# Eesti Energia

## Interim Report

1. April 2007 – 30. June 2007

# Significant Events During the first quarter

## Eesti Energia launches an Internet service that will cover the whole of Estonia

On June 18th 2007 Eesti Energia launched a mobile Internet service called KÕU. This service will cover the whole of Estonia.

In November 2006 Televõrk AS, a subsidiary of Eesti Energia, won the tender organised by the Communications Board, and obtained a frequency licence to use radio frequencies, allowing them to offer network services based on a broadband communications network within the 450 MHz frequency band.

Over six months Televõrk has invested 50 million kroons in developing its Internet network and launching its Estonia-wide Internet service on the market. Today, there are over 95 base stations installed throughout Estonia and more continue to be built in relation to the growth in the number of service users.

The network connection service is based on CDMA technology and the Internet speed is from 256 kbps up to 2 Mbps depending on the proximity of antenna and the number of users. Already more than five thousand KÕU contracts have been signed in one month. Additional information: www.kou.ee

## Estlink has been in operation for six months

The beginning of July marked six months from the moment when electricity started to flow between the Baltic and Nordic countries via Estlink. In total slightly over 850 GWh of electrical energy has been transmitted to the Nordic countries and approximately 13 GWh has been transmitted to the Baltic countries during that time. Between the start-up of Estlink in the beginning of January and the end of June, Eesti Energia exported to Finland a total of 686 GWh of electrical energy.

The Estlink undersea cable has proved its worth during the first six months. Although prices in the Scandinavian market have averaged 25 €/MWh during the first six months, Estlink has made a significant contribution to the economic results of Eesti Energia in its first months of operation. Estlink has made energy trading in the Baltic countries substantially more active than it used to be, and in many sales contracts the price is now pegged to the price of Nord Pool, the exchange for energy trading in the Nordic countries.

## Baltic countries invite Poland to join the nuclear power station

In a meeting in Riga on June 11th the prime ministers of the Baltic States decided to give an official invitation to Poland to join the construction project of a nuclear power station planned in Lithuania. The Lithuanian parliament adopted an act on the construction of the nuclear power station permitting the construction of a new nuclear power station to replace the one in Ignalina that will be closed down. According to the act the Lithuanian share of the nuclear power station project is to be 34 per cent and the remainder will be divided between Estonia, Latvia and Poland.

Lithuania will close down the soviet-era nuclear power station in Ignalina in 2009. The project partners – the energy companies of Estonia, Lithuania, Latvia and Poland – will continue with project preparations.

### Environmental impact assessment of the Iru co-generation block initiated

The environmental impact assessment programme for the construction of a new co-generation block using waste fuel to produce heat and electricity in Iru Elektrijaam (Iru Power Plant) got official approval on April 2nd 2007. The equipment to be constructed will use bio energy to produce heat and electricity in an efficient mode of co-generation from waste incineration. As a result, the volume of waste sent to landfill as well as the volume of natural gas from Russia used in the power plant will decrease. As a result of this possibility to use additional local fuel, the reliability of fuel supply in Iru Elektrijaam will increase.

### Eesti Energia searches for new energy solutions

The Future Energy Initiative founded by Eesti Energia launched a project search on 2nd of April with the aim of helping to develop alternative energy solutions in the Baltic Sea region.

The programme focuses on financing research into product and technology development in the field of energy on a project basis.

In this year's search, projects in three areas were invited: sustainability of oil shale technologies through increased competitiveness and lowered environmental impact; alternative energy solutions applicable in the Baltic Sea region; and technologies for energy efficiency and saving.

In total 21 applications were received from universities, R&D institutions and technology intensive companies. The panel of experts of Eesti Energia selected four projects that will go to the final selection round of the search. In the final selection round the company will continue negotiations on details of the projects with the project authors.

### The environmental impact assessment and strategic impact programmes of Narva Power Plants are completed

Narva Power Plants has successfully completed the first stage of the renovation of its power plant, and as a result two renovated energy units with fluidised-bed technology started operation with a total capacity of 430 MW. Eesti Energia plans to continue the renovation of the power plants and has started preparatory work for the construction of energy units on the territory of Eesti Power Plant, and in connection with this the environmental impact assessment and strategic impact assessment plans for the new energy units of Narva Power Plants have already been completed.

### The Baltic countries aim to join the Union for the Coordination of Transmission of Electricity (UCTE)

The electricity transmission network operators of Estonia, Latvia and Lithuania plan to join the Western European Union for the Coordination of Transmission of Electricity (UCTE). The prime ministers of the Baltic countries concluded an agreement in Riga in June inviting the European Commission and the Secretariat of the UCTE to support the entry of the Baltic countries into the UCTE, and also the Polish government's intention to join the process. The main network operators of the applicant countries have to conduct a study into joining the UCTE by the end of 2007.

### Transmission charges no longer have to be paid on energy trading between Estonia and Finland

Since June 1st the cross-border tariffs on energy trade have been abolished between Estonia and Finland, because Estonia joined the *Inter TSO Compensation mechanism* (ITC mechanism) of the European Transmission Systems Organisation (ETSO).

The aim of the ITC mechanism is to compensate the transmission network operators of those countries whose transmission networks are used for transmission for the expenses incurred so that traders would not have to pay cross-border tariffs. All transmission network operators that have joined the system pay the charges based on their country’s exports and imports to a unified cross-border energy transmission compensation fund and receive the compensation from there in relation to the transmission volume produced by other countries' grid networks.

### Eesti Energia and Tallinn University of Technology work together more closely

Until now the cooperation between Eesti Energia and Tallinn University of Technology has been primarily based on an understanding of mutual needs and skills, but now it will have an official framework in several areas. Eesti Energia and Tallinn University of Technology concluded a framework contract for cooperation at the end of March with the aim of developing work in the field of research and development, and in innovation and technology transfer.

Eesti Energia and Tallinn University of Technology will be cooperating in areas such as the development of oil shale technologies after the opening of the soon-to-be-established technology development centre; research and development work into using oil shale for industrial purposes; questions concerning power stations and transmission and distribution networks; environmental protection, and so on.

In addition, a contract was concluded between the parties on 7th of May according to which the scientists of Tallinn University of Technology, Faculty of Power Engineering and Department of Mining will start research into the efficient use of oil shale through enrichment. Oil shale is a unique resource and its efficient use can positively affect our environment and decrease the wastefulness of its use. More efficient use would enable the emission of waste gases to the atmosphere from the incineration process to be cut significantly, and, due to the higher heat-producing value, the efficiency coefficient would also improve and the cost of producing electricity and heat would decrease significantly. The research is planned to last 16 months.

### Eesti Energia and Tallinn University of Technology to launch a Master's programme in energy trading

Starting from the autumn, Eesti Energia and the Tallinn University of Technology will launch a new Master's course in the Faculty of Power Engineering. The first graduates in energy trading will receive their diplomas in 2009.

Commercial operations in energy trading are becoming more and more complex and energy trading in international markets is growing throughout Europe. Energy trading needs new people who have thorough knowledge of power engineering as well as finance.

### Eesti Energia has a new supervisory board

The supervisory board of Eesti Energia changed in the first quarter of the financial year. The supervisory board of Eesti Energia has eight members. Half of the members of the supervisory board are nominated by the Minister of Economic Affairs and Communications and half by the Minister of Finance. Since May 31st 2007 the members of the supervisory board of Eesti Energia are Meelis Atonen, Rein Kilk, Jüri Käo, Jürgen Ligi, Toomas Luman, Aivar Reivik, Rene Tammist and Meelis Virkebau.

