Eesti Energia

Interim Report

1.4.2005 – 31.12.2005

Contents

Overview

Key financial figures	1.4.2005-31.12.2005	1.4.2004-31.12.2004	Change		1.4.2004-31.3.2005
Revenues, € th.	342 929	277 961	64 968	23.4%	397 420
incl. domestic sales of electricity	218 918	198 758	20 160	10.1%	284 310
EBITDA, € th.	151 666	100 046	51 619	51.6%	148 983
EBIT, € th.	77 950	36 022	41 928	116.4%	61 365
Net Profit, € th.	57 951	22 606	35 345	156.3%	42 870
Net Fixed Assets, € th.[1]	1 246 329	1 186 183	60 146	5.1%	1 199 979
Equity, € th.[1]	893 025	819 250	73 775	9.0%	840 110
Net Debt, € th.[1]	283 367	292 005	- 8 638	-3.0%	268 675
CAPEX, € th.	123 860	130 097	- 6 237	-4.8%	159 891
FFO, € th.	125 498	79 621	45 877	57.6%	127 697
Debt/(Debt+Equity)[1]	30.9%	27.4%	3.5%		26.9%
ROIC[2]	9.1%	4.9%	4.2%		5.5%
EBITDA interest cover[2]	8.1	7.2	0.9		8.1
FFO[2]/Net Debt[1]	61.2%	40.7%	20.5%		47.5%
FFO/Interest Expense[2]	7.0	6.1	1.0		7.0
FFO/Capex[2]	111.9%	68.8%	43.1%		79.9%
EBITDA margin	44.2%	36.0%	8.2%		37.5%
EBIT margin	22.7%	13.0%	9.8%		15.4%

1 - balance sheet figures are end of period

2 - rolling 12 months

Eesti Energia's most significant events in third quarter of FY 2005/06 were the changes in the board of the company and emission of Eurobonds. Sandor Liive (previously CFO) was appointed CEO, new board members include Margus Kaasik (CFO, with the company since 1 999) and Tiit Nigul (Director of Supply). Two remaining board members – COO Lembit Vali and Director of Oil Shale Company Mati Jostov – continue on their current positions.

In the third quarter of FY 2005/06 the most notable economic event in the company was repurchase and exchange of over 70% of 200 million Eurobond issue (maturity 2 009), linked with the 300 million euro Eurobond issue (maturity 2 020). Moody's and S&P rated the new issue at A1 and at A- (stable outlook). Also, both agencies have rated the company at the aforementioned levels.

Revenues increased to **€342.9m**, which was **23.4%** higher compared to the previous financial year. Revenue growth was based on strong domestic electricity sales, which grew **10.1%**, while revenue growth from shale oil was **€2.9m**.

Operating and net performance Operating costs before depreciation and amortization increased by **3.6%**, which allowed Eesti Energia to reach an EBITDA growth of **51.6%**. Depreciation costs rose by **15.1%** (**€9.7m**). Despite the high growth of depreciation costs, operating profit grew **116.4%** (**€41.9m**), while net profit more than doubled to **€58.0m**.

Economic environment Estonian Institute's in Economic Research (EKI) poll in December 2005 on the state of economy in Estonia reflected the booming economy by remaining near the maximum (**8.8 of 9 points**). Favorable results are linked with Estonia's accession to EU, rewards of which are currently beginning to emerge. Study conducted by EKI shows, that majority of companies (**53%**) have experienced positive overall influence of the accession, while only **9%** report overall influence to be negative.

Source: Statistical Office of Estonia

The real GDP growth in Estonia in the third quarter of calendar year 2005 was **10.6%**, while 12 month rolling growth was at **8.6%**. According to the Ministry of Finance, the growth was mainly based on domestic demand, positively influenced by low interest rates and growing disposable income. However, the contribution of net exports was negative. Economic environment also benefited from low inflation and positive developments in the labor market. In addition, Estonia's real GDP growth well exceeds the growth rate of the euro area (2005e **1.5%**, 2006e **1.2%**).

Carbon emissions Estonian Ministry of Environment named Eesti Energia as the most environmentally friendly company in Estonia. With the award, the Ministry acknowledged Eesti Energia's efforts to reduce the effects of power production to environment.

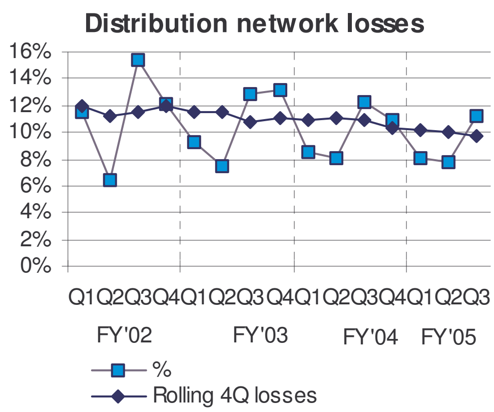
Government of the Republic of Estonia has through National Allocation Plan assigned Eesti Energia **46.7 million** tonnes of CO_2 emission allowances for the period of 2005 – 2007. The amount is sufficient to cover the emissions emanating from projected electricity generation both for domestic and export demand.

