Eesti Energia Audited Financial Results for 2014

27 February 2015

Eesti Energia Aulepa Wind Park in Noarootsi, Estonia

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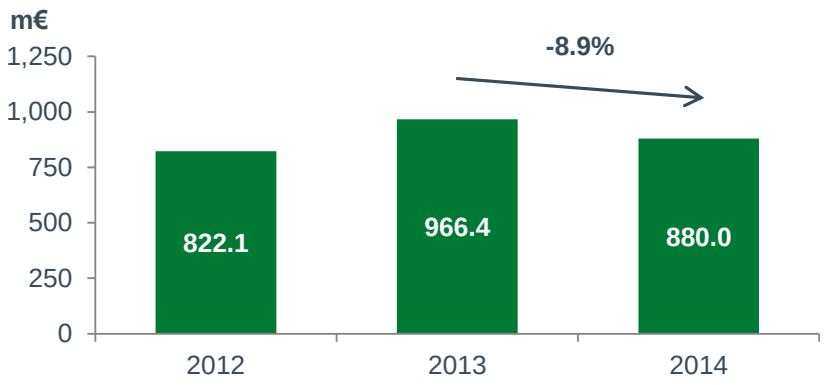
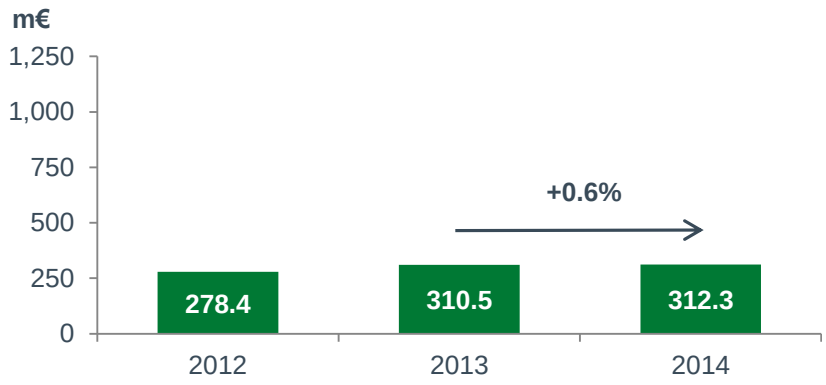
EBITDA Remained Stable Despite Lower Sales Revenues