At the meeting that took place on June 12th, the new supervisory board of Eesti Energia approved the audited economic results for the financial year 2006/07 and selected Jüri Käo as the chairman of the supervisory board of Eesti Energia.

### Energoremont purchases the shares of Mäetehnika

On April 1st two Eesti Energia subsidiaries, AS Energoremont and AS Mäetehnika, were merged. The merged company's name is AS Energoremont and Rein Ungert will continue as the chairman of the board of the merged company. The main work of both companies is the manufacture and maintenance of metal products.

### Eesti Energia sells Elektrikontrollikeskus to Tehnokontrollikeskus

Independence is a very important criterion for Elektrikontrollikeskus as the company that gives expert opinions, and as Eesti Energia had no strategic interests in the company it was decided to divest its share. Eesti Energia sold Elektrikontrollikeskus to Tehnokontrollikeskus in May 2007.

### Narva Oil Plant becomes an independent business entity

Eesti Energia started the process of separating the oil plant from the Eesti Power Plant at the end of the financial year 2006/07 by founding an independent business entity AS Narva Õlitehas (Narva Oil Plant). With this we recognise oil production as a separate line of business with the potential to expand. The strategic goal of Eesti Energia is to increase shale oil production from 134 000 tonnes in the last financial year to 500 000 tonnes in the next five years.

# Financial Highlights

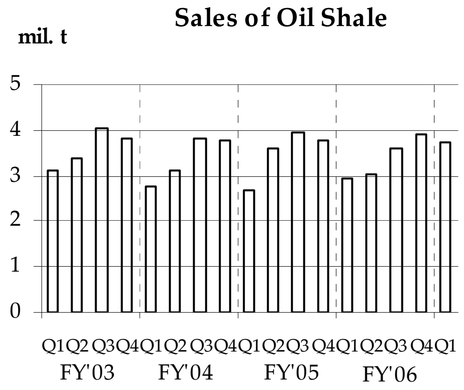
| | 1.4.2006-31.12.2006 | 1.4.2005-31.12.2006 | Change | |
|---|---|---|---|---|
| Revenues, € th. | 122 663 | 130 808 | -8 145 | -6,2% |
| incl. domestic sales of electricity, € th. | 80 310 | 76 065 | 4 245 | 5,6% |
| EBITDA, € th. | 36 322 | 66 198 | -29 875 | -45,1% |
| EBIT, € th. | 10 763 | 41 358 | -30 595 | -74,0% |
| Net Profit, € th. | -9 026 | 34 033 | -43 058 | -126,5% |
| | | | | |
| Net Fixed Assets, € th.[1] | 1 297 267 | 1 260 713 | 36 554 | 2,9% |
| Equity, € th.[1] | 1 039 271 | 1 005 492 | 33 779 | 3,4% |
| Net Debt, € th.[1] | 63 818 | 166 736 | -102 917 | -61,7% |
| CAPEX, € th. | 36 565 | 34 336 | 2 229 | 6,5% |
| FFO, € th. | 35 263 | 62 125 | -26 862 | -43,2% |
| | | | | |
| Debt/(Debt+Equity)[1] | 24,6% | 25,4% | -0,9% | |
| ROIC[2] | 13,5% | 17,0% | -3,5% | |
| EBITDA interest cover[2] | 15,2 | 10,8 | 4,4 | |
| FFO[2]/Net Debt[1] | 365,8% | 161,7% | 204,1% | |
| FFO/Interest Expense[2] | 12,5 | 9,3 | 3,2 | |
| FFO/Capex[2] | 164,6% | 177,2% | -12,6% | |
| EBITDA margin | 45,2% | 52,0% | -6,8% | |
| EBIT margin | 27,5% | 34,4% | -6,9% | |

1 - balance sheet figures are end of period

2 - rolling 12 months

FFO - funds from operations excluding changes in working capital

# Economic Performance of the Business Segments




## Rapid revenues growth in oil shale segment

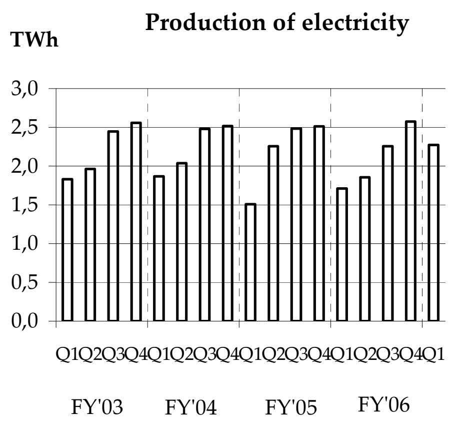
Revenues in the oil shale segment amounted to 34.4 million euros in the first three months, of which sales of oil shale accounted for 32.5 million euros. Sales volume was 3,719 thousand tonnes, and the increases in revenues and volume were 32.4 % and 25.9% year-on-year respectively.

Operating profit in the oil shale production segment fell by 0.1 million euros from the previous financial year. Operating profit falling was caused by tightness in the labour market, increases of environmental taxes and fuel prices, despite a rise in production volumes. Typically to labour market trends, labour costs increased faster than production efficiency.

12 month EVA was positive for the oil shale segment at 4.7 million euros (+1.8 million euros). Three month FFO amounted to 3.8 million euros, and investments to 6.9 million euros.

Eesti Energia continues oil shale based electricity production during next years. Also is planned expanding of shale oil production and investigations of oil shale wider usage will be carried on.

## Performance of electrical and thermal energy production influenced by environmental taxes and production inputs prices growth




Sales figures for electrical energy were 2,272 GWh and 61.1 million euros by the end of the third month, which is 561 GWh (32.8%) more than last year; sales of electrical energy increased by 14.7 million euros or 31.7%. The main growth in production volume was at Narva Power Plants, while there was marginal shrinkage in production at Iru and Kohtla-Järve power plants.

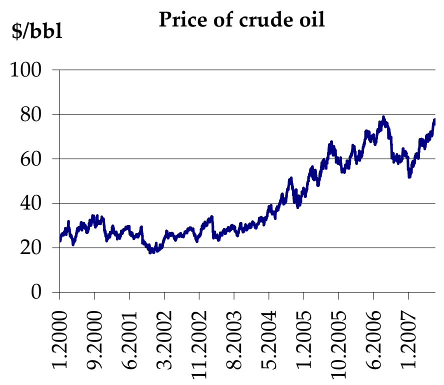
Sales figures for thermal energy were 256 GWh and 5.1 million euros in the first three months, which is 50 GWh (16.3%) less than last year; revenue from thermal energy sales decreased by 0.5 million euros, i.e. 8.3%. Sales increased at Narva Power Plants by 5.4%, at Kohtla-Järve by 12.4% and decreased at Iru Power Plant by 29.5%. Due to gas input price rapid growth increased Iru thermal energy price, which caused usage of Tallinna Küte AS own boiler houses.

Operating profit of the segment has felt to 1.1 million euros in the first three months. Excluding the sale of emission allowances 12 month EVA amounted to –28.3 million euros.

Three month FFO amounted to 9.7 million euros. Investments (4.7 million euros) were financed from operating cash flows. The sale of emission allowances, which influenced earlier periods results, was not proceed.

The economic performance of production was mostly influenced by a sale growth, an increase in environmental taxes, labour market trends and materially increased gas and oil shale prices.

Clean environment is ever more highly valued, resulting in stricter requirements. The investment strategy of energy production takes account of the environmental norms of both today and tomorrow. We are investing 3.9 million euros to install low nitrogen oxides burners at Iru Power Plant and will continue investments into a new cleaner ash removal system at Eesti Power Plant (27.8 million euros).

