



**EESTI ENERGIA**

# **Eesti Energia**

Interim report

1 April 2008 – 31 December 2008

## Significant events during 2008/09 financial year first nine months

### **E.Energy market share in Latvia rose to 5%**

The market share of Eesti Energia's subsidiary in Latvia, E.Energy SIA, based on yearly contracts rose to 5% of total electricity sales in Latvia in October. E.Energy sales amounted to 89 GWh during the first nine months of the financial year, growing by 86 GWh comparing to same period last year. Eesti Energia's clients in Latvia are big companies like Latvijas Balzams, Severstallat, Valmiera VSŠ and many companies in food processing industry, including all big brewers.

### **The number of KÕU Internet clients approaches 22 000**

The number of clients for mobile Internet service KÕU was 21,917 by the end of December, growing 71.7% (over nine thousand contracts) compared to the end of December 2007. KÕU Internet service can be used in places where there has previously been no Internet and for people who need Internet all over the country, even when moving from one place to another.

The Estonian Association of Information Technology and Telecommunications selected the team of Televõrgu AS for the nomination "Aasta Tegija 2007". The Association recognized the launch of the mobile Internet service „KÕU“, which has positively affected the development of the whole information society.

### **Eesti Energia agreed regular prices indexation with Estonian Competition Authority**

From the beginning of the 1<sup>st</sup> of January 2009 the price of electricity will be reviewed twice a year – in January the price of electricity and in March the price of network tariffs. If until now only the network tariffs changed once a year with indexing and the price of electricity changed once in three years time, then from the beginning of year 2009 also the price of shale oil mining and price of electricity production will be indexed, in accordance with indexing methodology proved by the Estonian Competition Authority. Although the price of electricity will change more often in the future, indexing will prevent steeper rises in the price of electricity.

As a result of reviewing, the price of electricity will change from the beginning of 1<sup>st</sup> of January 2009, increasing on average 0.004 euros per kilowatt hour. The rise is due to increase in the environmental charges and increase of input prices in mining and electricity production, like transportation, explosives, chemicals etc.

### **Eesti Energia and Outotec to establish a joint venture**

Eesti Energia and Outotec have signed an agreement to establish a joint company for development and marketing of environmentally sustainable and economically viable oil shale processing methods. Eesti Energia will have a majority 60% stake in this new company, while Outotec will have the remaining 40% stake. The new company aims to become a significant supplier of oil shale technology solutions, combining Eesti Energia's

experience in oil shale mining and processing and Outotec's expertise in circulating fluid bed (CFB) technologies. This agreement supports Outotec's growth strategy as well as Eesti Energia's liquid fuels production strategy. The joint company aims to improve Eesti Energia's operational shale oil technology, to exploit the improved technology in commercial production plants in Narva, Estonia, and to commercialize the technology for use on oil shale deposits worldwide. The decision for the construction of the first oil plant based on improved technology is planned to be made in May 2009.

### **Extensive power failures in November due to storms**

In the end of November the storm hit Estonia and brought extensive power failures all over the country – 32,000 households and companies were without electricity on 23<sup>rd</sup> of November. It was the biggest storm since so called January storm in the year 2005. Many Eesti Energia's subsidiaries were overloaded with work due to the storm. That shows in numbers – Distribution Network and Eesti Energia's partners restored electricity supply to more than 50,000 clients in five days (in the January storm to more than 100,000 clients), over 1,000 faults were repaired and more than 65,000 phone calls were serviced (in normal situation about 40,000 calls in a month).

### **Eesti Energia's client service in good quality**

In November 2008 TNS Emor carried through a survey called Service index, where Eesti Energia ranked second best in the overall results. Eesti Energia's client service was substantially better comparing to other infrastructure companies. In last year's survey Eesti Energia was 10<sup>th</sup> best.

### **Two new subsidiaries – Elekritööde AS (Electrical Works) and Võrguehituse AS (Network Building)**

At the beginning of 1<sup>st</sup> of January 2009 two new Eesti Energia's subsidiaries will be established – Eesti Energia Elekritööde AS (Electrical Works) and Eesti Energia Võrguehituse AS (Network Building). The new subsidiaries will be established on the basis of existing companies Electrical Services, Elpec and part of the Distributions Network measurement sector. Eesti Energia Electrical Works is a new subsidiary that will offer services to end-users. This is a market-base service, where Eesti Energia will be competing with other electrical companies in repairing faults of households and companies indoors, scheduled repair and maintenance services and etc. These are electrical services that stay inside network of the client's connection point. Eesti Energia Network Building will be a joint venture based on uniting Electrical Services and Elpec. The company will offer services that are bound to electrical network before connection point, id est designing, building and maintenance of electrical network.

### **Eesti Energia is studying possibilities of building offshore wind farms**

Eesti Energia Taastuvenergia Ettevõte (Renewable Energy Company) started to study in summer 2008 where are the best locations for building sea wind parks in Estonian offshore area (excluding areas where other sea wind parks are planned) with a maximum capacity of 1 GW. Each farm's technically optimum installed capacity would be 200-300 MW with the cost 440 up to 660 million euros. According to Eesti Energia, perspective areas include 3 locations in Liivi bay, 2 in the Baltic Sea, 3 in the Gulf of Finland and 3 in Lake Peipsi. Environmental impact assessments and economical profitability assessments will be carried out. Depending on wind conditions, the optimal distance from the coast is at least 10 kilometers. The distance between the wind park and the port for maintenance boats, as well as the length of significant waves in the area, which are two times smaller in Liivi bay and in Gulf of Finland than in Baltic Sea, are also important.

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

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 June 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.

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

Eesti Energia and the government of Jordan, along 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 in Jordan. The agreement gives to Eesti Energia the exclusive rights to develop a project, aimed at building a power plant with a capacity of 900 MW. During the next three years, 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. The necessary capital for building the plant is planned to be financed from larger investors. Eesti Energia is also carrying out a project in Jordan to produce shale oil from oil shale.

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### **Nord Pool exchange to be expanded to the Baltics on 1 September 2009 at the earliest**

The parties involved in the NPS Baltic project, launched last November by the Nordic power exchange Nord Pool, have reached the realization that the first possible date for launching trading will be 1<sup>st</sup> of September in 2009 according to Eesti Energia. That is one quarter later than agreed previously. Before the trading can take place, corresponding changes have to be introduced into Estonia's current legislation, primarily concerning the rights and obligations of eligible consumers operating on the free market. Rights and restrictions on import of electricity from third countries also need to be reviewed and updated. The parties agreed that the primary task of the NPS Baltic project would be to create a separate price region in the southern part of the Estlink submarine cable between Estonia and Finland.

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

At the 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 implemented and been 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. 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.

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## Financial Highlights

	1.4.2008- 31.12.2008	1.4.2007- 31.12.2007	Change	
Revenues, € th.	484,691	419,898	64,793	15.4%
incl. domestic sales of electricity, € th.	236,210	205,224	30,987	15.1%
EBITDA, € th.	141,637	141,552	84	0.1%
EBIT, € th.	62,503	62,905	-402	-0.6%
Net Profit, € th.	48,909	40,264	8,645	21.5%
Net Fixed Assets, € th. <sup>1</sup>	1,437,328	1,323,197	114,131	8.6%
Equity, € th. <sup>1</sup>	1,117,483	1,060,991	56,493	5.3%
Net Debt, € th. <sup>1</sup>	222,988	136,068	86,920	63.9%
CAPEX, € th.	166,759	115,226	51,533	44.7%
FFO, € th.	118,556	108,632	9,924	9.1%
Debt <sup>1</sup> /(Debt+Equity) <sup>1</sup>	22.8%	24.1%	-1.2%	
ROIC <sup>2</sup>	5.1%	8.6%	-3.5%	
EBITDA interest cover	11.3	11.3	0.1	
FFO <sup>2</sup> /Net Debt <sup>1</sup>	99.9%	110.9%	-11.0%	
FFO/Interest Expense	8.4	7.9	0.6	
FFO/Capex	71.1%	94.3%	-23.2%	
EBITDA margin	29.2%	33.7%	-4.5%	
EBIT margin	12.9%	15.0%	-2.1%	