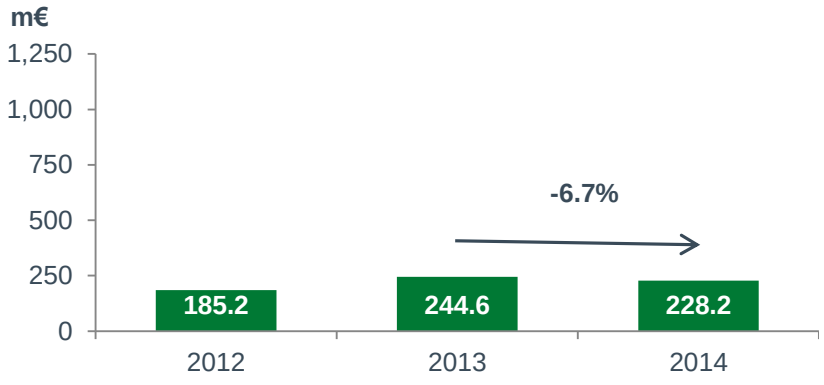
Sales Revenues



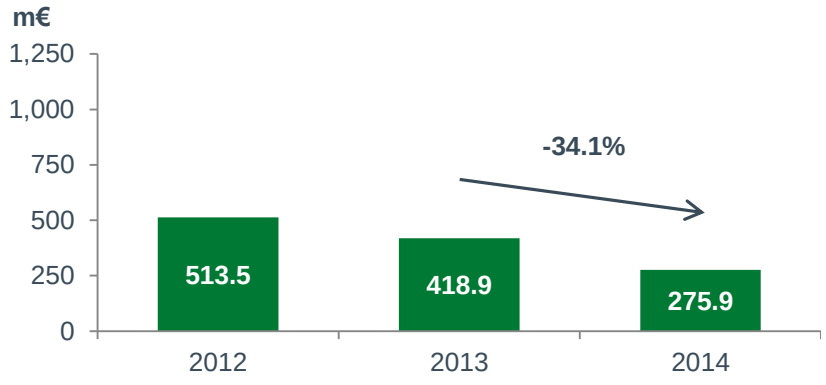
EBITDA



Operating Cash Flow



Investments

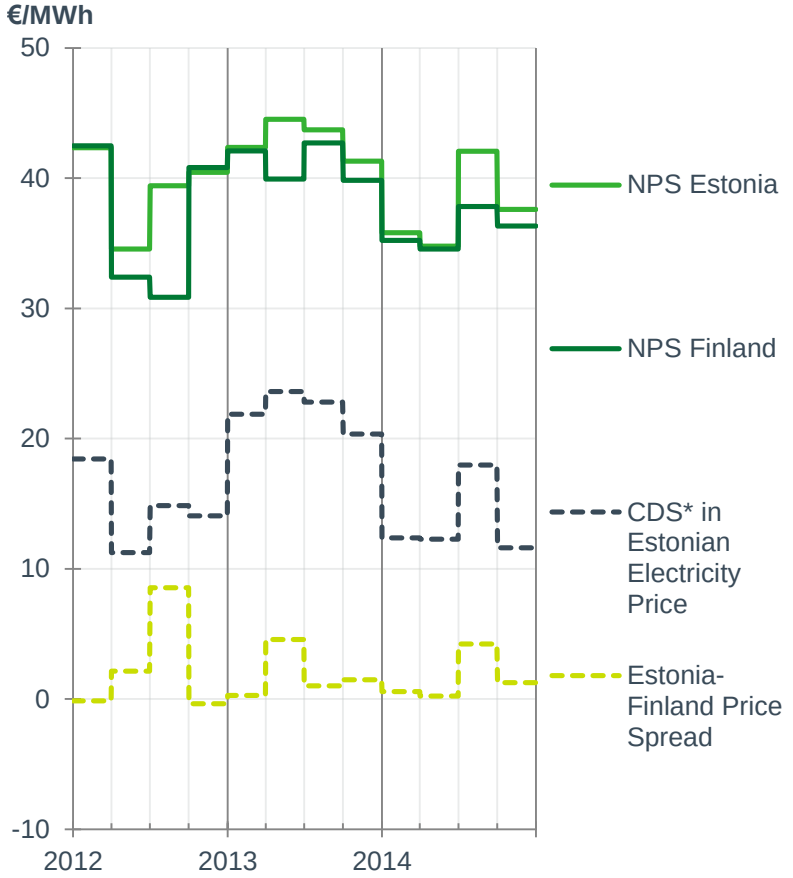


Eesti Energia

NPS Price Convergence Higher as Transmission Capacity Increased

- NPS electricity prices decreased in the Nordic countries and Estonia
- Nordic electricity prices impacted by cheap hydroelectricity
- Transmission capacity between Estonia and Finland increased substantially in 2014 as Estlink2 power cable was commissioned in Q1
- Average price in NPS Estonia price area 37.6 €/MWh (-5.4 €/MWh, -12.5%)
- Price spread between Estonia and Finland decreased to 1.6 €/MWh (-0.2 €/MWh). Average Estonian electricity price still higher mainly due to outages in Estlink underwater cables in Q3
- Clean Dark Spread in NPS Estonia electricity price decreased to 13.5 €/MWh (-8.6 €/MWh, -39.0%) due to higher CO_2 and oil shale costs (impact -3.3 €/MWh) and decreased electricity price (-5.4 €/MWh)
  - CO_2 emission allowance prices rising as EU back-loading cut supply by 400 million tonnes in 2014 and new allocation measures are planned in future

Quarterly Average NPS Electricity Prices and Spreads



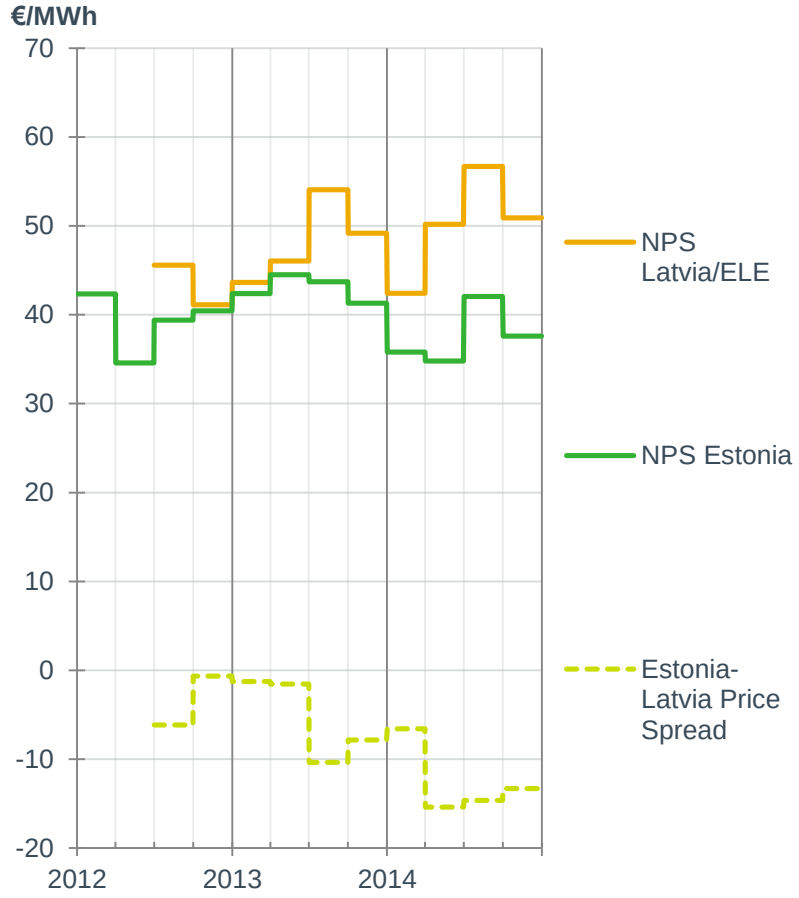
** Clean Dark Spread - full mining costs included*

Eesti Energia

Estonia-Latvia Electricity Price Spread Widened

- Average NPS Latvia electricity price increased by 1.3 €/MWh (+2.7%) to 50.1 €/MWh. Estonia-Latvia price spread widened by 6.7 €/MWh to -12.5 €/MWh as Latvian price remained higher
- Transmission capacities are unable to cover production deficit in Latvia and Lithuania
- Limited month ahead hedging of border crossing costs available via PTR* contracts in 2014
  - Improved hedging conditions in 2015 introduce increased PTR capacities** and hedging via contracts traded in Nasdaq Commodities
- Sale of electricity products indexed to exchange prices continued in 2014
- Total amount of future fixed price contracts in Latvia and Lithuania 813 GWh (as of 31 December 2014), -1,509 GWh compared to the end of 2013
  - 64% of the portfolio concerning 2015 has been hedged by PTR contracts

Quarterly Average Electricity Prices and Spread Between Nord Pool Spot Estonia and Latvia



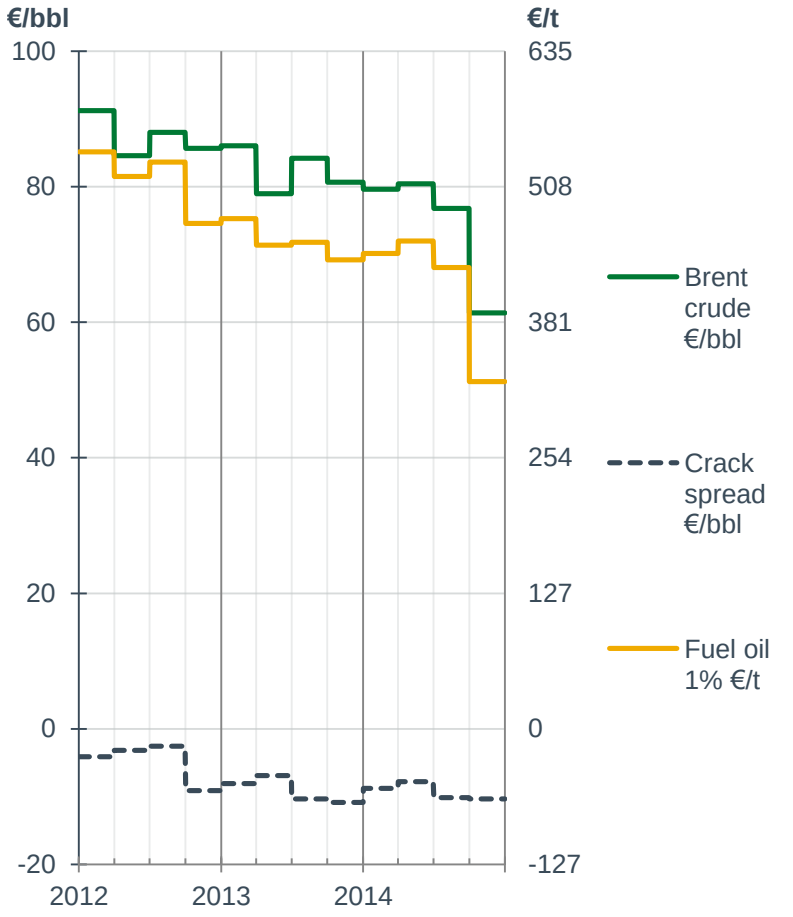
** PTR – Physical Transmission Rights. Price differences between Estonia and Latvia price areas are returned to market participants by TSO-s*
*** Traded capacities increased to 200 MW for a yearly, 100 MW quarterly and 150 MW monthly contracts*

