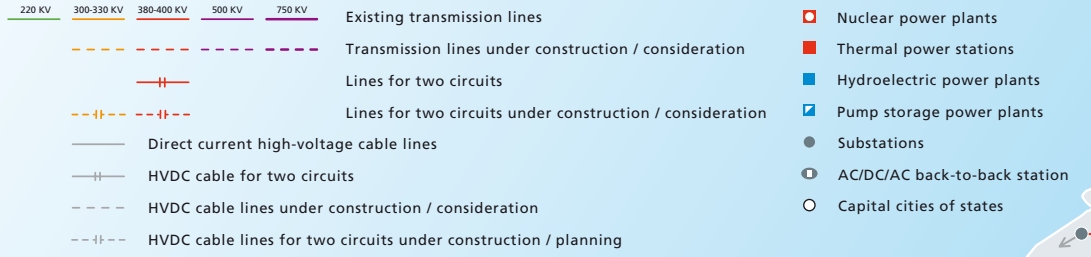
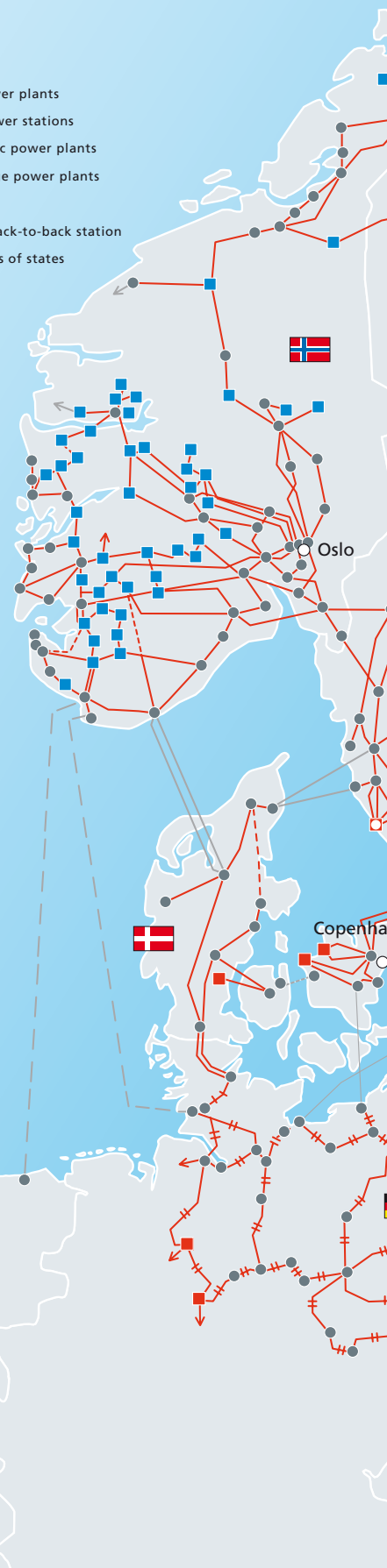
Annual Report 2007/08

EESTI ENERGIA

Our energy for the good of the people!

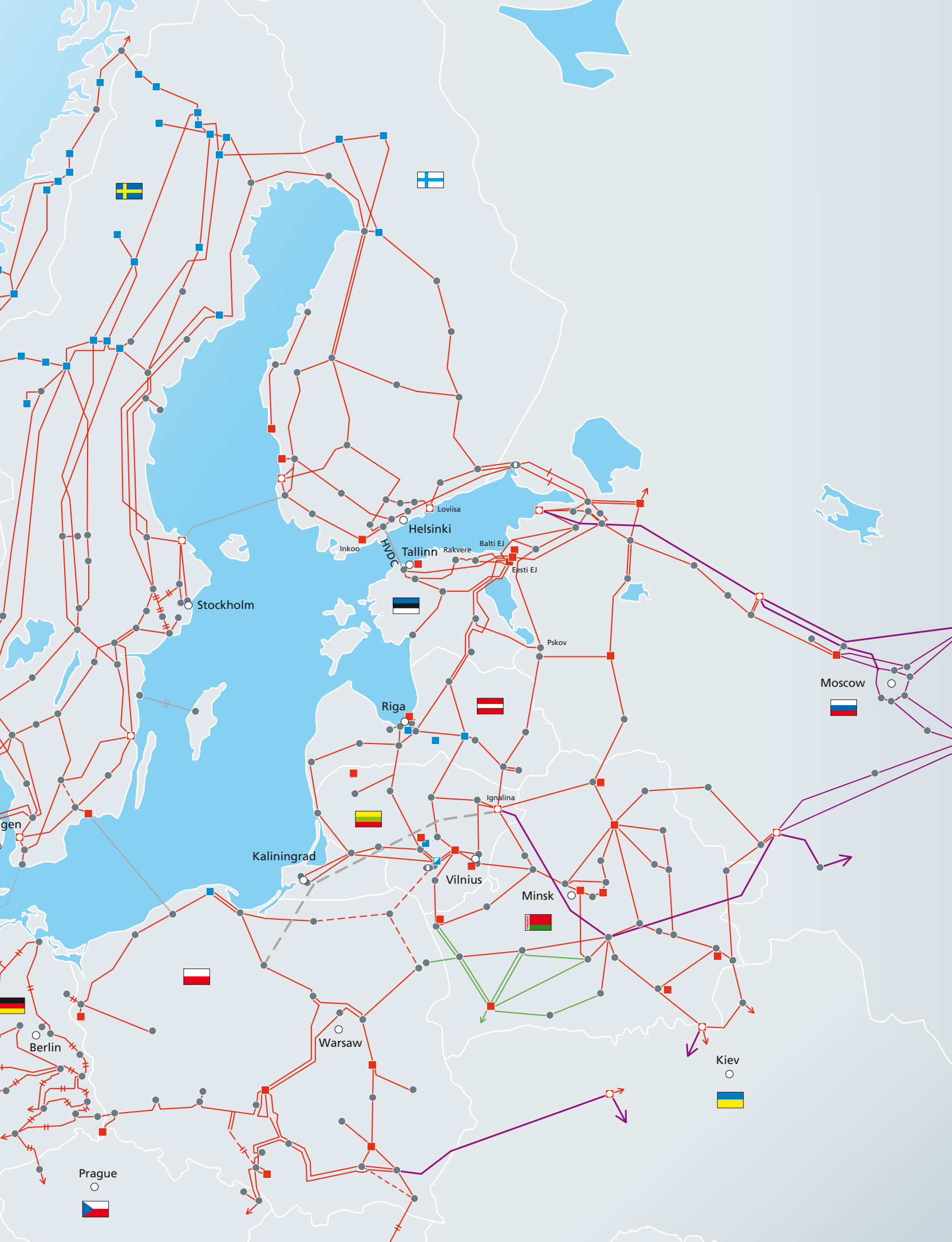
Map of the Northern European Transmission System (220 – 750 kV)





Main Financial Indicators of the Group

		2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
Total sales of electrical power	GWh	9,716	7,841	8,002	7,983	7,674	6,931
of which domestic sales of electrical power	GWh	6,992	6,634	6,235	5,947	5,702	5,369
exports of electrical power	GWh	2,725	1,230	1,733	2,036	1,973	1,562
Sales of thermal power	GWh	1,739	1,822	1,981	1,977	2,168	2,361
Total losses in the domestic power transmission system		10.2%	10.6%	12.1%	12.5%	13.9%	15.6%
of which losses in the distribution network		7.8%	8.3%	9.8%	10.2%	11.1%	11.9%
Sales revenue	MEUR	574	482	453	395	377	366
Operating profit before depreciation	MEUR	173	291	264	149	133	132
Net profit	MEUR	39	168	135	43	33	41
Cash flow from operating activities	MEUR	148	257	228	125	117	115
Investments	MEUR	171	140	153	160	199	238
Assets at the end of year	MEUR	1,694	1,667	1,497	1,318	1,245	1,185
Debt obligations at the end of year	MEUR	337	342	345	309	295	276
Owner's equity at the end of year	MEUR	1,055	1,116	971	840	795	762
Owner's equity / assets at the end of year		62%	67%	65%	64%	64%	64%
Return on invested capital		5.4%	16.1%	14.3%	5.6%	4.9%	6.1%
Net debt / operating profit before depreciation		0.8	0.3	0.7	1.8	1.9	1.4
Interest cover ratio		9.4	15.5	9.0	7.5	7.0	9.1
Average number of employees		8,417	8,576	8,983	9,542	9,754	9,768


Loviisa
Helsinki
Inkoo
HVDC
Tallinn
Rakvere
Balti EJ
Eesti EJ
Stockholm
Pskov
Moscow
Riga
Ignalina
Kaliningrad
Vilnius
Minsk
Warsaw
Berlin
Kiev
Prague

Key Events in the 2007/08 Financial Year

Eesti Energia's most important achievements in the 2007/08 financial year were the growth in customer satisfaction with both service and network quality, and the successful market launch of the KÕU internet service. With its entry into the Latvian and Lithuanian markets, Eesti Energia is now the only energy company selling electricity to clients throughout the Baltic States.

Improving Network Quality

- Dramatic increase in Jaotusvõrk investments in the power network over the next three years
- Fall in the number of faults per client to 2.17, from 2.4 in financial year 2006/07
- Cut in Jaotusvõrk losses from 8.27% to 7.78%
- Launch of research into an independent gas turbine for Estonia to ensure greater security of supply in emergencies

Diversifying the Production Portfolio

- Construction of the Baltics' biggest wind farm began in Aulepa.
- Preparations began for the construction of a wind park on the Balti power plant ash fields
- Commissioning of another 800 kW electric wind turbine at Virtsu wind park
- Preparations continued for the preliminary stage of construction of the new energy complex at Narva power plants and the Ahtme bio-fuel power plant
- Preparations began for a sulphur purification system on the old units of the Narva power plants.
- Replacement of the gas burners at the Iru combined heat and power plant by more effective ones
- Start of a waste-to-energy generation procurement for the Iru power plant
- Tender offer made to the Jordanian government for an oil shale energy complex.

New Connections and Markets

- Start of electricity sales to Latvia and Lithuania
- First successful full year of operation for the Estlink undersea cable
- Preparations for Estlink 2, including selection of line routes
- Completion of the first research into connecting the energy systems of the Baltic States and Poland
- Preparation for the Baltic expansion of Nord Pool

New Products and Services

- Successful market launch of the mobile internet service KÕU
- Market launch of the electrician service inside houses, which was long requested by customers

The World is Changing, and We are Ready

As I write these lines, the price of a barrel of oil on the global market is nearing 140 US dollars. A truck drivers' strike, fuelled by fears of financial ruin caused by astronomical diesel price, has wreaked havoc on the local stores in Spain. Skyrocketing prices for basic food have caused violent riots from Mexico to Cameroon to India. Droughts and floods caused by climate change have destroyed crops from Australia to South Africa.

Turning off the news won't help. We are living in a changing world.

To cope with these changes and make us all feel more secure, Eesti Energia looks beyond today and the local microclimate. The ecological footprint of the human species is rapidly growing, but even though a collective sense of responsibility is emerging, actual change takes time. And time is something we're running out of. In order to be ready for change, we must carefully consider our priorities at this moment, and what we must do to ensure security, wealth and fulfilment in the future.

This new reality calls for initiative, a sense of responsibility, and the desire to work together, and for new ideas and innovation in using new ideas. That we are looking for solutions, and doing so with a sense of urgency, is reassuring.

This publication has been designed to give an overview of our work in Estonia and other parts of the world. I would particularly highlight the investments made in improving the electricity supply to our Estonian customers. We also expanded our product selection and gained invaluable experience of the free market by launching the mobile internet service KÕU in Estonia. Today, KÕU has more than 15 000 customers throughout Estonia.

A great priority for us is to reduce the environmental impact of energy production. To this end, we are expanding our product portfolio by researching how nuclear power can supplement the current means of energy production in Estonia. We are also lowering our impact and widening our portfolio through the wind parks to be built in Aulepa and on the closed ash field of the Balti power plant. To provide competitive electricity services, we are making extensive investments in renewable energy, and in twelve years' time we plan to be producing nearly a third of the electricity consumed in Estonia from renewable sources of energy.

The unique experience gained in producing electrical energy and oil from oil shale is a good example of our strength. The technology was developed in Estonia, and the skills we have learned have raised interest all over the world. Our projects in Jordan show that we have the courage to think big and take our opportunities. This is exactly the attitude which made us the leader in establishing a common market area for the Nordic countries and Baltic States, and in selling electricity to Finland, Latvia and Lithuania.

We are a part of a changing world. We believe that change offers opportunities. And that through them we can create value for our present and future customers.

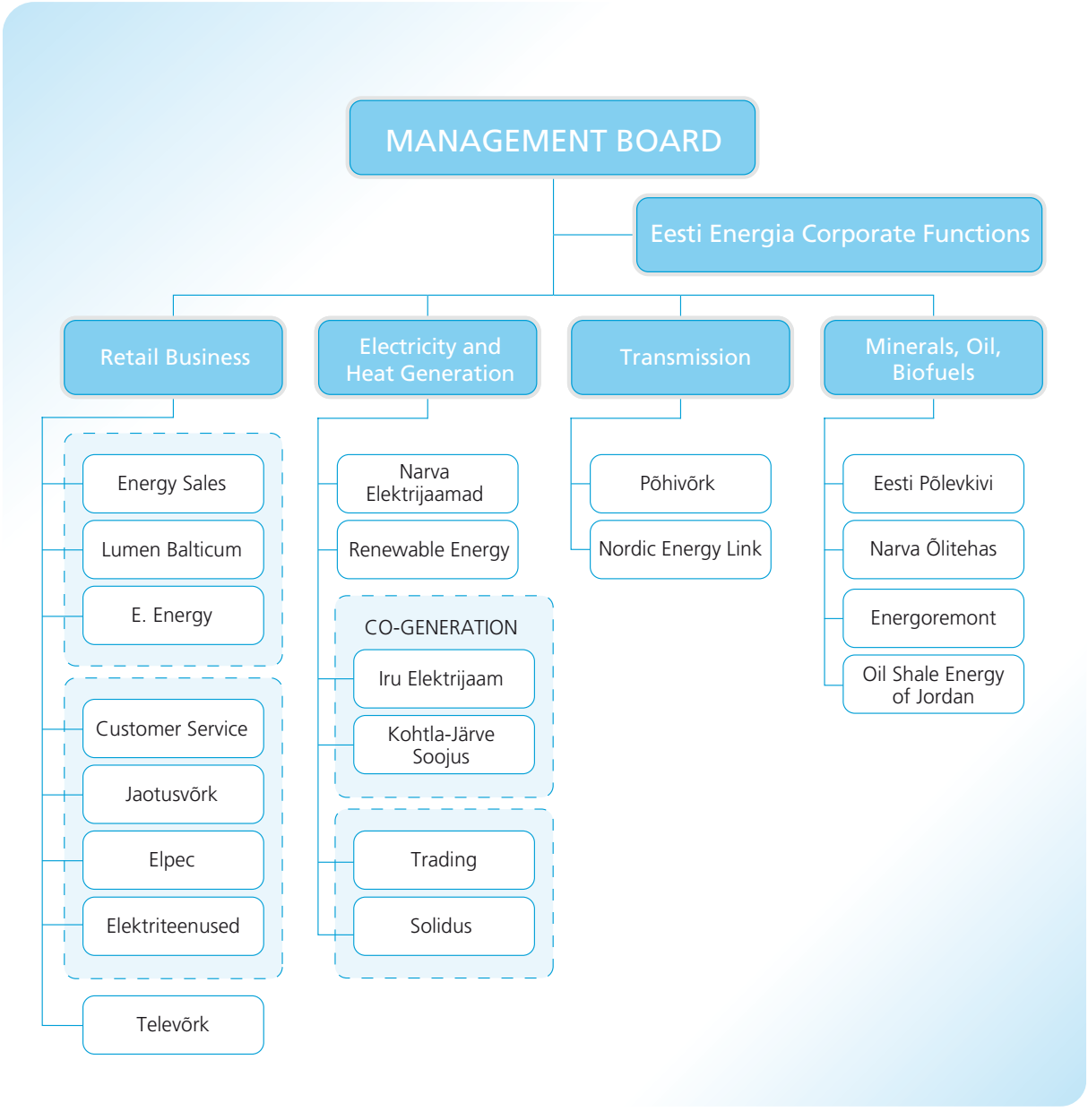
Sandor Liive
Chairman of the Management Board

Mission

All of our energy for the good of the people.

Vision for 2015

We will sell energy to two million customers in the Baltic Sea region.
We will be the undisputed world leader in producing liquid fuels from oil shale.



Eesti Energia Strategy

Eesti Energia is an international energy company with an integrated value chain. An integrated approach to customers' energy needs and energy production gives customers a feeling of security and enhances value for investors. Eesti Energia's strategy consists of four business strategies:

Retail business

- Preparations for opening the electricity market
- Product enhancements
- Growth in Latvia and Lithuania.
- Acquisition of power networks
- Renovation of the Estonian power grid

Eesti Energia's retail operations offer electrical services to half a million clients.

The primary financial goal of retail operations is to increase income per customer. This will be achieved by expanding the product portfolio offered to customers, and increasing the profitability of the products.

Eesti Energia's strategic goal is to expand its customer base. The company will concentrate on gaining customers in Latvia and Lithuania, where sales of electricity in the free market began in 2007. In Estonia Eesti Energia will win more customers and become more profitable by expanding its product portfolio. Eesti Energia will take over distribution network companies throughout the Baltic Sea region.

In order to ensure the best power grid service possible in Estonia, Eesti Energia will invest nearly 450 million euros in the years ahead. As a result, Estonia's distribution network will be among the most reliable and best in Europe. To reduce faults, existing lines will be replaced with underground cables, while in other places new overheard transmission lines and new substations will be built. Customers will help develop personal solutions to improve the reliability of supply. A new generation of systems for measuring electrical energy will come into use.

Eesti Energia considers it very important to continue to improve the quality of its customer service. In a survey conducted in early 2008, 82% of private customers and 83% of business customers said Eesti Energia customer service was "good" or "very good".

Electricity and Heat Generation

- Co-generation of heat and power
- Biofuels and waste
- Wind farms
- Nuclear power plant
- Compliance with environmental requirements for the production of electricity from oil shale.

Successful generation of electricity and heat is based on a diverse production portfolio that conforms to increasingly stricter environmental requirements and is competitive in a regional electricity market at the edge of the EU.

In order to ensure its clients a sufficient supply of power, Eesti Energia wants to invest in new production capacity in Estonia, Latvia, Lithuania, Finland and Scandinavia, reducing CO_2 emissions from production and diversifying its electricity production. Eesti Energia intends to take ownership of long-term production capacity that will at a minimum cover Estonia's electricity consumption.

SANDOR LIIVE
Chairman of the Management Board, Chief Executive Officer
Eesti Energia

MARGUS KAASIK
Member of the Management Board, Chief Financial Officer
Eesti Energia

MARGUS RINK
Member of the Management Board, Retail Business
Eesti Energia

RAINE PAJO
Member of the Management Board, Electricity and Heat Generation
Eesti Energia

HARRI MIKK
Member of the Management Board, Minerals, Oils, Biofuels
Eesti Energia

RIINA VARTS
Head of HR
Eesti Energia

LEMBIT VALI
Chairman of the Management Board
Põhivõrk

To make better use of its production capacity Eesti Energia tightly links power production with the buying and selling of electricity on the power market. Eesti Energia uses consistent risk management in the electricity market.

By 2015 Eesti Energia will cut the CO_2 emissions of its electricity production portfolio to 0.8 t/MWh, from 1.1 t/MWh in 2007, and by 2025, to 0.3 t/MWh.
To achieve this will require a significant holding in a nuclear power plant, a maximum amount of biofuels and waste used to produce heat and power, at least 1000 MW of electricity from wind parks, and an expansion of co-generation of heat and power.

The power plants in Narva will invest in smoke, sulphur and nitrogen emissions purification, in order to comply with environmental requirements which will become stricter in 2012 and 2016.

Eesti Energia will use its knowledge to start production of electricity from oil shale in other countries.

Minerals, Oil, Biofuels

- Effective oil shale mining in Estonia
- Production of one million tonnes of liquid fuels per year in Estonia
- Opening of the oil shale energy complex in Jordan

Successful fuel production requires effective oil shale mining and development of the technology for liquid fuels production in order to maximise the value of oil shale resources.

The priorities of oil shale mining are to increase the productivity of the work, to ensure the sustainable and maximum use of natural resources, and to reclaim mined areas.

At the moment, Eesti Energia has the world's best technology for producing liquid fuels from fossil minerals. The technology allows the overwhelming majority of the energy contained in oil shale to be harnessed. Eesti Energia's goal is to produce at least one million tonnes of refinable liquid fuels per year by 2015.

Eesti Energia will develop its solid heat conductor technology for liquid fuel production and sell the underlying know-how of this technology to countries wanting to exploit their oil shale reserves. The first such project will be a liquid fuel and power generation complex in Jordan.

Transmission

- Creation of a regional electrical market
- Construction of a second Finnish-Estonian undersea cable
- Operational reliability of the electrical system

The key to Eesti Energia's success is improving the connections between the Estonian transmission grid and other European Union market participants, and rolling out the new European Union electricity market system in Estonia and other Baltic States.

The most important investments are a second undersea cable to Estonia by 2013 and a connection to the power grid for wind farms. To ensure the reliability of the electrical system, the transmission grid will get a gas turbine of at least 100 MW by 2012 and 400 MW by 2018.

The Estonian transmission grid is taking the lead among Baltic energy companies in creating a market region uniting the Baltic States, the Nordic countries and Poland. Highest priority is given to the opening of an energy exchange in Estonia by the end of 2008 in cooperation with the Nordic exchange Nord Pool.

The Estonian transmission grid ensures the operational reliability of the Estonian electrical system as a whole.

HELEN ATTIKAS
Head of Communications
Eesti Energia

JAANUS ARUKAEVU
Strategy Manager
Eesti Energia

JANNE MAGNUS
Chief Accountant
Eesti Energia

ILMAR JÕGI
Chairman of the
Management Board
Eesti Põlevkivi

TRIIN FROSCH
General Counsel
Eesti Energia

MARGUS UUDAM
Chairman of the
Management Board
Jaotusvõrk

ILMAR PETERSEN
Chairman of the
Management Board
Narva Elektrijaamad

People and the Organisation

The human resources policy of Eesti Energia, one of the biggest employers in Estonia, is focused on creating a motivating working environment for top-quality people who work to develop the company, and on rewarding and retaining them. It is also focused on developing managers and ensuring the next generation of energy industry specialists.

At the end of the financial year 2007/08 the Eesti Energia Group employed 8,501 people, which is slightly more than the 8,411 people employed at the end of the previous financial year. The average age of the employees of the Eesti Energia Group was 45.6 and the average length of service was 15.2 years. The majority of employees, 78%, are men and 22% are women. The majority of employees of the Eesti Energia Group, 61%, are skilled workers, 17% are office staff, 11% managers, 5% top managers, 3% service personnel and 3% unskilled personnel.

Eesti Energia works hard to be an attractive company to come to work for. Studies in recent years indicate that Eesti Energia is a highly rated employer compared to other successful large companies. Eesti Energia's attractiveness as an employer is enhanced by the extremely rapid development of the energy industry, an industry that is strategically important for Estonia and offers employees not only opportunities for development but also motivating challenges. Eesti Energia offers its employees interesting and varied work, opportunities to apply their knowledge and skills, a modern working environment, and both professional and personal development. On top of a competitive salary, Eesti Energia offers various bonuses and benefits to its employees, including a sports club, winter holidays, various family-related benefits and recognition for long service.

Eesti Energia's management team grew stronger in the 2007/08 financial year. Ilmar Jõgi became the head of Eesti Põlevkivi, while Eesti Energia Group employed as Strategy Manager Jaanus Arukaevu, who will help the Group to approach strategic planning more dynamically. Margus Rink was appointed as a new member of the management board with responsibility for the retail business, and Igor Kond took over as head of Narva Õlitehas (Narva Oil Factory).

The implementation of the HR strategy also continued in the 2007/08 financial year. The strategy is focused on developing managers, building the next generation of industry specialists, and retaining and motivating employees. As part of the programme for developing managers, the Group held a management day for about 500 top and mid-level managers in autumn 2007, which aimed to explain the expectations of the organisation, and its management culture and values. The management day will be held every autumn, and its aim is to give managers fresh ideas about management and to create an opportunity for learning together and setting common objectives. The "ABC for managers" programme was launched in spring 2007 with the aim of introducing uniform management principles throughout the Group. In the framework of this training programme managers will complete training in three major areas: the manager as a person, the fundamentals of management, and people and management in Eesti Energia.

In line with the strategy, Eesti Energia Group is paying a great deal of attention to retaining and motivating its employees. In March 2008, sixty Eesti Energia employees completed the company's first "Weekend University" course aimed at broadening their outlook towards both the energy sector and other issues related to the company. The company also supplemented and structured the new programme of the employee orientation day. This day is a part of the new employee induction programme. In the 2008/09 financial year the company plans to develop further its reward systems, evaluate jobs in those Group companies where this has not yet been done, and move towards a more performance-based pay system.

As a leading energy company, one of the human resources priorities of Eesti Energia is to guarantee future experts within the field. Eesti Energia works closely with educational institutions and concentrates on recruiting interns as one way of ensuring the existence of the next generation of energy specialists. During the 2007/08 financial year, there were 245 interns within the Eesti Energia Group. In 2008, the company intends to make the organisation of placements even more systematic, by concentrating the organisational principles for professional placements, identifying the need for intern positions for the 2008/09 financial year, and preparing a professional placement schedule for the 1st quarter of 2009.

Social Responsibility

As a leading large company, Eesti Energia has a certain social responsibility and contributes to the development of the energy sector and of society as a whole.
Eesti Energia mainly supports activities related to the energy industry, focusing primarily on initiatives that create value for as many people living in Estonia as possible. In 2007/08, Eesti Energia Group provided 0.2 million euros in sponsorship for various projects.

Contribution to the Development of the Energy Industry

Eesti Energia wants the people of Estonia to have both electricity and an unspoiled natural environment in the future, just as they do today. This is why Eesti Energia is working towards increasing the proportion of energy produced from renewable energy sources and is investing in various renewable energy solutions, including wind parks and bio-fuel based co-production plants. Oil shale is the national pride of Estonia, but the mining and processing of oil shale is unfortunately not without environmental impact. The companies in the Eesti Energia Group are actively working towards reducing the environmental impacts arising from energy production and transmission. Eesti Energia is open to new solutions and is working closely with several science and research institutions, including Tallinn University of Technology, Tartu University and the Estonian University of Life Sciences.

Eesti Energia has launched the Future Energy Foundation in order to support the creation and development of innovative energy solutions in the Baltic Sea region. In 2007/08, a competition to find new environmentally friendly energy solutions was held within the framework of this foundation, and 21 projects were presented. The winners were a project combining bio-gas, coal and oil shale as fuel, and a passive houses project, and they received 0.3 million euros in support from the foundation.

Eesti Energia continued to sponsor the interactive science bus Suur Vanker (Ursa Major). Suur Vanker was started by the Estonian Society of Physics and is a mobile science lab and science theatre which visits schools all over Estonia and offers demonstrations of physics and chemistry experiments. In its first two years of existence, the science bus has visited 300 schools.

Next Generation in the Energy Industry

As a leading energy company, one of the human resources priorities of Eesti Energia is to guarantee future experts within the field. The disappearance of professional higher education for energy specialists from the education system has left a gap on the labour market, which is why Eesti Energia works closely with educational institutions in order to make sure there will be a next wave of energy specialists. Young people who have studied energy will be important and highly valued specialists for the whole of society. In order to make the science of energy more sustainable, Eesti Energia has launched several projects that enhance the development of the energy sector even further and educate the new generation about energy.

In autumn 2007, the Tallinn University of Technology (TUT) launched a master's programme in energy trading with Eesti Energia as one of its financial supporters. In addition Eesti Energia and the TUT Development Fund signed a contract to pay scholarships to the best energy technology students at TUT Virumaa College. For the ninth year running, Eesti Energia is awarding master's and doctoral studies scholarships to students at TUT. Eesti Energia is also paying scholarships to three young people who started studying nuclear energy at the Swedish Royal Institute of Technology. It is hoped that these three young people will become the first Estonian nuclear energy specialists.

In 2007/08, Eesti Energia held a physics competition "Energetic Energy 2007" for general education schools, basic schools and upper secondary schools, which drew over 400 students from 30 Estonian and Russian speaking schools. Eesti Energia organises 100-125 trips a year to take school children to energy related sites, and in 2007/08, over 3,200 basic school, upper secondary school and high school students visited various sites in the energy system.

Eesti Energia is also about to launch a project called "Better Physics", with which the company wants to contribute to improving physics education in schools and the reputation of physics as a subject. The project will supply modern equipment for physics classrooms so that students can learn practical skills and develop a research-based approach to the study of physics.

Eesti Energia also sponsored the publication of two energy related textbooks, Endel Risthein's "Introduction to Energy Technology", as used at TUT, and a textbook dealing with climate problems for secondary school students, which will be completed in autumn 2008 under the leadership of the REC Estonia foundation.

Eesti Energia is also one of the founders of the Energy Centre, which runs energy related permanent exhibitions in Tallinn. The Energy Centre sponsors education in environmental protection and technology, offering a practical addition to theoretical school lessons and motivating young people to get involved in a scientific profession in their future life. Nearly 20,000 students and adults from all over Estonia visit the Energy Centre each year and use its learning and entertainment facilities.

Responsible Energy Production and Conservation

One of the most important ways of managing the growth of energy consumption and ensuring the energy supply is energy saving. A systematic approach to energy saving can help to cut costs and save resources significantly in the production, transport, storage and conversion to energy of fuel, in energy distribution, and through rational and economical consumption. Energy saving helps reduce the environmental pollution caused by energy production and also reduces clients' costs.

In order to publicise ways of saving energy more widely and to increase the efficiency of energy use, Eesti Energia has put information about it on the Energy Saving Portal on the internet (kokkuhoid.energia.ee). This web page provides the first opportunity for business and residential clients and large commercial consumers to get simple, clear and diverse information from one channel on products, technologies and means of energy saving.

In 2007, Eesti Energia also supported an eco-festival in Põlvamaa, which presented organisations, endeavours and people dedicated to creating an environmentally harmonious and nature-centred living space. The festival also focused on environmental problems and attempted to find solutions to them. Eesti Energia also supports the summer school organised at Käsmu by the non-profit association Teadusteave. At this gathering, scientists and others interested in science discussed developments in science both in Estonia and elsewhere in the world.

Social Projects and Initiatives within Eesti Energia

Every company's most immediate contact is with its own employees. Mindful of this, Eesti Energia is investing in its own organisation, organising training courses, taking an interest in regional development and caring both for its employees and for their families. In order to address social problems arising from the spread of HIV, employees of Jaotusvõrk from all over Estonia received training in the prevention of HIV as part of the HIV/AIDS prevention campaign organised by the Terve Eesti foundation (Healthy Estonia).

Another important way of taking social responsibility are initiatives within the company which promote an environmentally aware lifestyle and invite employees to think more economically when using energy. Eesti Energia companies regularly play a role in various initiatives which benefit society, such as planting trees or collecting scrap paper, old batteries and old computers. In order to save paper we offer our customers e-invoices.

Eesti Energia also helps institutions in the social sector with the construction and supply of electrical lighting. For example, Eesti Energia supplies electricity to the Maarja Village, a home for mentally disabled young people in Põlva County.

Promotion of Public Sports Activity

Eesti Energia values the well-being and health of its employees and their families and therefore helps develop ways for as many people as possible in Estonia to engage in recreational sports.

As part of the Estonian Recreational Trails project, Eesti Energia, together with Hansabank, Merko Ehitus, the Ministry of Culture and the Estonian Ski Association, has renovated several recreational trails. The aim of this is to develop activity and sports trails in Estonia, ensuring that such recreational trails are available free to all those who wish to use them all year round. By spring 2008, over 30 sports centres around Estonia were involved in the Estonian Recreational Trails project. Eesti Energia's role in the renovation of recreational trails is the construction of lighting.

Eesti Energia is also behind the Health Walk series which promotes a recreational sport suitable for every age and level of fitness to people all over Estonia. The walking series, organised in partnership with the Stamina sports club, will take place for the third time in summer 2008.

Summary of Key Events Affecting Financial Results

Eesti Energia's operating income in 2007/08 was 580.6 million euros, or 0.7% less than in the previous period. Operating profit fell 66.4% to 63.5 million euros and net profit for the financial year fell 76.7% to 39.3 million euros. Excluding the effect of emissions allowance trading on financial results, Eesti Energia's operating profit was 72.6 million euros, 21.7% less than in the previous period.

In the 2007/08 financial year, the Group's operating income exclusive of emissions trading grew at its fastest rate in the last five years, and saw an increase of 18.9% over the previous year. The growth came from an increase in revenue from domestic electricity sales and a rise in electricity exports through the Estlink cable. Emissions allowances were purchased, where income had earlier been raised from selling them, and operating expenses increased by 30.7% due to a rapid rise in inflation and labour costs, and as a result operating profit fell by 66.4% compared to the 2006/07 financial year.

In the 2007/08 financial year Eesti Energia was the only energy company to sell electricity to clients throughout the Baltic States. Eesti Energia subsidiary SIA E.Energy was the first newcomer to the Latvian electricity market, and began selling electricity to local customers in July 2007, while Lumen Balticum, another subsidiary, began selling in the Lithuanian market in March 2008. Cross-border energy trade in the Baltics is a factor in increased competition between energy companies, creating the foundation for a single Baltic electricity market and improving the security of supply in the region. One of the Group's priorities in the years ahead is to expand the customer base in the Latvian and Lithuanian markets and to increase sales volumes.

One of the most important events in the financial year to 31 March 2008 was the start of construction work on the biggest wind park in the Baltics at Aulepa. The wind park that Eesti Energia is building is projected to have an annual electrical energy output of over 100 GWh, which will cover around 1.3% of end electricity consumption in Estonia. In the financial year ended 31 March 2008, the second Virtsu wind turbine was started up, as was the procurement process for a wind park on the closed ash field of the Balti power plant. New production capacities are being created in order both to diversify the production portfolio and to reduce CO_2 emissions from electricity production.

Eesti Energia launched the mobile internet service KÕU, a new solution providing wireless internet coverage for almost all of Estonia, including places where there was previously no internet connection. Eesti Energia invested nearly 5 million euros in building and expanding the communications network, and by the end of the financial year, the KÕU service covered 98% of Estonia and had over 15,000 customers.

Domestic electricity sales were 6,992 GWh in FY 2007/08, an increase of 5.4% on the 2006/07 financial year. Sales to customers on the domestic free market grew 1.5%, while those to corporate clients on the closed market grew 6.9%, and to residential customers 6.8%. Sales to network operators dropped by 0.3%.

The average temperature in the financial year 2007/08 was 7.1 degrees Celsius, which was 0.2 degrees less than in the previous financial year. In the first three quarters the average temperature was 1.2 degrees less than in 2006/07, but in the fourth quarter it was 2.6 degrees higher, leading to a significant fall in sales of electricity and thermal energy. Over the year it is estimated that electricity sales were 30 GWh higher because the temperature was 0.2 degrees colder.

The Group's investments grew by 22.6% in FY 2007/08, reaching 171.2 million euros. As in the previous financial year, the main focus was power grids, which received 102.3 million euros in investments. Investment in the distribution network was increased significantly, up 72.8% or 37.2 million euros from the previous financial year. The biggest investment in electricity generation was 11.6 million euros invested in the Aulepa wind park, while oil shale production received 26.8 million euros of investment.

Continual investment in power grids and close coordination within the Group resulted in domestic losses being continually reduced, with distribution network losses falling to an all-time low of 7.8% by the end of FY 2007/08. One of the strategic goals of the Group is to continue investing to raise the reliability and quality of the distribution network and to reduce losses to 7% by 2011.

Exports of electricity increased significantly due to the Estlink submarine cable, operational since January 2007, and in the financial year ended 31 March 2008 they went up by 121.5% or 1494 GWh. A total of 1499 GWh was exported to Finland, 273.7% more than in the previous financial year. Exports to Nord Pool, the energy trading market of the Nordic countries, were 832 GWh, a rise of 304.3% over the financial year. Export volumes to Latvia nearly doubled and totalled 1225 GWh in the financial year ended 31 March 2008.

Sales of thermal energy reached 1739 GWh in FY 2007/08, a drop of 4.6% from the previous financial year. The warm month of February 2008 had a particularly sharp impact on sales of thermal energy, as the average temperature was 10.5 degrees higher than in February 2007 and this pushed sales of thermal energy down by 92 GWh. The rise of more than 70% in the price of natural gas resulted in higher rates for thermal energy, as a result of which income from sales of thermal energy increased 12.5% to 37.7 million euros.

The government allocated the companies in the Eesti Energia Group 9.2 million tonnes per year of emissions allowances for the second carbon dioxide trading period 2008-2010. This is around 40% less than in the previous period, and additional emissions allowances will need to be acquired to cover domestic electricity demand and electricity generation for export. As a result, the Group began buying emissions allowances on the energy exchanges at the beginning of 2008. The cost of purchasing additional emissions allowances came to to 9.1 million euros in FY 2007/08.

During the financial year, Eesti Energia Group companies submitted applications to the Competition Board to change the grid fees, the price of oil shale, the price of electricity production and the limit of the weighted average price.

From 1 March 2008, a new, three-year regulation period for network fees began, resulting in a lower electricity price. At the same time, the price of electricity for customers will increase by an average of 5% from 1 July 2008, primarily as a result of the rise in the price of oil shale.

The rapid rise of the price of oil on the world market led to a rise in the world market price for liquid fuels. The price of a barrel of oil was on average US $64 in FY 2006/07, but the average price rose to $83 in FY 2007/08. Against the background of this increase, the average price of shale oil rose to 232.1 euros per tonne. The revenue from shale oil was 28.6 million euros in FY 2007/08, which was 17.3% more than in the previous financial year.

Overview of the Economic Environment

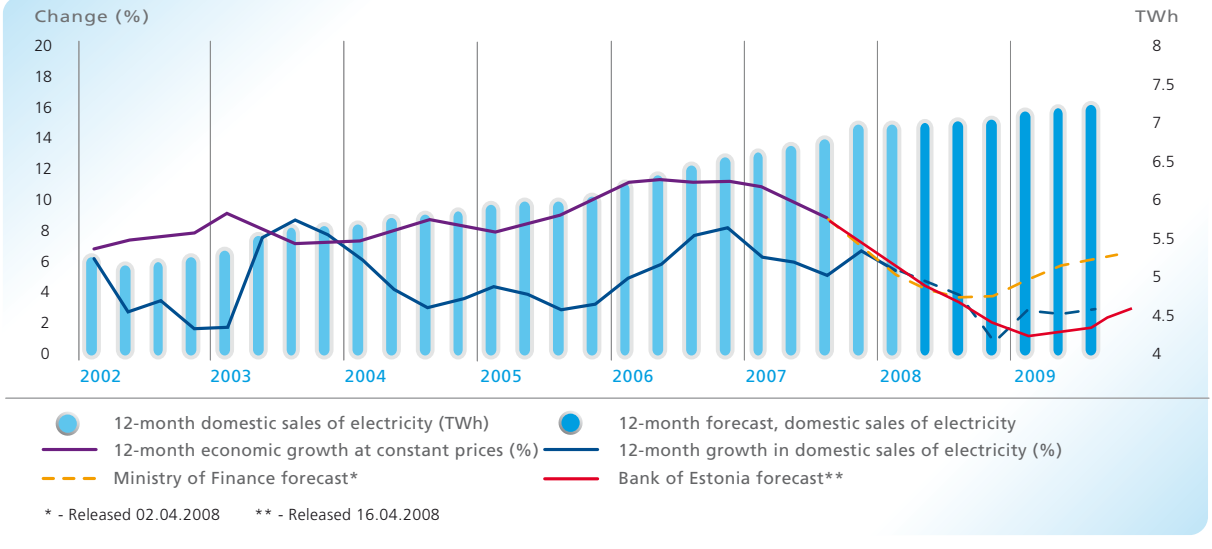
The general economic environment is reflected in electricity consumption with rising economic growth causing an increase in sales of domestic electricity both to companies producing goods and services and to residential customers. Data from various years suggest that the rise in domestic electricity sales runs at about half the rate of economic growth. In addition to economic growth, changes in electricity sales are caused by temperatures deviating from the average and increases in the number of major industrial consumers.

After growing 7-8% in recent years, faster than its historical average, GDP growth slowed down in 2007, as expected. According to Statistical Office data, GDP real growth fell from 11.2% in 2006 to 7.1% in 2007. As the nominal growth rate fell from 18.1% to 17.5%, the slowdown in real growth was caused above all by the rise in the prices with the GDP deflator at 9.7% in 2007. The rapid growth in domestic demand which had been a hallmark of the past few years started to cool in 2007 as tighter lending conditions and a rise in interest rates had a negative impact on individuals' consumer spending, and the slowdown in real estate investments led to a sharp drop in total investments. Even though compared to the previous year, growth rates for both exports (real growth 1.5%) and imports (2.8%) fell markedly, imports continued to outstrip exports.

Real growth decreased in most sectors of the economy. As growth of domestic demand slowed and exports became less competitive, real growth in manufacturing, the largest consumer of electricity, fell from 12.8% to 8.3%.

Despite this slower growth, domestic electricity sales increased by 0.4 TWh in FY 2007/08 to 7.0 TWh, an increase of 5.4%, while sales to business customers, which were up 6.9%, and to residential customers, 6.8% higher, grew faster than average. As the average temperature was only 0.2 degrees less than it had been in the previous financial year, it added only 30 GWh of sales.

In 2007, inflation rose to 6.6%, the highest level in the last ten years. Domestic price pressures have resulted in much higher core inflation – excluding food, alcohol, tobacco and energy prices – than in previous years, and in addition, changes in the external environment have accelerated the rise in consumer prices, with the steep increases in the world market prices



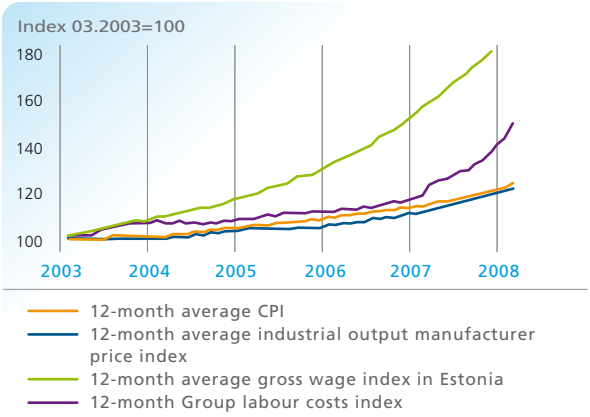
of oil and food also reflected in Estonia. Due to the external factors and the rise in various excise duties rates, monthly inflation at the beginning of 2008 was its highest in recent years.

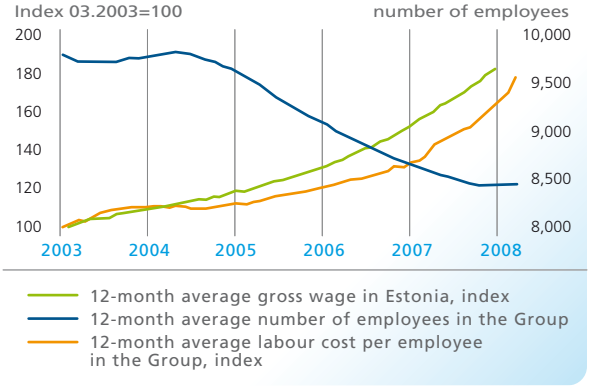
The general rise in prices had a direct effect on the Group's expenses as higher construction prices increased the cost of maintenance and repair of equipment by 25.6%, a faster rate than the average for recent years, and as liquid fuel prices rose, transport-related costs went up 41.6% compared to FY 2006/07.

In 2007 average gross wages continued to grow rapidly, the employment rate stabilised, and unemployment fell to an all-time low. The openness of the labour market and higher wages both in nearby countries and elsewhere in Europe tightened the supply of labour in Estonia and strengthened the position of employees in wage negotiations: average gross wage growth, which was about 10% per year in 2000-2005, picked up momentum in 2006, reaching 16.5% in 2006 and 19.7% in 2007. At the same time, unemployment fell from 13.6% in 2000 to 4.7% in 2007.

The strong wage pressure on the labour market had a significant impact on Eesti Energia's labour costs as well. Whereas in previous years the average labour cost per employee grew more slowly than the increase in average gross wages nationwide, in the financial year ended 31 March 2008 the average labour cost per employee grew by 28.5%. Total labour costs for the Group in FY 2007/08 were around 120 million euros, an increase of 25 million euros or 25.7% compared to the previous financial year. In the years ahead, wage pressure on the Group is expected to abate amid a general slowdown in wage growth, with 8% growth in labour costs forecast for FY 2008/09.