1 - balance sheet figures are end of period

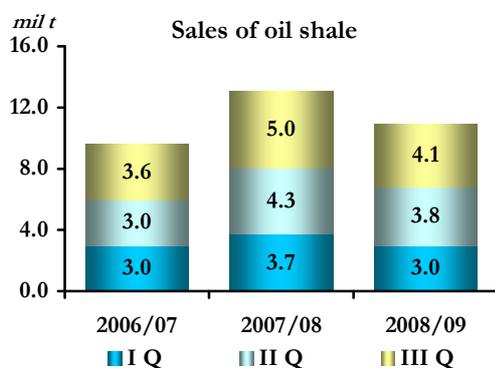
2 - rolling 12 months

FFO - funds from operations excluding changes in working capital

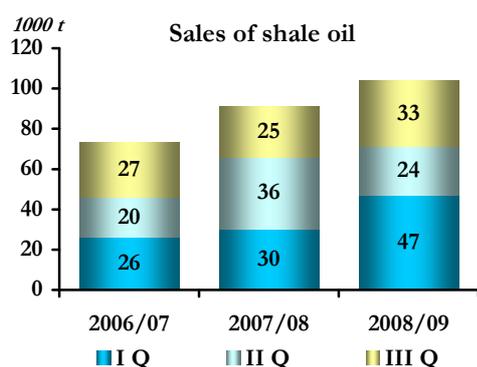
## Economic Performance of the Business Segments

### Minerals, Oil, Biofuels – sales from shale oil has increased and from shale oil decreased

**Financial data.** In the first nine months of the financial year the most negative impact on the segments financial results was decrease in the biggest revenue component – shale oil, due to smaller quantity of shale oil being sold. The increase in the price of shale oil compensated to some extent the decrease in the amounts. Results were positively affected by the growth in the sales revenue of oil shale, due to higher average selling price and bigger amount.



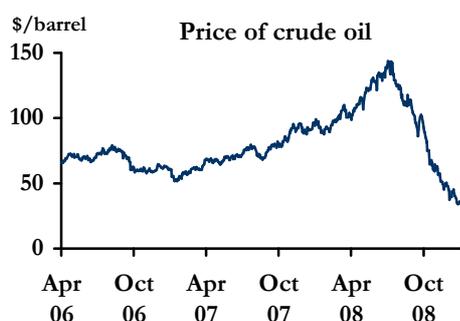
(million €)	9 months		Change	
	08/09	07/08	million €	%
Sales revenue	151.4	154.2	-2.7	-1.8%
Operating profit	8.2	17.4	-9.2	-52.9%
FFO	17.6	25.5	-7.9	-31.1%
Investments	25.4	24.7	0.7	2.8%
EVA (12 months)	-5.6	16.9	-22.6	-133.2%
Number of employees	4,407	4,381	26	0.6%



**Eesti Põlevkivi** operating revenue was 114.7 million euros in the first nine months of the financial year (-5.0 million euros, -4.2%), from which the sales of oil shale were 107.9 million euros. Comparing to last financial year's first nine months, sales of oil shale in volume were 16.6% (2.2 million tons) smaller and amounted to 10.9 million tons mainly due to decrease in Narva Power Plants' electricity production. Sales revenue was positively affected by the new selling price for oil shale from April 1<sup>st</sup> 2008, agreed with Competition Board, 9.4 euros per ton. That is 10% higher than the previous price.

**Narva Õlitechas** sales revenue grew 30.6% (6.6 million euros) comparing to the previous financial year's first nine months. Sales volume was 11.9 tons bigger and totaled 102.9 tons. Comparing to the previous financial year's first nine months, the average selling price of shale oil was 15.3% higher. As the selling price is bounded to the movements of the heavy fuel oil global market prices, the selling price has been declining from September 2008.

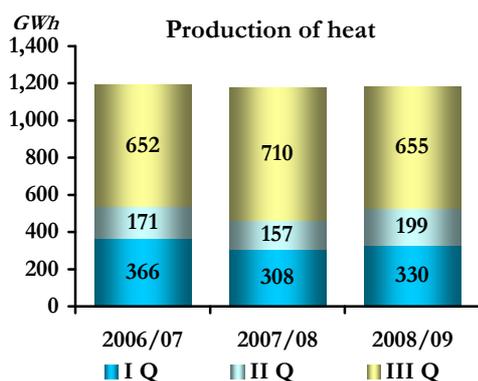
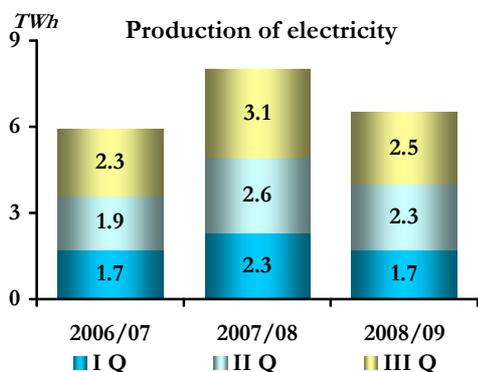
**Energoremont** sales revenue decreased in the first nine months of the financial year by 4.0% comparing to last financial year's first nine months. Main reason was decrease in the export sales revenue from energy appliances (-37.8%). At the same time domestic sales revenue increased (67.0%). Sales revenue totaled 24.4 million euros.



The segments **investments** were 25.4 million euros, increasing 2.8% (0.7 million euros) compared to first nine months of the last financial year. Eesti Põlevkivi investments were 17.2 million euros and were mainly aimed at new buildings and equipment in Estonia mine. In financial year 2008/09, the segment's total planned investments are about 38 million euros.

### Electricity and Heat Generation

**Financial data.** Segments first nine months sales revenue grew about 20% comparing to last year's first nine months due to fast growth of sales revenue of electrical energy and heat energy. Volumes of electricity sold to domestic market and export decreased, but increase in the domestic market price from the beginning of 1<sup>st</sup> of July 2008 and higher prices in the Nordic electricity market Nord Pool comparing to last year's corresponding period are behind the increase in the electricity sales revenue. Heat energy sales revenue increased due to higher prices of purchased natural gas. Main changes in the expenditure side were the additional cost of emission allowances (+22.0 million euros), decrease in the resource taxes and environmental pollution charges as production volumes decreased (-35.9%) and smaller maintenance expenditures (-10.8%) due to cutting costs program.

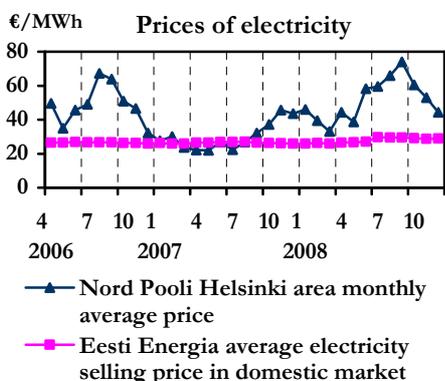


(million €)	9 months		Change	
	08/09	07/08	million €	%
Sales revenue	299.2	251.3	47.9	19.1%
Operating profit	19.8	12.5	7.3	59.0%
FFO	35.4	29.0	6.5	22.3%
Investments	24.9	14.6	10.3	70.3%
EVA (12 months)	-27.5	-13.4	-14.2	106.2%
Number of employees	1,877	1,916	-39	-2.0%

The segments **net electricity production** was 6,583 GWh in the first nine months, decreasing 1,370 GWh (-17.2%) compared to last year's first nine months. The decrease was mainly due to smaller production in Narva Power Plants (-1,493 GWh). In Kohtla-Järve, power plant production decreased 4 GWh. Production grew in Iru power plant by 124 GWh and from renewable sources 3 GWh.

**Electricity export** was 1,836 GWh in the first nine months, decreasing 507 GWh (-21.6%) compared to last year's first nine months. Bigger export to Finland (+240 GWh) has partly balanced the decrease in export volumes to Latvia (-747 GWh). Export sales revenue grew 22.8% in the first nine months compared to last year's same period, mainly due to a 39.2% higher selling price to Nord Pool.

**Heat** sales to outside the segment were 1,009 GWh in the first nine months, increasing 10 GWh (0.9%) compared to last year's first nine months. In comparison it should be noted that in June-August 2007 Iru power plant did not sell heat. Although the average temperature was 0.2 degrees lower during the nine months in 2008/09 comparing same period last financial year, the temperature was 0.8 degrees higher in the heating period, id est in the third quarter. Sales revenue was positively affected by higher sales price due to higher gas price. Total nine months sales revenue grew 71.3% comparing to last year's same time.

