recognition and Measurement (Amendment) – Fair Value Option;
- IAS 39 Financial Instruments: Recognition and Measurement (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) and IFRS 6 Exploration for and Evaluation of Mineral Resources (Amendment);

Note 2 I CONTINUED
Summary of Significant Accounting Policies

- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6 Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment;
- IFRIC 7 Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies.

(c) New standards, amendments and interpretations to published standards that are not yet effective for the Group but will have a material impact on the Group's financial statements

At the time these financial statements were prepared, the following new International Financial Reporting Standards, amendments and International Financial Reporting Interpretations Committee interpretations will be mandatory for the Group from the financial year beginning after 1 April 2007, which the Group has not adopted early:

- IAS 1 Presentation of Financial Statements (Amendment) – Presentation of Financial Statements: Capital Disclosures. The amendment to IAS 1 is effective for the group from April 1, 2007. The standard requires additional disclosures in the financial statements;
- IFRS 7 Financial Instruments: Disclosures. IFRS 7 is effective for the group from April 1, 2007. IFRS 7 introduces new disclosures relating to financial instruments in order to improve the quality of information relating to financial instruments. The amount of disclosures increases significantly with the main emphasis on the scope or risk and hedging methods. Additional information relating to the scope of risks provides an overview of the extent to which the Company is exposed to risk using information which has been made internally available to the Company's management. Additional information relating to the scope of risk and hedging methods includes exposure to credit risk, liquidity risk and market risk, and also includes the sensitivity analysis of the market risk. IFRS 7 replaces IAS 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institutions) and some requirements of IAS 32 (Financial Instruments: Disclosure and Presentation);
- IFRS 8 Operating Segments. IFRS 8 replaces the existing standard IAS 14 Segment Reporting and is effective for the group from April 1, 2009. IFRS 8 requires the classification of operating segments and disclosures on operating segments to be made in the same way as reporting is made for making management decisions and analysing the results internally. The standard requires additional disclosures in the financial statements;
- IFRIC 10 Interim Financial Reporting and Impairment. IFRIC 10 is effective for the Group from April 1, 2007. IFRIC 10 prohibits the reversal of impairment losses recognised in an interim period with regard to goodwill, investments in equity instruments and financial assets carried at cost at a subsequent balance sheet date;
- IAS 23 Borrowing Costs (Revised). IAS 23 (Revised) is effective for the group from April 1, 2009. The revised IAS 23 removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, and requires to capitalise as part of the cost of the asset. According to the revised standard the group is not required to restate its financial statements retrospectively.

(d) New standards, amendments and interpretations that have been published but are not effective for the group and are not expected to be relevant to the group's financial statements

By the time of preparing these financial statements, the following International Financial Reporting Standards, amendments and International Financial Reporting Interpretations Committee interpretations have been published that are effective for the accounting periods of the Group beginning after 1 April 2007 and that the Group has not adopted early:

- IFRIC 8 – Scope of IFRS 2: clarifies that IFRS 2 Share-based Payment applies to such arrangements which have apparently nil or inadequate consideration. IFRIC 8 is mandatory for the group from April 1, 2007;
- IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 is effective for the group from April 1, 2007;
- IFRIC 11 – IFRS 2: Group and Treasury Share Transactions. IFRIC 11 is effective for the group from April 1, 2007;
- IFRIC 12 Service Concession Arrangements. IFRIC 12 is effective for the group from April 1, 2009.

IFRIC 10, IFRIC 11, IFRIC 12, IAS 23 (Revised) and IFRS 8 have not yet been endorsed by the European Union.

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

In preparing consolidated financial statements, the financial statements of the Parent Company and its subsidiaries are combined on a line-by-line basis. The receivables, liabilities, revenue, expenses and unrealised profits arisen as a result of transactions between the Parent Company and its subsidiaries have been eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred.

Note 2 I CONTINUED
Summary of Significant Accounting Policies

The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(b) Transactions with minority interests
The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidary.

(c) Associates
Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.
The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity reserves is recognised in equity reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

2.4 Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. The group's primary segment is the business segment and the secondary segment is the geographical segment.
Segment reporting is presented using the intra-group management structure and according to the Electricity Market Act of Estonia. A business segment is an operating area which is clearly distinguishable in its products and services and functions as an independent profit centre. Reporting by geographical segments is presented on the basis of the group's operations in the main geographical regions.

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

(a) Functional currency
Group companies use the currency of their primary economic environment. The functional currency of the Parent Company is the Estonian kroon.

(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.
The amounts shown in these financial statements are presented in Estonian kroons, rounded to the nearest thousand, unless stated otherwise.

(c) Foreign currency transactions and assets and liabilities denominated in a foreign currency
Foreign currency transactions are translated into Estonian kroons using the official exchange rates of the Bank of Estonia prevailing at the transaction date. Where the Bank of Estonia does not quote a particular currency, the official Euro exchange rate of the central bank issuing the currency is used as the basis. Exchange rate differences arising from the transfer of funds and the differences in exchange rates at the transaction date are reported in the income statement. Assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the Bank of Estonia prevailing at the balance sheet date, or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency if the Bank of Estonia does not quote the particular currency. Profits and losses from translation are reported in the income statement.

(d) Consolidated foreign subsidiaries
When the subsidiary's functional currency is different from the presentation currency of the Parent Company, the following exchange rates are used to translate the financial statements:
- asset and liability items are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- the resulting exchange differences are recognised as a separate equity item "Unrealised exchange rate differences".

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

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

2.6 Current and non-current distinction of assets and liabilities
Assets and liabilities are classified in the balance sheet as current or

Note 2 I CONTINUED
Summary of Significant Accounting Policies

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

2.7 Cash and cash equivalents

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

2.8 Financial assets

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

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. The Group also classifies money market fund shares and interest fund shares as at fair value through profit or loss. Assets in this category are classified as current assets.

(b) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments which the Group intends to hold until maturity. If the Group sells held-to-maturity investments in a quantity which is larger than insignificant, all financial assets in this category are reclassified as available-for-sale financial assets. Held-to-maturity investments are reported as long-term financial investments unless the maturity is less than 12 months as at the balance sheet date.

(c) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date.

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

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line "Financial income or expenses" (net) in the period in which they arise or are incurred.

The fair values of quoted investments are based on bid prices prevailing at the balance sheet date. To find the fair value of unquoted financial assets, different valuation techniques are used. Depending on the type of financial assets, these include the listed market prices of instruments that are substantially the same, quotes by intermediaries, and estimated cash flow analysis. The Group uses several different measures and makes assumptions which are based on the market conditions of each balance sheet date. The fair value of derivatives is the present value of estimated future cash flows.
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired.

2.9 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. 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. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. Material receivables are assessed on an individual basis. The rest of the receivables are collectively assessed for impairment, using previous years' experience on impairment which is adjusted to take account of the current conditions. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a receivable is deemed uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

Long-term receivables from customers are recognised at the present value of the collectible amount. The difference between the nominal value and the present value of the collectible receivable in recognised as interest income during the period remaining until collection.

2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group has cash flow hedging instruments which aim to fix the interest cost of loans with floating interest rates and hedge the risk of changes in the prices of shale oil and electricity.

Note 2 I CONTINUED
Summary of Significant Accounting Policies

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

The fair values of derivative financial instruments used for hedging purposes are shown in Note 9. The movements of the hedging reserve reported in equity are shown in Note 22. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'financial costs'. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventories) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

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

2.11 Inventories

Inventories are stated in the balance sheet at the lower of acquisition cost and net realisable value. The weighted average method is used to account for the cost of inventories. The acquisition cost of work-in-progress and finished goods is the average production cost, calculated based on direct and indirect production expenses (using normal production capacity as the basis). Borrowing costs are not included within the cost of inventories. Marketing, non-production overhead and financial expenses are expensed.

The net realisable value is the expected sales price, less the expenditures related to the sale. The cost of the inventories of raw materials and materials consists of the purchase price, expenditure on transportation and other costs directly related to the purchase.

2.12 Property, plant and equipment

Property, plant and equipment (PPE) are tangible items that are used in the operating activities of the Company and have an expected useful life of over one year. Property, plant and equipment are presented in the balance sheet at historical cost less depreciation and impairment losses.

(a) Cost
The cost comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the items of property, plant and equipment constructed by the Group includes the cost of materials, services and payroll expenses. If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.
Interest charges on loans are not capitalised in the cost of non-current assets.

(b) Subsequent costs
Subsequent expenditure is added to the carrying amount of the asset or is recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Group and the cost of the asset can be measured reliably. If a component of an item of property, plant and equipment is replaced, the cost of the replaced item is added to the cost of the item and the replaced component or proportion of the replaced non-current asset is de-recognised. Costs related to ongoing maintenance and repairs are charged to the income statement.

(c) 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 inventories, and also following renovations or 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.

Land is not depreciated. The useful lives for other property, plant and equipment used by the group are as follows:

Buildings	25-40 years
Electricity lines	33-60 years
Other facilities	10-30 years
Transmission equipment	7-25 years
Power plant equipment	7-25 years
Other machinery and tools	3-20 years
Other non-current assets	3-10 years

Note 2 I CONTINUED
Summary of Significant Accounting Policies

(d) Sale of property, plant and equipment
To find the profits and losses from the sale of property, plant and equipment, the residual value of the sold assets is subtracted from the revenue. The respective gains and losses are reported in the income statement under "Other operating income" or "Other operating expenses".

(e) Impairment of assets
Assets are written down to their recoverable amount if this is lower than the carrying amount (Note 2.15).

2.13 Leased assets
Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

(a) 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 and the present value of minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The finance lease liability is reduced by principal payments. The financial cost of the lease payment is recognised as an interest expense in the income statement.
Payments made under operating leases are charged to the income statement over the lease term in equal portions.

(b) A Group company is the lessor
The group does not have any assets leased out under finance lease terms. The accounting policies for items of property, plant and equipment are also applied to assets leased out under operating lease terms. Rental income is recognised in the income statement on a straight-line basis over the lease term.

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

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

Intangible assets (except for goodwill) are depreciated using the straight-line method over the useful life of the asset to a maximum of 20 years.
Intangible assets are tested for impairment if there are any signs that there may be impairment, in a similar way to the testing of impairment for items of property, plant and equipment (except for goodwill). Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested annually by comparing their carrying amounts with their recoverable amounts.

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill acquired in a business combination is recognised as an intangible asset in the balance sheet. Goodwill which arose in the acquisition of associated companies is included within the cost of the investment and it is assessed together with the investment.
Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at each balance sheet date (or more frequently if an event or change in circumstances indicates it). Goodwill is allocated to the cash-generating unit it is associated with. Goodwill is written down to its recoverable amount if this is below the carrying amount. Impairment losses on goodwill are not reversed.
Goodwill is reported in the balance sheet at the carrying amount (cost less impairment losses) (Note 2.15).
On the disposal of an entity, goodwill is written off and any gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Development, start-up, research and training costs
Development costs are expenses that are incurred for the implementation of research findings for developing new specific products or services. Development costs are capitalised if there is a schedule 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) Quotas for greenhouse gas emissions
Quotas for greenhouse gas emissions if they are controllable by the Company are carried in the balance sheet at cost. The cost of quotas for greenhouse gas emissions received from the state for free is considered 0 euros.

(d) Computer software
Acquired computer software which is not an integral part of the related hardware is recognised as an intangible asset.
Software development costs are recognised as intangible assets when they are directly associated with the development of hardware products which are identifiable, controllable by the Group and expected to generate economic benefits beyond one year. Capitalised hardware development costs include payroll expenses and an appropriate portion of related overheads. Ongoing maintenance costs are recognised as expenses in the income statement.
Computer software development costs are amortised over their estimated useful lives not exceeding three years.

(e) Other intangible assets
Expenses related to patents, brand names, licenses and certificates are capitalised when 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 lives of assets to a maximum of 20 years.

2.15 Impairment of non-financial assets
Assets that have indefinite useful lives are not subject to amortisa-

Note 2 I CONTINUED
Summary of Significant Accounting Policies

tion but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
Assets are written down to their recoverable amount if this is lower than the carrying amount. The recoverable amount is the higher of the asset's:
- fair value of the asset less selling costs; and
- value in use.

If the fair value of the asset less selling costs 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 against their present value.
An impairment test is carried out if any of the following indicators of impairment exist:
- the market value of similar assets has decreased;
- the general economic environment and the market situation have worsened, and therefore it is likely that the future cash flows generated by assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has considerably deteriorated;
- revenue generated by assets is lower than expected;
- results of some operating areas are worse than expected;
- the activities of a certain cash generating unit are planned to be terminated.

If the Group can identify other evidence of impairment, the recoverable amount of the asset is also determined, or in case of goodwill, an impairment test is performed. An impairment loss is recognised immediately as an expense in the income statement.
At each balance sheet date, it is assessed whether there is any evidence that the impairment loss recognised in the previous year (except that of goodwill) no longer exists or has decreased. If such evidence exists, the recoverable amount is reassessed. The impairment losses of goodwill are not reversed. 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 generate cash inflows from continuing use and are largely independent of the cash inflows generated by other assets or groups of assets.
If after the impairment test there are indicators that conditions have changed, the test is repeated. On the basis of the results of the assessment, the write-down can be partially or wholly reversed.

