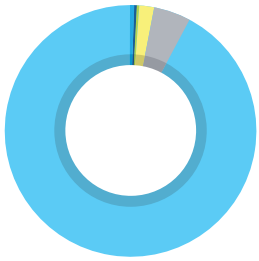
ANNUAL REPORT 2005/06




EESTI ENERGIA

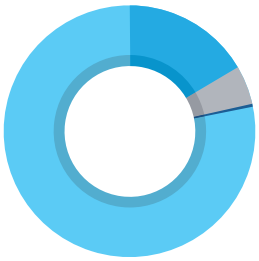
TOTAL ELECTRICITY GENERATION BY ENERGY SOURCE IN 2004/05

ESTONIA



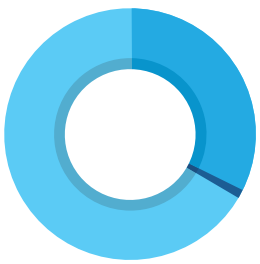
	9 510	Oil shale
	60	Renewable
	15	Peat
	34	Oil shale oil
	196	Pyrolysis gas
	486	Natural gas
GWh	10 301	Total

LITHUANIA



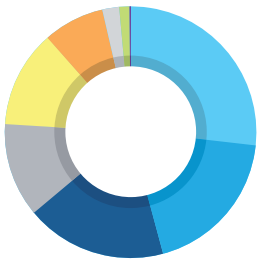
	15 102	Nuclear
	3 229	Natural gas
	943	Hydropower
	1,2	Wind
	19 275	Total
GWh		

LATVIA



	3 109	Hydropower
	1 531	Natural gas
	49	Wind
	4 689	Total
GWh		

FINLAND



	21 800	Nuclear
	15 800	Goal
	14 700	Hydropower
	10 100	Natural gas
	10 100	Biofuel
	6 500	Peat
	1 800	Oil
	1 000	Waste
	1 00	Wind
GWh	81 900	Total

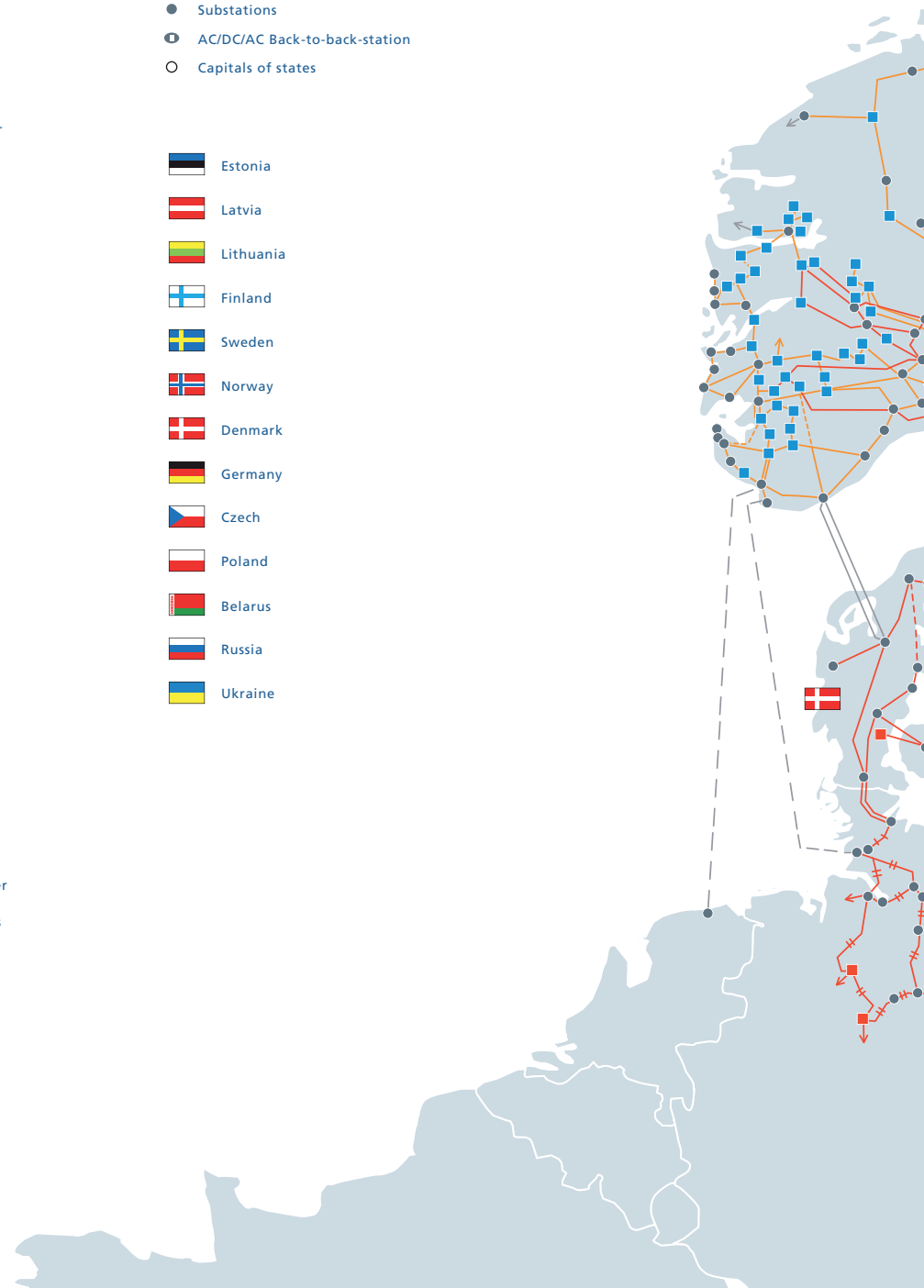
THE POWER TRANSMISSION NETWORK OF THE NORTH EUROPE (220-750 kV)

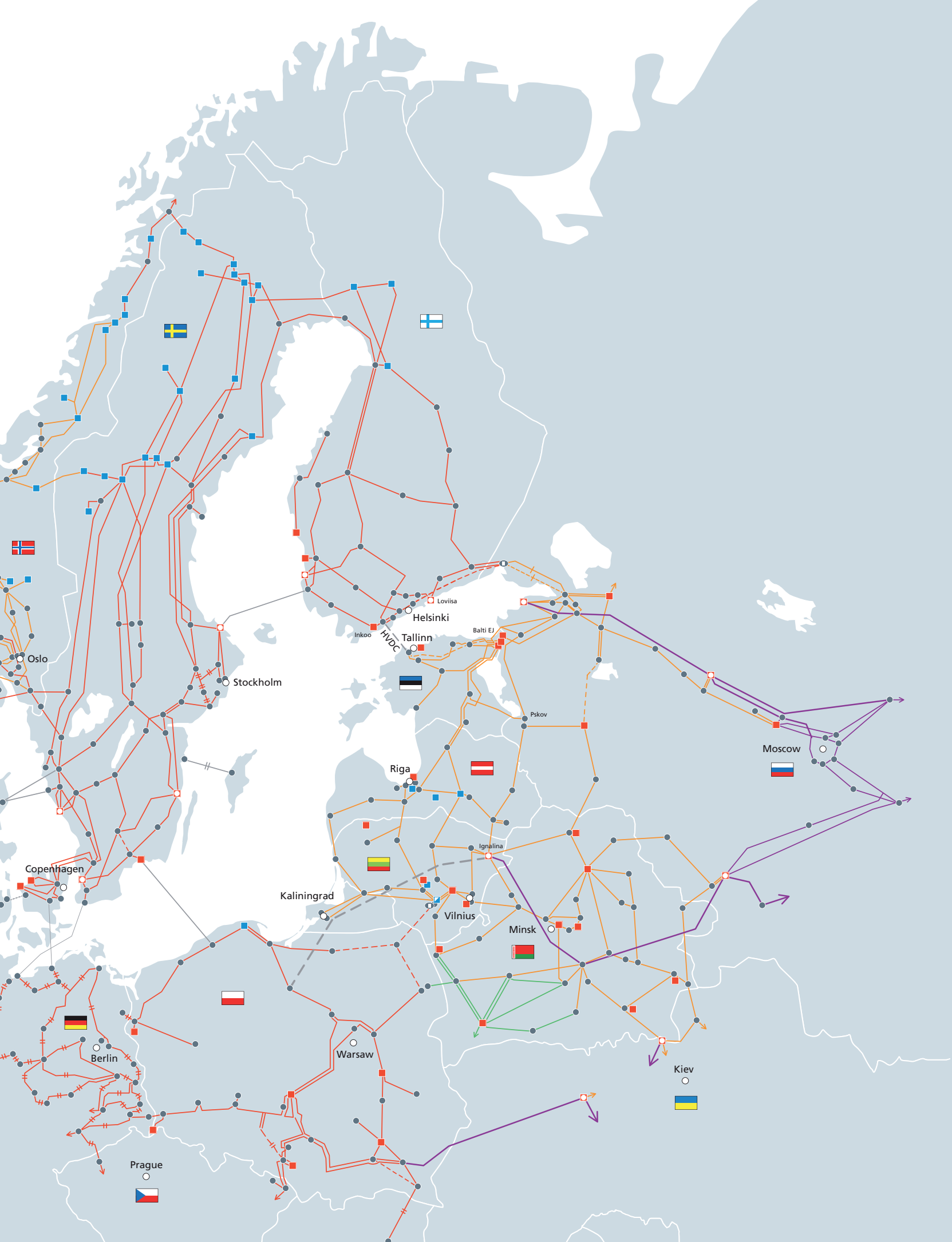
220 KV 300-330 KV 380-400 KV 500 KV 750 KV

- Existing lines
- Lines under construction/consideration
- Lines for 2 circuits
- Lines under construction/consid. for 2 circuits
- High voltage direct current existing cable
- HVDC existing cable for 2 circuits
- HVDC cable/line under construction/consideration
- HVDC cable/line under construction/consideration for 2 circuits

- Nuclear power plants
- Thermal power plants
- Hydroelectric power plants
- Pump storage power plants
- Substations
- AC/DC/AC Back-to-back-station
- Capitals of states

- Estonia
- Latvia
- Lithuania
- Finland
- Sweden
- Norway
- Denmark
- Germany
- Czech
- Poland
- Belarus
- Russia
- Ukraine




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

HIGHLIGHTS OF 2005/2006

- Moody's raised the company's credit rating to A1/outlook positive, while Standard & Poor's maintained the credit rating of A-, changing the negative outlook to stable.
- The launch of construction of the Estonian-Finnish undersea cable Estlink. It is the first step in connecting Estonia with the European power system.
- A bond issue was conducted by Eesti Energia in order to extend the term of its borrowings. The company exchanged bonds to be redeemed in 2009 with those to be redeemed in 2020. Eesti Energia has thus provided itself with long-term financing at a favourable fixed interest rate.
- A trilateral agreement was concluded by Eesti Energia, Latvenergo and Lietuvos Energija on exploring the options of establishing a new nuclear power plant in Lithuania.
- A change was introduced in the Eesti Energia Management Board. Sandor Liive was appointed Chairman of the Management Board, Tiit Nigul the Director of the Supply and Margus Kaasik the CFO.
- With revenues of 533.5 million euros, Eesti Energia Group posted a profit of 135.4 million euros in the financial year ended on 31 March 2006. Total investments amounted to 152.8 million euros.

MAIN FINANCIAL INDICATORS OF THE GROUP

		2005/2006	2004/2005	2003/2004	2002/2003	2001/2002
Sales of electric power	GWh	8,002	7,983	7,675	6,931	6,067
Sales of electric power (domestic)	GWh	6,235	5,947	5,702	5,369	5,276
Sales of electric power (export)	GWh	1,766	2,036	1,973	1,562	791
Sales of thermal power	GWh	1,981	1,977	2,168	2,361	2,169
Total domestic power network losses		12.1%	12.5%	13.9%	15.6%	14.6%
Distribution network losses		9.8%	10.2%	11.1%	11.9%	11.8%
Net sales	MEUR	453	395	377	366	313
Operating profit before depreciation	MEUR	264	149	133	132	98
Net profit	MEUR	135	43	33	41	22
Cash flow from operating activities	MEUR	228	125	118	115	77
Investments	MEUR	153	160	199	238	118
Assets at the end of the year	MEUR	1,497	1,318	1,245	1,185	947
Borrowings at the end of the year	MEUR	345	309	295	276	124
Owner's equity at the end of the year	MEUR	971	840	795	762	719
Owner's equity/assets at the end of the year		65%	64%	64%	64%	76%
Return on invested capital		13.3%	5.5%	4.7%	5.7%	3.4%
Net debt/operating profit before depreciation		0.7	1.8	1.9	1.4	0.9
Interest cover ratio		9.4	8.1	7.5	9.1	15.8
Average number of employees		8,983	9,542	9,754	9,768	10,349

SUMMARY OF THE FINANCIAL RESULTS

FIELDS OF ACTIVITY

ENVIRONMENTAL REPORT

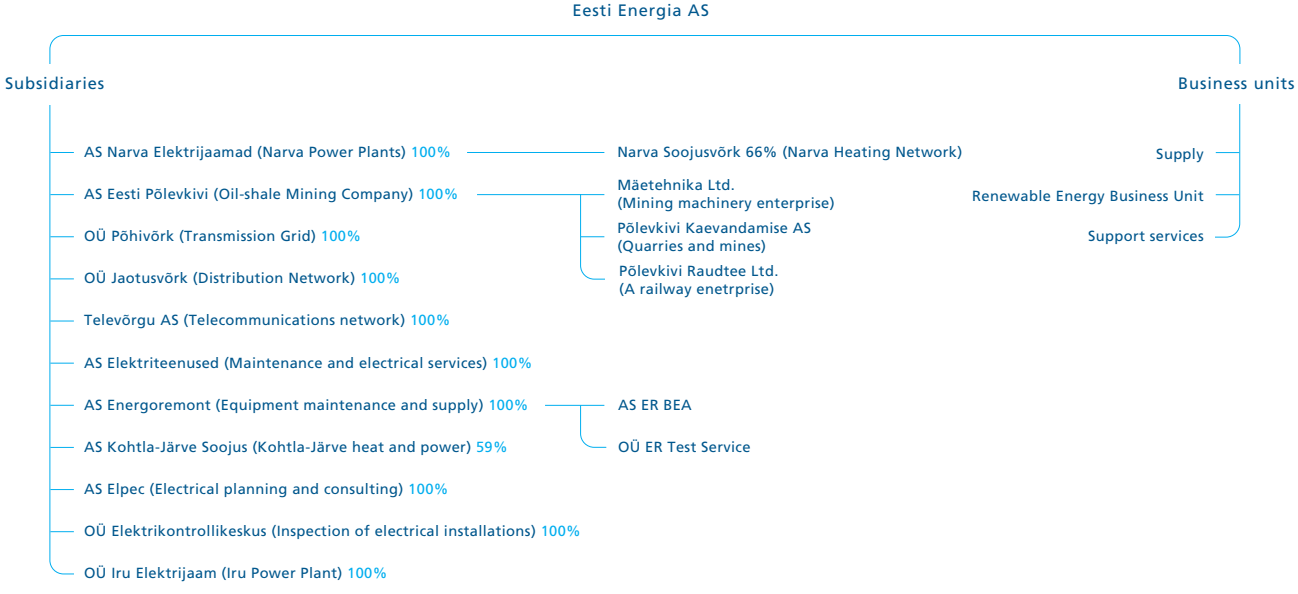
FINANCIAL STATEMENTS

EESTI ENERGIA IN BRIEF

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

- Eesti Energia was established in 1939.
- Eesti Energia is fully owned by the Republic of Estonia.
- The Estonian energy system is the only predominantly oil-shale- fired energy production system in the world.
- Standard & Poor's has given Eesti Energia an A-/stable rating. The Moody's rating of the company is A1/outlook positive.
- Eesti Energia's bonds are listed on the London Stock Exchange.
- Eesti Energia will contribute at least 9.6 million euros in the foundation established for energy technology research over the next three years.
- Eesti Energia has over 480,000 private customers and over 22,000 corporate customers. The number of corporate customer consumption locations is double the number of corporate customers.
- OÜ Jaotusvõrk (Distribution Network) is in charge of 18,862 substations and 57,493 kilometres of power lines, while OÜ Põhivõrk (National Grid) manages 143 substations and 4,991 kilometres of high-voltage power lines.
- At the end of the financial year 2005/2006, total installed capacity amounted to 2,380 MW in AS Narva Elektrijaamad (Narva Power Plants), 190 MW in Iru Power Plant, and 30 MW in Ahtme co-generation plant.
- A total of 6,100 MWh of renewable energy was produced in the financial year.
- Televõrgu AS (Telecommunications Network) launched a high-speed Internet service at the beginning of 2006.
- Eesti Energia companies employed an average of 8,983 people in the financial year 2005/2006.
- For the second time in the company's history, Eesti Energia was declared the most environmentally friendly Estonian company.
- Having planted a total of 11.4 thousand hectares of forest, AS Eesti Põlevkivi (Estonian Oil Shale Company) is one of the biggest forest planters in Estonia.
- Eesti Energia Group supported different ventures with a total of 0.4 million euros in the financial year 2005/2006, incl. a 0.2-million-euro donation for the Eesti Terviserajad (Estonian Recreational Trails) project.

EESTI ENERGIA STRUCTURE



STRATEGIC GOALS

NETWORK QUALITY

OÜ JAOTUSVÕRK IN 2010:

- distribution network failures will have been reduced by 50%
- distribution network losses will have been cut back to 7%
- all of the customers' voltage problems will have been solved

OÜ PÕHIVÕRK IN 2010:

- the number of power line and substation failures will have been reduced by 20%
- power line and substation maintenance expenses will have been reduced by 20%
- 80% of the 330 KV substations in Estonia will have been modernised

EXPANSION OF THE PRODUCT PORTFOLIO

WE WILL CONTINUE TO DEVELOP THE TECHNOLOGY FOR THE PRODUCTION OF ELECTRICITY FROM OIL SHALE
WE WILL PARTICIPATE IN NUCLEAR POWER PLANT DEVELOPMENT PROJECTS
WE WILL PRIORITISE CO-GENERATION AND RENEWABLE ENERGY
WE WILL SET UP COMBUSTION TURBINES AS A BACKUP TO WIND ENERGY

NEW CONNECTIONS, PRODUCTS AND MARKETS

EXPANSION OF THE OPTIONS PROVIDED BY OIL SHALE
THE ESTABLISHMENT OF A SECOND ESTONIAN-FINNISH UNDERSEA CABLE
WE AIM TO SECURE A 10% SHARE OF THE ESTONIAN INTERNET SERVICE MARKET BY 2010

PROSPECTS FOR GROWTH IN THE ELECTRICITY BUSINESS

TO LAUNCH SALES IN THE FINNISH ELECTRICITY MARKET IN 2007

- We will launch sales to Finland after completing the Estlink project

TO ACQUIRE DISTRIBUTION NETWORK COMPANIES

- We are interested in acquiring distribution network companies in the Baltic States

TO ENTER PARTNERSHIPS WITH ENERGY COMPANIES IN THE NORDIC COUNTRIES AND BALTIC STATES

- We are willing to pursue various projects in co-operation with different energy companies

THE VISION OF EESTI ENERGIA FOR 2015:

TO SELL ENERGY
TO TWO MILLION CUSTOMERS
IN THE BALTIC SEA REGION

THE MISSION OF EESTI ENERGIA:

TO DEVOTE ALL OF OUR ENERGY
FOR THE GOOD OF THE PEOPLE

HEADING TOWARDS THE FUTURE

It is my desire that the head of Eesti Energia in 2039 be at the helm of Europe's finest energy company. Making this dream a reality is my full-time job, and I dedicate one hundred per cent of my work to it, as do my colleagues, because the decisions that are made today in the energy business will have an effect many years from now. What happens 33 years hence is ours to decide today.

In the next 30 years, Eesti Energia's activities will be affected by competition for energy resources, by the opening of markets, by stricter environmental requirements, and by the international expansion of energy firms. To reap success from these trends, we must diversify our production potential, safeguard our environment, reach a higher level of customer satisfaction, and increase our client base by expanding our activity. In this way will we ensure Estonia's independence in energy.

For the sake of all of today's clients, and of those future clients not even born yet, Eesti Energia boldly accepts these challenges. Our first move will be to renovate and re-energise the electricity network even quicker than planned. We will create cleaner technology, the first of its kind in the world, for converting oil shale into electricity. We will investigate ways to harness renewable energy, establish new connections with our neighbours around the Baltic Sea. And on top of all this, we will become better and better at serving our customers.

Eesti Energia is determined to reach the two million client mark by the year 2015. It takes only a quick calculation to see that a bare quarter of these clients will be living in Estonia; there are only so many of us, after all. The rest will join our network from the countries around the Baltic Sea; this growth in the number of customers will be one of two yardsticks of our activity. The primary yardstick, as ever, will be the quality of our work.

Eesti Energia is responsible for the wise and prudent use of Estonia's oil shale reserves. Oil shale may not look like diamonds or gold; it may, indeed, be of a rather unexciting brown and dusty colour; but it is nevertheless the most important natural resource that we have. It is our oil shale that has permitted Estonia to remain an independent producer of energy. Today we are involved in research to find innovative methods of using oil shale, methods which we aim to be able to implement as rapidly as possible. We are developing an oil shale burning technology that is cleaner and has a minimal environmental impact. To guarantee our clients a reliable electricity supply decades down the road from now, Eesti Energia is investing in future technologies that will enable us to diversify our means of producing energy. The Future Energy Foundation we have founded; our plan to expand shale oil production; the mapping of possible ways to catch carbon dioxide emissions; our participation in a nuclear plant study; our research into a wind park on ash fields; these are only a few of the ways we are supporting future-oriented initiatives.

I want 2039 to be a good year for Eesti Energia. And I want the time that precedes it to be good as well. That is the aim of my work and of that of all of my colleagues. It matters not which Eesti Energia colleague that may be. It could be the individual who cleans lines in a Põlva County forest during a winter storm; it could be the person who mines oil shale 60 meters underground; it could be a technician who keeps the power plants in operation day in and day out near Narva; it could be a customer service associate in Pärnu; there is one thing on which they all agree: by doing what we do, we can make people's lives better.

We are all making the future.

Why do I speak of the year 2039? I could have picked 2050 or 2100, the story would be the same. But I speak of 2039 because that is the year, Eesti Energia will turn 100. And with 100 years behind us, we will be looking forward to our next glorious century providing electricity in Estonia and beyond.

Sandor Liive
Chairman of the Management Board

Mati Jostov
Chairman of the Eesti Põlevkivi
Management Board

Ilmar Petersen
Narva Elektrijaamad
Director

Sandor Liive
Chairman of the Eesti Energia
Management Board

Henn Jõe
Põhivõrk
Director

Tiit Nigul
Supply and Customer Service
Director

Margus Uudam
Jaotusvõrk
Director

Margus Kaasik
Eesti Energia Financial
Director

Lembit Vali
Eesti Energia Technical
Director

Eesti Energia is growing, and remains at the cutting edge of progress. Last year the Eesti Energia team was supplemented and a number of new initiatives were introduced. One of them was the laying of the undersea cable between Estonia and Finland, the first step toward connecting Estonia to European electricity grids.

SUMMARY OF THE FINANCIAL RESULTS

OVERVIEW

Backed by strong domestic sales, the export of electricity and solid economic growth in the Baltic region, Eesti Energia posted a record net profit of 135.4 million euros in the financial year 2005/2006. The net profit amounted to 61.5 million euros, if we do not consider the effect of emissions trading.

The most significant event in the financial year 2005/2006 was the launch of construction of the Estonian-Finnish undersea cable. We believe Estlink will have a material long-term effect on the Estonian and the entire Baltic energy market.

From the point of view of long-term financing, the long-term euro bond issue conducted by the company at the end of 2005 was the most important event of the financial year. In November 2005, Eesti Energia issued 300 million euros worth of bonds due for redemption in 2020. The company bought back the bonds with the redemption date of 2009, or exchanged them for those with the redemption date of 2020. The bond issue ensured the stable financing of the company in a period characterised by an opening electricity market and stricter environmental restrictions. Moody's raised the Eesti Energia credit rating from last year's A3 to A1/outlook positive. Standard & Poor's maintained the credit rating of A-, changing the negative outlook to stable. In the long perspective, the improvement in credit ratings enables a reduction of the company's interest expenses.

The shutdown of one of the units of the Ignalina nuclear power plant provided Eesti Energia with the opportunity to enter the Lithuanian electricity market and to export electric energy to Lithuania for the first time in the company's history. With the completion of the two new fluidised bed technology-based power blocks in Narva, the focus of the company's investment activities was turned from generation to network development. Total domestic power network losses were brought to an all-time low.

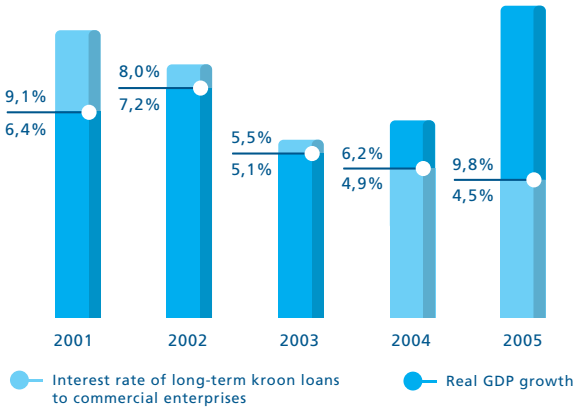
The fact that in February 2006 the prime ministers of the three Baltic states supported the decision to investigate the option of establishing a new nuclear power plant at Ignalina can be considered a significant event in the longer perspective, resulting in the signing of a memorandum for the launch of feasibility studies on the new nuclear plant by the heads of the leading energy companies in the Baltic countries – Eesti Energia, Latvenergo and Lietuvos Energija – in March 2006.

ECONOMIC ENVIRONMENT IS FAVOURABLE

The economic analysts polled by the Estonian Institute of Economic Research (EKI) in March 2006 gave the maximum number of points (9) to the overall economic situation in Estonia. The positive trends are the result of the accession to the European Union, the effect of which proved bigger than estimated. A special survey conducted by EKI in December revealed that 53% of those polled benefited and only 9% lost from the country's accession to the EU.

Real GDP growth in the fourth quarter of the calendar year 2005 was 11.1%, while the real growth for the four quarters amounted to 9.8%. According to the Ministry of Finance, the economic growth was mainly generated by an increase in domestic demand, which in turn was based on low interest rates, favourable loan terms and growth in disposable income. The relatively high economic growth was facilitated by a moderate inflation rate and positive developments in the labour market. The real growth of Estonian GDP still surpasses the economic growth of the euro zone, which amounted to 1.6% in 2005. The Ministry of Finance forecasts 8.2% economic growth in Estonia in 2006, and 7.7% in 2007, compared to the corresponding 1.9% and 2.1% forecasted for the euro zone by the European Commission in the autumn of 2005.

GDP AND INTEREST RATES



Source: Bank of Estonia
Calendar Year

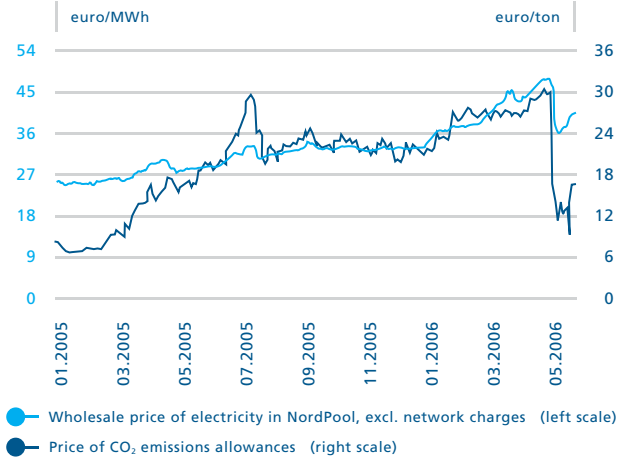
EMISSIONS TRADING MARKET OPENED IN EU IN 2005

By signing the Kyoto Protocol in December 1997, developed countries took the first step in ending the global warming caused by emission of greenhouse gases. The initially agreed goal for 2010 was to reduce greenhouse gas emissions by 5.2%, compared to 1990. The Protocol came into force after its ratification by 55 participant countries, whose total emissions currently made up 55% of the total. Russia was the last country with globally significant emissions to sign the Protocol at the end of 2004. The objectives established with the Kyoto Protocol can be achieved by implementing an emissions permit trading system and project-based mechanisms, such as joint implementation and clean development mechanisms.

The emissions trading system was implemented in the European Union as a measure for reducing emissions. Within the framework of the system, European companies currently trade carbon dioxide (CO_2) emissionsallowances, which are necessaryfor discharging into the atmosphere the CO_2 emitted , among other things, during the burning of oil shale. Under a national allocation plan, the Government of the Republic of Estonia allotted to Eesti Energia companies waste allowances for a total of 46.7 million tons of CO_2 to cover domestic consumption and electricity exports between 2005 and 2007.

Due to the smaller-than-estimated sales of electricity, and the investments made in the sustainability of the environment, some of the emission allowances allotted to the company remained unused in 2005. Eesti Energia generated 74.0 million euros in revenue from emissions trading. We plan to invest the extraordinary revenue from sales of allowances in the diversification of the production portfolio in accordance with the strategy approved by the Supervisory Board. One of the main purposes of expanding the production portfolio is to establish more environment-friendly energy generation capacities, and to improve production technologies.

CO_2 & PRICE OF ELECTRICITY



THE EUROPEAN OPEN ELECTRICITY MARKET PRICES HAVE GONE UP AS A RESULT OF FUEL PRICE HIKES AND THE LAUNCH OF EMISSIONS TRADING

The energy business is a global business and the electricity business is an regional business. The European Union has established the liberation of the power market as one of its goals. The closest free electricity markets to Estonia are the NordPool in Nordic countries and EEX in Germany. Since the beginning of 2005, the price of electricity has significantly increased in these markets, as well as in other European electricity markets. This has mainly been conditioned by three factors: oil price increases, the relatively cold and dry weather in Northern Europe, and the launch of the emissions trading system in Europe. The NordPool and EEX prices have increased by more than 50% in 18 months. In the second quarter of 2006, baseload power (excluding network charges) cost well over 40 euros/MWh on the Nordic electricity wholesale market NordPool.

POWER NETWORK CHARGES AND ELECTRICITY PRICES WERE ADJUSTED ON THE REGULATED MARKET

Network charges are calculated based on the costs approved by the regulator plus the operating profit, which depends on the invested capital. Operating profit is calculated based on the profitability of comparable companies, considering the specifics of the Estonian economy. The Energy Market Inspectorate has approved 7.4% as a reasonable profitability for OÜ Jaotusvõrk, and 6.9% for OÜ Põhivõrk. At the same time, the regulator approved the plan of allocating, in the financial year 2004/2005 and the following three financial years, an average annual total of 70 million euros for investments.

Network charges are established for three years. Every 12 months, the network charges are adjusted in accordance with the changes in certain parameters: once a year, network charges are multiplied by the correction factor.