Eesti Energia

Substantial Oil Price Decrease in 2014

- Average price of Brent crude oil 74.5 €/bbl (-8.0 €/bbl, -9.7%)
  - Oil prices started dropping in July 2014 as crude oil demand slowed down due to weakened world economic outlook
- Average price of fuel oil (1% sulphur content) 414.5 €/t (-42.1 €/t, -9.2%). Fuel oil *vs* Brent crack spread widened slightly by 0.2 €/bbl to -9.1 €/bbl, compared to 2013
  - Fuel oil demand in Europe remained subdued, but improved export prospects supported the price in Q1. Fuel oil prices decreased along with other fuels in the second half of the year
- Tighter fuel oil sulphur control limits in SO_x emission control areas (ECAs)* in 2015 weigh on 1% fuel oil prices

Quarterly Fuel Oil and Brent Crude Oil Prices and Crack Spread

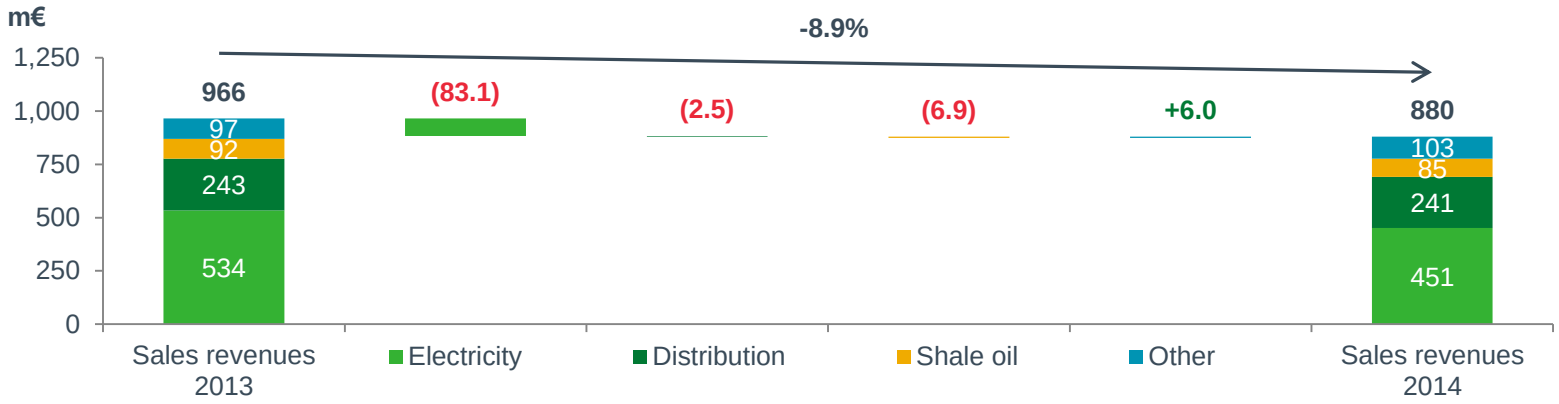


** ECA – Emission Control Area. Marine area in which airborne emissions from ships are being minimized in order to reduce environmental impact*

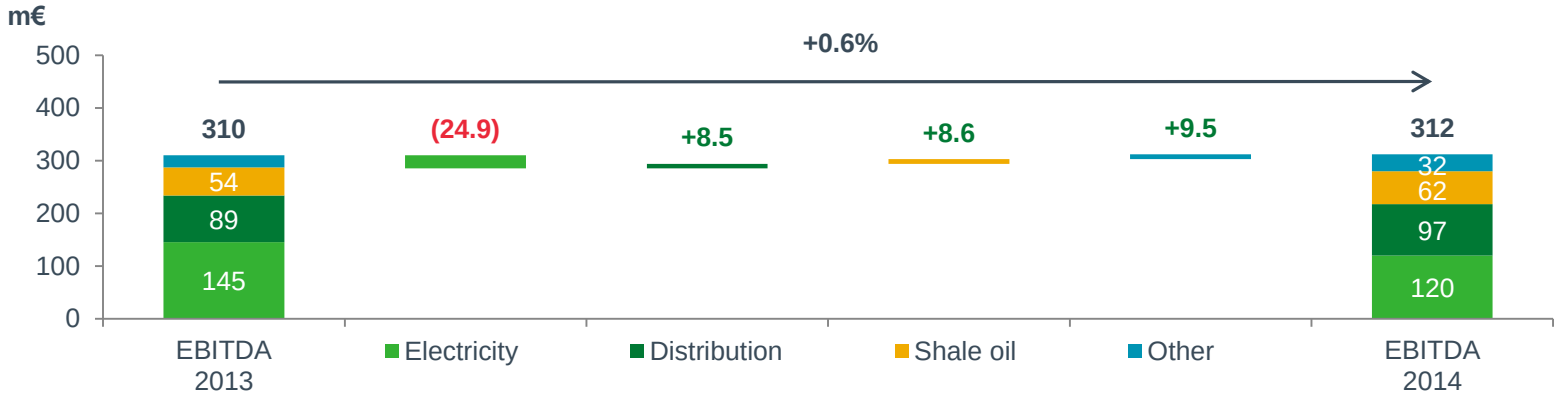
Eesti Energia

Revenues and EBITDA Mainly Impacted by Lower Electricity Sales Volume

Sales Revenues Breakdown and Y-o-Y Change



EBITDA Breakdown and Y-o-Y Change

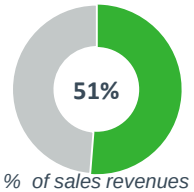


Eesti Energia

Electricity

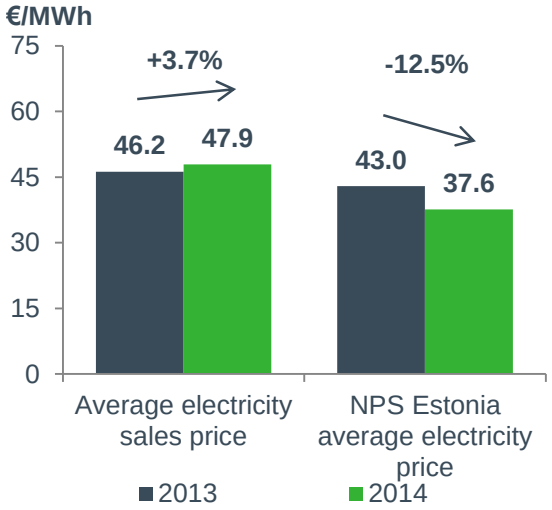
Eesti Energia Balti power plant and Narva wind park in Ida-Virumaa, Estonia