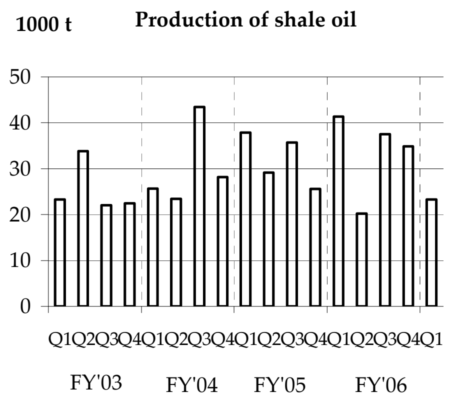



## Oil production – low fuel prices reduced revenues

In the first quarter of the 2007/08 financial year we sold outside of group 29,860 tonnes of shale oil (+3,905 tonnes), revenues from which amounted to 6.1 million euros (-2.1 million euros, -25.4%). Coupled with lower prices of crude oil, the operating profit of the oil production segment decreased from 4.8 million euros to 1.1 million euros.

12 month EVA of the oil production segment has declined to 8.2 million euros, or -8.4 million euros. Three month FFO was 1.8 million euros.

The sharp decline of crude oil price that started 2006 autumn ended at the beginning of this year. Since then the price has turned back into rising trend. On the assumption of continuous oil price rise the shale oil price should also rise, which can support an increase in revenues.



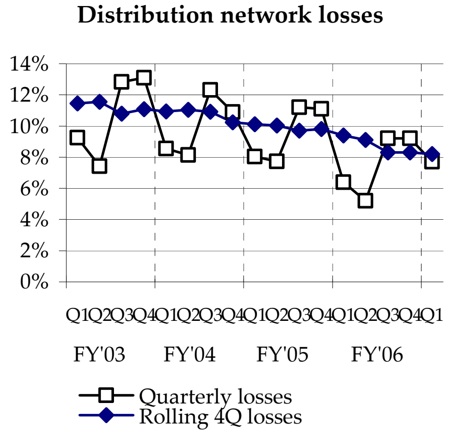

## Transmission of electrical energy – Due to an increase in export transmission volumes grew

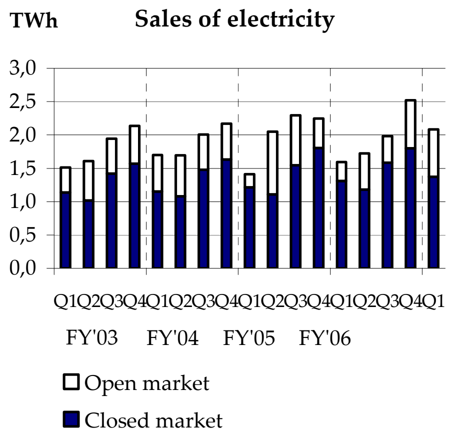
The segment brought in 17.1 million euros (+0.1 million euros) from sales of transmission services. 2,417 GWh of electrical energy were passed through the transmission network, which represents a 24.9% increase on the previous year due to increased energy export, foremost to Finland.

Increase in export and decrease in costs raised operating profit of the energy transmission segment to 4.9 million euros, which is 0.3 million euros more year-on-year. Three month FFO was 7.7 million euros (+0.1 million euros).

Although investments rose by 17.0 million euros, EVA for the 12 months reached -0.4 million euros, which is 1.5 million euros up on last year.

In the first quarter of the 2007/08 financial year, 5.2 million euros were invested in transmission segment. Major projects in these first three months of 2007/08 were the renovation of the Kiisa 330/220/110 kV switchyards (1.2 million euros), the expansion of the Rummu 110 kV substation (0.5 million euros) and the reconstruction of the Virtsu 110kV switchyard (0.4 million euros).




## Distribution of electrical energy

Losses in the distribution network are one of the most significant indicators of the efficiency of distribution network and the long-term trend of losses is clearly downward. By the end of the first quarter of the 2007/08 financial year 12-month losses fell to 8.2% (-1.2%).

Sales of network services in the distribution network segment grew to 38.6 million euros (+4.4%). The operating profit increased 1.2 million euros to 4.7 million euros, and ROIC of the distribution segment reached 6.3%, but this was not sufficient to achieve positive EVA for the 12-month period (-4.4 million euros).

Three month FFO increased from 6.6 million euros to 7.4 million euros.

16.2 million euros were invested in the distribution network in the first three months of 2007/08. The largest investment programme of the distribution network over recent years has been in subscriptions to the network, which brought in 7.8 million euros.

Apart from subscriptions, distribution network invested into increasing the operating reliability and quality 4.4 million euros.

## Sales and customer service – increased cost level was balanced by strong growth of electricity sales

Group sales of electrical energy in the first quarter came to 2,084 GWh (30.8%), and sales was 95.3 million euros, which is 16.2 million euros more than the previous year (20.4%). Sales in closed market were 1,200 GWh (+5.5%) and sales in open market were 709 GWh (+151.7%). Energy consumption increase (+63 GWh) in closed market is mainly due to Estonian economic growth. Sales growth in open market is for the most part due to increased export, caused mainly by January 2007 commenced export to Finland. Electric power export to Latvia increased by 117 GWh (106.6%) compared with same period last year.

Operating profit of sales and customer service segment decreased by 1.4 million euros and declined to -0.3 million-euro level. EVA has risen to 8.0 million euros and exceeds the previous year's result by 4.2 million euros.

On January 4$^{th}$ 2007 Eesti Energia started commercial activities on Nordic energy market via Estlink. During the past quarter we exported to Finland 285 GWh of electric energy and since the commissioning of Estlink in the beginning of January 2007 until the end of June 2007 Eesti Energia has exported to Finland 686 GWh of electric power.

The long-term objective is to sell electricity to 2 million customers and we are working intensively to successfully compete in the open energy market in the future. We are reinforcing close ties with customers, and improving the efficiency of internal and external client-related procedures.

## Supporting businesses

Despite the fact that segments revenues more than doubled and reached to 34.0 million euros (+129.8%), operating profit declined from 3.5 million euros to 0.3 million euros (-92.2%).

Televõrk Ltd. won the tender organised by the Sideamet (Communications Board) for the provision of network services based on a broadband communications network with a frequency band of 450 Mhz, and started to offer from 18th June 2007 an Internet service KÕU, similar to wifi. This service covers the whole of Estonia. Internet connection speed is from 256 kbps up to 2 Mbps depending from the distance from wireless mast and the number of active users. Televõrgu AS first quarter sales revenues reached to 2.3 million euros, annual increase 46.1%. Operating profit increased by 22.1% and reached to 0.5 million euros.

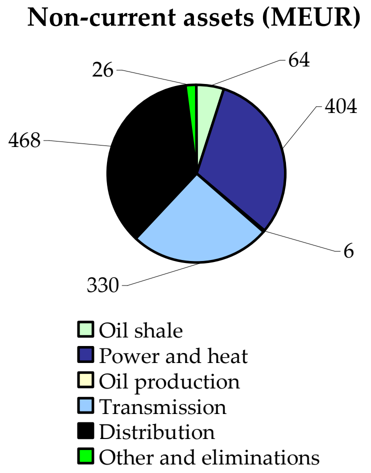
Energoremont AS economic results (incl. Mäetehnika sales revenues, merger from 1st April 2007) showed solid increase. First quarter sales reached to 8.1 million euros, increasing 101.4% compared with previous year. Growth was for the most part due to increased energy equipment exports and increased intra-group sales as a result of merger. Three month operating profit increased 73.5% to 0.6 million euros.