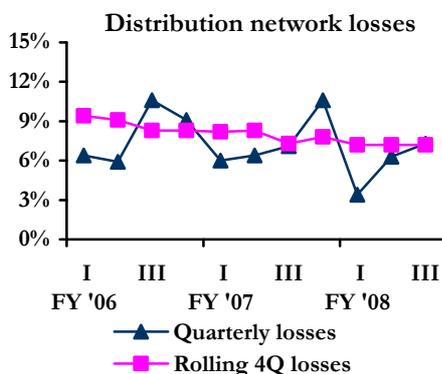
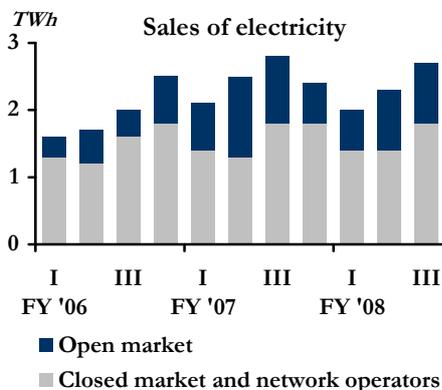


The segments' **investments** were 24.9 million euros, an increase of 70.2% (10.3 million euros) compared to last financial year's first nine months. The growth came mainly from the investments in

Aulepa Wind Park – investments amounted to 11.6 million euros in the first nine months time. Narva Power Plant investments were 8.8 million euros. In the financial year 2008/09 segment total planned investments are about 38 million euros

### Retail business

**Financial data.** Segments financial results were affected by different movements of the two biggest revenue articles – sales revenue of electricity grew (+15.0% comparing to last year's first nine months) and sales revenue of network services decreased (-2.0%). E.Energy sales in Latvia increased the sales revenue from electricity. Growth in network sales (+21.7%), repair and construction services (+143.1%) and in telecommunication services (+49.3%) sales all positively increased the sales revenue.



(million €)	9 months		Change	
	08/09	07/08	million €	%
Sales revenue	292.8	268.5	24.3	9.0%
Operating profit	24.0	20.2	3.8	18.7%
FFO	33.6	29.1	4.5	15.4%
Investments	84.1	63.4	20.7	32.7%
EVA (12 months)	-4.2	3.3	-7.5	-226.9%
Number of employees	1,788	1,786	2	0.1%

**Domestic sales of electricity** was 5,095 GWh in the first nine months, increasing 97 GWh (+1.9%) compared to last year's first nine months. Sales to the open market were 531 GWh (-35 GWh, -6.1%), to closed market business customers 2,817 GWh (+40 GWh, +1.4%), to residential customers 1,165 GWh (+57 GWh, +5.1%) and to network operators 581 GWh (+35 GWh, +6.4%). Sales to the open market were negatively affected by decrease in electricity consumption, as the economic growth in Estonia has slowed down, and due to the one client changing network operator. Closed market sales were also affected by the downturn in economic growth. Bigger sales to network operators were mainly due to accrued network operator.

Distribution Network **net sales from network services** were 115.3 million euros in the first nine months of the financial year, decreasing 2.7 million euros (-2.3%) compared to last year's first nine months. Changes in network tariffs have affected the sales of network services – from 1<sup>st</sup> of March 2008 network tariffs were lowered by an average 5% compared to tariffs before, but from 1<sup>st</sup> of July 2008 the tariffs rose on average 2.3%.

**Losses** in the distribution network decreased 0.8 percentage points compared to last year's first nine months to 5.8% in the first nine months. The losses have decreased steadily due to investments in electricity networks and more efficient cooperation inside the Group. Increasing network quality is one of the important strategic aims of the Group.

**Televõrk** services sales revenue was 10.6 million euros, increasing 19.4% (+1.7 million euros) mainly due to mobile Internet service KÕU sales revenue. At the end of December 2008, KÕU had

approximately 22 000 active customers, which is 71.7% more than at the end of December 2008. **Elektriteenused** sales were up 22.3% (3.2 million euros) and **Elepec** sales revenue 60.7% (1.7 million euros) as the sales volumes increased.

The segment's **investments** in the first nine months were 84.1 million euros, increasing 32.7% (20.7 million euros) compared to last year's first nine months. Jaotusvõrk's investments were 80.1 million euros, aimed mainly at subscription to the network and increasing the operating reliability and quality of the networks. In financial year 2008/09 the segment's total planned investments are about 102 million euros.

### Transmission

**Financial data.** Changes in the tariff system have influenced sales revenue of the transmission segment – last financial year transmission sales were based on energy passing through the network and on peak power, this financial year the sales are based solely on energy passing through the network. That is the main reason, why growth of sales revenue was negative in the first two quarters but positive in the third quarter. In first nine months time sales revenue grew 0.3% comparing to same period last financial year.

<i>(million €)</i>	9 months		Change	
	08/09	07/08	million €	%
Sales revenue	54.3	54.1	0.2	0.4%
Operating profit	13.3	17.1	-3.8	-22.4%
FFO	21.9	23.0	-1.2	-5.0%
Investments	33.3	10.1	23.2	229.7%
EVA (12 months)	-3.1	2.0	-5.1	-250.0%
Number of employees	129	128	1	0.8%

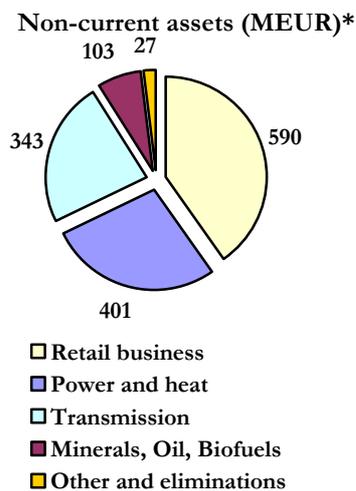
In the first nine months 8,731 GWh of electrical energy passed through the **transmission network**, increasing 103 GWh compared to the same period last year. Electrical energy passing through the mainland and transit increased, at the same time export decreased.

The segment's **investments** were 33.3 million euros, increasing 230.7% (23.3 million euros) compared to last year's first nine months. Investments were mainly focused on power transformers and reconstruction of electrical lines. In financial year 2008/09 the segment's total planned investments are about 45 million euros.

## Asset Portfolio and Investments

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

Eesti Energia is a 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 of 31.12.2008 the value of the group's assets stood at 1.74 billion euros.



\* - as of 31.12.2008

The Estonian electricity market is gradually opening up – until 31<sup>st</sup> of December 2008 the market was opened to clients, whose electrical consumption exceeded 40 GWh from one connection point. From the 1<sup>st</sup> of January 2009 the market is opened to clients, whose electrical consumption exceeds 2 GWh from one connection point and from the beginning of year 2013 the market is fully opened. Therefore at the moment the risks related to the assets of production of energy and the mining of oil shale are limited, but growing as the electricity market will open latest at year 2013. Eesti Energia sells electricity to the Nordic electricity market Nord Pool as well and there are oil shale mining and electricity generation already partially opened to market risks. The electricity price in the closed domestic market was fixed at 29 €/MWh until the end of December 2008. Nord Pool Helsinki area average monthly prices fluctuated between 26.1 and 67.6 €/MWh during the last nine months, averaging 55.4 €/MWh.

One obstacle in the development to open market is that open market clients can buy electricity from the closed market at the closed market price. For this reason the price of electrical energy in the closed market determines the upper limit of electricity prices in the open market and interferes the actual functioning of the open market.

Major parts of the assets portfolio are the **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 357 million euros and return on invested capital over the last 12 months is 6.5%. The assets of the distribution network are valued at 598 million euros and return on invested capital over the last 12 months is 6.4%.

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

### Investments boost the 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 also plan to build a wind farm to Balti Power Plant's closed ash

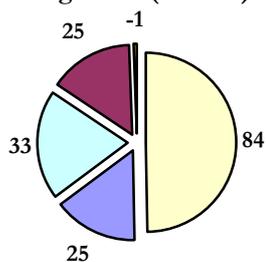
field. We are also examining the possibility to build offshore wind farms.

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

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. This project has been pointed out by the European Commission as one of the project that could be partially financed by the Commission – in January 2009 Commission proposed to assign about 96 million euros to the construction of Estlink 2.

