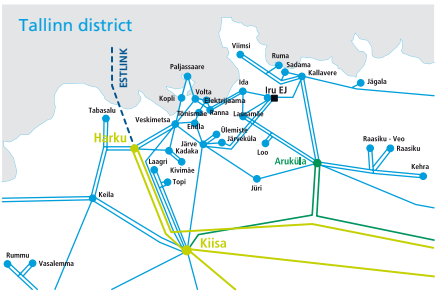
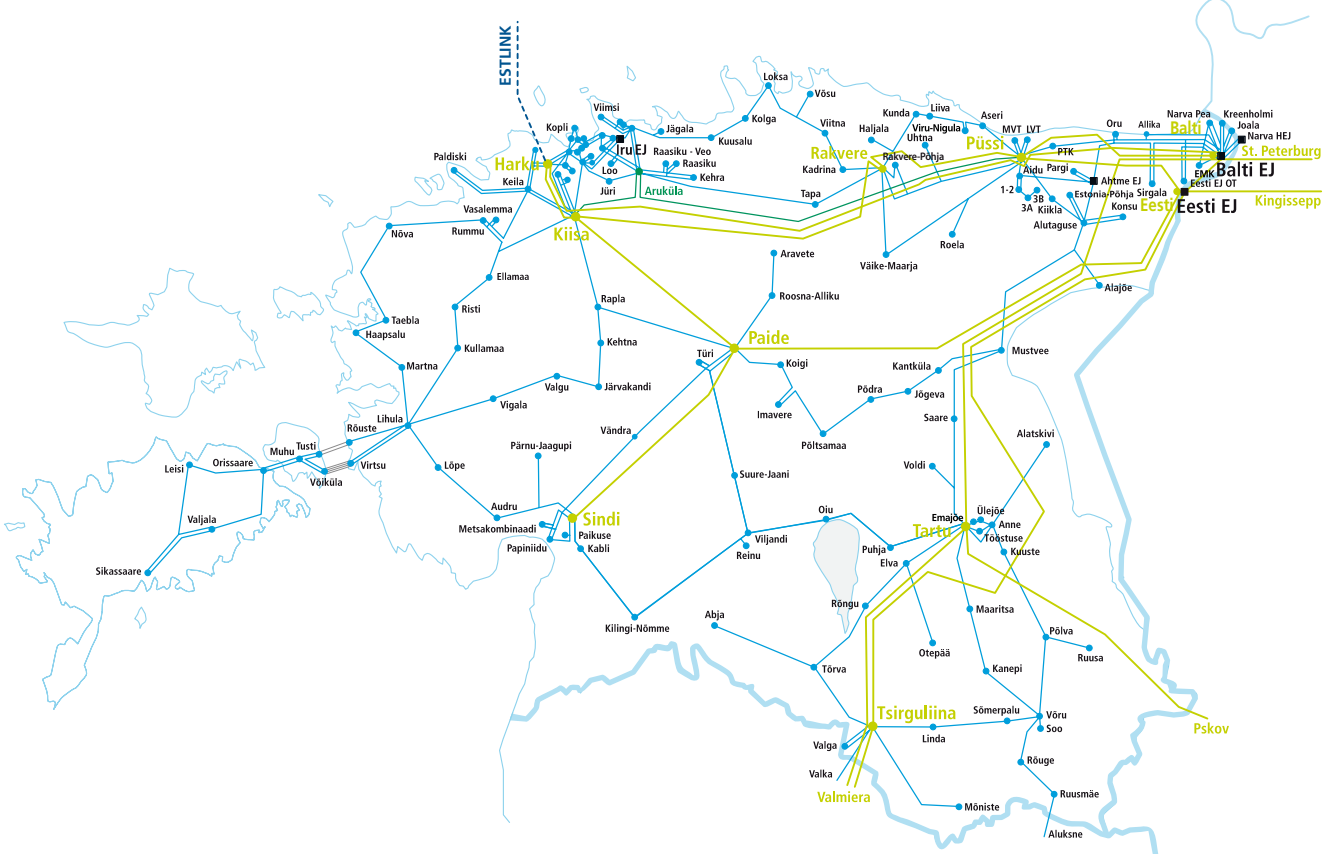


Estonian transmission system

110-330 kV electrical power network



- 330 kV Transmission lines
- 220 kV Transmission lines
- 110 kV Transmission lines
- 35 kV Transmission lines
- Power plants
- 330 kV Substations
- 220 kV Substations
- 110 kV Substations



MANAGEMENT REPORT

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Management report

OÜ Põhivõrk in brief

Important dates:

- 01.11.1998 Eesti Energia decides to unite five regional electrical power networks and establish the separate structural units Jaotusvõrk (Distribution Network) and Põhivõrk (Transmission Network) in place of these power networks.
This marks the beginning of Põhivõrk as an independent economic unit with its own accounting and auditing.
- 01.04.2004 The Electricity Market Act enters into force prohibiting network operators from simultaneously producing, distributing and selling power, so Eesti Energia establishes a new private limited company, OÜ Põhivõrk, in place of the existing structural unit.
This is the beginning of OÜ Põhivõrk as an independent and autonomous subsidiary of Eesti Energia.

Main functions:

- Transmitting electricity at voltages of 6–330 kV to distribution networks and corporate consumers.
- Developing and operating a 110–330 kV electrical power network covering the whole of Estonia.
- Ensuring the reliability of Estonia's electrical power system in conjunction with the power systems of the neighbouring countries.
- Maintaining the capacity balance of the electrical power system and managing the power system across Estonia in real time.
- Ensuring the Estonian energy balance and operating the balance settlement for the balance providers.

Mission:

- To provide reliable network connections at low prices to electricity producers, distribution networks and corporate consumers in a professional and client-focussed way.
- To offer balance providers objective balancing at the best possible price.

Vision:

- We aim to be a serious player among the TSOs of the Baltic Sea region with consumers who are satisfied with our services and who have to spend only a minimal amount on high quality transmission and balancing services.



Strategic goals:

- To fulfil our owner's expectations regarding the productivity of invested capital during the financial years 2005/2006–2009/2010.
- To make efficient investments, reducing operating costs by 20% from the current level by the end of the financial year 2010/2011.
- To ensure a reliable electrical power system with sufficient capacity by modernising 80% of the 330 kV substations of the Estonian electrical power system, developing a power transmission system which will permit a market environment to function, and integrating with the Baltic and European TSOs within the framework of the organisations ETSO and BALTSO.
- To reduce the number of power line and substation failures, and to reduce the number of disconnections caused by short-circuits by 20% by the end of the financial year 2010/2011.
- To ensure the availability of professional staff.

We value:

- **Responsibility** – we know that each decision we make today has to guarantee the Estonian electricity supply in years to come.
- **Competence** – we know that OÜ Põhivõrk experts are also recognised as experts outside the company.
- **Co-operation** – we know that the best results can only be achieved by uniting the knowledge and experience of different parties.
- **Openness** – we know that all our decisions, activities and procedures must be clear, transparent and unambiguous in order to ensure the company's success and to secure a stable electrical system.

Main Financial Indicators

Millions of kroons	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003	2001/2002
Revenue	1,127	1,080	968	901	865	744
Operating expenses	798	818	883	849	770	685
Operating profit	329	263	85	53	94	60
Financial expenses	120	125	314	6	10	10
Net profit	209	138	-229	47	84	49
Investments	585	670	632	242	256	329
Liabilities	3,063	3,000	2,798	78	83	75
Owner's equity	2,218	2,009	1,871	4,180	4,260	4,276
Assets	5,281	5,009	4,669	4,258	4,343	4,351

Balance sheet data as at the last day of the financial year

Electrical Energy Transmitted

GWh	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003	2001/2002
Domestic	7,343	7,088	6,814	6,620	6,335	6,304
Exports	2,181	2,686	2,783	2,627	2,718	2,296
Total	9,524	9,774	9,597	9,247	9,053	8,600
Losses	296	289	284	325	369	328
Losses, percent	3.0%	2.9%	2.9%	3.4%	3.9%	3.7%

