Eesti Energia

Interim Report

1. April 2006 – 30. September 2006

Significant Events During the half year

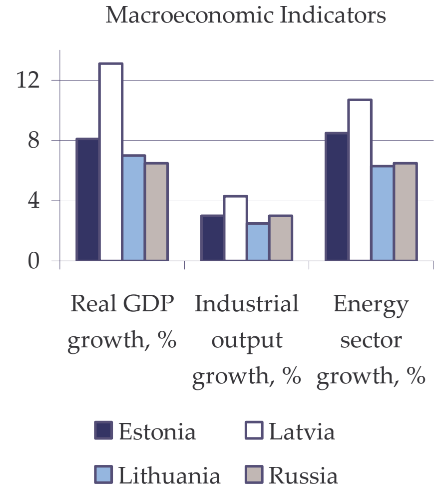


Figure 1

First six months were characterized by strong fundamentals

Through solid performance we have moved towards our long – term goals and increased the value of the company. Financial performance was due to growth of domestic electricity sales, high shale oil revenues and extraordinary sales of emission allowances. In result, net profit was up from € 12.8m to € 81.3m.

Estlink cable installation work completed

In April 2006 work started at the Harku substation to install the first 18 kilometres of the Estlink underground cables. The submersion of the cable under the sea began on September 11 and was completed on September 21. This means that the two parallel sea cables have been fully installed along a 74-kilometre route at the bottom of the sea. Installation work for the underground cables on both the Estonian and Finnish sides has also been completed. Testing commenced in October and the first electricity transmission tests will take place in November. The cable should come into commercial operation in December 2006.

The objective of Estlink is to create the first connection between the Baltic and Nordic electricity markets and to take a first substantial step towards creating the Baltic power market, in order to increase the security of supply in the Baltic countries and decrease the dependence of their power systems on that of Russia. It is planned that the Estlink cable will be able to transmit up to 3 TWh of electrical energy a year.

Eesti Energia acquires Finnish Solidus

Eesti Energia purchased the Finnish company Solidus OY. Solidus is a member of the NordPool power market, and its main business is administration of clients' electricity portfolios and expert advisory service and consulting on operations in the electricity market and risk management. With the acquisition of Solidus, Eesti Energia becomes an authorised clearing representative in the Finnish market, adds expertise through a professional team, and opens the door to operations in the Finnish market. In September, with the help of Solidus, Eesti Energia concluded its first sales deals in the NordPool power market for 2007.

Eesti Energia: the Flagship of Financial Reporting

This year, for the seventh time, the best annual reports of companies and organisations in Estonia were voted for in the “Finantsaruandluse Lipulaev” (“Flagship of Financial Reporting”) competition, organised by the Estonian Accounting Standards Board. This year Eesti Energia won the award for best annual report.

New Ignalina nuclear power station feasibility study reinforces the feasibility of the project

On March 8 Eesti Energia, Lietuvos Energija and Latvenergo concluded a statement of intentions concerning the decision to carry out a feasibility study for the new nuclear power station, in order to set out precisely the conditions for the building of the new station. Several committees and working groups were set up for the study, and advisers were appointed to support the development of the project. The Swiss company Colenco Power Engineering Ltd is to be the technology and environment group advisor, the London investment bank Dresdner Kleinwort advised the finance working group, and Freshfields, Bruckhause, Deringer is to advise the legal working group. Dresdner Kleinwort was also selected as coordinator of the entire feasibility study.

On the 25th of October 2006, the Project's Steering committee approved the Final Report, which stated that the nuclear project is feasible.

Eesti Energia leads the World Energy Council Executive Assembly meeting

The World Energy Council, or WEC, executive assembly, the most important energy-related event in the world in 2006, took place in Tallinn on September 3–7. 450 top specialists and company leaders from the field of energy from 95 countries participated. The organiser of the executive assembly in Tallinn was the Estonian National Committee of WEC, led by chairman Sandor Liive, who is also the CEO of Eesti Energia.

Economic environment in Estonia is favorable

Over the past few quarters Estonian economic growth has been impressive, and according to the the Estonian Central Bank's outlook, this strong growth will continue in the next few years. The predictions are that Estonian economic growth in 2006 will reach 8.1%.

Both domestic and foreign demand are predicted to grow as previously forecast, and exports and imports will grow equally by an average of 15% in 2006. According to the predictions of the European Commission, consumption will continue its rapid growth, predominantly due to investments in the construction sector. Private consumption will remain stable according to the predictions, and is underwritten by both an increase in employment and the growth of real wages.

Compared to the other countries in the region, Estonia is in second position in terms of GDP, total production of industry, and the rate of growth in the energy sector.

Eesti Energia subsidiary E. Energy receives permission to sell electricity in Latvia

The Public Utilities Commission of Latvia gave E.Energy, Eesti Energia's subsidiary in Latvia, a permit to sell electrical energy on the local market. E.Energy must commence the sale of electrical energy from July 1, 2007, and the licence is valid until December 31, 2011. Eesti Energia founded the subsidiary at the start of May 2006; the company's fixed capital is 2 000 Lats and it is 100% owned by Eesti Energia.

The Jordan oil shale project commences

Together with its partners, Eesti Energia is going to carry out studies in Jordan, assessing the feasibility of building of shale oil factory in the country. In the joint venture company being set up for this, Eesti Energia will have the majority shareholding. The parties are looking to conclude a memorandum of understanding, granting the company the exclusive right to study the possibilities for resource usage on a designated plot of land, with the objective of producing oil. The company is obliged to conduct a feasibility study and present its results to the government. If the results of the study are successful, negotiations with the company will commence in order to conclude a concession contract, under which the resources allocated to the company will be given over for long-term usage. This may be followed by the development of technology and a possible investment. The studies will take approximately one and a half years.

Construction work on the new ash removal pilot system commences at Eesti Elektrijaam (Eesti Power Plant)

As previously agreed, the work on the renewal of the ash transport and storage systems at two of the energy blocks at Eesti Elektrijaam will be carried out by the Russian company Engineering Centre of Urals Energetic. The finished pilot system will service two energy blocks of Eesti Elektrijaam and will have a capacity of up to 240 tonnes of ash per hour. The dense oil shale ash slurry technology which will be used decreases considerably the amount of water necessary for the transport of ash, which means the environmental impact is lower. The pilot system should be completed by the end of this year. After completion it will be used to its full capacity, and its operating reliability will be tested during the winter period. The final results of the system's technical characteristics will be known after the end of the testing in spring 2007. If the test results prove successful, all other energy blocks of the Narva Elektrijaamad (Narva Power Plants) will be equipped with the same technology.