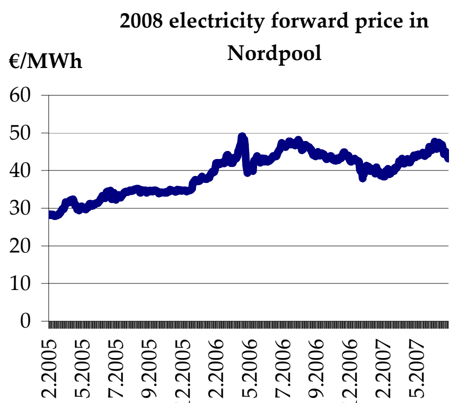
Elpec AS first quarter sales were 0.9 million euros (+56.4%) and operating profit reached to 0.2 million euros (+670.9%).

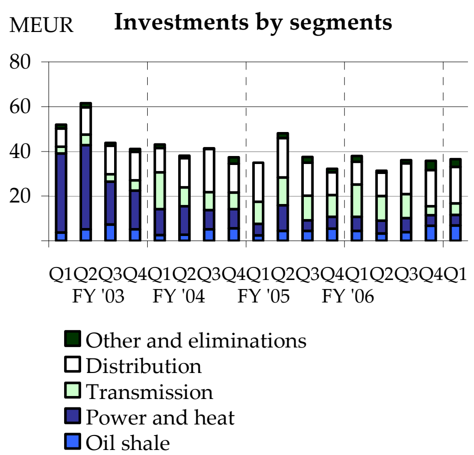
Elektriteenused AS first three month sales were 5.0 million euros (+52.5%) and operating loss was 0.3 million euros.

Kinnisvara business unit first quarter sales were 1.3 million euros (+4.1%) and operating profit reached to 0.3 million euros (+84.7%).

# 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 30.06.2007 the value of the assets of the group stood at 1.7 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. Due to above average temperatures and almost nonexistent emission allowance prices in past quarter, the baseload price of electricity on the Nordic electricity markets were lower than usual, between 16-27 €/MWh, while the average price in this quarter was 22.5 €/MWh that is more than twice less than last year. The price of electricity on the closed domestic market is 26 €/MWh.

12 month rolling operating profit from shale oil production reached to 9.6 million euros which is 5.7 million euros less than year ago. The price of shale oil is closely integrated with the price of oil on the global market. Oil price has decreased from highest levels in the middle of 2006 (70-80 $/bbl) back to level 50-60 $/bbl in January 2007 and started again to climb after that. In first quarter of fiscal year 2007/08 oil price held relatively stable close to 70$/bbl level.

Final major part of the assets portfolio is power networks. Energy networks are a natural monopoly, and revenues from transmission and distribution operations are regulated. Tariffs are set based on cost plus principle. The assets of the transmission network are valued at 338 million euros; return on invested capital over the last 12 months is 7.4%; the assets of the distribution network are valued at 483 million euros and return on invested capital over the last 12 months is 6.8%.

## Investments boost Groups 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 also invited new partner. 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 10.4% by the end of the first quarter of 2007/08. 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.

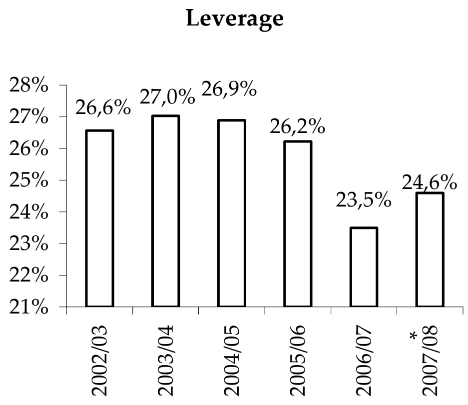
In the beginning of 2007 Eesti Energia put in commission the 350 MW Estlink undersea cable. The undersea cable connects Estonia and the whole Baltic electricity market to the Nordic electricity market Nord Pool. In the longer term, the objective of transmission networks in Europe, including the Baltic 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.

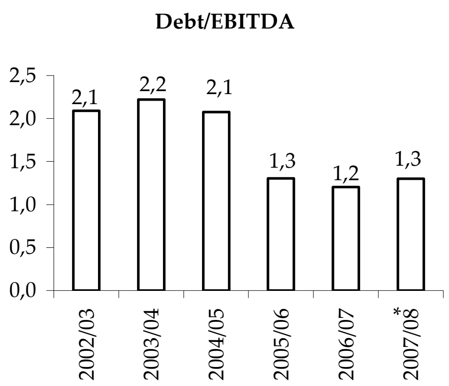
One of the principle techniques of strategic management in Eesti Energia is the balanced scorecard. The balanced scorecard takes financial criteria into account, as well as aspects relating to clients, staff, and the business processes. The investments should, in addition to meeting financial criteria,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

In 2002/03-2006/07 Eesti Energia group invested 889 million euros, i.e. on average 178 million euros a year. In the first quarter of the 2007/08 financial year, Eesti Energia invested 36.6 million euros. In the first quarter of 2007/08 in energy production the most significant investments were the reconstruction of one heating boiler in Iru Power Plant and investments to the ash removal system in Narva Power Plants. The most important investment targets in the first quarter in the transmission network were renovations at Kiisa 330/220/110 kV switchyard, reconstruction works at Virtsu 110 kV switchyard and placement of fiber optic shield wire. The most important investment targets in the distribution network were continually the renovation of low voltage networks, the voltage quality programme, and the construction of supply points. In first quarter Eesti Põlevkivi invested total 6.9 million euros, investments were made for the most part to the machinery (6.5 million euros).

# Profitability, financing and cash flows




* As of 30.06.2007

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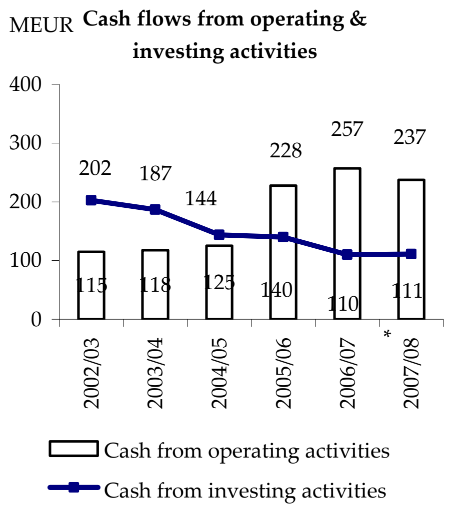



* As of 30.06.2007

## Sharp decline in sales of emission allowances has reduced Eesti Energia profitability

Eesti Energia's rolling 12 month revenues were 576.4 million euros (+2.2 million euros, +0.4%). Operating profit for the same period declined to 158.5 million euros (-38.9 million euros, -19.7%) and net profit to 125.4 million euros (-41.8 million euros, -25.0%). Operating profit has decreased mainly due to sharp decline in sales of emission allowances and increased environmental charges and labour expenditures. Group's EVA[1], excluding the sale of emission allowances, was -15.6 million euros, decreasing by 13.3 million euros.

## Eesti Energia balance sheet is strong

Despite large-scale investments, Eesti Energia retained a conservative balance sheet structure during the first quarter of the financial year 2007/08. The proportion of debt on the balance sheet has decreased during last 12 months and the debt/(debt+equity) ratio fell from 25.4% to 24.6%, on the back of an increase in demand, high oil prices and the extraordinary sale of allowances. The loan/EBITDA ratio increased during the first quarter from 1.2 to 1.3. In the medium term we are expecting an increase in the debt burden, as investments grow in order to achieve our strategic objectives. Working capital decreased in the first three months by 85.4 million euros. As at 30.06.2007 net debt amounted to 63.8 million euros (a change over 12 months of -102.9 million euros, -61.7%).

