



**EESTI ENERGIA**

# **Eesti Energia**

Interim report

1 April 2008 – 30 June 2008

## Significant events during 2008/09 financial year first quarter

### **Eesti Energia and government of Jordan reached to an exclusive agreement on building a power plant in Jordan**

Eesti Energia and government of Jordan with the national electricity company National Electric Power Company (NEPCO) agreed on the 30<sup>th</sup> of April to build the first oil shale based power plant to Jordan. The agreement gives Eesti Energia exclusive rights to develop a project, aimed at building a power plant with power capacity 900 MW. During the next three years time studies and necessary preparations for designing and building the plant will be carried out by the lead of Eesti Energia. This is a unique opportunity for Eesti Energia to export our skills and experience. Eesti Energia also is in the carrying out a project in Jordan to produce fuel oil from shale oil.

### **Eesti Energia is preparing to study possibilities of building offshore wind farms**

Eesti Energia Taastuvenergia Ettevõte (Renewable Energy Company) intends to study where it is reasonable to build sea wind parks with maximum capacity 1 GW in Estonian offshore area (excluding areas where other sea wind parks are planned). Every farms technically optimum installed capacity would be 200-300 MW with the cost 440 up to 660 million euros. Perspective areas are in Liivi bay, in Baltic Sea, in Gulf of Finland and in Peipsi Lake will be subject to environmental impact assessments and economical profitability assessments. Dependent on wind conditions the optimal distance from the coast is at least 10 kilometers. The distance of maintenance boats port from the wind park and the length of significant waves in the area, which is in Liivi bay and in Gulf of Finland two times smaller then in Baltic Sea, are also important.

### **The largest wind farm in the Baltic States had a cornerstone**

On Tuesday, 13<sup>th</sup> May 2008, Eesti Energia laid a cornerstone for Aulepa Wind Farm in Noarootsi rural municipality in Lääne County. The largest wind farm in the Baltic States will be completed in 2009. The capacity of the Aulepa Wind Farm will be 39 MW and 13 windmills of Finnish manufacturer WindWind OY will be set up to this end. The annual production of the wind farm (more than 100 GWh) will cover 1.3 % of the final consumption of electricity in Estonia and this will prevent approximately 120 000 tons of CO<sub>2</sub> from being emitted. (By covering 20,000 kilometers, a small passenger car emits approximately 3 tons of CO<sub>2</sub>). The total cost of the Aulepa Wind Farm is nearly 58 million euros and it is being financed from Eesti Energia's own resources.

### **The wind farm in Narva ash field will start working from year 2010**

Two leading windmill producing companies Enercon and Vestas attended to public procurement for building wind park to Baltic Power Plant closed ash field. Negotiations will continue with the

two companies on the conditions, after what both offers will be assessed and the winner decided. According to the offers the wind farm will start working from the year 2010. European Commission approved the building of the wind farm and financed closing of the ash field. European Union cohesion fund resources were used to study and design the wind farm.

### **Three companies qualified for the procurement to expand Iru Power Plant**

Iru Power Plant is developing as an extension to power plant a new heat and electricity cogeneration block which uses unsorted non-hazardous and municipal waste to decrease dependence on natural gas and to decrease price pressures of waste management and heat. Four companies applied for the international procurement announced in January 2008 and three companies qualified. The maximum annual waste burning capacity of the block is 22,000 tons, electrical capacity 20 MW and heating capacity 50 MW. The due date is 1<sup>st</sup> of November 2011.

### **Eesti Energia earns world environmental award at national level**

At a ceremony in Brussels on May 26, Eesti Energia was handed the world environmental award Energy Globe 2008 at the national level for initiating the process of implementing an environmental management system based on the EMAS (Eco-Management and Audit Scheme) standard in the group. As a result of the process launched in 2001, the majority of Eesti Energia's subsidiaries have been implemented and certified in accordance with the ISO 14001 standard. As the last step, Eesti Energia is planning to bring all of its subsidiaries under a uniform and pan-group EMAS management system controlled by the group. EMAS is similar to ISO 14001, but is a bit stricter and requires companies to behave better than the existing applicable environmental restrictions demand and to publish extensive public environmental reports. Eesti Energia considers namely the latter very important and is therefore investing into the implementation of the EMAS scheme. The international Energy Globe Awards have been awarded annually since 1999 to recognize projects that increase environmental awareness, make careful and economical use of resources and employ alternative energy sources.

### **Eesti Energia was awarded the Baltic Corporate Citizen Award**

At the festive gala held last in April in Washington by the United States-Baltic Foundation (USBF), Eesti Energia was awarded the Baltic Corporate Citizen Award. The United States-Baltic Foundation highly appreciated the creative leadership style of the Chairman of the Management Board of the energy group and pointed out the remarkable achievements of the company at valuing oil shale. USBF praised the initiative of Eesti Energia to contribute to the development of renewable energy production sources and the promotion of energy saving, which is clearly aimed at saving the energy resources of the Baltics.

### **Televõrgu AS team nominated**

Estonian Association of Information Technology and Telecommunications selected team of Televõrgu AS for the nomination "Aasta Tegija 2007 (best company in 2007). The Association recognized the launch of mobile Internet service „KÕU“, what has positively affected the development of the whole information society. Estonian Association of Information Technology and Telecommunications is an organization, whose primary objective is to unite the Estonian information technology and telecommunications companies, to promote their co-operation in Estonia's development towards information society, to represent and protect the interests of its member companies and to express their common positions.

## Financial Highlights

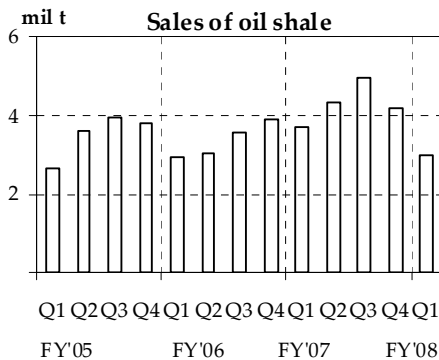
	1.4.2008- 30/6/2008	1.4.2007- 30/6/2007	Change	
Revenues, € th.	139,559	122,663	16,896	13.8%
incl. domestic sales of electricity, € th.	83,029	80,430	2,599	3.2%
EBITDA, € th.	40,508	36,322	4,186	11.5%
EBIT, € th.	14,558	10,763	3,794	35.3%
Net Profit, € th.	11,959	-9,026	20,985	-232.5%
Net Fixed Assets, € th. <sup>1</sup>	1,381,429	1,297,267	84,162	6.5%
Equity, € th. <sup>1</sup>	994,209	1,039,271	-45,061	-4.3%
Net Debt, € th. <sup>1</sup>	174,223	63,848	110,375	172.9%
CAPEX, € th.	56,754	36,557	20,196	55.2%
FFO, € th.	40,712	35,279	5,432	15.4%
Debt <sup>1</sup> /(Debt+Equity) <sup>1</sup>	25.1%	24.6%	0.5%	
ROIC <sup>2</sup>	5.8%	13.5%	-7.7%	
EBITDA interest cover <sup>2</sup>	10.6	15.2	-4.6	
FFO <sup>2</sup> /Net Debt <sup>1</sup>	83.7%	365.8%	-282.1%	
FFO <sup>2</sup> /Interest Expense <sup>2</sup>	7.8	12.5	-4.7	
FFO <sup>2</sup> /Capex <sup>2</sup>	76.2%	164.6%	-88.4%	
EBITDA margin <sup>2</sup>	29.7%	45.2%	-15.5%	
EBIT margin <sup>2</sup>	11.3%	27.5%	-16.2%	