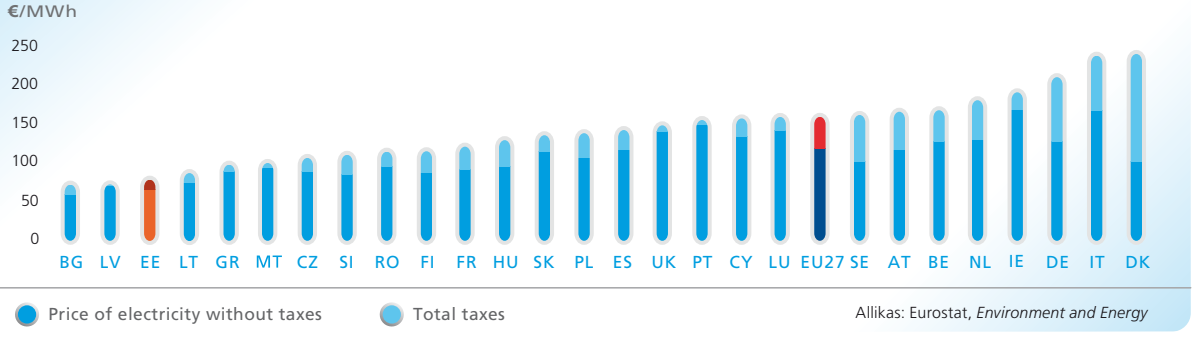
As productivity increases, the continued fall in the average number of employees in the Group has not had an impact on production volumes; in FY 2007/08 an average of 8417 people worked for the Group, which is 159 people or 1.9% fewer than in FY 2006/07. Increasing productivity will also be one of the most important priorities in the Group for subsequent periods.





The Group's electricity output is largely based on oil shale, and because the price of oil shale is not directly linked to the world oil price, production costs and the price of electricity remain fairly stable. Among European Union countries, as at 1 July 2007, only Bulgaria and Latvia had a lower electricity price inclusive of taxes for typical residential consumers than did Estonia. In the years ahead, it is expected that investments by the Group will increase and environmental requirements will become more stringent in Estonia, and this will make the price of electricity higher.

Prices of electricity on 01.07.2007 for EU residential consumers with an annual consumption of 2500-5000 kWh



Allikas: Eurostat, *Environment and Energy*

Emissions Trading

The European Union Emission Trading System was set up in 2005 to help member states comply with the obligations in the Kyoto protocol to reduce greenhouse gas emissions. In the national distribution plans approved by the European Commission, carbon dioxide emission allowances are allocated to companies that discharge greenhouse gases – each allowance gives its holder the right to emit one tonne of CO_2. If the company emits less than it holds allowances for, it may trade the surplus allowances on various exchanges accepted by the EC. Although emissions allowances are approved on a yearly basis, any allowances not used within a given year can be carried over to the next year. The allowances allocated in the first trading period could not be carried forward to the second trading period, however.

The first trading period for emissions allowances ran from 2005 to 2007, but by 2006 it was already clear that the allowances allocated by the end of 2007 would exceed actual emissions, so the increase in the supply of allowances in early 2007 brought the price for the allowances for that year on the exchanges down to around 0.1 €/tonne.

Since December 2005, futures for the emissions allowances allocated for the second trading period, 2008-2012, have been traded. The spot price of the emissions allowances for 2008 with the highest trading volume has remained around 15.9-24.8 €/tonne since April 2007, fluctuating with changes in the prices of oil, coal and gas and German electricity prices. The market expects the spot price for 2008 allowances to remain at 20-25 €/tonne in 2008.

In addition to greenhouse gas emissions allowances, CER (Certified Emission Reduction) allowances are also traded. These allowances can be bought by companies in developed countries who carry out projects in the developing world to reduce greenhouse gas emissions. The governments of various countries have provided additional incentives for the purchase of CER allowances, allowing companies to compensate for shortfalls in CO_2 allowances to a certain extent. At the present moment, Estonia is the only country in the European Union whose government does not allow CER credits to be used instead of emissions allowances.

In FY 2006/07, Eesti Energia received about 96 million euros of revenue from the sale of emissions allowances traded on the Nordic power exchange Nord Pool. In FY 2007/08, emissions allowance trading had the opposite effect on financial results, and cost 9.1 million euros. This was because the allowances for 2007 were not sold on the exchange due to a lack of interest from buyers, while at the same time significantly less allowances than expected were allocated to Eesti Energia for the second trading period, resulting in higher expenditure on purchasing allowances in 2008. The estimated cost of buying allowances in FY 2007/08 was 9.1 million euros.

The government allocated Eesti Energia Group companies a total of 9.2 million tonnes of greenhouse gas emissions credits for the second trading period of 2008-2012, about 40% less than for the first trading period. The smaller figure was primarily the result of the decision of the European Commission to approve only 12.72 million tonnes instead of the requested 24.38 million tonnes for the Estonian national annual allowance for greenhouse gas emissions. The government is appealing against the European Commission decision in the European Court of First Instance, citing as the primary reason that the wrong assumptions, for electricity produced from natural gas for example, were used to calculate the number of emissions credits allocated to Estonia.

The current size of the allowance allocated to Eesti Energia means it will be necessary to buy additional credits in order to meet domestic electricity demand and generate electricity for export; in FY 2008/09 the allowance will be insufficient to cover domestic electricity demand by about 0.7 million tonnes. Assuming that the price of emission allowances remains in the 20-25 €/tonne range, the cost of buying allowances will be 14-18 million euros. The shortfall in the allowance will raise the cost of electricity generation and result in the price of electricity going up by about 0.19-0.24 cents/kWh (1 cent = 0.01 euro). In addition, the Group will have to buy credits to generate electricity for export, which will raise the production price of electricity and have a negative impact on export volumes.

For long-term investment decisions, especially those regarding CO_2 intensive production capacities, the state of the emissions credit market at the end of the second trading period is of great importance. At the beginning of 2008 the European Commission proposed abandoning national distribution plans from 2013 and establishing one single pan-European emissions allowance, to be divided up among the companies of the member states. Another key change is that the number of allowances distributed free of charge will be gradually reduced and the number sold at auction increased. It is planned that in 2013 around 60% of allowances should be sold at auction, but that this percentage should grow in the future. In addition, the Commission wants to redistribute the allowances sold at auction from states with a higher GDP to those with lower

GDP. To increase energy efficiency and reduce CO_2 emissions, member states with smaller GDP must invest a lot more, but at the same time, new technologies should make possible a major reduction in emissions. Allowance redistribution will hopefully improve the poorer countries' financial ability to invest in new production capacity.

Spot prices for emissions allowances for carbon dioxide on the Nord Pool power exchange*

* The graph shows allowance spot prices for different years

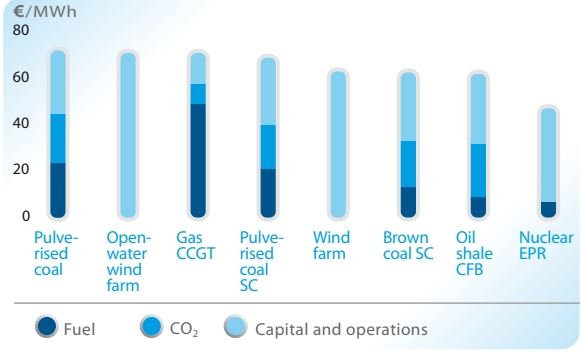
Investments in New Production Capacity

In the near future, one of the major challenges facing the European energy sector will be to ensure the supply of electricity as demand increases and power plants and infrastructure age. To do this it will be necessary to create new production capacity. The effect of various sources of electricity on climate change – a point which has become more important in recent years – and the security of supply from these sources are the primary factors that will begin to shape future investments; an example of this is the European Union policy to increase the production of renewable energy while reducing greenhouse gas emissions.

The cost of electricity production and the factors that impact the cost will clearly be important when investment in new production capacity is planned. The figure[1] below shows the production cost of electricity from various sources, including the cost of capital, fuel costs and carbon dioxide emission allowance costs. As can be seen, nuclear and modern oil shale and coal-fired plants are among the least costly electricity production units. Nuclear plants are inflexible and have high capital costs, whereas oil shale and coal fired plants have a lower cost of capital than nuclear plants but higher fuel costs and CO_2 emissions. The insecurity towards the future price of emissions allowances has a strong negative impact on investment in production capacity where CO_2 emissions account for an above-average proportion of the price of electricity. Gas plants have greater flexibility, both technically and economically, and a lower cost of capital, but they have a higher fuel price. At today's construction price, land-based wind farms in favourable locations are only slightly more expensive than gas plants. Given its subsidies, wind energy is very promising for new electricity production investments.

The current prices of electricity are much lower than the prices for new production capacity, as the capital costs of plants built a couple of decades ago are not factored into production costs and the price of an emission allowance in 2007 was almost zero. As the investments made in creating new production capacity will raise production costs, the consequent rise in the price of electricity will lead to an increase in the sales price of electricity.

Investment in new production capacity will be important for Eesti Energia as well. Currently over 90% of electricity is produced from oil shale, as a result of which the Eesti Energia production portfolio is too one-sided and too heavy in carbon dioxide. To diversify electricity production, it is planned to build combined heat and power plants that run on biofuel, to develop wind energy projects, and to invest in gas turbines. In addition, Eesti Energia is participating in building the new Ignalina nuclear power plant.



[1] Abbreviations used in the figure: CCGT – combined cycle gas turbine, SC – supercritical, CFB – circulating fluidised bed, EPR – European pressurised reactor.

The Open Market

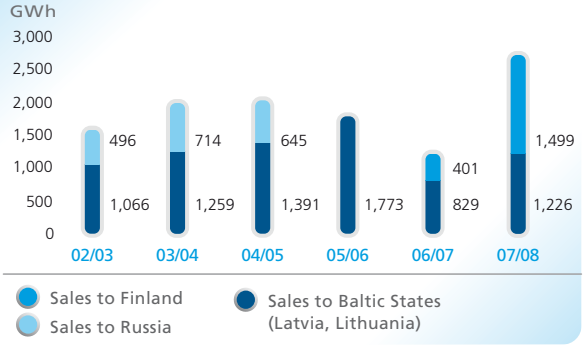
The Nordic Electricity Market

The financial year 2007/08 was the first full working year for the Estlink undersea cable. The cable came into operation between Estonia and Finland on 4 January 2007 and is one of the most important steps taken to help Eesti Energia achieve its objective of entering new markets through selling and buying electrical energy from the Nordic energy exchange Nord Pool. Exports to the Nordic markets totalled 1,499 GWh in the last financial year, a jump of 273.7% from the previous year.

The spot prices of electrical energy on Nord Pool fluctuated widely in the range of 9–56 €/MWh in the financial year 2007/08. Having dropped from 30 €/MWh in February 2007 to 17 €/MWh in August, the spot price then started to climb. By November, the average monthly price of electrical energy had risen to about 47 €/MWh, after which the spot prices stabilised for the following three months. At the end of March 2008 the monthly average spot price of electrical energy dropped to 30 €/MWh. Eesti Energia sold electrical energy to Nord Pool at an average price of 45 €/MWh in the financial year 2007/08.

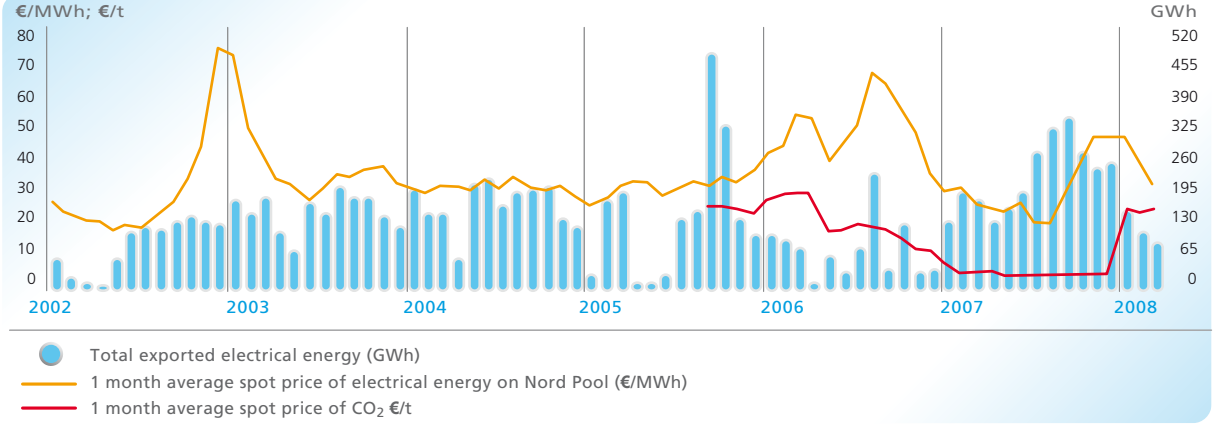
The prices of electrical energy on Nord Pool are mainly influenced by water levels in Norwegian and Swedish hydroelectric plants, as about 99% of electrical energy in Norway and 46% of electrical energy in Sweden is generated in hydroelectric plants. Other factors besides water levels that affect the prices include fluctuations in temperature, and changes in the prices of oil and of CO_2 emission allowances.

Electrical energy export



A water level that was higher than the long-term average and weather that was warmer than expected in the Nordic countries combined with the low prices of emission allowances to cause the spot price of electrical energy to fall from the beginning of 2007 until the autumn. Then the rapid increase in oil and coal prices and the fall in the water level in Scandinavia pushed the spot price of electrical energy up dramatically. The correction that took place in the first months of 2008 was mainly due to a warmer than average winter and increased water reserves.

One of the most important events on the Nordic electricity market in 2007/08 was the completion of an undersea cable,

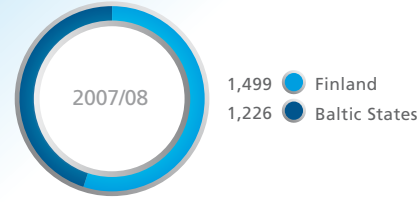


NorNed, connecting the energy systems of Norway and the Netherlands. The commissioning of the cable increases the integration of the electrical energy markets of the Nordic and continental European countries and helps harmonise the prices of electrical energy. The average spot price of electrical energy in the financial year 2007/08 was 31 €/MWh on Nord Pool and 52 €/MWh on the German electricity exchange EEX.

In addition to trading on the electrical energy market Nord Pool, Eesti Energia has direct contracts for the sale of electrical energy to Finnish business partners, to whom the company sold 667 GWh (+472 GWh) of electrical energy in the last financial year. The sales to Nord Pool came to 832 GWh (+626 GWh) in the financial year 2007/08.

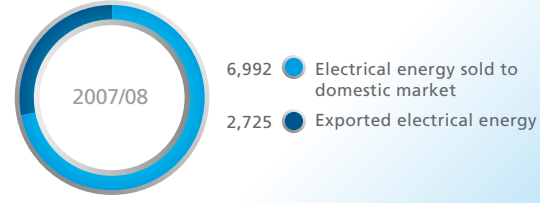
Exported electrical energy split between markets

GWh



Percentage of export from sales

GWh



The Baltic Electricity Market

The Baltic electrical energy market is a region consisting of the Baltic States and north-western Russia, with only four major suppliers and a low degree of openness. The commissioning of the Estlink undersea cable at the beginning of 2007 has increased competition between the energy companies operating in the region by making possible trade in Finland and, through the electricity exchange Nord Pool, in other Nordic countries. Estlink has made the Baltic energy trade more efficient than before and the price of electrical energy on Nord Pool has a noticeable effect on the electricity price in the Baltic States.

Eesti Energia aims to increase substantially its number of customers in the Baltic Sea region, and in order to achieve this, the Group has expanded into new markets through its subsidiaries SIA E.Energy, which started selling electricity to local customers in Latvia in July 2007, and Lumen Balticum, in Lithuania since 1 March 2008. As well as gaining more customers, Eesti Energia can work with the supervisory institutions of these countries to increase the harmonisation of the regulation of the electrical energy market and to further the creation of a common Baltic market. In the financial year 2007/08, Eesti Energia was the only company in the energy sector selling electrical energy to customers in all three Baltic States.

2007/08 saw the launch of the Nord Pool Spot Baltic project, the aim of which is to join the Baltic region to the Nord Pool energy trading market. If the project is successful, all the producers and consumers in the Baltic States will be able to buy and sell electrical energy at the price levels prevailing on the market. A part of the capacity of the Estlink undersea cable will be used to transmit electrical energy between Nord Pool and the Baltic States.

After the opening of the Baltic electricity markets, the competitiveness of the electrical energy produced by local electricity producers compared to electrical energy imported from outside the European Union will become ever more important, as electricity can be produced at lower costs outside the Union where EU directives and environmental requirements do not apply. This makes it imperative that the European Union develop and apply commonly agreed strict measures on imported electrical energy. The Baltic electricity producers are especially vulnerable because at current volumes the foreign connections from non-European Union countries are able to cover practically all of the electrical energy consumption in the Baltic States.

Changes in European Union Energy Policy

The high world market prices of oil, the beginning of the second distribution period for greenhouse gas emission allowances in 2008, and increased demand for electrical energy pushed up the prices of electrical energy in Europe in 2007. One of the main challenges that the companies in the European energy sector will face in the near future is to ensure the security of supply as dependence on fossil fuels from outside the European Union increases, infrastructure ages and demand for electrical energy grows.

To meet the future challenges, the electricity and gas markets of the EU Member States were opened from 1 July 2007 in order to create a pan-European energy market. However, various regulatory restrictions in many Member States still affect the free movement of prices, hindering competition and the creation of a common electricity market. In order to solve this problem, the European Commission published a third package of legislative proposals in the framework of the general EU energy policy in September 2007, aiming to create equal competition conditions for energy companies entering the market and companies already operating in the market.

One of the main points of the package of proposals for energy companies is the separation of electricity production and transmission, meaning companies producing electrical energy cannot own companies that transmit electrical energy. As an alternative to complete separation, the companies are permitted to create an independent system operator, in which case the company producing electrical energy may own the assets of the electricity transmission company, but management decisions are taken by the independent system operator.

The main reason for separating the production and transmission of electrical energy is to remove obstacles to the creation of new connections between countries, a goal which is also one of Eesti Energia's strategic objectives. Alongside the Estlink undersea cable between Estonia and Finland the company is planning to construct another undersea cable between Estonia and Finland by 2013, connecting the electricity systems of the Baltic and Nordic countries and thus creating a common electricity market.

In order to increase cross-border energy trade, Nordic countries are also planning to create several new connections in the coming years: a 700 MW cable between Norway and the Netherlands in 2008 (NorNed), another 800 MW cable between Finland and Sweden in 2010 (Fenno-Skan 2), and a 600 MW cable between eastern and western Denmark in 2010.

At the beginning of 2008, the European Commission published a directive on carbon capture and storage (CCS). This technology is one possible solution for reducing greenhouse gas emissions. In the CO_2 capture and storage process, carbon dioxide is separated from the gases emitted during energy production or by industrial plants and transported to a storage place, e.g. an oil or gas field or the ocean, where it can be isolated from the atmosphere.

Depending on the type of power plant, the use of current CCS technology enables CO_2 emissions to the atmosphere to be reduced by about 80-90%. However, the capture of CO_2 is an energy-intensive process and increases the fuel needs of the production plant, causing production costs to grow and the production price of electrical energy to increase. Other factors affecting the cost of CCS include the distance from the storage place and the costs of installing CCS.

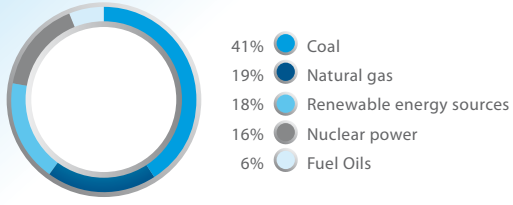
Impact of the Oil Price

Changes in the world market price of oil have a considerable impact on the prices of other raw materials used for the production of electrical energy and thus also on electricity prices on the open market.

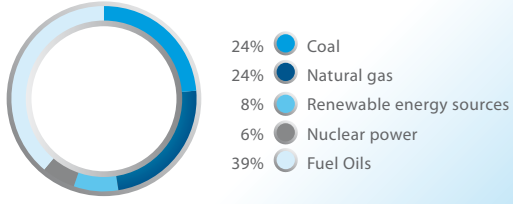
Changes in the world market price of oil are reflected most obviously in the world market prices of various fuel oils and other fuels and products made from oil. As long-term delivery contracts for natural gas are quoted on the basis of the prices of oil products, the price of oil also has an indirect impact on the prices of natural gas and coal.

According to the EIA[2] about one-quarter of the world's energy production is based on oil and natural gas and therefore sharp changes in the price of these raw materials are also reflected in the prices of electricity on the open electrical energy markets. As the prices of oil and natural gas rise significantly, the proportion of electrical energy produced from coal will increase, which in turn will raise demand for CO_2 emission allowances. In the longer term, the increase in raw material prices may raise the proportion of electrical energy produced from nuclear energy and renewable energy sources in the production portfolios of energy companies.

World energy consumption for electricity generation by fuel type

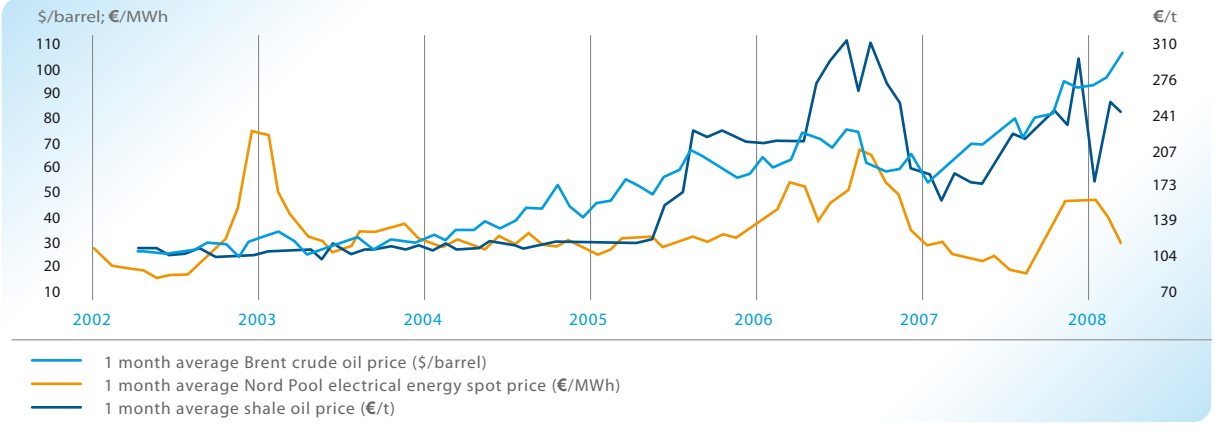


Shares of world market for energy by fuel type



The world market price of oil is not the only factor influencing the movement of electricity prices on the open markets. On the Nordic electrical energy exchange Nord Pool, changes in the water levels of hydroelectric power plants, the prices of CO_2 emission allowances, the amount of precipitation, the outdoor temperature and the world market price of coal may also affect prices. In 2007, when the world oil price was rising, the spot price of electricity on Nord Pool dropped from the beginning of 2007 until summer due to unexpectedly high temperatures, the high water level and the low prices of CO_2 emission allowances. But in the second half of 2007 it was mainly the dramatic increase in the world oil price that caused the price of electrical energy to grow. Movements in the oil price and the price of electricity may therefore differ in certain periods, but changes in the oil price combined with various other factors have an indirect impact on the price of electrical energy.

The price of crude oil rose from US $50 a barrel at the beginning of 2007 to $90 a barrel by the beginning of 2008. The price has continued to increase throughout 2008, reaching on average $104 a barrel in March.



[2] Energy Information Administration "International Energy Outlook 2007" http://www.eia.doe.gov/oiaf/ieo/highlights.html

For Eesti Energia, the world market price of oil has the greatest impact on sales revenue from shale oil, as world market prices of heavy fuel oils are driven by the oil price.

The prices of oil products made from shale oil (heavy crude oil, light crude oil and natural gasoline) are linked to the price of fuel oil in western and northern Europe. The price difference between northern Europe and the Baltic States is accounted for by transportation costs, which can reach US $50 per tonne.

In the first half of the financial year 2007/08, the movement of the world oil price to below where it had been in the same period in the previous year caused sales revenue from shale oil to slow down, while the second half of the year saw accelerating increases in sales revenue against the background of growing oil prices. Unlike in the financial year 2006/07, the sales price of shale oil in price agreements was based on the world price of heavy fuel oil, but as the sales price of shale oil grew higher than the world market price of heavy fuel oil in auctions last year this slowed the sales of shale oil. We use the price of fuel oil with 1% sulphur content in western European ports as the the world market price of heavy fuel oil. Eesti Energia intends to continue selling shale oil at the market price and to use future transactions to hedge the risks.

In the financial year 2007/08, the Group's external sales of shale oil totalled 128 000 tonnes (+19 000 tonnes) and sales revenue from shale oil totalled 28.7 million euros (+4.2 million euros).

The Estonian Market

Market Overview

The domestic electrical energy market is divided into the open and closed markets. Currently the market is open only to customers whose electrical energy consumption exceeds 40 GWh per year. From 1 January 2009 the market will be opened to approximately 35% of electricity consumption and the whole market will be open from 1 January 2013.

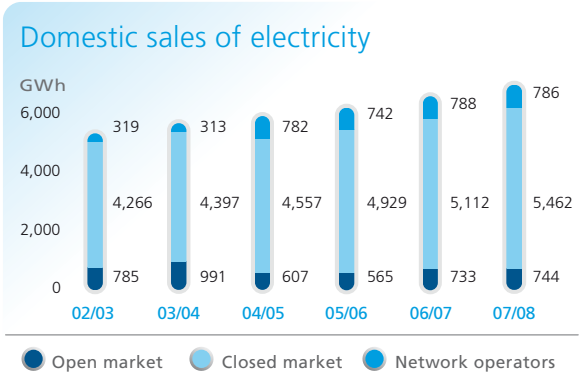
According to the Electricity Market Act, the electricity generation source does not matter when the network operator sells electricity to open market clients. The Electricity Market Act also states that a network operator may only sell electrical energy to clients in the closed market:

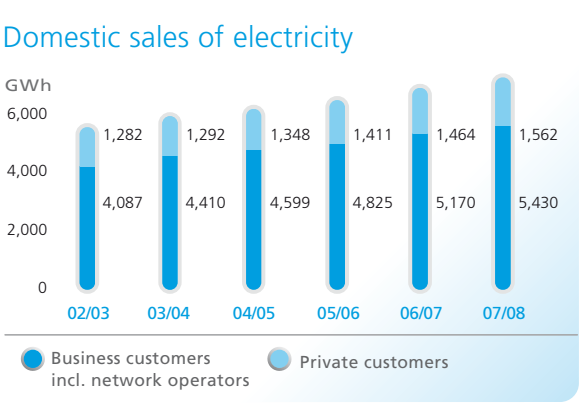
- if it has been produced from oil shale mined in Estonia by machinery belonging to a producer with at least 500 MW net capacity,
- if it has been produced by a small producer with net capacity below 10 MW
- if it has been produced using renewable energy sources;
- if it has been produced using a combined heat-and-power co-generation regime

The price of electrical energy on the open and closed markets is influenced by various factors. In a closed market the price is regulated and agreed with the Competition Board, while the price level in an open market should change as a result of demand and supply. However, the Electricity Market Act allows customers in the open market to buy electrical energy from the closed market, and for this reason the price of electrical energy in the closed market determines the upper limit of electricity prices in the open market, meaning that prices in the open market are not fully free.

In 2007/08, Eesti Energia's total sales to the domestic market came to 6,992 GWh, which is 5.4% more than in the previous financial year. The sharp increase was primarily caused by the impact of rapid economic growth.

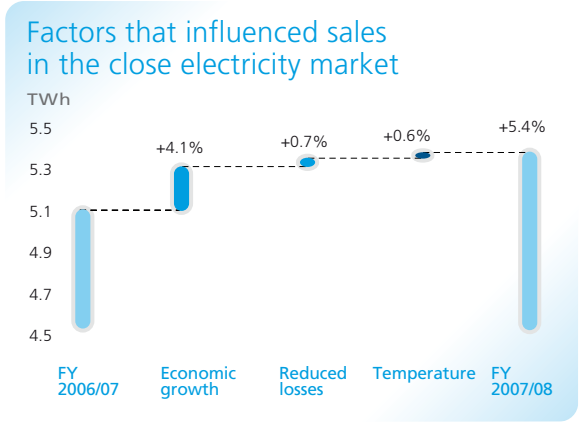
Eesti Energia's sales in the domestic market are divided into three categories: sales to the open market, sales to the closed market and external sales to network operators. The sales of electrical energy to the closed market are the largest,





reaching 5,462 GWh in the last financial year, which is about 80% of all the domestic sales of electrical energy. Compared to 2006/07, sales to the closed market grew by 6.8%. Sales to customers on the open market were 744 GWh, 1.5% more than in 2006/07. The quantity of electrical energy sold to network operators decreased by 0.3% in the financial year 2007/08, to 786 GWh.

The average price of electrical energy sold in the closed market by Eesti Energia Teenindus was 2.68 cents/kWh (1 cent = 0.01 euro) in the financial year 2007/08, which was the same as in the previous financial year. The price of electrical energy in the open market was 2.40 cents/kWh, a fall of 0.4% from 2006/07.



Ordinary Tariff Change and Adjustments to Network Charges in a Regulated Market

On 1 March 2008, a new three-year regulation period for network charges began, following the approval of Põhivõrk (The Transmission Grid) and Jaotusvõrk (The Distribution Network)'s price applications by the Competition Board[3] in autumn 2007. As a result of changes in the network charge structure of Põhivõrk, the network charges for customers connected to the transmission grid on the lower voltage side of 100 kV transformers was cut by an average of 10%. A drop in Jaotusvõrk's operating expenses, the cut in the price of the transmission service bought from Põhivõrk, and the higher than expected electricity consumption estimate enabled Jaotusvõrk's network charges to be reduced by an average of 5%.

Another three Group companies applied to the Competition Board in 2007/08 for permission to change their prices – Eesti Põlevkivi (Estonian Oil Shale) for the price of oil shale; Narva Elektrijaamad (Narva Power Plants) for the price of electrical energy production; and Eesti Energia Teenindus (Eesti Energia Services) for the weighted average price limit for electrical energy.

In the last ten years, Eesti Energia has managed to avoid any increase in the price of oil shale through optimisation and increased efficiency, but this is no longer possible because the Group's internal reserves are exhausted. The production price of electrical energy is rising, as about one-half of the price of the electrical energy produced by the Narva power plants is made up by the cost of oil shale purchase. At the same time there has been increased cost pressure in the Narva power plants caused by the rapid growth of general price and salary

[3] Following the merger of various administrative departments the Energy Market Inspectorate became the Competition Board on 1 January 2008.

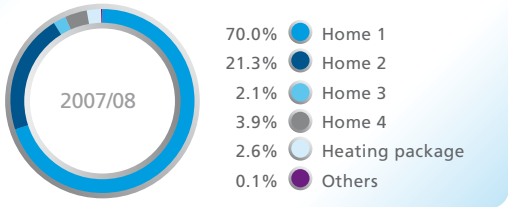
levels, due to the need to ensure competitive pay for employees and by the increased maintenance costs of the plants. In all, this will increase the cost of electricity generation. The electricity price of the Narva power plants is used to calculate the new price of loss electricity, which will cause a change to the network charges of Põhivõrk and Jaotusvõrk.

Following approval by the Competition Board, the average price of electrical energy from Narva Elektrijaamad will increase by 9% from 1 July 2008 and the price limit for electrical energy sold by Eesti Energia by 9.1%. In addition to this, Põhivõrk's network charges will grow by an average of 3.1% and Jaotusvõrk's network charges by an average of 2.3% from 1 July 2008.

The price of electrical energy was also affected in 2007/08 by an increase in the renewable energy subsidy from 1 January 2008 (from 2.18 cents/kWh to 3.03 cents/kWh) and an electricity excise tax of 3.2 euro/MWh that came into force from the beginning of the year.

Price packages for residential customers in FY 2007/08

(% of contracts)



Changes in network charges and the additional renewable energy fee and electricity excise tax have not, however, caused residential customers to change price packages. During the financial year, the residential customer segment grew by 8,500 contracts, to 556,200 contracts as a result of new connections and customers taken over from F-Elekter. Residential customers still prefer time tariff based price packages, the use of which has grown by 7,500.

Temperature

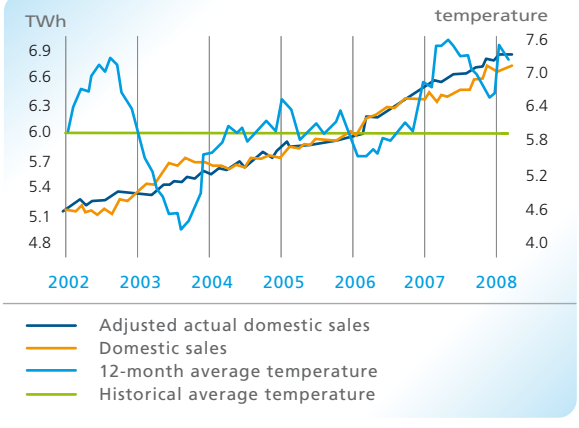
When temperatures are below the long-term average, consumption of electricity and thermal energy during the winter period increases. Historically it has been the case that a deviation of the average temperature by one degree from the long-term average has an effect on electricity consumption of 110–150 GWh. To calculate the long-term average temperature we have taken as a basis the temperature figures collected by Eesti Energia from different places in Estonia since 1992.

In the financial year 2007/08 the average temperature was 7.1 °C, which was 0.2 °C lower than in 2006/07, but still 1.3 °C higher than the long-term average.

Compared to the long-term average temperature, all the quarters were warmer in the last financial year. While the difference was not significant in the first two quarters (Q1 +0.6 °C and Q2 +0 °C), the 3rd quarter was 1.3 °C warmer and the 4th quarter 3.2 °C warmer than the average. However, compared to the financial year 2006/07, the first three quarters were on average 1 °C colder, while the 4th quarter was 2.7 °C warmer.

The higher than average temperature caused sales of thermal energy to fall, with total sales falling 4.6% to 1,739 GWh, 84 GWh less than in the previous financial year. February 2008 saw the sharpest negative effect on sales, as the average monthly temperature was 10.5 °C higher and sales 92 GWh lower than in the previous year.

Domestic sales of electrical energy grew by 5.4% in the financial year 2007/08 to 6,992 GWh (+358 GWh). Thirty GWh of the increase are estimated to have come from the temperature being lower than in the previous financial year, although rapid economic growth was still the main factor behind the sales growth.



Regulation of Electricity Prices and Network Charges

Several acts, regulations and standards regulate the operating activities of the Eesti Energia Group. The regulations specify the network charges and electricity prices in the closed market as well as the size of investments in networks. By 1 January 2013, at the latest, the whole Estonian electricity market will be fully open and the price of electricity will be determined by the market for all customers.

Under the act the Competition Board[4] sets:

- the maximum price of oil shale sold to Narva Elektrijaamad for the production of thermal energy and electricity;
- the maximum price of electricity sold by Narva Elektrijaamad to the closed market;
- the weighted average maximum price of electricity sold to meet sales obligations;
- network charges.

In setting these prices the Competition Board takes costs into account, as companies must fulfil the obligations set out in the regulations and the conditions of their operating licences, and must ensure a fair rate of return on invested capital. The price calculation methodology used to set prices is available to the public on the Competition Board's homepage.

The Board generally calculates invested capital as the residual value of the average fixed assets of a company, plus 5% of external sales revenue. The fair rate of productivity is the company's weighted average cost of capital (WACC).

On the electricity side only the weighted marginal price rate is set, based on which the company itself draws up suitable prices. The marginal rate and the actual weighted average prices are compared once a year and if the company has sold electricity at a higher price than the permitted average, then the excess revenue must be returned to consumers through a lower price the next year. If the company discovers that the weighted average price of electricity is lower than the permitted maximum price, then it is allowed to adjust its current sales prices.

The maximum prices do not have a validity period, but they apply until the company or the Competition Board finds that changed conditions demand the submission of a new marginal price application. On the network side specific tariffs are decided and set for a fixed period.

On 1 March 2008 the fixed network charges were set for the next three-year period. After every 12 months, the network charges are adjusted in accordance with the changes in certain parameters and are multiplied by a correction factor.

The correction factor considers:

- changes in sales volume compared to the previous year (the amount predicted when prices were set);
- changes in uncontrollable expenses;
- increases in inflation (CPI) and efficiency (X) in the preceding 12 months;
- investments at a previously agreed level and the consequent change in capital depreciation and operating profit and fair rate of return.

Changes in the network charges resulting from the correction are small, generally 1-2%, and the network charges may even fall depending on the changes in the criteria. The network charges remain the same if the changes in uncontrollable expenses are not not included.

On 1 March 2008 a new three-year period for price regulation started. Additional changes will also take place on 1 July 2008, when adjustments are made to the fees in order to factor in the new electricity price.

The negotiations with the Competition Board to agree the electricity price in the last financial year showed that it would be better to adjust the electricity price once a year in the same way as network charges in order to avoid future sharp increases in the price of electrical energy after a longer period. Indexing would also ensure a more stable electricity price in line with the development of the economy.

[4] Energy Market Inspectorate until 31 Dec 2007.

Amendments to the Electricity Market Act

The main change in the Electricity Market Act in the financial year 2007/08 was that new principles were adopted for subsidising the electrical energy produced from renewable energy sources and the efficient co-generation regime and for financing the obligation to buy electrical energy. The amendment entered into force on 1 May 2007 and stated that the costs of financing the subsidy and the obligation to buy electrical energy must be separated from the network charges, and as a result adjustments were made to the network charges in force and a separate renewable energy subsidy line was added to the invoices of electricity consumers. Until then the subsidy for renewable energy was a part of the network charge and electricity consumers were unable to see the rate of this separately on their invoices.

Under the Electricity Market Act, Põhivõrk must publish the fee for financing the subsidies and the obligations to buy for the next calendar year by 1 December every year. The fee is calculated on the basis of the cost of financing the subsidy and the obligation to buy and the estimated volume of network services. Since 1 January 2008, the renewable energy subsidy is charged at 0.19 cents/kWh without value added tax.

Amendments to the Alcohol, Tobacco, Fuel and Electricity Excise Duty Acts entered into force on 1 January 2008, establishing among other things an excise duty on natural gas and electrical energy. The electricity excise duty was approved at 3.2 euro/MWh (or 0.32 cents/kWh) and network operators were charged with collecting the electricity excise duty from consumers. Electricity excise duty is levied on the total amount of electrical energy transmitted to the consumer.

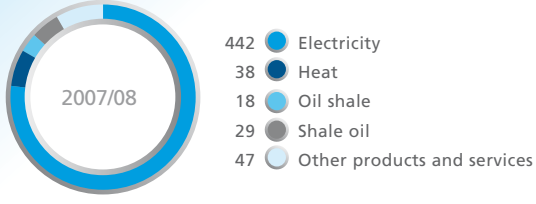
The Act also defined uses of electrical energy that are exempt from excise duty. Exemption from excise duty can be applied for for:

- electrical energy used in mineralogical processes;
- electrical energy used for the production of electrical energy and electrical energy used to maintain the ability to produce electrical energy;
- electrical energy used for chemical reduction and in electrolytic and metallurgical processes;
- electrical energy that on average accounts for over 50% of the production price of a product.

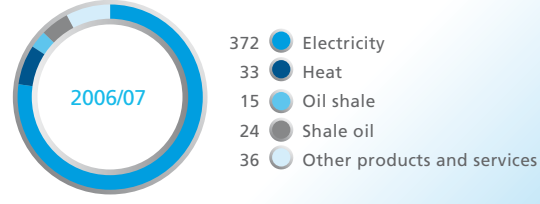
Consolidated Financial Information about the Group

Revenue

Consolidated sales revenues structure
(in millions of euros)



Consolidated sales revenues structure
(in millions of euros)



In the financial year 2007/08, Eesti Energia's revenue was 580.6 million euros, 0.7% lower than in the previous year. The revenue for the financial year was significantly affected by the lack of sales revenue from emission allowances; excluding this, revenues grew by 18.9%.

Continuing rapid economic growth and increased exports of electrical energy through the Estlink undersea cable were the main motors behind the fastest growth in the Group's sales revenue in five years, with revenue up 19.3% or 92.9 million euros on the financial year 2006/07. Total sales of electrical energy increased by 70.0 million euros, or 18.8%, and were the biggest contributor to the sales revenue structure, at 77.0%.

The net sales of network services came to 170.8 million euros, having increased by 7.7 million euros in the year, or 4.7%. The unconsolidated net sales of network services of Jaotusvõrk (The Distribution Network) totalled 163.5 million euros, and those of Põhivõrk (The Transmission Grid) 69.4 million euros.

Heat sales increased by 12.5%, or 4.2 million euros, over the previous year to 37.6 million euros. Even though higher-than-average temperatures in February pushed down heat sales in volume terms over the year by 84 GWh, the rising natural gas price raised the heat tariffs and led to an increase in net sales.

Oil shale sales were 157.9 million euros, and 36.8 million euros more, or 30.4%, were sold than in the previous year.

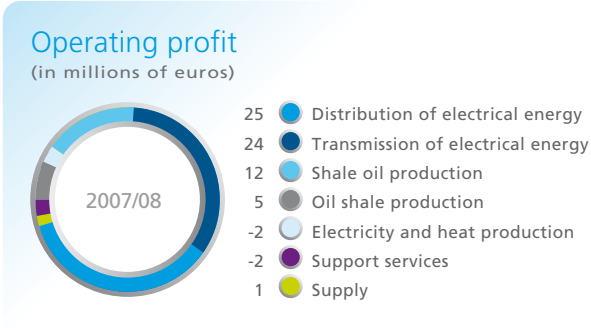
Revenue (in millions of euros)	2007/08	2006/07	Change %
Oil shale production	158.8	125.1	26.9
Electricity and heat production	330.5	357.4	-7.5
Shale oil production	34.7	29.0	19.7
Transmission of electrical energy	76.0	72.0	5.6
Distribution of electrical energy	171.4	164.4	4.2
Supply and customer services	302.5	240.2	25.9
Support services	137.5	82.9	65.9
Eliminations	-630.8	-486.5	29.7
Consolidated revenue	580.6	584.6	-0.7

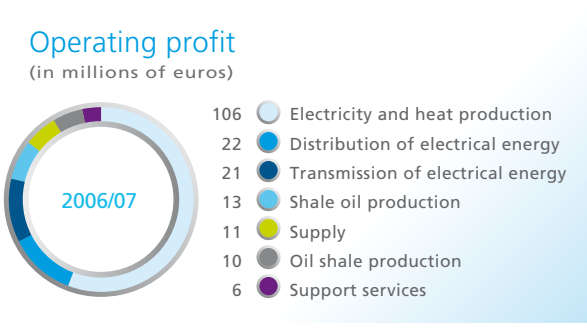
The rapid growth in sales revenue came from increased demand for oil-shale from Narva Elektrijaamad (Narva Power Plants).

The unconsolidated net sales of the shale oil production segment came to 34.6 million euros in the financial year 2007/08, an increase of 20.2% or 5.8 million euros. Shale oil prices are linked through heavy fuel oil prices with the global oil price, which spent the first half of the financial year 2007/08 below where it had been in the same period a year before and brought down shale oil revenues. In the second half-year, global oil prices began to rise, and the segment revenue thus rose due to the increase in the price of shale oil.

Sales revenues from other products and services grew especially quickly, up 11.0 million euros, or 30.2%, in the past year to 47.4 million euros. Revenue at Energoremont, which manufactures and installs equipment for the energy sector, showed a significant increase as sales volumes grew and Eesti Põlevkivi's subsidiary Mäetehnika was acquired. As well as this, Televõrk successfully launched the mobile internet service KÕU.

Operating Profit





The operating profit for the financial year 2007/08 was 63.5 million euros, 66.4% or 125.6 million euros down on the financial year 2006/07. Leaving out the impact of trading in emission allowances, operating profit fell by 21.7% or 20.1 million euros to 72.6 million euros. Not only was the sales revenue from emission allowances replaced by the cost of purchasing quotas, but the operating profit for the financial year was also affected by both the increase in revenue stemming from rapid growth in the sales of electrical energy, and the rapid rise in costs due to the pressure exerted by the labour market and inflation.

Having risen by 24.6 million euros, a 25.7% increase, over the financial year, human resources costs make up nearly a third of the Group's outgoings. The significantly higher than average increase in human resources expenditure in the last few years was caused by the rapid increase in average gross wages across the entire country. Rises in construction prices pushed up equipment maintenance and repair costs by 25.6% or 12.4 million euros, and the rising liquid fuel price drove up transportation and equipment costs by 41.6% or 10.3 million euros.

If operating profit is divided by segments, then the largest increase came in the distribution and transmission of electrical energy, mainly due to the increase in the amount of electrical energy in the network. At the same time, the decrease in margins resulting from the drop in the price of electrical energy brought down operating profit from supply and customer service. Oil shale production was affected by a rapid increase in human resources costs, which were 23.3% higher than in the previous financial year and the 63.3% rise in transportation and equipment costs, caused above all by growth in volumes.