The correction factor considers:

- the change in sales volume, compared to the previous period (predetermined upon price approval);
- the change in uncontrollable expenses (e.g. cost of purchase of renewable energy or compensation for the purchase costs);
- the increase in inflation (CPI) and efficiency (X) in the last 12 months;
- investments in the previously agreed volume and the consequent change in capital depreciation and operating profit and the fair rate of return.

The network charges and the electricity price packages were adjusted on 1 March 2006 within the limits of the approved average price. The adjustment in network charges and electricity prices had no significant effect on private customers and small corporate customers. The price of the Kodu 1-4 package somewhat decreased for the private customer, while that of the heating package remained at the previous level for the average consumer. For medium-sized and large corporate customers using the EN4-EN7 packages, the price of electricity increased by an average of 3%.

The price of electricity increased for both private and corporate consumers in most European countries in 2005, caused by a sudden increase in fuel prices, and the launch of emissions trading. For private consumers, the prices went up by 16.1% in the United Kingdom, 13.7% in the Czech Republic, and 7.5% in Italy. For corporate consumers, the corresponding figures were 40.2%, 21.6% and 10.8% respectively. The Finnish electricity market showed a 2.1% increase in the price of electricity sold to private households. In Sweden, the price of electricity increased by 3.5% for private consumers and by 27.1% for corporate consumers.

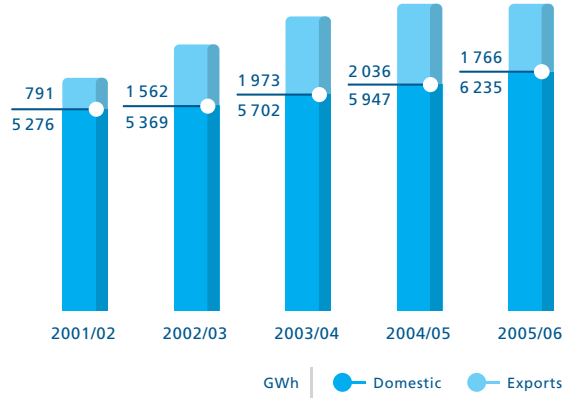
REVENUES SHOWED A SIGNIFICANT INCREASE

Revenues, (in millions of euros)	2005/06	2004/05
Oil shale production	118.9	111.7
Power production	334.5	250.1
Shale oil production	25.3	16.3
Transmission of electric power	69.0	61.8
Distribution of electric power	158.8	138.1
Supply and customer service	235.1	325.2
Support services	51.3	45.7
Eliminations	-459.4	-551.5
Consolidated revenues	**533.5**	**397.4**

Domestic sales of electricity totalled 315.9 million euros (+11.1%), adding 31.6 million euros to turnover, compared to the financial year 2004/2005. The electricity market is currently open for customers whose energy consumption exceeds an annual 40 GWh. 35% of the market will be opened from 1 January 2009, and the market will be fully open from 1 January 2013 onwards. As regards volume, domestic sales of electricity grew by 289 GWh (i.e. 4.9%). Sales increased in two segments: sales to corporate customers increased by 6.1% and sales to private customers by 4.7%; while sales to distribution companies decreased by 5.1%.

The overall economic growth was the main contributor to the increase in domestic demand for electric power. The average temperature for 2005/2006 was 0.4 degrees lower than that in 2004/2005. This increased electricity sales by an additional 50 GWh, compared to the previous financial year.

SALES OF ELECTRICITY



Electricity export decreased by 270 GWh (13.2%) to 1,766 GWh. Regardless of the drop in volumes, Eesti Energia's revenue from electric power export exceeded that of the previous financial year by 6.6 million euros (19.5%). Exports to Latvia increased by 158 GWh during the financial year 2005/2006. For the first time in the company's history, Eesti Energia entered the Lithuanian electricity market during scheduled maintenance of the Ignalina nuclear power plant. The 217 GWh of electricity exported to Lithuania makes up a significant (12.2%) part of the total electricity exported. The decrease in export volumes was conditioned by the termination of the oil shale processing agreement with the Russian energy company Lenslanets.

Increasing by 6.1%, the sale of **heat** generated 32.3 million euros in revenue in the financial year 2005/2006, amounting to 1,981 GWh (+0.2%). The volume dropped to 539 GWh in AS Narva Elektrijaamad (-6.7%), and increased to 1,234 GWh (+2.8%) in Iru Power Plant, and to 208 GWh (+5.3%) in AS Kohtla-Järve Soojus. The decrease in heat sales volumes in AS Narva Elektrijaamad was mainly due to the fact that the construction company purchased heat from AS Narva Elektrijaamad during the construction of the new fluidised bed boilers. The contract was terminated upon completion of the boilers.

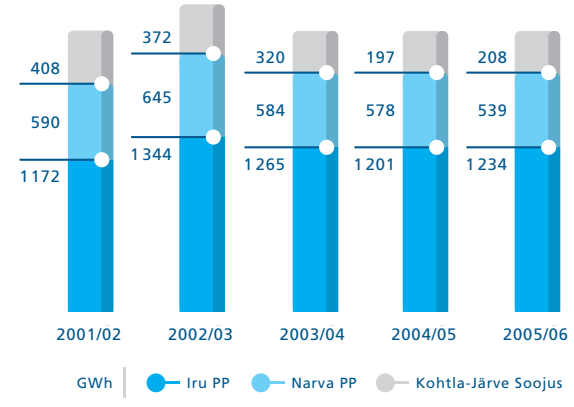
Oil shale sales increased by 0.5%, compared to the financial year 2004/2005, generating 13.3 million euros in revenue. However, with regard to volume, sales decreased by 53 thousand tons (-2.8%), this decrease was compensated for by a higher sales price. Oil shale production and sales are directly associated with the demand for electric energy and shale oil.

Shale oil sales increased by 73.0% (9.4 million euros), asthe price directly associated with the prices of crude oil. The price of crude oil has more than doubled since the beginning of 2003. In the financial year 2005/2006, the price of crude oil was significantly higher than the historic price level (50-60 dollars per barrel). This had positive effect on the price of fuel oil. Shale oil sales totalled 117 thousand tons in the financial year 2005/2006, increasing by 3.4%.

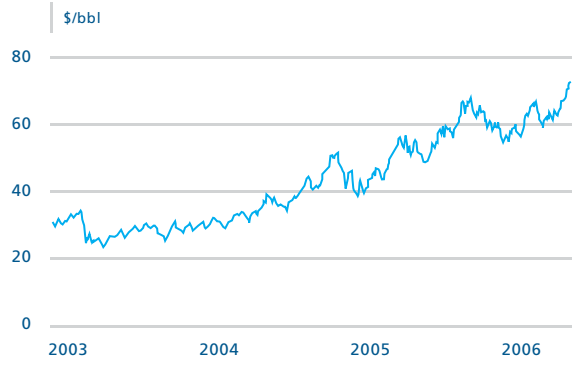
The sales of **other products and goods** generated 16.6 million euros in revenue in the period, nearly doubling from the same period last year. This growth was mainly supported by the 4.0-million-euro increase in the export of energy equipment at AS Energoremont.

The sale of **services** totalled 10.1 million euros in the financial year, increasing by 2.6%, compared to the same period last year. An increase was seen in the sale of telecommunications services (0.7 million euros, +33.5%) as well as in repair and construction services (0.1 million euros, +7.6%).

SALES OF HEAT



PRICE OF CRUDE OIL



OPERATING PROFIT SHOWED SUDDEN INCREASE

As regards financial results, several factors deserve a separate mention: first, the domestic sales of electricity increasing on the strength of overall economic growth and the export prices that have increased due to the increasing energy prices; and secondly, the high global market price of fuel oil, resulting in considerable growth of the oil shale sales price. The third factor to have a positive effect on financial results was the increase in the efficiency of production and networks. Depreciation, which increased due to the active investment activities of preceding periods as well as the new environmental tax rates effective since 1 January 2006, had a negative impact.

Despite the growth of depreciation costs accompanying the continuously high flow of investments, the overall rapid increase in average wages in the Estonian labour market and the inflation pressure characterised by the GDP deflator of 6.8%, the operating profit grew by 169.0%, or by 103.0 million euros.

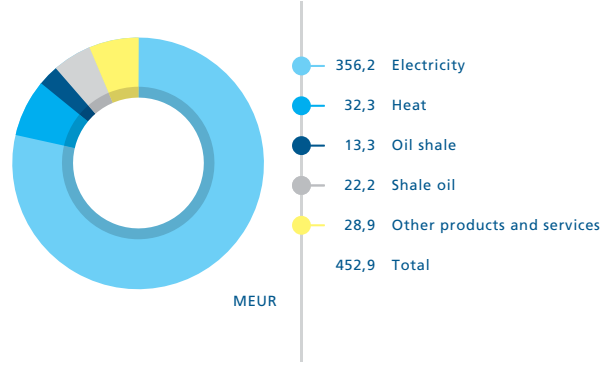
Without considering the effects of emission trading, the average invested capital grew by 8.1% since 31 March 2005, operating profit by 48.8% and return on invested capital from 5.5% to 7.6%. The steadily growing financial indicators are obvious signs of the positive development of Eesti Energia's business processes.

The operating profit of the **oil shale production** segment grew by 0.3 million EUR (4.0%) from the previous financial year. The considerable growth of environmental fees (primarily the oil shale extraction charge) since 1 January 2006 had a negative effect on the oil shale production segment. The operating profit grew mainly due to the increase of the internal sales of oil shale resulting from strong energy sales. Oil shale sales in the financial year of 2005/06 totalled 14.0 million tons (+0.5 million tons, or +3.7%). The majority of the sales went to energy producers in the Eesti Energia group as they did in the preceding financial year.

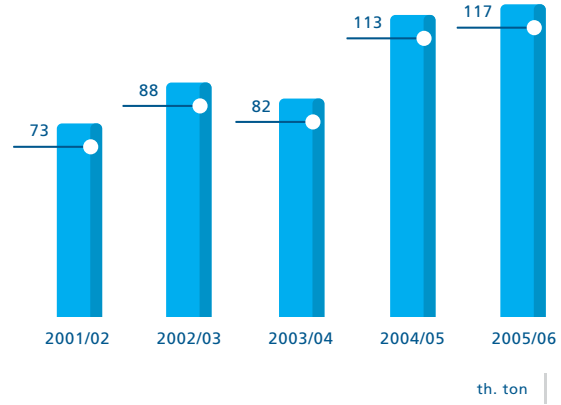
Compared to the preceding financial year, the operating profit of the **electricity and heat production** segment grew by 60.8 million EUR (164.2%) in 12 months. The segment witnessed a 1.5% (137GWh) decrease in the sales of electricity, to 8,763 GWh. The sales decrease was due to the ending of exports to Russia. The strong growth resulted from the sales of emission allowances. Without the sales of quotas, the growth of the operating profit was negative – due to the greatly increased environmental charge rates.

Operating profit, (in millions of euros)	2005/06	2004/05
Oil shale production	8.3	8.0
Power production	97.8	37.0
Shale oil production	12.1	3.6
Transmission of electric power	16.8	5.4
Distribution of electric power	22.5	12.6
Supply and customer service	3.3	-6.3
Support services	3.2	0.7
Eliminations	0.3	0.3
Consolidated operating profit	**164.4**	**61.4**

NET SALES 2005/06



SALES OF SHALE OIL



Oil production has an increasingly significant effect on Eesti Energia's financial results. Therefore oil production has been treated as a separate business segment in terms of economic accounting since the financial year 2005/06. In connection with the increasing fuel oil prices, the operating profit of the oil production segment grew from 3.6 million EUR to 12.1 million EUR.

The operating profit of the **electricity transmission** segment amounted to 16.8 million EUR, growing by 11.4 million EUR (210.4%). The operating profit of the **electricity distribution** segment grew to 22.5 million EUR, or by 9.9 million EUR (77.7%). The operating profits of both the electricity transmission and distribution segments were positively affected by the reduction of electricity network losses and the new network charges implemented since March 2005.

The factor with the greatest effect on the financial results in the **sales and customer service segment** were the new electricity rates effective from 1 March 2005. Before that, the operating profit of the Service unit was negative due to the composition of the end-consumers' electricity rates. According to the new tariff-setting principles, the end-consumers' electricity rate is composed of the purchase price of electricity, plus the expenses of the sales undertaking as approved by the regulating authority.

The growth in sale and customer service led to a notable increase in electricity exports. Although export volumes fell, revenues from exports rose; the reason for this rise in export revenues was a rise in export prices. In total export revenues from electricity sales and customer service increased by 11,0 (million EUR +39.7%) to 38.7 million euros.

In addition to the new pricing principles, the strong 4.4% or 269.6 GWh growth of Estonian domestic electricity sales had a positive effect on the operating profit. This included the open market sales of 779 GWh, sales to network undertakings in the amount of 742 GWh and the closed market sales of 4,932 GWh. The annual retail sales of the Service unit increased in all regions – most of all in Ida-Viru and Lääne-Viru county (13.7%), Tartu (7.7%), Pärnu and Viljandi (7.1%), the islands (5.6%), south-eastern Estonia (5.1%), Tallinn and Harju county (5.1%) and in Rapla and Järva¬ county (2.3%).

Use of the new pricing principles combined with strong exports to create a profit in the sales and service segment 3.3 million EUR in financial year 2005/06 (+9.6 million in 2004/05).

NET PROFIT

The average loan burden grew by 12%. Interest expenses grew to 27.9 million EUR, mainly due to costs related to the exchange of bonds. In the long term, the exchange of bonds helps keep interest expenses stable. The net profit for the financial year 2005/06 amounted to 135.4 million EUR, or 61.5 million EUR without the effects of emission trading.

Net profit, (in millions of euros)	2005/06	2004/05
Operating profit	**164.4**	**61.4**
Consolidated interest on borrowings	-27.9	-18.4
Consolidated interest expenses on provisions	-1.5	-1.6
Consolidated other net financial income	1.8	1.5
Income tax	-1.4	0.0
Consolidated net profit	**135.4**	**42.9**

EVA[1] ON THE UPSWING

Eesti Energia's business units are managed using strategic action plans, in the framework of which the performance of business units is assessed with different measurements that are integrated into a balanced scorecard system.

The most important financial measure is economic value added (EVA), which compares the company's operating profit with the volume and cost of invested capital (equity and debt). The experience of the world's leading companies has demonstrated that EVA is, in the long run, one of the most effective methods for measuring and characterising the change of the value of a company. Without the effects of the emission trade[2], Eesti Energia's EVA for the financial year 2005/06 amounted to –7.9 million EUR.

As regards segments, the oil production segment was the biggest creator of additional value, with EVA amounting to 11.1 million EUR. Economic value added was also positive in the oil shale mining segment. After the new rates were established, OÜ Põhivõrk and OÜ Jaotusvõrk are close to starting earn the cost of capital.

EVA, (in millions of euros)	2005/06	2004/05
Oil shale production	3.3	3.1
Power production	-10.4	0.3
Shale oil production	11.1	2.8
Transmission of electric power	-3.5	-13.7
Distribution of electric power	-4.4	-15.2
Supply and customer service	-0.4	-7.8
Support services	-3.6	-1.9
Total	**-7.9**	**-32.3**

The biggest negative EVA (excluding the effects of emissions trading) came from the power production segment, with the total economic value added amounting to –10.4 million EUR in the financial year 2005/06. The power production segment's modest EVA compared to the previous year was due to increased environmental costs and decreased electricity production. We aim to achieve a positive EVA by the end of the current three-year tariff period.

INVESTMENT ACTIVITIES FOCUSED ON TRANSMISSION AND DISTRIBUTION NETWORKS

In the financial year 2005/06, Eesti Energia invested a total of 152.8 million euros. The more important projects in the financial year were related to the development of the electricity transmission network on the strategically important Tallinn-Narva axis. In the long term, Eesti Energia is currently between large investments. From 2002/2003 to 2004/05 the company invested 596.6 million euros, or 198.8 million euros a year. The renewal of electricity networks will continue in the coming years, and the electricity production facilities must be renewed in connection with the stricter environmental restrictions. Eesti Energia has also set an aim to bring shale oil production to the level of 500,000 tons a year. Investments can therefore be expected to grow after 2006/07.

Investments, (in millions of euros)	2005/06	2004/05
Oil shale production	16.7	16.1
Power production	26.1	41.0
Shale oil production	0.9	0.5
Transmission of electric power	42.9	40.4
Distribution of electric power	62.0	61.3
Other; eliminations	4.2	0.8
Total investments	**152.8**	**159.9**

[1] The effects of emission trade have not been taken into account in calculating the economic value added.
[2] Considering the weighted average capital cost of 8.7%.

Eesti Energia's companies make investments based on the consideration that investments have to support the fulfilment of the objectives established on the balanced scorecard. The most important financial criterion is economic value added. Eesti Energia 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.

POWER PRODUCTION

Investments in energy production totalled 26.1 million euros in the financial year 2005/06. Of this, 4.5 million euros was spent on the construction of a gas-powered boiler house at the Balti Power Plant; 4.4 million euros on the reconstruction of infrastructure due to the shut-down of units in sets I – III at the Balti Power Plant; 1.0 million euros on the reconstruction of chimneys at the Balti Power Plant; 2.9 million euros on the reconstruction of the fuel feed at the Narva power plants; and 4.3 million euros on ash handling. It is evident that society is growing more and more appreciative of a clean environment and therefore the relevant requirements are becoming stricter. Thus we have prepared the power production investment strategy to take into consideration both the current and future environmental norms. Outside Narva Power Plants, the most important investment was the launch of a project to install low NO_x burners at Iru Power Plant. Iru Power Plant covers 50% of Tallinn's heat consumption and 100% of Maardu's heat consumption.

TRANSMISSION OF ELECTRIC POWER

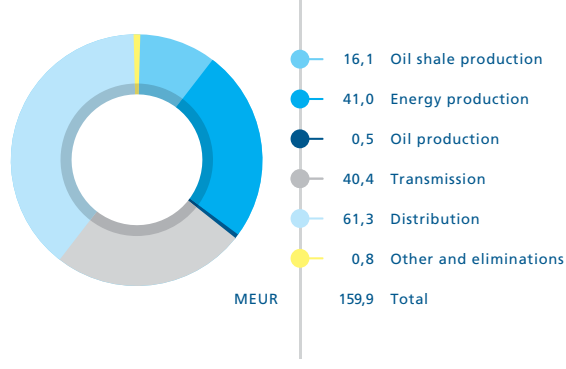
A total of 42.9 million euros was invested in the transmission grid in the financial year 2005/06. OÜ Põhivõrk continued its major projects in the strategic Tallinn-Narva axis. The major projects in the financial year 2005/06 included the reconstruction of the Balti 330 kV substation (2.0 million euros), the construction of the Kiisa-Balti 330 kV overhead line (11.7 million euros), the construction of the Endla 110 kV substation (3.1 million euros), and the reconstruction of the Veskimetsa 110 kV switch yard (2.8 million euros) and the Tartu 110 kV substation (3.7 million euros).

DISTRIBUTION OF ELECTRIC POWER

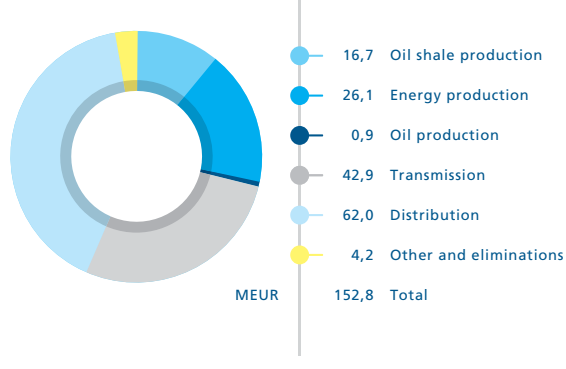
A total of 62.0 million euros was invested in the distribution network in the financial year 2005/06. For several years now, building new connections to the electricity network has been the biggest investment project, with 31.6 million euros invested during the year.

Besides new connections to the network, OÜ Jaotusvõrk's major investment plans also include the reconstruction of the 0.4-20 kV network and the voltage quality programme (7.0 million euros), the reconstruction of the feeders of 35-330 kV substations (6.0 million euros) and the transition of the 3x220 V network to 3x380 V (1.0 million euros).

INVESTMENTS 2004/05



INVESTMENTS 2005/06



CASH FLOWS AND FINANCING

As at 31 March 2006, the weighted average interest rate of Eesti Energia's debt was 4.34%. The base currency of Eesti Energia's borrowings is the euro. The interest rate decreased as a result of the repurchasing of bonds in the third quarter and issuing bonds with a longer term and lower interest rate.

Moody's raised Eesti Energia's credit rating from the A3 awarded at the end of the previous financial year to A1/positive outlook. Standard & Poor's kept Eesti Energia's rating at A-, changing the negative outlook to stable.

In November 2005, Eesti Energia issued 300 million euros worth of euro bonds with a fixed interest rate and a redemption term of 2020. The funds received from the issue of the euro bonds were also used for the repayment of the 25-million-euro issue of commercial papers and the 50-million-euro syndicate loan. In November 2005, 145 million euros worth of bonds with the maturity term of 2009 were repurchased or exchanged for new bonds. Bonds with the maturity term of 2009 not redeemed from investors in November 2006 were repurchased in March 2006 in the amount of 55 million euros.

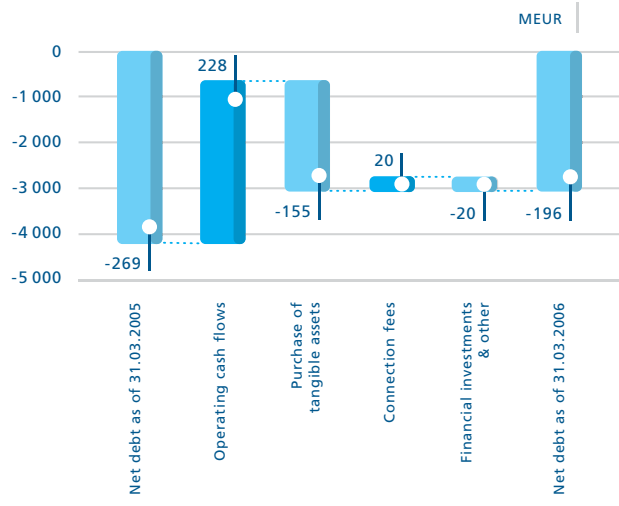
The interest rate for the 15-million-euro loan from the Nordic Investment Bank (NIB) using a fixed level interest swap is 6.08%. The 20-million-euro tranche used of the 60-million-euro NIB loan is also at a fixed interest rate.

93% of the loan portfolio is at a fixed interest rate. The average interest rate of loans with a floating interest rate was the 6-month EURIBOR + 0.41%.

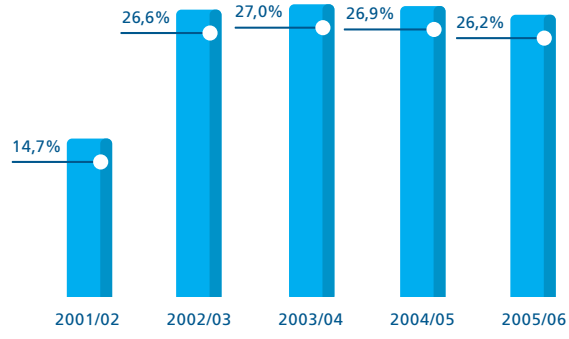
Regardless of the total loan increase resulting from major investments, the interest cover ratio is on the rise. In addition to the decreasing investments, the company's financial position was also strengthened by the new electricity rates established in March 2005.

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 79.9% to 154.3%, which means that for the first time in Eesti Energia's history, investments were financed solely from operating cash flows. The free cash flow was also positive without considering the effects of emission trade – and this in conditions where Eesti Energia's electricity price is one of the lowest in Europe for both domestic and corporate customers.

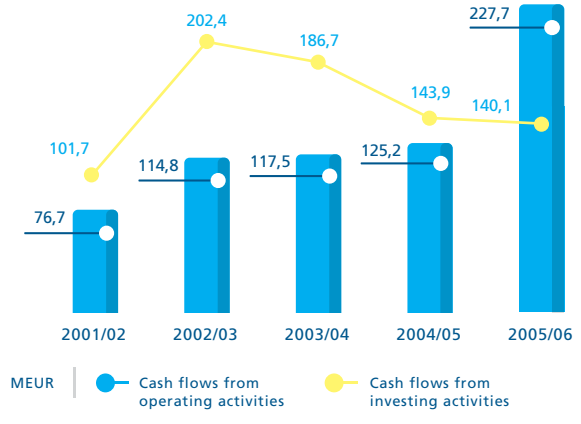
NET DEBT 2005/06



LEVERAGE



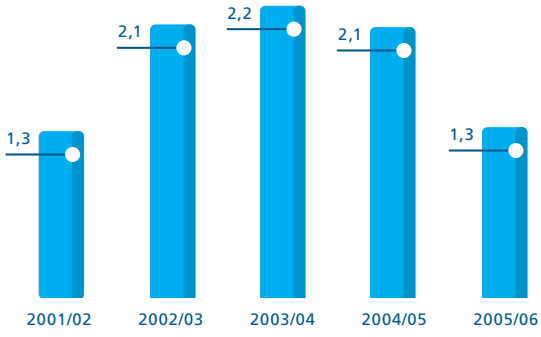
CASH FLOWS FROM OPERATING & INVESTING ACTIVITIES



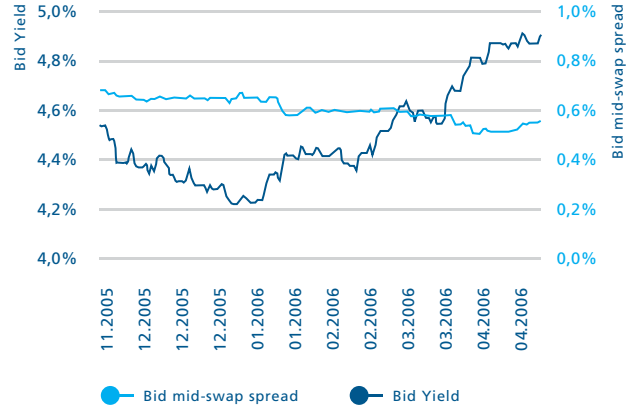
Eesti Energia's balance sheet structure was stable during the financial year 2005/06. Tangible assets make up the majority of assets. Despite large investments, Eesti Energia has managed to maintain a relatively conservative capital structure. In the financial year 2005/06, the proportion of debt decreased and the debt/(debt+equity) ratio was reduced mainly on the strength of the sales of allowances, from 26.9% to 26.2%. Our strategy is to diversify and extend 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 to long term even despite the expected profitable growth resulting from entering new markets.

As the financial results for the financial year 2004/05 were positive, the general meeting of shareholders decided on the basis of the management board's proposal to pay 6.2 million euros in dividends at the beginning of August 2005.

DEBT/EBITDA



EESTI ENERGIA EUROBOND (2020, 4,5%)



SHORT-TERM FORECAST

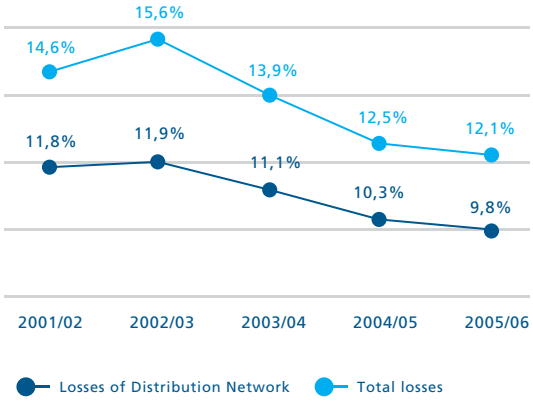
The spring 2006 economic forecast of the Ministry of Finance was even more optimistic compared to earlier evaluations on the developments of the Estonian economy in the coming years. On the basis of positive expectations, the Ministry of Finance is forecasting 8.2% economic growth for Estonia in 2006. According to the evaluation presented in the report of the International Monetary Fund's mission, published in April 2006, real GDP growth in Estonia will remain at the level of 6% in the near future.

According to the Ministry of Finance's forecast, growth in the manufacturing industry sector will be higher than average in the Estonian economy in 2006-2007. The growth is based on the increased production capacities and the improved competitiveness of products and the efficiency of companies. The growth forecast by the Ministry of Finance in regard to the export of goods (13.3%), capital investments into equity (9.5%) and private consumption expenditure (7.3%) shows that the growth in electricity demand should also remain somewhat more rapid than the long-term average in the future. With its current growth trend and structure, the Estonian economy is sufficiently strong to support the long-term growth of electricity consumption.

The average temperature of the reporting period was 0.4oC lower than the corresponding indicator for the financial year 2004/05. Although the lower temperature supported the sales of electricity in the financial year 2005/06, analyses reveal that if the effect of temperature is eliminated from the actual consumption, growth in electricity consumption has on an annual basis reached 3.5% in the last 12 months (which is already somewhat higher than the long-term average growth of consumption).

Distribution network losses dropped to 9.8%, the lowest level in recent years. In the financial year 2006/07, the company will continue to reduce technical network losses by implementing a long-term investment plan and reducing commercial losses in cooperation with the Supply business unit by identifying and eliminating the sources of commercial losses. The company aims to achieve the level of 9.2% in regard to losses in the financial year 2006/07.

DOMESTIC ELECTRICITY LOSSES



Eesti Energia will continue to implement its medium-term investment plan. At the core of the investment plan is the reconstruction of electricity networks and production facilities. The volume of investments planned for the financial year 2006/07 will be approximately 170 million euros.

