Eesti Energia

Interim Report

1. April 2006 – 30. June 2006

Significant Events During the Quarter

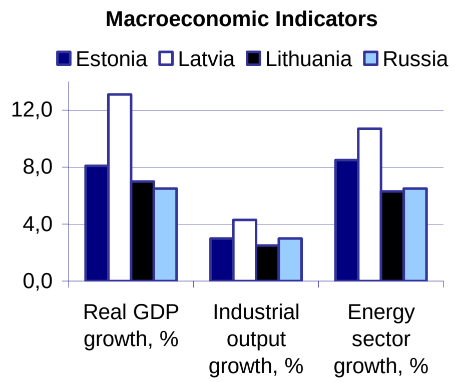


Figure 1

Domestic Economic Environment is Promising

During the last quarter, Estonia has been experiencing a close to double-digit economic growth, and according to the economic forecasts of the Bank of Estonia[1], this tendency will keep in the next few years, which signals a significant growth in the energy sector. In 2006, estimated real GDP growth will reach 8.1% in Estonia.

Both domestic and external demand is expected to increase. Exports and imports will increase equally, on average, by 15% in 2006. According to the European Commission, final domestic demand is expected to continue boosting, primarily on account of increasing investment in housing construction. Private consumption also is expected to remain stable, due to a combination of employment growth and substantial real wage gains.

Compared to its bordering countries, Estonia is the second fastest-growing economy in terms of GDP, industrial output, and energy sector growth.

Losses falling

Losses in the distribution network have fallen to 9.4% in the 12-month period, which is their lowest figure in recent years. Targeted investments will be made in the coming years to reduce losses even further. Losses in the distribution networks are expected to be below 9.5% in the current financial year.

Construction of Estlink Undersea Cable has started

The first 18 kilometers of Estlink land cable were installed in April of the current year. The construction site is situated in Harku municipality. The power transformer has been delivered already, and the remaining parts of the substations, which are currently under construction, will be transported from the manufacturing plants in the next few months. Laying the submarine cable to the sea will start in September. The project will be finished at the end of 2006.

With the help of Estlink project, its shareholders – Eesti Energia, Latvenergo, Lietuvos Energija, as well as Pohjolan Voima and Helsingin Energia – expect to achieve the first interconnection between the Baltic and Nordic electricity systems, to improve security of the electricity supply in the Baltic States, and to reduce the dependence of the Baltic power systems on Russia. As intended, the Estlink cable will allow power transmission up to 3 TWh.

[1] Economic Forecast of Eesti Pank for 2006-2008, 26 April 2006

Eesti Energia establishes Cooperation with Finnish Solidus

Eesti Energia and Finnish company Solidus OY engaged in a working partnership. Solidus will provide Eesti Energia with advisory services regarding the management of the risks arising from power export through Estlink, help to work out Eesti Energia's Risk Policy and operational guidelines for export activities to the Nordic market, and offer electricity market expert services, which is essential in order to be successful in the open market environment.

Steering Committee is going to accomplish Feasibility Study on New NPP Ignalina by 1 October 2006

On 8 March of the current year, Lietuvos Energija, Eesti Energia and Latvenergo signed a Memorandum of Understanding, by which it was decided to carry out a feasibility study on the construction of the nuclear power plant. The feasibility study will be completed by 1 October 2006. Several committees and working groups were formed and the advisor institutions were selected in order to support the development of the project. For the Technology and Environmental Protection working group, the Steering Committee has appointed a Swiss consulting agency Colenco Power Engineering Ltd. Investment bank Dresdner Kleinwort, based in London, will support working groups in financing, while Freshfields, Bruckhause, Deringer, also situated in London, will assist in legal issues. Financial adviser Dresdner Kleinwort was also chosen as a coordinator of entire feasibility study process.

On 24 May 2006, the Steering committee approved the Scientific Advisory Committee, the main task of which is to give an opinion on the reports of the working groups. The Scientific Advisory Committee consists of Lithuanian scientists represented by Kaunas Technical University and Lithuanian Energy Institute, Latvian scientists represented by Latvian Academy of Sciences, and Estonian scientists represented by Estonian Academy of Science.

Televõrgu AS launches a High-Speed Internet Service

Televõrgu AS is planning to enter the retail Internet market and capture 10% of this market by 2010. For this purpose, the company is planning to invest 1.2 million EUR in the construction of access networks in the next financial year.

Eesti Energia sets up the Foundation of Future Energy

The Foundation of Future Energy, established on 27 April 2006, will receive 9.6 million EUR during the next three years. The purpose of the foundation is supporting research and development of new and competitive energy production technologies in the Baltic Sea region. Preliminary areas of interest of the foundation are closely connected to Eesti Energia's needs, namely, research in the field of refined oil shale products, use of biomass and biogas, various types of renewable energy, and other alternative technologies. 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.

Financial Highlights

	1.4.2006-30.6.2006	1.4.2005-30.6.2005	Change	
Revenues, € th.	130,808	90,053	40,755	45.3%
incl. domestic sales of electricity	76,065	69,492	6,573	9.5%
EBITDA, € th.	66,198	31,697	34,500	108.8%
EBIT, € th.	41,358	8,389	32,969	393.0%
Net Profit, € th.	34,033	2,311	31,722	1372.9%
Net Fixed Assets, € th.[1]	1,260,713	1,211,757	48,956	4.0%
Equity, € th.[1]	1,005,492	842,654	162,838	19.3%
Net Debt, € th.[1]	165,105	281,013	-115,909	-41.2%
CAPEX, € th.	34,336	34,941	-605	-1.7%
FFO, € th.	62,134	28,130	34,004	120.9%
Debt/(Debt+Equity)[1]	25.4%	26.8%	-1.3%	
ROIC[2]	15.8%	5.7%	10.1%	
EBITDA interest cover[2]	10.8	8.4	2.4	
FFO[2]/Net Debt[1]	108.1%	45.6%	62.5%	
FFO/Interest Expense[2]	6.5	7.0	-0.5	
FFO/Capex[2]	138.3%	90.6%	47.8%	
EBITDA margin	50.6%	35.2%	15.4%	
EBIT margin	31.6%	9.3%	22.3%	