2.16 Exploration and evaluation assets of mineral resources

Expenditures that are included in the initial measurement of exploration and evaluation assets include the acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; sampling; and activities related to evaluating the technical feasibility and economic viability of extracting a mineral resource. Assets are initially recognised at cost. According on the nature of the asset, the exploration and evaluation assets are classified as intangible or tangible assets. Expenditure on the construction, installation and completion of infrastructure facilities is capitalised within tangible assets. After initial recognition, exploration and evaluation assets are measured using the cost model.

At each balance sheet date, exploration and evaluation assets are tested for impairment. Impairment of exploration and evaluation assets is assessed when one or more of the following circumstances are present:
- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss of exploration and evaluation assets is recognised as an expense in the income statement.

2.17 Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses, bonds issued and other short and long-term borrowings) are initially recorded at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost by adjusting the initial cost against the principal payments and the cumulated amortisation between the initial cost and the redemption value. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method. The amortisation of transaction costs is recognised in the income statement together with interest charges.
Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Long-term liabilities are subsequently stated at amortised cost using the effective yield method.

2.18 Taxation

(a) Dividend tax in Estonia
According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no deferred tax assets or liabilities. Instead of taxing the net profit, the distribution of retained earnings is subject to a dividend tax rate of 22/78 (until 1. January 2007: 23/77) of the net dividend paid. Income tax on dividends received from companies registered in Estonia can be deducted from income tax payable if the recipient of dividends owns at least 15% (until 31.December 2006: 20%) of the shares of the payer of dividends. 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.

Note 2 I CONTINUED
Summary of Significant Accounting Policies

(b) Other taxes in Estonia
The following taxes affect the group's expenses:

Tax	Tax rate
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	0.3% of the paid payroll to employees
Fringe benefit income tax	22/78 of fringe benefits paid to employees (until January 1, 2007: 23/77 of fringe benefits paid to employees)
Pollution charges	Paid for contaminating the air, water, ground water, soil and waste storage, and based on tonnage and type of waste
Fee for right to extract oil shale	0.70 euros per tonne of mined oil shale (until January 1, 2007 0.66 euros per tonne of mined oil shale)
Water utilisation charges	0.002–0.09 euros per m^3 of ground water used (until January 1, 2007: 0.002–0.08 euros per m^3 of ground water used)
Land tax	0.1–2.5% of taxable value of land per annum
Tax on heavy trucks	3.20–232.64 euros in a quarter per truck
Income tax on expenses not related to business activities	22/78 of expenses not related to business activities (until January 1, 2007: 23/77 of expenses not related to business activities)

(c) Taxation in foreign countries

Jordan

Income earned by resident legal persons in Jordan is taxed at the income tax rate of 25%; for certain activities a lower tax rate of 15% may be applied. Dividends are not taxed with income tax.

Latvia

Income earned by resident legal persons is taxed at the income tax rate of 15%. The payment of dividends to the Parent Company is not subject to taxation.

Lithuania

Income earned by resident legal persons is taxed at the income tax rate of 15%. The payment of dividends to the Parent Company is not subject to taxation.

Finland

Income earned by resident legal persons is taxed at the income tax rate of 26%. The payment of dividends is not subject to taxation.

(d) Deferred income tax
Deferred income tax assets and liabilities are recognised in foreign subsidiaries located abroad using the liability method, under which deferred income tax assets and liabilities are determined on the basis of temporary differences between the carrying amounts and their tax bases. Deferred income tax assets and liabilities are not accounted for if they arise from initial recognition of assets and liabilities in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rate that is expected to be enacted in the period when the asset is realised or the liability is settled using the tax rates and tax laws effective at the balance sheet date.

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

In carrying forward unused tax losses and tax credits, deferred income tax assets are recognised to the extent for which the Group has sufficient evidence that there will be adequate profits in the future towards which tax losses and benefits can be used.

As at March 31, 2007 and March 31, 2006, the Group had neither deferred income tax assets nor deferred income tax liabilities.

2.19 Employee benefits

Employee short-term benefits

Employee short-term benefits include wages and salaries, and also social security taxes; benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during the 12 months after the end of the period in which the employee worked; and other benefits payable after the end of the period during which the employee worked.
If during the accounting period the employee has provided services in return for which benefits are expected to be paid, the Group will set up an undiscounted liability (accrued expense) for the amount of the forecast benefit, from which all amounts are paid (unless labour costs are capitalised in the cost of fixed assets or are covered from provisions). Expenditures are not discounted.

Post-employment benefits

Post-employment benefits are benefits which are payable after the Group decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily in exchange for the benefits outlined. The Group recognises post-employment benefits as liabilities and expenses then and only when the Group is obliged to terminate the employment relationship with an employee or a group of employees before the normal retirement date, or offer post-employment benefits in order to encourage voluntary leaving.

Note 2 I CONTINUED
Summary of Significant Accounting Policies

Other employee benefits

Provisions have been set up to cover the benefits arising from collective agreements and the compensation for work-related injuries (Note 2.20).

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures necessary for the settlement of the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.
Provisions are recognised based on management's estimates. If required, independent experts may be involved. Expenditure related to the termination of employees' contracts is recognised only when the Company has announced a restructuring plan identifying the expenditure and the approximate number of employees subject to compensation. Provisions are reviewed annually to address the need to set up new provisions and revalue existing provisions using circumstances which have become evident by the balance sheet date and other possible scenarios. Costs related to setting up provisions are charged to operating expenses or are included within the acquisition cost when the setting up of provisions is related to the acquisition of new assets. Provisions are used only to cover the expenses for which they were set up.

(a) Provisions for compensating for obligations arising from collective agreements and work-related injuries
If the Group or any of its subsidiaries have assumed the obligation to pay post-employment benefits to their former employees, a provision is set up to cover the resulting costs. The provision is based on the terms of the obligation and the estimated number of people eligible for the compensation.
Provisions for work-related injuries are recognised to cover expenditure related to future payments to former employees according to court orders over the estimated period of such an obligation.

(b) Environmental protection provisions
Environmental protection provisions are recognised to cover environmental damages occurred before the balance sheet date when it is provided for by law, or when the Group's past environmentally friendly policies have demonstrated that the Group will voluntarily eliminate these environmental damages.
Experts' opinions as well as prior experience of environmental work are used to set up provisions.

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

(d) Provisions for the dismantling of assets
The provisions for the dismantling of assets are set up to cover the estimated costs relating to the future dismantling of assets, if the dismantling of assets is provided for by law or the Group's past practice has demonstrated that the Group intends to incur these costs. The present value of the dismantling costs of assets is included within the cost of non-current assets (Note 13).

(e) Provisions for greenhouse gas emissions
A provision for greenhouse gas emissions is set up to meet the obligations arising from legislation relating to greenhouse gas emissions using the carrying amounts of the quoatas for greenhouse gas emissions. If the volume of greenhouse gases emitted exceeds the quoatas for greenhouse gas emissions assigned for free by the state or acquired in a transaction, an additional provision is set up using the market price of allowances for greenhouse gas emissions at the balance sheet date.

2.21 Contingent liabilities

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

2.22 Share capital

Ordinary shares are included within equity. No preferred shares have been issued. The transaction costs directly related to the issuance of shares are recognised as a reduction of equity under the assumption that they are treated as directly attributable incremental costs.

2.23 Revenue recognition

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

(a) Sale of electricity
Sales revenue is recognised on the basis of invoices 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 connecting to the electricity network, the clients must pay

Note 2 I CONTINUED
Summary of Significant Accounting Policies

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

(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. Under this method, contract revenue and profit is recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract are incurred. Unbilled but recognised revenue is recorded as accrued income in the balance sheet. Where progress billings at the balance sheet date exceed costs incurred plus recognised profits, the balance is shown as due from customers on construction contracts, under other deferred income.

(d) Recognition of sale of allowances for greenhouse gas emissions
Revenue derived from the sale of allowances for greenhouse gas emissions is recognised at the time when the sales transaction is agreed upon with the buyer. The revenue is recognised under other operating income.

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

2.24 Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. If 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.
Assets acquired via government grants are initially recognised in the balance sheet at cost, and the amount received as a government grant is recognised as deferred income related to the government grant. Related assets are depreciated and the grant is recognised as income over the estimated useful life of a depreciable asset.

2.25 Dividends

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

2.26 Related party transactions

In preparing the consolidated financial statements, the related parties include the subsidiaries and associates of the Group, the members of the Supervisory and Management Boards of AS Eesti Energia and other persons who can control or influence the Group's financial and operating decisions. In accordance with the amended standard IAS 24, related parties also include state companies and companies with state participation.

3. Financial Risk Management

3.1 Financial risks

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

The goal of managing financial risks is to hedge financial risks and lower the volatility of financial results. The Group's liquidity, interest rate and currency risks are managed at the Group level in the financial department of the Parent Company.

(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 hedged through the use of different financial instruments such as loans, bonds and commercial papers.
In order to finance its extensive capital investment programme, the Group has issued 15-year international bonds to the value of 300 million euros, and has entered into four loan contracts totalling 168 million euros. In October 2005, it was proposed to the holders of 7-year bonds issued in 2002 that they exchange their bonds for new bonds redeemable in 2020 or resell them to the group. Bonds worth 300 million euros and redeemable in 2020 were issued and the bonds issued in 2002 were exchanged or repurchased for 200 million euros (Note 16). To lower the level of the interest rate on borrowings, Eesti Energia achieved A- stable and Baa1 stable credit ratings from the rating agencies of Standard & Poor's and Moody's in 2002. For the bond transaction which took place in October 2005, Standard & Poor's assigned the rating A- and Moody's assigned the rating A1. In 2005, Moody's kept the rating of Eesti Energia AS at A1.
As at March 31, 2007, the Group had undrawn loan facilities of 105 million euros.
As at the end of the financial year, the Group had spare cash balances (including term deposits of three months or less) of 269 million euros (March 31, 2006: 148 million euros). The investment of the spare cash funds is regulated by internal group instructions, which stipulate the terms and conditions of spare cash investment. There is a major requirement that cash may be invested only in financial instruments that have a high investment rating.
Bank account limits are used at the Group to manage the liquidity of subsidiaries.

Note 3 I CONTINUED
Financial Risk Management

(b) Credit risk
Credit risk is the risk arising from customers' and business partners' inability to fulfil their obligations. The overdue debts of clients are checked in the responsible departments 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 the court or a collection agency. Special agreements are in the jurisdiction of special credit committees. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. As at the balance sheet date, the maximum credit risk of the group is 52 million euros (as at March 31, 2006: 57 million euros). Although the collection of receivables can be influenced by economic factors, management believes that there is no significant risk of loss beyond the provisions already recorded.
Only financial institutions with a high credit rating are used for cash depositing and derivative transactions, and as insurance partners. Cash balances are diversified at four different banks.

(c) Interest rate risk
Interest rate risk emerges from floating interest rate borrowings, resulting in the risk that higher interest rates lead to higher financial expenses. Sensitivity analysis is used to assess interest rate risk. According to the Group's policy, over 50% of borrowings should have a fixed interest rate. As at the end of the financial year, 89% of the Group's borrowings and issued bonds had fixed interest rates (including interest rate swaps) and 11% had floating interest rates (in the previous period, these were 93% and 7%, respectively).

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

3.2 Management of equity risk
All of the shares of AS Eesti Energia belong to the state. Decisions concerning dividend distribution and increases or decreases in share capital are made by the Republic of Estonia (through the Ministry of Economic Affairs and Communications). Each financial year, the dividends payable by AS Eesti Energia are determined by order of the Government of the Republic of Estonia.

3.3 Fair value
The Group estimates that the fair values of assets and liabilities reported at amortised cost in the balance sheet as at March 31, 2007 and March 31, 2006 do not materially differ from the carrying amounts reported in the consolidated financial statements. The carrying amount of accounts receivable and unpaid invoices less any discounts is estimated to approximate their fair values. For disclosure purposes, the fair value of financial liabilities is determined by discounting contractual cash flows at the market rate of interest which is available for similar financial instruments of the Group.

4. Critical Accounting Estimates and Judgements

Critical accounting estimates and assumptions
The preparation of the financial statements requires the use of estimates and assumptions that affect the reported values 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 management's estimates are recognised in the profit or loss of the period of the change.
The estimates presented below affect the financial information disclosed in the financial statements the most.

(a) Estimating the useful lives of items of property, plant and equipment
The estimates of the useful lives of items of property, plant and equipment 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 March 31, 2007, the net book amount of property, plant and equipment of the group totalled 1 287 million euros (as at March 31, 2006: 1 252 million euros), the depreciation charge of the reporting period was 101 million euros (in the previous period: 100 million euros) (Note 13). If depreciation rates are reduced by 10%, the annual depreciation charge would decrease by 10 million euros.

(b) Recognition and revaluation of provisions
As at March 31, 2007, the group had set up provisions for environmental protection, termination of mining operations, compensation for work-related injuries and post-employment benefits for a total amount of 24 million euros (as at March 31, 2006: 24 million euros) (Note 18). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation and discount rates, and the timing of settlement of the expenditure. In setting up provisions, grants from EU funds have also been considered when the applications to receive funds have been submitted and according to management, the receipt of grants is more or less certain. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, the technology available in the future to restore environmental damage, and expenditure covered by third parties.

(c) Evaluation of the recoverable amount of non-current assets
The Group regularly performs impairment tests to determine the recoverable amount of non-current 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 assets, as well as for inflation and growth rates. The estimates are based on forecasts of the general economic environment, consumption, and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or

Note 4 I CONTINUED
Critical Accounting Estimates and Judgements

previously recognised impairment could be partially or wholly reversed. The recoverable amounts of fixed assets used to provide transmission and distribution of electricity are regulated by the Energy Market Inspectorate which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the provision of the transmission and distribution of electricity remain in the required limits, the revenue derived from the sale of network services guarantees the reasonable rate of return of these assets. There were no write-downs during the current reporting period.