The major rise of 23% in investments in the financial year to 171.2 million euros also increased depreciation costs by 4.9%. The sharp increase in planned investment levels is bound to raise depreciation expenses in the next few years.

Operating profit (in millions of euros)	2007/08	2006/07	Change %
Oil shale production	4.8	9.9	-51.0
Electricity and heat production	-2.2	105.6	-102.1
Shale oil production	11.6	13.2	-12.4
Transmission of electrical energy	24.3	21.0	15.6
Distribution of electrical energy	25.5	22.4	13.5
Supply and customer services	1.4	10.7	-86.4
Support services and eliminations	-1.9	6.2	-130.5
Consolidated operating profit	63.5	189.1	-66.4

Net Profit

The Group posted a consolidated net profit of 39.3 million euros in the financial year, 76.7% or 129.1 million euros less than in the previous financial year. If trading in emission allowances is not included in the economic results, the net profit came to 48.4 million euros, which was 32.9% or 23.7 million euros less than in the financial year 2006/07.

The increase compared to the financial year 2006/07 in the balance of cash and cash equivalents and deposits with a maturity of over 3 months, and the increase in deposit interest rates led to a 57.3% increase in financial income. The 2.0% decrease in long-term borrowings, a reduction of 7.0 million euros, also reduced interest expenses on the borrowings. In addition, net profit was also affected by the income tax paid on the 63.9 million euros in dividends distributed in the financial year 2006/07. The Group paid a total of 17.8 million euros in income tax.

Net profit. (millions of euros)	2007/08	2006/07	Change %
Operating profit	63.5	189.1	-66.4
Interest expenses on borrowings	-16.7	-17.2	-2.9
Interest expenses on provisions and other liabilities	-1.7	-1.5	11.3
Other net financial income	10.5	6.6	60.1
Profit from investments in associates	1.5	1.0	51.3
Income tax	-17.8	-9.4	89.1
Net profit	39.3	168.4	-76.7

Economic Value Added (EVA)[5]

Eesti Energia uses a balanced scorecard system in managing its business units. The most important financial measure is economic value added (EVA) which compares the company's operating profit with the amount and cost of invested capital. Eesti Energia aims to achieve a positive EVA within the Group.

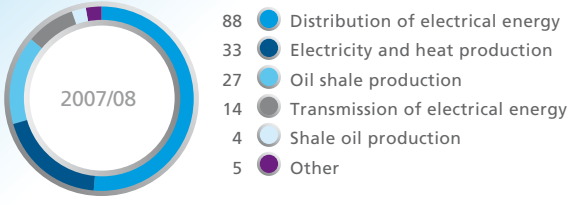
EVA came to -31.0 million euros in the financial year 2007/08. As in the previous financial year, the greatest contribution to the creation of additional value was made by liquid fuel production. The price of liquid fuel was affected in the first half of the financial year by the global oil price which was lower than it had been in the previous year, but which rose significantly in the second half-year. The increase in the price of electrical energy pushed down the operating profit from electricity sales and customer service, and caused a drop in EVA. Rapidly rising operating expenses had a negative effect on the EVA of the oil shale production segment. In the electrical energy transmission and distribution segment, the improvement in EVA came, above all, from the increase in operating profit, brought about by the increase in the amount of electrical energy passing through the network.

EVA (in millions of euros)	2007/08	2006/07
Oil shale production	-0.3	4.9
Electricity and heat production	-27.2	-30.8
Shale oil production	10.3	11.9
Transmission of electrical energy	2.7	-0.3
Distribution of electrical energy	-3.9	-5.5
Supply and customer services	-0.1	9.2
Support services	-12.5	0.6
Total EVA	-31.0	-9.9

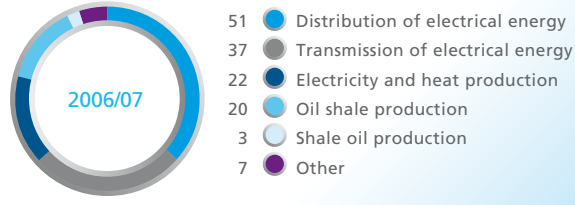
[5] Profits from sales of emission allowances have not been included

Investments

Distribution of investment
(in millions of euros)



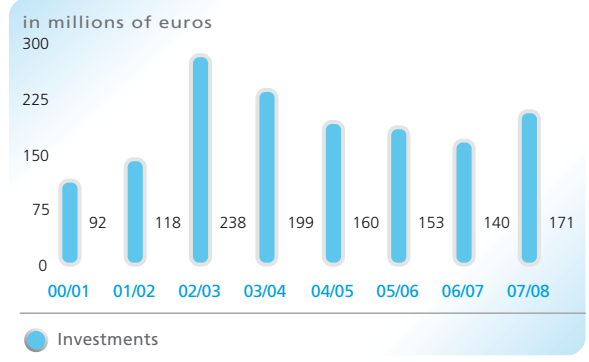
Distribution of investment
(in millions of euros)



The Group's investments came to 171.2 million euros in the financial year 2007/08, 22.6% or 31.6 million euros more than in the previous year. The investment focus remained the electricity networks, which received nearly 61% of the total investments. The investments made by Jaotusvõrk were the biggest part of the investments, amounting to 88.4 million euros, an increase of 72.8% or 37.2 million euros over the previous financial year. Investments by Eesti Põlevkivi also rose sharply, by 37.2% or 7.3 million euros, and stood at 26.8 million euros. Põhivõrk's investments were 14.4 million euros, 61.5% or 23.0 million euros less than in the previous year.

One of the most important investments in the electrical energy production segment was Aulepa Wind Park, which received 11.6 million euros. In other segments there were no major investment projects, but investments continued in quality improvement – the total investments of 88.4 million euros by Jaotusvõrk were in building new connections and enhancing the reliability and quality of the electricity network; the 26.8 million euros of investments by Eesti Põlevkivi went on renovating production equipment; and the investments of OÜ Põhivõrk were in constructing new substations and switchyards. The biggest investment by support services was the 5.1 million euros invested in the expansion of the mobile internet service KÕU.

As a result of continual investment, network losses in the distribution network have fallen from 11.9% in the financial year 2002/03 to 7.8% by the end of the financial year 2007/08. Domestic network losses have, at the same time, fallen from 15.6% in the financial year 2002/03 to 10.2% in the financial year 2007/08.



A key consideration for investments made by Eesti Energia Group companies is that they must help fulfil the objectives on the balanced scorecard. The most important financial criterion is that they must improve economic value added (EVA). The Eesti Energia Group sets capital costs for its companies on the basis of each company's core activity and other parameters. In order for an investment to be economically rational, its return has to exceed the weighted average cost of the capital of the company making the investment.

Cash Flows and Financing

In the financial year 2007/08, cash flows from operations totalled 148.1 million euros, a fall of 108.5 million euros or 42.3% compared to the previous financial year. Without the impact of trading in emission allowances, the cash flow fell by 3.1 million euros or 1.9%. Cash flows from investments dropped to 70.4 million euros, due to 32.0 million euros being paid in dividends than in the previous financial year. Not including the net change in deposits with a maturity of over 3 months, the cash flows from investments came to -145.2 million euros in the financial year 2007/08.

As at 31 March 2008, the weighted average interest rate of Eesti Energia's borrowings was 4.57%, up 0.08% over the year. Borrowings with a fixed interest rate made up 91% of the total borrowings at the end of the year, and had an interest rate of 4.51%, while 9% of borrowings had a floating interest rate, with the interest rate set at the 6-month Euribor + 0.42%. Due to the rise in Euribor over the financial year, the Group's weighted average interest rate also rose. The base currency of all borrowings is the euro.

Credit Ratings

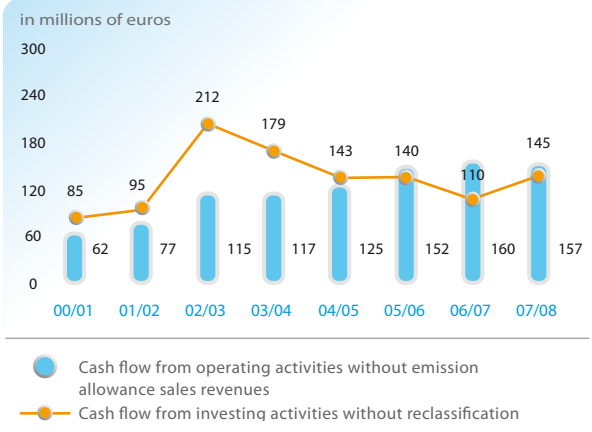
The rating agencies did not change the credit rating of Eesti Energia in the financial year 2007/08. Despite this, the company's rating outlook did change. In its notice of 28 August 2007, S&P retained Eesti Energia's long-term credit rating at A-, but changed the stable outlook to negative. The change in outlook was explained by the potential deterioration in Eesti Energia's financial position due to possible investments in the Ignalina nuclear power plant project. Moody's also retained the long-term liabilities rating at A1, but changed the outlook from positive to stable. The change in outlook was explained by the lowering of the rating outlook for Estonia's long-term domestic and foreign currency liabilities.

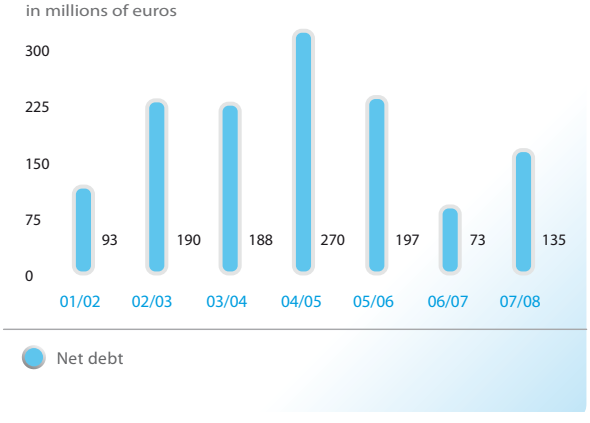
Bonds Issued and Loans Taken

The largest of Eesti Energia's external financing instruments are euro bonds worth 300.0 million euros, with an interest rate of 4.5% and a redemption term of 2020. No new long-term loans were taken in the financial year. The balance of long-term bank loans fell by 7.7 million euros, from 48.5 million euros to 40.8 million euros. As at 31 March 2008, the balance of loans drawn was 48.6 million euros, and the balance of undrawn loans was 40.0 million euros. The Group's net debt increased to 135.5 million euros, 62.1 million euros more than at the end of last financial year.

The fall in revenue caused by the lack of revenue from trading in emission allowances, and the increase in costs caused by inflation and higher human resources costs led to a decrease in operating profit. Interest expenses fell by 1.7% following the repayment of long-term borrowings. As a result, the interest ratio dropped from last year's 10.1 to 3.4 by the end of the financial year. Without the effect of trading in emission allowances, the interest ratio dropped from 4.9 to 3.9.

The significant growth in investments in the financial year and the partial financing of investments from cash flows reduced the current FFO (except for changes in working capital)/investment ratio of the financial year from 192.4% to 102.9%.





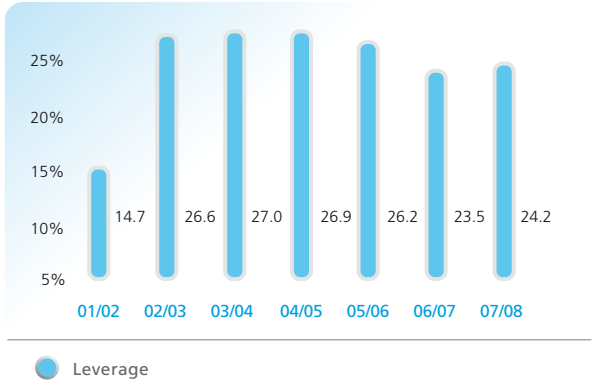
Excluding the effect of trading in emission allowances, the ratio fell from 123.4% to 108.2%.

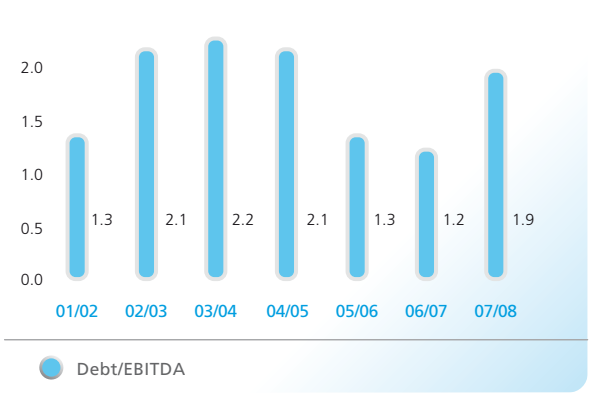
Despite the major rise in investments of 23% compared to the previous year, the Group maintained a conservative balance sheet structure as at the end of the financial year – the debt to equity ratio was 24.2%, 0.7 percentage points higher than at the end of the previous financial year. The increase in investments aimed at achieving the Group's strategic goals may result in an increase in the loan burden in the short to medium term.

Dividends

The cash flows of the financial year 2007/08 were materially influenced by the decision taken at the general meeting of shareholders to pay 63.9 million euros in dividends for the excellent results for the financial year 2006/07. The dividends were paid out in September 2007.

Based on the results for the financial year 2007/08, the state has expressed a desire to receive a total of 41.7 million euros in dividends.





Forecast

Economic Growth

Economic growth is widely forecast to be moderate in 2008. The spring forecast published by the Ministry of Finance on 2 April 2008 expected real GDP growth to be 3.7%, and the forecast published by the Bank of Estonia on 16 April 2008 predicted 2.0%. While the Ministry of Finance expects economic growth to return to 6.4% in 2009, the Bank of Estonia is expecting economic growth in 2009 to be 3%.

The deceleration of growth in domestic demand will cause economic growth to slow in 2008. The real growth of private consumption is affected both by rapidly rising consumer prices and by falling spending as consumers feel less secure. In 2009, the Ministry of Finance is expecting the real growth of private consumption to recover to 5.6%, but the Bank of Estonia is expecting more modest growth of 3.8%. A significant difference between the two forecasts lies in real growth in investments, where the Ministry of Finance forecasts growth of -2.0% for 2008 and 7.2% for 2009, while the Bank of Estonia is expecting -9.8% and -2.2% respectively. The use of structural fund resources will presumably not reduce the state's investments, but views differ as to private sector investments. Both institutions forecast that export growth will surpass import growth in the next few years.

According to the forecasts, inflation will reach about 10% in 2008, but after that, in 2009, the growth of the consumer price index will decelerate to around 5%. Average gross wages are expected to continue to grow at around 15% in 2008 and unemployment to rise to 5-6%.

The slowdown of economic growth can also be expected to reduce the growth of electricity consumption. The continued rapid rises in inflation and average gross wages are making costs in some parts of the Group rise at a faster rate than the average of recent years, but the growth rate is below that of the past financial year.

Price of Electrical Energy

By the end of April 2008, the price of electrical energy had risen to 40 €/MWh on the electricity exchange Nord Pool, and on the basis of future prices we forecast that the price will gradually rise to about 50-55 €/MWh by the 1st quarter of 2009. Changes in the temperature and in precipitation levels are the main factors that could cause considerable price corrections. The water-level in reservoirs in the Nordic countries has stayed higher than the median during 2008.

Price of Oil

On the basis of future transactions we forecast that in 2008 the price of oil will remain between 90 and 100 USD/barrel. In early 2008 the world oil price has remained at record levels due to increased demand in Asian countries and the shortage of available production capacity. An increase in production by non-OPEC countries should lead to an increase in the second half of the year in OPEC production volumes, which will alleviate price pressures. The sensitivity of the oil price to issues related to production, supply and the processing chain, makes it possible that these factors may push up the price of crude oil considerably.

Emission Allowance Market

On the basis of future transactions we forecast that the average price of CO_2 emission allowances in 2008 and 2009 will be 20-25 €/tonne. The spot prices of emission allowances on the Nord Pool exchange in early 2008 have fluctuated between 19 and 24 €/tonne. Price pressures may arise because less allowances were allocated to countries for the second trading period than had been applied for, and the oil price is at record levels, which affects the price of emission allowances. The prices of emission allowances may be pulled down by a slowdown in economic growth in the European Union, which would reduce the demand for electrical energy; the economic forecast published by the European Commission on 28 April expects growth to average 2.0% this year, which is 0.4 percentage points less than the European Commission forecast in autumn 2007.

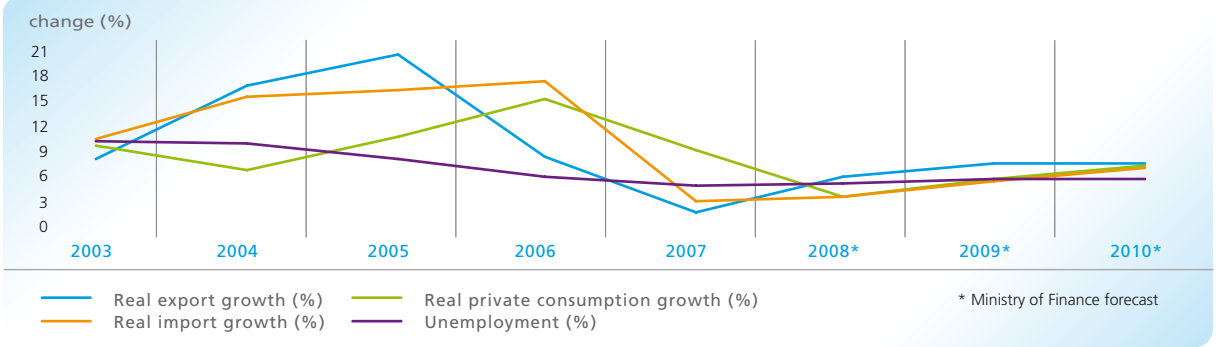
Operating Profit

Eesti Energia forecasts that the Group's operating profit for the financial year 2008/09 will be 70.3 million euros, provided that the average temperature remains at its long-term average of 5.8°C. As electricity sales growth slows in a climate of lower economic growth, so operating revenue also slows, but this is balanced by the rapid growth in sales income from heating energy and shale oil. Operating expenses have risen because the purchase costs of emission allowances have been added to the Group's cost base, and labour costs have increased. Significant changes in the demand for electricity and the prices of oil and emission allowances may have a positive or negative impact on operating profit.

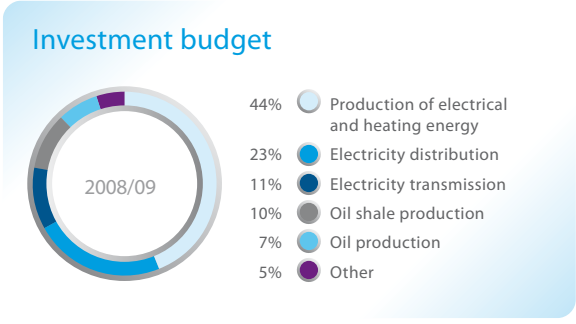
Investments

Over the next few years Eesti Energia's strategy is for most of its investments to go towards creating new energy production capacity and rebuilding and repairing power networks. Eesti Energia's target is to reduce the number of outages in the distribution network by 50% and to bring network losses down to 7%, which requires major investments to increase the reliability of the network. In order to diversify the production portfolio, investments need to be made in new production capacity and the existing capacity needs to be made even more efficient. Eesti Energia places great importance on maximising the value of oil shale resources and wishes to expand liquid fuel production sharply. The second undersea cable between Estonia and Finland is planned to come online by 2013, bringing the capacity of the connection between Estonia and Finland to 1,000 MW.

Eesti Energia forecasts that the Group's investments in the financial year 2008/09 will be about 320 million euros, which is considerably higher than in recent years. A significant part of this is planned for the production of electrical and heating energy and a large part will go to electrical energy distribution.



Eesti Energia will continue to make large-scale investments in the following periods in the creation of new production capacity, in increasing reliability and efficiency in electricity distribution, and in increasing shale oil production.



Cash Flows

Eesti Energia forecasts the Group's 2008/09 cash flows from operating activities will be 159.8 million euros and cash flows from investments (excluding cash flows from investments resulting from the reclassification of cash and cash equivalents) will be -300.4 million euros, a figure accounted for by the major increase in investments financed from the Group's bank deposits and other short-term financial investments. However, the company's internal resources will be exhausted by the end of 2008/09 and future investments will need to be financed with external capital. Cash flows from financing activities are forecast at -19.2 million euros once the significant impact of the 51.1 million euros in expected dividends and related income tax for the financial year 2007/08 has been subtracted.

Risk Management

As an international energy firm, Eesti Energia will be increasingly exposed to risks as the electricity market opens. Eesti Energia's management believes that effective risk management ensures the fulfilment of the company's goals and the growth of competitiveness and value.

We see the risks for Eesti Energia as possible future events or developments which have a negative effect and which can result in losses for the company or hinder the achievement of our goals.

The goal of risk management at Eesti Energia is to ensure the Group has a professional and high-quality capability for identifying, assessing and responding to all risks.

Management of Risks

The Eesti Energia Group's financial risks are managed following the principles approved by the management board. The most thorough overview of financial risks is contained under 3.1 in Note 3 to the Financial Statements of the annual report. Business risks are assessed at Eesti Energia management level and at the managers' group level in each business area. Operating risks are managed at company and business unit level.

To hedge operating risks, risk transfer is among the measures used. The assets of the Narva power plants, the Iru power plant and the Narva oil factory are insured with an indemnity limit of 250 million euros per case. In addition to the assets, the power plants and the oil factory are insured against business interruption and related additional costs. Other assets are insured for a total of 69.5 million euros following the Group's insurance principles. In addition, the Group has a liability insurance policy against claims related to operating risks, with a total limit of 50.0 million euros.

The most important results of the Eesti Energia risk management development programme in FY 2007/08:

- development and adoption of the Eesti Energia risk model, which defines a scale for unitary qualitative assessment of risks and methodology for identifying, describing, documenting and analysing risks;
- adoption of a risk register to register all of the Eesti Energia Group companies' risks and support the risk administration processes; automation of risk administration-related information processing; and implementation of reporting;
- identification and analysis of the risks for Põhivõrk, Jaotusvõrk, Iru Elektrijaamad and Kohtla-Järve Soojus, and for energy trading using a unitary methodology.

I sometimes feel that music can change the world.
Because anything that changes us on the inside –
and good music does wonders – echoes on the outside.
External changes always begin from within.

AIN AGAN
Virtuoso musician from Vana-Kariste
Jazz guitar teacher at the University of Tartu Viljandi Culture Academy
Eesti Energia customer

The retail business is the part of the company where the customer meets Eesti Energia directly. It is an area that will face major changes with the opening of the market.

Customers currently have a high regard for us as a customer service provider, but this alone won't be enough in the future. We have set our sights on securing for our customers a strong sales organisation, an integrated and distinctive approach to customer relations, a wide selection of services, and an effective distribution network.

Review of Activities

Production of Oil Shale

MAIN FINANCIAL INDICATORS OF EESTI PÕLEVKIVI

	2007/08	2006/07
Sales revenue (millions of euros)	157.8	121.0
Operating profit (millions of euros)	4.8	9.9
Investments (millions of euros)	26.8	19.5
Operating cash flow / investments	0.7	0.9
Average number of employees	3,406	3,889

MAJOR EVENTS IN 2007/08:

- Production volumes reach 15-year record high
- Organisational changes improve productivity
- Work continues to maximise the value of mine waste from oil shale production, including preparations to build a new crushed stone factory

Eesti Põlevkivi's mission is to use sustainably its oil shale resources to supply fuel and raw material to the producers of electricity and shale oil. A priority in this is to increase the efficiency and minimise the environmental impact of production.

The financial year 2007/08 saw extraordinarily high production levels at Eesti Põlevkivi as the electrical energy produced in the Narva power plants proved highly competitive. The company produced 16.3 million tonnes of oil shale during the financial year, which is a 15-year record, and it sold a total of 17.2 million tonnes of oil shale, which is the highest result in the last ten years, exceeding the volumes reached in the previous period by 28%. Eesti Põlevkivi's main client was Narva Elektrijaamad (Narva Power Plants), who took 83% of the production, with the remainder going for shale oil production at VKG Oil AS, who took 10%, and Narva Õlitehas (Narva Oil Factory) with 6% and Kunda Nordic Tsement with 1%.

With such high production levels, the company was working flat-out, sometimes even beyond the optimum levels. The employees' workloads and wages were also at a record high. Production work running at over-capacity caused a serious shortfall in the pre-production supplies, including stripping and tunnelling, which will have to be made up in the short-term. Large production volumes also resulted in higher environmental charges of 18.4 million euros in 2007/08, which is 27% more than in the previous year.

ENN LOKO
Project Manager
Eesti Põlevkivi

ERIK VÄLI
Member of the Management Board, Production Director
Eesti Põlevkivi

LJUDMILLA KOLOTÕGINA
Head Surveyor
Eesti Põlevkivi

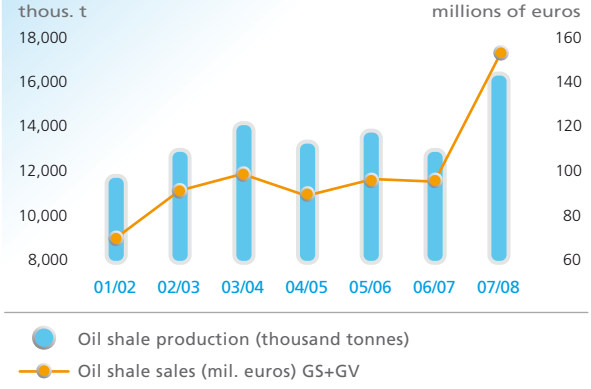
MARTIN LOHK
Senior Specialist of Development Department
Eesti Põlevkivi

MARGUS LOKO
Manager of production and technical department
Eesti Põlevkivi

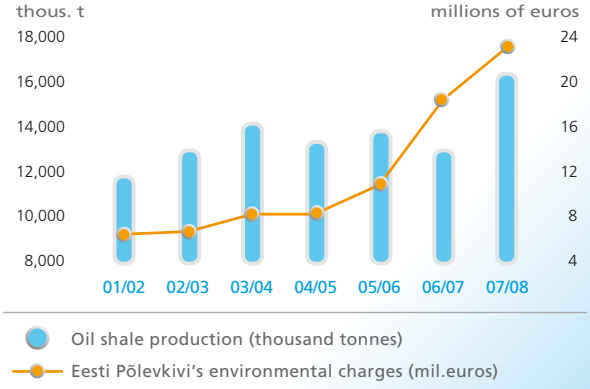
REIN KAARLÕP
Head Specialist of Strategic Development
Eesti Põlevkivi

ILLIMAR PARTS
Head of the Sales and Quality Department
Eesti Põlevkivi

Oil shale production and oil shale sales



Oil shale production and environmental charges



A new price for oil shale came into force from 1 April 2008 which is 11% higher than the price of the last 10 years. The new price of 9.4 euro /tonne was approved by the Competition Board in February 2008.

The financial year 2007/08 was a year of organisational changes for the company. In August 2007, the Supervisory Board of Eesti Põlevkivi appointed Ilmar Jõgi as the new head of the company, Lembit Kaljuvee, his predecessor, having left the company in April 2007 to become a deputy in the Riigikogu (parliament).

In preparation for the opening of the electrical energy market in 2013, Eesti Põlevkivi established a new structure from 1 April 2008 to ensure that oil shale production will become more efficient, more customer-oriented and more environmentally sustainable. To improve productivity the changes in the structure included giving greater responsibility to the Group's central departments. Põlevkivikaevandamise AS was also fused into Eesti Põlevkivi, and the Viru and Estonia mines and the Aidu and Narva quarries were merged so as to make better use of production potential and resources.

Environmental Impact and Efficient Production

To lessen the environmental impact of oil shale production, Eesti Põlevkivi aims to make better use of oil shale enrichment waste, using it to produce building materials and crushed stone for road construction. As well as reducing the environmental impact, this also generates economic benefits, as the company would otherwise have to pay an environmental charge for not using the 6 million tonnes of mine waste produced each year. The use of oil shale mining waste and other mined material in the construction industry allows several quarries to be left unused, which benefits the environment as a whole.

The Aidu crushed stone production line produced 236,500 tonnes of standard quality crushed stone in the last financial year, and the plan for the next financial year is to produce 402,000 tonnes. The company plans to invest about 10 million euros in 2008/09 in the construction of a factory to produce 1-2 million tonnes of crushed stone a year at the Estonia mine.

During the financial year the company built 0.2 million euros of water pipes for households in regions left without groundwater because of mining. 151 hectares of mined area were reforested.

Eesti Põlevkivi continues to work towards further increasing the efficiency of oil shale mining and use. Eesti Põlevkivi, Narva Elektrijaamad and Tallinn University of Technology will complete a joint study in the next financial year into ways of improving and implementing an enrichment process to produce oil shale with higher heating values, in order to reduce the emissions and ash waste generated by burning oil shale.

Electricity and Heat Production

MAIN FINANCIAL INDICATORS OF THE ELECTRICITY AND HEAT ENERGY SECTOR

	2007/08	2006/07
Sales revenue (millions of euros)	328.2	259.5
Operating profit (millions of euros)	-2.2	105.6
Investments (millions of euros)	32.8	21.9
Operating cash flows / investments	2.0	-6.2
Average number of employees	1,907	1,905

MAIN EVENTS IN 2007/08:

- Electricity production reaches extraordinarily high levels
- The old burners of energy unit No 2 at Iru Power Plant are replaced by new Low NOx burners
- Construction starts at Aulepa wind park and preparations are made to build a wind park on the ash field of the Balti power plant

The main priority of the electricity and heat producing companies in the Eesti Energia Group is to change to new, more efficient production equipment and increase CO_2-free production.

The main electricity producer in the Eesti Energia Group is Narva Elektrijaamad (Narva Power Plants), which in 2007/08 produced 10.2 TWh of electrical energy, or 96.2% of the total produced in Estonia, 74.49% in the Eesti power plant and 21.3% in the Balti power plant. The company also exports electrical energy to the Nordic countries via the Estlink undersea cable and until 2008 it sold electrical energy to Latvia. The price of CO_2 allowances was so favourable that 2007 saw extraordinarily high production levels for Narva Elektrijaamad, and unusually, the power plants also worked at full capacity in the summer.

Alongside energy from oil shale, the Eesti Energia Group is placing more and more importance on electrical energy from renewable sources. Within the Eesti Energia Group, the Virtsu wind turbines and the Linnamäe and Keila-Joa hydroelectric plants produce electricity from renewable sources, and in 2007/08 they produced 10.9 GWh between them.

There was a total of 148.3 GWh of renewable energy produced in Estonia in that period, equal to 2% of the total electricity consumption in Estonia, 0.4 percentage points more than in the previous year.

The largest Estonian heat and electricity co-producer, Iru Elektrijaam (Iru Power Plant), produced 187 GWh of electricity and 1,051 GWh of heat energy in the financial year 2007/08. The company supplies heat to consumers in Tallinn Old Town, Kesklinn, and Lasnamäe districts and to Maardu town – a total of over 50% of the district heating market in Tallinn and 100% of the district heating market in Maardu. Iru Elektrijaam's profit fell sharply in 2007/08 for three reasons: the abrupt increase in the price of natural gas sold by Gazprom and Eesti Gaas; the requirement in the District Heating Act to agree price increases at least three months in advance; and the company's development work.

Eesti Energia Group company Kohtla-Järve Soojus supplies heat to the Ahtme district of Kohtla-Järve and to the Jõhvi municipality. District heat is consumed at a total of 1,298 sites with about 30,000 customers. In the financial year 2007/08, Kohtla-Järve Soojus sold 199 GWh of heat energy and

FELIKS EGISMAN
Deputy of Manager
Narva Elektrijaamad

ENDEL SIIG
Deputy of Manager
Narva Elektrijaamad

TOOMAS NIINEMÄE
Director,
Chairman of the
Management Board
Iru Elektrijaamad

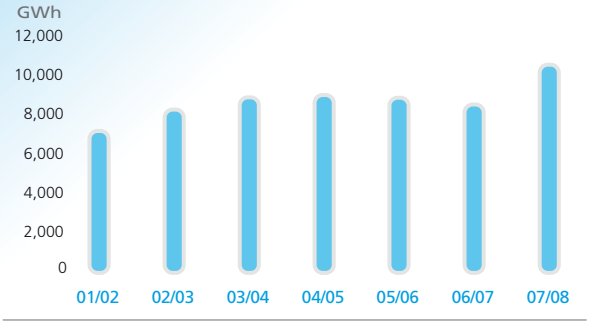
ANDO LEPPIMAN
Director of
Renewable Energy
Business Unit
Eesti Energia

SERGEI SOBOLEV
Member of the
Management Board
Narva Soojusvõrk

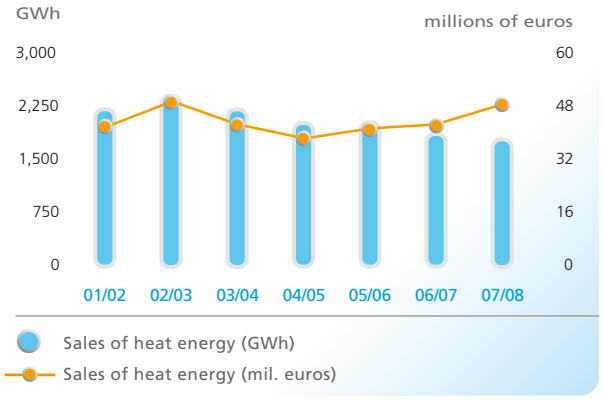
JÜRI MÄGI
Manager
Kohtla-Järve Soojus

OLGA JAKOVLEVA
Head Specialist
of Financial department
Kohtla-Järve Soojus

Net electrical energy production



Sales of heat energy



23 GWh of electrical energy. The amount of heat energy sold was a bit less than in the previous year due to the warmer than usual winter.

Narva Soojusvõrk supplies the city of Narva with heat produced at the Balti power plant. Narva Elektrijaamad owns 66% and Narva town 34% of the shares in Narva Soojusvõrk. Narva Soojusvõrk sold 488 GWh of heat energy in 2007/08.

New and More Efficient Production

In the financial year 2007/08, Narva Elektrijaamad continued preparations for the construction of a new energy complex, and will complete the detailed planning in summer 2008, which will give a clearer technical and economic analysis of the new plant. An environmental impact assessment of the construction of the new energy units will also be carried out. Because they do not conform to environmental requirements, the old energy units of the Narva power plants have to either have flue gas purification equipment installed where economically rational or be closed down by 2016. In order to maintain electricity production at the current level, new energy units need to be built.

Iru Elektrijaam (Iru Power Plant) continued to work in 2007/08 towards lessening its environmental impact and becoming more efficient. The most time-critical part of the Low NOx project for the co-generation plant – the replacement of the gas burners with less environmentally harmful ones – was completed, and the replacement of the plant's automated equipment and boiler reconstruction work will be completed by November 2009. The new equipment will considerably reduce the harmful atmospheric emissions from the production of heat and electricity and increase the efficiency of energy production.

Preparations continued on another important project at the Iru power plant, the construction of a new and efficient heat and electricity co-generation facility which uses unsorted and mixed waste as fuel. The company aims to reduce its use of natural gas imported from Russia in the co-generation of heat and electricity by approximately 35%, thus also cutting CO_2 emissions, through its environmentally beneficial recycling of ordinary and mixed waste. The project will ease price pressures for heat production and waste treatment. The new, more efficient co-generation facility with an electrical capacity of 19 MW and heat capacity of 50 MW is due to be completed by the end of 2011.

In addition to Iru Elektrijaam's management and environmental management systems, which are already ISO certified, 2007/08 saw the certification of the company's occupational health and safety management system in accordance with the Estonian Standard EVS 18001:2006.

Kohtla-Järve Soojus is planning to build a new power plant operating on peat and bio-fuels because the Ahtme oil shale burning power plant is being closed down as it does not meet environmental requirements. The new complex will consist of a heat and electricity co-generation plant and a reserve and peak load boiler house. The company owners confirmed the investment in the reserve and peak load boiler house in the financial year 2007/08 and a decision on investment in the co-generation plant is expected in the financial year 2008/09. An agreement was concluded with Eesti Gaas for a natural gas connection, ensuring the supply of fuel to the peak load boiler house; the gas pipeline will be completed in autumn 2009. Environmental requirements permit the company to use the old plant for a maximum of 20,000 working hours in 2008-2010, and this limit will be reached in spring 2010, so in order to save working hours the company intends to use shale oil and natural gas for heating in summer periods. In summer 2008, the company plans to start work on two boiler houses, funded by the investment in the peak load boiler house. In the financial year 2008/09, the company also intends to invest 1.9 million euros in the first two boilers of the peak load boiler

house and in the dry ash extraction system. In order to reduce heat losses, additional investments of at least 1.0 million euros will be made in heating pipes.

Narva Soojusvõrk's heat losses dropped below 14% by the end of 2007/08, which is among the lowest in Estonia. The reduction of heat losses is a result of a five-year programme in the course of which Narva Soojusvõrk and Narva Elektrijaamad, which owns 2/3 of the heating network,invested 3.2 million euros in modernising the worn-out piping system, while better work in stopping heat thieves also helped reduce heat losses. Narva Soojusvõrk intends to complete its take-over of the pipelines currently owned by Narva town during 2008/09, which will speed up the repairs to the pipes.

Production from Renewable Energy Sources

The Eesti Energia Group includes a unit sepcialising in renewable energy whose work supports Eesti Energia's aim of diversifying its electricity production portfolio and reducing the CO_2 emissions of electricity production. The renewable energy strategy laid out in 2007/08 demands that Eesti Energia produce 1.6 TWh of electrical energy from renewable sources by 2015.

Another wind turbine 800 kW was started up at the Virtsu wind park in 2007/08 and at the end of the financial year a combined system of diesel generator and electricity turbines started work on the island of Ruhnu. If the project proves successful, similar systems may be used on other small Estonian islands.

New production capacity is also being developed through a 39 MW wind park at Aulepa in Noarootsi municipality, with planned annual output of over 100 GWh. Construction work started in January 2008 with the construction of roads and foundations and a substation. Assembly of the wind turbines will start after the construction work of the site is completed in the 3rd quarter of 2008/09 and the wind park should be handed over to Eesti Energia by the deadline of spring 2009. The wind park will cost nearly 57.5 million euros and the main contractor building it is the Finnish wind turbine manufacturer WinWinD Oy.

The next major new construction project after the Aulepa wind park is the 34 MW wind park to be erected on the closed ash fields of the Balti power plant. The public procurement to find the main contractor to build the wind park was successful and two offers were received from the world's largest wind turbine manufacturers Enercon and Vestas. The main contractor will be selected and the contract concluded in the 1st quarter of the financial year 2008/09. This wind park will be unique because derelict land will be used for electricity production, adding value to the land.

There are several bio-gas based electricity production projects under development. Tallinn Landfill is helping with a project to use the landfill gases generated at the Jõelähtme landfill for electricity production, while Ekseko and Ragn-Sells are participating in preparations being made for a bio-gas based heat and energy co-generation facility at the Viiratsi pig farm which will partly use the waste generated at the pig farm. A feasibility analysis has been ordered jointly with the Torma Agricultural Association for a bio-gas based heat and energy co-generation facility in Torma.

The renewable energy unit of Eesti Energia Group launched an offshore wind park in Estonian water, given environmental requirements and the ease of connection to the grid. Mapping environmental impacts and a study of wind resources have indicated that a wind park could be built at Peipsi. In the first stage, wind turbines will be built on the shore and then the practicality of putting up wind turbines in the water will be assessed. As part of the offshore wind park programme, a connection application has been submitted for the Sindi substation 1,000 MW offshore wind park in the Gulf of Livonia.

In addition to the projects developed by Eesti Energia, the Group is actively looking for other suitable development projects on the market.

Reduction of Environmental Impact

In order to reduce the environmental impact of its power plants, Narva Elektrijaamad (as well Kohtla-Järve Soojus) is looking for ways to improve its ash extraction system and to find new uses for the ash fields. The closing-down of the second ash field of the Balti power plant continues and in addition to a wind park, work on a landfill for industrial waste has started there. The company is looking for wider uses for oil shale ash besides the cement and building materials industry, such as for filling in underground mines and as building material for roads.

In order to extend the useful life of the existing energy units under ever-stricter emission restrictions, the company has started installing flue gas purification equipment on old boilers. The project cleans flue gases of sulphur dioxide and nitrogen oxides, and in the first stage, desulphurisation equipment will be installed on two energy units of the Eesti power plant. A joint study into the uses of enriched oil shale is being carried out with Eesti Põlevkivi, and a project for the use of bio-fuel in the fluid bed boilers of the 11th unit of the Balti power plant is continuing. This project will let bio-fuels make up 10% of the fuel in the 11th unit of the Balti power plant from 2010, increasing the role of renewable energy in Estonian energy consumption by nearly 2%.

New Customers and Remote Reading Meters

Kohtla-Järve Soojus concluded a long-term contract to supply heat to Viru Prison in spring 2008. In order to fulfil the contract, a heating pipeline was built during the financial year at the cost of 0.6 million euros. In 2008/09 Viru Prison should consume 4.3% of Kohtla-Järve Soojus's district heating output. Narva Soojusvõrk got another 10 customers, including various trade centres and commercial buildings.

Kohtla-Järve Soojus started to introduce a meter-based settlement system for customers living in private homes, which will allow more accurate accounts to be kept of the consumption of heat energy. Besides this, since May 2007 the company has allowed its customers to submit meter readings via its homepage, an option taken up by nearly 60% of customers by the end of the financial year. Narva Soojusvõrk is also planning to save its customers submitting their heat consumption readings by starting to remote-read them itself. In addition, Narva Soojusvõrk plans to complete the advanced development of its customer management programme in 2008/09 with an electronic version to simplify record keeping.

Shale Oil Production

MAIN FINANCIAL INDICATORS OF SHALE OIL PRODUCTION

	2007/08	2006/07
Sales revenue (millions of euros)	34.7	28.8
Operating profit (millions of euros)	11.6	13.2
Investments (millions of euros)	4.2	3.1
Operating cash flows / Investments	-3.2	4.6
Average number of employees	128	119

MAJOR EVENTS IN 2007/08:

- Narva Õlitehas established as an independent company
- Preparations started for the Jordanian oil shale project

Eesti Energia's shale oil strategy focuses on increasing production volumes, reducing environmental impact and working with foreign partners to develop and apply the Group's unique shale oil knowledge.

In September 2007, AS Narva Õlitehas (Narva Oil Factory) was spun off from Narva Elektrijaamad (Narva Power Plants) to become an independent subsidiary of the Eesti Energia Group. This allows resources to be concentrated more efficiently to manage and develop a business, which is promising, profitable and highly specialised.

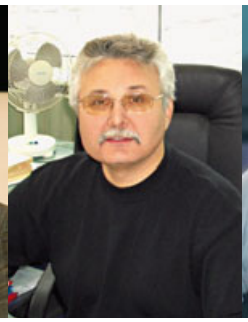
The operating revenue of Narva Õlitehas rose 20% in the financial year 2007/08, to 34.7 million euros. Operating profit was 11.6 million euros, which is 12% less than in 2006/07.

Narva Õlitehas exports an average of 60% of its production, and the rest is consumed on the domestic heat production market. The factory can produce about 140,000 tonnes of shale oil a year, of which 70% is fuel oil, 18-20% natural gasoline and 10-12% light fuel oil. In addition to this, the factory also produces about 40 million m³ of semicoke gas. The main consumers of shale oil are marine fuel producers and boiler houses.

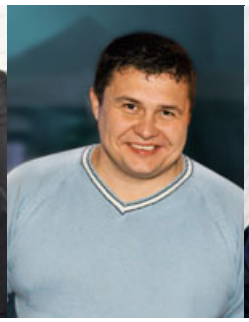
The shale oil strategy plans for Narva Õlitehas to sell one million tonnes of shale oil a year by 2015, which means a 600-700% increase in production volume. The company aims to improve the quality of its products so as to allow production of the raw ingredients needed for much more valuable products such as light fuel oils for private households and motor fuels for refineries. For production levels to be increased the environmental impact of production needs to be reduced and the capacity of the factory machinery increased. By 2015, the factory plans to introduce much higher capacity equipment and develop the technology to reduce CO_2 emissions from the production process and to use oil shale ash more efficiently in other industries. The third strategic objective is to use Eesti Energia's technology commercially outside Estonia by 2015 at the latest. The Eesti Energia Group wants to use its knowledge of oil shale to offer a full oil shale service, from geological surveys to plant construction project management and plant operation.