In 2005, due to lower than expected sales and increased efficiency of the power production, the company had surplus allowances. Operating profit from sales of allowances amounted to **€21.8m**.

Financial strength In October 2005, Moody's confirmed Eesti Energia's credit rating at A1; Standard & Poor's has assigned Eesti Energia **A-** rating. The solid progress in the execution of investment programme and continued positive developments in Estonian macroeconomic environment were also cited as strengths. Our goal is to continue to be a reliable partner to our clients, suppliers and financial institutions. We are committed to maintain a credit rating in the present category.

In spite of growing net debt, our interest and debt coverage ratios are in positive trend. Company's financial position is further strengthened by the new tariffs implemented in March 2005.

After the completion of CFB units at Narva PP, 12 month rolling CAPEX reduced by **€6.3m**. The reduction of CAPEX originates from power production segment (**-€20.1m**). Rolling four quarter investments into power networks have increased by **€10.0m**. Increased profitability and decreased investments have driven the rolling 12 month FFO/investment multiple from **68.8%** to **111.9%.** After the significant investments to power production in the previous years, the company is able to cover investments from operating cash flow.



Network losses The historic trend of power losses is downwards. The distribution network losses went from **12.3%** in the FY 2004/05 Q3 to **11.2%** in the third quarter of the FY 2005/06. As a result, 12 month rolling distribution network losses decreased to **9.7%**.

Profitability Growth of rolling 12 month revenues (**18.1%**) topped the growth of rolling 12 month operating costs (**7.5%**) by **10.6** percentage points. Consequently, 12 month EBIT was up **96.3%**. ROIC increased by **4.2%** to **9.1%**. Excluding the effect of EU ETS, the 12 month ROIC was at **7.1%.**

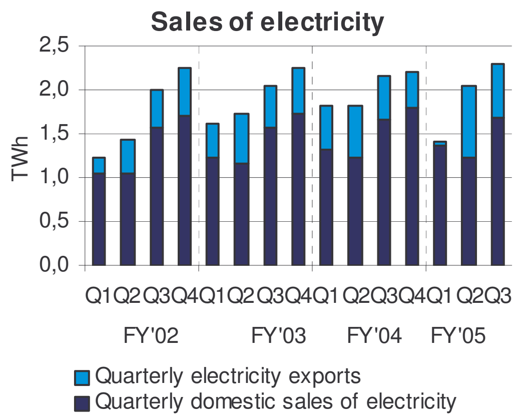
Operating results

Revenues € th.	2005/06 9 months	2004/05 9 months
Oil Shale Company	87 238	79 868
Power and Heat	217 275	184 037
Transmission	48 993	44 060
Distribution	110 412	99 228
Supply	168 044	236 733
Support Services	38 563	34 107
Eliminations	-327 595	-400 073
Consolidated Revenues	**342 929**	**277 961**

Domestic electricity sales increased to **€218.9m**, an increase of **10.1%** (**€20.1m)** on the FY 2004/05 9 months. In quantitative terms, domestic electricity sales increased by **3.1%**, or **127 GWh**. Revenue growth above the sales growth was due to the increase of tariffs, which rose in March 2005.

Electricity exports In quantitative terms, third quarter exports increased by **109 GWh**, or **21.8%** to **608 GWh**. During nine months of FY 2005/06, exports to Latvia increased by **173 GWh**, exports to Russia decreased by **533 GWh** (to 0 GWh), while exports to Lithuania increased to **217 GWh** (from **0**). Most of the electricity export revenues derived from the second quarter, when Ignalina NPP was in maintenance, enabling the Company to enter the Lithuanian power market.

Heat sales amounted to **€17.7m** in the nine months of financial year 2005/06, which was at par with the heat sales in FY 2004/05. In quantitative terms, sales decreased to **1056 GWh** (**-5.9%**). In Narva Power Plant heat sales decreased to **283 GWh** (**-16.3%**), in Iru Power Plant decreased to **666 GWh** (-**1.3%**) and in Kohtla-Järve Soojus to **107 GWh** (**-2.2%**). In FY 2004/05, Foster Wheeler purchased heat from Narva PP during the tests of new CFB boilers. The decrease in heat sales in Narva PP can be traced to the completion of the two power units. The decrease of Kohtla – Järve Soojus heat sales is partly explained by the sale of Järve assets in July 2004.