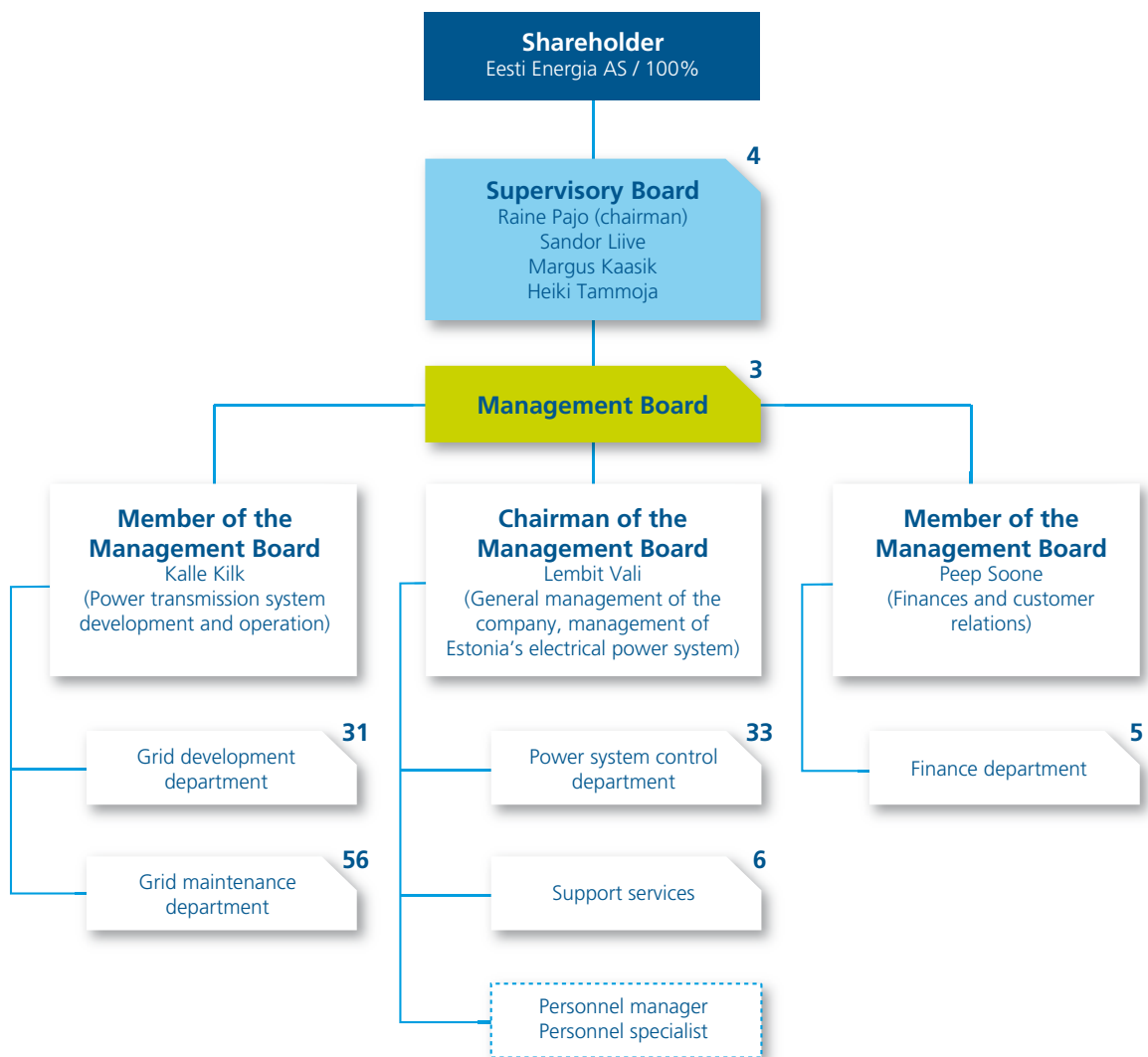
Other Information

	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003	2001/2002
Number of employees	134	140	142	144	157	159
Number of substations	144	144	142	140	140	136
110 kV stations	133	133	133			
220 kV stations	1	1	1			
330 kV stations	10	10	8			
Length of lines, km	5,212	4,991	5,193	5,215	5,187	5,160
35 kV cable lines	53	54	54			
35 kV overhead lines	7	8	8			
110 kV cable lines	32	37	25			
110 kV overhead lines	3,420	3,412	3,370			
220 kV overhead lines	184	184	439			
330 kV overhead lines	1,515	1,298	1,298			

Data as at the last day of the financial year

Structure

as at 31.03.2007





Address of the Chairman of the Management Board

The past financial year has been one of great significance for OÜ Põhivõrk as we took our first step towards uniting our energy system with the markets of the European Union.

The transmission capacity of the recently completed Estlink direct current cable uniting the Estonian and Finnish energy systems is only 350 MW, yet it offers us not only a trading channel, but also a means to regulate our energy system. Our next steps are to establish a further connection with Finland and to develop a connection with Sweden and Poland in conjunction with the other Baltic States. Then and only then will we be able to talk about the total integration of the Baltic energy systems with the energy systems of the European Union, which will be our guarantee for energy-related security.

In the past financial year we started to work together with the International Transmission Operations and Maintenance Study (ITOMS), which we expect to give a good overview of the current standard of our operations and show us where we could do even better.

We have started to develop network management software which will also significantly improve the efficiency of OÜ Põhivõrk's operations. This will be accompanied by a change in the company's structure from the beginning of the financial year 2007/2008 when we establish a single asset management domain covering everything connected with the non-current assets of the power transmission system, from planning our assets to keeping them in working condition and operating them.

To get an all-round evaluation of the success of our operations we conducted satisfaction surveys among both our customers and our employees during the year. The results of these surveys are encouraging and show an increase in overall satisfaction, while at the same time revealing the areas which will need more attention in the future.

From among the company's everyday activities, we can single out as particularly important the increased role of the system control centre, following the closure of the Baltic dispatch centre and the establishment of the organisation of Baltic transmission system operators (BALTSO). The reduction in operating costs stemming from a new public procurement is also an important change, as a result of which we are going to outsource substation and line maintenance and switching operations to service providers starting from the beginning of the financial year 2007/2008.

The biggest challenge of the new financial year will be to develop an effective asset management system and to introduce the software required for it. It will also be very important to make preparations for the new tariff period and to seek the approval of the Estonian Energy Market Inspectorate for the new tariffs. In the middle of the year, we will take over the management of the Estlink undersea cable for the first time, before passing this function back to the Finnish TSO after six months, and we consider this responsibility to be very important. Of our day-to-day activities, increasing the reliability of the energy system and making the company's activities more efficient are still our key focuses.

To achieve all these goals, we need skilled, cooperative and enterprising people. This is exactly what the people working in Põhivõrk are like, and as a result of all pulling together, we will be able to undertake all the activities planned for the following years together with our partners and customers.



Lembit Vali

Chairman of the Management Board

<< **Members of the Management Board**

From left: **Peep Soone, Kalle Kilk and Lembit Vali.**

First step towards uniting our energy system with the markets of the European Union has been taken, a long way is still ahead until total integration.

Economic activities

As required by the Electricity Market Act, OÜ Põhivõrk treats all its current and new customers and partners equally, applying the same rates and using the same principles of information exchange.

With a turnover of 1,125 million kroons, OÜ Põhivõrk posted a net profit of 209 million kroons in the financial year 2006/2007, making for a successful year. Revenues increased by 60 million kroons over the previous financial year, most of this increase coming from a growth in electricity transmission sales, which saw the anticipated peak capacity exceeded by 110 MW during the exceptionally cold weather of January 2006.

Operating costs fell by 19 million kroons during the financial year, and due to the lessening of

OÜ Põhivõrk's loan burden, financial expenses fell by nearly 5 million kroons from the previous financial year.

Although Estonia's electricity consumption is increasing as a result of the rapid economic growth, this is not substantially reflected in OÜ Põhivõrk's revenues, as the increase in consumption is already taken into account when rates are calculated using the methods established by the Estonian Energy Market Inspectorate.

In the next few years we will pursue sustainable growth while fulfilling both our customers' expectations for the availability of high-quality services at a reasonable price, and the owners' expectations for profitability.

OÜ Põhivõrk offers its customers the following services:

Electricity transmission service

We provide an electricity transmission service to Estonian customers who are connected to our grid, and to the Russian transmission network. Our customers are primarily distribution networks and corporate consumers; we have a total of 6 electricity producers and 11 consumers. This financial year, the biggest transmission service consumers were OÜ Jaotusvõrk and VKG Elektrivõrgud OÜ (former AS Narva Elektrivõrk).

Balancing service

We offer a balancing service to the Estonian balance providers. The task of OÜ Põhivõrk is to keep the Estonian electrical power system as a whole in balance by ensuring that the balance providers are in balance. At the end of the financial year, there were two balance providers in Estonia, Eesti Energia AS and Baltic Energy Partners OÜ.

Rental of fibre optic cables

We rent fibre optic cables to Televõrgu AS, who uses them to provide communication services.



Estonian electrical power system

According to the Electricity Market Act, there may only be one transmission system operator, or TSO, in Estonia. The Estonian Energy Market Inspectorate has issued the licence for this function to OÜ Põhivõrk.

OÜ Põhivõrk is the backbone and the brains of the Estonian electrical power system. Using 110–330 kV high-voltage power lines, we unite Estonia's biggest power stations, distribution networks and corporate consumers in an integral energy system. OÜ Põhivõrk's power transmission system also connects the Estonian energy system to the energy systems of the neighbouring countries.

In addition, OÜ Põhivõrk is responsible for co-ordinating the work of the different parts of the system so as to ensure the reliability of supply of the whole power system at any given moment. By investing in enhancing the network's reliability, and also in envi-

ronmental protection, OÜ Põhivõrk is responsible to the whole of Estonian society for ensuring that the lights go on in Estonia not only today, but also tomorrow and in the distant future.

To enhance the reliability of the Estonian electrical power system, OÜ Põhivõrk invested a total of 585 million kroons in substations and high-voltage power lines in the financial year 2006/2007. To ensure sustainability, the company also upgraded its SCADA system for managing the electrical power system, and improved the reliability of the AMR system by replacing the hardware.

In accordance with the tariff established by the Estonian Energy Market Inspectorate, OÜ Põhivõrk's annual total of investments in the current tariff period comes to about 467 million kroons, plus connections.



The most important projects completed in the past financial year:

The Balti-Kiisa 330 kV overhead line

During the biggest line-building project in Estonia since the restoration of independence, a 216 km high-voltage overhead line was built between the Balti and Kiisa substations. The 330 kV overhead lines, built in the corridors of the old 220 kV lines, have raised the transmission capacity of the power network in central and western Estonia and allowed it to connect to Estlink. The new line also ensures voltage stability if one of the lines feeding central and western Estonia should fail, and enhances the endurance of the electrical power system if there are massive non-recurrent disturbances.

- cost – 367 million EEK
- contractor – Empower EEE AS

Replacement of the auto-transformers in the 330 kV Tartu substation

As a result of the general load increase in the area, the existing 125 MVA transformers needed to be replaced with 200 MVA transformers. Shunt reactors were also installed alongside the transformers, enhancing the network's reliability during the minimum load period in the summer when there is a large amount of excess energy in the network, and the voltage may rise dangerously.

- cost – 56 million EEK
- contractor – Skanska EMV AS

Expansion of the 330 kV Harku substation

In connection with the building of the Estlink converter station, two additional 330 kV line bays and one additional 330 kV power transformer bay have been built.

- cost – 51 million EEK
- contractor – AS Siemens

The 110 kV Topi substation

Four 110 kV bays and a 10 kV switchgear unit were built in the substation.

- cost – 35 million EEK
- contractor – ABB AS

The 110 kV Emajõe GIS substation

A closed gas-isolated switchgear unit suitable for this particular area was installed in this protected Tartu district. With the completion of the new switchgear, the old flammable and environmentally hazardous switchgear, which was expensive to run, was taken out of operation.

- cost – 59 million EEK
- contractor – Empower EEE AS

The 110 kV Tõnismäe GIS substation

As a part of the project to enhance the reliability of the electricity supply in central Tallinn, a closed substation was built, suitable for the urban environment.