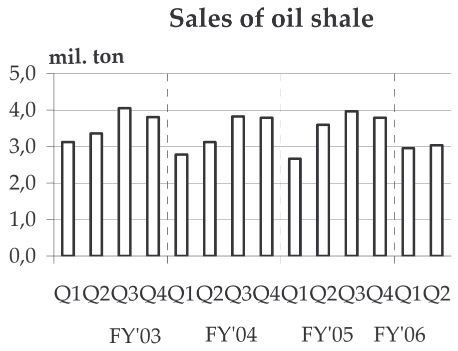
Financial Highlights

	1.4.2006-30.9.2006	1.4.2005-30.9.2005	Change	
Revenues, € th.	273 695	190 730	82 965	43,5%
incl. domestic sales of electricity, € th.	146 566	133 929	12 638	9,4%
EBITDA, € th.	147 438	72 011	75 428	104,7%
EBIT, € th.	97 621	23 974	73 647	307,2%
Net Profit, € th.	81 303	12 807	68 496	534,8%
Net Fixed Assets, € th.[1]	1 269 195	1 234 565	34 631	2,8%
Equity, € th.[1]	1 021 337	847 525	173 812	20,5%
Net Debt, € th.[1]	150 032	308 778	-158 746	-51,4%
CAPEX, € th.	67 847	83 005	-15 158	-18,3%
FFO, € th.	133 678	53 343	80 335	150,6%
Debt/(Debt+Equity)[1]	25,2%	28,2%	-3,0%	
ROIC[2]	20,6%	6,4%	14,2%	
EBITDA interest cover[2]	12,3	9,0	3,3	
FFO[2]/Net Debt[1]	210,7%	46,2%	164,5%	
FFO/Interest Expense[2]	11,5	7,7	3,8	
FFO/Capex[2]	224,8%	90,6%	134,2%	
EBITDA margin	55,3%	39,6%	15,7%	
EBIT margin	38,8%	17,3%	21,5%	

1 - balance sheet figures are end of period

2 - rolling 12 months

Economic Performance of the Business Segments



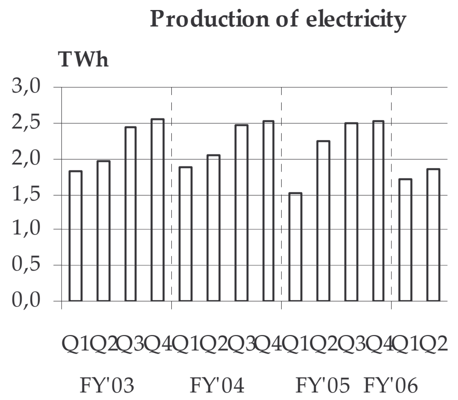
Oil shale segment results affected by decrease in power production

Revenues in the oil shale segment amounted to 54.0 million euros in the first half year, of which sales of oil shale accounted for 50.1 million euros. Sales volume was 5,987 tonnes, and the decreases in revenues and volume were 0.4 % and 4.5% year-on-year respectively.

Operating profit in the oil shale production segment fell by 5.1 million euros (97%) from the previous financial year. However, despite a rise in production volumes and tightness in the labour market, labour costs have been decreasing due to a more efficient production process.

In June 2006 the Oil Shale Company announced the payment of AS Põlevkivi dividends of 12.0 million euros, which impacted the net profit result of the oil shale production segment by 3.2 million euros.

The last 12 months' EVA was negative for the oil shale segment at -1.8 million euros (-7.6 million euros). Six months' FFO amounted to 5.7 million euros, and investments to 7.7 million euros.



Performance of electrical and thermal energy production supported by rising energy consumption

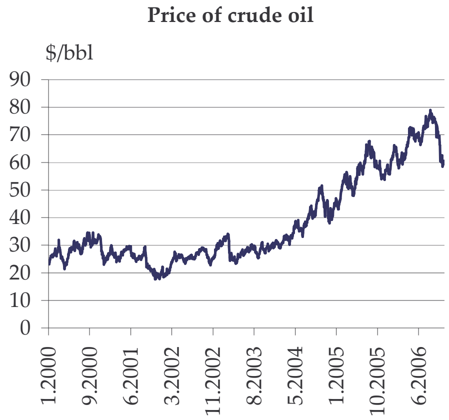
Sales figures for electrical energy were 3,565 GWh and 96.1 million euros by the end of the second quarter, which is 200 GWh (5.3%) less than last year; sales of electrical energy fell by 2.8 million euros or 2.8%. The main fall in production volume was at Narva Power Plants, while there was marginal shrinkage in production at Iru and Kohtla-Järve power plants.

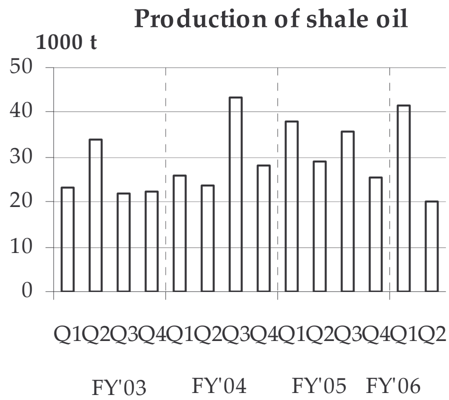
Sales figures for thermal energy were 439 GWh and 8.5 million euros in the first half year, which is 10 GWh (2.1%) less than last year; revenue from thermal energy sales increased by 0.4 million euros, i.e. 4.8%. Sales decreased at Narva Power Plants by 5.8%, at Kohtla-Järve by 4.3% and at Iru Power Plant by 0.2%.

Operating profit of the segment has risen to 65.0 million euros in the first half year, while sales of emission allowances totalled 66.4 million euros. Excluding the sale of allowances, the operating profit of the segment changed from 5.2 million euros a year before to -1.4 million euros.

Six months' FFO amounted to 8.2 million euros (-8.7 million euros) without the impact of sales of allowances. Investments (12.0 million euros) were financed from operating cash flows.

The economic performance of production was above all influenced by an increase in environmental taxes (2.1 million euros) and depreciation (4.4 million euros), which resulted in the fall of EVA, by 13.1 million euros to –12.6 million euros.





An unpolluted environment is ever more highly valued, resulting in stricter requirements. The investment strategy of energy production takes account of the environmental norms of both today and tomorrow. A major recent event was the beginning of the project to install low nitrogen oxides burners at Iru Power Plant. In the first half-year we also invested 2.6 million euros in a new cleaner ash removal system at Eesti Power Plant.

Oil production – growth in fuel prices fosters strong economic performance

In the first half year of the 2006/07 financial year we sold outside of group 46,000 tonnes of shale oil (-6,300 tonnes), revenues from which amounted to 13.7 million euros (+5.5 million euros, 67.6%). Coupled with the rising prices of crude oil, the operating profit of the oil production segment grew from 4.0 million euros to 7.9 million euros.