Eesti Energia decided to expand shale oil production in Estonia by developing it together with the solid heat conductor technology that the company already uses. At the same time Eesti Energia decided not to use its current production machinery to expand shale oil production, but instead to use

IGOR KOND
Chairman of the Management Board
Narva Õlitehas



ALEKSANDR KAIDALOV
Member of the Management Board
Narva Õlitehas



KIRILL KAIDALOV
Head of Development Department
Narva Õlitehas

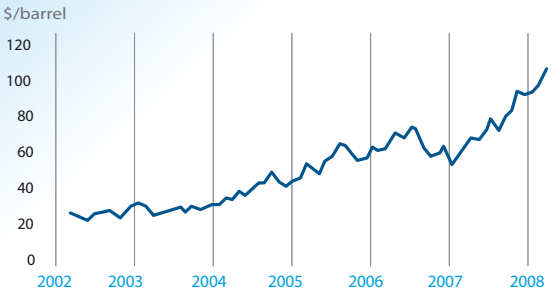
BORISS KINDORKIN
Deputy Chief Operating Officer
Narva Õlitehas

LAURI HINK
Chief Marketing Officier, Member of the Management Board
Narva Õlitehas

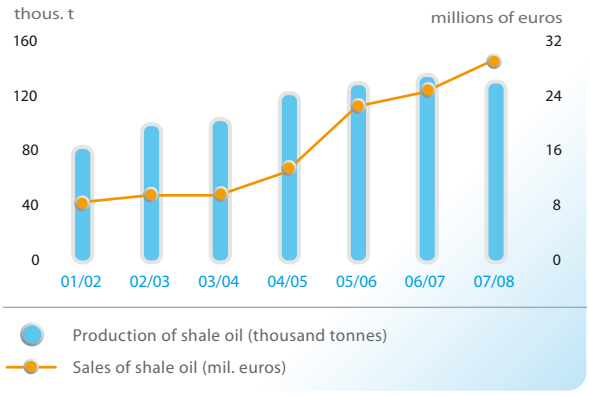
ANDRES ANIJALG
Manager of Development Projects
Eesti Energia

ALO KELDER
Head of Business Development
Eesti Energia

Oil price



Production and sales of shale oil



solid heat conductor based machinery with much higher unit capacity. Construction work will start at the beginning of the financial year 2009/10. Before the factory expansion goes ahead the solid heat conductor design will be improved in order to make the equipment more reliable, reduce its environmental emissions and, above all, increase its capacity. The new solid heat conductor equipment, which is being built in Estonia, is not only innovative but is an internationally leading technology for shale oil. Its low environmental emission levels and higher capacity will allow it to be used with many different oil shale types around the world and it will open the way to increased shale oil production at much higher quality levels.

Under the joint agreement of intent concluded between the Eesti Energia Group and the Jordanian government, Eesti Energia has the exclusive right to study an oil shale deposit of over a billion tonnes at Attarat Um Ghudran in Jordan and, if the oil shale is suitable, to conclude a concession agreement and start using the deposit. The feasibility study completed in April 2008 found that the project is both technically and economically feasible, but the project preparation will take a long time and the construction of the production complex will probably start in 2012.

In the financial year 2007/08, Narva Õlitehas started patenting new technology, including the dust chamber. The dust chamber is an important technological innovation at the factory, and it will make the factory significantly more reliable. The first part of the new dust chamber started operations in 2007/08 and the remaining part will start up in the next financial year.

Narva Õlitehas regularly monitors the factory's environmental impact and is currently identifying long-term and short-term needs for environmental investments. One of the main technical goals is to develop a solid heat conductor which produces no harmful emissions.

My generation is the first
to have been raised in homes
where electricity was always available.
That is why I consider it a very natural
part of life, one of the benefits
of the modern world.

ANU MATTILA
Resident of Helsinki
Consumer of electricity imported
from Estonia

For us, the electricity market extends far beyond the Estonian borders. Electricity connections with neighbouring countries allow all energy companies in the market to sell electricity to customers both in Estonia and abroad.

To increase the capacity of the grid, we are continuing to develop the internal network in Estonia and to establish new connections with neighbouring countries. We are continuing to harmonise our efforts to connect the Baltic electricity systems to the Central European energy system.

Electricity Transmission

MAIN FINANCIAL INDICATORS OF OÜ PÕHIVÕRK

	2007/08	2006/07
Sales revenue (millions of euros)	75.7	71.9
Operating profit (millions of euros)	24.3	21.0
Investments (millions of euros)	14.4	37.4
Operating cash flows / Investments	2.6	0.9
Average number of employees	127	138

MAJOR EVENTS IN 2007/08:

- Introduction of the new power system management tool SCADA
- Entry into the pan-European inter-TSO compensation mechanism for transit flows.
- Preparations for the expansion of the Nordic electricity exchange Nord Pool to the Baltic region.

In the financial year 2007/08, electricity transmission company OÜ Põhivõrk transmitted 7,630 GWh of electricity in Estonia, 4% more than in the previous financial year. In 2007/08, 1,551 GWh of electricity were imported into Estonia and 4,037 GWh of electricity exported from Estonia, 10% and 83% more than in 2006/07 respectively. Transmission grid losses were 3.1%.

One of Põhivõrk's strategic objectives is to be ready for free competition in the open electricity market by 2015. This means establishing new international connections, strengthening the domestic power network, and harmonising the energy regulation of countries in the unified market (Estonia, Latvia, Lithuania, Finland).

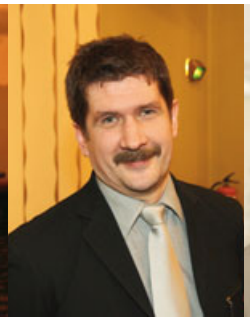
The company has started working with the Nordic electricity exchange Nord Pool to create a Nord Spot price area in the Baltic States. This would permit all the electricity producers and consumers in the Baltic region to buy and sell electricity on the electricity exchange with a common market price, broadening the trading options in the Baltic and Nordic countries. Among other things, the creation of the Nord Pool price area in the Baltic States will make the Estlink undersea cable between the Baltics and Finland available for more users alongside the owners of Nordic Energy Link – the company that manages the cable – who currently have priority in using Estlink. Nordic Energy Link's largest shareholder is Eesti Energia with 39.9%, while Latvenergo and Lietuvos Energija each hold 25% of the shares and the remaining 10.1% is divided between Finnish energy companies Pohjolan Voima and Helsingin Energia. Nordic Energy Link is responsible for ensuring the cable is in good technical condition for use. The cable was relatively reliable in 2007/08 with only three non-scheduled interruptions which together meant the cable was down for a total of 15 hours.

In 2007/08, preparations started for the construction of a second undersea cable between Estonia and Finland, including selection of routes and calculation of the possible benefits of the cable for electricity consumers. Põhivõrk plans to energise Estlink 2 in 2013, or simultaneously with the opening of the Estonian energy market.

The Estonian, Latvian, Lithuanian and Polish transmission grids continued to work on preparations to connect the Baltic and Polish energy systems, the first step towards the transition of the Baltic States to synchronised operation with the Central European common energy system UCTE. A study by specialists from the four countries at the end of 2007 showed that the Baltic States will only be able to start synchronised operation

JAN LUKKI-LUKIN
Senior Dispetcher
Põhivõrk

NELE JÜRLAU
Network analyst
Põhivõrk



AIVAR SARV
Head of the Data
Aquisition Division
Põhivõrk

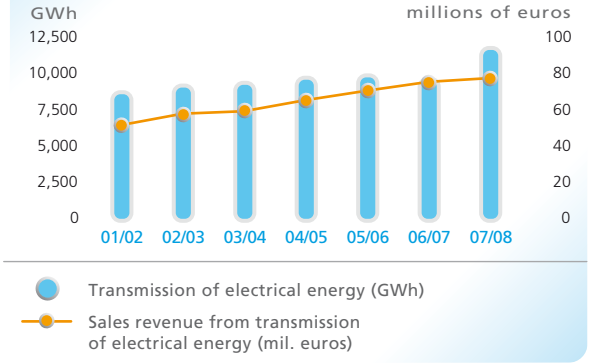
VÄINO MILT
Powerline Expert
Põhivõrk

RAUL UURING
Grid Management Expert
Põhivõrk

ANTS TIIGI
Civil expert
Põhivõrk

KERSTI PREI
Assistant
Põhivõrk

Transmission of electrical energy and sales revenue from transmission



with UCTE from 2020 at the earliest. Until then the frequency of the local electricity current will remain firmly linked to that of the north-western Russian joint energy system, which the Estonian, Latvian and Lithuanian energy systems are all part of, together with the systems of Russia and Belarus.

In June 2007, Põhivõrk joined the pan-European inter-TSO compensation mechanism for transit flows. This facilitates cross-border trading, releasing traders from the payment of cross-border export and import tariffs. Among other things, this meant the abolition of tariffs for crossing the energy trading border between Estonia and Finland.

In parallel with the creation of new international connections, several domestic networks have been developed in order to ensure sufficient capacity. The largest project is the construction of the 330 kV Harku-Riga line in cooperation with the Latvian main grid. Preparatory work is also continuing for the construction of the 330 kV Tartu-Sindi line, and modernisation of the 330 kV Püssi and Aruküla switchyards is planned so that they will be able to handle the higher power levels in future following the construction of the Finnish and Central European connections. During the financial year, 110 kV substations were completed at Kohilas and Rummu, and the Papiniidu substation in Pärnu and Ülejõe substation in Tartu were finished, while underground cables were installed between the Emajõe and Ülejõe substations in Tartu, making a complete circuit in Tartu.

In order to ensure greater security of supply, OÜ Põhivõrk started research into the construction of an independent gas turbine power plant, to provide rapid domestic emergency reserves in the event of power system disruptions. The initial plans call for a gas turbine with capacity of 80–120 MW, which would cost 51.1 million euros and be completed in the financial year 2011/12. Until then, the emergency reserves necessary for Estonia in the event of system failures will be supplied by Latvia.

Põhivõrk launched a new asset management system in the financial year, concentrating all the operational stages of its electricity network (diagnostics, operation and maintenance, grid planning and development) into one single system. The main change is that the company can make the transition from periodic maintenance of equipment to needs-based maintenance, allowing it to work more efficiently. The new system will become fully operational in the financial year 2008/09. A new power system management tool, SCADA, was introduced, which is an important preparation for the opening of the electricity market, as it improves monitoring of the Estonian power system. Among other things, SCADA offers better wind park management, increased data-collection on neighbouring power systems, and improved voltage control monitoring mechanisms. The reliability of the control centre was also increased, as SCADA enables Põhivõrk to use another similar and independent management system, should one system fail.

To fulfil its ambitious tasks, Põhivõrk pays close attention to personnel issues, as this is very important in ensuring the sustainability of the security of supply of electricity in Estonia. Measures include the development of a new remuneration system, in preparation for the transition to a performance pay system in 2008/09 based on the contribution of the company and each employee.

Electricity Distribution

MAIN FINANCIAL INDICATORS OF OÜ JAOTUSVÕRK

	2007/08	2006/07
Sales revenue (millions of euros)	170.4	164.2
Operating profit (millions of euros)	25.5	22.4
Investments (millions of euros)	88.4	51.1
Operating cash flows / Investments	0.4	0.7
Average number of employees	964	977

MAJOR EVENTS IN 2007/08:

- Reduction of network losses
- Reduction of client interruptions or SAIFI
- Launch of the programme to eliminate voltage problems

The main function of the electricity distribution company OÜ Jaotusvõrk is to maintain the power network in good condition. To achieve this, the company has increased its investments in network repairs many times over, in order both to solve the voltage problem and to reduce power cuts.

In the financial year 2007/08, Jaotusvõrk transmitted 6,343 GWh of electrical energy to nearly half a million Estonian households and companies, 5.3% more than in the previous period.

In order to keep the power network in good condition, the company has sharply increased its investments in renovating the power network, and over the next three years, Jaotusvõrk will invest 295-305 million euros in increasing network reliability. Jaotusvõrk's targets for 2010 are to reduce the number of client outages by 50% and the losses in the distribution network to 7%; to solve the voltage problems in power supply; and to increase client satisfaction with network services to 85%.

The increased investments are already noticeably reducing outages. The number of interruptions per client (System Average Interruption Frequency Index - SAIFI) was reduced to 2.17 by the end of the financial year, from 2.40 at the end of the previous year. The company launched a project together with Lappeenranta University in Finland to seek ways to reduce even further the SAIFI in Jaotusvõrk's power network. Several new technical solutions were developed, and the decision was taken to prefer underground cables to overhead lines more than before. The increased use of underground cables, which are more resistant to winds and storms and other weather conditions, is made possible by a new installation technique where cables are ploughed into the ground, which is cheaper and faster than the methods used before. The duration of scheduled interruptions (power cuts caused in the course of power network maintenance and construction) was also reduced in the year, facilitated by the acquisition of generators which enabled the power supply to clients to be maintained.

Electricity losses in the network are falling at the planned rate. At the end of the financial year, losses stood at 7.78% of the electricity supplied to the distribution network, down from 8.27% at the end of the previous financial year. Electricity losses include both technical losses and the unpaid consumption of electricity. The reduction of network losses was greatly facilitated by a structural change, in which Jaotusvõrk formed a special pan-Estonian loss identification unit with about 50 staff.

Jaotusvõrk has quadrupled investments in solving problems of low-quality voltage compared to the previous financial year.

JAN ERIKSON
Project Manager
Alienation
of Electrical Networks
Jaotusvõrk

MART HAAVIK
Network Analyst,
Network Asset
Management
Jaotusvõrk

TAAVI SILM
Procurement
Department Main specialist
Jaotusvõrk

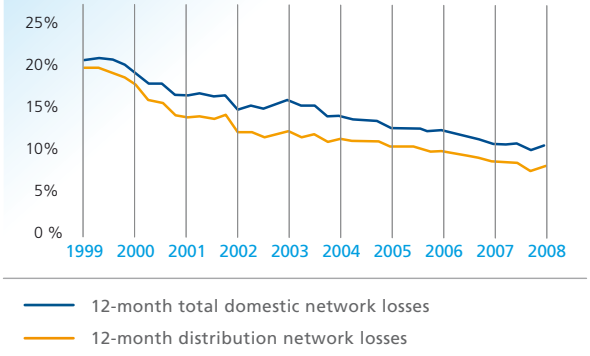
KATRI REINEBERK
Deputy of head
of Procurement Department
Jaotusvõrk

KALMER SUSI
Head of Network
Construction Sector
Jaotusvõrk

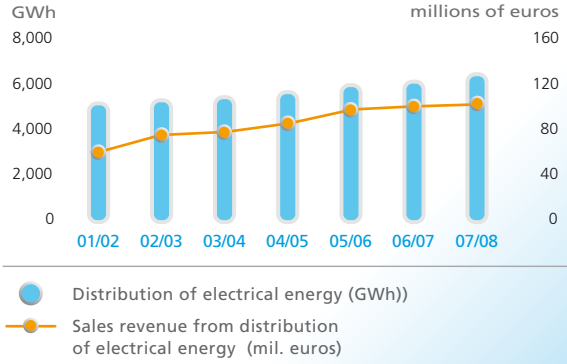
KRISTI KUUSIK
Communication Specialist
Jaotusvõrk

CERLIN PESTI
Manager of HR
Jaotusvõrk

Domestic Network losses and Distribution Network losses



Distribution of electrical energy and sales revenue from distribution



In 2007/08 the company allocated 7.3 million euros to this, and in the next three years this will increase to 10.2 million euros a year. A survey of electricity consumers showed that there are about 7,000 clients in Estonia who have voltage problems in their electricity system. Eesti Energia will ask these clients to choose whether they prefer to have their voltage problems fixed within the next 3-4 years, or to accept a 50% discount from network charges until the problem is fixed by a date agreed with the client.

In order to make things more convenient for clients, the company plans to increase sharply the number of remote reading systems. An international procurement tender to supply remote-read meters was announced during the financial year. The company plans to conclude a contract at the beginning of the financial year 2008/09 with the successful tenderer, who will then install 200,000 remote-read meters within the next two years. In the first stage, remote meters will be supplied to all corporate clients and private houses, while apartment houses will be equipped with a general measurement system for audit measurements. As well as being more convenient for the client, the remote meters enable clients to analyse their consumption better, save electricity and money and, if necessary, change their electricity service provider after the opening of the market.

On 1 March 2008, new principles for connecting to Jaotusvõrk's power network entered into force. One reason for the changes was to end a system whereby new clients connecting to the power network were subsidised by all the other electricity consumers. The new principles use a simple formula to calculate the connection fee for a larger number of clients connecting to the network at a defined and more understandable price. The price had not changed since 2002 but had to do so now because of a steep increase in power network construction costs.

Jaotusvõrk continued buying smaller electricity networks. The largest to be connected to the distribution network was F-Elekter on the Kopli peninsula in Tallinn at the beginning of 2008.

An electronic procurement environment was developed for companies building and maintaining the power network, making the procurement process simpler and faster. A data exchange model which meets the requirements of the open market was also created.

Jaotusvõrk started meetings with major corporate clients to improve the reliability of their electricity supply. Following the consultations, Jaotusvõrk will reduce the risks of interruptions, installing generators and uninterruptible power supplies (UPS) and developing the power network to meet the specific needs of individual clients.

Jaotusvõrk's personnel policy focuses on retaining dedicated and skilled employees. The company has researched the dedication of its employees for three years and over that period the employee dedication index has risen from 45 to 59. In order to raise this still further, Jaotusvõrk has established a recognition, development and transparent remuneration system for employees. The financial year 2006/07 saw the introduction of regular annual interviews with all employees, and the launch of the Weekend University, where all those who wish to can develop their professional and managerial skills. The company gives particular priority to developing managers and the next generation of engineers through internships in the company.

In summer 2007 the company launched an electricity safety campaign for children to reduce accidents involving downed power lines and other network equipment.

The second of November 2007 marked a hundred years since electricity started to become widely available for homes, companies and institutions and for street lighting. To celebrate the 100th anniversary of the Estonian power network, Jaotusvõrk organised a conference on the subject and produced a film summarising a century of power network operation.

There is a lot of oil shale in Jordan. So far, we have failed to create value for it. What Eesti Energia is doing both in and outside Estonia is really remarkable!

MOHAMMAD MAAITAH
Near East Engineering Company
Vice President
Amman, Jordan

Future customer
of Eesti Energia Jordan

We have unique oil shale-related know-how and technology.
In a world where oil shale fuel is seen as one of the alternative solutions to the oil crisis, our years of experience provide Estonia with a significant advantage.

We value oil shale, we mine oil shale and produce highly valued liquid fuel from oil shale. We are working to improve the quality of the oil and increase production levels, while reducing the environmental impact of oil production.

We believe that by spreading our know-how, we will enhance our skills and make Estonia a major power in the world.

Sales of Electricity and Customer Services

MAIN FINANCIAL INDICATORS IN THE SALES OF ELECTRICITY AND SERVICE AREAS

	2007/08	2006/07
Sales revenue (millions of euros)	301.9	239.5
Operating profit (millions of euros)	1.4	10.7
Investments (millions of euros)	0.2	0.7
Operating cash flows / investments	-17.7	20.2
Average number of employees	368	355

MAJOR EVENTS IN 2007/08:

- Introduction of the mobile internet service KÕU
- The first successful year of Estlink operation and extraordinarily high export volumes
- Introduction of electrician services inside buildings

Eesti Energia is the only energy company in the Baltic region that sells electricity in all three Baltic States and its aim is not only to improve customer satisfaction but also to help develop the Baltic electricity market.

The financial year 2007/08 saw extraordinarily good electricity sales. The Eesti Energia Group sold 10,013 GWh of electrical energy, which is 23.3% more than in the previous financial year; electricity sales in Estonia were 7,288 GWh. Rapid economic growth had a positive effect on sales, while the warmer than average temperature in winter reduced electricity consumption. In 2007/08, the average weighted price of electrical energy sold in the closed Estonian market was 2.678 cents/kWh, 0.001 cents more than in the previous year.

Customer Satisfaction Improving in Estonia

One of the strategic objectives of customer service is to achieve 85% customer satisfaction with network services. According to studies conducted in 2008, 60% of corporate customers and 74% of residential customers were satisfied with network services.

Market surveys conducted in Estonia bore witness to the company's ever improving image and customer service level. A customer satisfaction survey conducted by Faktum & Ariko in April 2007 indicated that customers value most highly the convenience of sending meter readings by e-mail and the politeness of customer service personnel. When asked about image, customers associate Eesti Energia with reliability and development. At the same time the surveys showed that residential customers found the price policy was not very customer friendly. According to survey results, major corporate customers value customer account managers and service quality most highly and consider Eesti Energia's professionalism and reliability to be ever better. The steepest rises were in the ratings for considering society's interests and Eesti Energia as a good partner to work with. Satisfaction with the service quality and price ratio also increased considerably, but major customers see room for development in the clarity of information given out by Eesti Energia.

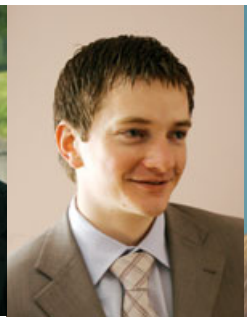
Eesti Energia concluded 5,527 new connection agreements in 2007/08, which included 3,051 residential customers and 2,461 corporate customers. This is about 10% less than in the previous financial year, mainly due to the general slowing

ANU POLBERG
Contact Center Manager
Customer Service
Eesti Energia

ANDRES KEBA
Head of Business Clients and Electric Network Sale Division
Eesti Energia

PIRET SULTS
Head of Customer Cervices
Eesti Energia

PRIIT TAMPERE
Head of Development and Maintenance for Business Systems
Eesti Energia

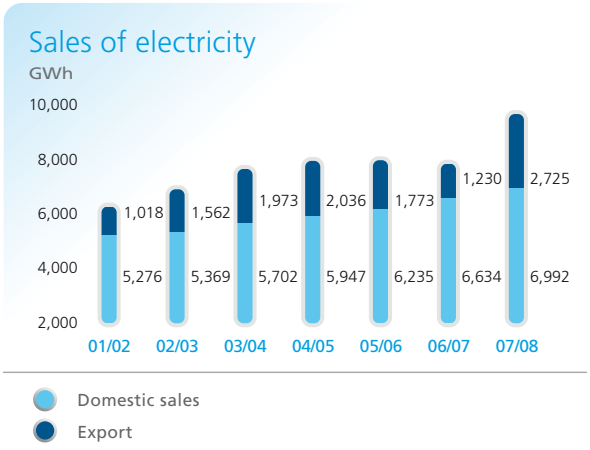


TADAS ADOMAITIS
General Director
Lumen Balticum

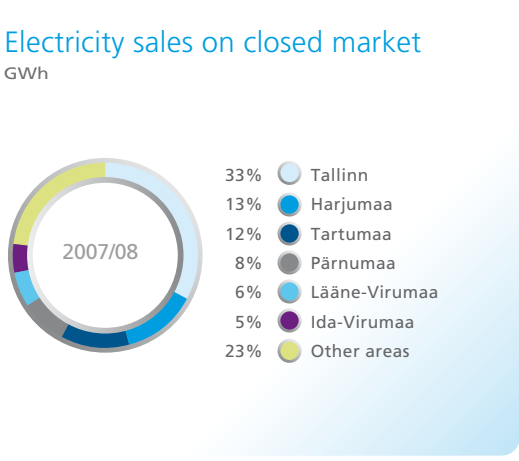
AIVAR TIHANE
Head of Energy Sales Division
E. Energy

JUKKA-PEKKA HÄKLI
Managing Director
Solidus

Sales of electricity



Electricity sales on closed market



of economic growth in Estonia. By the end of the financial year, Eesti Energia had a total of 492,830 customers, including 467,463 residential customers and 25,367 corporate customers.

The number of customers served by call centres also continued to rise in the financial year 2007/08, with approximately 447,000 customer calls received during the year. The percentage of calls answered has also risen, reaching 85% of all incoming calls by the end of the financial year. Alongside the telephone, self-service channels – mobile and internet based solutions – are becoming ever more popular with customers. During the year, 102,000 customers were served via e-mail, while nearly 100,000 residential customers and 10,000 corporate customers used Eesti Energia's self-service e-service on the internet.

KÕU and Other New Services

The Eesti Energia Group started to offer several new services in the financial year 2007/08. Eesti Energia's Teenindus (Customer Services) and Televõrk jointly launched the mobile internet service KÕU, which had attracted over 15,000 customers by the end of the financial year. By launching KÕU, Eesti Energia made connection to the internet possible throughout the whole of Estonia for the first time ever. The service is mainly aimed at people with a mobile lifestyle, and customers in low-density regions, who until now have remained outside internet service and coverage areas.

Eesti Energia also started offering electrician services inside buildings, something that customers have long wanted. While previously Eesti Energia only performed electrical work in parts of the system for which it is responsible (the electricity network up to the connection point, and the measurement equipment), now major electrical work inside buildings can be ordered from the company. Together with its partners, the company is currently developing this service further, to offer both weak current work and emergency services as well.

Since autumn 2007 it has been possible for customers to conclude contracts to connect to Eesti Energia's electricity network electronically. This means that customers no longer need to come to customer service offices to conclude contracts and it is enough that they send a digitally signed application. In a move to make communication channels more efficient and to lower their environmental impact, Eesti Energia worked with its customers to reduce the proportion of paper invoices. SMS services were also developed further, so that as well as sending their readings by SMS, customers can now receive notices of scheduled network maintenance work or scheduled power cuts at their points of consumption by SMS, e-mail or postcard. An SMS solution to give notice of power outages is also being developed.

Eesti Energia launched an extensive information campaign on energy saving in 2007/08. In cooperation with major daily newspapers, Eesti Energia published special supplements on energy saving, and it took part in MTV's energy saving awareness project aimed at young people. Information materials on energy saving are distributed to customers both at customer service offices and via the internet. The company also made presentations at seminars and conferences. In the financial year 2008/09, the company intends to make considerable improvements to the most extensive Estonian energy saving portal and to continue to inform customers actively of ways to save energy.

Export Levels Extraordinarily High

Eesti Energia exported 2,725 GWh of electrical energy, which is 121.5% more than in the previous year. The extraordinarily

high sales volumes were possible due to the low price of CO_2 emission allowances, the commissioning of Estlink, and increased deliveries to the Latvian market due to the delayed maintenance repairs at the Ignalina nuclear plant in Lithuania. In the second half of 2007, Eesti Energia ran the oil shale supply facilities of the entire Group at their maximum level. That the company was able to do this without having made long-term plans and that the entire supply chain was successfully managed shows the capability and flexibility of the organisation.

The financial year 2007/08 was the first full year of operation for the Estonian-Finnish undersea cable Estlink, which was commissioned in January 2007. During the year, operating the undersea cable gave Eesti Energia a lot of experience of energy trading on the open market and made the operational management of the power plants run on market based principles.

A new CO_2 emission allowance period started in 2008, for which the European Commission allocated considerably fewer allowances to Estonia than in the previous period. Eesti Energia is therefore forced to buy additional allowances for the electricity produced to cover some of the needs of the domestic market and all exports. Purchasing additional allowances has a significant impact on Eesti Energia's financial results. Among other things, it has affected the price of electricity sold to customers on the open market since 2008, as a result of which the open market consumers exercised their legal right to buy electricity at regulated prices. In addition to this, the smaller number of free CO_2 allowances means lower competitiveness in the Latvian market, which since early 2008 has been dominated by electricity produced under lighter environmental regulations outside the European Union. Cheaper electricity supplied from outside the EU may have a large impact on the development of the entire energy area in a region where equal requirements for production cannot be guaranteed and trade is not regulated in accordance with EU production rules.

At the end of the financial year, Eesti Energia was the only energy company with day-to-day electricity sales operations in all three Baltic States. In July 2007, Eesti Energia's subsidiary SIA E.Energy started selling electricity in Latvia, where it was the first company to enter the open electricity market. Eesti Energia's subsidiary in Lithuania, UAB Lumen Balticum, received its independent supplier's licence in summer 2007, granting it the right to sell electrical energy to end-consumers in Lithuania. Lumen Balticum started selling electricity in Lithuania on 1 March 2008. Eesti Energia's experience in Latvia and Lithuania will allow it to take an active role in the development of electricity market regulation in these countries. Eesti Energia believes that developing regulation and supporting cross-border energy trading is important in the long-term to improve the security of supply in all three Baltic States.

The Nordic electricity exchange Nord Pool Spot AS invited Eesti Energia to take part in the working group making preparations for the creation of the Baltic price area. Nord Pool Spot will decide on its expansion to the Baltic States region in autumn 2008. The price area would give all the Baltic electricity producers and consumers the opportunity to buy and sell electricity via the electricity exchange at a common market price. Eesti Energia supports the expansion of the market area of Nord Pool, one of the best-developed electricity exchanges in the Nordic region or anywhere in the EU, to the Baltic region.

The financial year also saw the final integration of Eesti Energia's Finnish energy brokerage company Solidus OY into the Eesti Energia Group. Solidus is a member of Nord Pool, managing the electricity portfolios of its clients and offering advisory and expert services on electricity market operations and risk management. In the financial year 2008/09, Solidus will complete the process of applying for a financial services licence. This licence is needed for client portfolio management in the EU energy sector.

Eesti Energia continued working together with the Finnish energy company Pohjolan Voima. After Estlink was energised, reciprocal electricity sales contracts were renewed with Pohjolan Voima and Helsingin Energia. The companies' willingness to work together and their recognition of each other's interests create a positive base for new joint projects.

The common management principles of the entire Group were implemented in the electricity production portfolio, ensuring the more efficient use of production resources.

From 1 May 2007, Estonia enforced a regulation under which electricity produced from renewable energy sources can be purchased on the free market. The buyers of renewable energy thus started providing real competition, which is very welcome from the point of view of market development.

Auxiliary Businesses

MAIN FINANCIAL INDICATORS OF AUXILIARY BUSINESSES

	2007/08	2006/07
Sales revenue (millions of euros)	75.5	55.4
Operating profit (millions of euros)	61.4	32.8
Investments (millions of euros)	9.5	7.3
Operating cash flows / investments	1.2	-0.4
Average number of employees	1.517	1.193

MAIN EVENTS IN 2007/08:

- The integration of AS Mäetehnika into the structure of Energoremont
- The development of the mobile internet service KÕU
- The completion of the detailed plans for the new units at Narva power plants and for the new oil factory

The function of auxiliary businesses is to contribute to the core activities of the Eesti Energia Group, including to network quality improvement. Auxiliary businesses create the space where the Eesti Energia Group can work successfully and provide integral energy solutions to customers.

To ensure successful operation, there are several companies working in the Eesti Energia Group to support the Group's core activities, including the technological project solutions provider Energoremont, the electricity network construction and maintenance company Elektriteenused, the engineering design company Elpec, the telecommunication solutions provider Televõrk, and a real estate company.

Energoremont is the largest auxiliary company, designing, manufacturing, installing and maintaining equipment and metal structures for the energy sector. The company's operating profit in the financial year 2007/08 was 2.7 million euros and sales revenue totalled 33.3 million euros. These figures doubled from the previous year particularly due to the synergy created by the merger of two similar companies, Energoremont and AS Mäetehnika. The latter started as a subsidiary of Energoremont at the beginning of the financial year and turned from loss to profit, increased its turnover by 15%, and doubled its exports in the year. The 2007/08 results of Energoremont were affected by the 6.4 million euro loan taken to purchase Mäetehnika, which substantially increased the company's financial expenses.

The 2007/08 operating revenue of the telecommunications company Televõrk grew by 83% from the previous period to 12.2 million euros. 76.4% of the operating revenue came from the export of telecommunications services. Televõrk ended the year with an operating profit of 2.9 million euros. Investments totalled 5.6 million euros, of which 1.2 million euros was used for the construction of trunk and access networks and 3.8 million euros was invested in CDMA network equipment.

The turnover of Elektriteenused – the company which carries out work for Põhivõrk and Jaotusvõrk – grew by 19% to 18.8 million euros in the financial year 2007/08. Due to the rapid increase in variable and payroll expenses the company suffered an operating loss of 1.0 million euros.

The operating revenue of the electricity network design and consultation company Elpec rose markedly to 3.9 million euros, from 2.9 million euros in the previous period. The increase in operating revenue was achieved by making the company more efficient internally, so that productivity per employee was raised, even while the number of employees went up by 22%.

Customer Services

Energoremont's total exports were up 17%, making up 46% of its turnover. The main export clients are the Scandinavian countries, through which products reach customers all over the world. At the same time the company is making plans in a new direction, and intends to start direct sales to Central Europe. In order to support its exports, it plans to construct a new painting facility at Jõhvi, which will be the largest investment of the financial year 2008/09. The factory, which will cost about 1.3 million euros, is needed for the proper finishing of equipment made for export. The company is also planning to start the production and finishing of wind energy generator parts at its Narva factory in order to cover the demand in foreign markets.

The main event for Televõrk in the financial year 2007/08 was the launch of the internet service KÕU. With KÕU, the company started offering services direct to customers for the first time. By the end of the financial year, more than 15,000

users had joined KÕU. As well as this, the company created an internet connection on the Heltermaa-Rohuküla ferry line and is working on a project to install KÕU internet connections in Tartu ambulances.

Televõrk extended contracts with the key clients of the data trunk network of Baltic energy companies for the next few years. Televõrk will continue to work with major operators, including Elisa Corporation, Hansapank, Linx Telecommunications Eesti and Tele2. Internet service provider Globalcom became a new client in Latvia. Under the agreement, Televõrk will supply Globalcom with an average of 60-70% of the internet connections in the Latvian retail market during the contract period. A decisive factor in creating extensive transit traffic is the existence of optical fibre connections with neighbouring countries. In August, an optical fibre cable was completed between Tartu and Pskov, giving Televõrk an advantage in offering services to Russia. Service contracts were concluded with 12 new clients in the financial year 2007/08, including a contract with the emergency services' national operational radio communication network for the provision of rental services for transmission and for facilities.

Intra-Group Services and Developments

One of Energoremont's largest projects, designing the thermal installation for Narva Õlitehas, was completed in the financial year 2007/08. Work on the factory development project will continue in the coming financial year. Energoremont's objective for the financial year 2008/09 is to build a solid installation and construction model. Within this "turnkey" project Energoremont will not only work with ordinary equipment but will also work on technical projects, including constructing technical equipment.

Televõrk continued to improve the services it provides to Eesti Energia Teenindus (Customer Service) in the financial year 2007/08. An upgraded service platform was rolled out, which sharply improved the ability to handle calls to Eesti Energia's virtual service centre. Following a request from Põhivõrk staff the company developed a substation communication solution and ran a pilot project at the renovated Kiisa substation during the year. The wider implementation of the communication solution will continue in the next financial year.

At 70% the highest turnover growth in Elektriteenused in the financial year was in high voltage construction, with the largest projects including the reconstruction of Põhivõrk's 110 kV substation at Rummu and construction work on 330 kV and 110 kV lines all over Estonia. The rebuilding of the Rummu 110 kV substation, completed during the 2007/08 year, was the first time the company had acted as main contractor in building a substation for Põhivõrk. The total cost of the project was 1.3 million euros. Other major projects completed included the OPWG lightning protection cable on the Tartu–Pskov high voltage line for 109 km up to the Estonian-Russian border, the installation of street lighting at the Puurmani traffic junction on the Tallinn-Tartu-Võru-Luhamaa road and construction work on the power supply and external mainlines of Viru Prison. In addition to this, two wind generators with a total capacity of 150 kW were connected to the electricity network of the island of Ruhnu, which was the first time that Elektriteenused carried out work of this type.

In the financial year 2008/09, Elektriteenused will target most resources at electricity network repairs. One of the biggest such projects is the 110 kV Lasnamäe-Ülemiste cable line, which will cost 2.6 million euros. This is a real challenge, which requires the cable to be drilled into the limestone for the majority of the route. Alongside this, the company is planning to finish repairing the 110/10 kV Metsakombinaadi substation in the city of Pärnu after it was damaged in a fire, and rebuilding the 110 kV Võsu substation. To improve efficiency, the supervisory board of the company approved an investment plan at the end of the financial year 2007/08 that was several times bigger than before with 1.7 million euros for acquiring new fixed assets and 2.6 million euros for renovating existing fixed assets.

The design company Elpec prepares external electricity network projects and concludes contracts for the use of land in order to develop the distribution network so that the network

REIN UNGERT
Chairman of the Management Board
Energoremont

MATI ROHTLA
Head of Marketing
Energoremont

ANDRY PÄRNPUU
Chairman of the Management Board
Elektriteenused

AAVO KASK
Manager of High-Voltage Construction
Elektriteenused

VIKTOR MÄGI
Regional Manager
Elektriteenused

TOOMAS LÜKK
Regional Manager
Elektriteenused

owner's reliability, voltage and connection projects can be implemented. A sharp increase in investments meant that the design needs of the network grew considerably throughout Estonia during the year. The number of projects commissioned will grow even more in the next year, and the company is planning to undertake 2,500 projects, compared to the 1,600 of the financial year 2007/08. This requires the company to consolidate all of its design resources.

In the financial year 2007/08, Elpec started to offer the preparation of geodetic plans as an intra-Group service, because the advantage of intra-Group contracting is the significantly faster completion term for electricity projects. Elpec also concentrated on planning in order to prepare detailed plans for intra-Group purposes and, if possible, for external use. The most important planning project – the detailed plan for the new units of the Narva power plants – will be completed by the summer of the financial year 2008/09. One major job for the transmission grid to be completed in 2008/09 is the conclusion of contracts for the use of land for the Tartu-Viljandi-Sindi 330 kV route selection project. The Estlink 2 route selection project in Ida-Viru County is another important project currently in progress.

2007 saw the entry into force of amendments to the law concerning the payment of compensation to landowners for use of their land. Elpec is responsible for applying these amendments. Compensation is paid when power lines, substations or cable lines are located on a person's immovable property and calculated for all property in the protection zone. The first compensation sums were paid in 2008.

The auxiliary businesses also include the Real Estate business unit, which comprises the departments of property management; real estate development and project management; security services; and office and transport services. The unit operates all over Estonia, providing services to support the core activities of Eesti Energia Group companies and working to create a modern and safe working environment.

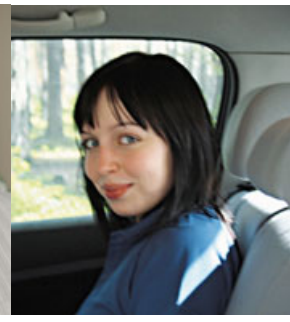
REIN PEHKA
Managing Specialist
Elektriteenused

EVELI MÕTTUS
Accountant
Elektriteenused

HANNO PRIKS
Regional Manager
Elpec

VELJO ALEKSANDROV
Chairman of the
Management Board
Elpec

URMAS AIASTE
Chairman of the
Management Board
Televõrk



KATRIN REIM
Project Manager
Televõrk

That we consume energy is quite natural. But we need to look at what energy is used for and how environment-friendly the production is.
Consumption mania can be stopped, and the choice for "green energy" can be made only by Homo sapiens – thinking humans – themselves.

AVE OIT
Global Ecovillage Network Estonia, founding member
Eesti Energia customer

Our customers want electricity with a lower environmental impact than before.

We believe this can be accomplished by diversifying our product portfolio. In addition, we will upgrade the existing production equipment in order to make it more efficient, and we will always adhere to environmental requirements. We look at the latest developments in energy production and methods around the world for what we can adopt in Estonia.

We aim to become the biggest producer of electricity from wind and bio-fuel in Estonia.

Environmental Report

Eesti Energia recognises that transforming energy into a form useable by humans has an impact on the environment. Eesti Energia analyses its activities and works to reduce the damages caused, making the existing solutions more environmentally sustainable and seeking new, less environmentally damaging solutions for the future.

The significant impact that environmental concerns have on the energy industry was demonstrated ever more clearly in the financial year 2007/08. Constantly tightening environmental restrictions have an ever-increasing impact on technological development and future choices. Since the beginning of 2008, the Iru power plant has been obliged to comply with the requirements of the European Union (EU) Large Combustion Plants Directive. The permitted period for use of the old equipment of the Ahtme power plant will lapse at the end of 2010 and considerably stricter SO_2 restrictions will be applied to the energy production units in Narva from 2012.

Climate and CO_2 policies, and the new EU energy package published at the beginning of 2008, seriously affect the energy sector. In the new CO_2 allocation plan period, which started in the EU in 2008 and will last until 2012, Eesti Energia has to make do with only about 50% of the required amount of emission allowances. The balance needs to be purchased, which means the situation is the opposite of that of the previous allocation plan period, when Eesti Energia put its unused allowances up for sale. The ever-tightening CO_2 policy will clearly have a great impact on Eesti Energia's future development choices and investment decisions. As one possible solution to this problem, Eesti Energia has started research into the abatement and storage of CO_2, which is expected to lead to technical innovations. Eesti Energia is also focusing more and more on developing production technologies that are carbon dioxide free or produce a minimal amount of CO_2.

The Estonian energy industry, and therefore also Eesti Energia, is largely based around oil shale. In 2007, the preliminary version of the national development plan for oil shale mining and use was completed, fixing the limits for oil shale mining. The approval of the first version of the development plan means restrictions being placed on mining volumes, which means that the quality of the oil shale that is mined and sold to consumers, such as producers of electricity, shale oil or cement, increases in importance. In the light of possible restrictions on resources, the use of oil shale must become ever more efficient, and in connection with this, Eesti Energia launched a research project last year into oil shale enrichment, and the environmental, economic and technical implications of this. Production of gravel from the waste rock left over from mining is increasing, and more efficient and waste-free use of oil shale would reduce its impact on the environment while also generating economic benefits.

As well as preparing to build new energy production units, Eesti Energia is also making great efforts to ensure that those currently operating units that do not meet environmental restrictions can also be used in the future. In 2007,

TÕNIS MERISTE
Environmental Manager
Eesti Energia

ARVO TORDIK
Environmental Manager
Narva Elektrijaamad

SIRJE SIIM
Chief Specialist
Eesti Energia

KALMER SOKMAN
Environmental Manager 2007,
Director of Development 2008
Eesti Põlevkivi

KRISTI UMBLEJA
Main Specialist of the
Environmental Protection
Iru Elektrijaam

VELLO VELBAUM
Environment Specialist
Kohtla-Järve Soojus

RIKKI HRENKO
International Project
Manager
Eesti Energia

preparations began for the installation of sulphur abatement equipment on the existing pulverised firing technology based units. Eesti Energia is also looking at ways to reduce nitrogen compounds in emission gases and is making great efforts to develop a technical solution to make ash removal, an important process in the power plants, conform with environmental requirements.

This will not all happen overnight, simply and cheaply. Eesti Energia is working towards making its environmental impact more transparent and comprehensible to interest groups by using various internationally applied measures. What is done is done, but existing knowledge allows us to do things better, both now and in the future.

Environmental Policy

The Eesti Energia Group adheres to the following environmental principles:

1. We have adopted and use an environmental management system that complies with international standards (ISO 14001 and EMAS).
2. We follow all applicable Estonian and international, including EU, environment-related legal acts.
3. We analyse the environmental impact of our operations in advance and reduce the negative impact of power production and transmission by using technological solutions and innovation, and by increasing efficiency, reducing losses and implementing management systems.
4. We apply the best available technology (BAT) and support sustainable development in Estonia through waste prevention, waste recycling and improved efficiency in the power system.
5. We use the BAT to use renewable energy sources as far as is technologically and economically rational.
6. We are open to new solutions and cooperate with scientific research establishments and consultation firms to achieve our environmental goals.
7. Under equal conditions in procurement tenders, we prefer suppliers who have established a certified and verified environmental management system.

The environmental policy of Eesti Energia is public and it is disseminated to employees, suppliers and other interested parties.

Environmental Objectives

1. To bring the oil shale ash hydro-transport at the Narva power plants into conformity with the EU landfill directive and the environmental requirements applicable in Estonia by summer 2009 and to continue to remediate the existing ash storage sites in order to reduce environmental hazards by 2013.
2. To shut down ash field nr 2 of the Balti power plant by the end of 2008 in readiness for the wind park to be erected there, and the Ahtme ash field by 2013 at the latest.
3. To renovate the Ahtme power plant to meet environmental requirements, with the aim of converting it to a co-generation plant using biofuels by 2011.
4. To establish wind parks at Aulepa and on the closed ash field of the Balti power plant, and to develop further renewable energy capacity while also introducing gas turbines to guarantee the reserve capacity for wind energy.
5. To install additional SO2 and NOx removal systems on the pulverised firing technology based energy blocks at Narva power plant by 2012.
6. To cut network power losses in both transmission and distribution.
7. To bring such oil-based facilities as are in violation of the requirements into compliance with legal acts, by 2012 in OÜ Põhivõrk and by 2015 in OÜ Jaotusvõrk.
8. To conduct feasibility and environmental studies into an increase in the diversity of energy sources, the gasification of oil shale, and the use of carbon capture technologies within the next three years.
9. To conduct research into oil shale enrichment from the point of view of mining and consumption by the end of 2008.
10. To certify the management systems of all Eesti Energia subsidiaries using standard ISO 14001 and to verify the EMAS environmental management system covering the whole Group in 2009.

