Eesti Energia

Interim Report

1 April 2012 – 30 June 2012

Eesti Energia's revenues in the second quarter were 177.1 million euros and the operating profit was 42.3 million euros.

Second quarter revenues dropped by 14% compared to the same time last year however we were still able to increase our operating profit (+13.4%)
In the second quarter we saw a temporary drop in the production and sale of shale oil due to planned maintenance works as well as lower oil prices. At the same time we incurred lower production costs in our heat and power generation division due to the allocation of free CO_2 allowances and this enabled us to increase our net profit by 16% compared to the second quarter of 2011. Our solid financial results were also supported by the increase in profitability in our Distribution Network. All in all Eesti Energia had a successful first half of 2012– despite the total revenues being reduced by 7% we managed to increase our net profit by more than a quarter to 80,7 million euros.

Our client numbers in both Latvia and Lithuania have showed robust growth. In Latvia the number of clients has grown to 834 by the end of the second quarter, 601 more than at the beginning of the quarter. On the Lithuanian wholesale market the number of clients has grown to 264 (+146 clients).

We are proud to report that in the second quarter we increased our power generation from renewable sources. We have made investments to diversify our generation portfolio so that we could produce cheap and environmentally friendly power. In the second quarter our renewable power generation volume increased to 211 GWh, doubling the respective level of the same period last year. Much of this growth came from electricity generated from biomass.

Eesti Energia invested 224 million euros in the first half of 2012 which is slightly below the same period in 2011. For several large projects (such as the Enefit280 oil plant, Iru waste to energy plant as well as Narva and Paldiski wind parks) major works have been completed. In our Iru waste to energy plant, all major equipment has been installed. The Narva wind park is already generating power and we're making preparations for testing our Paldiski wind park. In our first shale oil plant based on the new Enefit280 technology we've started cold commissioning, which means testing the equipment without fuel input. At the same time we've got several ongoing capital intensive projects, most notably our new Auvere power plant set to be completed by 2015 as well as upgrading existing generation facilities to reduce environmental footprint. Republic of Estonia as Eesti Energia's sole shareholder also decided to increase our share capital by 150 million euros to 621.6 million euros to finance the group´s investment plan.

CEO and Chairman of the Management Board of Eesti Energia
Sandor Liive

Key Figures and Ratios

		Q2			6 months		
		1. April - 30. June		Change	1. January - 30. June		Change
		2012	2011		2012	2011	
Total electricity sales, of which	GWh	2 144	2 463	-12.9%	4 658	5 559	-16.2%
Regulated market	GWh	1 222	1 195	2.2%	2 943	2 920	0.8%
Open market	GWh	922	1 267	-27.3%	1 715	2 639	-35.0%
Heat sales	GWh	122	112	9.0%	530	747	-29.0%
Network sales	GWh	1 414	1 376	2.8%	3 293	3 249	1.4%
Distribution losses	%	4.1	4.3	-0.2pp	6.3	6.3	-
Oil shale sales (outside the Group)	thou t	308	561	-45.1%	778	1153	-32.5%
Shale oil sales (outside the Group)	thou t	34	42	-19.5%	84	83	1.2%
Average number of employees	No.	7 668	7 661	0.1%	7 673	7 601	0.9%
Revenues, of which	mln eur	177.1	206.0	-14.0%	412.9	443.0	-6.8%
sales	mln eur	176.0	188.3	-6.5%	396.6	421.7	-6.0%
EBITDA	mln eur	69.7	60.7	14.9%	152.1	127.2	19.6%
Operating profit	mln eur	42.3	37.3	13.4%	98.8	81.4	21.4%
Net profit	mln eur	24.6	21.2	15.7%	80.7	63.6	26.9%
Fixed assets	mln eur	1939.7	1525.8	27.1%	1939.7	1525.8	27.1%
Equity	mln eur	1257.7	1137.9	10.5%	1257.7	1137.9	10.5%
Net debt	mln eur	610.0	225.1	171.0%	610.0	225.1	171.0%
Investments	mln eur	95.4	132.4	-28.0%	224.1	227.8	-1.6%
FFO	mln eur	46.4	27.6	68.0%	115.4	100.4	14.9%
Debt/EBITDA[1]	times	2.58	1.64	+0.9p	1.68	1.64	+0.04p
Net debt/EBITDA[1]	times	2.11	1.00	+1.1p	1.63	1.00	+0.6p
Leverage	%	32.7%	16.5%	+16.2pp	26.3%	16.5%	+9.8pp
ROIC	%	9.5%	11.1%	-1.6pp	11.4%	12.2%	-0.8pp
EBITDA/internest cover	times	8.3	14.9	-6.6p	11.2	15.7	-4.5p
FFO/internest expenses	times	5.5	6.8	-1.3p	13.4	6.8	+6.6p
FFO/investments	times	0.5	0.2	+0.3p	0.5	0.7	-0.2p
EBITDA magin	%	39.6%	28.5%	+11.1pp	37.3%	30.2%	+7.1pp
Operating profit margin	%	24.0%	18.9%	+5.1pp	25.6%	19.3%	+6.3pp

[1] Rolling 12 months
[2] Debt/(debt + equity)
Net Debt- Debt (nominal value) minus cash and cash equivalentsLeverage – Net debt / (net debt / equity)
ROIC-Return on invested kapital
FFO- funds from operations excluding changes in working kapital
EBITDA- Earnings before interest, tax, depreciation and amortization
EBITDA margin- Earnings before interest, tax, depreciation and amortization divided sales

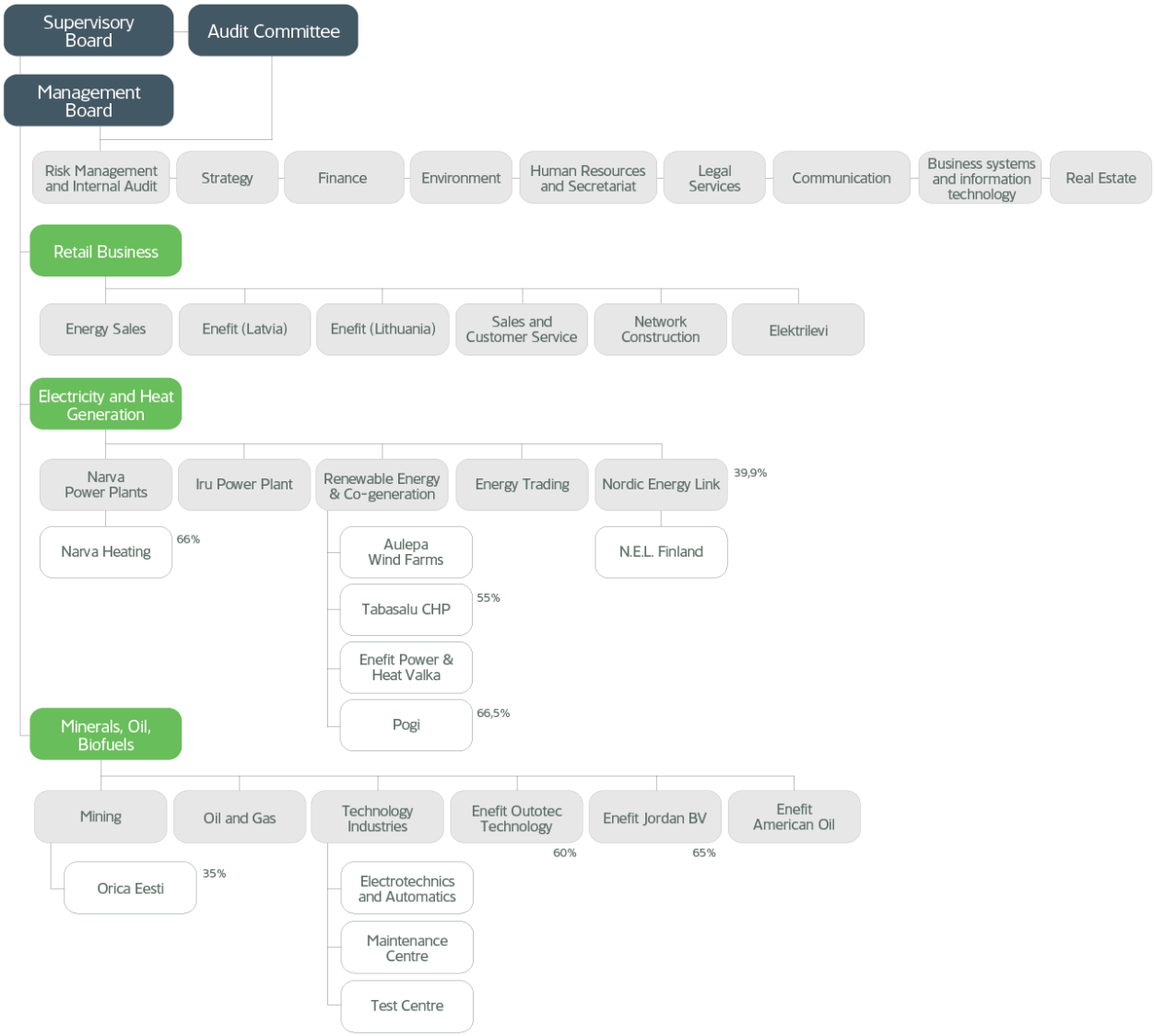
Contents

Eesti Energia in Brief

Eesti Energia is an international energy company operating in the Baltic and in Nordic countries' energy markets. Eesti Energia is the largest Estonian energy company, which is engaged in oil shale mining, energy and heat generation, shale oil production as well as offering other electricity-related products and services to customers.

In foreign markets we operate under the Enefit brand. We sell energy to Latvian and Lithuanian customers as well as offer our unique and environmentally friendly oil shale processing solutions to customers globally.