EVA of the oil production segment has risen to 14.9 million euros, or +3.8 million euros. Three months' FFO was 8.2 million euros.

The high global prices of oil products suggest that shale oil production will be increasingly profitable, and therefore research has been started into the maximum employment of production facilities and the expansion of production.

Eesti Energia also is currently undertaking shale oil feasibility study in Jordan.

Transmission of electrical energy – return on invested capital growing

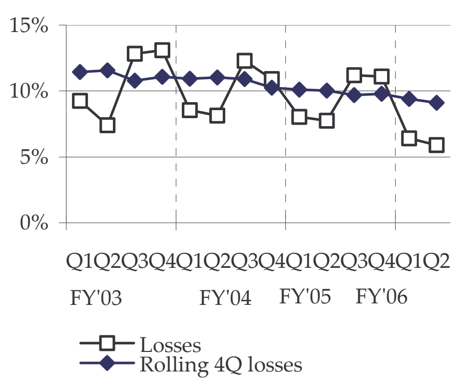
The segment brought in 33.9 million euros (+1.1 million euros) from sales of transmission services. 4,036 GWh of electrical energy were passed through the transmission network, which represents a 5.1% decrease on the previous year.

Robust sales of electrical energy raised operating profit of the energy transmission segment to 9.0 million euros, which is 1.7 million euros more year-on-year. Six months' FFO was 14.8 million euros (+0.6 million euros).

Although investments rose by 15.3 million euros, EVA for the 12 months reached –2.4 million euros, which is 6 million euros up on last year.

In the first half-year of the 2006/07 financial year, 25.4 million euros were invested in transmission segment.

Distribution network losses



Large-scale projects were continued along the strategically important Narva-Tallinn line. Major projects in the first half year of 2006/07 were the construction of the Kiisa-Balti 330 kV power line (8.1 million euros), the renovation of the Papiniidu 110 kV switchyard and the Püssi 110 kV distribution station, and the renovation of the Paldiski 110 kV switchyard and the Veskimetsa 110 kV distribution substation.

Distribution of electrical energy

Losses in the distribution network are one of the most significant indicators of the efficiency of distribution networks, and the long-term trend of losses is clearly downward. In the first half year of 2006/07 losses shrank to 6.1% and 12 month losses fell to 9.1% (-1.0%).

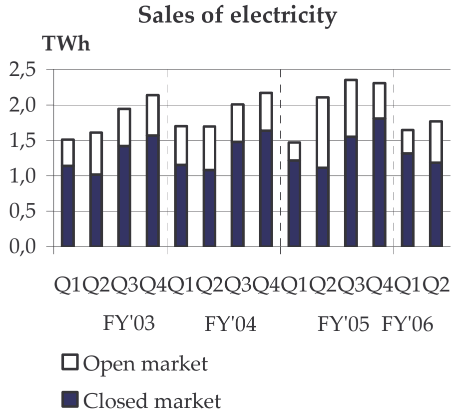
Sales of network services in the distribution network segment grew to 71.9 million euros (+5.7%). The operating margin rose from 7.0% to 8.7%, and ROIC of the distribution segment reached 6.5%, but this was not sufficient to achieve positive EVA for the 12 months (-3.6 million euros).

Six months' FFO has grown from 11.8 million euros to 12.2 million euros.

20.7 million euros were invested in the distribution network in the first half year of 2006/07. The largest investment programme of the distribution network over recent years has been in subscriptions to the network, which brought in 11.4 million euros.

Apart from subscriptions, operating reliability also received significant investments (3.1 million euros), as did renovation of substations (3.9 million euros).

Sales of electricity



Supply and customer service – high economic growth leads to strong domestic electricity demand growth

Sales of electrical energy in the first half year came to 3,413 GWh (-4.5%), and sales revenue was 101.7 million euros, which is 1.4 million euros more than the previous year (+1.3%). Closed market sales were 2,499 GWh (+7,7%), and open market sales to 914 GWh (-27,2%). Energy consumption has been growing faster than economic growth would imply.

Operating profit increased by 5.0 million euros and reached the 2.8 million-euro level. The operating margin of the segment improved from -2.2% to +2.8%. EVA has risen to 6.6 million euros against this background, and exceeded the previous year's result by 9.5 million euros.

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

Support Services

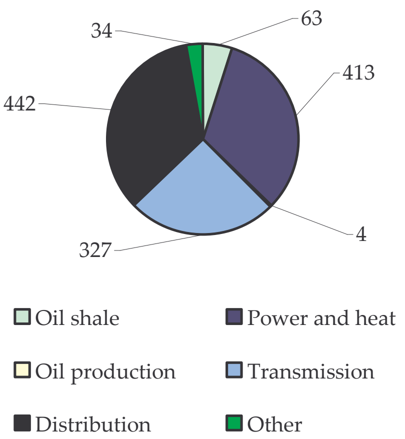
Operating profit grew from 0.6 million euros to 6.1 million euros. EVA totalled -3.8 million euros.

Televõrgu AS commenced provision of services to DANTE (Delivering Advanced Network Technology to Europe) and launched a broadband data communication channel at a speed of up to 2.56 Gbit/s throughout Estonia, Latvia and Lithuania, enabling research and education institutions in these countries to use data volumes that are up to 16 times higher than is possible within the backbone network connecting to Europe.

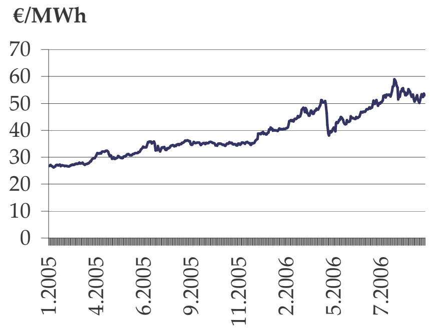
Televõrgu AS and IBM Eesti OÜ started to offer joint services of IT accommodation, maintenance and trunk communication.

Asset Portfolio and Investments

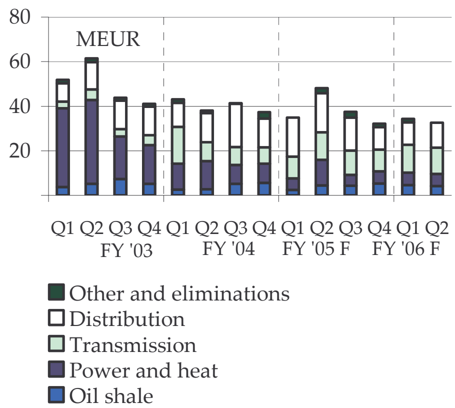
Non-current assets (MEUR)



Wholesale price of electricity in Nordpool



Investments by segments



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

Eesti Energia is a producer of energy whose portfolio of assets covers companies involved in the energy supply chain, from the mining of fuel to the sale of electricity. In the last two years the shale oil production segment has become increasingly important in the company's portfolio of assets. As at 30.9.2006 the value of the assets of the group stood at 1.6 billion euros.