As at 30.06.2007, the weighted average interest rate of Eesti Energia's debt was 4.5%. The principle currency for Eesti Energia's debt is the euro. Eesti Energia has been given credit ratings of A1 with positive outlook by Moody’s and A- with stable outlook by Standard & Poor’s.

Among Eesti Energia's long-term debt, the largest part is a Eurobond of 300 mln euros with a fixed interest rate of 4.5% and maturity in 2020. The debt portfolio also contains loans from the Nordic Investment Bank (NIB) totalling 35 mln euros, and a loan from the European Investment Bank with a loan balance of 15 mln euros. 91% of current dept portfolio is with fixed interest rate.

## Group liquidity risk is low

As at 30.06.2007 the Eesti Energia group had financial reserves worth 275.2 million euros. Unused loans facilities totalled to 105.0 million euros. Liquidity risk is minimal for the company in the medium term, which is also reflected from strong credit ratings. Group quick ratio was 1.8 at the end of the first quarter.

[1] Eesti Energia WACC equals 8.7%.

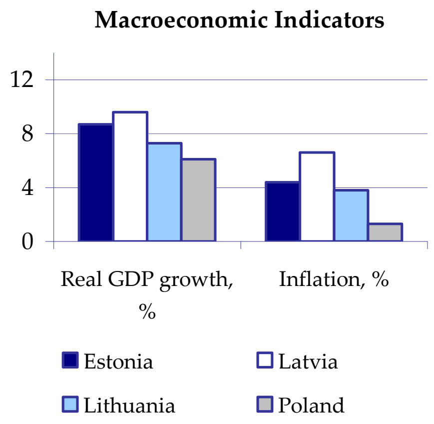
Credit risk is the risk that the clients of the group and its trading partners do not fulfil their obligations. The maximum sum open to credit risk is the book value of outstanding invoices to clients once the depreciation of the claims has been discounted

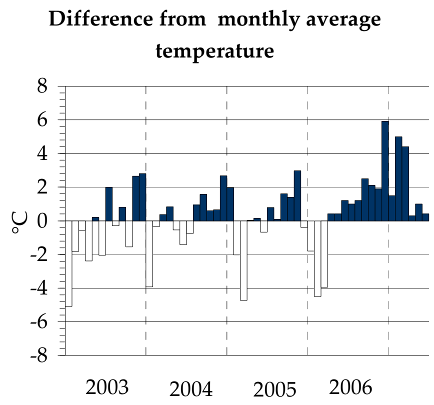
The average settlement date for invoices decreased by 2 days within the past 12 months compared to the end of the 2006/07 fiscal year, standing at 36 days. As at 30.06.2007 the group had reserves worth 23.2 million euros.

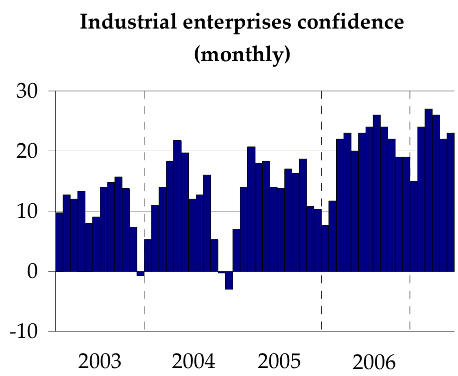
### Eesti Energia pays dividends worth 63.9 million euros

Following the good economic results of 2006/07, the annual general meeting of the company decided to pay 63.9 million euros as dividends to shareholders.

# Short – term Outlook




Source: Estonian Institute of Economic Research

## Economic growth slowdowns, but remains stable

According to estimates of Estonian Institute of Economic Research (EKI) for the second quarter of 2007 general outlook of the economy moderately weakened. In one way it can show economic growth slowdown, but it also can indicate continuous economic overheating, which reveals itself through high inflation rate, decline in unemployment rate and a pressure on wages. Subsequent quarters will give a final answer on economic outlook.

According to the Estonian Central Bank's forecast[2] (ECB), the economic growth for 2007 is 8.4% and for the next year 6.5%. In the longer-term, the fast convergence of the country's living standard to that of leading EU industrial countries will continue, and Estonia's economic growth should be around 7-8%. %. Domestic demand continued its rapid growth also in the first months of 2007. The strengthening of consumer confidence and increase in retail sales in January and February referred to swift private consumption growth. Although income growth is still quick and credit conditions favourable, ECB estimates private consumption to slightly decline in the future.

According to Ministry of Finance the inflation rate for 2007 is 4.9% and for 2008 is 5.2% and the growth of private consumption in 2007 is 11.8%.

On the basis of these short-term forecasts economic growth in Estonia is strong enough to support an increase in the consumption of electrical energy.

## Consumption of electricity is growing

The average temperature in the first 3 months of the 2007/08 financial year was 0.1°C lower than during the same period of the previous economic year. Taken against the average temperature this should imply higher consumption by ca. 2 GWh.

Analysis shows that if we adjust the real electrical energy consumption with the effect of temperature and with the effect of heavy users then the growth of electrical energy consumption has reached a level of 6.4% on a 12-month basis. The increase in demand is clearly visible taking account the fact that 12-month electrical energy consumption rose 5.5% and average temperature increased by 1.7°C.

The increase in demand stems from the consumption growth of large and medium-sized companies, which are closely linked to both the general economic environment and economic growth.

## Distribution network losses are falling

Distribution network losses fell in the past 12 months to the level of 8.2%, which is lowest in recent years. In the coming years decreases in the network losses will be achieved through targeted investments.

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[2] Economic Forecast of Eesti Pank for 2007-2009, April 18th 2006

## Instability in the Middle East and speculations on oil reserves increased crude oil price

The sharp decline of crude oil price that started last year autumn ended at the beginning of this year at around 50$/bbl price level. Since then the price has turned back into rising trend.

The reasons for increasing oil price can be seen behind the announcement of Iran president made in May that Tehran will not negotiate on its nuclear programme, which increases the tension and probability of continuous conflicts and instability in that region.

Second reason for increasing oil price can be seen behind the announcement of British scientists made in June that current review of the world's remaining oil reserves has been too optimistic and the end of oil is coming sooner. Scientists led by the London-based Oil Depletion Analysis Centre, say that declining oil reserves may already have consequences for the economy after four years from now3. Based of future transaction prices on the crude oil market we predict that the oil price will remain above 70 $/bbl in short-term period.

The price of shale oil is directly influenced by oil and oil determined heating oil world market prices.

## We forecast a decline in profitability

In the current 2007/08 financial year a significant fall in profit is to be expected, as the positive effect of the sale of emission allowances, which significantly impacted the economic results of the previous periods, is not forecast for the current period; on the contrary, according to initial calculations 18.5 million euros worth of CO2 emission allowances will have to be bought from the market.

The increased pollution charge tariffs, developments on the labour market, an increase in the price of gas, and an increase in costs due to inflation also negatively affect profitability. The negative effect is balanced by an increase in the sales of domestic electric energy and an increase in exports, the optimisation of the company expenditures, and well-calculated investments. The financial profit of the financial year 2007/08 is forecast to be 83 million euros and the net profit 57 million euros.

[3] The Independent, June 14th 2007

# 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.

Oil shale extraction directly or indirectly employs 3,400 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), without 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 1,516 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 8,957 GWh of electrical energy, and 2,040 GWh of thermal energy.

## Production of oil – Narva Õlitehas AS (the Oil Plant Business Unit of Narva Power Plants), Oil Shale Energy of Jordan

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. Based on this business segment a separate company formed at 19 April 2007. The separate company enables more clearly secede financing of investments for the production of electrical energy and for the production of the oil.