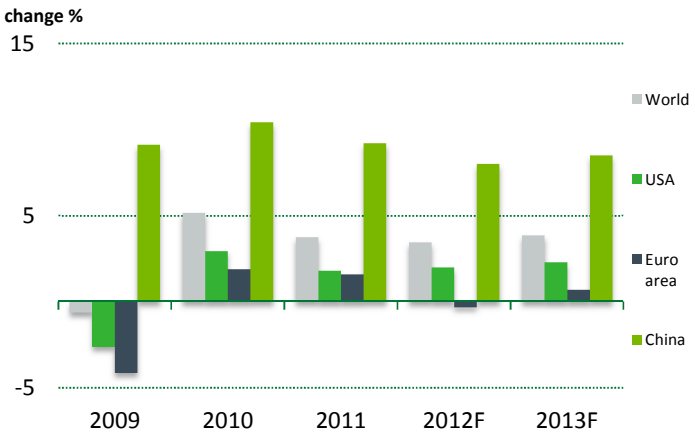
Eesti Energia operates openly and responsibly with a clear emphasis on complying with environmental and safety regulations. As one of the largest companies and employers in Estonia, the actions of Eesti Energia have an impact on employees, clients and partners as well as the society as a whole. Eesti Energia considers the effects of Group's operations in regard to the stakeholders in the community while developing energy research and contributing to the developments in society.



Operating environment

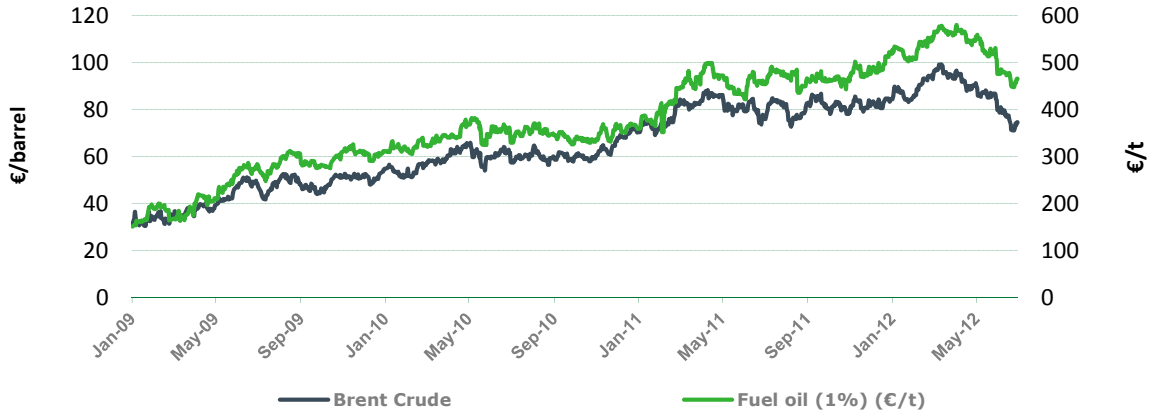
Global environment

In its July World Economic Outlook the IMF reduced its 2012 global economic growth forecast by 0.1% to 3.5% compared to its April forecast. In 2013 it expects global growth to reach 3.9%. The main reasons behind this reduction are below expectations growth rates in several major emerging market economies, a widening eurozone debt crisis and high unemployment rates coupled with low job creation. Worries remain regarding the ability of the worst hit nations to push through fiscal reforms as well as partner nations' willingness to help.
The current IMF forecast takes into account both developed nations 1.4% (+0.2% compared to the previous forecast) growth as well as developing nations 5.6% (+0.2%) growth in 2012.[1]



Liquid fuels market

The price of Brent crude traded lower in the second quarter of 2012. The quarter opened at a price of 95.9 €/barrel (125.3 $/barrel) and ended with Brent at 74.58 €/barrel (94.4 $/barrel). This decrease was due to a fall in demand due to the global economic slowdown as well as a 10% increase in production by OPEC over the last 12 months. The average price of Brent crude in the second quarter of 2012 was 84.6 €/barrel (108.6 $/barrel) which is 3.3% (-8.0%) higher than the second quarter of 2011. The price rise in euros is due to the appreciation of the dollar agains the Euro (1.28 USD/EUR in the second quarter of 2012 compared with 1.44 USD/EUR the same time last year).



The average price of fuel oil (1%)[2] was 518.5 €/t (664.7 $/t) in the second quarter of 2012 which is 12.4% (0.1%) higher than the second quarter of 2011.

1 IMF July 2012 WEO (New Setbacks, Further Policy Action Needed)

2 Fuel Oil 1% Sulphur Free on Board North West Europe

Emissions trading

In Q2 the average price of CO_2 emissions futures for December 2012 was 7.0 €/t (-10.9%, -0.9 €/t compared to the first quarter) and the price fluctuated between 6.2-8.3 €/t. The closing price at the end of the quarter was 8.3 €/t. At the beginning of the quarter prices rose due to the reduction in the price of coal (making CO_2 intensive coal fired generation more competitive and hence raising demand). In the middle of the quarter prices were driven lower by oversupply but at the end of June traded higher again when markets were fueled by optimism from the decision of EU leaders to stimulate the economy and cap borrowing costs.

The European Comission approved Estonia's request for the allocation of free CO_2 emissions permits between 2013-2020. Eesti Energia can use these free permits to finance the construction of a new power plant. The Estonian government can allocate a total of 18 million tons of free permits to Eesti Energia between 2013-2020.

In Q2 the average price of December 2013 CO_2 futures was 7.5 €/t (-12.3%, -1.0 €/t compared to 2012 Q1) and fluctuated between 6,7-8,8 €/t. This is 10.9 €/t (-59%) lower than in Q2 of 2011. This decrease in prices is due to the supply of emissions greatly outstripping demand on the EU carbon market due to the global economic slowdown.

Regional environment

The regulated price of electricity in Estonia is set at 30.7 €/MWh which was approved by the Competition Authority on June 1st 2010.

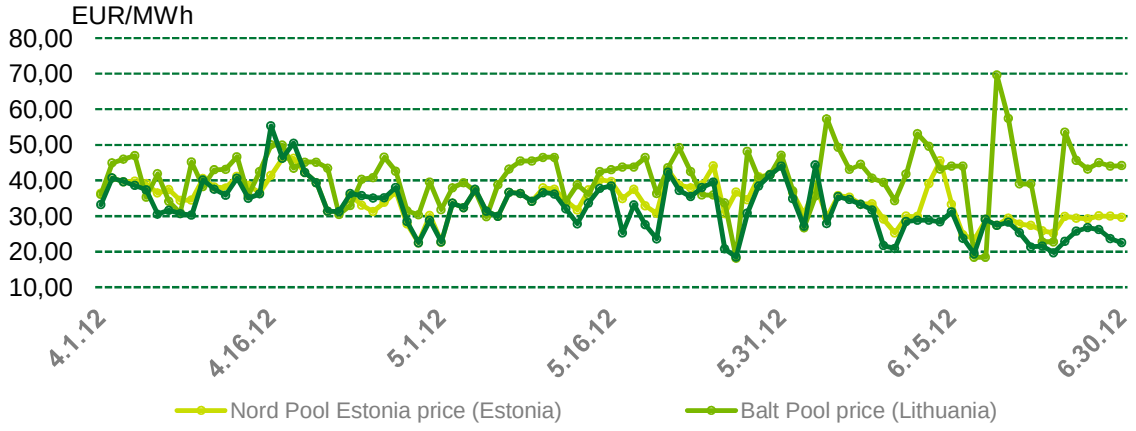
The average daily price in the Nord Pool Estonia price area fluctuated between 22.5-46.2 €/MWh in Q2 and the average price for the quarter was 34.5 €/MWh (-23.2%, -10.4 €/MWh compared to the same period last year). The quarter was characterized by high water levels and hence increased hydropower generation in both Latvia and the Nordic countries which drove down electricity prices.

As of the 18th of June, the Nord Pool Estonian price area is divided into two separate areas, each with their own price. The new price area is called Nord Pool ELE and is located on the Estonian-Latvian border. This is the next step towards the full integration of the Baltic energy market with the Nordic one.

In the NPS ELE price area 80% of transmission capacity is allocated via an implicit auction system, meaning that the transmission is allocated through the power exchange. The rest of the transmission capacity is allocated according to an explicit auction system.

NPS ELE prices have shown a significant bottleneck on the Estonian-Latvian border. The bottleneck forms due to large price differences between the Nordic countries and Lithuania as well as maintenance work on transmission lines during the summer.

The creation of NPS ELE has made the cost of transporting electricity from Estonia to Latvia and Lithuania significantly more expensive. However it can be expected that when normal transmission capacity is restored, the bottleneck on the border will be reduced or will disappear entirely.



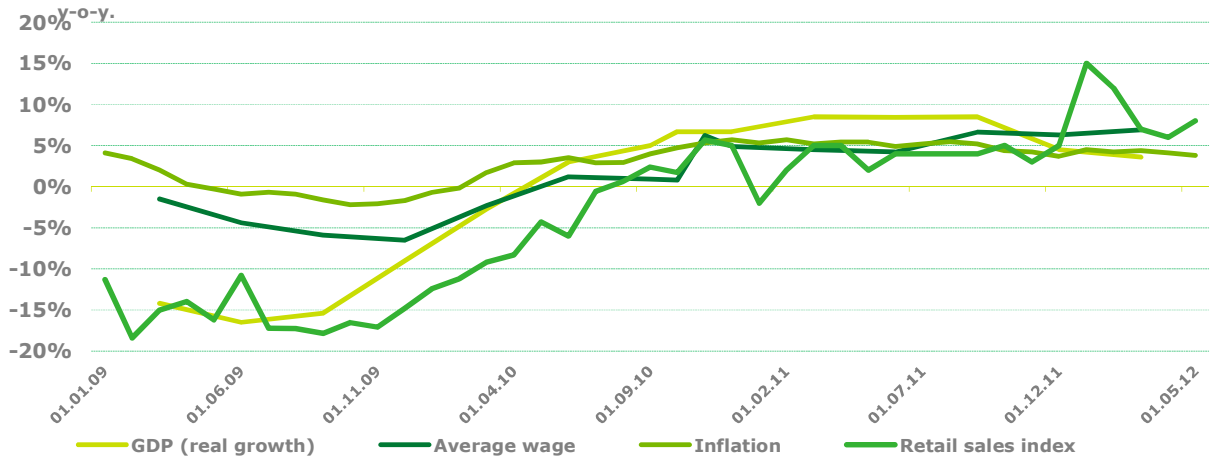
Nord Pool's Finland price area had an average price of 32.3 €/MWh (-37.6%, -19.5 €/MWh compared to Q2 of 2011). The Nord Pool system average price was 28.4 €/MWh in Q2 of 2011 (-45.4%, -23.6 €/MWh compared to last year). This price decrease was brought about by high water levels and hence increased hydroelectricity production, lower emissions and fuel prices.