1 - balance sheet figures are end of period

2 - rolling 12 months

FFO - funds from operations excluding changes in working capital

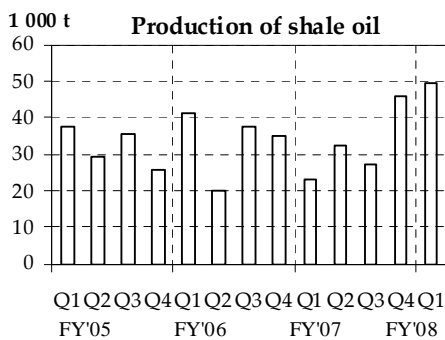
## Economic Performance of the Business Segments



### Minerals, Oil, Biofuels – sales from shale oil rose sharply

**Financial data.** The business segment revenue from sales was comparing to previous financial year first quarter mostly affected on one side by sharp rise in the sales of shale oil (+118.4%) and on the other side decrease in the sales of oil shale (-15.9%). Mainly due to significant change in inventories (-356.1%, -7.4 million euros) the operating expenses decreased 0.7% (-0.3 million euros), being one of the main reasons why operating profit substantially rose (+292.1%).

(million €)	1 <sup>st</sup> quarter		Change	
	08/09	07/08	million €	%
Sales revenue	47.1	44.9	2.2	5.0%
Operating profit	4.1	1.1	3.0	292.1%
FFO	8.2	6.4	1.9	29.5%
Investments	6.5	8.0	-1.4	-18.2%
EVA (12 months)	13.4	12.9	0.5	4.2%
Number of employees	4,438	4,369	69	1.6%

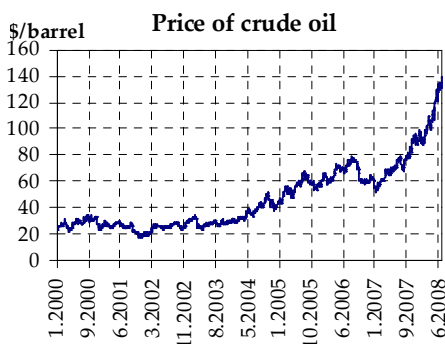


**Eesti Põlevkivi** operating revenue was 32.8 million euros in the first quarter (-1.5 million euros, -4.5%), from which the sales of oil shale were 30.2 million euros. Comparing to last financial year first quarter, decrease in oil shale volume by 19.8% (0.7 million tons) to 3.0 million tons was mainly due to decrease in Narva Power Plants electricity production. From beginning of April 1<sup>st</sup> there is a new selling price for oil shale, agreed with Competition Board, 9.4 euros per ton.

**Narva Õlitechase** sales revenue grew 118.4% (6.7 million euros) comparing to previous year first quarter. Sales volume was 16.2 tons bigger and totaled 48.3 tons. The increase in the price of shale oil is triggered by the increase in the prices of fuel oil, which are increasing due to crude oil.

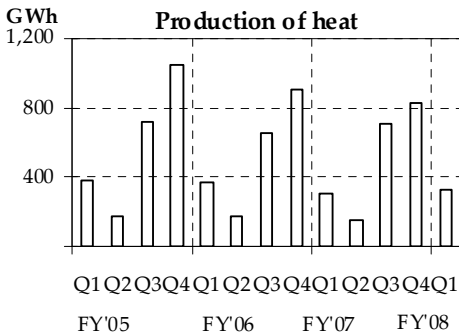
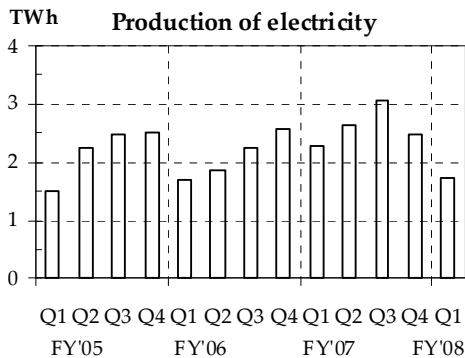
**Energoremondi** sales revenue was in the first quarter 3.4% smaller comparing to last financial year first quarter, as the energy equipment export decreased. Sales totaled 7.8 million euros.

Segments **investments** were 6.5 million euros, decreasing 18.2% (1.4 million euros) comparing to first quarter of last financial year. Eesti Põlevkivi investments were 4.5 million euros and were mainly aimed at new buildings and equipment. In financial year 2008/09 segment total planned investments are about 40.0 million euros.



### Electricity and Heat Generation

**Financial data.** Sales rose from electricity (+2.8%), heat (38.8%) and other services (+72.2%). Many bigger changes affected operating expenses, mainly increase in electricity (+411.2%) and decrease in resource taxes and environmental pollution charges (-41.4%) due to smaller production from Narva Power Plants and therefore a smaller pollution fee expense.



(million €)	1 <sup>st</sup> quarter		Change	
	08/09	07/08	million €	%
Sales revenue	75.7	71.1	4.6	5.0%
Operating profit	3.5	1.7	1.7	292.1%
FFO	11.3	10.1	1.2	29.5%
Investments	7.7	4.6	3.1	-18.2%
EVA (12 months)	-25.8	-25.0	-0.8	4.2%
Number of employees	1,910	1,915	-5	1.6%

Group's **net electricity production** was 1,722 GWh in the first quarter, decreasing 550 GWh (-24.2%) comparing to last year first quarter. The decrease was mainly due to smaller production in Narva Power Plants (-539 GWh). In Kohtla-Järve power plant production decreased 0.3 GWh and in Iru power plant 10 GWh.

**Electricity export** was 408 GWh in the first quarter, decreasing 112 GWh (-21.6%) comparing to last years first quarter. Bigger export to Nord Pool (+72 GWh) has balanced to a certain degree decrease in export volumes to Latvia (-185 GWh).

**Heat** sales were 276 GWh in the first quarter, increasing 20 GWh comparing to last year first quarter (in the comparison one must take account, that in June 2007 Iru power plant did not sell heat). Sales revenue was positively affected by the 0.3 degree warmer temperature than in the same time of last year.