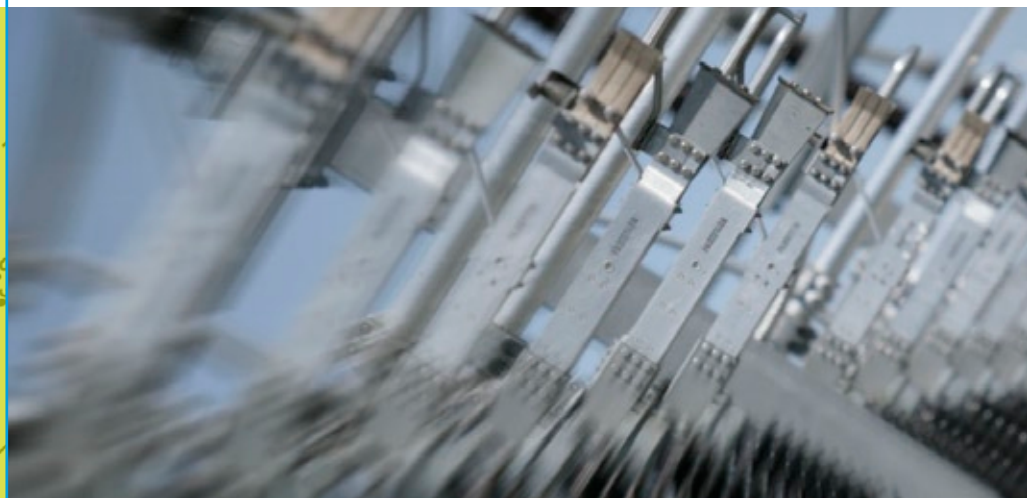
- cost – 48 million EEK
- contractor – VA Tech Elin

The 110 kV Elektriijaama GIS substation

The substation belonging to the old Tallinn power plant complex was changed from 35 kV to 110 kV, as part of the project to enhance the reliability of the electricity supply in central Tallinn.

- cost – 55 million EEK
- contractor – VA Tech Elin

<< The biggest line-building project in Estonia since the restoration of independence the building of Balti-Kiisa 330 kV overhead line was completed during the financial year 2006/2007.



Major projects to be completed in the near future:

Reconstruction of the Püssi 110 kV switchgear

The environmentally hazardous and unreliable 220 kV switchgear of the Püssi substation, dating back to 1975, will be removed within the current project. The Püssi 110 kV switchgear is also unreliable, as it uses oil capacious circuit breakers and is difficult to operate. The reconstruction will allow us to dispose of the compressed air system, which is expensive and does not meet the requirements for reliability, and it will significantly enhance the reliability of supply, reduce power losses and increase the transmission capacity of the power network along the Narva-Tallinn line.

Reconstruction of the 110 kV Veskimetsa substation

The Veskimetsa substation is one of the biggest main substations in the city of Tallinn. The old 110 kV switchgear was completed in 1961, and the operating costs of its worn out switches were huge. In connection with the completion of the 330 kV Harku substation, the 220 kV switchgear of the Veskimetsa substation was removed and new 110 kV switchgear can now be constructed on the vacant site, with the old switchgear remaining in operation during the construction.

Reconstruction of the 110/35/10 kV Papiniidu substation

The Papiniidu substation, built in 1958, is the most important substation in the Pärnu area, as practically the whole city of Pärnu is supplied through this station, but the substation's equipment has worn out, and the oil collection facilities do not meet contemporary environmental requirements. The reconstruction of the substation will improve reliability and reduce operating costs.

Expansion of the 110 kV Rummu substation

The expansion of the 110/35/10 kV Rummu substation enables us to close the 110 kV Vasalemma substation. Furthermore, the transformer's oil basin does not meet environmental requirements, and the metal constructions are rusty. The reconstruction of the substation will improve its reliability.

Construction of the 110 kV Kohila substation

The Kohila substation will be reconstructed on the basis of grid connection contract with OÜ Jaotusvõrk. The new 110 kV switchgear will allow us to eliminate the worn out 35 kV switchgear at the same site.



Organisation

OÜ Põhivõrk has brought in a process management system in order to run our work. Our main function is energy transmission and therefore we outsource support services (personnel management, legal services, real estate management etc) to other companies in the group. From the start of the new financial year the regular and emergency maintenance services and the switching in substations and power lines will also be outsourced. As a result of procurements for service providers, contracts were awarded to Empower EEE AS and AS Siemens Electroservices.

The OÜ Põhivõrk management system complies with the requirements of the ISO 9001:2000 quality management, ISO 14001:2004 environmental management and OHSAS 18001:1999 occupational health and safety management standards. In the past financial year we also participated in the Estonian Quality Management competition, where we were recognised as a well managed organisation.

Our strategy is reviewed on an annual basis, and this was also done during the past financial year. We use the balanced scorecard method to set new corporate goals, ascertain our critical success factors and establish the means for measuring success.

OÜ Põhivõrk's work creates several environmental risks

and so we have a duty to use all available means to prevent environmental damage. Over 12 million kroons was invested in environmental protection, and 317,000 kroons spent from the budget on environmental protection during the last financial year. We have identified the principal environmental concerns and established our environmental goals and tasks accordingly, and we use a specially designed surveillance system to monitor how well we achieve our goals and keep a separate register of environmental complaints.

The electrical equipment in OÜ Põhivõrk's substations contains a total of over 6000 tonnes of oil. In order to prevent oil leaks, we aim to renovate all the oil facilities located under the electrical equipment. For instance, in 2003, 75 oil baths and 65 oil containers did not meet the requirements, and at the moment 28 oil baths and 17 oil containers still need to be repaired. In recent years we have replaced all the oil containers that were renovated with ones that are a lot more cost-effective when in operation. We have significantly reduced the number of oil capacious circuit breakers, replacing them with sulphur hexafluoride circuit-breakers, which in total contain over 4.5 tonnes of sulphur hexafluoride. In recent years we have only used cable lines when building new transmission lines in towns,



for example in the last financial year we installed a total of 8.5 km of 110 kV cable lines in Tallinn and Tartu.

During the financial year 2006/2007, we replaced the remaining obsolete batteries containing open-top H_2SO_4 cells with modern and significantly safer absorption glass mat batteries (AGM). We also replaced all the oil taps during the process of reconstructing the power transformers. A specially designed noise barrier was built around the auto-transformer of the 330 kV Rakvere substation.

Energy transmission losses grew during the last financial year by 0.1% compared to the previous period. The increase in losses was caused by the fact that the Estonian-Finnish undersea cable Estlink came into operation, increasing the power flow in the 330 kV network. The increase in the financial total of losses is also related to the growth in purchases of renewable electricity.

OÜ Põhivõrk's main social role is to facilitate electricity consumption on the whole territory of Estonia. We can be certain that we know our network and related processes well and this allows us to make the right decisions in emergencies. In order to ensure that we do not overlook points that need attention or opportunities for organisational development, we have used external consultants in evaluating our activities in Põhivõrk; for example we conducted this year's customer satisfaction survey in co-operation with the survey company OÜ Dive.

The most important development at the end of the financial year was the preparation for the changeover to a new company structure. Starting from the beginning of the financial year 2007/2008 Põhivõrk will be divided into three fields of action: client and financial relations; power system control; and the new asset management domain created from the former grid development and grid maintenance departments.

Personnel

The driving force behind OÜ Põhivõrk is its staff. Our employees are people who recognise the importance of the work done and decisions made today. They hold their work, their colleagues and the whole company in high esteem. The results of the values survey conducted by AS Fontes PMP in the summer of 2005 show that our corporate values of responsibility, competence, co-operation and openness are consistent with our staff's personal values. Without the professional and conscientious mindset of these individuals, OÜ Põhivõrk would be unable to do its job.

In the financial year 2006/2007, the company employed an average of 138 people, 80% of them men, and 20% women. A total of 42.8 million kroons was paid in wages and salaries during the financial year, including taxes. The total remuneration paid to the Management Board amounted to 3 million kroons, fringe benefits and taxes included. No remuneration was paid to the members of the Supervisory Board.

The staff turnover was 5.16% during the year. This is an excellent result considering the lack of specialists in the energetics sector and the demand for our employees in other companies.

There are several reasons for the low staff turnover:

- corporate traditions and events – parties for important anniversaries, the corporate anniversary party, theatre visits, summer events, etc – which create a sense of belonging;
- challenging work requiring constant self-enrichment;

- the endorsement of further training – although the average age of OÜ Põhivõrk's employees is about 45, and nearly 80% of the staff have a higher education, 25 more employees continued their studies in various degree programmes in the autumn of 2006.

The sustainability of knowledge and skills plays a critical role in the administration and management of an electrical power system. OÜ Põhivõrk's strength lies in the equal balance of the generations among the staff, allowing senior specialists with years of experience and young graduates to learn from each other. Young people are thus provided with role models, and "old-timers" with an incentive not to rest on their laurels. The relationship between the different generations working for OÜ Põhivõrk is mainly characterised by partnership and co-operation, a passion for their chosen career, and the drive to come up with the best solutions possible.

We make continual efforts to keep OÜ Põhivõrk a company where people want to work and want to stay working. While we must be aware of our position in the labour market, at the same time it is even more important to be aware of the opinion of our present employees. For this purpose, the traditional staff satisfaction survey was conducted by AS Emor at the end of the financial year 2006/2007. This year we used the same method as the other companies from the Eesti Energia group, and that, in addition to evaluating our own achievement, allowed us to compare our results with those of other companies.

The survey showed that the commitment of Põhivõrk's employees was the highest among the companies of the Eesti Energia group.



Highlights of the financial year 2006/2007

Finance and client relations

- A new client was connected to the network when the 25MW Viru-Nigula Wind farm was linked up. There are now three wind farms connected to the network in Estonia with a total power capacity of 51MW.
- Five new grid connection contracts were signed for a total installed capacity of 156MW, and grid connection contracts were also made with a combined heat-and-power plant and a combined cycle plant.

