Hello, welcome to Eesti Energia’s second quarter earnings call. My name is Margus Kaasik, CFO of Eesti Energia. So, without any further delays let’s jump right to the slides. Hopefully you have managed to download them from our website and here they are. On slide three, just an overview about our last quarter’s performance. The revenues were healthy. They were growing about 21 percent, so we did see a significant increase in revenues during the second quarter. The first quarter, if you recall, we did show quite limited revenue growth. EBIT was down about 1.3 percent and it was compared to last quarter when we did experience a larger decline. The decline here was quite a small one. Operating cash flow did decreased significantly. We will come to that question later on explaining where the money went and secondly investments did grow significantly. So we did see significantly cash outflow during the second quarter. Our operating cash flows decreased and the investments increased significantly.

Now on the next slide, page four, just to indicate our revenue and profit breakdown by regulated and unregulated markets. What we do see is that our revenues in the unregulated side are steadily growing. We didn’t have any market opening effect here anymore, but rather it was more due to the fact that we sold more oil and electricity in the open market. Even more significant change we did see in the profitability where just about 40 percent of the EBIT came from regulated markets and the rest close to 90 percent came from unregulated market.

Now on the next slide a quick update on our electricity market. As you know Nord Pool power exchange is also operating in Estonia and what we saw during the winter was that the spread between Estonian and Finnish price areas went quite wide and during January, for instance, you did see about 40 to 20 percent spread between Estonia and Finland but that spread now towards summer has decreased and if you look at June figures you see the prices are converged again. If we look just about the last quarter, the second quarter then, Estonian and Finnish prices were equal about 40 percent of the market opening effect here anymore, but rather it was more due to the fact that we sold more oil and electricity in the open market price. Therefore we do expect to see a healthy revenue growth when the market opens fully.

Now, on the next slide, slide 6, the revenue growth breakdown. Here there are three topics to handle. First, from our normal business we did see a quite healthy growth in electricity sales at non-regulated prices. But in open market prices there we did see both price and volume increases. Also it’s very important to note that we did see significant increase on the oil side, where also we did experience significant growth both in the volumes and the prices but the most significant impact and, unfortunately non-recurring impact, was about EUR 16 million that came from our sale of stake in the Jordanian project or Jordanian subsidiary. I’ll come to that later on in more detail. The revenue breakdown here you see there’s still most of our revenues come from electricity. There are three main components; regulated sales at non-regulated prices, sales at unregulated prices and the network services. The oil sales are increasing, but they currently are still making a smaller portion of our revenues.

On the next slide that we have more detailed slides of our different sales items. In regulated market, well not too many news as the regulated market in essence remains the same. The prices in regulated markets were the same, the market was open as much as it was a year ago so now big changes. Just we see some increase in the sales side, which does mean that the growth in the economy is somewhat benefiting both domestic customers and also business customers. The average price did decline slightly, it’s about 1 percent. In the open market side, there are much more to tell. We do sell in retail market in both Estonia, Latvia and Lithuania and also in two exchanges and the wholesale market. The biggest sale, or the biggest part of the sale, is still going to power exchanges, that’s about 800 GWh and that was up significantly up 141 GWh. Retail sales was close to about half of the terawatt hours. Our market share in Estonia was 75 percent, 14 Latvia and 7 in Lithuania. The average price in the open market was 47 so that is significantly more than this 29/30 that we get from the regulated market.

We did see significant decrease in renewable generation and therefore also in renewal subsidies and that is mainly due to the fact that support for biomass electricity changed somewhat, so we do generate less electricity from biomass. Therefore receive a bit less subsidies as well. Most of our electricity position was hedged or was closed, so if we see that we have sold about 1.3 TWh of electricity then from that about 1 TWh was already closed beforehand.

On the next slide we talk about network services and here also regarding last quarter not much news about volumes or prices. Sales of the network services is rather stable but what is good news for us definitely is that from 1st August we get new tariffs for network fees and these tariffs should enable us that normal regulated return that we do require correctly, the prices so far are not giving us that return that we do need. The network losses are well under control. During last quarter they were actually 4.3 percent.

Next slide, slide 10 is about oil sales and oil sales were strong as I told you before we saw volume increase about 18 percent and that was mainly due to higher production volumes as our sales are basically production constrained or capacity constrained. Revenues were up even 55 percent which is due to the average sales price increase of 32 percent. Some of our position is hedged, so about 15,000 tons of oil was hedged at EUR 333 per ton. So our sales price, what we got was on average a little less than the sales contract but that’s still very healthy and our sales are linked to fuel oil prices in the North Western Europe area.

Now on the next slide, about other revenues. The most significant increase what we see here is about EUR 16 million from sales of 11 percent stake in Jordanian development project. What we did in Jordan is that before we
had a local partner there, Eesti Energia was holding about 76 percent of the project and the rest was held by local investors. Now we engaged also a third investor, a Malaysian company YTL and Eesti Energia sold to YTL 11 percent of that company, the local investor sold more and from that sale we now are boasting about EUR 16 million of additional revenues and profit. Part of this profit came from the sale of this 11 percent stake, the rest comes from revaluation of this 65 percent of the stake that we are still holding. The other sales, sales of technological equipment and oil shale, also increased but this in fact is in smaller magnitude.