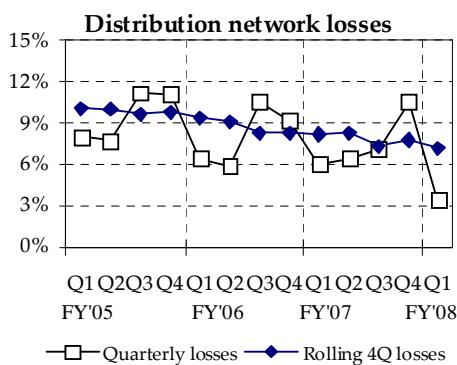
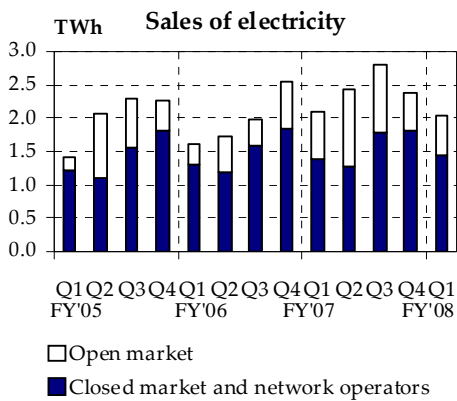
Segments **investments** were 7.7 million euros, decreasing 65.9% (3.1 million euros) comparing to last financial year first quarter. In financial year 2008/09 segment total planned investments are 130.0 millions euros.

### Retail business – fast growth in the sales of services

**Financial data.** Operating revenue grew quite fast due to growth in repair and construction services and telecommunication services sales (total +101.7%), and also due to growth in electricity sales (+1.9%). Biggest changes in operating expenses were notable decrease in electricity expenses (-6.9%) and growth in payroll expenses (+27.2%) and in core activity facilities and equipment expenses (+64.2%).

(million €)	1 <sup>st</sup> quarter		Change	
	08/09	07/08	million €	%
Sales revenue	89.5	84.3	5.1	5.0%
Operating profit	8.2	4.4	3.8	292.1%
FFO	11.4	7.5	3.9	29.5%
Investments	26.2	18.6	7.6	-18.2%
EVA (12 months)	2.2	3.6	-1.4	4.2%
Number of employees	1,824	1,759	65	1.6%

Domestic sales of electricity was 1,618 GWh in the first quarter, increasing 45 GWh (+2.9) comparing to last year first quarter. Sales to open market were 180 GWh (-17 GWh, -8.8%), to closed market business customers 886 GWh (+19 GWh, +2.2%), to residential customers 375 GWh (+42 GWh, +12.4%) and to network operators 177 GWh (+3 GWh, +1.4%). Sales to open market was negatively affected by decrease in electricity consumption as the economic



growth in Estonia is slowing down and one contract with a client ended. One reason in sales increase to residential customers is that residential customers have reported meter readings in advance as the new tariffs will take effect from the beginning of July.

Jaotusvõrgu net **sales from network services** were 36.3 million euros in the first quarter, decreasing 0.8 million euros (-2.2%) comparing to last year first quarter. Decrease in sales was due to lower network tariffs from the 1<sup>st</sup> of March.

**Losses** in distribution network decreased 2.6 percentage points comparing to last year first quarter to 3.4% in the first quarter. The losses have decreased steadily due to investments in electricity networks and more efficient cooperation inside the Group. But in the first quarter, in advance meter readings reported by residential customers due to tariff changes in July also affected the loss number.

Televõrk's services sales revenue was 3.3 million euros, increasing 44.3% (+1.0 million euros) mainly due to mobile Internet service KÕU sales revenue. At the end of June, KÕU had about 18 000 active customers. Elekriteenus sales were up 38.6% (1.9 million euros) and Elepec sales 33.8% (0.3 million euros) as the sales volumes increased.

Segments **investments** in the first quarter were 26.2 million euros, increasing 40.7% (7.5 million euros) comparing to last year first quarter. Jaotusvõrk's investments were 25.6 million euros, aimed mainly at subscription to network and increasing the operating reliability and quality of the networks. In financial year 2008/09 segment total planned investments are 115.0 millions euros.

## Transmission

**Financial data.** Sales were affected by the lower network tariffs, in effect from the beginning of March. Operating expenses were bigger mainly due to increase in electricity (+16.9%).

(million €)	1 <sup>st</sup> quarter		Change	
	08/09	07/08	million €	%
Sales revenue	13.7	17.1	-3.4	5.0%
Operating profit	0.3	5.0	-4.7	292.1%
FFO	3.3	7.7	-4.4	29.5%
Investments	16.0	5.2	10.8	-18.2%
EVA (12 months)	-1.4	-0.4	-0.9	4.2%
Number of employees	128	129	-1	1.6%

In the first quarter 2,411 GWh of electrical energy passed through the **transmission network**, decreasing 5 GWh comparing to last year same period. Electrical energy passing through the mainland and transit increased, at the same time export decreased.

Segments **investments** were 16.0 million euros, increasing 208.5% (10.9 million euros) comparing to last year first quarter. Mainly was invested in power transformers and reconstruction of electrical lines. In financial year 2008/09 segment total planned investments are 44.0 millions euros.



## Asset Portfolio and Investments

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

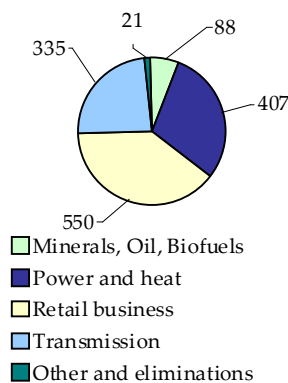
Eesti Energia is vertically integrated energy company whose portfolio of assets covers businesses involved in the energy supply chain, from the mining of fuel to the sale of electricity. As at 30.06.2008 the value of the assets of the group stood at 1.71 billion euros.

The Estonian electricity market is currently approximately 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. But Eesti Energia sells electricity to Nordic electricity market Nord Pool as well, hence oil shale mining and electricity generation are already partially opened to market risks. Electricity price in the closed domestic market is currently fixed at 26 €/MWh. Nord Pool Helsinki area price fluctuated between 8 and 77 €/MWh during last three months, averaging 48.1 €/MWh.

Major part of the assets portfolio is **power 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 342 million euros; return on invested capital over the last 12 months is 6.3%, the assets of the distribution network are valued at 555 million euros and return on invested capital over the last 12 months is 7.0%.

Oil production from oil shale is another important business besides vertically integrated electricity business. The value of oil production business is directly tied to volatile oil prices.

Non-current assets (MEUR)



### Investments boost Group's 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 fulfillment of strategic objectives. In terms of energy production this means diversification of the production portfolio: the development of co-generation and renewable energy. We have started building the biggest wind farm in Baltic States, Aulepa and to build wind farm to Balti Elektriijaama closed ash field. We are also planning to examine the possibility to build offshore wind farms.

The transmission network and the distribution network have undergone remarkable development since 1998, when Eesti Energia was established. In first year of operations network energy losses were 20.5%. Since then losses have shrunk down to 9.8% by the end of the first quarter of 2008/09. 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.

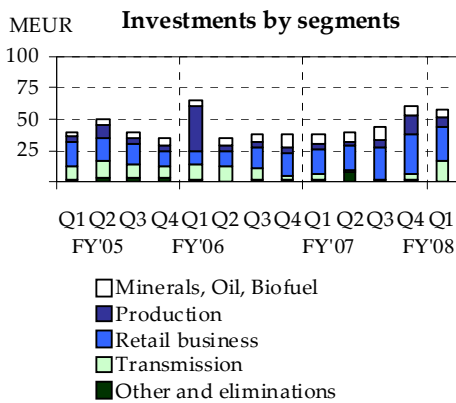
In the beginning of 2007 Eesti Energia put in commission the 350 MW Estlink undersea cable. The undersea cable connects Estonia and the whole Baltic electricity market to the Nordic electricity market Nord Pool. In the longer term, the objective of transmission networks in Europe, including the Baltic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

increase security of supply through the establishment of interconnections, and the development of the electricity market. For achieving that preparations for construction of Estlink 2 have started.