11. To conduct an environmental audit of between one and three third parties from among Eesti Energia's suppliers and subcontractors by the autumn of 2009.
12. To carry out measures derived from the oil shale electricity life cycle assessment, including the preparation and verification of the oil shale electricity Environment Product Declaration (EPD) in 2008 and the Life Cycle Costing pilot project in 2009.
13. To continue to promote energy saving and an interest in natural sciences among young people.
14. To quadruple the re-utilisation of oil shale ash over the next five years. To conduct research into sequestering CO_2 with oil shale ash and to construct a test facility.
15. To develop a waste treatment accounting system for the whole Eesti Energia Group, and to develop new and existing waste treatment technologies in the next five years.
16. To develop and improve Eesti Energia's environmental information system over the next four years.
17. To construct efficient electricity and heat co-generation equipment fuelled by mixed and ordinary waste at the Iru power plant by 2011.

Environmental Impact of Power Production

In order to get a good overview of all the environmental impacts of power production, it is necessary to look at the entire chain of electricity and heat production. Although different production technologies or fuels are used, the energy production and consumption chain is made up of the following stages:

- preparation of sources of primary energy or the production/ preparation of fuels;
- transformation of sources of primary energy into a form conveniently used by humans through the production of electricity, heat, etc;
- transportation of the transformed energy to the consumer;
- consumption of the energy.

The environmental impacts of each stage differ due to their specific technological features and activities. The form that each environmental impact takes is important and an integral overview is needed to achieve better results in reducing the risks they cause. All the subsidiaries and business units of Eesti Energia work in accordance with the applicable environmental law and the requirements established in the environmental permits they have been issued. Environmental management systems, which meet the ISO 14001 standard and are certified, have been set up in mining, production and network units to reduce systematically Eesti Energia's environmental impact and to improve performance. The majority of the companies use a quality system integrated into the environmental management system and corresponding to the ISO 9001 standard, as well as an occupational health and safety management system corresponding to OHSAS 18001.

In order to keep fully aware of the environmental situation, Eesti Energia performs very extensive environmental monitoring over the areas it influences in all of its activities. In mining, the monitoring covers the quantity and chemical composition of the oil shale mined, the waste rock generated and the water pumped, as well as the effectiveness of re-cultivation in former mining areas and the effect of mining on birds and animals. Stationary monitoring equipment at Narva's power plants is regularly used to measure pollutants, and to monitor the impact of ash fields on groundwater and the Narva River. Compliance with the water regime is monitored at hydro-electric plants. This extensive environmental monitoring is costly, but provides a constant overview of Eesti Energia's environmental impact.

In accordance with the environmental taxation principle applied in Estonia that "the polluter pays", Eesti Energia pays substantial environmental charges for those of its activities that affect the environment. In the financial year 2007/08, the Eesti Energia Group paid a total of 51.2 million euros in environmental charges, with 14.3 million euros for rights to use natural resources and 36.9 million euros in pollution charges. Under Estonian law the environmental charges are used to finance environmental projects, while a part of the charges paid for rights to use natural resources go to the budget of the local government where the company operates.

In order to process better such a large amount of environmental information, the Eesti Energia Group is currently introducing a Group-wide electronic database to ensure the operational availability of Group-based data of a common standard. An Environmental Product Declaration for electricity produced from oil shale using CFB technology, prepared on the principles of life cycle assessment and verified by a third party, will be published in the first half of 2008. In addition to this, the EMAS environmental management system covering the entire Group will be implemented in 2008 and verified at the beginning of 2009 at the latest. The aim of both the preparation of the environment product declaration and the implementation of the EMAS environmental management system is to share Eesti Energia's environmental information with other interested parties in a more efficient manner.

Preparation of Primary Energy Sources

The production of power starts from the existence of primary energy sources, and the main source of primary energy in Estonia today is oil shale. About 95% of Estonia's electricity, and close to 300,000 tonnes of shale oil, are produced from oil shale. Besides oil shale, some electrical energy is also produced from biomass, wind and water. In the future, waste, biogas and solar energy should supplement this list. Natural gas is used in Estonia mainly for the production of heat and not so much for producing electricity. Although the proportion of oil shale in the energy balance will probably start to decrease, it will remain important for a long while yet.

Oil Shale Mining

Mining is an activity requiring special knowledge, special technical equipment and long experience. Oil shale – Estonia's most important mineral resource – is mined by Eesti Energia's subsidiary Eesti Põlevkivi, in two quarries and two underground mines. Mining inevitably impacts the natural environment, but these impacts can be managed, alleviated and minimised by considering the specific features of the site of mining and by applying long-term experience and appropriate technologies. Relying on its long experience and operating consistently, Eesti Põlevkivi has been able to manage the impacts of mining. Consistent environmental investments play an essential role in lessening the impact of mining.

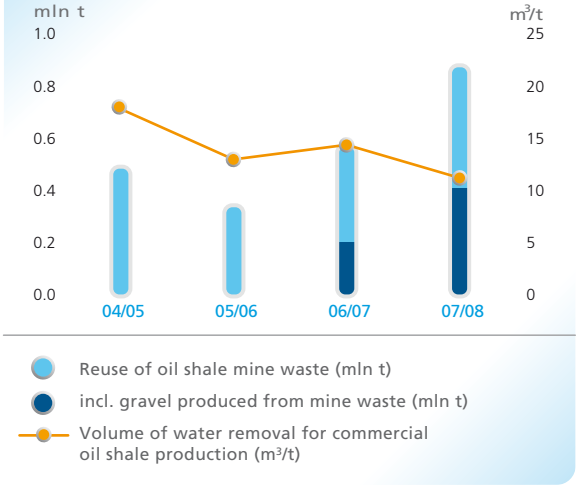
Oil shale is mined in both quarries and underground mines. The choice of mining technology is made on the basis of the depth of the oil shale layer and what lies on the surface. Deposits located up to 30 metres deep are usually quarried in open-pit mines, with losses up to 9%. Room-and-pillar mining is used in underground mines where resources lie deeper in the ground. This method of mining prevents the mining tunnels from collapsing and therefore considerably reduces the impact of mining on the surrounding area, but at the same time the room-and-pillar method creates losses of up to 28%.

Traditional mining takes both oil shale and the surrounding limestone from quarries or from underground mines. The mineral from the mines and the Aidu quarry is enriched in enrichment plants where limestone is removed from the oil shale in order to improve its quality, or calorific value. Narva quarry uses a surface miner to sort oil shale. The limestone, which is removed in enrichment plants, is called waste rock and is cast off onto slag heaps or used in re-cultivating quarries. About 4-5 million tonnes of this waste rock is generated every year and solutions for dealing with it differ across individual production units. At Narva quarry, limestone sediments are cast off onto heaps during the mining process, while at Aidu quarry, waste rock from enrichment is sent back to the quarry heaps. Over the years, a total of over 190 million tonnes of production waste has accumulated in the hills of waste rock that dot the terrain of Ida-Virumaa county. The Environmental Charges Act considers dumped minerals to be waste, and so they are taxed under it.

However, not all enrichment waste makes it to the hills, as Eesti Energia is trying to reduce production waste by using resources more efficiently. An increasing amount of the waste rock from mining is used to produce gravel and filler for use in road construction. Besides slowing down the growth of the Ida-Virumaa hills, the use of waste rock as gravel also has a wider positive effect on the environment, as this partly reduces the mining of limestone for gravel in other regions in Estonia, including in Harju county. Using these resources in Ida-Virumaa may avoid the need to open several of the planned limestone mines that have caused a lot of resentment.

The environmental impacts of mining can also be reduced by measures taken following the end of active mining. The area mined in oil shale quarries is levelled and replanted. Through the re-cultivation of quarries, Eesti Põlevkivi is one of the biggest tree planters in Estonia, reforesting about 180 hectares of former mine areas every year. Besides reforesting, fields have also been created in former mine areas. Small lakes can also

Environmental impacts



be created in mined areas. A total of 12,000 hectares of land have been restored in Eesti Põlevkivi quarries, including a total forested area of 11,800 hectares and 170 hectares of agricultural land. Re-cultivation plans are always agreed with local governments, so that their wishes can also be taken into consideration, and land is made more diverse and varied.

No direct re-cultivation is done in underground mines, as there are practically no changes above ground. In order to make the mines even less noticeable, Eesti Põlevkivi is taking steps to prevent the ground from sinking. Currently, sufficiently large sections of ground are left intact for this purpose when using the room-and-pillar method, but this in turn causes greater losses in underground mining. In order to improve the stability of mining areas, refilling underground mines with an oil shale ash and waste rock mix is being considered. This concrete-like substance would fill the underground chambers and provide an important use for low-quality waste rock and oil shale ash, but at the same time this method of refilling should not have an additional impact on the quality of soil and ground water in the surrounding area. If the refilling project is a success, mining technologies can help reduce losses in the future.

Oil shale lies closer to the surface than, for example, coal and therefore the mining process affects the level of groundwater. In order to ensure dry conditions for excavation, for technical and safety reasons in both quarries and mines, the level of groundwater in these areas needs to be lowered below the level of the oil shale layer, and water collection and pumping systems have been constructed to do this. In 2007, 180 million cubic metres of water was pumped out of the mines and quarries in order to ensure suitable conditions for mining; the water was directed mainly into the Gulf of Finland and partly into Lake Peipsi via ditches and rivers. Eesti Põlevkivi aims to pump out as little water as possible for technical mining reasons, but the amount of water pumped depends largely on the weather conditions and the amount of precipitation. Before being directed into the environment, mine water is cleaned, mainly of suspended matter, in sedimentation tanks. Mines are closed after the resources are exhausted or mining permits lapse; groundwater pumping then stops and the level of groundwater thus rises back to its natural pre-mining level.

A monitoring network has been set up in the mining area, with over 100 drilled holes and groundwater locations under observation, and water samples taken from old mines show a relatively rapid decrease in sulphate concentrations in underground reservoirs. Despite concern about mine water in Europe, treated mine water generated from mining oil shale does not have a significant effect on the environment, as only the proportion of sulphates or the natural hardness is increased. Coal mines have problems with acidic mining waters but that is not the case with oil shale.

Shallower wells in the immediate vicinity of mining works have dried up, so to alleviate this problem Eesti Põlevkivi spends a significant amount of money each year boring deep wells and laying pipelines to restore the water supply for the people living in the area. The construction of wells fed by higher-quality groundwater layers, along with modern pipelines, markedly increases the quality of water available to the people living in the area, and it meets all European norms.

This cannot, however, be done in all mining areas, as it would have a considerable impact on natural biospheres. In the Viivikonna district of Narva quarry, which lies immediately by the Kurtna Nature Reserve, mining work has been conducted within a special project designed to ensure minimal impact on the water regime of the reserve. The primary technical solution, developed in cooperation with the researchers of the Tallinn University of Technology Mining Institute, is a short work face with seepage barriers and infiltration pools, allowing oil shale reserves on the border of the reserve to be exploited.

Eesti Põlevkivi has, together with Eesti Energia, Narva Elektrijaamad and Tallinn University of Technology started research to implement the technology necessary to enrich oil shale. This would increase the value of oil shale by removing limestone in the enrichment process. Research is focusing on evaluating additional waste flows, and also on an evaluation of a possible increase in energy consumption and the possibility and extent of additional environmental impacts. Eesti Energia holds that increasing the value of the oil shale resource would have a good chance of reducing the future environmental impact of both mining and the further use of oil shale.

Gas and Other Fossil Fuels

Alongside oil shale, Eesti Energia uses gas as a primary source of energy. There are no natural gas deposits in Estonia and therefore all the gas consumed here is imported. Depending on availability, almost all the natural gas is currently imported either directly or from the Inchukalns underground gas storage reserve in Latvia. Natural gas is used at the Iru power plant to produce heat and electricity and at the boiler house of the Balti power plant to produce heat for the city of Narva. The main environmental impact of natural gas transportation is restrictions on the use of the land underneath the pipelines.

Renewable Energy Sources

In addition to non-renewable energy sources, Eesti Energia uses renewable energy sources to produce electricity. The renewable energy sector is a rapidly developing area, due to the significant reduction in CO_2 emission allowances and the EU initiative to markedly increase the use of renewable energy. The

main sources of renewable energy used in Estonia are wind and biomass, with water and biogas used to a lesser degree.

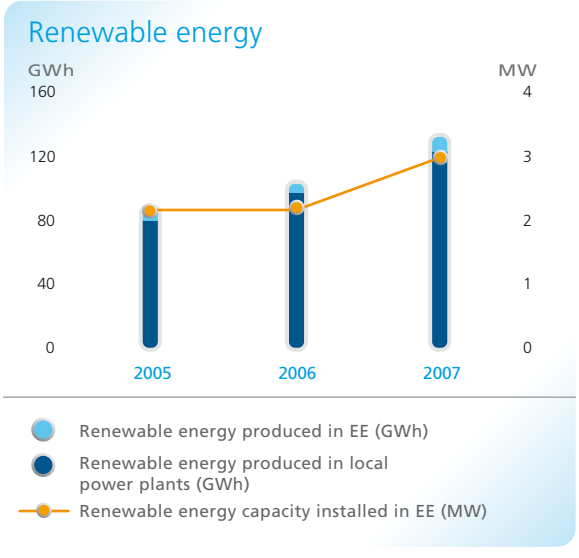
Estonia is a relatively flat country and therefore has very little hydro-energy potential. Our greatest hydro-energy potential of up to 100 MW is on the Narva river at the Estonian border and therefore cannot be used. The estimated maximum hydro-energy potential of rivers within Estonia is 30 MW. Eesti Energia uses hydro-energy at the Keila-Joa and Linnamäe hydroelectric power plants and is considering renovating the Põltsamaa hydroelectric power plant. Use of Estonia's hydro-energy resources is hindered by the scarcity of rivers with slopes suitable for electricity production and problems related to the migration of fish. In total, hydro-energy in Estonia can make only a marginal contribution to satisfying the total energy need. The main reason hydro-energy is still used is the desire to preserve historical traditions. As regards environmental issues, hydro-energy plants must comply with the water level preservation requirements fixed in their licences, while also ensuring passage for fish and taking other measures to alleviate the environmental damage caused by the restoration of catchment ponds. No more catchment ponds are to be built in Estonia, and in restoring the existing historical catchment ponds care must be taken that the environmental impacts, as judged by an impact assessment, are minimal.

Estonia's potential wind energy resources are relatively good for electricity production, particularly on the open sea. At the same time, the use of wind energy is hindered by various environmental and aesthetic problems. The use of wind energy on land restricts the use of the land and causes visual pollution for humans and migratory obstruction for birds. The output of Eesti Energia's wind parks is currently small, but the company is already, in the next few years, planning to put wind energy to use in inland areas where there will be no conflict with the local residents and the environment, and where the impact of development work on the surrounding area is minimal. In addition to this, Eesti Energia is planning the extensive use of open sea wind resources, again causing as small an impact on the environment as possible.

Biomass as a raw material for energy production is currently understood to mean mainly wood and also other plants and shrubs. Given the increasingly intensive use of biomass, consideration must certainly be given to felling restrictions, which ensure sustainable forest management and the reproduction of forests. Excessive felling may cause considerable damage to the reproductive ability and species diversity of forests. Besides ordinary timber, a large part of biomass fuel comes from felling waste, but this must also be used with moderation, as the removal of all the biomass from forests may considerably damage the nutrient content and balance of forests, which are important in ensuring forest sustainability. Besides timber, various energy-rich plants are gaining in popularity, and Estonia has relatively large areas of unused fertile land which could be used to grow such plants. If this is done, account must certainly be taken of the risks and restrictions involved in the spread of monoculture and intensive agriculture.

Household and industrial waste can potentially be considered primary energy sources, and in certain cases it is more expedient not to reuse waste but to transform the energy contained in the waste into heat and electricity, and in the future maybe also into liquid fuel and gas. The energy contained in waste can be used by directly burning it or by using the biogas (landfill gas) that it generates. Eesti Energia is currently developing both of these methods of using the energy potential of waste. Eesti Energia is also planning to use various animal wastes to produce biogas, which could then be transformed into heat or electricity. The solid waste generated in the production of biogas is smaller in bulk than the raw material and has a significantly smaller impact on the environment. Iru power plant intends to use the energy contained in household waste and some industrial waste for the co-generation of heat and electricity. An advantage of using household waste as a source of energy is that the amounts of waste going into landfills and the content of organic substances is reduced and thereby the impact on the climate is diminished, as the emission of landfill gases (mainly methane) into the environment is reduced.

Although it is estimated that the sun radiates hundreds of times more energy than humankind could ever need, the use of this source of energy is still limited. Estonia lies in a climate zone where the intensity of the energy reaching the Earth is not, given existing technical solutions, sufficient for large-scale electricity or heat production. In Estonia, solar energy is currently suitable for individual use as a small additional source of energy, but as technology advances, the large-scale use of this energy source is not inconceivable.



After a period of silence and unpopularity, energy generated from the fission of uranium isotope 235, or nuclear energy, has again come into focus. The main attraction of the generation III reactors with their improved safety features is that they don't discharge any greenhouse gases, and this creates tremendous prospects for their use in electricity production. The world has huge uranium deposits, making nuclear energy an alternative solution long into the future. In contrast to the burning of oil shale, the fission of uranium atoms generates a minimal amount of waste, although the waste it does produce is radioactive and requires long-term special handling and storage. Nuclear energy may also be produced in generation IV reactors, which can use not only uranium but also thorium, of which there are even greater deposits. This would generate even less waste and ensure even better safety, though such reactors are not yet in commercial use. Laboratory testing is also still continuing to create energy from nuclear fusion by imitating the actions of light atomic particles in the Sun. As climate change becomes an ever more important issue, the probability increases that nuclear energy will also be introduced in Estonia.

Environmental Impact of Transforming Sources of Primary Energy

Eesti Energia transforms primary energy into electricity, heat and shale oil liquid fuel by converting oil shale at the Balti and Eesti power plants in Narva and in the Narva oil factory, and by burning gas at the Iru power plant. A smaller but growing proportion of primary energy is transformed in hydroelectric power plants and wind parks. The transformation of primary energy has an environmental impact when both fossil fuels and renewable energy sources are used.

The Balti power plant produces both electricity and heat from oil shale. The advantage of this kind of co-generation regime is that it is the most efficient use of fuel and gains the maximum energy from it, and therefore produces lower emissions per input unit. The gas-fired Iru power plant also produces both electricity and heat, as does the oil shale fired Ahtme power plant. Estonia's main electricity producer, the Eesti power plant, produces electricity only, using a system called the condensation regime. Electricity is produced from water in the hydroelectric power plants at Linnamäe and Keila-Joa and from wind by the windmills at Virtsu and Ruhnu. The island of Ruhnu has a closed electricity system which is not connected to the mainland, and for this reason the island also has diesel generators to ensure a stable electricity supply to local customers. Preparations are being made to establish a waste-fuelled heat and electricity co-generation unit at Iru power plant. Eesti Energia has started building the largest Estonian wind park with a capacity of 39 MW at Aulepa and continues work on the construction of a wind park on the former ash fields.

Eesti Energia produces the majority of its energy, heat and shale oil by burning or processing the local fossil fuel, oil shale. For this reason, Eesti Energia's activities have an impact on air quality through the substances emitted into the atmosphere, as well as having an impact on surface and groundwater through the storage of the solid waste generated from combustion. In addition, the condensation method uses substantial amounts of cooling water to produce electricity, and so the Group's activities have an effect on every part of the environment.

Complete combustion of the fuel generates CO_2 and H_2O, and, depending on the features of the fuel used, combustion may also emit NO_x, SO_2, CO, heavy metals, fly ash and smaller amounts of other compounds. However, the main combustion degradation products make up the majority of the environmental impact.

SO_2 is generated by the oxidation of sulphur when fuels containing sulphur are burnt. NO_x is generated by the oxidation of organically bound nitrogen contained in fuels, and nitrogen contained in the air may also oxidise during high-temperature burning processes. Like SO_2, NO_x gases are acidic and cause acid rain which has a serious impact on the natural environment and causes changes in the communities of species in the surrounding areas. Coniferous forests and certain plants are especially sensitive to acid rain and may be destroyed by it. In addition, nitrogen is an important nutrient in nature and therefore NO_x emissions cause the proliferation of vegetation, or eutrophication in bodies of water. Both gases are mostly local pollutants whose impact is felt within a limited distance from the pollution source (the chimney) and depend on climatic conditions and therefore have no global impact. N_2O is a greenhouse gas with a global effect, but its share in the total volume of NO_x is insignificant.

As the combustion of fossil fuels is based on the oxidisation of carbon, CO_2 is a major product of the degradation of organic matter in the combustion process. CO_2 is a gas that

is produced as a result of life processes – with every breath, all of us release a certain amount of CO_2. It could be said that people use one part of the organic substances they consume to build their bodies and burn the rest for energy. CO_2 is an important element in photosynthesis and the creation of biomass. As a result of human activity considerably more CO_2 is released today than the carbon cycle is able to consume, and therefore the stable carbon circulation process is out of balance. When fossil fuels are burnt in large amounts, the carbon that has so far stayed out of the cycle is introduced into it. According to the best knowledge available today, CO_2 is considered to be one of the causes of global warming, or the greenhouse effect. This claim is based on a rapid rise in atmospheric CO_2 detected in the last decades in conjunction with a rise in temperature on Earth and the melting of glaciers, which are mainly attributed to human activity. Various economic and political measures have been taken to reduce climatic change at both European and global levels. Estonia has ratified the Kyoto Protocol and all four large production units of Eesti Energia are part of the EU greenhouse gas emission trading system.

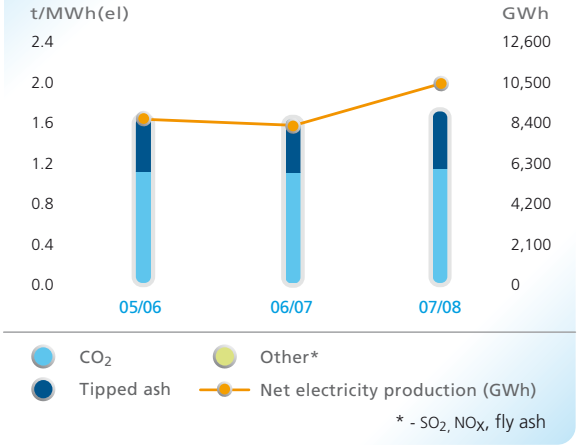
Fly ash is mainly generated by burning solid fuels and is the only atmospheric pollutant that can be seen with the naked eye. Heavy metals are also mainly released into the environment through fly ash. According to the latest studies, the emission of the finest particles with a diameter of 2.5 micrometers or less is the most hazardous for humans. The fly ash released into the air causes respiratory disorders and pulmonary diseases, and these have made it necessary to limit solid particles or fly ash concentration in the layer of air closest to the ground. Fly ash generated by burning oil shale is alkaline and the oil shale fly ash released into the environment reduces the acidity of the environment and thus alleviates the environmental impact of acid rain. The discharge of alkaline fly ash may be one explanation as to why there is no acid rain in Ida-Virumaa. This claim is also supported by environmental studies performed in the area of influence of the Narva power plants.

In the financial year 2007/08, Eesti Energia power plants released a total of 70,342 tonnes of SO_2, 12,191 tonnes of NO_x and 12,530 tonnes of fly ash. All these absolute quantities are higher than in the previous financial year, but given that production volumes have also increased considerably, the emissions have actually decreased per energy unit produced.

The majority of the total emissions are from the Eesti and Balti power plants, which also have the highest production volumes. The main reason for the drop in atmospheric emissions, especially for CO_2, is the two new Circulating Fluidised Bed (CFB) based boilers at the Narva power plants, while the quantities of fly ash released into the atmosphere have been successfully reduced by the use of more efficient filters. Besides using more efficient filters, the level of emissions per production unit can be reduced by increasing production efficiency, with the resulting lower fuel consumption allowing more energy to be produced from the same amount of fuel. The fluidised bed boilers are more efficient than the earlier pulverised firing technology based boilers and use less fuel to produce the same amount of energy. Electricity produced from oil shale has been made less CO_2 intensive through increased efficiency, and the lower combustion temperature used in the fluidised bed boilers and the resulting lower degradation level of the carbonates (limestone) contained in oil shale. In addition to the existing energy blocks, a new and modern natural gas based peak load reserve boiler has been established at the Balti power plant in order to guarantee the stable provision of heat to residents of Narva. In order to ensure the constant monitoring of all emissions and a satisfactory level of response to them, an emission monitoring system was set up at the Narva power plants.

Iru power plant, which was also originally intended to use liquid fuel, is currently running 100% on natural gas, which is a non-renewable fossil fuel but is also the least environmentally harmful and most efficient non-renewable fuel. As the production volumes and total installed capacity are smaller than those of the Balti and Eesti power plants, the absolute amounts of exhaust gases (mostly NO_x) emitted by the Iru plant are smaller. Despite the use of natural gas, the atmospheric emission values of the Iru power plant did not meet EU requirements and therefore major investments have been and will be made to ensure compliance with all EU environmental requirements. In the financial year 2007/08, the gas burners of one energy production unit were replaced by lower environmental impact burners, which ensure lower NO_x levels. It is also planned to replace the automated control

EE Group's special emissions and net production



equipment of the energy unit in the near future, which should ensure the more efficient use of the unit. The new equipment coming online will significantly reduce the levels of harmful emissions discharged during the production of heat and electricity, increase the efficiency of energy production and ensure that activities conform with EU environmental requirements.

Like the Narva power plants, the Ahtme power plant uses oil shale as fuel, but is considerably older. Due to the non-conformity with the EU environmental requirements of the old boilers currently in service, and the unreasonable economic cost of renovating them, the Ahtme power plant will be shut down at the end of 2010. However, in order to ensure electricity production and the continued provision of heat to the residents of the area, preparations are currently being made to construct a new biomass and peat based production unit that would meet all the environmental requirements. The emission gases and pollutants discharged from the current Ahtme plant are similar to those generated in Narva, but the quantities are considerably smaller as the production capacity is smaller.

Treatment of Solid Waste

Analysis of the amount and type of emissions generated in the Eesti Energia production process shows that the treatment of solid waste plays a major role. In addition to gas, a greater or lesser amount of mineral waste or ash is formed whenever any fuel is burned. A peculiarity of oil shale is its high mineral content, meaning that around 45–50% of the original mass is left after combustion. The ash created at the Narva and Ahtme power plants is deposited in ash fields next to the power plants, and only a small proportion is re-used. Hydro-transport is used to convey large quantities of ash, that is, ash is mixed with water and pumped to the place of storage. Experience has shown that this transport system offers the highest reliability.

As a result of the thermal degradation of carbonates, oil shale ash contains a high concentration of calcium oxide (CaO), or quicklime, which reacts with the transport water in a process known as slaking and renders it strongly alkaline, and for this reason oil shale ash is classified as hazardous. Today, ash is transported in closed systems, where the transport water circulates several times and does not come into contact with the environment. However, the balance of the transport water system is affected by precipitation. Surpluses of water created by precipitation are neutralised and processed as required, then rerouted to the environment in accordance with the terms and conditions specified in the environmental permits. Although the system is closed, the large quantities of strongly alkaline water (with pH up to 13) circulating in the ash transport system pose a risk of environmental pollution, especially if water were to be released into the environment as a result of an accident or technical problem. Both the transport system and the safety of storage areas have been improved in order to reduce this risk.

Compared to the original plans, production volumes have diminished considerably at Balti power plant and therefore the plant no longer needs two ash fields for storing oil shale ash. Balti power plant's ash field No 2, which has not been used since the end of the last century, will be closed with EU financing in order to manage environmental risks. A wind park with a capacity of about 35 MW will be erected on the area of the closed ash field in a safe manner. In the existing operating ash fields we are working hard to bring ash removal and storage into compliance with the Best Available Technology (BAT) which would also ensure compliance with EU requirements regarding waste depositing. Compliance must be achieved by the summer of 2009 at the latest, when Estonia's transition period will end. Over several years, various technologies have been tested and the superiority and high reliability of the chosen technology has been proven. In order to become the BAT, the security and environmental safety of the ash storage fields and the systems for processing and re-circulating transport water to the power plants need to be improved. Not only has the system been tightened against leaks, but CO_2 has been used instead of the formerly used strong acids to neutralise the surplus water drained out of the system, and this provides much more environmentally sustainable results. We monitor the safety of the ash fields constantly. The environmental impact of the ash fields is monitored through the groundwater monitoring bore well network and the monitoring is performed by an independent third party, the Geological Survey of Estonia.

Oil shale ash may be used as a raw material in various ways, and not only deposited in storage sites. The Narva power plants are keenly investigating economically reasonable ways to use it, aiming to increase the recycling rate of ash. Currently about 2-3% of oil shale ash is used in the production of cement and building blocks, but oil shale ash has also been used for neutralising acidic soils. Ways are being explored of using oil shale ash as a road embankment stabiliser in road construction, a filler material in underground oil shale mines, and a cement substitute in projects for stabilising contaminated soil and immobilising pollution.

In contrast to the decomposition of carbonates taking place in combustion processes, it is, in principle, possible to bind a certain amount of CO_2 to the oil shale ash contained in smoke. Binding CaO, a hazardous substance found in oil shale ash, with CO_2 in stable carbonates will stop the creation of strongly alkaline contact water, and make the ash inert. A material with such properties can be used in re-cultivating mines or quarries or in other construction projects, and thus

the amount of oil shale ash recycled can be significantly increased. At the same time, CO_2 which is otherwise emitted into the environment can be bound into a minerally stable compound, and this represents the removal of CO_2 from the emissions. No pilot testing unit is complete as yet, but preliminary research is being carried out and Eesti Energia thinks this solution is interesting and has great potential.

Water and Renewable Energy

Water is used as a cooling liquid in power plants working in condensation mode and as a heat-carrier in co-generation power plants. In addition, Eesti Energia's production companies also use water for transporting ash (see above).

Natural surface water from nearby water bodies is generally used in all power plants. If cooling water resources are limited, semi-closed cooling systems are used, which need less water than through-flow cooling systems because of their water circulation. When cooling water is used, the environmental effects include a rise in the temperature of surface water as a result of the re-routing of the cooling water back into the environment. The cooling water used by the Narva power plants raises the temperature of surface water by an average of up to 7 degrees a year. The new CFB technology will also reduce the amount of water necessary for cooling. When water is used as a heat carrier, it has to be chemically treated first, and this may have an environmental impact if chemicals leak into the environment should treatment fail to follow the requirements.

The main environmental impacts of transforming flowing water into energy at hydroelectric power plants include the obstruction of water flow and the natural movement of water fauna; restrictions and problems related to the use of land; and hindrance to the movement of fish, especially rare species, to their spawning areas. Eesti Energia has only restored existing old hydro plants, always performing a thorough environmental impact analysis. No new dams and catchment ponds have been built and the existing ones have been renovated in line with all requirements with a minimum of disruption to the environment. Any disruption in the course of construction work has been compensated for by corrective environmental action to the rivers affected, such as releasing young fish and other similar measures.

Other Environmental Impacts

One of the most common environmental impacts of wind energy is the danger of wind turbines to birds and bats if the wind turbines have been installed on their flight paths. Wind turbines also have an aesthetic effect as such installations may not suit every landscape. When locations for wind turbines are chosen the danger of ripple and screen effects and of noise (low frequency noise) and vibration has to be taken into account. In order to avoid these problems, a thorough environmental impact assessment is carried out before the construction of a wind park, identifying the potential risks and measures to alleviate them. The wind turbines used by Eesti Energia today and in the future conform to all current and known future environmental and health protection legislation.

Environmental Impact of Electricity Transmission

After the primary energy has been transformed into a more suitable form, the transmission of the transformed energy, i.e. the transport of energy to consumers via high and low voltage lines or heating pipes, also has an environmental impact. The environmental effects of electricity transmission relate to land use issues and the physical properties of electricity transmission. For heat the issues generally relate to the presence of physical pipelines in the human environment.

Jaotusvõrk has a total of about 59,000 km of transmission lines, of which about 49,600 km are overhead lines, and about 19,000 substations. Põhivõrk has about 5,300 km of high voltage overhead lines and about 140 substations. Kohtla-Järve Soojus and Narva Soojusvõrgud have a total of 350 km of heating networks.

One of the largest groups of effects are the restrictions on the use of land underneath the electricity transmission and distribution lines, as this land has to be properly maintained. It is necessary to establish sufficient protection zones free of trees around the lines to ensure their safety and reliability. In addition to usage restrictions, overhead lines and substations are visually unappealing and it is often necessary to cut down forest or carry out excavation work in order to build them, which reshapes the natural setting significantly.

Underground cables may also be used for transmission lines, reducing the problems of strict line zones and visual pollution, but there are still restrictions around the cable lines. Today, line protection zones are made exactly as wide as required to ensure safety and reliability, avoiding the unnecessary felling of trees. In addition, new and more efficient line zone maintenance technologies are being tested and the use of the biomass produced in line zone maintenance for energy generation is being considered.

Apart from lines, substations are important components in the transmission process. Equipment in substations produces noise in the surrounding area, which can be reduced by construction and technical solutions. In addition to this, transformer oils are used as an insulator in substations. If there is a leak or accident, there is a danger that the oil may disperse into the environment and contaminate surface and groundwater. Transformer oils are often associated with environmentally harmful substances such as the PCBs and PCTs used in the past. Both Põhivõrk and Jaotusvõrk keep records of all the equipment containing PCB or PCT and all of this equipment will be disposed of in accordance with requirements by 2010. Eesti Energia has also performed soil and groundwater analyses at substations using PCB and PCT equipment. Soil contamination was discovered at only one substation, where it has been eliminated in accordance with requirements.

Transmission substations also use a small number of gas switches, which are generally less environmentally harmful than oil switches, although special requirements apply to the handling of gas switches, as they contain gases that cause climate change.

As they are in other electrical processes, electromagnetic fields, which may have various effects on living organisms, are created in the immediate definable vicinity of high-voltage transmission lines and substations. Many studies have been conducted into their effects, but no conclusive answer has been established as to the precise effect that the electromagnetic fields created around substations or high-voltage lines have on living creatures. To reduce the possible effects of electromagnetic fields on humans, restrictions have been established on development in the possible danger zone or in the maintenance zone. Underground cables also produce an electromagnetic field, but a smaller one.

In order to prolong the useful life of the pylons used in the transmission process, they are treated with special impregnation agents, as a result of which old pylons become hazardous waste. Eesti Energia has taken measures to dispose of this waste in accordance with requirements, and has, among other things, reached an agreement with the line repair company that collects the old pylons. Pylons are impregnated in accordance with EU environmental requirements and Eesti Energia has started increasing the use of impregnation agents that are less harmful to the environment. Eesti Energia and its subsidiaries do not impregnate the pylons themselves, but purchase them from suppliers with the required marking and consignment documents.

Constant systematic work is being carried out to alleviate all of the environmental effects of transmission. A more stringent and thorough set of rules for maintaining lines and clearing forest has been adopted and in order to improve the quality of line maintenance, the company works with the State Forest Management Centre (Riigimetsa Majandamise Keskus - RMK). For private forests, negotiations are held with various interest groups in order to find and implement solutions that satisfy

all parties. More and more overhead lines are being replaced with cable lines, especially in cities and towns, thus avoiding visual pollution problems, but certain restrictions on land use still remain. When substations are built, the use of more compact and quieter equipment is favoured, reducing the size of substations.

With oil based equipment a shift is also being made to environmentally safer solutions, and if this is not possible, the appropriate security systems are built in the form of safety pools, oil separators and collectors. In the financial year 2007/08, over 0.1 million euros was invested in the safety of oil based equipment.

Environmental Impact of Sales and Consumption of Electricity

An important role in the chain of power production is also played by the consumption of electricity, or how customers use the energy transmitted to them. The potential for energy saving in Estonia is high and it is considered an important way to solve the energy supply problems arising from growing consumption. It is estimated that Estonian consumers could use at least 20-30% less energy by consuming more economically and reasonably. In addition to reducing the amount of pollution caused by production, energy saving also helps in planning production processes more efficiently.

Those who are interested may find information about ways of saving energy and related technologies and measures from Eesti Energia's extensive internet portal at kokkuhoid.energia.ee. The portal offers useful information for corporate and residential customers and major consumers who are interested in saving money and the environment through more efficient use of energy. The page also contains articles about insulation, lighting, heating systems, more efficient electrical equipment and the development of pricing components. Eesti Energia plans to supplement the energy saving portal even more and make it more user friendly in the near future.

In the financial year 2007/08, Eesti Energia carried out several energy saving awareness projects for the general public. In cooperation with Estonian daily newspapers, special supplements were published on energy saving and an awareness raising project for young people was run in cooperation with MTV. Materials on energy saving were distributed to customers both in customer service offices and via the internet. Eesti Energia also gave various presentations on this subject at seminars and conferences. Through the Future Energy Foundation, Eesti Energia supports the development project of Tartu University Institute of Technology to systematise the wider distribution of information about the construction of passive houses. The project should produce a variety of study materials as well as one publicly used building applying passive house principles.

Eesti Energia's customers can still buy Green Energy, which is electrical energy produced from 100% renewable energy sources. Green Energy is produced in compliance with all environmental requirements, and by buying it customers support research into the development of renewable energy in Estonia.

Following the introduction of the renewable energy charge imposed by the state from 1 May 2007, the earlier system based on consumption amounts needs to be reviewed and adjusted to the new circumstances. The aim assumed in the adjustment process is to make Green Energy a subsidy based project, distributing the amounts collected to future generation projects and to making the current production process more modern and environmentally sustainable. The plan is to make the option of joining Green Energy available to those companies and private persons who are not directly Eesti Energia's electricity consumers, but still wish to support environmentally based principles and activities. In the longer term, Eesti Energia wants to offer consumers the option of starting to use energy produced entirely from renewable energy sources in their households and businesses. In addition, the law already motivates companies that produce electricity from renewable sources to seek direct relationships with consumers. All this should prepare us for the opening of the electricity market in 2013 and help educate consumers about environmental issues.

Financial statements

Declaration of the Management Board

The Management Board confirms the correctness and completeness of the consolidated financial statements of Eesti Energia AS (Parent Company) and its subsidiaries (Group) which have been prepared for the period 1 April 2007 – 31 March 2008 and set out on pages 72-125. The Management Board declares that, to the best of its knowledge:

- the financial statements have been prepared in accordance with the International Financial Reporting Standards as they have been adopted in the European Union;
- the financial statements present a true and fair view of the financial position, the cash flows and the results of operations of the Group;
- all known material circumstances that became evident before the date of preparation of the financial statements (11 June 2008) have been appropriately accounted for and presented in the financial statements.

Accordingly the Management Board finds that Eesti Energia AS and its subsidiaries are operating as going concerns.

SANDOR LIIVE
Chairman of the Management Board

MARGUS KAASIK
Member of the Management Board

HARRI MIKK
Member of the Management Board

RAINE PAJO
Member of the Management Board

MARGUS RINK
Member of the Management Board

Consolidated balance sheet

in thousand EUR	31 March 2008	31 March 2007	Note
ASSETS			
Non-current assets			
Property, plant and equipment	1,351,144	1,286,973	*6*
Intangible assets	8,320	4,599	*8*
Investments in associates	10,820	10,597	*9*
Long-term receivables	15	15	*10*
Total non-current assets	**1,370,299**	**1,302,184**	
Current assets			
Inventories	26,604	23,594	*11*
Trade and other receivables	87,928	61,402	*10*
Derivative financial instruments	910	8,199	*12*
Held-to-maturity financial assets	5,113	2,842	*15*
Financial assets at fair value through profit or loss	1,630	235	*16*
Deposits with maturities greater than three months at banks	138,190	235,255	*17*
Cash and cash equivalents	62,861	33,337	*18*
Total current assets	**323,236**	**364,864**	
Total assets	1,693,535	1,667,048	
EQUITY			
Capital and reserves attributable to equity holders of the Parent Company			
Share capital	467,909	464,900	*19*
Unregistered share capital	3,907	-	*19*
Share premium	259,833	259,833	
Statutory reserve capital	46,490	46,490	*19*
Hedge reserve	-34,954	8,087	*21*
Unrealised exchange rate differences	10	-1	
Retained earnings	308,899	333,579	*19*
Total equity and reserves attributable to equity holders of the Parent Company	**1,052,094**	**1,112,888**	
Minority interest	**3,353**	**3,299**	
Total equity	1,055,447	1,116,187	
LIABILITIES			
Non-current liabilities			
Borrowings	328,593	335,607	*22*
Supplier payables	600	776	*23*
Derivate financial instruments	28,280	-	*12*
Deferred income	109,444	88,925	*24, 25*
Provisions	26,279	20,991	*26*
Total non-current liabilities	**493,197**	**446,299**	
Current liabilities			
Borrowings	7,922	6,376	*22*
Trade and other payables	116,377	94,648	*23*
Derivative financial instruments	8,032	-	*12*
Deferred income	314	799	*25*
Provisions	12,246	2,739	*26*
Total current liabilities	**144,892**	**104,562**	
Total liabilities	638,089	550,861	
Total liabilities and equity	1,693,535	1,667,048	

The notes on pages 77-125 are an integral part of these consolidated financial statements

Consolidated Income Statement

in thousand EUR	1 April - 31 March		Note
	2007/08	2006/07	
Revenue	574,445	481,550	*27*
Gain on disposal of emission rights	-	96,379	*35*
Other operating income	4,038	5,217	*28*
Government grants	2,117	1,435	*25*
Change in inventories of finished goods and work-in-progress	-360	3,137	
Raw materials and consumables used	-207,841	-147,187	*29*
Other operating expenses	-78,528	-54,036	*30*
Payroll expenses	-120,451	-95,825	*31*
Depreciation, amortisation and impairment	-109,899	-101,604	*6.8*
OPERATING PROFIT	63,522	189,065	
Financial income	10,707	6,769	*32*
Financial expenses	-18,615	-18,957	*32*
Total financial income and expenses	**-7,908**	**-12,188**	*32*
Gain/ loss from associates using equity method	1,452	801	*9*
Gain/loss from impairment of associate	-10	158	
PROFIT BEFORE TAX	57,056	177,836	
Corporate income tax expense	**-17,771**	**-9,404**	*33*
NET PROFIT FOR THE FINANCIAL YEAR	39,285	168,432	
ATTRIBUTABLE TO:			
Equity holders of the Parent Company	**39,231**	**167,367**	
Minority interest	**54**	**1,064**	

The notes on pages 77-125 are an integral part of these consolidated financial statements

Consolidated Cash Flow Statement

in thousand EUR	1 April - 31 March		Note
	2007/08	2006/07	
Cash flows from operating activities			
Cash generated from operations	173,180	277,550	*34*
Interest and loan fees paid	-16,102	-16,676	
Interest received	8,937	4,950	
Corporate income tax paid	-17,921	-9,200	
Net cash generated from operating activities	**148,094**	**256,624**	
Cash flows from investing activities			
Purchase of property, plant and equipment	-168,890	-137,539	
Proceeds from connection and other fees	26,271	23,803	*24*
Proceeds from sale of property, plant and equipment	1,393	4,819	
Grant for non-current assets received	-	23	
Dividends collected from associates	1,229	1,038	*9*
Repaid loans granted to own employees	-	0	
Proceeds from sale of a business unit	29	-	*37*
Acquisition of subsidiaries, net of cash acquired	-1,835	-461	*36*
Net change in deposits with maturities greater than 3 months	97,065	-224,605	*17*
Purchase of short-term financial investments	-29,216	-19,691	*15, 16*
Proceeds from sale of long-term financial investments	-	8	
Proceeds from sale and redemption of short-term financial investments	25,834	18,322	*15, 16*
Net cash used in investing activities	**-48,120**	**-334,283**	
Cash flows from financing activities			
Repayments of bank loans	-6,325	-4,506	*22*
Repayments of other borrowings	-345	-300	*22*
Repayments of finance lease liabilities	-51	-51	*22*
Change in overdraft	183	-	*22*
Dividends paid	-63,912	-31,956	*20*
Net cash used in financing transactions	**-70,450**	**-36,814**	
Net cash flows	**29,525**	**-114,473**	
Cash and cash equivalents at beginning of the period	33,337	147,809	*18*
Cash and cash equivalents at end of the period	62,861	33,337	*18*
Net increase/(-)decrease in cash and cash equivalents	**29,525**	**-114,473**	

The notes on pages 77-125 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

in thousand EUR	Attributable to equity holders of the Company						Minority interest	Total equity	Note
	Share capital	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total			
Equity as at 31 March 2006	**464,900**	**259,833**	**43,822**	**-82**	**200,836**	**969,307**	**2,070**	**971,377**	
Change in hedge reserve	-	-	-	8,170	-	8,170	-	8,170	*21*
Currency translation differences attributable to foreign subsidiaries	-	-	-	-1	-	-1	-	-1	
Net income recognised directly in equity	**-**	**-**	**-**	**8,169**	**-**	**8,169**	**-**	**8,169**	
Net profit for 2006/07 financial year	-	-	-	-	167,367	167,367	1,064	168,432	
Total recognised income and expenses for 2006/07	**-**	**-**	**-**	**8,169**	**167,367**	**175,536**	**1,064**	**176,601**	
Transfer of retained earnings to reserve capital	-	-	2,668	-	-2,668	-	-	-	
Increase of minority interest related to acquisition of a subsidiary	-	-	-	-	-	-	165	165	*36*
Dividends paid	-	-	-	-	-31,956	-31,956	-	-31,956	*20*
Equity as at 31 March 2007	**464,900**	**259,833**	**46,490**	**8,087**	**333,579**	**1,112,888**	**3,299**	**1,116,187**	
Change in hedge reserve	-	-	-	-43,041	-	-43,041	-	-43,041	*21*
Currency translation differences attributable to foreign subsidiaries	-	-	-	11	-	11	-	11	
Net income recognised directly in equity	**-**	**-**	**-**	**-43,030**	**-**	**-43,030**	**-**	**-43,030**	
Net profit for 2007/08 financial year	-	-	-	-	39,231	39,231	54	39,285	
Total recognised income and expenses for 2007/08	**-**	**-**	**-**	**-43,030**	**39,231**	**-3,799**	**54**	**-3,745**	
Increase of share capital pursuant to order no. 368 of the Government of the Republic of 2 August 2007	3,010	-	-	-	-	3,010	-	3,010	*19*
Increase of share capital pursuant to order no. 97 of the Government of the Republic of 27 February 2008 (unregistered)	3,907	-	-	-	-	3,907	-	3,907	*19*
Dividends paid	-	-	-	-	-63,912	-63,912	-	-63,912	*20*
Equity as at 31 March 2008	**471,817**	**259,833**	**46,490**	**-34,944**	**308,899**	**1,052,094**	**3,353**	**1,055,447**	

Notes to the Consolidated Financial Statements

1. General Information

The consolidated financial statements of Eesti Energia Group for the year ended 31 March 2008 include the financial information in respect of Eesti Energia AS (parent company, legal form: public limited company) and its subsidiaries (hereinafter the Group) and the Group's participation in associated companies.