The advantages of shale oil over heavy fuel oils are 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 116,000 tons of shale oil in the last 12 months.

### Transmission of electrical energy – Põhivõrk OÜ (National Grid), Nordic Energy Link AS

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 5,212 km of lines for the transmission of electrical energy, which connect 144 transformer substations. The company also acts as the transmission system operator of the whole of Estonia.

### 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 19,300 substations and near 59,000 km of power lines, and has about 620,000 supply points for customers.

### Supply and customer service – Eesti Energia AS Teenindus; Energiakaubandus; Solidus OY; E.Energy SIA; Lumen Balticum UAB

At 1 April 2007 operates Energiakaubandus as a separate company and has main targets to manage electrical energy production, selling and buying portfolio of Eesti Energia and provide also power balancing and open supplier services in Estonia and arrange electrical energy buying and selling outside of Estonia. 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 489,500 clients and thereof over 24,700 business clients. At nearly 58,000, there are actually twice as many business client consumption points as clients.

### Support services – Energoremont AS (Equipment Maintenance and Supply), AS Elektriteenused (Electrical Services), AS Elpec, Televõrgu AS (Telecommunications Network), 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**

| | 30.6.2007 | 30.6.2006 | 31.3.2007 | Note |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 32 515 | 176 476 | 33 337 | |
| Deposits with maturities greater than 3 months at banks | 242 653 | - | 235 255 | |
| Short term financial investments | 3 796 | 4 397 | 3 078 | *4* |
| Derivative financial instruments | 4 108 | - | 8 199 | *5* |
| Trade receivables and other receivables | 54 034 | 53 327 | 61 402 | |
| Inventories | 23 190 | 22 000 | 23 594 | |
| **Total current assets** | **360 295** | **256 199** | **364 864** | |
| **Non- current assets** | | | | |
| Long-term receivables | 14 | - | 15 | |
| Investments in associates | 10 597 | 10 833 | 10 597 | |
| Property, plant and equipment | 1 297 267 | 1 260 713 | 1 286 973 | *6* |
| Intangible assets | 5 036 | 2 494 | 4 599 | |
| **Total non- current assets** | **1 312 914** | **1 274 041** | **1 302 184** | |
| **Total assets** | **1 673 208** | **1 530 240** | **1 667 048** | |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Borrowings | 6 378 | 4 557 | 6 376 | *7* |
| Trade and other payables | 175 615 | 83 611 | 94 648 | |
| Derivative financial instruments | 419 | - | - | |
| Provisions | 2 124 | 4 122 | 2 739 | |
| Deferred income | 883 | 618 | 799 | |
| **Total current liabilities** | **185 419** | **92 907** | **104 562** | |
| **Non- current liabilities** | | | | |
| Borrowings | 332 608 | 338 655 | 335 607 | *7* |
| Trade payables | 776 | 34 | 776 | |
| Provisions | 21 327 | 19 012 | 20 991 | |
| Deferred income | 93 807 | 74 139 | 88 925 | |
| **Total non- current liabilities** | **448 518** | **431 841** | **446 299** | |
| **Total liabilities** | **633 937** | **524 748** | **550 861** | |
| **Equity** | | | | |
| **Shareholders' Equity** | | | | |
| Share capital | 464 900 | 464 900 | 464 900 | |
| Share premium | 259 833 | 259 833 | 259 833 | |
| Statutory reserve | 46 490 | 43 822 | 46 490 | |
| Hedging reserve | 4 108 | - | 8 087 | |
| Unrealised exchange difference | -1 | - | -1 | |
| Retained earnings | 260 800 | 235 018 | 333 579 | |
| **Total capital and reserves** | **1 036 130** | **1 003 572** | **1 112 888** | |
| **Minority interest** | 3 141 | 1 920 | 3 299 | |
| **Total shareholders' equity** | **1 039 271** | **1 005 492** | **1 116 187** | |
| **Total liabilities and equity** | **1 673 208** | **1 530 240** | **1 667 048** | |

**Income Statement**

| th. EUR | 3 months | | 12 months | | Note |
|---|---|---|---|---|---|
| | 1.4.2007-30.6.2007 | 1.4.2006-30.6.2006 | 1.7.2006-30.6.2007 | 1.7.2005-30.6.2006 | |
| **Revenue** | | | | | |
| Sales | 121 929 | 103 605 | 499 874 | 467 149 | |
| Gain on disposal of emission rights | - | 24 639 | 71 740 | 100 603 | |
| Other income | 723 | 2 564 | 3 376 | 6 131 | |
| Government grant | 11 | - | 1 446 | 399 | |
| Changes in work in progress and finished goods | -2 251 | 1 837 | -951 | -257 | |
| Materials, consumables and supplies | -40 101 | -32 139 | -155 149 | -137 863 | |
| Other operating expenses | -14 488 | -11 475 | -55 656 | -44 063 | |
| Personnel expenses | -28 562 | -22 614 | -101 774 | -91 483 | |
| Depreciation and impairment | -25 559 | -24 840 | -102 323 | -101 312 | |
| Other expenses | -938 | -220 | -2 110 | -1 960 | |
| **EBIT** | **10 763** | **41 358** | **158 470** | **197 343** | |
| **Financial income and expenses** | | | | | |
| Interest expense on borrowings | 2 766 | 1 137 | 8 399 | 2 690 | |
| Other net financial income | -4 585 | -4 621 | -18 921 | -29 679 | |
| **Net financial cost** | **-1 819** | **-3 484** | **-10 523** | **-26 989** | |
| Share results of associates | - | - | 801 | 1 091 | |
| Loss of investments in associates | -10 | - | 148 | -471 | |
| **Profit before taxes** | **8 934** | **37 874** | **148 897** | **170 974** | |
| **Income tax** | -17 960 | -3 841 | -23 523 | -3 841 | |
| **Profit for the period** | **-9 026** | **34 033** | **125 373** | **167 133** | |
| **Attributable to:** | | | | | |
| **Equity holders of the Parent Company** | **-8 867** | **34 182** | **124 318** | **166 615** | |
| **Minority interests** | -159 | -149 | 1 055 | 519 | |
| Earnings per share for profit attributable to the equity holders of the company during the period | | | | | |
| Basic (€) | *-0,12* | *0,47* | *1,71* | *2,29* | *8* |
| Diluted (€) | *-0,12* | *0,47* | *1,71* | *2,29* | *8* |