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 substantially increase the volume of liquid fuel production. For achieving that we have planned to increase investments to new production equipment. We have reached to agreement with Jordanian government to build oil shale based electricity power plant to Jordan, where the fourth biggest deposits of oil shale in the world can be found. There is also project to produce fuel oil from shale oil in Jordan.

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 past six financial years Eesti Energia Group has invested 1.1 billion euros, i.e. on average 0.2 billion euros a year. In the first three months of the 2008/09 financial year, Eesti Energia invested 56.8 million euros. The main areas of investments were the networks, where 41.7 million euros were invested. Smaller amounts into oil shale production and Narva Power Plant. In the 2008/09 financial year approximately 415 million euros is planned to invest. About half of the expected volume of investments would be directed into the production of electricity, about third into the distribution and transmission networks, and the remaining amounts would be distributed between other segments.

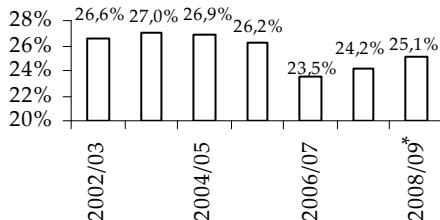


## Profitability, financing and cash flows

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

Eesti Energia's rolling 12 month revenues were 597.5 million euros (+21.1 million euros, +3.7%). Operating profit for the same period declined to 67.3 million euros (-91.2 million euros, -57.5%) and net profit to 60.3 million euros (-65.1 million euros, -51.9%). Operating profit has decreased as sales of emission allowances have been replaced by expenditure for buying allowances and payroll expenses, maintenance and repair expenses and expenses related to transportation have increased. Rolling 12 month operating profit, excluding the sale of emission allowances, was 67.3 million euros and decreased 19.4 million euros, compared 12 months ago. Group's EVA, excluding the sale of emission allowances, was -25.0 million euros, decreasing by 9.1 million euros (a change over 12 months).

#### Leverage



\* As of 30.06.2008

### Eesti Energia balance sheet is strong

Despite large-scale investments, Eesti Energia retained a conservative balance sheet structure at the end of first quarter of the financial year 2008/09. Debt on the balance sheet decreased by marginal amount 5.6 million euros but the debt/(debt+ equity) ratio has increased to 25.1%, comparing with 24.6% from the end of June 2007. The increase is due to changes in equity.

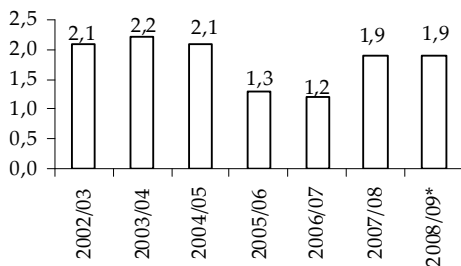
The loan/EBITDA ratio increased to 1.9 from 1.3 year-on-year due to decrease in EBITDA, which was caused by CO<sub>2</sub> emission allowances sales profits being replaced by expenditures to buy allowances and quite sharp increase in payroll expenses, maintenance and repair expenses and expenses related to transportation.

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 during the three months by 27.9 million euros. At the end of June 2007 net debt amounted to 174.2 million euros (a change over 12 months of +110.4 million euros, +173.0%).

As at 30.06.2008, the weighted average interest rate of Eesti Energia's debt was 4.6%. The principle currency for Eesti Energia's debt is the euro. Eesti Energia has been given credit ratings of A1 with stable outlook by Moody's and A- with negative outlook by Standard & Poor's.

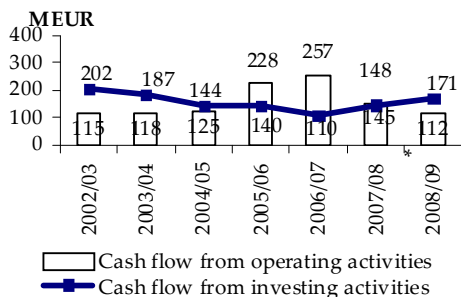
Among Eesti Energia's long-term debt, the largest part is a Eurobond of 300 million euros with a fixed interest rate of 4.5% and maturity in 2020. The debt portfolio also contains loans from the Nordic Investment Bank (NIB) totaling 30.5 million euros, and a loan from the European Investment Bank with a loan balance of 15 million euros. 92% of current debt portfolio is with fixed interest rate.

#### Debt/EBITDA



\* As of 30.06.2008 rolling 12 months

#### Cash flows from operating and investing activities



\* As of 30.06.2008

**Group liquidity risk is low**

As at 30.06.2008 the Eesti Energia group had financial reserves worth 159.1 million euros. Unused loan facilities totaled 40 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 1.7 at the end of the first quarter.

Credit risk is the risk that the clients of the group and its trading partners do not fulfill 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.

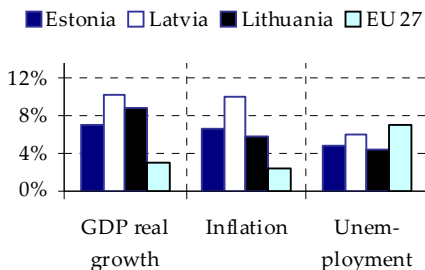
The average settlement date for invoices decreased by 2 days within the past 12 months compared to the end of first quarter of 2007/08 fiscal year, standing at 34 days. As at 30.06.2008 the group had reserves worth 33.2 million euros.

**Eesti Energia will pay dividends worth 41.7 million euros**

From the year 2007/08 profit, Eesti Energia will pay dividends in the amount 41.7 million euros.

## Short-term Outlook

Macroeconomic indicators 2007



### Economic growth is slowing down

Economic growth in the first quarter of 2008 was 0.1%, which is the lowest quarterly growth rate since year 1999. Main reasons for slowdown are decrease in consumption, as loan volumes have decreased and interest rates rose, and decrease in investments, as investments in real estate have decreased. Average wage growth has not shown signs of slowing down, growth in the first quarter was 19.5%. Unemployment rate was continuously low, 4.2%. Consumer price index was higher than in recent years, 11.1%. Inflation has accelerated mainly due to increase in crude oil and food prices, but also due to some tax policy measures in Estonia, e.g. some excise rates have increased.

Ministry of Finance forecast for 2008 economic growth, published 2<sup>nd</sup> April 2008, is 3.7%. Bank of Estonia is expecting 2.0% in forecast published 16<sup>th</sup> April 2008. Deceleration in growth is caused by decrease in growth of consumption and investments. Inflation is forecasted to be around 10% in 2008, high mainly due to foreign factors. Average wage growth should be around 15% in 2008 and unemployment rate increases to 5-6%.