1 - balance sheet figures are end of period

2 - rolling 12 months

Economic Performance of the Business Segments

Efficiency of Oil Shale Mining on the Rise

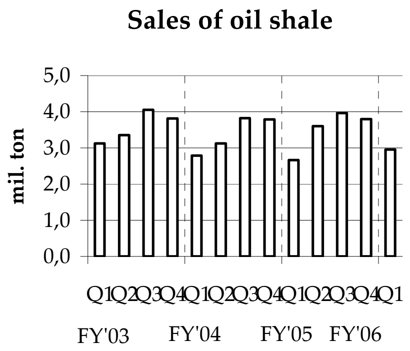
Revenues of the oil shale segment amounted to 26.8 million euros in the first quarter, of which sales of oil shale accounted for 24.5 million euros. Sales volume was 2,952 tonnes, and growth in revenues and volume was 16.0 % and 10.7% respectively, year-on-year. The rise is attributable to an increase in the production of electrical energy.

Operating profit of the oil shale production segment grew by 0.1 million euros (19%) from the previous financial year, in spite of a hike in environmental taxes and fuel prices. Despite a rise in production volumes and general pressure from the labour market, labour costs have been decreasing due to a more efficient production process which requires fewer staff.

In June 2006 the Oil Shale Company announced the payment of AS Põlevkivi dividends of 11.5 million euros, which impacted the net profit result of the oil shale production segment by 3.2 million euros.

The last 12 months' EVA was positive for the oil shale segment at 3.4 million euros (+1 million euros). Three months' FFO amounted to 4 million euros, and investments to 4.5 million euros.

AS Metrosert gave certificates to all the AS Eesti Põlevkivi enterprises on 31 May 2006, which prove compliance of the enterprises with the ISO 9001 quality management systems standard, ISO 14001 environmental management systems standard, and OHSAS 18001 occupational health and safety management systems standard.



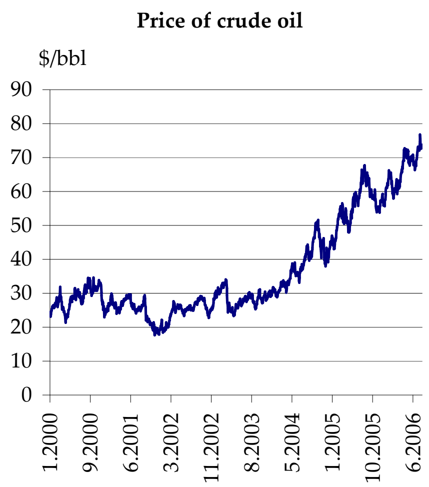
Performance of electrical and thermal energy production supported by rising energy consumption

Sales figures for electrical energy were 1,703 GWh and 46.4 million euros by the end of the first quarter, which is 209 GWh (14.0%) more than last year; sales of electrical energy rose by 4.7 million euros or 15.3%. The production volume mainly grew at Narva Power Plants, while there was marginal shrinkage in production at Iru and Kohtla-Järve power plants.

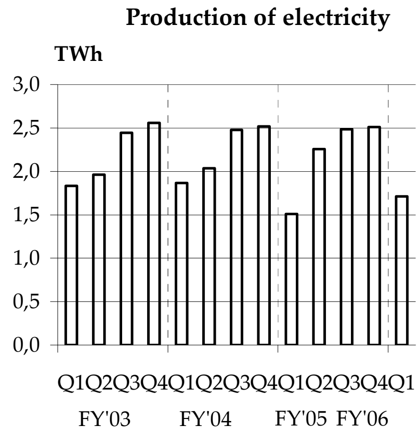
Sales figures for thermal energy were 330 GWh and 5.8 million euros in the first quarter, which is 14 GWh (4.1%) less than last year; revenue from thermal energy sales increased by 0.3 million euros, i.e. 4.8%. Sales decreased at Narva Power Plants by 9.3%, and at Kohtla-Järve by 12.8%, while sales grew at Iru Power Plant by 0.5%.

Operating profit of the segment has risen to 23.7 million euros, sales of emission allowances totalled 24.7 million euros. Without the sale of allowances, the operating loss of the segment rose from 3.6 million euros to 0.9 million euros.

Three months' FFO amounted to 5.8 million euros (+0.1 million euros) without the impact of sales of allowances. Investments (5.7 million euros) were financed from the operating cash flows.



The economic performance of production was above all influenced by an increase in environmental taxes (0.8 million euros) and depreciation (0.9 million euros), which resulted in the fall of EVA, an indicator which shows the creation of economic value, by 10.5 million euros to –13.0 million euros. An unpolluted environment is being exceedingly valued, resulting in stricter requirements. The investment strategy of energy production takes account of the environmental norms of both today and tomorrow. A major recent event was the beginning of the project to install low nitrogen oxides burners at Iru Power Plant. In the first quarter we also invested 1.3 million euros to the new cleaner ash removal system at Eesti Power Plant.

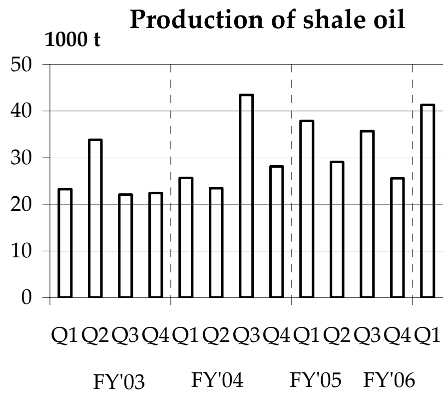


Oil production – growth in fuel prices fosters strong economic performance

In the first quarter of the 2006/07 financial year we sold outside of group 26,000 tonnes of shale oil (-5,300 tonnes), respective revenues amounted to 6.8 million euros (+2.9 million euros, 73.2%). Coupled with the rising prices of crude oil, operating profit of the oil production segment grew from 1.7 million euros to 3.5 million euros.