Eesti Energia has unique know-how in the field of large-scale oil shale mining and from it, the production of electricity and shale oil. Although the price of oil has declined from record high in summer 2008 to lower levels in the beginning of 2009, market parties anticipate in the longer term the price to increase. That is why 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 fuels production. For achieving that, we have planned to increase investments for new production equipment. We have reached an agreement with Jordanian government to build an oil shale based electric power plant in Jordan, where the fourth biggest deposit of oil shale in the world can be found. There is also an ongoing project to produce shale oil from oil shale in Jordan.

2008/09. financial year nine months investments by segments (MEUR)



- Retail business
- Power and heat
- Transmission
- Minerals, Oil, Biofuels
- Other and eliminations

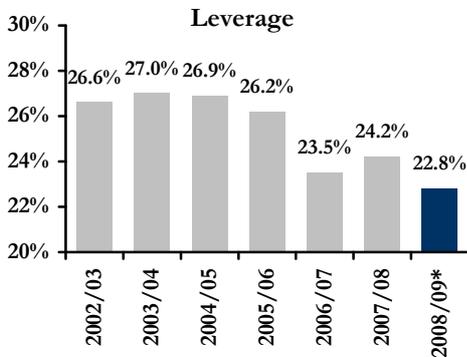
One of the principle techniques of strategic management in Eesti Energia is the balanced scorecard. The balanced scorecard takes financial criteria into account, as well as aspects relating to clients, staff, and the business processes. The investments should, in addition to meeting financial criteria, 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 nine months of the current financial year, Eesti Energia invested 166.7 million euros. The main areas of investments were the networks, where 113.4 million euros were invested. Smaller

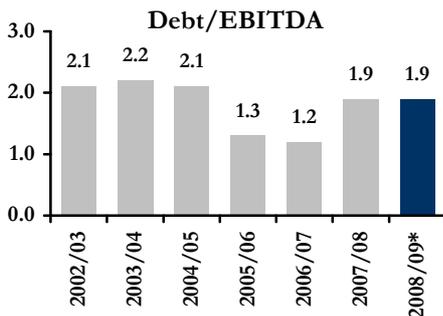
amounts were invested into oil shale production and Narva Power Plants. In the 2008/09 financial year we plan to invest approximately 225 million euros.

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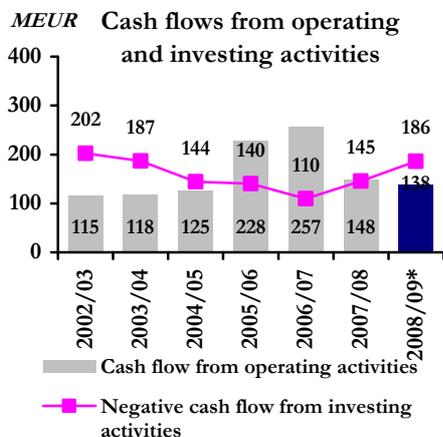
## Profitability, financing and cash flows



\* - as of 31.12.2008



\* - as of 31.12.2008



\* - rolling 12 months at 31.12.2008

### Growth of fixed costs stopped in the 3<sup>rd</sup> quarter

One of the group's main aims of current financial year has been reduction of fixed costs. Optimization of the working processes and changes in the economy have brought positive results – fixed costs grew 14% and 7% in the 1<sup>st</sup> and 2<sup>nd</sup> quarter of the current financial year, but -4.3% in the 3<sup>rd</sup> quarter.

### Emission allowances have reduced Eesti Energia's profitability

Eesti Energia's rolling 12 month revenues were 645.4 million euros (+67.9 million euros, +11.8%). Operating profit for the same period declined to 63.1 million euros (-40.1 million euros, -38.9%) and net profit to 47.9 million euros (-30.5 million euros, -38.9%).

One reason for the decline in operating profit compared to same period last year is the cost of emission allowances – the allocation of allowances to Eesti Energia in the second trading period was much smaller than anticipated, so that the Group had to buy allowances from the market for some of the electricity production. The cost of emission allowances in the rolling 12 month was 31.1 million euros. Fast growth of payroll expenses, electricity expenses and expenses related to transportation have also negatively affected operating profit. Rolling 12 month operating profit, excluding the sale of emission allowances, decreased 36.2 million euros, compared to 12 months ago.

The group's 12 month rolling EVA, excluding the sale of emission allowances, was -49.0 million euros at the end of December 2008, decreasing by 47.4 million euros (a change over 12 months).

### Eesti Energia balance sheet is strong

Despite large-scale investments, Eesti Energia retained a conservative balance sheet structure at the end of the third quarter of the financial year 2008/09. Debt on the balance sheet decreased by 5.4 million euros and the debt/(debt+ equity) ratio decreased to 22.8%, compared with 24.1% from the end of December 2007.

The loan/EBITDA ratio increased to 1.9 from 1.6 year-on-year due to a 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, electricity and transportation expenses.

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 nine months by 51.8 million euros as the amount of current assets declined. At the end of December 2008, net debt amounted to 223.0 million euros (a change over 12 months of +86.9 million euros, +63.9%). Decrease in the cash and deposits with maturities greater than three months at banks were behind the increase in net debt.

As of 31.12.2008, the weighted average interest rate of Eesti Energia's debt was 4.47%. The principle currency for Eesti Energia's debt is the euro. Eesti Energia has been given credit ratings of A1 with negative 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 27.3 million euros, and a loan from the European Investment Bank with a loan balance of 14.3 million euros. 92% of the current debt portfolio is with a fixed interest rate and an 8% floating interest rate (taking into account only the reminder of the debt).

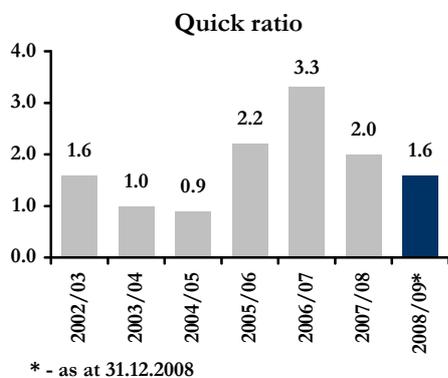
Estonian media has been speculating in the devaluation of Estonian currency as one of the measures that could help to recover the Estonian economy – a move that would make debt in euros more expensive to pay back. Eesti Energia's foreign exchange risk is in large part covered by the export revenue of electricity, oil and other products, in which case principal currency is mainly euro. In the expenditure side the foreign exchange risk is minimal. At the end of December 2008, net export revenue formed about quarter of borrowings, id est in the short term Eesti Energia's situation would not be worse in the case of devaluation of the Estonian currency.

### Group liquidity risk is low

As of 31.12.2008 the Eesti Energia group had financial reserves worth 108.6 million euros. Unused loan facilities totaled 40 million euros. Liquidity risk is small for the company in the medium term, which is also reflected by the strong credit ratings. Group quick ratio was 1.6 at the end of the third quarter.

Credit risk is the risk that the group's clients 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.

As the economic growth in Estonia has slowed down we can expect amount of the doubtful receivables to grow and the average settlement time for invoices increase. If in the 2007/08 financial year first nine months time loss form doubtful receivable was 0.9 million euros, then in the current financial years nine months time the amount has increased to 2.1 million euros. But at the same time the proportion of doubtful receivables from total trade receivables has not changed – at 31<sup>st</sup> of December in 2007 the proportion in the balance sheet was 11.4%, at 31<sup>st</sup> of December 2008 10.3%. The average settlement date for invoices increased by 3 days within the past 12 months compared to the end of third quarter of 2007/08 fiscal year, standing at 36 days. At the same time we monitor closely client's payment behavior and we have one unit in the Retail segment that is specialized in overdue accounts – they proceed, manage and develop the overdue accounts process.



**Eesti Energia paid dividends worth 41.7 million euros**

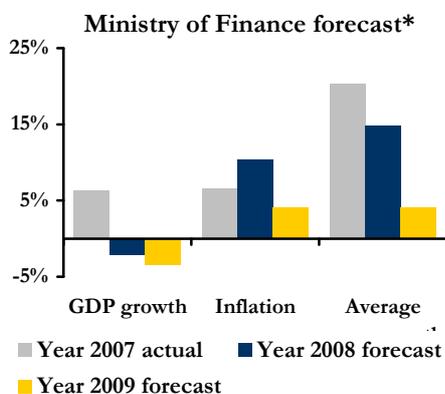
Following the economic results of 2007/08, group paid 41.7 million euros as dividends to shareholders in October 2008.