Oil Shale Outside the group sale of oil shale increased to **€9.8m** (**2.5%**); sales volumes decreased to **1 309** thousand tonnes (-**1.8%**).

Shale Oil In monetary terms, the sale of shale oil increased by **66.4%** to **€15.2m**. Oil sales reached **84 thousand tonnes** (**+4.3%**) in the FY 2005/06 Q3. The increase of both sales price and volume is closely connected to high oil prices in the world markets.

Other goods and products Sale of other goods and products totaled **€12.7m**, exhibiting almost twofold increase. This was due to an increased exports of energy equipment of AS Energoremont by **€3.1m**.

Services Sale of services amounted to **€7.7m**, an increase of **1.0%** on the previous financial year. The largest increase was experienced in the sales of telecommunication services (**+50.0%**) and repair and building services (**+4.3%**).

Expenses During the FY 2005/06 9 months, operating expenses totaled **€265.0m**, an increase of **€23.0m** (**9.5%**) on the same period of the previous financial year; the growth of costs is relatively low compared with the **23.4%** growth of operating revenues.

EBIT € th.	2005/06 9 months	2004/05 9 months
Oil Shale Company	9 376	4 841
Power and Heat	44 437	22 804
Transmission	9 806	3 171
Distribution	12 136	10 930
Supply	-363	-7 523
Support Services	1 862	1 018
Eliminations	695	780
Consolidated EBIT	**77 950**	**36 022**

Four factors most influencing the Group's EBIT in the nine months of the financial year were strong domestic sales of electricity (both volume and revenue), significant exports to Lithuania, booming sales of shale oil and growth of depreciation costs. In spite of inflationary pressures in 2005/06 the nine months of EBIT grew **116.4%** (**€41.9m**).

Oil Shale mining segment experienced a **€4.5m** (**93.4%**) increase in EBIT, while power and heat segment EBIT increased by **€21.6m**. The increase in operating profit reflects the increased volume of power production. This in turn was a result of higher energy exports to Latvia and Lithuania.

Networks Transmission network's operating profit amounted to **€9.8m**, while the distribution network EBIT increased to **€12.1m**. With the implementation of new tariff structure, the Distribution Network's operating result is more sensitive to changes in distributed energy volumes. After the abatement of seasonal effects, taking account the new tariffs, we expect to see a healthy increase in Distribution network's EBIT by the end of FY 2005/06. Still, both networks benefited from lower network losses. In the future we expect the financial position of power networks to further improve.

Net profit € th.	2005/06 9 months	2004/05 9 months
Consolidated EBIT	**77 950**	**36 022**
Consolidated interest on debt	-18 651	-13 826
Cons. net other fin. income	-948	-683
Share results of associates	737	589
Income tax	-1 370	0
Consolidated Net Profit	**57 718**	**22 102**

Rolling four quarter interest costs have increased to **€23m**, mainly due to the repurchase of Eurobonds. 12 month total interest bearing debt has increased by **6.9%**. Based on the Company's good results in the financial year 2004/05 the Company paid a dividend in the amount of **€6.2m**.

Investments

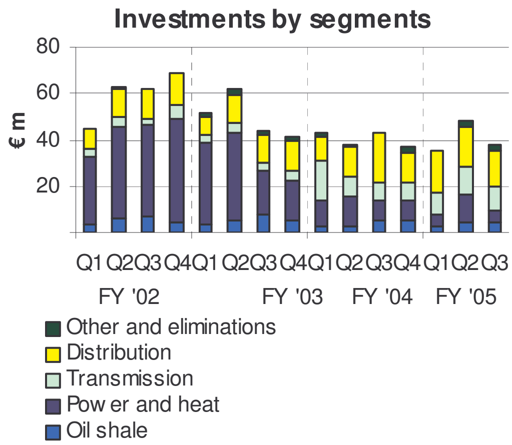
Investments In the first nine months, Eesti Energia's capital expenditures were **€120.5m,** while four quarter rolling investments were at **€158.4m**. Medium term strategic investment programme proceeds as planned, main projects emerge from the Transmission Network's Narva – Tallinn investment plan.

The most important ongoing investment projects include construction of Kiisa - Balti 330 kV OHL (**€8.5m**), construction of gas-fired peak boiler house at Balti PP (**€4.3m**).

Generation During the nine months investments in power and heat production amounted **€20.1**, of which building new gas-fired peak boiler house amounted to **€4.3m**, decommissioning of Balti PP sections I – III amounted to **€3.7m**. Kyoto policies have added to the complexity of the framework of power production segment's investment strategy. As it is clear, that environmental regulations are becoming stricter, our investment strategy focuses on achieving compliance with relevant regulations and standards at due time. The last significant project comes from Iru plant, where we started a project to install new low – NOx burners. Iru plant supplies 50% of capital's and 100% of Maardu's heat consumption.