Slowdown in economy will affect negatively the growth of electricity sales.

### Domestic consumption of electricity is slowing

Domestic electricity sales growth in the first three months was 45 GWh compared to last financial year. Larger share of consumption growth comes from closed market residential customers – their consumption increased by 42 GWh (+12.4%). This is partly due to advanced meter ratings by the residential customers as the tariff changes in July. Closed market business customers consumption increased by 19 GWh (+2.2%).

The average temperature of the first three months of the financial year 2007/08 was 0.3°C lower than during the same period last year, and this is estimated to have caused a 10 GWh rise in the consumption of electric energy.

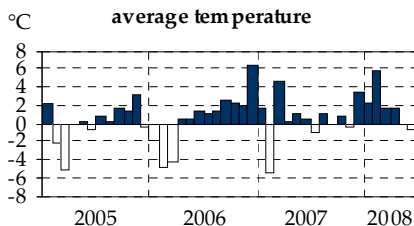
We forecast that domestic sales will be 7,164 GWh (+2.5%) by the end of the current financial year. The forecast predicts that the temperature next year will not exceed the historical average temperature and the increase in the sales of electric energy is forecasted on the basis of the Bank of Estonia GDP growth forecast, which foresees 2.0% growth at the end of 2008, and 3.0% at the end of 2009.

We forecast sales of thermal energy in the current financial year of 1 850 GWh, which is 6.4% (111 GWh) more than previous financial year.

### Power network losses continue to decrease

Domestic losses fell to 9.8% in the course of the past 12 months, which is 0.6 percentage points lower than a year ago. Network losses fell partly because residential customers submitted their meter readings in advance. In the financial year 2008/09 we

Difference from monthly average temperature

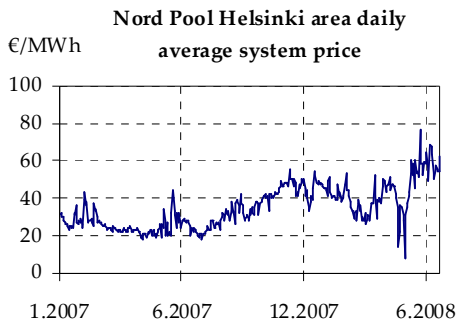


forecast a fall in domestic losses to 9.6%. In the following years targeted investments will be used to continue the lowering of power network losses.

### Nord Pool electricity price and emission allowances

Nord Pool Helsinki area electricity price dropped from the 50€/MWh in the beginning of the year to 10 €/MWh in May, but has from then on increased to around 60€/MWh at the end of June. Comparing to the Nord Pool base load electricity price, then prices in Finland and Sweden have been higher in the first quarter of the financial year mainly due to cable problems (between Sweden and Norway). Comparing to last year first quarter, crude oil prices and CO<sub>2</sub> prices have pushed up the electricity prices in Nord Pool. Future trades for more distant periods will be concluded at the price of 70 €/MWh.

In CO<sub>2</sub> emissions trading a new trading period began in 2008. When at the beginning of the year the 2008 contracts were traded around 22-23 €/MWh, then at the end of June the prices have rose to 27-28 €/MWh.



### The price of oil is rising

Price of crude oil has steadily grown from the beginning of the year, when it was 100 \$/barrel, to 140 \$/barrel at the end of June. Future trades indicate, that the price of crude oil might stay at around 140 \$/barrel at this year.

On the one side the rise in oil prices is due to continuously strong demand, mainly in some Asian countries. On the other hand, the supply has not been able to satisfy demand. This is due to some political instability and not enough spare capacity (mainly in the non-OPEC countries).

The price of oil directly influences the price of fuel oil. The price of fuel oil in the Rotterdam region has increased from around 525 \$/t in January 2008 to 745 \$/t in June of the same year. During in the beginning of July, the price of fuel oil temporarily exceeded 800 \$/t. On the basis of futures prices for fuel oil it can be forecast that the price of fuel oil in 2008 will be 730 \$/t.

From the second half of 2007 we have been using light heating oil futures to hedge the risk to the price of shale oil and by the end of June we had fixed an advantageous price for ourselves for about 100 thousand ton of the year's expected shale oil production.

### We forecast a decline in profitability

In 2008/09 financial year we forecast operating profit to amount 70 million euros and net profit 45 million euros. The electricity sales growth rate will slow due to economical slowdown, but at the same time sales from heat and shale oil will grow quite quickly. Operating expenses grow mainly as we have to buy the missing CO<sub>2</sub> emission allowances from the market and also due to payroll expenses.

## Overview of segments

### **Minerals, Oil, Biofuels – Eesti Põlevkivi (Estonian Oil Shale), Narva Õlitehas (Narva Oil Plant), Energoremont and Oil Shale Energy of Jordan.**

The aim of segment is to maximize the value of oil shale, which comprises mining and valuing oil shale, sustainable usage and selling of resources, producing of fuel oils and gas and producing biofuels.

#### **Eesti Põlevkivi AS (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 Jõhvī in the north to Väike-Pungerja in the south. The layer of oil shale is located at a depth of between 10 and 70 meters. 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 16.1 million tons.

Eesti Energia continues oil shale mining and oil shale based electricity production also in years ahead. We also plan to expand shale oil production and investigations of oil shale wider usage will be carried on.

#### **Narva Õlitehas AS (Narva Oil Plant)**

This business unit was based as a separate company on April 19<sup>th</sup>, 2007. Formerly was the unit part of Narva Power Plants. As a separate company, this enables to separate more clearly financing of investments for the production of electrical energy and for the production of the shale oil.

The advantages of shale oil over heavy fuel oils are lower setting point, 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 155,000 tons of shale oil in the last 12 months. Oil Plant employs about 140 people.

#### **Energoremont AS**

AS Energoremont deals with equipment and metal structures mainly for energy sector, including manufacturing, installation and maintenance. Company also exports its production. The biggest clients of Energoremont in external markets are Alstom Finland OY, Andritz OY, Foster Wheeler Energia OY, Kvaerner Power OY, ABB OY, Fläkt Woods OY, Roxon OY Company employs about 670 people.

### **Electricity and Heat Generation – Narva Elektriijaamad AS (Narva Power Plants), Taastuvenergia ettevõtte (Renewable Energy Business Unit), Iru Elektriijaam OÜ**

**(Iru Power Plant), Kohtla-Järve Soojus AS (Kohtla-Järve District Heating Network), Narva Soojusvõrk AS (Narva District Heating Network), Aulepa Tuulepark (Aulepa Wind Farm), Energiakaubandus, Solidus OY**

The aim of the segment is production of electrical energy and heat and energy trading in wholesale market.

The Eesti Energia group currently has available 2,604 MW of capacity for the production of electrical energy (incl. Narva Power Plants 2,380 MW, Iru CHP Plant 190 MW, Ahtme CHP Plant 30 MW) and 1,516 MW of capacity for the production of thermal energy: Iru CHP Plant 764 MW (incl. CHP part 400 MW), Narva Power Plants 484 MW (incl. peak and reserve boiler-haus 240 MW), Ahtme CHP plant 268 MW. 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 9,888 GWh of electrical energy, and 2,022 GWh of thermal energy.