The Estonian electricity market is currently 90% closed, but it will be opened step by step by 2013. Therefore, the risk for assets related to the production of energy and the mining of oil shale is limited. The baseload price of electricity on the Nordic electricity markets stands at 50-60 €/MWh, while the price of electricity on the closed domestic market is 26 €/MWh. Through Estlink, Eesti Energia gains share in high-margin Nordic electricity market.

12 month rolling operating profit from shale oil production has grown alongside the increased oil price to 16 million euros over the last two years. The current level of operating profit is based on an oil price of 223 euros/ton. The price of shale oil is closely integrated with the price of oil on the global market, which has decreased in the last quarter from over 70 $/bbl to 60 $/bbl. Due to the continued instability in the Middle East, most analysts do not forecast a significant fall in the price of crude oil in medium term.

Final major part of the assets portfolio is power networks. Energy networks are a natural monopoly, and revenues from transmission and distribution operations are regulated. Tariffs are set, based on cost plus principle. The assets of the transmission network are valued at 334 million euros; return on invested capital over the last 12 months is 6.1%; the assets of the distribution network are valued at 457 million euros and return on invested capital over the last 12 months is 6.5%.

Investments boost Groups development

The investment strategy of Eesti Energia is based on the criteria of economic efficiency, environmentally aware development, and security of supply. Investments are planned to ensure the fulfilment of strategic objectives. In terms of energy production this means diversification of the production portfolio: the development of co-generation and renewable energy. In cooperation with Lietuvos Energija and Latvenergo we are investigating options for investment in the construction of a nuclear power plant, and the feasibility of constructing peak gas turbines to secure reserves for wind energy. We are carefully considering the construction of another power block using circulating fluidised bed combustion technology at Narva Power Plants.

The transmission network and the distribution network have undergone remarkable development since 1998, when Eesti Energia was established; network energy losses for 12 months had shrunk from 20.5 to 11.4% by the end of the second quarter of 2006/2007. 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.

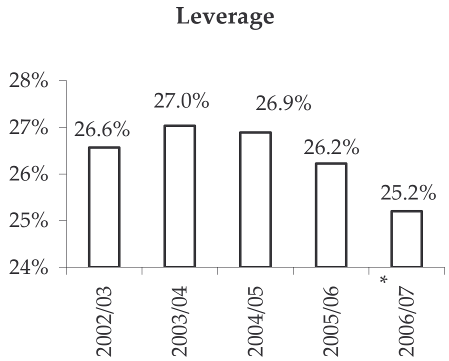
By late 2006, the construction of the 350 MW Estlink undersea cable will be completed. The undersea cable will allow Estonia and the whole Baltic electricity market to connect to the Nordic electricity market Nordpool. In the longer term, the objective of transmission networks in Europe, including the Baltic region, is to increase security of supply through the establishment of interconnections, and the development of the electricity market.

Eesti Energia has unique know-how in the field of large-scale oil shale mining and the production from it of energy and shale oil. In the context of relatively high oil prices, technological advances and political tensions in the Middle East, adding value to oil shale through shale oil production is becoming an increasingly important activity, alongside electricity and heat production. One of Eesti Energia's strategic targets is to increase the volume of oil production from 130,000 tonnes today to 500,000 tonnes by 2010.

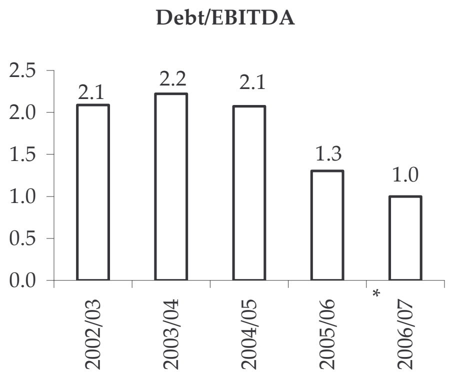
One of the principle techniques of strategic management in Eesti Energia is the balanced scorecard. The balanced scorecard takes financial criteria into account, as well as aspects relating to clients, staff, and the business processes. The investments should, in addition to meeting financial criteria,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

In 2002/03-2005/06 Eesti Energia group invested 731 million euros, i.e. on average 183 million euros a year. In the first half year of the 2006/07 financial year, Eesti Energia invested 69 million euros. In the first half-year of 2006/07 in energy production the most significant investments were the continuation of the project to install low nitrogen oxides burners at Iru Power Plant, and the beginning of a pilot project for the new ash removal system in Eesti Elektrijaam (Eesti Power Plant). Development of the transmission network continued along the strategically important Narva-Tallinn line, and through the construction of the undersea cable Estlink between Estonia and Finland. The most important investment targets in the distribution network were the renovation of low voltage networks, the voltage quality programme, and the construction of supply points.

Profitability, financing and cash flows



* As of 30.9.2006



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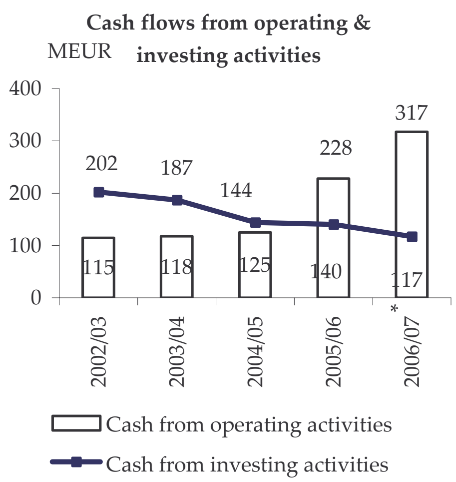


* As of 30.9.2006

Rising profitability at Eesti Energia

Eesti Energia's rolling 12 month revenues were 616.5 million euros (+198.1 million euros, 47%). Operating profit for the same period climbed to 238.0 million euros (+165.8 million euros, 230%) and net profit to 203.9 million euros (+151.8 million euros, 292%). Group's EVA[1] was –3.6 million euros, increasing by 21.6 million euros.

Eesti Energia has a strong balance sheet

Despite large-scale investments, Eesti Energia retained a conservative balance sheet structure during the first half-year of the financial year 2006/07. The proportion of debt on the balance sheet even decreased during last 12 months and the debt/(debt+equity) ratio fell from 28.2% to 25.2%, on the back of an increase in demand, high oil prices and the extraordinary sale of allowances. The loan/EBITDA ratio shrank during the first half-year from 1.3 to 1.0. 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 increased in the first half-year by 40.8 million euros. As at 30.9.2006 net debt amounted to 150.0 million euros (a change over 12 months of (-158.8 million euros, -51%).