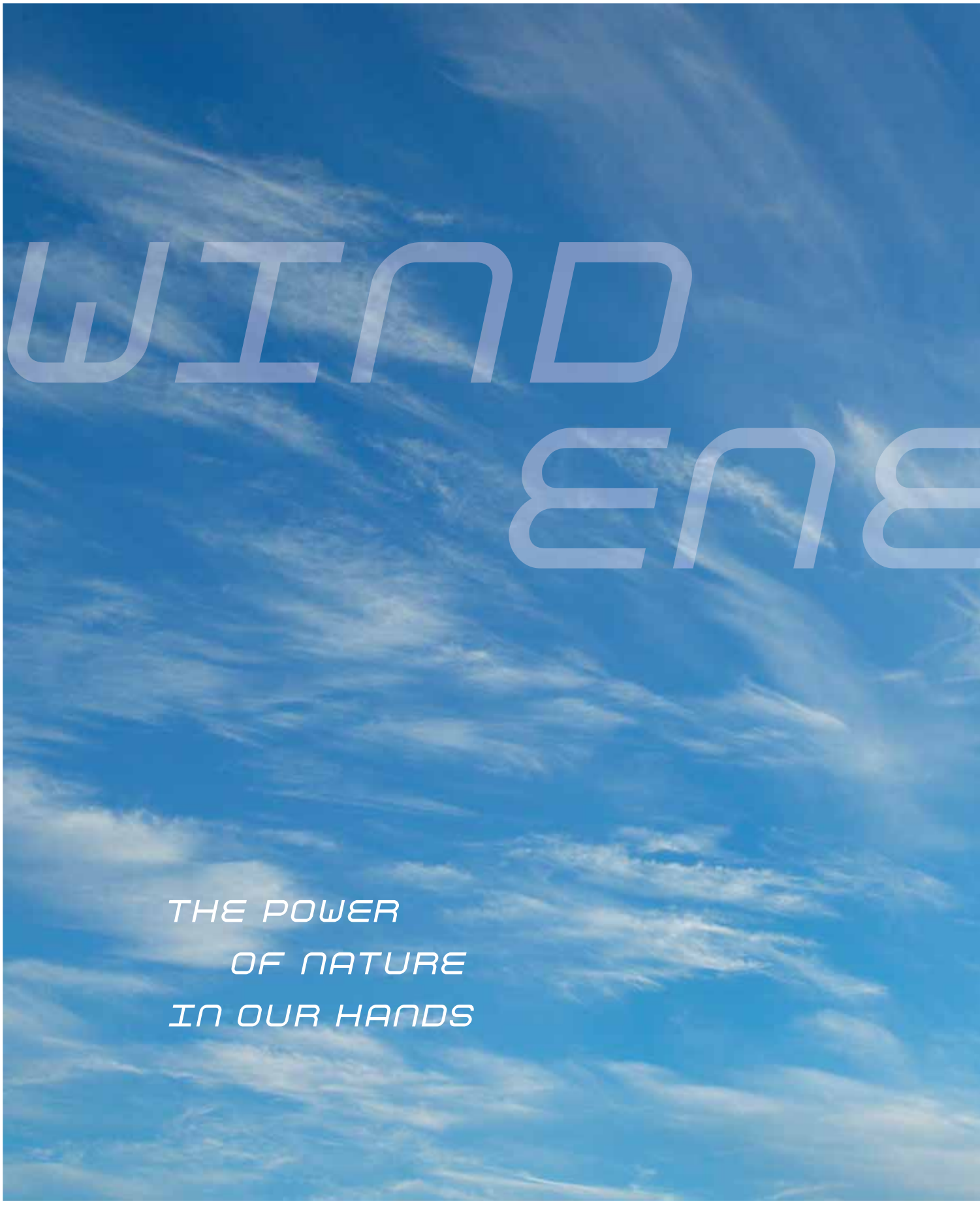
Strategically important projects include the launch of the Estlink undersea cable, the feasibility study of the Lithuanian nuclear power plant, the feasibility studies of new shale oil factories and the construction of the Kiisa-Balti 330 kV line.

The high oil price has considerably increased the competitiveness of shale oil. Due to the situation in the Middle East and particularly the uncertainty arising out of the possible after-effects of Iran's nuclear programme, the global market prices have risen to $50-60/barrel. The price of fuel oil determining the price of shale oil has changed similarly to the oil price. Eesti Energia is planning to hold additional oil shale auctions in the financial year 2006/07. As the increased oil price has affected some of the local heat producers, the state is considering options for regulating the price of shale oil in the domestic market.

Vibrant economic growth has increased the consumption and sales of electricity in Estonia in recent years. In the nearest future, the relatively rapid increase of environmental fees will have a negative impact on financial results. The effect of the increasing environmental fees will, however, remain below the supporting effects of the growing sales of electricity, entry into new export markets, optimisation of costs and well-planned investments, and therefore we expect continued positive growth in the financial results in the financial year 2006/07.

Terms used

EBITDA	–	earnings before interest, taxes, depreciation and amortisation
EVA	–	economic value added (operating profit minus invested capital multiplied by the weighted average cost of capital)
FFO	–	funds from operations; operating cash flow less changes in working capital
invested capital	–	shareholders' equity plus debt
interest cover ratio	–	EBITDA divided by interest on debt
net debt	–	debt less cash and equivalents


WIND
ENE
THE POWER
OF NATURE
IN OUR HANDS

Estonia's coast, sea and lakes are a hidden source of natural wind energy. By drawing on the strengths of the local natural environment, we have the potential to obtain even more energy from wind in the future. We are analysing various ways of putting energy from nature to better use.

FIELDS OF ACTIVITY

SUPPLY AND CUSTOMER SERVICE

The mission of the Supply and customer service business unit of Eesti Energia is to save the customers' efforts in taking care of electricity related matters. We have been working constantly to make customer service simple, easy to understand and rapid. As a result, we have managed to move a step closer to the customers in this year as well.

Eesti Energia has over 480,000 home clients and over 22,000 corporate clients. However, the number of corporate clients' points of consumption is twice as large – nearly 50,000 sites.

According to data from the market research company Emor TNS, the service quality at Eesti Energia is the best among major Estonian service companies.

We launched a new personal interruption notification system, replacing the former newspaper notices. Now, customers will learn of planned power outages by means of postcard, e-mail, or SMS. Customers can also send a malfunction notice to us by text message if there is a power outage.

The call centre, which receives customer service calls at the number 1545 and malfunction calls at 1343, received over 381,000 calls from customers during the year. Long call queues are avoided by recorded voice messages on the helpline regarding power outages that Eesti Energia is already aware of and is handling.

This financial year, we sold 2.5 GWh of renewable energy. We launched a project intended for young people and schools to promote a green and economical way of thinking, and joint projects with the Estonian Fund for Nature and the Green Movement. We support the popular youth event held every spring, "The Green Bicycle Tour".

We started organising guided tours and offering seminar facilities in a green environment at Eesti Energia's newly renovated Keila-Joa Hydroelectric Power Plant.

Exports to Latvia again reached record-high levels this year (1.55 TWh). In connection with one of the reactors at the Ignalina nuclear power plant being closed down and another undergoing repairs, we got our first opportunity to sell electricity to Lithuania (0.22 TWh). Upon the completion of the undersea cable between Estonia and Finland we shall be able to start trading with the Nordic countries too.

The most important keywords for the financial year 2006/07 are the development and provision of segment based solutions (products, services, offers) to customers, enhancing the customer management system, the continued and systematic reduction of power network losses and the development of service offices into consultation centres. We are preparing to participate in international energy trading

The Supply and customer service business unit employs 364 people.

OÜ JAOTUSVÕRK

OÜ Jaotusvõrk's (Distribution Network) task is the distribution of electricity to end consumers low-voltage and medium-voltage network of up to 35kV and the management of these networks.

OÜ Jaotusvõrk operates 18,862 substations and 57,493 kilometres of power lines. In the last year, we reduced power losses to 9.8%. The number of malfunctions was reduced by 20%.

We invested 62 million euros. Major investment items included the switch yards of the Lasnamäe 6 kV, Ülemiste 6 kV, 35 kV, Valga 10 kV, Tartu 10 kV, 15 kV, 35 kV, and Tõnismäe 10 kV substations and the substations own consumption switch yards of the Estonian PP 6 kV, 35 kV substations.

In cooperation with the international management and technology consultation company PA Consulting, we reviewed the asset management system of OÜ Jaotusvõrk. Based on the study we shall prepare and implement a long-term investment and maintenance strategy for OÜ Jaotusvõrk.

We launched a network management software project, the aim of which is to provide detailed up-to-date overview of the situation in the power network. The information system being created will cover all the information related to the company's assets and enable us to plan network maintenance and investments on a uniform basis. The software will also make it possible to create a uniform environment for organising procurements, and offer an electronic information exchange system for network operator and its partners.

We also changed the management model of OÜ Jaotusvõrk in accordance with new asset management principles. We created structural units for network management and made the transition from regional management to functional management.

Following the certification audit conducted in February, auditors deemed the OÜ Jaotusvõrk management system compliant with the requirements of the occupational health and safety management specification OHSAS 18001:1999 and the new version of the environmental management system standard, ISO 14001:2004.

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

Since 1 June 2004, OÜ Jaotusvõrk has operated as an independent company, adhering to the requirements established by the European Union on the management of power companies in connection with the opening of the electricity market to competition.

At the end of the financial year, OÜ Jaotusvõrk employed 990 people.

OÜ PÕHIVÕRK

The main task of OÜ Põhivõrk (National Grid) is to transmit electric power from the producer to major industrial consumers and distribution networks. The company also acts as the transmission system operator keeping capacity in balance and operating the power system of the whole of Estonia in real time in order to ensure its continuous and high-quality operation.

As at the end of the financial year, OÜ Põhivõrk manages 143 substations and a total of 4,991 km of high-voltage power lines (3,412 km of 110 kV lines, 183 km of 220 kV lines and 1,298 km of 330 kV lines) in Estonia. Along these lines, OÜ Põhivõrk transmits electricity to 15 customers and connects the Estonian power system with the power systems of neighbouring countries.

Several important projects were completed by OÜ Põhivõrk in the financial year. We renovated the 110 kV distribution board of the Tartu substation, the 110 kV Allika substation, the 110 kV Valga substation and the 330 kV Rakvere substation. We also renovated the 110 kV Tõnismäe-Endla and Tõnismäe-Elektrijaama cable lines.

In the financial year 2005/06, we commenced the extension of the 330 kV Harku substation, which is an important junction in the Balto-Scandic Estlink connection. We also started the construction of the 330 kV Balti-Kiisa overhead power line, which will be completed in autumn 2006.

In order to increase the reliability of the Estonian power system, we invested a total of 43 million euros in substations and high-voltage power lines in the financial year 2005/06. To ensure sustainability, we upgraded the power system control system SCADA and replaced the control board. The new box now completely meets today's requirements.

In summer 2005, OÜ Põhivõrk became a full member of the European Transmission System Operators (ETSO). The company also continues to be a member of BRELL, an organisation for cooperation between five countries: Estonia, Latvia, Lithuania, Russia and Belarus.

Occupational health and safety management in the company meets the requirements of OHSAS 18001:1999. During the year, certificates verifying the conformity of the company's quality and environmental management system with the requirements of standards ISO 9001:2000 and ISO 14001:2004 were renewed.

In the next financial year, OÜ Põhivõrk aims to continue the stable growth of the company, improving the quality of electricity transmissions, reducing the number of malfunctions and optimising operating costs. The launch of Estlink and the reorganisation of the operation of the Baltic power system without a common control centre will be the most important international events. In connection with this, OÜ Põhivõrk will start operating as the secretariat of the cooperative organisation Baltic Transmission System Operators (BALTSO), which is being created.

At the end of the financial year, OÜ Põhivõrk employed 140 people.

ESTLINK

One of Eesti Energia's most important business projects is the Estlink undersea cable, which will be the first connection between the Baltic and Nordic electricity markets. The Estlink undersea cable will be built as a direct current cable with a capacity of 350 MW.

The Estlink cable will enable Eesti Energia to trade in the Nordic electricity market. It is estimated that the cable will make possible sales of up to 2 TWh per year of electricity to Finland.

The undersea cable will be managed by AS Nordic Energy Link, the shareholders of which are Eesti Energia (39.9%), Latvenergo of Latvia (25%), Lietuvos Energija of Lithuania (25%) and Finestlink of Finland (10.1%).

For the construction of the undersea cable, AS Nordic Energy Link contracted the Swiss-Swedish electrical equipment manufacturer ABB in April 2005. The total cost of the cable connection is 110 million euros and the connection should be operational in December 2006.

AS NARVA ELEKTRIJAAMAD

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

AS Narva Elektrijaamad provides Estonian consumers with electricity and the city of Narva with heat, as well as exporting electric power to Latvia. It generates 95% of the electricity produced in Estonia. In addition, the company produces shale oil. The company also sells oil shale ash, which can be used in the manufacture of construction materials and for agricultural purposes (alkali soil amendment for the purpose of fertilising fields and managing soil acidity).

At the end of the financial year 2005/06, the total electrical capacity of Narva Power Plants amounted to 2,380 MW, with 1,615 MW at the Eesti Power Plant and 765 MW at the Balti Power Plant. The installed heat energy capacity is 84 MW and 400 MW respectively.

We included the renovated block 11 of the Balti Power Plant in the balance of power and brought the gas-powered peak load and reserve boiler house of the Balti Power Plant into operation.

We closed down the operation of the low-efficiency and high-emission I-III set equipment of the Balti Power Plant.

Shale oil production and sales increased significantly during the financial year. We sold 129,000 tons of shale oil during the year. The conformity of the management system of the Oil Plant with the international standard ISO 9001:2000 was confirmed by a certificate received from the Estonian office of Bureau Veritas Quality International. In 2005, AS Narva Elektrijaamad was granted the patent for its oil extraction technology.

The environmental management system of AS Narva Elektrijaamad meets the requirements of standard ISO 14001:2004

In the next financial year, we are planning to start the construction of the next energy unit with a fluidised-bed boiler, increase oil production with the existing equipment and start an extension of the oil factory. We shall continue cleaning up the ash fields, and launch several new projects and continue the existing projects for reducing environmental effects and increasing production efficiency. We are planning to complete the construction of a new pilot for an ash transport system based on thick slurry technology.

At the end of the financial year, the company employed 1,774 people.

OÜ IRU ELEKTRIJAAM

OÜ Iru Elektrijaam (Iru Power Plant) is a combined heat and power plant in Tallinn. Natural gas is the fuel used, with liquid fuels providing backup. The electrical capacity of Iru Power Plant is 190 MW, and its heat capacity is 648 MW (398 MW in co-generation mode). 465 GWh of electric power and 1,234 GWh of thermal power were produced in the financial year 2005/06.

Iru Power Plant is the biggest producer of thermal power and the third biggest producer of electrical power in Estonia. We had the biggest market share on the district heating market of Tallinn (approximately 50%) and Maardu (approximately 100%). Thermal power was supplied via the AS Tallinna Küte district heating network. The electrical power generated in the co-generation process was sold to the clients of Eesti Energia.

The financial year 2005/2006 proved a successful one for Iru Power Plant. Changes aimed at increasing competitiveness, as well as optimising internal processes and improving efficiency, produced good results. We altered the functions of the company's employees and further developed the motivation system.

The investment policy focused on increasing reliability and efficiency. We modernised the emergency oil discharge system of transformers, partly replaced the mountings with more modern

and reliable ones, modernised the working and reserve inputs of the 0.4 kV sections, installed a network analyser and renovated the laboratory and office rooms in the main building.

Iru Power Plant holds a quality certificate corresponding to standard ISO 9001:2000, an environmental management certificate corresponding to standard ISO 14001:2004 and an integrated environmental permit. This ensures the protection of water, air and soil and the processing of waste from installations with no pollution from one environmental element (water, air, soil) passing into others.

In the next financial year, the company aims to continue increasing operating efficiency and reducing environmental impact. The largest project in the latter area is the replacement of the burners of the power plant's combustion equipment with more efficient and environmentally friendly low NOx burners in conjunction with modernising the automatic systems.

The number of employees in the company decreased by 31% in the financial year, i.e. to 76 employees.

AS KOHTLA-JÄRVE SOOJUS

AS Kohtla-Järve Soojus (Kohtla-Järve District Heating Network) supplies heat to the towns of Jõhvi and Ahtme and sells electric power to Eesti Energia. The company owns the oil-shale-fired Ahtme co-generation plant operating since 1951, and the thermal power networks in the Ahtme-Jõhvi region.

The electrical capacity of the plant is 30 MW and the consumption capacity of the thermal power network is 100 MW. The length of the thermal pipe network in the heating district is 98 km.

In the financial year 2005/2006, AS Kohtla-Järve Soojus sold 215.3 GWh of thermal power and 33 GWh of electric power. The last financial year was the second year in a row that was financially successful for the company.

The costs incurred in repairing the old boilers were high, but the co-generation plant operated in a stable manner during the heating period and the plant's heat production efficiency indicators improved compared to the year before. Receipts improved and the company's financial standing strengthened.

The company invested a total of 0.2 million euros, mainly in heating networks. As a result, heat losses in the heating networks were reduced.

Preparations for the new Ahtme co-generation plant project continued in the financial year 2005/06. This included an evaluation of the environmental impact of the project, the specification of fuel delivery plans and prices, and an assessment of the profitability of different versions of the investment project. The company has prepared the public procurement documentation to find an entity to prepare the tender documents; settled the issues of financing the public procurement; and started geodetic surveying works.

The most important objectives in the financial year 2006/07 are the public procurement for the construction of the Ahtme co-generation plant, the conclusion of a contract and the commencement of construction activities.

In order to act out the possible emergency situations that may occur prior to the completion of the new plant, the company plans to organise emergency situation training in cooperation with the local governments.

At the end of the financial year, the company employed 127 people.

RENEWABLE ENERGY BUSINESS UNIT

The renewable Energy Business Unit has operated in the Eesti Energia Group since 2002 and it handles the establishment and operation of power plants producing renewable energy.

The plants in operation – the Virtsu windmill (capacity 0.6 MW), the Linnamäe hydroelectric plant (1.152 MW), and the Keila-Joa hydroelectric plant (0.365 MW) – generated a total of 6,100 MWh electric power in the last financial year. A total of 92 GWh of renewable electric power was produced in Estonia, which is twice more than the year before.

We shall continue the development of the Ruhnu windmill/diesel plant, restoration of the Põltsamaa hydroelectric plant, design of the wind park for the Balti Power Plant ash field 2 in Narva, and development of the construction of a biogas-powered thermal power plant at Ekseko's pig farm.

AS EESTI PÕLEVKIVI

AS Eesti Põlevkivi (Estonian Oil Shale Company) mainly handles oil shale production and sales. AS Eesti Põlevkivi is the leading oil shale mining company and at the same time initiator of the oil-shale related research in Estonia. In June 2006, it will be 90 years since industrial oil shale mining began in Ida-Virumaa.

AS Eesti Põlevkivi consists of the parent company and three subsidiaries. In addition to the mining company (Põlevkivi Kaevandamise AS), which incorporates two mines and two quarries, AS Eesti Põlevkivi also owns a rail transport business (AS Põlevkivi Raudtee) and a machine building and metal processing company (AS Mäetehnika).

The turnover of AS Eesti Põlevkivi totalled 118 million euros in the financial year 2005/06. The company extracted 13.752 million tons of oil shale and sold 14.025 million tons. 87 per cent, or 12.1 milliontons of the oil shale sold to customers in the financial year was used to produce electricity or heat.

The main buyers of oil shale in the financial year 2005/06 were AS Narva Elektrijaamad with 12.2 million tons, Viru Keemia Grupp with 1.5 million tons, and Kunda Nordic Tsement with 0.2 milion tons.

Major investments in the financial year 2005/06 included: the reconstruction of excavator EŠ 15/90 (the Friendly Lynx) in Narva for 2.6 million euros; the purchase of four bulldozers for 3.2 million euros; the purchase of five TORO 400 underground loaders for 1.5 million euros; the purchase of 25 open-top wagons for AS Põlevkivi Raudtee for 0.6 million euros.

In the last financial year, we completely replaced the rail transport in the Estonia mine with road transport. In drifting the preparatory workings, we used dumper transport for transporting the mineral raw material. We are implementing new drilling and blasting technology in order to increase progress. We have introduced safer and more efficient pumped emulsion explosives in the underground conditions.

In cooperation with the Excavation Institute and Development Fund of Tallinn University of Technology we selected the first student to be granted an AS Eesti Põlevkivi scholarship. We have concluded cooperation agreements with the Viru College of Tallinn University of Technology and with the Estonian Agricultural University.

We have centralised the structure of the personnel department since 1 January 2005, and we started introducing the Microsoft Business Solution Axapta production software on 1 September 2005. We put the software into operation on 1 April 2006.

The main strategic objective is to keep the price of oil shale as low as possible in the long term.

As at the end of the financial year, AS Eesti Põlevkivi employed 4,036 people. The number of company employees decreased by 325 people.


OIL SH
ENE
PUTTING A PREMIUM
ON OIL SHALE

A total of 90% of Estonia's electricity comes from local oil shale; it is the main guarantee of the independence of our energy production, and it is a universal raw material.

Oil shale gives us electricity, gas, liquid fuel and various chemical products. We want to continue investing in new technologies in order to improve oil shale production and lessen the impact on the environment.

AS ELEKTRITEENUSED

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

The company has been operating for six years. Over this period, revenues have nearly doubled, primarily in relation to the growth of electrical installation construction.

Due to the external environment and in order to increase competitiveness, the company continued work on improving and supplementing its management systems.

We presented the company's management system, the environmental management system and the work environment management system for certification. As a result of an audit, Bureau Veritas Quality International declared the company's management systems compliant with standards ISO 9001:2000, ISO14001:2004 and OHSAS 18000:1999.

As at the end of the financial year, the company employed 343 people.

AS ELPEC

AS Elpec is a company which designs power networks, offering a wide range of services. We implement electrical projects related to subscription connections and investments both in the Eesti Energia Group of companies and in external clients, provide consultations to clients on electricity and land use related issues, take care of the legal matters of land use for overhead and cable lines and substations by concluding both notarised and simple written contracts for the use of land with landowners, take care of legal matters related to line extensions under overhead power lines by concluding agreements for felling trees in the protection zone of overhead lines with forest owners and other relevant institutions, and perform geodetic surveys and prepare detailed plans.

The company's main task in the financial year 2005/06 was to speed up the connection process and to obtain building permits from local governments in as short a time as possible.

The company's turnover in the financial year 2005/06 exceeded 2.7 million euros. After restructuring, the company has reached a stage of stable development, and it employed numerous young professionals during the year.

During the financial year, we prepared 616 connection or investment projects, concluded 3,961 contracts for the use of land, and significantly shortened the design stage in the process of constructing subscription connections.

Major projects in the last year included designing the Estlink land cable line, designing the network connections for the Veskimetsa 110/35/6 kV substation and the Balti Power Plant's 330 kV switch yard, designing the renovation of the 6 kV distribution board of the Lasnamäe substation, designing the connection of the Viru-Nigula 110 kV substation and overhead power line, and designing the replacement of the Tartu Emajõe 110 kV overhead and land cable lines and the 330 kV automatic transformers at the Tartu substation, as well as several projects for lighting sport tracks.

AS Elpec's main objective in the next financial year is to minimise the time taken to design subscription connections and conclude contracts for the use of land. It is important to take part in the planning process of local governments, in order to have the future plans of both OÜ Põhivõrk and OÜ Jaotusvõrk taken into account in general plans and to bring detailed plans into accordance with our line related needs. We are planning to develop a geodetics service.

As at the end of the financial year, the company employed 75 people.

AS ENERGOREMONT

The main activities of AS Energoremont Grupp (Equipment Maintenance and Supply) include the design, manufacture and installation of metal products; the inspection of metal and welded accessories; the training and qualification of welders; the repair and maintenance of electrical installations and automatic equipment; the maintenance, repair and power washing of power production equipment.

The Group's turnover amounted to 15.0 million euros, including exports totalling 9.3 million euros in the financial year 2005/06.

The Energoremont Grupp developed and obtained certification for an integrated quality and environmental management system.

We extended our activities in the area of supervision and inspection of welded connections on energy and pressure equipment to France, Holland, Latvia and Lithuania. The entry of Energoremont Group into new markets in Canada, France, Holland, Denmark, Latvia and Lithuania supplemented and renewed the existing client base.

Solid operating and the financial performance of the painting workshop have enabled us to increase the sales volume 1.5 times and thus significantly enhance the profitability of investments.

The purchase of an ultra strong pressure washer enabled us to expand the product line in marine shipping (maintenance of ships).

As at the end of the financial year, the company employed 544 people.

TELEVÕRGU AS

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

We operate one of the biggest communication backbones in Estonia, the operational radio communication network of the entire country, and Estonia's biggest corporate telephone and computer network. We exploit the existing communication backbone to the maximum as we also render communication services to third parties.

We started offering high-speed Internet services at the beginning of 2006. In addition, we are planning to enter the retail Internet market during 2006 and achieve a 10% market share in that market by 2010. For this purpose, we are planning to invest 1.2 million euros in the construction of access networks in the next financial year.

LRQA declared the environmental management system of Televõrgu AS compliant with the requirements of standard ISO 14001:2004 and issued a corresponding certificate.

As at the end of the financial year 2005/06, the company employed 44 people.

OÜ ELEKTRIKONTROLLIKESKUS

The main activities of OÜ Elektrikontrollikeskus (Power Inspection Centre) are the technical inspection of electrical installations and evaluation of their compliance with the requirements, and the assessment of the competence of and organisation of enhancement training for small businesses involved in the field of electricity.

In general, the year 2005 was quite demanding as the company worked on maintaining service volume stability and bringing the structure and composition of the services offered into line with market requirements.

Among other things, AS Elektrikontrollikeskus suspended the activities of the non-profitable Türi subunit. We continued focusing on securing business operations on the current Estonian market, and made preparations for joining the EU business environment. We also tried to adapt to the changes in the business environment that arose from the amendment of and entry into force of EU directives on the main activities of the company.

The company has been granted the right to operate as a notified institution for the evaluation of the conformity of low voltage equipment with the requirements, and as a competent institution for the evaluation of the conformity of electrical equipment and installations with the electromagnetic compatibility requirements at EU level.

In accordance with decision No 3/2005 of AS Elektrikontrollikeskus' sole shareholder Eesti Energia of 10 November 2005, AS Elektrikontrollikeskus will be reorganised as a private limited company with the business name OÜ Elektrikontrollikeskus.

In addition to providing our current main services, we have set as our aim an increase in the volume of services and in market share in the technical inspection of electrical installations of up to 15% in the next financial year, by finding means for efficient cooperation with insurance companies in evaluating the insurance risks arising from electrical installations. We wish to increase the volume of services in the areas of measurement of physical indicators and evaluation of the field levels of electrical, magnetic and electromagnetic standards established to maintain working and living environments; evaluation of the reference voltage values at the consumers' connection points; and calibration of electrical measuring equipment.

As at the end of the financial year, the company employed 29 people.

WE VALUE PROFESSIONAL SKILLS AND COOPERATION

Eesti Energia's employees form a substantial part of the employed population in the country (1.4%) and a significant part of the employed population in northeastern Estonia (8.4%). As at the end of the financial year, the Eesti Energia Group employed a total of 8,728 people. Such a large number of employees offers the company many opportunities, while also generating great responsibility.

DEVELOPMENT OF EMPLOYEES AND RECOGNITION OF INITIATIVE

Eesti Energia supports the further training of its employees, particularly in professions related to its main fields of activity. Over 70% of Eesti Energia's employees took part in training courses during the financial year. The number of training hours per employee was 9, which is a bit more than one workday in the working year. Training, opportunities for improving professional knowledge, and personal growth are a part of the company's employee motivation system. Several of our best specialists impart professional knowledge to the students of Tallinn University of Technology and other institutions of higher learning. The company rewards the implementation of innovative proposals or projects that are beneficial to the company as a whole and significant services to the company with orders of merit.

SYSTEMATIC EVALUATION OF EMPLOYEES HELPS UNIFY OBJECTIVES AND ENSURES THE QUALITY OF SERVICE

Eesti Energia continued improving and implementing work-related evaluation procedures during the financial year. Work related evaluation includes evaluation of the employees' performance, knowledge and skills. Evaluation takes the form of development interviews between superiors and subordinates, a competence exam for technical specialists and skilled workers, evaluation of customer service personnel etc. Evaluation provides employees with a picture of their skills and boosts self-confidence and motivation. AS Elektriteenused again initiated the professional competence contest for electricians in financial year 2005/06, with competing teams from our competitors and our partners.

EESTI ENERGIA RECOGNISES LONG-TERM SERVICE AND CONSISTENCY

It is traditional for staff to work for energy system companies for their entire working life. Since the last financial year, the company has recognised long-term employees with a badge, when they have worked in the company for 10, 20, 30, 40 or 50 years. Once a year, the company invites the veterans of the power industry to a major event with the leadership of the company. A seniors' club is again operating at Iru Power Plant and similar traditions have also emerged at several other companies. The company's birthday is celebrated within the entire group on 8 May. This is the date on which Eesti Energia's predecessor AS Elektrikeskus was founded in 1939.

SUCCESSION TO ENERGY SECTOR EMPLOYEES A PRIORITY

In recent years, the company has increasingly contributed to raising a professional succession of energy specialists. In October, we hold the traditional physics competition for the students of comprehensive schools, good results in which Tallinn University of Technology considers as bonus points for students entering the energy faculty. We continue to cooperate with vocational schools and high schools in promoting our field and offering practice opportunities for students. As usual, our companies participated in the annual "Key to the Future" job fair.

COOPERATION BETWEEN COMPANIES – THE BIGGEST VALUE FOR THE GROUP

Cooperation is based on mutual communication and understanding between people. Eesti Energia organises several events and training courses to the employees.

The companies whose cooperation forms the basis for good customer service have to be familiar with the essence of each other's work. In order to improve service quality, a workday with electricity specialists was organised for customer service employees. This gave the service staff receiving orders from the customers a clear picture of the services and work they are providing to the customer.

THE NEW COLLECTIVE AGREEMENT WILL INCREASE EESTI ENERGIA'S COMPETITIVENESS AS AN EMPLOYER

The wage increase agreed under a collective agreement for the next two financial years helps keep the employees' wages at a competitive level. The collective agreement also lays emphasis on the creation of training and further training opportunities for power production and thermal technology employees.

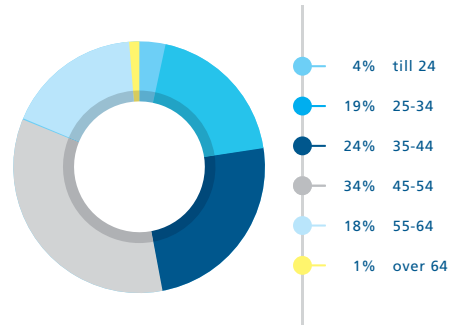
PERSONNEL IN FIGURES

As at the end of the financial year, the number of employees totalled 8,728, of whom 1,809 or 21% were women and 6,919 or 79% were men. The number of employees at the beginning of the financial year was 9,284 and the average number of employees during the year 8,982.8.

The average length of service was 15.1 years (14.7 for men and 16.2 for women).

The average age of employees was 44.2 years (43.9 for men and 45.2 for women). The youngest employee is 17 years of age and the oldest 78.

DISTRIBUTION OF EMPLOYEES BY AGE GROUPS



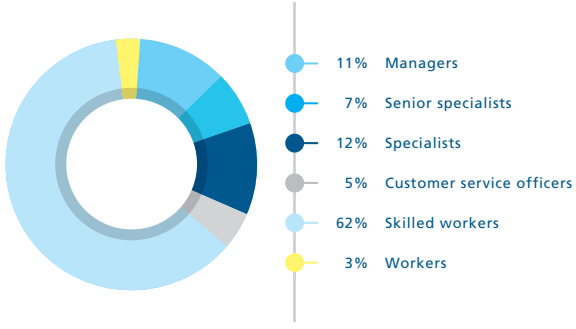
Of all the employees of Eesti Energia Group, general workers form 3%, skilled workers 62%, service personnel 5%, specialists 12%, top-level specialists 7% and managers 11%.

More than 20% of the employees have a higher education and more than 40% of the employees have vocational or vocational high-school education corresponding to their job.

In the financial year 2005/06, employment contracts were concluded with 872 new employees and employment contracts were terminated with 1,426 employees.

OÜ Jaotusvõrk held 68 public competitions to find new employees last year. The total number of candidates for these vacancies was 464. The Supply section held 19 competitions, with a total of 1,082 candidates.

DISTRIBUTION OF EMPLOYEES BY EMPLOYMENT GROUP:



FUTURE ENERGY FUND

In order to research new solutions for using our most valuable resource, oil shale, and to find real alternatives to supplement oil shale power production, we established the 10 million euro Future Energy Fund (Tulevikuenergia Sihtkapital – TESK).