Transmission During the nine months of financial year 2005/06, a total of **€33.1m** was invested in the National Grid.

Transmission networks most important ongoing investment projects during the reporting period were construction of Kiisa - Balti 330 kV OHL (**€8.5m**) and reconstruction of Balti 330 kV substation (**€1.3m**), followed by renovation and construction of Endla 110 kV switchyard and OHL (**€2.9m**), Tartu 110 kV switchyard (**€3.6m**) and construction of Veskimetsa switchgear (**€2.5m**).



Distribution During the nine months of FY 2005/06, a total of **€48.9m** was invested into the Distribution Network. Distribution Network's main goal is to increase the efficiency and reliability of power networks. Rigorous investment programme has yielded excellent results in terms of power network losses, which in last years have considerably decreased.

Major investment projects in the FY 2005/06 nine months in the Distribution Network were building of new customer connections (**€25.3m**); renovation of the 0.4-20 kV networks and the Voltage Quality Programme (**€6.1m**), reconstruction of 35-330 kV substations (**€4.9m**); and switching voltage from 3x220 V to 3x400 V (**€0.9m**).

Debt

Eesti Energia's debt portfolio is denominated **in euros**. The weighted average interest of Eesti Energias debt portfolio was **4,66%** as of 31 December 2005.

Eesti Energia's debt portfolio consists **94%** of fixed and **6%** of floating issues. The floating interest rate of the Nordic Investment Bank loan in the amount of **€15m** (until 2006) is fixed by means of interest rate swap, having the fixed interest rate of **6.08%**. The first tranche of NIB **€60m** term loan in the amount of **€20m** is also fixed. Interest rates of majority of loans are floating. The weighted average interest rate of floating-rate loans was 6 months **EURibor +0.42%** as of 31 December 2005, decreasing from the previous quarter due to repayment of syndicated loan facility.

In November Eesti Energia issued a new **Eurobond** facility in the amount of **€300m** due **2020.** The Eurobond issue has a fixed interest rate of **4,5%**. The existing investors exchanged 2009 bonds in nominal of **€105m,** tendered (sold) 2009 bonds in nominal of **€40m.** Outstanding 2009 bonds amount to **€55m** in nominal.

The Eurobond issue enabled Eesti Energia to prepay the syndicated loan facility in the amount of **€50m** in the end of December and to redeem commercial papers of **€25m** in the end of November. The loan had no prepayment fee and would normally mature in June 2006.

In the beginning of August Eesti Energia paid out dividends to its 100% shareholder, Estonian Republic, in the amount of **€6.2m**.

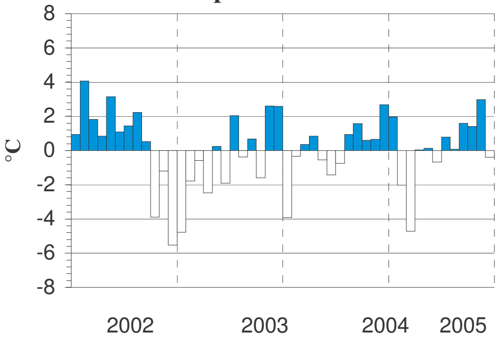
Short-term outlook

Estonian Institute of Economic Research poll in December 2005 indicated, that optimistic sentiment about economic prospects for the next 6 months dominates. In July 2005, IMF's mission to Estonia concluded, that Estonia's real GDP growth is expected to stay at **7%**, while inflation stays at **3.5%**. Estonian Institute of Economic Research expects Estonian economy to grow **8%.**

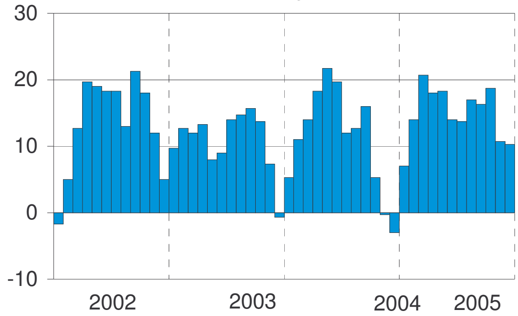
Expected **14%** growth of exports, **9%** growth of industrial production and **8%** growth of retail sales also signal that the electricity demand should remain strong. With present state and structure, Estonia's economy is well capable to foster the growth of domestic demand for electricity.

In Estonia, temperature in the first six months of FY 2005/06 was on average **+1.9ºC** higher than in the first quarter of the previous financial year. Despite that, electricity sales showed a healthy growth. Data demonstrates that in last twelve months the temperature neutral electricity growth is increased to the level of **3.5%**, which is slightly above the historic long – term growth rate of electricity demand.