The average price on the Lithuanian electricity exchange BaltPool was 40.9 €/MWh (-12.6%, -5.9 €/MWh) in Q2 of 2012 and the average daily price fluctuated between 18.15-69.6 €/MWh. As of 18 June 2012 the Lithuanian exchange is managed by Nord Pool Spot. The Lithuanian power exchange is currently functioning almost autonomously without any direct connections with the rest of the Nord Pool system. The full integration of Lithiuania and Latvia into the Nord Pool Spot system may be finalized next year.

Estonian operating environment

In their May forecast the Bank of Estonia predicts 2.6% GDP growth for Estonia in 2012. This is 0.9% higher than the Ministry of Finance's spring forecast and 2.9% higher than the IMF's forecast for Eurozone growth in 2012. In 2013 GDP growth is expected to rebound to 3.6%.
Unemployment continued its downward trend, reaching 6.7% by the end of Q2 2012, a reduction of 1.2% compared to Q1 and 1.8% year on year.
In Q1 2012 GDP increased 3.6% compared to Q1 of 2011. This growth was fueled by an increase in added value in the construction, retail and communications industries and a 7% growth in exports. The increase in exports was driven by machinery and metal products. Lately however export growth has slowed and even showed a year-on-year decrease from March through May while at the same time the trade deficit has widened.

The average inflation rate reached 3.9% in June 2012 which is at par with the Bank of Estonia's forecast for the whole year. The main drivers behind inflation are higher housing and food costs. In 2013 the Bank of Estonia expects inflation to slow to 3.2%.



Source: Statistics Estonia

Financial results

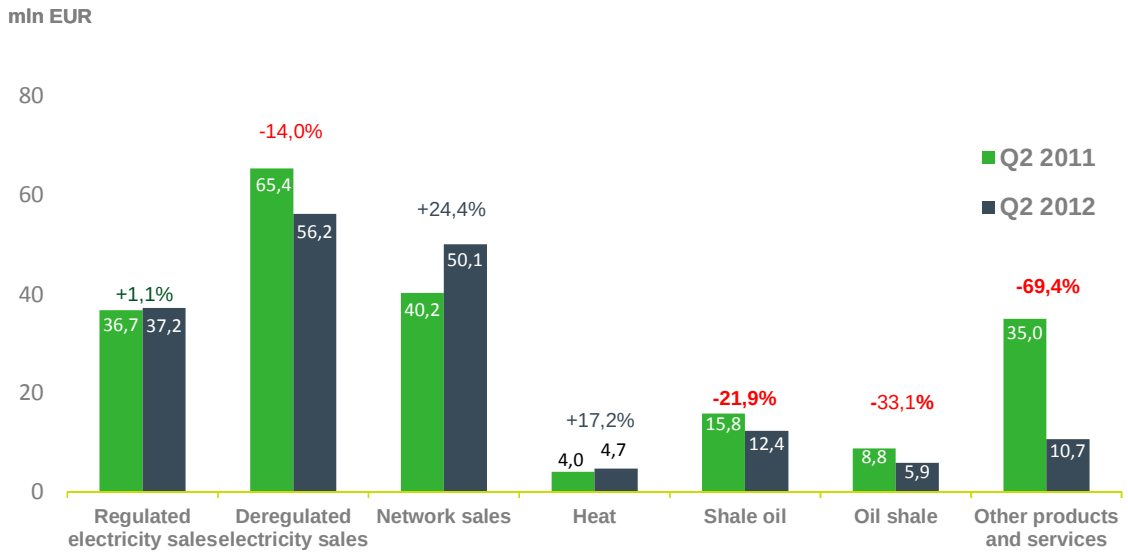
Eesti Energia's 2012 second quarter total revenues were 177.1 million euros (-14.0% compared to the second quarter of 2011, -28.9 million euros), the operating profit reached 42.3 million euros (+13.4%, +5.0 million euros) and net profit 24.6 million euros (+15.7%, +3.3 million euros). The results were positively affected by higher electricity sales margins due to lower costs brought about by free CO_2 allowances as well as increased profitability in the distribution business. The results were negativelty affected by lower oil sales volumes and margins, a decrease in non-recurrent income and higher depreciation.

Revenues for the first six months of 2012 were 412.9 million euros (-6.8%, -30.0 million euros), EBITDA was 98.8 million euros (+21.3%, +17.4 million euros) and net income was 80.7 million euros (+26.9%, +17.1 million euros).

Revenues

The group's total revenues in the second quarter of 2012 reached 177.1 million euros, a decrease of 14.0% compared to the same periood last year. The results were positively affected by increased sales of network services but at the same time negatively affected by lower electricity, shale oil and oil shale sales. The results were also affected by the decrease in non-recurrent revenues compared to last year.

Electricity sales on the open market, which in the second quarter of this year made up 60.2% of all electricity sales (64.0% last year) have decreased. This was brought about by relatively low prices on the open market as well as sulphur emission restrictions imposed on oil shale electricity producers starting from January 2012.



Revenues in the **retail** division decreased to 70.7 million euros in the second quarter (-4.5%, -3.4 million euros compared to the same period last year). Revenues for the first six months of 2012 reached 173.5 million euros (+5.7%, +9.4 million euros).

Sales of electricity were 62.9 million euros (+0.4%, +0.3 million euros) of which 38.4 million euros (+4.4%, +1.6 million euros) came from the regulated market and 24.5 million euros (-5.3%, - 1.4 million euros) from the open market. Regulated market sales volumes reached 1182 GWh in the second quarter (+2.5%, +28 GWh) while open market sales volume revenues increased to 602 GWh (+4.0%, +23 GWh).

On January 1st 2013 the Estonian electricity market will open up for all consumers. Upon joining the EU, Estonia undertook an obligation to completely open up its electricity market to competition. On June 6th the Estonian parliament passed an amendment of the Electricty Markets Act enabling this. The amendment also set in place

the future terms of public supply. From 2013 the distribution network operator is obligated to supply electricity at the average Nord Pool Spot Estonia monthly price to those customers who have not chosen an electricity supplier.

Eesti Energia's second quarter market share on the Estonian open market was approximately 68%. On the Latvian open market our client numbers have shown healthy growth. As of the end of the second quarter of 2012 we had 834 (+601 compared to Q2 2011) clients in Latvia and the average market share on the Latvian open market was 20%. In Lithuania we had 264 (+146) customers as of thet end of the second quarter and the average market share on the Lithuanian open market was around 7%. Our market share on the Baltic open market as a whole is around 24%.

Sales of other services in the retail division were 5.6 million euros (-40.8%, -3.8 million euros). The main reason behind this reduction was the sale of AS Televõrk in the first quarter of 2012. During the same period last year Televõrk contributed 3.2 million euros of telecommunication services sales.

	Q2		Change		6 months		Change	
GWh	2012	2011	GWh	%	2012	2011	GWh	%
Electricity sales at regulated prices, of which	1 182	1 154	28	2,5	2 937	2 904	33	1,1
Sales outside the group	1 112	1 084	28	2,6	2 693	2 664	29	1,1
Sales on the open market, of which	602	579	23	4,0	1 180	1 214	34	2,8
Estonian open market	319	292	27	9,2	650	629	21	3,4
Sales outside the group	245	271	-27	-9,9	520	550	-30	-5,5
Latvian open market	184	101	83	82,2	338	188	150	79,5
Lithuanian open market[3]	99	186	-87	-46,7	192	397	-205	-51,7
Total electricity sales	1 782	1 726	56	3,2	4 117	4 118	-1	-0,0

Distribution Network revenues in the second quarter of 2012 reached 51.5 million euros (+23.2%, +9.7 million euros) and 116.6 million euros (+20.0%, +19.4 million euros) for the first half of the year.

Compared with last year, revenues have increased due to a rise in distribution tariffs in August 2011 when new tariffs for the next three year regulatory cycle came into effect.

Sales of network services grew to 49.7 million euros (+21.2%, +8.7 million euros). The total volume of electricity distributed in the second quarter was 1477 GWh. In the second quarter distribution volumes on low voltage networks reached 953 GWh (+1%, +10 GWh) and 525 GWh (+4.5%, +23 GWh) on medium voltage networks. The average distribution tariff was 32.7 €/MWh (+18.5% compared to the second quarter of 2011.

Distribution losses[4] were 64 GWh in the second quarter of 2012, a decrease of 1 GWh compared to the same period last year). The average loss percentage was 4.1% (-0.2 percentage points compared to last year). For the rolling 12 months losses stand at 5.8% of electricity entering the grid.

The average temperature according to the Estonian Meteorological and Hydrological Institute was +9.7 degrees in the second quarter of 2012, 1.2 degrees lower than last year but close (difference of -0.06 degrees) to the historical average[5]. The average temperature was affected by lower temperatures mainly in June where the average temperature was a full 3.9 degrees lower than the same period last year. Temperature affects electricity consumption and hence sales of electricity as well as network services.

	Q2		Change		6 months		Change	
GWh	2012	2011	GWh	%	2012	2011	GWh	%
Sales of distribution services	1 477	1 444	33	2.3	3 424	3 381	43	1.3
Sales outside the group	1 414	1 376	39	2.8	3 293	3 249	44	1.3

[3] Lithuanian open market showed a decrease due to a change in policy on the Baltpool exchange. Numbers are now shown with netting off taken into account. Using the earlier accounting methodology sales decreased by 4,4% (177,9 GWh in Q2 2012 vs 185,8 GWh in Q2 2011).

[4] The distribution loss pecrentage is obtained by dividing total losse by the amount of leectricity entering the grid. The loss number is gotten by the difference between the amount of electricity consumed in the grid and the amount that entered it.