**Energiakaubandus**

From 1<sup>st</sup> of April 2007 Energiakaubandus operates as a separate business unit. Its main tasks are to manage production of electrical energy, Eesti Energia's portfolio of contracts to sell or buy electricity and provide also power balancing and open supplier services in Estonia and arrange electrical energy buy and sell transactions outside of Estonia.

**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 110kV to the networks of other countries, and other equipment required for the operation, maintenance and development of the whole system. Eesti Energia has 5,200 km of lines for the transmission of electrical energy, which connect 140 transformer substations. The company also acts as the transmission system operator of the whole of Estonia. Põhivõrk OÜ employs about 130 people.

**Retail Business – Jaotusvõrk OÜ (Distribution Network), Energiamüük (Energy Sales), AS Elpec, AS Elekriteenused, AS Televõrk, E.Energy SIA, Lumen Balticum UAB, Eesti Energia AS Teenindus**

The aim of the segment is to offer the following services to clients: electricity, heat, distribution network, telecommunication and services related to energy.

**Jaotusvõrk OÜ (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 21,800 substations and near 59,600 km of power lines, and has about



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621,200 supply points for customers. OÜ Jaotusvõrk employs ca 970 people.

**Eesti Energia Teenindus, Energiamüük, E.Energy and Lumen Balticum**

The mission of Teenindus, Solidus OY, E. Energy SIA and Lumen Balticum UAB is to save the customers effort when dealing with electricity supply issues. Eesti Energia serves over 491,700 clients, including ca 25,000 business clients. But there are 60 000 business clients' consumptions points, twice as much as there is business clients.

Ca 370 people are employed in these companies, including ca 350 people employed by the Eesti Energia AS Teenindus.

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## Financial Statements

### Balance Sheet

th. EUR

	30.6.2008	30.6.2007	31.3.2008	Notes
<b>ASSETS</b>				
<b>Current assets</b>				
Property, plant and equipment	1,381,429	1,297,267	1,351,144	4
Intangible assets	8,595	5,036	8,320	
Investments in associates	10,820	10,597	10,820	
Long-term receivables	15	14	15	
Derivative financial instruments	8	-	-	5
<b>Total non-current assets</b>	<b>1,400,868</b>	<b>1,312,914</b>	<b>1,370,299</b>	
<b>Non-current assets</b>				
Inventories	33,164	23,190	26,604	
Trade receivables and other receivables	110,042	54,034	87,928	
Derivative financial instruments	89	4,108	910	5
Deposits with maturities greater than 3 months at banks	126,968	242,653	138,190	
Financial assets	3,459	3,796	6,743	6
Cash and cash equivalents	32,142	32,515	62,861	
<b>Total current assets</b>	<b>305,864</b>	<b>360,295</b>	<b>323,236</b>	
<b>Total assets</b>	<b>1,706,732</b>	<b>1,673,208</b>	<b>1,693,535</b>	
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders of the Parent Company</b>				
Share capital	467,909	464,900	467,909	7
Unregistered share capital	3,907	-	3,907	
Share premium	259,833	259,833	259,833	
Statutory reserve capital	46,490	46,490	46,490	
Hedging reserve	-108,150	4,108	-34,954	
Unrealised exchange rate differences	10	-1	10	
Previous periods' retained earnings	321,079	260,800	308,899	
<b>Total equity and reserves attributable to equity holders of the Pare</b>	<b>991,078</b>	<b>1,036,130</b>	<b>1,052,094</b>	
<b>Minority interest</b>				
<b>Total equity</b>	<b>994,209</b>	<b>1,039,271</b>	<b>1,055,447</b>	
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long-term borrowings	325,614	332,608	328,593	9
Supplier payables	2,679	776	600	
Derivative financial instruments	82,783	-	28,280	5
Deferred income	115,749	93,807	109,444	
Provisions	26,855	21,327	26,279	
<b>Total non-current liabilities</b>	<b>553,681</b>	<b>448,518</b>	<b>493,197</b>	
<b>Current liabilities</b>				
Borrowings	7,726	6,378	7,922	9
Supplier payables and other current liabilities	115,790	175,615	116,377	
Derivative financial instruments	26,864	419	8,032	5
Deferred income	245	883	314	
Provisions	8,216	2,124	12,246	
<b>Total current liabilities</b>	<b>158,841</b>	<b>185,419</b>	<b>144,892</b>	
<b>Total liabilities</b>	<b>712,522</b>	<b>633,937</b>	<b>638,089</b>	
<b>Total liabilities and shareholders' equity</b>	<b>1,706,732</b>	<b>1,673,208</b>	<b>1,693,535</b>	

**Income Statement**

th. EUR

	3 months		12 months		Note
	1.4.2008- 30.6.2008	1.4.2007- 30.6.2007	1.7.2007- 30.6.2008	1.7.2006- 30.6.2007	
Sales	136,814	121,929	589,330	499,874	
Gain on disposal of emission rights	-	-	-	71,740	
Other income	2,045	723	5,359	3,376	
Government grant	700	11	2,807	1,446	
Changes in work in progress and finished goods	4,795	-2,251	6,687	-951	
Materials, consumables and supplies	-53,497	-40,101	-221,237	-155,149	
Other operating expenses	-16,491	-15,426	-79,593	-57,767	
Personnel expenses	-33,859	-28,562	-125,748	-101,774	
Depreciation and impairment	-25,951	-25,559	-110,291	-102,323	
<b>EBIT</b>	<b>14,558</b>	<b>10,763</b>	<b>67,316</b>	<b>158,470</b>	
<b>Financial income and expenses</b>					
Financial income	2,248	2,766	10,188	8,399	
Financial expenses	-4,791	-4,585	-18,821	-18,921	
<b>Net financial income</b>	<b>-2,544</b>	<b>-1,819</b>	<b>-8,633</b>	<b>-10,523</b>	
Share results of associates	-	-	1,452	801	
Loss of investments in associates	-	-10	-	148	
<b>Profit before taxes</b>	<b>12,014</b>	<b>8,934</b>	<b>60,135</b>	<b>148,897</b>	
<b>Income tax</b>	<b>-55</b>	<b>-17,960</b>	<b>134</b>	<b>-23,523</b>	
<b>Profit for the period</b>	<b>11,959</b>	<b>-9,026</b>	<b>60,270</b>	<b>125,373</b>	
Attributable to:					
Equity holders of the Parent Company	12,180	-8,867	60,279	124,318	
Minority interests	-221	-159	-9	1,055	
Earnings per share for profit attributable to the equity holders of the company during the period					
Basic (€)	0.16	-0.12	0.82	1.71	8
Diluted (€)	0.16	-0.12	0.82	1.71	8