As at 30.09.2006, the weighted average interest rate of Eesti Energia's debt was 4.4%. The principle currency for Eesti Energia's debt is the euro. Eesti Energia has been given credit ratings of A1 with positive outlook by Moody's and A- with stable outlook by Standard & Poor's.

Among Eesti Energia's long-term debt, the largest part is a Eurobond of 300 mln euros with a fixed interest rate of 4.5% and maturity in 2020. The debt portfolio also contains 3 loans from the Nordic Investment Bank (NIB) totalling 42 mln euros, and a loan from the European Investment Bank with a loan balance of 20 mln euros.

With positive economic results and strong cash flow the liquidity risk is low

As at 30.06.2006 the Eesti Energia group had financial reserves worth 180.9 million euros. Unused loans facilities totalled to 105.0 million euros. Liquidity risk is minimal for the company in the medium term.

[1] Eesti Energia WACC equals 8.7%.

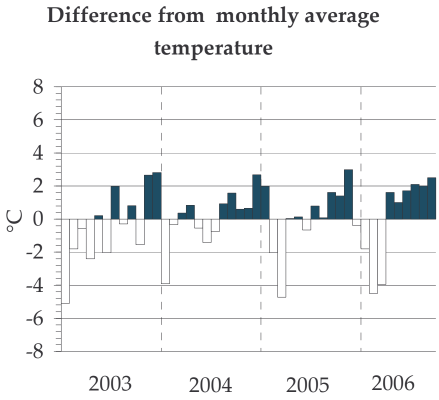
Credit risk is the risk that the clients of the group and its trading partners do not fulfil their obligations. The maximum sum open to credit risk is the book value of outstanding invoices to clients once the depreciation of the claims has been discounted

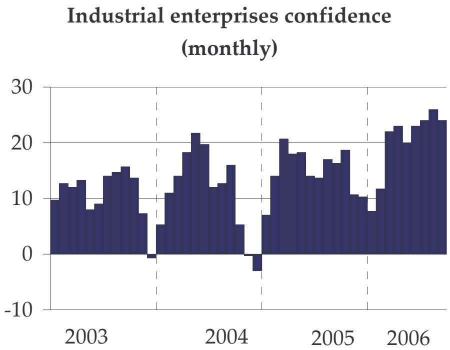
The average settlement date for invoices has increased by 6 days within the past 12 months compared to the end of the 2005/06 economic year, standing at 39 days. As at 30.9.2006 the group had reserves worth 24.3 million euros.

Eesti Energia paid dividends worth 32.0 million euros

Following the excellent economic results of 2005/06, the annual general meeting of the company decided to pay 32.0 million euros as dividends to shareholders.

Short – term Outlook





Cource: Estonian Institute of Economic Research

General economic outlook remains good

Experts of the Estonian Institute of Economic Research declared in June 2006 that the general outlook of the economy remains good. A majority of the experts (87%) forecast that this favourable situation will continue in the next half-year; the others were of the opinion that the economic situation may improve even further. The Estonian Central Bank, Eesti Pank, forecasts real GDP growth of 8.1% for 2006 and 7.6% and 6.9% in 2007 and 2008 respectively. Eesti Pank forecasts real growth of exports and imports this year of 15%. Economic growth in Estonia is, on the basis of the short-term forecast, strong enough to support an increase in the consumption of electrical energy.

Consumption of electricity is growing

The average temperature in the first half-year of the 2006/07 financial year was 0.9°C higher than during the same period of the previous economic year. Taken against the average temperature this should imply lower consumption by ca. 50 GWh. Despite this, domestic electricity consumption rose steadily.

Analysis shows that if we eliminate the effect of temperature from real consumption, the growth of electrical energy consumption has reached a level of 4% on a 12-month basis. This is higher than the long-term average increase in demand for electrical energy. The increase in demand stems from the consumption growth of large and medium-sized companies, which are closely linked to both the general economic environment and economic growth.

Distribution network losses are falling

Distribution network losses fell in the past 12 months to the level of 9.1%, which is their lowest in recent years. In the coming years decreases in the networks' losses will be achieved through targeted investments. We expect distribution network losses in the current economic year to be lower than 9.0%.

Instability in the Middle-East keeps the price of shale oil high

High oil prices have considerably increased the competitiveness of shale oil. The world market price of oil has fallen from 70 $/barrel during the first quarter of the economic year to 60 $/barrel. The price of heating oil, which determines the price of shale oil, has moved similarly to the price of oil. As the high oil price has affected some of the local heat producers, the state is considering regulating the price of shale oil on the domestic market. The price of shale oil has moved with the price of Brent crude.

We expect a continuous improvement in economic results

On the basis of strong domestic sales growth in Estonia; the developing possibilities for exports, which will open up in the fourth quarter of the economic year; and the optimization of company expenditures and considered investments, we forecast a continuous growth in revenues and margins in FY 2006/07. By the end of the current economic year we aim to achieve positive EVA without the sale of emissions quotas.

Overview of Segments

Mining of oil shale – Eesti Põlevkivi (Estonian Oil Shale)

Oil shale is extracted in Ida-Virumaa in the stretch of the Estonian oil shale deposit from Kiviõli in the west to the Narva River in the east, and from Jõhvi in the north to Väike-Pungerja in the south. The layer of oil shale is located at a depth of between 10 and 70 metres. Quarrying is used in the Aidu and Narva open quarries to extract oil shale, and underground mining in the Estonia and Viru mines.

Oil shale extraction directly or indirectly employs 4,000 people within the structures of the Eesti Energia group, and is the most labour intensive segment of the group. Oil shale production over the last 12 months was 13.5 million ton.

Production of electrical energy and thermal energy – Narva Elektrijaamad (Narva Power Plants), with the exception of Õlitehas (Oil Plant); Iru Elektrijaam (Iru Power Plant); AS Kohtla-Järve Soojus (Kohtla-Järve District Heating Network); Taastuvenergia (Renewable Energy Business Unit)

The Eesti Energia group currently has available 2,602 MW of capacity for the production of electrical energy and 1,232 MW of capacity for the production of thermal energy. About 1,900 people are involved in the production of electrical or thermal energy within the group. Over the last 12 months, production in the electrical and thermal energy segment amounted to 8,562 GWh of electrical energy, and 2,298 GWh of thermal energy.

Production of oil – Õlitehas (the Oil Plant Business Unit of Narva Power Plants)

As the production of oil is increasingly important in the performance of Eesti Energia, as of the 2005/06 financial year the production of oil has been itemised as a separate business segment in the context of financial accounting.

The advantages of shale oil over heavy fuel oils are lower setting point, and lower content of sulphur and mechanical impurities, its low content of heavy metals, and the absence of vanadium. It is mostly used as fuel in both large and small boilers. The production of the Oil Plant amounted to 123,000 tons of shale oil in the last 12 months.