[5] Estonian Meteorological and Hydrological Institute 1992-2011 avearge

Our **electricity and heat generation** division had revenues of 100.0 million euros (-9.2%, -10.1 million euros) in the second quarter. Revenues for the first half of the year were 221.9 million euros (-17.6%, -47.3 million euros).

Electricity sales reached 90.7 million euros (-8.5%, -8.5 million euros) and heat sales 5.1 million euros (+17.5%, +0.8 million euros).

Sales on the open market fell to 902 GWh (-365 GWh, -28.8%). Despite a 23% decrease in the NPS Estonia price and a rise in the share of the regulated market in our sales portfolio, our average sales price has only fallen by 3% thanks to profitable dervitatives contracts (36.1 €/MWh in the second quarter of 2012 vs 37.2 €/MWh in 2011).

The generation division's results are shown netted of sales to and purchases from NPS Estonia.

	Q2		Change		6 months		Change	
GWh	2012	2011	GWh	%	2012	2011	GWh	%
Electricity sales at regulated prices, of which	1 336	1 260	76	6.0	3 260	3 101	159	5.1
Sales outside the group	110	112	-1	-1.1	250	256	-6	-2.3
Electricity sales on open market	902	1 266	-365	-28.8	1 655	2 706	-1051	-38.8
Sales outside the group	555	1 019	-464	-45.6	978	2 223	-1245	-56.0
Total electricity sales	2 249	2 527	-277	-11.0	4 915	5 807	-892	-15.4

We received 11.3 million euros (+105.3%, +5.8 million euros) in renewable subsidies in the second quarter of 2012. This increase was brought about mainly by the increase in electricity generated from biomass which made up of 91.3% of the total amount of electricity receiving subsidies and reached 193 GWh (+123.5%, +107 GWh). The total amount of generation receiving subsidies was 211 GWh (+108 GWh). In addition to biomass we also produced electricity from wind, water and in cogeneration.

	Q2		Change		6 months		Change	
GWh	2012	2011	GWh	%	2012	2011	GWh	%
Heat sales, of which	143	132	11	8.4	587	807	-220	-27.3
Sales outside the group	122	112	10	9.0	530	747	-217	-29.1

Heat sales reached 5.1 million euros (+17.5%, +0.8 million euros). Heat sales were positively affected by sales in Paide (+7.4 GWh) and in Painküla (+2.4 GWh). In Latvia we sold 0.2 GWh more heat in the second quarter than we did last year and revenues were 89 thousand euros.

The average sales price of heat sold outside the group was 38.6 €/MWh (+7.5%, +2.7 €/MWh) in the second quarter.

Our **fuels** division's revenues in the second quarter of 2012 were 59.2 million euros (-35.9%, -33.1 million euros) of which oil shale revenues made up 33.4 million euros (-19.0%, -7.8 million euros), shale oil sales 13.1 million euros (-19.6%, -3.2 million euros), sales of construction and maintenance services 3.1 million euros (-54.1%, -3.6 million euros) and sales of power and industrial equipment 3.7 million euros (-44.7%, -3,0 million euros). The division's results were significantly affected by the decrease in non-recurring revenues (-16.2 million euros, in the second quarter of 2011 the division earned significant non-recurring revenue from the sale of an 11% stake in our Jordanian subsidiary and the revaluation of the remaining shares).

Revenues for the first six months of the year totaled 136.2 million euros (-22.0%, -38.4 million euros).

	Q2		Change		6 months		Change	
Thousands of tons	2012	2011	th t	%	2012	2011	th t	%
Intra-Group sales of oil shale (electricity sales)	2 605	3 095	-491	-15.9	5 820	7 276	-1456	-20.0
Intra-Group sales of oil shale (oil production)	376	444	-67	-15.2	896	948	-52	-5.5
External sales of oil shale	308	561	-253	-45.1	778	1 153	-375	-32.5
Total oil shale sales	3 289	4 100	-811	-19.8	7 494	9 378	-1884	-20.1

Oil shale sales decreased due to decreased electricity generation. Production of oil shale stood at 4.0 million tons (-3%, -0.1 million tons) in the second quarter.

Thousands of tons	Q2 2012	Q2 2011	Change th t	Change %	6 months 2012	6 months 2011	Change th t	Change %
Fuel oil sales	35.5	43.3	-7.8	-18.0	89.0	85.1	3.9	4.6
Of which sales outside the group	34.0	42.3	-8.3	-19.6	84.4	82.6	1.8	2.2

Sales of fuel oil outside the group were 35.5 thousand tonds (-15.9%, -6.7 thousand tons). The decrease in sales is due to regular maintenance work on the oil plant and supply schedule based on previous contracts.

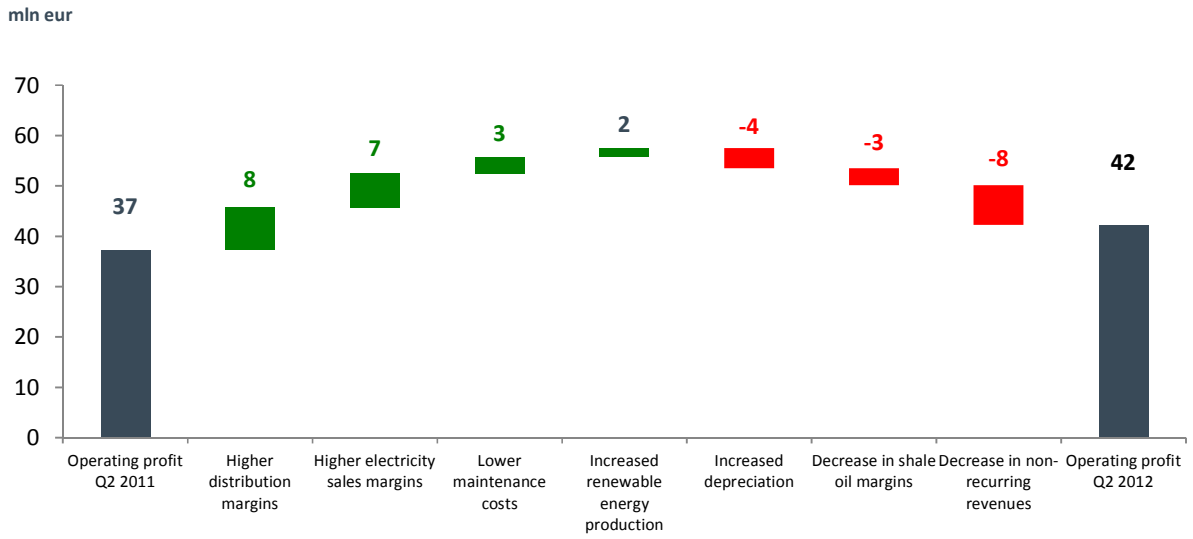
The price of shale oil is tied to that of heavy fuel oil and has grown with it. In the second quarter of 2012 the average price of fuel oil was 518.5 €/t which is 12.4% higher than the same time last year. The average sales price of liquid fuels outside the group was 363.5 €/t in the second quarter of 2012 or 3.0% lower than a year earlier (461.4 €/t if the effect of hedging is excluded, +9.0% compared to last year).

Our Technology Industry's sales outside of the fuels division were 10.5 million euros which is 5.3 million euros (-49.5%) less than the same period last year. This is due to a decrease in workload associated with our new shale oil plant as well as the Narva Power Plants.

Operating profit

The group's second quarter operating profit reached 42.3 million euros (+13.4%, +5.0 million euros compared to the same period last year). EBITDA was 69.7 million euros (+14.9%, +9.0 million euros). The operating profit for the first six months of 2012 was 98.8 million euros (+21.3%, +17.4 million euros) and EBITDA 152.1 million euros (+19.5%, +24.8 million euros).

Profitability was positively affected by higher distribution margins (+8.4 million euros) and increased profitability of electricity sales (+6.8 million euros). Profitability was reduced mostly by a decrease in non-recurring revenues (-16.2 million euros, in the second quarter of 2011 the group earned significant non-recurring revenue from the sale of an 11% stake in our Jordanian subsidiary and the revaluation of the remaining shares as well as -8.4 million euros from environmental reserve). Profitability was also affected by a decrease in depreciation (-4.0 million euros) and lower margins in shale oil sales (-3.4 million euros).



The **retail** division had an operating profit of 2.2 million euros (+145.0%, +1.3 million euros) in the second quarter and 16.2 million (+16.7 million) in the first half of the year.

Profitability was increased by higher sales volumes (+0.6 million euros) and margins (+1.0 million euros). Profitability was decreased by the absence of revenues from AS Televõrk (-1.1 million euros) due to its sale in the first quarter of 2012.

The **Distribution Network** had an operating profit of 14.5 million euros (+124.3%, +8.0 million euros) in the second quarter and 23.2 million euros (+118.2%, +12.5 million euros) in the first half of the year.

Increased network sales margins had the greatest effect on profitability (+6.7 million euros) as well as increased sales volumes (+0.9 million euros). Further positive effects were gained from the extension of the period over which connection fees are recognized (+0.9 million euros) and lower distribution losses (+0.8 million euros). The main factor decreasing profitability was increased depreciation (-0.7 million euros):

The **electricity and heat generation** division had an operating profit of 20.3 million euros (+13x, +18.8 million euros) in the second quarter of 2012 and the operating profit for the first half of the year reached 39.5 million euros (+20.2%, +6.7 million euros).

The greatest positive effect on profitability came from the allocation of free CO_2 emissions permits and low CO_2 prices on the market which raised sales margins (+15.5 million euros). Additional effects came from lower environmental provisions (+8.7 million euros), lower fixed costs (+4.4 million euros) and increased renewable generation (+1.8 million euros). Profitability was negatively affected by lower electricity sales volumes due to low wholesale market electricity prices (-6.8 million euros) and increased depreciation due to the installation of desulphurization equipment (-3.1 million euros).

The **fuels** division had an operating profit of 6.2 million euros (-77.4%, -21.2 million euros) in the second quarter and 21.0 million euros (-50.5%, -21.4 million euros) for the first half of the year. Profitabilty was affected most by non-recurring revenues in the first quarter of 2012 from the sale of an 11% stake in our Jordanian subsidiary for 16.2 million euros as well as the revaluation of the remaining share. Lower shale oil volumes (-2.1 million euros) and margins (-1.0 million euros) further decreased second quarter profitability. Our mining division experienced lower sales margins which decreased the operating profit by 3.6 million euros. At the same time profitability was positively affected by the decrease in fixed costs of 3.0 million euros.