(d) Inventory valuation
When valuing inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential and the net realisable value of goods for resale are considered. As at March 31, 2007, the group had inventories totalling 24 million euros (as at March 31, 2006: 20 million euros) (Note 11).

(e) Contingent assets and liabilities
In estimating the probability of realisation of contingent assets and liabilities, the management considers historical experience, general information about the economic and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

(f) Recognition of connection and other service fees
Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years. The estimated customer relationship period is based on management's estimate. In the reporting period, connection and other service fees totalled 4 million euros (in the previous period: 3 million euros). If the estimated customer relationship period is reduced by 10%, the annual income from connection fees would increase by 0.4 million euros (in the previous period: 0.3 million euros) (Note 19).

(g) Evaluation of doubtful receivables
The collection of material receivables is assessed on an individual basis. The remaining receivables are assessed as a group. The circumstances indicating an impairment loss may include the bankruptcy or major financial difficulties of the debtor and the inability to meet payment terms (delay of payment of over 90 days). As at the balance sheet date, the group had over 500 000 uncollected invoices (the due date of which had not yet come). All receivables which are 90 days overdue are written down in full. The amount of doubtful receivables is adjusted as at each balance sheet date using the previous years' experience of how many doubtful receivables will be collected in subsequent periods and how many doubtful receivables which were over 90 days overdue as at the balance sheet will not be collected in a subsequent period. As at March 31, 2007, the group's doubtful receivables totalled 8 million euros (as at March 31, 2006: 9 million euros) (Note 10).

5 Segment Reporting

(a) Reporting by business segments (primary reporting format)
For segment reporting purposes, the division into business segments is based on the Company's 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 income and expenses are allocated to different segments based on internal invoicing prepared by business units. The prices for inter-segmental transfers are based on the prices approved by the Estonian Energy Market Inspectorate or are agreed based on market prices. Pursuant to the Electricity Market Act of Estonia, the following indicators are subject for approval by the Estonian Energy Market Inspectorate
- price limit of oil shale sold to Narva Power Plants for production of heat and electricity;
- price limit of electricity sold from Narva Power Plants to the closed market;
- weighted average price limit of electricity sold to meet sales obligations;
- network fees.

For the approval of prices, the Estonian Energy Market Inspectorate has established a methodology for calculating prices. For granting approval for the above provided prices, the Estonian Energy Market Inspectorate considers the costs which allow companies to perform obligations arising from legislation and conditions attached to activity licenses and ensure justified profitability on invested capital. The Inspectorate considers the annual average residual value of non-current assets plus 5% of non-group sales revenue as invested capital. The rate for justified profitability is the weighted average cost of capital (WACC).

In preparing the financial statements, production and sale of electricity and heat, and also oil shale, shale oil and ash as well as all supporting activities are considered as the main activities of the Group. Other activities (including investing and financing activities) are considered as non-core activities, whose results are presented under other operating income and expenses or under financial income and expenses.

For segment reporting purposes, companies and business units are divided into the following business segments:
Oil shale extraction - Eesti Põlevkivi (Estonian Oil Shale Company);
Production of electricity and heat - Narva Elektrijaamad (Narva Power Plants), Iru Elektrijaam (Iru Power Plant),
AS Kohtla-Järve Soojus, AS Narva Soojusvõrk, Renewable Energy;
Oil production - Narva Elektrijaamade Õlitehas (Oil Factory of Narva Power Plants), Oil Shale Energy of Jordan;
Transmission of electricity - Põhivõrk (National Grid);
Distribution of electricity - Jaotusvõrk (Distribution Network);
Sales and customer service - Teenindus (Customer service),
SIA "E. Energy"; Solidus Oy, UAB "Lumen Balticum";
Support services - Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, OÜ Elektrikontrollikeskus, other support services and administrative units

Note 5 I CONTINUED
Segment Reporting

Number of Employees of Business Segments

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Total Group
Number of employees April 1, 2006	4,036	1,898	116	140	990	364	1,212	8,756
Number of employees at March 31, 2007	3,444	1,902	125	134	960	352	1,494	8,411
Average number of employees	3,889	1,905	119	138	977	355	1,193	8,576
Number of employees at April 1, 2005	4,361	2,027	106	143	993	390	1,264	9,284
Number of employees at March 31, 2006	4,036	1,898	116	140	990	364	1,212	8,756
Average number of employees	4,183	1,933	116	141	991	377	1,242	8,983

Income Statements of Business Segments for the Period April 1, 2006 – March 31, 2007

in thousands of euros

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Revenue									
External sales	20,343	37,561	24,484	8,448	161,085	209,386	20,321	-78	481,550
incl. Estonia	18,622	37,268	24,108	5,176	161,085	176,989	7,959	-78	431,128
incl. exports	1,721	293	376	3,272	-	32,397	12,362	-	50,422
Inter-segment revenue	100,703	221,951	4,362	63,466	3,091	30,143	35,076	-458,792	-
Total revenue	121,046	259,513	28,846	71,914	164,176	239,529	55,397	-458,871	481,550
Other operating income	4,084	97,848	173	108	251	703	2,405	-2,542	103,030
Change in inventories of work-in-progress and finished goods	1,610	-	1,716	-	-	-	-	-189	3,137
Externally purchased raw materials and consumables	-48,757	-55,131	-1,854	-9,478	-9,828	-9,723	-19,047	6,631	-147,187
Internally purchased raw materials and consumables	-6,986	-110,180	-10,568	-16,255	-84,992	-209,362	-844	439,186	-
Total purchased raw materials and consumables	-55,743	-165,311	-12,421	-25,733	-94,820	-219,085	-19,891	445,817	-147,187
Other operating expenses	-4,350	-31,273	-2,935	-2,698	-7,367	-6,011	-9,181	11,171	-52,644
Payroll expenses	-39,408	-20,124	-1,553	-2,733	-13,481	-4,329	-17,237	3,040	-95,825
Other expenses	-347	-157	-1	-65	-165	-43	-621	6	-1,392
Depreciation and amortisation	-17,022	-34,883	-580	-19,789	-26,152	-110	-3,180	113	-101,604
SEGMENT OPERATING PROFIT	**9,871**	**105,613**	**13,244**	**21,004**	**22,442**	**10,655**	**7,692**	**-1,455**	**189,065**
Financial income									6,769
Financial expenses									-18,957
Total financial income and expenses									-12,188
Profit/loss from investments in associates	929	-	-	158	-	-	-128	-	959
Corporate income tax									-9,404
NET PROFIT FOR THE FINANCIAL YEAR									**168,432**

Note 5 I CONTINUED
Segment Reporting

Income Statements of Business Segments for the Period 1 April 2005 – 31 March 2006

in thousands of euros

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Revenue									
External sales	17,687	34,879	22,182	5,568	155,279	200,687	16,585	-8	452,861
incl. Estonia	17,175	34,749	22,182	4,045	155,279	161,948	6,323	-8	401,693
incl. exports	512	130	-	1,524	-	38,740	10,262	-	51,167
Inter-segment sales	99,949	225,148	3,111	62,520	3,198	31,512	33,900	-459,336	-
Total revenue	117,636	260,027	25,292	68,088	158,477	232,199	50,485	-459,344	452,861
Other operating income	1,223	74,443	-	955	324	2,930	844	-54	80,665
Change in inventories of work-in-progress and finished goods	703	-	364	-	-	-	-	33	1,100
Externally purchased raw materials and consumables	-43,209	-53,698	-1,451	-8,231	-9,586	-8,320	-19,450	7,816	-136,129
Internally purchased raw materials and consumables	-7,642	-103,593	-8,928	-17,875	-84,196	-214,827	-797	437,859	-
Total purchased materials and consumables	-50,851	-157,291	-10,380	-26,106	-93,782	-223,147	-20,248	445,675	-136,129
Other operating expenses	-3,837	-26,778	-1,373	-2,351	-6,045	-4,892	-7,727	11,011	-41,992
Payroll expenses	-39,878	-18,947	-1,355	-2,440	-10,986	-3,606	-16,021	2,807	-90,427
Other expenses	-308	-238	-1	-20	-176	-33	-1,190	41	-1,924
Depreciation	-16,391	-33,424	-416	-21,346	-25,308	-159	-2,915	178	-99,781
SEGMENT OPERATING PROFIT	**8,299**	**97,792**	**12,132**	**16,781**	**22,504**	**3,292**	**3,227**	**348**	**164,374**
Financial income									1,699
Financial expenses									-29,912
Total financial income and expenses									-28,212
Profit/loss from investments in associates	1,193	-	-	-471	-	-	-102	-	619
Corporate income tax									-1,370
NET PROFIT FOR THE FINANCIAL YEAR									**135,411**

Note 5 I CONTINUED
Segment Reporting

Balance Sheets of Business Segments as at 31 March 2007

in thousands of euros

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Current assets	37,704	79,262	4,739	7,553	17,754	51,975	230,135	-64,257	364,864
Non-current assets	66,145	407,761	5,862	329,823	450,298	676	41,618	-	1,302,184
including investments in associates	2,055	-	-	-	-	-	8,542	-	10,597
Total assets	103,849	487,022	10,602	337,376	468,052	52,651	271,753	-64,257	1,667,048
Liabilities related to operating activities									
current liabilities	18,687	58,369	2,800	5,870	19,326	33,912	22,500	-63,278	98,186
non-current liabilities	9,113	11,802	49	16,425	79,750	156	1,154	-7,757	110,692
Total liabilities related to operating activities	27,800	70,171	2,849	22,295	99,076	34,068	23,653	-71,035	208,878
Bonds and borrowings									341,983
Total liabilities									550,861

Balance Sheets of Business Segments as at 31 March 2006

in thousands of euros

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Current assets	25,831	35,241	3,534	7,823	18,087	45,293	159,056	-63,865	231,001
Non-current assets	63,168	420,827	3,387	312,207	426,481	144	39,601	-	1,265,814
including investments in associates	2,163	-	-	-	-	-	8,670	-	10,833
Total assets	88,999	456,068	6,921	320,030	444,568	45,437	198,657	-63,865	1,496,816
Liabilities related to operating activities	17,644	58,317	1,026	8,771	15,067	31,445	22,603	-62,321	92,551
current liabilities	9,165	9,203	16	12,906	62,465	-	267	-6,420	87,601
non-current liabilities									
Total liabilities related to operating activities	26,809	67,520	1,041	21,676	77,532	31,445	22,869	-68,741	180,152
Bonds and borrowings									345,287
Total liabilities									525,439

Note 5 I CONTINUED
Segment Reporting

Capital Expenditures of Business Segments

in thousands of euros

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
April 1, 2006-March 31, 2007	19,515	21,872	3,056	37,401	51,135	750	7,335	-1,442	139,620
April 1, 2005-March 31, 2006	16,740	26,054	902	42,850	61,996	-	8,202	-3,963	152,782

Cash Flows of Business Segments for the Period 1 April 2006 – 31 March 2007

in thousands of euros

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Cash flows from operating activities	17,713	136,024	14,085	32,945	37,741	15,121	-2,614	5,607	256,624
Cash flows from investing activities	-6,191	-25,119	-2,061	-36,330	-28,030	-746	-56,477	-179,329	-334,283
Cash flows from financing activities	-	-65,711	-12,057	3,385	-9,712	-14,069	101,387	-40,037	-36,814
Net cash flows	**11,522**	**45,194**	**-33**	**-**	**-**	**306**	**42,296**	**-213,758**	**-114,473**

Cash Flows of Business Segments for the Period 1 April 2005 – 31 March 2006

in thousands of euros

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Cash flows from operating activities	23,469	124,945	11,148	28,837	33,829	-5,406	10,840	14	227,678
Cash flows from investing activities	-18,296	-28,443	-580	-33,620	-46,407	6	-9,150	-3,817	-140,308
Cash flows from financing activities	-6,391	-95,383	-10,568	4,782	12,578	5,396	109,422	1,638	21,475
Net cash flows	**-1,218**	**1,120**	-	-	-	**-4**	**111,111**	**-2,164**	**108,845**

Note 5 I CONTINUED
Segment Reporting

(b) Reporting by geographical segments (secondary reporting format)
The Group operates mostly in Estonia, but electricity and some goods and services are also sold in other countries. The Group's main geographical regions are Estonia, the Nordic countries and Latvia.

External Revenue by Location of Clients

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Estonia	431,128	401,693
Nordic countries	26,099	9,336
Latvia	16,588	35,232
Other countries	7,735	6,599
Total external revenue (Note 23)	**481,550**	**452,861**

Allocation of Assets by Location of Assets

in thousands of euros

	31 March	
	2007	2006
Estonia	1,654,277	1,485,980
Nordic countries	1,499	-
Latvia	15	3
Other countries	659	-
Total	1,656,451	1,485,983
Investments in associates (Note 12)	10,597	10,833
Total assets	**1,667,048**	**1,496,816**

Capital Expenditures by Location of Assets

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Estonia	138,229	152,782
Nordic countries	733	-
Latvia	2	-
Other countries	656	-
Total capital expenditures (Note 13 and 14)	139,620	152,782

6 Cash and Cash Equivalents

in thousands of euros

	31 March	
	2007	2006
Cash in transit	8	28
Cash on hand	8	9
Bank accounts	5,702	2,087
Short-term deposits	27,618	145,684
Total cash and cash equivalents	**33,337**	**147,809**

Cash and Cash Equivalents by Currencies

in thousands of euros

	31 March	
	2007	2006
Estonian kroon	24,768	54,293
Euro	8,557	93,514
Latvian lat	9	3
Lithuanian litas	3	-
Total cash and cash equivalents	**33,337**	**147,809**

In the financial year, the effective interest rates of term deposits were between 2.5–4.2% (in the comparable period: 2.0–2.6%). Interest accrued by the balance sheet date is disclosed in Note 10.