Eesti Energia Grupp is engaged in production of energy and oil as well as sale of electricity and thermal energy and its delivery to end consumers. The Group owns oil shale mines, the oil shale extracted from which is used as the main raw material in energy production. The Group is also engaged in building and maintaining energy systems. The Company operated mostly in Estonia but electricity and some other products and services are also sold outside Estonia. In addition to Estonia, electricity is distributed in the Nordic countries, Latvia and Lithuania.

The address of the Parent Company's registered office is Laki 24, Tallinn 12915, Republic of Estonia.
The sole shareholder of AS Eesti Energia is the Republic of Estonia.
The bonds of AS Eesti Energia are listed on London Stock Exchange.

These consolidated financial statements of the Group were authorised for issue by the Management Board at 11 June 2008. Pursuant to the Commercial Code of the Republic of Estonia, the annual report needs to be additionally approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting and reporting policies have been consistently applied to all reporting periods presented.

Comparing to 2006/07 consolidated financial statements, the dividend income from non-core activities has been reclassified in the segment reporting, as a result of which in the segments' income statement the row "Other operating income and government grants" has increased in the amount of EUR 25 079 thousand (Note 5).

2.1 Bases of preparation

The consolidated financial statements of the Group have been prepared in accordance with **International Financial Reporting Standards (IFRS) as adopted by the European Union**.
The consolidated financial statements have been prepared under the historical cost convention, as modified by certain financial assets and liabilities (including derivative financial instruments), which have been measured at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting and reporting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.2 Changes in accounting policies

(a) New standards, amendments and interpretations to published standards which became mandatory for the Group from 1 April 2007 and which are relevant to the Group's operations

- IAS 1 Presentation of Financial Statements (amendment) – Presentation of Financial Statements: Capital Disclosures. According to standard entered into force, additional disclosures have been in respect of equity;
- IFRS 7 Financial Instruments: Disclosures. IFRS 7 supersedes IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions") and some requirements of IAS 32 ("Financial Instruments: "Disclosure and Presentation"). According to the standard entered into force, additional disclosures have been made in respect of financial instruments. The adoption of the standard has neither led to any changes in the classification of the Group's financial instruments nor in the evaluation of financial instruments;
- IFRIC 10 Interim Financial Reporting and Impairment. IFRIC 10 prohibits reversing impairment losses of goodwill, equity instruments and financial assets recognised at cost in an interim period at the next balance sheet date.

(b) New standards, amendments and interpretations to published standards that are effective for the Group from 1 April 2007, but are not relevant to the Group's operations

The following new International Financial Reporting Standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations are mandatory for the Group from 1 April 2007, but have no material impact on the Group's financial statements:

- IFRIC 8 – Scope of IFRS 2: clarifies that IFRS 2 Share-based Payment applies to arrangements for apparently nil or inadequate consideration;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 11 – IFRS 2: Group and Treasury Share Transactions.

(c) Adopted new standards, amendments and interpretations to published standards that are not yet effective for the Group but are relevant to the Group's operations

By the time of preparing these financial statements, the following new International Financial Reporting Standards, amendments and International Financial Reporting Interpretations Committee interpretations have been published which will be mandatory for the Group from the financial year beginning after 1 April 2008 and which the Group has not adopted early:

- IAS 1 Presentation of Financial Statements (amendments). The amended standard becomes effective for the Group from 1 April 2009. The main amendment to IAS 1 is the replacement of the income statement with the statement of comprehensive income which also includes non-owner changes in equity. Two statements are allowed to be presented as an alternative: a separate income statement and a statement of comprehensive income.

The amended IAS requires also the disclosure of the financial position (balance sheet) for the opening balances of the comparable period when comparative information has been adjusted due to reclassifications, changes in accounting policies or correction of errors. The adopted of the amendment to the standard will primarily impact the presentation of financial statements.
As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard;

- IAS 23 Borrowing Costs (amendments). The amended standard becomes effective for the Group from 1 April 2009. The amended IAS 23 eliminates the option of immediately recognising borrowing costs that are directly attributable to acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for the intended use or sale and requires capitalisation of such costs as part of the cost of the asset. The amended standard is effective prospectively for asset-related borrowing costs which will be incurred after 1 April 2009. The amendment to the standard requires a change in the Group's accounting policies.
  As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard;
- IAS 27 Consolidated and Separate Financial Statements (amendments). The amended standard is effective for the Group from 1 April 2010. The amended standard requires that the effects of transactions with minority shareholders be recognised directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the Standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be restated to fair value, with the resulting gains or losses recognised in the income statement.
  The adoption of the amendment to the standard may affect recognition of future transactions.
  As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard;
- IFRS 3 Business Combinations (amendments). The amended standard is effective to business combinations set up in the Group the acquisition date of which is after 1 April 2010. The amendments to IFRS 3 include the choice to disclose minority interests either at fair value or their share in the fair value of the net assets identified, a restatement of shares already held in an acquired entity to fair value, with the resulting differences to be recognised in the income statement. In addition, there is additional guidance on the application of the purchase method, including the recognition of transaction costs as an expense in the period in which they were incurred, measurement of goodwill when increasing an interest and rules of recognition, when the fair value dependent on additional conditions changes due to changes in estimates after the date of business combination. The adoption of the amendment to the standard may impact the recognition of future transactions.
  As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard;
- IFRS 8 Operating Segments. IFRS 8 supersedes IAS 14 Segment Reporting and is effective for the Group from 1 April 2009. IFRS 8 requires determination of operating segments and reporting information about operating segments similarly to how reporting is performed for making managerial decisions and analysing the results internally. Management estimates that the adoption of the standard will not lead to any major changes in segment reporting, because the information in respect of operating segments disclosed by the Group is consistent with the information analysed internally.

(d) New standards, amendments and interpretations that have been published but are not effective for the Group and are not expected to be relevant to the Group's operations

By the time of preparing these financial statements, the following International Financial Reporting Standards, amendments and International Financial Reporting Interpretations Committee interpretations have been published that are effective for the accounting periods of the Group beginning at or after 1 April 2008 and that the Group has not adopted early:

- IAS 32 Financial Instruments: Presentation and Disclosure and IAS 1 Presentation of Financial Statements (amendment) – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation. IAS 32 and amendment to IAS 1 is effective for the Group from 1 April 2009. The amendment requires classification of some financial instruments that meet the definition of a financial liability as equity instruments;
- IFRS 2 Share-based Payment (amendment) – Vesting Conditions and Cancellations. The amendment to IFRS 2 is effective for the Group from 1 April 2009. The amendment clarifies that, vesting conditions include only service conditions and performance conditions. Other features of share-based payments are not vesting conditions. According to the amendment, all cancellations whether by the Group or other parties, should be accounted for in the same way;
- IFRIC 12 Service Concession Arrangements. IFRIC 12 is effective for the Group from 1 April 2009. The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price.
  As at the date of authorising these consolidated financial statements for issue, the interpretation had not yet been endorsed by the European Union;
- IFRIC 13 Customer Loyalty Programmes. IFRIC 13 is effective for the Group from 1 April 2009. The interpretation includes guidance on the accounting treatment of transactions resulting from customer loyalty programmes implemented by an entity for its customers, such as loyalty cards or awarding of 'points'. In particular, IFRIC 13 indicates the correct accounting for the entity's obligation to provide free or discounted goods or services if and when the customers redeem them.
  As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard;
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions. IFRIC 14 is effective for the Group from 1 April 2008. The Interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan.
  As at the date of authorising these consolidated financial statements for issue, the European Union had not yet endorsed the amendment to the standard.

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.
Subsidiaries are fully consolidated from the date at which control is transferred to the Group and are de-consolidated from the date that control ceases.
The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the

fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.14). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the negative difference is recognised directly in the income statement.

In preparing consolidated financial statements, the financial statements of the Parent Company and its subsidiaries are combined on a line-by-line basis. The receivables, liabilities, income, expenses and unrealised profits which arise as a result of transactions between the Parent Company and its subsidiaries are eliminated. Unrealised losses are also eliminated, except when the loss is caused by impairment of assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with minority interests
The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary.

(c) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity reserves is recognised in equity reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. The Group's primary segment is the business segment and the secondary segment is the geographical segment.

Segment reporting is presented using the intra-group management structure and according to the Electricity Market Act of Estonia. A business segment is an operating area which is clearly distinguishable as to its products and services and functions as an independent profit centre. Reporting by geographical segments is presented on the basis of the Group's operations in the main geographical regions.

2.5 Foreign currency transactions and assets and liabilities denominated in a foreign currency
Functional and presentation currency
(a) Functional currency
Group companies use the currency of their primary economic environment. The functional currency of the Parent Company is the Estonian kroon. The Estonian kroon is pegged to the Euro at the fixed exchange rate of 15.6466 kroons per 1 Euro.

(b) Presentation currency
For the convenience of the users, these financial statements have been presented in euros, rounded to the nearest thousand, unless stated otherwise. As the Estonian kroon is pegged to euro at the fixed exchange rate of 1 euro = 15,6466 Estonian kroons, no currency translation differences arise from the translation of kroons to euros.

(c) Foreign currency transactions and assets and liabilities denominated in a foreign currency
Foreign currency transactions are translated into Estonian kroons using the official exchange rates of the Bank of Estonia prevailing at the transaction date. When the Bank of Estonia does not quote a particular currency, the official exchange rate of the central bank issuing the currency with regard to the Euro is used as the basis. Exchange rate differences arising from the transfer of funds and the differences in exchange rates at the transaction date are reported in the income statement. Assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the Bank of Estonia prevailing at the balance sheet date or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency when the Bank of Estonia does not quote the particular currency. Profits and losses from translation are reported in the income statement, except for gains and losses from revaluation of cash flow hedging instruments recognised as effective hedges, which are recognised directly in equity.

(d) Consolidation of foreign subsidiaries
When the subsidiary's functional currency is different from the presentation currency of the Parent Company, the following exchange rates are used to translate the financial statements:
- asset and liability items are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rate at the dates of the transactions); and;
- the resulting exchange differences are recognised is a separate equity item "Currency translation differences".

Goodwill which arose in the acquisition of a subsidiary and the adjustments of the fair value of the carrying amounts of the related assets and liabilities are recognised as the assets and liabilities of the subsidiary and are translated using the closing exchange rate prevailing at the balance sheet date. None of the subsidiaries in the Group operates in a hyperinflationary economy.

2.6 Current and non-current distinction of assets and liabilities
Assets and liabilities are classified in the balance sheet as current or non-current. Assets expected to be disposed of in the next financial

year or during the normal operating cycle of the Group are considered as current. Liabilities whose due date is in the next financial year or that are expected to be settled in the next financial year or during the normal operating cycle of the Company are considered as current. All other assets and liabilities are classified as non-current.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank account balances and cash in transit as well as short-term highly liquid investments with original maturities of 3 months or less.

2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity investments, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading, acquired for the purpose of selling in the short term. Derivatives are also recognised at fair value through profit or loss unless they are designated and effective hedging instruments. Assets in this category are classified as current assets.

(b) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments which the Group has the intention to hold until maturity. In case the Group sells held-to-maturity investments in a quantity which is larger than insignificant before the redemption, all financial assets in this category are reclassified as available-for-sale financial assets. Held-to-maturity investments are reported as long-term financial investments unless the maturity is less than 12 months as at the balance sheet date.

(c) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. In such case, they are accounted for as non-current assets. The Group's loans and receivables are included in the balance sheet lines "Cash and cash equivalents", „Deposits with maturities greater than 3 months held at banks", "Trade and other receivables".

Regular purchases and sales of financial assets are recognised or derecognised using the trade-date accounting. Investments which are not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards incidental to ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line "Financial income or expenses" (net) in the period in which they arise or are incurred (Note 32). Interest income on held-to-maturity investments as well as loans and receivables is reported in the income statement line "Financial income" (Note 32). The Group has not received any interest income or dividend income on financial assets recognised at fair value through profit or loss in the current and comparable reporting period.

The fair values of quoted investments are based on bid prices prevailing at the balance sheet date. To find the fair value of unquoted financial assets, different valuation techniques are used. Depending on the type of financial assets, these include listed market prices of instruments that are substantially the same, the quotes by intermediaries and estimated cash flow analysis. The Group uses several different measures and makes assumptions which are based on the market conditions at each balance sheet date. The fair value of derivatives is the present value of estimated future cash flows.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Evaluation of impairment losses in respect of trade receivables is described in Note 2.9.

2.9 Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method and if necessary, after deducting impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. Material receivables are assessed individually. The rest of the receivables are collectively assessed for impairment, using previous years' experience on impairment which is adjusted taking into account current conditions. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a receivable is classified as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

Long-term receivables from customers are recognised at the present value of the collectible amount. The difference between the nominal value and the present value of the collectible receivable in recognised as interest income during the period remaining until collection.

2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value at the date a derivative contract is entered into. After initial recognition they are remeasured to their fair value at each balance sheet date. The method of recognising the resulting gains or losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has cash flow hedging instruments with the goal of hedging the risk of changes in the prices of shale oil and electricity. In the comparable period, the hedging instruments, the goal of which was to fix interest costs on loans with floating interest rates, expired.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are shown in Note 12. The movements of the hedge reserve reported in equity are shown in Note 21. The full fair value of hedging

derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

(a) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as a net amount within other operating income or operating expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'financial costs'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised as other operating income or expenses in the income statement.

(b) Derivatives at fair value through profit or loss
Derivatives which are not designated as hedging instruments are reported at fair value through profit or loss. The gains and losses arising from changes in fair value of such derivatives are included within other operating income or expenses in the income statement (net).

2.11 Inventories
Inventories are stated in the balance sheet at the lower of acquisition cost and net realisable value. The weighted average method is used to expense inventories. The acquisition cost of work-in-progress and finished goods is the average production cost that is calculated based on direct and indirect production expenses (using normal production capacity as the basis). Borrowing costs are not included within the cost of inventories. The cost of the inventories of raw materials and materials consists of the purchase price, expenditure on transportation and other costs directly related to the purchase.

The net realisable value is the expected sales price that has been reduced by the expenditures related to the sale.

2.12 Property, plant and equipment
Property, plant and equipment (PPE) are tangible items that are used in operating activities of the Company with an expected useful life of over one year. Property, plant and equipment are presented in the balance sheet at historical cost less any accumulated depreciation and any impairment losses. The cost of purchased non-current assets comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed items of property, plant and equipment includes the cost of materials, services and payroll expenses.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items. Interest charges on loans are not capitalised in the cost of non-current assets.

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Group and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced non-current asset is derecognised. Cost related to ongoing maintenance and repairs are charged to the income statement.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings	25-40 years
Electricity lines	33-60 years
Other facilities	10-30 years
Transmission equipment	7-25 years
Power plant equipment	7-25 years
Other machinery and tools	3-20 years
Other non-current assets	3-10 years

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate, it is treated as a change in the accounting estimate, and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes.

Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount (Note 2.16).

To determine the gains and losses from the sale of property, plant and equipment, the residual value of the sold assets is subtracted from the revenue. The respective gains and losses are reported in the income statement items "Other operating income" or "Other operating expenses".

2.13 Leased assets
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

(a) The Group company as the lessee
Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the financial charge and the reduction of the outstanding liability. Financial charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the income statement. The finance lease liability is recognised either as a short or long-term borrowing in the balance sheet (Note 2.18). The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Payments made under operating leases are charged to the income statement over the lease term in equal portions, reduced by incentives granted by the lessor.

(b) A Group company is the lessor
The Group does not have any assets leased out under finance lease terms. The accounting policies for items of property, plant and equipment are also applied to assets leased out under operating lease terms. Rental income is recognised in the income statement on a straight-line basis over the lease term.

2.14 Intangible assets

Intangible assets are recognised in the balance sheet only if the following conditions are met:

- the asset is controlled by the group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Intangible assets (except for goodwill) are depreciated using the straight-line method over the useful life of the asset not exceeding 20 years.

Intangible assets are tested for impairment if there are any signs of impairment, similarly to the testing of impairment for items of property, plant and equipment (except for goodwill). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested annually by comparing their carrying amount with their recoverable amount.

(a) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired as at the date of acquisition. Goodwill acquired in a business combination is recognised as an intangible asset in the balance sheet (Note 2.3). Goodwill which arises on acquisition of an associate is included in the cost of the investment and it is evaluated together with the evaluation of the investment.

Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at each balance sheet date (or more frequently if an event or change in circumstances indicates it). Goodwill is allocated to the cash-generating unit, which is expected to receive benefits from the synergy of a business combination. Goodwill is written down to its recoverable amount when it is lower than carrying amount. Goodwill is reported in the balance sheet at the carrying amount (cost less any impairment losses) (Note 2.16). On the disposal of a business unit, goodwill is written down and any gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the business unit disposed.

(b) Development, start-up, research and training costs

Development costs are costs that are incurred for the implementation of research findings for developing new specific products or services. Development costs are capitalised in case there exists a schedule for utilising the project and the future revenues from the intangible asset can be determined.

Expenses related to starting up a new business unity, research carried out for collecting new scientific or technical information and training costs are not capitalised.

(c) Greenhouse gas emission allowances

Greenhouse gas emission allowances if they are controllable by the Company are carried in the balance sheet at cost. The cost of greenhouse gas emission allowances received from the state free of charge is considered 0 kroon.

In case the quantity of emitted greenhouse gases exceeds the quantity of greenhouse gas emission allowances allocated by the state free of charge, the allowances additionally purchased are recognised using the market price of greenhouse gas emission allowances at the balance sheet date or the prices fixed with future transactions.

(d) Computer software

Acquired computer software which is not an integral part of the related hardware is recognised as an intangible asset. Software development costs are recognised as intangible assets when they are directly associated with the development of such hardware products which are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalised software development costs include payroll expenses and an appropriate portion of relevant overheads. Computer software development costs are amortised over their estimated useful lives not exceeding three years.

Costs related to ongoing maintenance of computer software are charged to profit or loss.

(e) Right of use of land

Payments made for rights of superficies and servitude meeting the criteria for recognition as intangible assets are recognised as intangible assets. The costs related to rights of use of land are depreciated according to the contract period, not exceeding 99 years.

(f) Patents, brand names, licenses and certificates

Expenses related to patents, brand names, licenses and certificates are capitalised when it is probable that the future economic benefits that are attributable to them will flow to the Group. Such intangible assets are depreciated using the straight-line method over the useful lives of assets not exceeding 20 years. Such intangible assets are reported in the balance sheet at the net book amount (at cost less any accumulated amortisation).

2.15 Exploration and evaluation assets of mineral resources

Expenditures that are included in the initial measurement of exploration and evaluation assets include the acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; sampling and activities in relation to evaluating the technical feasibility and economic viability of extracting a mineral resource.

Assets are initially recognised at cost. Depending on the nature of the asset, the exploration and evaluation assets are classified as intangible assets or items of property, plant and equipment. Expenditure on the construction, installation and completion of infrastructure facilities is capitalised within items of property, plant and equipment. After initial recognition, exploration and evaluation assets are measured using the cost model.

At each balance sheet date, exploration and evaluation assets are tested for impairment (Note 2.16). Impairment of exploration and evaluation assets is assessed when one or more of the following circumstances are present:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

2.16 Impairment of assets

Assets that have indefinite useful lives are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation and intangible assets with indefinite useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount is the higher of the asset's:

- fair value of the asset less costs to sell; and;
- value in use.

In case the fair value of the asset less costs to sell cannot be

determined reliably, the recoverable amount of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.
An impairment test is carried out if any of the following indicators of impairment exist:

- the market value of similar assets has decreased;
- the general economic environment and the market situation have worsened, and therefore it is likely that the future cash flows generated by assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has considerably deteriorated;
- revenue generated by assets is lower than expected;
- results of some operating areas are worse than expected;
- the activities of a certain cash generating unit are planned to be terminated.

The Group can identify other evidence of impairment, the recoverable amount of the asset is also determined, or in case of goodwill, an impairment test is performed

Impairment tests are performed either for an individual asset or group of assets (cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows generated by other assets or groups of assets. An impairment loss is recognised immediately as an expense in the income statement.

At each balance sheet date, it is assessed whether there is any evidence that the impairment loss recognised in the previous year (except that of goodwill) no longer exists or it has decreased. If such evidence exists, the recoverable amount is reassessed. According to the results of the assessment, the write-down can be partially or wholly reversed. Goodwill impairment losses are not reversed in the next period.

2.17 Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the cost and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method. The amortisation of transaction costs is recognised in the income statement together with interest charges.

Borrowings are recognised as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

2.19 Taxation

(a) Corporate income tax on dividends in Estonia
According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79 (in 2007: 22/78 and in 2006: 23/77).
In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The Income Tax Act stipulates a further reduction of the income tax rate until 2011: in 2009, the tax rate will be 20/80, in 2010: 19/81 and from 2011, the tax rate will be 18/82 of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. An income tax liability is due at the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the companies registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise due the payment of dividends is not recognised in the balance sheet. The maximum income tax liability which would accompany the distribution of retained earnings is disclosed in the notes to the financial statement.

(b) Other taxes in Estonia
The following taxes had an effect on the Group's expenses:

Tax	Tax rate
Social security tax	33% of the paid payroll to employees and fringe benefits
Unemployment insurance tax	0.3% of the paid payroll to employees
Fringe benefit income tax	21/79 of fringe benefits paid to employees (until 1 January 2008 22/78 of fringe benefits paid to employees)
Pollution charges	Paid for contaminating the air, water, ground water, soil and waste storage, and is based on tonnage and type of waste
Fee for extraction right of oil shale	11.50 kroons per ton of extracted oil shale (until 1 January 2008: 10.90 kroons per ton of extracted oil shale)
Water utilization charges	25-1560 kroons per 1000 m^3 of used ground water (until 1 January 2008 25-1420 kroons per /1000 m^3 of used ground water)
Land tax	0.1-2.5% on taxable value of land per annum
Tax on heavy trucks	50-3640 kroons in a quarter per truck
Excise tax on electricity	50 kroons per MWh of electricity
Excise tax on natural gas	157 kroons per 1000 m^3 of natural gas
Shale oil	235 kroons per 1000 kg of shale oil
Corporate income tax on non-business related expenses	21/79 on non-business related expenses (until 1 January 2008: 22/78 on non-business related expenses)

(c) Income tax rates in foreign countries in which the Group operates

Jordan	Income earned by resident legal persons in Jordan is taxed with the income tax rate of 25%, in the event of certain activities, a lower tax rate of 15% may be applied
Latvia	Income earned by resident legal persons is taxed with the income tax rate of 15%
Lithuania	Income earned by resident legal persons is taxed with the income tax rate of 15%
Finland	Income earned by resident legal persons is taxed with the income tax rate of 26%

(d) Deferred income tax
Deferred income tax assets and liabilities are recognised in foreign subsidiaries when temporary differences have arisen between their carrying amounts and tax bases. Deferred income tax assets and liabilities are recognised under the liability method. Deferred income tax assets and liabilities are not accounted for if they arise from initial recognition of assets and liabilities in a transaction other than a business combination and that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using the tax rate that is expected to be enacted in the period when the asset is realised or the liability is settled using the tax rates and tax laws effective at the balance sheet date.

The Group recognises deferred income tax on all temporary differences arising on investments in subsidiaries and associates, except where the Group can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

In carrying forward unused tax losses and tax credits, deferred income tax assets are recognised to the extent for which the Group has sufficient evidence that there will be adequate profits in the future towards which tax losses and benefits can be used.

As at 31 March 2008 and 31 March 2007, the Group had neither any deferred income tax assets nor deferred income tax liabilities

2.20 Employee benefits

Employee short-term benefits

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable after the end of the period during which the employee worked.
If during the reporting period, the employee has provided services in return for which benefits are expected to be paid, the Group will set up an undiscounted liability (accrued expense) in the amount of the forecast benefit, from which all paid amounts (unless labour costs are capitalised in the cost on non-current assets or are covered from provisions). Expenditures are not discounted.

Post-employment benefits

Post-employment benefits are benefits which are payable after the Group decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily in exchange for the benefits outlined.
The Group recognises post-employment benefits as liabilities and expenses then and only then when the Group is obliged to terminate the employment relationship with an employee or a group of employees before the normal retirement date or offer post-employment benefits in order to encourage voluntary leaving.

Other employee benefits

Provisions have been set up for covering the benefits arising from collective agreements and the compensation for work-related injuries (Note 2.21).

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures necessary for the settlement of the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.
Provisions are recognised based on management's estimates. If required, independent experts may be involved. Expenditure related to the termination of employees are recognised only when the Company has announced a restructuring plan, identifying the expenditure and the approximate number of employees subject to compensation. Provisions are not set up to cover future operating losses. In case of several similar obligations (for example, product warranties or similar contracts), the probability of reduction in resources required to meet the obligation is determined by viewing all liabilities as a whole. Although the probability of a decrease in resources may be small for each individual asset, a certain reduction in all liabilities may be probable. In such a case, the provision is recognised (when other recognition criteria are met).
Provisions are reviewed annually to address the need for setting up new provisions and revaluing existing provisions using circumstances which have become evident by the balance sheet date and possible scenarios. Costs related to setting up provisions are charged to operating expenses or are included within the acquisition cost when setting up of provisions is related to acquisition of new assets. Provisions are used only for covering the expenses which they were set up for.

(a) Provisions for compensating for obligations arising from collective agreements and work-related injuries
If the Group or any of its subsidiaries have the obligation to pay post-employment benefits to their former employees, a provision is set up to cover the respective costs. The provision is based on the terms of the obligation and the estimated number of people eligible for the compensation.
Provisions for work-related injuries are recognised to cover expenditure related to future payments to former employees according to court orders over the estimated period of such an obligation.

(b) Environmental protection provisions
Environmental protection provisions are recognised to cover environmental damages occurred before the balance sheet date when it is provided for by law or the Group's past environmentally friendly policies have demonstrated that the Group will voluntarily liquidate these environmental damages.
Experts' opinions as well as prior experience for performing environmental works are used to set up provisions.

(c) Provisions for termination of mining operations
Provisions for termination of mining operations are set up to cover the costs related to the closing of mines and quarries, if it is provided for by law.
Experts' opinion and experience gained from termination of mining operations is used to set up provisions.

(d) Provision for dismantling of assets
The provisions for dismantling of assets are set up to cover the estimated costs relating to future dismantling of assets if the dismantling of assets is provided for by law or the Group's past practice has demonstrated that the Group intends to incur these costs. The present value of dismantling costs of assets is included within the cost of non-current assets.

(e) Provisions for greenhouse gas emissions
A provision for greenhouse gas emissions is set up to meet the obligations arising from legislation relating to greenhouse gas emissions according to the quantity of greenhouse gases emitted when the quantity of greenhouse gases emitted exceeds the quantity of greenhouse gas emission allowances allocated by the state free of charge. The provision is set up using the carrying amounts of greenhouse gas emission allowances. If the quantity of emitted

greenhouse gases exceeds the quantity of greenhouse gas emission allowances allocated by the state free of charge or those acquired in a transaction, an additional provision is set up using the market prices of greenhouse gas emission allowances at the balance sheet date.

2.22 Contingent liabilities

Promises, guarantees and other potential or current commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

2.23 Share capital and statutory reserve capital

Ordinary shares are included within equity. No preferred shares have been issued. The transactions costs directly related to issuance of shares are recognised as a reduction of equity under the assumption that they are treated as directly attributable incremental costs.
The shares approved at the General Meeting but not yet registered in the Commercial Registry are recognised in the equity line „Unregistered share capital".
According to the requirements of the Commercial Code, the Company needs to set up statutory reserve capital from annual net profit allocations, the minimum amount of which is 1/10 of share capital. The amount of annual statutory reserve capital is 1/20 of the net profit of the financial year until the reserve reaches the limit set for reserve capital. Reserve capital may be used to cover a loss when it cannot be covered from distributable equity, or to increase share capital.

2.24 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and provision of services in the ordinary course of business. Revenue is shown net of value-added tax and discounts after the elimination of intragroup transactions. Revenue is recognised only when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow the Group, all significant risks and rewards incidental to ownership have been transferred from the seller to the buyer and the additional criteria presented below have been met. The amount of revenue can be measured reliably only when all conditions related to the transaction are evident.

(a) Sale of electricity
Sales revenue is recognised on the basis of invoices issued according to meter readings of customers. Meter readings are reported by customers, read by remote counter reading systems, or estimated based on past consumption patterns. Additionally, estimates are made regarding the potential impact of readings either not reported or incorrectly reported by the balance sheet date, resulting in a more precise estimation of the actual consumption and sale of electricity.

(b) Recognition of connection fees
When connecting to the electricity network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect to the network. The revenue from connection fees is deferred and recognised as income evenly over the estimated customer relationship period. The amortisation period of connection fees is 20 years. Deferred connection fees are carried in the balance sheet as long-term deferred income.

(c) Revenue recognition under the stage of completion method
Revenue from unfinished and finished, but undelivered services is recognised by using the stage of completion method. Under this method, contract revenue and profit is recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract were incurred. Unbilled but recognised revenue is recorded as accrued income in the balance sheet. Where progress billings at the balance sheet date exceed costs incurred plus recognised profits, the balance is shown as due from customers on construction contracts, under other deferred income.

(d) Recognition of sale of greenhouse gas emission allowances
Revenue derived from the sale of greenhouse gas emission allowances is recognised at the time when the sales transaction is agreed upon with the buyer. The revenue is recognised under other operating income.

(e) Interest income
Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate, except if the receipt of interest is uncertain. In such cases the interest income is accounted for on a cash basis.

2.25 Government grants

Government grants are recognised at fair value, when there is there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the related costs, which they are intended to compensate. If government assistance cannot be reliably estimated (e.g. free consultations), it is not recognised as government grants. Information about such assistance is disclosed in the notes to the financial statements.
Assets acquired via government grants are initially recognised in the balance sheet at cost, the amount received as a government grant is recognised as deferred income related to the government grant. Related assets are depreciated and the grant is recognised as income over the estimated useful life of a depreciable asset.

2.26 Dividends

Dividends are recognised as a reduction of retained earnings and a payable to shareholders at the moment of announcing the dividends.

2.27 Related party transactions

In preparing the consolidated financial statements, the related parties include the subsidiaries and associates of the Group, the members of the Supervisory and Management Boards of AS Eesti Energia and other persons who can control or influence the Group's financial and operating decisions. As the shares of Eesti Energia AS belong 100% to the republic of Estonia, the related parties also include state companies and companies with state participation.

3. Financial risk management

3.1 Financial risks

The Group's activities expose it to a variety of financial risks: market risk (which includes foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. The risk department under the Chairman of the Management Board is engaged in risk management and responsible for the development, implementation and maintenance of the Group's risk management system. The Group's financial risks are managed in accordance with the principles established at the Group. The Group's liquidity, interest rate and foreign exchange risks are managed at the Group level in the finance department of the Parent Company.

(a) Market risks
1. Foreign exchange risk
Foreign exchange risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to exchange

rate changes. The amounts denominated in euros are considered to be liabilities and receivables free of foreign exchange risk. All long-term borrowings and electricity export contracts are also concluded in euros to avoid foreign exchange risk.
The Group's main foreign exchange risk arises in connection with the sales transactions of shale oil (Note 12). In addition, a few other sales and procurement contracts have been entered into in US dollars.
The price quotations of shale oil depend on the exchange rate of the US dollar and the appreciation/depreciation of the dollar's exchange rate impacts the income derived from the sale of shale oil. The Group has hedged the risk of changes in the price of shale oil fuel with swap transactions. Swap transactions are denominated in US dollars and the appreciation/depreciation of the US dollar against the kroon has an impact on the amounts receivable or payable. In the reporting period or the comparable period, the Group has not used any hedging instruments to hedge the foreign exchange risk.
Had the US dollar's exchange rate at 31 March 2008 been 19% (31 March 2007: 19%) higher or lower (with other factors remaining constant), the Group's profit for the financial year would have been EUR 394 thousand higher/lower (2006/07: by EUR 176 thousand lower/higher) and the hedge reserve by EUR -6 744 thousand higher/lower (2006/07: EUR 0) as a result of the appreciation/depreciation in the fair value of shale oil and revaluation of the balances of trade receivables and trade payables.

Receivables and liabilities denominated in US dollars:

in thousand EUR	31 March 2008	31 March 2007
Trade receivables	2,871	0
Supplier payables	235	1,036
Derivatives (liability) recognised as hedging instruments (Note 12)	36,058	0
Derivatives (assets) not recognised as hedging instruments (Note 12)	0	111

2. Price risk
Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The sale of goods produced and the services provided by the Group under the free market conditions, the purchases of resources used in production and financial assets recognised at fair value through profit or sale and available-for-sale financial assets are impacted by the price risk.
The most significant price risks of goods and services are the price risks related to the sale of electricity and shale oil, as well as to the purchase of greenhouse gas emission allowances. The Group uses different derivatives to hedge the price risks related the sale of goods and services and purchases of greenhouse gas emission allowances.
Forward contracts are used to hedge the risk related to changes in the price of electricity which have been entered into for the sale of a specific volume of electricity at each trading hour. The volume of electricity sold through the Nordic energy exchange Nord Pool and hedged with derivative transactions depends on the price difference between the market price of electricity and the quantity greenhouse gas emission allowances and may reach up to 70% of the maximum sales volume.
Swap and futures transactions are used to hedge the risk in the price of shale oil. With these transactions, Group or a transaction partner undertakes to pay the difference between the fixed price and the market price in the reporting period. According to the risk hedging principles of the Group, up to 85% of the production of oil shale needs to be covered by swap transactions.
The need to buy greenhouse gas emission allowances arises when the CO_2 emissions exceeds the quantity of greenhouse gas emission allowances allocated by the state free of charge. To lower the hedge from changes in the price of allowed amount of greenhouse gas emission, the Group uses forward and future transactions.
According to the trading rules concerning greenhouse gas emission allowances approved by the Management Board, the missing quantity is purchased on a dispersed basis throughout the year based on the expected shortage of greenhouse gas emission allowances. The price risk of financial assets at fair value through profit or loss means that the market value of interest and money market funds may change as a result of a change in the market value of the fund's net assets.
Had as at 31 March 2008 the net asset value of the financial assets recognised at fair value through profit or loss been 4% (31 March 2007: 4%) higher/lower, the Group's net profit (with all other factors remaining constant), would have been EUR 65 thousand higher/lower (2006/07: EUR 9 thousand higher/lower) due to the loss arising in the revaluation of financial assets at fair value through profit or loss to fair value.

3. Interest rate risk of cash flows and fair value
Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates.
Interest rate risk of cash flows arises to the Group from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase. The Group's fixed interest borrowings are impacted by interest rate risk of fair value and it lies in danger that the fair value of fixed interest rate borrowings will increase when interest rates decline in the market.
Overnight deposits and term deposits have been entered into with fixed interest rates and they do not result in an interest rate risk of cash flows for the Group.
Sensitivity analysis is used to assess the interest rate risk. For hedging the Group's interest rate risks, the principle that the share of fixed interest rate loans should be over 50% in the portfolio is followed.
As at the year-end, 91% of the Group's borrowings were fixed and 9% were with floating interest rates. In the comparable period, the respective figures stood at 89% and 11%, respectively.
Had as at 31 March 2008 the market interest rate (6-month Euribor) been 90 basis points (31 March 2007: 90 basis points) higher/lower, the net profit for the financial year (with all other factors remaining constant) would have been EUR 53 thousand lower/higher(2006/07: EUR 67 thousand lower/higher as a result of the increase/decrease in the interest expense of long-term borrowings with floating interest rates.

(b) Credit risk
Credit risk is the risk that the Group will incur a monetary loss caused by the other party to the financial instrument because of the latter's inability to meet its obligations.
Cash in bank deposits, held-to-maturity financial assets, derivatives with positive value, as well as trade and other receivables are exposed to credit risk.
According to the risk management principles of the Group, short-term monetary funds can be deposited in the following domestic and foreign financial instruments:
- overnight deposits of credit institutions;
- term deposits of credit institutions;
- commercial papers (commercial papers of the state, local governments, and companies);
- bonds (bonds of the state, local governments, and companies);
- interest rate funds;
- money market funds.

In depositing the available monetary funds in the short-term, the following principles are followed in the order of importance:
- ensuring of liquidity;
- preservation of capital;
- earning of income.

According to the Group's risk management principles, the Group may deposit available funds only in financial instruments meeting the following criteria:

Financial instrument	Criteria
Deposits of domestic credit institutions	the activity license established by the Credit Institutions Act and the credit rating of at least Baa3 or its equivalent by Moody´s rating agency
Deposits of foreign credit institutions	foreign credit institution has the rating of at least Aa3 or its equivalent by Moody´s rating agency
Commercial papers and bonds of domestic issuer	domestic issuer has the rating of at least Baa3 or its equivalent by Moody´s rating agency and the bonds are transferable in the securities market
Commercial papers and bonds of foreign issuer	foreign issuer has the credit rating of at least Aa3 or its equivalent by Moody's rating agency and the bonds are transferable in the securities market
Interest and money market funds	the fund manager has the activity license established by the Investment Fund Act and the credit rating of at least Baa3 or its equivalent by Moody´s rating agency

The clients' unpaid invoices are constantly handled on a daily basis in the departments specifically set up for this purpose. The automated reminder and warning system sends messages to customers about overdue invoices with the warning that if not paid, they will be switched off from the electricity network. After that, a collection petition is filed at the court or a collection agency. Special agreements are in the jurisdiction of special credit committees.

The maximum amount exposed to credit risk was as follows as at the balance sheet date:

in thousand EUR	31 March 2008	31 March 2007
Deposits with maturities greater than 3 months at the banks (Notes 3.2, 13 and 17)	138,190	235,255
Trade and other receivables (Note 10)*	82,892	58,982
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 18)**	62,828	33,320
Held-to-maturity financial assets (Notes 13, 14 and 15)	5,113	2,842
Derivatives with positive value (Notes 12, 13 and 14)	910	8,199
Total amount exposed to credit risk	289,933	338,598

* Total trade and other receivables less prepayments
** Total cash and cash equivalents less cash on hand and in transit

Impairment losses have been deducted from trade receivables. Although the collection of receivables can be impacted by economic factors, management believes that there is no significant risk of loss beyond the provisions already recorded.

From the second half of year 2007 the realisation of mortgage right and real estate forced sale in the subprime real estate loan market has increased significantly. The influences of this process have spread from US real estate market elsewhere because investors have re- evaluated their openness to risk, which has brought along the increase of volatility and decreased the liquidity in the markets of bonds, shares and derivatives. The management can not reliably estimate possible additional influences to the financial position of the Group, which arise from the possible decrease of the liquidity and increased volatility of financial markets.

More detailed information on credit risk is disclosed in Notes 10 and 14.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations due to insufficient cash inflows. Liquidity risk is hedged through the use of different financial instruments such as loans, bonds and commercial papers.

In order to finance its extensive capital expenditure programme, the Group has issued 15-year international bonds in the amount of EUR 300 million has entered into four loan contracts in the amount of EUR 102 million. To lower the level of the interest rate on borrowings, the Group has obtained credit rating from the agencies Standard&Poor's and Moody's, as at 31 March 2008, the ratings were A- negative and A1 stable. For the bond transaction which took place in October 2005, Standard & Poor's assigned the rating A- and Moody's assigned the rating A1. In 2005, Moody's kept the rating of Eesti Energia AS at A1.

As at 31 March the Group had undrawn loan facilities in the amount of EUR 40 million (31 March 2007: EUR 102 million).

As at the end of the financial year, the Group had spare cash balances (including term deposits with maturities of three months or less) in the amount of EUR 198 million (31 March 2007: EUR 268 million).

Bank account limits are used at the Group to manage liquidity of subsidiaries.

Forecast of the change in the Group's liquidity reserve for the next financial year is shown in the following table:

in thousand EUR	2008/09
Cash and cash equivalents (Notes 13 and 18)	62,861
Deposits with maturities greater than 3 months (Notes 3.2, 13 and 17)	138,190
Undrawn credit lines (Note 22)	40,000
Balance at beginning of the period	**241,051**
Operating profit	**160,526**
Paid on acquisition of investments	-319,558
Proceeds from sale of investments	19,813
Return on investing	**-299,746**
Debt financing	24,286
Dividends paid	-41,670
Return on financing	**-17,384**
Expired credit lines	**-40,000**
New credit lines	**40,000**
Balance at end of the period	**84,448**
Cash and cash equivalents	44,448
Deposits with maturities greater than 3 months	0
Undrawn credit lines	40,000

The following liquidity analysis includes the division between the Group's current and non-current liabilities (incl. derivatives with net payments) by the maturity dates of liabilities. All amounts shown in the table are contractual undiscounted cash flows. The amount payable within 12 months after the balance sheet date equals their carrying amount.

Division of liabilities by maturity dates as at 31 March 2008:

in thousand EUR	Less than 1 year	Between 1 and 5 years	Later than 5 year	Total undiscounted cash flows	Carrying amount
Borrowings (Note 3.2, 13 and 22)	18,243	83,610	427,840	529,693	336,515
Derivatives (Note 12 and 13)	8,032	28,280	0	36,312	36,312
Trade and other payables (Note 13 and 23)*	115,377	497	0	115,874	115,862
Liability related to payment of dividends (Note 19)	41,670	0	0	41,670	0
Total	**183,322**	**112,387**	**427,840**	**723,549**	**488,689**

* Total trade and other payables less prepayments

Division of liabilities by maturity dates as at 31 March 2007:

in thousand EUR	Less than 1 year	Between 1 and 5 years	Later than 5 year	Total undiscounted cash flows	Carrying amount
Borrowings (Note 3.2, 13 and 22)	16,728	86,612	447,443	550,783	341,983
Trade and other payables (Note 13 and 23)*	93,956	854	0	94,809	94,732
Liability related to payment of dividends(Note 20)	63,912	0	0	63,912	0
Total	**174,596**	**87,466**	**447,443**	**709,504**	**436,715**

* Total trade and other payables less prepayments

3.2 Management of equity risk

Eesti Energia AS is a company, all shares of which belong to the state. Decisions concerning dividend distribution, increasing or decreasing of share capital are made by the Republic of Estonia (through the Ministry of Economic Affairs and Communications). Each financial year, the dividends payable by AS Eesti Energia to the state budget are determined by the order of the Government of the Republic of Estonia (Note 19).

The Group follows the strategy according to which the ratio of total debt to equity ratio should not exceed 50%. As at 31 March 2008 and 31 March 2007, the total debt to equity ratio and the net debt to total capital ratio was as follows:

in thousand EUR	31 March 2008	31 March 2007
Borrowings (Note 3.1, 13 and 22)	336 515	341 983
Less: cash and cash equivalents and deposits with maturities greater than 3 months at banks (Note 3.1, 13, 17 and 18)	201 051	268 592
Net debt	135 464	73 391
Equity	1 055 447	1 116 187
Total capital (net debt + equity)	1 190 910	1 189 578
Debt to equity ratio	28%	29%
Net debt to total capital ratio	11%	6%

3.3 Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost in the balance sheet as at 31 March 2008 and 31 March 2007 do not materially differ from the carrying amounts reported in the consolidated financial statements, except for bonds (Note 22). As most of the Group's long-term borrowings have floating interest rates that change according to changes in money market interest rates, then their fair value does not significantly differ from the carrying amounts. The carrying amount of accounts receivable and unpaid invoices less any discounts is estimated to approximate their fair values. For the disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market rate of interest which is available for similar financial instruments of the Group.

