Eesti Energia 2003/2004

The Group's financial highlights

	2003/2004	2002/2003	2001/2002	2000/2001	1999/2000	1998/1999
Sales (mln eur)	377	366	313	276	263	242
Sales of electricity (GWh)	7 674	6 931	6 067	5 949	6 226	5 892
Sales of thermal energy (GWh)	2 168	2 361	2 169	2 190	2 215	2 303
EBITDA (mln eur)	133	132	98	46	39	27
Net profit / (loss) (mln eur)	33	38	16	(297)	(22)	(28)
CF from operating activities (mln eur)	118	115	77	62	34	29
Investments (mln eur)	199	238	118	92	73	64
Assets as at the end of the year (mln eur)	1 245	1 185	947	886	1 113	1 062
Borrowings as at the end of the year (mln eur)	295	276	124	102	66	39
Equity as at the end of the year (mln eur)	795	762	719	698	991	986
Equity/assets as at the end of the year	64%	64%	73%	76%	87%	92%
Return on invested capital	4,7%	5,7%	3,4%	(31,1%)	(1,9%)	(2,5%)
Borrowings/EBITDA as at the end of the year	1,9	1,4	0.9	1,5	1,7	1,3
Interest coverage	7,5	9,1	15,8	7,6	11,8	12,5
Average number of employees	9 754	9 768	10 349	10 930	12 870	15 619

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Eesti Energia is a leading producer and supplier of electricity in the Baltic countries

Eesti Energia is a vertically integrated infrastructure company engaged in the generation, transmission, distribution and sale of electricity, as well as other energy-related services. To provide clients with electricity in the desired amount, time and location, approximately 10 000 employees of Eesti Energia work in oil shale mines, power stations, networks and client service centres, operating assets valued at 1,2 billion euros. The energy system chain is one in which oil shale mines produce fuel for power plants. The fuel is used by the power plants to generate electricity and heat to be transmitted to clients via power networks and heating networks. Customer service operations are engaged in the sale of electricity and the management of customer accounts. The financial results of Eesti Energia depend on how well the whole value chain operates, taking into consideration the customers' needs and expectations.

Eesti Põlevkivi (Estonian Oil Shale Company): core activities are the production and marketing of oil shale and related activities.

Narva Elektrijaamad (Narva Power Plants): core activities are the oil shale-based generation and sale of electricity and thermal energy. Narva Elektrijaamad owns two power stations located near Narva – the Balti and Eesti power plants.

Iru Elektrijaam (Iru Combined Heat and Power Plant) generates heat and electricity, using natural gas as a fuel.

The owners of **Kohtla-Järve Soojus** (Kohtla-Järve District Heating Company), which generates, distributes and sells thermal energy and generates electricity, are Eesti Energia and the Kohtla-Järve City Government, with stakes of 59.2% and 40.8% respectively.

The main goal of **Taastuvenergia Ettevõte** (Renewable Energy Business Unit) is the construction and operation of hydro and wind power stations.

Põhivõrk (National Grid) is responsible for the reliable operation of the Estonian power system, ensuring the constant transmission of electric energy from the producer to network operators and large industrial customers.

Jaotusvõrk (Distribution Network) provides electric energy distribution services for the low and medium voltage networks (up to 35 kV).

The main tasks of **Customer Service** are the sale of electricity and the maintenance and development of customer relationships.

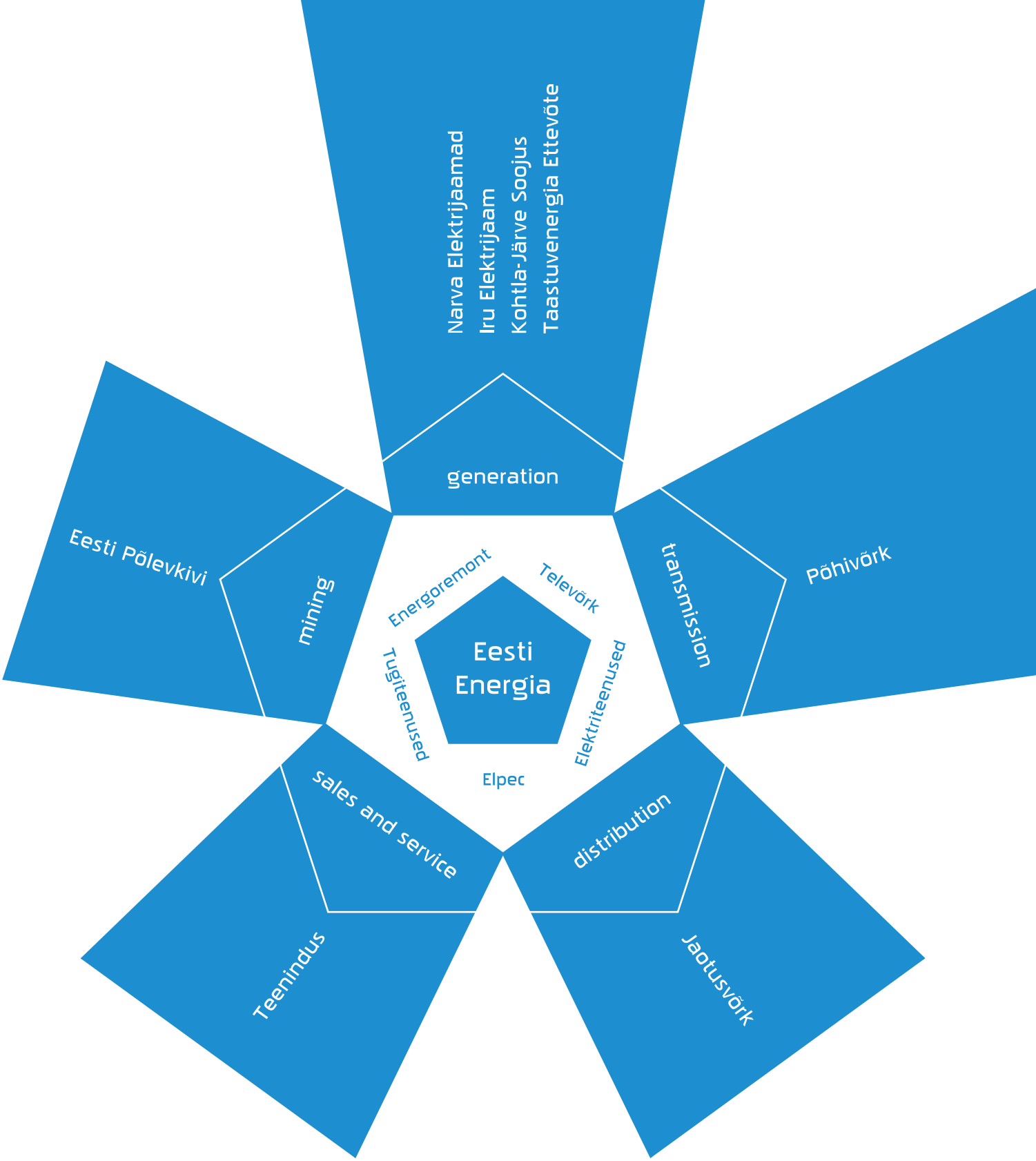
Support Services have a central role in providing the whole Eesti Energia Group with financial, IT, legal and other services to support the core activities.

Energoremont produces electrical and power plant equipment. Energoremont also provides for the maintenance and assembly of power equipment.

The main activities of **Elektriteenused (Electrical Services)** are the construction, maintenance and repair of power networks, and the monitoring of service intakes of electrical installations and the assessment of their conformity.

The core activities of **Elpec** are the designing of substations, transformer stations, power lines and networks electricity, the supervision of related construction, assembly and repair services and consulting services.

The main activities of **Televõrgu AS** are the operations of the backbone data network and the provision of telecommunication services to energy industry.


Narva Elektrijaamad
Iru Elektrijaam
Kohtla-Järve Soojus
Taastuvenergia Ettevõte
generation
Eesti Põlevkivi
mining
Põhivõrk
transmission
Energoremont
Televõrk
Eesti Energia
Tugiteenused
Elektriteenused
Elpec
sales and service
distribution
Teenindus
Jaotusvõrk

Letter from the chairman of the management board

The 2003/2004 financial year was another financially successful year for Eesti Energia. The operating results of the Eesti Energia Group were influenced mostly by the sale of electricity, with both domestic sales as well as exports of electricity producing record high results. Domestic electricity sales of 5.7 TWh and exports of 2.0 TWh represent the largest volumes since Estonia regained its independence. At the same time, the sale of thermal energy decreased by 8%, caused by a milder winter compared to the previous year.

During the financial year, exports of electricity by Eesti Energia increased by over 26%; in the next financial year, we expect a moderate decrease in electricity being exported to Latvia, while the rate of export to Russia should remain flat when compared to the previous financial year. Also, the domestic sale of electricity grew by 6.2% compared to the previous financial year. The strong growth of the Estonian economy in the fourth quarter of the 2003 calendar year gave a reason for economic analysts to increase the forecast for the growth rate of real GDP in 2004. The growing demand for domestic electricity due to a strong economy should continue next year.

The raising of Eesti Energia's credit rating to A3 by Moody's can be considered as recognition of the financial year's results. Eesti Energia was also named "The most competitive large company of Estonia in 2003". In the 2004 contest for environmentally friendly companies conducted by the Ministry of the Environment, Eesti Energia was awarded with the title "The most environmentally friendly company in Estonia in 2004". In addition, Eesti Energia was awarded with the title "Flagship of Estonian Accounting" by the Accounting Standards Board of the Republic of Estonia, acknowledging the company's clarity and transparency in regards to financial reporting.

Due to a favourable macroeconomic situation and strong domestic and foreign demand for electricity, it is expected that in the 2004/2005 financial year the trend for strong Group results will continue.

Eesti Energia uses oil shale as 90% of its base fuel in the production of electricity. Previously-existing oil shale combustion technology did not comply with environmental requirements set forth by the European Union. In negotiations with the European Union, Estonia was granted a transitional period in order to upgrade its oil shale-based electricity production with the aim of complying with the environmental requirements. The replacement of oil shale combustion technology was deemed to be the most efficient way of accomplishing this. In 2001, Eesti Energia started to renew its oil shale production capacities.

It can be said by now that the key event of the last financial year for Eesti Energia and the oil shale energy sector was undoubtedly the successful launching of the 8th power block (215 MW), which works using new oil shale combustion technology, at the Eesti Power Plant. All the designed technical parameters of the new energy block have been achieved, and some have even been exceeded. The fact that the fluidised bed combustion technology works better than expected confirms the success of Eesti Energia's 250 million euro investment project. The new technology complies with all environmental requirements, reduces pollution and increases energy production efficiency. The new energy block uses 15% less oil shale than its predecessor to generate the same volume of electricity, and the level of air emissions is lower than the limits set by the European Union's Large Combustion Plants Directive. These facts prove that the fluidised bed combustion technology works well for Estonian oil shale, which casts new positive light on the sustainability of today's oil shale energy sector.

In the future, a constant increase in energy production efficiency can be expected on the basis of the increasing production share of electricity produced by efficient renovated blocks.

The suitability of new technology in the combustion of oil shale ensures a long-term competitive advantage for Eesti Energia, when compared to other electricity producers. Additionally, oil shale is an indigenous resource whose price is under our control. The estimable and controllable price of oil shale allows us to successfully compete in providing long-term electricity contracts to clients.

A separate point of emphasis should be placed on Eesti Energia's continuous improvement regarding efficiency indicators. Electrical losses are one of the most important characteristics of the efficiency of power networks. The total loss can be considered one of the the most important indicators of Eesti Energia's activities – a measure of both network and sales activity, as well as of the internal cooperation of Eesti Energia's units, as cash flow depends directly on the loss. For the financial year, the distribution network losses totalled 11.1%, which is the lowest level in the history of Eesti Energia. Due to a targeted investment policy in networks and efficient settlement activities with customers, distribution network losses have decreased from 19.5% to 11.1% in the last five years. In 2003/2004, the volume of energy saved was approximately 630 GWh; as a means of comparison, this equals the annual electricity consumption of businesses and private consumers in Tartu, the second largest city in Estonia. In the future, electrical losses are expected to continue to decrease.

During the last financial year, customer service also continued to significantly improve. According to the all-Estonian customer questionnaire conducted by the market research company TNS Emor, the index of satisfaction with settlements and customer service increased from last year's 81 to 86 on a 100-point scale. Customers reported a simplification concerning interaction with Eesti Energia, and a lessening of bureaucracy. The number of phone calls answered in the 24-hour call centre increased, whereas the average waiting time for phone service decreased. The number of self-payers without contracts decreased and the number of standing payment orders increased. Among business clients, the proportion of electronic self-service channel users increased, and an option to submit meter readings using SMS technology (the first company in the world to do so!) for private clients was launched. The renovation of several customer service offices all over Estonia has without a doubt made its own contribution to the improvement of customers' attitudes.

In 2003, the Estonian electricity market was significantly rearranged. On 1 July 2003, the new Electricity Market Act, which regulates clearly and precisely the activities of electricity market participants in Estonia, was entered into force. What is most significant for us is that the Act grants preferential status to Eesti Energia in the electricity market. The Republic of Estonia and the European Union have agreed upon the opening up the energy markets during a transitional period ending in 2013. The Act reflects this agreement by providing for the market to be currently opened by 10%, by 35% starting from 2009 and thereafter that the market will be opened stepwise until it is completely opened in 2013. The Act essentially ensures that 90% of electricity sold in Estonia today shall come from Narva Power Plants, thereby ensuring resources for the modernisation of the oil shale sector.

The aforementioned act also brought along structural changes in the Eesti Energia Group. One of the foundations of the opened electricity market is the requirement for the unbundling of electricity-related core activities. For that purpose, OÜ Põhivõrk (National Grid) was set up as an independent company in the current financial year to complete the unbundling of transmission network service function into a separate undertaking as prescribed by the Electricity Market Act.

OÜ Põhivõrk is the first network operator in the Baltic states to meet the legal provisions of the European Union.

Additionally, Eesti Energia is rearranging its activities to suit open market conditions. The balance responsibility process was implemented in the Eesti Energia Group as one of the preconditions of electricity trading. With this the responsibilities of a system operator and balance providers were specified, for the transmission network company and the sales organisation, respectively. Balance responsibility allows for taking the forecast error to the system and the costs associated with it to the market participant who caused the forecast error. Balance responsibility is also a precondition for market participants to begin trading on the opened market on an hourly basis.

Today, one of the most significant trends is undoubtedly the development of cooperation with other energy companies in the Baltic states. We have called our vision "The Baltic Alternative", and its aim is to increase the competitiveness of Eesti Energia and shareholder value through effective cooperation with Baltic energy companies or through expansion in the Baltics.

Eesti Energia alone is too small to stay competitive in the longer term, due to the unavoidable opening of the electricity markets. Eesti Energia needs to grow, and we view geographic expansion in the Baltic electricity market as an opportunity for our growth.

Gunnar Okk

Chairman of the management board

New challenge for Baltic energy companies – the Baltic Alternative

With regard to the Estonian electricity market, it can be stated that the Estonian market is a small one when compared with other European markets. This is also true for Latvia and Lithuania as well. Being so small and thus defenceless in the open market, we need to find new ways to increase our competitiveness.

All Baltic countries are worried about the potential dominance of Russian producers in the future, since there are clear deadlines set for the shutting down of large production capacities in the Baltic countries, accompanied by a lack of physical access to the electricity markets of the European Union. At the same time, large investments also need to be made into complying with new environmental requirements. As a result, there will be a shortage of generating capacity. Both Estonia and Lithuania share the same problem – how to protect their main local producer. On the other hand, Latvia is trying to maintain the system of a single buyer in order to protect its imports. All these steps have brought along protectionist market regulations, and have resulted in three separate electricity markets, whose regulatory mechanisms differ from one another.

If the Baltic countries compete among themselves, they cannot compete with Russian natural gas – this is not a solution for us. We need constructive cooperation. If the Baltic energy companies do not cooperate with one another, then none of us is strong enough to compete with gas-based production. Investments into the Ignalina nuclear power blocks and/or Narva Power Plants' new oil shale blocks will be haltered. We need a strong, pan-Baltic power company, characterised by:
local production (oil shale, nuclear power and hydro energy combined) which does not depend on the price of Russian natural gas;
a coordinated strategy for generation and interconnections, which ensures security of supply, and;
a strong investment ability based on a joint client base.

Eesti Energia is striving to take the lead in the construction of this pan-Baltic power company. We call our strategy "The Baltic Alternative". It includes synergies and a constant search for acquisition opportunities among the region's energy companies, with the goal of increasing Eesti Energia's competitiveness and value for the owner. As the leading energy company in Estonia, we can utilise our experience in the other Baltic countries as well.

So far, Eesti Energia's efforts have consistently followed the idea of the Baltic Alternative. In 2000, the merger of Eesti Energia and Latvenergo was almost completed, but was cancelled at the last moment. This financially and strategically logical initiative was terminated as a result of Latvia's political situation at the time. In the current financial year, Eesti Energia participated in the privatisation process of the Lithuanian distribution network. We made the best offer but the Lithuanian government decided – without a clear explanation – to terminate the tendering procedure. These small setbacks, have not altered our vision of the Baltic market as our home market. Among other important initiatives must be named the Baltic-Finnish sea cable project, the interconnection between the Lithuanian and Polish electricity transmission networks, research on the new reactor in Ignalina NPP, etc.

We view the Baltic Alternative as the opportunity to survive in the free electricity market. We are able to compete in the open market only if we do not compete with one another in the Baltic region. On the contrary, we need to start cooperating and must not wait until it is too late.

If the Baltic countries compete among themselves, they will not be able to compete with open market forces – this is not a solution. We need constructive cooperation. If the Baltic energy companies do not cooperate with one another, then none of them is strong enough to compete with the Russian, German and Scandinavian companies. We view the Baltic Alternative as a chance of survival in the harsh reality of the open electricity market.

Gunnar Okk

Chairman of the management board

Summary of the financial results

Eesti Energia has completed yet another successful financial year. Strong energy sales, the implementation of a carefully planned investment policy, and cost control have contributed to Eesti Energia's assignment of the highest credit rating among the Eastern European energy companies. Another noteworthy achievement was the attainment of the lowest level of network losses in the history of Eesti Energia as a result of targeted investments.

For the 2003/2004 financial year, revenues increased to 379 million euros, which is a 2.7% increase over the previous financial year. Revenues were mostly affected by a 5.4% growth in electricity sales (16 million euros).

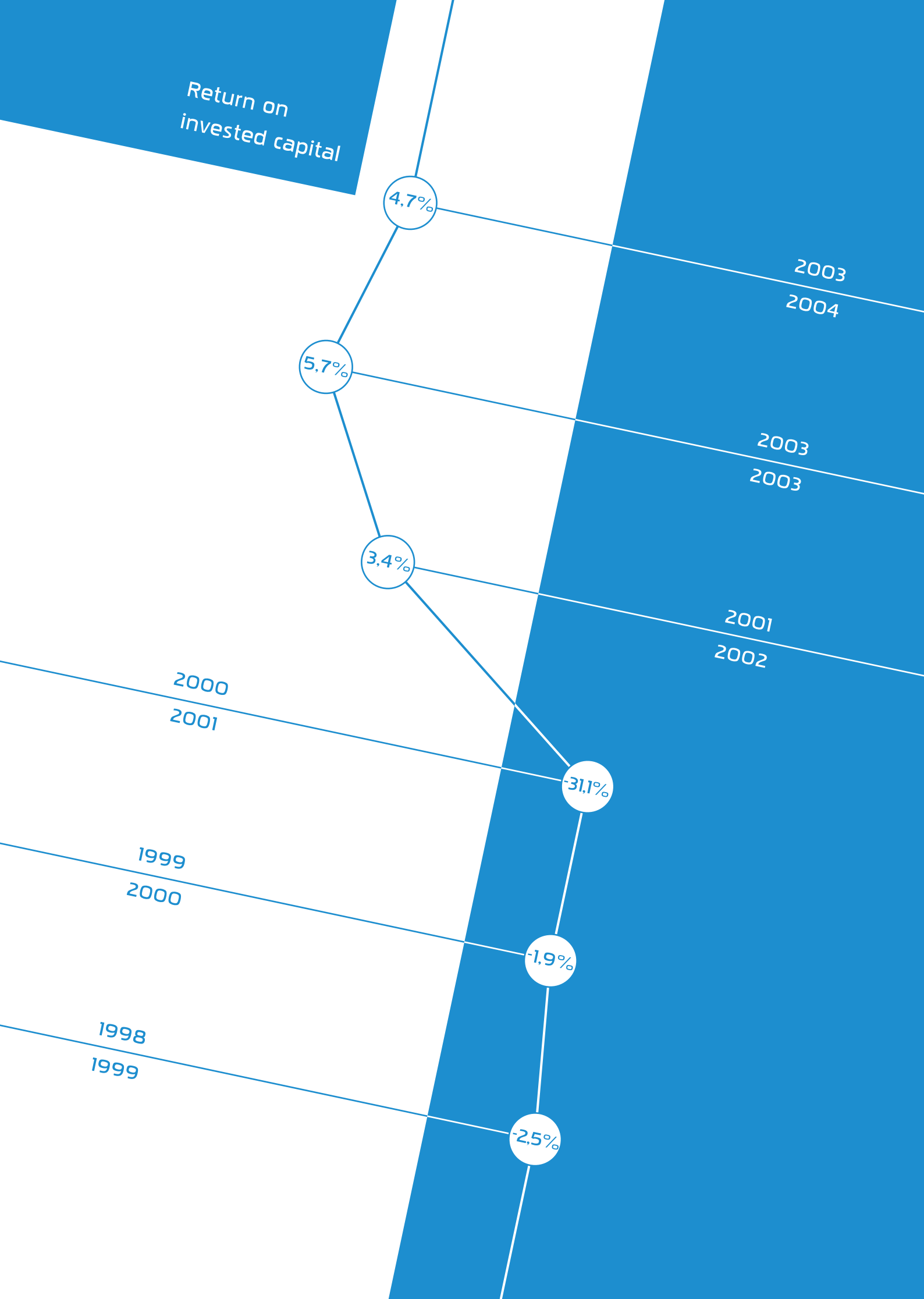
Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 0.7 million euros to 133 million euros compared to the previous year. The operating income was negatively impacted by higher depreciation resulting from large-scale investments. Depreciation increased by 5.6% (4 million euros) to 83 million euros. As a result of the loans taken to finance the investments, interest expenses increased by 3.2 million euros, or 22.2%, amounting to 18 million euros in the financial year. In the 2003/2004 financial year, the net profit for Eesti Energia was 33 million euros.

The net profit margin decreased from 10.2% to 8.8%. The return on invested capital was 4.7%, a decrease of 1.1% compared to a return on invested capital of 5.8% in the 2002/2003 financial year.

Economic environment

Economic growth in the third and fourth quarter, which followed relatively weak economic growth in the second quarter, was a positive sign of the continuing strength of the economic environment. Economic growth in 2003 was 5.1%. In addition to strong economic growth, the year 2003 was characterised by low interest rates and low unemployment. A decrease in interest rates helped to propel the business operations of companies and to stimulate borrowing by individuals. According to analysts' estimates, economic growth supported by the increase of consumption cannot be sustained without increasing exports.

In the fourth quarter of 2003, the growth rate of Estonia's real GDP was 6.2%. Economic analysts plled by the Estonian Institute of Economic Research (EKI) considered the general state of the Estonian economy to be similar to the average of the last three years. The increase of private consumption, largely due to higher borrowing, was pointed out as being a negative factor. The positive outlook for the future is based on expected increase of exports. Assuming that foreign demand meets expectations, the growth rate of real GDP in 2004 should be somewhat higher than the growth rate in 2003. The growth rate of the Estonian economy has significantly exceeded the average European growth rate in the recent years, and is sufficient to induce strong long-term energy consumption growth.


Return on
invested capital
4,7%
5,7%
3,4%
-31,1%
-1,9%
-2,5%
2003
2004
2003
2003
2001
2002
2000
2001
1999
2000
1998
1999

Operating revenues

In the 2003/2004 financial year, the 12-month operating revenue of the Eesti Energia Group increased by 2.7% compared to the previous financial year, reaching 379 million euros.