**Cash Flow Statement**

th. EUR

	3 months		12 months	
	1.4.2008- 30.6.2008	1.4.2007- 30.6.2007	1.7.2007- 30.6.2008	1.7.2006- 30.6.2007
<b>Cash flows from operating activities</b>				
Adjusted net profit	38,990	35,085	169,301	253,276
Changes in working capital	-33,758	7,651	-33,625	3,579
Paid interest and loan fees	-1,038	-1,060	-16,080	-15,919
Received interest	2,754	1,238	10,453	5,294
Paid income tax	-	-	-17,921	-9,200
<b>Net cash from operating activities</b>	<b>6,948</b>	<b>42,914</b>	<b>112,128</b>	<b>237,031</b>
<b>Cash flows from investing activities</b>				
Purchase of tangible fixed assets	-57,222	-38,940	-187,171	-138,571
Targetet financing of tangible assets	-	-	-	23
Purchase of subsidiary	-	-	-1,835	-461
Proceeds from connection fees	7,783	6,303	27,751	24,248
Net change in deposits with maturities greater than 3 months	11,222	-7,398	115,685	-232,003
Proceeds from sale of tangible fixed assets	578	160	1,811	1,717
Dividens received from long-term financial investments	-	-	1,229	1,038
Outgo from sale of subsidiary	-	-3	32	-3
Received loans from coworkers	-	-	-	0
Paid for long-term financial investments	-4,083	-4,518	-28,782	-17,780
Received from sale of financial investments	7,413	3,835	29,412	18,521
<b>Net cash used in investing activities</b>	<b>-34,309</b>	<b>-40,561</b>	<b>-41,868</b>	<b>-343,270</b>
<b>Cash flows from financing activities</b>				
Changes in cash credit	-183	-	0	-
Paid dividends	-	-	-63,912	-31,956
Repayment of long- term bank loans	-3,162	-3,162	-6,325	-5,416
Repayment of other loans	-	-	-345	-300
Finance lease principal payments	-13	-13	-52	-50
<b>Net cash from financing activities</b>	<b>-3,358</b>	<b>-3,175</b>	<b>-70,633</b>	<b>-37,722</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-30,720</b>	<b>-822</b>	<b>-373</b>	<b>-143,961</b>
Cash and cash equivalents at the beginning of the period	62,861	33,337	32,515	176,476
Cash and cash equivalents at the end of the period	32,142	32,515	32,142	32,515
<b>Change in cash and cash equivalents</b>	<b>-30,720</b>	<b>-822</b>	<b>-373</b>	<b>-143,961</b>

## Consolidated statement of changes in shareholders' equity

th. EUR

	Capital and reserves attributable to the equity holders of the Parent Company								
	Share capital (including unregistered)	Share Premium	Statutory reserve	Hedging reserve	Other reserves	Retained earnings	Total	Minority interest	Total
<b>Equity as at March, 31 2007</b>	<b>464,900</b>	<b>259,833</b>	<b>46,490</b>	<b>8,087</b>	<b>-1</b>	<b>333,579</b>	<b>1,112,888</b>	<b>3,299</b>	<b>1,116,187</b>
Change in hedging reserve	-	-	-	-3,979	-	-	-3,979	-	-3,979
Value reappraisal of currency exchanges of subsidiaries	-	-	-	-	0	-	0	-	0
<i>Net income directly recognized in equity</i>	-	-	-	-3,979	0	-	-3,979	-	-3,979
Net profit for the period	-	-	-	-	-	-8,867	-8,867	-159	-9,026
<i>Total income and expenses recognized</i>	-	-	-	-3,979	0	-8,867	-12,846	-159	-13,005
Dividends	-	-	-	-	-	-63,912	-63,912	-	-63,912
<b>Equity as at June 30, 2007</b>	<b>464,900</b>	<b>259,833</b>	<b>46,490</b>	<b>4,108</b>	<b>-1</b>	<b>260,800</b>	<b>1,036,130</b>	<b>3,141</b>	<b>1,039,271</b>
<b>Equity as at March 31, 2008</b>	<b>471,817</b>	<b>259,833</b>	<b>46,490</b>	<b>-34,954</b>	<b>10</b>	<b>308,899</b>	<b>1,052,094</b>	<b>3,353</b>	<b>1,055,447</b>
Change in hedging reserve	-	-	-	-73,196	-	-	-73,196	-	-73,196
Value reappraisal of currency exchanges of subsidiaries	-	-	-	-	-0	-	-0	-	-0
<i>Net income directly recognized in equity</i>	-	-	-	-73,196	-0	-	-73,197	-	-73,197
Net profit for the period	-	-	-	-	-	12,180	12,180	-221	11,959
<i>Total recognised income and expenses</i>	-	-	-	-73,196	-0	12,180	-61,016	-221	-61,238
<b>Equity as at June 30, 2008</b>	<b>471,817</b>	<b>259,833</b>	<b>46,490</b>	<b>-108,150</b>	<b>10</b>	<b>321,079</b>	<b>991,078</b>	<b>3,131</b>	<b>994,209</b>

# 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'.

Accounting policies applied to this interim report were identical to those in financial year 2007/2008 annual report, excluding amendments due to pre-schedule adoption of IFRS 8 "Segment reporting". According to IFRS 8 business segments are defined and information regarding business segments is disclosed as reporting is done intra-company for management decisions and analyzing the results. Also data for comparison is changed according to that. Since April 1st 2007 the new amended International Financial Reporting Standards Committee interpretation of the IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" is mandatory for the group, but it does not have any significance importance and does not have affect groups financial reporting.

According to the Management Board Interim Report prepared for the period 1.4.2008-30.06.2008 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 fulfill 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:

Retail business - Energiamüük, UAB "Lumen Balticum", SIA "E.Energy", Teenindus ja Müük, OÜ Jaotusvõrk, AS Elpec, AS Elekriteenused, Televõrgu AS;

Production of electricity and heat - AS Narva Elektriijaamad, Taastuenergia, OÜ Iru Elektriijaam, Kohtla-Järve Soojus AS, Energiakaubandus, Solidus Oy, Narva Soojusvõrk AS, OÜ Aulepa Tuulepargid;

Transmission of electricity - OÜ Põhivõrk;

Minerals, Oil, Biofuels - Eesti Põlevkivi AS, AS Narva Õlitehas, AS Energoremont, Oil Shale Energy of Jordan; Eesti Energia central services – Peakontor, kinnisvara.

**3 months 1.4.2008-30.6.2008**

th. EUR

	Minerals, Oil, Biofuels	Transmission of Electricity	Electricity and Heat Generation	Retail Business	Eesti Energia central services	Intra-group eliminations	Total group
Revenue	47,803	13,732	77,602	89,763	2,352	-91,693	139,559
EBIT	4,119	278	3,489	8,190	-1,489	-31	14,558

**3 months 1.4.2007-30.6.2007**

th. EUR

	Minerals, Oil, Biofuels	Transmission of Electricity	Electricity and Heat Generation	Retail Business	Eesti Energia central services	Intra-group eliminations	Total group
Revenue	45,030	17,110	71,106	84,841	2,236	-97,661	122,663
EBIT	1,051	4,954	1,744	4,401	-1,142	-245	10,763