Transmission of electrical energy – OÜ Põhivõrk (National Grid)

The transmission segment shows the performance of the Eesti Energia group's national grid of 110kV minimum voltage, which has interconnections of over 10kV to the networks of other countries, and other equipment required for the operation, maintenance and development of the whole system. Eesti Energia has 5,193 km of lines for the transmission of electrical energy, which connect 142 transformer substations.

Distribution of electrical energy – OÜ Jaotusvõrk (Distribution Network)

The distribution segment is concerned with the management of up to 35 kV medium-voltage and low-voltage networks, and the distribution of energy to end consumers. It manages over 18,000 substations and more than 60,000 km of power lines, and has about 582,000 supply points for customers.

Supply and customer service – Eesti Energia AS Teenindus

The mission of the Supply division is to save the customers effort when dealing with supply issues. We have worked hard to provide simple, convenient and fast service, and this year we have made another step towards meeting our customers' expectations. Eesti Energia has over 480,000 household clients and over 22,000 business clients. At nearly 50,000, there are actually twice as many business client consumption points as clients.

Support services – Energoremont (Equipment Maintenance and Supply), AS Elektriteenused (Electrical Services), AS Elpec, Televõrgu AS (Telecommunications Network), AS Elektrikontrollikeskus (Power Inspection Centre), other support services and management of the group

The segment of support services covers those activities of the Eesti Energia group not included in the previous segments. This involves business units, which add value to the vertically integrated chain, including the construction and design of energy networks, the manufacture of energy products, and the provision of telecommunications services.

Financial Statements

Balance Sheet
th. EUR

	30/9/2006	30/9/2005	31.3.2006	*Notes*
ASSETS				
Current assets				
Cash and cash equivalents	193,878	24,238	149,408	*4*
Short term financial investments	2,793	0	0	
Derivative financial instruments	530	0	0	*5*
Trade receivables and other receivables	47,531	49,472	62,038	
Inventories	24,264	20,771	19,556	
Total current assets	**268,996**	**94,481**	**231,001**	
Non- current assets				
Investments in associates	10,833	11,346	10,833	
Property, plant and equipment	1,269,195	1,234,568	1,252,487	*6*
Intangible assets	3,294	2,494	2,494	*7*
Total non- current assets	**1,283,322**	**1,248,408**	**1,265,814**	
Total assets	**1,552,318**	**1,342,889**	**1,496,816**	
LIABILITIES				
Current liabilities				
Borrowings	5,466	78,354	4,558	*8*
Trade and other payables	84,844	76,845	86,082	
Derivative financial instruments	0	1,883	798	
Provisions	3,341	3,074	4,907	
Deferred income	618	764	764	
Total current liabilities	**94,269**	**160,920**	**97,109**	
Non- current liabilities				
Borrowings	338,444	254,662	340,729	
Trade payables	269	0	34	
Provisions	19,356	19,709	18,718	
Deferred income	78,642	60,071	68,850	
Total non- current liabilities	**436,712**	**334,441**	**428,330**	
Total liabilities	**530,981**	**495,361**	**525,439**	
Shareholders' Equity				
Share capital	464,900	464,900	464,900	
Share premium	259,833	259,833	259,833	
Statutory reserve	46,490	43,822	43,822	
Hedging reserve	530	-1,328	-82	
Retained earnings	166,212	66,027	66,027	*9*
Net profit for the period	81,793	13,275	134,809	
Total capital and reserves	**1,019,757**	**846,528**	**969,307**	
Minority interest	**1,580**	**1,000**	**2,070**	
Total shareholders' equity	**1,021,338**	**847,528**	**971,377**	
Total liabilities and equity	**1,552,318**	**1,342,889**	**1,496,816**	

Income Statement

th. EUR	3 months		6 months		12 months		*Notes*
	1.7.2006-30.9.2006	**1.7.2005-30.9.2005**	**1.4.2006 - 30.9.2006**	**1.4.2005 - 30.9.2005**	**1.10.2005-30.9.2006**	**1.10.2004-30.9.2005**	
Revenue							
Sales	100 458	99 576	204 063	188 893	468 031	415 290	
Other income	42 240	1 086	69 444	1 818	147 888	2 949	
Government grant	188	15	188	19	573	149	
Changes in work in progress and finished goods	2 271	-377	4 108	2 817	2 391	1 568	
Materials, consumables and supplies	-29 005	-29 271	-61 144	-59 675	-137 598	-125 711	
Other operating expenses	-11 457	-8 635	-22 932	-18 038	-46 886	-37 547	
Personnel expenses	-23 073	-21 804	-45 686	-43 362	-92 751	-89 726	
Depreciation and impairment	-24 978	-24 728	-49 817	-48 037	-101 562	-93 652	*6*
Other expenses	-381	-277	-602	-461	-2 065	-1 104	
EBIT	**56 263**	**15 585**	**97 621**	**23 974**	**238 021**	**72 216**	
Interest expense on borrowings	-4 733	-4 764	-8 967	-9 239	-27 606	-18 444	
Other net financial income	1 101	-325	1 850	-558	2 073	-1 294	
Net financial cost	**-3 633**	**-5 089**	**-7 117**	**-9 797**	**-25 533**	**-19 739**	
Share results of associates	0	0	0	0	1 091	969	
Loss of investments in associates	0	0	0	0	-471	0	
Profit before taxes	**52 630**	**10 497**	**90 504**	**14 178**	**213 107**	**53 447**	
Income tax	**-5 359**	**0**	**-9 200**	**-1 370**	**-9 200**	**-1 370**	*10*
Profit for the period	**47 271**	**10 497**	**81 304**	**12 807**	**203 907**	**52 076**	
Attributable to:							
Equity holders of the Parent Company	**47 611**	**10 898**	**81 793**	**13 275**	**203 327**	**51 473**	
Minority interests	**-340**	**-402**	**-489**	**-468**	**580**	**603**	
Earnings per share for profit attributable to the equity holders of the company during the period							
Basic (€)	*0,65*	*0,15*	*1,12*	*0,18*	*2,80*	*0,71*	*11*
Diluted (€)	*0,65*	*0,15*	*1,12*	*0,18*	*2,80*	*0,71*	*11*