In the 2003/2004 financial year, domestic electricity sales were 5 702 GWh, an increase of 6.2%, or 333GWh, compared to the 2002/2003 financial year. In the 2003/2004 financial year, the average temperatures were approximately 0.5 degrees higher than in the 2002/2003 financial year. Retail electricity sales increased by 2.7% (124 GWh), and sales to wholesale clients increased by 26.9% (209 GWh) – largely as a result of launching the production by one of Eesti Energia's biggest clients Nitrofert.

The main driving force behind electricity consumption is the Estonian economy, which demonstrated significant growth at the end of the calendar year.
In the 2003/2004 financial year, the average sales price of electricity was 4.75 c/kWh, giving a 1.1% decrease, or 0.05 c/kWh, compared to the 2002/2003 financial year. Power losses in the domestic transmission and distribution of electricity during the 12 months of the financial year amounted to 13.9%, which was the lowest level in the history of Eesti Energia.

The export of electricity clearly strengthened during the financial year, increasing to 1 973 GWh. Revenues from exports during the time period from April 2003 to March 2004 were 31 million euros (+2,5 million euros compared to the 2002/2003 financial year).

In the 2003/2004 financial year, the sale of thermal energy outside the Group was 2 168 GWh, decreasing by 193 GWh (8%) compared to the 2002/2003 financial year. The main reason for this was the relatively warm period in the second half of the financial year. The decrease in heat sales was as follows: Iru CHP 79 GWh (-6%), Narva Power Plants and Narva Soojusvõrk for a total of 61 GWh (-9.5%), and Kohtla-Järve Soojus 52 GWh (-14%).

Sales of oil shale increased by 4.6% (634 thousand tonnes). The increase in oil shale sales is mostly based on the increase in the production of electricity at Narva Power Plants, which buys approximately 84% of the oil shale produced by Eesti Põlevkivi (Estonian Oil Shale Company). The oil shale sales outside the Group were 15 million euros (decreasing by 2.2% compared to the 2002/2003 financial year). The main oil shale consumers outside the Group were local oil producers.

The sale of shale oil decreased by 4.9% (0,4 million euros). One reason for this is that shale oil was used in tests carried out on the first renovated power block.
The sale of other products and services totalled 9,8 million euros, giving a 5.5% decrease compared to the previous financial year. The sale of energy-related equipment worth 7,4 million euros (0,8 million euros, or an 11.4% increase) constituted the largest share of other income.

The sale of services was 7,6 million euros, which is 37.6% more than in the previous financial year. The sale of repair and construction services experienced the highest growth (+43.9%).

Net sales breakdown
2003/2004 million euros

302	Electrical energy
34	Thermal energy
15	Oil shale
9	Shale oil
7	Power equipment
10	Other goods and services

377

Operating expenses

When compared to the 2002/2003 financial year, the growth in operating expenses was significantly impacted on by the provision for the compensation of injuries, to the amount of 2,6 million euros. The total amount of the provision recognised in order to cover injuries, compensation and payments arising from collective agreements is 3,3 million euros. The other significant share of the growth in operating expenses came from Narva Power Plants, where the costs of costs of planned maintenance grew by 4 million euros (+30%) compared to the 2002/2003 financial year. Environmental fees increased by 2,4 million euros (+12.1%) due to higher energy sales and increased pollution charges.

The improvement of the insurance market and changes in insurance conditions resulted in a decrease of 1,6 million euros (-15%) in insurance expenses. Due to successful work with problematic customers, the loss arising from doubtful invoices decreased by 1,1 million euros and simultaneously, the collection of doubtful invoices increased by 1,1 million euros.

Change in net debt
million euros

Cash flows and financing

In the 2003/2004 financial year, the cash flow from operating activities was 118 million euros, a growth of 2,7 million euros.

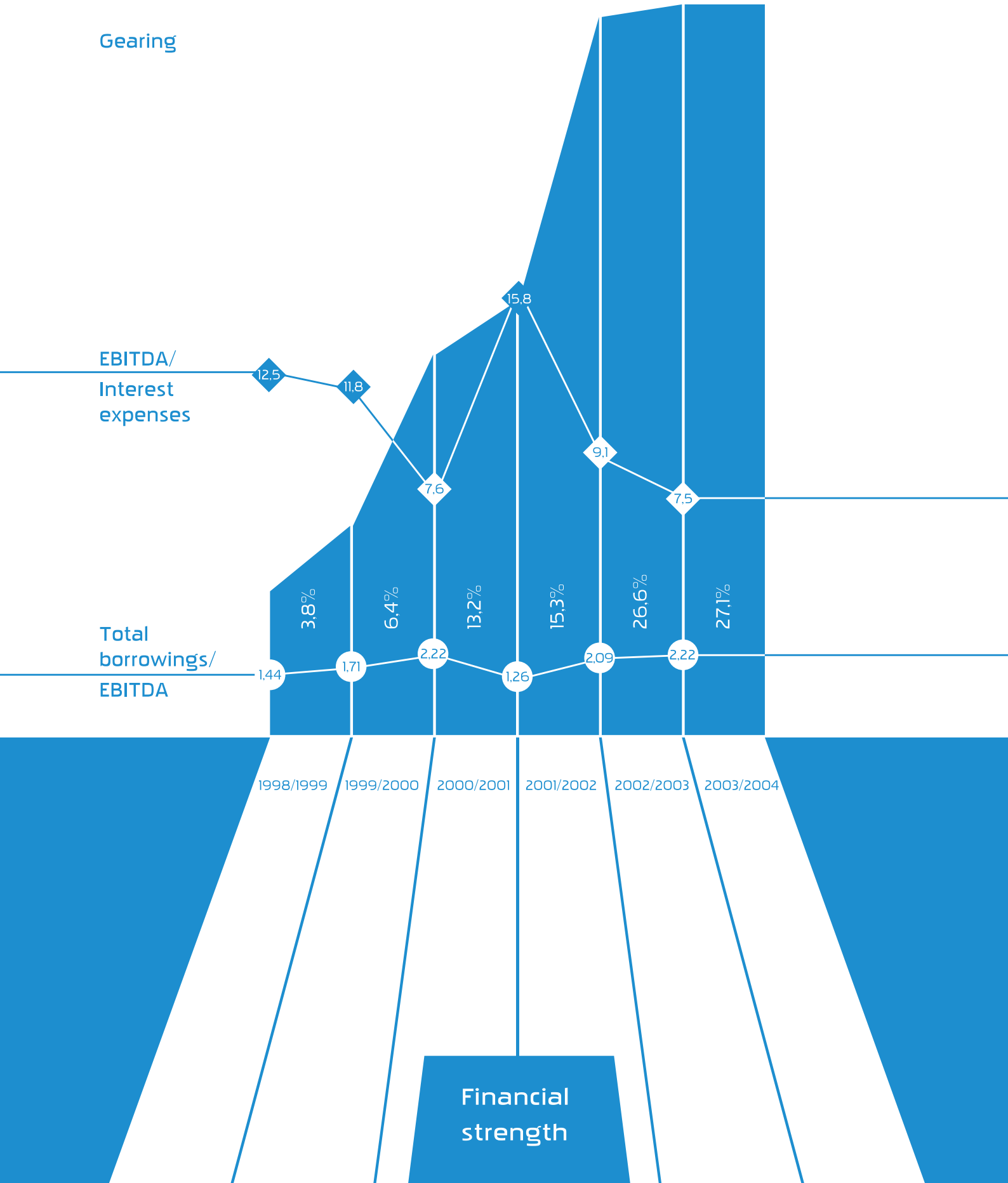
The cash flow from investing activities was - 187 million euros. Payments made for the purchase of property, plants and equipment totalled 200 million euros, 14 million euros less than in the previous financial year. The decrease in investments can be attributed to the last stage of the construction of new CFB boilers at Narva Power Plants. 92 million euros was invested in the renovation of two power blocks at Narva Power Plants.
In the 2003/2004 financial year, the borrowings of Eesti Energia increased by 20 million euros, to 295 million euros.

The base currency of the borrowings of Eesti Energia is the euro. Most of the loans have a floating interest rate; as of 31.03.2004, the weighted average interest rate was EURIBOR+0.70%.
The interest rate of the EUR 200 million bond issue is fixed at 6%.

The interest rates of the EUR 50 million syndicated loan and the EUR 15 million Nordic Investment Bank (NIB) loan are fixed using the interest rate swap. As a result of the swap, 95% of the loans have fixed interest rates. The weighted average interest rate of the swap is 5.8%.
In May 2004, a loan agreement for 80 million euros was signed with the European Investment Bank.

Due to a rising debt burden as a result of substantial investments, the interest coverage ratio has decreased (EBITDA coverage has fallen from 9.1 to 7.5), but is still high. As a result of the decrease in the level of investments, the ratio of the funds from operations (FFO) investments increased by 6.7%. In conjunction with the gradual decrease in the level of investments, the FFO to investment ratio can be expected to strengthen further.

In March 2004, Moody's raised the long-term credit rating of Eesti Energia to A3 (previously Baa1). The other agency assigning a rating to Eesti Energia – Standard & Poor's – assigned a long-term credit rating of A- to Eesti Energia in the previous financial year.


Gearing
EBITDA/
Interest
expenses
Total
borrowings/
EBITDA
12,5
11,8
7,6
15,8
9,1
7,5
1,44
1,71
2,22
1,26
2,09
2,22
3,8%
6,4%
13,2%
15,3%
26,6%
27,1%
1998/1999
1999/2000
2000/2001
2001/2002
2002/2003
2003/2004
Financial
strength

Investments

In the 2003/2004 financial year, Eesti Energia's investments totalled 199 million euros. The largest investment project was the renovation of two power blocks at Narva Power Plants, which came to the completion stage during the 2003/2004 financial year.

In total, 109 million euros were invested in electricity generation facilities in the 2003/2004 financial year. The largest investment project was the renovation of two energy blocks at Narva Power Plants, where 1 28 million euros were invested over 12 months. The first renovated energy block of the two has been stably operating since February 2004; the other block that is being renovated was synchronised with the network in May 2004.

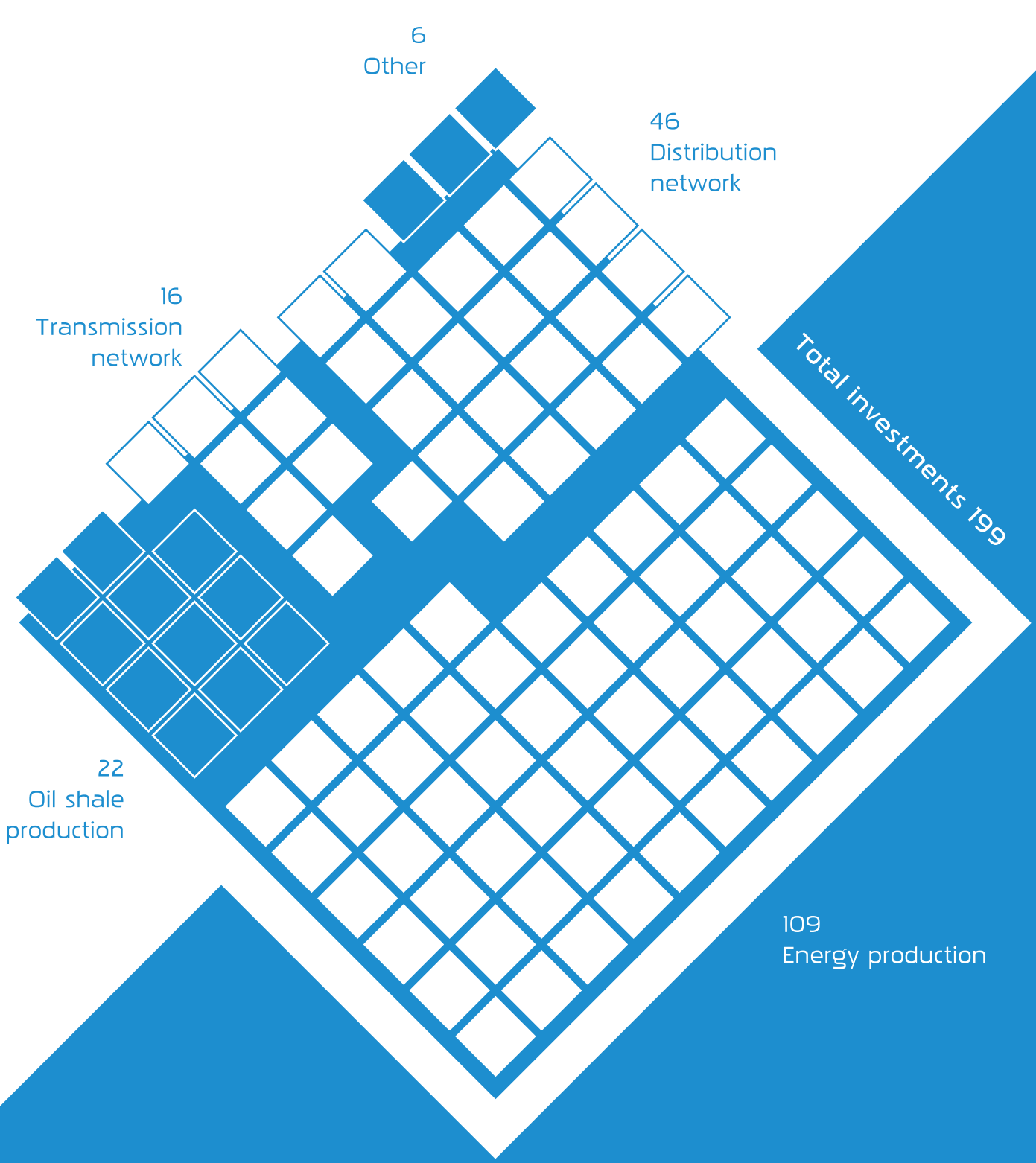
In the 2003/2004 financial year, a total of 16 million euros (including 4,4 million euros in the fourth quarter) were invested in National Grid's equipment. Several significant projects in National Grid were completed during the financial year:

Objekt	Completion
Expansion of Püssi substation	**Q2**
Järve 110 kV switchgear	**Q3**
Renovation of Võru 110 kV substation	**Q3**
Renovation of Jüri 110 kV substation	**Q4**
Renovation of Kehra 110 kV switchgear	**Q4**
Renovation of Reinu 110 kV substation	**Q4**

The completion of the Järve switchgear was a prerequisite for the Harku 330 kV substation and Harku-Kiisa 330 kV line. The renewal of the Harku substation and 330 kV line was launched in the middle of the financial year, and will be completed by the second half of the 2004/2005 financial year.

In Distribution Network, most of the investments were made towards the reconstruction of the existing network, by investing 21 million euros in the 2003/2004 financial year. As a result of the investments, the number of unplanned outages has decreased from approximately 41 000 in 2001/2002 to 19 000 in 2003/2004 (-55%).

In addition to the above, 15 million euros were invested in the building of new connections, representing the most rapidly developing area of capital investments in Distribution Network. Customer connection fees covered investments made to build new connections, to a total of 10 million euros.



Investments
by segments
2003/2004 million euros

Narva Power Plants was the biggest energy producer in Eesti Energia Group, accounting for more than 95% of the all electricity generated.For the financial year, Eesti Energia's net production was 8 800 GWh (an 8% increase compared to the previous year), including: Narva Power Plants 8 366 GWh (+9%), Iru CHP 385 GWh (-8%), Kohtla-Järve Soojus 41 GWh (-16%), and others (including Linnamäe Hydropower Plant and Virtsu windmill, 8 GWh, +331%).
Eesti Energia's base load is covered by oil shale as 95% of the energy is produced from it.

The real price of oil shale will be stable in the long term

We have a substantial control over the price of our energy resource; this means it can be estimated more accurately, and depends on neither world market fuel prices nor foreign exchange rates.

The Eesti Energia supply chain starts from the mining of the indigenous energy resource – oil shale –, thereby ensuring security of supply and a stable price for fuel used in the production process. The price of oil shale depends on neither world market prices for crude oil nor on prices for natural gas. It depends on domestic mining costs and environmental fees. This domestic energy resource, which makes up a significant share of the sale price of electricity and thermal energy, is a long-term competitive advantage for Eesti Energia, as it enables us to keep the cost of fuel under control. Because of oil shale, Eesti Energia is not exposed to significant price volatility risk, unlike power plants using natural gas or heavy fuel oil.

According to Eesti Energia estimates, the real price of oil shale will not change in the near future.

The supply of oil shale will last for at least the next 35 years

During the lifespan of new boilers, there will be no lack of resources.

Oil shale is the base fuel for EE, accounting for 95% of the fuel being used for generating electricity. Although almost over a billion tonnes of oil shale has been mined in Estonia over the last 85 years, the reserves of existing mines will last for the next 35 years. The mineable reserves of oil shale amount to 550 million tonnes in Estonia, the submarginal reserves to almost 115 million tonnes. This provides us a guarantee for the long-term planning of the oil shale-based energy sector and for making the necessary investments.

In the 2003/2004 financial year, Eesti Põlevkivi (Estonian Oil Shale Company) produced 14.1 million tonnes of oil shale, of which 12 million tonnes was sold to Narva Power Plants.

Special status of the oil shale energy sector during the transitional period to the opening of the market

A guaranteed market has been granted for the transitional period which allows Eesti Energia to utilise the resources of old boilers until they're obsolete, and to start earning back the capital cost of new boilers.

Estonia has been granted a transitional period for the opening up of the electricity market, in order to give time for the oil shale energy sector to meet environmental requirements and to adjust to the open electricity market. In accordance with the Electricity Market Act, the oil shale energy sector has been granted a 90% market share, which will decrease to 65% in 2009; and the market will be completely opened by 2013.

The transitional period allows the oil shale energy sector to utilise the resources of old generating facilities until obsolete, and to raise capital for constructing generating facilities that meet environmental requirements and are efficient.

The transitional period will also be helpful in financing investments into production, as it secures future cash flows for the lender.

Generally speaking, that should ensure the competitiveness of domestic electricity generation in open market conditions. Since it is difficult to find the motivation for constructing new production capacities in open market conditions, without an additional motivating factor, i.e. the transitional period, the electricity generation based on domestic oil shale could be put under threat.

Narva Power Plants will become the largest electricity producers in the Baltic region

With the shutting down of the first reactor of Ignalina NPP in 2005, Narva Power Plants will automatically become the largest producer in the region. The supply of cheap nuclear power will diminish and hence it can be forecasted that the demand for oil shale electricity will become stronger, and its price will increase.

According to the agreement reached at the EU accession negotiations, Lithuania must close down the Ignalina Nuclear Power Plant's first 1300 MW reactor by the year 2005. For Eesti Energia, the halving of the Ignalina NPP's production capacities actually means that Narva Power Plants, with its capacity of 2200 MW, will become the largest electricity producer in the Baltic countries.

The closure of the largest and the most powerful generation capacity in the Baltic countries represents a significant impact on the supply and demand relationship in the Baltic electricity market.

The competitiveness of oil shale electricity will increase, while the share of nuclear power electricity will decline. Also, the diminishing importance of nuclear power electricity will most likely lead to higher average prices for electricity in the Baltic countries.

Expectedly high efficiency of new boilers and the low level of environmental emissions

The new fluidised bed combustion technology has justified itself.

Today, the three-year-long renovation of two blocks at Narva Power Plants is coming to an end. In the reporting year, the construction of the new blocks was completed, and tuning and launching operations were started. The renovated 8th energy block of the Eesti Power Plant was synchronised with Eesti Energia's power network for the first time in November 2003. Starting from mid-January 2004, the 8th energy block has been in continuous commercial use, working close to maximum loads. The renovated 11th energy block at the Balti Power Plant has also reached the testing phase.

Eesti Energia is the only energy company in the world whose base load is covered by oil shale firing power plants (Narva Elektrijaamad). Estonia is the only country in the world where more than 90% of the electricity is generated from oil shale. The renovated blocks using fluidised bed combustion technology form a foundation for Estonia's oil shale energy sector's competitiveness.

Mati Uus
Narva Power Plants
Development director

The new fluidised bed boilers operate excellently using oil shale; the renovated block can easily reach a nominal load of 215 MW, providing an efficiency rate of over 37%. The fuel savings in comparison with the old pulverised combustion blocks is over 20%. The level of environmental emissions is several times lower than the stringent emission norms prescribed by the European environmental regulations, and the sulphur dioxide emission level is over 10 times lower than the limit of 200 mg/Nm3, being only 10-20 mg/Nm3.

Although the optimisation of the new technology continues, it is already evident that the fluidised bed combustion technology for burning oil shale has technologically justified itself.

The efficiency trend in energy production continues to increase

Production is becoming more efficient year by year.

In the financial year, the growing efficiency trend in energy production at Narva Power Plants continued. Specific fuel consumption in electricty production is decreasing.
But due to the tests of the new energy unit the specific fuel consumption remained at the level of previous financial year. Compared to the previous financial year, specific heat consumption for electricity generation decreased by 35 kJ/kWh, which translates into 0,3 million euros worth of fuel savings during the financial year. The increase in efficiency became possible mainly due to an increase in the average electric load on energy blocks and the utilisation of newly-renovated energy blocks. The average annual electric load on the energy blocks at the Eesti Power Plant increased by 3.7 MW, due to smoother 24-hour load schedules and an improvement in the reliability of boilers.
One of the reasons for the improvement in energy production cost efficiency was also the reconstruction of the turbine at the Iru CHP into a back-pressure turbine, resulting in an almost 7% increase in the efficiency rate.

In the future, the energy production efficiencye is expected to rise further due to a higher share of renovated blocks in electricity production.

The number of operating hours of generating facilities is continuously increasing

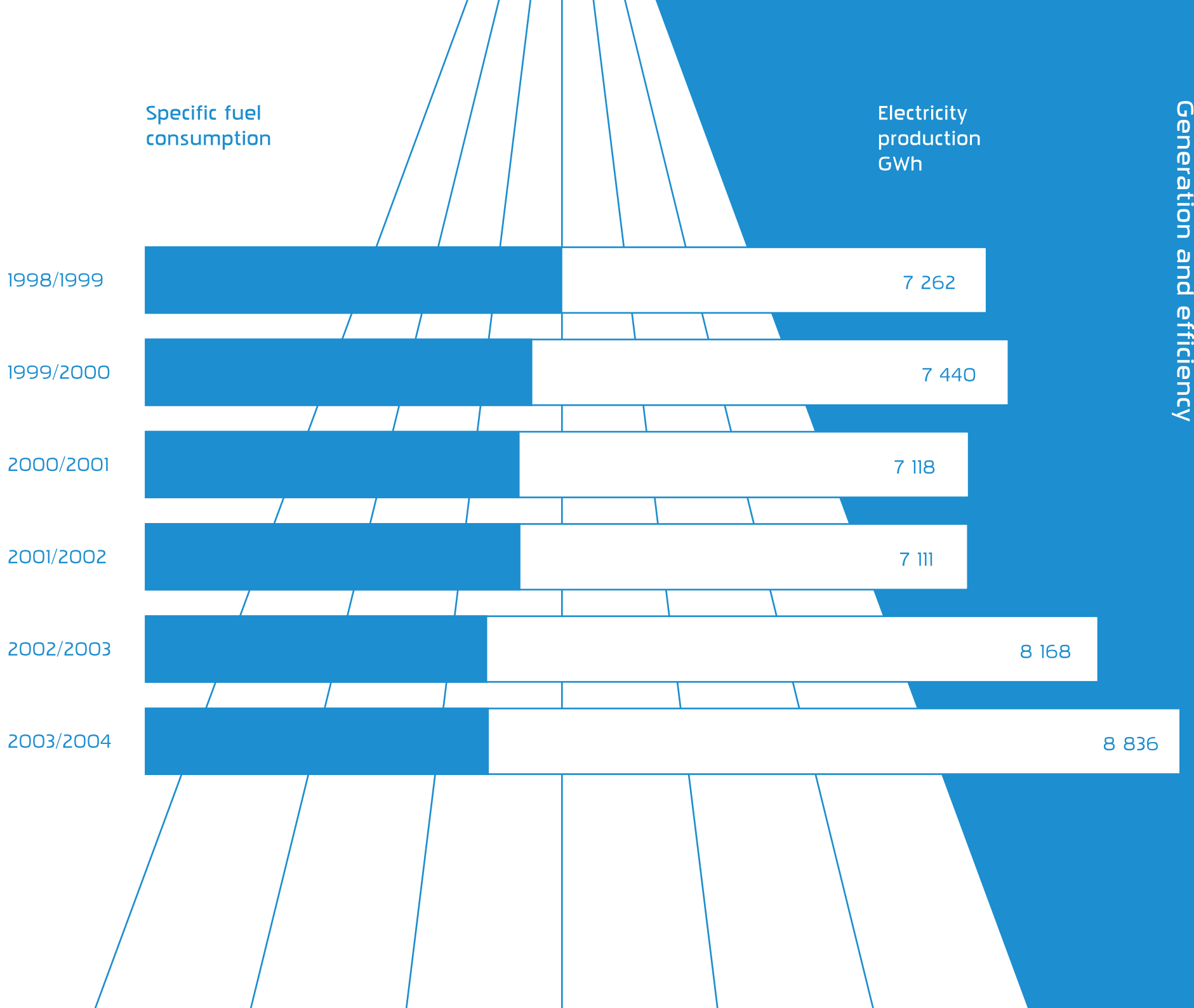
We achieve optimum use of our own generating facilities.