We shall use the fund to finance the research and development of new energy production technologies that could be competitive in the Baltic Sea region. TESK is focused on power production and particularly on research and development activities based on Eesti Energia's needs. In choosing research projects, we focus on applied research, i.e. product and technology development. In the area of fuels we want to research refined oil shale products and the use of biomass and biogas. In the area of energy transformation we focus on cleaner technologies for burning and processing oil shale, various types of renewable energy and other alternative technologies.

We shall invest 10 million euros in the fund over the next three years, while also planning to involve additional state financing through the Enterprise Estonia programmes and EU financing sources.

The total volume of the fund is determined by the Supervisory Board of Eesti Energia and the specific funding decisions are made by the Management Board, which also organises the implementation and supervision of projects. In order to evaluate the projects, Eesti Energia is forming a group of experts to advise the Management Board of the company. In the framework of the research financed from the fund, Eesti Energia also wants to cooperate with other companies in the energy sector, research institutions and state institutions.

SUPPORTING DEVELOPMENT IN ESTONIA

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

- **Tallinn University of Technology Development Fund**, as Eesti Energia wishes to offer people working towards a degree in a technical field good opportunities to study in their field and to ensure a proper succession of energy specialists. The Tallinn University of Technology's Development Fund received 18 000 euros for the payment of scholarships and 2 800 euros as a subsidy. The student organisation Best Estonia received a 1 275 euro subsidy for conducting excavation and environment related courses, and a smaller amount was given to support the organisation of an energy related physics competition among the schools of Tallinn.

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

- **Trails and footpaths**. Eesti Energia together with Hansapank, Merko Ehitus and the Ski Association initiated a project for lighting suitable sporting locations and making them more functional. The aim of this undertaking was to support the development of footpaths and sports trails in Estonia. We wish to ensure the free of charge availability of trails and footpaths for everyone round the year. By now, we have already supported the renovation of eight trails and footpaths in Estonia. In upgrading trails and paths, Eesti Energia is responsible for lighting, while Merko Ehitus designs the paths and partially constructs them, and Hansapank finances the purchase of maintenance and trail building machinery and snowmaking machines. Several other companies have also become involved in the project, for instance AS Elektriteenused and AS Eesti Põlevkivi from the Eesti Energia Group. In the last financial year, lighting was installed on a 2 km trail at the Haanja Skiing Centre, lighting was completed at the Pannjärve Health and Sports Centre, the second stage of lighting was completed on Pirita paths and the Nõmme Health Centre trails and lighting was installed on the Tamsalu ski trail. Eesti Energia Group supported the trails and footpaths project with a total of 0,2 million euros in the financial year 2005/06.

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

- **Conservation project competition**. Each year, Eesti Energia organises a competition for projects that propagate the philosophy of energy conservation. Entries must be targeted at promoting heat conservation in households or the activity of organisations, institutions and companies. Eesti Energia offers 100,000 kroons (6,400 euros) of support for the best projects. Examples of projects that have received support are the interactive science bus Ursa Major and studies on the construction of energy-saving passive houses.

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

- **Social sphere**. Eesti Energia companies have supported institutions and sports centres in the social sphere with the construction or repair of electrical lighting. The major initiatives worth mentioning are the 75-thousand euro contribution to the establishment of a power supply to Kiikla orphanage, and 32 thousand euros for the National Defence Promotion Foundation to supply the computer classes of the defence forces with electricity.

In the financial year 2005/06, Eesti Energia Group supported various undertakings with a total of 0.4 million euros.


HYDRO
ENE
ENERGY
FROM DIFFERENT
SOURCES

In Estonia, as in the rest of the world, water is one of the oldest and most important renewable sources of energy. Use of hydro energy reduces the environmental impact of using up finite supplies of raw material. Alongside traditional oil shale energy, our goal is to continually increase the amount of energy produced from water.

ENVIRONMENTAL REPORT

All human activities have a certain impact on the environment. Taking the environmental impact into account and reducing it is becoming more important by year. In accordance with the transition periods agreed in the accession agreement, Eesti Energia will become subject to EU environmental requirements, which are stricter than those formerly applied in Estonia. In addition, Estonia has launched the so-called ecological tax reform, which is currently primarily realised through higher environmental charges. All this considerably increases the weight of environmental issues and the need to deal with them systematically.

Systematic environmental activities are, indeed, the objective of Eesti Energia both now and in the future. We have developed environmental, quality and occupational health and safety management systems in almost all of our production undertakings. Eesti Energia holds all the required environmental permits, the requirements of which are being followed, and the permits themselves are renewed depending on changes in the situation. In the framework of the oil shale electricity life cycle assessment project, we performed an evaluation of environmental impact using a method new to Estonia that provides a comprehensive picture of the situation. The results of this form a basis for introducing further changes to our activities.

In addition to reducing the environmental impact we have started paying more attention to increasing the extent and ways of reusing the production waste generated in the course of our activities. In reducing air pollution, we have applied the economic levers for reducing emissions offered by the EU greenhouse gas trading system. All this in the name of a cleaner environment.

We are on the right track. This is confirmed by another first place achieved among large companies at a competition of the top environmentally friendly organisations run by the Ministry of the Environment in 2006, and the title of environmentally friendly company. We shall continue informing stakeholders of our environmental activities in the future; the following environmental report is a part of this initiative.

THE ENVIRONMENTAL POLICY OF EESTI ENERGIA

In its activities, Eesti Energia Group applies the following environmental principles:

1. We implement, develop 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 way of 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 by waste prevention, waste recycling and improved efficiency of the power system.
5. We use the best available technology to apply renewable energy sources to a technologically and economically rational extent.
6. We are open to new solutions and co-operate 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/verified environmental management system.

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

THE ENVIRONMENTAL OBJECTIVES OF EESTI ENERGIA

1. Replacing the existing oil shale ash hydro transport system with thick slurry technology at Narva power plants by 2009 and remediating the existing ash storage sites in order to reduce environmental hazards by 2013.
2. Shutting down and remediating ash field 2 of the Balti Power Plant by the beginning of 2007 and the Ahtme ash field by 2013 at the latest.
3. Establishing a 50 MW wind park on the shut-down ash field of the Balti Power Plant and further developing renewable energy output capacities together with the implementation of gas turbines to ensure the reserve capacities of wind energy.
4. Installing additional SO_2 and NO_x removal systems on the pulverized firing technology based energy blocks at Narva Power Plant by 2012.

5. Bringing such oil facilities as are in violation of the requirements into compliance with legal acts: by 2012 in OÜ Põhivõrk and by 2015 in OÜ Jaotusvõrk.
6. Conducting feasibility and environmental studies addressing the increase of the diversity of energy sources, the gasification of oil shale and the applicability of carbon capture technologies within the next three years.
7. The certification of the management systems of all Eesti Energia subsidiaries pursuant to standard ISO 14001 and the verification of the EMAS environmental management system covering the whole group in 2008.
8. Implementing applications based on 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.
9. Continuing activities in the area of energy saving and promo ting knowledge of natural sciences among young people.
10. Quadrupling the extent of re-utilisation of oil shale ash over the next five years.
11. Developing a waste treatment accounting system for the whole Eesti Energia Group, develop the existing and implementing new waste treatment technologies in the next five years.
12. Developing and improving 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, the entire chain of power production needs to be taken into account. In evaluating and describing Eesti Energia's environmental impact three major areas of action should be considered. These areas are the mining and transport of oil shale, the main fuel used to make electricity (95%); the production of electrical and heat energy; and the transfer of energy. These processes differ both technically and in their environmental effects. The environmental effects of each process are described below.
All Eesti Energia companies work in compliance with the conditions established in the environmental permits issued. In order to improve their activities and reduce their environmental impact, the mining, production and grid companies have established certified environmental management systems that comply with standard ISO 14001.

THE ENVIRONMENTAL IMPACT OF OIL SHALE MINING

One of the prerequisites of power production is the existence of fuels or other resources that can be converted into energy. Nearly 95% of the electricity produced in Estonia today is based on the domestic fossil fuel oil shale. The mining of oil shale is the province of the Eesti Energia company AS Eesti Põlevkivi, which consists of the parent company and three subsidiaries. In addition to Põlevkivi Kaevandamise AS' two mines and two quarries, the group also includes a railway transport company and a machine working and metallurgical company.

While oil shale mining has, indeed, given rise to new settlements and towns in Ida-Viru county, it has also caused changes in the natural environment of the region. Unfortunately, changes in the natural environment are inevitable with mining. At the same time, the long-term mining experience and the systematic activities of AS Eesti Põlevkivi have helped keep the environmental impact of mining in check. Constant allocations for expenditures on environmental protection, which ensure the investments necessary for stabilising and improving the environmental condition, also play an important role in the reduction of the environmental impact.

As at 1 April 2006, there are 444 million tons of active oil shale reserves in the areas belonging to AS Eesti Põlevkivi companies, not to mention the Ahtme and Kohtla reserves. A total of 13.8 million tons of commercial oil shale was excavated in the financial year 2005/06. The current active reserves should last for at least another thirty years at current production volumes. Oil shale mining dates back to 1916 and over 1 billion tons of oil shale has been excavated in Estonia.

In deposits up to 30 metres deep, oil shale is quarried (open-pit mines). In underground mines, room-and-pillar mining is used, where the "ceiling" is held up by column-shaped pillars. There are

inevitable losses in mining – 8.9% in open mining and 27.6% in underground mining. Today, all underground mining is done using the room-and-pillar method, which prevents the surface from sinking. Other mining methods are not used.

The mineral obtained from mines and the Aidu quarry undergoes enrichment in enrichment plants in order to remove limestone additives from the oil shale. Waste rock is cast off into dump heaps. About 4-5 million tons of waste rock is generated every year, e.g. in 2005 the quantity amounted to approximately 5 million tons. At Narva quarry, limestone sediments are cast off into heaps during the mining process. At Aidu quarry, waste rock obtained during enrichment is sent back to the quarry heaps. Over the years, a total of over 187 million tons of production surplus has accumulated into the "hills" of waste rock that characterise the terrain of Ida-Viru County. However, not all enrichment waste makes it to the "hills". Part of the material is used to produce gravel and filler for road construction use. Hopefully the proportion of re-used enrichment waste will increase even more in the future.

The area mined in oil shale quarries is mostly levelled and replanted. AS Eesti Põlevkivi is one of the biggest afforester in Estonia. In restoring mined areas, fields have been created and small ponds retained. Every year, up to 180 hectares of former excavation sites is reforested. A total of 11,600 hectares of land has been restored in AS Eesti Põlevkivi quarries since the beginning of operations, including forested area of a total of 11,400 hectares and 169 hectares of agricultural land. In restoring quarries, the wishes of local governments are also taken into consideration – to make the otherwise flat surface more diverse and varied.

In order to ensure dry excavation conditions both in quarries and in mines, the level of groundwater is in these areas lowered below the level of the oil shale layer. The water pumped out is directed mainly into the Gulf of Finland and partly into Lake Peipsi via ditches and rivers. In 2005, 205 million m3 of water was pumped out of mines and quarries. 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. Water samples taken from old mines show a marked decrease in sulphate concentrations, even to below the levels established for drinking water. Before being directed into the environment, mine water is cleaned (mainly of suspended matter) in sedimentation tanks. Mine water does not have a significant effect on the composition of natural water – only the proportion of sulphates is noticeably increased.

Wells in the immediate vicinity of mining work that are higher than the mine level have gone dry. To supply villages with water, water pipes have been laid and deep wells drilled. This kind of water supply often provides the consumers with water that is of better quality than the original. In 2005, a total of 0.1 million euros worth of water pipes were laid and deeper wells were bored in villages to replace wells that had dried up due to excavation work.

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

In the industrial territories of Estonia and the Viru mines, new shale oil based boiler houses were built, which have considerably reduced air pollution. The boiler houses put out of operation have been demolished. No more oil shale soot is generated in heat production and thus the ash dumps will be shut down.

AS Eesti Põlevkivi is one of the bigger payers of environmental charges in Estonia. In 2005, the company paid the state and local governments a total of 6.9 million euros in environment fees, including 5.7 million euros for the use of mineral resources and 1.2 million euros in pollution charges. The ecological tax reform enforced in 2005 will have a significant impact on AS Eesti Põlevkivi's environmental protection expenditure. According to preliminary estimates, the environmental charges paid by AS Eesti Põlevkivi companies will increase by nearly 2.5 times in 2006.

In order to monitor the environmental effects involved in mining, monitoring has been organised and thorough studies are conducted every year. The more important monitoring areas are the monitoring of groundwater, the monitoring of the composition of mine water routed to rivers and the monitoring of land subsidence. The studies performed 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 cooperated with numerous research organizations in Estonia , including the Estonian Research Institute of Agriculture, the Excavation Institute of Tallinn University of Technology and the Estonian Geology Centre. Every spring, AS Eesti Põlevkivi organises a traditional environment day for its companies' environmental

employees, scientific institutions that have cooperated with Eesti Põlevkivi, environment officials from county and municipality governments, and also students

THE ENVIRONMENTAL EFFECTS OF ENERGY PRODUCTION

Eesti Energia mainly produces energy in the form of electricity and heat, but also shale oil. Production is done by the oil-shale-based Eesti Power Plant and Balti Power Plant of Eesti Energia's Narva Power Plants. Balti Power Plant produces both electricity and heat what is used for the heating of city of Narva. Eesti Power Plant works in the so-called condensation mode and produces only electricity. Electricity and heat are also produced by the gas-fired Iru Power Plant and the oil-shale-fired Ahtme Power Plant. In addition to this, electricity is also produced in the hydroelectric power plants at Linnamäe and Keila-Joa and by the windmill at Virtsu.

When producing energy, primary energy is transformed into a form conveniently used by humans (e.g. electricity, heat). The most common way of producing electricity today is by burning fuels. This allows the use of both fossil fuels and renewable bio fuels in their various forms (gas, liquid, solid). The heat derived from combustion is either transformed into electricity or transmitted directly to the consumer. The energy generated during combustion can also be transformed into mechanical energy (e.g. in the internal combustion engines of cars). Furthermore, flowing water energy (hydroelectric power plants), wind energy (windmills) and light radiation (solar panels, photovoltaic elements) can also be transformed into a form more conveniently used by humans.

Eesti Energia produces the majority of its energy by burning the local fossil fuel, oil shale. Due to this, the production activities of Eesti Energia have an impact on air quality through the substances emitted into the atmosphere as well as impact on the surface and groundwater through the storage of the solid combustion waste generated. In addition, Eesti Power Plant uses considerable amounts of cooling water to produce electricity by the condensation method.

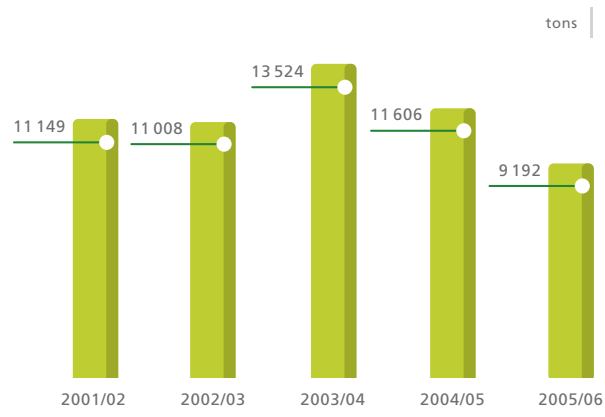
During ideal combustion, CO_2 and H_2O are generated. Depending on combustion conditions and the features of the fuel used, the products of burning may also include NO_x, SO_2, CO, heavy metals and fly ash.

SO_2 is generated by the oxidation of sulphur when fuels containing sulphur are burnt. SO_2 is an acidic gas, which, in interaction with atmospheric moisture, increases the acidity of precipitation and thus creates acid rain. Acid rain has an effect on nature. Coniferous forests and certain plants are especially sensitive to acid rain and may be destroyed as a result. However, the spread of SO_2 is limited, extending only a certain distance around the source of pollution, and thus does not have a global effect.

NO_x is generated by the oxidation of the organically bound nitrogen contained in fuels. In addition to this, nitrogen contained in the air may oxidise during high-temperature burning processes. Similar to SO_2, NO_x gases are acidic and create acid rain. In addition, nitrogen is an important nutrient in nature and therefore NO_x emissions cause the proliferation of vegetation, or eutrophication in bodies of water. Eutrophication changes the characteristic features and diversity, and thus the quality, of bodies of water. Due to the chemical composition of oil shale, the NO_x emissions of power plants using it are low and similar to the emissions of power plants using coal. The spread

SULPHUR DIOXIDE EMISSION

NITROGEN DIOXIDE EMISSION



of NO_x gases is also relatively limited and generally expressed as a local effect, except for N_2O, which is one of the so-called greenhouse gases.

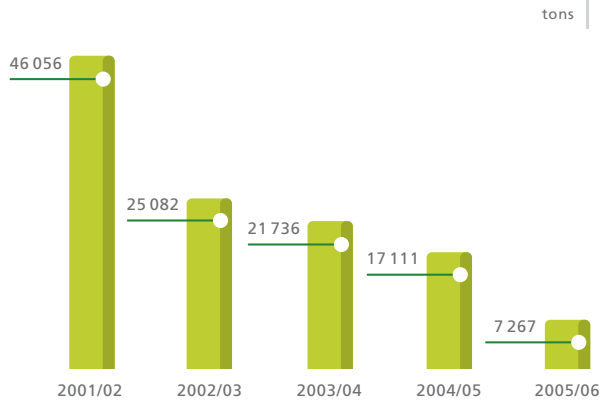
CO_2 is a gas that is produced as a result of life processes, while also being an important component in generating new biomass in photosynthesis. As a result of human activities, considerably more CO_2 is released today than the carbon circle is able to consume or than is needed for the regeneration of biomass. By burning fossil fuels, the carbon that has so far stayed out of the system is introduced into the system. According to current data, CO_2 is considered to be one of the causes of global warming, or the greenhouse effect, as a result of which the average temperature of the Earth is rising. In addition to the process of photosynthesis, a certain amount of CO_2 is absorbed by bodies of water, including oceans. In the last few decades, a significant rise in atmospheric CO_2 has been detected, mainly due to the activities of humans. People have started taking measures to reduce the climatic change at both the European and the 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 actually 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 in humans. The concentration of solid particles, or fly ash, in the layer of air close to the ground is limited and cannot exceed the established limits. The environmental impact of fly ash largely depends on the fuel burned. Fly ash generated from coal is generally acidic and thus puts an additional acidic burden on the environment. Fly ash generated by burning oil shale is alkaline. 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-Viru County, although this is where the biggest sources of SO_2 are located.

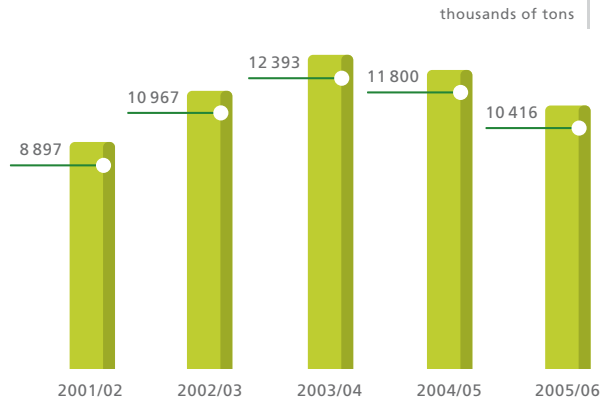
In the last financial year, Eesti Energia power plants released a total of 54,593 tons of SO_2, 9,192 tons of NO_x and 7,267 tons of fly ash. These are large quantities, which in terms of pollutants form at least 50% of all the atmospheric emissions in Estonia. Although production is increasing, the quantities of pollutants discharged into the atmosphere are being reduced considerably every year. Compared to the financial year 2004/05, emissions of SO_2 were reduced by approx 13 500 tons, emissions of NO_x by approx 2,500 tons and the emissions of fly ash by approx 10,000 tons. The emission of CO_2, which has been classified as a greenhouse gas, was reduced by over 10% from the previous financial year.

The majority of the above mentioned 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 is the launch of two new circulating fluidized-bed (CFB) technology based boilers at the Narva power plants. The new boilers have reduced SO_2 emissions to practically zero. The quantities of fly ash released into the atmosphere have been successfully reduced by using more efficient filters. The fly ash and SO_2 emissions have also been considerably reduced by shutting down the old blocks (ranks I to III) at Balti Power Plant. The renovated CFB boilers at Balti Power Plant and Eesti Power Plant are also more efficient, since they use less fuel to produce the same amount of energy. The self-consumption of electricity of the new energy blocks has also been reduced. The reduced fuel consumption together with the low decomposi-

PARTICULATES EMISSION



CARBON DIOXIDE EMISSION



tion level of carbonates (limestone) contained in oil shale makes the new boilers give off less CO_2, which is important in the light of the CO_2 trading implemented since the beginning of 2005. In addition to the existing energy blocks, a new natural gas based modern peak load has been established at Balti Power Plant. In order to ensure the constant monitoring of all emissions and the operative response thereto, a constant 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. Natural gas is, indeed, a non-renewable fossil fuel, but at the moment it is considered the most environmentally friendly and efficient non-renewable type of fuel. Due to the smaller production volumes, and also the cleaner fuel, the amounts of exhaust gas emitted by the Iru plant are smaller (657 tons of NO_x released), and there is no sulphur or solid particulate problem. Yet the equipment at the Iru plant requires renovation, since today the concentration of NO_x in flue gasses emitted to atmosphere is nearly twice as high as the norms established by the European Union. In order to solve this problem, a study co-financed by the European Union to reduce the emissions of NO_x was conducted in the last financial year. As a result of the study, an economically justified work schedule was prepared, along with implementation documentation to reduce emissions and increase efficiency. The first stage of reduction of the level of emissions has to be competed by 2008.

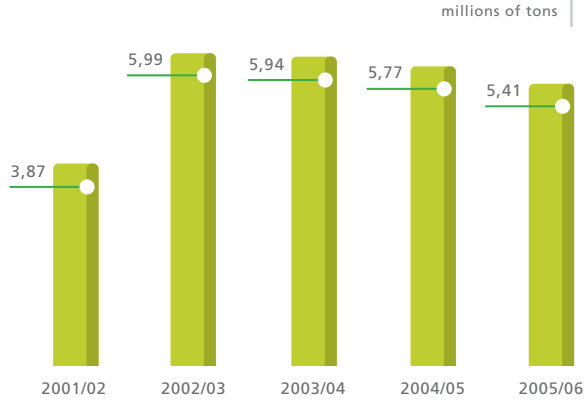
Like the Narva power plants, Ahtme Power Plant uses oil shale as fuel. Thus the gases and pollutants discharged from that power plant are the same. As this is a considerably smaller power plant than the Narva power plants, the emission quantities are also smaller. In the last financial year, Ahtme Power Plant emitted 2,818 tons of SO_2, 222 tons of NO_x and 1,489 tones of solid particles into the air. Ahtme Power Plant has to be brought into compliance with the requirements of the EU Large Combustion Plant directive by 2010 and therefore needs thorough reconstruction.

Alongside air pollution, the treatment of solid waste is the most important environmental issue associated with energy production. In addition to gas, ash or mineral waste is formed to a greater or lesser extent whenever any fuel is burned. A peculiarity of oil shale is its high mineral content; around 40-50% 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. Hydro-transport is used to convey large quantities of ash, i.e. ash is pumped to the place of storage mixed with water.

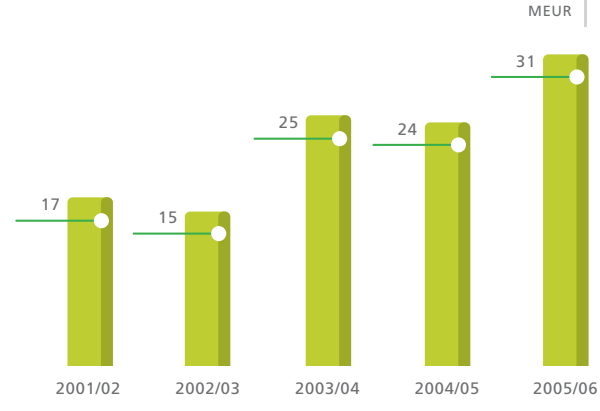
The situation is made more complicated by the fact that oil shale ash contains a high concentration of CaO, or quicklime, which reacts with the transport water and renders it strongly alkaline. For this reason, the oilshale ash has been classified as hazardous. Ash is transported in closed systems, where the transport water does not come into contact with the environment. 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 water circulating in the ash transport system pose a risk of environmental pollution, especially in a situation, where the strongly alkaline water is released into the environment as a result of an accident or technical problem.

Under requirements deriving from European Union legal acts, the current ash disposal system will have to be replaced. To this end, it is planned to convert ash disposal to a new semi-dry thick slurry technology and remediate the current ash fields by 2009

OIL SHALE ASH DEPOSITION



EE & EP POLLUTION CHARGES



at the latest. The changes will markedly decrease the quantities of circulating water and new amounts of water created by precipitation. This in turn will make the whole system more secure. In order to solve the problem, the company started building pilot plant thick slurry based transport system to service two energy blocks in the beginning of 2006. If tests of pilot plant prove successful, the technology will also be used for other energy blocks. In addition to renovating the ash transport system, the existing systems are also being improved. In the last financial year, an environmental impact evaluation process was launched for the renovation of the system of neutralising the surplus water at the Balti Power Plant ash field 1. Replacing strong acids with CO_2 gas has been considered as one option in neutralising alkaline wastewater, which would be considerably more environmentally friendly.

In the last financial year, the shutdown of the Balti Power Plant ash field 2, which is not in direct use any longer, began. In the course of the work, the strongly alkaline water on the ash field will be removed and neutralised to a level that enables it to be transitioned safely back into the environment. Plans will be prepared for the drained ash field and it will be covered with growth soil in order to reduce the amount of alkaline water generated due to precipitation. The holding pond for the transportation water next to the ash field will also be cleaned. It is planned to establish a wind park with the capacity of approximately 50 MW on the remediate and closed ash field in the future.

Oil shale ash can also be put to use in many areas, and AS Narva Elektrijaamad is involved in finding and developing such applications in order to increase the re-use of the oil shale ash generated in production. Today, approximately 2% of the oil shale ash generated is put to use. Oil shale ash can be used in the construction materials industry as a raw material, for example, as an additive in the manufacture of cement, or as filling material. A major new application is the use of oil shale ash in large-scale stabilisation projects as cement substitute. Since oil shale ash has alkaline properties, it is also used to neutralise acidic soils.

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 in connection with the rerouting 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 per year. The new circulating fluidized bed technology will also reduce the amount of water necessary for cooling.

Lately there has been much discussion over whether production units that use renewable sources of energy have an impact on the environment, and if so, what the effects are. The use of renewable sources of energy also has always an environmental impact.

Wind energy is seen by some as a danger to birds and bats. Wind turbines also have an aesthetic effect – such installations may not grace every landscape – and create low-frequency noise. The wind turbines used by Eesti Energia today and in the future conform to all current environmental and health protection requirements. Environmental effects in the case of 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. 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 TRANSMISSION OF ELECTRICITY

Effects related to the transmission and distribution of electricity form the third important part of the environmental impact of power production. The transfer of electricity is important since electricity reaches every consumer through high and low-voltage lines. In reality we do not realise how many different types of devices and cables are required for each consumer to use electricity. OÜ Jaotusvõrk alone has a total of around 53,000 km of overhead lines, 8,000 km of buried cables and over 18,000 substations. OÜ Põhivõrk has approximately 5,200 km of high-voltage overhead lines and around 140 substations.

Unlike the effects of the stages described so far, the possible environmental effects of electricity transmission are concerned with the use of land and related issues, and the physical properties of electricity transmission.

One of the largest groups of effects are the restrictions applied to the use of land underneath the electricity transmission and distribution lines. The land under lines and the surroundings should be maintained and kept free of higher plant cover. Nor can the land underneath the lines be used for any possible purpose – the restrictions on use must be taken into account. Acute forestry issues related to line maintenance crop up from time to time.

The establishment of sufficient security zones that are free of trees is necessary to ensure the safety and reliability of lines. This need is illustrated by the damage caused to lines during storms. 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 these, which reshapes the natural setting significantly.

Eesti Energia has a total of over 18,000 transformer substations. The devices in substations, mainly transformers and the main components of overhead lines, produce noise in the surrounding area. Noise becomes a problem especially when there are residential areas in the immediate vicinity of substations or overhead lines. In addition to this, special lubricants or 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 cause contamination of the surface and groundwater. Transformer oils are also quite often associated with such environmentally harmful substances as PCBs and PCT. Oils and transformers containing these elements have never been used in OÜ Põhivõrk. There are still PCB- and PCT-containing transformers 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-containing devices should be finally removed according to requirements by 2010 at the latest.

As in other electrical processes, electromagnetic fields, which may affect many aspects of life, are created in the immediate vicinity of high-voltage transmission lines and substation equipment. Many studies have been conducted with regard to their effects, but no conclusive answer as to the precise effect that electromagnetic fields have on living organisms has been established. To reduce the possible effects, restrictions have been established on development in the possible danger zone of high-voltage devices and cables.

In repairing, renovating or removing transmission lines, a significant amount of refuse is produced (primarily pylons), which needs to be handled appropriately.

Constant, systematic work is performed to alleviate all of the environmental effects related to transmission. A more stringent and thorough set of rules for work in maintaining lines and clearing forest has been adopted. In order to improve the quality of line maintenance, the company cooperates with the State Forest Management Centre (Riigimetsa Majandamise Keskus – RMK). In regards to private forests, negotiations are held with various interest groups in order to find and implement solutions that satisfy all of the parties. 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 listed, but certain restrictions on the use of land still remain. In building substations, the use of more compact and quieter devices is favoured, which in turn reduces the bulk of substations.

As for using oil devices, here too, a shift is being made to environmentally safer solutions. If this is not possible, the necessary security systems are built in the form of safety pools, oil separators and collectors. In the last financial year, we renovated and modernised the security systems reducing the risk of contamination from oil devices in at least 25 substations, investing over 0.7 million euros for the purpose. In developing and constructing safety systems, we try to find the optimum end result not only from the standpoint of security, but also maintenance costs. The few remaining and separately – accounted for PCB devices are being removed according to a coordinated schedule.

In the last financial year we also started more serious activities in the treatment of the refuse generated in the course of line maintenance. Finding ways of handling the impregnated wooden pylons still remains the main problem. To resolve the problem, we shall start accounting for the impregnated wooden pylons removed from use and storing them temporarily for final treatment preferably this year in Estonia .

ENVIRONMENTAL AND QUALITY MANAGEMENT OF EESTI ENERGIA

For four years now, Eesti Energia has systematically been engaged in introducing and developing environmental and quality management systems in the group. The first task was to implement an environmental management system compliant with standard ISO 14001 in all the production companies. However, as the world has in recent years seen an increasing transition to integrated management systems that simultaneously address the issues of quality, environment and occupational safety, many companies in the group have started taking an interest in introducing an integrated system.