Lower Sales Volume Reduced Electricity Sales Revenue

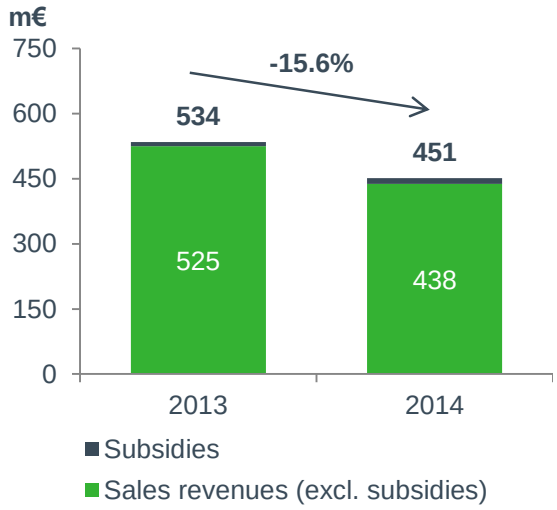


% of sales revenues

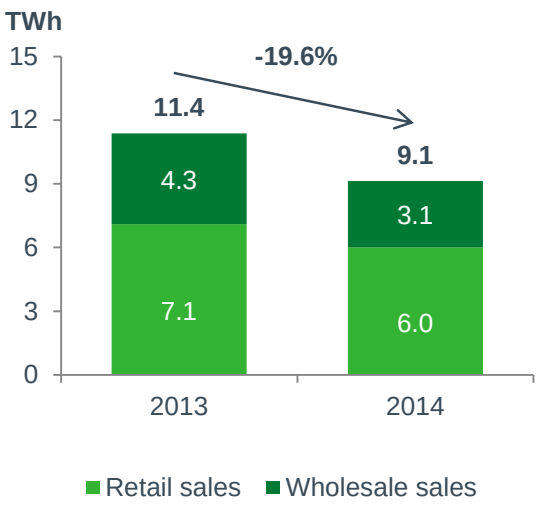
Average Electricity Sales Price*



Electricity Sales Revenue



Electricity Sales Volume



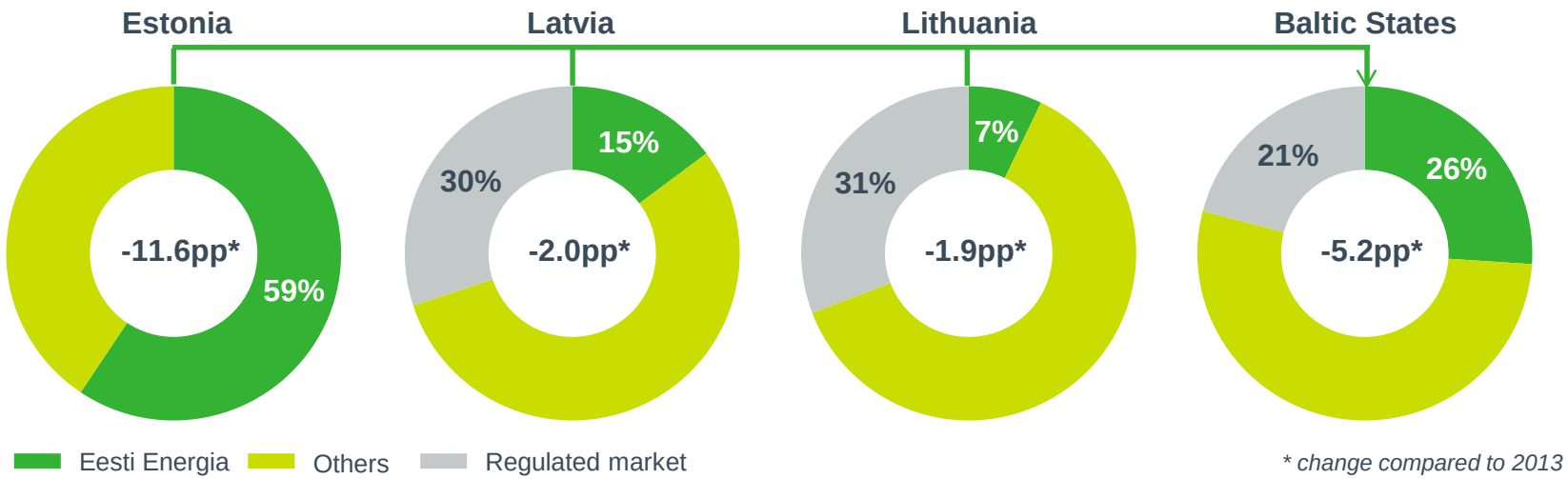
- Average electricity sales price* increased to 47.9 €/MWh (+1.7 €/MWh, +3.7%)
  - Gain on derivatives impacted price by 5.2 €/MWh (€47.2m in abs. terms, +€36.7m, +348.5%)
  - Average electricity sales price* excl. gain on derivatives decreased to 42.8 €/MWh (-2.5 €/MWh, -5.6%)**
- Total electricity sales volume 19.6% lower as retail sales volume dropped by 15.3% and wholesale sales volume decreased by 26.8%. Changes in netting principles decreased wholesale sales by 0.9 TWh
- Generation limitations hampered wholesale sales as lower retail market share reduced retail sales volume
- 2015 sales hedged against price risk amounted to 7.2 TWh with an average price of 40.5 €/MWh. 2016 sales hedged against price risk amounted to 2.9 TWh with an average price of 38.1 €/MWh

** Average sales price excludes subsidies*
*** Estlink1 cable revenues impacted sales price by 0.5 €/MWh in 2013*

Eesti Energia

26% Retail Market Share in the Baltics

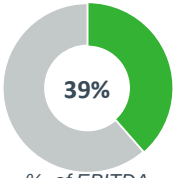
Eesti Energia Retail Market Share in Baltic Countries in 2014