7 Financial Assets at Fair Value Through Profit or Loss

in thousands of euros

	31 March	
	2007	2006
Unquoted financial assets		
Units of Sampo Liquidity Fund	235	1,598

Changes in Fair Value of Financial Assets Reported at Fair Value Through Profit or Loss

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Fair value at beginning of the accounting period	**1,598**	**1,336**
Purchased	15,389	8,883
Sold	-16,788	-8,646
Gain from change in fair value (Note 29)	36	24
Fair value at end of the reporting period	**235**	**1,598**

The units of Sampo Liquidity Fund are denominated in Estonian kroons. The basis of fair value of fund units is the net asset value of fund units based on the market value.

8 Held-to-Maturity Financial Assets

in thousands of euros

	31 March	
Unquoted financial assets	2007	2006
Commercial papers of AS SEB Eesti Ühispank		
(fixed interest rate: 3.326%, maturity: 14 June 2007)	1,270	-
Bonds of AS Sampo Pank		
(fixed interest rate: 3.716%, maturity: 5 September 2007)	1,573	-
Total held-to-maturity financial assets at amortised cost	**2,842**	**-**

Changes in Held-to-Maturity Financial Assets

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Amortised cost at beginning of the period	-	-
Acquired	4,301	-
Redeemed	-1,534	-
Amortisation of difference between cost and nominal value	75	-
Amortised cost at end of the period	**2,842**	**-**

Held-to-maturity financial assets are denominated in Estonian kroons. Held-to-maturity financial assets have neither been sold nor reclassified neither in the reporting period nor in the comparable period.
The fair values of held-to-maturity financial assets do not materially differ from their carrying amounts.

9 Derivative Financial Instruments

As at March 31, 2007, derivatives include forward contracts of electricity sales in the Nordic electricity exchange Nord Pool as well as forward contracts for buying and selling shale oil. As at March 31, 2006, derivatives included 2 transactions for fixing the interest charges of loans with floating interest rates (interest-rate swap).

in thousands of euros	31 March 2007		31 March 2006	
	Assets	Liabilities	Assets	Liabilities
Forward contracts of electricity sales	8,087	-	-	-
Forward contracts for buying and selling shale oil	111	-	-	-
Interest-rate swap transactions	-	-	-	798
Total derivatives	**8,199**	**-**	**-**	**798**

Forward contracts of electricity sales
The goal of the forward contracts of electricity sales is to hedge changes in the price of electricity. The transactions are designated as cash flow hedging instruments whereby the hedged underlying instrument is the estimated electricity transactions of high probability in the Nordic electricity exchange Nord Pool. The forward contracts have been entered into for the sale of a fixed volume of electricity at each trading hour until December 31, 2007. The price of forward contracts is denominated in euros. The effective portion of the change in fair value is included in the related reserve in equity (Note 22) and is accounted for either as a gain or loss at the time of the sales transactions of electricity or in cose it is evident that sales transactions are unlikely to occur in a certain period. The basis of determining the fair value of transactions is the quotes by Nord Pool.

Note 9 I CONTINUED
Derivative Financial Instruments

Changes in Forward Contracts of Electricity Sales

in thousands of euros	1 Aprill - 31 March	
	2006/07	2005/06
Fair value at beginning of the period	-	-
Change in fair value (Note 22)	11,413	-
Settled in cash	-3,326	-
Fair value at end of the period	**8,087**	-

Forward contracts for buying and selling shale oil

The goal of the contracts for buying and selling shale oil is to hedge the risk of price changes of shale oil. With these transactions, the Group is obliged to simultaneously buy and sell a certain volume of shale oil, where the basis of the bid price is the market price of the date the contract is concluded and the basis of the ask price is the market price of the date of executing forward transactions. The transactions are reported at fair value through profit or loss. The basis for determining the bid and ask prices is the quotes by Platt´s European Marketscan. The prices are denominated in US dollars.

Changes in Forward Contracts for Buying and Selling Shale Oil

in thousands of euros	1 April - 31 March	
	2006/07	2005/06
Fair value at beginning of the period	-	-
Change in fair value	111	-
Fair value at end of the period	**111**	-

Interest-rate swap transactions

On April 3, 2002, Eesti Energia AS concluded two interest-rate swap transactions with AS Westdeutsche Landesbank Girozentral (underlying amounts of 15,000 thousand euros and 50,000 thousand euros) with the goal of hedging interest rate fluctuations. The transactions were initially classified as a cash flow hedging instrument (Note 22). Due to the premature payment of the syndicate loan, recognition of the change in the market value of the derivative with the underlying amount of 50,000 thousand euros was terminated in equity reserve (Note 22). The basis of fair value of interest rate swaps was the quotes by Westdeutsche Landesbank Girozentrale. As at March 31, 2007, both contracts had expired.

Changes in Interest-Rate Swap Contracts

in thousands of euros	1 April - 31 March	
	2006/07	2005/06
Fair value at beginning of the accounting period	**-798**	**-2,672**
Change in fair value, including	-5	-80
change in fair value reported in income statement	-3	-
change in fair value reported in hedging reserve (Note 22)	-1	-80
Settled in cash	802	1,954
Change in fair value at end of the accounting period	-	**-798**

10 Long- and Short-Term Receivables

in thousands of euros

	31 March	
	2007	2006
Short-term receivables		
Deposits with maturities greater than 3 months at banks		
Security deposits at banks	10,650	-
Other deposits with maturities greater than 3 months at banks	224,605	-
Total deposits with maturities greater than 3 months at banks	**235,255**	**-**
Trade and other receivables		
Trade receivables		
Accounts receivable	60,781	66,565
Allowance for doubtful receivables	-8,382	-9,336
Total trade receivables	**52,399**	**57,229**
Accrued income		
Estimated receivable under the stage of completion method	2,367	1,602
Estimated receivable for electricity on the basis of unreported or delayed meter readings, or estimates	502	809
Accrued interest	2,113	412
Other accrued income	2	-
Total accrued income	**4,985**	**2,823**
Prepayments	2,435	1,901
Receivables from associates	878	8
Other short-term receivables	705	78
Total trade and other receivables	**61,402**	**62,038**
Total short-term receivables	**296,657**	**62,038**
Long-term receivables		
Long-term guarantee fees	15	-
Total long-term receivables	**15**	**-**
Total trade and other receivables	**296,672**	**62,038**

In the financial year, the effective interest rates of term deposits were between 2.5–4.2% (in the comparable period: 2.0–2.6%). The due dates of deposits were up to 306 days.
The security deposits at SEB Eesti Ühispank secure the commitments of Eesti Energia AS which may arise from forward contracts of electricity sales (Note 9) and spot contracts in the electricity exchange Nord Pool. The interest rates of security deposits are between 3.6–3.9%. The cash deposited in security deposits is reported as a change in working capital in the cash flow statement due to its limited use.
The fair values of receivables and prepayments do not materially differ from their carrying amounts.
The maximum exposure of receivables and prepayments to credit risk as at the balance sheet date equals their fair value.
The collection of receivables and the receipt of services and goods for prepayments is not covered by the security. All Groups' receivables and prepayments are denominated in Estonian kroons or euros.

Changes in Doubtful Accounts

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Doubtful accounts at beginning of the period	**-9,336**	**-10,237**
Classified as doubtful during the accounting period	-2,421	-2,310
Collections in the accounting period	2,346	2,406
Classified as irrecoverable	1,029	805
Doubtful accounts at end of the period	**-8,382**	**-9,336**

Note 10 I CONTINUED
Long- and Short-Term Receivables

Revenue Under the Stage of Completion Method

in thousands of euros	31 March	
	2007	2006
Unfinished projects at end of the period		
Sales revenue of unfinished projects	5,455	3,196
Progress billing submitted	-3,113	-1,595
Unfinished, unbilled projects	2,367	1,602
Unfinished, prepaid projects (Note 17)	-24	-
Total expenses of unfinished projects in the financial year	-5,308	-2,969
Gains/losses calculated on unfinished projects	147	228
Total income from construction projects in the financial year	14,541	11,767
Total expenses of construction projects in the financial year	-13,221	-10,843
Total gains/losses calculated on construction projects	1,321	924

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

11 Inventories

in thousands of euros	31 March	
	2007	2006
Raw materials and materials at warehouses	**11,888**	**11,007**
Work-in-progress		
Extracted oil shale	5,877	4,724
Stripping works in quarries	1,866	2,248
Other work-in-progress	1,144	503
Total work-in-progress	**8,888**	**7,475**
Finished goods		
Shale oil	2,646	930
Other finished goods	136	128
Total finished goods	**2,782**	**1,058**
Prepayments to suppliers	**35**	**16**
Total inventories	**23,594**	**19,556**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials in the amount of 62 thousand euros (in the previous period: 12 thousand euros).

12 Investment in Associates

Changes in Investments in Associates

in thousands of euros	1 April - 31 March	
	2006/07	2005/06
Book value at beginning of the period	**10,833**	**2,701**
Profit under the equity method (Note 31)	801	1,091
Dividends received	-1,038	-1,132
Investments into associates	-	8,644
Loss from impairment of associate (Note 31)	-	-471
Book value at end of the period	**10,597**	**10,833**

Note 12 I CONTINUED
Investment in Associates

In the comparable period, Eesti Energia AS made an additional payment to share capital of AS Nordic Energy Link for 8,644 thousand euros. After increasing the share capital, the holding of Eesti Energia AS in AS Nordic Energy Link is 39.9%. In the previous period, the management announced its intention to liquidate the associate DC Baltija. As a result, the fair value of the investment as at March 31, 2006 was 0 euros and an impairment loss was recognised of 471 thousand euros. The liquidation proceedings of DC Baltija were started in the summer of 2006 and were completed in March 2007. According to the liquidation balance sheet, of the allocated assets of DC Baltija, 158 thousand euros belong to the Group, and this is recognised as a short-term receivable in the balance sheet (Note 10).

Information on Associates

in thousands of euros

Company	Location	Assets	Liabilities	Operating income	Profit/ Loss	Participation (%)
		31 March 2007	31 March 2007	1 April 2006 - 31 March 2007	1 April 2006 - 31 March 2007	31 March 2007
Associate of the Parent Company						
Nordic Energy Link Grupp	Estonia, Finlandia	100,418	78,279	6,152	345	40
Associates of subsidiaries						
Orica Eesti OÜ	Estonia	6,889	1,019	12,720	2,656	35
		107,308	79,298	18,871	3,001	

Company	Location	Assets	Liabilities	Operating income	Profit/ Loss	Participation (%)
		31 March 2006	31 March 2006	1 April 2005 - 31 March 2006	1 April 2005 - 31 March 2006	31 March 2006
Associate of the Parent Company						
Nordic Energy Link Grupp	Estonia, Finlandia	21,939	145	-	-192	40
Associates of subsidiaries						
DC Baltija	Latvia	1,594	155	1,674	-53	33
Orica Eesti OÜ	Estonia	7,159	980	13,738	3,380	35
		30,692	1,280	15,412	3,135	

13 Property, Plant and Equipment

in thousands of euros

	Land	Buildings	Facilities	Machinery and equipment	Others	Total
Property, plant and equipment as at March 31, 2005						
Cost	4,642	127,323	756,913	854,424	3,429	1,746,730
Accumulated depreciation	-	-66,102	-301,755	-362,939	-2,199	-732,995
Net book amount	4,642	61,221	455,158	491,485	1,229	1,013,735
Construction in progress	-	18,808	17,176	147,471	-	183,456
Prepayments	259	-	9	2,521	-	2,789
Total property, plant and equipment as at March 31, 2005	**4,901**	**80,029**	**472,343**	**641,477**	**1,229**	**1,199,979**
Movements April 1, 2005-March 31, 2006						
Total purchases of property, plant and equipment	212	12,489	58,042	81,713	326	152,782
Depreciation charge	-	-4,741	-30,144	-64,285	-611	-99,781
Net book amount of non-current assets disposed	-3	-221	-153	-562	-	-939
Reclassified at net book amount	-	-6,979	6,844	135	-	-0
Provision for dismantling costs (Note 18)	-	38	-	407	-	445
Total movements in April 1, 2005-March 31, 2006	**209**	**585**	**34,589**	**17,410**	**-285**	**52,508**

	Land	Buildings	Facilities	Machinery and equipment	Others	Total
Property, plant and equipment as at March 31, 2006						
Cost	4,851	145,603	801,620	1,030,162	3,704	1,985,940
Accumulated depreciation	-	-70,338	-328,545	-411,017	-2,760	-812,659
Net book amount	4,851	75,266	473,075	619,145	944	1,173,281
Construction in progress	-	5,349	33,848	37,156	-	76,352
Prepayments	259	-	9	2,586	-	2,854
Total property, plant and equipment as at March 31, 2006	**5,110**	**80,614**	**506,932**	**658,887**	**944**	**1,252,487**
Movements April 1, 2006-March 31, 2007						
Total purchases of property, plant and equipment	270	7,075	54,069	75,512	455	137,381
Received in acquisition of subsidiary (Note 32)	-	-	-	7	6	13
Depreciation charge	-	-4,828	-28,866	-67,180	-607	-101,481
Net book amount of non-current assets disposed	-35	-1,252	-	-139	-	-1,426
Reclassified at net book amount	-	475	104	-579	-	-
Total movements in April 1, 2006-March 31, 2007	**235**	**1,470**	**25,307**	**7,621**	**-146**	**34,486**
Property, plant and equipment as at March 31, 2007						
Cost	5,072	155,655	855,029	1,101,806	4,067	2,121,629
Accumulated depreciation	-	-74,176	-351,540	-466,192	-3,270	-895,177
Net book amount	5,072	81,480	503,489	635,614	797	1,226,452
Construction in progress	-	604	28,505	28,617	-	57,726
Prepayments	273	-	245	2,277	-	2,794
Total property, plant and equipment as at March 31, 2007	**5,345**	**82,084**	**532,239**	**666,508**	**797**	**1,286,973**

In the previous period, the construction works and testing of the 11th power block of Narva Power Plants was completed. The new power blocks of Narva Power Plants are accounted for as separate components with useful lives between 15 and 30 years. The cost of power blocks includes the present value of future dismantling costs for which a provision was set up (Note 18).