Difference from monthly average temperature



Industrial enterprises confidence (monthly)



Source: Estonian Institute of Economic Research

The rolling four-quarter losses trend in the distribution network decreased to a record low **9.7%**. In the medium term, power network losses are decreasing. For the 12 months of FY 2005/06 we aim the losses to stay below **10%**.

In line with the medium term investment programme, Eesti Energia continues to undertake large investments in the power networks. Effective deployment of major investments combined with ongoing focus on value creation is expected to produce growth of EBITDA margin in the following quarters.

Increased oil prices in the world markets have boosted the heavy fuel oil price. This in turn has elevated the price of shale oil by more than **75%**. The higher price has contributed and is expected to contribute to the power and heat segment's net results in the following quarters.

Growth of economy has provided a sound basis for the growth of domestic demand of electricity. Sound fundamentals, combined with new tariffs and focus on cost reduction should form a strong basis to positive results in the following quarters. Thus, compared with FY 2004/05, we expect to experience further positive developments of 12 month results for the end of the FY 2005/06.

Definitions

Financial

CAPEX –	Capital expenditures
CFB	Circulating fluidised bed
EBIT –	Earnings before interest and taxes
EBITDA interest cover –	EBITDA divided by Interest on debt
EBITDA –	Earnings before interest, taxes, depreciation and amortization
EBIT margin –	EBIT divided by Total revenue
FFO –	Funds from operations; Operating cash flow less Changes in working capital
Interest –	Interest on debt
Invested capital –	Shareholders equity plus Debt
Net Debt –	Debt less cash and equivalents
Profit margin –	Net profit divided by Total revenue
ROIC –	Return on invested capital; EBIT divided by average Invested capital

Notes

Financial tables

Accounting policies

These consolidated interim condensed financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended March 31st, 2005.

The Group has adopted for the first time in this financial period the standards IAS 27 (revised 2003), IAS 28 (revised 2003), IAS 32 (revised 2003), IAS 39 (revised 2003), which became obligatory for the Group from 1 April 2005.

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

Consolidated income statement, € th.

	3 months		**9 months**		**12 months**		***Note***
	1.10.2005-31.12.2005	**1.10.2004-31.12.2004**	**1.4.2005 - 31.12.2005**	**1.4.2004 - 31.12.2004**	**1.1.2005-31.12.2005**	**1.1.2004-31.12.2004**	
Revenue							
Sales	150 298	107 782	339 191	276 112	457 806	388 692	
Other income	1 803	348	3 621	1 728	4 404	2 195	
Government grant	98	70	117	121	178	209	
Expenses							
Changes in work in progress and finished goods	319	607	3 136	736	1 280	-1 977	
Materials, consumables and supplies	-37 879	-30 594	-97 554	-85 949	-132 996	-119 962	
Other operating expenses	-10 337	-9 286	-28 375	-26 710	-38 598	-37 411	
Personnel expenses	-24 211	-23 705	-67 573	-65 219	-90 232	-89 791	
Depreciation and impairment	-24 728	-22 021	-73 715	-64 024	-97 309	-88 835	*4*
Other expenses	-436	-302	-896	-772	-1 238	-1 065	
EBIT	**53 976**	**22 898**	**77 950**	**36 022**	**103 293**	**52 054**	
Interest expense on borrowings	-9 412	-4 669	-18 651	-13 826	-23 187	-18 360	
Other net financial income	-390	-316	-948	-683	-1 368	-661	
Net financial cost	**-9 802**	**-4 986**	**-19 599**	**-14 508**	**-24 555**	**-19 021**	
Share results of associates	737	589	737	589	1 117	953	
Profit before taxes	**44 911**	**18 502**	**59 088**	**22 102**	**79 855**	**33 987**	
Income tax	0	0	-1 370	0	-1 370	0	*7*
Profit for the period	**44 911**	**18 502**	**57 718**	**22 102**	**78 485**	**33 987**	
Attributable to:							
Equity holders of the Parent Company	44 676	18 211	57 951	22 606	77 939	34 987	
Minority interests	235	291	-233	-504	546	-447	
Earnings per share for profit attributable to the equity holders of the company during the period							
Basic (€)	0.61	0.25	0.80	0.31	1.07	0.47	*8*
Diluted (€)	0.61	0.25	0.80	0.31	1.07	0.47	*8*

Consolidated balance sheet, € th.