International standards ISO 9001, ISO 14001, OHSAS 18001 describe the requirements established for quality, environmental and occupational safety and health management respectively. The company's compliance to the requirements of the standards is assessed by independent auditors accredited for that purpose by accreditation organizations. If the system is in compliance with the standard, the company is issued a certificate, which mainly shows that the company values the relevant area (quality, environment, occupational safety and health) and is systematically engaged in developing it. A certified management system is an indication that the company has established general principles and divided the areas of liability and responsibility.

Certified management systems covering all three areas have been created at AS Eesti Põlevkivi companies (Estonia and Viru mines, Aidu and Narva quarries, AS Põlevkivi Raudtee, AS Mäetehnika), in the network undertakings OÜ Põhivõrk and OÜ Jaotusvõrk and the network maintenance and construction company AS Elektriteenused. Almost all of the production companies in Eesti Energia Group have established environmental management systems compliant with standard ISO 14001. In the last financial year, more attention was paid to upgrading the existing management systems and in the case of the first companies to have been issued certificates, the renewal of certificates.

In addition to the said global management systems, the Iru power plant is experimentally introducing the EMAS environmental management system developed in Europe. The main difference between the EMAS and ISO management systems is that the former is more outwards oriented. The EMAS system is considered one additional option for communicating with stakeholders and providing efficient information concerning the company's environmental activities. The EMAS system of Iru Power Plant should be verified in summer 2006 and should be the second verification of EMAS in Estonia.

OSELCA PROJECT OR THE OIL SHALE ELECTRICITY LIFE CYCLE ASSESSMENT

OSELCA or the oil shale electricity life cycle assessment project was a demonstration project supported by the EU Life Environment Fund in order to introduce the internationally recognised Life Cycle Assessment (LCA) methodology in Estonia. The project aimed, on the one hand, to introduce and implement this novel and innovative environmental methodology and on the other hand, to characterise the main production of Eesti Energia – oil shale electricity – according to this methodology.

The project lasted nearly two and half years (27 months). Eesti Energia's partners were the Finnish Environmental Institute SYKE and the Estonian consultation firm OÜ Cycleplan. In addition to project partners, the project steering commission included representatives from the Ministry of the Environment and the Ministry of Economic Affairs and Communications.

The production of electricity from oil shale in the extent it is done in Estonia is unique. The use of the LCA methodology would enable the evaluation of the environmental impact of oil shale electricity, while taking into account all the stages of production and the materials used therein. The results of the analysis will help EE to plan future activities. Electricity is also an important input in other

products in Estonia. Consequently, analysing the environmental effects of oil shale electricity is an important part in evaluating the environmental impact of other products produced in Estonia by using the LCA methodology.

An environmental inventory and an evaluation of environmental impact was performed on all the stages of oil shale electricity production. The results obtained were used as a basis for comparison of the oil shale electricity obtained using both pulverized combustion and circulating fluidized bed technology with the electricity produced from coal. The results of the analysis, performed in accordance with recognised methodology, are comparable to the results of other similar analyses. The project also included an analysis of the possible future development scenarios in Estonia's power production in the light of their environmental impact. The environmental effects of oil shale electricity arrived at as a result of the project, were used to evaluate the environmental characteristics of energy consuming products. The environmental effects of the given product were compared on the basis of the origin of energy used for producing it.

Before the OSELCA project, the life cycle methodology was not widely known in Estonia. In order to introduce it, three seminars aimed at Estonian stakeholders and one international conference were held. An Internet site was opened to introduce the methodology and the results of the project. Various publications were issued and the subject was discussed in newspapers and other media channels.

The analyses and the evaluation of the environmental impact of coal electricity show that the oil shale electricity produced in the Narva power plants using the new circulating fluidized bed technology is perfectly comparable to coal electricity. By several indicators, the new technology beats the production technology widely used in Europe today and in the nearest future. From among the future scenarios modelled for covering Estonia's energy needs, the one with the lowest negative environmental effects is the scenario presuming the import of carbon-free electricity (incl. nuclear based electricity) from neighbouring countries in considerable volumes by 2020. Therefore the research and development work concerned with the diversification of Eesti Energia's production portfolio is very positive from the point of view of environmental protection.

The OSELCA project was Eesti Energia's first contribution to the promotion of the evaluation of the environmental effects of EE's own products and other Estonian products on the basis of novel and internationally recognized methods. This undertaking will definitely not be the last of its kind and Eesti Energia will continue to introduce and develop novel methods in Estonia in the near future.

GREEN ENERGY AND RENEWABLE ENERGY

It was five years ago in April that Eesti Energia founded the Green Energy stakeholder scheme and became the first power company in Eastern Europe to offer its customers electricity produced in an environmentally friendly manner – Green Energy.

Green Energy is electric power produced 100% from renewable energy sources in compliance with all environmental requirements, and by buying it customers support the development and application of knowledge of renewable energy in Estonia.

The amount of renewable energy produced in Estonia was extremely modest in 2001, the year the Green Energy scheme was launched. 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. Tens of large and small hydroelectric power plants, wind turbines and several biogas plants currently produce energy compliant with the Green Energy criteria in Estonia. In the nearest future this list should be complemented 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 by nearly 20 times over the last five years, mainly on the strength of wind turbines, and will soon cover 2% of Estonia's need for electricity.

Eesti Energia produces electricity from renewable energy sources at the Linnamäe and Keila-Joa hydroelectric power plants (total approx 4.45 GWh) and in the Virtsu wind park (1.6 GWh). However, EE is not the only one producing electricity from renewable energy sources in Estonia. Different producers produced a total of 92 GWh of electricity from renewable energy sources, which was purchased by EE. The said result is 2 times higher than last year and this is mainly due to the rapid increase in the use of wind energy.

In order to retain its important position in using renewable energy sources, Eesti Energia continues to develop its various renewable energy projects. One of the major projects is the establishment of a 50 MW wind park on the to-be-shut-down ash field of the Balti Power Plant. As regards the use of biomass, the establishment of a thermal power plant at Ekseko's pig farm is being discussed, which would solve the waste problems of both Ekseko and several cattle/poultry farmers and improve the overall quality of life. Eesti Energia continues to restore old hydroelectric power plants. In addition to the Linnamäe and Keila-Joa hydroelectric power plants we are planning to restore the hydroelectric power plant at Põltsamaa. Besides restoring the production capacities at today's technical levels the cultural value of the site will be restored as well.

Eesti Energia is also developing power supply in places with no connection to the grids. For instance, we are developing a combined power supply system based on windmills and diesel generators on the island of Ruhnu. This could also be implemented in other isolated systems in the future.

Due to the physics of delivery of electricity, consumption of Green Energy is conceptual. Renewable energy from various producers is supplied to a single network and it reaches the consumer along with electrical energy produced from oil shale. Consumers of Green Energy will not have another, "green" power outlet on their wall, but precise accounting is kept regarding quantities of Green Energy. The amount of Green Energy sold per year does not exceed the amount of renewable energy sold via the Eesti Energia distribution network and thus it is guaranteed that every Green Energy kilowatt sold is in actuality covered with renewable energy.

Green Energy, produced from renewable energy sources is an image and status product that shows the environmental consciousness of buyers and their sense of social responsibility. In the financial year 2005/06, Eesti Energia sold 2,524,800 kWh of Green Energy. The sales volume has reached a stable level.

Green Energy certificates were sold as follows:

RE I category certificate,
120,000 kWh renewable energy per year – 7
RE II category certificate,
60,000 kWh renewable energy per year – 13
RE III category certificate,
6,000 kWh renewable energy per year – 122
RE home client certificate,
1,200 kWh renewable energy per year – 144.

Keila-Joa hydroelectric power plant was restored with the support of the buyers of Green Energy, the cost of which amounted to amounted to 1 million euros. In 2005, more attention was paid to disseminating renewable energy related information, mainly to children and young people. In cooperation with schools and the Junior Achievement programme organising economics studies in secondary schools, we initiated a project in the financial year 2005/06, the aim of which is to ensure the succession of good specialists. In cooperation with the Estonian Institute of Sustainable Development, the Estonian Green Movement and the Estonian Fund for Nature, we wish to offer electricity and environment related information to young people in an even more interactive and attractive manner in 2006.

Green Energy has consistently supported overall environmental protection. For five years, Green Energy has in cooperation with the Estonian Fund for Nature (ELF) financed ELF's environmental projects and helped organise the Green Bicycle Tours. By participating in the bicycle tours, we wish to value healthy attitudes towards life and an active life style, draw attention to environmental problems and increase the overall environmental awareness of cyclists. In the recent years, the bicycle tour has regularly drawn 2,500-3,000 participants from all over Estonia, mainly young people. The aim of the tour is to show the participants interesting places in Estonia, while drawing their attention to environmental problems and increasing the overall environmental awareness of cyclists.

ENERGY SAVING ACTIVITIES

Energy saving is one of the most important measures in managing the growth of electricity consumption and ensuring a sense of responsibility in using energy.

Energy saving is usually understood to mean the saving of heat and electricity achieved by applying saving measures at the level of the end consumer. However, a systematic approach to energy saving helps to achieve considerably higher savings in expenses and resources throughout the entire cycle from the production, transport and storage of fuels and their transformation into energy and distributing up to rational and economical consumption. Energy saving helps reduce the environmental pollution involved in power production and also optimises the costs of the consumer.

In September 2004, Eesti Energia launched the Internet-based energy saving portal, which contains authoritative and well-presented information on energy saving and pertinent products, technologies and measures. The portal was created in cooperation with AS Enprimo Estivo and can be found at http://kokkuhoid.energia.ee.

The aim of the energy saving portal is to introduce various energy saving measures to consumers interested in optimising their energy consumption. The portal provides an overview of products and technologies enabling energy saving 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 energy saving-related questions.

The portal has three subject areas: energy saving at home, energy saving in institutions and energy saving in industry. The subject areas cover articles on insulation, lighting, heating systems, efficient electrical devices, the development of rate 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 6400 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. Two 2004 projects were completed in the last financial year: the Juventus youth movement's "Conservation Mosaic", the goal of which was to instil a conservationist ethos in the youth of the town and region of Põltsamaa, and a project from MTÜ Virumaa Teabekeskus, "Forming consumption habits at school and at home".

Another contest took place at the beginning of 2006, in the course of which the energy saving projects financed this year were selected.

Keeping the growth of energy consumption in check is becoming one of Eesti Energia's priorities. Consequently we shall try to include even more various energy saving initiatives in our activities to fulfil the priorities.

ECOLOGICAL LABORATORY OF EESTI ENERGIA

The environmental requirements for Eesti Energia's production units are constantly growing in connection with the adoption and enforcement of EU directives. The importance of measuring emissions is also increased by the continuously growing environmental taxes. In order to monitor the achievement of the established environmental goals and the fulfilment of the requirements and tasks deriving from legal acts, Eesti Energia established an ecological laboratory in its own environmental department.

The ecological laboratory was founded in August 1992, originally with the aim to objectively measure the environmentally harmful emissions of Eesti Energia companies. Since 1994, the laboratory has performed workplace measurements both inside the group and for external clients. The laboratory was accredited by the Estonian Accreditation Centre on 3 July 2001 and accreditation certificate no. L052 was issued as verification. This increases the reliability and usage options of the laboratory's measurement results considerably.

The ecological laboratory mainly performs various air pollution measurements. In order to ensure high levels of operation and quality, the technicians have access to a mobile laboratory, which allows the taking of measurements at the customers' sites at short notice.

The mobile measurement technology also enables measurements to be taken that best characterise the environmental emissions of changing processes.

The current procedures are within the scope of the laboratory:

- Environmental protection measurements for all clients
- Workplace measurements for all clients
- Consultations for reducing harmful discharge for tested boiler arrangements and for optimising the combustion process
- Determining the sulphur content of fuel
- Making, and participating in, comparative inter-laboratory measurements
- Calibration of gas analysers.

Recent years have seen a transition from periodical emission measurements to continuous monitoring systems in the case of larger sources of pollution. Continuous monitoring has also been prescribed in the newer environmental legal acts. Consequently, the laboratory now concentrates more on the calibration and maintenance of automated measurement systems and the quality control thereof (QAL 2). The laboratory also offers these services outside the group.

WORKING ENVIRONMENT

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

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

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

- Improving the technical condition of equipment and continually monitoring their performance;
- Replacement of asbestos-containing insulation with safer alternatives when repairing equipment;
- In constructing the new circulating fluidized bed blocks for Balti and Eesti power plants, we avoided asbestos-containing insulation entirely, and asbestos-containing insulation in the old pipes and devices serving these blocks was replaced with safer alternatives;
- Shutting down the rank I-III amortised equipment at Balti Power Plant, which improved the condition of working environment in Balti Power Plant.

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

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

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

Based on legislative requirements in the area of the workplace and occupational safety, and considering Eesti Energia's structural and operational connections in organizing work and use of equipment, a set of internal rules has been devised, which are regularly updated.

The companies have and are implementing an occupational health and safety management system compliant with the international standard OHSAS 18001. In this financial year, OÜ Jaotusvõrk was deemed worthy of certification under this standard, being the third Eesti Energia company to receive the certificate. The management systems of AS Eesti Põlevkivi and OÜ Põhivõrk were certified last year.


RENEWA
ENE
BETTER
COOPERATION
WITH NATURE

The production of electricity creates a large responsibility for the natural environment around us. It presents us with complicated challenges of to how to lessen environmental impact. Our goal is thoroughly to study and adopt renewable sources of energy in order to preserve the natural balance.

FINANCIAL STATEMENTS

DECLARATION OF THE MANAGEMENT BOARD

The Management Board confirms the correctness and completeness of the financial statements of Eesti Energia AS (Parent Company) and the consolidated financial statements of the Parent Company and its subsidiaries (Group) which have been prepared for the period of 1.4.2005 – 31.3.2006 set out on pages 54 – 100 and declares that to the best of its knowledge that:

- the financial statements have been prepared in accordance with International Financial Reporting Standards as they have been adopted in the European Union;
- 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;
- all known material circumstances that became evident before the date of preparation of the financial statements at 6.6.2006 have been appropriately accounted for and presented in the financial statements.

According the Management Board, Eesti Energia AS and its subsidiaries are going concerns.

Sandor Liive

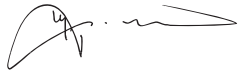
Chairman of the Management Board

Margus Kaasik

Member of the Management Board

Lembit Vali

Member of the Management Board



Mati Jostov

Member of the Management Board

Tiit Nigul

Member of the Management Board

BALANCE SHEET

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005	Note
ASSETS					
Current assets					
Cash and cash equivalents	149,408	40,301	149,372	40,301	6
Trade receivables and other receivables	62,038	53,886	216,341	290,998	7,31
Inventories	19,556	18,312	51	50	8
Total current assets	**231,001**	**112,499**	**365,764**	**331,348**	
Non-current assets					
Investments in subsidiaries	0	0	623,871	546,824	9
Investments in associates	10,833	2,701	8,772	128	10
Receivables from subsidiaries	0	0	285,749	285,681	7, 31
Property, plant and equipment	1,252,487	1,199,979	52,455	50,188	11
Goodwill	2,494	2,494	0	0	12
Total non-current assets	**1,265,814**	**1,205,175**	**970,848**	**882,821**	
Total assets	**1,496,816**	**1,317,674**	**1,336,612**	**1,214,169**	
LIABILITIES					
Current liabilities					
Borrowings	4,558	2,374	4,506	2,364	14
Trade payables and other payables	86,082	89,982	99,591	99,774	15, 31
Derivatives	798	2,672	798	2,672	16
Provisions	4,907	6,016	39	35	17
Deferred income	764	618	146	0	23
Total current liabilities	**97,109**	**101,661**	**105,080**	**104,845**	
Non-current liabilities					
Long-term borrowings	340,729	306,602	340,626	306,600	14
Trade payables	34	0	0	0	15
Provisions	18,718	18,593	259	261	17
Deferred income	68,850	50,709	0	0	18
Total non-current liabilities	**428,330**	**375,903**	**340,885**	**306,861**	
Total liabilities	**525,439**	**477,564**	**445,965**	**411,706**	
SHAREHOLDERS' EQUITY					
Capital and reserves attributable to equity holders of Parent Company					
Share capital	464,900	464,900	464,900	464,900	19
Share premium	259,833	259,833	259,833	259,833	
Statutory reserve capital	43,822	41,692	43,822	41,692	
Hedging reserve	-82	-2,137	-82	-2,137	16
Retained earnings	66,027	31,762	29,847	8,550	32
Net profit for financial year	134,809	42,594	92,328	29,626	32
Total equity attributable to parent company	969,307	838,643	890,647	802,463	
Minority interest	**2,070**	**1,468**	**0**	**0**	
Total equity	**971,377**	**840,110**	**890,647**	**802,463**	
Total liabilities and shareholder's equity	**1,496,816**	**1,317,674**	**1,336,612**	**1,214,169**	

The accompanying notes form an integral part of these financial statements.

INCOME STATEMENT

in thousands of euros	Group 1.4.05 – 31.3.06	Group 1.4.04 – 31.3.05	Parent Company 1.4.05 – 31.3.06	Parent Company 1.4.04 – 31.3.05	Note
Sales	452,861	394,726	258,668	343,465	21
Other operating income	80,262	2,512	32,445	51,509	22
Government grants	404	181	103	51	23
Change in inventories of finished goods and work-in-progress	1,100	-1,120	0	0	
Materials, consumables and supplies	-136,129	-121,391	-232,210	-314,773	24
Other operating expenses	-41,992	-36,933	-7,509	-8,121	25, 26
Payroll expenses	-90,427	-87,879	-9,244	-11,666	27
Depreciation and impairment	-99,781	-87,618	-4,411	-10,530	11
Other expenses	-1,924	-1,114	-1,114	-380	28
Dividend income from subsidiaries	0	0	6,487	0	
Loss/reversal of loss from impairment of subsidiaries	0	0	77,012	-987	9
Operating profit/loss	**164,374**	**61,365**	**120,227**	**48,568**	
Financial income and expenses	-28,212	-19,322	-27,899	-18,942	29
Profit/loss from investments in associates under equity method	1,091	827	0	0	10
Loss from impairment of associate	-471	0	0	0	10
Profit before tax	**136,781**	**42,870**	**92,328**	**29,626**	
Corporate income tax expense	**-1,370**	**0**	**0**	**0**	30
Net profit for financial year	**135,411**	**42,870**	**92,328**	**29,626**	
attributable to equity holders of Parent Company	**134,809**	**42,594**	**92,328**	**29,626**	
minority interest	**602**	**275**	**0**	**0**	

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT

in thousands of euros	Group 1.4.05 – 31.3.06	Group 1.4.04 – 31.3.05	Parent Company 1.4.05 – 31.3.06	Parent Company 1.4.04 – 31.3.05	Note
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	**136,781**	**42,870**	**92,328**	**29,626**	
Adjustments					
Depreciation	99,781	87,618	4,411	10,530	11
Deferred income from connection and other service fees	-2,163	-1,545	0	-324	
Profit/loss from sale of property, plant and equipment	-1,243	-373	-304	-151	22, 28
Profit from sale of business unit	0	-449	0	0	5, 22
Gains/losses under equity method of accounting	-1,091	-827	0	0	10
Other gains from investments	471	-209	-83,499	987	9, 10
Profit from sale of financial investments	0	-1	0	0	
Exchange gains from borrowings in foreign currencies	0	-1	0	-1	14
Loss from change in fair value of derivatives	677	0	677	0	16
Interest expense on borrowings	27,878	18,362	29,051	19,353	29
Interest income	-1,699	-510	-28,298	-51,086	22, 29
Adjusted net profit	**259,391**	**144,935**	**14,366**	**8,935**	
Net change in current assets relating to operating activities					
Loss from doubtful receivables	-96	676	189	436	7
Increase of trade receivables	-7,243	-4,482	-7,466	-3,888	
Change in inventories	-1,243	-1,745	-1	-74	
Net change in other current assets relating to operating activities	-442	-1,282	1,109	-3,123	
Total net change in current assets relating to operating activities	**-9,023**	**-6,834**	**-6,170**	**-6,649**	
Net change in current liabilities relating to operating activities					
Change in provisions	-1,428	-1,790	2	39	
Change in supplier payables	-1,759	3,596	-317	-996	
Net change in other current liabilities related to operating activities	4,208	2,765	-1,050	29,285	
Total net change in liabilities relating to operating activities	**1,021**	**4,571**	**-1,365**	**28,328**	
Interest and loan fees paid	**-23,644**	**-17,951**	**-24,840**	**-18,732**	
Interest received	**1,327**	**514**	**27,471**	**50,633**	
Corporate income tax paid	**-1,370**	**0**	**0**	**0**	30
Net cash flow from operating activities	**227,702**	**125,235**	**9,462**	**62,515**	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	-155,044	-161,133	-6,527	-18,182	
Proceeds from connection and other fees	20,304	13,786	0	2,261	
Proceeds from sale of property, plant and equipment	2,182	663	523	408	
Proceeds from sale of business units	0	1,945	0	578,805	5
Finance lease principal payments collected	0	0	13	4,940	5
Dividends received from subsidiaries	0	0	3,931	0	31
Dividends received from associates	1,132	1,009	0	0	10
Purchase of long-term financial investments	-8,644	-128	-8,679	-293,994	9, 10
Proceeds from sale of long-term financial investments	0	5	0	614	10
Change in overdraft granted to subsidiaries	0	0	81,571	-367,722	31
Net cash used in investing activities	**-140,070**	**-143,852**	**70,830**	**-92,871**	
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from long-term bank loans received	0	15,000	0	15,000	14
Proceeds from issue of long-term bonds	183,337	0	183,337	0	14
Long-term bonds redeemed	-103,091	0	-103,091	0	14
Repayments of bank loans	-52,364	-1,182	-52,364	-1,182	14
Repayments of finance lease liabilities	-26	-11	0	0	14
Commercial papers issued	24,819	0	24,819	0	14
Commercial papers redeemed	-25,000	0	-25,000	0	14
Change in overdraft received from subsidiaries	0	0	2,165	6,807	31
Change in overdraft received from associates	0	0	0	128	31
Short-term loans from subsidiaries	0	0	12,463	15,019	31
Short-term loans repaid to subsidiaries	0	0	-7,350	-10,226	31
Dividends paid	-6,199	0	-6,199	0	20
Net cash used in financing transactions	**21,475**	**13,808**	**28,779**	**25,546**	
NET CASH FLOWS	109,107	-4,809	109,072	-4,810	
Cash and cash equivalents at beginning of the period	40,301	45,110	40,301	45,110	6
Cash and cash equivalents at end of the period	149,408	40,301	149,372	40,301	6
Net increase/decrease in cash and cash equivalents	**109,107**	**-4,809**	**109,072**	**-4,810**	

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

in thousands of euros Group	Capital and reserves attributable to equity holders of Parent Company								
	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Retained earnings	Total attributable to equity holders	Minority interests	Total	Note
Equity as at 31.3.2004	**464,900**	**259,833**	**40,020**	**-3,930**	**33,433**	**794,256**	**1,192**	**795,448**	
Change in hedging reserve	0	0	0	1,793	0	1,793	0	1,793	16
Net income recognised directly in equity	**0**	**0**	**0**	**1,793**	**0**	**1,793**	**0**	**1,793**	
Net profit for 2004/05 financial year	0	0	0	0	42,594	42,594	275	42,870	
Transfer of retained earnings to reserve capital	0	0	1,672	0	-1,672	0	0	0	
Equity as at 31.3.2005	**464,900**	**259,833**	**41,692**	**-2,137**	**74,356**	**838,643**	**1,468**	**840,110**	
Change in hedging reserve	0	0	0	2,055	0	2,055	0	2,055	16
Net income recognised directly in equity	**0**	**0**	**0**	**2,055**	**0**	**2,055**	**0**	**2,055**	
Net profit for 2005/06 financial year	0	0	0	0	134,809	134,809	602	135,411	
Transfer of retained earnings to reserve capital	0	0	2,130	0	-2,130	0	0	0	
Dividends paid	0	0	0	0	-6,199	-6,199	0	-6,199	20
Equity as at 31.3.2006	**464,900**	**259,833**	**43,822**	**-82**	**200,836**	**969,307**	**2,070**	**971,377**	

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

in thousands of euros Parent Company	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Retained earnings	Total	Note
Equity as at 31.3.2004							
Balance in 2003/04 Annual Report	464,900	259,833	40,020	-3,930	33,433	794,256	
Effect of changes in accounting policies	0	0	0	0	-23,211	-23,211	32
Adjusted balance as at 31.3.2004	**464,900**	**259,833**	**40,020**	**-3,930**	**10,222**	**771,045**	
Change in hedging reserve	0	0	0	1,793	0	1,793	16
Net income recognised directly in equity	**0**	**0**	**0**	**1,793**	**0**	**1,793**	
Adjusted profit for 2004/2005	0	0	0	0	29,626	29,626	
Transfer of retained earnings to reserve capital	0	0	1,672	0	-1,672	0	
Equity as at 31.3.2005							
Balance in 2004/05 Annual Report	464,900	259,833	41,692	-2,137	74,356	838,643	
Effect of changes in accounting policies	0	0	0	0	-36,179	-36,179	32
Adjusted balance as at 31.3.2005	**464,900**	**259,833**	**41,692**	**-2,137**	**38,176**	**802,463**	
Carrying amount of holdings under control and significant influence						-546,824	
Fair value of holdings under control and significant influence under the equity method						583,003	
Adjusted unconsolidated owners' equity as at 31.3.2005						**838,643**	
Change in hedging reserve	0	0	0	2,055	0	2,055	16
Net income recognised directly in equity	0	0	0	2,055	0	2,055	
Net profit for 2005/06 financial year	0	0	0	0	92,328	92,328	
Transfer of retained earnings to reserve capital	0	0	2,130	0	-2,130	0	
Dividends paid	0	0	0	0	-6,199	-6,199	20
Equity as at 31.3.2006	**464,900**	**259,833**	**43,822**	**-82**	**122,175**	**890,647**	
Carrying amount of holdings under control and significant influence						-623,871	
Fair value of holdings under control and significant influence under the equity method						702,532	
Adjusted unconsolidated owners' equity as at 31.3.2006						**969,307**	

Additional information about share capital, share premium and statutory reserve capital is presented in Note 19.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. OVERVIEW OF KEY ACCOUNTING AND REPORTING POLICIES

Eesti Energia AS (hereinafter the Company or the Parent Company) is a company incorporated under the laws of the Republic of Estonia on 31 March 1998. The consolidated financial statements of the Parent Company for the year ending 31 March 2006 include the financial information in respect of the Parent Company and its subsidiaries (hereinafter the Group) and the Group's participation in associated companies.

According to the requirements of the loan-holder KfW Bankengruppe (KfW banking group) Eesti Energia AS is required to present the separate financial statements of the Parent Company.
The separate financial statements of the Parent Company have been disclosed to meet these reporting obligations.

The financial statements were approved by the Management Board on 6 June 2006.

BASIS OF PREPARATION

The consolidated financial statements of the Group and the separate financial statements of the Parent Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivatives), which have been measured at fair value through profit and loss.
Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Where accounting policies are changed, the comparative data from previous periods is also changed retrospectively.

FUNCTIONAL AND PRESENTATION CURRENCY

(a) Functional currency

The Parent Company and its subsidiaries use the currency of their primary economic environment – the Estonian kroon – as their functional currency.

(b) Presentation currency

For the convenience of the users, these financial statements have been presented in euros, rounded to the nearest thousand, unless stated otherwise. As the Estonian kroon is pegged to the Euro at the fixed exchange rate of 15.6466 kroons per Euro, no currency translation differences arise from the translation of kroons to euros.

AMENDMENTS TO ACCOUNTING POLICIES

From 1 April 2005, the following new standards, amendments to standards and interpretations became mandatory for the Group and the Parent Company:
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 28 (revised 2003) Investments in Associates
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
IAS 39 (Amendment) Financial Instruments: Recognition and Measurement
IFRIC amendment to interpretation SIC 12 scope of SIC 12 Consolidation – Special Purpose Entities
IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments

Pursuant to the adoption of standards IAS 27 (revised 2003) and IAS 28 (revised 2003), the use of the equity method of accounting to account for subsidiaries and associates in the separate financial statements of the Parent Company was discontinued. The effect of the amendment on the accounting policy is presented in Note 32.

The rest of the above standards, amendments to standards and interpretations which became effective on 1 April 2005 did not affect the financial reporting by the Group and the Parent Company.

In the comparable period, standards IAS 36 Impairment of Assets (revised 2004), IAS 38 Intangible Assets (revised 2004) and IFRS 3 Business Combinations which became mandatory for the Group from 1 April 2004, were adopted for the first time. The main effect of adopting these standards was amendment of the accounting policies for goodwill. Pursuant to the new standards, amortisation of goodwill was terminated and an impairment test is performed at each balance sheet date (or more frequently if an event or change in circumstances requires it) (see Note 12).

NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

The following new International Financial Reporting Standards, amendments to standards, and interpretations of the International Financial Reporting Interpretations Committee, which become mandatory for the Group's and the Parent Company's reporting periods beginning on or after 1 April 2006, but which had not been adopted early by the Group and the Parent Company, have been published:

- IAS 1, Presentation of Financial Statement (Amendment) – Presentation of Financial Statements: Capital Disclosures. The amendment to IAS 1 is mandatory for the Group and the Parent Company from 1 April 2007. The standard requires additional disclosures in the financial statements.

- IAS 19, Employee Benefits (Amendment) – Actuarial Gains and Losses, Group Plans and Disclosures. The amendment to IAS 19 becomes mandatory for the Group and the Parent Company from 1 April 2006. Neither the Group nor the Parent Company has any defined benefits plans; therefore this amendment is not relevant to the financial reporting of the Group and the Parent Company.

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intra-group transactions that would qualify as a hedged item in the consolidated financial statements.

- IAS 39, Financial Instruments: Recognition and Measurement (Amendment) – Fair Value Option. The amendment to IAS 39 becomes mandatory for the Group and the Parent Company from 1 April 2006. This amendment changes the definition of financial instruments classified at fair value through profit or loss and sets additional criteria for the classification of financial instruments. The management estimates that the effect of the amendment on the financial reporting of the Group and the Parent Company is not significant.

- IAS 39, Financial Instruments: Recognition and Measurement and IFRS 4 Financial Guarantee Contracts (Amendment). The amendments become mandatory for the Group and the Parent Company from 1 April 2006. Neither the Group nor the Parent Company has any financial guarantee contracts; therefore this amendment is not relevant to the financial reporting of the Group and the Parent Company.

- IFRS 1 First-time Adoption of IFRS and amendment to IFRS 6. The amendments do not affect the financial reporting of the Group and the Parent Company because neither the Group nor the Parent Company is adopting IFRS for the first time.

- IFRS 6 Exploration for and Evaluation of Mineral Resources. IFRS 6 becomes mandatory for the Group and the Parent Company from 1 April 2006. According to the standards, costs incurred by the exploration for and evaluation of mineral resources will be recognised as either items of property, plant and equipment or intangible assets, using either the cost or revaluation method. The Group and the Parent Company have not incurred any expenditure related to exploration for and evaluation of mineral resources; therefore the adoption of the standard is not relevant to the financial reporting of the Group and the Parent Company.