The operating profit of our mining subsidiary was 0.7 million euros (-57.5%, -0.9 million euros). Profitability was affected by higher margins on sales (+1.3 million euros), lower fixed costs (+2.1 million euros), lower oil shale sales volumes (-5.0 million euros) and lower sales of oil shale byproducts (-0.6 million euros).

Economic Value Added (EVA)

In the second quarter of 2012 the group's EVA decreased by 2.2 million euros (-7.8 million euros compared to the same period last year). The weighted average cost of capital is 10% which is 0.6% higher than the same period last year. In the first 6 months of the year we added 12.3 million euros (-33.8%, -6.3 million euros) of economic value.

	Q2		Change		6 months		Change	
mln eur	2012	2011	mln eur	%	2012	2011	mln eur	%
Group's EVA	-2.2	5.7	-7.8	-138.5	12.3	18.6	-6.3	-33.8
Retail business	1.3	-0.2	1.5	-806.9	14.6	-6.5	21.0	-325.1
Distribution Network	3.6	-3.7	7.3	-194.8	1.4	-9.7	11.2	-114.9
Electricity and heat generation	1.4	-11.7	13.1	-111.7	2.8	5.0	-2.2	-44.0
Fuels	-5.8	20.2	-26.0	-128.7	-2.1	29.9	-32.0	-107.0

The retail business's rise in EVA was supported by increased electricity sales margins. The Distribution Network's increase came mainly from an increase in network tariff margins. The electricity and heat generation division saw its EVA rise thanks to the increased profitability of electricity sales. The fules division however experienced a drop in EVA which was mainly due to lower shale oil sales volumes as well as decreased profitability in our mining unit.

Investments

The group's investments in the second quarter were 95.4 million euros (-28.0%, -37.0 million euros). In the first half of the year as a whole our investments reached 224.1 million euros (-1.6%, -3.7 million euros).

	Q2		Change		6 months		Change	
mln eur	2012	2011	mln eur	%	2012	2011	mln eur	%
Group's invetments, of which	95.4	132.4	-37.0	-28.0	224.1	227.8	-3.7	-1.6
Retail business	0.0	0.4	-0.3	-93.6	0.0	0.6	-0.5	-96.8
Distribution Network	23.0	17.3	5.7	33.2	38.5	28.5	9.9	34.9
Electricity and heat generation	41.9	63.7	-21.8	-34.2	122.9	91.8	31.0	33.8
Fuels	23.1	47.1	-24.0	-51.0	49.7	99.8	-50.0	-50.2
of which Mining	4.4	5.7	-1.3	-23.2	10.5	12.2	-1.6	-13.2
Other	7.4	4.0	3.4	85.3	13.0	7.1	5.9	82.8

By the end of the second quarter we had invested 473 million euros into power generation projects since the start of each respective project. 161 million of this was invested renewable energy, 60 million in heat and power cogeneration and 147 million in a new oil shale and biomass fired power plant. 105 million euros is being invested in upgrading existing production capabilities. We have committed to invest a further 612 million euros into greenlit investments in this division. The status of major investment projects in the generation divison as of the end of June 2012 is as follows:

- The construction of a new 300MW circulating fluidized bed (CFB) power plant: Construction began in June 2011. In the second quarter of 2012 major construction work was in full swing at the site. In June the foundations for the generating unit's electrical filters were laid down and work began on preparing the site for the foundation of a 200m smoke stack. The total cost of the project is budgeted at 638 million euros and as of the end of June, 146.8 million euros of this had already been invested.
- The installation of desulphurization units in our Narva Power Plants: The project began in the spring of 2009 and the goal was to install desulphurization equipment on 4 power generating units. In the second quarter work continued on lime (CaO) injection systems for the four units. At the beginning of the second quarter work began on two 500 m3 lime bunker foundations and the preparation of work for the construction of metal frameworks. The total cost of the lime injection systems is budgeted at 8 million euros of which 3.9 million had been invested by the end of the second quarter. The total cost of the desulphurization project is budgeted at 117 million euros and 104.7 million euros of this had already been invested by the end of the second quarter.
- Iru waste to energy plant construction: Construction began in spring of 2010 and as of the end of June a total of 45.4 million euros had been invested. In the second quarter of 2012 we successfully completed pressure tests on the plant's boiler and all main necessary equipment has been supplied and installed. The total cost is set to be 104.6 million euros.
- Narva wind park: Construction began in the fall of 2010 and in the second quarter we made final preparations for the start of generation. On July 18th 2012 production commenced. As of the end of the second quarter, 55.4 million euros have been invested and the total cost is budgeted at 59.4 million euros.
- Paldiski wind park: Construction was completed at the end of the second quarter and currently preparations are being made for testing its connection to the transmission grid. Construction began in the summer of 2011 and as of the end of the quarter, 25.8 million euros have been invested and the total cost of the project is budgeted at 32 million euros. The park is set to commence generation in the third quarter of this year and its 22.5 MW turbines have an annual projected output of 66 GWh.

The total amount of investments relating to liquid fuels production is 240 million euros of which 198 million euros have been invested as of the end of the second quarter, including:

- The construction of a new Enefit280 shale oil plant in Auvere: Construction began in the summer of 2009 and as of the end of June 182 million euros have been invested. By the end of the second quarter construction work has been completed and cold comissioning is underway. We plan to invest a total of 215 million euros.

- Development of the oil shale industry infrastructure in Auvere: We're building a fuel handling system which is set to supply the existing shale oil plant, the new Enefit280 plant as well as CFB electricity generating units. In the second quarter of 2012 we completed the assembly of conveyors and testing of the systems has commenced. As of the end of June 16 million euros have been invested and the total project is budgeted at 25 million euros.

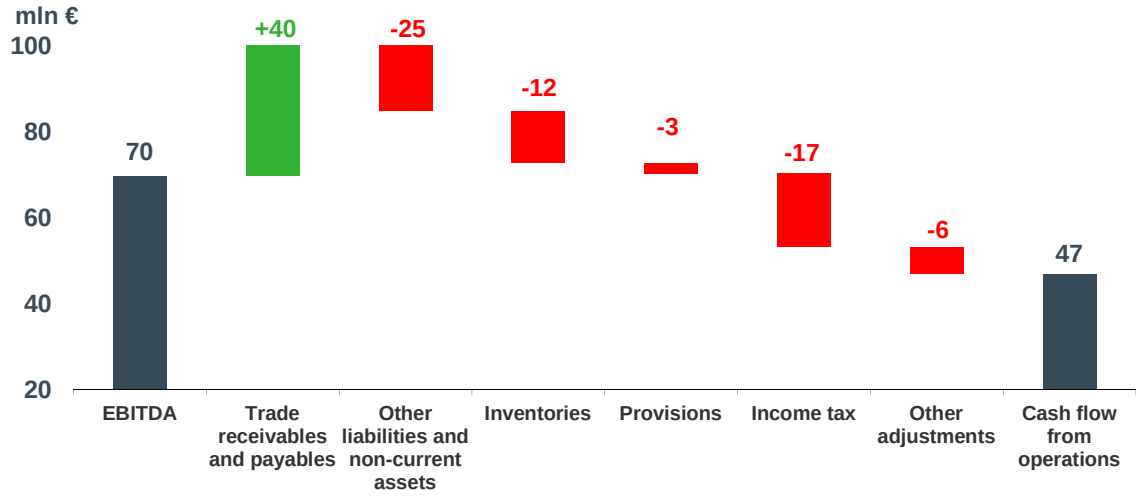
We have budgeted a total of 105.8 million euros for oil shale development projects, of which 41.5 million euros have already been invested by the end of the second quarter, including:

- Pre-development of oil production in the US: as of now 33.4 million euros have been invested, of which 29.6 million euros (based on the exchange rate at the time of the transaction) for the acquisition of oil shale deposits. The pre-development stage of the project is set to last until 2016 and during this period we plan to invest a further 36.9 million eueros. In this stage of the project we have commenced with geological, environmental and market surveys, the planning of mines and gathering meteorological and air quality data.
- Pre-development of oil and electricity production in Jordan: In the second quarter of 2012 Eesti Energia continued geological field surveys at the Attarat oil shale deposits. At the same time work is continuing on detailed structural-geological and modeling work to complete an all encompassing 3D geological model of the Attarat deposits. The geological surveys of the eastern part of the deposits, which began in 2011, have been completed but additional drilling work is being carried out. Concerning the oil project a general market study was carried out and updates were made to both oil production as well as refining studies. As part of the electricity generation project, the construction of a power plant was put out to tender on the 28th of June. The total cost of the pre-development project is budgeted at 30 million euros. As of the end of the second quarter, 6.6 million euros have been invested. The pre-development stage of the oil project is set to last until 2016 and the electricity project potentially until 2013.

At the same time investments continue to improve the quality of the distribution network (23.0 million euros in the second quarter). Since the beginning of the new regulatory period (August 1st 2011- August 1st 2014) we have invested 77.7 million euros into the grid. The total cost of the investment plan over the course of the regulatory period is set at 300 million euros.

Cash flows

In the second quarter of 2012 Eesti Energia's cash flows from operations reached 47.0 million euros. Compared with the group's EBITDA (69.7 million euros), the main factors affecting cashflows were income tax paid on dividends (-17.0 million euros), a reduction in receivables and current assets (+39.6 million euros including seasonal reduction in client receivables having an impact of +30.3 million euros), a decrease in payables (-25 million euros including increased trade payables to suppliers of -12.5 million euros and an increase in inventories -12.1 million euros).