On the next slide we are trying to explain more the changes in our cost side. The largest part of changes in the variable, in our operating costs come from variable costs, about EUR 21 million from that 14 million is due to higher input prices and 7 is due to the volume, production volume increases. If we look at what are the most notable changes in the prices of our inputs then here are listed some of them, higher transmission fees is one of them. From 1st January the transmission company in Estonia increased the prices significantly and that’s the important input into our distribution network. Higher taxes, especially environmental taxes in mining and generation did add about close to EUR 2 million, higher explosive prices and fuel costs also did add to some extent to our cost base. In the fixed cost side, mainly we see an increase in the repair costs and that is basically due to general overalls that we are doing to those power generation unit that are currently offline due to installation of FDDs. So during this off-time we are also doing general overhaul to them so that they could run for the next few years without significant and long lasting interruptions. And this non-recurring expense is environmental provisions. We did some additional environmental provisions in our generation side.

Now coming to EBIT, as we already noted, the EBIT decreased a bit, about 1 percent. The decrease did come from retail and generation side where in retail the EBIT changed or decreased about EUR 6 million; electricity and generation side the decrease was more pronounced, it was EUR 18 million and that was more or less compensated in the significant increase in EBIT in the fuels division. There of course we must note that from the EUR 21 million, a large part of it comes from this non-recurring sale of stake in the Jordanian company. All in all that does mean that during the second quarter most of our EBIT came from the fuels side; retail did add only EUR 7 million and generation as little as 2.

Now, about profits in our business segments. Slide 14 is about retail division. In retail side, excluding then the distribution, we did see about 1 million decrease in EBIT from lower sales margin as the input prices or purchase procurement prices of electricity went up but that wasn’t reflected fully in the market prices. So that did decrease their EBIT about EUR 1 million and secondly the implementation of new IT systems in the retail side did also cost us additional EUR 1 million. In the distribution, the returns currently are lowish to say moderately. That is due to improved significantly in 1st of August but so far the profitability on the distribution side is low. A big part of it comes from increase in transmission fees that is not so far reflected in the distribution price. From 1st of January, sorry 1st of August, they will be reflected in the distribution price and also for the period from 1st of January to 1st of August but currently we did have a negative impact from that. Secondly, we did change the amortisation of connection fees. We did increase period during which we amortised those fees. It was currently about twenty years and now it is about thirty years, so that did decrease the revenue side in that distribution network about EUR 1.6 million and then we had also impact on the depreciation side and in the maintenance costs.

Now in the generation, we did experience significant drop of profitability. The biggest impact here, of course, was those environmental provisions that we did about EUR 9 million and these are also more of non-recurring nature and non-cash item as well. Secondly, already mentioned, the maintenance costs are higher in generation this year due to those general overhauls that we are doing and also that impact should significantly decrease during the following years and then we also did experience decrease in renewable production and that also, I may say is due to reverse somewhat as we are adding the renewable production in the next quarters. Also we did experience some decrease in the sales margin, some inputs did appreciate over time.

In the fuels side, the picture is much, much better. In general we saw increase from 7 to EUR 27 million although the biggest part of it, 16 million came from the sale of Jordanian development project and that is sort of a non-recurring nature. But about EUR 6 million we did grow our EBIT from increased sales and increased sales prices and that did actually also have more of a lasting nature to our EBIT. The other changes are much less.

On the mining side, page 18, we saw slight decrease in the EBIT where basically increased sales volumes did benefit us, we benefited from increased sales volumes but also higher input purchase prices and higher tax rates and also higher labour costs did eventually drive down EBIT about EUR 1 million.

Now, if we look at the changes or impacts to our EBIT on a Group level then most of the themes are the same that were already presented in the last two slides that I presented. We did have positive impacts on our EBIT from sales of Jordanian project and profitable oil sales, that’s altogether about EUR 22 million but the other effects were more negative, the environmental provision is about EUR 9 million, repair expenses in the Group level about EUR 5 million also fixed expenses altogether changed EUR 3 million, renewable energy as well 3 and lower profitability of electricity sales altogether 2. So these were the items that changed our profitability in the last quarter.