** change compared to 2013*

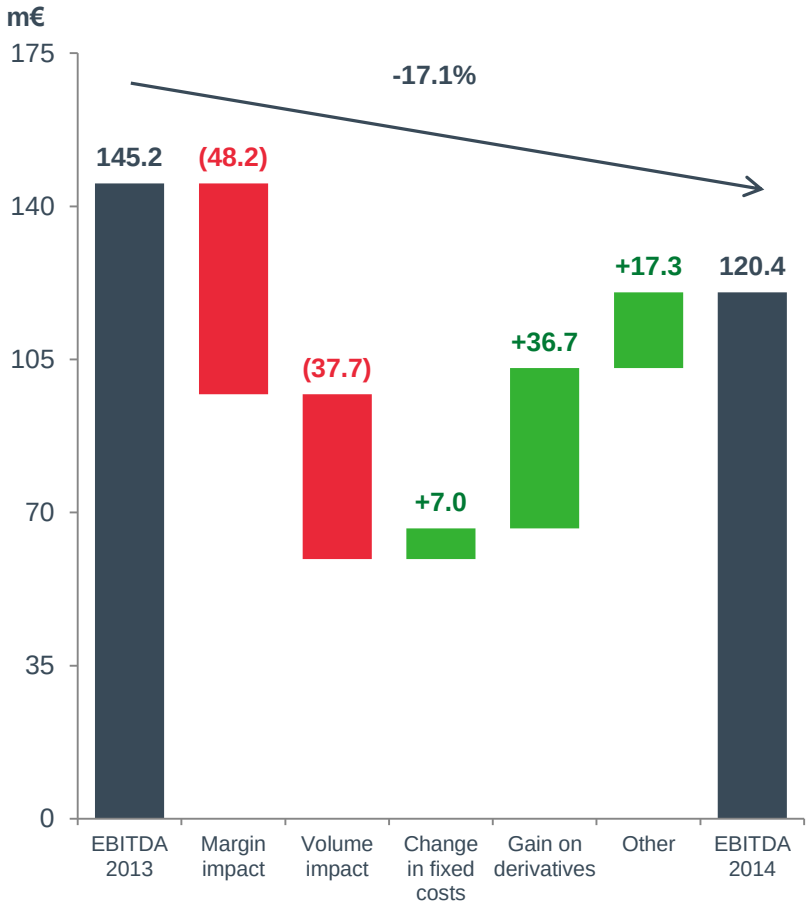
- Eesti Energia retail market share in Estonia decreased by 11.6 percentage points compared to 2013
  - Estonian retail market share decreased mainly due to movements in corporate customer segment
- Market share in Latvia and Lithuania decreased by 2.0 and 1.9 percentage points respectively, due to suspending the sale of fixed contracts in September 2013
- Market share in Baltic states decreased by 5.2 percentage points compared to 2013

Lower Sales Volume Weighed on Electricity EBITDA



% of EBITDA

Electricity EBITDA Development



- ✗ Impact on margin -€48.2m. Lower NPS prices resulted in decreased wholesale price. Retail profitability improved, total impact of sales price decrease (-2.5 €/MWh) was -€24.0m. Variable costs increased 3.2 €/MWh mainly due to higher environmental tariffs and CO_2 expenses
- ✗ Volume of electricity sold decreased resulting in -€37.7m lower EBITDA
- ✓ Change in electricity fixed costs impacted EBITDA by +€7.0m mainly due to fixed cost component in decreased inventories
- ✓ Gain on derivatives impact on EBITDA by +€36.7m
- ✓ Other changes (+€17.3m) mainly related to change in provision of Latvia and Lithuania energy sales portfolio (+€15.1m)

Key Figures

	2014	2013
Return on fixed assets* (%)	10.3	14.2
Electricity EBITDA (€/MWh)	13.2	12.8

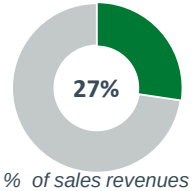
** excluding impairment of generation assets in December 2012 and December 2013*

Eesti Energia

Distribution

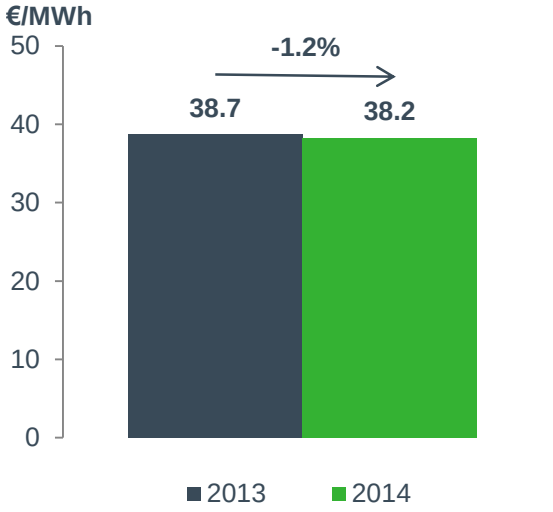
Distribution Network Cable Tunnel in Tallinn, Estonia

Distribution Volume Stable, Revenue Impacted by Tariff Adjustments

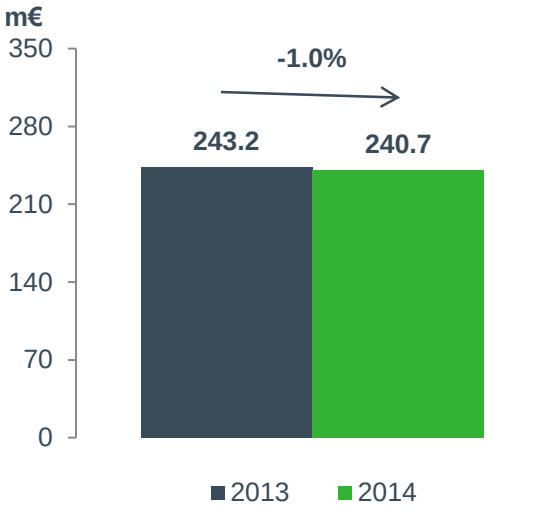


% of sales revenues

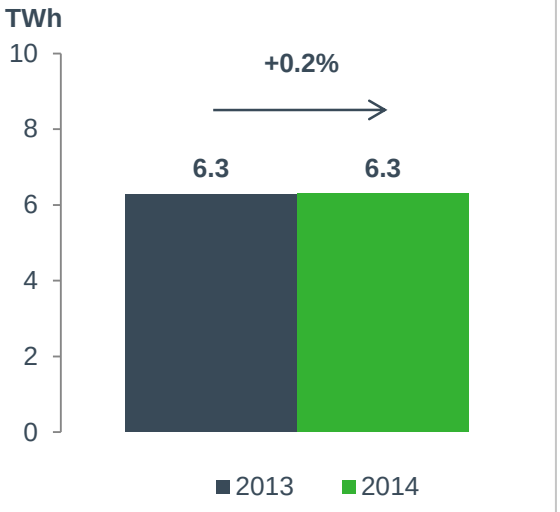
Average Distribution Tariff



Distribution Sales Revenue



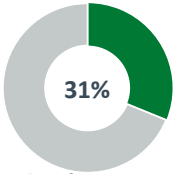
Distribution Volume



- Distribution sales volume remained stable at 6.3 TWh (+0.2%)
- Distribution sales revenue decreased slightly (-€2.5m, -1.0%)
  - Regulated return reduced in August 2013 to 6.76%, additional tariff adjustment in April 2014 due to decrease in transmission costs