	31.12.2005	31.12.2004	31.3.2005	*Note*
Assets				
Current assets				
Cash and cash equivalents	116 339	16 928	40 301	
Trade receivables	58 621	46 457	49 891	
Other receivables	64	27	85	
Accrued income	3 170	2 330	2 194	
Prepayments	2 466	1 718	1 716	
Inventories	21 025	20 139	18 312	
Total current assets	**201 685**	**87 598**	**112 499**	
Non- current assets				
Investments in associates	12 083	2 464	2 701	*3*
Property, plant and equipment	1 246 329	1 186 185	1 199 979	*4*
Intangible assets	2 494	2 494	2 494	
Total non- current assets	**1 260 907**	**1 191 143**	**1 205 175**	
Total assets	**1 462 592**	**1 278 742**	**1 317 674**	
Liabilities				
Current liabilities				
Borrowings	4 558	2 366	2 374	*5*
Trade and other payables	80 140	75 209	89 982	
Derivative financial instruments	793	2 576	2 672	
Provisions	2 564	3 790	6 016	*6*
Deferred income	764	0	618	
Total current liabilities	**88 819**	**83 941**	**101 661**	
Non- current liabilities				
Borrowings	395 147	306 566	306 602	*5*
Provisions	20 013	21 681	18 593	*6*
Deferred income	65 588	47 589	50 709	
Total non- current liabilities	**480 748**	**375 837**	**375 903**	
Total liabilities	**569 567**	**459 777**	**477 564**	
Shareholders' Equity				
Share capital	464 900	464 900	464 900	
Share premium	259 833	259 833	259 833	
Statutory reserve	43 822	41 692	41 692	
Hedging reserve	-742	-2 517	-2 137	
Retained earnings	66 027	31 762	31 762	
Net profit for the period	57 951	22 606	42 594	
Total capital and reserves	**891 790**	**818 276**	**838 643**	
Minority interest	**1 235**	**688**	**1 468**	
Total shareholders' equity	**893 025**	**818 964**	**840 110**	
Total liabilities and equity	**1 462 592**	**1 278 742**	**1 317 674**	

Consolidated cash flow statement, € th.

	3 month		9 month		12 month		Note
	1.10.2005 - 31.12.2005	1.10.2004 - 31.12.2004	1.4.2005 - 31.12.2005	1.4.2004 - 31.12.2004	1.1.2005- 31.12.2005	1.1.2004- 31.12.2004	
Cash flows from operating activities							
Adjusted net profit	77 899	44 045	147 544	96 906	195 573	136 106	
Changes in working capital	-9 396	-7 500	-15 744	-5 128	-12 878	3 926	
Paid interest and loan fees	-6 113	-2 830	-21 320	-17 701	-21 570	-17 777	
Received interest	369	101	644	416	742	594	
Paid income tax	0	0	-1 370	0	-1 370	0	
Net cash from operating activities	**62 758**	**33 817**	**109 754**	**74 493**	**160 496**	**122 849**	
Cash flows from investing activities							
Purchase of tangible fixed assets	-40 272	-42 676	-123 860	-130 097	-154 896	-172 822	
Proceeds from connection fees	6 089	4 184	16 359	10 222	19 923	12 876	
Proceeds from sale of tangible fixed	394	74	1 865	558	1 970	1 639	
Disposal of business unit	0	0	0	1 945	0	1 945	
Dividends received from associates	0	1 009	0	1 009	0	2 148	
Paid for long- term financial investments	0	0	-8 644	-128	-8 644	-128	*4*
Proceeds from sale of financial	0	0	0	5	0	5	
Net cash used in investing activities	**-33 788**	**-37 408**	**-114 280**	**-116 486**	**-141 646**	**-154 336**	
Cash flows from financing activities							
Short – term borrowing	0	0	24 819	0	24 819	0	
Called short-term borrowings	-25 000	0	-25 000	0	-25 000	0	
Paid dividends	0	0	-6 199	0	-6 199	0	
Bonds issue	183 337	0	183 337	0	183 337	0	
Repurchased bonds	-44 017	0	-44 017	0	-44 017	0	
Received long- term bank loans	0	0	0	15 000	0	15 000	
Repayment of long- term bank loans	-51 182	-1 182	-52 364	-1 182	-52 364	-2 236	
Finance lease principal payments	-6	-3	-12	-8	-15	-11	
Net cash from financing activities	**63 131**	**-1 184**	**80 564**	**13 810**	**80 561**	**12 753**	
Net increase/decrease in cash and cash e	**92 101**	**-4 775**	**76 038**	**-28 183**	**99 411**	**-18 734**	
Cash and cash equivalents at the	24 238	21 703	40 301	45 110	16 928	35 661	
Cash and cash equivalents at the end of	116 339	16 928	116 339	16 928	116 339	16 928	

Consolidated statement of changes in shareholders' equity, € th.