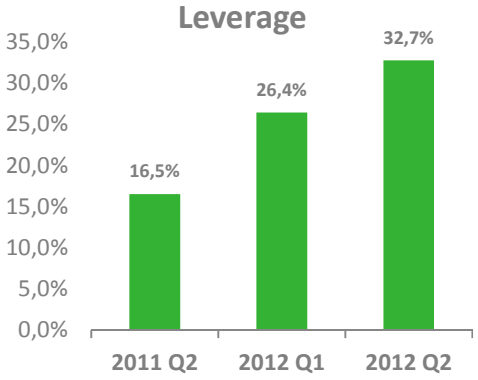
In the second quarter of 2012 cash flows from operating activities increased by 81.7% (+21.1 million euros) compared to the same period last year. Main reasons behind the increase is the higher reduction in the trade receivables (+7.6 million euros), lower level of various prepayments and CO_2 purchases (combined impact of +15 million euros) and increase of trade payables (+6.7 million euros) compared to 2011. While EBITDA change (+9.0 million euros) had a positive impact, the impact on operating cash flow was reduced by higher non-monetary component of EBITDA (-7.2 million euros).

Net cash flows in the second quarter reached 58.8 million euros (+45.8 million euros compared to the same period last year). In addition to the afromentioned, the group's cash flows were also affected by investments (95.4 million euros) which were 37.0 million euros smaller than during the same period last year, paid dividends (65.2 million euros) which were 9.1 million euros larger than a year ago and a 300 million euro bond emission.

Financing and liquidity

Eesti Energia's extensive capital expenditure program drives the need for raising additional capital as well as the creation of a sufficient liquidity buffer.

As of the end of June 2012, Eesti Energia had 144.2 million euros worth of liquid assets (including over 3 month deposits and liquid financial assets). In addition to the liquid assets the group's liquidty buffer also included undrawn loans of 595 million euros. Eesti Energia had 95 million euros worth of long term investment loans from the European Investment Bank. The firm also had 500 million euros worth of credit facilities which were obtained in an agreement with five Scandinavian banks, signed in the third quarter of 2011.

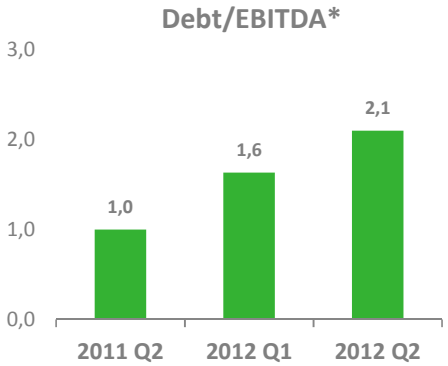


Eesti Energia's long term debt at the end of the second quarter was composed mainly of 600 million euros worth of eurobonds, composed of two 300 million euro issues that mature in 2018 and 2020. In addition Eesti Energia has 145.6 million euros worth of loans outstanding from the European Investment Bank. Of the long term debt obligations, 99% were with a fixed interest rate and 1% with a variable one. The weighted average interest rate of all long term debt obligations stood at 4.12% as of the end of the quarter. The short term liquidity loan worth 25 million euros that was outstanding as of the end of the first quarter was repaid at the beginning of April using funds received from the bond emission. The base currency of all debt is the euro.

As of June 30th 2012, Eesti Energia's net debt[6] stood at 610.0 million euros (an increase of 384.9 million euros compared to the same time last year and 151.1 million compared to 31st March 2012). The net debt/EBITDA (rolling 12 months) ratio was 2.1 as of the end of the second quarter. The group's net debt and debt/EBITDA ratio are in an upward trend due to an extensive capital expenditure program which increases net debt.

Eesti Energia has undertaken obligations as part of loan agreements not to exceed certain financial ratios. As of the end of the second quarter all ratios were in accordance with the set covenants.

In addition to debt capital, investments in 2012 are also being financed by an injection of equity capital from the Republic of Estonia. On June 1st 2012, an extrodinary general meeting of the shareholders decided to increase the firm's equity via a 150 million euro cash injection from the state. The firm's share capital will increase from 471.6 million euros to 621.6 million euros. The full 150 million euros was transferred to Eesti Energia on July 10th 2012.



*-rolling 12 months

Eesti Energia's credit rating was BBB+ from Standard & Poors and Baa1 from Moody's as of the end of the second quarter with both giving the firm a stable outlook.

6 Net debt – nominal value of debt less cash and liquid assets (including deposits of maturities over 3 months)

2012 outlook

In the second half of 2012 Eesti Energia will continue the fulfilment of its extensive capital expenditure program. Total budgeted investments for 2012 stand at 570 million euros of which 224 million euros has been invested so far. The biggest investments of 2012 are the construction of a new 300 MW power plant in Auvere (219 million euros), the completion of our Enefit280 shale oil plant (55 million euros) and the modernization of the distribution grid (100 million euros).

In the second half of 2012 three major investment projects are set to come online. Firstly the new Enefit280 shale oil plant will commence with production and secondly our Narva and Paldiski wind parks will start producing electricity (with an annual production capacity of 156 GWh) and these will have an effect on the group's revenues and profits.

We currently expect the Group's revenues for 2012 to remain relatively unchanged compared to FY2011. In the updated outlook the revenues have been revised lower due to lower than average electricity prices and lower power sales volume.

The Group's profitability outlook indicates an increased EBIT and EBITDA compared to 2011. Since the previous update, profitability outlook has improved further mainly due to lower opex including CO_2 costs.

	2012. July 1 – December 31 closed position quantities	2012. July 1 – December 31 closed position average price
Electricity production	4.8 TWh	36.2 €/MWh
CO_2 emissions[7]	1.7 million tons	9.13 €/t
Shale oil production	67.2 thousand tonds	451,1 €/t

	2011	2012
Revenues	858 million euros	Stable
EBITDA	265 million euros	Growth
Operating profit	168 million euros	Growth

[7] CO_2 necessary for generation is covered with free CO_2 allowances in addition to closed positions

Consolidated statement of comprehensive income

in million EUR	3 months 1 April - 30 June 2012	3 months 1 April - 30 June 2011	6 months 1 January - 30 June 2012	6 months 1 January - 30 June 2011	12 months 1 July - 30 June 2012/11	12 months 1 July - 30 June 2011/10	*Note*
Revenue	176.0	188.3	396.6	421.7	806.8	818.8	*2*
Other operating income	1.1	17.6	16.3	21.1	20.3	19.0	
Government grants	-	0.1	0.1	0.1	0.4	0.4	
Change in inventories of finished goods and work-in-progress	9.9	3.8	16.0	2.7	17.2	-4.7	
Raw materials and consumables used	-73.3	-93.3	-178.9	-213.4	-355.1	-401.2	
Payroll expenses	-33.0	-31.9	-69.0	-64.2	-140.3	-131.9	
Depreciation, amortisation and impairment	-27.4	-23.3	-53.3	-45.8	-104.6	-91.9	
Other operating expenses	-11.0	-23.9	-29.0	-40.7	-59.3	-76.4	
OPERATING PROFIT	**42.3**	**37.4**	**98.8**	**81.5**	**185.4**	**132.1**	*2*
Financial income	0.9	0.9	1.3	1.9	3.5	5.2	
Financial expenses	-1.7	-2.5	-2.5	-5.2	-4.6	-11.2	
Net financial income (-expense)	**-0.8**	**-1.6**	**-1.2**	**-3.3**	**-1.1**	**-6.0**	
Gain from associates using equity method	-	-	-	-	-1.0	1.5	
PROFIT BEFORE TAX	**41.5**	**35.8**	**97.6**	**78.2**	**183.3**	**127.6**	
CORPORATE INCOME TAX EXPENSE	**-16.9**	**-14.6**	**-16.9**	**-14.6**	**-17.0**	**-21.2**	
PROFIT FOR THE YEAR	**24.6**	**21.2**	**80.7**	**63.6**	**166.3**	**106.4**	
ATTRIBUTABLE TO:							
Equity holders of the Parent Company	**24.6**	**21.3**	**80.7**	**63.5**	**166.4**	**106.7**	
Non-controlling interest	**-**	**-0.1**	**-**	**0.1**	**-0.1**	**-0.3**	
Basic earnings per share (euros)	*0.05*	*0.05*	*0.17*	*0.13*	*0.35*	*0.23*	*7*
Diluted earnings per share (euros)	*0.05*	*0.05*	*0.17*	*0.13*	*0.35*	*0.23*	*7*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	3 months 1 April - 30 June 2012	3 months 1 April - 30 June 2011	6 months 1 January - 30 June 2012	6 months 1 January - 30 June 2011	12 months 1 July - 30 June 2012/11	12 months 1 July - 30 June 2011/10
PROFIT FOR THE YEAR	**24.6**	**21.2**	**80.7**	**63.6**	**166.3**	**106.4**
Other comprehensive income						
Revaluation of risk hedge instruments	12.8	13.5	4.6	24.9	13.9	-2.3
Currency translation differences attributable to foreign subsidiaries	2.1	0.3	1.0	0.2	4.3	0.2
Other comprehensive income for the year	**14.9**	**13.8**	**5.6**	**25.1**	**18.2**	**-2.1**
COMPREHENSIVE INCOME FOR THE YEAR	**39.5**	**35.0**	**86.3**	**88.7**	**184.5**	**104.3**
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**39.5**	**35.1**	**86.3**	**88.6**	**184.6**	**104.6**
Non-controlling interest	**-**	**-0.1**	**-**	**0.1**	**-0.1**	**-0.3**