EVA of the oil production segment has risen to 12.6 million euros, or +9.8 million euros. Three months' FFO was 4.9 million euros.

The high global prices of oil products suggest that shale oil production will be increasingly profitable, and therefore research has been started into the maximum employment of production facilities and the expansion of production.



Transmission of electrical energy – return on invested capital growing

The segment brought in 16.8 million euros (+1.5 million euros) from sales of transmission services. 1,936 GWh of electrical energy were passed through the transmission network, which represents a 7.0% rise on the previous year. The network's efficiency is underlined by a decrease in losses from 3.16% to 3.08%.

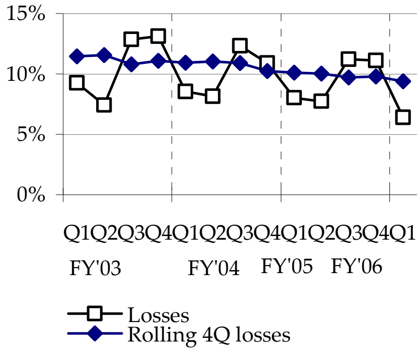
Robust sales of electrical energy raised operating profit of the energy transmission segment to 4.7 million euros, which is 1.8 million euros more year-on-year. Three months' FFO was 7.6 million euros (+1.2 million euros).

Although investments rose by 35.2 million euros, EVA for the 12 months reached -2 million euros, which is 10.2 million euros up on last year.

In the first quarter of the 2006/07 financial year, 12.5 million euros were invested in transmission segment.

Large-scale projects were continued along the strategically important Narva-Tallinn line. Major projects in the first quarter of 2006/07 were the construction of the Kiisa-Balti 330 kV power line (4.9 million euros), the renovation of the Papiniidu 110 kV switchyard and the Püssi 110 kV distribution station, and the renovation of the Paldiski 110 kV switchyard and the Veskimetsa 110 kV distribution station.

Distribution network losses



Distribution of electrical energy – subscription to the network remains high

Losses in the distribution network are one of the most significant indicators of the efficiency of distribution networks, and the long-term trend of losses is clearly downward. In the first quarter of 2006/07 losses shrank to 6.3% and 12 month losses fell to 9.4% (-0.7%).

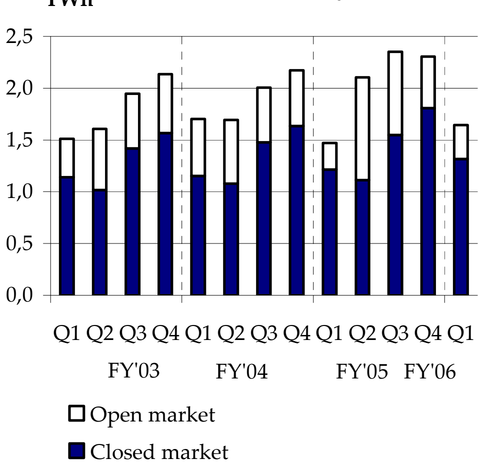
Sales of network services in the distribution network segment grew to 35.9 million euros (+6.0%). The profit margin rose from 8.7% to 9.6%, and ROIC of the distribution segment reached 6.2%, but this was not sufficient to achieve positive EVA for the 12 months (-4.4 million euros).

Three months' FFO has grown from 2.1 million euros to 6.6 million euros.

10.1 million euros were invested in the distribution network in the first quarter of 2006/07. The largest investment programme of the distribution network over recent years has been in subscriptions to the network, which brought in 4.7 million euros.

Apart from subscriptions, operating reliability also received significant investments (2.2 million euros), as did renovation of substations (1.5 million euros).

Sales of electricity



Supply and customer service – high economic growth leads to strong domestic growth and exports

Sales of electrical energy in the first quarter came to 1,644 GWh (+11.3%), and sales revenue was 49.0 million euros, which is 5.8 million euros more than the previous year (+13.5%). Closed market sales were 1317 GWh (+8,3%), and open market sales to 328 GWh (+28,2%). Gross sales revenue of electrical energy rose from 1.7% to 8.4%. Energy consumption has been growing faster than economic growth would imply.

Operating profit increased by 1.5 million euros and reached the 1.1 million-euro level. The profit margin of the segment improved from -1.0% to +2.2%. EVA has risen to 3.7 million euros against this background, and exceeded the previous year's result by 8.5 million euros.

One emerging opportunity today is entry into the Nordic energy market via Estlink. The long-term objective is to sell electricity to 2 million customers, and intensive preparatory work is going on today in readiness for the open energy market in the future. We are creating close ties with customers, and improving the efficiency of subscription and settlement procedures.

Support Services

Operating profit grew from 0.6 million euros to 9.7 million euros. Interest revenues, which are showed before operating profit under new accounting policies, accounted for 6.3 million euros of the revenues. Until now, interest revenue was recorded as financial income in this segment. EVA totalled 1.1 million euros.

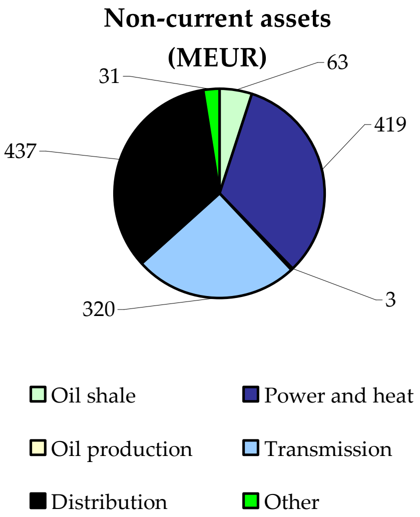
Televõrgu AS commenced provision of services to DANTE (Delivering Advanced Network Technology to Europe) and launched a broadband data communication channel at a speed of up to 2.56 Gbit/s throughout Estonia, Latvia and Lithuania, enabling research and education institutions in these countries to use data volumes that are up to 16 times higher than is possible within the backbone network connecting to Europe.