Note 13 I CONTINUED
Property, plant and equipment

Assets Leased Out Under Operating Lease Terms

in thousands of euros

	31 March	
	2007	2006
Cost	5,806	5,834
Accumulated depreciation at beginning of the financial year	-2,299	-2,049
Depreciation charge	-200	-213
Net book amount	**3,307**	**3,572**

Leased assets are partly used in operations and partly for earning rental income.
Cost and depreciation have been calculated according to the part of the asset leased out.

Property, Plant and Equipment Acquired Under Finance Lease Terms (Group is the Lessee)

in thousands of euros

	Balance as at 31 March 2006	Received	Depreciation charge	Terminated lease	Balance as at 31 March 2007
Cost	210	-	-	-41	169
Depreciation	-31	-	-30	29	-32
Net book amount	**179**	**-**	**-30**	**-12**	**137**

	Balance as at 31 March 2005	Received	Depreciation charge	Terminated lease	Balance as at 31 March 2006
Cost	48	169	-	-8	210
Depreciation	-23	-	-15	8	-31
Net book amount	**25**	**169**	**-15**	**-**	**179**

Special equipment is leased under the finance lease terms. The lease agreement will expire on November 24, 2008.

14 Intangible Assets

in thousands of euros

	Goodwill	Software	Exploration and evaluation assets	Contractual customer relationship	Total
Intangible assets as at March 31, 2005					
Cost	2,494	-	-	-	2,494
Total intangible assets as at March 31, 2005	2,494	-	-	-	2,494
Intangible assets as at March 31, 2006					
Cost	2,494	-	-	-	2,494
Total intangible assets as at March 31, 2006	2,494	-	-	-	2,494

Note 14 I CONTINUED
Intangible Assets

in thousands of euros	Goodwill	Software	Exploration and evaluation assets	Contractual customer relationship	Total
Movements in April 1, 2006-March 31, 2007					
Total purchases of intangbile assets	-	874	656	697	2,227
including intangible assets identified in a business combination (Note 32)	-	-	656	697	1,353
Amortisation charge	-	-1	-	-122	-123
Total movements April 1, 2006-March 31, 2007	-	873	656	575	2,104
Intangible assets as at March 31, 2007					
Cost	2,494	19	656	697	3,866
Accumulated amortisation	-	-1	-	-122	-123
Net book amount	2,494	18	656	575	3,744
Intangible assets not yet available for use	-	855	-	-	855
Total intangible assets as at March 31, 2007	**2,494**	**873**	**656**	**575**	**4,599**

Goodwill

Allocation of Goodwill by Cash-Generating Units

in thousands of euros

	Eesti Põlevkivi	Elpec	Narva Elektrijaamad	Total goodwill
Carrying amount at March 31, 2007	2,470	15	9	2,494
Carrying amount at March 31, 2006	2,470	15	9	2,494

Potential impairment of goodwill is tested once a year (or more frequently if an event or a change in circumstances indicates it). During an impairment test, the recoverable amounts of the net assets of cash-generating units are compared with their carrying amounts. The recoverable amount of assets is determined on the basis of the the value in use pursuant to the cash flow forecast for the next 15 years. The budgets approved by the Management Board are used with regard to the next 5-year period, the remaining years are estimated using the growth rate. In selecting the 15-year period, a regular investment horizon normally used in the electricity business is used as the basis. In estimating future cash flows, historical data as well as the estimate of the Estonian energy balance was used. No impairment was identified during the test.

Main Assumptions Used in Determining the Value in Use

	Eesti Põlevkivi	Elpec	Narva Elektrijaamad
Growth rate of cash flows used after five years	-2.5%	2.0%	14.0%
Discount rate	8.0%	8.0%	8.0%

Exploration and Evaluation Assets of Mineral Resources

Exploration and evaluation assets comprise the exclusive right to explore and potentially use one-third of the reserves (300 million tons) of the oil shale mine El Lajjun located in the Kingdom of Jordan. The basis of exploration is the contract entered into with the Kingdom of Jordan on November 5, 2006. In addition to intangible assets, exploration and evaluation assets of mineral resources include at March 31, 2007 a prepayment for exploration works in the amount 71 thousand euros (as at March 31, 2006: 0 euros).

Note 14 I CONTINUED
Intangible Assets

Cash Flows Relating to the Exploration for and Evaluation of Mineral Resources from Operating and Investing Activities

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Paid in acquisition of subsidiary (Note 32)	-166	-
Prepayment for exploration work	-71	-

Contractual Customer Relationship

Contractual customer relationship includes the value of rights arising from the contract entered into in the acquisition of the subsidiary Solidus Oy between Solidus Oy and its previous parent company for 697 thousand euros (as at March 31, 2006: 0 euros).
According to the contract, the previous parent company of Solidus Oy is obliged to purchase services from Solidus Oy during a three-year period (Note 32).

15 Operating Lease

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Rental income		
Buildings	1,081	879
including contingent rent	498	275
Facilities	412	354
Total rental income (Note 23)	**1,493**	**1,233**
Rental expense		
Buildings	468	352
Means of transport	1,415	1,351
Other machinery and equipment	329	265
Total rental expense (Note 27)	**2,212**	**1,968**

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

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Rental income		
< 1 year	736	513
1 - 5 years	4,073	2,670
> 5 years	16,240	11,209
Total rental income	**21,050**	**14,392**

The mazut farm and the administrative building have been leased out under non-cancellable lease agreements. The lease agreements expire in 2033 and 2035.
Operating lease agreements (the Group is lessee) are mostly cancellable with short-term notice.

16 Borrowings

Borrowings at Amortised Cost

in thousands of euros

	31 March	
	2007	2006
Short-term borrowings		
Current portion of long-term bank loans	6,325	4,506
Finance lease liabilities	51	51
Total short-term borrowings	**6,376**	**4,558**
Long-term borrowings		
Bonds issued	287,093	286,439
Bank loans	48,462	54,187
Financial lease liabilities	52	103
Total long-term borrowings	**335,607**	**340,729**
Total borrowings	**341,983**	**345,287**

Changes in Borrowings

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Amortised cost at beginning of the period	345,287	308,975
Movements in the period		
Loan balance of acquired subsidiary (Note 32)	300	-
Issued bonds at amortised cost	-	286,205
Exchanged bonds at amortised cost	-	-103,931
Repurchased bonds at amortised cost	-	-94,522
Repaid long-term bank loans	-4,506	-52,364
Repaid other loans	-300	-
Issued commercial papers	-	24,819
Redeemed commercial papers	-	-25,000
Amortisation of difference between nominal amount and proceeds from issue of commercial papers	-	181
Amortisation of loan fees	601	272
Finance lease agreements entered into	-	169
Amortisation of difference between nominal amount and proceeds from issue of bonds	654	508
Repaid finance lease liabilities	-51	-26
Amortised cost at end of the period	341,983	345,287

Note 16 I CONTINUED
Borrowings

Principal Amount and Terms of Long-Term Bank Loans

in thousands of euros

Creditor	Total loan amount	As at 31 March 2007			Final settlement
		drawn	undrawn	repaid	
Nordic Investment Bank	13,000	7,091	-	5,909	2,009
Nordic Investment Bank	15,000	12,857	-	2,143	2,012
Nordic Investment Bank	60,000	20,000	40,000	-	2,017
European Investment Bank	80,000	15,000	65,000	-	2,019
Total long-term bank loans	168,000	54,948	105,000	8,052	

Creditor	Total loan amount	As at 31 March 2006			Final settlement
		drawn	undrawn	repaid	
Nordic Investment Bank	13,000	9,455	-	3,545	2,009
Nordic Investment Bank	15,000	15,000	-	-	2,012
Kreditinstalt für Wiederaufbau	90,000	-	90,000	-	2,017
Nordic Investment Bank	60,000	20,000	40,000	-	2,017
European Investment Bank	80,000	15,000	65,000	-	2,019
Total long-term bank loans	258,000	59,455	195,000	3,545	

All loans are denominated in euros. Most loans have floating interest rates, as at March 31, 2007, the interest rates on loans were between 4.1 and 4.7% (as at March 31 2,006: 2.7–4.7%). As at March 31, 2007, the weighted average interest rates on loans with floating interest rates were 6-month Euribor+0.41% (as at March 31, 2006: 6-month Euribor+0.4%). The floating interest rates of the loan from the Nordic Investment Bank for 15 000 thousand euros was fixed until June 2006 with a derivative transaction.

As at March 31, 2007, the weighted average interest rate on loans was 4.4% (as at March 31, 2006: 4.2% including the effect of hedging derivatives). The loan agreements entered into by Eesti Energia AS contain certain financial ratios that the Group should comply with. The Group has complied with all attached conditions.

All borrowings are unsecured.

The type of unused loans (floating or fixed) is determined when the loan is assumed. In the accounting period, the loan assumption date of the European Investment Bank and the Nordic Investment Bank was extended. The decision regarding the use of the loan from the European Investment Bank shall be made by November 7, 2007 at the latest and that regarding the Nordic Investment Bank by September 30, 2009 at the latest. The loan contract with Kreditinstalt für Wiederaufbau was terminated.

Long-Term Bank Loans at Nominal Value by Due Dates

in thousands of euros

	31 March	
	2007	2006
< 1 year	6,325	4,506
1 - 5 years	26,019	27,021
> 5 years	22,604	27,927
Total	54,948	59,455

Management estimates that the fair value of the loans at the balance sheet date does not significantly differ from their carrying amounts.

Note 16 I CONTINUED
Borrowings

Bonds

in thousands of euros

	31 March	
	2007	2006
Nominal value of bonds	300,000	300,000
Proceeds from issue	286,205	286,205
Amortisation of difference between nominal value and cost	888	234
Carrying amount of bonds	**287,093**	**286,439**
Market value of bonds on the basis of quoted sales price	284,416	297,240

In the previous period, Eesti Energia AS carried out an exchange transaction of bonds redeemable in 2009 where the owners of the bonds were made a proposal either to exchange their bonds for new issuable bonds redeemable in 2020 or sell them back to Eesti Energia AS. During the transaction, Eesti Energia AS issued new bonds with the nominal value of 300,000 thousand euros (carrying amount 286,205 thousand euros). Current investors exchanged their bonds maturing in 2009 with the nominal value of 104,759 thousand euros (carrying amount 103,931 thousand euros) and received bonds maturing in 2020 with the nominal value of 115,579 thousand euros (carrying amount 110,264 thousand euros). The difference between the amortised cost of bonds maturing in 2009 and the nominal value of bonds maturing in 2020 of 11,648 thousand euros was included in the amortised cost of the issued bonds. The difference between the nominal value of new bonds and the sales proceeds of 1,084 thousand euros as well as the transactions costs of 1,062 thousand euros were also included in the cost of new bonds. Current investors sold bonds maturing in 2009 back to Eesti Energia AS with the nominal value of 95,241 thousand euros (carrying amount 94,522 thousand euros) for which Eesti Energia AS paid 103,091 thousand euros). The difference between the carrying amount of repurchased bonds and the repurchase price of 8,569 thousand euros is charged to interest expenses (Note 29).

Finance Lease Liability (Present Value of Lease Payments)

in thousands of euros

	Balance as at 31 March 2006	Received	Rental payments made	Terminated rental agreement	Balance as at 31 March 2007
Original lease liabilities	210	-	-	-41	169
Repaid portion	-55	-	-51	41	-66
Carrying amount of lease liabilities	**155**	**-**	**-51**	**-**	**103**

	Balance as at 31 March 2005	Received	Rental payments made	Terminated rental agreement	Balance as at 31 March 2006
Original lease liabilities	48	169	-	-8	210
Repaid portion	-37	-	-26	8	-55
Carrying amount of lease liabilities	11	169	-26	-	155

As at March 31, 2007, the interest rate of operating lease agreements was 4.5 % (as at March 31, 2006: 2.9–5.5%).