- IFRS 7 Financial Instruments: Disclosures. Amendment to IFRS 7 becomes mandatory for the Group and the Parent Company from 1 April 2007. The standard requires additional disclosures in the financial statements.

- IFRIC 4 Determining whether an Arrangement Contains a Lease. IFRIC 4 will become mandatory for the Group and the Parent Company from 1 April 2006. The management considers that as at the balance sheet date the Group and

the Parent Company did not have any significant arrangement which could be classified under the interpretation as either an operating or a finance lease.

- IFRIC 5 Rights to Interests arising from Decommissioning. Restoration and Environmental Rehabilitation Funds. IFRIC 5 becomes mandatory for the Group and the Parent Company from 1 April 2006. The Group and the Parent Company do not have any interests in decommissioning, restoration and environmental funds; therefore this amendment is not relevant to the financial reporting of the Group and the Parent Company.

- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment. IFRIC 6 becomes mandatory for the Group and the Parent Company from 1 April 2006. This interpretation affects neither the financial reporting of the Group nor that of the Parent Company, as they do not participate in the relevant market.

- IFRIC 8 - Scope of IFRS 2 clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or an inadequate consideration. IFRIC 8 becomes mandatory for the Group and the Parent Company from 1 April 2007. This interpretation is not relevant to the financial reporting of the Group as neither the Group nor the Parent Company uses any share-based payments.

- IFRIC 7 - Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies. An entity shall apply this Interpretation for annual periods beginning on or after 1 March 2006. Earlier application is encouraged. This interpretation affects neither the financial reporting of the Group nor that of the Parent Company, as they do not prepare their financial reporting in the currency of hyperinflationary economies.

- IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 becomes mandatory for the Group and the Parent Company from 1 April 2007. The management considers that this interpretation is not relevant to the financial reporting of the Group as neither the Group nor the Parent Company has any embedded derivatives.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(a) Subsidiaries

Subsidiaries are all entities over whose financial and operating policies the Parent Company has the power to govern, generally accompanied by more than one half of the voting rights.
The existence and effect of potential voting rights are considered when assessing whether the Group controls another entity.
Subsidiaries are consolidated from the date at which control is transferred to the Group and are de-consolidated from the date that control ceases.
The purchase method of accounting is used to account for the acquisition of subsidiaries under which the assets and liabilities of the acquired subsidiary are recognised at fair value. 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 acquired subsidiary, the negative 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. Intragroup balances and intragroup transactions and resulting unrealised profits and losses are eliminated in full.

(b) 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 (net of any accumulated impairment loss) identified on acquisition.
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 reserves is recognised in 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 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.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES IN THE PARENT'S SEPARATE FINANCIAL STATEMENTS

In the Parent Company's separate financial statements, the investments in subsidiaries are accounted for under the cost method. The Parent company assesses at each reporting date whether there is any indication that the investment may be impaired. If any such indication exists, the Parent company estimates the recoverable amount of the investment. If the recoverable value of the subsidiary has fallen below its cost by the balance sheet date, the cost is reduced by the amount of impairment and an impairment loss is charged to the income statement. If, subsequent to the determination of an impairment loss, it becomes probable that the situation has changed, the recoverable amount is assessed again. Based on the results of the impairment test, the loss can be partially or wholly reversed.
In the separate financial statements of the Parent Company, associates are accounted for at cost. The Parent company assesses at each reporting date whether there is any indication that the investment may be impaired. If any such indication exists, the Parent company estimates the recoverable amount of the investment. If the recoverable amount of the associate at the balance sheet date has fallen below its cost, or the amount recognised under the equity method, the cost is reduced by the amount of the impairment loss and the impairment loss is reported in the income statement. However, if, after determining that the asset has become impaired, it becomes probable that the situation has changed, the recoverable amount is assessed again. Based on the test results, the impairment loss can be partially or wholly reversed.

CHANGES IN THE ACCOUNTING POLICIES APPLICABLE TO THE PARENT COMPANY

According to the revised IAS 27 Consolidated and Separate Financial Statements, the accounting principle for the measurement of investment in subsidiaries has changed. Subsidiaries are reported in a separate report at cost; previously the equity method was used. The influence of this change is recorded in Note 32.

FOREIGN CURRENCY TRANSACTIONS AND ASSETS AND LIABILITIES DENOMINATED IN A FOREIGN CURRENCY

(a) Foreign currency transactions

Foreign currency transactions are presented in Estonian kroons using the official exchange rates of the Bank of Estonia prevailing at the transaction date. 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.

b) Assets and liabilities denominated in a foreign currency

Receivables and liabilities denominated in a foreign currency have been translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing on the balance sheet date. Profits and losses arising in translation are reported in the income statement.

CURRENT AND NON-CURRENT DISTINCTION

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

- cash on hand;
- bank account balances and cash in transit;
- short-term deposits and highly liquid investments at banks

TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. 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 the receivables. Long-term trade receivables are recorded at the present value of the recoverable amount. The difference between the nominal value and the present value of the receivable is recognised as interest income over the period until the receivable is collected.
The estimated collectibility of trade receivables is assessed on an individual basis for each customer. Where individual assessment is not possible due to a large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables with similar credit risk characteristics and are collectively assessed for impairment, using previous years' experience of impairment. The receipt of the receivables that have been previously written down is accounted for as a reduction of operating expenses.

INVENTORIES

Inventories are stated in the balance sheet at the lower of acquisition cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The write down of inventories is recorded in the income statement as an operating expense. Cost is determined using the weighted average method.
Raw materials are recorded at the acquisition cost consisting of the purchase price, transportation costs and other direct costs related to the purchase. The acquisition cost of work-in-progress and finished goods is the average production cost, which is calculated on the basis of direct and indirect production expenses. Marketing, non-production overheads and financial expenses are not capitalised.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PPE) are tangible items that are used in the operating activities of the Company with an expected useful life of over one year. Property, plant and equipment are presented in the balance sheet at the net carrying amount, which is the cost less any depreciation and impairments.

(a) Cost

The cost comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of items of property, plant and equipment constructed by the company 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. Homogenous items with similar useful lives (e.g. electricity and heating networks, software and hardware) are accounted for as groups.
Borrowing costs are not capitalised.

(b) Depreciation

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

The useful lives for property, plant and equipment used by the Group are as follows:

	Useful lives of new non-current assets	Derived actual average useful lives *	
		1.4.05-31.3.06	1.4.04-31.3.05
Buildings	25-40 years	30,8 years	29,2 years
Electricity lines	33-60 years	29,1 years	26,9 years
Other facilities	10-30 years	18,9 years	18,5 years
Transmission equipment	7-25 years	19,1 years	17,8 years
Power plant equipment	7-25 years	20,0 years	15,9 years
Other machinery and tools	3-20 years	10,0 years	9,3 years
Other non-current assets	3-10 years	6,1 years	5,5 years

* Average acquisition cost of non-current assets in use / depreciation of the reporting period

(c) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and 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 when the latter is lower than the carrying amount. The recoverable amount is the higher of the asset's:

- fair value less costs of selling; and
- value in use.

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

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 the assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has considerably deteriorated;
- revenue generated by the assets is lower than expected;
- the results of some operating areas are worse than expected;
- the activities of a certain cash generating unit are planned to be terminated.

Impairment tests are performed either for an individual asset or a group of assets (cash generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows generated by other assets or groups of assets.
If after the impairment test there are indicators that conditions have changed, the test is repeated. According to the results of the assessment, the write-down can be partially or wholly reversed.

(d) Improvements, repair and maintenance

Subsequent expenditure is added to the cost of the asset if it meets the definition of property, plant and equipment and the criteria for recognition of assets in the balance sheet. 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 taken off the balance sheet. Cost related to ongoing maintenance and repairs are charged to the income statement.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor 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 or 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 on a straight-line basis over the lease term.

(b) 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.

INTANGIBLE ASSETS

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

- the asset is controlled by the Company;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Company;
- 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 not exceeding 20 years.

Intangible assets are tested for impairment if there are any signs of impairment, similarly to the testing of impairment for items of property, plant and equipment.

(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 not subject to amortisation, instead goodwill is allocated to cash-generating units for the purpose of impairment testing 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 business segment in which it operates.Goodwill is written down to its recoverable amount if the latter is below the carrying amount. Impairment losses on goodwill are not reversed.

(b) Development, start-up, research and training costs

Development costs are expenses that are incurred for the implementation of research findings for developing specific new products or services. Development costs are capitalised where 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 of greenhouse gas emissions

Quotas of greenhouse gas emissions if they are controllable by the Company are carried in the balance sheet at cost. The cost of quotas of greenhouse gas emissions received from the state for free is considered as 0 euros.

(d) Other intangible assets

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

BORROWINGS AND ISSUED BONDS

Borrowings and issued bonds are recognised at fair value, net of transaction costs incurred. Borrowings and issued bonds are subsequently stated at amortised cost, whereby the initial cost is adjusted with principal payments and any accumulated depreciation of the difference between initial cost and redemption value. Amortised cost is determined using the effective yield, which exactly discounts the expected stream of future cash payments through maturity to the current net carrying amount of the financial liability. The amortisation of the transaction costs is recognised in the income statement together with interest expenses. Interest expenses are recognised on an accrual basis in the income statement. Unpaid accrued interest at the balance sheet date is presented in the balance sheet as accrued expenses.
Borrowings and issued bonds are classified as current liabilities unless the Group or the Parent has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

TAXES

(a) Dividend tax

According to the Income Tax Act of the Republic of Estonia, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to a dividend tax rate of 23/77 (until 1.1.2006: 24/76) of net dividend paid. Dividend tax arising from the payment of dividends is accounted 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.

(b) Other taxes

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

Tax	Tax rate
Social security tax	33% of the payroll paid to employees and of fringe benefits
Unemployment insurance tax	0.3% of the payroll paid to employees (until 1.1.2006 0.5% of the payroll paid to employees)
Fringe benefit income tax	23/77 of fringe benefits paid to employees (until 1.1.2006: 24/76 of fringe benefits paid to employees)
Pollution charges	Paid for contaminating the air, water, ground water, and soil, and waste storage, and is based on tonnage and type of waste
Fee for extraction right of oil shale	0.66 euros (10.40 kroons) per ton of extracted oil shale (until 1.1.2006: 0.33 euros (5.20 kroons) per ton of mined oil shale)
Water utilization charges	0.002-0.08 euros (0.03-1.29 kroons) per m^3 of ground water used (until 1.1.2006: 0.002-0.07 euros (0.03-1.17 kroons) 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 (50-3640 kroons) per quarter per truck
Income tax on expenses not related to business activities	23/77 of expenses not related to business activities (until 1.1.2006: 24/76 of expenses not related to business activities)

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 recognised based on management's estimates. If required, independent experts may be involved.
Provision is recognised when the Group or the Parent has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.
Employee termination benefits are 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 for setting up new provisions and revaluing existing provisions under 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.
If a provision is expected to be settled more than a year after the balance sheet date, it is recognised at the discounted value. The increase in the provision due to passage of time is recognised as an interest expense. Provisions are used only for covering the expenses which they were set up for.

(a) Provision for post-employment benefits and compensation for 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 these 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 as covering expenditure related to future payments to former employees according to court orders over the estimated period of such an obligation.

(b) Environmental provisions

Environmental provisions are recognised as covering environmental damage occurring before the balance sheet date when required by law, or when the Group's past environmentally friendly policies have demonstrated that the Group will clean up this environmental damage.
Experts' opinions and prior experience of performing environmental work are used to calculate the 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 closure of mines and quarries, if required by law.
Experts' opinion and the experience gained from the termination of mining operations are used to calculate 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 required by law, or if the Group's past practice has demonstrated that the Group intends to incur these costs. The present value of dismantling costs of assets is included within the cost of non-current assets (see Note 11).

(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 quotas of greenhouse gas emissions. If the volume of greenhouse gases emitted exceeds the quotas of greenhouse gas emissions assigned for free by the state and those acquired in transactions, an additional provision is set up using the market prices of quotas of greenhouse gas emissions at the balance sheet date.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on 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 and the Parent document at the inception of the transaction the relationship between hedging instruments and hedged items, and their risk management objectives and strategy for undertaking various hedge transactions. The Group and the Parent also document their 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 instruments used for hedging purposes and movements on the hedging reserve in shareholders' equity are shown in Note 16. 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.

CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other (losses)/gains – net'.

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 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) 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 transferred to the income statement.

CONTINGENT LIABILITIES

Promises, guarantees and other commitments that in certain circumstances may become obligations, but that will probably not require an outflow of resources to settle the obligation, or that may create an obligation that cannot be measured with sufficient reliability, are recognised off balance sheet and are disclosed in the notes to the financial statements as contingent liabilities.

RECOGNITION OF REVENUE AND EXPENSES

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

(a) Sales of electricity

Sales are recorded based on invoices issued according to the 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 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 that is considered to be 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. Contract revenue and profit is recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract were incurred. Unbilled but recognised revenue is recorded as an accrued income in the balance sheet. Where billings in progress 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 the sale of quotas of greenhouse gas emissions

Revenue derived from the sale of quotas of greenhouse gas emissions is recognised at the time when the sales transaction is agreed upon with the buyer.

(e) Interest income

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

(f) Dividend income

In the separate financial statements of the Parent Company, dividends from subsidiaries and associates are recognised as dividend income when the legal right of the Parent Company to receive them is established.

GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. 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, 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.

DIVIDENDS

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

SEGMENT REPORTING

Groups of assets and operating areas are reported as separate segments whose risks and rewards are significantly different from those of other segments. In the business segment it predominantly depends on the operating activity and on the type of product or service; with geographical segments it depends on the economic environment in the region in which the segment operates.

The primary segment is the business segment and the secondary segment is the geographical segment.
As most of the activities of the Group take place in Estonia, this is regarded as one geographical segment under International Financial Reporting Standards.

Segment reporting for business segments is presented using the intra-group management structure and according to the Electricity Market Act of Estonia. A business segment is a distinguishable component of an enterprise engaged in providing an individual product or service or a group of related products or services, and subject to risks and returns that are different from those of other business segments.

SHARE CAPITAL

Ordinary shares are classified as equity. Neither the Group nor the Parent has issued preferred shares. The costs directly related to the issuance of shares are recognised as a reduction of the equity item "Share premium".

FAIR VALUE ESTIMATION

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group and the parent use a variety of methods and make assumptions that are based on the market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.
The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

2. FINANCIAL RISK MANAGEMENT

The goal of financial risk management is to hedge financial risks and reduce the volatility of financial results. The Treasury department of the Parent Company manages liquidity, interest rate and exchange rate risks at Group level.

(a) Liquidity risk

Liquidity risk is the risk arising from the Group's inability to cover its expenses and investment needs due to insufficient cash flows. Liquidity risk is managed through the use of different financial instruments such as loans, bonds and other borrowings.
In order to finance its extensive capital investment programme, Eesti Energia has issued 15-year international bonds totalling 300 million euros and has entered into three 15-year loan contracts totalling 230 million euros. In October 2005, the holders of 7-year bonds issued in 2002 were invited to exchange their bonds for bonds redeemable in 2020 or sell them back to the Company. Bonds with a total value of 300 million euros were issued and bonds issued in 2002 were exchanged or purchased back for 200 million euros (Note 14). To lower the level of the interest rates on borrowings, Eesti Energia achieved A- stable and Baa1 stable credit ratings from the rating agencies 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 credit rating of Eesti Energia AS at A1.
To cover the shortage of working capital, Eesti Energia issued commercial papers in the Finnish market in the summer of 2005 for a total value of 25 million euros. The commercial papers were redeemed in November 2005.
As at 31.3.2006, the Group had undrawn loan facilities worth a total of 195 million euros.
As at the end of the financial year, the Group had spare cash balances totalling 149 million euros. The investment of the spare cash funds is regulated by internal group instructions, which stipulate the terms and conditions for spare cash investment. There is a major requirement that cash may be invested only in those financial instruments that have a high investment rating. Bank account limits are used at the Group to manage the liquidity of subsidiaries.

(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 relevant divisions on a daily basis. The automated reminder and warning system sends messages to customers about overdue invoices with the warning that if not paid they will be switched off from the electricity network. After that, a collection petition is filed at 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 the impairment of receivables, represents the maximum amount exposed to credit risk. As at the balance sheet date, the maximum credit risk for Group is 57 million euros (31.3.2005: 50 million euros) and for the Parent Company 48 million euros (31.3.2005: 40 million euros). Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group and Parent Company 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 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 for assessing interest rate risk. The Group's policy states that over 50% of borrowings should have a fixed interest rate. To hedge the risk, the Group has entered into two interest rate swap agreements with maturity in summer 2006 with a base amount of 65 million euros. As at the end of the financial year, 93% of the Group's borrowings and issued bonds had fixed interest rates (incl. interest rate swaps) and 7% had floating interest rates.

(d) Exchange rate risk

Those liabilities and assets of the Group, which are denominated in euros, are considered to be free of any exchange rate 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.

OPERATIONAL RISK MANAGEMENT

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

The construction risks of the new power blocks at Narva Power Plants are mitigated by special construction risk insurance. Other assets (except for power lines which are farther than 333 metres from the substation and the assets of Eesti Põlevkivi (Estonian Oil Shale Company) and Kohtla-Järve Soojus (Kohtla-Järve District Heating Network)) have been insured with a compensation limit of 50 million euros per incident.

In addition to property insurance, the Group's operating risks are insured for 50 million euros. Prepaid insurance premiums are accounted for as prepaid expenses and they are taken up as expenses on a straight-line basis over the insurance term. Insurance compensations are recorded as income in the period in which the expenses related to the insurance were incurred.

3. CRITICAL ACCOUNTING ESTIMATES

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

The estimates below affect financial information disclosed in the financial statements the most.

(a) Estimating the useful lives of non-current assets

The estimated useful lives of fixed assets are based on the management's estimate regarding the period during which the asset will be used. Experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 March 2006, the Group had property, plant and equipment with a net book value of 1.3 billion euros (as at 31.3.2005: 1.2 billion euros), and the depreciation charge for the period was 100 million euros (in the comparable period: 88 million euros) (Note 11). If depreciation rates are reduced by 10%, the annual depreciation charge decreases by 10 million euros (31.3.2005: 8.8 million euros).

(b) Recognition and measurement of provisions

As at 31 March 2006, the Group had set up provisions for environmental protection, termination of mining operations, compensation for work-related injuries and post-employment benefits totalling 24 million euros (as at 31 March 2005: 25 million euros) (Note 17). 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. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, 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, and also in respect of 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 previously recognised impairment could be partially or wholly reversed. There were no write-downs during the current reporting period.

(d) Inventory valuation

For valuation of inventories, the management relies on its best assessments, 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 as well as the net realisable value of goods for resale is considered (carrying amounts of 20 million euros as at 31 March 2006 and 18 million euros as at 31 March 2005 for the Group)

(e) Evaluation of goodwill

The management has performed an impairment test for goodwill which arose on the acquisition of the subsidiaries AS Eesti Põlevkivi (carrying amount of 2.5 million euros as of 31 March 2006 and 31 March 2005), AS Elpec (carrying amount of 15 thousand euros

as of 31 March 2006 and 31 March 2005), and AS Narva Soojusvõrk (carrying amount of 9 thousand euros as of 31 March 2006 and 31 March 2005).
During the impairment test performed in the reporting period for AS Eesti Põlevkivi, the recoverable amounts of the net assets of AS Eesti Põlevkivi were compared with their carrying amounts.
The recoverable amounts of assets were determined on the basis of their values in use, by discounting the cash flow forecast for the years 2006-2022 using the discount rate of 8%. The years 2006-2022 have been used on the basis of the expected useful lives of the power blocks of Narva Power Plants. To forecast the cash flows, historical data and the forecast of the Estonian energy balance were used, and it was assumed that AS Narva Elektrijaamad will remain the major consumer of oil shale. The growth rate used was 2-3%, which has been adjusted for the expected effect of the opening of the Estonian electricity market and the closing of the old power blocks of Narva Power Plants.
Future expected cash flows based on the budgeted sales volumes in the Estonian market have been taken into consideration in finding the recoverable amount of the investment of AS Elpec and AS Narva Soojusvõrk. The future expected cash flows have been discounted using the expected rate of return.
Goodwill is written down to its recoverable amount if it is lower than its carrying amount. An impairment test on goodwill is carried out annually for the cash-generating unit that goodwill belongs to or whenever there is an indication of impairment.

(d) Contingent assets and liabilities

When estimating the probability that contingent assets and liabilities will be realised the management considers historical experience, general information about the economic and social environment, and its assumptions of and the conditions for possible events in the future based on its best assessment of the situation.

(g) Recognition of connection fees

The revenue from connection fees is deferred and recognised as income evenly over the estimated customer relationship period, that is considered to be 20 years.
The estimated customer relationship period is based on management's estimate of the period during which the company will have a relationship with the client. Experience has shown that the actual period has sometimes been longer than the estimates.
For 2005/2006, 3.3 million euros of connection fees were recognised as income (2004/2005: 2.3 million euros).
If the estimated customer relationship period is reduced by 10%, the annual income from connection fees would increase by 330 thousand euros (2004/2005: 230 thousand euros).

4 SEGMENT REPORTING

For segment reporting purposes, the Company's business units and subsidiaries are divided into business segments based on the internal management reporting structure and statutory requirements stipulated in the Electricity Market Act of Estonia.
The Electricity Market Act of Estonia requires separate accounting for electricity production, transmission, distribution and sales.
Operating income and expenses are allocated to different segments based on internal invoicing. The prices for inter-segment transfers are based on the prices approved by the Estonian Energy Market Inspectorate, or if not available, on market prices. If market prices are not available, internal prices are affirmed by the Management Board.
Pursuant to the Electricity Market Act of Estonia, the following indicators are subject for approval of 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 for meeting sales obligations;
- network fees.

For the approval of prices, the Estonian Energy Market Inspectorate has established 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, as well as oil shale, shale oil and ashes 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. No information on geographical segments is presented as all significant activities of the Group take place in Estonia.

For segment reporting purposes, companies and business units are divided into the following business segments:
Oil shale mining - 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);
Transmission of electricity - Põhivõrk (National Grid);
Distribution of electricity - Jaotusvõrk (Distribution Network);
Sales and customer service - Teenindus (Customer service), SIA "E. Energy";
Support services - Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, AS Elektrikontrollikeskus, other support services and administrative unit

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 at 1.4.2005	4,361	2,027	106	143	993	390	1,264	9,284
Number of employees at 31.3.2006	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
Number of employees at 1.4.2004	4,680	2,183	107	141	988	415	1,270	9,784
Number of employees at 31.3.2005	4,361	2,027	106	143	993	390	1,264	9,284
Average number of employees	4,516	2,104	107	142	987	403	1,283	9,542

INCOME STATEMENTS OF BUSINESS SEGMENTS FOR THE PERIOD 1.4.2005–31.3.2006

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
Net sales									
External sales	17,687	34,879	22,182	5,568	155,279	200,687	16,585	-8	452,861
incl. in Estonia	17,175	34,749	22,182	4,045	155,279	161,948	6,323	-8	401,693
incl. exports	512	130	0	1,524	0	38,740	10,262	0	51,167
Inter-segment sales	99,949	225,148	3,111	62,520	3,198	31,512	33,900	-459,336	0
Total net sales	**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	0	955	324	2,930	844	-54	80,665
Change in inventories of work-in-progress and finished goods	703	0	364	0	0	0	0	33	1,100
Externally purchased materials, consumables and supplies	-43,209	-53,698	-1,451	-8,231	-9,586	-8,320	-19,450	7,816	-136,129
Internally purchased materials, consumables and supplies	-7,642	-103,593	-8,928	-17,875	-84,196	-214,827	-797	437,859	0
Total purchased materials, consumables and services	**-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
Operating profit/loss of the segment	**8,299**	**97,792**	**12,132**	**16,781**	**22,504**	**3,292**	**3,227**	**348**	**164,374**
Profit/loss from investments in associates	1,193			-471			-102		619
Other financial income and expenses									-28,212
Corporate income tax									-1,370
Net profit for financial year									**135,411**

4 SEGMENT REPORTING, CONTINUED

INCOME STATEMENTS OF BUSINESS SEGMENTS FOR THE PERIOD 1.4.2004–31.3.2005

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
Net sales									
External sales	15,537	38,060	12,841	3,066	19,799	292,746	12,678	0	394,726
incl. Estonia	15,275	32,457	12,841	2,557	19,799	265,009	6,519	0	354,455
incl. exports	262	5,603	0	510	0	27,737	6,159	0	40,271
Inter-segment sales	95,371	214,173	3,434	58,652	118,110	31,750	32,741	-554,231	0
Total net sales	**110,908**	**252,233**	**16,274**	**61,718**	**137,909**	**324,496**	**45,419**	**-554,231**	**394,726**
Other operating income	745	322	51	128	191	697	287	272	2,693
Change in inventories of work-in-progress and finished goods	-496	0	-403	0	0	0	0	-221	-1,120
Externally purchased materials, consumables and supplies	-36,024	-53,082	-1,235	-5,173	-11,448	-3,720	-18,135	7,426	-121,391
Internally purchased materials, consumables and supplies	-9,118	-96,185	-8,509	-25,853	-73,757	-318,440	-691	532,553	0
Total materials, consumables and supplies	**-45,142**	**-149,267**	**-9,744**	**-31,026**	**-85,205**	**-322,159**	**-18,826**	**539,978**	**-121,391**
Other operating expenses	-3,383	-22,308	-968	-2,416	-5,938	-5,400	-7,444	10,925	-36,933
Payroll expenses	-39,364	-19,052	-1,228	-2,335	-10,582	-3,717	-14,931	3,330	-87,879
Other expenses	-360	-209	-1	-13	-82	-44	-422	17	-1,114
Depreciation	-14,904	-24,661	-373	-20,650	-23,669	-194	-3,355	188	-87,618
Operating profit/loss of the segment	**8,004**	**37,059**	**3,608**	**5,407**	**12,623**	**-6,321**	**727**	**258**	**61,365**
Profit/loss from investment in associates	969			-143					827
Other financial income and expenses									-19,322
Net profit for the period									**42,870**

BALANCE SHEETS OF BUSINESS SEGMENTS AS AT 31.3.2006

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	0	1,265,814
incl. 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									
current liabilities	17,644	58,317	1,026	8,771	15,067	31,445	22,603	-62,321	92,551
non-current liabilities	9,165	9,203	16	143,706	217,345	0	341,064	-632,899	87,601
Total liabilities related to operating activities	**26,809**	**67,520**	**1,041**	**152,477**	**232,412**	**31,445**	**363,667**	**-695,219**	**180,152**
Bonds and borrowings									**345,287**
Total liabilities									**525,439**

4 SEGMENT REPORTING, CONTINUED

BALANCE SHEETS OF BUSINESS SEGMENTS AS AT 31.3.2005

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	27,840	38,438	2,378	6,960	16,866	42,388	55,052	-77,424	112,499
Non-current assets	63,267	427,662	2,902	291,396	393,301	303	26,344	0	1,205,175
incl. investments in associates	2,102			599					2,701
Total assets	**91,107**	**466,100**	**5,280**	**298,357**	**410,167**	**42,691**	**81,396**	**-77,424**	**1,317,674**
Liabilities related to operating activities									
current liabilities	19,467	61,278	662	6,902	17,746	35,382	24,163	-66,440	99,159
non-current liabilities	8,951	9,283	12	6,638	47,154	0	269	-3,005	69,301
Total liabilities related to operating activities	**28,418**	**70,560**	**674**	**13,541**	**64,899**	**35,382**	**24,432**	**-69,445**	**168,461**
Bonds and borrowings									**309,103**
Total liabilities									**477,564**

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
Period 1.4.2005-31.3.2006	16,740	26,054	902	42,850	61,996	0	8,202	-3,963	152,782
Period 1.4.2004-31.3.2005	16,096	40,950	460	40,363	61,256	107	4,304	-3,646	159,891

CASH FLOWS OF BUSINESS SEGMENTS FOR THE PERIOD 1.4.2005–31.3.2006

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	10,865	14	227,702
Cash flows from investing activities	-18,296	-28,443	-580	-33,620	-46,407	6	-8,913	-3,817	-140,070
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 flow	**-1,218**	**1,120**	**0**	**0**	**0**	**-4**	**111,373**	**-2,164**	**109,107**

CASH FLOWS OF BUSINESS SEGMENTS FOR THE PERIOD 1.4.2004–31.3.2005

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	20,942	42,629	2,263	2,513	8,593	8,929	39,530	-163	125,235
Cash flows from investing activities	-18,409	-41,384	-446	-299,278	-364,978	-118	286,534	294,227	-143,852
Cash flows from financing activities	0	-1,074	-1,817	296,637	356,384	-8,813	-326,984	-300,526	13,808
Net cash flow	**2,533**	**171**	**0**	**-128**	**0**	**-2**	**-920**	**-6,462**	**-4,809**

5 DISPOSAL OF BUSINESS UNITS

INTRA-GROUP TRANSACTIONS

In the comparable period, the subsidiaries of Eesti Energia AS, OÜ Põhivõrk and OÜ Jaotusvõrk started their operations as independent entities.

Pursuant to the lease agreement entered into at 1.4.2004, Eesti Energia AS transferred the former business unit National Grid with all its related items, rights and liabilities to the ownership and use of OÜ Põhivõrk. 138 employees were transferred to OÜ Põhivõrk

Pursuant to the lease agreement entered into at 1.7.2004, Eesti Energia transferred the former business unit Distribution Network with all its related items, rights and liabilities to the ownership and use of OÜ Jaotusvõrk. 983 employees were transferred to to OÜ Distribution Network.

Both leases were classified as finance leases for accounting purposes.

At 30.3.2005, lease agreements were terminated between Eesti Energia AS and OÜ Põhivõrk and OÜ Jaotusvõrk and sales agreements were entered into for the disposal of business unit to OÜ Põhivõrk and OÜ Jaotusvõrk. The transactions were paid in cash.

Information about sales transactions in thousands of euros	National Grid	Distribution Network
Finance lease principal payments collected	2,744	2,196
Interest income collected on finance lease (Note 29)	18,445	17,626
Sales price	264,273	314,531
Non-monetary assets and liabilities of business units		
Trade receivables	571	18
Other receivables	123	89
Prepayments	22	210
Inventories	0	498
Property, plant and equipment	271,268	364,574
Supplier payable and other payables	-3,721	-9,450
Provisions	0	-52
Deferred income	-1,245	-39,160
Total non-monetary assets and liabilities of business units	**267,017**	**316,727**
Gain on the sale	**0**	**0**

The above transactions constitute intra-group restructuring which does not affect the consolidated financial statements.

Additional information about the National Grid and the Distribution Network is presented in Note 4.

NON-GROUP TRANSACTIONS

In the comparable period, AS Kohtla-Järve Soojus entered into an agreement with AS Viru Õlitööstuse for the sale of business activities in Järve district of the town of Kohtla-Järve. With the sales transaction, the related assets, liabilities and 92 employees were transferred.

Management estimates that the sale of business operations does not constitute discontinued operations because Järve district was only an insignificant part of the whole geographical area in which the Group operates.