IBM Eesti OÜ, a subsidiary of the world leading IT company IBM, and Televõrgu AS started to offer joint services of accommodation, maintenance and trunk communication.

On 28 April 2006 three certificates were handed over to AS Elektriteenused by Bureau Veritas Eesti OÜ: occupational health and safety assessment series certificate 18001:1999; environmental management system certificate ISO 14001:2004, and quality management system certificate ISO 9001:2000, first issued in 2003 and renewed in 2006.

These certificates prove that the integrated management system of quality, work environment, and occupational health and safety at AS Elektriteenused meets international requirements. AS Elektriteenused is among the pioneers in the introduction of the requirements of OHSAS 18001:1999 in Estonia. Currently, only a couple of dozen companies have an OHSAS 18001:1999 certificate.

Asset Portfolio and Investments

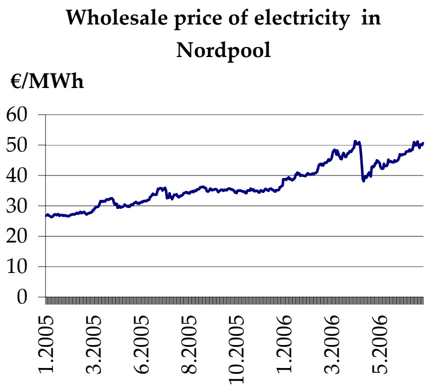


A Vertically Integrated Portfolio offers a Sound Set of Assets of Varied Risk Levels

Eesti Energia is a producer of energy whose portfolio of assets covers companies involved in the energy supply chain, from the mining of fuel to the sale of electricity. In the last two years the shale oil production segment has become increasingly important in the company's portfolio of assets. As at 30.06.2006 the value of the assets of the group stood at 1.5 billion euros.

The Estonian electricity market is currently 90% closed, but it will be opened step by step by 2013. Therefore, the risk for assets related to the production of energy and the mining of oil shale is limited. The baseload price of electricity on the Nordic electricity markets stands at 50-60 €/MWh, while the price of electricity on the closed domestic market is 26 €/MWh.

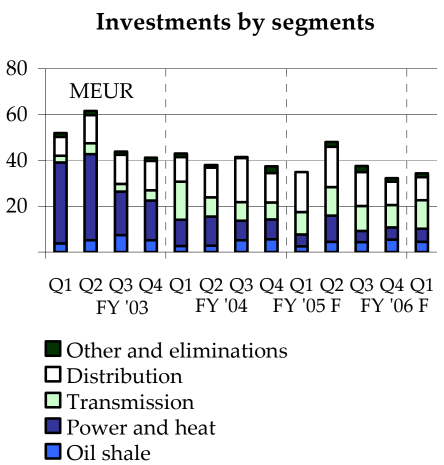
Operating profit from shale oil production has grown alongside the improved oil price to 15.3 million euros over the last two years. The current level of operating profit is based on an oil price of 223 euros/ton. The price of shale oil is closely integrated with the price of oil on the global market, and the price of oil, which stood at 50-60 $/barrel early in the year, has risen to over 70$/barrel. Due to the continued instability in the Middle East, most analysts do not forecast a significant fall in the price of crude oil over the coming quarters.



A fourth major part of the assets portfolio is made up of the energy networks. Energy networks are a natural monopoly, and revenues from transmission and distribution operations are regulated. The assets of the transmission network are valued at 326 million euros; return on invested capital over the last 12 months is 6,3%; the assets of the distribution network are valued at 454 million euros and return on invested capital over the last 12 months is 6,2%.

Investments boost Development

The investment strategy of Eesti Energia is based on the criteria of economic efficiency, environmentally aware development, and security of supply. Investments are planned to ensure the fulfilment of strategic objectives. In terms of energy production this means diversification of the production portfolio: the development of co-generation and renewable energy. In cooperation with Lietuvos Energija and Latvenergo we are investigating options for investment in the construction of a nuclear power plant, and the feasibility of constructing peak gas turbines to secure reserves for wind energy. We are carefully considering the construction of another power block using circulating fluidised bed combustion technology at Narva Power Plants.



The transmission network and the distribution network have undergone remarkable development since 1998, when Eesti Energia was established; network energy losses for 12 months had shrunk from 20.5 to 11.5% by the end of the first quarter of 2006/2007. The targets of the investments in the energy networks are tightly related to the reduction of failures and losses, and to the elimination of problems with voltage fluctuation.

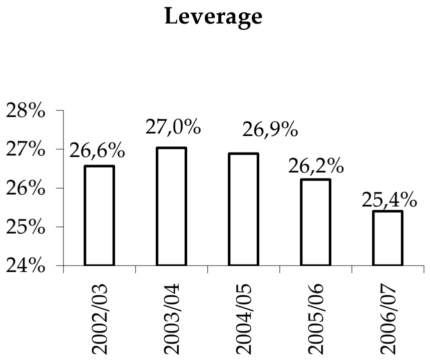
By late 2006, the construction of the 350 MW Estlink undersea cable will be completed. The undersea cable will allow Estonia and the whole Baltic electricity market to connect to the Nordic electricity market Nordpool. In the longer term, the objective of transmission networks in Europe, including the Baltic region, is to increase security of supply through the establishment of interconnections, and the development of the electricity market.

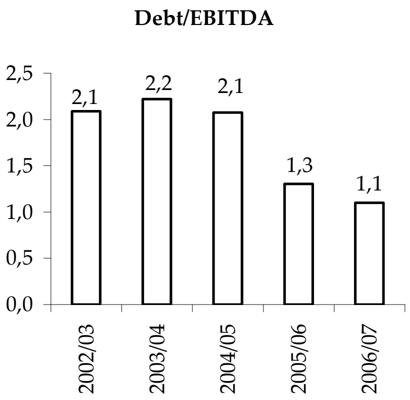
Eesti Energia has unique know-how in the field of large-scale oil shale mining and the production from it of energy and shale oil. In the context of relatively high oil prices, technological advances and political tensions in the Middle East, adding value to oil shale through shale oil production is becoming an increasingly important activity, alongside electricity and heat production. One of Eesti Energia's strategic targets is to increase the volume of oil production from 130,000 tonnes today to 500,000 tonnes by 2010.