Consolidated statement of financial position

in million EUR

ASSETS	30 June 2012	30 June 2011	31 December 2011	Note
Non-current assets				
Property, plant and equipment	1,825.8	1,469.5	1,658.6	*4*
Intangible assets	60.3	24.2	56.1	
Investments in associates	23.3	25.0	23.3	
Derivative financial instruments	14.7	1.9	13.6	*5*
Long-term receivables	15.6	5.2	17.9	
Total non-current assets	**1,939.7**	**1,525.8**	**1,769.5**	
Current assets				
Inventories	55.8	34.7	37.9	
Greenhouse gas allowances	19.7	-	28.0	
Trade and other receivables	109.8	99.8	125.2	
Derivative financial instruments	6.1	0.4	8.1	*5*
Available-for-sale financial assets	5.1	10.1	10.2	
Financial assets at fair value through profit or loss	3.5	9.1	4.9	
Deposits with maturities greater than three months at bank	65.0	55.0	-	
Cash and cash equivalents	70.6	87.3	40.9	
Total current assets	**335.6**	**296.4**	**255.2**	
Assets of disposal group classified as held-for-sale	**-**	**-**	**11.8**	
Total assets	**2,275.3**	**1,822.2**	**2,036.5**	
EQUITY				
Capital and reserves attributable to equity holder of the Parent Company				
Share capital	471.6	471.6	471.6	*6*
Share premium	259.8	259.8	259.8	
Statutory reserve capital	47.2	47.2	47.2	
Hedge reserve	4.2	-9.7	-0.4	
Unrealised exchange rate differences	4.5	0.2	3.5	
Retained earnings	469.0	367.7	453.5	
Total equity and reserves attributable to equity holder of t	**1,256.3**	**1,136.8**	**1,235.2**	
Non-controlling interest	**1.4**	**1.1**	**1.4**	
Total equity	**1,257.7**	**1,137.9**	**1,236.6**	
LIABILITIES				
Non-current liabilities				
Borrowings	731.1	330.6	434.7	*8*
Other payables	2.3	0.3	0.4	
Derivate financial instruments	1.0	4.9	1.9	*5*
Deferred income	131.8	121.1	126.4	
Provisions	31.1	38.0	31.1	
Total non-current liabilities	**897.3**	**494.9**	**594.5**	
Current liabilities				
Borrowings	1.4	26.8	1.5	*8*
Trade and other payables	110.2	125.5	176.1	
Derivative financial instruments	3.2	7.5	9.2	*5*
Deferred income	1.4	0.5	0.2	
Provisions	4.1	29.1	14.4	
Total current liabilities	**120.3**	**189.4**	**201.4**	
Liabilities of disposal group classified as held-for-sale	**-**	**-**	**4.0**	
Total liabilities	**1,017.6**	**684.3**	**799.9**	
Total liabilities and equity	**2,275.3**	**1,822.2**	**2,036.5**	

Consolidated cash flow statement

in million EUR

	3 months 1 April - 30 June 2012	3 months 1 April - 30 June 2011	6 months January - 31 March 2012	6 months January - 31 March 2011	12 months April - 31 March 2012/11	12 months April - 31 March 2011/10	*Lisa*
Cash flows from operating activities							
Cash generated from operations	64.6	40.2	123.9	142.2	169.7	175.2	
Interest and loan fees paid	-0.8	-0.9	-1.3	-1.0	-17.4	-15.4	
Interest received	0.2	1.2	0.3	4.2	1.8	7.3	
Corporate income tax paid	-17.0	-14.6	-17.0	-14.6	-17.0	-43.4	
Net cash generated from operating activities	**47.0**	**25.9**	**105.9**	**130.8**	**137.1**	**123.7**	
Cash flows from investing activities							
Purchase of property, plant and equipment and intangible assets	-120.7	-117.3	-266.1	-189.2	-494.4	-308.4	
Proceeds from connection and other fees	4.0	2.6	7.8	4.8	15.5	9.8	
Proceeds from sale of property, plant and equipment	0.2	0.1	1.0	1.0	2.8	1.2	
Proceeds from grants of property, plant and equipment	-	-	0.8	-	0.8	-	
Net change in deposits with maturities greater than 3 months	-65.0	143.0	-65.0	126.4	-10.0	219.8	
Net change in cash with limited usage	-13.6	18.0	-15.4	41.0	-10.4		
Purchase of short-term financial investments	-5.3	-4.1	-11.1	-9.8	-49.1	-35.8	
Loans granted	-1.9	-2.4	-4.5	-2.5	-6.1	-2.5	
Loan repayments received	-	-	2.9	5.2	2.9	5.2	
Dividens received from long-term financial investments	1.4	1.3	1.4	1.3	1.4	1.3	
Acquisiton of subsidiaries, net of cash acquired	-	-1.4	-	-30.2	-1.2	-30.2	
Proceeds from disposal of subsidiary	-	2.2	22.1	6.3	22.1	6.3	*11*
Proceeds from sale and redemption of short-term financial investmen	6.0	1.0	17.6	4.0	60.1	18.1	
Net cash used in investing activities	**-194.9**	**43.0**	**-308.5**	**-41.7**	**-465.6**	**-67.8**	
Cash flows from financing activities							
Received long-term loans	-	1.3	26.3	1.5	162.9	3.0	
Proceeds from bonds issued	297.0	-	297.0	-	297.0	-	*8*
Repayments of bank loans	-25.1	-1.1	-25.8	-1.9	-83.0	-3.7	
Proceeds from non-controlling interest	-	-	-	0.6	0.1	0.6	
Dividends paid	-65.2	-56.1	-65.2	-56.1	-65.2	-165.3	
Net cash used in financing activities	**206.7**	**-55.9**	**232.3**	**-55.9**	**311.8**	**-165.4**	
Net cash flows	**58.8**	**13.0**	**29.7**	**33.2**	**-16.7**	**-109.5**	
Cash and cash equivalents at the beginning of the period	11.8	75.3	40.9	54.8	87.3	197.8	
Cash and cash equivalents classified as held for sale	-	-	-	*0.3*	-	-	
Cash and cash equivalents of subsidiaries classified as associates	-	*-1.0*	-	*-1.0*	-	*-1.0*	
Cash and cash equivalents at the end of the period	70.6	87.3	70.6	87.3	70.6	87.3	
Net increase/(-)decrease in cash and cash equivalents	**58.8**	**13.0**	**29.7**	**33.2**	**-16.7**	**-109.5**	

Consolidated statement of changes in equity

in million EUR

	Attributable to equity holder of the Company						Non-control-ling interest	Total equity
	Share capital (Note 6)	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total		
Equity as at 31 December 2010	**471.6**	**259.8**	**47.2**	**-34.6**	**360.3**	**1,104.3**	**2.8**	**1,107.1**
Income for the year	-	-	-	-	63.5	63.5	0.1	63.6
Comprehensive income for the year	-	-	-	25.1	-	25.1	-	25.1
Comprehensive income for the year	**-**	**-**	**-**	**25.1**	**63.5**	**88.6**	**0.1**	**88.7**
Dividends paid	-	-	-	-	-56.1	-56.1	-	-56.1
Decrease in non-controlling interest due to the disposal of a subsidiary	-	-	-	-	-	-	-2.5	-2.5
Increase in non-controlling interest due to the acqusition of a subsidiary								
Proceeds from non-controlling interest	-	-	-	-	-	-	0.6	0.6
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**-56.1**	**-56.1**	**-1.8**	**-57.9**
Equity as at 30 June 2011	**471.6**	**259.8**	**47.2**	**-9.5**	**367.7**	**1,136.8**	**1.1**	**1,137.9**
Equity as at 31 December 2011	**471.6**	**259.8**	**47.2**	**3.1**	**453.5**	**1,235.2**	**1.4**	**1,236.6**
Income for the year	-	-	-	-	80.7	80.7	-	80.7
Comprehensive income for the year	-	-	-	5.6	-	5.6	-	5.6
Comprehensive income for the year	**-**	**-**	**-**	**5.6**	**80.7**	**86.3**	**-**	**86.3**
Dividends paid	-	-	-	-	-65.2	-65.2	-	-65.2
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**-65.2**	**-65.2**	**-**	**-65.2**
Equity as at 30 June 2012	**471.6**	**259.8**	**47.2**	**8.7**	**469.0**	**1,256.3**	**1.4**	**1,257.7**

Notes to the financial statements

1 Accounting policies

This consolidated interim report has been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union. These consolidated interim condensed financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting".

Accounting policies and presentation of financial statements applied to this interim report were identical to those used in financial statements for the financial year that ended on 31 December 2011.

The new International Financial Reporting Standards adopted, amendments to and International Financial Reporting Interpretations Committee interpretations that became mandatory for the Group from 1 January 2012 did not have any impa to the Group's accounting policies and financial statements.

According to the Management Board the Interim Report prepared for the period 1 January 2012 - 30 June 2012 presents a true and 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 division into operating segments is based on the Group's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the chief operating decision maker, the parent company's management board.
In the segment reporting the relevant financial measures are presented that are regularly provided to the parent company's management board and evaluated by the parent company's management board.
The internal management structure of the Group is divided into four operating segments based on the different types of products offered and the clients:

- Retail Business (consisting of companies and business units Energiamüük, Enefit UAB, Enefit SIA, Müük ja Teenindus, Eesti Energia Võrguehitus AS);
- Elektrilevi (consisting of company Elektrilevi OÜ);
- Electricity and Heat Generation (consisting of companies and business units Eesti Energia Narva Elektrijaamad AS, Taastuv-energia ja Väikekoostootmine, Iru Elektrijaam, Energiakaubandus, Solidus Oy, AS Narva Soojusvõrk, Eesti Energia Aulepa Tuuleelektrijaam OÜ, Eesti Energia Tabasalu Koostootmisjaam OÜ, SIA Enefit Power & Heat Valka, OÜ Pogi);
- Minerals, Oil, Biofuels (consisting of companies and business units Eesti Energia Kaevandused Group, Eesti Energia Õlitööstus AS, Eesti Energia Tehnoloogiatööstus Group, Enefit Outotec Technology OÜ, Enefit U.S., LLC, Enefit American Oil Grou

In addition Corporate Functions, that covers administration and other support services, are presented separately, although these do not form a separate business segment.

The Retail Business covers the sale of electrical energy, electrical installation work and other services to end consumers. Electrical energy is sold in Estonia, Latvia and Lithuania.
Elektrilevi involves regulated business in providing distribution services and other related services.
Electricity and Heat Generation covers the generation of electricity and heat in various power and combined heat-and-power stations, and energy trading in the wholesale market, both inside and outside Estonia.
Minerals, Oil, Biofuels covers the mining and processing of oil shale, the production of liquid fuels, and the production and sale of power equipment.

For the benefits of the users of the financial statements additional information has been disclosed on regulated business of Mining in Minerals, Oil and Biofuels segment, although it is not treated as operating segment in the management structure.

On 8 March 2011 the transaction of the sale of the shareholding in AS Kohtla-Järve Soojus was completed. Until its disposal, AS Kohtla-Järve Soojus was part of the Electricity and Heat Generation segment.