In the financial year, the further optimisation of the utilisation of Narva Power Plants' generating capacity continued. As a result, the share of the more-efficient Eesti Power Plant in the total electricity output of Narva Power Plants increased to 79.2%, which in turn lifted up the efficiency rate of energy generation as a whole.

In comparison with the previous year, the operating hours of the Narva generating facilities increased from 73 834 to 76 788 hours.

A predominant role in a more optimal utilisation of the generating facilities at Narva Power Plants was played by an increase in exports and domestic consumption of electricity, as well as by mutually beneficial cooperation between Eesti Energia and the Latvian energy systems.

The number of operating hours of the Eesti Power Plant's energy blocks also increased due to the carefully planned long-term maintenance, which lowered the failure rates of equipment.


Generation and efficiency
Specific fuel consumption
Electricity production GWh
1998/1999
7 262
1999/2000
7 440
2000/2001
7 118
2001/2002
7 111
2002/2003
8 168
2003/2004
8 836

Cooperation with Latvenergo and Russia ensures an optimum load schedule at Narva Power Plants

We guarantee a large share of electricity to Latvenergo and they in turn guarantee us the most suitable export schedule, as a result of which the operating mode of the Narva plants is optimal.

During the reporting period, flexible cooperation between Eesti Energia and the Latvian energy system continued; the market share of electricity being exported to Latvia at night grew and the daily share decreased correspondingly. This allowed for the optimisation of the twenty-four hour load schedules, which substantially helped to improve the utilisation of energy blocks and hence the efficiency of the whole energy production system. In the financial year, Eesti Energia exported 1259 GWh of electricity to Latvia and 714 GWh to Russia. During the same time period, the import of Latvian spring floods' hydro energy to Estonia was 139 GWh.

Environmental emissions were kept under control at growing production volumes

There is no direct relationship between environmental emissions and production volumes; there are proportionately less emissions.

The financial year was also successful for Eesti Energia in the area of environmental protection. In the TIPP contest for Estonian environmentally friendly companies, among large companies Eesti Energia was named the most environmentally friendly company for its consistent work on environmental issues, reducing sulphur and dust emissions, the implementation of the best available techniques and for having well-arranged public relations. Consistent and systematic work in applying environmental measures has resulted in the situation in which, despite increasing output, emissions from generation have either decreased or increased considerabley less than generation. For example, the concentration of solid particles has decreased by over threefold; also, the emissions of sulphur dioxide and the specific emissions of carbon dioxide have decreased significantly.

Eesti Energia is and wants to be the largest Estonian producer of renewable energy in the future

Currently there are at least seven distinct projects for designing renewable energy production facilities.

The network companies have the obligation to purchase renewable energy from producers at prices regulated by the state. The cost of renewable energy is a component of National Grid network tariffs. Since renewable energy resources are limited in Estonia, Eesti Energia is interested in maintaining and increasing its market share, thereby ensuring itself a significant amount of revenues circulating in this market niche.

In the 2003/2004 financial year, the power plants of the Renewable Energy Business Unit – the Virtsu windmill and the Linnamäe HPP – produced a quarter of Estonia's renewable energy production, i.e. 7.5 GWh. Since the renovation of the Linnamäe Hydroelectric Power Plant, Eesti Energia has become the largest producer of renewable energy in Estonia.

The Linnamäe HPP together with the Virtsu windmill set a production record by generating over 1 GWh (1 133 003 kWh) in December 2003.

There are several projects underway in the Renewable Energy Business Unit – the reconstruction of the Keila-Joa HPP and the Põltsamaa HPP, the construction of the Ruhnu hybrid windmill and a diesel power plant, and the building of a wind park on the ash field of Narva Power Plants. We have invested almost 45 000 euros in the development of renewable energy.

Eesti Energia is and wants to remain the market leader for thermal energy in Estonia in the future

The Iru CHP is the largest producer of thermal energy in Estonia, and it supplies approximately 50% of the heat for Tallinn. Also, Narva Power Plants supplies heat to Narva, the third-largest town in Estonia, and the Kohtla-Järve Soojus supplies the regions of Kohtla-Järve and Ahtme.

The Eesti Energia Group has the largest market share of the Estonian thermal energy market. The Group's combined heat and power plants (CHP) with district heating networks provide most of the heat supply for Estonia's largest cities. The Iru CHP, Estonia's largest combined heat and power facility, supplies about 50% of the district heating needs for Tallinn, the Balti Power Plant and Narva Soojusvõrk supply about 83% of the heating needs for the town of Narva, and the Kohtla-Järve and Ahtme CHPs supply approximately 87% of Kohtla-Järve's and Jõhvi's heating needs.

The co-generation potential of the Iru CHP is not limited by the absence of an electricity market, but by uncertainties surrounding the heating market. For this reason, we support the linking of the two currently separately operating district heating networks (Lasnamäe-Kesklinn and Mustamäe-Kadaka), and other local district heating networks situated nearby, into the all-Tallinn district heating network. Putting into service of the main heat line connecting the Kesklinn and Mustamäe district heating networks would allow to better use heat capacity of the Iru CHP for supplying the whole city with heat. So, the opportunity would arise to use the co-generation capacity of the Iru CHP more efficiently during the summer as well.

In the financial year, the Group's companies sold 2168 GWh worth of thermal energy, which constitutes approximately 43% of the total district heat sold in Estonia.

In 2003, 18 million euros were invested in increasing heat production efficiency, and in decreasing environmental impact and heat losses. The modernisation of the Iru CHP, the construction of a new heat production facility at Narva, the closure of the aged Ahtme CHP and the setting up of a new CHPs that uses the best available techniques is under preparation, in cooperation with European Union Structural Funds.

Networks

The growth of electricity transmission and distribution services

Increased domestic consumption, exports and transit were the basis of the growth in the operating income of networks

Due to increased electricity consumption and higher export volumes, the volume of transmission in National Grid grew from 9 053 GWh to 9 247 GWh, and the volume of the network services of Distribution Network grew from 5118 GWh to 5346 GWh.

As a result, the operating income of power networks grew by 0,5 million euros to 15 million euros compared to the previous financial year.

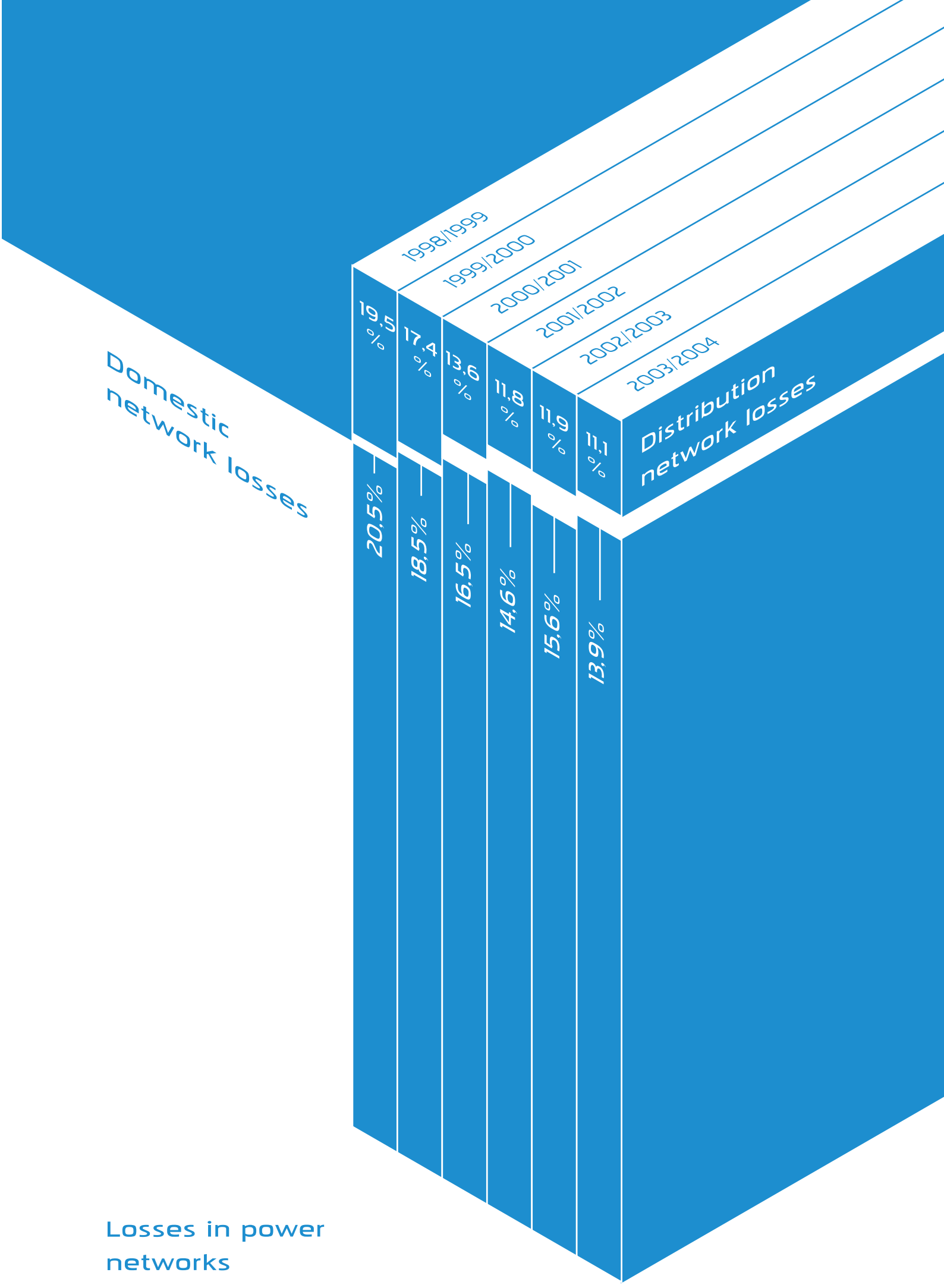
The targeted investment policy of networks reduced network losses to their lowest level in the history of Eesti Energia

Investments made by Eesti Energia to upgrade the distribution network have started to yield positive results – Distribution Network losses have decreased year by year, reaching their lowest level in the history of Eesti Energia at the end of the financial year.

Network losses in the transmission of energy are one of the most important characteristics of power networks. As a result of investments made into Distribution Network, network losses have been significantly reduced – network losses were 19.5% five years ago, but only 11.1% from electricity transmitted to Distribution Network in the reporting year. To express this figure in monetary terms, it amounts to millions of euros that have been added to the cash flows of Eesti Energia. This result has been achieved through targeted investments into Distribution Network and through effective settlement activities in customer service. As a result, both the network as well as sales activities have improved.

Network losses are one of the most important indicators for Eesti Energia – for the network and sales activities as well as for internal cooperation –, because total losses reflect the technical and operational efficiency of the energy company. By the end of the financial year, the losses dropped to their lowest level in the history of Eesti Energia.

Tarmo Mere
Distribution Network
Executive director



Losses in power networks

Eesti Energia aims at a reasonable return when providing network services

Proposed network fees will increase the return on invested capital of the transmission and distribution networks to a level that corresponds to the accepted rate of natural monopolies and hence ensures the sufficent development of power networks.

At the beginning of the current year, Eesti Energia submitted an application to the Energy Market Inspectorate to raise electricity prices. The tariffs in use until now do cover current expenditures, but the return on invested capital is not noteworthy. With the application of new tariffsthe return on invested capital of network services will increase to 6-8%. With that the return on invested capital of power network increases to the level generally accepted in the European Union member states, and will ensure the sustainability of power network. According to the application of new tariffs, the cash flows of Eesti Energia electricity network companies will increase by 42 million euros.

To guarantee quality voltage to its customers, Eesti Energia will continue the voltage quality programme

Eesti Energia is aware of its voltage quality problems and has committed to bring voltage quality into conformance with existing standards to all of its customers by the year 2013 at the latest.

The number of customers experiencing voltage problems decreases year by year – in the last five years, the voltage quality of almost nine thousand customers has been brought into conformity with existing standards. In spite of this, Distribution Network has almost 17 500 clients whose voltage quality does not comply with standards.
The reason for voltage problems is low voltage lines, which are long and were designed in the past for small loads. Old and long overhead lines, generally found in rural areas cannot ensure the necessary voltage with increasing loads. Several years ago, Eesti Energia launched a voltage programme to improve the quality of power networks in rural areas. Via this investment programme Eesti Energia has been gradually renovating the networks of rural areas. The budget of the voltage programme is 83 million euros, which is intended for the construction of 4 962 substations, and the building and reconstruction of 3 330 kilometres of medium voltage and 3 085 kilometres of low voltage lines. Because of the large volume of the work, the above-mentioned standard provides for a 10-year transitional period.
The goal is to ensure standard voltage to customers with voltage problems by the year 2013 at the latest.

The trend of decreasing power outages should continue in the future

Although the trend of outages has sloped downwards in recent years along with the reconstruction of medium and low voltage networks, we still have a long way to achieve a state for our networks that will ensure that transmission and distribution services meet the customers' expectations.

Due to an increase in investments, the number of failures at Distribution Network has significantly dropped. However, it still exceeds the level of failures for modern networks in Europe. In comparison with the previous financial year, the number of unplanned outages of electricity supply at Distribution Network dropped from 35 to 31 per each 100 kilometres of lines. A relatively high number of outages – 20 000 per year for Distribution Network and 200-300 per year for National Grid – are mainly caused by the high average age of power networks, the result of insufficient financing during the last 15 years. The average age of Eesti Energia's networks is about 27 years. The equipment needs to be constantly improved. To ensure high quality and a sustainable network service, the average age of networks should be 20-25 years.

The state of Distribution Network has stabilised due to the investments made over the last four to five years, but these investments are insufficient for the whole renewal of the network.

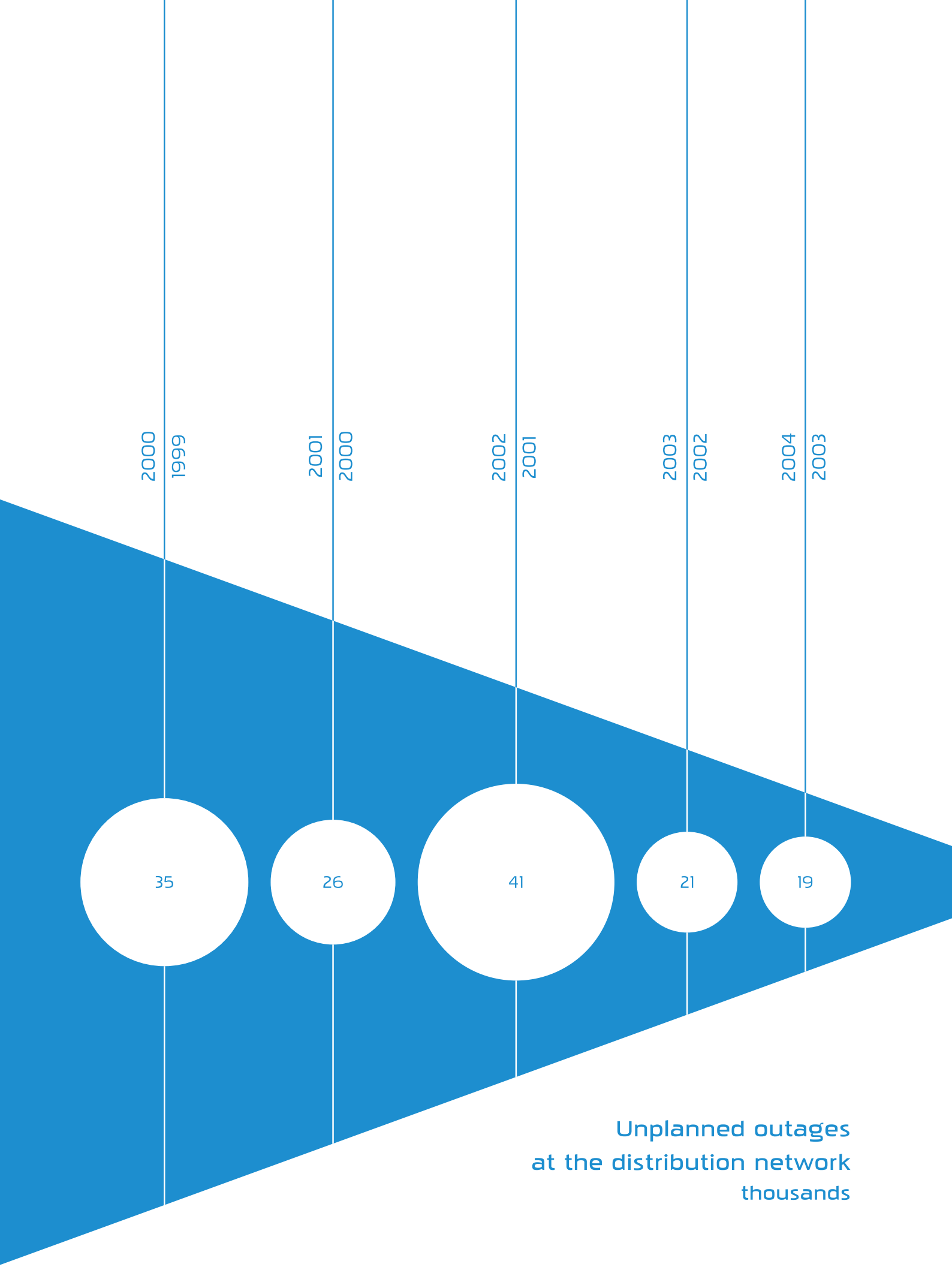
Eesti Energia directs resources into improving the quality of network service

While over the last couple of years Eesti Energia has mostly invested in electricity production, in the next couple of years the main focus will be on power networks.

The successful launching of two energy blocks based on the fluidised bed combustion technology marks a shift in Eesti Energia's investments from energy production to electricity transmission and distribution. In the last couple of years, Eesti Energia has already invested almost 128 million euros into networks, with one goal – to improve electricity supply security for customers and to meet the needs of customers to the best possible extent. Over the next several years the focus of Eesti Energia's investments will move even more towards networks, as today the average age of its networks is approximately 27 years and a large portion has in a technical sense reached the upper limit of its lifespan. Over the next five years, Eesti Energia plans to increase investments into its transmission network and distribution network to 427 million euros.

In the next financial year alone, investments into the networks will amount to 91 million euros .

With that, the quality of service should increase, the connection deadlines should shorten, and the number of customers experiencing voltage problems should decrease. The number of outages of electricity supply should decrease and their durations shorten. Also, operation expenses and network losses should decrease.



Unplanned outages
at the distribution network
thousands

New network connections and the acquisition of other networks has increased Eesti Energia's customer base

Eesti Energia is actively engaged in increasing its customer base through the expansion of its operational areas and the establishment of new network connections.

According to the new Electricity Market Act, the conditions and responsibilities set for network operators have become significantly stricter. After a market readjustment, Eesti Energia acquired 30 networks during the financial year and took over more than 4 800 clients. In addition to the acquisition of networks, Distribution Network continues to build new customer connections. In the financial year, 15 million euros were directed into this process, and more than 2 300 new customers were connected to the network.

Altogether, Eesti Energia's customer base grew by more than by 7 000 customers, the area of operations expanded and the volume of productive assets increased.

National Grid is the first network operator in the energy sector of the Baltic states which has been brought into accordance with European Union regulations

Eesti Energia is adjusting its activities to meet free market requirements by separating the functions of providing network services into separate companies.

The unbundling of electricity-related core activities is one of the underlying conditions for the formation of an open electricity market. This means that for the purposes of electricity trading, electricity transmission and distribution should be separated from each other; the same applies for generation and sales.

In the new financial year, OÜ Põhivõrk (National Grid) is operating as a separate legal entity. The transfer of the electricity transmitting function into a separate body marked the end of the transmission network unbundling process as prescribed by the Electricity Market Act.

In the new financial year, Eesti Energia plans to separate distribution networks into separate subsidiaries. Initially, only OÜ Põhivõrk (National Grid) has started the year as a separate company.

With the creation of separate enterprises, Eesti Energia is finally ensuring that it will have a modern organisational and management structure that is in accordance with European Union regulations.

National Grid introduced the balance responsibility process

Eesti Energia has rearranged its activities to meet open market requirements by introducing balance responsibility.

As a system operator, National Grid has system responsibility – the responsibility to ensure the security of the supply of the Estonian power system (i.e. ability to ensure the required power supply to consumers) and balance. Hence, National Grid is responsible for the electricity balance of the Estonian power system; it is an open supplier to a balance provider, and responsible for balance-related cooperation with the power systems of neighbouring countries. Additionally, the task of National Grid as a system operator is to determine the balances of balance providers and to prepare regular reports in regards to this. In the reports, the volume and price of balancing electricity sold to and purchased from the balance provider is reflected per every trading period (being one hour). The goal of balance responsibility is to take the results of the forecast error on the system and the costs associated with it to the market participant who caused the forecast error. Also, balance responsibility is a precondition for market participants to begin trading electricity on the open market on an hourly basis.

National Grid obtained occupational health and safety certificate OHSAS 18001

In the previous financial year, the activities of National Grid were found to be in compliance with the requirements of the occupational health and safety standard OHSAS 18001.

Since December 2002, the transmission network of Eesti Energia has been certified as complying with the standards of the ISO 9001 and ISO 14001 quality and environmental management systems, and in December 2003 the OHSAS 18001 (Occupational Health and Safety Assessment Series) certificate was obtained, recognizing compliance with occupational health and safety requirements.

According to data from the Estonian Association for Quality, eight certificates have been granted since the beginning of April 2004 to Estonian companies for their compliance with the requirements of OHSAS 18001.

Customers enjoyed simplification when dealing with Eesti Energia, a lessening of bureaucracy and better fulfilment of commitments made

Customer satisfaction with customer service and settlements with Eesti Energia increased, despite a negative reputation arising from the intention to increase prices.

The task of Eesti Energia's Customer Service is to take the lead in customer satisfaction for the entire Eesti Energia Group. This goal is achieved via customer contacts at customer service centres, the power failure information line (1343) and the customer support line (1545), meetings of sales representatives with customers, etc. The direct areas of Customer Service activities include all questions related to the interpretation of agreements, subscription to network services of Eesti Energia, settlements and debt processing.