Cash Flow Statement
th. EUR

	3 months		6 months		12 months		Notes
	1.7.2006-30.9.2006	**1.7.2005-30.9.2005**	**1.4.2006 - 30.9.2006**	**1.4.2005-30.9.2005**	**1.10.2005-30.9.2006**	**1.10.2004-30.9.2005**	
Cash flows from operating activities							
Adjusted net profit	79,671	38,955	142,721	69,645	332,467	161,720	
Changes in working capital	2,437	-8,647	2,819	-6,347	1,164	-10,982	
Paid interest and loan fees	-165	-12,478	-1,983	-15,207	-10,420	-18,287	
Received interest	1,223	106	2,126	275	3,177	475	
Paid income tax	-9,186	-1,370	-9,186	-1,370	-9,186	-1,370	
Net cash from operating activities	**73,981**	**16,566**	**136,497**	**46,996**	**317,203**	**131,555**	
Cash flows from investing activities							
Purchase of tangible fixed assets	-31,315	-43,115	-69,222	-83,588	-140,678	-157,300	
Proceeds from connection fees	5,529	4,294	11,386	10,270	21,420	18,018	
Proceeds from sale of tangible fixed assets	138	949	3,400	1,470	4,111	1,650	
Dividends received from associates	0	0	0	0	1,132	1,009	
Paid for long- term financial investments	-1,540	0	-4,301	-8,644	-4,301	-8,644	
Purchase of subsidiary	-296	0	-296	0	-296	0	*7*
Received from sale of financial investments	1,542	0	1,542	0	1,542	0	
Net cash used in investing activities	**-25,942**	**-37,872**	**-57,491**	**-80,492**	**-117,070**	**-145,266**	
Cash flows from financing activities							
Short – term borrowing	0	24,819	0	24,819	0	24,819	
Called short-term borrowings	0	0	0	0	0	0	
Paid dividends	-31,956	-6,199	-31,956	-6,199	-31,956	-6,199	*9*
Bonds issue	0	0	0	0	183,337	0	
Repurchased bonds	0	0	0	0	-103,091	0	
Received long- term bank loans	0	0	0	0	-25,000	0	
Repayment of long- term bank loans	-300	0	-2,553	-1,182	-53,735	-2,364	
Finance lease principal payments	-12	-3	-26	-5	-47	-11	
Net cash from financing activities	**-32,268**	**18,617**	**-34,535**	**17,433**	**-30,493**	**16,246**	
Net increase/decrease in cash and cash equivalents	**15,771**	**-2,688**	**44,470**	**-16,063**	**169,640**	**2,535**	
Cash and cash equivalents at the beginning of the period	178,107	26,926	149,408	40,301	24,238	21,703	
Cash and cash equivalents at the end of the period	193,878	24,238	193,878	24,238	193,878	24,238	
Change in cash and cash equivalents	**15,771**	**-2,688**	**44,470**	**-16,063**	**169,640**	**2,535**	

Consolidated statement of changes in shareholders' equity

th. EUR

	Capital and reserves attributable to the equity holders of the Parent Company							
	Share capital	Share premium	Statutory reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total
Balance at 31.3.2005	**464,900**	**259,833**	**41,692**	**-2,137**	**74,356**	**838,643**	**1,468**	**840,110**
Change in hedging reserve	0	0	0	809	0	809	0	809
Net income directly recognozed in equity	0	0	0	809	0	809	0	809
Net profit for the period	0	0	0	0	13,275	13,275	-468	12,807
Statutory reserve	0	0	2,130	0	-2,130	0	0	0
Dividends	0	0	0	0	-6,199	-6,199	0	-6,199
Balance at 30.9.2005	**464,900**	**259,833**	**43,822**	**-1,328**	**79,302**	**846,528**	**1,000**	**847,528**
Balance at 31.3.2006	**464,900**	**259,833**	**43,822**	**-82**	**200,836**	**969,307**	**2,070**	**971,377**
Change in hedging reserve	0	0	0	613	0	613	0	613
Net income directly recognozed in equity	0	0	0	613	0	613	0	613
Net profit for the period	0	0	0	0	81,793	81,793	-489	81,303
Statutory reserve	0	0	2,668	0	-2,668	0	0	0
Dividends	0	0	0	0	-31,956	-31,956	0	-31,956
Balance at 30.9.2006	**464,900**	**259,833**	**46,490**	**530**	**248,004**	**1,019,757**	**1,580**	**1,021,337**

Notes to the Financial Statements

1 Accounting policies

These consolidated interim condensed financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended March 31st, 2006.

Accounting standards, changes in accounting standards and interpretation of standards mandatory to the group starting 01.04.2006 did not have any effect on the group's financial reporting.

The statements should be read in conjunction with the 2005/06 annual financial statements. The information contained in the Interim Financial Statements has not been audited.

2 Segment reporting

For segment reporting purposes, the group's business units and subsidiaries are divided into business segments based on the internal management reporting structure and statutory require-ments stipulated in the Electricity Market Act of Estonia. The Electricity Market Act of Estonia requires separate accounting to be held for electricity production, transmission, distribution and sales. Operating revenues and expenses are allocated to different segments based on internal invoices. The pricing of inter-segment transfers is based on the prices approved by the Estonian Energy Market Inspectorate, or if not available, on the market prices. If no market prices exist, the management board of the Group affirms the internal prices.

No information on geographical segments is presented, as all significant activities of the Group take place in Estonia.

For segment reporting, the companies and units are divided into the following business segments:

Oil shale mining - Eesti Põlevkivi;

Production of electricity and heat - Narva Elektrijaamad, Iru Elektrijaam, AS Kohtla-Järve Soojus, Renewable energy;

Shale oil production – Oil shale plant of Narva Elektrijaamad

Transmission of electricity – OÜ Põhivõrk;

Distribution of electricity – OÜ Jaotusvõrk;

Sales and customer service - Teenindus;

Support services - Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, AS Elektrikontrollikeskus, Administration, Support services.

th. EUR

6 months 1.4.2006-30.9.2006

	Oil shale mining	Production of electricity and heat	Production of shale oil	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Revenue	53,975	174,505	14,804	33,853	71,934	101,692	29,412	-206,480	273,695
EBIT	160	64,975	7,945	9,022	6,288	2,808	6,085	337	97,621

6 months 1.4.2005-30.9.2005

	Oil shale mining	Production of electricity and heat	Production of shale oil	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Revenue	53,023	110,035	9,763	32,735	67,710	100,340	24,275	-207,152	190,730
EBIT	5,225	5,239	4,076	7,358	4,765	-2,213	572	-1,049	23,974

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 Cash and cash equivalents

thousands of euros

	30.9.2006	30.9.2005
Cash at bank	10	13
Cash on delivery	9	22
Accounts	3,792	211
Pledged account	10,000	0
Other short-term deposits	180,067	23,991
Total cash and cash equivalents	**193,878**	**24,238**

Pledged account in the SEB Eesti Ühispank covers potential liabilities that may rise from electricity forward contracts (note 5), when spot-price is higher than forward-price and Eesti Energia is not able to meet its obligations
In 30.09.2006 the price of Eesti Energia forward-contracts was lower than the spot-price.