Electrical power system management

- The Baltic Dispatching Centre was closed and the Baltic States transmission system cooperation organisation BALTSO created to replace it.
- OÜ Põhivõrk ran the administration of BALTSO.
- OÜ Põhivõrk represented the Baltic States transmission system operators in the synchronisation project of the IPS/UPS and UCTE transmission systems.
- The work of the power transmission system was reorganised with the energising of Estlink and the creation of BALTSO.
- The new SCADA XA-21, 10.1 FAT version was completed and installation of SCADA started.
- The electrical power network of Eesti Põlevkivi became the first Estonian client to use data directly from the SCADA of Põhivõrk.

Electrical power system development

- OÜ Põhivõrk participated in the working group for the Ignalina feasibility study and completed a report within the framework of the study of the transmission capacity of the power transmission system.
- A dynamic calculation model of the transmission system was drawn up in cooperation with the Finnish TSO Fingrid Oyj for the Baltic, and the Russian, Belarusian and Ukrainian transmission systems.
- OÜ Põhivõrk was accepted as a member of the international comparison project for transmission systems ITOMS2007.
- The databases for investments in the BRELL transmission systems were completed up to 2010.
- The Trans-European-Networks fund co-financed the study project "Study of Tallinn-Sindi-Riga 330 kV Overhead Line".
- A technical and economic analysis of the Estlink2 investment project was carried out.

Electrical power system maintenance

- Contracts were signed for the purchase of maintenance services for substations and transmission lines and switching services.
- A framework agreement was drawn up with the State Forest Management Centre (RMK), which regulates activities in the protected areas of power lines.
- The development of the network maintenance software was started.

<< Valuable knowledge is passed on from the "old-timers" to the youngsters of power system. Põhivõrk's Project Manager **Reigo Haug** and Automatician Technologist **Rein Luus**.

Financial statements

Declaration of the Management Board

The Management Board confirms the correctness and completeness of the financial statements of OÜ Põhivõrk for the period 01.04.2006–31.03.2007 as presented on pages 20–43.

The Management Board confirms that:

- The accounting principles, methods and measurement bases used in the preparation of the financial statements are in compliance with the generally accepted accounting principles of the Republic of Estonia;
- the financial statements give a true and fair view of the financial position of OÜ Põhivõrk, and the results of its operations and cash flows;
- all known material circumstances which became evident before the date of preparation of the financial statements have been appropriately accounted for and presented in the financial statements;
- OÜ Põhivõrk is a going concern.



Lembit Vali
Chairman of the
Management Board



Peep Soone
Member of the
Management Board



Kalle Kilk
Member of the
Management Board

Tallinn, 22.06.2007

Balance sheet

in thousands of kroons	31.03.2007	31.03.2006	Note
ASSETS			
Current assets			
Receivables and prepayments	118,173	122,404	2
Total current assets	118,173	122,404	
Non-current assets			
Tangible assets	5,159,385	4,886,739	5
Intangible assets	2,910	0	6
Total non-current assets	5,162,295	4,886,739	
TOTAL ASSETS	5,280,468	5,009,143	
LIABILITIES AND OWNERS' EQUITY			
Current liabilities			
Trade payables	48,069	98,771	7
Other payables	703,604	646,189	7,8
Taxes payable	2,921	2,562	7
Accrued expenses	4,752	4,243	7
Total current liabilities	759,346	751,765	
Non-current liabilities			
Other long-term payables	2,046,586	2,046,586	8
Deferred income	256,999	201,931	9
Total non-current liabilities	2,303,585	2,248,517	
Total liabilities	3,062,931	3,000,282	
Owners' equity			
Share capital	2,100,000	2,100,000	10
Legal reserve	6,894	0	
Retained earnings	-98,033	-229,023	
Net profit for the financial year	208,676	137,884	
Total owners' equity	2,217,537	2,008,861	
TOTAL LIABILITIES AND OWNERS' EQUITY	5,280,468	5,009,143	

Income statement

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006	Note
OPERATING INCOME			
Net sales	1,125,208	1,065,346	11
Other operating income	1,694	14,944	12
TOTAL OPERATING INCOME	1,126,902	1,080,290	
OPERATING EXPENSES			
Goods, raw materials and services	402,634	408,475	14
Other operating expenses	42,209	36,778	15
Staff costs	42,762	38,170	16
Depreciation and impairment losses	309,634	333,985	5
Other expenses	1,020	320	17
TOTAL OPERATING EXPENSES	798,259	817,728	
OPERATING PROFIT	328,643	262,562	
Financial income/expenses			
Financial income/expenses from associates	2,468	-7,376	4
Interest expenses	-122,461	-117,229	18
Foreign exchange gains/losses	27	-41	
Other financial income/expenses	-1	-32	
Total financial income/expenses	-119,967	-124,678	
NET PROFIT FOR THE FINANCIAL YEAR	208,676	137,884	

Cash flow statement

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006	Note
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit	328,643	262,562	
Adjustments			
Proceeds from sale of tangible assets	-530	-1,099	11
Depreciation and impairment losses	309,634	333,985	5, 6
Amortisation of connection and other fees	-4,880	-1,814	9
Total adjustments	304,224	331,072	
Net change in current assets related to operating activities			
Change in trade receivables	-816	-4,915	
Other net change in current assets related to operating activities	7,515	-8,584	
Total net change in current assets related to operating activities	6,699	-13,499	
Net change in liabilities related to operating activities			
Change in trade payables	-6,970	3,956	
Other net change in liabilities related to operating activities	5,046	-22,631	
Total net change in liabilities related to operating activities	-1,924	-18,675	
Connection and other fees received	59,948	99,879	9
Interest and loan expenses paid	-122,187	-110,184	8
Foreign exchange losses	27	-41	
Other financial expenses	-1	-32	
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	575,429	551,082	
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of tangible assets	-628,929	-629,598	
Proceeds from tangible assets	536	3,688	
TOTAL CASH FLOW FROM INVESTING ACTIVITIES	-628,393	-625,910	
CASH FLOW FROM FINANCING ACTIVITIES			
Net change in intragroup overdraft	52,964	74,828	8
TOTAL CASH FLOW FROM FINANCING ACTIVITIES	52,964	74,828	
TOTAL CASH FLOW	0	0	
Cash and cash equivalents at the beginning of the period	0	0	
Cash and cash equivalents at the end of the period	0	0	
NET INCREASE IN CASH AND CASH EQUIVALENTS	0	0	

Statement of changes in equity

in thousands of kroons	Share capital	Legal reserve	Retained earnings/loss	Total	Note
Owners' equity as of 01.04.2005	2,100,000	0	-229,023	1,870,977	10
Net profit for the financial year	0	0	137,884	137,884	
Owners' equity as of 31.03.2006	2,100,000	0	-91,139	2,008,861	10
Net profit for the financial year	0	0	208,676	208,676	
Transfer of retained earnings to legal reserve	0	6,894	-6,894	0	
Owners' equity as of 31.03.2007	2,100,000	6,894	110,643	2,217,537	10

More detailed information on share capital and its changes has been disclosed in Note 10

Notes to the Financial Statement

1 Accounting principles and assessment standards used in the preparation of the financial statement

The financial statement of OÜ Põhivõrk has been prepared in accordance with the generally accepted accounting principles of the Republic of Estonia. The generally accepted accounting principles are prescribed by the Accounting Act of the Republic of Estonia, and supplemented by the guidelines issued by the Accounting Standards Board of the Republic of Estonia.

The financial statement has been prepared using the acquisition cost principle except where other accounting principles have been used, as detailed below. The financial statements have been prepared in thousands of Estonian kroons.

Cash and cash equivalents

For the purposes of the balance sheet and cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (excluding overdrafts), term deposits with original maturities of three months or less, and money market fund shares.

Overdrafts are under short-term borrowings in the balance sheet.

Classification of assets and liabilities as current and non-current

Financial liabilities are regarded as current if they are due for repayment within 12 months of the balance sheet date, or if the company does not have the right to suspend the repayment of obligations for more than 12 months from the balance sheet date. Borrowings which are due for repayment within 12 months of the balance sheet date but which have been refinanced as long-term liabilities after the balance sheet date and before the approval of the annual report are recorded in the balance sheet as current liabilities. Borrowings that the creditor has the right to recall at the balance sheet date because of a breach of the provisions in the loan agreement are also recorded as current liabilities.

Foreign currency transactions; financial assets and liabilities denominated in foreign currencies

Foreign currency transactions are recorded in Estonian kroons using the official exchange rates of the Bank of Estonia at the date of the transaction. Foreign exchange gains and losses arising from the exchange rate differences between the transfer date and the

transaction date are recorded in the income statement.

Assets and liabilities denominated in foreign currencies have been translated based on the currency exchange rates of the Bank of Estonia at the balance sheet date. Foreign exchange gains and losses resulting from the revaluation are recorded in the income statement.

Trade receivables

Short-term receivables generated from the ordinary course of business (excluding receivables from group companies and affiliates) are classified as trade receivables. Trade receivables are recorded at their acquisition cost (i.e. original invoice amount less provisions made for impairment).

Receivables can be classified as doubtful on the basis of a case-by-case evaluation. Doubtful receivables are recorded as a separate item in the balance sheet (with negative value), and are charged to expenses.

Doubtful receivables, which have become uncollectible or financially unreasonable to collect, are deemed as irrecoverable and are written off the balance sheet. The collection of doubtful receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

Other receivables

All other receivables (accrued income, loans granted, other short-term and long-term receivables), except for receivables held for trading purposes, are recorded at acquisition cost. The acquisition cost of short-term receivables normally equals their original invoice amount (less any possible write-downs), and therefore short-term receivables are recorded in the balance sheet at the collectible amount. In order to calculate the acquisition cost of long-term receivables, they are initially recorded at fair value and interest income is calculated for future periods using the effective interest rate method. Receivables held for trading purposes are recorded at their fair value.