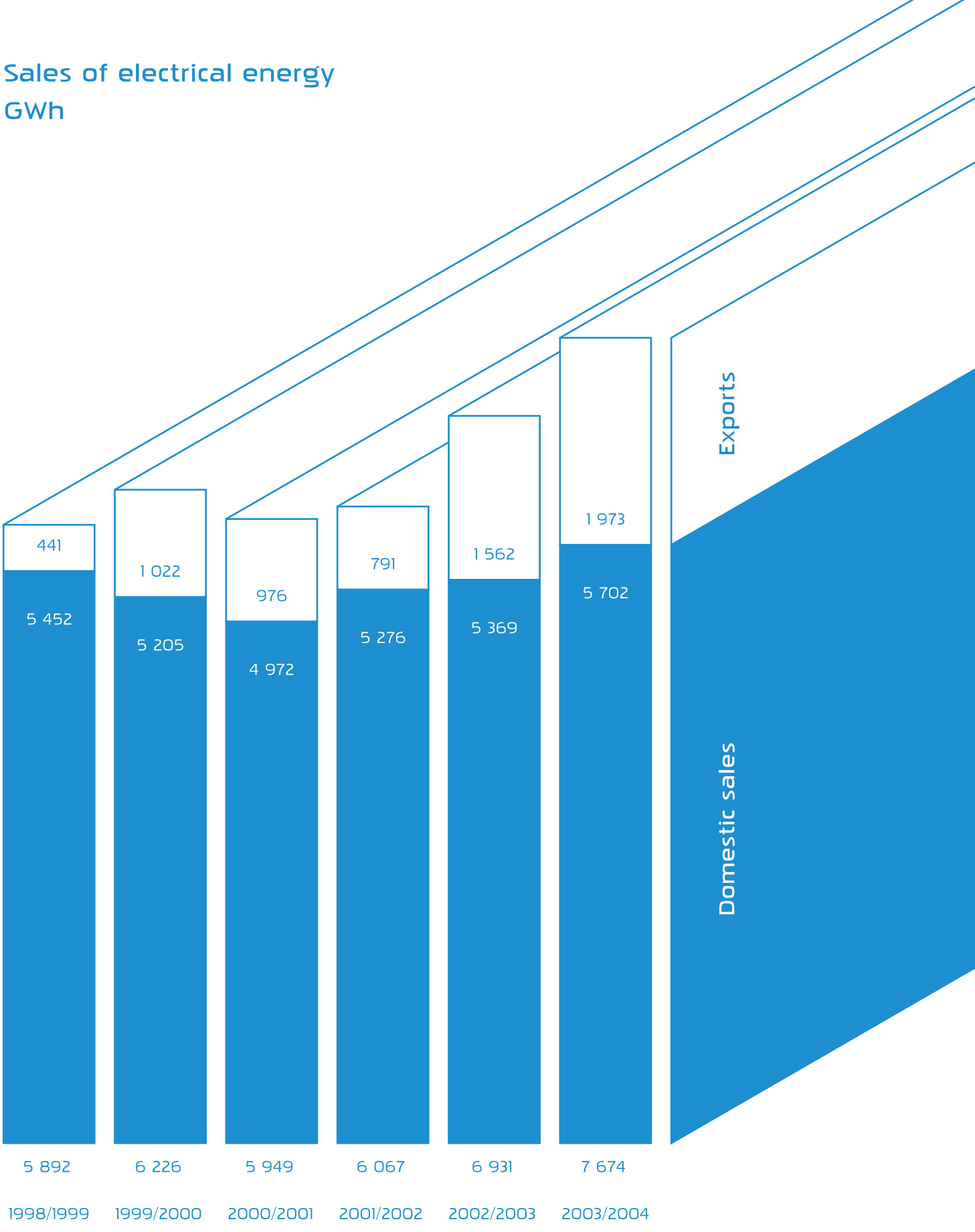
Eesti Energia has set the ambitious goal of becoming the best customer service provider among infrastructure companies. Customer trust is of critical importance to us, despite the monopoly status of Eesti Energia in the market. To a large extent this means a movement from "hardware" focused mindset to client-friendly values, whose logic is not driven by laws of physics but more importantly by emotions. Surveys testify to a noticeable increase in customer satisfaction with settlements and customer service, to 86 points on a hundred-point scale.

Marko Allikson
Sales director,
member of the management board

The Customer Service unit takes the lead in developing service standards, in pricing services and in gathering and analysing client feedback.

During the financial year, according to a thorough client survey conducted by the market research firm TNS Emor, significant progress was made in developing the quality of customer service and invoice settlement processes. Clients reported a simplification in dealing with Eesti Energia, a lessening of bureaucracy and better fulfilment of promises made. The modernisation of several customer service offices, with the goal of providing easier ways of communicating with Eesti Energia, had a positive impact. With regard to invoice settlements, our clients noticed both the precision and timeliness of invoices, as well as an ease concerning the submitting of readings and paying of bills. A contribution to the improvement of customer satisfaction has definitely been made by the option to arrange one's electricity matters via payment notifications and standing payment orders, which are based on estimates so that the clients do not have to be bothered with submitting constant meter readings and remembering payment dates. In summary, according to the survey the satisfaction index with the settlement and customer service processes increased from 81 to 86 on a 100-point scale.

Sales of electrical energy
GWh



Efficient sale and settlement activities decreased network losses to their lowest level in Eesti Energia's history

In addition to strong domestic electricity sales and exports, economic results were also impacted by an increased efficiency in economic activities, with the most important output being a drop in power network losses to a historical low of 11.1%.

Losses of the Distribution Network are one of the most important indicators of the quality of Eesti Energia's distribution and sales activities, and have a direct impact on the cash flows of Eesti Energia. Customer satisfaction with settlements is reflected in actual sales results – while in the previous financial year electricity losses in distribution network and sales activities were 11.9%, in this reporting period the network losses dropped to the historically low number of 11.1%. The decrease in losses occurred primarily because of lower commercial losses in Distribution Network. This result was achieved due to the better efficiency and quality of sales and settlements – the generation of estimated bills, taking meter readings, analysing consumption disruptions, etc., were improved.

The domestic electricity sales continues their upward trend

Despite an increase in average temperatures by 0.5 degrees, the increase in Estonian domestic electricity sales over the last three years continued; this is first and foremost a result of general economic growth.

In the 2003/2004 financial year, the domestic sales of electricity totalled 5 702 GWh, which is 6.2% or 333 GWh higher than in the 2002/2003 financial year. The main driving force behind the electricity sales of Eesti Energia was the strong growth of the Estonian economy; its growth rate has significantly exceeded the average European economic growth rate over the last several years. Retail electricity sales increased by 124 GWh (2.7%). A favourable economic environment was affected mostly by large clients, whose sales increased from 784 GWh to 991 GWh.

In summary, the electricity sales revenues were 271 million euros, which was 5% or 13 million euros higher than in the last financial year.

With a higher sales volume, overdue receivables were kept under control

The efficiency of payment collection has increased – in comparison with a higher sales volume, debt held by domestic clients has decreased.

The efficiency of payment collection determines how much income will be received by Eesti Energia. Consistent and productive receivables collection has created a situation where, despite a higher sales volume, customers' debt figures are noticeably lower than the growth of the sales volume. When compared with the previous financial year, the household client invoices overdue to sales ratio has decreased from 4.9% to 4.7%, and this despite the provisions in new legislation that slow down debt collection.

The most important reason for improving collection was the increase in the volume of reminders regarding overdue bills.

Warm winter resulted in lower heat sales

The relatively warm winter period lowered heat sales by 193 GWh, or 8.2%.

During the financial year, heat sales were 2 168 GWh (34 million euros), which is 12.4% less than in the previous period. The output of Narva Power Plants decreased by 61 GWh (10 %), that of the Iru CHP by 79 GWh (6%), and the Kohtla-Järve Soojus by 52 GWh (14%).

Eesti Energia optimises service expenses through electricity and thermal energy joint sales

The joint sales of electricity and heat enable us to reduce customer service expenses through the combining of activities, more efficient work arrangements and joint information technology solutions.

During the financial year, the joint sale of electricity and thermal energy was introduced at Jõhvi and Kohtla-Järve. In addition to an optimisation of expenses, the synergies between the customer service processes of the two areas ensure a better and more-timely customer service. The client gets added value, due to the opportunity to make both electricity and heat payments and the possibility to clarify raised questions in the same service office. Analyses show that 75% of joint heat and electricity clients already make payments for both electricity and heat, as well as for hot water in our customer service offices.

In open market conditions, the joint selling of electricity and heat will definitely be one of Eesti Energia's advantages.

New efficient communication channels were launched, continuing the redirection of clients from expensive communication channels to cheaper ones

In settlement activities, the optimisation of customer communication expenses continues.

One of the main ways of optimising customer service settlement expenses is the redirecting of the customer from Eesti Energia's expensive settlement channels to cheaper and more efficient ones.

During the financial year, strong emphasis was laid on the development of different electronic customer communication channels. Eesti Energia is the first company in its field in the world to have launched an SMS channel for submitting meter readings and to have enabled the payment of electricity bills in a department store. The number of meter readings submitted via SMS increases significantly month by month. As of the end of the financial year, almost 3 700 clients submitted their electricity meter readings via SMS. Eesti Energia sends out 24% of all overdue bill reminders via SMS. An option to pay for electricity in a department store was launched as a pilot project in Tartu, and as a result there are 2 000 clients now paying in the store for their electricity.

The quality of phone service improved – there were 66 000 more calls received than in the previous financial year at the call centre; at the same time, the call waiting time decreased by 26%. The number of users of the Internet-based client service also increased – the number of E-net users increased by 62% during the year to 6 800 business customers (33% of all business customers), and e-service usage had increased by 47% to 28 000 household clients by the end of the financial year. Among household clients, the number of payers using the standing payment order method also increased, and now makes up over 140 000 household clients.

Cooperation with Latvenergo increased exports

We increased our co-operation with Latvenergo in electricity portfolio management, allowing for higher electricity exports during low cost price periods.

One of the most important factors impacting sales growth was the export of electricity, which increased to almost 1 973 GWh (including exports to Russia of 0.7 TWh) for the 12-month period. This was accomplished due to good cooperation with Latvenergo, which in order to meet Latvian electricity consumption needs, purchased electricity generated at night at Narva Power Plants from Eesti Energia; this also allowed for the optimisation of the operating schedule at the plants. In comparison with the previous year, the total exports to Latvia increased by almost 200 GWh to 1 259 GWh. In the 2003/2004 financial year, the export revenues totalled 31 million euros, an 8.9% increase over the previous financial year.

An electricity sales contract with Latvenergo has also been concluded for the new financial year; the volume of the contract is 1 TWh.

Eesti Energia offers contracts to its bigger clients with conditions that take into account their interests and provide the longest-lasting price guarantees in the Baltic countries

We are aware that under the conditions of the open electricity market, our success will depend on the loyalty of bigger clients.

According to today's consumption structure, approximately half of the sales volume of Eesti Energia comes from less than 1% of the customers. Eesti Energia understands that its viability depends on the loyalty of the large consumer segment of the customer base. As a competitive advantage, we offer to our larger customers unusually long-lasting price guarantees. Since Eesti Energia controls the whole value chain, it can offer the longest guaranteed electricity sales conditions in the Baltics. Additionally, we sell electricity to our larger clients with conditions that take into account their distinct interests. Generally, that means the thorough preparation and mapping of the client's needs and risks, in order to fully address the significant interests of the bigger client.

Eesti Energia can offer the longest-lasting contracts with fixed prices in the Baltic electricity market to its clients, providing an opportunity for the clients to launch large business projects. Today Eesti Energia covers the partial or complete electricity needs of all eligible customers in Estonia.

In the financial year, we signed one contract with a new client and extended contracts with four other clients. In the open market, Eesti Energia has contracts in the volume of 570 GWh.

Eesti Energia was nominated as the most environmentally friendly company in Estonia

In the TIPP contest of environmentally friendly companies conducted by the Ministry of the Environment, in the group of large companies, Eesti Energia was named the most environmentally friendly company in Estonia in 2003.

In 2003, in the national contest TIPP for Estonian environmentally friendly companies, Eesti Energia was named the most environmentally friendly company of the larger companies in Estonia for the consistency of its environmental work, its decreasing of sulphur and dust emissions, its launching the implementation of the best available techniques and for having well-arranged public relations. The aim of the contest, conducted by the Ministry of the Environment for the second consecutive year, was to recognise efforts made by Estonian enterprises and investments made in reducing environmental pollution, to advocate environmentally favourable production practices and to demonstrate to the wider public consistent efforts for sustainable development.

The implementation of the environment management system, a systematic planning of environmental investments, and the introduction of new environmentally friendly technologies has yielded positive results. Eesti Energia consistently reduces the negative environmental impacts of its activities, and the specific emissions of pollutants per unit of production are constantly falling.

The company's environmental activities have gained national recognition – in the contest for the most environmentally friendly companies of Estonia in 2003, Eesti Energia AS was named the best among the larger companies.

Reigo Lehtla
Department of environmental protection

Implementation of new, more environmentally friendly technologies in Eesti Energia

Eesti Energia constantly implements new, cleaner energy generation technologies, with the goal of continuously lessening the environmental impact of energy production.

The largest technological innovation at Eesti Energia has been the refurbishment of two 215 MW energy blocks to fluidised bed combustion technology, which was launched in 2001. In October 2003, the first boiler of the 8th energy block of the Eesti Power Plant was ignited. The launching of the block was successful, and it operated without unplanned interruptions during the last quarter of the financial year. The renovation of the 11th block of the Balti Power Plant will be completed in the third quarter of the new financial year with the testing of the equipment and acceptance. The power blocks renovated to fluidised bed combustion technology are more efficient and pollute the environment less than the current blocks in use.

Danish consultation company COWI conducted the preliminary study for the reconfiguration of the Ahtme CHP of the Kohtla-Järve Soojus AS from the currently-used pulverised oil shale combustion to fluidised bed biomass combustion, which is more financially and environmentally feasible. The new CHP has base-load capacities of 50 MW thermal and 20 MW electrical. In addition to that, there are four gas boilers of 20 MWth each to cover peak and reserve loads.

The procurement for the renewal of the ash removal system at Narva Power Plants was started in order to find technology in conformance with the EU Landfill Directive. The procurement conditions foresee the construction and testing of the ash removal system for one boiler. Based on that project, the technical solution for the whole ash removal system will be designed.

Consistent and targeted implementation of environmental measures reduces environmental emissions to a minimum

The emissions from new fluidised bed boilers are lower than ceilings for atmospheric emissions set by the EU Large Combustion Plants Directive.

In the financial year, Eesti Energia made investments into environmental protection to the amount of 92 million euros, which is approximately the same as in the previous year. The most significant environmental investments were the modernisation of two power blocks at Narva Power Plants. The combustion tests on one new block were successfully launched and the initial measurements of emissions taken have shown that the new block emits much less pollutants than prescribed by the norms – almost a hundred times less sulphur dioxide emissions and almost ten times fewer emissions of solid particles. Nitrogen dioxide emissions from the new block are almost two times lower than those from older ones. Carbon dioxide emissions have decreased by a third due to the new fluidised bed combustion technology.

Eesti Energia has applied for grants for environmental investments in the energy sector

Applications for supporting Eesti Energia in making environmental investments are being prepared and filed. All together, we are hoping to be granted 173 million euros.

Denmark granted foreign aid from its energy sector aid programme to AS Kohtla-Järve Soojus, which was used for the preparation of technical and financial feasibility etc. studies on the renewal of the Ahtme CHP. The goal of the renewal is to bring the power plant into compliance with environmental requirements; the study will be used for a final funds application from the EU Cohesion Fund.

Additionally, an application was prepared to apply for aid from the EU Cohesion Fund for the reconstruction of the 7th block of the Eesti Power Plant to the new circulating fluidised bed combustion technology. The total sum to be applied for within the above-mentioned programme is approximately 80 million euros.

At the beginning of the current year, Estonia and the EU Commission signed a financing agreement for the project "Technical Aid for the Environmental Sector: Preparation and Management of the Cohesion Fund Projects" being co-financed by the EU ISPA fund. According to this, the preparation of the following Eesti Energia projects will be supported by up to 75%, to the total amount of approximately 1,1 million euros:

1. Renewal of ash removal system at Narva Power Plants;
2. Reduction of Iru NOx emissions at the Iru CHP of Eesti Energia AS;
3. Construction of a 50 MW wind park by the Renewable Energy Business Unit of Eesti Energia AS;
4. Renewal of the Ahtme CHP of the Kohtla-Järve Soojus AS.

In regards to the first three projects, the technical aid will be used for the preparation of funding applications to EU Cohesion Fund; procurement documentation; preliminary research; and the assessments of environmental impact. In regards to the fourth project, the technical aid will be used for the preparation of procurement documentation. The total cost of the investment projects being prepared based on the above funding applications is estimated to be 311 million euros. Eesti Energia hopes to receive investment aid to the amount of 30%, or 93 million euros, of this sum at least.

In addition to the above, Eesti Energia has also submitted an application for technical aid for the bringing of a CHP of the Kohtla-Järve Soojus into compliance with environmental requirements.

Carbon trading presents an opportunity for Eesti Energia

Eesti Energia plans to get for its power plants 53.9 million tons CO_2 permits for the first period of EU emissions trading from 2005-2007, which is 84% of all CO_2 emissions permits assigned under the national allocation plan

Greenhouse gas emission allowance trading within the European Union will start on 1 January 2005. The basis for designing and implementing a plan for greenhouse gas emission trading is the European Council's unified goal of reducing greenhouse gas emissions, as set out in the Kyoto Protocol to the Convention on Climate Change jointly by the Union and its member states.

The Estonian national allocation plan of greenhouse gas allowances for the years 2005 – 2007 assigns a total of 53.9 million tons of CO_2 permits to the power plants of Eesti Energia, which is 84% of all CO_2 emission permits under the national allocation plan.

Eesti Energia is implementing an ISO 14001 compliant environment management system

In the financial year, Eesti Põlevkivi and National Grid obtained both quality and environment management system certificates.

The implementation of the ISO 14001 standard compliant environment management system in Eesti Energia has been carried out as planned. During the financial year, Eesti Põlevkivi (Estonian Oil Shale Company) and the companies in its group obtained environment management system (ISO/EVS 14001) and quality management system (ISO/EVS 9001) certificates. The certificates were issued by the internationally recognised certification company Det Norske Veritas.

National Grid had already obtained the previously mentioned certificates – ISO/EVS 14001 and ISO/EVS 9001 – in the previous financial year. National Grid also has a certificate of conformity to integrated occupational health and safety standards OHSAS 18001, issued by the internationally recognised certifier Bureau Veritas Eesti OÜ.

Eesti Energia continues to publicize energy-saving solutions

Eesti Energia actively participates in publicizing energy-saving ways for life, having prepared and launched for that purpose a plan for raising public awareness of energy saving.

In the previous financial year, energy-saving activities that began in 2001 continued. To improve customer relations and the company's image, Eesti Energia composed the plan for raising public awareness of energy saving. The plan prescribes a systematic approach to the collection and presentation of information on energy-saving solutions, and is mainly addressed to residential customers. As part of the above, the company decided to support the Estonian Green Movement project "Advocating Energy Savings among Students", during the course of which the theme of energy savings and electricity generation using a bicycle-based "power plant" were presented at schools. Eesti Energia arranged "Students' Energy Days" at the Energy Centre of Tallinn during school winter vacations. Different electricity generation methods, the need for energy savings and simple ways to attain energy efficiency were shown to pupils. Additionally, the company helped to fund the project "Energy Efficient Household" at MTÜ Ökokratt. As a result of the project, a computer game was developed which enables students to learn how to use home appliances in a more energy-efficient way. Also, preparations began for an Internet portal about energy savings.

An assessment of oil shale electricity's life cycle was started

An assessment of the life cycle of oil shale electricity is a precondition for compiling an environmental declaration on oil shale electricity, which then allows us to sell oil shale electricity on open markets more easily.

From the EU Commission's LIFE-Environment Programme, Eesti Energia received irrecoverable aid for assessing the life cycle of electricity generated from oil shale (the Oil Shale Electricity Life Cycle Assessment, or OSELCA). The assessment of the life cycle of oil shale electricity is an essential strategic developmental project for Eesti Energia, as in the longer term it allows the preparation of an environmental declaration on oil shale electricity (Environment Product Declaration – EPD), which opens the way for marketing such electricity on the joint European electricity market. The length of the project is 27 months and besides Eesti Energia, partners participating in the project are the consultation company CyclePlan OÜ and the Finnish Environment Institute SYKE.

Human resources

Eesti Energia is Estonia's largest employer

The Eesti Energia Group consists of 23 companies and units that employ more than 1.5% of Estonia's working-age population — which means both social responsibility as well as great opportunities.

Eesti Energia's staff constitutes a significant share of Estonia's labour market. As of the end of the financial year, 9 754 people worked at Eesti Energia, which was approximately 1.5% of the working-age population of Estonia. In comparison with the previous year, the number of employees stayed more or less the same; personnel changes in the company have remained at around 1%. Staff members are a value and an opportunity, as well as a responsibility, for us.

Eesti Energia is a stable employer with loyal employees

The low turnover of Eesti Energia's personnel is a sign of the stability of the large employer and of the loyalty of its employees.

The personnel turnover of Eesti Energia is remarkably low – less than 0.1%. The average length of employment is close to 14 years. This is the proof that employees feel good in the company, which is able to offer new challenges to its staff. We consider ourselves an employer with stable, loyal employees.

Average number
of employees

New collective agreement increases Eesti Energia's competitiveness as an employer

Via the new collective agreement with trade unions, we express honour to the skilled labour force of the energy and mining sectors, and provide additional social guarantees for our employees.

The collective agreement signed for the next two years sets a 2.9% average growth rate for the wages and salaries of the employees of the core business. The goal is to keep the level of wages and salaries competitive. Additionally, the agreement provides a benefit package for employees exposed to high hazard and risk factors, which ensures a safe working environment and modern equipment in the company, as well as benefits for work-related accidents and injuries.

The first collective agreement with Eesti Energia as Estonia's largest employer was signed already 15 years ago. This agreement signed in 1989 was the first modern collective agreement in Estonia.

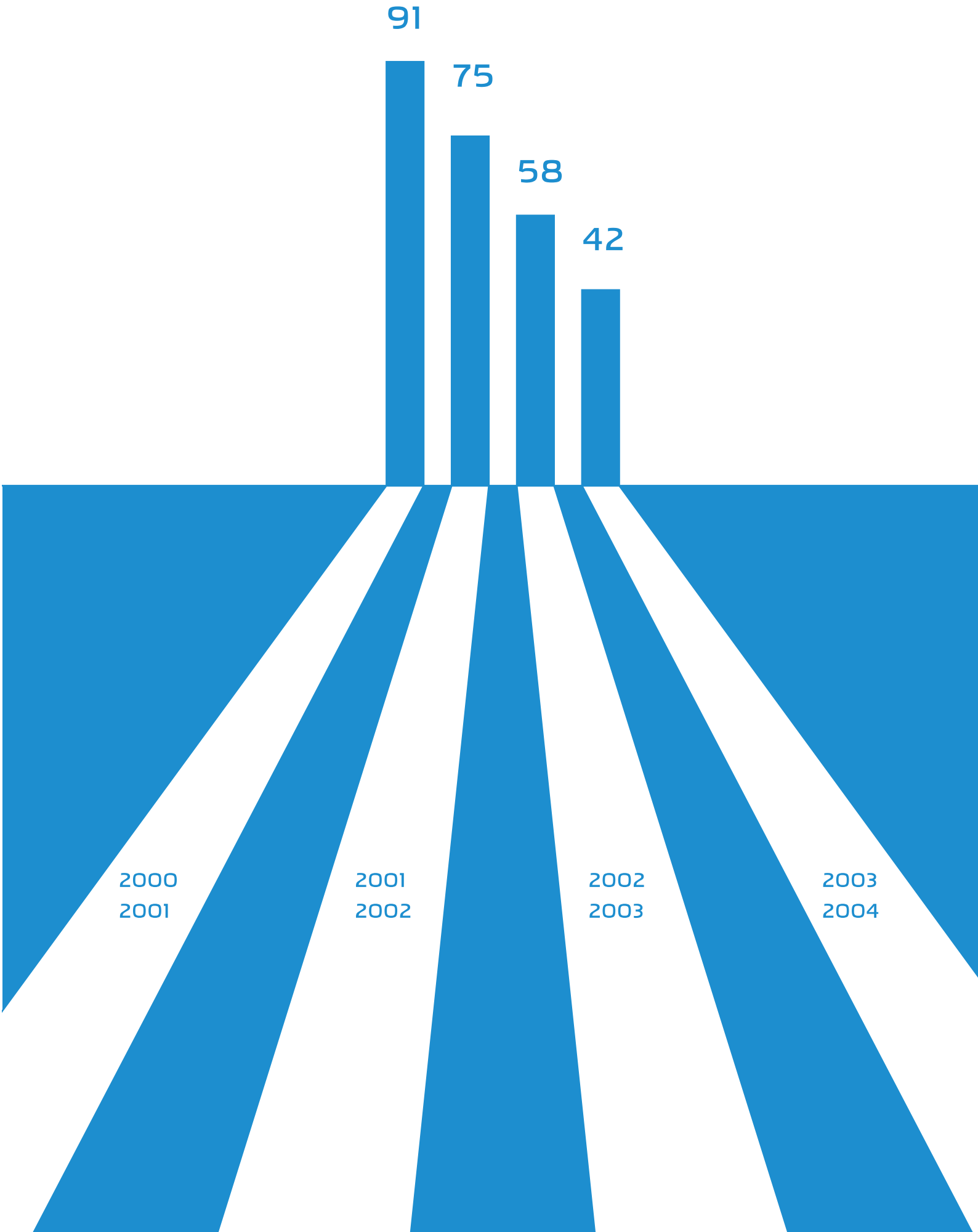
Enn Luuk
Association of Estonian Energy Workers' Trade Unions,
Managing director

Eesti Energia pays attention to the recruitment of potential new employees

Eesti Energia is aware that the existence of comparatively elderly skilled workers in the core business requires new successors.