Information about sales transaction in thousands of euros	
Sales price	1,933
Other income	14
Expenses related to sale	-3
Non-monetary assets and liabilities of the business unit	
Trade receivables	0
Prepayments	31
Inventories	25
Property, plant and equipment	1,665
Supplier payables and other payables	-109
Provisions	-116
Total non-monetary assets and liabilities of business unit	**1,495**
Profit from sale of operating activities in Järve district (Note 22)	**449**

In the accounting period, there were neither any intra-group nor non-group disposals.

6 CASH AND CASH EQUIVALENTS

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Cash on hand	9	14	9	14
Bank accounts	2,087	49	2,053	49
Cash in transit	28	29	28	29
Short-term deposits and highly liquid investments at banks	147,283	40,209	147,283	40,209
Total cash and cash equivalents	**149,408**	**40,301**	**149,372**	**40,301**

In the financial year, the effective interest rates on term deposits were between 2.0 - 2.6% (in comparable period: 1.9 - 2.4%).
The due dates of deposits were between 1 and 78 days (in comparable period: between 1 and 98 days).
Income accrued by the balance sheet date is disclosed in Note 7.

7 TRADE RECEIVABLES AND OTHER RECEIVABLES

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Short-term receivables				
Trade receivables				
Accounts receivable	66,565	60,128	50,427	43,528
Allowance for doubtful receivables	-9,336	-10,237	-2,679	-3,057
Total trade receivables	**57,229**	**49,891**	**47,749**	**40,471**
Accrued income				
Estimated receivable under stage of completion method	1,602	836	0	0
Estimated receivable for unsubmitted meter readings, late meter readings or on the basis of forecast	809	1,318	809	1,318
Interest receivables	412	40	412	40
Total accrued income	**2,823**	**2,194**	**1,221**	**1,358**
Prepayments	1,901	1,716	359	420
Receivables from associates	8	19	4	18
Receivables from subsidiaries (Note 31)	0	0	167,006	248,723
Other short-term receivables	78	66	2	8
Total short-term receivables	**62,038**	**53,886**	**216,341**	**290,998**
Long-term receivables				
Receivables from subsidiaries (Note 31)	0	0	285,749	285,681
Total long-term receivables	**0**	**0**	**285,749**	**285,681**
Total trade receivables and other receivables	**62,038**	**53,886**	**502,090**	**576,678**

The fair values of receivables do not materially differ from their carrying amounts.

EFFECTIVE INTEREST RATES OF LONG-TERM RECEIVABLES

Receivables from subsidiaries	31.3.2006	31.3.2005
	6.3%	4.4 - 4.5%

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Allowance for doubtful receivable at beginning of the period	**-10,237**	**-10,186**	**-3,057**	**-3,254**
Allowance made during the period	-2,310	-3,444	-1,705	-2,054
Receipt of receivables written down in the previous period	2,406	2,768	1,516	1,619
Receivables written off	805	629	567	606
Reclassified	0	-5	0	0
Transferred upon disposal of business units (Note 5)	0	0	0	26
Allowance for doubtful receivable at end of the period	**-9,336**	**-10,237**	**-2,679**	**-3,057**

7 TRADE RECEIVABLES AND OTHER RECEIVABLES, CONTINUED

REVENUE UNDER STAGE OF COMPLETION METHOD

in thousands of euros	Group 31.3.2006	Group 31.3.2005
Unfinished projects at end of the period		
Net sales of unfinished projects	3,196	2,105
Progress billings submitted	-1,595	-1,269
Unfinished, unbilled projects	**1,602**	**836**
Total expenses of unfinished projects	-2,969	-2,184
Profit/ (loss) calculated on unfinished projects	228	-79
Total income from construction projects in the reporting period	11,767	7,467
Total expenses of construction projects in the reporting period	-10,843	-7,406

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

8 INVENTORIES

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Raw materials and materials at warehouses	**11,007**	**10,593**	**51**	**50**
Work-in-progress				
Extracted oil shale	4,724	4,736	0	0
Stripping works in quarries	2,248	1,637	0	0
Other work-in-progress	503	346	0	0
Total work-in-progress	**7,475**	**6,719**	**0**	**0**
Finished goods				
Shale oil	930	566	0	0
Other finished goods	128	147	0	0
Total finished goods	**1,058**	**714**	**0**	**0**
Prepayments to suppliers	**16**	**287**	**0**	**0**
Total inventories	**19,556**	**18,312**	**51**	**50**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials in the amount of 12 thousand euros (in the comparable period: 19 thousand euros).

9 INVESTMENTS IN SUBSIDIARIES

in thousands of euros	Parent Company 31.3.2006	Parent Company 31.3.2005
AS Narva Elektrijaamad	255,935	204,278
OÜ Jaotusvõrk	159,779	149,274
OÜ Põhivõrk	134,214	119,365
AS Eesti Põlevkivi	69,560	69,560
Televõrgu AS	1,598	1,598
AS Energoremont	959	959
AS Elektriteenused	1,278	1,278
AS Kohtla-Järve Soojus	35	35
AS Elpec	127	127
AS Elektrikontrollikeskus	350	350
OÜ Iru Elektrijaam	32	0
SIA "E.Energy"	3	0
Total investments in subsidiaries	**623,871**	**546,824**

CHANGES IN INVESTMENTS IN SUBSIDIARIES

in thousands of euros	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Book value at beginning of the period	**546,824**	**253,595**
Movements in the period		
Loss/reversed loss from impairment of subsidiary	77,012	-987
Paid for acquisition of long-term financial investments	35	293,866
Reclassified	0	350
Book value at end of the period	**623,871**	**546,824**

9 INVESTMENTS IN SUBSIDIARIES, CONTINUED

In the reporting period, an impairment loss was reversed on investments in OÜ Jaotusvõrk (10,506 thousand euros), OÜ Põhivõrk (14,849 thousand euros) and AS Narva Elektrijaamad (51,657 thousand euros) and investments were revalued to their initial cost. Investment were tested for impairment, by comparing the recoverable amounts of the net assets of subsidiaries with their cost. The recoverable amount was determined on the basis of the value in use by discounting the expected cash flows for the year 2006 - 2022 at the discount rate of 8%. The growth in the recoverable amount of the net asset of subsidiaries is derived from growth of expected future cash flows due to general economic growth and additional sales opportunities arising from the completion of the sea cable between Estonia and Finland, as well as additional revenue from the sale of CO_2 emission rights.

In the accounting period, Eesti Energia AS made monetary contributions into capital of OÜ Iru Elektrijaam in the amount of 32 thousand euros and SIA "Energy" in the amount of 3 thousand euros, in the comparable period into capital of OÜ Jaotusvõrk in the amount of 159,779 thousand euros and OÜ Põhivõrk in the amount of 134,087 thousand euros.

Company	Location	Core activity	Participation (%)
Subsidiaries of the Parent Company			
AS Narva Elektrijaamad	Estonia	Generation of electricity and heat	100.0
OÜ Põhivõrk	Estonia	Network and transit service through the main grid	100.0
OÜ Jaotusvõrk	Estonia	Provision of network service through the Distribution Network	100.0
OÜ Iru Elektrijaam	Estonia	Generation of electricity and heat	100.0
AS Eesti Põlevkivi	Estonia	Oil shale mining	100.0
AS Kohtla-Järve Soojus	Estonia	Generation of electricity and heat	59.2
Televõrgu AS	Estonia	Telecommunications services	100.0
AS Energoremont	Estonia	Production of metal products	100.0
AS Elektriteenused	Estonia	Maintenance, repair and construction of networks	100.0
AS Elpec	Estonia	Design of energy systems	100.0
AS Elektrikontrollikeskus	Estonia	Control of electrical equipment	100.0
SIA "E. Energy"	Latvia	Sale of electricity	100.0
Subsidiaries belonging to subsidiaries			
Subsidiaries of AS Eesti Põlevkivi			
Põlevkivi Kaevandamise AS	Estonia	Oil shale mining	100.0
AS Põlevkivi Raudtee	Estonia	Transport services	100.0
AS Mäetehnika	Estonia	Machine building	100.0
Subsidiary of AS Narva Elektrijaamad			
AS Narva Soojusvõrk	Estonia	Distribution and sale of heat	66.0
Subsidiary of AS Energoremont			
AS ER Baltic Electrotechnics and automation	Estonia	Assembly and use of equipment	100.0
OÜ ER Test Service	Estonia	Welding control and metal quality tests	100.0

Holdings of subsidiaries did not change in the reporting period.
The control of the Parent Company over OÜ Põhivõrk and OÜ Jaotusvõrk is restricted with the Electricity Market Act of Estonia and the directives of the European Union.

10 INVESTMENTS IN ASSOCIATES

CHANGES IN INVESTMENTS IN ASSOCIATES

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Book value at beginning of the period	**2,701**	**2,756**	**128**	**614**
Profit/loss under equity method of accounting	1,091	827	0	0
Dividends received	-1,132	-1,009	0	0
Paid for acquisition of long-term financial investments	8,644	128	8,644	128
Sales	0	0	0	-614
Impairment loss from associate	-471	0	0	0
Book value at end of the period	**10,833**	**2,701**	**8,772**	**128**

In the accounting period, Eesti Energia AS made an additional share capital contribution to AS Nordic Energy Link in the amount of 8,644 thousand euros. After increase of share capital, the holding of Eesti Energia AS in AS Nordic Energy Link is 39.9%.

In the comparable period, Eesti Energia AS sold its holding in DC Baltija to OÜ Põhivõrk for 614 thousand euros in conjunction with the disposal of its former business unit the National Grid. As management intends to terminate the activities of DC Baltija and due to absence of revenue earned on the disposal, as at 31.3.2006, the fair value of the investment was deemed 0 euros and an impairment loss was calculated in the amount of 471 thousand euros.

INFORMATION ABOUT ASSOCIATES

in thousands of euros Company	Location	Assets 31.3.2006	Liabilities 31.3.2006	Operating income 1.4.2005 - 31.3.2006	Profit/ loss 1.4.2005 - 31.3.2006	Participation (%) 31.3.2006
Associate of the Parent Company						
Nordic Energy Link Grupp	Estonia, Finland	21,939	145	0	-192	39.9
Associates belonging subsidiaries						
DC Baltija	Latvia	1,594	155	1,674	-53	33.3
Orica Eesti OÜ	Estonia	7,159	980	13,738	3,380	35.0
		30,692	**1,280**	**15,412**	**3,135**	

in thousands of euros Company	Location	Assets 31.3.2005	Liabilities 31.3.2005	Operating income 1.4.2004 - 31.3.2005	Profit/ loss 1.4.2004 - 31.3.2005	Participation (%) 31.3.2005
Associate of the Parent Company						
AS Nordic Energy Link	Estonia	128	0	0	0	100.0
Associates of subsidiaries						
DC Baltija	Latvia	1,707	214	1,615	-250	33.3
Orica Eesti OÜ	Eesti	7,320	1,285	11,827	2,771	35.0
		9,155	**1,500**	**13,443**	**2,521**	

11 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT OF THE GROUP

in thousands of euros	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31.3.2004						
Cost	4,303	115,875	719,574	676,379	2,518	1,518,649
Accumulated depreciation	0	-64,910	-277,116	-320,233	-1,453	-663,712
Net book amount	**4,303**	**50,965**	**442,457**	**356,146**	**1,065**	**854,937**
Construction in progress	0	3,100	13,883	256,087	0	273,071
Prepayments	266	8	171	526	0	971
Total property, plant and equipment as at 31.3.2004	**4,569**	**54,073**	**456,512**	**612,760**	**1,065**	**1,128,979**
Movements in 1.4.2004-31.3.2005						
Total purchases of property, plant and equipment	341	20,172	46,473	92,481	424	159,891
Depreciation charge	0	-4,374	-29,514	-53,142	-589	-87,618
Non-current assets of a disposed unit at net book amount	0	-169	-1,127	-368	-1	-1,665
Net book amount of other non-current assets disposed of	-9	-177	0	-106	0	-292
Reclassified at net book amount	0	10,469	-1	-10,558	329	239
Provision for dismantling costs (Note 17)	0	34	0	411	0	445
Total movements in 1.4.2004-31.3.2005	**332**	**25,955**	**15,831**	**28,718**	**164**	**71,000**

PROPERTY, PLANT AND EQUIPMENT OF THE GROUP

in thousands of euros	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31.3.2005						
Cost	4,642	127,323	756,913	854,424	3,429	1,746,730
Accumulated depreciation	0	-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	0	18,808	17,176	147,471	0	183,456
Prepayments	259	0	9	2,521	0	2,789
Total property, plant and equipment as at 31.3.2005	**4,901**	**80,029**	**472,343**	**641,477**	**1,229**	**1,199,979**
Movements in 1.4.2005-31.3.2006						
Total purchases of property, plant and equipment	212	12,489	58,042	81,713	326	152,782
Depreciation charge	0	-4,741	-30,144	-64,285	-611	-99,781
Net book amount of non-current assets disposed of	-3	-221	-153	-562	0	-939
Reclassified at net book amount	0	-6,979	6,844	135	0	0
Provision for dismantling costs (Note 17)	0	38	0	407	0	445
Total movements in 1.4.2005-31.3.2006	**209**	**585**	**34,589**	**17,410**	**-285**	**52,508**
Property, plant and equipment as at 31.3.2006						
Cost	4,851	145,603	801,620	1,030,162	3,704	1,985,940
Accumulated depreciation	0	-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	0	5,349	33,848	37,156	0	76,352
Prepayments	259	0	9	2,586	0	2,854
Total property, plant and equipment as at 31.3.2006	**5,110**	**80,614**	**506,932**	**658,887**	**944**	**1,252,487**

In the reporting period, the construction and testing of the 11th power block and in the comparable period, that of the 8th power block of Narva Power Plants was completed.

Power blocks are accounted for as components, with the 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 17)

11 PROPERTY, PLANT AND EQUIPMENT, CONTINUED

PROPERTY, PLANT AND EQUIPMENT OF PARENT COMPANY

in thousands of euros	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31.3.2004						
Cost	4,121	33,329	625,939	364,284	814	1,028,487
Accumulated depreciation	0	-7,016	-221,194	-136,316	-585	-365,112
Net book amount	**4,121**	**26,313**	**404,745**	**227,968**	**228**	**663,375**
Construction in progress	0	171	10,082	7,940	0	18,192
Prepayments	266	0	0	4	0	270
Total property, plant and equipment as at 31.3.2004	**4,386**	**26,483**	**414,827**	**235,911**	**228**	**681,838**
Movements in 1.4.2004-31.3.2005						
Total purchases of property, plant and equipment	1	1,982	7,638	5,330	29	14,979
Depreciation charge	0	-1,062	-3,331	-6,043	-95	-10,530
Non-current assets of disposed business units at net book amount (Note 5)	-4,252	-7,091	-411,775	-212,696	-28	-635,841
Disposed other non-current assets at net book amount	-9	-165	0	-84	0	-258
Total movements in 1.4.2004-31.3.2005	**-4,259**	**-6,336**	**-407,468**	**-213,492**	**-94**	**-631,650**

PROPERTY, PLANT AND EQUIPMENT OF PARENT COMPANY

in thousands of euros	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31.3.2005						
Cost	125	25,397	11,065	41,390	568	78,544
Accumulated depreciation	0	-6,333	-3,851	-19,906	-434	-30,523
Net book amount	**125**	**19,064**	**7,214**	**21,484**	**134**	**48,021**
Construction in progress	0	1,084	145	935	0	2,165
Prepayments	2	0	0	0	0	2
Total property, plant and equipment as at 31.3.2005	**128**	**20,148**	**7,359**	**22,419**	**134**	**50,188**
Total changes in 1.4.2005-31.3.2006						
Total purchases of non-current assets	0	5,606	16	1,270	5	6,896
Depreciation charges	0	-710	-573	-3,057	-70	-4,411
Disposed non-current assets at residual value	0	-218	0	-1	0	-219
Total changes in 1.4.2005-31.3.2006	**0**	**4,678**	**-558**	**-1,789**	**-65**	**2,266**
Property, plant and equipment as at 31.3.2006						
Cost	125	26,398	11,209	41,862	564	80,157
Accumulated depreciation	0	-6,814	-4,424	-22,441	-495	-34,173
Net book amount	**125**	**19,584**	**6,784**	**19,421**	**69**	**45,983**
Construction in progress	0	5,242	17	1,015	0	6,274
Prepayments	2	0	0	194	0	197
Property, plant and equipment as at 31.3.2006	**128**	**24,826**	**6,801**	**20,630**	**69**	**52,455**

AS Kohtla-Järve Soojus and AS Energoremont lease special equipment and personal computers under the finance lease terms. Lease agreements expire by 24.11.2008 at the latest.

NON-CURRENT ASSETS LEASED UNDER FINANCE LEASE TERMS (GROUPS IS THE LESSEE)

in thousands of euros	Balance as at 31.3.2005	Received	Depreciation charge	Lease terminated	Balance as at 31.3.2006
Cost	48	169	0	-8	210
Depreciation	-23	0	-15	8	-31
Net book amount	**25**	**169**	**-15**	**0**	**179**

11 PROPERTY, PLANT AND EQUIPMENT, CONTINUED

ASSETS LEASED OUT UNDER OPERATING LEASE TERMS

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Cost	5,834	5,179	13,739	12,097
Accumulated depreciation at beginning of the period	-2,049	-1,660	-3,538	-2,982
Depreciation of financial year	-213	-203	-385	-415
Net book amount	**3,572**	**3,316**	**9,816**	**8,699**

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

12 GOODWILL

in thousands of euros Group	AS Eesti Põlevkivi	AS Elpec	AS Narva Soojus-	Total goodwill
Carrying amount 31.3.2005	**2,470**	**15**	**9**	**2,494**
Carrying amount 31.3.2006	**2,470**	**15**	**9**	**2,494**

Goodwill is tested for impairment at each balance sheet date (or more frequently if an event or change in circumstances indicates it). During the impairment test performed in the reporting period, the recoverable amounts of the net assets of acquired companies were compared with their carrying amounts. The recoverable amounts of assets were determined on the basis of their values in use, by discounting the cash flow forecast for the years 2006-2022 using the discount rate of 8%. The years 2006-2022 have been used on the basis of the expected useful lives of power blocks of Narva Power Plants. To forecast the cash flows, historical data and the forecast of the Estonian energy balance were used and it was assumed that AS Narva Elektrijaamad will remain mostly the consumer of oil shale.
The growth rate used was 2-3%, which has been adjusted with the expected effec of the opening of the Estonian electricity market and the closing of the old power blocks of Narva Power Plants.
The test results did not indicate any impairment.

13 OPERATING LEASE

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Rental income				
Buildings	879	636	2,577	1,958
Facilities	354	270	17	1
Total rental income (Note 21)	**1,233**	**906**	**2,594**	**1,959**
Rental expense				
Buildings	352	251	179	175
Means of transport	1,351	1,549	362	405
Other machinery and equipment	265	200	23	24
Total rental expense (Note 25)	**1,968**	**2,000**	**564**	**605**

13 OPERATING LEASE, CONTINUED

FUTURE MINIMUM LEASE RECEIVABLES UNDER NON-CANCELLABLE OPERATING LEASE CONTRACTS

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Rental income				
< 1 year	513	236	0	236
1 - 5 years	2,670	944	0	944
> 5 years	11,209	5,391	0	5,391
Total future rental income	**14,392**	**6,571**	**0**	**6,571**

Operating lease agreements (Group and the Parent Company are lessees) are mostly cancellable with a short-term notice.

14 BORROWINGS

BORROWINGS AT AMORTISED COST

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Short-term borrowings				
Current portion of long-term bank loans	4,506	2,364	4,506	2,364
Finance lease liabilities	51	10	0	0
Total short-term borrowings	**4,558**	**2,374**	**4,506**	**2,364**
Long-term borrowings				
Bonds issued	286,439	198,179	286,439	198,179
Bank loans	54,187	108,421	54,187	108,421
Finance lease liabilities	103	1	0	0
Total long-term borrowings	**340,729**	**306,602**	**340,626**	**306,600**
Total borrowings	**345,287**	**308,975**	**345,132**	**308,964**

CHANGES IN BORROWINGS

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Amortised cost at beginning of the period	**308,975**	**294,690**	**308,964**	**294,668**
Movements in the period				
Issued bonds at amortised cost	286,205	0	286,205	0
Exchanged bonds at amortised cost	-103,931	0	-103,931	0
Repurchased bonds at amortised cost	-94,522	0	-94,522	0
Long-term bank loans drawn	0	15,000	0	15,000
Repayment of long-term bank loans	-52,364	-1,182	-52,364	-1,182
Issued commercial papers	24,819	0	24,819	0
Redeemed commercial papers	-25,000	0	-25,000	0
Amortisation of difference between nominal amount and cost of commercial papers	181	0	181	0
Amortisation of loan fees	272	216	272	216
Finance lease agreements entered into	169	0	0	0
Other loan fees	0	-96	0	-96
Amortisation of difference between nominal amount and proceeds from issue	508	359	508	359
Repaid finance lease liabilities	-26	-11	0	0
Exchange rate differences	0	-1	0	-1
Amortised cost at end of the period	**345,287**	**308,975**	**345,132**	**308,964**

14 BORROWINGS, CONTINUED

PRINCIPAL AMOUNT AND TERMS OF LONG-TERM BANK LOANS

in thousands of euros Creditor	Total loan amount	AS at 31.3.2006 drawn	 undrawn	 repaid	Final settlement
Nordic Investment Bank	13,000	9,455	0	3,545	2009
Nordic Investment Bank	15,000	15,000	0	0	2012
Kreditinstalt für Wiederaufbau	90,000	0	90,000	0	2017
Nordic Investment Bank	60,000	20,000	40,000	0	2017
European Investment Bank	80,000	15,000	65,000	0	2019
Total long-term bank loans	**258,000**	**59,455**	**195,000**	**3,545**	

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

All loans are denominated in euros. Most loans have floating interest rates, as at 31.3.2006 interest rates on loans were between 2.7 - 4.7% (as at 31.3.2005: 2.6 - 5.1%). As at 31.2.2006, the weighted average interest rate on loans with floating interest rates was 6-month Euribor+0.4% (as at 31.3.2005: 6-month Euribor+0.6%).
The floating interest rate of the loan from Nordic Investment Bank in the amount of 15,000 thousand euros is fixed until 2006 with an interest rate swap.

Considering the effect of derivative financial instruments, the weighted average interest rate as at 31.3.2006 was 4.2% (as at 31.3.2005 4.9%).

The loan agreements entered into by Eesti Energia AS contain certain financial ratios that the Group should comply with.
The group has complied with the conditions.

Borrowings are all unsecured.

The type of interest rate (floating or fixed) is determined upon taking the loan. The decision regarding the use of loans from Nordic Investment Bank and Kreditinstalt für Wiederaufbau should be made by 30.9.2006 at the latest and regarding the use of the loan from the European Investment Bank by 7.11.2006 at the latest.

LONG-TERM BANK LOANS AT NOMINAL VALUE BY DUE DATES

in thousands of euros	31.3.2006	31.3.2005
< 1 year	4,506	2,364
1 - 5 years	27,021	76,205
> 5 years	27,927	33,250
Total	**59,455**	**111,818**

Management estimates that the market value of loans does not materially differ from their book value at the balance sheet date.

14 BORROWINGS, CONTINUED

BONDS

in thousands of euros	31.3.2006	31.3.2005
Nominal value of bonds	300,000	200,000
Proceeds from issue	286,205	197,260
Amortisation of difference between nominal value and cost	234	919
Exchange rate differences	0	-1
Carrying amount of bonds	**286,439**	**198,179**
Market value of bonds based on quoted sales price	297,240	219,940

In the reporting period, Eesti Energia AS carried out a exchange transaction of bonds redeemable in 2009 whereby the owners of the bonds were made a proposal either to exchange them 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. Current investors exchanged their bonds maturing in 2009 with the nominal value of 104,759 thousand euros and received bonds maturing in 2020 with the nominal value for 115,579 thousand euros. The difference between the amortised cost of bonds maturing in 2009 and the nominal value of bonds maturing in 2020 in the amount of 11,648 thousand euros has been included in the amortised cost of issued bonds.
Current investors sold bonds maturing in 2009 to back to Eesti Energia AS with the nominal value of 95,241 thousand euros for which Eesti Energia AS paid 103,091 thousand euros. The difference between the nominal value 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 31.3.2005	New agreements	Principal payments made	Terminated agreement	Balance as at 31.3.2006
Original lease liabilities	48	169	0	-8	210
Repaid portion	-37	0	-26	8	-55
Carrying amount of lease liabilities	**12**	**169**	**-26**	**0**	**155**

in thousands of euros	Balance as at 31.3.2004	New agreements	Principal payments made	Terminated agreement	Balance as at 31.3.2005
Original lease liabilities	48	0	0	0	48
Repaid portion	-26	0	-11	0	-37
Carrying amount of lease liabilities	**347**	**0**	**-11**	**0**	**12**

As at 31.3.2006, interest rates of finance lease agreements were between 2.9 - 5.5% (as at 31.3.2005: 5.1 - 5.5%).

MATURITIES OF FINANCE LEASE LIABILITIES

in thousands of euros	< 1 year	1 - 5 years	> 5 years	Total
As at 31.3.2006				
Minimum lease payments	56	107	0	163
Unrealised financial income	-5	-4	0	-8
Present value of finance lease liabilities as at 31.3.2006	**51**	**103**	**0**	**155**
As at 31.3.2005				
Minimum lease payments	10	2	0	12
Unrealised financial income	0	0	0	0
Present value of finance lease liabilities as at 31.3.2005	**10**	**1**	**0**	**12**

14 BORROWINGS, CONTINUED

BORROWINGS BY PERIOD OF FIXING INTEREST RATES

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
< 1 year	46,130	45,982	58,693	45,970
1 - 5 years	0	262,993	0	262,993
> 5 years	299,156	0	286,439	0
Total	**345,287**	**308,975**	**345,132**	**308,964**

WEIGHTED AVERAGE EFFECTIVE INTEREST RATES OF BORROWINGS

	31.3.2006	31.3.2005
Long-term bank loans	3.8%	3.2%
Bonds	4.9%	6.3%
Finance lease liabilities	2.9%	5.1%

15 SUPPLIER PAYABLES AND OTHER PAYABLES

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Short-term payables				
Supplier payables				
Payables for property, plant and equipment	33,383	35,959	619	396
Payables for fuel	2,084	3,001	2,084	3,001
Other payables for goods and services	13,518	14,394	1,537	937
Total supplier payables	**48,984**	**53,354**	**4,239**	**4,333**
Accrued expenses				
Payables to employees	10,501	10,395	960	980
Accrued interest	5,519	9,257	5,519	9,257
Other accrued expenses	46	20	19	19
Total accrued expenses	**16,066**	**19,672**	**6,498**	**10,257**
Tax liabilities	18,771	14,658	6,561	5,657
Payables to subsidiaries (Note 31)	0	0	81,059	78,267
Payables to associates	510	819	0	128
Customer prepayments	244	134	5	5
Other payables	1,506	1,344	1,229	1,127
Total short-term payables	**86,082**	**89,982**	**99,591**	**99,774**
Long-term payables				
Payables for goods and services	34	0	0	0
Total long-term payables	**34**	**0**	**0**	**0**
Total supplier payables and other payables	**86,116**	**89,982**	**99,591**	**99,774**

As at 31.3.2006 short-term supplier payables include the amount withheld on the invoice submitted by Foster Wheeler Energia Oy in the amount of 22,006 (31.12.2005: 22 006) thousand euros (10% of the total invoice in the amount of 220,055 thousand euros). Pursuant to the contract entered into with Foster Wheeler Energia Oy to build the new power blocks of AS Narva Elektrijaamad this amount was subject to withholding until the launching of the power blocks. Due to claims of AS Narva Elektrijaamad against Foster Wheeler Energia Oy, AS Narva Elektrijaamad has not paid the withheld amount to Foster Wheeler Energia Oy (note 33).

16 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives include two transactions to fix the interest expense of two floating rate loans (interest-rate swap).
The transaction partner is Westdeutsche Landesbank Girozentrale. Agreements were entered into at 3.4.2002.

Movements in 1.4.2005-31.3.2006 in thousands of euros						
Opening date	Closing date	Underlying amount	Fair value as at 31.3.2005	Change in fair value	Interest paid	Fair value as at 31.3.2006
1) 17.6.2002	16.6.2006	15,000	-639	-20	463	-196
2) 21.6.2002	13.6.2006	50,000	-2,032	-61	1,491	-602
Total		**65,000**	**-2,672**	**-80**	**1,954**	**-798**

Movements in 1.4.2004-31.3.2005 in thousands of euros						
Opening date	Closing date	Underlying amount	Fair value as at 31.3.2004	Change in fair value	Interest paid	Fair value as at 31.3.2005
1) 17.6.2002	16.6.2006	15,000	-1,063	-32	456	-639
2) 21.6.2002	13.6.2006	50,000	-3,405	-102	1,474	-2,032
Total		**65,000**	**-4,468**	**-133**	**1,930**	**-2,672**

HEDGING RESERVE

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Hedging reserve at beginning of the period	**-2,137**	**-3,930**	**-2,137**	**-3,930**
Movements in the period				
Change in fair value of swap agreements	-69	-133	-69	-133
Charging hedging reserve to other expenses (see below)	677	0	677	0
Interest expenses on derivatives	1,447	1,926	1,447	1,926
Hedging reserve at end of the period	**-82**	**-2,137**	**-82**	**-2,137**

The fair value of swaps is based on the quotes by Westdeutsche Landesbank Girozentrale.
In conjunction with the premature payment of the syndicate loan at 22.12.2005, recognition of the changes in fair value of derivates with the underlying amount of 50,000 thousand euros was terminated in equity reserve and the remaining reserv was recognised in other expenses in the amount of 677 thousand euros (Note 28).

17 PROVISIONS

Group in thousands of euros	Opening balance 31.3.2005	Recognition and changes in provisions	Interest charge	Utilisation	Transferred upon disposal of business unit	Closing balance at 31.3.2006	
						Short-term provision	Long-term provision
Environmental provisions (Note 25)	14,942	-1,089	828	-1,052	0	3,760	9,868
Provisions for termination of mining operations (Note 25)	4,868	-16	364	-224	0	213	4,779
Provision for post-employment benefits (Note 27)	1,925	11	92	-745	0	605	679
Provision for work-related injury compensation (Note 27)	2,429	510	170	-312	0	330	2,467
Provision for dismantling cost of assets (Note 11)	445	445	36	0	0	0	925
Total provisions	**24,608**	**-139**	**1,489**	**-2,333**	**0**	**4,907**	**18,718**

17 PROVISIONS, CONTINUED

Group in thousands of euros	Opening balance 31.3.2004	Recognition and changes in provisions	Interest charge	Utilisation	Transferred upon disposal of business unit	Closing balance at 31.3.2005	
						Short-term provision	Long-term provision
Environmental provision	15,804	-265	894	-1,390	-101	4,597	10,345
Provisions for termination of mining operations (Note 25)	5,481	-772	415	-255	0	318	4,550
Provision for post-employment benefits (Note 27)	2,219	272	121	-687	0	792	1,133
Provision for work-related injury compensation (Note 27)	2,566	20	178	-319	-15	308	2,120
Provision for dismantling cost of assets (Note 11)	0	445	0	0	0	0	445
Total provisions	**26,070**	**-301**	**1,607**	**-2,651**	**-116**	**6,016**	**18,593**

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

The amount of environmental 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% (7106 thousand euros) of the to 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 31.3.2006. The grants received in the reporting period amounted to 285 thousand euros (in comparable period 618 thousand euros) (Note 23)).
Long-term environmental provisions will be settled at the Estonian Oil Share Company in 2007 - 2011, at Kohtla-Järve District Heating Network in 2009 - 2013 and at Narva Power Plants in 2007 - 2015.
Liabilities related to termination of mining operations will settle in 16 years.
Provisions for termination of mining operations do not include any termination payments to employees as no detailed plans for the termination of mining have been announced yet.