Maturities of Finance Lease Agreements

in thousands of euros

	< 1 year	1 - 5 years	Total
As at March 31, 2007			
Minimum lease payments	55	53	108
Unrealised financial income	-4	-1	-5
Present value of lease payments as at March 31, 2007	**51**	**52**	**103**
As at March 31, 2006			
Minimum lease payments	56	107	163
Unrealised financial income	-5	-4	-8
Present value of lease payments as at March 31, 2006	**51**	**103**	**155**

Note 16 I CONTINUED
Borrowings

Borrowings by Period of Fixing Interest Rates

in thousands of euros

	31 March	
	2007	2006
< 1 year	36,793	46,130
1 - 5 years	7,159	-
> 5 years	298,031	299,156
Total	**341,983**	**345,287**

Weighted Average Interest Rates of Borrowings

	31 March	
	2007	2006
Long-term bank loans	4.5%	3.8%
Bonds	4.9%	4.9%
Finance lease liabilities	4.5%	2.9%

17 Trade and Other Payables

in thousands of euros

	31 March	
	2007	2006
Short-term payables		
Trade payables		
Payables for property, plant and equipment	33,447	33,383
Payables for fuel	2,678	2,084
Other payables for goods and services	17,234	13,518
Total trade payables	**53,359**	**48,984**
Accrued expenses		
Payables to employees	11,207	10,501
Interest liabilities	5,545	5,519
Payable relating to the fee for toleration of utility works	1,285	-
Payables calculated under the stage of completion method (Note 10)	24	-
Other accrued expenses	75	46
Total accrued expenses	**18,137**	**16,066**
Other short-term payables		
Tax liabilities	20,308	18,771
Payables to associates	1,047	510
Customer prepayments	693	244
Other payables	1,104	1,506
Total other short-term payables	**23,152**	**21,031**
Total short-term payables	**94,648**	**86,082**
Long-term payables		
Payables for goods and services	776	34
Total long-term payables	**776**	**34**
Total supplier payables and other payables	**95,424**	**86,116**

Note 17 I CONTINUED
Trade and other payables

Supplier Payables

As at March 31, 2007 short-term supplier payables include the amount withheld on the invoice submitted by Foster Wheeler Energia Oy for 22,006 thousand euros (as at March 31, 2006: 22,006 thousand euros) (10% of the total invoice amount of 220,055 thousand euros). Pursuant to the contract entered into with Foster Wheeler Energia Oy to build new power blocks of AS Narva Elektrijaamad, this amount was subject to withholding until the start-up of the power blocks. Due to its claims against Foster Wheeler Energia Oy, AS Narva Elektrijaamad has not paid the withheld amount to Foster Wheeler Energia Oy (Note 35).

Payable Relating to the Fee for Toleration of Utility Works

Pursuant to the Law of Property Act, a landowner in Estonia is required to tolerate utility works built on his immovable property. Under the law, the owner of utility works is required to pay compensation for the toleration of utility works pursuant to the rates and procedure provided for in the law, unless the parties have agreed otherwise. As at March 31, 2007, the Group has the obligation to retrospectively pay the fee for the toleration of utility works to the landowners from November 1, 2004 of 1,285 thousand euros.

18 Provisions

in thousands of euros

	Opening balance 31 March 2006	Recognition and change in provisions	Interest charge (Note 29)	Use	Closing balance at 31 March 2007	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 27)	13,628	1,610	789	-2,057	2,216	11,754
Provision for termination of mining operations (Note 27)	4,992	-200	382	-86	46	5,042
Provision for post-employment	-	-	-	-	-	-
benefits (Note 28)	1,283	13	54	-547	129	674
Provision for work-related injury	-	-	-	-	-	-
compensation (Note 28)	2,797	203	197	-328	347	2,522
Provision for dismantling cost of assets (Note 13)	925	-	74	-	-	999
Total provisions	**23,625**	**1,626**	**1,497**	**-3,019**	**2,739**	**20,991**

	Opening balance 31 March 2005	Recognition and change in provisions	Interest charge (Note 29)	Use	Closing balance at 31 March 2006	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 27)	14,942	-1,089	828	-1,052	3,760	9,868
Provision for termination of mining operations (Note 27)	4,868	-16	364	-224	213	4,779
Provision for post-employment	-	-	-	-	-	-
benefits (Note 28)	1,925	11	92	-745	605	679
Provision for work-related injury	-	-	-	-	-	-
compensation (Note 28)	2,429	510	170	-312	330	2,467
Provision for dismantling cost of assets (Note 13)	445	445	36	-	-	925
Total provisions	**24,608**	**-139**	**1,489**	**-2,333**	**4,907**	**18,718**

Environmental protection provisions and provisions for termination of mining operations have been set up for:
- restoring land damaged by mining;
- cleaning contaminated land surface;
- restoring water supplies contaminated as a result of mining activities;
- closing landfills and utilising waste;
- eliminating asbestos in power plants.

Note 18 I CONTINUED
Provisions

The amount of environmental protection provisions and provisions for termination of mining operations takes into account the fact that in accordance with the memorandum between AS Narva Elektrijaamad and the European Commission, 84% (7,106 thousand euros) of the cost of closing and restoring the ash field No.2 of the Baltic Power Plant will be covered from the EU ISPA funds. All conditions set by ISPA fund were met by March 31, 2007. The grants received in the reporting period amounted to 1,293 thousand euros (in the previous period: 285 thousand euros (Note 25)). It has also been taken into consideration that 50% of the cost for the ash field works and the eliminaton of contamination of AS Kohtla-Järve Soojus will be covered by a grant from ISPA funds.

Long-term environmental protection provisions will be settled at the Estonian Oil Shale Company in 2008–2012, at Kohtla-Järve District Heating Network in 2009–2013 and at Narva Power Plants in 2008–2012. Liabilities related to the termination of mining operations will be settled in 2007–2022. Provisions for termination of mining operations do not include any termination payments to employees as no detailed plans for the closure of mines and quarries have been announced.

A provision for post-employment benefits arising from collective agreements has been set up for benefits laid down in collective agreements and other acts, which is payable to former employees. Pursuant to the resolution of the Management Board, between April 1, 2001 and December 31, 2006, pensions were paid at predetermined amounts to the retired employees of AS Eesti Põlevkivi. The benefits are no longer paid at AS Eesti Põlevkivi as of January 1, 2007

The provision for work-related injury compensation has been determined on the basis of the court ruling with regard to amounts payable and the payment period which normally equals the life expectancy of employees. The payment period was determined using data from the Estonian Statistical Office on life expectancies according to age groups.

The provision for the dismantling costs of assets has been set up to cover the future dismantling costs of the renovated power blocks no. 8 and 11 of Narva Power Plants. The present value of dismantling costs of assets was included in the cost of non-current assets (Note 11). It is estimated the provision will be settled in 29 years.

The provisions are discounted at the rate of 8% (in the previous period: 8%).

19 Connection and Other Service Fees

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Connection and other service fees at beginning of the period	**68,850**	**50,709**
Connection and other service fees received	23,803	21,455
Connection and other service fees recognised as income (Note 23)	-4,328	-3,314
Connection and other service fees at end of the period	**88,325**	**68,850**

Connection and service fees are recognised as income over the estimated period of client relationship, which is 20 years.

20 Share Capital, Statutory Reserve Capital and Retained Earnings

As at March 31, 2007, Eesti Energia AS has 72,741,000 (as at March 31, 2006: 72,741,000) registered shares.
The nominal value of a share is 100 kroons.
The sole shareholder is the Republic of Estonia. The administrator of the shares and exerciser of the rights is the Estonian Ministry of Economic Affairs, represented by the Minister of Economic Affairs at the General Meeting of Shareholders.
According to the articles of association of Eesti Energia AS, the minimum share capital is 159,779 thousand euros and the maximum share capital is 639,116 thousand euros. No changes have occurred in share capital as compared to March 31, 2006.
As at March 31 2006, all shares (72,741,000 shares) had been paid in full. Pursuant to the requirements of the Commercial Code of Estonia, the Company shall set up statutory reserve capital from net profit amounting to 1/10 of share capital at a minimum. The amount of the annual allocation is 1/20 of the net profit of the financial year until reserve capital is full.
Reserve capital may be used to cover a loss, if it cannot be covered from distributable shareholders' equity, And also to increase share capital.
Pursuant to the Commercial Code of Estonia, share premium can be used to cover accumulated losses or increase share capital.

Note 20 I CONTINUED
Share Capital,
Statutory Reserve Capital and Retained Earnings

As at March 31, 2007 the distributable shareholders' equity (taking into account the statutory requirement to transfer 1/20 of the financial year's net profit to statutory reserve capital) amounted to 333,579 thousand euros, (as at March 31, 2006: 198,167 thousand euros).
From January 1, 2007, the income tax on dividends is 22/78 (until December 31, 2006: 23/77) of the amount paid out as net dividends.
As statutory reserve capital makes up 10% of share capital, as at March 31, 2007 Eesti Energia AS is not required to allocate net profit to statutory reserve capital (as at March 31, 2006, 2,668 thousand euros was required to be allocated to reserve capital). If all retained earnings were distributed as dividends, the corporate income tax would amount to 73,387 thousand euros (as at 31 March 2006: 45,578 thousand euros). It is possible to pay out 260,192 thousand euros (as at 31 March 2006: 152,589 thousand euros) as net dividends.
According to the order of the Government of the Republic of Estonia (order no. 740 from December 22, 2006),Eesti Energia should pay 63,912 thousand euros as dividends in 2007 after the 2006/07 Annual Report is approved and signed by the General Meeting of Shareholders. The corresponding income tax on dividends totals 14 061 thousand euros.

in thousands of euros	31 March	
	2007	2006
Retained earnings (Note 37)	333,579	200,836
Statutory reserve capital 5% (Note 37)	-	-2,668
Distributable shareholders' equity	333,579	198,167
Corporate income tax payable if distributed	73,387	45,578
Available for distribution	260,192	152,589

21 Dividends Per Share

In the financial year, Eesti Energia AS paid dividends in the amount of 31,956 thousand euros to the Republic of Estonia or 0.44 euros per share (in the previous period: 6,199 thousand euros, dividends per share: 0.09 euros).
A dividend for the year ended March 31, 2007 of 0.88 euros per share, amounting to a total dividend of 63,912 thousand euros is to be proposed at the Annual Meeting. These financial statements do not reflect this dividend payable.

22 Hedging Reserve

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Hedging reserve at beginning of the period	**-82**	**-2,137**
Change in fair value of derivatives (Note 9)	11,412	-69
Recognised as operating expenses	-	677
Recognised as operating income (Note 9)	-3,326	-
Recognised as interest expenses (Note 29)	84	1,447
Hedging reserve at end of the period	**8,087**	**-82**

Due to the premature payment of the syndicate loan, the recognition of the changes in the fair value of derivatives with the underlying amount of 50,000 thousand euros in equity reserve was terminated and the reserve of 677 thousand euros was taken to other operating expenses (Note 27).

23 Revenue

in thousands of euros

By Activities

	1 April - 31 March	
	2006/07	2005/06
Sale of goods		
Electricity	372,364	356,178
Heat	33,474	32,299
Shale oil	24,468	22,168
Oil shale	14,871	13,307
Power equipment	10,888	9,225
Oil shale ash	972	635
Other	1,247	1,546
Total sale of goods	458,284	435,358
Sale of services		
Connection fees (Note 19)	4,328	3,314
Repair and construction services	3,977	2,768
Telecommunications services	3,659	2,548
Leasing and maintenance of real estate properties (Note 15)	1,493	1,233
Electricity brokerage services	1,150	-
Transport services	368	156
Other services	2,513	2,242
Total sale of services	17,489	12,262
Other goods		
Scrap metal	3,619	4,281
Other goods	2,158	961
Total sales of goods	5,777	5,241
Total revenue	**481,550**	**452,861**

Energy Sales in Quantitative Terms

	1 April - 31 March	
MWh	2006/07	2005/06
Sales of electricity		
Estonia	6,610,243	6,235,488
Exports	1,207,614	1,766,348
Total sales of electricity	7,817,857	8,001,836
Sale of heat	1,822,477	1,981,356

24 Other Operating Income

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Proceeds from sale of property, plant and equipment	3,409	1,250
Fines, penalties and benefits received	1,203	2,134
Charging hedging reserve to other expenses	133	-
Change in fair value of derivatives (Note 9)	111	-
Other operating income	361	913
Total other operating income	**5,217**	**4,298**

25 Government Grants

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Long-term grant prepayments at beginning of the period		
ISPA, Cohesion Fund	764	618
Total long-term grant prepayments at beginning of the period	**764**	**618**
Movements in the period		
Grants received		
ISPA, Cohesion Fund	1,571	431
PHARE	372	-
LIFE-Environment	36	98
ERDF (Regional)	11	-
Estonian Ministry of the Environment	-	14
Ida-Virumaa Employment Office	-	1
Other foreign grants	79	5
Total grants received	**2,070**	**549**
Taken into income		
ISPA, Cohesion Fund	1,293	285
PHARE	37	-
LIFE-Environment	36	98
ERDF (Regional)	11	-
Estonian Ministry of the Environment	-	14
Ida-Virumaa Employment Office	-	1
Other foreign grants	57	5
Total taken into income	**1,435**	**404**
Short-term grant prepayments at end of the period		
ISPA, Cohesion Fund	799	764
Total short-term grant prepayments at end of the period	**799**	**764**
Long-term grant prepayments at end of the period		
ISPA, Cohesion Fund	243	-
PHARE	335	-
Other foreign grants	22	-
Total long-term grant prepayments at end of the period	**600**	**-**

The grants from the Cohesion Fund (ISPA) are used to fund 84% of the closing works of the ash field no. 2 of the Baltic Power Plant (Note 18), 75% of technical assistance for the elimination of ash and renovation of ash fields of Narva Power Plants and 75% of technical assistance for the installation of the low NOx burners at Iru Power Plant.
The PHARE grant included a non-monetary grant for laboratory and measurement technology.