On 28 April 2011 the transaction of the sale of 11% shareholding in Enefit Jordan B.V. was completed after which the Group does not have control over Enefit Jordan B.V. and its subsidiaries (Jordan Oil Shale Energy Company and Attarat Power Company) any more. As the result Enefit Jordan B.V. Group is recognised as associate.

On 17 February 2012 the transaction of the sale of the 100% shareholding in Televõrgu AS was completed (Note 11). Until its disposal, Televõrgu AS was part of the Retail Business segment.

Operating income and expenses are allocated to different segments based on internal invoicing prepared by business units. The prices for inter-segmental transfers are based on the prices approved by the Estonian Competition Authority or are agreed based on market prices.
Under the Electricity Market Act of Estonia, the following indicators need to be approved by the Estonian Competition Authority

- the price limit for oil shale sold to Narva Elektrijaamad for the production of heat and electricity
- the price limit for electricity sold from Narva Elektrijaamad to the closed market
- the weighted average price limit for electricity sold to meet sales obligations
- network fees.

The Estonian Competition Authority has an established methodology for calculating prices to be used when approving prices. When granting approval for these prices, the Estonian Competition Authority considers the costs which allow companies to fulfill the legal obligations and conditions attached to their activity licences and ensure justified profitability on invested capital. The Estonian Competition Authority considers the annual average residual value of non-current assets plus 5% of non-group sales revenue as invested capital.
The rate for justified profitability is the Company's weighted average cost of capital (WACC).

The revenue, expenses, unrealised profits, receivables and liabilities arising as a result of transactions between business units and companies of the same segment have been eliminated.

The business segments have not been aggregated for segment reporting purposes.

2 Segment reporting, cont.

Segment information for reportable segments for the period 1 January 2012 - 30 June 2012
in million EUR

	Retail Business	Elektri-levi	Electricity and Heat Generation	Minerals, Oil, Biofuels Total	*of which Mining*	Corporate Functions	Elimi-nations	Total
Total revenue	158.8	*116.5*	221.5	134.8	*93.3*	13.2	-248.2	396.6
Inter-segment revenue	-23.9	*-2.7*	-121.8	-74.8	*-77.7*	-13.0	236.2	-
Revenue from external customers	134.9	*113.8*	99.7	60.0	*15.6*	0.2	-12.0	396.6
Operating profit	16.7	*23.2*	39.5	21.0	*3.5*	-1.8	0.2	98.8

Segment information for reportable segments for the period 1 January 2011 - 30 June 2011
in million EUR

	Retail Business	Elektri-levi	Electricity and Heat Generation	Minerals, Oil, Biofuels Total	*of which Mining*	Corporate Functions	Elimi-nations	Total
Total revenue	163.1	*97.1*	266.0	157.6	*111.4*	9.0	-271.1	421.7
Inter-segment revenue	-24.2	*-2.0*	-113.8	-91.0	*-92.7*	-8.7	239.7	-
Revenue from external customers	138.9	*95.1*	152.2	66.6	*18.7*	0.3	-31.4	421.7
Operating profit	-4.2	*10.6*	32.9	42.4	*10.0*	-1.0	0.8	81.5

Reportable segments' operating profits are reconciled to total consolidated operating profit as follows:
in million EUR

	6 months 1 January - 30 June 2012	2011
Segment operating profits for reportable segments	100.4	81.7
Operating profit of Corporate Functions	-1.8	-1.0
Eliminations:		
Change in price difference of inventories	0.9	1.1
Other eliminations	-0.7	-0.3
Total operating profit per consolidated income statement	**98.8**	**81.5**

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

in million EUR

	Land	Buildings	Const-ruction	Plant and equipment	Other	Total
Property, plant and equipment as at 31 December 2011						
Cost	42.2	150.6	756.8	1,289.2	4.9	2,243.7
Accumulated depreciation	-	-87.8	-311.6	-627.9	-4.3	-1,031.6
Net book amount	42.2	62.8	445.2	661.3	0.6	1,212.1
Construction in progress	-	1.3	33.3	355.7	-	390.3
Prepayments	-	-	-	56.2	-	56.2
Total property, plant and pquipment as at 31 December 2011	**42.2**	**64.1**	**478.5**	**1,073.2**	**0.6**	**1,658.6**
Movements 1 January - 30 June 2012						
Purchases of property, plant and equipment	0.1	6.2	41.7	170.9	0.3	219.2
Depreciation charge	-	-2.3	-11.5	-37.7	-0.1	-51.6
Net book amount of non-current assets disposed	-0.1	-	-	-0.3	-	-0.4
Movements 1 January - 30 June 2012	**-**	**3.9**	**30.2**	**132.9**	**0.2**	**167.2**
Property, plant and equipment as at 30 June 2012						
Cost	42.2	154.4	789.2	1,415.8	5.2	2,406.8
Accumulated depreciation	-	-89.7	-319.7	-658.1	-4.4	-1,071.9
Net book amount	42.2	64.7	469.5	757.7	0.8	1,334.9
Construction in progress	-	3.3	39.2	400.1	-	442.6
Prepayments	-	-	-	48.3	-	48.3
Total property, plant and equipment as at 30 June 2012	**42.2**	**68.0**	**508.7**	**1,206.1**	**0.8**	**1,825.8**

5 Derivative financial instruments

in million EUR	30 June 2012		30 June 2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward contracts for buying and selling electricity as cash flow hedges	6.7	-	1.7	-
Forward and option contracts for buying and selling electricity as trading derivatives	1.3	-	0.1	-
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	9.5	-	0.3	-
Swap and futures contracts for selling shale oil as cash flow hedges	3.3	4.2	0.2	12.4
Total derivative financial instruments	**20.8**	**4.2**	**2.3**	**12.4**
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	2.6	-	1.1	-
Forward and option contracts for buying and selling electricity as trading derivatives	1.3	-	0.3	-
Option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	9.4	-	0.3	-
Swap and futures contracts for selling shale oil as cash flow hedges	1.4	1.0	0.2	4.9
Total non-current portion	**14.7**	**1.0**	**1.9**	**4.9**
Total current portion	**6.1**	**3.2**	**0.4**	**7.5**

6 Share capital

As at 30 June 2012, Eesti Energia AS had 471 645 750 registered shares (30 June 2011: 471 645 750 registered shares). The nominal value of each share is 1 euro.

7 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 is adjusted for the proportionate change in the number of ordinary shares outstanding.

	3 months		6 months		12 months	
	1 April - 30 June		1 January - 30 June		1 July - 30 June	
	2012	2011	2012	2011	2012/11	2011/10
Profit attributable to the equity holders of the	24.6	21.3	80.7	63.5	166.4	106.7
Weighted average number of shares (millior	472	472	472	472	472	472
Basic earnings per share (EUR)	0.05	0.05	0.17	0.13	0.35	0.23
Diluted earnings per share (EUR)	0.05	0.05	0.17	0.13	0.35	0.23

8 Nominal value and amortized cost of borrowings

in million EUR

	30 June 2012		30 June 2011	
	Nominal value	Amortised cost	Nominal value	Amortised cost
Short- term borrowings				
Current portion of long-term bank loans	1.4	1.4	26.8	26.8
Total short-term borrowings	**1.4**	**1.4**	**26.8**	**26.8**
Long- term borrowings				
Bank loans	144.2	143.4	40.6	40.3
Bonds issued	600.0	587.7	300.0	290.3
Total long- term borrowings	**744.2**	**731.1**	**340.6**	**330.6**
Total borrowings	**745.6**	**732.5**	**367.4**	**357.4**

On 2 April 2012 the Group issued bonds in the nominal value of EUR 300 million with the coupon rate of 4.25% and maturity date in 2018.

9 Contingent liabilities

Contingent liabilities arising from potential tax audit
Tax authorities have neither started nor performed any tax audits at the Company or single case audits at any group company. Tax authorities have the right to review the Company's tax records within 6 years after the reported tax year and if they find any errors they may impose additional taxes, interest and fines. The Group's management considers that there are not any circumstances which may give rise to a potential material liability in this respect.

Collaterals, guarantees and court actions
The loan agreements concluded by the Group set certain covenants on the Group's consolidated financial indicators. The covenants have been adhered to.

The Group has granted a guarantee of up to 39.9% for the obligations arising from the loan contracts entered into between its associate AS Nordic Energy Link and the banks if the banks should require full payment of loans from AS Nordic Energy Link due to breach of contractual terms. As at 30 June 2012, AS Nordic Energy Link had drawn loans of EUR 53.9 million (as at 30 June 2011: EUR 59.0 million).

10 Related party transactions

in million EUR

The sole shareholder of Eesti Energia AS is the Republic of Estonia. In preparing the Group's financial statements, the related parties include associates, members of the management and supervisory boards of the parent company, and other companies over which these persons have significant influence.
Related parties also include entities under the control or significant influence of the state.

	1 January - 30 June	
	2012	**2011**
Transactions with associates		
Purchase of goods and services	13.9	14.6
Proceeds from sale of goods and services	1.2	1.1
Financial income	0.8	0.1

No impairment loss from receivables was recognised in the reporting period and in the comparable period.

Upon premature termination of the service contract with a member of the Management Board, the service contracts stipulate the payment of 3 months' remuneration as termination benefits.

In purchasing and selling electricity on the closed market, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

11 Disposal of subsidiary

On 17 February 2012 the transaction of the sale of the 100% shareholding in Televõrgu AS was completed. Until its disposal, Televõrgu AS was part of the Retail Business segment.

Net assets of the subsidiary disposed in million EUR	**17 February 2012**
Cash and cash equivalents	0.3
Trade and other receivables	2.0
Inventories	0.1
Property, plant and equipment	10.2
Intangible assets	0.1
Trade and other payables	-3.9
Total net assets of th subsidiary disposed	8.8
Sales price	22.4
Gain on sale	13.6
Cash in flows in transaction	
Proceeds from sale	22.4
Cash and cash equivalents of subsidiary in bank accounts	-0.3
Total cash inflows in transaction	22.1

12 Events after the reporting period

Under Order No. 196 of the Government of Estonia of 3 May 2012 the share capital of Eesti Energia AS was increased by EUR 150 million on 10 July 2012 by a monetary contribution.