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## Short-term Outlook

### Economic growth in Estonia has slowed down – outlook for near future is pessimistic

According to the Statistics Estonia preliminary data economic growth in Estonia in the fourth quarter of 2008 was -9.4%. Comparing to the third quarter of 2008 the downfall has steepened. Main reason for the slowdown in added value is decrease in the volumes of manufacturing industry as the domestic demand and export have decreased. The unemployment rate has sharply risen in the last quarters - from 4.0% in the second quarter to 7.6% in the fourth quarter. Consumer price index has shown signs of slowdown and was 8.3% in the fourth quarter (11.4% in the second quarter). Inflation has decelerated mainly due to decrease in crude oil price and due to decrease in cost prices pressure in Estonia. Average wage growth slowed down to 14.8% in the third quarter.



\* - published 4th December 2008

The Ministry of Finance's forecast for 2008 economic growth is -2.2% and -3.5% for year 2009. Deceleration in growth is caused by decreases in growth of consumption and investments. Forecast for inflation in 2009 is 4.1%, for average wage growth 4.1% and for unemployment 8.6%. The forecast was published on the 4<sup>th</sup> of December 2008.

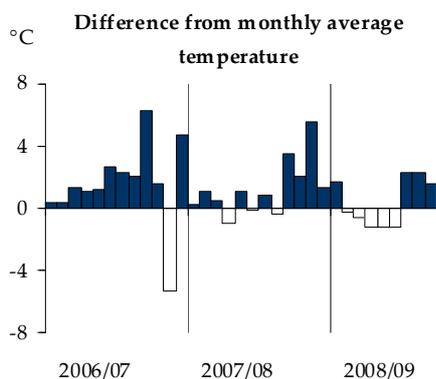
The Bank of Estonia is forecasting for economic growth in 2008, published 22<sup>nd</sup> of November 2008, -1.8% and for year 2009 -2.1%. Forecast for inflation in 2009 is 4.8%, for average wage growth 5.0% and for unemployment 7.0%.

Bank of Estonia published in the light of recent industry output and retail sector data an interim assessment of the economic forecast on the 5<sup>th</sup> of February 2009. According to the base scenario the forecast for economic growth in 2009 is -5.5% and in the negative scenario -8.9%.

### Domestic consumption of electricity is decreasing as the economic growth is slowing down

Rolling 12 month domestic electricity sales were 7,088 GWh by the end of December, being 1.1% higher than in the end of December 2007. The average temperature was 0.5 degrees higher in the last twelve months than in the corresponding period in 2007 December and the rolling 12 month adjusted domestic sales were 1.9% higher than the rolling 12 months by the end of December 2007.

We forecast that domestic sales will be 7,165 GWh (+2.5%) by the end of the current financial year and 6,995 GWh in the 2009/10 financial year (-3.1% comparing 2008/09 financial year). Growth will decelerate to closed market business and private clients, as to open market clients. Sales to network operators will grow because of a additional network operator. The forecast predicts that the temperature next year will not exceed the historical average temperature and that the increase in the sale of electric energy is forecasted on the basis of the Ministry of Finance GDP growth forecast.



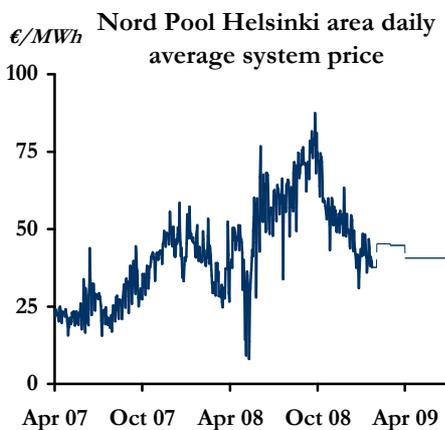
We forecast sales of thermal energy in the current financial year of 1,679 GWh, which is 3.5% (-61 GWh) less than in the previous financial year. The decrease in the sales amount comes from the smaller forecast for Iru Power Plant as the competition in the Tallinn heat market increases.

### Power network losses

Domestic losses were 9.8% in the course of the past 12 months, which is at the same level as year ago. In the financial year 2008/09 we forecast domestic losses to be around that level.

### Nord Pool electricity price and emission allowances

The Nord Pool Helsinki area electricity price dropped from 50€/MWh in the beginning of the year to 10 €/MWh in May, then increased to around 70-80€/MWh at the end of September and has since fallen to about 40 €/MWh at the end of December. Comparing to the Nord Pool base load electricity price, then prices in Finland and Sweden have been higher in the first half of the financial year mainly due to cable problems between Sweden and Norway. In the last quarter the price difference has diminished to minimum. Trades for the year 2009 fourth quarter were concluded at 30 January 2009 at the price of 41,8 €/MWh.



In CO<sub>2</sub> emissions trading a new trading period began in 2008. While at the beginning of the year the 2008 contracts were traded around 22-23 €/t, then at the end of December the prices dropped to 15 €/t. The 2009 contracts were traded at the end of December 2008 near 16 €/t and at the beginning of January 2009 around 11-12 €/t.

### The price of oil has stabilized around 40-50 \$/barrel

The price of crude oil has fallen to 35 \$/barrel at the end of December. The price of oil rose from the beginning of the year's 100 \$/barrel to 140 \$/barrel in July, but has fallen from there on. But in the beginning of 2009 the price has increased somewhat and should continue to rise according to future contracts – June 2009 deliveries were contracted at the level of 52 \$/barrel in the end of January.

The price of crude oil directly influences the price of fuel oil. The monthly average price of fuel oil in the Rotterdam region has decreased from around 675 \$/t in August 2008 to 190 \$/t in December. Similarly to oil prices, the future contracts point to upward trend of fuel oil prices - June 2009 deliveries were contracted at the level of 271 \$/barrel by the end of January.

From the beginning of summer 2007 we have been using light heating oil futures to hedge the risk to the price of shale oil. By the end of December 2008 we had fixed an advantageous price for ourselves for about 60 thousand tons of the year's expected shale oil production.

### We forecast a growth in profitability

Our anticipate in January 2009 forecast that in the 2008/09 financial year operating profit will amount to 83 million euros and net profit to about 58 million euros. The domestic

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electricity sales growth rate will slow due to economic slowdown in Estonia, but at the same time sales from electricity export, heat and shale oil will grow. In forecast we have assumed, that outside temperature will be at the level of historical average, electricity export price is forecasted on the basis of Nord Pool futures and domestic electricity price will be over viewed twice a year. 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 and electricity expenses.

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

The strategic aims of the segment are effective oil shale mining in Estonia, production of one million tons of liquid fuels per year in Estonia and opening of the oil shale energy complex in Jordan.

#### **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 Jõhvi in the north to Väike-Pungerja in the south. The layer of oil shale is located at a depth of between 10 and 70 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 3,320 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 15.3 million tons.

Eesti Energia will continue oil shale mining and oil shale based electricity production in the years ahead. It is also planned to expand shale oil production as well as investigate wider usage of oil shale.

#### **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. Separating the company enables more clarity regarding the financing of investments for the production of electrical energy and for the production of shale oil.

The advantages of shale oil over heavy fuel oils are lower settling point, lower content of sulphur and mechanical impurities, low content of heavy metals, and the absence of vanadium. It is mostly used as fuel in both large and small boilers. The Oil Plant's production amounted to 146,000 tons of shale oil in the last 12 months. The Oil Plant employs about 145 people.

#### **Energoremont (AS Equipment Maintenance and Supply)**

AS Energoremont deals with equipment and metal structures mainly for the energy sector, including manufacturing, installation and maintenance. The bigger clients include Alstom, Andritz, Foster Wheeler, Kvaerner Power, ABB, Roxon and many others. The company employs about 880 people.

#### **Oil Shale Energy of Jordan**

Oil Shale Energy of Jordan (OSEJ) is a subsidiary of Eesti Energia acquired in late 2006. It is engaged in researching the commercial opportunities in the field of oil shale, particularly oil and power

production, in the Kingdom of Jordan. EE's partner in Jordan is the Near East Group, which holds 24% of OSEJ.

**Electricity and Heat Generation – Narva Elektriijaamad AS (Narva Power Plants), Taastuenergia ettevõte (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 (AulepaWind Farm), Energiakaubandus, Solidus OY**

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

The strategic aims of the segment are investments in new capacities for the security of supply, cutting CO2 emission in the production of electricity and expanding the production portfolio.