A provision for post-employment benefits has been recognised in respect of employees covered by collective agreements and other agreements which are paid to the former employees of AS Narva Elektrijaamad, AS Eesti Põlevkivi and Eesti Energia AS.
At AS Eesti Põlevkivi, pension is paid according the resolution of the Management Board in fixed amounts to employees who have left between 1.4.2001 and 31.12.2006. The payment of benefits in AS Eesti Põlevkivi is terminated from 1.1.2007 (as at 31.3.2006 the total amount of provision for post-employment benefits in AS Eesti Põlevkivi is presented among short-term provisions).

Provisions for work-related injuries have been set up at Eesti Energia, Narva Power Plants, Estonian Oil Share Company, Energoremont and Kohtla-Järve District Heating Company to pay benefits to employees who were injured at work. The provision has been determined on the basis of court judgement with regard to amounts payable and payment period which normally equals the life expectancy of employees.
The payment period was determined using the data by the Estonian Statistical Office on life expectancies according to age groups.

The provision for dismantling costs of assets has been set up to cover 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 added to the cost of non-current assets (Note 11). The provision is estimated to settle in 30 years.

The provisions are discounted at the rate of 8%.

18 LONG-TERM DEFERRED INCOME

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Total connection and service fees at beginning of period	**50,709**	**38,468**	**0**	**38,468**
Movements in the period				
Connection and other service fees received	21,455	14,555	189	2,547
Transferred upon disposal of business units	0	0	0	-40,405
Connection and other service fees recognised as income	-3,314	-2,314	-189	-609
Total connection and service fees at end of period	**68,850**	**50,709**	**0**	**0**

The revenue from connection and service fees is deferred and recognised as income evenly over the estimated customer relationship period, that is considered to be 20 years.

19 SHARE CAPITAL AND SHARE PREMIUM

Eesti Energia AS has 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.

As at 31.3.2006, 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 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 unrestricted equity as well as to increase share capital.
Pursuant to the Commercial Code of Estonia, accumulated losses can be covered or share capital can be increased from share premium.
As at 31 March 2006, the available shareholders' equity of the Parent Company (taking into account the statutory requirement to transfer 1/20 of the financial year's net profit into statutory legal reserve) was 198,167 thousand euros, as at 31 March 2005, the respective figure was 72,226 thousand euros. From 1 January 2006, the income tax on dividends amounts to 23/77 (until 31 December 2005: 24/76) of the amount paid out as net dividends.
As at 31.3.2006, Eesti Energia AS is obliged to allocate 2,668 thousand euros from its net profit to reserve capital (as at 31.3.2005: 2,130 thousand euros). Upon the distribution of the remaining retained earnings as dividends, the corporate income tax would amount to 45,578 thousand euros (as at 31.3.2005: 17,334 thousand euros). It is possible to pay out 152,589 thousand euros (as at 31.3.2005: 54,892 thousand euros) as net dividends.

Acccroding to decision of Government of the Republic of Estonia (decision no 4 from 4.3.2006) Eesti Energia is expected to pay 32 million euros as dividends in 2006 after the 2005/2006 Annual Report is approved and signed by the general meeting of shareholders.
The corresponding income tax on dividends would be 10 million euros (see also Note 36).

20 DIVIDENDS PER SHARE

In the financial year, Eesti Energia AS paid dividends in the amount of 6,199 thousand euros to the Republic of Estonia (dividend per share: 0.09 euros). In the comparable period, Eesti Energia AS did not pay any dividends.

21 NET SALES

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
By activities				
Sale of products				
Electricity	356,178	317,998	230,880	321,009
Heat	32,299	30,428	17,511	16,442
Oil shale	13,307	13,239	0	0
Shale oil	22,168	12,814	0	0
Power equipment	9,225	5,305	0	0
Oil share ash	635	462	0	0
Other	1,546	601	0	0
Total sale of goods	**435,358**	**380,847**	**248,391**	**337,451**
Sale of services				
Repair and construction services	2,768	2,654	695	511
Connection fees (Note 18)	3,314	2,314	189	609
Telecommunications services	2,548	2,540	1	0
Leasing and maintenance of real estate (Note 13)	1,233	906	2,594	1,959
Transport services	156	262	119	33
Other services	2,242	2,712	6,663	2,824
Total sale of services	**12,262**	**11,387**	**10,261**	**5,937**
Other sales				
Scrap metal	4,281	1,900	6	57
Other	961	592	10	20
Total other sales	**5,241**	**2,492**	**16**	**77**
Total net sales	**452,861**	**394,726**	**258,668**	**343,465**
By markets				
Estonia	401,693	354,455	219,928	315,727
Exports				
Latvia	35,232	28,131	34,107	27,737
Finland	6,549	4,940	0	0
Lithuania	4,885	294	4,633	0
Sweden	1,434	325	0	0
Norway	1,353	603	0	0
Russia	882	5,971	0	0
Other	832	7	0	0
Total exports	**51,167**	**40,271**	**38,740**	**27,737**
incl. electricity and transmission service exports	**40,263**	**33,688**	**38,740**	**27,737**
Total net sales	**452,861**	**394,726**	**258,668**	**343,465**

ENERGY SALES IN QUANTITATIVE TERMS

MWh	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Sale of electricity				
Estonia	6,235,488	5,946,735	7,048,811	6,654,303
Exports	1,766,348	2,036,049	1,742,382	1,391,079
Total sale of electricity	**8,001,836**	**7,982,784**	**8,791,193**	**8,045,382**
Sale of heat	1,981,356	1,976,695	1,234,277	1,201,185

22 OTHER OPERATING INCOME

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Fines, penalties and benefits received	2,134	978	943	712
Gains from disposal of business unit (Note 5)	0	449	0	0
Gains from disposal of property, plant and equipment	1,250	416	304	191
Interest income on loans to subsidiaries	0	0	26,598	14,529
Interest income on finance lease transactions with subsidiaries (Note 5)	0	0	3	36,070
Emission rights	75,964	0	4,206	0
Other operating income	913	669	391	7
Total other operating income	**80,262**	**2,512**	**32,445**	**51,509**

23 GOVERNMENT GRANTS

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Grant prepayments at beginning of the period				
Grants from EU funds				
ISPA, Cohesion Fund	618	0	0	0
LIFE-Environment	0	45	0	45
Total grant prepayments at beginning of the period	**618**	**45**	**0**	**45**
Movements during the period				
Grants received				
ISPA, Cohesion Fund	431	618	146	0
LIFE-Environment	98	0	98	0
Estonian Ministry of the Environment	14	27	0	0
Ida-Virumaa Employment Office	1	0	0	0
PHARE	0	51	0	0
Environmental Investment Centre	0	55	0	4
Other foreign grants	5	3	5	2
Total grants received	**549**	**754**	**249**	**6**
Taken into income				
ISPA, Cohesion Fund	285	0	0	0
LIFE-Environment	98	45	98	45
Estonian Ministry of the Environment	14	27	0	0
Ida-Virumaa Employment Office	1	0	0	0
PHARE	0	51	0	0
Environmental Investment Centre	0	55	0	4
Other foreign grants	5	3	5	2
Total taken into income	**404**	**181**	**103**	**51**
Grant prepayments at end of the period				
Grants from EU funds				
ISPA, Cohesion Fund	764	618	146	0
Total grant prepayments at beginning of the period	**764**	**618**	**146**	**0**

The closing of the ash field no. 2 of the Baltic Power Plant of AS Narva Elektrijaamad is funded to the extent of 84% by the Cohesion Fund (ISPA) (Note 17) and the project for installation of burners of NOx emissions of Iru Power Plant of Eesti Energia to the extent of 75%.

The project "Life-cycle analyses of oil share electricity" is funded by LIFE-Environment run by the Environmental General Directorate of the European Commission to the extent of 50%. The business partners of Eesti Energia included in the project are the Finnish Environment Institute SYKE and environmental consulting company CyclePlan OÜ.

24 MATERIALS, CONSUMABLES AND SUPPLIES

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Maintenance and repair. Including:				
Core activity facilities and equipment	23,851	23,897	1,618	3,418
Buildings and offices	4,245	5,038	727	872
Dismantling and waste management	3,242	1,713	11	173
Machinery and means of transportation	1,489	1,680	58	293
Liquidation of storm damage	103	1,916	0	0
Total maintenance and repair	**32,931**	**34,243**	**2,415**	**4,756**
Technological fuel. Including:				
Oil shale	5,013	6,981	0	0
Other technological fuel	19,155	15,291	17,456	15,232
Total technological fuel	**24,168**	**22,272**	**17,456**	**15,232**
Repair supplies	17,286	18,759	572	789
Other production-related materials	21,438	18,809	84	79
Electricity	11,848	6,756	209,318	293,519
Fuel for machinery and means of transportation	10,668	7,939	166	192
Resource tax on mineral resources	9,216	7,626	5	4
Subcontracting	2,370	1,425	1	3
Emission rights purchased for resale	2,003	0	2,003	0
Other services	1,790	1,671	53	28
Heat, energy, water	1,110	820	130	124
Tools and fixtures	713	647	7	47
Goods sold	556	383	0	1
Write-down of inventories	33	39	0	0
Total materials, consumables and supplies	**136,129**	**121,391**	**232,210**	**314,773**

25 OTHER OPERATING EXPENSES

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Environmental pollution charges	21,963	16,423	355	239
Security, insurance and work safety	6,490	7,513	924	1,066
Miscellaneous office expenses	2,371	2,709	1,851	2,052
Research and consulting (Note 26)	2,426	1,714	622	603
Rental expenses (Note 13)	1,968	2,000	564	605
Loss from doubtful receivables	-155	621	129	387
Telecommunications expenses	2,151	2,102	752	1,075
Information technology expenses	2,258	1,412	1,254	968
Office supplies and fixtures	673	778	140	202
Training (Note 26)	1,074	1,005	299	310
Public relations and information management	739	755	405	404
Business travel	408	433	135	129
Miscellaneous charges and duties	733	506	78	81
Recognition/reversal of environmental and mining termination benefits (Note 17)	-1,105	-1,038	0	0
Total operating expenses	**41,992**	**36,933**	**7,509**	**8,121**

26 RESEARCH AND DEVELOPMENT COSTS

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Technical consultations	639	885	57	124
Legal advice	575	211	89	126
Business and management consultations	673	115	123	67
Other consultation	539	502	353	286
Total research and consultations	**2,426**	**1,714**	**622**	**603**
Training	**1,074**	**1,005**	**299**	**310**
Total research and consultations costs	**3,499**	**2,718**	**921**	**912**

27 PAYROLL EXPENSES

NUMBER OF EMPLOYEES

	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Number of employees at beginning of the period	9,284	9,784	676	1,886
Number of employees at end of the period	8,756	9,284	617	676
Average number of employees	8,983	9,542	648	1,022

PAYROLL EXPENSES

in thousands of euros				
Wages, salaries, bonuses and vacation pay	64,514	63,646	5,894	7,724
Average monthly pay (in euros)	**598**	**556**	**758**	**630**
Other payments to employees	2,289	2,627	214	317
Termination benefits	1,665	1,024	328	220
Total disbursements to employees	**68,468**	**67,298**	**6,437**	**8,262**
Social tax	23,096	22,732	2,297	2,908
Unemployment insurance premiums	276	329	24	39
Provision for work-related injury compensation (Note 17)	510	20	0	0
Provision for post-employment benefits (Note 17)	11	272	18	58
Other benefits	57	138	5	2
Non-recurring contractor fees	298	334	58	84
Fringe benefits	665	585	295	228
Income tax on fringe benefits	286	296	110	105
Total payroll expenses	**93,668**	**92,002**	**9,244**	**11,686**
Incl. remuneration to management and supervisory board				
Salaries	1,356	1,162	464	416
Termination benefits	178	0	154	0
Fringe benefits	67	46	46	37
Social tax	506	376	204	137
Total paid to supervisory and management board	**2,108**	**1,584**	**867**	**590**
Capitalised in the cost of self-constructed assets				
Wages and salaries	-2,393	-2,870	0	-15
Social tax and unemployment insurance tax	-799	-961	0	-5
Total capitalised amount	**-3,192**	**-3,831**	**0**	**-20**
Covered from provision for termination of mining operations				
Wages and salaries	-37	-219	0	0
Social tax and unemployment insurance tax	-12	-73	0	0
Total covered from provisions	**-49**	**-293**	**0**	**0**
Total payroll expenses	**90,427**	**87,879**	**9,244**	**11,666**

In case of expiry or termination of the employment contract, members of the Management Board are entitled to indemnification equalling their 3-6 month salary.

28 OTHER EXPENSES

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group Company 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent 1.4.2004 - 31.3.2005
Non-business expenses	854	767	395	263
Fines, penalties, benefits	247	151	31	38
Loss from sale of property, plant and equipment	7	43	0	40
Charging hedging reserve to other expenses	677	0	677	0
Other expenses	139	153	10	39
Total other expenses	**1,924**	**1,114**	**1,114**	**380**

29 FINANCIAL INCOME AND EXPENSES

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Interest income				
Interest income from bank deposits and short-term placements in money market and interest funds	1,697	501	1,697	486
Other interest income	3	9	0	0
Total interest income	**1,699**	**510**	**1,697**	**486**
Interest expenses				
Interest expenses on borrowings				
Interest expenses on long-term bonds	-22,682	-12,348	-22,682	-12,348
Interest expenses on long-term bank loans	-3,554	-4,087	-3,554	-4,087
Interest expenses on derivatives	-1,458	-1,926	-1,458	-1,926
Interest expenses on commercial papers	-181	0	-181	0
Interest expenses on finance lease	-2	-1	0	0
Interest expenses on loans from subsidiaries	0	0	-1,175	-992
Total interest expenses on borrowings	**-27,878**	**-18,362**	**-29,051**	**-19,353**
Interest expenses on provisions (Note 17)	-1,489	-1,607	-22	-19
Total interest expenses	**-29,367**	**-19,969**	**-29,073**	**-19,372**
Profit/loss from exchange rate changes	-11	-3	-2	-5
Other financial income and expenses	-534	140	-521	-52
Total financial income and expenses	**-28,212**	**-19,322**	**-27,899**	**-18,942**

30 CORPORATE INCOME TAX EXPENSE

In June 2005, the dividends of subsidiaries of Eesti Energia AS, AS Eesti Põlevkivi and AS Elektrikontrollikeskus were declared and the accompanying income tax expense amounted to 1,370 thousand euros. In accordance with the Income Tax Act of the Republic of Estonia, dividends paid out of retained earnings are subject to a tax rate of 24/76 of net dividend paid. Corporate income tax received from other companies registered in Estonia can be deducted from corporate income tax payable at the rate of 24/76 (from 1.1.2006: 23/77), when the recipient of dividends owned at least 20% of the shares of the payer of dividends.

	Net amount of dividends	Deductions	Corporate income tax	Income tax rate
AS Eesti Põlevkivi	6,391	2,148	1,340	21.0%
AS Elektrikontrollikeskus	96	0	30	31.6%
Total	**6,487**	**2,148**	**1,370**	**21.1%**

31 RELATED PARTY TRANSACTIONS

AS Eesti Energia shares are owned by the state.

In preparing the financial statements of the Group, associates, members of the Parent Company's Management and Supervisory Boards as well as entities under the significant influence of the abovementioned parties are considered as related parties. All entities under the control of the state are also considered as related parties In preparing the financial statements of the Parent Company, subsidiaries and members of their governing bodies are also considered as related parties.

TRANSACTION OF THE PARENT COMPANY WITH ITS SUBSIDIARIES

in thousands of euros	1.4.2005 - 31.3.2006	1.4.2004 - 31.3.2005
Operating income to		
OÜ Jaotusvõrk	25,581	17,516
Eesti Põlevkivi	5,398	8,922
OÜ Põhivõrk	3,850	4,317
Narva Elektrijaamad	3,622	311
AS Elektriteenused	371	287
Televõrgu AS	344	149
AS Kohtla-Järve Soojus	127	199
Energoremont	92	104
AS Elpec	87	87
AS Elektrikontrollikeskus	31	18
Total operating income	**39,502**	**31,911**
Operating expenses from		
Narva Elektrijaamad	197,585	182,809
OÜ Põhivõrk	4,348	19,456
OÜ Jaotusvõrk	977	87,182
AS Kohtla-Järve Soojus	763	652
Televõrgu AS	606	880
Energoremont	309	993
AS Elektriteenused	46	1,267
AS Elpec	4	33
Eesti Põlevkivi	3	0
AS Elektrikontrollikeskus	1	5
Total operating expenses	**204,641**	**293,278**
Purchases of property, plant and equipment from		
AS Elektriteenused	0	978
AS Elpec	0	257
AS Elektrikontrollikeskus	0	158
Energoremont	0	131
Televõrgu AS	0	22
AS Kohtla-Järve Soojus	0	2
Total purchases of property, plant and equipment	**0**	**1,548**
Sales of property, plant and equipment to		
Televõrgu AS	0	0
AS Kohtla-Järve Soojus	0	2
OÜ Jaotusvõrk	0	1
AS Elpec	0	0
Total sales of property, plant and equipment	**0**	**2**
Financial income and expenses from		
OÜ Jaotusvõrk	9,814	18,849
Narva Elektrijaamad	9,162	11,567
OÜ Põhivõrk	7,494	19,901
Energoremont	90	94
AS Kohtla-Järve Soojus	16	163
AS Elektrikontrollikeskus	-13	-10
AS Elpec	-19	-4
AS Elektriteenused	-30	3
Televõrgu AS	-89	-44
Eesti Põlevkivi	-994	-908
Total financial income and expenses	**25,432**	**49,613**

31 RELATED PARTY TRANSACTIONS, CONTINUED

PARENT COMPANY'S RECEIVABLES FROM SUBSIDIARIES

in thousands of euros	31.3.2006	31.3.2005
Short-term receivables		
Overdraft to Narva Power Plants	63,593	161,608
Overdraft credit OÜ Jaotusvõrk	57,328	44,750
Overdraft OÜ Põhivõrk	39,276	34,493
Overdraft Energoremont	1,598	1,793
Overdraft AS Kohtla-Järve Soojus	0	723
Total short-term loans to subsidiaries	**161,796**	**243,367**
Finance lease receivable from Televõrgu AS	30	0
Receivables for goods and services		
OÜ Jaotusvõrk	3,066	3,001
OÜ Põhivõrk	880	579
Narva Power Plants	596	988
Eesti Põlevkivi	472	635
AS Elektriteenused	43	67
Televõrgu AS	24	19
Energoremont	15	19
AS Kohtla-Järve Soojus	12	34
AS Elpec	9	9
AS Elektrikontrollikeskus	5	4
Receivable under stage of completion method	60	0
Total receivables for goods and services	**5,180**	**5,356**
Total Parent Company's short-term receivables from subsidiaries (Note 7)	**167,006**	**248,723**
Long-term receivables		
Overdraft OÜ Jaotusvõrk	154,880	154,880
Overdraft OÜ Põhivõrk	130,801	130,801
Finance lease receivable from Televõrgu AS	69	0
Total Parent Company's long-term receivables from subsidiaries (Note 7)	**285,749**	**285,681**
Total Parent Company's receivables from subsidiaries	**452,756**	**534,404**

PARENT COMPANY'S PAYABLES TO SUBSIDIARIES

in thousands of euros	31.3.2006	31.3.2005
Payables for funds of subsidiaries deposited in overnight deposit		
Televõrgu AS	4,000	2,831
Eesti Põlevkivi	2,611	3,829
AS Elektriteenused	1,847	1,105
AS Kohtla-Järve Soojus	1,215	0
AS Elpec	1,015	466
AS Elektrikontrollikeskus	531	581
Energoremont	312	427
Narva Elektrijaamad	63	190
Total payables for funds of subsidiaries deposited in overnight deposit	**11,593**	**9,428**
Payables to Eesti Põlevkivi for short-term loans	37,005	34,448
Payables for goods and services		
OÜ Jaotusvõrk	16,949	14,614
Narva Elektrijaamad	14,585	18,352
Eesti Põlevkivi	512	542
OÜ Põhivõrk	208	510
AS Kohtla-Järve Soojus	110	116
Televõrgu AS	81	57
Energoremont	8	121
AS Elektriteenused	4	74
AS Elpec	2	1
AS Elektrikontrollikeskus	1	4
Total payables for goods and services	**32,462**	**34,391**
Total Parent Company's payables to subsidiaries (Note 15)	**81,059**	**78,267**

31 RELATED PARTY TRANSACTIONS, CONTINUED

Pursuant to the agency contract entered into between Eesti Energia AS and OÜ Jaotusvõrk, Eesti Energia markets the network services and additional network products (connection products, replacements of meters, etc.). In the reporting period, services were intermediated for 172,642 thousand euros (in the comparable period 25,925 thousand euros).

A similar agency contract has been entered into between Eesti Energia AS and AS Narva Elektrijaamad for selling quotas of greenhouse gas emissions. In the reporting period, Eesti Energia AS intermediated the sales of quotas of greenhouse gas emissions for 71,758 thousand euros.

As a non-monetary transaction, dividends were partially paid by AS Eesti Põlevkivi to Eesti Energia AS.

Dividends worth of 2,556 thousand euros were subtracted from the short-term loan of AS Eesti Põlevkivi granted to Eesti Energia AS.

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Transactions with associates				
Operating expenses	14,464	10,563	20	0
Operating income	483	20	395	0
Purchase of property, plant and equipment	102	0	0	0
Transactions with state-controlled entities				
Operating expenses	4,264	4,019	1,932	2,203
Operating income	41,009	40,971	18,959	35,467

in thousands of euros	Group 31.3.2006	Group 31.3.2005	Parent Company 31.3.2006	Parent Company 31.3.2005
Receivables from and payables to state companies and state-controlled companies				
Receivables	6,553	6,144	4,696	4,244
Payables	280	431	130	290

in thousands of euros	Group 1.4.2005 - 31.3.2006	Group 1.4.2004 - 31.3.2005	Parent Company 1.4.2005 - 31.3.2006	Parent Company 1.4.2004 - 31.3.2005
Transactions with companies in which the members of the supervisory board or management board have significant influence				
Operating expenses	1,064	503	253	234

Remuneration paid to the members of management and supervisory boards is disclosed in Note 27.

In the sale and purchase of electricity, prices set by the Estonian Energy Market Inspectorate have been used. The remaining transactions take place at market prices, in their absence, negotiated prices are used.

32 EFFECT OF CHANGES IN ACCOUNTING POLICIES

The Parent Company

According to the revised IAS 27 Consolidated and Separate Financial Statements the accounting principle for the measurement of investment in subsidiaries is changed. The subsidiaries are reported in the separate report at cost; previously the equity method was used. The influence of the respective change is recorded as follows:

REVALUATION OF THE PARENT COMPANY'S INVESTMENTS TO COST

in thousands of euros	31.3.2005 amended	31.3.2005 initial	effect
1) Investments in subsidiaries	546,824	583,003	36,179
2) Retained earnings	8,550	31,762	23,211
3) Net profit for financial year	29,626	42,594	12,968

33 PLEDGES, COLLATERALS, GUARANTEES AND COURT ACTIONS

The loan agreements concluded by Eesti Energia AS set certain limits on the Group's consolidated financial indicators. These limits have not been exceeded.

As at 31.3.2006, the following guarantee contracts were in effect:
1) On 8.2.2002, Eesti Energia AS issued a guarantee to Foster Wheeler Energia Oy regarding the liabilities of the Group's subsidiary AS Narva Elektrijaamad arising from the contract between the latter and Foster Wheeler Energia Oy.
The contract was signed for the renovation of two power blocks of AS Narva Elektrijaamad valued at ca. 256 million euros. At the end of the accounting period, the outstanding balance of AS Narva Elektrijaamad amounted to 22,006 thousand euros, which was subject to withholding until the launch of the power blocks.
Due to the delay in renovation works and the violation of contractual terms, AS Narva Elektrijaamad has filed a claim against Foster Wheeler Energia Oy for the approximate amount of 50 million euros.
Foster Wheeler Energia Oy has initiated a commercial dispute against Narva Elektrijaamad at the arbitral court of London and has filed an initial claim for the amount of 38 million euros for the payment of renovation costs.
Management considers the claim of Foster Wheeler Energia Oy to be unfounded.
2) OAO Leningradslanets has prosecuted an action against AS Narva Elektrijaamad regarding the contract for oil-shale supply. According to the plaintiff, AS Narva Elektrijaamad had no legal right to revoke the contract unilaterally. The company's management considers that AS Narva Elektrijaamad is unlikely to incur any costs in relation to this claim because OAO Leningradslanets was in breach of the contractual obligations (constant overdue payments), which entitled the Company to revoke the contract unilaterally.

34 OFF-BALANCE SHEET ASSETS AND CONTINGENT LIABILITIES

PRICE OF ELECTRICITY

As the Group has a monopoly over the production, transmission and distribution of electricity in the Estonian market, the prices for the closed market are set by the Estonian Energy Market Inspectorate.
Pursuant to the agreement entered into during the accession negotiations with the European Union, Estonia is required to open up a third of its electricity market by 2009, and the whole market by 2013. The final decision with regard to the opening of the market will be made before 2013.

NETWORK DEVELOPMENT OBLIGATION

According to the Electricity Market Act of Estonia, a network company is required to administer the network in a way that ensures continuous and satisfactory network services in the service areas.

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, which include the investment plans of AS Narva Elektrijaamad 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 in compliance with EU environmental regulations by 16.7.2009 at the latest.

RENEWABLE ENERGY PURCHASE OBLIGATION

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

CONSTRUCTION CONTRACTS

As at 31.3.2006, the Group had liabilities from future acquisitions of non-current assets to the value of 44,818 thousand euros (as at 31.3.2005: EEK 54,656 thousand euros).

CLOSING OF ASH FIELDS

AS Narva Elektrijaamad has set up a provision for the neutralisation of alkaline water in currently operating ash fields. The portion of the provision related to the closing of the ash fields at the end of their operational life has not been set as the management considers that the size of the provision cannot be estimated reliably.

As the closing of ash fields has not proceeded according to schedule, it is possible that a fine may be imposed on AS Narva Elektrijaamad. As at the balance sheet date, the size of the fine has not yet been set, therefore no provision has been made for the potential fine.

COMPENSATIONS FOR THE OBLIGATION TO TOLERATE UTILITY WORKS

According to the Law of Property Act, a land holder in Estonia is under obligation to tolerate utility works erected on the owner s real estate. The law states the owner's right to compensation for this obligation. As at the balance sheet date, the means for calculating the compensation are not stipulated by law, therefore no provision has been made for this liability.

TAX AUDIT

The tax authorities may at any time inspect the books and records within 6 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. There has been no tax audit for the last 6 years. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

35 OFF-BALANCE SHEET ASSETS

As at 31.3.2006, Eesti Põlevkivi has estimated reserves of mineable oil shale in mines and quarries totalling 444 million tonnes (as at 31.3.2005: 507 million tons), including underground mining fields of 323 million tonnes (as at 31.3.2005: 355 million tons) and ground level mining fields of 121 million tons (as at 31.3.2005: 152 million tons). These reserves are decreed by the licence from the state and approved by the Ministry of Environment.

According to the decree of the Government of Estonia no. 14 of 27.1.2005, the companies of the Eesti Energia Group have quotas of greenhouse gas emissions of 46,730,352 tons for the period of 2005-2007.

36 EVENTS AFTER THE BALANCE SHEET DATE

On 1.4.2006, Eesti Energia AS transferred all the assets, rights and liabilities of the business unit Iru Power Plant to the possession and use of OÜ Iru Elektrijaam. 76 employees were transferred to OÜ Iru Elektrijaam.

On 27.4.2006, Eesti Energia AS set up a 9.6 million euros Foundation of Future Energy which will start financing the research and development of new energy technologies. 9.6 million euros will be paid to the foundation over the next three years.

Eesti Energia AS is a company whose shares are owned by the state. In each financial year, the amount of dividend payable to the state budget is established by a directive of the Government of the Republic of Estonia. See Note 19 for further information.

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AUDITOR'S REPORT

To the shareholder of Eesti Energia AS

We have audited the accompanying consolidated balance sheet of Eesti Energia AS (the Parent Company) and its subsidiaries (the Group) as of 31 March 2006 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the financial year then ended, and the accompanying balance sheet of the Parent Company as of 31 March 2006 and the related statements of income, cash flows and changes in shareholders' equity for the financial year then ended. These financial statements are translated into euros from the original in Estonian kroons. These financial statements as set out on pages 54 to 100 are the responsibility of the Management Board of the Parent Company. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Parent Company as of 31 March 2006 and of the results of their operations and cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

7 June 2006

PROFIT ALLOCATION PROPOSAL

The net profit of the Eesti Energia Group for the 2005/06 financial year was 2,109,303,110 kroons (134,809,039 euros).

Assuming that the Republic of Estonia on the recommendation of the Minister of Finance approves the amount of dividends payable pursuant to paragraph 1 of § 10 of the Participation of Legal Persons In Private Law by the State Act for state-controlled entities, and in accordance with order no. 4 of 3.1.2006, Eesti Energia AS shall pay dividends to the value of 500,000,000 kroons (31,955,824 euros). Therefore, pursuant to § 332 of the Commercial Code of Estonia, the Management Board proposes to pay dividends to the shareholders to the value of 500,000,000 kroons (31,955,824 euros).

In conjunction with the continuing financing needs of Eesti Energia AS, the Management Board proposes to allocate the remaining net profit as follows:

1) 41,748,773 kroons (2,668,233 euros) allocated to statutory reserve capital
2) 1,567,554,337 kroons (100,184,982 euros) not allocated

SIGNATURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD TO THE ANNUAL REPORT

The Annual Report of Eesti Energia AS and the Group for the financial year ended 31.3.2006 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.

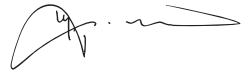
Management Board
06.06.2006

Sandor Liive
Chairman of the Management Board

Margus Kaasik
Member of the Management Board

Lembit Vali
Member of the Management Board

Mati Jostov
Member of the Management Board



Tiit Nigul
Member of the Management Board

Supervisory Board
20.06.2006

Urmas Sõõrumaa
Chairman of the Supervisory Board

Meelis Atonen
Member of the Supervisory Board

Värner Lootsmann
Member of the Supervisory Board

Toomas Luman
Member of the Supervisory Board

Janno Reiljan
Member of the Supervisory Board

Mihhail Stalnuhhin
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