Tangible fixed assets

Assets used in the company's operations with a useful life of more than 1 year and a cost of more than 30,000 kroons are accounted for as tangible fixed assets. Assets with a useful life of over 1 year,

but a cost of less than 30,000 kroons, are recorded as low-value items (in inventories) and are fully expensed when the asset is taken into use. Low-value items that have been expensed are accounted for off-balance sheet.

a. Cost

Tangible fixed assets are initially recorded at their cost, consisting of the purchase price (including customs duties and other non-refundable taxes) and expenses directly related to the acquisition or incurred for bringing the assets to their present operating condition and location. A tangible fixed asset is reflected in the balance sheet at its cost, less any accumulated depreciation and any accumulated impairment losses. Tangible fixed assets acquired under finance leases are recorded similarly to purchased non-current assets. Where the non-current asset's estimated recoverable value (the higher of its net selling price and its value in use) is less than its carried forward value, it is written down immediately to its estimated recoverable value.

b. Depreciation

Depreciation is calculated using the linear method. Depreciation rates are set separately for each non-current asset, depending on its useful life. For assets with a significant residual value, only the difference between the cost and the residual value shall be depreciated over the useful life of the asset. If the residual value of the asset exceeds its recoverable value, the depreciation of the asset is terminated. If a fixed tangible asset consists of distinguishable components with different useful lives, these components are recorded separately as assets, and separate depreciation rates are set for them depending on their useful lives. Assets with an indefinite useful life (eg land) are not subject to depreciation. Depreciation is calculated from the moment the asset can be used for the purposes set by the management and is terminated when the residual value of the asset exceeds its recoverable value, until the final removal of the asset from use or the asset's reclassification as 'available-for-sale'. The validity of depreciation rates, depreciation methods and residual values is evaluated at each balance sheet date.

c. Improvements, repairs and maintenance

Subsequent spending on an asset is added to the cost of the asset if it meets the definition of tangible fixed assets and the criteria for the recognition of assets in the balance sheet. If a part of a tangible fixed asset is replaced, the cost of the replacement part is added to the cost of the asset and the replaced component or a proportion of the replaced non-current asset is taken off the balance sheet. Costs related to ongoing maintenance and repairs are charged to the income statement.

Impairment losses

Assets with indefinite useful lives (eg land) are not subject to depreciation, but they are tested annually for impairment, by comparing the carried forward value of the assets to their recoverable value.

The following depreciation periods are used for different categories of tangible fixed assets:

	Useful life of new non-current assets (in years)	Average remaining useful life as at 31.03.2007 (in years)
Buildings	25–40	21
Power lines	30–60	24
Other facilities	10–30	13
Power transmission equipment	7–25	14
Other non-current assets	3–20	6

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carried forward value may not be recoverable. If any such indication exists, the recoverable value of the assets is measured against the carried forward value.

Impairment losses are recorded at the amount by which the carried forward value of the asset exceeds its recoverable value. The recoverable value of the asset is either the fair value of the asset less selling expenses or its value in use, whichever is higher. For the purposes of assessing impairment, the recoverable value of the asset is assessed either for each asset or for the smallest group of assets for which it is possible to distinguish cash flows (a cash generating unit).

The write-down is charged to period expenses. At each subsequent balance sheet date, assets which have once been written down are assessed for impairment to see if their value might have increased (except for company value, where impairment is not cancelled). Cancellation of write-down is recorded as a reduction of the write-down of non-current assets in the income statement of the financial year.

Operating and financial leases

Leases where all the significant risks and rewards of ownership have been transferred to the lessee are classified as finance leases. Other lease contracts are classified as operating leases. Operating lease payments are recorded in the income statement as expenses on an accrual basis over the lease term.

Assets leased out under operating lease terms are recognised in the balance sheet in a similar way to fixed assets. Leased out assets are depreciated using the depreciation methods which are applied to similar assets at the company. Operating lease payments are recognised in the income statement over the lease term as a linear income.

Intangible fixed assets

Intangible fixed assets are initially recorded at their cost, consisting of the purchase price and expenses directly related to the purchase. An intangible fixed asset is reflected in the balance sheet at its cost, less any accumulated depreciation and any accumulated impairment losses.

Intangible fixed assets are only reflected in the balance sheet if the following conditions are satisfied:

- the asset is controlled by the company;
- it is clear that the company will receive income from the future use of the asset;
- the acquisition value of the asset can be determined with reasonable certainty.

Depreciation of intangible fixed assets is calculated according to the linear method over their estimated useful life; the length of this life shall not exceed 20 years.

The impairment of intangible fixed assets is assessed in a similar manner to the impairment of tangible fixed assets.

Financial liabilities

All financial liabilities (trade payables, loans taken, accrued expenses, other short-term and long-term borrowings) are initially recorded at their acquisition costs, with all expenses directly related to the acquisition included. Subsequently, financial liabilities are recorded using the adjusted depreciated cost method. The adjusted acquisition cost of short-term financial liabilities is normally equal to their nominal value. Therefore, short-term financial liabilities are recorded in the balance sheet at their redemption value. The adjusted acquisition cost of long-term liabilities is calculated using the internal interest rate method.

Provisions and contingent liabilities

Contingent liabilities, which arise from events taking place before the balance sheet date but whose amount or due date are not certain, are recorded as provisions in the balance sheet. Provisions are recorded in the balance sheet on the basis of the management's estimates of the amount required to settle the obligation and the time the provision will become due. They are

recorded at the amount which the management board believes is required as at the balance sheet date to settle the obligation or to transfer it to third parties. If a provision is expected to be settled later than 12 months after the balance sheet date, the provision will be recorded at the discounted value (at the present value of the payments related to the provision), unless the effect of discounting is immaterial.

Other potential or existing commitments, whose probability of becoming liabilities is less than 50% or whose amount cannot be reliably determined, but which in certain cases may become liabilities, are disclosed as contingent liabilities in the notes to the financial statements.

a. Debt with regard to easement of technical facilities

According to the Law of Property Act a land owner in Estonia is required to tolerate technical facilities located on his land. The law demands that the owner of the technical facilities pay the land owner the amount of compensation stipulated by law unless the parties agree otherwise. As at 31 March 2007 (retrospectively from 1 November 2004) OÜ Põhivõrk had an obligation to pay 670,000 kroons in easement fees to land owners.

Tax obligations

Under current legislation the annual profit earned by companies is not taxed in Estonia and thus there are no obligations with regard to carried forward income tax. In place of a tax on net profit, the dividends paid out of the retained earnings are subject to a tax rate of 22/78 (up to 31.12.2006 the rate was 23/77, up to 31.12.2005 it was 24/76 and up to 31.12.2004 it was 26/74) of the net dividend paid.

The corporate income tax on the payment of dividends is recorded 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.

The following taxes also affect the company's expenses:

Tax	Tax rate up to 31.12.2005	Tax rate up to 31.12.2006	Tax rate from 01.01.2007	
Social security tax	33%	33%	33%	of disbursements and fringe benefits to employees
Unemployment insurance	0,5%	0,3%	0,3%	of disbursements to employees
Income tax on fringe benefits and corporate income tax on non-operational expenses	24/76	23/77	22/78	of the fringe benefits to employees and non-operational expenses
Land tax	0.8–2.5%	0.8–2.5%	0.6–2.5%	of the taxable value of land per year

Revenues and expenses

Revenues and expenses are recorded using the matching principle whereby the expenses incurred from generating revenue are deducted from the revenues earned during the period. Revenues from the sale of goods are recorded at the fair value of the consideration received or receivable, taking account of all discounts and benefits. Revenues from the sale of goods are recorded when all material risks relating to the ownership of the asset have been passed to the buyer, the amount of revenue and expenses relating to the transaction can be reliably measured, and the receipt of the revenue is probable. Revenues from the rendering of services are recorded when such services are rendered.

Connection fees are recorded as revenue from connection fees during the probable period of business with clients, which is estimated to be 20 years. Connection fees that were not recognised as revenues are recorded in the balance sheet as long-term future periods revenues.

Statutory reserve capital

The company has set up a statutory reserve in accordance with the Commercial Code of the Republic of Estonia. The statutory reserve is set up from annual net profit allocations. At least 1/20 of the net profit shall be transferred to reserve capital each financial year, until reserve capital amounts to at least 1/10 of the company's share capital. Reserve capital can be used to offset losses or to increase share capital. No distributions can be made from statutory reserve capital.

Associated companies

Associated companies are companies over which the parent company has significant influence but which it does not control. Generally speaking, significant influence is presumed to exist when the company holds 20%–50% of the voting power of the

associated company. The acquisition of associated companies is recorded using the purchase method (except for business combinations under common control which are accounted for using the depreciated cost method). Under the purchase method, the assets, liabilities and contingent liabilities (ie the net assets acquired) of acquired associated companies are recorded at their fair value, while the difference between the cost of acquisition and the fair value of the net assets acquired is recorded as positive or negative company value. Investments in associated companies are recorded in the balance sheet using the equity method. Under the equity method, the investment is initially recorded at a cost which is adjusted in subsequent periods in line with the company's changes in the equity of the investee (changes in both the profit/loss of the investee and in other equity items). Outstanding profits are cancelled to the value of the Company's interest in the associated company. Outstanding losses are also cancelled, unless the transaction shows an impairment of the transferred asset.

If the company's losses in the investee, as accounted for under the equity method, equal or exceed the net book value of the investment, the investment is reported at nil value and further losses are accounted for as off-balance sheet items. If the Company has guaranteed or is obliged to satisfy the obligations of the investee, both the obligation and the loss from the equity method will be recorded in the balance sheet. The share of the assets and liabilities of the acquired associated company, as well as the company's value generated upon acquisition, are recorded at their net value under "Long-term financial investments" in the balance sheet.

Cash flow statement

The cash flow statement of OÜ Põhivõrk has been prepared using the indirect method whereby, in order to calculate the cash flow from operating activities, the operating profit has been adjusted by elimination of the effect of non-monetary transactions and changes in the balance of current assets and current liabilities related to operating activities.