4. Critical accounting estimates and judgements

Critical accounting estimates and assumptions used.
The preparation of the financial statements requires the use of estimates and assumptions that impact the reported amounts of assets and liabilities, and the disclosure of off-balance sheet assets and contingent liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The changes in management's estimates are recognised in the income statement of the period of the change.

The estimates presented below impact financial information disclosed in the financial statements the most.

(a) Estimating the useful lives of items of property, plant and equipment
The estimated useful lives of items of property, plant and equipment are based on management's estimate regarding the period during which the asset will be used. Experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 March 2008, the net book amount of property, plant and equipment of the Group totalled EUR 1.35 billion (31 March 2007: EUR 1.28 billion), the depreciation charge of the reporting period was EUR 109 million (2006/07: EUR 102 million) (Note 6). If depreciation rates are reduced by 10%, the annual depreciation charge would decrease by EUR 11 million (2006/07: EUR 10 million).

(b) Evaluation of the recoverable amount of property, plant and equipment
As needed, the Group regularly performs impairment tests to determine the recoverable amount of items of property, plant and equipment on the basis of which assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests, management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of assets, as well as in respect of inflation and growth rates. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or previously recognised

impairment could be partially or wholly reversed. The recoverable amounts of fixed assets used to provide transmission and distribution of electricity is regulated by the Competition Board which determines the reasonable rate of return to be earned on these assets. When the income, expenses and investments related to the provision of transmission and distribution of electricity remain within the required limits, the revenue derived from the sale of network services guarantees the reasonable rate of return of these assets. There were no write-downs during the current reporting period.

(c) Recognition and revaluation of provisions
As at 31 March 2008, the Group had set up provisions for environmental protection, termination of mining operations, compensation for work-related injuries, scholarships, liabilities arising from the collective agreement and greenhouse gas emission provisions in the total amount of EUR 39 million (31 March 2007: EUR 24 million) (Note 26). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. In setting up provisions, grants from the EU funds have also been considered when the respective applications to receive funds have been submitted and according to management, the receipt of grants is more or less certain. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(d) Inventory valuation
Upon valuation of inventories, the management relies on its best knowledge and it takes into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of goods for resale is considered. As at 31 March 2007, the Group had inventories in the total amount of EUR 27 million (31 March 2007: EUR 24 million) (Note 11).

(e) Contingent assets and liabilities
In estimating the probability of realisation of contingent assets and liabilities, the management considers historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

(f) Recognition of connection and other service fees
Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years. The estimated customer relationship period is based on management's estimate. In the reporting period, connection and other service fees totalled EUR 5.6 million (2006/07: 4.3 million). If the estimated customer relationship period is reduced by 10%, the annual income from connection fees would increase by EUR 0.6 million (2006/07: 0.4 million) (Notes 24, 27, 34).

(g) Evaluation of doubtful receivables
The collection of material receivables is assessed on an individual basis. The remaining receivables are assessed as a group. The circumstances indicating an impairment loss may include the bankruptcy or major financial difficulties of the debtor and inability to meet payment terms (delay of payment over 90 days). As at the balance sheet date, the Group had over 500 000 invoices due (incl. the due date of which had not come yet). All receivables which are 90 days overdue are written down in full. The amount of doubtful receivables is adjusted as at each balance sheet date using previous years' experience on how many doubtful receivables will be collected in subsequent periods and how many doubtful receivables more than 90 days due as at the balance sheet will not be collected in a subsequent period. As at 31 March 2008, the Group's doubtful receivables totalled EUR 7.5 million (31 March 2007: EUR 8.4 million) (Note 10).

(h) Evaluation of effectiveness of hedging instruments
The Group has conducted a significant number of swap transactions to hedge the risk of the changes in prices of electricity and share oil with regard to which risk hedge accounting is applied, i.e. the gains and losses from changes in the fair value of effective hedging instruments are included in the respective equity reserve. The evaluation of the effectiveness of hedging is based on management's estimates with regard to future sales transactions concerning electricity and liquid fuels. When hedging instruments turn out to be ineffective, the total gain/loss from the changes in the fair value should be recognised in the income statement.

5 Segment reporting

For segment reporting purposes, the division into business segments is based on the Company's internal management reporting structure and statutory requirements stipulated in the Electricity Market Act of Estonia which requires separate accounting for electricity production, transmission, distribution and sales.

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.

Pursuant to the Electricity Market Act of Estonia, the following indicators are subject for approval by the Estonian Competition Authority
- price limit of oil shale sold to Narva Power Plants for production of heat and electricity;
- price limit of electricity sold from Narva Power Plants to the closed market;
- weighted average price limit of electricity sold for meeting sales obligations;
- network fees.
- rate of subsidy paid for electricity produced from a renewable energy source or in an efficient cogeneration regime.

For the approval of prices, the Estonian Competition Authority has established methodology for calculating prices. For granting approval for the above-provided prices, the Estonian Competition Authority considers the costs which allow companies to perform obligations arising from legislation and conditions attached to activity licenses 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).

In preparing the financial statements, production and sale of electricity and heat, as well as oil shale, shale oil and ashes as well as all supporting activities are considered as the main activities of the Group. Other activities (including investing and financing activities) are considered as non-core activities, whose results are presented under other operating income and expenses; or under financial income and expenses.
For segment reporting purposes, companies and business units are divided into the following business segments:
Oil shale extraction - companies in Eesti Põlevkivi Group (Estonian Oil Shale Company);
Production of electricity and heat - AS Narva Elektrijaamad, OÜ Iru Elektrijaam, AS Kohtla-Järve Soojus, AS Narva Soojusvõrk,
Renewable energy company, Aulepa Tuulepargid OÜ;
Oil production - AS Narva Õlitehas, Oil Shale Energy of Jordan;

Transmission of electricity - OÜ Põhivõrk;
Distribution of electricity - OÜ Jaotusvõrk;
Sales and customer service - Teenindus, SIA "E. Energy", Solidus Oy, UAB "Lumen Balticum";

Support services - companies in Energoremont Group, AS Elektriteenused, AS Elpec, Televõrgu AS, OÜ Elektrikontrollikeskus (until 1 May 2007), other support services and administration of the Group

Number of employees of business segments

	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Total Group
Number of employees as at 1 April 2007	3,444	1,902	125	134	960	352	1,494	8,411
Number of employees as at 31 March 2008	3,432	1,916	140	128	971	380	1,534	8,501
Average number of employees	3,406	1,907	128	127	964	368	1,517	8,417
Number of employees as at 1 April 2006	4,036	1,898	116	140	990	364	1,212	8,756
Number of employees as at 31 March 2007	3,444	1,902	125	134	960	352	1,494	8,411
Average number of employees	3,889	1,905	119	138	977	355	1,193	8,576

Income statements of business segments for the period 1 April 2007 - 31 March 2008

in thousand EUR	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment	Total Group
Revenue (Note 27)									
External sales	21,498	43,412	28,766	12,294	167,766	270,007	31,045	-343	574,445
incl. in Estonia	21,452	43,039	22,702	8,651	167,766	186,556	14,725	-343	464,549
incl. exports	46	373	6,063	3,643	-	83,451	16,320	-	109,896
Inter-segment revenue	136,341	284,814	5,894	63,426	2,585	31,866	44,489	-569,415	-
Total revenue (Note 27)	**157,839**	**328,227**	**34,659**	**75,720**	**170,351**	**301,872**	**75,535**	**-569,757**	**574,445**
Other operating income and government grants (Notes 25 and 28)	950	2,270	59	305	1,034	652	61,968	-61,083	6,155
Change in inventories of work-in-progress and finished goods	-237	-	-999	-	-	-	-1,281	2,156	-360
Externally purchased raw materials and consumables (Note 29)	-67,425	-82,176	-2,395	-8,990	-11,303	-16,409	-31,772	12,629	-207,841
Internally purchased raw materials and consumables	-11,356	-137,134	-12,919	-16,305	-82,664	-271,457	-1,255	533,090	-
Total purchased raw materials and consumables	-78,781	-219,310	-15,315	-25,294	-93,967	-287,865	-33,027	545,719	-207,841
Other expenses (Note 30)	-8,420	-48,048	-3,954	-2,916	-7,528	-6,990	-12,884	12,214	-78,528
Payroll expenses (Note 31)	-48,601	-26,041	-2,067	-3,457	-16,398	-6,139	-25,116	7,367	-120,451
Depreciation, amortisation and impairment (Notes 6, 8 and 34)	-17,913	-39,306	-777	-20,073	-28,027	-85	-3,817	98	-109,899
Segment operating profit	4,837	-2,208	11,608	24,283	25,466	1,444	61,379	-63,286	63,522
Financial income (Note 32)									10,707
Financial expenses (Note 32)									-18,615
Total financial income and expenses (Note 32)									**-7,908**
Profit/loss from investments in associates (Note 33)	1,565	-	-	-10	-	-	-113	-	1,442
Corporate income tax									-17,771
Net profit for the financial year									39,285

Income statements of business segments for the period 1 April 2006-31 March 2007

in thousand EUR	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Revenue									
External sales	20,343	37,561	24,484	8,448	161,085	209,386	20,321	-78	481,550
incl. in Estonia	18,622	37,268	24,108	5,176	161,085	176,989	7,959	-78	431,128
incl. exports	1,721	293	376	3,272	-	32,397	12,362	-	50,422
Inter-segment sales	100,703	221,951	4,362	63,466	3,091	30,143	35,076	-458,792	-
Total revenue (Note 27)	**121,046**	**259,513**	**28,846**	**71,914**	**164,176**	**239,529**	**55,397**	**-458,871**	**481,550**
Other operating income and government grants (Notes 25 and 28)	4,084	97,848	173	108	251	703	27,484	-27,621	103,030
Change in inventories of work-in-progress and finished goods	1,610	-	1,716	-	-	-	-	-189	3,137
Externally purchased raw materials and consumables (Note 29)	-48,757	-55,131	-1,854	-9,478	-9,828	-9,723	-19,047	6,631	-147,187
Internally purchased raw materials and consumables	-6,986	-110,180	-10,568	-16,255	-84,992	-209,362	-844	439,186	-
Other operating expenses and consumables	**-55,743**	**-165,311**	**-12,421**	**-25,733**	**-94,820**	**-219,085**	**-19,891**	**445,817**	**-147,187**
Other operating expenses (Note 30)	-4,697	-31,430	-2,936	-2,763	-7,532	-6,054	-9,802	11,177	-54,036
Payroll expenses (Note 31)	-39,408	-20,124	-1,553	-2,733	-13,481	-4,329	-17,237	3,040	-95,825
Depreciation and amortisation (Notes 6, 8 and 34)	-17,022	-34,883	-580	-19,789	-26,152	-110	-3,180	113	-101,604
Segment operating profit	9,871	105,613	13,244	21,004	22,442	10,655	32,771	-26,534	189,065
Financial income (Note 32)									6,769
Financial expenses (Note 32)									-18,957
Total financial income and expenses (Note 32)									**-12,188**
Profit loss from investments in associates	929	-	-	158	-	-	-128	-	959
Corporate income tax (Note 33)									-9,404
Net profit for financial year									168,432

Balance sheets of business segments as at 31 March 2008

in thousand EUR	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Current assets	24,142	44,000	35,299	10,570	21,882	53,331	234,374	-100,362	323,236
Non-current assets	72,615	401,696	8,657	324,247	518,882	250	54,613	-10,661	1,370,299
incl. investments in associates (Note 9)	2,391	-	-	-	-	-	8,429	-	10,820
Total assets	**96,757**	**445,696**	**43,957**	**334,817**	**540,764**	**53,581**	**288,987**	**-111,023**	**1,693,535**
Liabilities related to operating activities									
current liabilities	23,261	95,638	13,958	9,696	28,199	36,996	27,661	-98,439	136,970
non-current liabilities	10,244	16,270	28,076	19,435	99,150	366	678	-9,615	164,604
Total liabilities related to operating activities	33,505	111,908	42,034	29,131	127,349	37,362	28,339	-108,054	301,574
Loans and bonds (Notes 3.1, 3.2 and 22)									**336,515**
Total liabilities									**638,089**

Balance sheets of business segments as at 31 March 2007

in thousand EUR	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Current assets	37,704	79,262	4,739	7,553	17,754	51,975	230,135	-64,257	364,864
Non-current assets	66,145	407,761	5,862	329,823	450,298	676	41,618	-	1,302,184
incl. investments in associates (Note 9)	2,055	-	-	-	-	-	8,542	-	10,597
Total assets	**103,849**	**487,022**	**10,602**	**337,376**	**468,052**	**52,651**	**271,753**	**-64,257**	**1,667,048**
Liabilities related to operating activities									
current liabilities	18,687	58,369	2,800	5,870	19,326	33,912	22,500	-63,278	98,186
non-current liabilities	9,113	11,802	49	16,425	79,750	156	1,154	-7,757	110,692
Total liabilities related to operating activities	27,800	70,171	2,849	22,295	99,076	34,068	23,653	-71,035	208,878
Loans and bonds (Notes 3.1, 3.2 and 22)									**341,983**
Total liabilities									**550,861**

Capital expenditures of business segments

in thousand EUR	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
1 April 2007-31 March 2008 (Notes 6 and 8)	26,770	32,757	4,228	14,417	88,360	234	9,526	-5,110	171,182
1 April 2006-31 March 200 (Notes 6 and 8)	19,515	21,872	3,056	37,401	51,135	750	7,335	-1,442	139,620

Cash flows of business segments for the period 1 April 2007-31 March 2008

in thousand EUR	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Cash flows from operating activities	19,110	65,526	-13,438	36,799	39,141	-4,136	11,638	-6,546	148,094
Cash flows from investing activities	-32,441	-33,680	-4,636	-10,766	-60,310	757	147,220	-54,264	-48,120
Cash flows from financing activities	-802	-72,631	18,805	-26,034	21,170	3,035	-131,478	117,486	-70,450
Net cash flows	**-14,133**	**-40,785**	**731**	-	-	**-344**	**27,380**	**56,675**	**29,525**

Cash flows of business segments for the period 1 April 2006-31 March 2007

in thousand EUR	Oil shale mining	Production of electricity and heat	Oil production	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Inter-segment eliminations	Total Group
Cash flows from operating activities	17,713	136,024	14,085	32,945	37,741	15,121	-2,614	5,607	256,624
Cash flows from investing activities	-6,191	-25,119	-2,061	-36,330	-28,030	-746	-56,477	-179,329	-334,283
Cash flows from financing activities	-	-65,711	-12,057	3,385	-9,712	-14,069	101,387	-40,037	-36,814
Net cash flows	**11,522**	**45,194**	**-33**	-	-	**306**	**42,296**	**-213,758**	**-114,473**

(b) Reporting by geographical segments (secondary reporting format)
The Group operates mostly in Estonia, but electricity and some other goods and services are also sold in other countries. The Group's main geographical regions are Estonia, the Nordic countries and Latvia.

External revenue by location of clients

	1 April - 31 March	
in thousand EUR	2007/08	2006/07
Estonia	464,549	431,128
Nordic countries	68,809	26,099
Latvia	32,055	16,588
Other countries	9,033	7,735
Total external revenue (Note 27)	**574,445**	**481,550**

Allocation of assets by location of assets

	31 March	
in thousand EUR	2008	2007
Estonia	1,679,560	1,654,277
Nordic countries	1,719	1,499
Latvia	101	15
Other countries	1,335	659
Total	1,682,715	1,656,451
Investments in associates (Note 9)	10,820	10,597
Total assets	**1,693,535**	**1,667,048**

Capital expenditures to property, plant and equipment and intangible assets by location of assets

	1 April - 31 March	
in thousand EUR	2007/08	2006/07
Estonia	171,111	138,229
Nordic countries	39	733
Latvia	18	2
Other countries	14	656
Total capital expenditures **(Notes 6 and 8)**	**171,182**	**139,620**

6 Property, plant and equipment

in thousand EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 March 2006						
Cost	4,851	145,603	801,620	1,030,162	3,704	1,985,940
Accumulated depreciation	-	-70,338	-328,545	-411,017	-2,760	-812,659
Net book amount	4,851	75,266	473,075	619,145	944	1,173,281
Construction in progress	-	5,349	33,848	37,156	-	76,352
Prepayments	259	-	9	2,586	-	2,854
Total property, plant and equipment as at 31 March 2006	**5,110**	**80,614**	**506,932**	**658,887**	**944**	**1,252,487**
Movements in 1 April 2006-31 March 2007						
Total purchases of property, plant and equipment (Note 5)	270	7,075	54,069	75,512	455	137,381
Received in acquisition of subsidiary (Notes 5 and 36)	-	-	-	7	6	13
Depreciation charge (Notes 4, 5 and 34)	-	-4,828	-28,866	-67,180	-607	-101,481
Net book amount of non-current assets disposed	-35	-1,252	-	-139	-0	-1,426
Reclassified at net book amount	-	475	104	-579	-	-
Total movements in 1 April 2006-31 March 2007	**235**	**1,470**	**25,307**	**7,621**	**-146**	**34,486**

in thousand EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 March 2007						
Cost	5,072	155,655	855,029	1,101,806	4,067	2,121,629
Accumulated depreciation	-	-74,176	-351,540	-466,192	-3,270	-895,177
Net book amount	5,072	81,480	503,489	635,614	797	1,226,452
Construction in progress	-	604	28,505	28,617	-	57,726
Prepayments	273	-	245	2,277	-	2,794
Total property, plant and equipment as at 31 March 2007 (Note 4)	**5,345**	**82,084**	**532,239**	**666,508**	**797**	**1,286,973**
Movements in 1 April 2007-31 March 2008						
Total purchases of property, plant and equipment (Note 5)	190	5,979	62,078	98,692	511	167,451
Received as a non-monetary contribution to share capital	6,917	-	-	-	-	6,917
Investment in subsidiary (Note 36)	14	-	-	275	-	288
Depreciation charge (Note 4, 5 and 34)	-	-5,208	-30,460	-70,082	-458	-106,208
Impairment loss (Notes 5 and 34)	-	-	-	-3,175	-	-3,175
Net book amount of non-current assets disposed	-14	-56	-	-287	-	-358
Transferred in disposal of subsidiary and business unit (Note 37)	-	-	-	-255	-	-255
Reclassified at net book amount (Note 8)	-506	16	-	1	-1	-490
Total movements in 1 April 2007-31 March 2008	**6,601**	**731**	**31,618**	**25,169**	**52**	**64,171**
Property, plant and equipment as at 31 March 2008						
Cost	11,640	160,497	910,438	1,180,569	4,487	2,267,631
Accumulated depreciation	-	-79,163	-377,463	-521,273	-3,638	-981,536
Net book amount	11,640	81,334	532,975	659,297	849	1,286,095
Construction in progress	-	1,368	30,480	18,371	-	50,219
Prepayments	305	114	401	14,010	-	14,830
Total property, plant and equipment as at 31 March 2008 (Note 4)	**11,945**	**82,815**	**563,857**	**691,677**	**849**	**1,351,144**

In the reporting period, the residual value of block I of Iru Power Plant was written down, in the course of which EUR 3 175 thousand was recognised as an impairment loss. As due to the changes in environmental requirements, the use of block I after 1 January 2008 without additional capital expenditures to make the block's technology more environmentally friendly is not permitted and as at the balance sheet date, the Group has not made any decisions regarding the capital expenditures. Hence, the recoverable amount of the block was estimated at EUR 0.

Assets leased out under operating lease terms

in thousand EUR	31 March	
	2008	2007
Cost	10,224	5,806
Accumulated depreciation at beginning of the financial year	-4,291	-2,299
Depreciation charge	-246	-200
Net book amount	**5,687**	**3,307**

Leased assets are partly used in own operations and partly for earning rental income. Cost and depreciation have been calculated according to the part of the asset leased out. Income on lease assets is disclosed in Note 7.

Property, plant and equipment acquired under finance lease terms (Group is the lessee)

in thousand EUR	Balance as at 31 March 2007	Received	Depreciation charge	Terminated lease	Balance as at 31 March 2008
Cost	169	-	-	-	169
Accumulated depreciation	-32	-	-24	-	-56
Net book amount	**137**	**-**	**-24**	**-**	**113**

	Balance as at 31 March 2006	Received	Depreciation charge	Terminated lease	Balance as at 31 March 2007
Cost	210	-	-	-41	169
Accumulated depreciation	-31	-	-30	29	-32
Net book amount	**179**	**-**	**-30**	**-12**	**137**

Special equipment is leased under the finance lease terms. The lease agreement will expire at 24 November 2008.

7 Operating lease

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Rental income		
Buildings	1,211	1,081
incl. contingent rent	549	498
Facilities	607	412
Total rental income (Note 27)	**1,818**	**1,493**
Rental expense		
Buildings	549	468
Means of transport	1,432	1,415
Other machinery and equipment	384	329
Total rental expense (Note 30)	**2,365**	**2,212**

Future minimum lease receivables under non-cancellable operating lease contracts by due dates

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Rental income		
< 1 year	905	736
1 - 5 years	3,558	4,073
> 5 years	17,443	16,240
Total rental income	**21,906**	**21,050**

The mazut farm and the administrative building have been leased out under non-cancellable lease agreements.
The lease agreements will expire in 2033 and 2035.
Operating lease agreements (the Group is lessee) are mostly cancellable with a short-term notice.

8 Intangible assets

in thousand EUR	Goodwill	Software	Right of use	Exploration and evaluation assets	Client contract	Total
Intangible assets as at 31 March 2006						
Cost	2,494	-	-	-	-	2,494
Accumulated amortisation	-	-	-	-	-	-
Net book amount	2,494	-	-	-	-	2,494
Total intangible assets as at 31 March 2006	**2,494**	**-**	**-**	**-**	**-**	**2,494**
Movements in 1 April 2006-31 March 2007						
Total purchases of intangible assets (Note 5)	-	874	-	656	697	2,227
incl. intangible assets identified in a business combination (Note 36)	-	-	-	656	697	1,353
Amortisation charge (Notes 5 and 34)	-	-1	-	-	-122	-123
Total movements in 1 April 2006-31 March 2007	**-**	**873**	**-**	**656**	**575**	**2,104**
Intangible assets as at 31 March 2007						
Cost	2,494	19	-	656	697	3,866
Accumulated amortisation	-	-1	-	-	-122	-123
Net book amount	2,494	18	-	656	575	3,744
Intangible assets not yet available for use	-	855	-	-	-	855
Total intangible assets as at 31 March 2007	**2,494**	**873**	**-**	**656**	**575**	**4,599**
Movements in 1 April 2007-31 March 2008						
Total purchases of intangible assets (Note 5)	-	1,112	2,361	259	-	3,731
including intangible assets identified in a business combination (Note 36)	-	-	1,915	-	-	1,915
Received in acquisition of a subsidiary (Note 36)	-	-	16	-	-	16
Reclassified from PPE (Note 6)	-	-	490	-	-	490
Amortisation charge (Note 5 and 34)	-	-94	-71	-	-351	-517
Total movements in 1 April 2007-31 March 2008	**-**	**1,018**	**2,796**	**259**	**-351**	**3,721**
Intangible assets as at 31 March 2008						
Cost	2,494	731	2,883	915	697	7,721
Accumulated amortisation	-	-95	-87	-	-473	-655
Net book amount	2,494	637	2,796	915	224	7,066
Intangible assets not yet available for use	-	1,254	-	-	-	1,254
Total intangible assets as at 31 March 2008	**2,494**	**1,891**	**2,796**	**915**	**224**	**8,320**

Goodwill

Allocation of goodwill by cash-generating units

in thousand EUR	Eesti Põlevkivi	AS Elpec	Narva Elektrijaamad	Total goodwill
Carrying amount at 31 March 2008	2,470	15	9	2,494
Carrying amount at 31 March 2007	2,470	15	9	2,494

The recoverable amount of assets is determined on the basis of the value in use and using the cash flow forecast prepared for the next 17 years. The budgets approved by the Management Board are used to make estimates for the next 5 years, the remaining years are estimated. The selection of a 17-year period is based on an investment horizon regularly used in the electricity business. The cash flow forecasts are based on historical data and the estimate of the Estonian energy balance. The weighted average cost of capital (WACC) is used as the discount rate, which has been determined on the basis of area of operations of the Company and its risk level. No impairment was identified during the test.

Key assumptions used in determining the value in use at 31 March 2008 and 31 March 2007

	Eesti Põlevkivi	AS Elpec	Narva Elektrijaamad
Growth rate of cash flows used after 5 years	-11.1%	0.9%	-6.9%
Discount rate	7.9%	16.3%	8.0%

Exploration and evaluation assets of mineral resources

The costs related to the exploration of an oil shale mine located in the Kingdom of Jordan are recognised as exploration and evaluation assets of mineral resources. The contract entered into on 5 November 2006 with the Kingdom of Jordan constitutes a right to explore.
In addition to intangible assets, exploration and evaluation assets of mineral resources include a prepayment for exploration works in the amount EUR 5 thousand as at 31 March 2008 (31 March 2007: EUR 71 thousand).

Cash flows from investing activities relating to the exploration for and evaluation of mineral resources

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Paid in acquisition of subsidiary (Note 36)	-	-166
Payment for exploration work	-171	-71

Client contract

The carrying amount of rights arising from the contract entered into between Solidus Oy and its former parent company to acquire the subsidiary Solidus Oy in the amount of EUR 224 thousand (31 March 2007: EUR 575 thousand) is recognised as a client contract. According to the contract, the previous parent company of Solidus Oy undertakes to purchase services from Solidus Oy (Note 36).

9 Investments in associates

Change in investments in associates

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Book value at the beginning of the year	**10,597**	**10,833**
Gain/loss under the equity method (Note 34)	1,452	801
Dividends received	-1,229	-1,038
Book value at end of the period (Note 5)	**10,820**	**10,597**

Information on associates

in thousand EUR Company	Location	Assets 31 March 2008	Liabilities 31 March 2008	Operating income 1 April 2007 - 31 March 2008	Gain/loss 1 April 2007 - 31 March 2008	Ownership (%) 31 March 2008
Associates owned by the Parent Company						
Nordic Energy Link Group	Estonia Finland	98,565	76,304	16,741	294	39.9
Associates owned by subsidiaries						
Orica Eesti OÜ	Eesti	8,936	2,552	18,048	4,472	35.0
		107,501	**78,855**	**34,789**	**4,766**	

Information on associates

in thousand EUR Company	Location	Assets 31 March 2007	Liabilities 31 March 2007	Operating income 1 April 2006 - 31 March 2007	Gain/loss 1 April 2006 - 31 March 2007	Ownership (%) 31 March 2007
Associates owned by the Parent Company						
Nordic Energy Link Group	Estonia, Finland	100,418	78,279	6,152	345	39.9
Associates owned by subsidiaries						
Orica Eesti OÜ	Estonia	6,889	1,019	12,720	2,656	35.0
		107,308	**79,298**	**18,871**	**3,001**	

10 Trade and other receivables

in thousand EUR	31 March	
	2008	2007
Short-term trade and other receivables		
Trade receivables		
Accounts receivable	73,770	60,781
Allowance for doubtful receivables (Note 4)	-7,470	-8,382
Total trade receivables	**66,300**	**52,399**
Accrued income		
Estimated receivable under the stage of completion method	3,277	2,367
Estimated receivable for electricity on the basis of unreported or delayed meter readings, or estimates	1,173	502
Accrued interest (Note 14)	3,593	2,113
Other accrued income	-	2
Total accrued income	**8,043**	**4,985**
Prepayments	5,051	2,435
Receivables from associates	427	878
Other short-term receivables (Note 14)	8,107	705
Total short-term trade and other receivables	**87,928**	**61,402**
Long-term receivables		
Long-term guarantee fees	15	15
Total long-term receivables	**15**	**15**
Total trade and other receivables (Notes 3.1 and 13)	**87,943**	**61,417**

The fair values of receivables and prepayments do not significantly differ from their carrying amounts.
Collection of receivables and prepayments for services and goods are not covered by securities.
Most of the Group's receivables and prepayments are either Estonian kroons or euros. The amount of receivables denominated in US dollars is disclosed in Note 3.1.

Analysis of accounts receivable

in thousand EUR	31 March	
	2008	2007
Accounts receivable not yet due (Note 14)	**60,710**	**47,358**
Accounts receivable due but but not classified as doubtful		
1-30 days past due	4,397	3,840
31-60 days past due	884	982
61-90 days past due	251	152
Total accounts receivable due but but not classified as doubtful	**5,531**	**4,975**
Accounts receivable classified as doubtful		
more than 3 months but less than 6 months past due	386	175
more than 6 months past due	7,142	8,273
Total accounts receivable classified as doubtful	**7,528**	**8,448**
Total accounts receivable	**73,770**	**60,781**

According to the accounting policies of the Group, all receivables 90 days past due are written down in full. The total amount of the allowance for doubtful receivables has been adjusted using prior experience on how many of the receivables classified as doubtful are collected in a later period and how many of the receivables not more than 90 days past due are not collected in a later period. As at 31 March 2008, the amount of the allowance for doubtful receivables was adjusted by EUR -59 thousand (31 March 2007: EUR -66 thousand).

Changes in doubtful receivables

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Doubtful receivables at beginning of the period	**-8,382**	**-9,336**
Classified as doubtful during the accounting period (Note 34)	-1,323	-2,421
Collections in the accounting period (Note 34)	1,659	2,346
Classified as irrecoverable	569	1,029
Transferred during disposal of subsidiary (Note 37)	8	-
Doubtful receivables at end of the period	**-7,470**	**-8,382**

The classes of other receivables do not contain any assets written down.

Revenue under the stage of completion method

in thousand EUR	31 March	
	2008	2007
Unfinished projects at end of the period		
Sales revenue of unfinished projects	5,696	5,455
Progress billing submitted	-2,422	-3,113
Unfinished, unbilled projects	**3,277**	**2,367**
Unfinished, prepaid projects (Note 23)	**-3**	**-24**
Total expenses of unfinished projects in the financial year	-6,010	-5,308
Gains/losses calculated on unfinished projects	-314	147
Total income from construction projects in the financial year	20,859	14,541
Total expenses of construction projects in the financial year	-19,345	-13,221
Total gains/losses calculated on construction projects	**1,513**	**1,321**

Long-term construction projects are mostly related to manufacturing of power equipment and design and construction of network equipment.

11 Inventories

in thousand EUR	31 March	
	2008	2007
Raw materials and materials at warehouses	**15,045**	**11,888**
Work-in-progress		
Stored oil shale	6,732	5,877
Stripping works in quarries	1,838	1,866
Other work-in-progress	876	1,144
Total work-in-progress	**9,447**	**8,888**
Finished goods (Note 4)		
Shale oil	1,648	2,646
Other finished goods	216	136
Total finished goods	**1,864**	**2,782**
Prepayments to suppliers	**249**	**35**
Total inventories	**26,604**	**23,594**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials in the amount of EUR 369 thousand (2006/07: EUR 62 thousand).

12 Derivative financial instruments

in thousand EUR	31 March 2008		31 March 2007	
	Assets	Liabilities	Assets	Liabilities
Forward contracts of electricity sales	821	254	8,087	-
Swap and futures contracts for buying and selling shale oil (Note 3.1)	-	36,058	111	-
Forward contract to sell a currency	89	-	-	-
Total derivative financial instruments (Notes 3.1, 13 and 14)	**910**	**36,312**	**8,199**	**-**

Forward contracts of electricity sales

The goal of the forward contracts of electricity sales is to hedge changes in the price of electricity or earn income on changes in the price of electricity on the Nordic electricity exchange Nord Pool. All forward contracts have been entered into for the sale of a fixed volume of electricity at each trading hour and their price is denominated in euros. The transactions the goal of which is to hedge the risk in the price of electricity, are designated as cash flow hedging instruments whereby the underlying instrument being hedged is the estimated electricity transactions of high probability on the Nordic electricity exchange Nord Pool. The effective portion of the change in fair value of transactions concluded for hedging purposes is included in the respective reserve in equity and is accounted for either as a gain or loss at the time of the sales transactions of electricity or when it is evident that sales transactions are unlikely to occur in a certain period. For the purpose of earning income from the change in prices of electricity are recognised as gains or loss in the income statement. The basis for determining the fair value of transactions is the quotes on Nord Pool.

Changes in forward contracts of electricity sales

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Fair value at beginning of the period	**8,087**	**-**
Change in fair value, incl.	1,786	11,413
change in fair value recognised in the income statement	28	-
change in fair value recognised in the hedge reserve (Note 21)	1,758	11,413
Settled in cash (collected)	-9,306	-3,326
Fair value at end of the period	**567**	**8,087**

Swap and futures contracts for buying and selling shale oil

The goal of the swap and futures contracts for buying and selling shale oil is to hedge the risk of price changes of shale oil.
The transactions have been concluded for the sale of a specified volume of shale oil in future periods and they are designated as cash flow hedging instruments whereby the underlying instrument to be hedged is highly probable estimated shale oil sales transactions. The basis for determining the fair value of transactions is the quotes by Platt´s European Marketscan and Nymex. The prices are denominated in US dollars.

Swap and futures contracts for buying and selling shale oil

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Fair value at beginning of the reporting period	111	-
Change in fair value, incl.	-37,672	111
change in fair value recognised in income statement	-535	111
change in fair value recognised in hedge reserve (Note 21)	-37,136	-
Settled in cash (paid)	1,502	-
Fair value at end of the reporting period (Note 3.1)	**-36,058**	**111**

Forward contract for foreign currency sale

The foreign currency forward contract comprises the contract entered into at 10 January 2008 for the sale of EUR 10 000 thousand at 14 July 2008, at an exchange rate which is higher than the official exchange rate of the Bank of Estonia.

Changes in forward contract for the sale of foreign currencies

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Fair value at beginning of the reporting period	-	-
Change in fair value recognised in the income statement	89	-
Fair value at end of the reporting period	**89**	**-**

Interest rate swap contracts

At 3 April 2002, Eesti Energia AS entered into two interest rate swap contracts with Westdeutsche Landesbank Girozentrale (underlying amounts: EUR 15 000 thousand and EUR 50 000 thousand) with the goal of hedging the risk of interest rate fluctuations. The transactions were initially classified as a cash flow hedging instrument. As at 31 March 2007, both contracts had ended.

Changes in interest rate swap contracts

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Fair value at beginning of the reporting period	-	**-798**
Change in fair value, incl.	-	-5
change in fair value recognised in income statement	-	-3
change in fair value recognised in hedge reserve (Note 21)	-	-1
Settled in cash	-	802
Change in fair value at end of the reporting period	-	-

13 Division of financial instruments by categories

in thousand EUR	Loans and receivables	Financial assets at fair value through profit or loss	Held-to-maturity financial assets	Derivatives for which hedge accounting is applied	Total
As at 31 March 2008					
Financial asset items in the balance sheet					
Trade and other receivables (Note 10)*	90,361	-	-	-	90,361
Derivative financial instruments (Notes 3.1, 12 and 14)	-	104	-	806	910
Held-to-maturity financial assets (Notes 3.1, 14 and 15)	-	-	5,113	-	5,113
Term deposits with maturities greater than 3	-	-	-	-	
months at banks (Notes 3.1, 3.2 and 17)	138,190	-	-	-	138,190
Financial assets at fair value	-	-	-	-	
through profit or loss (Note 16)	-	1,630	-	-	1,630
Cash and cash equivalents (Notes 3.1 and 18)	62,861	-	-	-	62,861
Total financial asset items in the balance sheet	**291,412**	**1,735**	**5,113**	**806**	**299,066**
As at 31 March 2007					
Financial asset items in the balance sheet					
Trade and other receivables (Note 10)*	67,364	-	-	-	67,364
Derivative financial instruments (Notes 3.1, 12 and 14)	-	111	-	8,087	8,199
Held-to-maturity financial assets (Notes 3.1, 14 and 15)	-	-	2,842	-	2,842
Term deposits with maturities greater than 3	-	-	-	-	
months at banks (Notes 3.1, 3.2 and 17)	235,255	-	-	-	235,255
Financial assets at fair value	-	-	-	-	
through profit or loss (Note 16)	-	235	-	-	235
Cash and cash equivalents (Note 18)	33,337	-	-	-	33,337
Total financial asset items in the balance sheet	**335,955**	**347**	**2,842**	**8,087**	**347,232**

* trade and other receivables less doubtful receivables and prepayments

in thousand EUR	Derivatives for which hedge accounting is applied	Other financial liabilities	Total
As at 31 March 2008			
Financial asset items in the balance sheet			
Borrowings (Notes 3.1, 3.2 and 22)	-	336,515	336,515
Supplier and other payables (Notes 3.1 and 23)**	-	115,862	115,862
Derivative financial instruments (Notes 3.1 and 12)	36,312	-	36,312
Total financial liability items in the balance sheet	**36,312**	**452,377**	**488,689**
As at 31 March 2007			
Financial liability items in the balance sheet			
Borrowings (Notes 3.1, 3.2 and 22)	-	341,983	341,983
Supplier and other payables (Notes 3.1 and 23)**	-	94,732	94,732
Total financial liability items in the balance sheet	**-**	**436,715**	**436,715**

** supplier and other payables less prepayments

14 Credit quality of financial assets

The basis for estimating the credit quality of financial assets not due yet and not written down, is the credit ratings assigned by rating agencies or in their absence, earlier credit behaviour of clients and other parties to the contract.

in thousand EUR	31 March	
	2008	2007
Trade receivables		
Receivables from new clients (settled in less than 6 months)	1,236	972
Receivables from existing clients (settled in 6 months or later), who in the last 6 months have not exceeded the due date	25,699	21,091
Receivables from existing clients (settled in 6 months or later), who in the last 6 months have exceeded the due date	33,775	25,295
Total trade receivables (Note 10)	**60,710**	**47,358**
Accrued interest		
Receivables from banks with Moody's credit rating of Aa1	1,897	1,020
Receivables from banks with Moody's credit rating of Aa2	776	562
Receivables from banks with Moody's credit rating of A1	920	532
Total accrued interest (Note 10)	3,593	2,113
Bank accounts and deposits in banks		
At banks with Moody's credit rating of Aa1	100,050	147,918
At banks with Moody's credit rating of Aa2	38,954	49,443
At banks with Moody's credit rating of A1	62,015	71,214
Total bank accounts and deposits in banks (Notes 17 and 18)	**201,018**	**268,575**
Other receivables		
Security deposits paid to financial institution with Moody's credit rating of Aa3	6,966	-
Receivables without credit rating of an independent party	1,141	705
Total other receivables (Note 10)	**8,107**	**705**
Held-to-maturity financial assets		
Bonds and commercial papers without a credit rating of an independent party (Notes 3.1, 13 and 15)	5,113	2,842
Derivative financial instruments		
Derivatives with positive value without a credit rating by an independent party (Notes 3.1, 12 and 13)	910	8,199

As at 31 March 2008 and 31 March 2007, the Group did not have any major credit risk concentrations.

15 Held-to-maturity financial assets

in thousand EUR	31 March	
Unquoted financial assets (at amortised cost):	2008	2007
Bonds of Kesko OYJ		
(fixed interest rate 7.3%, maturity date: April 2008)	2,296	-
Commercial papers of AS SEB		
(fixed interest rate 4.6-6%, maturity date: June - October 2008)	2,817	-
Commercial papers of AS SEB Ühispank		
(fixed interest rate of 3.3%, maturity date: June 2007)	-	1,270
Bonds of AS Sampo Pank		
(fixed interest rate 3.7%, maturity date: September 2007)	-	1,573
Total held-to-maturity financial assets (Notes 3.1, 13 and 14)	**5,113**	**2,842**

Changes in held-to-maturity financial assets	1 April - 31 March	
in thousand EUR	2007/08	2006/07
Amortised cost at beginning of the reporting period	**2,842**	-
Acquired	9,987	4,301
Redeemed	-7,958	-1,534
Amortisation of difference between cost and nominal value (Note 32)	241	75
Amortised cost at end of the reporting period (Notes 3.1, 13 and 14)	**5,113**	**2,842**

Held-to-maturity financial assets are denominated in Estonian kroons. Held-to-maturity financial assets have neither been sold nor reclassified neither in the reporting period nor in the comparable period.
The fair values of held-to-maturity financial assets do not materially differ from their carrying amounts.

16 Financial assets at fair value through profit or loss

tuhandetes kroonides	31.March	
	2008	2007
Unquoted financial assets:		
Units of Sampo Liquidity Fund (Note 13)	1,630	235

Changes in financial assets reported at fair value through profit or loss

	1 April - 31 March	
in thousand EUR	2007/08	2006/07
Fair value at beginning of the reporting period	**235**	**1,598**
Acquired	19,230	15,389
Disposed	-17,876	-16,788
Gain from change in fair value (Note 32)	42	36
Fair value at end of the reporting period (Note 13)	**1,630**	**235**

The units of Sampo Liquidity Fund are denominated in Estonian kroons. The basis of fair value of fund units is the net asset value of fund units based on the market value of the net assets of the fund. The change in the fair value of fund units is recognised as financial income in the income statement.

17 Deposits with maturities greater than 3 months at banks

in thousand EUR	31 March	
	2008	2007
Short-term receivables		
Deposits with maturities greater than 3 months at banks		
Security deposits at banks	10,100	10,650
Other deposits with maturities greater than 3 months at banks	128,090	224,605
Total deposits with maturities greater than 3 months at banks (Notes 3.1, 3.2 and 13)	**138,190**	**235,255**

In the financial year, the effective interest rates of term deposits were between 3.8 -8.1% (2006/07: 2.5 - 4.2%). The due dates of deposits were up to 418 days (2006/07: 306 days) The security deposits at SEB Eesti Ühispank secure the commitments of Eesti Energia AS which may arise from forward contracts of electricity sales and spot contracts on the electricity exchange Nord Pool. The interest rates of security deposits were 3.5-4.7% (2006/07: 3.6-3.9%). The cash deposited in security deposits is reported as a change in working capital in the cash flow statement due to its limited use.

18 Cash and cash equivalents

in thousand EUR	31 March	
	2008	2007
Cash in transit	7	8
Cash on hand	26	8
Bank accounts	8,234	5,702
Short-term deposits	54,594	27,618
Total cash and cash equivalents (Notes 3.1, 3.2 and 13)	**62,861**	**33,337**

Cash and cash equivalents by currencies

in thousand EUR	31 March	
	2008	2007
Estonian kroon	36,319	24,768
Euro	26,508	8,557
Latvian lat	33	9
Other	1	3
Total cash and cash equivalents (Notes 3.1, 3.2 and 13)	**62,861**	**33,337**

In the financial year, the effective interest rates of term deposits were between 3.9-7.2% (2006/07: 2.5 - 4.2%).

19 Share capital, statutory reserve capital and retained earnings

As at 31 March 2008, Eesti Energia AS had 73 211 896 registered (31 March 2007: 72 741 000) shares. The nominal value of shares is 100 EEK. The sole shareholder is the Republic of Estonia. The administrator of the shares and the exerciser of the rights of shareholders is the Estonian Ministry of Economic Affairs, represented by the Minister of Economic Affairs at the General Meeting of Shareholders. According to the articles of association of AS Eesti Energia, the minimum share capital is EUR 159 779 and the maximum share capital is EUR 639 116 thousand. No changes have been made to the amount of the minimum and maximum share capital in the reporting period and the comparable period.

In the reporting period, two share issues were carried out. With the order no. 368 of Government of the Republic of 2 August 2007, the share capital of Eesti Energia AS was increased by EUR 3 010 thousand (Note 40), from EUR 464 900 thousand to EUR 467 910 thousand by issuing a new share with the nominal value of 100 EEK. To increase the share capital, 1 090 registered immovables were transferred to Eesti Energia AS as a non-monetary contribution, valued at EUR 3 010 thousand. AS PricewaterhouseCoopers was in charge of overseeing the regular value evaluation. The issue of share capital was registered in the Commercial Register at 31 January 2008.

With the order no. 97 of the Government of the Republic of 27 February 2008, the share capital of Eesti Energia AS was increased by EUR 3 907 thousand (Note 40), to EUR 471 817 thousand by issuing 611 370 new shares with the nominal value of 100 EEK.
To increase the share capital, 165 registered immovables were transferred to Eesti Energia AS, valued at EUR 3 907 thousand. AS PricewaterhouseCoopers was in charge of overseeing the regular value evaluation. As at 31 March 2008, no application had been filed with the Commercial Register regarding the issue of share capital and therefore this amount is reported as an unregistered share capital in the balance sheet.

As at 31 March 2008, the Group's statutory reserve capital totalled EUR 46 490 thousand (31 March 2007: EUR 46 490 thousand). As at 31 March 2008, Eesti Energia AS had an obligation to transfer an additional EUR 692 thousand to statutory reserve capital (as at 31 March 2007, no additional transfers were made to statutory reserve capital).

As at 31 March 2008, the Group's available equity (taking into account the statutory requirement to increase statutory reserve capital to 1/10 of share capital) was EUR 308 207 thousand (31 March 2007: EUR 333 579 thousand). Corporate income tax is payable upon the distribution of dividends to shareholders (from 1 January 2008, the corporate income tax on dividends is 21/79, until 31 December 2007: 22/78 of the amount payable as net dividends. Upon the distribution of all retained earnings as dividends, the corporate income tax would amount to EUR 64 723 thousand (31 March 2007: EUR 73 387 thousand). It is possible to pay out EUR 243 484 thousand (as at 31 March 2007: EUR 260 192 thousand) as net dividends.