As of the end of the financial year, the average age of employees at Eesti Energia was 43.4 years. Taking into consideration the state of the labour market in Estonia, Eesti Energia has only one choice – to train new potential employees from college and university students. Therefore, close contact with students studying in the energy and mining fields continues to be a priority. During the financial year, 408 students passed their practical training at Eesti Energia. Additionally, Eesti Energia has been participating for years in the employment fair "Key to the Future" and at the open door days at Tallinn Technical University, with the goal of presenting Eesti Energia as an attractive employer, and of finding potential employees for the future.

Number of work injuries



Training supports the development of Eesti Energia

The developmental ability and professionalism of employees is one of the main values of Eesti Energia.

Fast changes in the external environment demand the ability to readjust and carry out organisational changes at the company. The conservative nature and strong historical memory that are integral parts of energy companies may become obstacles to an ability to adjust and change when faced with new situations. In such a situation, the success of the company depends on a sufficiently large number of employees' desire and ability to learn. The time we invest in the training of employees is one of the indicators of how well our employees are prepared for change. In the financial year, there were 10 training hours per employee in average. The training expenses of the financial year for Eesti Energia were over 1 million euros.

Systematic evaluation of employees helps to match the goals of the company and its employees

An increasing number of employees engaged in the evaluation processes at Eesti Energia is proof that employees can better define their roles and positions at Eesti Energia and find new opportunities for personal development.

During the financial year, the improvement and introduction of employee evaluation processes continued at Eesti Energia. Employee evaluations include the assessment of employee work results and knowledge or skills using certification, coaching, the discussion of results, a qualifying exam, etc.

Through the evaluation processes, employees are actively engaged in the attainment of the company's goals, thereby ensuring an optimum balance between the skills, knowledge and abilities of an employee and the needs of the employer.

Balance sheet

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003	Note
ASSETS					
Current Assets					
Cash and cash equivalents	45 110	95 303	45 110	62 037	3
Available-for-sale financial assets	354	354	350	350	4
Trade receivables	46 046	46 028	37 607	37 213	5
Other receivables	85	53	163 647	106 552	6
Accrued income	1 742	3 077	1 362	1 469	7
Prepayments	916	7 854	346	632	8
Inventories	16 591	11 600	474	596	9
Total current assets	**110 845**	**164 269**	**248 895**	**208 849**	
Non-current assets					
Investments in subsidiaries	0	0	274 321	236 317	10
Investments in associates	2 756	2 774	614	727	11
Trade receivables	0	194	0	194	5
Property, plant and equipment	1 128 977	1 015 001	681 836	664 586	12
Intangible assets	2 494	2 728	2 485	2 704	13
Total non-current assets	**1 134 227**	**1 020 697**	**959 257**	**904 529**	
Total assets	**1 245 072**	**1 184 966**	**1 208 152**	**1 113 377**	
LIABILITIES					
Current liabilities					
Borrowings	1 192	1 067	1 182	0	15
Trade and other payables	85 885	83 771	75 940	44 657	16
Derivative financial instruments	4 468	4 878	4 468	4 878	17
Provisions	5 884	5 640	39	0	18
Deferred income	45	0	45	0	19
Total current liabilities	**97 475**	**95 356**	**81 675**	**49 535**	
Non-current liabilities					
Borrowings	293 497	274 147	293 486	274 126	15
Trade and other payables	0	5 681	0	0	16
Provisions	20 186	18 399	270	0	18
Deferred income	38 468	29 440	38 468	29 440	19
Total non-current liabilities	**352 151**	**327 667**	**332 223**	**303 566**	
Total liabilities	**449 626**	**423 022**	**413 898**	**353 101**	
SHAREHOLDERS' EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	464 899	424 455	464 899	424 455	20
Non-registered share capital	0	40 443	0	40 443	20
Share premium	259 832	259 832	259 832	259 832	
Statutory reserve	40 020	23 489	40 020	23 489	
Hedging reserve	(3 930)	(4 474)	(3 930)	(4 474)	17
Retained earnings	0	(21 044)	0	(21 044)	
Net profit for the period	33 433	37 576	33 433	37 576	
Total capital and reserves attributable to the Company's equity holders	**794 254**	**760 276**	**794 254**	**760 276**	
Minority interest	**1 192**	**1 668**	**0**	**0**	
Total shareholders` equity	**795 446**	**761 944**	**794 254**	**760 276**	
Total liabilities and equity	**1 245 072**	**1 184 966**	**1 208 152**	**1 113 377**	

Income statement

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003	Note
Sales	377 112	365 661	329 837	316 395	21
Other revenue	2 024	2 149	1 446	1 418	22
Government grant	120	1 405	83	19	23
Changes in work-in-progress and finished goods	3 021	895	0	0	
Materials, consumables and supplies	(120 484)	(113 818)	(245 757)	(240 573)	24
Other operating expenses	(38 571)	(42 859)	(12 977)	(13 849)	25 26
Payroll expenses	(89 789)	(80 478)	(20 432)	(19 133)	27
Depreciation and impairment of fixed assets	(83 094)	(78 661)	(49 184)	(46 212)	12 13
Other expenses	(706)	(955)	(210)	(188)	28
OPERATING PROFIT/LOSS	49 633	53 340	2 806	(2 123)	
Financial income and expenses					
Share of results of subsidiaries	0	0	37 876	45 953	
Share of results of associates	1 121	1 173	(112)	(149)	11
Net interest expense	(17 707)	(13 052)	(7 054)	(6 000)	29
Foreign exchange gains	27	111	31	148	
Other financial incomes and expenses	(116)	(260)	(113)	(253)	
Total financial income and expenses	**(16 675)**	**(12 028)**	**30 627**	**39 698**	
NET PROFIT FOR THE PERIOD	32 958	41 312	33 433	37 576	
Attributable to:					
Equity holders of the Company	**33 433**	**37 576**	**33 433**	**37 576**	
Minority interests	**(475)**	**3 737**	**0**	**0**	

Statement of changes in shareholders' equity

in thousands of euros

	Capital and reserves attributable the Company's equity holders					Minority Interest	Total	Note
	Share capital	Share premium	Statutory reserve	Hedging reserve	Retained earnings			
Balance as at 31.3.2002	**424 455**	**259 832**	**0**	**0**	**2 445**	**32 651**	**719 382**	
Transfer to statutory reserve	0	0	23 489	0	(23 489)	0	0	
Dividend payment to minority shareholder	0	0	0	0	0	(511)	(511)	
Increase of share capital according to the Order No. 612-k 17.9.2002 of the Estonian Government	3 502	0	0	0	0	0	3 503	20
Increase of share capital according to the Order No. 17-k 8.1.2003 of the Estonian Government	36 941	0	0	0	0	(34 209)	2 732	20
Revaluation of cash-flow hedges	0	0	0	(4 474)	0	0	(4 474)	17
Net profit for the period	0	0	0	0	37 576	3 737	41 312	
Balance as at 31.3.2003	**464 899**	**259 832**	**23 489**	**(4 474)**	**16 532**	**1 668**	**761 944**	
Transfer to statutory reserve	0	0	16 532	0	(16 532)	0	0	
Revaluation of cash-flow hedges	0	0	0	545	0	0	545	17
Net profit for the period	0	0	0	0	33 433	(475)	32 958	
Balance as at 31.3.2004	**464 899**	**259 832**	**40 020**	**(3 930)**	**33 433**	**1 192**	**795 446**	

Cash flow statement

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003	Note
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit for the period	**32 958**	**41 312**	**33 433**	**37 576**	
Adjustments					
Depreciation and impairment	83 094	78 661	49 183	46 212	12 13
Amortisation of connection fees	(1 288)	(989)	(1 288)	(989)	19
Profit from sale of property, plant and equipment	(562)	(848)	(510)	(487)	22
Share in associates' and subsidiaries profit	(1 121)	(1 173)	(37 763)	(45 804)	
Loss from write-down of financial investments	0	5	0	5	
Profit from sale of financial investments	(6)	0	(6)	0	
Interest expenses on borrowings	17 734	14 518	18 159	14 417	29
Interest income	(1 198)	(2 957)	(11 098)	(8 416)	
Adjusted net profit	**129 611**	**128 528**	**50 111**	**42 514**	
Net change in current assets relating to operating activities					
Loss from doubtful receivables	1 773	3 950	769	2 419	5
Increase in trade receivables	(1 596)	(10 496)	(968)	(8 874)	
Change in inventories	(4 991)	(96)	122	456	
Net change in other current assets relating to operating activities	8 030	(2 222)	51	(1 311)	
Net change in current assets relating to operating activities	**3 216**	**(8 863)**	**(27)**	**(7 310)**	
Net change in liabilities relating to operating activities					
Change in provisions	2 030	(442)	309	0	
Change in trade payables	(2 737)	346	(730)	870	
Net change in other liabilities relating to operating activities	925	(1 184)	1 557	(12 427)	
Net change in liabilities relating to operating activities	**218**	**(1 280)**	**1 136**	**(11 557)**	
Interest and loan fees paid	**(16 910)**	**(6 403)**	**(16 994)**	**(6 340)**	
Interest received	**1 408**	**2 845**	**11 307**	**7 654**	
Net cash flow from operating activities	**117 542**	**114 827**	**45 533**	**24 962**	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of tangible fixed assets	(200 329)	(214 106)	(68 643)	(67 039)	
Proceeds from connection fees	10 316	8 968	10 316	8 968	19
Proceeds from sale of tangible fixed assets	2 199	1 594	853	1 004	
Dividends received from associates	1 139	1 103	0	2 683	11
Loans repayments received from employees	0	4	0	3	
Acquisition of subsidiaries	0	0	(128)	(32 882)	10
Proceeds from sale of financial investments	6	0	6	0	
Change in overdraft to the subsidiaries	0	0	(57 045)	(30 826)	30
Loan repayments from subsidiaries	0	0	83	401	30
Net cash used in investing activities	**(186 668)**	**(202 436)**	**(114 557)**	**(117 688)**	
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of long-term bonds	0	197 260	0	197 260	15
Proceeds from long-term bank loans	20 000	0	20 000	0	15
Repayment of long-term bank loans	(1 055)	(45 000)	0	(45 000)	15
Finance lease principal payments	(12)	(38)	0	0	15
Proceeds from issue of short-term bonds	0	11 089	0	11 089	15
Redemption of short-term bonds	0	(11 089)	0	(11 089)	15
Change in the overnight deposit received from subsidiaries	0	0	2 442	(291)	30
Short term loans received from subsidiaries	0	0	32 211	0	30
Repayment of short term loans to subsidiaries	0	0	(2 557)	0	30
Dividend payments to the minority shareholders	0	(511)	0	0	
Net cash used in financing activities	**18 933**	**151 710**	**52 097**	**151 969**	
Net increase/(decrease) in cash and cash equivalents	(50 193)	64 101	(16 927)	59 243	
Cash and cash equivalents at the beginning of period	95 303	31 202	62 037	2 794	3
Cash and cash equivalents at the end of period	45 110	95 303	45 110	62 037	3
Change in cash and cash equivalents	**(50 193)**	**64 101**	**(16 927)**	**59 243**	

1. Accounting policies

Eesti Energia AS (hereinafter the Company or the Parent Company) is a company incorporated under the laws of the Republic of Estonia on 31 March 1998. The consolidated financial statements for the year ending 31 March 2004 include the financial information in respect of the Company and its subsidiaries (hereinafter the Group) and the Group's participation in associated companies. In order to comply with the Estonian laws and regulations, the financial statements of the Parent Company have also been presented.

Basis of preparation

The consolidated financial statements of the Group and the financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and derivatives, which have been accounted for at fair value.

Group companies use in all material aspects the same accounting principles. In case the accounting principles are changed, the comparative data from previous periods is also changed retrospectively.

Functional and presentation currency

(a) Functional currency

The Parent Company and its subsidiaries use the currency of their primary economic environment – Estonian kroon – as the functional currency.

(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 with a fixed exchange rate of 1 euro = 15,64664 Estonian kroons, no currency translation differences arise from the translation from kroons to euros.

Changes in accounting principles

The following standards revised during 2003 have been early adopted for the preparation of the financial statements of the Group and the Company:

IAS 1 (revised 2003) Presentation of Financial Statements

IAS 2 (revised 2003) Inventories

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 (revised 2003) Events After the Balance Sheet Date

IAS 16 (revised 2003) Property, Plant and Equipment

IAS 17 (revised 2003) Leases

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates

IAS 24 (revised 2003) Related Party Disclosers

The adoption of all abovementioned standards becomes obligatory for the Group from the financial year beginning on 1 April 2005. The early adoption of the above standards caused no significant changes to the existing recognition and measurement policies and had no impact to the profit of the Group or the Company. However, the adoption of the above revised standards has resulted in certain changes in disclosure and presentation of the financial information.

The Group has not early adopted the standards IAS 36 (revised 2004), IAS 38 (revised 2004) and IFRS 3, which become effective for the Group from 1 April 2004. The main impact of the adoption of these standards is related to the accounting for goodwill. According to the new standards the amortisation of goodwill shall be ceased and from the adoption year onwards, goodwill will be annually tested for impairment.

No early adoption has been made for the standards IAS 27 (revised 2003), IAS 28 (revised 2003), IAS 32 (revised 2003) and IAS 39 (revised 2003). The adoption of these standards becomes obligatory for the Group from 1 April 2005. The adoption of IAS 27 (revised 2003) and IAS 28 (revised 2003) will result in termination of using equity method in accounting for investments in subsidiaries and associates in the stand-alone financial statements of the Parent Company. The adoption of IAS 32 (revised 2003) and IAS 39 (revised 2003) may cause limited changes to the accounting and disclosure of financial instruments.

Consolidation

(a) Subsidiaries

Subsidiaries, which are those entities, where the Group has control over the financial and operating policies of the entity, are consolidated. The existence of control is assumed when the Group's share in the subsidiary is more than 50%.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries, except for the transactions between entities under common control. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined on a line-by-line basis. Intragroup balances and intragroup transactions and resulting unrealised profits and losses have been eliminated in full.

In the Parent Company's financial statements the investments in subsidiaries are accounted for using the equity method. Under this method the unrealised gains and losses on transactions between the Group and its subsidiaries are eliminated to the extent of the Group's interest in the subsidiaries.

The current accounting treatment will be changed from 1 April 2005, when the Company applies IAS 27 (revised 2003). Under that revised standard, in the stand-alone financial statements of the Parent company, the investments in subsidiaries shall be accounted for either at cost or fair value.

(b) Associates

An associate is an investment, over which the parent has directly or indirectly significant influence, but not control over the financial and operating policies. Significant influence is assumed when the Group's share in the entity is 20-50%.

Group's interest in the associates' result is accounted for from the date on which significant influence is obtained by the Group and it is no longer accounted for from the date that significant influence ceases.

Investments in associates are accounted for by the equity method of accounting in the Group's as well as Parent Company's financial statements.

Under this method the unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

In the stand-alone financial statements of the Parent Company, the current accounting treatment will be changed from 1 April 2005, when the Company applies IAS 28 (revised 2003). Under that revised standard, in the Parent Company's financial statements, the investments in associates shall be accounted for either at cost or fair value.

Foreign Currency Transactions; Assets and Liabilities denominated in Foreign Currencies

(a) Foreign currency transactions

Foreign currency transactions are accounted for in Estonian kroons using the exchange rates of the Bank of Estonia officially valid on the transaction date. Gains and losses resulting from the

settlement of such transactions are recorded in the income statement.

(b) Assets and liabilities denominated in foreign currencies

Monetary assets and liabilities denominated in a foreign currency have been translated into Estonian kroons based on the exchange rates of the Bank of Estonia officially valid on the balance sheet date. Profits and losses from the translation are recorded in the income statement.

The Current/Non-current Distinction

In the balance sheet, assets and liabilities are classified as current or non-current. The assets are regarded as current if they are expected to be realised, or are held for sale or consumption within one year or in the course of the normal operating cycle. The liabilities are regarded as current if they due to be settled or are expected to be settled within one year or in the course of the normal operating cycle. All other assets and liabilities are regarded as non-current.

Cash and cash equivalents

Cash and cash equivalents (monetary stock) include:

- Cash in hand;
- Bank account balances and cash in transit;
- Short-term deposits in banks (with the remaining maturity of up to 3 months);
- Holdings in highly liquid money market and interest funds.

The spare cash is invested into highly liquid money market and interest rate funds in order to earn interest income. The holdings in funds are carried at market value and are regarded as cash and cash equivalents because of their high liquidity. The difference between the cost and the market value is recorded in the income statement as financial income or expense.

Investments in Shares and Securities

Investments in shares and securities (except for the investments in subsidiaries or associated companies, which are either consolidated or accounted for by using the equity method) are presented either as short-term or long-term investments depending on the estimated timing of their realization. Investments that are expected to be held for more than one year are considered as long-term.

Investments held for trading and available-for-sale are normally carried at their fair value. Changes in the fair value are recorded in the income statement as financial income or expense. If the fair value of available-for-sale investments cannot be determined reliably, the shares are carried at cost less any impairment write-downs.

Purchases and sales of financial investments are recognised at the settlement date.

The Group has no investments in held-to-maturity securities.

Customer Receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. 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. Long-term accounts receivable are recorded at the present value of the recoverable amount. The difference between the nominal value and the present value of the receivable is taken up as interest income over the period until the account receivable is collected.

The estimated collectibility of accounts receivable is assessed on an individual basis for each customer. In case the individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into the groups of receivables with similar credit risk characteristics and are collectively assessed for impairment, using previous years experience on impairment. The receipt of the receivables that have been previously written down is accounted for as a reduction of operating expenses.

Inventories

Inventories are stated in the balance sheet at the lower of acquisition cost or net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. The write down of inventories is recorded in the income statement as an operating expense. Cost is determined using the weighted average method. Raw materials are recorded at the acquisition cost consisting of the purchase price, transportation costs and other direct costs related to the purchase. The acquisition cost of the work-in-progress and the finished goods is the average production cost that is calculated based on the direct and indirect production expenses. Marketing, non-production overhead and financial expenses are not capitalised.

Property, plant and equipment

Property, plant and equipment (PPE) are tangible items that are used in operations with a useful life of over 1 year. PPE are presented in the balance sheet at the net carrying amount, which is the cost less depreciation.

(a) Cost

The cost comprises of the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed items of PPE includes the cost of materials, services and workforce.

If the item of PPE consists of components with different useful lives, these components are depreciated as separate items. Homogenous itmes with similar useful lives (e.g. electricity and heating networks, software and hardware) are accounted for in groups.

Borrowing costs are not capitalised.

(b) Depreciation

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Estimated useful lives are regularly reviewed during annual counts, in case of renovations and as a result of material changes in development plans. If the estimated useful life of the asset materially differs from the previous estimation, the remaining useful life of the asset is changed, resulting in change in the depreciation expense of the future periods.

The useful lives used by the Group for PPE are as follows :

	Useful life of new fixed assets	Derived actual average useful life *	
		1.4.2003 - 31.3.2004	1.4.2002 - 31.3.2003
Buildings	25-40 years	31,0 years	21,9 years
Electricity lines	33-60 years	26,3 years	28,0 years
Other facilities	10-30 years	20,9 years	18,7 years
Transmission equipment	7-25 years	17,5 years	16,2 years
Power plant equipment	7-20 years	15,8 years	14,5 years
Other machinery and tools	3-20 years	8,8 years	8,2 years
Other fixed assets	3-10 years	6,3 years	6,0 years

* Average cost of the fixed assets in use / depreciation of the reporting period

(c) Impairment of assets

The 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 assets:

- Net realisable value;
- Value in use.

In case the net realisable value of the asset cannot be determined reliably, the recoverable value of the asset is its value in use. The value in use is calculated by discounting expected future cash flows generated by the asset to their present value. Impairment test is carried out when any of the following indicators of impairment exist:

- the market value of the 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 the assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has considerably impaired;
- the revenues and cash flows generated by an asset or cash generating unit are lower than expected;
- the activities of a cash generating unit are planned to be terminated.

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 from other assets or groups of assets.

If after the impairment test there are indications that conditions have changed the test would be repeated. According to the result of the assessment, the write down can be partially or wholly reversed.

The write down is recorded together with depreciation in the balance sheet.

(d) Improvements, repair and maintenance

Expenditure is added to the cost of asset if it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Expenditures, which only restore the initial level of performance, are expensed and presented as repair and maintenance costs in the income statement.

Leases

Lease transactions where the lessee retains all the material risks and rewards connected to the ownership of the asset are accounted for as finance leases. All other lease transactions are accounted for as operating leases.

(a) A Group company is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) A Group company is the lessor

The Group has no assets leased out under the terms of finance lease. Items of property, plant and equipment leased out under operating leases are accounted for using the same accounting principles as other similar assets. Rental income is recognised on a straight-line basis over the lease term..

Intangible Assets

Intangible assets are recognised in the balance sheet only if the following conditions are met:
- the asset is controlled by the company;
- 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 are depreciated using the straight-line method over the useful life of the asset not exceeding 20 years.

The intangible assets are written down to their recoverable amount, similarly to tangible assets, when respective indications exist.

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net assets of the acquired subsidiary/ associate at the date of acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering market conditions and potential growth of the acquired companies. The maximum length of amortisation period for goodwill used in the Group is 13 years. Immaterial goodwill is amortized over 5 years.

The existing items of goodwill are amortised over 5-13 years.

Negative goodwill is presented in the balance sheet as a deduction from assets and is amortised in three parts as follows:
- to the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquirer's plan for the acquisition, the goodwill is recognised as income in the income statement when the future losses and expenses are recognised;
- the remaining amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets;
- the amount of negative goodwill in excess of the previously stated amounts, is recognised as income immediately.

According to the new standard IFRS 3, starting from 1 April 2004, goodwill will be no longer amortised. Instead, it will be subject to annual impairment testing.

(b) Development, establishment, research and training costs

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

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

(c) Other intangible assets

Expenses related to patents, brand names, licenses and certificates are capitalised if it is probable that the future economic benefits that are attributable to them will flow to the Group. These intangible assets are depreciated using the straight-line method over the useful life of the asset not exceeding 5 years.

Borrowings and issued bonds

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings and issued bonds are subsequently stated at amortised cost using the effective yield method. The effective yield is the rate that exactly discounts the expected stream of future cash payments through maturity to the current net carrying amount of the financial liability. The amortisation of the transaction costs is recognised in the income statement together with the interest expenses. Interest expenses are recognised on an accrual bases in the income statement. The unpaid accrued interest on the balance sheet date is presented in the balance sheet as accrued expenses.

Taxes

(a) Corporate Income Tax

According to the Income Tax Act of the Republic of Estonia the annual profit earned by enterprises is no longer taxed. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities. Instead of taxing the net profit, the distribution of retained earnings is subject to a dividend tax (26/74 of net dividend paid). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

(b) Other taxes

The Group's result is affected by the following taxes:

Tax	Tax rate
Social insurance tax	33 % of the paid payroll to the employees and of the fringe benefits
Unemployment tax	0.5 % of the paid payroll to the employees
Fringe benefits tax	26/74 of the fringe benefits to the employees

Tax	Tax rate
Pollution charges	Paid for contaminating the air, water, ground water, soil and waste storage, and is based on tonnage and type of waste
Resource tax	0.29 euro (4.50 kroons) per oil shale ton mined
Water utilization charges	0.001-0.03 euro per m3 (0.02-0.5 kroons/m3) of used ground water
Land tax	0.5-2 % of the taxable value of the land per annum
Tax on heavy trucks	3.20-232.64 euros per quarter (50-3640 kroons/ quarter) per truck
Income tax on expenses not related to business activities	26/74 of the expenses not related to business activities

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. The provisions are recognised based on the management's estimates. If required an independent expert may be involved.