2 Receivables and prepayments

in thousands of kroons	31.03.2007	31.03.2006	Note
TRADE RECEIVABLES			
Accounts receivable			
Receivables for power network services	10,612	9,794	
Other accounts receivable	4	7	
Total accounts receivable	10,616	9,801	
TOTAL TRADE RECEIVABLES	10,616	9,801	
Receivables from related parties	96,577	97,538	3
Other receivables	11	10	
Prepayments			
Prepaid taxes			
Prepaid value added tax	9,773	13,779	
Total prepaid taxes	9,773	13,779	

Note 2 Receivables and prepayments, continued

in thousands of kroons	31.03.2007	31.03.2006	Note
Other prepayments			
Insurance premiums	517	549	
Prepayments for services	209	142	
Other prepaid expenses	470	585	
Total other prepayments	1,196	1,276	
Total prepayments	10,969	15,055	
TOTAL RECEIVABLES AND PREPAYMENTS	118,173	122,404	

3 Receivables from related parties

in thousands of kroons	31.03.2007	31.03.2006
RECEIVABLES FROM GROUP COMPANIES		
Eesti Energia AS	3,837	3,247
AS Narva Elektriijaamad	96	49
OÜ Jaotusvõrk	83,021	92,958
Televõrgu AS	861	813
Kohtla-Järve Soojus AS	32	0
Põlevkivi Kaevandamise AS	511	471
TOTAL RECEIVABLES FROM GROUP COMPANIES	88,358	97,538
RECEIVABLES FROM ASSOCIATED COMPANIES		
SIA Baltijas Energosistemu Dispeceru Centrs (note 4)	2,468	0
TOTAL RECEIVABLES FROM ASSOCIATED COMPANIES	2,468	0
OTHER RECEIVABLES FROM RELATED PARTIES		
Nordic Energy Link AS	5,751	0
TOTAL OTHER RECEIVABLES FROM RELATED PARTIES	5,751	0
TOTAL RECEIVABLES FROM RELATED PARTIES	96,577	97,538

During the period covered the intention of the management to terminate the activities of the associated company DC Baltija became known. Because of that, as of 31 March 2006 the investment's fair value was considered to be 0 kroons and impairment of 7,375 thousand kroons was recorded as losses. Liquidation of DC Baltija was started in summer 2006 and was accomplished by March 2007. According to the liquidation balance sheet 2,468 thousand kroons of DC Baltija's property belongs to the group of companies and that part was recorded in the balance sheet as a short-term receivable (see Note 4). Other receivables from related parties were not transformed to write-downs in the financial years 2006/2007 or 2005/2006.

4 Long-term financial investments

in thousands of kroons

CHANGES IN INVESTMENTS IN ASSOCIATED COMPANIES

Net book value of investment as at 31.3.2005	7,376
Movements in the period from 1.4.2005 to 31.3.2006	
Loss from write-down of associated company	-7,376
Net book value of investment as at 31.3.2006	0
Net book value of investment as at 31.3.2007	0

OÜ Põhivõrk has one associated company, SIA Baltijas Energosistemu Dispeceru Centrs, registered in the Republic of Latvia. OÜ Põhivõrk purchased 33.3% of the shares in the company from Eesti Energia AS on 30.03.2005. No changes occurred in Põhivõrk's participation during the financial year. The company's main field of activity is the provision of power system management and planning-related services to its owners.

The associated company is under the joint control of three companies:

OÜ Põhivõrk
SIA Latvenergo
Lietuvos Energija AB

Each of these companies holds 1/3 of the shares.

5 Tangible fixed assets

in thousands of kroons

	Land	Buildings	Facilities	Machinery and equipment	Total
TANGIBLE FIXED ASSETS AS AT 31.3.2005					
Acquisition cost	25,895	117,274	3,015,827	1,305,773	4,464,769
Accumulated depreciation	0	-8,938	-190,117	-116,676	-315,731
Net book value	25,895	108,336	2,825,710	1,189,097	4,149,038
Construction-in-progress	445	0	26,609	376,759	403,813
TOTAL TANGIBLE FIXED ASSETS AS AT 31.3.2005	26,340	108,336	2,852,319	1,565,856	4,552,851
MOVEMENTS IN THE PERIOD FROM 1.4.2005 TO 31.3.2006					
Total investment in acquisitions of fixed assets	1,844	13,007	263,417	392,194	670,462
Depreciation charge	0	-10,410	-182,264	-137,515	-330,189
Impairment losses*	0	-133	-81	-3,030	-3,244
Reclassification of net book value	0	0	2,022	-2,022	0
Acquisition cost of written-off fixed assets	0	-1,174	-508	-7,032	-8,714
Depreciation of written-off fixed assets	0	1,174	508	7,032	8,714
Net book value of sold assets	0	0	-2,388	-201	-2,589
Write-off of construction-in-progress	0	0	-423	-129	-552
TOTAL MOVEMENTS IN THE PERIOD FROM 1.4.2005 TO 31.3.2006	1,844	2,464	80,283	249,297	333,888

Note 5 Tangible fixed assets, continued

in thousands of kroons	Land	Buildings	Facilities	Machinery and equipment	Total
TANGIBLE FIXED ASSETS AS AT 31.3.2006					
Acquisition cost	27,739	129,107	3,069,467	1,579,569	4,805,882
Accumulated depreciation	0	-18,307	-371,954	-250,036	-640,297
Net book value	27,739	110,800	2,697,513	1,329,533	4,165,585
Construction-in-progress	445	0	235,089	478,148	713,682
Prepayments	0	0	0	7,472	7,472
TOTAL TANGIBLE FIXED ASSETS AS AT 31.3.2006	28,184	110,800	2,932,602	1,815,153	4,886,739

MOVEMENTS IN THE PERIOD FROM 1.4.2006 TO 31.3.2007					
Total investment in acquisition of fixed assets	0	35,697	222,421	324,169	582,287
Depreciation charge	0	-8,517	-147,917	-151,973	-308,407
Impairment losses*	0	0	-181	-64	-245
Acquisition cost of written-off fixed assets	0	663	12,688	4,498	17,849
Depreciation of written-off fixed assets	0	-663	-12,688	-4,498	-17,849
Net book value of sold assets	0	0	0	-7	-7
Write-off of construction-in-progress	0	0	0	-982	-982
TOTAL MOVEMENTS IN THE PERIOD FROM 1.4.2006 TO 31.3.2007	0	27,180	74,323	171,143	272,646

TANGIBLE FIXED ASSETS AS AT 31.3.2007					
Acquisition cost	27,739	164,142	3,459,226	2,138,857	5,789,964
Accumulated depreciation	0	-26,160	-507,366	-396,625	-930,151
Net book value	27,739	137,982	2,951,860	1,742,232	4,859,813
Construction-in-progress	445	0	55,063	244,064	299,572
TOTAL TANGIBLE FIXED ASSETS AS AT 31.3.2007	28,184	137,982	3,006,923	1,986,296	5,159,385

* The company's fixed assets were written off due to the removal of these assets from use. Information on leased-out fixed assets is disclosed in Note 19.

6 Intangible fixed assets

in thousands of kroons	Software	Total
MOVEMENTS IN THE PERIOD FROM 1.4.2006 TO 31.3.2007		
Unfinished acquisition of software	2,910	2,910
TOTAL MOVEMENTS IN THE PERIOD FROM 1.4.2005 TO 31.3.2006	2,910	2,910
INTANGIBLE FIXED ASSETS AS AT 31.3.2007		
Acquisition of software	2,910	2,910
TOTAL INTANGIBLE FIXED ASSETS AS AT 31.3.2007	2,910	2,910

Software licenses are recorded as intangible fixed assets.

7 Current liabilities

In thousands of kroons	31.03.2007	31.03.2006
TRADE PAYABLES		
Payables for fixed assets	30,352	74,084
Other payables for goods and services	17,717	24,687
TOTAL TRADE PAYABLES	48,069	98,771
OTHER PAYABLES		
Short-term payables to group companies (Note 8)	703,604	646,189
Other payables	0	0
TOTAL OTHER PAYABLES	703,604	646,189
TAXES PAYABLE		
Social security tax	1,737	1,500
Income tax	1,030	933
Unemployment insurance payments	36	33
Contributions to the mandatory funded pension	58	45
Land tax	60	51
TOTAL TAXES PAYABLE	2,921	2,562
ACCRUED EXPENSES		
Payables to contractors		
Remuneration payable	1,605	1,482
Bonuses accrued	215	260
Vacation pay accrued	1,639	1,806
Social security tax and unemployment insurance payments	617	688
Amounts withheld from remuneration	6	7
Easement of technical facilities	670	0
TOTAL ACCRUED EXPENSES	4,752	4,243
TOTAL CURRENT LIABILITIES	759,346	751,765

8 Payables to related parties

in thousands of kroons

31.03.2007

31.03.2006

PAYABLES TO GROUP COMPANIES

Short-term payables

Eesti Energia AS	681,875	628,282
Narva Elektriijaamad AS	9,158	7,621
Energoremont AS	0	43
Jaotusvõrk OÜ	2,419	1,367
Elektriteenused AS	8,268	7,087
Televõrgu AS	1,076	1,130
Kohtla-Järve Soojus AS	147	449
Elpec AS	549	193
Iru EJ OÜ	31	17
ER Baltic Elektrotechnics and Automation AS	81	0
Total short-term payables to group companies	703,604	646,189

Long-term payables

Eesti Energia AS	2,046,586	2,046,586
Total long-term payables to group companies	2,046,586	2,046,586

TOTAL PAYABLES TO GROUP COMPANIES

2,750,190

2,692,775

PAYABLES TO ASSOCIATED COMPANIES

SIA "Baltijas Energosistemu Dispeceru Centrs"	0	382
Total payables to associated companies	0	382

TOTAL PAYABLES TO RELATED PARTIES

2,750,190

2,693,157

OÜ Põhivõrk uses two types of loans for financing:

– the short-term loan is, in essence, an overdraft on the OÜ Põhivõrk account, which forms a part of the Eesti Energia AS cash pool account. As at 31.03.2007, the overdraft balance amounted to 667,497 thousand kroons (31.03.2006–614,534 thousand kroons).