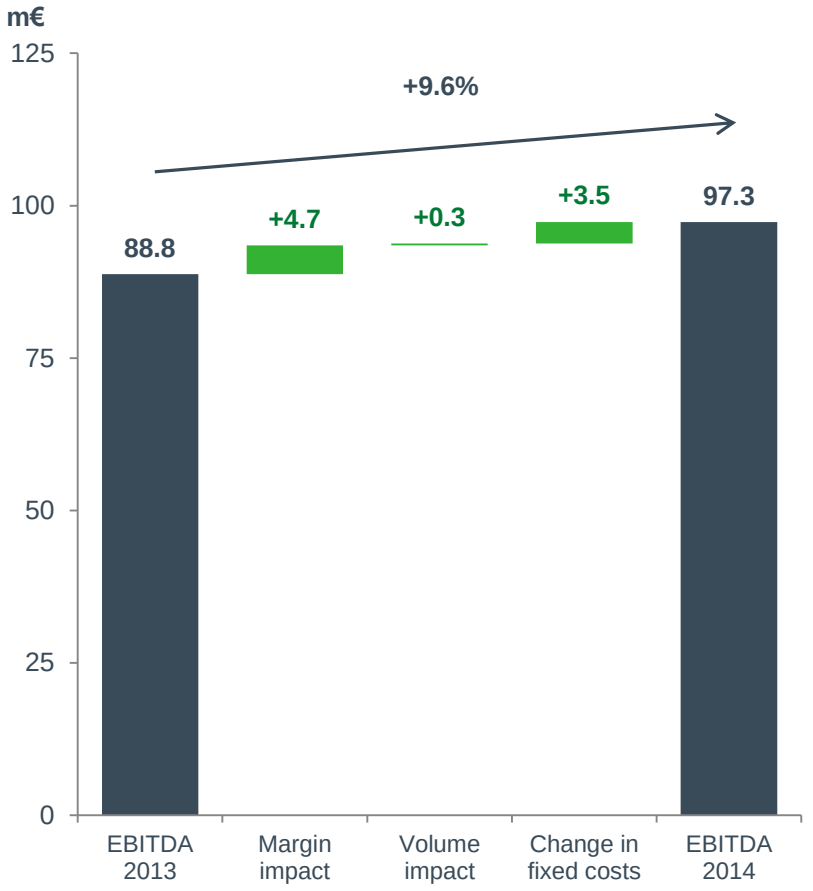
Eesti Energia

Lower Expenses Increased Distribution EBITDA



% of EBITDA

Distribution EBITDA Development



- ✓ Average distribution sales price decreased by 0.5 €/MWh, impact on EBITDA -€2.3m. Decrease of sales price was offset by lower transmission costs (+€2.9m) and decreased expenses for network losses (+€3.1m). Total margin impact +€4.7m (+0.8 €/MWh)
- ✓ Distribution volume increased 0.2%, impact on EBITDA +€0.3m
- ✓ Fixed expenses decreased (+€3.5m) mainly in Group's central divisions (-€2.6m). Fixed expenses related to outages caused by storms decreased as unplanned outages fell in 2014

Key Figures

	2014	2013
Distribution losses (GWh)	381.0	358.6
Return on fixed assets (%)	6.4	5.9
SAIFI	0.1	0.2
SAIDI (planned)	66.7	93.4
SAIDI (unplanned)	131.2	413.2
Adjusted RAB* (m€)	685.5	636.6

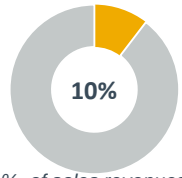
** RAB (Regulated Asset Base) allocated to distribution product*

Eesti Energia

Shale Oil

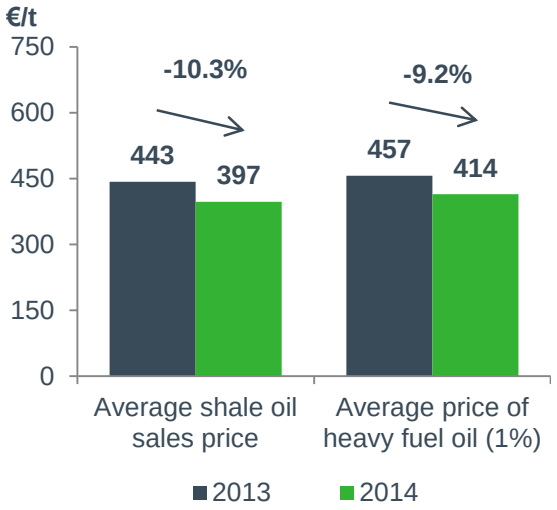
Eesti Energia Oil Industry in Ida-Virumaa, Estonia