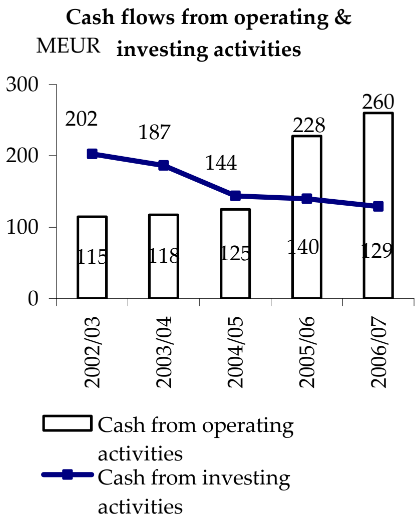
One of the principle techniques of strategic management in Eesti Energia is the balanced scorecard. The balanced scorecard takes financial criteria into account, as well as aspects relating to clients, staff, and the business processes. The investments should, in addition to meeting financial criteria, also assist towards meeting the goals set forth in the balanced scorecard.

In 2002/03-2005/06 Eesti Energia group invested 748 million euros, i.e. on average 185 million euros a year. In the first quarter of the 2006/07 financial year, Eesti Energia invested 34 million euros. In the first quarter of 2006/07 in energy production the most significant investments were the continuation of the project to install low nitrogen oxides burners at Iru Power Plant, and the beginning of a pilot project for the new ash removal system in Eesti Elektrijaam (Eesti Power Plant). Development of the transmission network continued along the strategically important Narva-Tallinn line, and through the construction of the undersea cable Estlink between Estonia and Finland. The most important investment targets in the distribution network were the renovation of low voltage networks, the voltage quality programme, and the construction of supply points.

Financial Review







Eesti Energia's financial results continue to improve

Eesti Energia's rolling 12 month revenues were 574.3 million euros (+172.8 million euros, 43%). Operating profit for the same period climbed to 197.4 million euros (+135.0 million euros, 217%) and net profit to 167.1 million euros (+124.9 million euros, 295%). Group's EVA was –1.4 million euros, increasing by 32.1 million euros. Eesti Energia plans to reach positive EVA by the end of the current financial year.

Eesti Energia is a company with a solid balance sheet structure

Although Eesti Energia has made large investments, its balance structure remained conservative in the first quarter of the 2006/07 financial year. In fact, the share of liabilities in the balance even decreased over the first quarter, and the debt/(debt+equity) ratio eventually decreased from 26.2% to 25.4%, due to improved demand for energy, a high oil price and the extraordinary sale of quotas. The loan/EBITDA ratio shrank from 1.3 to 1.1 in the quarter, while operating capital grew by 29.4 million euros. In the medium term we are expecting a rise in the debt burden because of the increasing investments being made to help us reach our strategic goals. As at 30.06.2006, the net debt of Eesti Energia amounted to 165.1 million euros (-115.9 million euros, -41%).

As at 30.06.2006, the weighted average interest rate of Eesti Energia's debt was 4.4%. The principle currency for Eesti Energia's debt is the euro. The current company ratings for Eesti Energia are A1 with positive outlook from Moody's, and A- with stable outlook from Standard and Poor's.

Among Eesti Energia's long-term debt, the largest amount – 300 million euros – is a Eurobond with a fixed interest rate of 4.5%, with its maturity in 2020. The debt portfolio also includes a 15 million euro debt from the Nordic Investment Bank, the fixed interest rate of which, using an interest swap, is 6.08%. Of another NIB loan facility of 60 million euros, also with a fixed interest rate, we have used 20 million euros.

Liquidity risk is low with positive economic performance and a strong cash flow

As at 30.06.2006 the Eesti Energia group had financial reserves worth 180.9 million euros. Unused loans amounted to 198.1 million euros. Liquidity risk is minimal for the company over the medium term.

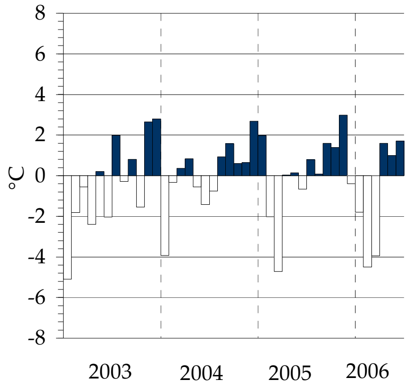
The average receivables turnover was 38 days in the 12 months ending 30.06.2006, as it was in the financial year 2005/06.

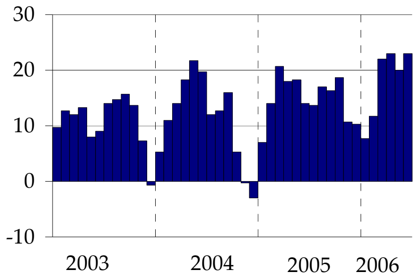
As at 30.06.2006 the group's inventories amounted to 22.0 million euros.

Eesti Energia pays 32.0 million euros in dividends

Based on FY 2005/06 excellent results, Eesti Energia's dividend to its shareholder is 32.0 million euros.

Short – term Outlook





Cource: Estonian Institute of Economic Research

Favourable economic situation bolsters electricity demand growth

Leading experts of the Estonian Institute of Economic Research declared the general economic situation to be positive in June 2006. A majority of the experts interviewed (87%) forecast that this favourable situation will continue over the next six months; the rest of the experts were of the opinion that the current situation may improve even further. The Estonian Central Bank, Eesti Pank, expects real GDP growth of 8.1% for 2006, and growth of 7.6% and 6.9% in 2007 and 2008 respectively. Real export and import growth will be 15% according to the Eesti Pank forecast. Economic growth in Estonia is sufficiently strong to support a growth in electrical energy consumption according to the short-term forecast.