A 4.35% annual interest rate was charged on the overdraft line in the financial year 2006/2007 (2005/2006 - 4.35%);

– the long-term loan agreement was concluded on 31.03.2005. Under the agreement, Eesti Energia AS lends OÜ Põhivõrk 2,046,586 thousand kroons for an unspecified term, with the right of recall following advance notice of 13 months. The interest rate for both 2005/2006 and 2006/2007 is the same as that of the overdraft. The interest rates are established by Eesti Energia AS for a period of one year in accordance with the average actual interest rate charged on the loan, and the risk margin established by OÜ Põhivõrk. The currency of the loan is the Estonian kroon. The interest expense charged on the financing liability has been disclosed in Note 18.

9 | Deferred income

in thousands of kroons

LONG-TERM DEFERRED INCOME	
Connection fees as at 01.04.2005	103,866
Movements in the period from 1.4.2005 to 31.3.2006	
Connection and other fees received	99,879
Depreciation charges	-1,814
Connection fees as at 31.3.2006	
Connection fees received	204,728
Accumulated depreciation	-2,797
TOTAL DEFERRED INCOME AS AT 31.03.2006	201,931
Movements in the period from 1.4.2006 to 31.3.2007	
Connection and other fees received	59,948
Depreciation charges	-4,880
Connection fees as at 31.3.2007	256,999
TOTAL DEFERRED INCOME AS AT 31.03.2007	256,999

The depreciation period for connection fees is 20 years, which is equal to the probable duration of business with clients (see Note 1).

10 | Share capital

Eesti Energia AS is the sole shareholder of OÜ Põhivõrk, and owns a single share with a nominal value of 2,100 million kroons.

The total amount of share capital is 2,100 million kroons (2,100 million kroons as at 31.03.2006).

According to the requirements of the Commercial Code, the company has to set up a statutory reserve from annual net profit allocations, the minimum amount of which shall be at least equal to 1/10 of the company's share capital. At least 1/20 of the net profit shall be transferred to reserve capital each financial year until the total amount of reserve capital reaches the set minimum requirements.

Reserve capital can be used to cover losses (if it is impossible to cover such losses using equity) or in order to increase the share capital.

As at 31.03.2007 equity amounted to 100,209 thousand kroons (given the requirement to transfer 1/20 of the annual net profits to the statutory reserve). As at 31.03.2007 OÜ Põhivõrk had to transfer 10,434 thousand kroons out of its net retained earnings to the statutory reserve (6,894 thousand kroons as at 31.03.2006).

From 01.01.2007 the income tax rate on dividends is 22/78 (before 31.12.2006 it was 23/77). If it pays all the retained earnings out in dividends the company will have to pay 22,046 thousand kroons of income tax. 78,163 thousand kroons net would be paid in dividends. 0 kroons should be paid in dividends for the period in question.

11 Net sales

in thousands of kroons

01.04.2006–31.03.2007

01.04.2005–31.03.2006

BY ACTIVITY		
Sales of balancing electricity	52,754	61,184
TOTAL SALES OF BALANCING ELECTRICITY	52,754	61,184
Sales of network services		
Transmission fees	350,958	319,670
Fees for the use of network connections	663,158	613,955
Depreciation of network connection fees (Note 9)	4,880	1,814
Other network services	42,801	42,032
TOTAL SALES OF NETWORK SERVICES	1,061,797	977,471
Sales of other goods and services		
Lease of transmission equipment (Note 19)	10,101	9,532
Sales of scrap metal	56	14,555
Sales of other services	498	543
Sales of other goods	2	2 061
TOTAL SALES OF OTHER GOODS AND SERVICES	10,657	26,691
TOTAL REVENUES	1,125,208	1,065,346
BY MARKETS		
Sales in Estonia	1,074,014	1,041,508
Exports		
Exports to Russia	12,491	12,061
Exports to Latvia	36,106	11,234
Exports to Lithuania	2 597	543
Total exports	51,194	23,838
TOTAL REVENUES	1,125,208	1,065,346

12 Other income

in thousands of kroons

01.04.2006–31.03.2007

01.04.2005–31.03.2006

Late-charges, fines, compensation received	1,158	13,790
Proceeds from disposal of fixed assets	530	1,101
Foreign exchange gains	6	53
TOTAL OTHER INCOME	1,694	14,944

13 Revenues from related parties

in thousands of kroons

01.04.2006–31.03.2007

01.04.2005–31.03.2006

	01.04.2006–31.03.2007	01.04.2005–31.03.2006
SALES OF BALANCING ELECTRICITY		
Eesti Energia AS Teenindus	17,334	49,407
Narva Elektriijaamad AS	352	
TOTAL SALES OF BALANCING ELECTRICITY	17,686	49,407
SALES OF NETWORK SERVICES		
Narva Elektriijaamad AS	217	184
Eesti Energia AS Iru Elektriijaam, OÜ Iru Elektriijaam	295	191
Eesti Energia AS Teenindus	18,933	15,109
Jaotusvõrk OÜ	939,396	897,485
Kohtla-Järve Soojus AS	153	31
Põlevkivi Kaevandamise AS	5,836	5,852
TOTAL SALES OF NETWORK SERVICES	964,830	918,852
SALES OF OTHER GOODS AND SERVICES		
Sales of repair and construction services	9	1
Elektriteenused AS	4	1
Eesti Energia AS Iru Elektriijaam, OÜ Iru Elektriijaam	5	0
Lease of transmission equipment (Note 19)	10,101	9,532
Televõrgu AS	10,101	9,532
Real estate lease and maintenance	394	427
Narva Elektriijaamad AS	165	165
Elektriteenused AS	0	33
Televõrgu AS	229	229
Total sales of other goods and services	10,504	9,960
TOTAL REVENUES FROM RELATED PARTIES	993,020	978,219
SALES OF TANGIBLE FIXED ASSETS		
Nordic Energy Link AS	0	3,486
OÜ Jaotusvõrk	0	201
Narva Elektriijaamad AS	12	0
Eesti Energia AS	7	0
TOTAL SALES OF TANGIBLE FIXED ASSETS	19	3,687
LATE-CHARGES, FINES, COMPENSATION		
Elektriteenused AS	17	0
TOTAL LATE-CHARGES, FINES, COMPENSATION	17	0

14 Goods, raw materials and services

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006
ELECTRICITY PURCHASED TO PROVIDE THE BALANCING SERVICE		
Purchase of balancing electricity	51,299	46,350
Purchase of power regulation service	493	12,246
TOTAL ELECTRICITY PURCHASED TO PROVIDE THE BALANCING SERVICE	51,792	58,596
SYSTEM SERVICES EXPENSES		
Electricity reserves purchased	49,248	50,003
Reactive energy	2,219	3,415
TOTAL SYSTEM SERVICES EXPENSES	51,467	53,418
ELECTRICITY TO COMPENSATE FOR NETWORK LOSSES		
Electricity from renewable sources	70,989	57,108
Electricity from non-renewable sources	120,374	115,930
TOTAL ELECTRICITY TO COMPENSATE FOR NETWORK LOSSES	191,363	173,038
MAINTENANCE AND REPAIR WORKS		
On facilities and equipment related to core activities	70,210	68,023
On production buildings and sites	3,025	3,732
Disassembly work and waste processing	10,479	23,886
Other expenses	510	465
TOTAL MAINTENANCE AND REPAIR WORKS	84,224	96,106
OTHER EXPENSES		
Operative switching and dispatching management expenses	20,165	23,046
Other expenses	3,623	4,271
TOTAL OTHER EXPENSES	23,788	27,317
TOTAL GOODS, RAW MATERIALS AND SERVICES	402,634	408,475

15 Other operating expenses

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006
Transportation and tools	1,545	1,530
Security, insurance and occupational safety expenses	3,713	3,619
Office expenses	7,058	6,536
Research and consulting expenses	4,258	2,227
Telecommunications expenses	13,431	13,045
IT expenses	4,781	4,914
Training expenses	1,692	1,147
Other operating expenses	5,731	3,760
TOTAL OTHER OPERATING EXPENSES	42,209	36,778

16 Personnel expenses

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006
Basic salaries, additional remuneration, bonuses, vacation pay	29,385	26,929
Employee bonuses	731	675
Termination compensation	1,029	271
Other remuneration	648	481
Total for employees	31,793	28,356
Social security tax	10,643	9,494
Unemployment insurance payments	85	112
Income tax on fringe benefits	241	208
TOTAL PERSONNEL EXPENSES	42,762	38,170
Attributable to the management board (CEO)		
Basic salaries, additional remuneration, bonuses, vacation pay	2,196	680
Fringe benefits	51	9
Social security tax	742	227
TOTAL PERSONNEL EXPENSES ATTRIBUTABLE TO THE MANAGEMENT BOARD	2,989	916
NUMBER OF EMPLOYEES		
Number of employees at the beginning of the period	140	143
Number of employees at the end of the period	134	140
Average number of employees	138	141

Average monthly wages amounted to 17,745 kroons.

Members of the Management Board receive compensation for premature termination of their employment contracts; such compensation amounts to four months salary. Supervisory Board members did not receive compensation during this or previous financial years.