**Cash Flow Statement**
**th. EUR**

| | 3 months | | 12 months | | Note |
|---|---|---|---|---|---|
| | **1.4.2007-30.6.2007** | **1.4.2006-30.6.2006** | **1.7.2006-30.6.2007** | **1.7.2005-30.6.2006** | |
| **Cash flows from operating activities** | | | | | |
| Adjusted net profit | 35 085 | 63 049 | 253 276 | 291 751 | |
| Changes in working capital | 7 651 | 382 | 3 579 | -9 920 | |
| Paid interest and loan fees | -1 060 | -1 818 | -15 919 | -22 733 | |
| Received interest | 1 238 | 894 | 5 294 | 2 029 | |
| Paid income tax | - | - | -9 200 | -1 370 | |
| **Net cash from operating activities** | **42 914** | **62 507** | **237 031** | **259 757** | |
| **Cash flows from investing activities** | | | | | |
| Purchase of tangible fixed assets | -38 940 | -37 908 | -138 571 | -152 479 | |
| Targetet financing of tangible assets | - | - | 23 | - | |
| Purchase of subsidiary | - | - | -461 | - | |
| Proceeds from connection fees | 6 303 | 5 858 | 24 248 | 20 186 | |
| Net change in deposits with maturities greater than 3 months | -7 398 | - | -232 003 | - | |
| Proceeds from sale of tangible fixed assets | 160 | 3 262 | 1 717 | 4 922 | |
| Dividens received from long-term financial investments | - | - | 1 038 | 1 132 | |
| Outgo from sale of subsidiary | -3 | - | -3 | - | *9* |
| Received loans from coworkers | - | - | 0 | 0 | |
| Paid for long-term financial investments | -4 518 | -6 428 | -17 780 | -13 206 | |
| Received from sale of financial investments | 3 835 | 3 643 | 18 521 | 9 321 | |
| **Net cash used in investing activities** | **-40 561** | **-31 574** | **-343 270** | **-130 124** | |
| **Cash flows from financing activities** | | | | | |
| Short – term borrowing | - | - | - | 24 819 | |
| Called short-term borrowings | - | - | - | -25 000 | |
| Paid dividends | - | - | -31 956 | -6 199 | |
| Bonds issue | - | - | - | 183 337 | |
| Repurchased bonds | - | - | - | -103 091 | |
| Repayment of long- term bank loans | -3 162 | -2 253 | -5 416 | -53 435 | |
| Repayment of other loans | - | - | -300 | - | |
| Finance lease principal payments | -13 | -14 | -50 | -37 | |
| **Net cash from financing activities** | **-3 175** | **-2 267** | **-37 722** | **20 393** | |
| **Net increase/decrease in cash and cash equivalents** | **-822** | **28 667** | **-143 961** | **150 026** | |
| Cash and cash equivalents at the beginning of the period | 33 337 | 147 809 | 176 476 | 26 450 | |
| Cash and cash equivalents at the end of the period | 32 515 | 176 476 | 32 515 | 176 476 | |
| **Change in cash and cash equivalents** | **-822** | **28 667** | **-143 961** | **150 026** | |

**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 | Other reserves | Retained earnings | Total | Minority interest | Total |
| **Balance at 31.3.2006** | **464 900** | **259 833** | **43 822** | **-82** | **-** | **200 836** | **969 307** | **2 070** | **971 377** |
| Change in hedging reserve | - | - | - | 82 | - | - | 82 | - | 82 |
| **Net income directly recognized in equity** | **-** | **-** | **-** | ***82*** | **-** | **-** | ***82*** | **-** | ***82*** |
| Net profit for the period | - | - | - | - | - | 34 182 | 34 182 | -149 | 34 033 |
| *Total recognised income and expens* | **-** | **-** | **-** | *82* | **-** | *34 182* | *34 265* | *-149* | *34 115* |
| **Balance at 30.6.2006** | **464 900** | **259 833** | **43 822** | **-** | **-** | **235 018** | **1 003 572** | **1 920** | **1 005 492** |
| **Balance at 31.3.2007** | **464 900** | **259 833** | **46 490** | **8 087** | **-1** | **333 579** | **1 112 888** | **3 299** | **1 116 187** |
| Change in hedging reserve | - | - | - | -3 979 | - | - | -3 979 | - | -3 979 |
| Value reappraisal of currency exchanges of subsidiaries | - | - | - | - | 0 | - | 0 | - | 0 |
| **Net income directly recognozed in equity** | **-** | **-** | **-** | ***-3 979*** | ***0*** | **-** | ***-3 979*** | **-** | ***-3 979*** |
| Net profit for the period | - | - | - | - | - | -8 867 | -8 867 | -159 | -9 026 |
| *Total recognised income and expens* | **-** | **-** | **-** | *-3 979* | *0* | *-8 867* | *-12 846* | *-159* | *-13 005* |
| Dividends | - | - | - | - | - | -63 912 | -63 912 | - | -63 912 |
| **Balance at 30.6.2007** | **464 900** | **259 833** | **46 490** | **4 108** | **-1** | **260 800** | **1 036 130** | **3 141** | **1 039 271** |

# Notes to the Financial Statements

## 1 Accounting policies

This consolidated interim report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These consolidated interim condensed financial statements are prepared in accordance with IAS 34 'Interim Financial Reporting'.

Accountig policies applied to this interim report were identical to those in financial year 2006/2007 annual report.

Since April 1st the new amended International Financial Reporting Standards have been mandatory for the Group, the amended standards and International Financial Reporting Standards Committee interpretations having been published in the financial report for the year 2006/07. The new standards and the amended published standards and interpretations did not involve any changes in the Group's accounting principles, but require a disclosure of additional information in financial statements.

According to the Management Board Interim Report prepared for the period 1.4.2007-30.06.2007 presents a fair view of the financial position, the cash flows and the results of operations of Eesti Energia AS and its subsidiaries (Group

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 requirements stipulated in the Electricity Market Act of Estonia

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. Under the Electricity Market Act the Energy Market Inspectorate must approve:

– the maximum price of oil shale sold to the Narva Power Plants for the production of electricity and thermal energy;
– price limits for the electricity sold by Narva Power Plants to the closed market;
– the weighted average price limit for electricity sold to meet sales requirements;
– network fees.

The Energy Market Inspectorate has established a price calculation methodology for approving prices. In approving all the above mentioned prices the Energy Market Inspectorate takes into account the costs, in order to enable the companies to fulfil the legislative requirements and obligations arising from activity licenses, while guaranteeing a reasonable return on invested capital. Generally the Inspectorate counts as invested capital the average residual value of the fixed assets of a company per year, to which 5% of sales revenue is then added. The reasonable rate of return is the company's weighted average cost capital (WACC).

For the purposes of compiling the financial statements the main activities of the Group are taken as the production and sales of electricity and thermal energy, oil shale, shale oil and oil shale ash, and other related activities. All other activities (including investing and financing activities) have been counted as ancillary activities, the results being presented under other revenues and expenses or under financial revenue and expenses.

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, AS Narva Soojusvõrk
– Renewable energy;
– Shale oil production – Oil shale plant of Narva Elektrijaamad, Oil Shale Energy of Jordan;
– Transmission of electricity – OÜ Põhivõrk;
– Distribution of electricity – OÜ Jaotusvõrk;
– Sales and customer service - Teenindus, SIA "E. Energy", Solidus Oy, UAB "Lumen Balticum";
– Support services - Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, OÜ Elektrikontrollikeskus, other Support services and Administration.

**3 months 1.4.2007-30.6.2007**
**th. EUR**

| | 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** | 34 351 | 68 074 | 6 124 | 17 110 | 38 938 | 63 683 | 33 958 | -139 576 | 122 663 |
| **EBIT** | -448 | 1 375 | 1 098 | 4 954 | 4 690 | -283 | 271 | -893 | 10 763 |

**3 months 1.4.2006-30.6.2006**
**th. EUR**

| | 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 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 Short-term financial investments

thousands of euros

| | 30.6.2007 | 30.6.2006 |
|---|---|---|
| Financial assets which changes in fair value are reflected in income statement | 986 | 1 631 |
| Investments that are kept up to redemption | 2 810 | 2 765 |
| **Total short term financial investments** | **3 796** | **4 397** |

## 5 Derivative instruments

At 30.06.2007 two types of derivatives were recognised in the financial statements: electricity sales forward contracts in Nordic energy exchange NordPool and oil shale sale and purchase forward contracts. At 30.06.2006 the group had no derivatives.

| thousands of euros | 30.6.2007 | | 30.6.2006 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Forward contracts of electricity sale | 4 087 | - | - | - |
| Forward contracts of shale oil sale and purchase | 21 | 419 | - | - |
| **Total derivatives** | **4 108** | **419** | **-** | **-** |