The Eesti Energia group currently has an installed capacity of 2,604 MW for the production of electrical energy: Narva Power Plants 2,380 MW, Iru CHP Plant 190 MW, Ahtme CHP Plant 30 MW and 1,516 MW of installed 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 house 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 9,754 GWh of electrical energy and 2,065 GWh of thermal energy.

**Narva Elektriijaamad AS (Narva Power Plants)**

AS Narva Elektriijaamad is one of the leading producers and sellers of electricity in Estonia and the Baltic region and a competitive company in line with environmental requirements. AS Narva Elektriijaamad supplies Estonian consumers with electricity and furnishes the city of Narva with heat as well as exporting electricity to the other two Baltic countries and to Finland. The company is also engaged sales of fly ash. The company employs about 1,575 people.

**Narva Soojusvõrk AS (Narva District Heating Network)**

Narva Soojusvõrk buys, distributes and sells thermal energy and also maintains repairs and builds thermal networks mainly in the city of Narva. 66% of the company is owned by Narva Power Plants and 34% by city of Narva. The company employs about 35 people.

**Iru Elektriijaam OÜ (Iru Power Plant)**

Iru Power Plant is a plant for the combined generation of electricity and heat. It has been in operation since 1978. Iru Power Plant is the largest heat producer and third largest electricity producer in Estonia. The station supplies Tallinn's Lasnamäe and about 50% of the Kesklinn districts with heat and 100% of the town of Maardu. Electricity produced in combined generation mode is sold to the electricity system via OÜ Põhivõrk. The company employs about 60 people.

**Kohtla-Järve Soojus AS (Kohtla-Järve District Heating Network)**

Kohtla-Järve Soojus supplies the towns of Jõhvi and Ahtme with heat and sells electricity to Eesti Energia. The company owns the oil-shale-based Ahtme combined power plant launched in 1951 and the heating networks in the Ahtme-Jõhvi district. 59.2% of the company is owned by Eesti Energia and 40.8% by OÜ VKG Energia. The company employs about 120 people.

**Taastuenergia Ettevõtte (Renewable Energy Business Unit)**

The Renewable Energy Business Unit has been operating in the Eesti Energia Group since 2002 and its goal is to establish and operate power plants to produce renewable sources of energy. The business unit employs 5 people.

**Energiakaubandus (Energy Trading)**

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, provide power balancing and open supplier services in Estonia and arrange electrical energy buy and sell transactions outside of Estonia. The business unit employs 10 people.

**Solidus OY**

Solidus OY operates on the Nordic electricity markets as a member of Nordpool, managing electricity portfolios for its clients and offering consultation and expert services related to operating on the electricity market and managing risks. Solidus OY was founded in 2005 and from 2006 the company is 100% owned by Eesti Energia. The company employs 7 people.

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

The business domain of electricity transmission serves to ensure the sustainability of the Estonian electricity supply, which includes guaranteeing the conditions of the functioning of the electricity market; guaranteeing the transmission capacity of the power network and the quality of electric energy; and guaranteeing the operations quality of the power system.

The strategic aims of the segment are creation of a regional electrical market, construction of a second Finnish-Estonian undersea cable and operational reliability of the electrical system.

**Põhivõrk OÜ (Transmission Grid)**

The Transmission Grid is an undertaking engaged in the transmission of energy which unites Estonia's largest power plants, distribution grids and major consumers into a comprehensive energy system. The primary activities of the Transmission Grid are transmission of electricity at voltages of 6-330 kV from producers to distribution grids and large industrial consumers, developing and operating the Estonia-wide 110-330 kV power grid, ensuring, in cooperation with the electrical systems of neighbor countries, the operation of Estonia's electrical system, keeping the electrical responsible for ensuring the Estonian energy balance and

determining the balance for balance providers. The company employs about 125 people.

#### **Nordic Energy Link AS**

Nordic Energy Link was established as a subsidiary of Eesti Energia AS with the main objective to construct and commission the Estlink cable. To administer the cable, the company AS Nordic Energy Link was founded, its shareholders being Eesti Energia (39.9%), Latvenergo (25%), Lietuvos Energija (25%) and Soome Finestlink (10.1%).

#### **Retail Business – Jaotusvõrk OÜ (Distribution Network), Energiamüük (Energy Sales), AS Elpec, AS Elektriteenused, 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.

The strategic aims of the segment are preparations for opening of the electricity market, product enhancements, expanding the client base and renovation of the Estonian power grid.

#### **Jaotusvõrk OÜ (Distribution Network)**

The function of the Distribution Grid is to distribute electricity to end consumers through the 35 KW and under low and medium-voltage power grid as well as manage these grids. The distribution grid provides service to 459,000 residential customers and 22,500 business customers, and is thus one of the Estonian companies with the most customers. The company employs about 900 people.

#### **Elpec AS**

AS Elpec is an electrical engineering and consultation firm. Elpec's function is to offer the finest engineering and technology solutions and consultations based on existing knowledge in the field of power grid engineering. The company employs about 115 people. From the beginning of 1<sup>st</sup> of January 2009 AS Elpec will be united with Electrical Services and the new company name will be Network Building AS.

#### **Elektriteenused AS (Electrical Services)**

AS Elektriteenused was founded for maintenance, repair and construction of Eesti Energia's National Grid and Distribution Grid. The company was founded in year 2000. Compared to the early years, the company's activity has more than doubled and it has expanded territorially, now spanning all of Estonia. The volume of services provided by Eesti Energia outside of the Group has grown. The company employs about 305 people. From the beginning of 1<sup>st</sup> of January 2009 Electrical Services will be united with AS Elpec and the new company name will be Network Building AS.

#### **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 494,300 clients,

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including *ca* 25,800 business clients. At over 60,000, there are actually twice as many business clients' consumption points as business clients. Roughly 355 people are employed in these companies, including about 340 people employed by the Eesti Energia AS Teenindus.

**Televõrk AS (Telecommunications Network)**

Televõrk AS provides domestic and international data communications trunk network service to operator firms in the telecommunications sector. The company employs about 55 people.

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## Financial Statements

### Balance Sheet

th. EUR

	31.12.2008	31.12.2007	31.3.2008	Notes
<b>ASSETS</b>				
<b>Current assets</b>				
Property, plant and equipment	1,437,328	1,323,197	1,351,144	4
Intangible assets	9,381	7,771	8,320	
Investments in associates	11,262	10,247	10,820	
Long-term receivables	90	14	15	
Derivative financial instruments	5,366	184	-	5
<b>Total non-current assets</b>	<b>1,463,428</b>	<b>1,341,413</b>	<b>1,370,299</b>	
<b>Non-current assets</b>				
Allowed emission allowance units	25,780	-	-	
Inventories	30,889	21,720	26,604	
Trade receivables and other receivables	97,830	80,648	87,928	
Derivative financial instruments	15,550	602	910	5
Deposits with maturities greater than 3 months at banks	25,100	164,565	138,190	
Financial assets	990	8,856	6,743	6
Cash and cash equivalents	82,646	35,506	62,861	
<b>Total current assets</b>	<b>278,784</b>	<b>311,898</b>	<b>323,236</b>	
<b>Total assets</b>	<b>1,742,212</b>	<b>1,653,310</b>	<b>1,693,535</b>	
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders of the Parent Company</b>				
Share capital	471,817	464,900	467,909	7
Unregistered share capital	-	3,010	3,907	
Share premium	259,833	259,833	259,833	
Statutory reserve capital	47,182	46,490	46,490	
Hedging reserve	19,856	-26,467	-34,954	
Unrealised exchange rate differences	-2	-4	10	
<b>Total equity and reserves attributable to equity holders of the Parent Company</b>	<b>1,114,756</b>	<b>1,057,995</b>	<b>1,052,094</b>	
<b>Minority interest</b>	<b>2,728</b>	<b>2,995</b>	<b>3,353</b>	
<b>Total equity</b>	<b>1,117,483</b>	<b>1,060,991</b>	<b>1,055,447</b>	
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Long-term borrowings	322,146	329,101	328,593	9
Supplier payables	180	893	600	
Derivative financial instruments	-	18,592	28,280	5
Deferred income	122,531	103,337	109,444	
Provisions	27,653	22,073	26,279	
<b>Total non-current liabilities</b>	<b>472,511</b>	<b>473,996</b>	<b>493,197</b>	
<b>Current liabilities</b>				
Borrowings	8,601	7,059	7,922	9
Supplier payables and other current liabilities	111,427	100,924	116,377	
Derivative financial instruments	-	8,292	8,032	5
Deferred income	215	730	314	
Provisions	31,975	1,317	12,246	
<b>Total current liabilities</b>	<b>152,218</b>	<b>118,324</b>	<b>144,892</b>	
<b>Total liabilities</b>	<b>624,729</b>	<b>592,320</b>	<b>638,089</b>	
<b>Total liabilities and shareholders' equity</b>	<b>1,742,212</b>	<b>1,653,310</b>	<b>1,693,535</b>	