Electrical energy consumption is growing

The average temperature of the first quarter of the 2006/07 financial year was 0.9°C higher than a year earlier. Nevertheless, domestic consumption of electrical energy is rising. Analysis shows that if we eliminate the effect of temperature from actual consumption, the growth of energy consumption has reached 4% on a 12-month basis. This exceeds the long-term average growth in consumption.

Losses falling

Losses in the distribution network have fallen to 9.4% in the 12-month period, which is their lowest figure in recent years. Targeted investments will be made in the coming years to reduce losses even further. Losses in the distribution networks are expected to be below 9.5% in the current financial year.

Unstable situation in the Middle – East keeps oil price up

Oil prices have risen from 2005/06 50 – 60 $/bbl levels mainly due to increased concerns over Iran's nuclear programme. Increased oil prices in the world markets have boosted the heavy fuel oil price. As the market prices have increased, the state has begun to explore possibilities to regulate the domestic oil price.

Operating results in upward swing

Strong domestic sales, expansion of electricity exports to Finland, stringent cost policies and effective investments signal further improvement of revenues and margins in FY 2006/07.

Overview of Segments

Mining of oil shale – Eesti Põlevkivi (Estonian Oil Shale)

Oil shale is extracted in Ida-Virumaa in the stretch of the Estonian oil shale deposit from Kiviõli in the west to the Narva River in the east, and from Jõhvi in the north to Väike-Pungerja in the south. The layer of oil shale is located at a depth of between 10 and 70 metres. Quarrying is used in the Aidu and Narva open quarries to extract oil shale, and underground mining in the Estonia and Viru mines. The Eesti Energia group has deposits with an estimated volume of oil shale sufficient for energy production over the next 40 years.

Oil shale extraction directly or indirectly employs 4,000 people within the structures of the Eesti Energia group, and is the most labour intensive segment of the group. Oil shale production over the last 12 months was 13.7 million ton.

Production of electrical energy and thermal energy – Narva Elektrijaamad (Narva Power Plants), with the exception of Õlitehas (Oil Plant); Iru Elektrijaam (Iru Power Plant); AS Kohtla-Järve Soojus (Kohtla-Järve District Heating Network); Taastuvenergia (Renewable Energy Business Unit)

The Eesti Energia group currently has available 2,602 MW of capacity for the production of electrical energy and 1,232 MW of capacity for the production of thermal energy. About 1,900 people are involved in the production of electrical or thermal energy within the group. Over the last 12 months, production in the electrical and thermal energy segment amounted to 8,964 GWh of electrical energy, and 2,298 GWh of thermal energy.

Production of oil – Õlitehas (the Oil Plant Business Unit of Narva Power Plants)

As the production of oil is increasingly important in the performance of Eesti Energia, as of the 2005/06 financial year the production of oil has been itemised as a separate business segment in the context of financial accounting.

Shale oil is a blend of hydrocarbons which is created in the process of overdistillation at a wide range of temperatures. The advantages of shale oil over heavy fuel oils are its lower viscosity, lower setting point, and lower content of sulphur and mechanical impurities, its low content of heavy metals, and the absence of vanadium. It is mostly used as fuel in both large and small boilers. The production of the Oil Plant amounted to 132 000 tons of shale oil in the last 12 months.

Transmission of electrical energy – OÜ Põhivõrk (National Grid)

The transmission segment shows the performance of the Eesti Energia group's national grid of 110kV minimum voltage, which has interconnections of over 10kV to the networks of other countries, and other equipment required for the operation, maintenance and development of the whole system. Eesti Energia has 5,193 km of lines for the transmission of electrical energy, which connect 142 transformer substations.

Distribution of electrical energy – OÜ Jaotusvõrk (Distribution Network)

The distribution segment is concerned with the management of up to 35 kV medium-voltage and low-voltage networks, and the distribution of energy to end consumers. It manages over 18,000 substations and more than 60,000 km of power lines, and has about 582,000 supply points for customers.

Supply and customer service – Eesti Energia AS Teenindus

The mission of the Supply division is to save the customers effort when dealing with supply issues. We have worked hard to provide simple, convenient and fast service, and this year we have made another step towards meeting our customers' expectations. Eesti Energia has over 480,000 household clients and over 22,000 business clients. At nearly 50,000, there are actually twice as many business client consumption points as clients.

Support services – Energoremont (Equipment Maintenance and Supply), AS Elektriteenused (Electrical Services), AS Elpec, Televõrgu AS (Telecommunications Network), AS Elektrikontrollikeskus (Power Inspection Centre), other support services and management of the group

The segment of support services covers those activities of the Eesti Energia group not included in the previous segments. This involves business units, which add value to the vertically integrated chain, including the construction and design of energy networks, the manufacture of energy products, and the provision of telecommunications services.

Financial Statements

Balance Sheet
th. EUR

	30.6.2006	30.6.2005	31.3.2006	*Notes*
ASSETS				
Current assets				
Cash and cash equivalents	178,107	26,926	149,408	
Short term financial investments	2,765	0	0	
Trade receivables and other receivables	53,327	40,722	62,038	
Inventories	22,000	21,578	19,556	
Total current assets	**256,199**	**89,225**	**231,001**	
Non- current assets				
Investments in associates	10,833	11,346	10,833	
Property, plant and equipment	1,260,713	1,211,757	1,252,487	*4*
Intangible assets	2,494	2,494	2,494	
Total non- current assets	**1,274,041**	**1,225,597**	**1,265,814**	
Total assets	**1,530,240**	**1,314,823**	**1,496,816**	
LIABILITIES				
Current liabilities				
Borrowings	4,557	53,442	4,558	*5*
Trade and other payables	83,611	80,569	86,082	
Derivative financial instruments	0	1,959	798	
Provisions	4,122	5,428	4,907	
Deferred income	618	618	764	
Total current liabilities	**92,907**	**142,016**	**97,109**	
Non- current liabilities				
Borrowings	338,655	254,504	340,729	*5*
Trade payables	34	0	34	
Provisions	19,012	19,393	18,718	
Deferred income	74,139	56,256	68,850	
Total non- current liabilities	**431,841**	**330,152**	**428,330**	
Total liabilities	**524,748**	**472,169**	**525,439**	
Shareholders' Equity				
Share capital	464,900	464,900	464,900	
Share premium	259,833	259,833	259,833	
Statutory reserve	43,822	41,692	43,822	
Hedging reserve	0	-1,904	-82	
Retained earnings	200,836	74,356	66,027	
Net profit for the period	34,182	2,377	134,809	
Total capital and reserves	**1,003,572**	**841,253**	**969,307**	
Minority interest	**1,920**	**1,402**	**2,070**	
Total shareholders' equity	**1,005,492**	**842,654**	**971,377**	
Total liabilities and equity	**1,530,240**	**1,314,823**	**1,496,816**	