26 Raw Materials and Consumables Used

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Maintenance and repairs, including:		
Core activity facilities and equipment	27,573	23,851
Buildings and offices	4,565	4,245
Dismantling and waste management	2,463	3,242
Machinery and means of transportation	1,646	1,489
Reparation of storm damage	225	103
Total maintenance and repairs	36,471	32,931
Technological fuel, including:		
Oil shale	1,370	5,013
Other technological fuel	19,574	19,155
Total technological fuel	20,944	24,168
Repair materials	17,280	17,286
Other production-related materials	20,385	21,438
Electricity	16,886	11,848
Fuel for machinery and means of transportation	10,645	10,668
Resource tax on mineral resources	14,578	9,216
Subcontracting	3,034	2,370
Emission rights purchased for resale	-	2,003
Other services	4,537	1,790
Heat, energy, water	1,226	1,110
Tools and fixtures	680	713
Goods sold	459	556
Write-down of inventories	64	33
Total raw materials and consumables used	**147,187**	**136,129**

27 Other Operating Expenses

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Environmental pollution charges	25,179	21,963
Security, insurance and work safety	5,816	6,490
Miscellaneous office expenses	3,874	2,371
Consulting costs	3,072	1,571
Telecommunications expenses	2,663	2,151
Information technology expenses	2,496	2,258
Rental expenses (Note 15)	2,212	1,968
Research and development costs	1,512	855
Recognition/reversal of environmental and mining	-	-
termination benefits (Note 18)	1,410	-1,105
Training	1,262	1,074
Public relations and information management	953	739
Non-business expenses	944	854
Office supplies and fixtures	923	673
Business travel	737	408
Miscellaneous charges and duties	588	733
Fines, penalties, benefits	252	247
Loss from sale of property, plant and equipment	16	7
Change in fair value of derivatives (Note 9)	3	-
Loss from doubtful receivables	-53	-155
Charging hedging reserve to other expenses	-	677
Other expenses	178	139
Total other expenses	**54,036**	**43,916**

28 Payroll Expenses

Number of Employees

	1 April - 31 March	
	2006/07	2005/06
Number of employees at the beginning of the period	8,756	9,284
Number of employees at the end of the period	8,411	8,756
Average number of employees	8,576	8,983

Payroll Expenses

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Wages, salaries, bonuses and vacation pay	69,496	64,514
Average monthly pay (in euros)	675	598
Other payments to employees	2,333	2,289
Termination benefits	1,113	1,665
Total disbursements to employees	**72,942**	**68,468**
Social tax	24,602	23,096
Unemployment insurance premiums	212	276
Provision for work-related injury compensation (Note 18)	203	510
Provision for post-employment benefits (Note 18)	13	11
Other benefits	27	57
Non-recurring contractor fees	343	298
Fringe benefits	814	665
Income tax on fringe benefits	313	286
Total payroll expenses	**99,468**	**93,668**
Including remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	1,652	1,356
Termination benefits	138	178
Fringe benefits	58	67
Social tax	582	506
Total paid to management and supervisory boards	2,430	2,108
Capitalised in the cost of owner-constructed assets		
Wages and salaries	-2,487	-2,393
Social tax and unemployment insurance tax	-827	-799
Total capitalised amount	-3,314	-3,192
Covered from provision for termination of mining operations and environmental protection		
Wages and salaries	-247	-37
Social tax and unemployment insurance tax	-82	-12
Total covered from provisions	-329	-49
Total payroll expenses	**95,825**	**90,427**

29 Financial Income and Expenses

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Financial income		
Interest income (Note 31)	6,726	1,675
Change in fair value of financial assets recognised at fair value through profit or loss	36	24
Gains from sale of non-current financial assets	8	-
Total financial income	**6,769**	**1,699**
Financial expenses		
Interest expenses on borrowings		
Interest expenses on long-term bonds	-14,154	-22,682
Interest expenses on long-term bank loans	-2,996	-3,554
Interest expenses on derivatives (Note 22)	-84	-1,458
Interest expenses on commercial papers	-	-181
Interest expenses on finance lease	-5	-2
Total interest expenses on borrowings (Note 31)	**-17,238**	**-27,878**
Interest expenses on provisions (Note 18)	-1,497	-1,489
Interest expenses on other discounted payables	-26	-
Total interest expenses	**-18,761**	**-29,367**
Profit/loss from exchange rate changes	-6	-11
Fair value of financial guarantee granted	-91	-
Other financial income and expenses	-100	-534
Total financial expenses	**-18,957**	**-29,912**
Total financial income and expenses	**-12,188**	**-28,212**

The Group has given a guarantee of up to 39.9% for the obligations arising from the loan contracts entered into between its associate AS Nordic Energy Link and the banks should the banks require full payment of loans from AS Nordic Energy Link due to violation of contractual terms. As at March 31 20,07, AS Nordic Energy Link had drawn loans of 76,000 thousand euros, (as at March 31 200,6: 0 euros).

30 Corporate Income Tax Expense

According to the Income Tax Act, dividends payable out of retained earnings are taxed in Estonia. In 2006, the income tax rate was 23/77 of the net dividend paid (from January 1 2,007: 22/78) Corporate income tax received from other companies registered in Estonia can be deducted from corporate income tax payable, when the recipient of dividends owns at least 15% (until December 31, 2006: 20%) of the shares of the payer of dividends.

Average Effective Income Tax Rate

in thousands of euros

ESTONIA	1 April - 31 March	
	2006/07	2005/06
Net amount of dividends	31,933	6,487
Income tax rate applicable for dividends	23/77	24/76
Theoretical income tax at applicable rate	9,538	2,049
Impact of dividends paid by associates	-338	-678
Actual income tax on dividends	9,200	1,370
Average effective income tax rate	28.8%	21.1%

FINLAND	1 April - 31 March	
	2006/07	2005/06
Profit before tax	838	-
Income tax rate applicable to profits	26.0%	-
Theoretical income tax at applicable rate	218	-
Impact of previous tax losses	-6	-
Impact of other adjustments	-8	-
Income tax expense	204	-
Average effective income tax rate	24.4%	0.0%

As at March 31, 2007 and March 31, 2006 the Group did not have any deferred income tax assets and liabilities.

31 Cash Generated from Operations

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Profit before income tax	**177,836**	**136,781**
Adjustments		
Depreciation of tangible fixed assets (Note 13)	101,481	99,781
Amortisation of intangible fixed assets (Note 14)	123	-
Deferred income from connection and other service fees (Note 19)	-4,328	-2,163
Profit/loss from sale of property, plant and equipment (Note 24 and 27)	-3,393	-1,243
Amortisation of grant received to purchase non-current assets	-38	-
Share of (-) loss/profit of associates (Note 12)	-801	-1,091
Other gains/losses on investments (Note 12)	-	471
Profit from sale of non-current financial assets	-8	-
Change in fair value of derivatives through profit and loss (Note 9 and 22)	-108	677
Interest expense on borrowings (Note 29)	17,238	27,878
Interest and other financial income (Note 29)	-6,762	-1,699
Adjusted net profit before tax	**281,240**	**259,391**
Net change in current assets relating to operating activities		
Change in security deposit (Note 10)	-10,650	-
Loss from doubtful receivables (Note 10)	75	-96
Change in trade receivables relating to operating activities (Note 10)	4,755	-7,243
Change in inventories (Note 11)	-4,038	-1,243
Net change in other current assets relating to operating activities	-2,214	-442
Total net change in current asset relating to operating activities	**-12,072**	**-9,023**
Net change in current liabilities relating to operating activities		
Change in provisions (Note 18)	105	-1,428
Change in supplier payables	5,336	-1,759
Net change in liabilities relating to other operating activities	2,941	4,208
Total net change in liabilities relating to operating activities	**8,382**	**1,021**
Cash generated from operations	**277,550**	**251,389**

32 Business Combinations

On August 28, 2006, Eesti Energia AS acquired 100% of the shares of Solidus Oy registered in Finland. Solidus Oy is an energy brokerage company which offers the service of electricity portfolio management to its clients as well as advisory and expert services related to operations in the electricity market and risk management. The transaction occurred between independent parties and is accounted for under the purchase method. The acquired business contributed revenues of 1 164 thousand euros and net profit 270 thousand euros to the Group for the period from August 28, 2006 to March 31, 2007. If the acquisition had occurred on April 1, 2006 Group revenue would have been 482 414 thousand euros and net profit 168 820 thousand euros.

Information on the Transaction

in thousands of euros

Cost of acquired holding	
purchase price paid in transaction	700
estimated additional purchase price (discounted)	202
other directly attributable expenditure	29
Total cost of acquired holding	**930**
Fair value of acquired net assets	930
Goodwill	**-**

Note 32 I CONTINUED
Business Combinations

	Fair value	Net book amount
Cash and cash equivalents	418	418
Accrued income	232	232
Prepayments	63	63
Property, plant and equipment (Note 13)	13	13
Intangible assets (Note 14)	697	-
Supplier payables and other payables	-493	-493
Acquired net assets	**930**	**233**
Cash outflows in transaction		
purchase price paid in transaction		700
other directly attributable expenditure		13
cash and cash equivalents of subsidiary		-418
Total cash outflow in acquisition		296

On November 5, 2006, Eesti Energia AS acquired 76% of the shares of the company Oil Shale Energy of Jordan (OSEJ) registered in the Kingdom of Jordan. OSEJ has the exclusive right to explore and potentially use one third of the oil shale reserve El Lajjun.
The transaction occurred between independent parties and is accounted for under the purchase method.
The acquired business contributed no revenues to the Group and reduced the Group's net profit by 53 thousand euros for the period from November 5, 2006 to March 31, 2007. If the acquisition had occurred on April 1, 2006 it would not have had any additional effect on the Group revenue and net profit.

Information on the Transaction

in thousands of euros

Cost of acquired holding	
purchase price paid in transaction	195
estimated additional purchase price (discounted)	324
other directly attributable expenditure	4
Total cost of acquired holding	**523**
Fair value of acquired holding	523
Goodwill	**-**

Acquired Net Assets

	Fair value	Net book amount
Cash and cash equivalents	33	33
Intangible assets (Note 14)	656	-
Accrued expenses	-1	-1
Net assets	688	32
Minority interest (24%)	165	
Acquired net assets	523	
Cash outflows in transaction		
purchase price paid in transaction		195
other directly attributable expenditure		4
cash and cash equivalents of subsidiary		-33
Total cash outflow in acquisition		**166**

No business combinations were set up in the previous period.

33 Related Party Transactions

The sole shareholder of AS Eesti Energia is the Estonian state. In preparing the Group's financial statements, the related parties include associates, members of the management and supervisory board of the Parent Company and other companies over which these persons have significant influence. Related parties also include state-controlled companies.

	1 April - 31 March	
	2006/07	2005/06
Transactions with associates		
Purchase of goods and services	11,981	14,566
Proceeds from sale of goods and services	2,224	483
Transactions with state-controlled entities		
Proceeds from sale of goods and services	42,582	40,694
Fines, penalties, benefits received	20	14
Proceeds from sale of property, plant and equipment	2	-
Other operating income	-	-
Purchases of goods and services	4,480	4,264
Transactions with companies over which the members of Management and Supervisory Boards have significant influence		
Purchases of goods and services	1,343	1,064

Receivables and payables related to operating activities to state-controlled entities	31 March	
	2007	2006
Receivables	5,772	6,553
Payables	395	280

The remuneration paid to the members of Management and Supervisory Board is disclosed in Note 28. The receivables from associates are disclosed in Note 10 and the payables to associates are disclosed in Note 17.
In purchasing and selling electricity, the prices set by the Electricity Market Inspectorate are used. The remaining transactions are concluded using agreed prices.

34 Effect of Changes in Accounting Policy

Due to the reclassification of money market units as financial assets recognised at fair value through profit or loss, the following changes were retrospectively made in the balance sheet and the cash flow statement

Changes in Balance Sheet Items

	31 March		
	2006 restated	2006 initial	difference
1) Cash and cash equivalents	147,809	149,408	-1,598
2) Financial assets at fair value through profit or loss	1,598	-	1,598

Note 34 I CONTINUED
Effect of Changes in Accounting Policy

Change in the Items of the Cash Flow Statement

	1 April - 31 March		
	2005/06 restated	2005/06 initial	difference
1) Interest received	1,302	1,327	-24
2) Paid in acquisition of short-term financial assets	-8,883	-	-8,883
3) Proceeds from sale of short-term financial assets	8,646	-	8,646
4) Total change in cash and cash equivalents	108,845	109,107	-262

35 Contingencies and Commitments

(a) Contingent liabilities

Requirement to comply with the environmental norms of the European Union
The European Union has accepted the environmental measures used by the Government of Estonia, including the investment plans of Narva Power Plants for the years 2002–2006, and has extended the transition period for bringing oil shale fired power plants into compliance with air pollution limits until 2016.

Pursuant to the accession agreement between the European Union and Estonia, oil shale ash processing and storage must be brought into compliance with EU environmental regulations by July 16, 2009 at the latest.