**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 Property, Plant and Equipment**

th. EUR

	Land	Buildings	Const- ructions	Plant and equipment	Other	Total
Cost	11,640	160,497	910,438	1,180,569	4,487	2,267,631
Accumulated depreciation	-	-79,163	-377,463	-521,273	-3,638	-981,536
Net book amount	11,640	81,334	532,975	659,297	849	1,286,095
Construction in progress	-	1,368	30,480	18,371	-	50,219
Prepayments	305	114	401	14,010	-	14,830
<b>Total property, plant and equipment as at March 31, 2008</b>	<b>11,945</b>	<b>82,815</b>	<b>563,857</b>	<b>691,677</b>	<b>849</b>	<b>1,351,144</b>
<b>Movements April 1, 2008-June 30, 2008</b>						
Purchases of property, plant and equipment	24	712	23,866	31,647	81	56,331
Depreciation charge	-	-1,180	-7,560	-16,970	-97	-25,808
Net book amount of non-current assets disposed	-1	-27	-	-210	-	-238
<b>Movements April 1, 2008-June 30, 2008</b>	<b>23</b>	<b>-496</b>	<b>16,306</b>	<b>14,467</b>	<b>-16</b>	<b>30,285</b>
<b>Property, plant and equipment as at June 30, 2008</b>						
Cost	11,646	160,908	924,040	1,190,965	4,547	2,292,105
Accumulated depreciation	-	-80,254	-385,017	-536,432	-3,726	-1,005,429
Net book amount	11,646	80,654	539,023	654,532	821	1,286,676
Construction in progress	-	1,666	40,530	36,366	13	78,575
Prepayments	322	-	610	15,246	-	16,178
<b>Total property, plant and equipment as at June 30, 2008</b>	<b>11,968</b>	<b>82,320</b>	<b>580,163</b>	<b>706,144</b>	<b>834</b>	<b>1,381,429</b>

## 5 Derivative instruments

th. EUR	30.6.2008		30.6.2007	
	Assets	Liabilities	Assets	Liabilities
Forward contracts of electricity sale	8	9,570	4,087	-
Forward contracts of fuel oil sale and purchase	-	100,077	21	419
Forward contracts of currency	89	-	-	-
<b>Total derivatives</b>	<b>98</b>	<b>109,647</b>	<b>4,108</b>	<b>419</b>

### Electricity sale forward contracts

The purpose of forward contracts of electricity sales is to mitigate the risk of electricity price fluctuation or earn income on electricity price fluctuations in the Nordic energy exchange Nord Pool.

All forward contracts are concluded for the sale of a specified amount of electrical energy each trading hour, and their prices are denominated in Euros. Trades that aim to hedge the risk of changes in the electricity price are marked in cash flow as risk-hedging instruments, using as the underlying instrument trades in electrical energy in the Nordic energy exchange Nord Pool which are forecast as highly probable. The effective part of the change in the fair value of trades carried out in order to hedge risk is reflected in the capital reserve and is counted in the income statement as a profit or loss at the moment the trade is made, or when it becomes clear that the trade will probably not be made. Changes in the fair value of trades made to profit from fluctuations in the electricity price are reflected in the income statement as profit or loss. The quotations in Nord Pool are taken as the basis for setting the fair value of trades.

th. EUR	30.6.2008	30.6.2007
<b>Fair value at the beginning of the period</b>	<b>567</b>	<b>8,087</b>
Change in fair value, including	-9,711	-620
change of fair value in the income statement	11	-
change of fair value in the hedging reserve	-9,722	-620
Settled in cash	-418	-3,380
<b>Fair value at the end of the period</b>	<b>-9,562</b>	<b>4,087</b>

### Forward and future contracts for sales of fuel oil

Forward and future contracts for sales of fuel oil are concluded in order to hedge the risk of a change in the price of fuel oil. Trades are concluded for the sale of a specified amount of fuel oil in a future period and are marked in cash flow as risk-hedging instruments, using as the underlying instrument trades in fuel oil which are forecast as highly probable. The quotations in Platt's European Marketscan and Nymex are taken as the basis for setting the fair value of trades. Trade prices are marked in US dollars.



Changes in fuel oil sale and purchase forward contracts th. EUR	1.4.2008- 30.6.2008	1.4.2007- 30.6.2007
Fair value at the beginning of the period	-36,058	111
Change in fair value	-66,617	-509
change of fair value in the income statement	-	-530
change of fair value in the hedging reserve	-66,617	21
Settled in cash	2,598	-
<b>Fair value at the end of the period</b>	<b>-100,077</b>	<b>-397</b>

#### Forward contracts of currency

Under forward contracts of currency is reflected contract concluded on the 10<sup>th</sup> of January 2008 for selling 10 000 thousand euros on the 14<sup>th</sup> of July with rate higher than Bank of Estonia nominates.

Changes in currency forward contracts th. EUR	1.4.2008- 30.6.2008	1.4.2007- 30.6.2007
Fair value at the beginning of the period	89	-
Fair value at the end of the period	89	-

## 6 Short-term financial investments

th. EUR

	30.6.2008	30.6.2007
Financial assets which changes in fair value are reflected in income statement	1,885	986
Investments that are kept up to redemption	1,574	2,810
<b>Total short term financial investments</b>	<b>3,459</b>	<b>3,796</b>

## 7 Increasing the share capital

Under order No. 97 of the Government of the Republic of February 27 2008, share capital of Eesti Energia AS was increased by 3 907 366 euros through the issuance of 611 370 new shares with a nominal value of 6.39 euros against the non-monetary investment of 165 registered properties with ordinary value 3 907 366 euros, where the assessment of ordinary value was verified by AS Pricewaterhouse Coopers. Entry into commercial register regarding the increase in the share capital was made at 1<sup>st</sup> of July, 2008.

## 8 Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the company by the weighted average number of ordinary shares outstanding. As there are no potential ordinary shares, diluted earnings per share equal to basic earnings per share all the periods.

	3 months		12 months	
	1.4.2008-	1.4.2007-	1.7.2007-	1.7.2006-
	30.6.2008	30.6.2007	30.6.2008	30.6.2007
Profit attributable to the equity holders of the company (€ th.)	12,180	-8,867	60,279	124,318
Weighted average number of shares (th.)	73,823	72,741	73,376	72,741
Basic earnings per share (€)	0.16	-0.12	0.82	1.71
Diluted earnings per share (€)	0.16	-0.12	0.82	1.71

## 9 Nominal and amortized value of borrowings

th. EUR

	30.6.2008		30.6.2007	
	Nominal value	Amortised cost	Nominal value	Amortised cost
<b>Short-term borrowings</b>				
Cash credit	0	0	-	-
Current portion of long-term bank loans	7,687	7,687	6,325	6,325
Finance lease liabilities	39	39	53	53
<b>Total short-term borrowings</b>	<b>7,726</b>	<b>7,726</b>	<b>6,378</b>	<b>6,378</b>
<b>Long-term borrowings</b>				
Bank loans	37,774	37,659	45,461	45,310
Bonds issued	300,000	287,956	300,000	287,261
Finance lease liabilities	-	-	37	37
<b>Total long-term borrowings</b>	<b>337,774</b>	<b>325,614</b>	<b>345,498</b>	<b>332,608</b>
<b>Total borrowings</b>	<b>345,500</b>	<b>333,340</b>	<b>351,876</b>	<b>338,986</b>