Provision is recognised when the probability that the obligation will realise is greater than 50%.

Employee termination benefits are recognised only if announced a detailed plan for restructuring, identifying the expenditure and approximate number of employees who will be compensated.

Provisions are reviewed annually to address possible changes in conditions and estimates.

The expenses incurred with the provisioning are recorded as operating expenses in the income statement.

Long-term provisions are carried at the present value. The difference between the nominal value and the present value of the provision is taken up as an interest income over the period until the provision is realised. Provisions are utilised only for covering expenses for which they were initially made.

(a) Provision for post-employment benefits and compensation for work-injuries

The Group operates no regular post-employment benefit plans. However, if the Company has taken any post-employment obligations towards its former employees (e.g. based on collective agreement with trade unions), respective provision is recognised. The provision is based on the terms of the obligation and the estimated amount of people eligible for the compensation.

Provisions for injury compensation are recognised to cover expenditure related to future compensation payments to former employees according to court orders over the estimated period of such obligation.

(b) Environmental provisions and provisions for restoration and rehabilitation of mining areas

Environmental provisions and provisions for restoration and rehabilitation of mining areas are recognised to cover environmental damages when it is required by the legislation or the Group by its past practice has created a valid expectation on the part of those other parties that it will liquidate environmental damages.

The amount of the provision is determined taking into consideration experts' opinions regarding the amount and timing of the expected outflows and the prior experience.

Derivatives

Derivative financial instruments are recorded at their fair value. The derivatives with the positive market values are recorded as an asset and the derivatives with the negative values are recorded as liabilities. Hedge accounting rules are applied when derivatives are used for hedging the risks of a specific transaction and the hedge is highly effective.

The Group has 2 effective interest-rate swap contracts to fix the interest expense on loans with floating interest rates. The contracts are accounted for in accordance with IAS 39 as cash-flow hedges. The market value of the swap contracts is derived from price quotations of the international stock exchanges. The change in the market value of derivatives is charged to hedging reserve in equity. The realised changes in the market value are recognised in the income statement as interest expenses.

Contingent liabilities

Contingent liabilities are possible obligations where the probability of the outflow of resources is less than 50% or for which no reliable estimate of the amount can be made. Contingent liabilities are recognised off balance sheet and are disclosed in the notes to the financial statements.

Recognition of revenues and expenses

Income and expenses are recognised based on accrual and matching principles, i.e. when they occur and not when cash is received or paid.

Revenue is measured at the fair value of consideration received or receivable. If the payment is deferred for more than 12 months, the receivable is discounted to its present value.

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer.

(a) Sales of electricity

Sales were recorded, based on invoice issued according to meter readings of customers. Meter readings are reported by customers, read by remote counter reading systems, or estimated based on the past consumption patterns. Additionally, estimates are being made regarding the potential impact of readings either not reported or incorrectly reported by the balance sheet date, resulting more precise estimation of the actual consumption and sale of electricity.

(b) Recognition of connection fees

When joining 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 a network. The revenue from connection fees is deferred and recognised as income evenly over the useful life of underlying infrastructure built to connect the client to the network. Unrealised connection fees are carried in the balance sheet as the long-term deferred income.

(c) Revenue recognition on stage of completion method

Revenue from unfinished and finished, but undelivered services is recognised by using the stage of completion method. According to the method, the revenue from rendering the service is recorded in proportion to the costs incurred in rendering the service. Unbilled but recognised revenue is recorded as accrued income in balance sheet.

(d) Interest income and expenses

Interest income and expenses are recognised on the accrual bases and calculated using the effective interest rate. Interest income and expenses are recorded in the income statement as financial income and expenses.

Government grants

Grants related to income are recognised where there is a 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, on a systematic basis. If the 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 of the financial statements. The Group has not received any grants related to assets

Dividends

Dividends paid are recognised as the reduction of retained earnings at the moment of announcing the dividends.

Segment Reporting

As most of the activities of the Group are taking place in Estonia, it is regarded as one geographical segment from the view of International Financial Reporting Standards.

Segment reporting for business segments is carried out according to the Electricity Market Act of Estonia. A business segment is a distinguishable component

of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments

Financial risk management

The Group's overall risk management program focuses on the mitigation of financial risks and seeks to minimise potential adverse effects on the financial performance of the Group. The Treasury department of the parent company manages the liquidity, interest rate and exchange rate risks at the Group level.

(a) Liquidity risk

Liquidity risk is the risk that the Group would be unable to cover its expenses and investment needs due to insufficient cash flows. Liquidity risk is managed by different financial instruments such as loans, bonds and other borrowings.

In order to finance an extensive capital investment program, the Group has issued a 7-year international bond in the amount of 200 million euros and signed two 15-year loan agreements in the amount of 150 million euros. To decrease the level of the interest rate on borrowings, Eesti Energia achieved the A- stable and Baa1 stable credit ratings from Standard&Poor's and Moody's rating agencies in 2002. The bond issue was rated by Standard&Poor's and Moody's respectively as A- by and A3, which at the moment of the issue was higher than the rating of the Republic of Estonia. In March 2004, Moody's raised Eesti Energia AS credit rating to A3.

As at 31 March 2004 the group had undrawn loan facilties in the amount of 130 million euros.

As at the end of the financial year, the Group had spare cash balances in the amount of 45 million euros. The investment of the spare cash funds is regulated by the respective internal group instructions, which stipulate the terms and conditions of spare cash investment. There is a major requirement that cash may be invested only into those financial instruments that have a high investment rating.

Liquidity is managed both on a daily basis and over a longer time horizon. The risk management is supported by the Group's financial software, Oracle Financial, and the group bank accounts opened in Hansapank (Hansa Bank) and Eesti Ühispank (Estonian Union bank). Companies of the Group have group bank account limits, which are set by the Budget Committee.

(b) Credit risk

Credit risk is the risk that the customers and business partners are unable to fulfill their obligations

The overdue debts of the clients are controlled in their respective divisions on a daily bases. 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 to a court or to a collecting agency. Special agreements are in the jurisdiction of special credit committees.

In the case of tenders, the background of suppliers is thoroughly examined.

Only financial institutions with high credit rating are used for cash depositing, derivative transactions, and as insurance partners. Cash balances are diversified in three different banks

(c) Interest rate risk

The interest risk emerges from floating interest rate borrowings, resulting in the risk that borrowing interest payments significantly increase when the interest rate increases. Sensitivity analysis is used for assessing the interest rate risk. According to the Group's policy, over 50% of borrowings should have a fixed interest rate. To hedge the risk, the Group has entered into two 65 million euros interest rate swap agreements with maturity in summer 2006. As at the end of the financial year, 95% of the Group's borrowings had a fixed interest rate (incl. interest rate swap) and a 5% - floating interest rate.

(d) Exchange rate risk

Those liabilities and assets of the Group, which are denominated in euros, are considered to be free of any exchange rate risks. In order to manage exchange rate risks, all foreign contracts are concluded in euros. All the long-term liabilities and electricity export contracts are also quoted in euros.

Operational risk management

Insurance contracts are used, among other measures, in order to minimize the operating risks. The property of the Group (except for Eesti Põlevkivi, Kohtla-Järve Soojus, and transmission lines) are insured with compensation limit of 100 million euros per incident. Additionally to assets, the possibility of interruption in operations and related additional expenses have been insured in power plants. The construction risks of new power blocks in Narva Power Plant are mitigated by special construction risk insurance. In addition to the property insurance, the Group's operational risks are insured in the amount of 50 million euros.

Prepaid insurance premiums are accounted for as prepaid expenses and they are taken up as an expense over the insurance term. Insurance compensations are recorded as income of the period in which the expenses related to the insurance occurred

Accounting estimates and used assumptions

The preparation of the financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates. The effects of changes in the management's estimates are recognised in the profit or loss of the period of the change.

The following are the most critical accounting estimates used in the preparation of these financial statements.

Critical accounting estimates

(a) Estimating the useful lives of fixed assets

The estimated useful lives of fixed assets are based on management's estimate on 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 2004, the Group had fixed assets in net book value of 1,1 billion euros (as at 31 March 2003 1,0 billion euros), the depreciation charge of the period was 82 million euros (77 million euros in the comparative period; see Note 12). If the depreciation rates would be reduced by 10%, annual depreciation charge would decrease and the net profit increase by about 8,2 million euros.

(b) Recognition and measurement of provisions

As at 31 March 2004 the group had created provisions for environmental obligations, restoration and rehabilitation of mining areas, injury compensation, and post-employment benefits in a total amount of 26 million euros (as at 31 March 2003: 24 million euros; see Note 18). The amount and timing of the realisation of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of the provisions, including, amount of the future expenditure, inflation and discount rates, and timing of realisation of the expenditure. The actual expenditure may differ from the provisions recognised also as result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(c) Estimating the recoverable amount of fixed assets

The Group regularly undertakes impairment tests for fixed assets. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates about the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on forecasts about general economic environment, consumption and sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed.

2 Segment reporting

For segment reporting purposes, the group's business units and subsidiaries are divided into busines segments based on the internal management reporting structure and statutory requirements stipulated in the Electricity Market Act of Estonia. The Electricity Market Act of Estonia requires separate accounting to be held for electricity production, transmission, distribution and sales.

Operating revenues and expenses are allocated to different segments based on internal invoicing.

The pricing of inter-segment transfers is based on the prices approved by the Estonian Energy Market Inspectorate, or if not available, on the market prices. If no market prices exist, the internal prices are affirmed by the budget committee of the group.

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

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

Oil shale mining - Eesti Põlevkivi (Estonian Oil Shale);

Production of electricity and heat - Narva Elektrijaamad (Narva Powerplants), Iru Powerplant, Kohtla-Järve district CHP, Taastuvenergia (Renewable energy);

Transmission of electricity - Põhivõrk (National Grid);

Distribution of electricity - Jaotusvõrk (Distribution Network), Mööteteenused (Measurement unit);

Sales and customer service - Klienditeenidus (Client supply);

Support services - AS Energoremont, AS Elektriteenused, AS Elpec, Televõrgu AS, Administration unit, support services.

Business segments' number of employees

	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Total group
Number of employees at 1.4.2003	4 617	2 286	162	966	401	1 244	9 676
Number of employees at 31.3.2004	4 680	2 290	141	988	415	1 270	9 784
Average number during 2003/2004	4 680	2 287	144	976	406	1 261	9 754
Number of employees at 1.4.2002	4 913	2 334	162	946	412	1 262	10 029
Number of employees at 31.3.2003	4 617	2 286	162	966	401	1 244	9 676
Average number during 2002/2003	4 708	2 306	157	960	402	1 235	9 768

2 Segment reporting (continued)

Business segments' income statements for the period 1.4.2003-31.3.2004

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Sales								
External sales	15 820	50 972	3 832	5 278	289 608	11 602	0	377 112
incl. Estonia	15 820	44 788	3 251	5 129	264 964	6 144	0	340 096
incl. export	0	6 183	582	149	24 644	5 459	0	37 017
Intra-group sales	100 522	211 925	53 697	127 480	29 940	27 767	(551 331)	0
Total	116 342	262 897	57 529	132 758	319 549	39 369	(551 331)	377 112
Other revenue	413	191	75	92	751	641	(19)	2 144
Change in work-in-progress and finished goods	1 533	578	0	0	0	0	909	3 021
Externally purchased materials, consumables and supplies	(38 614)	(55 381)	(4 618)	(9 403)	(2 485)	(14 714)	4 730	(120 484)
Internally purchased materials, consumables and supplies	(9 996)	(103 758)	(24 687)	(72 683)	(320 932)	752	531 304	0
Total materials, consumables and supplies	(48 610)	(159 139)	(29 305)	(82 087)	(323 417)	(13 962)	536 034	(120 484)
Other operating expenses	(3 730)	(24 303)	(2 557)	(6 028)	(5 661)	(6 646)	10 354	(38 571)
Payroll expenses	(42 225)	(21 058)	(2 116)	(9 172)	(3 496)	(13 795)	2 072	(89 789)
Other expenses	(506)	142	(6)	(89)	(30)	(228)	11	(706)
Depreciation	(12 846)	(22 070)	(20 245)	(23 711)	(226)	(3 258)	310	(82 046)
Impairment	0	(1 313)	0	0	0	0	265	(1 048)
Operating profit/loss	**10 372**	**35 927**	**3 375**	**11 762**	**(12 530)**	**2 122**	**(1 394)**	**49 633**
Share of results of associates	1 234		(112)					1 121
Other financial incomes and expenses								(17 796)
Net profit for the period								**32 958**

2 Segment reporting (continued)

Business segemnts' income statements for the period of 1.4.2002-31.3.2003

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Sales								
External sales	16 492	55 157	4 037	1 455	279 040	9 480	0	365 661
incl. Estonia	16 476	50 834	2 259	1 320	256 119	6 483	0	333 490
incl. exports	16	4 323	1 779	135	22 921	2 997	0	32 171
Intra-group sales	94 831	205 625	51 104	125 609	44 574	27 059	(548 802)	0
Total	111 323	260 782	55 142	127 065	323 613	36 539	(548 802)	365 661
Other revenue	578	1 480	112	110	622	652	(1)	3 554
Change in work-in-progress and finished goods	1 167	(47)	0	0	0	0	(226)	895
Externally purchased materials, consumables and supplies	(33 703)	(53 779)	(5 168)	(8 795)	(1 667)	(14 540)	3 833	(113 818)
Internally purchased materials, consumables and supplies	(8 165)	(101 147)	(21 194)	(72 557)	(330 179)	(675)	533 918	0
Total materials, consumables and supplies	(41 868)	(154 926)	(26 362)	(81 352)	(331 845)	(15 216)	537 751	(113 818)
Other operating expenses	(6 578)	(26 445)	(2 767)	(5 432)	(5 717)	(5 803)	9 884	(42 859)
Payroll expenses	(36 709)	(19 005)	(1 961)	(8 455)	(3 342)	(12 400)	1 393	(80 478)
Other expenses	(436)	(254)	(10)	(40)	(19)	(197)	0	(955)
Depreciation	(10 834)	(21 578)	(18 116)	(23 269)	(256)	(3 211)	0	(77 266)
Impairment	0	(1 395)	0	0	0	0	0	(1 395)
Operating profit/loss	**16 642**	**38 612**	**6 038**	**8 627**	**(16 944)**	**365**	**0**	**53 340**
Share of results of associates	1 323	0	(149)					1 173
Other financial incomes and expenses								(13 201)
Net profit for the period								**41 312**

Business segments` balance sheet as of 31.3.2004

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Current assets	24 156	29 518	843	667	36 690	54 230	(35 259)	110 845
Non-current assets	62 102	415 330	271 267	359 239	391	25 898	0	1 134 227
incl shares in associates	2 142		614					2 756
Total assets	86 257	444 849	272 110	359 906	37 082	80 128	(35 259)	1 245 072
Liabilities related to operating activities								
Current liabilities	17 786	60 584	3 721	8 109	11 845	54 827	(60 589)	96 283
Non-current liabilities	10 075	9 787	1 245	37 270	0	277	0	58 654
Total liabilities related to operating activities	27 861	70 371	4 966	45 379	11 845	55 104	(60 589)	154 936
Bonds and Borrowings								294 690
Total Liabilities								449 626

2 Segment reporting (continued)

Business segments' balance sheets as of 31.3.2003

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Current assets	52 828	34 351	671	597	35 919	70 898	(30 994)	164 269
Non-current assets	54 511	328 966	276 888	337 115	375	22 841	0	1 020 697
incl. share in associates	2 048		727					2 774
Total assets	107 339	363 317	277 560	337 712	36 294	93 740	(30 994)	1 184 966
Liabilities related to operating activities								
Current liabilities	21 714	55 972	4 318	9 364	12 267	21 293	(30 639)	94 289
Non-current liabilities	9 859	13 763	1 007	28 433	0	0	0	53 061
Total liabilities related to operating activities	31 573	69 735	5 325	37 797	12 267	21 293	(30 639)	147 350
Bonds and Borrowings								275 672
Total Liabilities								423 022

Business segments' capital expenditure

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Period 1.4.2003-31.3.2004	21 556	109 323	15 559	45 705	243	6 035	60	198 480
Period 1.4.2002-31.3.2003	20 820	153 248	16 590	46 698	146	3 661	(3 052)	238 111

Business segments' cash flows for the period 1.4.2003-31.3.2004

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Cash flows from operating activities	17 044	56 048	24 031	28 235	(16 077)	8 036	225	117 542
Cash flows from investing activities	(48 998)	(108 871)	(16 536)	(36 594)	(246)	(4 980)	29 558	(186 668)
Cash flows from financing activities	0	52 781	(7 367)	8 359	16 317	(18 932)	(32 225)	18 933
Net increase/decrease in cash	(31 955)	(42)	128	0	(6)	(15 876)	(2 442)	(50 193)

Business segments' cash flows for the period 1.4.2002-31.3.2003

in thousands of euros	Oil shale mining	Production of electricity and heat	Transmission of electricity	Distribution of electricity	Sales and customer service	Support services	Intra-group eliminations	Total group
Cash flows from operating activities	24 163	66 370	23 250	27 301	(35 725)	9 358	110	114 827
Cash flows from investing activities	(18 268)	(94 753)	(15 391)	(37 515)	(121)	(33 054)	(3 334)	(202 436)
Cash flows from financing activities	(1 044)	28 373	(7 859)	10 214	35 803	82 708	3 514	151 710
Net increase/decrease in cash	4 851	(10)	0	-0	(42)	59 012	291	64 101

3 Cash and cash equivalents

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Cash in hand	8	12	8	9
On-demand deposits in banks	41	5 375	41	26
Cash in transit	37	55	37	44
Time deposits in banks				
Overnight deposits	2 467	4 820	2 467	3 440
Up to 3 months deposits	40 016	75 096	40 016	48 573
Shares in money market and interest funds	2 540	9 946	2 540	9 946
Total cash and cash equivalents	**45 110**	**95 303**	**45 110**	**62 037**

The effective interest rates on time deposits were between 1.2 - 3.5% (2002/2003 2.4 - 3.5%). Accrued interest on bank deposits is disclosed in Note 7.

4 Available-for-sale financial assets

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Investment in AS Elektrikontrollikeskus (37 000 shares)	350	350	350	350
Investment in Krediidipank (6 600 shares)	4	4	0	0
Total available-for-sale financial assets	**354**	**354**	**350**	**350**

The investments are stated at cost because their fair value cannot be estimated reliably. In the management's opinion the fair value of the above investments likely exceeds their carrying amount.

5 Trade receivables

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Short-term trade receivables				
Accounts receivable for				
Electricity	36 024	35 801	36 024	35 773
Heat	13 338	14 160	3 748	4 104
Other	6 870	5 708	1 089	1 010
Total accounts receivable	56 231	55 669	40 861	40 887
Allowance for doubtful receivables for				
Electricity	(1 856)	(2 069)	(1 856)	(2 069)
Heat	(7 669)	(7 360)	(1 342)	(1 443)
Other	(660)	(211)	(55)	(161)
Total allowance for doubtful receivables	(10 186)	(9 641)	(3 254)	(3 674)
Total short-term trade receivables	**46 046**	**46 028**	**37 607**	**37 213**
Long-term trade receivables				
Accounts receivable	0	194	0	194
Total long-term trade receivables	**0**	**194**	**0**	**194**
Allowance for doubtful receivables at beginning of period	**(9 641)**	**(6 804)**	**(3 674)**	**(2 167)**
Allowance made during the period	(5 414)	(6 478)	(2 794)	(4 026)
Receipt of receivables written down in previous periods	3 640	2 527	2 025	1 607
Receivables written off	1 228	1 114	1 188	912
Allowance for doubtful receivables at end of period	**(10 186)**	**(9 641)**	**(3 254)**	**(3 674)**

6 Other receivables

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Receivables from subsidiaries (Note 30)	0	0	163 569	106 537
Receivables from associates	1	2	0	0
Other short-term receivables	84	51	78	14
Total other receivables	**85**	**53**	**163 647**	**106 552**

7 Accrued income

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Gross amount due from customers for construction contracts	381	1 506	0	0
Estimated accrued sales of the electricity related to unsubmitted meter readings	1 318	1 318	1 318	1 318
Interest receivable	44	254	44	151
Total accrued income	**1 742**	**3 077**	**1 362**	**1 469**

Construction contracts and long-term projects in thousands of euros	Group 31.3.2004	Group 31.3.2003
Work in progress by the end of the reporting period		
Recognised revenue from the work in progress	705	1 983
Progress billing	(324)	(477)
Gross amount due from customers	381	1 506
Aggregate amount of costs incurred and recognised	(630)	(1 807)
Profit recognised from work in progress	75	176
Total revenue from the construction contracts recognised during the period	8 641	7 472
Total costs incurred to the construction contracts	8 061	7 025

Construction contracts and long-term projects are related to the production of various power equipment and construction and design of networks.

8 Prepayments

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Prepaid taxes				
Prepaid VAT	38	3 460	0	0
Other	31	0	11	0
Total prepaid taxes	**69**	**3 460**	**11**	**0**
Other prepaid expenses				
Insurance premiums	356	3 878	83	494
Prepayments for services	84	458	43	126
Other	408	58	209	12
Total other prepaid expenses	**847**	**4 394**	**335**	**632**
Total prepaid expenses	**916**	**7 854**	**346**	**632**

9 Inventories

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Materials	**7 956**	**6 010**	**474**	**596**
Work in progress (at cost)				
Extracted oil shale	4 902	3 755	0	0
Stripping works at surface mines	1 894	966	0	0
Other	755	386	0	0
Total work in progress	**7 552**	**5 107**	**0**	**0**
Finished goods (at cost)				
Shale oil	969	392	0	0
Other	45	47	0	0
Total finished goods	**1 014**	**438**	**0**	**0**
Prepayments to suppliers	**70**	**45**	**0**	**0**
Total inventories	**16 592**	**11 600**	**474**	**596**

During the financial year the Group wrote down spoilt and slow-moving inventories in the total amount of 31 thousand euros, (in 2002/2003 314 thousand euros)
As at 31.3.2004 the warehouses contained materials carried at the fair value in a total amount of 1 thousand euros (in 2002/2003 23 thousand euros).

10 Investments in subsidiaries

in thousands of euros	Parent company 31.3.2004	Parent company 31.3.2003
AS Narva Elektrijaamad (Narva Power Plants)	176 706	153 190
AS Eesti Põlevkivi (Estonian Oil Shale)	87 534	75 878
Televõrgu AS	3 708	2 359
AS Energoremont	2 915	1 963
AS Elektriteenused	2 725	1 908
AS Kohtla-Järve Soojus (Kohtla Järve District Heat)	375	790
AS Elpec	231	231
OÜ Põhivõrk (National Grid)	128	0
Total investments in subsidiaries	**274 321**	**236 317**

10 Investments in subsidiaries (continued)

Company	Location	Core activity	Stake (%)
Subsidiaries belonging to the Parent Company			
AS Narva Elektrijaamad	Estonia	Generation of electricity and heat	100,0
AS Eesti Põlevkivi	Estonia	Oil shale mining	100,0
AS Kohtla-Järve Soojus	Estonia	Generation of electricity and heat	59,2
Televõrgu AS	Estonia	Telecommunication services	100,0
AS Energoremont	Estonia	Production of metal products	100,0
AS Elektriteenused	Estonia	Maintenance, repair and construction of networks	100,0
AS Elpec	Estonia	Design and engineering of energy systems	100,0
AS Elektrikontrollikeskus	Estonia	Control of electrical equipment	100,0
OÜ Põhivõrk	Estonia	Network- and transit services through the main grid	100,0
Subsidiaries belonging to the Subsidiaries			
Subsidiaries of AS Eesti Põlevkivi			
Põlevkivi Kaevandamise AS	Estonia	Oil shale mining	100,0
AS Põlevkivi Raudtee	Estonia	Transport	100,0
AS Mäetehnika	Estonia	Mining machinery repair	100,0
Subsidiaries of AS Narva Elektrijaamad			
AS Narva Soojusvõrk	Estonia	Sales and distribution of heat	66,0
Subsidiaries of AS Energoremont			
AS ER Baltic Electrotechnics and automation	Estonia	Equipment assembling	100,0

The ownership in the subsidiaries remained unchanged during the reporting period. AS Eesti Energia founded OÜ Põhivõrk, making a monetary contribution into the capital in the amount of 2 million kroons (128 thousand euros). The company was registred in the commercial registry at 24.3.2004. By founding OÜ Põhivõrk Eesti Energia AS has fulfilled ahead of schedule the provisions of Electricity Market Act of Estonia regarding the unbundling of electricity transportation (National Grid) into separate legal entity by 1.5.2005. (Note 34).