Shale Oil Sales Volume Increased

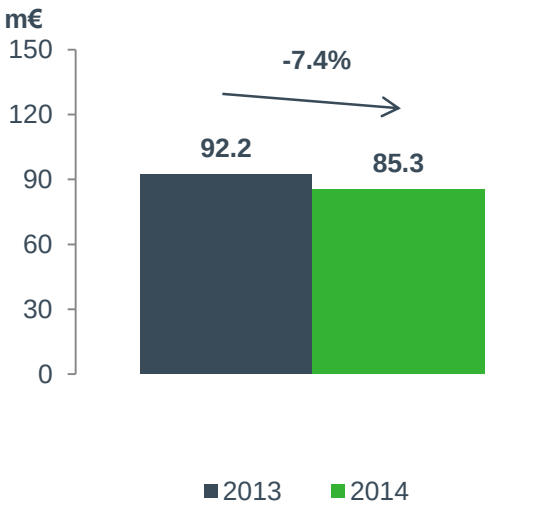


% of sales revenues

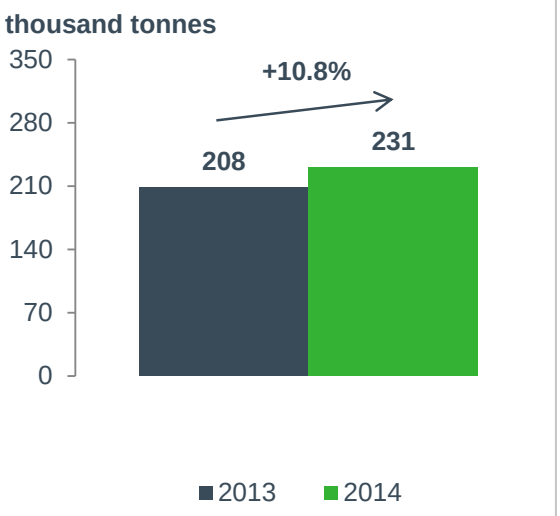
Average Shale Oil Sales Price*



Shale Oil Sales Revenue



Shale Oil Sales Volume

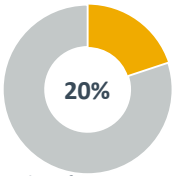


- Average shale oil sales price* decreased to 397 €/t (-45.7 €/t, -10.3%)
  - Gain on derivatives impacted price by 46.7 €/t (€10.8m in abs. terms, +€9.1m, +534.3%)
  - Average sales price* excl. gain on derivatives decreased to 350.6 €/t (-84.3 €/t, -19.4%)
- Average price dropped more than reference price (-9.2%) due to more sales in the second half of the year
- Sales volume increased 10.8% mainly due to higher production from Enefit280 oil plant. Groups' shale oil production increased by 51.6 thousand tonnes (+24.2%)
- 2015 sales hedged against price risk amounted to 207 thousand tonnes with an average price of 419 €/t
  2016 sales hedged against price risk amounted to 11 thousand tonnes** with an average price of 353 €/t

** average sales price excludes impact on sales revenues in 2014 (-€6.3m) related to receivable concerning Enefit280 oil plant construction. Sales revenue impact does not affect shale oil EBITDA due to capitalizing of corresponding costs*
*** in addition, the Group owns options in the amount of 120 thousand tonnes maturing in 2016*

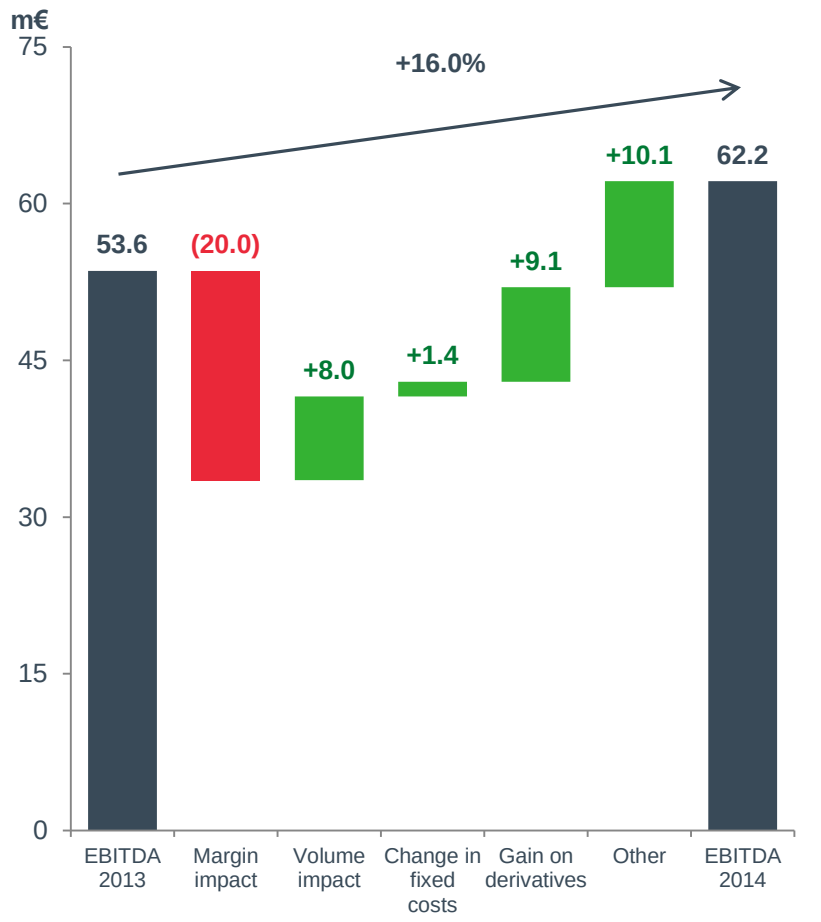
Eesti Energia

Hedging and Higher Sales Volume Mainly Behind Increased EBITDA



% of EBITDA

Shale Oil EBITDA Development



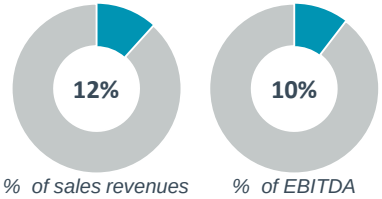
- ✗ Margin impact on profitability -€20.0m. Average sales price decreased by 84.3 €/t, impact on profitability -€19.4m. Higher variable costs impacted profitability by -€0.3m
- ✓ Sales volume increased (10.8%), impact on EBITDA +€8.0m
- ✓ Change in shale oil fixed costs (impact +€1.4m) mainly due to fixed cost component in inventories
- ✓ Gain on derivatives impacted EBITDA by +€9.1m
- ✓ Other impacts +€10.1m. Revaluation of derivative instruments maturing in future impacted EBITDA by €10.2m

Key Figures

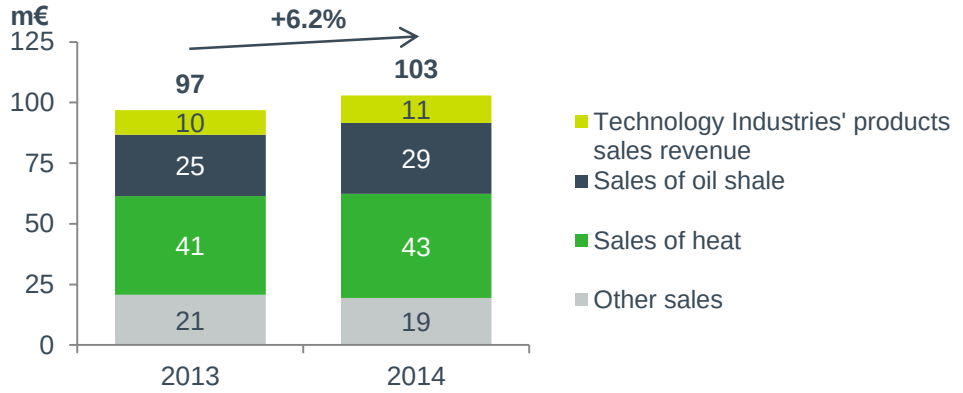
	2014	2013
Return on fixed assets (%)	26.4	47.0
Shale oil EBITDA (€/t)	269.5	257.4