**Income Statement**

th. EUR

	3 months		9 months		12 months		Note
	1.10.2008-	1.10.2007-	1.4.2008-	1.4.2007-	1.1.2008-	1.1.2007-	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	
Sales	191,059	163,303	476,777	416,212	635,010	568,771	
Gain on disposal of emission rights	-	-	-	-	-	3,893	
Other income	1,298	1,104	5,601	2,269	7,369	2,817	
Government grant	1,250	750	2,313	1,417	3,013	1,999	
Changes in work in progress and finished goods	456	399	3,246	-4,855	7,741	-5,916	
Materials, consumables and supplies	-84,223	-52,977	-201,021	-134,589	-274,272	-181,785	
Other operating expenses	-14,388	-21,178	-46,484	-52,614	-72,398	-70,548	
Personnel expenses	-33,346	-31,346	-98,795	-86,287	-132,958	-111,114	
Depreciation and impairment	-26,980	-26,730	-79,134	-78,648	-110,385	-104,886	
<b>EBIT</b>	<b>35,127</b>	<b>33,325</b>	<b>62,503</b>	<b>62,905</b>	<b>63,120</b>	<b>103,230</b>	
<b>Financial income and expenses</b>							
Financial income	6,279	2,475	10,863	8,106	13,465	10,401	
Financial expenses	-4,746	-4,664	-14,196	-13,899	-18,912	-18,502	
<b>Net financial income</b>	<b>1,532</b>	<b>-2,189</b>	<b>-3,332</b>	<b>-5,793</b>	<b>-5,447</b>	<b>-8,100</b>	
Share results of associates	442	878	442	878	1,015	1,135	
Loss of investments in associates	-	-	-	-10	-	148	
<b>Profit before taxes</b>	<b>37,101</b>	<b>32,015</b>	<b>59,613</b>	<b>57,980</b>	<b>58,688</b>	<b>96,413</b>	
<b>Income tax</b>	<b>-8</b>	<b>-</b>	<b>-10,704</b>	<b>-17,716</b>	<b>-10,758</b>	<b>-17,920</b>	
<b>Profit for the period</b>	<b>37,093</b>	<b>32,015</b>	<b>48,909</b>	<b>40,264</b>	<b>47,930</b>	<b>78,492</b>	
<b>Attributable to:</b>							
<b>Equity holders of the Parent Company</b>	<b>36,871</b>	<b>31,753</b>	<b>49,534</b>	<b>40,568</b>	<b>48,197</b>	<b>78,407</b>	
<b>Minority interests</b>	<b>223</b>	<b>262</b>	<b>-625</b>	<b>-304</b>	<b>-268</b>	<b>85</b>	
Earnings per share for profit attributable to the equity holders of the company during the period							
<i>Basic (€)</i>	<i>0.50</i>	<i>0.43</i>	<i>0.67</i>	<i>0.56</i>	<i>0.65</i>	<i>1.08</i>	8
<i>Diluted (€)</i>	<i>0.50</i>	<i>0.43</i>	<i>0.67</i>	<i>0.56</i>	<i>0.65</i>	<i>1.08</i>	8

**Cash Flow Statement**

th. EUR

	3 months		9 months		12 months	
	1.10.2008- 31.12.2008	1.10.2007- 31.12.2007	1.4.2008- 31.12.2008	1.4.2007- 31.12.2007	1.1.2008- 31.12.2008	1.1.2007- 31.12.2007
<b>Cash flows from operating activities</b>						
Adjusted net profit	61,960	57,330	135,920	135,308	166,008	200,055
Changes in working capital	-23,828	-8,049	-20,554	-3,486	-9,284	5,134
Paid interest and loan fees	-14,510	-14,655	-15,755	-15,892	-15,965	-16,047
Received interest	3,235	1,724	9,168	7,136	10,969	8,584
Paid income tax	-10,750	-	-10,750	-17,921	-10,750	-17,921
<b>Net cash from operating activities</b>	<b>16,105</b>	<b>36,350</b>	<b>98,029</b>	<b>105,146</b>	<b>140,977</b>	<b>179,805</b>
<b>Cash flows from investing activities</b>						
Purchase of tangible fixed assets	-57,862	-43,586	-169,530	-115,062	-223,497	-147,310
Targetet financing of tangible assets	-	-	-	-	-	-
Purchase of subsidiary	-	-1,835	-	-1,835	-	-1,835
Proceeds from connection fees	4,544	6,632	17,997	18,494	25,774	24,442
Net change in deposits with maturities greater than 3 months	44,000	22,597	113,090	70,477	139,679	-154,129
Proceeds from sale of tangible fixed assets	142	864	2,347	1,172	2,707	1,528
	-	-	-	-	-	-
Dividens received from long-term financial investments	-	-	-	-	1,229	1,038
Outgo from sale of subsidiary	-	32	-	29	-	29
Received loans from coworkers	-	-	-	-	-	0
Paid for long-term financial investments	-5,149	-11,361	-13,068	-20,990	-21,294	-27,210
Received from sale of financial investments	8,308	6,263	18,917	15,358	29,392	22,427
<b>Net cash used in investing activities</b>	<b>-6,018</b>	<b>-20,393</b>	<b>-30,247</b>	<b>-32,357</b>	<b>-46,011</b>	<b>-281,019</b>
<b>Cash flows from financing activities</b>						
Changes in cash credit	-77	-	731	-	915	-
Paid dividends	-41,670	-	-41,670	-63,912	-41,670	-63,912
Repayment of long- term bank loans	-3,162	-3,162	-7,006	-6,325	-7,006	-6,325
Repayment of other loans	-	-345	-	-345	-	-345
Finance lease principal payments	-26	-13	-52	-38	-65	-51
<b>Net cash from financing activities</b>	<b>-44,935</b>	<b>-3,520</b>	<b>-47,997</b>	<b>-70,620</b>	<b>-47,826</b>	<b>-70,632</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-34,847</b>	<b>12,436</b>	<b>19,785</b>	<b>2,170</b>	<b>47,140</b>	<b>-171,847</b>
Cash and cash equivalents at the beginning of the period	117,494	23,070	62,861	33,337	35,506	207,353
Cash and cash equivalents at the end of the period	82,646	35,506	82,646	35,506	82,646	35,506
<b>Change in cash and cash equivalents</b>	<b>-34,847</b>	<b>12,436</b>	<b>19,785</b>	<b>2,170</b>	<b>47,140</b>	<b>-171,847</b>