5 Forwards

5 Derivatives

In 30.09.2006 Eesti Energia accounts electricity forward sales contracts in Nordpool as derivatives.
The purpose of the derivatives is to mitigate the risk of possible decrease in electricty price.
The change in the fair value of forward contracts is recognized in the proper equity reserve.
Moneys will actually be changed in 2007.

Changes in 1.4.2006-30.9.2006
thousand of euros

	Contract duration	Market value as of 1.4.2006	Change in market value	Market value as of 30.9.2006
1)	Q1 2007	0	44	44
2)	Year 2007	0	486	486
Total		**0**	**530**	**530**

6 Tangible assets

th. EUR

	Land	Buildings	Const-ructions	Plant and equipment	Other	Total
Balance at 31.3.2006						
Cost	4,851	145,603	801,620	1,030,162	3,704	1,985,940
Accumulated depreciation	0	-70,338	-328,545	-411,017	-2,760	-812,659
Opening net book value	4,851	75,266	473,075	619,145	944	1,173,281
Construction and renovation in progress	0	5,349	33,848	37,156	0	76,352
Prepayments	259	0	9	2,586	0	2,854
Total balance at 31.3.2006	**5,110**	**80,614**	**506,932**	**658,887**	**944**	**1,252,487**
Movements for the period 1.4.2006-30.9.2006						
Additions	29	3,277	31,427	32,907	196	67,835
Acquired subsidiaries non-current assets	0	0	0	7	6	13
Depreciation	0	-2,404	-13,933	-33,167	-313	-49,817
Disposals	-30	-1,252	0	-39	0	-1,321
Reclassification	0	475	104	-579	0	0
Total movements for the period 1.4.2006-30.9.2006	**-2**	**96**	**17,598**	**-871**	**-112**	**16,709**
Balance at 30.9.2006						
Cost	4,835	145,256	817,121	1,073,252	3,893	2,044,358
Accumulated depreciation	0	-71,815	-342,408	-441,341	-3,061	-858,626
Closing net book value	4,835	73,441	474,713	631,911	832	1,185,732
Construction and renovation in progress	0	7,237	49,629	23,588	0	80,455
Prepayments	273	32	188	2,516	0	3,009
Toatal balance at 30.9.2006	**5,108**	**80,710**	**524,530**	**658,016**	**832**	**1,269,195**

7 Business combinations

On 28.8.2006 Eesti Energia AS acquired 100% of Solidus Oy shares.
Solidus Oy is a brokerage firm that provides portfolio management services and consulting and expertservices related to energy risk management.

In 28.8.2006-30.9.2006 Solidus Oy sales amounted to 675 thousand euros and net profit to 596 thousand euros.

Thousands of euros

Acquisition cost	
Purchased consideration settled in cash	700
Estimated additional purchase consideration settled in the future	302
Direct costs related to acquisition	30
Total acquisition cost	1,032
Fair value of net assets acquired	233
Goodwill	799

Details of net assets acquired	**Fair value**	**Balance sheet**
Cash and cash equivalents in subsidiary acquired	418	418
Non - current assets	13	13
Accrued income	232	232
Prepayments	63	63
Trade payables and other liabilities	-493	-493
Net assets acquired	233	233

Purchased consideration settled in cash	700
Direct costs related to acquisition	13
Cash and cash equivalents in subsidiary acquired	-418
Cash outflow on acquisition	296

8 Nominal and amortized value of borrowings

th. EUR	30.9.2006		30.9.2005	
	Nominal value	Amortized cost	Nominal value	Amortized cost
Short- term borrowings				
Current portion of long- term bank loans	5,416	5,416	53,435	53,435
Commercial papers issued	0	0	25,000	24,915
Finance lease liabilities	51	51	5	5
Total short- term borrowings	**5,466**	**5,466**	**78,440**	**78,354**
Long- term borrowings				
Bank loans	51,786	51,605	57,201	56,294
Bonds issued	300,000	286,761	200,000	198,366
Finance lease liabilities	78	78	2	2
Total long- term borrowings	**351,863**	**338,444**	**257,203**	**254,662**
Total borrowings	**357,330**	**343,910**	**335,643**	**333,016**

9 Dividends

During 1.4.2006 to 30. 9.2006, Eesti Energia paid 31 965 thousand euros dividends (0.44 € per share) to its shareholder (during 1.4.2005 to 30.9.2005 company paid dividends 6 199 thousand euros or 0.09 € per share).

10 Dividends

During 1.4.2006 to 30.9.2006 Eesti Energia declared the dividends of subsidiaries, on which income tax amounted to 9 200 thousand euros. According to the Estonian Income Tax Law, if a resident company has received dividends from a resident company and the recipient of the dividends owns, at the time of payment of the dividends, at least 20 per cent of the shares or votes of the payer of the dividends, the recipient of the dividends is not obliged to impose income tax on the same amount paid by it as dividends.

In thousands of euros	**Net dividend**	**Deductions**	**Income tax**	**Income tax rate**
AS Elpec	639	0	191	29.9%
AS Energoremont	837	0	250	29.9%
Televõrgu AS	3,291	0	983	29.9%
AS Eesti Põlevkivi	11,951	1,132	3,232	27.0%
AS Narva Elektrijaamad	13,127	0	3,921	29.9%
AS Elektriteenused	2,039	0	609	29.9%
OÜ Elektrikontrollikeskus	48	0	14	29.9%
Total	**31,933**	**1,132**	**9,200**	**28.8%**

11 Earnings per share

Basic earnings per share = Profit attributable to the equity holders of the company / Weighted average number of shares

As there are no stock options, warrants, convertible bonds or contractual obligations to issue additional ordinary shares, diluted earnings per share equal to earnings per share.

	3 months		6 months		12 months	
	1.7.2006 - 30.9.2006	1.7.2005 - 30.9.2005	1.4.2006- 30.9.2006	1.4.2005- 30.9.2006	1.10.2005- 30.9.2006	1.10.2004- 30.9.2005
Profit attributable to the equity holders of the company (€ th.)	47,611	10,898	81,793	13,275	203,327	51,473
Weighted average number of shares (th.)	4,649	4,649	4,649	4,649	4,649	4,649
Basic earnings per share (€)	0.65	0.15	1.12	0.18	2.80	0.71
Diluted earnings per share (€)	0.65	0.15	1.12	0.18	2.80	0.71

12 Guarantee

According to loan agreements between Eesti Energia AS and Nordic Investment Bank and Eesti Energia and SEB Ühispank, Eesti Energia AS guarantees 39.9% of outstanding debt of AS Nordic Energy Link in case the banks require immediate repayment of outstanding debt balance upon breach of the loan contract. Till 30.9.2006, AS Nordic Energy Link had drawn 36,000 thousand euros of loans and Eesti Energia's guarantees amounted to 14,364 thousand euros.