On the next slide we explain our cash flow, as you saw on the first slide, we had significant drop in operating cash flow and here is explained from EBITDA how we, EBITDA of EUR 61 million translates into EUR 26 million of operating cash flow. Here are some mistakes that mainly are the reason here. First of all, of course, the sum non-
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monetary components in EBITDA that affected, the biggest one is again the Jordanian project EUR 16 million then there are environmental provisions and amortisation and CO2 provisions that altogether had an impact of EUR 5 million in the positive side. Trade receivables decreased EUR 23 million and that made a significant change due mainly to the fact that the average invoice is lower during the summer time than it was during the spring time and therefore the trade receivable did decrease. We did see increase in the inventories and trade payables side, sorry decreases in the inventories and payable that tied our cash somewhat. CO2 purchases here we have both the actual purchase of CO2 that we did during spring time to hand over CO2 allowances or surrendered them to our local registry and the second effect is mark to market cash that we had to pay as we did see and everybody else in the market that CO2 price decreased significantly over June and we also had to boast cash to cover our positions in CO2. Other current assets and liabilities also tied some of our cash here the biggest impact is from VAT. The VAT prepayment that we have and will receive back but didn’t had it back during the June, that’s close to EUR 9 million, and then there are some personnel costs and taxes that were decreased during the last quarter. And also we paid out the dividends and therefore we had dividend income tax to pay and that’s about EUR 15 million. Last year we actually didn’t have dividend payment in the second quarter, we had it during the third quarter. Therefore the dividend payment and tax on dividends had also a significant impact on our cash flows.

On next slide is about our CAPEX programme. During the second quarter we did invest EUR 132 million. About half of it is invested in the generation side, the biggest projects there are our new power plant in Narva that took close EUR 30 million and then there are some smaller projects like new waste-to-energy plant, Narva wind park, desulphurization equipment in Narva that all added together this EUR 64 million. In the fuels division, the most significant and most important project is this new Enefit-280 shale oil plant which took EUR 37 million and then the retail side this EUR 18 million mainly comprises of distribution network that did receive EUR 17 million.

Update on CAPEX programme on page 22. During the last regulation period we have invested so far about EUR 218 million in distribution network. The last month of this regulatory period will be July or the current month during which we invest additional EUR 6 million. New Enefit-280 oil plant, where we have invested already EUR 96 million and there is 111 still to go. This mechanical completion of this oil plant is due in February/March next year and all this commissioning and testing should be over by summer time 2012, so already next year we do expect to receive some additional oil and also some additional revenues from this oil plant.

The next important here is desulphurization equipment in Narva. Most of the project is already done. We have invested 77 million and 27 to go. We are establishing those FTEs to four power units. Two is already basically done and installed; two still to go and we expect to finish this project by the end of this year as next year we will see some constraint in the sulphur emissions. Therefore, those FTEs are essential to retain reasonable among generation in Narva power plant. Also we have two wind parks in Narva and Paldiski and Iru waste-to-energy plant. The distributions programme for the next regulatory period starting from the 1st of August will take about EUR 300 million during the next three years. The power plant in Narva, the CFB power plant, the big one, and I’m told that we are invested close to EUR 30 million and altogether this project is EUR 640 million and that is then for 300 MW units that is currently decided. And then there are pre-development projects of oil industry in Jordan and in US where this pre-development phase will take up to 2016 and the amount that we are planning to spend in the US, in addition, EUR 48 million and in Jordan EUR 23 million.

On the next slide about the liquidity, slide 23. What we see here is our cash flows were not that large and we had significant investments then also the cash position decreased significantly over that quarter. Currently we have liquid assets remaining EUR 162 million. The position is improved significantly during this month, in July, when we actually took out EIB credit line of EUR 136 million but to finance ourselves and to give a decent liquidity buffers, we currently are consulting with regional and international banks for liquidity lines. These will be 3-years lines and up, this possible amount is about EUR 300 million. Consultation is so far going well and that would then ensure us enough liquidity buffer and possible bridges for other long-term credit transactions and also we are having negotiations with EIB for additional loan agreement and talking to our shareholder about additional equity in Eesti Energia.

On the next slide, we are about to summarise and to summarise the last quarter results then definitely the good news is that our revenues are growing, business is going well, the profit is still remaining what it was at the last year’s level and of course we have to remind that some of it is sort of a non-recurring nature and this is also why from that we definitely see that the regulated price changes that we are seeing now from the 1st of August and we also applying for regulated price change for electricity side. These are well justified. Now profitability was impacted mainly by the Jordanian development project sale of 11 percent stake in the project and by environmental provisions and also by these repair expenses in generation side. We do carry on implementing our national plan. Investment have risen significantly and they continue to be on a relatively higher level for the foreseeable future and therefore we are engaging ourselves significantly into talks of raising additional capital and so far it progresses very well.

So, thank you for your attention and definitely we are glad to answer any questions you may have on Eesti Energia and our last quarter results. Thank you.

Operator: We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one their touch tone telephone. If you wish to remove yourself from the question queue, you may press star and one.
Participants are requested to use only handsets while asking a question. Anyone who has a question may press star and one at this time. We are waiting a moment for questions. Please press star and one for your question. Excuse me sir, there are no questions at this time.

Margus Kaasik: Very well, I then thank you once again all of you who participate in that earnings call and see you or hear you also in three months time when we are presenting out third quarter results and so long. Thank you.

Operator: Ladies and gentlemen, the conference is now concluded and you may disconnect the telephone. Thank you for joining and have a pleasant, pleasant day. Good-bye.