17 Other expenses

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006
Expenses not related to operating activities	384	191
Late-charges, fines, compensation	559	0
Foreign exchange losses	1	81
Other expenses	0	26
Corporate income tax	76	22
TOTAL OTHER EXPENSES	1,020	320

18 Goods and services purchased from related parties

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006
ELECTRICITY PURCHASED TO PROVIDE THE BALANCING SERVICE		
Purchases of balancing electricity		
Eesti Energia AS, Teenindus	36,418	42,816
Purchases of power regulation service		
Narva Elektriijaamad AS	493	12,246
TOTAL ELECTRICITY PURCHASED TO PROVIDE THE BALANCING SERVICE	36,911	55,062
SYSTEM SERVICES EXPENSES		
Power services purchased		
Narva Elektriijaamad AS	43,588	39,867
Kohtla-Järve Soojus AS	0	3,040
Eesti Energia AS, Teenindus	0	478
Reactive energy		
Narva Elektriijaamad AS	2,075	3,258
Eesti Energia AS Iru Elektriijaam, OÜ Iru Elektriijaam	144	157
TOTAL SYSTEM SERVICES EXPENSES	45,807	46,800
ELECTRICITY TO COMPENSATE FOR NETWORK LOSSES		
Electricity from renewable sources		
Eesti Energia AS, Taastuenergia	2,150	1,455
Electricity from non-renewable sources		
Narva Elektriijaamad AS	117,920	115,930
TOTAL ELECTRICITY TO COMPENSATE FOR NETWORK LOSSES	120,070	117,385
MAINTENANCE AND REPAIR WORKS		
On facilities and equipment related to core facilities		
Elektriteenused AS	22,306	31,625
Narva Elektriijaamad AS	4,156	5,896
ER Baltic Elektrotechnics and Automation AS	5,723	1,601
Jaotusvõrk OÜ	1,549	2,011
Kohtla-Järve Soojus AS	388	396
Energoremont AS	21	194
Elpec AS	1,237	336
Elektrikontrollikeskus AS	18	25
Eesti Energia AS	698	584
TOTAL MAINTENANCE AND REPAIR WORKS	36,096	42,668
OTHER EXPENSES		
Operative switching and dispatching management expenses		
Narva Elektriijaamad AS	2,286	3,883
Jaotusvõrk OÜ	1,748	2,000
Elektriteenused AS	10,023	9,630
Kohtla-Järve Soojus AS	420	420

Note 18 Goods and services purchased from related parties, continued

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006	Lisa
Other expenses			
Eesti Energia AS Iru Elektriijaam, OÜ Iru Elektriijaam	0	1,836	
Narva Elektriijaamad AS	1,012	0	
Eesti Energia AS	10	0	
TOTAL OTHER EXPENSES	15,499	17,769	
OTHER OPERATING EXPENSES			
Security, insurance and occupational safety expenses			
Eesti Energia AS	2,629	2,290	
Expenses on office buildings, rooms and territory			
Eesti Energia AS	6,200	5,945	
Elpec AS		222	
Consulting			
Eesti Energia AS	285	374	
Telecommunication expenses			
Televõrgu AS	12,932	12,420	
IT expenses			
Eesti Energia AS	2,646	2,855	
Narva Elektriijaamad AS	0	10	
Other business services			
Eesti Energia AS	670	671	
TOTAL OTHER OPERATING EXPENSES	25,362	24,787	
OTHER EXPENSES			
Late-charges, fines, compensation			
Jaotusvõrk OÜ	0	13	
Eesti Energia AS	5	3	
TOTAL OTHER EXPENSES	5	16	
INTEREST EXPENSES			
Eesti Energia AS			
Interest expenses on finance lease	122,461	117,229	8
TOTAL INTEREST EXPENSES	122,461	117,229	
ACQUISITION OF TANGIBLE FIXED ASSETS			
Jaotusvõrk OÜ			
	0	202	
TOTAL ACQUISITION OF TANGIBLE FIXED ASSETS	0	202	
TRANSACTIONS WITH ASSOCIATED COMPANIES			
SIA "Baltijas Energosistemu dispeceru centrs"			
Dispatching management expenses	3,053	4,586	
Other expenses	683	1,600	
TOTAL TRANSACTIONS WITH ASSOCIATED COMPANIES	3,736	6,186	

In the financial year 2005/2006, 3,321 thousand kroons of revenues was written down, as it turned out that the invoice presented to Eesti Energia AS Teenindus for transmitted export electricity was prepared in violation of the legal acts of the European Union.

19 | Operating lease

in thousands of kroons	01.04.2006–31.03.2007	01.04.2005–31.03.2006
LEASE INCOME		
Buildings	433	500
Transmission equipment*	10,101	9,532
TOTAL LEASE INCOME	10,534	10,032

in thousands of kroons	31.03.2007	31.03.2006
LEASE EXPENSES		
Buildings	6,004	5,753
Transport	1,489	1,487
Other machinery and equipment	10	29
TOTAL LEASE EXPENSES	7,503	7,269

Operating lease contracts can, for the most part, be cancelled with a short advance notice, except for transmission equipment.

in thousands of kroons	31.03.2007	31.03.2006
FUTURE LEASE PAYMENTS UNDER NON-CANCELLABLE OPERATING LEASE CONTRACTS (BASED ON CONTRACT DATES)*		
Lease income		
< 1 year	11,469	10,101
1–5 years	45,876	40,404
> 5 years	68,814	70,707
TOTAL LEASE INCOME	126,159	121,212

ASSETS LEASED UNDER OPERATING LEASE TERMS		
Acquisition cost	65,181	56,406
Depreciation	-13,281	-8,582
BOOK VALUE	51,900	47,824

* OÜ Põhivõrk has one non-cancellable operating lease contract under which the free fibres of the fibre-optic cable fixed to the line masts are leased out. This cable acts as a lightning protection cord for the lines and the fibres are also used by OÜ Põhivõrk for its technological communication. The free fibres are taken on lease by Televõrgu AS. The lease contract contains a restriction, under which OÜ Põhivõrk cannot allow its transmission equipment to be used by other companies operating in the field of telecommunications. The lease contract will end on 31.03.2018. The currency of this lease contract is the Estonian kroon; the interest rate is 13%.

20 Transactions with related parties

For the purposes of preparing the annual report of OÜ Põhivõrk the following parties are regarded as related parties:

- a. **owners** (parent company and people who control the parent company or can significantly influence the parent company)
- b. **subsidiaries of the parent company** (group companies)
- c. **associated companies**
- d. **management and top management**
- e. **relatives of these people and any companies controlled or significantly influenced by them**
- f. **other entities governed by the state**

The parent company of OÜ Põhivõrk is Eesti Energia AS, whose shares belong to the state. As at 31.03.2007 the following companies belonged to AS Eesti Energia group:

AS Narva Elektriijaamad
AS Narva Elektriijaamade Õlitehas
Narva Soojusvõrk AS
OÜ Iru Elektriijaam
Eesti Energia AS Taastuvenergia
Energoremont AS
AS Mäetehnika
OÜ ER Test Service
ER BEA AS
Eesti Energia AS Teenindus
OÜ Jaotusvõrk
Elektriteenused AS

Televõrgu AS
Eesti Energia AS Kinnisvara
Eesti Energia AS Tugiteenused
Kohtla-Järve Soojus AS
Eesti Põlevkivi AS
Põlevkivi Kaevandamise AS Estonia Kaevandus
Põlevkivi Kaevandamise AS Viru Kaevandus
Põlevkivi Kaevandamise AS Aidu Karjäär
Põlevkivi Kaevandamise AS Narva Karjäär
AS Põlevkivi Raudtee
Elpec AS
AS Elektrikontrollikeskus
SIA E. Energy
Solidus Oy
Oil Shale Energy of Jordan
UAB Lumen Balticum

Associated company of OÜ Põhivõrk:

SIA Baltijas Energosistemu Dispeceru Centrs

The current accounts of OÜ Põhivõrk in AS Hansapank and AS Ühispank are part of the AS Eesti Energia group account. Information on the interests paid and current interest rates can be found in Note 8. Note 9 lists payables to associated companies, Note 3 lists receivables from the group companies, Note 4 gives information about the associated company, Note 13 lists revenues from related parties, Note 17 details remuneration paid to members of the management and supervisory boards, Note 18 lists goods and services purchased from related parties.

21 Off-balance-sheet liabilities

Binding commitments:

a. Network development obligations.

Pursuant to the Electricity Market Act, the network operator shall develop the network within its service area in a way that ensures the continued provision of network services in accordance with the requirements.

b. Fixed assets

As at 31.03.2007, OÜ Põhivõrk had commitments related to the purchase of fixed assets totalling 123,879 thousand kroons (485,635 as at 31.03.2006).

Contingent liabilities:

The tax authority has the right to audit the company's accounting for up to 6 years after the submission of the tax declaration and, if

it should discover any mistakes, to impose additional taxes, interest and fines. No corporate tax audits or individual case audits were initiated by the tax authority in the financial year. The company's management is certain that there are no circumstances which may lead the tax authority to impose significant additional taxes.

Other legal requirements which may have an effect on profitability:

Pursuant to the network charge calculation methods implemented by the Estonian Energy Market Inspectorate, the tariffs are established for a period of three years on the basis of the power transmission volumes estimated by the Estonian Energy Market Inspectorate. If the actual transmission volumes fall short of this forecast, OÜ Põhivõrk will fail to receive a part of the revenues. Such unreceived revenues are not subject to compensation in the next tariff period.

22 Negative working capital

As at 31 March 2007, the company had negative working capital. The company's financial statements have been prepared based on the principle of going concern. The company's management finds that negative working capital will not cause any financial difficulties for the company in 2007. According to the cash flow forecast, the company will be able to fulfil all of its current liabilities.

Pursuant to an agreement concluded with the parent company, the parent company is ready to provide financial assistance immediately to the company in case if there are financial difficulties, and to make additional investments to ensure the sustainability of the company's economic operations.

Independent auditor's report



AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia

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Facsimile +372 614 1900
www.pwc.ee

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of OÜ Põhivõrk

We have audited the accompanying financial statements of OÜ Põhivõrk (the Company) which comprise the balance sheet as of 31 March 2007 and the income statement, statement of changes in equity and cash flow statement for the year 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 financial statements in accordance with accounting principles generally accepted in Estonia. 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 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 financial statements give a true and fair view of the financial position of the Company as of 31 March 2007, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Estonia.

/signed/

Urmas Kaarlep
AS PricewaterhouseCoopers

22 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 Management Board has proposed to the general meeting of shareholders that the 208,676 thousand kroons of the financial year 2006/2007 net profits be distributed in the following manner:

Statutory reserve	10,434 thousand kroons
Retained earnings	198,242 thousand kroons

Signatures of the Management Board and Supervisory Board

The Management Board of OÜ Põhivõrk has prepared the annual report for the financial year 01.04.2006–31.03.2007. The company's Supervisory Board has reviewed the annual report and approved its presentation to the general meeting of shareholders.

Management Board

Lembit Vali

Chairman of the Management Board

**Peep Soone**

Member of the Management Board

**Kalle Kilik**

Member of the Management Board



Supervisory Board

Raine Pajo

Chairman of the Supervisory Board

**Sandor Liive**

Member of the Supervisory Board

**Margus Kaasik**

Member of the Supervisory Board

**Heiki Tammoja**

Member of the Supervisory Board