Contingent liabilities arising from potential tax audit
Tax authorities have neither started nor carried out any tax audits at the Company nor any single case audits at any group company. The tax authorities have the right to review the Company's tax records within 6 years subsequent to the reported tax year and if they find any errors, they may impose additional taxes, interest and fines. The Company's management considers that there are no circumstances which may give rise to a potential material liability in this respect

Work in closing ash fields
The provision related to the closing of the ash fields after the termination of their activities has not been set up as the management considers that the amount of the provision cannot be estimated reliably.

Collateral, guarantees and court actions
The loan agreements concluded by Group set certain covenants on the Group's consolidated financial indicators. The covenants have been adhered to.

The Group has granted a guarantee to its associate AS Nordic Energy Link for the obligations arising from the loan contracts entered into (Note 29).

Foster Wheeler Energia Oy has started a commercial dispute against Narva Power Plants in the arbitrage court of London and submitted its initial claim for payment of 31,170 thousand euros for renovation costs. By the end of the accounting period, the outstanding balance of AS Narva Elektrijaamad amounted to 22,006 thousand euros subject to withholding until the start-up of the power blocks. Due to the delay in renovation works and violation of contractual terms, AS Narva Elektrijaamad has filed a counterclaim against Foster Wheeler Energia Oy for 44,514 thousand euros. Management considers the claim of Foster Wheeler Energia Oy to be unfounded.

(b) Contingent assets

Reserves of oil shale
As at March 31, 2007, the estimated reserves of mineable oil shale in the mines and quarries of Eesti Põlevkivi total 438 million tonnes (as at March 31, 2006: 444 million tonnes), including underground mining fields of 315 million tonnes (as at March 31, 2006: 355 million tonnes) and ground level mining fields of 123 million tonnes (as at March 31, 2006: 121 million tonnes).

Emission rights
According to the decree of the Government of Estonia no. 14 of 27 January 2005, the companies of the Eesti Energia Group received quotas of greenhouse gas emissions for 46.7 million tonnes for the period of 2005–2007. As at March 31, 2007 the amount of quotas of greenhouse gas emissions which had not yet been used in technological processes or reserved for emissions was 11.5 million tons (as at March 31, 2006 30.1 million tons).

(c) Capital commitments

As at March 31, 2007, the Group had contractual liabilities relating to the acquisition of non-current assets totalling 12 478 thousand euros (as at March 31, 2006: 44,818 thousand euros).

36 Events After the Balance Sheet Date

Setting up subsidiaries
On April 3, 2007 Eesti Energia AS set up a new subsidiary AS Narva Õlitehas. By the time the financial statements were authorised for issue, the company had not started its operating activities.

Dividends
The shares of Eesti Energia AS are owned by the state. In each financial year, the amount of dividends payable to the state budget is established by the directive of the Government of Republic of Estonia (Note 20).

Disposal of subsidiary OÜ Elektrikontrollikeskus
On May 16, 2007 the sales agreement was concluded for the disposal of the shares of OÜ Elektrikontrollikeskus. The sales transaction was made in cash. The disposal of OÜ Elektrikontrollikeskus is not considered a discontinuing operation as it does not represent a separate major line of business of the group.

Information about the Sales Transaction

in thousands of euros

OÜ Elektrikontrollikeskus assets and obligations	
Cash and cash equivalents	83
Trade and other receivables	41
Inventories	-
Property, plant and equipment	247
Trade and other payables	-59
Deferred income	-232
Net assets	80
Proceeds from sales	80
Loss on disposal	-
The net cash outflow on sale is determined as follows:	
Proceeds from sales	80
Less: cash and cash equivalents in subsidiary sold	-83
Net cash outflow on sale	-3

37 Financial Information on the Parent Company

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

BALANCE SHEET

in thousands of euros

	31 March	
	2007	2006
ASSETS		
Current asset		
Cash and cash equivalents	27,827	147,774
Deposits with maturities greater than 3 months at banks	235,255	-
Financial assets at fair value through or loss	235	1,598
Held-to-maturity financial assets	2,842	-
Derivative financial instruments	8,087	-
Trade and other receivables	145,892	216,341
Inventories	60	51
Total current assets	**420,198**	**365,764**
Non-current assets		
Investments in subsidiaries	624,980	623,871
Investments in associates	8,772	8,772
Receivables from subsidiaries	317,777	285,749
Property, plant and equipment	23,680	52,455
Intangible assets	18	-
Total non-current assets	**975,227**	**970,848**
Total assets	**1,395,426**	**1,336,612**
LIABILITIES		
Current liabilities		
Borrowings	6,325	4,506
Trade and other payables	128,168	99,591
Derivative financial instruments	-	798
Provisions	46	39
Deferred income	-	146
Total current liabilities	**134,538**	**105,080**
Non-current liabilities		
Borrowings	335,555	340,626
Other payables	588	-
Provisions	312	259
Total non-current liabilities	**336,455**	**340,885**
Total liabilities	**470,993**	**445,965**
EQUITY		
Share capital	464,900	464,900
Share premium	259,833	259,833
Statutory reserve capital	46,490	43,822
Hedging reserve	8,087	-82
Retained earnings	87,551	29,847
Net profit for the financial year	57,572	92,328
Total equity attributable to the Parent Company	**924,433**	**890,647**
Total equity	**924,433**	**890,647**
Total liabilities and shareholders' equity	**1,395,426**	**1,336,612**

Note 37 I CONTINUED
Financial Information on the Parent Company

INCOME STATEMENT

in thousands of euros

	1 April - 31 March	
	2006/07	2005/06
Revenue	251,581	258,668
Dividend income from subsidiaries	31,933	6,487
Reversal of the profit/loss from impairment of subsidiaries	-	77,012
Other operating income	25,053	32,445
Government grants	92	103
Raw materials and consumables used	-220,467	-232,210
Other operating expenses	-8,194	-7,509
Payroll expenses	-8,513	-9,244
Depreciation and amortisation	-1,361	-4,411
Other expenses	-525	-1,114
OPERATING PROFIT	**69,599**	**120,227**
Financial income	6,758	1,697
Financial expenses	-18,786	-29,596
Total financial income and expenses	**-12,027**	**-27,899**
PROFIT BEFORE TAX	**57,572**	**92,328**
NET PROFIT FOR THE FINANCIAL YEAR	**57,572**	**92,328**

CASH FLOW STATEMENT

in thousands of euros	1 April - 31 March 2006/07	1 April - 31 March 2005/06
Cash flow from operating activities		
Profit before tax	**57,572**	**92,328**
Adjustments		
Depreciation of tangible fixed assets	1,360	4,411
Amortisation of intangible fixed assets	1	-
Profit/loss from sale of property, plant and equipment	-2,076	-304
Other gains/losses on investments	-32,024	-83,499
Profit from sale of financial investments	-8	-
Loss from change in fair value of derivatives	3	677
Interest expense on borrowings	18,555	29,051
Interest income	-28,890	-28,298
Adjusted net profit	**14,493**	**14,366**
Net change in current assets relating to operating activities		
Change in cash and cash equivalents with limited use	-10,650	-
Loss from doubtful receivables	494	189
Change in receivables relating to operating activities	4,356	-7,466
Change in inventories	-45	-1
Net change in current assets relating to other operating activities	-681	1,109
Total net change in current assets relating to operating activities	**-6,526**	**-6,170**
Net change in liabilities relating to operating activities		
Change in provisions	59	2
Change in supplier payables	1,530	-317
Net change in liabilities related to other operating activities	-6,756	-1,050
Total net change in liabilities relating to operating activities	**-5,167**	**-1,365**
Interest paid and borrowing costs	**-18,189**	**-24,840**
Interest received	**27,225**	**27,446**
Net cash flows from operating activities	**11,836**	**9,438**
Cash flows from investing activities		
Purchase of property, plant and equipment	-3,802	-6,527
Proceeds from sale of PPE	3,356	523
Finance lease principal payments collected	1,687	13
Dividends received from subsidiaries	19,981	3,931
Investments into associates	-	-8,679
Net change in term deposits with maturities greater than 3 months	-224,605	-
Purchase of short-term financial investments	-19,691	-8,883
Acquisition of subsidiaries	-915	-
Reduction of share capital of subsidiary	439	-
Proceeds from sale and redemption of short-term financial investments	18,322	8,646
Proceeds from sale of long-term financial investments	8	-
Short-term loans granted to subsidiaries	-6,803	-
Short-term loans paid by subsidiaries	69	-
Change in overdraft granted to subsidiaries	67,520	81,571
Net cash used in investing activities	**-144,434**	**70,593**
Cash flows from financing activities		
Long-term bonds issued	-	183,337
Long-term bonds redeemed	-	-103,091
Repayments of bank loans	-4,506	-52,364
Commercial papers issued	-	24,819
Commercial papers redeemed	-	-25,000
Change in overdraft received from subsidiaries	50,200	2,165
Short-term loans from subsidiaries	10,545	12,463
Short-term loans repaid to subsidiaries	-11,632	-7,350
Dividends paid	-31,956	-6,199
Net cash used in financing transactions	**12,651**	**28,779**
Net cash flows	**-119,947**	**108,810**
Cash and cash equivalents at the beginning of the period	147,774	38,964
Cash and cash equivalents at the end of the period	27,827	147,774
Net increase/decrease in cash and cash equivalents	**-119,947**	**108,810**

STATEMENT OF CHANGES IN EQUITY

in thousands of euros

Parent Company	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Unrealised exchange rate differences	Retained earnings	Total
Equity as at March 31, 2005	**464,900**	**259,833**	**41,692**	**-2,137**	**-**	**38,176**	**802,463**
Carrying amount of holdings under controlling and significant influence						-546,824	-546,824
Carrying amount of holdings under controlling and significant influence under equity method						583,003	583,003
Adjusted unconsolidated equity as at March 31, 2005						**74,356**	**838,643**
Change in hedging reserve	-	-	-	2,055	-	-	2,055
Net income directly recognised in equity	**-**	**-**	**-**	**2,055**	**-**	**-**	**2,055**
Net profit for 2005/2006 financial year	-	-	-	-	-	92,328	92,328
Total income and expenses recognised in 2005/2006	**-**	**-**	**-**	2,055	**-**	92,328	94,383
Transfer of retained earnings to reserve capital	-	-	2,130	-	-	-2,130	-
Dividends paid	-	-	-	-	-	-6,199	-6,199
Equity as at March 31, 2006	**464,900**	**259,833**	**43,822**	**-82**	**-**	**122,175**	**890,647**
Carrying amount of holdings under controlling and significant influence						-623,871	-623,871
Carrying amount of holdings under controlling and significant influence under equity method						702,532	702,532
Adjusted unconsolidated equity as at March 31, 2006						**200,836**	**969,307**
Change in hedging reserve	-	-	-	8,170	-	-	8,170
Net income directly recognised in equity	**-**	**-**	**-**	**8,170**	**-**	**-**	**8,170**
Net profit for 2006/2007 financial year	-	-	-	-	-	57,572	57,572
Total income and expenses recognised in 2006/2007	**-**	**-**	**-**	**8,170**	**-**	**57,572**	**65,742**
Transfer of retained earnings to reserve capital	-	-	2,668	-	-	-2,668	-
Dividends paid	-	-	-	-	-	-31,956	-31,956
Equity as at March 31, 2007	**464,900**	**259,833**	**46,490**	**8,087**	**-**	**145,123**	**924,433**
Carrying amount of holdings under controlling and significant influence						-624,980	-624,980
Carrying amount of holdings under controlling and significant influence under equity method					-1	813,436	813,435
Adjusted unconsolidated Equity as at March 31, 2007					**-1**	**333,579**	**1,112,888**

According to the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which the public limited company can make payments to its shareholders.

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Eesti Energia AS

We have audited the accompanying consolidated financial statements of Eesti Energia AS and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 March 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year (1 April 2006 to 31 March 2007) then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 March 2007, and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

/signed/

Urmas Kaarlep
AS PricewaterhouseCoopers

11 June 2007

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

Profit Allocation Proposal

The net profit of Eesti Energia Group for the 2006/07 financial year was EEK 2,618,731,563 (167,367,451 euros).

The Republic of Estonia, at the proposal of the Minister of Finance, has approved the amount of dividends payable pursuant to paragraph 1 of § 10 of the Participation in Legal Persons In Private Law by the State Act for state-controlled entities and in accordance with order no. 740 from 22 December 2006, and thus Eesti Energia AS should pay dividends of EEK 1,000,000,000 (63,911,649 euros) in 2007. Therefore, pursuant to § 332 of the Commercial Code of Estonia, the Management Board proposes to pay dividends to the shareholders of 1,000,000,000 kroons (63,911,649 euros).

In conjunction with the continuing financing needs of Eesti Energia AS, the Management Board proposes not to allocate the remaining profit of EEK 1,618,731,563 (103,455,802 euros).

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

The Annual Report of the Eesti Energia Group for the financial year ended March 31, 2007 consists of the management report, the financial statements, the auditor's report and the profit allocation proposal.
The Management Board of the public limited company has prepared the management report, the financial statements and the profit allocation proposal. The Supervisory Board of the public limited company has reviewed the Annual Report and approved it for presentation at the General Meeting of Shareholders.

Management Board
8 June 2007

Chairman
of the Management Board

Sandor Liive

Members
of the Management Board

Margus Kaasik

Harri Mikk

Tiit Nigul

Raine Pajo

Supervisory Board
12 June 2007

Chairman
of the Supervisory Board

Jüri Käo

Members
of the Supervisory Board:

Meelis Atonen

Rein Kilk

Jürgen Ligi

Toomas Luman

Aivar Reivik

Rene Tammist

Meelis Virkebau

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