	Capital and reserves attributable to the equity holders of the Parent Company							
	Share capital	Share premium	Statutory reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total
Balance at 31.3.2004	**464 900**	**259 833**	**40 020**	**-3 930**	**33 433**	**794 256**	**1 192**	**795 448**
Transfer to statutory reserve	0	0	1 672	0	-1 672	0	0	0
Revaluation of cash flow hedges	0	0	0	1 413	0	1 413	0	1 413
Net profit for the period	0	0	0	0	22 606	22 606	-504	22 103
Balance at 31.12.2004	**464 900**	**259 833**	**41 692**	**-2 517**	**54 368**	**818 276**	**688**	**818 964**
Balance at 31.3.2005	**464 900**	**259 833**	**41 692**	**-2 137**	**74 356**	**838 643**	**1 468**	**840 110**
Transfer to statutory reserve	0	0	2 130	0	-2 130	0	0	0
Revaluation of cash- flow hedges	0	0	0	1 395	0	1 395	0	1 395
Paid dividends	0	0	0	0	-6 199	-6 199	0	-6 199
Net profit for the period	0	0	0	0	57 951	57 951	-233	57 718
Balance at 31.12.2005	**464 900**	**259 833**	**43 822**	**-742**	**123 978**	**891 790**	**1 235**	**893 025**

Notes to the financial statements

1 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. The Electricity Market Act of Estonia requires separate accounting to be held for electricity production, transmission, distribution and sales. Operating revenues and expenses are allocated to different segments based on internal invoices. The pricing of inter-segment transfers is based on the prices approved by the Estonian Energy Market Inspectorate, or if not available, on the market prices. If no market prices exist, the management board of the Group affirms the internal prices.
No information on geographical segments is presented, as all significant activities of the Group take place in Estonia.
For segment reporting, the companies and units are divided into the following business segments:

Oil shale mining - Eesti Põlevkivi;
Production of electricity and heat - Narva Elektrijaamad, Iru Elektrijaam, AS Kohtla-Järve Soojus, Renewable energy;
Transmission of electricity – OÜ Põhivõrk;
Distribution of electricity – OÜ Jaotusvõrk;
Sales and customer service - Teenindus;
Support services - Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, AS Elektrikontrollikeskus, Administration, Support services.

1.4.2005-31.12.2005 **€ th.**

	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Revenue	87 238	217 275	48 993	110 412	168 044	38 563	-20 937	342 929
EBIT	9 376	44 437	9 806	12 136	-363	1 862	44	77 950

1.4.2004-31.12.2004 **€ th.**

	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Revenue	79 868	184 037	44 060	99 228	236 733	34 107	-25 569	277 961
EBIT	4 841	22 804	3 171	10 930	-7 523	1 018	50	36 022

2 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.

3 Investments in associates

On the 29th of April, 2005 AS Eesti Energia increased its associate's AS Nordic Energy Link equity by 8 644 thousand euros. Other AS Nordic Energy Link shareholders contributed 13 213 thousand euros. After the event, AS Eesti Energia's share in the company is 39.9%.

4 Tangible assets, € th.

	Land	Buildings	Const-ructions	Plant and equipment	Other	Total
Balance at 31.3.2005						
Cost	4 642	127 323	756 913	854 424	3 429	1 746 730
Accumulated depreciation	-4	-66 098	-301 755	-362 939	-2 199	-732 995
Opening net book value	**4 638**	**61 225**	**455 158**	**491 485**	**1 229**	**1 013 735**
Construction and renovation in progress	0	18 808	17 176	147 471	0	183 456
Prepayments	259	0	9	2 521	0	2 789
Total balance at 31.3.2005	**4 896**	**80 033**	**472 343**	**641 477**	**1 229**	**1 199 979**
Movements for the period 1.4.2005-31.12.2005						
Additions	205	10 476	51 063	58 553	200	120 496
Depreciation	-4	-3 534	-22 465	-47 251	-461	-73 716
Disposals	-3	-212	-153	-508	0	-875
Reclassification	0	-6 979	6 844	135	0	0
Recognition of dismantling provision	0	38	0	407	0	445
Total movements for the period 1.4.2005-31.12.2005	**198**	**-211**	**35 288**	**11 336**	**-262**	**46 350**
Balance at 31.12.2005						
Cost	4 844	144 090	791 536	1 014 645	3 610	1 958 725
Accumulated depreciation	-9	-69 331	-323 954	-403 873	-2 645	-799 811
Closing net book value	4 836	74 759	467 582	610 772	965	1 158 914
Construction and renovation in progress	0	5 063	40 041	41 030	3	86 136
Prepayments	259	0	9	1 012	0	1 279
Total balance at 31.12.2005	**5 094**	**79 822**	**507 632**	**652 813**	**967**	**1 246 329**

The cost of Narva Power Plant Unit no. 11 includes the present value of expected dismantling costs (€445 th., calculated at 8% discount rate; expected life of power unit 30 years).