Consolidated statement of changes in shareholders' equity  
th. EUR

	Capital and reserves attributable to the equity holders of the Parent Company									Total
	Share capital (including unregistered)	Unregistered share capital	Share Premium	Statutory reserve	Hedging reserve	Other reserves	Retained earnings	Total	Minority interest	
<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	-	-	-	-	-34,555	-	-	-34,555	-	-34,555
Value reappraisal of currency exchanges of subsidiaries	-	-	-	-	-	-3	-	-3	-	-3
<i>Net income directly recognized in equity</i>	-	-	-	-	-34,555	-3	-	-34,558	-	-34,558
Net profit for the period	-	-	-	-	-	-	40,568	40,568	-304	40,264
<i>Total income and expenses recognised</i>	-	-	-	-	-34,555	-3	40,568	6,010	-304	5,706
Increase of the share capital (according to Government order No. 368 from 2nd August 2007)	-	3,010	-	-	-	-	-	3,010	-	3,010
Dividends	-	-	-	-	-	-	-63,912	-63,912	-	-63,912
<b>Equity as at December 31, 2007</b>	<b>464,900</b>	<b>3,010</b>	<b>259,833</b>	<b>46,490</b>	<b>-26,467</b>	<b>-4</b>	<b>310,235</b>	<b>1,057,995</b>	<b>2,995</b>	<b>1,060,991</b>
<b>Equity as at March 31, 2008</b>	<b>467,909</b>	<b>3,907</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	-	-	-	-	54,810	-	-	54,810	-	54,810
Value reappraisal of currency exchanges of subsidiaries	-	-	-	-	-	-12	-	-12	-	-12
<i>Net income directly recognized in equity</i>	-	-	-	-	54,810	-12	-	54,798	-	54,798
Net profit for the period	-	-	-	-	-	-	49,534	49,534	-625	48,909
<i>Total income and expenses recognised</i>	-	-	-	-	54,810	-12	49,534	104,332	-625	103,707
Increase of the share capital (according to Government order No. 97 from 27th February 2008)	3,907	-3,907	-	-	-	-	-	-	-	-
Transfer of retained earnings to reserve capital	-	-	-	692	-	-	-692	-	-	-
Dividends	-	-	-	-	-	-	-41,670	-41,670	-	-41,670
<b>Equity as at December 31, 2008</b>	<b>471,817</b>	-	<b>259,833</b>	<b>47,182</b>	<b>19,856</b>	<b>-2</b>	<b>316,070</b>	<b>1,114,756</b>	<b>2,728</b>	<b>1,117,483</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 1<sup>st</sup> 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 an effect on group financial reporting. Nor does it affect international financial reporting standard IAS 39 amendment, retrospective from 1<sup>st</sup> of July 2008, permitting at rare cases reclassifying financial assets reflected in fair value to financial assets reflected in adjusted cost. As at 2008 December 31 no such reclassifications have been done by the Group.

According to the Management Board Interim Report prepared for the period 1.4.2008-31.12.2008 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 internal management structure is used.

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 Õlithas, AS Energoremont, Oil Shale Energy of Jordan; Eesti Energia central services – Peakontor and management of the group.

9 months 1.4.2008-31.12.2008

th. EUR

	Minerals, Oil, Biofuels	Transmission of Electricity	Electricity and Heat Generation	Retail Business	Esti Energia central services	Intra-group eliminations	Total group
Revenue	152,334	55,486	302,868	293,868	69,784	-389,648	484,691
EBIT	8,166	13,279	19,816	23,954	58,284	-60,995	62,503

9 months 1.4.2007-31.12.2007

th. EUR

	Minerals, Oil, Biofuels	Transmission of Electricity	Electricity and Heat Generation	Retail Business	Esti Energia central services	Intra-group eliminations	Total group
Revenue	154,810	54,176	252,843	269,544	87,429	-398,904	419,898
EBIT	17,391	17,156	12,469	20,168	51,643	-55,922	62,905

### 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

	Land	Buildings	Const- ructions	Plant and equipment	Other	Total
<b>Property, plant and equipment as at March 31, 2008</b>						
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 pquipment 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 - December 31, 2008</b>						
Purchases of property, plant and equipment	53	2,107	68,391	94,271	404	165,227
Depreciation charge	-	-3,411	-23,166	-51,768	-319	-78,663
Net book amount of non-current assets disposed	-108	-35	-	-236	-	-379
Reclassified in net book amount	-	-	-25	25	-	-
<b>Movements April 1, 2008 - December 31, 2008</b>	<b>-55</b>	<b>-1,340</b>	<b>45,201</b>	<b>42,292</b>	<b>85</b>	<b>86,184</b>
<b>Property, plant and equipment as at December 31, 2008</b>						
Cost	11,611	162,158	960,621	1,234,131	4,859	2,373,380
Accumulated depreciation	-	-81,949	-400,267	-568,720	-3,925	-1,054,860
Net book amount	11,611	80,209	560,354	665,411	935	1,318,521
Construction in progress	-	1,265	47,344	55,780	-	104,389
Prepayments	279	2	1,360	12,778	-	14,419
<b>Total property, plant and equipment as at December 31, 2008</b>	<b>11,891</b>	<b>81,476</b>	<b>609,058</b>	<b>733,969</b>	<b>935</b>	<b>1,437,328</b>

## 5 Derivative instruments

### Derivative instruments

thousands of euros	31.12.2008		31.12.2007	
	Assets	Liabilities	Assets	Liabilities
Forward contracts of electricity sale	7,704	-	228	1,954
Forward contracts of emission allowances	-	-	559	-
Forward and swap contracts of fuel oil sale and purchase	13,212	-	-	24,929
<b>Total derivatives</b>	<b>20,916</b>	<b>-</b>	<b>787</b>	<b>26,884</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.

### Changes in electricity sale forward contracts

thousands of euros

14.2008- 14.2007-  
31.12.2008 31.12.2007

<b>Fair value at the beginning of the period</b>	<b>567</b>	<b>8,087</b>
Change in fair value, including	7,276	-1,743
change of fair value in the income statement	25	41
change of fair value in the hedging reserve	7,251	-1,785
Settled in cash	-139	-8,071
<b>Fair value at the end of the period</b>	<b>7,704</b>	<b>-1,727</b>

### Forward, future and swap contracts for buying CO<sub>2</sub> allowances

Forward and future contracts for buying of CO<sub>2</sub> allowances are concluded in order to hedge the risk of a change in the price of CO<sub>2</sub> allowances that are needed to cover the production of electrical energy for export. The trading volume for forward and future contracts for buying CO<sub>2</sub> allowances is calculated on the basis of the trading volume of forward contracts for sales of electrical energy. The aim of swap contracts is to earn revenue from CO<sub>2</sub> allowances that will be used in the future. Trade prices are marked in Euros.

Changes in CO <sub>2</sub> allowances sale forward, future and swap contracts thousands of euros	1.4.2008- 31.12.2008	1.4.2007- 31.12.2007
<b>Fair value at the beginning of the period</b>	-	-
Change in fair value, including	60	638
change of fair value in the income statement	60	-
change of fair value in the hedging reserve	-	638
Settled in cash	-60	-79
<b>Fair value at the end of the period</b>	-	559

#### Future and swap contracts for sales of fuel oil

Future and swap 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 forecasted 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 forward and swap contracts thousands of euros	1.4.2008- 31.12.2008	1.4.2007- 31.12.2007
<b>Fair value at the beginning of the period</b>	-36,058	111
Change in fair value	41,752	-25,683
change of fair value in the income statement	-	-535
change of fair value in the hedging reserve	41,752	-25,147
Settled in cash	7,518	642
<b>Fair value at the end of the period</b>	13,212	-24,929

#### 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 thousands of euros	1.4.2008- 31.12.2008	1.4.2007- 31.12.2007
<b>Fair value at the beginning of the period</b>	89	-
Settled in cash	-89	-
<b>Fair value at the end of the period</b>	-	-

## 6 Short-term financial investments

### Short-term financial investments

thousands of euros

	31.12.2008	31.12.2007
Financial assets which changes in fair value are reflected in income statement	990	1,019
Investments that are kept up to redemption	-	7,837
<b>Total short term financial investments</b>	<b>990</b>	<b>8,856</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		9 months		12 months	
	1.10.2008-	1.10.2007-	1.4.2008-	1.4.2007-	1.1.2008-	1.1.2007-
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Profit attributable to the equity holders of the company (€ th.)	36,871	31,753	49,534	40,568	48,197	78,407
Weighted average number of shares (th.)	4,718	4,679	4,718	4,666	4,712	4,662
Basic earnings per share (€)	0.50	0.43	0.67	0.56	0.65	1.07
Diluted earnings per share (€)	0.50	0.43	0.67	0.56	0.65	1.07

## 9 Nominal and amortized value of borrowings

### Nominal and amortized value of borrowings

th. EUR

	31.12.2008		31.12.2007	
	Nominal value	Amortised cost	Nominal value	Amortised cost
<b>Short- term borrowings</b>				
Cash credit	915	915	-	-
Current portion of long-term bank loans	7,687	7,687	7,006	7,006
Finance lease liabilities	-	-	53	53
<b>Total short-term borrowings</b>	<b>8,601</b>	<b>8,601</b>	<b>7,059</b>	<b>7,059</b>
<b>Long- term borrowings</b>				
Bank loans	33,931	33,830	41,618	41,485
Bonds issued	300,000	288,316	300,000	287,604
Finance lease liabilities	-	-	11	11
<b>Total long- term borrowings</b>	<b>333,931</b>	<b>322,146</b>	<b>341,629</b>	<b>329,101</b>
<b>Total borrowings</b>	<b>342,532</b>	<b>330,747</b>	<b>348,688</b>	<b>336,160</b>