Income Statement
th. EUR

	3 months		12 months		Notes
	1.4.2006 - 30.6.2006	1.4.2005 - 30.6.2005	1.7.2005- 30.6.2006	1.7.2004- 30.6.2005	
Revenue					
Sales	103,605	89,317	467,149	398,447	
Other income	27,203	732	106,733	2,869	
Government grant	0	5	399	159	
Changes in work in progress and finished good	1,837	3,194	-257	2,394	
Materials, consumables and supplies	-32,139	-30,405	-137,863	-124,253	
Other operating expenses	-11,475	-9,403	-44,063	-37,447	
Personnel expenses	-22,614	-21,558	-91,483	-88,867	
Depreciation and impairment	-24,840	-23,308	-101,312	-89,906	*4*
Other expenses	-220	-184	-1,960	-1,094	
EBIT	**41,358**	**8,389**	**197,343**	**62,300**	
Interest expense on borrowings	-4,234	-4,476	-27,636	-18,320	
Other net financial income	750	-233	647	-1,319	
Net financial cost	**-3,484**	**-4,708**	**-26,989**	**-19,639**	
Share results of associates	0	0	1,091	969	
Loss of investments in associates	0	0	-471	0	
Profit before taxes	**37,874**	**3,681**	**170,974**	**43,631**	
Income tax	**-3,841**	**-1,370**	**-3,841**	**-1,370**	*6*
Profit for the period	**34,033**	**2,311**	**167,133**	**42,261**	
Attributable to:					
Equity holders of the Parent Company	**34,182**	**2,377**	**166,615**	**41,579**	
Minority interests	**-149**	**-66**	**519**	**682**	
Earnings per share for profit attributable to the equity holders of the company during the period					
Basic (€)	*0.47*	*0.03*	*2.29*	*0.57*	*7*
Diluted (€)	*0.47*	*0.03*	*2.29*	*0.57*	*7*

Cash Flow Statement
th. EUR

	3 months		12 months	
	1.4.2006 - 30.6.2006	1.4.2005 - 30.6.2005	1.7.2005- 30.6.2006	1.7.2004- 30.6.2005
Cash flows from operating activities				
Adjusted net profit	63,049	30,690	291,751	147,947
Changes in working capital	382	2,299	-9,920	-2,065
Paid interest and loan fees	-1,818	-2,729	-22,733	-17,921
Received interest	903	169	2,060	527
Paid income tax	0	0	-1,370	0
Net cash from operating activities	**62,516**	**30,430**	**259,788**	**128,488**
Cash flows from investing activities				
Purchase of tangible fixed assets	-37,908	-40,473	-152,479	-154,300
Proceeds from connection fees	5,858	5,976	20,186	17,461
Proceeds from sale of tangible fixed assets	3,262	521	4,922	1,123
Disposal of business unit	0	0	0	1,945
Dividends received from associates	0	0	1,132	1,009
Paid for long- term financial investments	-2,761	-8,644	-2,761	-8,772
Net cash used in investing activities	**-31,550**	**-42,620**	**-129,000**	**-141,534**
Cash flows from financing activities				
Short – term borrowing	0	0	24,819	0
Called short-term borrowings	0	0	-25,000	0
Paid dividends	0	0	-6,199	0
Bonds issue	0	0	183,337	0
Repurchased bonds	0	0	-103,091	0
Received long- term bank loans	0	0	0	15,000
Repayment of long- term bank loans	-2,253	-1,182	-53,435	-2,364
Finance lease principal payments	-14	-3	-37	-11
Net cash from financing activities	**-2,267**	**-1,185**	**20,393**	**12,626**
Net increase/decrease in cash and cash equivalents	**28,700**	**-13,375**	**151,181**	**-421**
Cash and cash equivalents at the beginning of the period	149,408	40,301	26,926	27,347
Cash and cash equivalents at the end of the period	178,107	26,926	178,107	26,926
Change in cash and cash equivalents	**28,700**	**-13,375**	**151,181**	**-421**

Consolidated statement of changes in shareholders' equity
th. EUR

	Capital and reserves attributable to the equity holders of the Parent Company							
	Share capital	Share premium	Statutory reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total
Balance 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	233	0	233	0	233
Net profit for the period	0	0	0	0	2,377	2,377	-66	2,311
Balance at 30.6.2005	**464,900**	**259,833**	**41,692**	**-1,904**	**76,732**	**841,253**	**1,402**	**842,654**
Balance at 31.3.2006	**464,900**	**259,833**	**43,822**	**-82**	**200,836**	**969,307**	**2,070**	**971,377**
Change in hedging reserve	0	0	0	82	0	82	0	82
Net profit for the period	0	0	0	0	34,182	34,182	-149	34,033
Balance at 30.6.2006	**464,900**	**259,833**	**43,822**	**0**	**235,018**	**1,003,572**	**1,920**	**1,005,492**

Notes to the Financial Statements

1 Accounting policies

These consolidated interim condensed financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended March 31st, 2006.