AS Elektrikontrollikeskus has not been consolidated because the shares are planned to be sold in the near future (see Note 4).

The assets, liabilities, operating income and profit of AS Elektrikontrollikeskus

in thousands of euros

	Assets	Liabilities	Operating Income	Profit
As at 31.3.2004/ For 1.4.2003-31.3.2004	654	77	585	51
As at 31.3.2003/ For 1.4.2002-31.3.2003	597	71	51	115

11 Investments in associates

Investments in associates

in thousands of euros	Group	Parent company
Book value as at 31.3.2002	**2 709**	**881**
Changes during 1.4.2002-31.3.2003		
Share in the result of associates	1 173	(149)
Dividends received	(1 103)	0
Write - down	(5)	(5)
Book value as at 31.3.2003	**2 774**	**727**
Changes during 1.4.2003-31.3.2004		
Share in the result of associates	1 121	(112)
Dividends received	(1 139)	0
Book value as at 31.3.2004	**2 756**	**614**

Information about associates

in thousands of euros

Company	Location	Assets	Liabilities	Operating Income	Profit/ Loss	Stake (%)
				1.4.2003-	1.4.2003-	
		31.3.2004	31.3.2004	31.3.2004	31.3.2004	31.3.2004
Associate belonging to the company						
DC Baltija	Latvia	2 021	167	1 553	(340)	33,3
Associate belonging to the subsidiary						
Orica Eesti OÜ	Estonia	6 758	611	12 802	2 992	35,0

Company	Location	Assets	Liabilities	Operating Income	Profit/ loss	Stake (%)
				1.4.2002-	1.4.2002-	
		31.3.2003	31.3.2003	31.3.2003	31.3.2003	31.3.2003
Associate belonging to the company						
DC Baltija	Latvia	2 553	268	1 751	(37)	33,3
Associate belonging to the subsidiary						
Orica Eesti OÜ	Estonia	7 099	1 222	11 231	3 719	35,0

12 Property, plant, equipment (PPE)

PPE of the Group

in thousands of euros	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2002						
Cost	420	104 255	684 505	556 327	1 528	1 347 034
Accumulated depreciation	0	(59 732)	(231 166)	(239 879)	(913)	(531 691)
Opening net book value	420	44 523	453 339	316 448	614	815 343
Construction and renovation in progress	0	1 502	5 732	27 546	0	34 779
Prepayments	515	168	18	1 895	0	2 595
Total balance at 31.3.2002	**934**	**46 192**	**459 089**	**345 888**	**614**	**852 718**
Movements for the period						
Additions	146	6 199	40 272	191 046	448	238 111
Non-monetary contribution to share capital	3 503	0	0	0	0	3 503
Depreciation	0	(4 017)	(26 311)	(46 575)	(287)	(77 190)
Impairment charge	0	(795)	0	(600)	0	(1 395)
Disposals	(54)	(528)	(40)	(124)	0	(745)
Reclassification	0	979	(19 923)	18 944	0	0
Total movements for the period	**3 595**	**1 838**	**(6 001)**	**162 690**	**161**	**162 283**

PPE of the Group	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2003						
Cost	4 268	109 405	693 465	621 999	1 924	1 431 061
Accumulated depreciation	(0)	(61 727)	(251 571)	(279 391)	(1 149)	(593 838)
Opening net book value	4 268	47 677	441 895	342 608	775	837 223
Construction and renovation in progress	0	332	11 175	165 035	0	176 541
Prepayments	262	21	18	936	0	1 238
Total balance at 31.3.2003	**4 529**	**48 030**	**453 088**	**508 579**	**775**	**1 015 001**
Movements for the period						
Additions	67	10 207	33 425	154 136	645	198 480
Depreciation	(1)	(3 723)	(28 909)	(48 826)	(355)	(81 813)
Impairment charge	0	(51)	(997)	0	0	(1 048)
Disposals	(27)	(390)	(95)	(1 131)	(1)	(1 644)
Total movements for the period	**39**	**6 044**	**3 423**	**104 180**	**290**	**113 976**
Closing balance as at 31.3.2004						
Cost	4 303	115 875	719 572	676 378	2 518	1 518 645
Accumulated depreciation	(2)	(64 909)	(277 116)	(320 232)	(1 453)	(663 710)
Opening net book value	4 301	50 967	442 456	356 146	1 065	854 935
Construction and renovation in progress	0	3 100	13 883	256 087	0	273 071
Prepayments	266	8	171	526	0	971
Total balance at 31.3.2004	**4 568**	**54 075**	**456 511**	**612 758**	**1 065**	**1 128 977**

The impairment charge in both periods reates to the Group subsidiary AS Kohtla-Järve Soojus. During the reporting period the carrying amount of the Ahtme district heating systems was partially written down. The recoverable amount of the assets was determined on the basis of 5 year cash-flow projections discounted at 16%. The impairment loss in the amount of 1 395 thousand euros recognised in the previous period related to the power plants of the same subsidiary (calculated using the discount rate of 10%). The impairment was caused by the decrease in the number of customers and poor payment discipline, which is inherent in the region the company operates in.

Included within construction in the progress balances is 246 817 thousand euros of the re-novation cost of the Narva Power Plants' power blocks (as at 31.3.2003: 155 315 thousand euros).

12 Property, plant, equipment (continued)

PPE of the parent company	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2002						
Cost	265	28 938	598 558	289 787	627	918 175
Accumulated depreciation	0	(5 521)	(183 490)	(96 713)	(427)	(286 150)
Opening net book value	265	23 417	415 069	193 075	200	632 025
Construction and renovation in progress	0	1 188	4 718	2 412	0	8 318
Prepayments	510	168	0	6	0	684
Total balance at 31.3.2002	**775**	**24 773**	**419 787**	**195 493**	**200**	**641 027**
Movements for the period						
Additions	121	665	33 634	32 216	89	66 726
Non-monetary contribution to share capital	3 503	0	0	0	0	3 503
Depreciation	(0)	(1 162)	(21 730)	(23 151)	(108)	(46 151)
Disposals	(43)	(411)	0	(64)	0	(518)
Reclassification	0	979	(19 923)	18 944	0	0
Total movements for the period	**3 581**	**72**	**(8 019)**	**27 944**	**(18)**	**23 560**

PPE of the parent company	Land	Buildings	Construc-tions	Plant and equipment	Other	Total
Opening balance as at 31.3.2003						
Cost	4 095	30 767	605 016	334 829	687	975 394
Accumulated depreciation	(0)	(6 188)	(200 632)	(117 492)	(506)	(324 818)
Opening net book value	4 094	24 579	404 384	217 338	181	650 576
Construction and renovation in progress	0	266	7 384	6 099	0	13 749
Prepayments	262	0	0	0	0	262
Total balance at 31.3.2003	**4 356**	**24 844**	**411 768**	**223 437**	**181**	**664 586**
Movements for the period						
Additions	62	3 081	27 466	35 811	145	66 564
Depreciation	(1)	(1 140)	(24 408)	(23 319)	(97)	(48 964)
Disposals	(30)	(301)	0	(18)	(1)	(350)
Total movements for the period	**31**	**1 640**	**3 058**	**12 474**	**47**	**17 250**
Closing balance as at 31.3.2004						
Cost	4 122	33 329	625 938	364 283	814	1 028 485
Accumulated depreciation	(2)	(7 015)	(221 194)	(136 316)	(585)	(365 111)
Opening net book value	4 120	26 314	404 744	227 967	228	663 374
Construction and renovation in progress	0	171	10 082	7 940	0	18 192
Prepayments	266	0	0	4	0	270
Total balance at 31.3.2004	**4 386**	**26 485**	**414 826**	**235 911**	**228**	**681 836**

12 Property, plant, equipment (continued)

Group's subsidiary AS Kohtla-Järve Soojus rents special equipment and computers under finance lease terms. The lease contracts will end on 30.5.2006.

Assets leased under finance lease (group as the lessee)

in thousands of euros

	Balance at 31.3.2003	New Contracts	Depreciation	Terminated contracts	Balance at 31.3.2004
Cost	272	2	0	(225)	48
Accumulated depreciation	(117)	0	(122)	225	(15)
Net book value	**154**	**2**	**(122)**	**0**	**34**

Assets leased out under operating lease

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Cost	5 265	7 066	21 266	22 843
Accumulated depreciation	(1 609)	(1 690)	(2 858)	(2 446)
Depreciation	(209)	(283)	(1 248)	(1 371)
Net book value	**3 447**	**5 094**	**17 161**	**19 027**

The above numbers include only respective proportion of the cost and depreciation in respect of the assets, which are partially leased out.

13 Intangible assets

in thousands of euros

	Goodwill				Other intangible assets
	AS Eesti Põlevkivi	AS Elpec	AS Narva Soojusvõrk	Total goodwill	
Balance as at 31.3.2002					
Cost	0	44	37	82	13
Accumulated depreciation	0	(11)	(13)	(24)	0
Total balance as at 31.3.2002	**0**	**33**	**24**	**57**	**13**
Movements in the period					
Additions	2 732	0	0	2 732	0
Depreciation	(53)	(9)	(7)	(69)	(7)
Balance as at 31.3.2003					
Cost	2 732	44	37	2 814	13
Accumulated depreciation	(53)	(20)	(20)	(93)	(7)
Total balance at 31.3.2003	2 680	24	17	2 721	7
Movements in the period					
Depreciation	(210)	(9)	(7)	(226)	(7)
Balance at 31.3.2004					
Cost	2 732	44	37	2 814	13
Accumulated depreciation	(263)	(29)	(28)	(319)	(13)
Total balance at 31.3.2004	**2 470**	**16**	**9**	**2 494**	**tt0**

Goodwill relating to AS Eesti Põlevkivi and AS Elpec is also carried in the Parent Company's balance sheet. The goodwill arising from the acquisition of the shares of AS Eesti Põlevkivi has an estimated useful life of 13 years. The estimate of the useful life is affected by the agreement that was concluded with the EU to extend until 2016 the transition period in respect of the liberalisation of the electricity market and the application of the air pollution standards to oil share fired power plants. Other items of goodwill are estimated to have a useful life of 5 years.

Other intangible assets included an expenditure incurred by AS Energoremont for the accreditation of its lab; it was amortised over two years.

14 Operating lease

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Revenue from operating lease (Group as a lessor)				
Buildings	532	434	754	681
Constructions	206	15	560	450
Total revenue from operating lease	**738**	**449**	**1 314**	**1 130**
Operating lease expenses (Group as a lessee)				
Buildings	272	363	178	203
Motor vehicles	1 490	1 402	815	829
Other equipment	63	56	33	32
Total expense from operating lease (Note 25)	**1 825**	**1 821**	**1 026**	**1 065**

Future minimum lease receivables under non-cancellable operating lease contracts

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Future operating lease receivables				
< 1 year	143	475	143	475
1-5 years	573	573	573	573
> 5 years	3 436	3 579	3 436	3 579
Total future operating lease receivables	**4 152**	**4 627**	**4 152**	**4 627**

The operating lease contracts where the Group is acting as a lessee are cancellable on a short-term notice.

15 Borrowings

Borrowings at amortised cost

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Short-term borrowings				
Short-term bank loans	0	1 055	0	0
Current portion of long-term bank loans	1 182	0	1 182	0
Finance lease liabilities	11	12	0	0
Total short-term borrowings	**1 192**	**1 067**	**1 182**	**0**
Long-term borrowings				
Bonds issued	197 820	197 482	197 820	197 482
Long-term bank loans	95 666	76 644	95 666	76 644
Finance lease liabilities	12	21	0	0
Total long-term borrowings	**293 497**	**274 147**	**293 486**	**274 126**
Total borrowings	**294 690**	**275 214**	**294 667**	**274 126**

15 Borrowings (continued)

Changes in borrowings

in thousands of euros

	Group	Parent company
Amortised cost as at 31.3.2002	**123 276**	**122 197**
Movements for the period		
Repayment of long-term bank loans	(45 000)	(45 000)
Deferred loan fees	(1 050)	(1 050)
Amortisation of loan fees	497	497
Issue of long-term bonds	197 260	197 260
Issue of short-term bonds	11 089	11 089
Redemption of short-term bonds	(11 089)	(11 089)
Amortisation of the difference between	0	0
the nominal amount and the cost of the bonds	222	222
New finance lease contracts	47	0
Paid finance lease liabilities	(38)	0
Amortised cost as at 31.3.2003	**275 214**	**274 126**
Movements for the period		
Long-term bank loans taken	20 000	20 000
Repayment of short-term bank loans	(1 055)	0
Amortisation of loan fees	203	203
Amortisation of the difference between		
the nominal amount and the cost of the bonds	338	338
New finance lease contracts (Note 12)	2	0
Paid finance lease liabilities	(12)	0
Amortised cost as at 31.3.2004	**294 690**	**294 667**

Repayment of short-term loans in amount of 1 055 thousand euros relates to the Hansapank loan repaid by Group subsidiary AS Kohtla-Järve Soojus in March 2004.

Principle amount of loans and maturity

in thousands of euros

	Total amount	As at 31.3.2004		As at 31.3.2003		
Creditor	**available**	**drawn**	**undrawn**	**drawn**	**undrawn**	**Final settlement**
Nordic Investment Bank	13 000	13 000	0	13 000	0	2009
Nordic Investment Bank	15 000	15 000	0	15 000	0	2012
Syndicate loan	50 000	50 000	0	50 000	0	2006
Kreditinstalt für Wiederaufbau	90 000	0	90 000	0	90 000	2017
Nordic Investment Bank	60 000	20 000	40 000	0	60 000	2017
Total long-term bank loans	**228 000**	**98 000**	**130 000**	**78 000**	**150 000**	

All loans are denominated in euros. Interest rates are floating, based on 6 months EURibor. As at 31.3.2004, the interest rates for loans ranged from 2.8-5.2% and the weighted average interest rate was 6 months EURibor + 0.7%. (31.3.2003: 6 months EURibor + 0.8%).

The floating interest rates of the syndicate loan in the amount of 50 000 thousand euros (until the end of the loan period) and of the Nordic Investment Bank loan in the amount of 15 000 thousand euros (until 2006) are fixed using interest rate swap, having the weighted average interest rate of 5.8% (see Note 18).

Considering the effect of derivative instruments the weighted average interest rate as at 31.3.2004 was 5.3% (31.3.2003: 5.6%).

The loan agreements concluded by the Group set certain limits to the Group's financial indicators. Those limits have not been exceeded

15 Borrowings (continued)

The type of the interest rate (fixed or floating) on undrawn loan facilities will be decided on the receipt of the loan.
The decision regarding the usage of the loans should be made by 30.9.2006. According to the management estimation the loans will likely be withdrawn.

Maturities of long-term bank loans (principle amounts)

in thousands of euros

	31.3.2004	31.3.2003
‹ 1 year	1 182	0
1 - 5 years	69 520	62 558
› 5 years	27 299	15 442
Total	**98 000**	**78 000**

According to the management's estimates, the market value of the loans does not materially differ from their book value.

Bonds issued

in thousands of euros

	31.3.2004	31.3.2003
Nominal value of the bonds	200 000	200 000
Proceeds from issue	197 260	197 260
Amortisation of the difference between the nominal value and the cost of the bonds	560	222
The balance as at 31.3.2004	**197 820**	**197 482**
The Market value as at 31.3.2004	219 484	213 800

Eesti Energia issued 7-year, 6% fixed interest rate bonds in the total amount of 200 million euros in July 2002. The bonds are listed on the Luxemburg Stock Exchange.

Finance lease liabilities (principle amount)

in thousands of euros

	Balance as at 31.3.2003	New Contracts	Principle paid	Terminated contracts	Balance as at 31.3.2004
Original lease liabilities	272	2	0	(225)	48
Repaid portion	(239)	0	(12)	225	(26)
Carrying amount of lease liabilities	**33**	**2**	**(12)**	**0**	**22**

	Balance as at 31.3.2002	New Contracts	Principle Payments	Terminated contracts	Balance as at 31.3.2003
Original lease liabilities	258	47	0	(33)	272
Repaid portion	(234)	0	(38)	33	(239)
Carrying amount of lease liabilities	**25**	**47**	**(38)**	**0**	**33**

As at 31.3.2004 the interest rates of the finance lease contracts were between 4.8-5.1% (5.3-11.1% as at 31.3.2003).

Maturities of finance lease liabilities (principle amounts)

in thousands of euros

	‹ 1 year	1- 5 years	Total
As at 31.3.2004			
Minimum lease payments	12	12	23
Future finance charges on finance lease	(1)	(0)	(1)
Present value of finance lease liabilities as at 31.3.2004	**11**	**12**	**22**
As at 31.3.2003			
Minimum lease payments	14	22	36
Future finance charges on finance lease	(2)	(1)	(3)
Present value of finance lease liabilities as at 31.3.2003	**12**	**21**	**33**

15 Borrowings (continued)

Exposure of the borrowings to interest rate charges and the periods in which the borrowings reprice
in thousands of euros

	‹ 1 year	1 - 5 years	› 5 years	Total
Balance as at 31.3.2004				
Borrowings	96 870	0	197 820	294 690
Effect of interest rate swap	(64 738)	64 738	0	0
Total balance as at 31.3.2004	**32 132**	**64 738**	**197 820**	**294 690**
Balance as at 31.3.2003				
Borrowings	77 732	0	197 482	275 214
Effect of interest rate swap	(64 646)	64 646	0	0
Total Balance as at 31.3.2003	**13 086**	**64 646**	**197 482**	**275 214**

Weighted average effective interest rates of borrowings

	31.3.2004	31.3.2003
Long-term bank loans	3,3%	4,5%
Short-term bank loans		6,3%
Bonds	6,3%	6,3%
Finance lease liabilities	4,8%	5,7%

16 Trade and other payables

in thousands of euros	Group 31.3.2004	Group 31.3.2003	Parent company 31.3.2004	Parent company 31.3.2003
Short-term trade and other payables				
Trade payables				
Payables for property, plant and equipment	37 201	33 829	6 410	8 488
Payables for fuel	2 627	3 050	2 627	3 050
Other payables for goods and services	11 198	13 512	3 812	4 119
Total short-term trade payables	**51 026**	**50 390**	**12 848**	**15 656**
Accrued expenses				
Payables to employees	9 827	8 892	1 995	1 874
Accrued interest	9 321	9 173	9 321	9 173
Other accrued expenses	1 657	802	1 237	260
Total accrued expenses	**20 804**	**18 867**	**12 553**	**11 307**
Tax liabilities	12 556	12 273	4 714	3 777
Liabilities to subsidiaries (Note 30)	0	0	44 634	13 263
Liabilities to associates	162	970	0	0
Customers advance payments	57	500	6	30
Other payables	1 281	770	1 185	623
Total short-term trade and other payables	**85 885**	**83 771**	**75 940**	**44 657**
Long-term trade and other payables				
Trade payables	0	5 223	0	0
Tax liabilities	0	458	0	0
Total long-term trade and other payables	**0**	**5 681**	**0**	**0**
Total trade and other payables	**85 885**	**89 452**	**75 940**	**44 657**

According to the contract for the renovation of power blocks between Narva Elektrijaamad (Narva Power Plants) and Foster Wheeler Energia Oy (contractor), 10% of the contract payments are retained until the launch of the power blocks. As of the 31.3.2004, the retained amount included in payables for property totalled 25 246 thousand euros (as at 31.3.2004: short-term part 10 240 thousand euros and the long-term part 5 223 thousand euros).

As at 31.3.2003 AS Kohtla-Järve Soojus had a deferred social tax interest payable of 522 thousand euros.

Because of the changes in the tax legislation, the major part of the interest liability was canelled and the amount of the liability reduced to 53 thousand euros, which is payable in equal amounts until January 2005.

17 Derivatives

The Group has entered into two interest rate swap agreements with Westdeutsche Landesbank Girozentrale to swap a floating interest rate into a fixed interest rate. Agreements were signed on 3.4.2002, and meet the criteria of cash flow hedges.

Movements during 1.4.2003-31.3.2004

in thousands of euros

	Signing date	Maturity date	Notional amount	Fair value as at 31.3.2003	Change in fair value	Cash settlement	Fair value as at 31.3.2004
1)	17.6.2002	16.6.2006	15 000	(1 167)	(311)	414	(1 063)
2)	21.6.2002	13.6.2006	50 000	(3 711)	(1 025)	1 331	(3 405)
Total			**65 000**	**(4 878)**	**(1 336)**	**1 746**	**(4 468)**

Movements during 1.4.2002 - 31.3.2003

in thousands of euros

	Signing date	Maturity date	Notional amount	Fair value as at 31.3.2002	Change in fair value	Cash settlement	Fair value as at 31.3.2003
1)	17.6.2002	16.6.2006	15 000	0	(1 286)	119	(1 167)
2)	21.6.2002	13.6.2006	50 000	0	(4 102)	391	(3 711)
Total			65 000	0	(5 388)	510	(4 878)

Hedging reserve

in thousands of euros

Balance as at 31.3.2002	**0**
Movements during 1.4.2002-31.3.2003	
Change in the fair value of the swap agreements	(5 388)
Recognised in the income statement (Note 29)	913
Total movements during 1.4.2002-31.3.2003	**(4 474)**
Balance as at 31.3.2003	**(4 474)**
Movements during 1.4.2003-31.3.2004	
Change in the fair value of the swap agreements	(1 336)
Recognised in the income statement (Note 29)	1 880
Total movements during 1.4.2003-31.3.2004	**545**
Balance as at 31.3.2004	**(3 930)**

18 Provisions

in thousands of euros

	Balance as at 31.3.2003	Recognition and changes in provisions	Interest charge	Utilisation	Balance as at 31.3.2004 Short-term	Balance as at 31.3.2004 Long-term
Environmental and mining termination provisions	22 066	(412)	1 064	(1 433)	4 859	16 426
Provision for post-employment benefits	1 920	647	103	(451)	696	1 523
Provision for injury compensations	0	2 583	11	(29)	328	2 237
Provision for retraining allowances	53	0	0	(53)	0	0
Total Provisions	**24 039**	**2 818**	**1 179**	**(1 967)**	**5 884**	**20 186**

in thousands of euros

	Balance as at 31.3.2002	Recognition and changes in provisions	Interest charge	Utilisation	Balance as at 31.3.2003 Short-term	Balance as at 31.3.2003 Long-term
Environmental and mining termination provisions	21 094	1 915	1 325	(2 269)	5 059	17 007
Provision for post-employment benefits	2 547	(427)	166	(365)	528	1 392
Provision for retraining allowances	840	0	0	(787)	53	0
Total Provisions	**24 481**	**1 488**	**1 491**	**(3 421)**	**5 640**	**18 399**

Environmental and mining termination provisions are established for:
- restoring land damaged by mining;
- cleaning contaminated land surface;
- restoring the contaminated water supply as a result of mining activities;
- closing landfills and utilising waste;
- liquidating asbestos in power plants.

The amount of environmental and mining termination provisions takes into account the fact that in accordance with a financial memorandum between AS Narva Elektrijaamad and the European Commission, 84% (7 106 thousand euros) of the costs related to the closing and re-cultivating of the Baltic power station ash field No. 2 will be covered from the EU ISPA funds. All the conditions set by ISPA fund have been met by 31.3.2004.

Long-term environmental provisions will realise within up to 30 years; the provisions related to the termination of the mining works within 5-20 years.

The mining termination provision does not include termination payments for the employees as no detailed plans for the termination of mining have been announced yet.

Provision for post-employment benefits has been recognised in respect of constructive obligations arising from collective agreement with trade unions in Group companies Narva Elektrijaamad and Energoremont.
The provision covers Christmas bonuses and certain other post-employment benefits payable to former employees of those companies.
In Eesti Põlevkivi this includes also company pension payable to certain former employees retired between 1.4.2001-31.12.2006. No pensions will be paid after 1.1.2007.

Some former employees of Eesti Põlevkivi who met certain criteria and registered themselves as unemployed until 30.11.2002, were titled to receive a retraining scholarship which was payable in a lump sum.