### Electricity sale forward contracts

The purpose of forward contracts of electricity sales is to mitigate the risk of oil shale price fluctuation. Transactions are defined as cash flow hedging instruments, where the mitigating base instrument is the high probability forecast electricity sales transactions on Nordic energy market NordPool Forward contracts are concluded for a certain amount of electricity sales in every trading hour. The price of forward contracts is quoted in euros. Any change in the fair value of the efficient part is recognised in the proper equity reserve and is counted as a gain/loss in the cash flow statement at the time the electricity sales transactions take place or when it proves to be highly unlikely that the sales transactions will take place in this period. The fair value of transactions is based on NordPool quotations.

| **Changes in electricity sale forward contracts** | **1.4.2007-** | **1.4.2006-** |
|---|---|---|
| thousands of euros | **30.6.2007** | **30.6.2006** |
| **Fair value at the beginnig of the period** | 8 199 | - |
| Change in fair value | -731 | - |
| Settled in cash | -3 380 | - |
| **Fair value at the end of the period** | **4 087** | **-** |

### Shale oil sale forward contracts

The purpose of forward contracts for shale oil sales is to mitigate the risk of shale oil price fluctuation. The transactions are concluded for the sale of a certain amount of shale oil in the future. Depending on whether the transactions are tied to a specific shale oil sale scheme or not, the transactions are defined as hedging instruments or recognised as changes in fair value in the cash flow statement. The fair value of transactions is based on Platt´s European Marketscans and Goldman Sachs quotations. The prices are quoted in US dollars

| **Changes in shale oil sale and purchase forward contracts** | **1.4.2007-** | **1.4.2006-** |
|---|---|---|
| thousand of euros | **30.6.2007** | **30.6.2006** |
| **Fair value at the beginning of the period** | 111 | - |
| Change in fair value | -509 | - |
| **Fair value at the end of the period** | **-397** | **-** |

## 6 Tangible assets

| th. EUR | Land | Buildings | Const-ructions | Plant and equipment | Other | Total |
|---|---|---|---|---|---|---|
| **Balance at 31.3.2007** | | | | | | |
| Acquisition cost | 5 072 | 155 655 | 855 029 | 1 101 806 | 4 067 | 2 121 629 |
| Accumulated depreciation | - | -74 176 | -351 540 | -466 192 | -3 270 | -895 177 |
| **Depriciated cost** | 5 072 | 81 480 | 503 489 | 635 614 | 797 | 1 226 452 |
| Construction and renovation in progress | - | 604 | 28 505 | 28 617 | - | 57 726 |
| Prepayments | 273 | - | 245 | 2 277 | - | 2 794 |
| **Balance at 31.3.2007** | **5 345** | **82 084** | **532 239** | **666 508** | **797** | **1 286 973** |
| **Movements for the period 1.4.2007-30.6.2007** | | | | | | |
| Additions | 11 | 643 | 13 438 | 21 730 | 195 | 36 015 |
| Depreciation | - | -1 252 | -7 162 | -16 900 | -133 | -25 446 |
| Disposals | - | - | - | -28 | - | -28 |
| Sales of associates (note 9) | - | - | - | -247 | - | -247 |
| **Total movements for the period 1.4.2007-30.6.2007** | **11** | **-609** | **6 276** | **4 554** | **62** | **10 294** |
| **Balance at 30.6.2007** | | | | | | |
| Cost | 5 081 | 155 804 | 864 328 | 1 115 066 | 4 246 | 2 144 526 |
| Accumulated depreciation | - | -75 427 | -358 672 | -480 711 | -3 386 | -918 196 |
| **Depriciated cost** | 5 081 | 80 377 | 505 656 | 634 355 | 859 | 1 226 329 |
| Construction and renovation in progress | - | 1 098 | 32 617 | 33 848 | - | 67 563 |
| Prepayments | 274 | - | 241 | 2 859 | - | 3 374 |
| **Balance at 30.6.2007** | **5 355** | **81 475** | **538 515** | **671 063** | **859** | **1 297 267** |

## 7 Nominal and amortized value of borrowings

th. EUR

| | 30.6.2007 | | 30.6.2006 | |
|---|---|---|---|---|
| | Nominal value | Amortized cost | Nominal value | Amortized cost |
| **Short- term borrowings** | | | | |
| Current portion of long- term bank loans | 6 325 | 6 325 | 4 506 | 4 506 |
| Finance lease liabilities | 53 | 53 | 50 | 50 |
| **Total short- term borrowings** | **6 378** | **6 378** | **4 557** | **4 557** |
| **Long- term borrowings** | | | | |
| Bank loans | 45 461 | 45 310 | 52 695 | 51 965 |
| Bonds issued | 300 000 | 287 261 | 300 000 | 286 599 |
| Finance lease liabilities | 37 | 37 | 90 | 90 |
| **Total long- term borrowings** | **345 498** | **332 608** | **352 785** | **338 655** |
| **Total borrowings** | **351 876** | **338 986** | **357 342** | **343 212** |

## 8 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 | |
|---|---|---|---|---|
| | 1.4.2007-30.6.2007 | 1.4.2006-30.6.2006 | 1.7.2006-30.6.2007 | 1.7.2005-30.6.2006 |
| Profit attributable to the equity holders of the company (€ th.) | -8 867 | 34 182 | 124 318 | 166 615 |
| Weighted average number of shares (th.) | 72 741 | 72 741 | 72 741 | 72 741 |
| Basic earnings per share (€) | -0,12 | 0,47 | 1,71 | 2,29 |
| Diluted earnings per share (€) | -0,12 | 0,47 | 1,71 | 2,29 |

## 9 Sale of subsidiary OÜ Elektrikontrollikeskus

In May 16th 2007 the contract for the sale of OÜ Tehnokontrollikeskus was signed. The shares were paid for in cash. The board of directors finds that the sale of OÜ Elektrikontrollikeskus does not represent a closed area of activity, because the operating activities of OÜ Elektrikontrollikeskus did not form a separate significant activity for the Group.

**Data of the sales transaction**

**th. EUR**

| | |
|---|---|
| **Assets and Liabilities of OÜ Elektrikontrollikeskus** | |
| Cash and cash equivalents | 83 |
| Trade receivables and other receivables | 41 |
| Inventories | 0 |
| Property, plant and equipment | 247 |
| Trade and other payables | -59 |
| Deferred income | -232 |
| Net assets | 80 |
| | |
| Sales price | 80 |
| Loss from sales | -0 |
| | |
| Cashflows from sale of associate | |
| Proceeds from sale | 80 |
| Associates cash and cash equivalents | -83 |
| Total cashflow from sale of subsidiary | -3 |

## 10 Effects of changes in accounting standards on financial statements

With the reclassification of shares in money market funds the changes in the fair value are recognised through the cash flow statement as financial assets and the following changes have been made in the balance sheet and cash flow statement retroactively:

**th. EUR**

| **Balance Sheet** | **30.6.2006 changed** | **30.6.2006 before** | **difference** |
|---|---|---|---|
| 1) Cash and cash equivalents | 176 476 | 178 107 | -1 631 |
| 2) Financial assets with changes through income statements | - | - | |
| (note 4) | 1 631 | - | 1 631 |

| **Cash Flow Statement** | **1.4.2006-30.6.2006 changed** | **1.4.2006-30.6.2006 before** | **difference** |
|---|---|---|---|
| 1) Received interests | 894 | 903 | -9 |
| 2) Paid for short-term financial assets | -6 428 | -2 761 | -3 667 |
| 3) Proceeds from sale of short-term financial assets | 3 643 | - | 3 643 |
| 4) Total change in cash and cash equivalents | 28 667 | 28 700 | -33 |