Accounting standards, changes in accounting standards and interpretation of standards mandatory to the group starting 01.04.2006 did not have any effect on the group's financial reporting.

The statements should be read in conjunction with the 2004/05 annual financial statements. The information contained in the Interim Financial Statements has not been audited.

2 Segment reporting

For segment reporting purposes, the group's business units and subsidiaries are divided into business segments based on the internal management reporting structure and statutory require-ments stipulated in the Electricity Market Act of Estonia. The Electricity Market Act of Estonia requires separate accounting to be held for electricity production, transmission, distribution and sales. Operating revenues and expenses are allocated to different segments based on internal invoices. The pricing of inter-segment transfers is based on the prices approved by the Estonian Energy Market Inspectorate, or if not available, on the market prices. If no market prices exist, the management board of the Group affirms the internal prices.

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

For segment reporting, the companies and units are divided into the following business segments:

Oil shale mining - Eesti Põlevkivi;

Production of electricity and heat - Narva Elektrijaamad, Iru Elektrijaam, AS Kohtla-Järve Soojus, Renewable energy;

Shale oil production – Oil shale plant of Narva Elektrijaamad

Transmission of electricity – OÜ Põhivõrk;

Distribution of electricity – OÜ Jaotusvõrk;

Sales and customer service - Teenindus;

Support services - Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, AS Elektrikontrollikeskus, Administration, Support services.

th. EUR

3 months 1.4.2006-30.6.2006

	Oil shale mining	Production of electricity and heat	Production of shale oil	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Revenue	26,774	78,321	8,204	17,049	37,020	49,417	14,776	-100,752	130,808
EBIT	-373	23,696	4,775	4,648	3,544	1,101	3,471	496	41,358

3 months 1.4.2005-30.6.2005

	Oil shale mining	Production of electricity and heat	Production of shale oil	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Revenue	22,032	48,629	4,694	15,571	34,838	43,494	11,920	-91,125	90,053
EBIT	-462	915	1,651	2,865	3,046	-442	552	264	8,389

3 Seasonality of operating profit

Temperature is the most important factor influencing the domestic electricity and heat demand. Lower temperatures in winter induce higher energy consumption and thus higher revenues and operating profit, in summer higher temperatures lead to lower electricity and heat consumption and correspondingly to lower revenues and lower operating profit.

4 Tangible assets

th. EUR

	Land	Buildings	Const-ructions	Plant and equipment	Other	Total
Balance 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
Opening net book value	4,851	75,266	473,075	619,145	944	1,173,281
Construction and renovation in progress	0	5,349	33,848	37,156	0	76,352
Prepayments	259	0	9	2,586	0	2,854
Total balance at 31.3.2006	**5,110**	**80,614**	**506,932**	**658,887**	**944**	**1,252,487**
Movements for the period 1.4.2006-30.6.2006						
Additions	14	1,345	18,140	14,798	39	34,336
Depreciation	0	-1,197	-6,984	-16,505	-154	-24,840
Disposals	-30	-1,240	0	-1	0	-1,270
Reclassification	0	475	104	-579	0	0
Total movements for the period 1.4.2006-30.6.2006	**-16**	**-616**	**11,260**	**-2,286**	**-115**	**8,226**
Balance at 30.6.2006						
Cost	4,835	144,847	809,924	1,055,266	3,730	2,018,602
Accumulated depreciation	0	-71,102	-335,503	-427,194	-2,902	-836,700
Closing net book value	4,835	73,745	474,422	628,071	829	1,181,902
Construction and renovation in progress	0	6,253	43,770	25,830	0	75,853
Prepayments	259	0	0	2,699	0	2,958
Toatal balance at 30.6.2006	**5,094**	**79,998**	**518,192**	**656,601**	**829**	**1,260,713**

5 Nominal and amortized value of borrowings

th. EUR	30.6.2006		30.6.2005	
	Nominal value	Amortized cost	Nominal value	Amortized cost
Short- term borrowings				
Current portion of long- term bank loans	4,506	4,506	53,435	53,435
Finance lease liabilities	50	50	7	7
Total short- term borrowings	**4,557**	**4,557**	**53,442**	**53,442**
Long- term borrowings				
Bank loans	52,695	51,965	57,201	56,233
Bonds issued	300,000	286,599	200,000	198,270
Finance lease liabilities	90	90	2	2
Total long- term borrowings	**352,785**	**338,655**	**257,203**	**254,504**
Total borrowings	**357,342**	**343,212**	**310,645**	**307,946**

6 Income tax

In June 2006, AS Eesti Energia's subsidiaries AS Eesti Põlevkivi and AS Elektrikontrollikeskus announced dividend, on which the income tax amounted to 3,841 thousand euros. According to the Estonian Income Tax Law, if a resident company has received dividends from a resident company and the recipient of the dividends owns, at the time of payment of the dividends, at least 20 per cent of the shares or votes of the payer of the dividends, the recipient of the dividends is not obliged to impose income tax on the same amount paid by it as dividends.

th. EUR	Net dividend	Deductions	Income tax	Tax rate
AS Eesti Põlevkivi	11,951	1,132	3,232	27.0%
AS Elektriteenused	2,039	0	609	29.9%
Total	**13,991**	**1,132**	**3,841**	**27.5%**

7 Earnings per share

Basic earnings per share = Profit attributable to the equity holders of the company / Weighted average number of shares

As there are no stock options, warrants, convertible bonds or contractual obligations to issue additional ordinary shares, diluted earnings per share equal to earnings per share.

	3 months		12 months	
	1.4.2006 - 30.6.2006	1.4.2005 - 30.6.2005	1.7.2005- 30.6.2006	1.7.2004- 30.6.2005
Profit attributable to the equity holders of the company (€ th.)	34,182	2,377	166,615	41,579
Weighted average number of shares (th.)	72,741	72,741	72,741	72,741
Basic earnings per share (€)	0.47	0.03	2.29	0.57
Diluted earnings per share (€)	0.47	0.03	2.29	0.57