During the reporting period a provision was created in Eesti Energia, Narva Elektrijaamad, Eesti Põlevkivi, Energoremont and Kohtla-Järve Soojus in order to cover compensations payable to former employees who were injured fulfilling work duties. The provision has been determined based on the court decisions regarding the amounts payable and the estimates regarding expected remaining lives of injured employees (based on data from Estonian Statistical Office).

Long-term provisions are discounted at 8%.

19 Deferred income

in thousands of euros

Short-term deferred income	
Grants received from European Commission	131
Recognised as income (Note 23)	(86)
Total short-term deferred income	**45**
Long-term deferred income	
Connection fees as at 31.3.2002	
Connection fees received up to date	23 072
Accumulated amortisation	(1 611)
Deferred connection fees as at 31.3.2002	**21 461**
Movements during 1.4.2002-31.3.2003	
Connection fees received	9 219
Charged to income to cover operating expenses related to connections	(251)
Amortised to income	(989)
Connection fees as at 31.3.2003	
Connection fees received up to date	32 040
Accumulated amortisation	(2 600)
Deferred connection fees as at 31.3.2003	**29 440**
Movements during 1.4.2003-31.3.2004	
Connection fees received	10 998
Charged to income income to cover operating expenses	(683)
Amortised to income	(1 288)
Connection fees as at 31.3.2004	
Connection fees received up to date	42 356
Accumulated amortisation	(3 888)
Deferred connection fees as at 31.3.2004	**38 468**
Total deferred income	**38 513**

Connection fees are amortised to income over 20 - 33 years.

20 Share capital and share premium

Eesti Energia AS has 72 741 000 registered shares. The par value of a share is 100 kroons. The sole shareholder is the Republic of Estonia. The administrator of the shares and the proxy of the shareholder's rights is the Ministry of Economic Affairs. At the general meeting, the Ministry is represented by the Minister of Economic Affairs.

According to the Order of the Estonian Government no. 612-k, dated 17.9.2002, the share capital of Eesti Energia AS was increased to 427 958 thousand euros by issuing 548,000 new shares with a nominal value of 100 kroons. Shares were paid for by transfering of 1 719 real estate items as a non-monetary contribution.
The value of the real estates transfered to the group was assessed to be 3 503 thousand euros (the valuation has been reviewed by AS KPMG Estonia).

The registration of the ownership transfers of the real estates was completed on 20.5.2003.
According to the Order of the Estonian Government no. 17-k, dated 8.1.2003, the share capital of Eesti Energia AS was increased to 464 899 thousand euros by issuing 5,780,000 new shares with the nominal value of 100 kroons. The share issue was paid by a non-monetary contribution of 217,280 shares (49%) of Eesti Põlevkivi AS with the fair value of 36 941 thousand kroons (the valuation has been reviewed by AS PricewaterhouseCoopers). All 72 741 000 shares issued are fully paid as at 31.3.2004. The Commercial Code requires companies to establish a statutory reserve. The minimum amount of the reserve is 1/10 of the share capital. Until the required level has been attained, companies have to transfer to the reserve 1/20 of their net profit for the financial year.

In accordance with the Commercial Code, the statutory reserve and share premium may be only used to cover retained losses and to increase share capital.

As at 31.3.2004, the Group has to transfer at least 1 672 thousand euros from retained earnings to the statutory reserve. The maximum possible tax liability which would become payable, if the remaining retained earnings were fully distributed amounts to 8 258 thousand euros. Thus it would be possible to pay 23 503 thousand euros as net dividends.

Eesti Energia AS has neither paid nor is planning to pay any dividends in the near future because of continuing need for financing.

21 Sales

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Sales by activity				
Sale of goods				
Electricity	302 102	286 566	306 554	290 712
Heat	34 111	38 934	18 072	20 679
Oil shale	14 526	14 846	0	0
Shale oil	8 980	9 439	0	0
Power equipment	7 358	6 604	0	0
Oil shale ash	409	376	0	0
Other	199	352	0	0
Total sale of goods	**367 686**	**357 117**	**324 626**	**311 390**
Sale of services				
Repair and construction services	2 032	1412	585	745
Connection fees (Note 19)	1970	1240	1970	1240
Telecommunication services	1067	1150	0	0
Leasing and maintenance of premises	738	456	1314	1140
Transport services	210	429	2	0
Other	1616	861	927	942
Total sale of services	**7 634**	**5 549**	**4 798**	**4 067**
Other sales				
Scrap metal	1585	2 026	336	370
Other	208	969	77	569
Total sale of goods	**1 793**	**2 995**	**413**	**938**
Total net sales	**377 112**	**365 661**	**329 837**	**316 395**

Sales by market

Estonia	**340 095**	**333 490**	**304 462**	**291 560**
Export				
Latvia	24 934	23 200	24 644	22 978
Russia	6 556	5 714	516	1513
Finland	4 832	2 785	215	344
Other	695	472	0	0
Total export	**37 017**	**32 171**	**25 375**	**24 835**
incl. export of electricity and transmission services	**31 180**	**28 623**	**25 160**	**24 435**
Total net sales	377 112	365 661	329 837	316 395

Energy sales in quantitive terms

MWh	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Sales of electricity				
Estonia	5 701 636	5 368 771	5 920 808	5 557 848
Export	1 972 709	1 562 092	1 259 149	1 065 632
Total sales of electricity	**7 674 345**	**6 930 863**	**7 179 957**	**6 623 480**
Sales of heat	**2 168 186**	**2 361 046**	**1 264 512**	**1 343 911**

22 Other revenue

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Gains on sale of property, plant and equipment	751	944	513	525
Fines received for late payments and penalties	1000	928	875	815
Other revenue	272	277	57	78
Total other revenue	**2 024**	**2 149**	**1 446**	**1 418**

23 Government grants

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
European commission (Note 19)	86	0	86	0
Ministry of Environment	37	1386	0	0
Centre of Environmental Investments (Estonia)	(4)	19	(4)	19
Other grants	2	0	1	0
Total grants	**120**	**1405**	**83**	**19**

On 17.9.2003 AS Eesti Energia signed a contract with the European Comission according to which the latter will finance the project "Oil shale electricity life-cycle analyses" by 50% using LIFE-Environment funds, which are administred by the Environmental Directorate. The overall cost of the project is 662 thousand euros. The partners in the project for Eesti Energia are The Finnish Environmental Institution SYKE and environmental cosultancy company CyclePlan OÜ.

In accordance with the agreements concluded between the Ministry of Environmental Affairs and AS Narva Elektrijaamad (Narva Powerplant), AS Narva Elektrijaamad commited to renovate the power plant electrostatic filters and to reduce the air pollution to the agreed extent.
In exchange, AS Narva Elektrijaamad acquired the right to reimburse the pollution charges.

Eesti Energia AS and the Foundation of Environmental Investment Centre signed a contract to build nests for the storks, whereas the latter institution paid for the set up of nests according to the costs inccurred by Eesti Energia AS.
During the financial period Danish consulting firm COWI Consulting made a prepared feasibility study and financial analyses for renovation of Ahtme Powerplant. The project with total cost of about 128 thousand euros was fully financed by the Danish government. This government assistance has not been recognised in the Group's finacial statements.

24 Materials, consumables and supplies

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Maintenance and repair relating to:				
Core activity facilities and equipment	27 875	22 379	16 557	16 009
Buildings and premises	5 504	3 961	2 300	1 879
Disassembly and waste management	1 423	3 297	948	914
Machinery and transport vehicles	1 174	1 601	466	420
Liquidation of storm damages	0	355	17	557
Total maintenance and repair	**35 977**	**31 592**	**20 288**	**19 779**
Technological fuel				
Oil shale	5 350	5 204	0	0
Other technological fuel	17 497	20 050	17 497	20 041
Total technological fuel	**22 847**	**25 254**	**17 497**	**20 041**
Repair supplies	22 081	18 870	1 539	1 375
Other production-related materials	16 345	16 170	83	99
Tax for use of natural resources	7 462	6 588	5	6
Fuel for machinery and transport vehicles	6 007	6 098	691	739
Electricity	4 327	4 262	205 274	198 113
Other services	1 908	1 500	39	39
Sub-contracting	1 599	1 520	35	63
Tools, other equipment and fixtures	892	423	143	157
Heat, steam, water	877	776	159	178
Goods sold	134	450	0	26
Write-down of inventories	31	314	5	(43)
Total materials, consumables and supplies	**120 484**	**113 818**	**245 757**	**240 573**

25 Other operating expenses

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Environmental pollution charges	14 750	13 225	199	215
Security, insurance and work safety	9 139	10 700	1 845	1 861
Miscellaneous office expenses	2 881	2 743	2 227	1 895
Research and consultations (Note 26)	1 834	1 843	1 195	1 056
Operating lease (Note 14)	1 825	1 821	1 026	1 065
Loss from doubtful receivables	1 744	3 950	740	2 419
Telecommunication expenses	1 654	1 471	2 871	2 640
IT expenses	1 394	1 318	1 020	976
Office supplies	1 215	1 553	528	451
Training (Note 26)	965	825	488	450
Public relations and information management	712	703	434	435
Business travel	485	427	250	214
Miscellaneous charges and duties	386	365	155	173
Recognition/(reversal) of environmental and mining termination provisions (Note 18)	(412)	1 915	0	0
Total other operating expenses	**38 571**	**42 859**	**12 977**	**13 849**

26 Research and development costs

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Technical consultations	702	736	370	357
Legal advice	335	146	238	111
Business and management consultations	303	265	296	244
Other consultations	495	494	292	144
Expenses related to the deal with NRG Energy	0	202	0	202
Total research and consultations	1834	1843	1195	1056
Training	965	825	488	450
Other development costs	0	144	0	80
Total research and development costs	2798	2812	1683	1587

During the reporting period 39 thousand euros was received from NRG Energy Inc. for the compensation of legal costs.

27 Payroll expenses

	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Number of employees				
Number of employees at beginning of period	9676	10029	1888	1935
Number of employees at end of period	9784	9676	1886	1888
Average number of employees	9754	9768	1879	1901
Payroll expenses				
in thousands of euros				
Wages, salaries, bonuses and vacation pay	63916	59397	13852	13163
Average monthly wage (euros)	546	507	614	577
Other payments to employees	1658	1509	586	566
Termination benefits	433	504	110	189
Total disbursements to employees	**66 007**	**61 410**	**14 548**	**13 918**
Social tax	22266	20675	5056	4807
Unemployment insurance premiums	324	304	71	69
Provision for injury compensation (Note 18)	2583	0	60	0
Provision for post-employment benefits (Note 18)	647	(427)	250	0
Other benefits	363	144	35	35
Non-recurring contractor`s fees	322	392	117	115
Fringe benefits	468	389	308	278
Income tax on fringe benefits	296	221	169	140
Total payroll expenses	**93 277**	**83 107**	**20 613**	**19 360**
Incl. renumerations to management and supervisory boards (incl. Subsidiaries):				
Salaries	854	730	324	279
Termination benefits	0	9	0	0
Fringe benefits	48	40	41	35
Social tax	282	257	107	103
Total renumerations to board members	**1184**	**1036**	**472**	**416**
Capitalised in the cost of self-constructed assets:				
Wages and salaries	(2453)	(1566)	(135)	(170)
Social tax and unemployment insurance tax	(821)	(524)	(45)	(57)
Total capitalised amount	**(3 274)**	**(2 090)**	**(180)**	**(228)**
Covered with mining termination provision				
Wages and salaries	(160)	(404)	0	0
Social tax and unemployment insurance premiums	(54)	(135)	0	0
Total covered with provisions	**(214)**	**(539)**	**0**	**0**
Total payroll expenses	**89 789**	**80 478**	**20 432**	**19 133**

In the case of expiry or termination of the service contract, members of the management boards are entitled to an indemnification equal to their 3 - 6 months' salary.

28 Other expenses

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Non-business expenses	663	670	111	105
Loss from sale of property, plant and equipment	189	95	4	39
Fines for late payments and other penalties	(303)	59	82	32
Other	157	131	13	13
Total other expenses	**706**	**955**	**210**	**188**

As a result of the cancellation of the social tax interest payable in AS Kohtla-Järve Soojus, the respective expenses for late payments and other penalties were decreased by 468 thousand euros in 2003/2004 (Note 16).

29 Net interest expense

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Interest income				
Interest income from bank deposits and short-term placements to money market and interest funds	1 195	2 945	851	2 137
Intrest income from discounted receivables	7	0	7	0
Interest income from trade receivables	3	13	0	5
Intrest income from loans to subsidiaries	0	0	10 246	6 275
Other interest income	0	0	0	0
Total interest income	**1 205**	**2 957**	**11 105**	**8 416**
Interest expense				
Interest expense on liabilities				
Interest expense on long-term bonds	(12 349)	(8 442)	(12 349)	(8 442)
Interest expense on long-term bank loans	(3 429)	(4 862)	(3 429)	(4 862)
Loss on interest rate swaps (Note 17)	(1 880)	(913)	(1 880)	(913)
Interest expense on short-term bonds and loans	(66)	(254)	0	(185)
Interest expense on finance lease	(1)	(3)	0	0
Other	(9)	(44)	(502)	(15)
Total interest expense	**(17 734)**	**(14 518)**	**(18 159)**	**(14 417)**
Intrest expense on provisions (Note 18)	(1 179)	(1 491)	0	0
Total interest expense	**(18 912)**	**(16 009)**	**(18 159)**	**(14 417)**
Net interest expense	**(17 707)**	**(13 052)**	**(7 054)**	**(6 000)**

30 Related party transactions

For the purpose of the Group's financial statement, the related parties include the associates owned by the Group, the members of the parent company's management board, supervisory board and other individuals who have had significant influence over the Group. While preparing the Parent company's financial report, the subsidiaries and their board members are also considered as related parties in addition to the aforementioned.

Parent company's transactions with related parties

in thousands of euros	1.4.2003-31.3.2004	1.4.2002-31.3.2003
Sales to:		
Eesti Põlevkivi	9 773	7 886
Narva Elektrijaamad	1 244	996
Televõrgu AS	711	605
AS Elektriteenused	383	461
AS Kohtla-Järve Soojus	173	145
Energoremont	102	87
AS Elpec	20	13
Total operating income	**12 407**	**10 191**

30 Related party transactions (continued)

in thousands of euros	1.4.2003-31.3.2004	1.4.2002-31.3.2003
Narva Elektrijaamad	200 170	193 124
AS Elektriteenused	7 403	6 718
Televõrgu AS	2 519	2 266
Energoremont	1 109	1 313
AS Kohtla-Järve Soojus	1 066	1 515
AS Elpec	139	249
Total operational expenses	**212 406**	**205 184**
Purchase of property, plant and equipment from:		
AS Elektriteenused	5 460	5 100
AS Elpec	382	640
Energoremont	336	291
Televõrgu AS	3	0
AS Kohtla-Järve Soojus	2	0
Total purchase of PPE	**6 184**	**6 030**
Sale of property, plant and equipment to:		
AS Elektriteenused	16	0
AS Elpec	5	0
Energoremont	1	0
Total sale of PPE	**21**	**0**
Financial income and (expenses) from:		
Narva Elektrijaamad	9 923	5 824
AS Kohtla-Järve Soojus	249	286
Energoremont	42	95
AS Elektriteenused	25	58
Televõrgu AS	(1)	42
AS Elpec	(2)	(2)
Eesti Põlevkivi	(478)	0
Total financial income and (expenses)	**9 758**	**6 303**

	31.3.2004	31.3.2003
Parent company's receivables from the subsidiaries		
Overdraft to Narva Elektrijaamad	157 262	99 547
Overdraft to AS Kohtla-Järve Soojus	3 743	2 866
Overdraft to Energoremont	251	1 034
Overdraft to AS Elektriteenused	69	597
Overdraft to Televõrgu AS	0	236
Long-term loan repayment by AS Kohtla - Järve Soojus	0	83
Total loans to the subsidiaries	**161 325**	**104 363**
Receivables for goods and services from:		
Narva Elektrijaamad	1 108	1 105
Eesti Põlevkivi	959	874
Televõrgu AS	67	64
AS Kohtla-Järve Soojus	47	57
AS Elektriteenused	46	50
Energoremont	10	23
AS Elpec	6	2
Total receivables for goods and services	**2 243**	**2 174**
Total parent company's receivables from the subsidiaries (Note 6)	**163 569**	**106 537**

30 Related party transactions (continued)

Parent company's payables to the subsidiaries

in thousands of euros	31.3.2004	31.3.2003
Amounts due to subsidiaries (overnight deposits)		
Eesti Põlevkivi	1 297	0
Televõrgu As	865	0
Energoremont	310	62
OÜ Põhivõrk	128	0
AS Narva Soojusvõrk	19	46
AS Elpec	4	72
Total	**2 622**	**180**
Payables to Eesti Põlevkivi for short-term deposits	29 655	0
Payables for goods and services to:		
Narva Elektrijaamad	9 898	11 494
AS Elektriteenused	1 526	1 114
Eesti Põlevkivi	339	0
Televõrgu AS	221	203
AS Elpec	190	120
AS Kohtla-Järve Soojus	130	103
Energoremont	53	48
Total payables for goods and services	**12 357**	**13 083**
Total parent company's payables to the subsidiaries (Note 16)	**44 634**	**13 263**

in thousands of euros	Group 1.4.2003-31.3.2004	Group 1.4.2002-31.3.2003	Parent company 1.4.2003-31.3.2004	Parent company 1.4.2002-31.3.2003
Transactions with associates				
Operating expenses	11 682	10 430	471	665
Operating income	33	18	0	0
Purchases from companies where Board members of the Group have significant influence				
Operating expenses	399	1 311	387	358
Purchase of tangible assets	0	2 103	0	2 103

Remunerations of members of Supervisory and Management Boards is disclosed in note 27.

In the case of sales of electricity, the prices are set by the Estonian Energy Market Inspectorate. All other transactions are carried out at market prices, or if no market price exists, the negotiated prices are used.

31 Pledged assets, collaterals and guarantees

The loan agreements concluded by the Group set certain limits to the Group's financial indicators. Those limits have not been exceeded.

As at 31.3.2004 the following warranties were valid:

1) Eesti Energia AS has issued a guarantee to Foster Wheeler Energia OY in respect of the liabilities of Group's subsidiary Narva Elektrijaamad arising from the contract between the latter and Foster Wheeler Energia OY. The above contract was signed for the renovation of two power blocks at AS Narva Elektrijaamad in the total amount of about 256 million euros. As at 31.03.2004, AS Narva Elektrijaamad has already paid to Foster Wheeler Energia OY 220 993 thousand euros (at the end of previous reporting period: 128 866 thousand euros).

2) As at 31.3.2004, Group's subsidiary AS Energoremont had 19 active warranty contracts with Hansapank in the total amount of 446 thousand euros with the latest maturity date of 27.12.2006 (at the end of previous reporting period 17 contracts in the total amount of 918 thousand euros with maturity date up to 30.3.2006).

32 Contingencies and commitments

Electricity Prices

As the Group has a monopoly on the production, transmission and distribution of electricity in the Estonian market, the prices upper limits for the closed market are set by the Estonian Energy Market Inspectorate.

According to the agreement with the European Union, Estonia is obliged to open one third of its electricity market by 2009, and the whole market for business clients by 2013. The date for opening the whole market will be agreed upon before 2013.

Network development obligation

According to the Electricity Market Act a network company is obligated to administer the network in a way that ensures a continuous and satisfactory network service in the service area.

Requirement to comply with the air pollution limits

The EU has accepted the environmental measures taken by the Government of Estonia, which include investment plans of Narva Elektrijaamad (Narva Powerplant) for the years 2002-2006, and has extended until 2016 the transition period for bringing the oil shale fired power plants into compliance air pollution limits.

Renewable Energy Purchase obligation

In accordance with the Electricity Market Act the main grid is obliged to purchase all electricity generated from renewable sources at the price equalling 1,8 times the sales price of Narva Powerplants.

Capital commitments

As at 31.3.2004 the Group had capital expenditures contracted but not recognised in the financial statements in the amount of 51 516 thousand euros (As at 31.3.2003: 120 335 thousand euros).

33 Off-Balance sheet assets

As at 31.3.2004 Eesti Põlevkivi had 549 million tons of active oil shale reserves (As at 31.3.2003: 569 million tons), incl underground mines - 375 million tons (As at 31.3.2003: 387 million tons), surface quarries - 174 million tons (As at 31.3.2003: 182 million tons). The closed Tammiku and Sompa mines held 38 million tons of oil shale reserves as at 31.3.2004.

34 Subsequent events

On 1.4.2004 Eesti Energia transferred all main grid assets and liabilities (incl employment and other contacts) to OÜ Põhivõrk on finance lease terms; the above assets and liabilities will be sold to the lessee in the future.

The supervisory board of AS Kohtla-Järve Soojus decided on their meeting held on 20.4.2004 to sell the heat business of Kohtla-Järve town (incl. Kohtla Järve power plant and Kohtla-Järve town heat network) to a new operator on a public bid. The expropriation of Kohtla-Järve heat business has been publicly announced already.

On 7.5.2004 AS Eesti Enenrgia signed an EUR 80 million loan contract with European Investment bank for 15 years. The loan is planned to be used for financing the investment made to the transmission and distribution networks. The loan can be withdrawn up to 7.11.2006. The type of interest rate (floating or fixed) will be decided upon on the withdrawal of the money.

On 11.6.2004 Eesti Energia AS founded Nordic Energy Link AS. The main objective of the company is to organize the construction work of the Estonian-Finnish underwater cable and its administration after the construction.

On 16.6.2004 Eesti Energia AS registered a subsidiary OÜ Jaotusvõrk. By the reporting date the company had not started its economic activity yet.

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AUDITOR'S REPORT

To the shareholder of Eesti Energia AS

We have audited the financial statements of Eesti Energia AS (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the financial year ended 31 March 2004 as set out on pages 51 to 86. These financial statements are translated into euros from the original in Estonian kroons. These financial statements are the responsibility of the Parent Company's management board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Parent Company and the Group as at 31 March 2004 and of the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Ago Vilu
Authorised auditor

21 June 2004

Declaration of the management board

The Management Board confirms the correctness and completeness of the financial statements of Eesti Energia AS (the company) and the consolidated financial statements of the company and its subsidiaries (the Group) for the period of 4 April 2003 – 31 March 2004 as set out on pages 51-86 and confirms to the best of its knowledge that:

the financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS);

the financial statements give a true and fair view of the financial position, the results of its operations and the cash flows of Eesti Energia AS and the Group;

all significant matters that became evident by the report's preparation date of 26 June 2004 have been taken into consideration and have been presented as required.

According to the management's estimate, Eesti Energia AS is the going concern.

Gunnar Okk _____
Chairman of the Management Board

Sandor Liive _____
Member of the Management Board

Lembit Vali _____
Member of the Management Board

Mati Jostov _____
Member of the Management Board

Marko Allikson _____
Member of the Management Board

Proposal for the distribution of profits

As of the 31st of March 2004, the net profit of Eesti Energia AS is 523 115 953 kroons (33 433 thousand euros).

Taking into account the continuous need for capital investments financing the Management Board recommends to the General Meeting of Shareholders to allocate the net profit as follows:

1) 26 155 798 kroons (1 672 thousand euros) to be transferred to statutory reserve;
2) 496 960 155 kroons (31 761 thousand euros) to be transferred to retained earnings.

List of shareholders

The sole owner of Eesti Energia AS is the Republic of Estonia

As of the 31st of March, 200, the company has 72 741 000 registered shares with a nominal value of 100 kroons.
The Republic of Estonia acquired 65,200,000 shares upon the establishment of the company on 31 March, 1998, 250,000 shares were acquired on 27 December, 1999, and 963,000 shares on 27 April, 2001, 548 000 shares on 30 June 2003 and 5 780 000 shares on 7 November 2003.

Governing bodies of Eesti Energia

Supervisory Board

Chairman of the Supervisory Board

Urmas Sõõrumaa

Members of the Supervisory Board

Alo Kelder

Siim-Valmar Kiisler

Olev Liik

Toomas Luman

Ants Pauls

Märt Rask

Janno Reiljan

Management Board

Chairman of the Management Board

Gunnar Okk

Members of the Management Board

Sandor Liive

Lembit Vali

Mati Jostov

Marko Allikson