5 Nominal and amortized value of borrowings, € th.

	31.12.2005		31.12.2004	
	Nominal value	Amortized cost	Nominal value	Amortized cost
Short- term borrowings				
Current portion of long- term bank loans	4 506	4 506	2 364	2 364
Finance lease liabilities	52	52	3	3
Total short- term borrowings	**4 558**	**4 558**	**2 366**	**2 366**
Long- term borrowings				
Bank loans	54 948	54 153	109 455	108 466
Bonds issued	355 019	340 877	200 000	198 089
Finance lease liabilities	117	117	12	12
Total long- term borrowings	**410 084**	**395 147**	**309 466**	**306 566**
Total borrowings	**414 643**	**399 706**	**311 832**	**308 932**

Changes in borrowings € th.

Adjusted balance at 31.3.2005	**308 975**
Movements for the period 1.4.2005-31.12.2005	
Issued bonds nominal	300 000
Exchanged bonds nominal	-115 579
Conversion premium	-1 084
Repaid bond adjusted acquisition cost	-39 904
Fees of issue	-1 062
Amortisation of nominal and acquisition cost spread of bonds	328
Issued short-term borrowings	24 819
Repaid short-term borrowings	-25 000
Amortisation of nominal and acquisition cost spread of short term borowings	181
Repayments of long term bank loans	-52 364
Amortisation of loans costs	238
Financial lease	169
Financial lease principal payments	-12
Adjusted balance at 31.12.2005	**399 706**

Holders of Eesti Energia's 2 009 Eurobond issue swapped **€104.8m** 2 009 bonds to **€115.6m** 2020 bonds (both in nominal terms).

The difference between the amortized cost of 2009 bonds and issued 2 020 nominal value **€11.6m** is recognized for in amortized cost of emitted 2 020 bonds.

In association with the repurchase of Eesti Energia 2009 bonds, investors sold Eesti Energia 2009 bonds worth **€40.2m** in nominal terms, for which Eesti Energia paid **€44.0m**. The difference between the nominal value of repurchased bonds and the amortized cost of repurchased bonds is recognized in the income statement together with interest expenses.

6 Provisions, € th.

	Balance at 31.3.2005	**Recognition and changes**	**Interest charge**	**Utilisation**	**As of 31.12.2005**	
					Short - term	**Long - term**
Environmental and mining termination	309 957	-28 920	13 983	-15 044	32 939	247 037
Post – employment benefits	30 121	457	1 087	-9 066	5 093	17 506
Injury compensations	38 002	0	1 991	-3 645	2 085	34 263
Dismantling	6 956	6 956	418	0	0	14 330
Total provisions	**385 036**	**-21 507**	**17 479**	**-27 755**	**40 117**	**313 136**

During the reporting period, the Company cancelled the environmental and mining termination provision in the amount of 1 848 thousand euros due to the cessation of possible claim. Narva Power Plants established a provision in order to cover the expected dismantling costs of new power unit in the amount of 445 thousand euros (calculated at 8% discount rate; expected life of power unit 30 years). The present value of dismantling costs is accounted for within the property, plant and equipment (please refer to note 4).

7 Income tax

In June 2005, AS Eesti Energia's subsidiaries AS Eesti Põlevkivi and AS Elektrikontrollikeskus announced dividend, on which the income tax amounted to 1 370 thousand euros. According to the Estonian Income Tax Law, if a resident company has received dividends from a resident company and the recipient of the dividends owns, at the time of payment of the dividends, at least 20 per cent of the shares or votes of the payer of the dividends, the recipient of the dividends is not obliged to impose income tax on the same amount paid by it as dividends.

	Net dividend	Deductions	Income tax	Tax rate
AS Eesti Põlevkivi	6 391	2 148	1 340	21.0%
AS Elektrikontrollikeskus	96	0	30	31.6%
Total	**6 487**	**2 148**	**1 370**	**21.1%**

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		9 months		12 months	
	1.10.2005 - 31.12.2005	1.10.2004 - 31.12.2004	1.4.2005 - 31.12.2005	1.4.2004 - 31.12.2004	1.1.2005- 31.12.2005	1.1.2004- 31.12.2004
Profit attributable to the equity holders of the company (€ th.)	44 676	18 211	57 951	22 606	77 939	34 434
Weighted average number of sha	4 649	4 649	4 649	4 649	4 649	4 649
Basic earnings per share (€)	0.61	0.25	0.80	0.31	1.07	0.47
Diluted earnings per share (€)	0.61	0.25	0.80	0.31	1.07	0.47