Pursuant to the order no. 798 of the Government of the Republic of 27 February 2008, Eesti Energia AS is required to pay EUR 41 670 thousand as dividends after the approval of the 2007/08 Annual Report by the General Meeting of Shareholders. The corresponding income tax would total EUR 11 077 thousand (Note 3.2).

The following table presents the basis for calculating the distributable shareholders' equity, potential dividends and the accompanying corporate income tax

in thousand EUR	31 March	
	2008	2007
Retained earnings (Note 40)	308,899	333,579
Transfer to statutory reserve capital	-692	-
Distributable shareholder's equity	308,207	333,579
Corporate income tax on dividends if distributed	64,723	73,387
Net dividends available for distribution	243,484	260,192

20 Dividends per share

In the financial year, Eesti Energia paid dividends in the amount of EUR 63 912 thousand to the Republic of of Estonia or EUR 0.88 per share (2006/07: EUR 31 956 thousand, dividends per share EUR 0.43).
The Management Board proposes to the Annual Meeting to pay dividends of EUR 0.57 per share for the financial year ended 31 March 2008, in the total amount of EUR 41 670 thousand. These financial statements do not reflect this amount as a liability.

21 Hedge reserve

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Hedge reserve at beginning of the period	**8,087**	**-82**
Change in fair value of derivatives (Note 12)	-35,378	11,412
Included within revenue	-9,305	-3,326
Recognised as a reduction of revenue	1,641	84
Hedge reserve at end of the period	**-34,954**	**8,087**

22 Borrowings

Borrowings at amortised cost in thousand EUR	31 March	
	2008	2007
Short-term borrowings		
Current portion of long-term bank loans	7,687	6,325
Overdraft	183	-
Finance lease liabilities	52	51
Total short-term borrowings	**7,922**	**6,376**
Long-term borrowings		
Bonds issued	287,780	287,093
Bank loans	40,813	48,462
Financial lease liabilities	-	52
Total long-term borrowings	**328,593**	**335,607**
Total borrowings (Notes 3.1, 3.2 and 13)	**336,515**	**341,983**

Changes in borrowings

in thousand EUR	1 April - 31 March 2007/08	2006/07
Amortised cost at beginning of the period	341,983	345,287
Movements in the period		
Loan balance of acquired subsidiary (Note 36)	345	300
Repaid long-term bank loans	-6,325	-4,506
Repaid other loans	-345	-300
Change in overdraft	183	-
Amortisation of loan fees	37	601
Amortisation of difference between the nominal amount and cost	687	654
Repaid finance lease liabilities	-51	-51
Amortised cost at end of the period	336,515	341,983

Bonds

in thousand EUR	31 March 2008	2007
Nominal value of bonds	300,000	300,000
Proceeds from issue of bonds	286,205	286,205
Amortisation of difference between nominal value and cost	1,575	888
Carrying amount of bonds	287,780	287,093
Market value of bonds on the basis of quoted sales price (Note 3.3)	275,700	284,416

The Group has issued long-term bonds with the maturity date in 2020. The bonds are denominated in euros and have a fixed interest rate of 4.5%. The bonds are listed on London Stock Exchange.

Principal amount at nominal value) and terms of long-term bank loans

in thousand EUR

Creditor	Total loan amount	As at 31 March 2008 drawn	undrawn (Note 3.1)	repaid	Final settlement
Nordic Investment Bank	13,000	4,727	-	8,273	2,009
Nordic Investment Bank	15,000	10,714	-	4,286	2,012
Nordic Investment Bank	60,000	18,182	40,000	1,818	2,017
European Investment Bank	15,000	15,000	-	-	2,019
Total long-term bank loans	**103,000**	**48,623**	**40,000**	**14,377**	

Creditor	Total loan amount	As at 31 March 2007 drawn	undrawn	repaid	Final settlement
Nordic Investment Bank	13,000	7,091	-	5,909	2,009
Nordic Investment Bank	15,000	12,857	-	2,143	2,012
Nordic Investment Bank	60,000	20,000	40,000	-	2,017
European Investment Bank	80,000	15,000	65,000	-	2,019
Total long-term bank loans	**168,000**	**54,948**	**105,000**	**8,052**	

All loans are denominated in euros. Most loans have floating interest rates, as at 31 March 2008 the interest rates on loans were between 4.7-5.3% (31 March 2007: 4.1 - 4.7%). As at 31 March 2008, the weighted average interest rate on loans with floating interest rates was 6-month EURibor+0.42% (31 March 2007: 6-month EURibor+0.41%). The floating interest rates of the loan from the Nordic Investment Bank in the amount of EUR 15 000 thousand was fixed until June 2006 with a derivative transaction.

As at 31 March 2008, the weighted average interest rate on loans was 4.97% (31 March 2007: 4.4%). The loans agreements concluded by Eesti Energia AS contain certain financial ratios that the Group needs to comply with. The Group has complied with all attached conditions.

Long-term bank loans at nominal value by due dates

in thousand EUR	31 March 2008	2007
< 1 year	7,687	6,325
1 - 5 years	23,656	26,019
> 5 years	17,281	22,604
Total	**48,623**	**54,948**

Pursuant to the agreement concluded at 30 November 2007, the Group will not draw the remaining portion of the loan granted by the European Investment Bank in the amount of EUR 65 000 thousand. The decision regarding the undrawn loan portion from Nordic Investment Bank needs to made by 30 September 2009 at the latest. The type of interest rate (fixed or floating) will be decided upon assuming the loan.

Management estimates that the fair value of the loans at the balance sheet date does not significantly differ from their carrying amounts.

Finance lease liability (present value of lease payments)

in thousand EUR

	Balance as at 31 March 2007	Received	Rental payments made	Terminated rental agreement	Balance as at 31 March 2008
Original lease payments	169	-	-	-	169
Repaid portion	-66	-	-51	-	-117
Carrying amount of lease payments	**103**	**-**	**-51**	**-**	**52**

	Balance as at 31 March 2006	Received	Rental payments made	Terminated rental	Balance as at 31 March 2007
Original lease payments	210	-	-	-41	169
Repaid portion	-55	-	-51	41	-66
Carrying amount of lease payments	**155**	**-**	**-51**	**-**	**103**

31 March 2007, the interest rate of operating lease agreements was 4.7% (31 March 2007: 4.5%).

Maturities of finance lease agreements

in thousand EUR

	< 1 year	1 - 5 years	Total
As at 31 March 2008			
Minimum lease payments	53	-	53
Unrealised financial income	-1	-	-1
Present value of lease payments as at 31 March 2008	**52**	**-**	**52**
As at 31 March 2007			
Minimum lease payments	55	53	108
Unrealised financial income	-4	-1	-5
Present value of lease payments as at 31 March 2007	**51**	**52**	**103**

Borrowings by period of fixing interest rates

in thousand EUR

	31 March 2008	31 March 2007
< 1 year	32,456	36,793
1 - 5 years	7,235	7,159
> 5 years	296,824	298,031
Total (Note 3.2)	**336,515**	**341,983**

Weighted average interest rates of borrowings

	31 March 2008	31 March 2007
Long-term bank loans	5.1%	4.5%
Bonds	4.9%	4.9%
Finance lease liabilities	4.7%	4.5%

All borrowings are unsecured.

23 Trade and other payables

in thousand EUR	31 March	
	2008	2007
Short-term payables		
Trade payables		
Payables for property, plant and equipment	33,695	33,447
Payables for fuel	5,759	2,678
Other payables for goods and services	22,194	17,234
Total trade payables	**61,648**	**53,359**
Accrued expenses		
Payables to employees	16,371	11,207
Interest liabilities	5,541	5,545
Payable relating to the fee for toleration of utility works	1,812	1,285
Payables calculated under the stage of completion method (Note 10)	3	24
Other accrued expenses	1,249	75
Total accrued expenses	**24,975**	**18,137**
Other short-term payables		
Tax liabilities	24,934	20,308
Payables to associates	1,147	1,047
Prepayments	1,000	693
Other payables	2,673	1,104
Total other short-term payables	**29,754**	**23,152**
Total trade and other payables	**116,377**	**94,648**
Long-term payables		
Payables for goods and services	485	776
Prepayments	115	-
Total long-term payables	**600**	**776**
Total long-term trade and other payables (Note 13)	**116,978**	**95,424**

Supplier payables

As at 31 March 2008, short-term payables included the amount withheld on the invoice submitted by Foster Wheeler Energia Oy in the amount of EUR 22 006 thousand (31 March 2007) (10% of the total invoice amount of EUR 220 055 thousand). Pursuant to the contract entered into with Foster Wheeler for the construction of new blocks of AS Narva Elektrijaamad, this amount was subject to withholding until the launching of the power blocks. Due to its claims against Foster Wheeler Energia Oy, AS Narva Elektrijaamad has not paid the withheld amount to Foster Wheeler Energia Oy (Note 35).

Payable relating to the fee for toleration of utility works

Pursuant to the Law of Property Act, a landowner in Estonia is required to tolerate utility works built on his immovable property. Under the law, the owner of utility works is required to pay compensation for the toleration of utility works pursuant to the rates and procedure provided for in the law, unless the parties have agreed otherwise. As at 31 March 2008, the Group has an obligation to retrospectively pay the fee for the toleration of utility works to the landowners from 1 November 2004 in the total amount of EUR 1 812 thousand (31 March 2007: 1 285 thousand). In the reporting period, payments amounted to EUR 9 thousand (2006/07: EUR 0).

24 Connection and other service fees

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Connection and other service fees at beginning of the period not recognised as income	**88,325**	**68,850**
Connection and other service fees received	26,271	23,803
Connection and other service fees received recognised as income (Notes 4, 27 and 34)	-5,619	-4,328
Connection and other service fees at end of the period not recognised as income	**108,976**	**88,325**

Connection and service fees are recognised as income over the estimated period of a client relationship, which is 20 years.

25 Government grants

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Short-term grant prepayments at beginning of the period		
ISPA, Cohesion Fund	799	-
Long-term grant prepayments at beginning of the period		
ISPA, Cohesion Fund	243	764
PHARE	335	-
Other foreign grants	22	-
Total long-term grant prepayments at beginning of the period	**600**	**764**
Movements in the period		
Grants received		
ISPA, Cohesion Fund	1,733	1,571
PHARE	-	372
LIFE-Environment	-	36
ERDF (Regional)	-	11
Other foreign grants	-	79
Total grants received	**1,733**	**2,070**
Taken into income		
ISPA, Cohesion Fund	2,086	1,293
PHARE	31	37
LIFE-Environment	-	36
ERDF (Regional)	-	11
Other foreign grants	0	57
Total taken into income (Note 5)	**2,117**	**1,435**
Payments transferred upon disposal of subsidiary		
PHARE	210	-
Other foreign grants	22	-
Total prepayments transferred upon disposal of subsidiary (Note 37)	**232**	**-**
Short-term grant prepayments at end of the period		
ISPA, Cohesion Fund	314	799
Long-term grant prepayments at end of the period		
ISPA, Cohesion Fund	374	243
PHARE	94	335
Other foreign grants	-	22
Total long-term grant prepayments at end of the period	**468**	**600**

In the reporting period, the grants from the Cohesion Fund (ISPA) were used to fund the closing works of the ash field no. 2 of the Baltic Power Plant, to provide technical assistance to renovate Ahtme Power Plant and close its ash fields as well as to build Narva 34 MW wind park.

In the comparable period, the grants from the Cohesion Fund (ISPA) were used to fund the closing works of the ash field no. 2 of the Baltic Power Plant, to provide technical assistance to renovate ash removal and ash fields of Narva Power Plants as well as to install the burners of Nox emissions of Iru Power Plant. The PHARE grant included a non-monetary grant for laboratory and measurement technology.

26 Provisions

in thousand EUR	Opening balance 31 March 2007	Recognition and change in provisions	Interest charge (Note 32)	Use	Closing balance 31 March 2008	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	13,970	5,816	940	-1,524	2,689	16,513
Provision for termination of mining operations (Note 30)	5,088	368	403	-20	-	5,839
Provision for post-employment benefits (Note 31)	803	65	54	-136	139	647
Provision for work-related injury compensation (Note 31)	2,869	-262	202	-307	310	2,192
Provision for dismantling cost of assets	999	-	80	-	-	1,079
Provision for scholarships (Note 31)	-	60	-	-17	35	8
Provision for greenhouse gas emissions (Note 29)	-	9,074	-	-	9,074	-
Total provisions (Notes 4 and 34)	**23,730**	**15,121**	**1,679**	**-2,004**	**12,246**	**26,279**

	Opening balance 31 March 2006	Recognition and change in provisions	Interest charge (Note 32)	Use	Closing balance 31 March 2007	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	13,628	1,610	789	-2,057	2,216	11,754
Provision for termination of mining operations (Note 30)	4,992	-200	382	-86	46	5,042
Provision for post-employment benefits (Note 31)	1,283	13	54	-547	129	674
Provision for work-related injury compensation (Note 31)	2,797	203	197	-328	347	2,522
Provision for dismantling cost of assets	925	-	74	-	-	999
Total provisions (Notes 4 and 34)	**23,625**	**1,626**	**1,497**	**-3,019**	**2,739**	**20,991**

Environmental protection provisions and provisions for termination of mining operations have been set up for:
- restoring land damaged by mining;
- cleaning contaminated land surface;
- restoring contaminated water supply as a result of mining activities;
- closing landfills and utilising waste;
- liquidating asbestos in power plants.

The amount of environmental protection provisions and provisions for termination of mining operations takes into account the fact that in accordance with the memorandum between AS Narva Elektrijaamad and the European Commission, 84% (total cost: EUR 7 106 thousand) of the cost of closing and restoring the ash field no.2 of the Baltic Power Plant will be covered from the EU ISPA funds. All conditions set by ISPA were met by 31 March 2008. The grants received in the reporting period amounted to EUR 1 461 thousand (2006/07: EUR 1 293 thousand). It has also been taken into consideration that 85% of the cost for the ash field works and the liquidation of contamination of AS Kohtla-Järve Soojus will be covered by the grant from ISPA funds. Long-term environmental protection provisions will settle at the Estonian Oil Shale Company in 2009 - 2013, at Kohtla-Järve District Heating Network in 2010-2013 and at Narva Power Plants in 2009 - 2037. Liabilities related to termination of mining operations will settle in 2013-2038. Provisions for termination of mining operations do not include any termination payments to employees as no detailed plans for the closure of the mines and quarries have been announced.

A provision for post-employment benefits arising from collective agreements has been set up for benefits laid down in collective agreements and other acts, which is payable to previous employees.

The provision for work-related injury compensation has been determined on the basis of the court ruling with regard to amounts payable for work-related injuries and the payment period which normally equals the life expectancy of employees. The payment period was determined using the data by Statistic Estonia on life expectancies according to age groups.

The provision for dismantling costs of assets has been set up to cover the future dismantling costs of the renovated power blocks no. 8 and 11 of Narva Power Plants. The present value of dismantling costs of assets was included in the cost of non-current assets. The provision is estimated to settle in 28 years.

The provision for greenhouse gas emissions has been set up at the cost of new greenhouse gas emission allowances. The emission allowances received from the state free of charge have been deducted from the volume of emission allowances to cover geenhouse gas emissions.

The provision are discounted at the rate of 8% (2006/07: 8%).

27 Revenue

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
By activities		
Sale of goods		
Electricity	442,422	372,364
Heat	37,662	33,474
Shale oil	28,697	24,468
Oil shale	18,326	14,871
Power equipment	13,896	10,888
Oil shale ash	1,165	972
Other	1,749	1,247
Total sale of goods	543,918	458,284
Sale of services		
Sale of telecommunication services	6,093	3,659
Connection fees (Notes 4, 24 and 34)	5,619	4,328
Repair and construction services	3,315	3,977
Leasing and maintenance of real estate properties (Note 7)	1,818	1,493
Electricity brokerage services	835	1,150
Transport services	579	368
Other services	2,917	2,513
Total sale of services	21,177	17,489
Other goods		
Scrap metal	3,452	3,619
Other goods	5,899	2,158
Total sales of goods	9,351	5,777
Total revenue (Note 5)	**574,445**	**481,550**

Energy sales in quantitative terms

MWh	1 April - 31 March	
	2007/08	2006/07
Sale of electricity		
Estonia	446,865	423,963
Export	174,130	78,629
Total sales of electricity	620,995	502,593
Sale of heat	111,135	116,478

28 Other operating income

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Fines, penalties and benefits received	2,068	1,203
Proceeds from sale of property, plant and equipment (Note 34)	1,059	3,409
Change in fair value of derivatives	253	111
Proceeds from sale of business unit (Notes 34 and 37)	24	-
Ineffective portion of a change in fair value of cash flow hedging instruments	17	133
Other operating income	615	361
Total other operating income (Note 5)	**4,038**	**5,217**

29 Raw materials and consumables used

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Maintenance and repairs, including:		
Core activity facilities and equipment	36,290	27,573
Buildings and offices	5,267	4,565
Dismantling and waste management	3,790	2,463
Machinery and means of transport	2,141	1,646
Liquidation of storm damage	-	225
Total maintenance and repairs	47,487	36,471
Technological fuel, including:		
Oil shale	2,991	1,370
Other technological fuel	27,058	19,574
Total technological fuel	30,049	20,944
Other production-related materials	27,680	20,385
Repair materials	22,070	17,280
Electricity	22,021	16,886
Resource tax on mineral resources	17,822	14,578
Fuel for machinery and means of transport	14,065	10,645
Setting up a provision for greenhouse gases emissions (Note 26)	9,074	-
Other services	8,437	4,537
Subcontracting works	3,629	3,034
Goods sold	3,024	459
Heat, energy, water	1,295	1,226
Tools and fixtures	818	680
Write-down of inventories	370	64
Total raw materials and consumables used (Note 5)	**207,841**	**147,187**

30 Other operating expenses

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Environmental pollution charges	33,660	25,179
Consulting	9,161	3,072
Security, insurance and work safety	6,217	5,816
Miscellaneous office expenses	4,005	3,874
Telecommunications expenses	3,380	2,663
Information technology expenses	3,120	2,496
Rental expenses (Note 7)	2,365	2,212
Recognition/reversal of environmental and mining termination benefits (Note 26)	6,183	1,410
Research and development costs	1,896	1,512
Public relations and information management	1,723	953
Miscellaneous charges and duties	1,593	588
Training expenses	1,541	1,262
Non-business related expenses	1,069	944
Office supplies and fixtures	877	923
Business travel	925	737
Change in fair value of derivatives	689	3
Fines, penalties, benefits	238	252
Loss from sale of property, plant and equipment (Note 34)	28	16
Loss from doubtful receivables	-394	-53
Other expenses	254	178
Total other expenses (Note 5)	78,528	54,036

31 Payroll expenses

Number of employees

	1 April - 31 March	
	2007/08	2006/07
Number of employees at beginning of the period	8,411	8,756
Number of employees at end of the period	8,501	8,411
Average number of employees	8,417	8,576

Payroll expenses

in thousand EUR

	1 April - 31 March	
	2007/08	2006/07
Wages, salaries, bonuses and vacation pay	89,573	69,496
Average monthly pay (in euros)	887	675
Other payments to employees	4,014	2,333
Termination benefits	841	1,113
Total disbursements to employees	**94,428**	**72,942**
Social tax	31,833	24,602
Unemployment insurance premiums	277	212
One-time employment contract fees	445	343
Provision for work-related injury compensation (Note 26)	-262	203
Provision for post-employment benefits (Note 26)	65	13
Provision for scholarships (Note 26)	60	-
Other benefits	21	27
Fringe benefits	1,091	814
Income tax on fringe benefits	386	313
Total payroll expenses	**128,344**	**99,468**
Incl. remuneration to management and supervisory boards		
Salaries, bonuses, additional remuneration	1,925	1,652
Termination benefits	91	138
Fringe benefits	102	58
Total paid to management and supervisory boards	2,119	1,848
Capitalised in the cost of self-constructed assets		
Wages and salaries	-5,658	-2,487
Social tax and unemployment insurance tax	-1,884	-827
Total capitalised amount	-7,542	-3,314
Covered from provision for termination of mining operations and environmental protection		
Wages and salaries	-263	-247
Social tax and unemployment insurance tax	-88	-82
Total covered from provisions	-351	-329
Total payroll expenses (Note 5)	120,451	95,825

32 Financial income and expenses

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Financial income		
Interest income		
Interest income on bank accounts and deposits	10,404	6,645
Interest income on bonds and commercial papers (Notes 2.8 and 15)	241	75
Other interest income	12	6
Total interest income	10,658	6,726
Change in fair value of financial assets recognised at fair value through profit or loss (Notes 2.8 and 16)	42	36
Change in fair value of financial guarantee issued	4	-
Gain on sale of non-current financial assets	-	8
Other financial income	3	-
Total financial income (Note 5)	**10,707**	**6,769**
Financial expenses		
Interest expenses on borrowings		
Interest expenses on long-term bonds	-14,211	-14,154
Interest expenses on long-term bank loans	-2,518	-2,996
Interest expenses on derivatives	-	-84
Interest expenses on commercial papers	-4	-5
Interest expenses on other short-term loans	-8	-
Total interest expenses on borrowings (Note 34)	**-16,740**	**-17,238**
Interest expenses on provisions (Note 26)	-1,679	-1,497
Interest expenses on other discounted payables	-17	-26
Total interest expenses	**-18,437**	**-18,761**
Foreign exchange gains/losses	-100	-6
Change in fair value of financial guarantee issued	-	-91
Other financial income and expenses	-78	-100
Total financial expenses (Note 5)	**-18,615**	**-18,957**
Total financial income and expenses (Note 5)	**-7,908**	**-12,188**

The Group has granted a guarantee up to 39.9% for the obligations arising from the loan contracts entered into between its associate AS Nordic Energy Link and the banks in case the banks require full payment of loans from AS Nordic Energy Link due to breach of contractual terms (Note 35). As at 31 March 2008, AS Nordic Energy Link had drawn loans in the amount of EUR 72 354 thousand (as at 31 March 2007: EUR 76 000 thousand).

33 Corporate income tax

According to the Income Tax Act, the dividends payable out of retained earnings are taxed in Estonia.
In 2007, the income tax rate was 22/78 of the net dividend paid (from 1 January 2008: 21/79 of the net dividend paid. Corporate income tax received from other companies registered in Estonia can be deducted from corporate income tax payable, when the recipient of dividends owned at least 15% (until 31 December 2006: 20%) of the shares of the payer of dividends.

Average effective income tax rate

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Estonia		
Net dividends	63,862	31,933
Income tax applicable for dividends	22/78	23/77
Theoretical income tax at applicable rates	18,012	9,538
Impact of dividends paid by associates	-304	-338
Effective income tax on dividends (Note 5)	17,708	9,200
Average effective income tax rate	27.7%	28.8%

	1 April - 31 March	
	2007/08	2006/07
Finland		
Profit before tax	-149	838
Income tax rate applicable to profits	26.0%	26.0%
Theoretical income tax at applicable rate	-39	218
Impact of non-deductible expenses	-	0
Impact of previous tax losses	-	-6
Impact of other adjustments	8	-8
Advance income tax expense	55	-
Income tax expense (Note 5)	63	204
Average effective income tax rate	-42.0%	24.4%

As at 31 March 2008 and 31 March 2007, the Group did not have any deferred income tax assets and liabilities.

34 Cash generated from operations

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Profit before income tax	**57,056**	**177,836**
Adjustments		
Depreciation and impairment property, plant and equipment (Notes 5 and 6)	109,382	101,481
Amortisation of intangible assets (Notes 5 and 8)	517	123
Deferred income from connection and other service fees (Notes 4, 24 and 27)	-5,619	-4,328
Gain/loss on disposal of PPE (Notes 28 and 30)	-1,032	-3,393
Amortisation of grant received to purchase non-current assets	-31	-38
Gain (loss) on sale of subsidiary and business unit (Notes 28, 30 and 37)	-24	-
Gains (losses) calculated under the equity method (Note 9)	-1,452	-801
Gain on sale of non-current financial assets	-	-8
Unpaid/unsettled gain/loss on derivatives	559	-108
Interest expense on borrowings (Note 32)	16,740	17,238
Interest and other financial income	-10,700	-6,762
Adjusted net profit before tax	**165,396**	**281,240**
Net change in current assets relating to operating activities		
Loss from doubtful receivables (Note 10)	-335	75
Change in receivables related to operating activities	-13,602	4,755
Change in inventories	-3,010	-4,038
Net change in other current assets relating to operating activities	-11,094	-12,864
Total net change in current asset relating to operating activities	**-28,042**	**-12,072**
Net change in current liabilities relating to operating activities		
Change in provisions (Note 26)	14,796	105
Change in supplier payables	7,871	5,336
Net change in liabilities relating to other operating activities	13,160	2,941
Total net change in liabilities relating to operating activities	**35,827**	**8,382**
Cash generated from operations	**173,180**	**277,550**

35 Off-balance sheet assets, contingent liabilities and commitments

(a) Contingent liabilities

Requirement to comply with the environmental norms of the European Union

Pursuant to the accession agreement between the European Union and Estonia, the pollutants from oil shale boilers into atmospheric air need to comply with the requirements set for large combustion plants by the year 2016. Completing the named obligation requires making additional investments.

Pursuant to the accession agreement between the European Union and Estonia, oil shale ashes processing and storage must be in compliance with the EU environmental regulation by 16 July 2009 at the latest.

Contingent liabilities arising from potential tax audit

Tax authorities have neither launched 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 subsequent to the reported tax year and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates 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 Group set certain covenants on the Group's consolidated financial indicators. The covenants have been adhered to.

The Group has granted a guarantee to the associate AS Nordic Energy Link for guaranteeing the obligations arising from the loan contracts entered into (Note 32).

Foster Wheeler Energia Oy has launched a commercial dispute against Narva Power Plants in the arbitrage court of London and submitted its initial claim in the amount of EUR 31 170 thousand for the payment of renovation costs. By the end of the reporting period, the outstanding balance of AS Narva Elektrijaamad amounted to EUR 22 006 thousand subject to withholding until the launching of the power blocks (Note 23). Due to the delay of renovation works and violation of contractual terms, AS Narva Elektrijaamad has filed a counterclaim against Foster Wheeler Energia Oy in the amount of EUR 44 514 thousand. Management estimates the claim of Foster Wheeler Energia Oy is unfounded.

(b) Off-balance sheet assets

Reserves of oil shale

As at 31 March 2008, the estimated reserves of minable oil shale in mines and quarries of Eesti Põlevkivi total 418 million tons (as at 31 March 2007: 438 million tons), incl. underground mining fields of 302 million tons (as at 31 March 2007: 315 million tons) and ground level mining fields of 116 million tons (31 March 2007: 123 million tons).

Emission rights

According to the allocation plan established by the decree of the Government of Estonia no. 257 of 20 December 2007, the greenhouse gas emission allowances allocated to the companies of Eesti Energia Group for the years 2008-2012 total 9.2 million tons per annum (the quantity allocated for the period of 2005-2007 totalled 46.7 million tons). In the 2006/07 financial year, the Group received income from the sale of the remaining emission allowances in the amount of EUR 96 379 thousand (2007/08: EUR 0).

(c) Capital commitments arising from construction contracts

As at 31 March 2008, the Group had contract liabilities relating to acquisition of non-current assets in the total amount of EUR 81 960 thousand (31 March 2007: EUR 12 478 thousand).

36 Business combinations

Acquisition of Aulepa Tuulepargid OÜ

At 7 November 2007, Eesti Energia AS acquired 100% of the shares of Aulepa Tuulepargid OÜ. The goal of Aulepa Tuulepargid OÜ is to establish the largest wind park in the Baltic States located in Noarootsi rural municipality.

Between 7 November 2007 and 31 March 2008, this company did not have any revenue and the Group's profit was reduced by the company's loss of EUR 40 thousand. Had the transaction taken place at 1 April 2007, the net profit for the financial year would have been EUR 43 050 thousand.

Information on transaction

in thousand EUR

Cost of acquisition	
purchase price paid in transaction	1,829
other directly attributable expenditure	6
Total cost of acquisition	**1,835**
Fair value of net assets acquired	1,835
Goodwill	**0**

Acquired net assets in thousand EUR	Fair value	Carrying amount
Prepayments	43	43
Property, plant and equipment (Note 6)	288	336
Intangible assets (Note 8)	1,931	16
Borrowings (Note 22)	-345	-345
Trade and other payables	-83	-1
Acquired net assets	**1,835**	**50**
Cash outflows in acquisition		
purchase price paid in transaction		1,829
other directly attributable expenditure		6
cash and cash equivalents of subsidiary		0
Total cash outflows in acquisition		**1,835**

In the comparable period, two contracts were entered into to acquire companies.

Acquisition of Solidus Oy

At 28 August 2006, Eesti Energia AS acquired 100% of the shares of Solidus Oy, registered in Finland.Solidus Oy is an energy brokerage company offering electricity portfolio management services to clients as well as advisory and expert services related to operating in an electricity market and risk management.

The Group's revenue increased by the revenue and net profit of the acquired company between 28 August 2006 and 31 March 2007 by EUR 1 164 thousand and the profit for the financial year by EUR 271 thousand. Had the acquisition occurred at 1 April 2006, the Group's revenue would have been EUR 482 414 thousand and the profit of the comparable period, EUR 168 820 thousand.

Information on transaction in thousand EUR	
Cost of acquisition	
purchase price paid in transaction	10,953
estimated additional purchase price (discounted)	3,160
other directly attributable expenditure	446
Total cost of acquisition	14,559
Fair value of acquisition	14,559
Goodwill	-

Acquired net assets in thousand EUR	Fair value	Net book amount
Cash and cash equivalents	418	418
Accrued income	232	232
Prepayments	63	63
Property, plant and equipment (Note 6)	13	13
Intangible assets (Note 8)	697	-
Borrowings (Note 22)	-300	-300
Trade and other payables	-193	-193
Acquired net assets	**930**	**233**
Cash outflows in transaction		
purchase price paid in transaction		700
other directly attributable expenditure		13
cash and cash equivalents of subsidiary		-418
Total cash outflow in acquisition		**296**

Acquisition of Oil Shale Energy of Jordan

At 5 November 2006, Eesti Energia AS acquired 76% of the shares of the company Oil Shale Energy of Jordan (OSEJ), registered in the Kingdom of Jordan. OSEJ has the exclusive right to explore and potentially use one third of the oil shale reserve of El Lajjun.

Between 5 November 2006 and 31 March 2007, the acquired company did not have any revenue and the Group'sprofit was reduced by the loss of the company in the amount of EUR 53 thousand. Had the transaction occurred at 1 April 2006, it would not have had an effect on the Group's income and profit of the financial year.

Information on the transaction in thousand EUR	
Cost of acquisition	
purchase price paid in transaction	195
estimated additional purchase price (discounted)	324
other directly attributable expenditure	4
Total cost of acquisition	**523**
Fair value of acquired holding	523
Goodwill	-

Acquired net assets in thousand EUR	Fair value	Net book amount
Cash and cash equivalents	33	33
intangible assets (Note 8)	656	-
Accrued expenses	-1	-1
Net assets	688	32
Minority interest (24%)	165	
Acquired net assets	523	
Cash outflows in transaction		
purchase price paid in transaction		195
other directly attributable expenditure		4
cash and cash equivalents of subsidiary		-33
Total cash outflow in acquisition (Note 8)		166

37 Disposal of subsidiary and business unit

Disposal of subsidiary OÜ Elektrikontrollikeskus

At 16 May 2007, a sales contract was entered into for the sale of the shares of OÜ Elektrikontrollikeskus. The shares were paid for in cash.

Information on the sales transaction in thousand EUR	
Assets and liabilities of OÜ Elektrikontrollikeskus	
Cash and cash equivalents	83
Trade and other receivables	41
incl. allowance for doubtful receivables (Note 10)	8
Property, plant and equipment (Note 6)	247
Trade and other payables	-59
Deferred income (Note 25)	-232
Net assets	80
Sales price	80
Loss on disposal (Notes 30 and 34)	-
Cash outflows in transaction	
Proceeds from sale (Note 38)	80
Cash and cash equivalents of subsidiary	-83
Total cash outflows in acquisition	-3

Sale of the mechanics shop of AS ER Baltic Electrotechnics and Automation

At 19 October 2007, a sales contract was entered into for the sale of a mechanics shop of the subsidiary AS ER Baltic Electrotechnics and Automation. 7 employees were transferred to the buyer in the sale of the mechanic shop.The business unit was paid for in cash.

Information on the transaction in thousand EUR	
Transferred assets	
Property, plant and equipment (Note 6)	8
Sales price	32
Gain on sale (Notes 28 and 34)	24
Cash inflows on sale of business unit:	
Proceeds from disposal	32

JAccording to the Company's management, the aforementioned disposals do not represent discontinued operations, because they did not constitute significant separate business areas of the Group. In the comparable period, there were no disposals of subsidiaries and business units.

38 Related party transactions

The sole shareholder of Eesti Energia AS is the state. In preparing the Group's financial statements, the related parties include associates, members of the management and supervisory board of the Parent Company and other companies over which the aforementioned persons have significant influence. Related parties also include state-controlled companies.

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Transactions with associates		
Purchase of goods and services	21,436	11,981
Proceeds from sale of goods and services	5,942	2,224
Transactions with state-controlled entities		
Proceeds from sale of goods and services	47,035	42,582
Fines, penalties, benefits received	15	20
Proceeds from sale of property, plant and equipment	-	2
Proceeds from sale of business unit (Note 37)	80	-
Purchases of goods and services	8,299	4,354
Sponsorship	73	118
Fines, penalties, benefits paid	26	9
Transactions with companies over which the members of Management and Supervisory Boards have significant influence		
Purchases of goods and services	801	1,343

Receivables and payable related to operating activities to state-controlled entities	31 March	
	2008	2007
Receivables	6,460	5,772
Payables	496	395

The remuneration paid to the members of the Management and Supervisory Board is disclosed in Note 31.Receivables from associates are disclosed in Note 10 and payables to associates in Note 23.

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

In purchasing and selling electricity, the prices set by the Estonian Competition Authority are used. The remaining transactions are concluded using agreed prices.

39 Events after the balance sheet date

At 30 April 2008, Eesti Energia AS entered into a contract with the Government of Jordan and the state-owned electricity company National Electric Power for the construction of the first oil-shale based power plant in Jordan. Pursuant to the contract entered into, Eesti Energia AS will receive the exclusive right to develop the project, the goal of which is to construct a 900 MW power plant. The main role of Eesti Energia group is the sale of know-how.

40 Financial information on the Parent Company

Financial information disclosed on the Parent Company includes the primary separate financial statements of the Parent Company, the disclosure of which is required by the Accounting Act of Estonia.
The primary financial statements of the Parent Company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements.
Investments in subsidiaries are reported at cost in the separate financial statements of the Parent Company.

BALANCE SHEET

in thousand EUR	31 March	
	2008	2007
ASSETS		
Non-current assets		
Property, plant and equipment	31,065	23,680
Intangible assets	618	18
Investments in subsidiaries	631,668	624,980
Investments in associates	8,772	8,772
Receivables from subsidiaries	314,702	317,777
Total non-current assets	**986,825**	**975,227**
Current assets		
Inventories	44	60
Trade and other receivables	178,667	145,892
Derivative financial instruments	910	8,087
Held-to-maturity financial assets	5,113	2,842
Deposits with maturities greater than 3 months at banks	138,190	235,255
Financial assets at fair value through profit or loss	1,630	235
Cash and cash equivalents	55,972	27,827
Total current assets	**380,527**	**420,198**
Total assets	1,367,352	1,395,426
EQUITY		
Share capital	467,909	464,900
Unregistered share capital	3,907	-
Share premium	259,833	259,833
Statutory reserve capital	46,490	46,490
Hedge reserve	541	8,087
Retained earnings	155,926	145,123
Total equity attributable to the Parent Company	**934,606**	**924,433**
Total equity	934,606	924,433
LIABILITIES		
Non-current liabilities		
Borrowings	328,593	335,555
Other payables	295	588
Derivative financial instruments	254	-
Deferred income	131	-
Provisions	347	312
Total non-current liabilities	**329,620**	**336,455**
Current liabilities		
Borrowings	7,870	6,325
Trade and other payables	94,602	128,168
Derivative financial instruments	563	-
Provisions	91	46
Total current liabilities	**103,126**	**134,538**
Total liabilities	432,746	470,993
Total liabilities and equity	1,367,352	1,395,426

INCOME STATEMENT

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Revenue	307,967	251,581
Dividend income from subsidiaries	63,862	31,933
Other operating income	23,472	25,053
Government grants	-	92
Raw materials and consumables used	-289,376	-220,467
Other operating expenses	-10,070	-8,194
Payroll expenses	-11,169	-8,513
Depreciation and amortisation	-1,244	-1,361
Other expenses	-711	-525
OPERATING PROFIT	**82,730**	**69,599**
Financial income	10,699	6,758
Financial expenses	-18,715	-18,786
Total financial income and expenses	**-8,015**	**-12,027**
PROFIT BEFORE TAX	**74,715**	**57,572**
NET PROFIT FOR THE FINANCIAL YEAR	**74,715**	**57,572**

CASH FLOW STATEMENT

in thousand EUR	1 April - 31 March	
	2007/08	2006/07
Cash flows from operating activities		
Profit before tax	74,715	57,572
Adjustments		
Depreciation of PPE	1,183	1,360
Amortisation of intangible assets	61	1
Profit/loss from sale of property, plant and equipment	-448	-2,076
Other gains/losses on investments	-63,939	-32,024
Profit from sale of financial investments	-	-8
Gain/loss on unpaid/unsettled derivatives	448	3
Interest expense on borrowings	18,635	18,555
Interest income	-32,623	-28,890
Adjusted net profit	**-1,969**	**14,493**
Net change in current assets relating to operating activities		
Loss from doubtful receivables	161	494
Change in receivables relating to operating activities	-7,521	4,356
Change in inventories	16	-45
Net change in current assets relating to other operating activities	-12,932	-11,331
Total net change in current assets relating to operating activities	**-20,276**	**-6,526**
Net change in liabilities relating to operating activities		
Change in provisions	81	59
Change in supplier payables	3,562	1,530
Net change in liabilities related to other operating activities	6,505	-6,756
Total net change in liabilities relating to operating activities	**10,148**	**-5,167**
Interest paid and borrowing costs	**-17,732**	**-18,189**
Interest received	**30,716**	**27,225**
Net cash flows from operating activities	**886**	**11,836**
Cash flows from financing activities		
Purchase of property, plant and equipment	-3,818	-3,802
Proceeds from sale of PPE	2,085	3,356
Finance lease principal payments collected	2,060	1,687
Dividends received from subsidiaries	35,421	19,981
Net change in term deposits with maturities greater than 3 months	97,065	-224,605
Purchase of short-term financial investments	-29,216	-19,691
Contribution to share capital of subsidiary	-1,835	-915
Acquisition of subsidiaries	-4,855	-
Proceeds from reduction of share capital of subsidiary	-	439
Proceeds from sale and redemption of short-term financial investments	25,914	18,322
Proceeds from sale of long-term financial investments	-	8
Short-term loans granted to subsidiaries	-	-6,803
Short-term loans paid by subsidiaries	776	69
Change in overdraft granted to subsidiaries	-10,620	67,520
Net cash used in investing activities	**112,977**	**-144,434**
Cash flows from financing activities		
Repayments of bank loans	-6,325	-4,506
Change in overdraft	183	-
Change in overnight deposit received from subsidiaries	-23,142	50,200
Short-term loans from subsidiaries	11,951	10,545
Short-term loans repaid to subsidiaries	-4,474	-11,632
Dividends paid	-63,912	-31,956
Total cash generated from financing activities	**-85,717**	**12,651**
Net cash flows	**28,145**	**-119,947**
Cash and cash equivalents at beginning of the period	27,827	147,774
Cash and cash equivalents at end of the period	55,972	27,827
Net increase/decrease in cash and cash equivalents	**28,145**	**-119,947**

STATEMENT OF CHANGES IN EQUITY

in thousand EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 March 2006	**464,900**	**259,833**	**43,822**	**-82**	**-**	**122,175**	**890,647**
Carrying amount of holdings under controlling and significant influence						-623,871	-623,871
Carrying amount of holdings under controlling and significant influence under equity method						702,532	702,532
Adjusted unconsolidated equity as at 31 March 2006						**200,836**	**969,307**
Change in hedge reserve	-	-	-	8,170	-	-	8,170
Net income directly recognised in equity	**-**	**-**	**-**	**8,170**	**-**	**-**	**8,170**
Net profit for 2006/2007 financial year	-	-	-	-	-	57,572	57,572
Total income and expenses recognised in 2006/2007	**-**	**-**	**-**	**8,170**	**-**	**57,572**	**65,742**
Transfer of retained earnings to reserve capital	-	-	2,668	-	-	-2,668	-
Dividends paid	-	-	-	-	-	-31,956	-31,956
Equity as at 31 March 2007	**464,900**	**259,833**	**46,490**	**8,087**	**-**	**145,123**	**924,433**
Carrying amount of holdings under controlling and significant influence						-624,980	-624,980
Carrying amount of holdings under controlling and significant influence under equity method					-1	813,436	813,435
Adjusted unconsolidated equity as at 31 March 2007					-1	333,579	1,112,888
Change in hedge reserve	-	-	-	-7,546	-	-	-7,546
Net income directly recognised in equity	**-**	**-**	**-**	**-7,546**	**-**	**-**	**-7,546**
Net profit for 2007/2008 financial year	-	-	-	-	-	74,715	74,715
Total income and expenses recognised in 2007/2008	**-**	**-**	**-**	**-7,546**	**-**	**74,715**	**67,168**
Increase of share capital pursuant to order no. 368 of the Government of the Republic of 2 August 2007	3,010	-	-	-	-	-	3,010
Increase of share capital pursuant to order no. 97 of the Government of the Republic of 27 February 2008 (unregistered) (Note 19)	3,907	-	-	-	-	-	3,907
Dividends paid	-	-	-	-	-	-63,912	-63,912
Equity as at 31 March 2008	**471,817**	**259,833**	**46,490**	**541**	**-**	**155,926**	**934,606**
Carrying amount of holdings under controlling and significant influence						-631,668	-631,668
Carrying amount of holdings under controlling and significant influence under equity method				-35,495	10	784,640	749,155
Adjusted unconsolidated equity as at 31 March 2008				**-34,954**	**10**	**308,899**	**1,052,094**

According to the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which the public limited company can make payments to its shareholders.

PRICEWATERHOUSECOOPERS

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia

Telephone +372 614 1800
Facsimile +372 614 1900
www.pwc.ee

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Eesti Energia AS

We have audited the accompanying consolidated financial statements of Eesti Energia AS and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 March 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year (1 April 2007 to 31 March 2008) then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 March 2008, and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

/signed/

Ago Vilu
AS PricewaterhouseCoopers

/signed/

Laile Kaasik
Authorised Auditor

11 June 2008

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Profit allocation proposal

The retained earnings of Eesti Energia Group as at 31 March 2008 was EUR 308 898 722.

Pursuant to paragraph 1 of § 10 of the Participation in Legal Persons In Private Law by the State Act, the dividends payable by a state-controlled entity are approved by the Government of Estonia at the proposal of the Minister of Finance. Pursuant to the regulation no. 798 of the Government of Estonia of 27 February 2008, Eesti Energia AS shall pay EUR 41 670 395 as dividends in 2008.

Therefore, pursuant to § 332 of the Commercial Code of Estonia, the Management Board proposes to pay dividends out of retained earnings of Eesti Energia Group as at 31 March 2008 as follows:

1. to pay EUR 41 670 395 as dividends to shareholders;
2. to transfer EUR 691 694 to statutory reserve capital;
3. due to the continuing financing needs of Eesti Energia Group, not to distribute the remaining retained earnings in the amount of EUR 266 536 633.

Signatures to the Annual Report

The Annual Report of the Eesti Energia Group for the financial year ended 31 March 2007 consists of the management report, financial statements, auditor's report and profit allocation proposal.
The Management Board of the public limited company has prepared the management report, financial statements and the profit allocation proposal. The Supervisory Board has reviewed the Annual Report and submitted it to the General Shareholders' Meeting for approval.

Management Board
19.06.2008

Chairman
of the Management Board

SANDOR LIIVE

Members
of the Management Board

MARGUS KAASIK

HARRI MIKK

RAINE PAJO

MARGUS RINK

Supervisory Board
19.06.2008

Chairman
of the Supervisory Board

JÜRI KÄO

Members
of the Supervisory Board

MEELIS ATONEN

REIN KILK

JÜRGEN LIGI

TOOMAS LUMAN

AIVAR REIVIK

RENE TAMMIST

MEELIS VIRKEBAU

EESTI ENERGIA AS
Laki 24, 12915 Tallinn, Estonia
tel +372 715 2222
fax +372 715 2200
e-mail: info@energia.ee
www.energia.ee