Eesti Energia

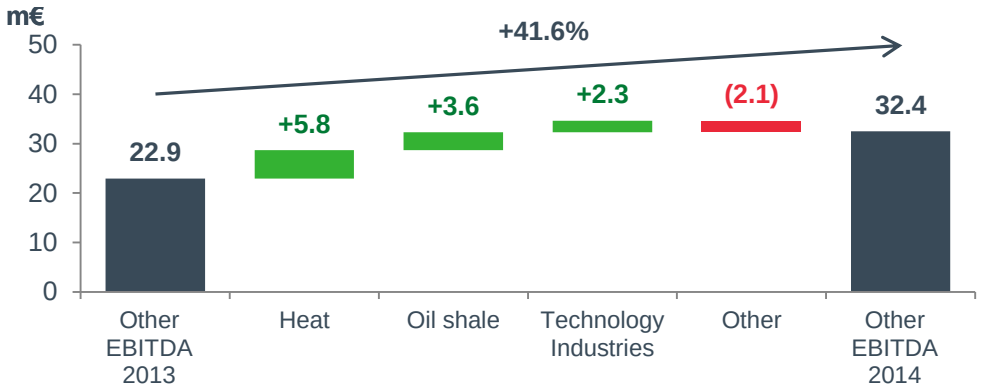
Other Sales Revenues and EBITDA Improved



Sales Revenues From Other Products and Services



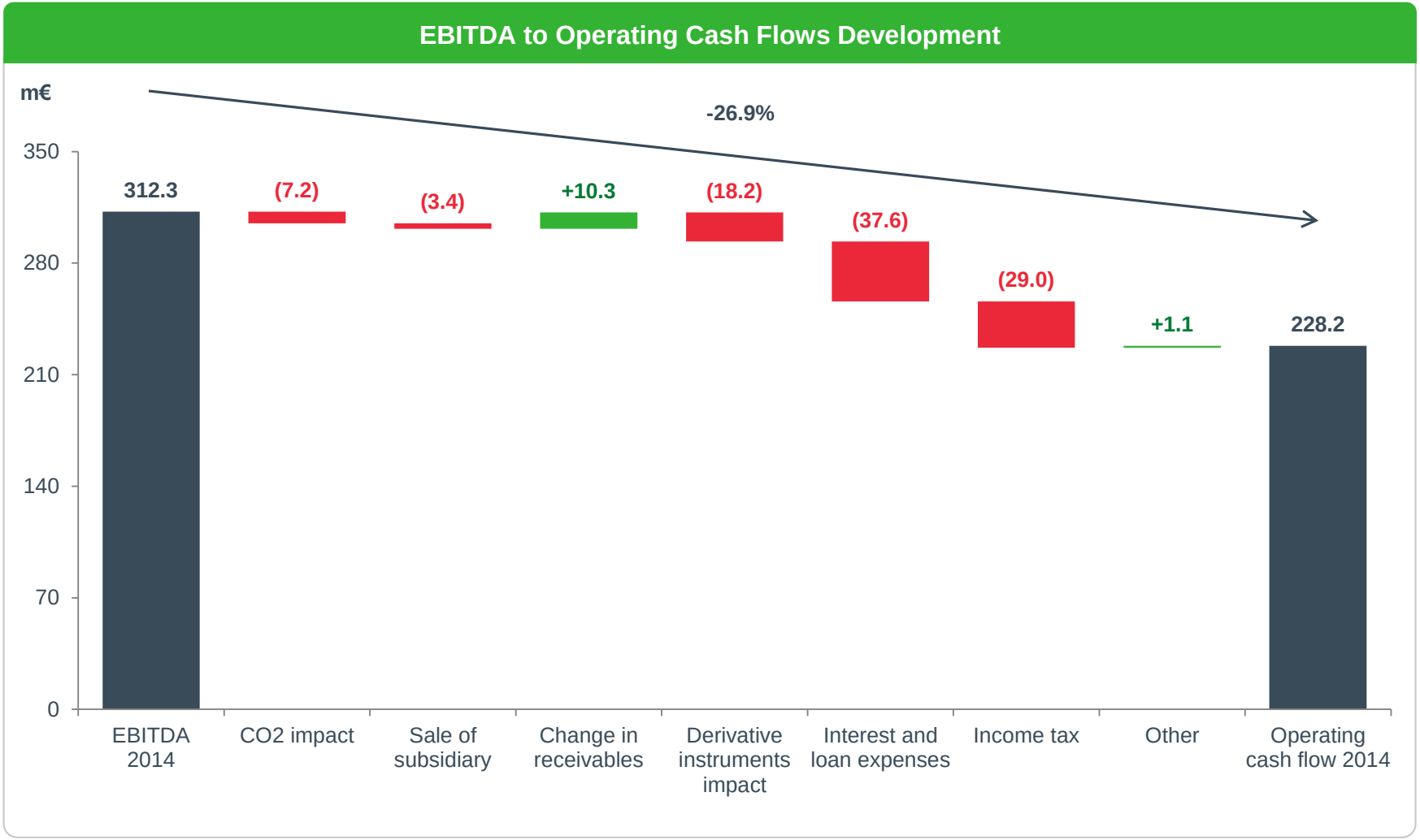
Other Products and Services EBITDA Development



- Heat sales revenue increased 5.6% (+€2.3m), EBITDA grew 103.7% (+€5.8m). Sales volume increased 4.1%. EBITDA growth in heat sales mainly due to production shifting to cheaper fuels – waste instead of natural gas
- Oil shale sales revenue increased 15.1% (+€3.8m), EBITDA increased 42.0% (+€3.6m). Sales volume decreased 5.9%
- Technology Industries' products sales revenue increased 11.6% (+€1.2m), EBITDA increased by €2.3m
- Other sales revenues dropped 6.2% (-€1.3m). Revenue from sale of gas increased by €2.5m. Sales revenues related to sale of scrap metal shrinked by €1.9m. Other EBITDA decreased by €2.1m

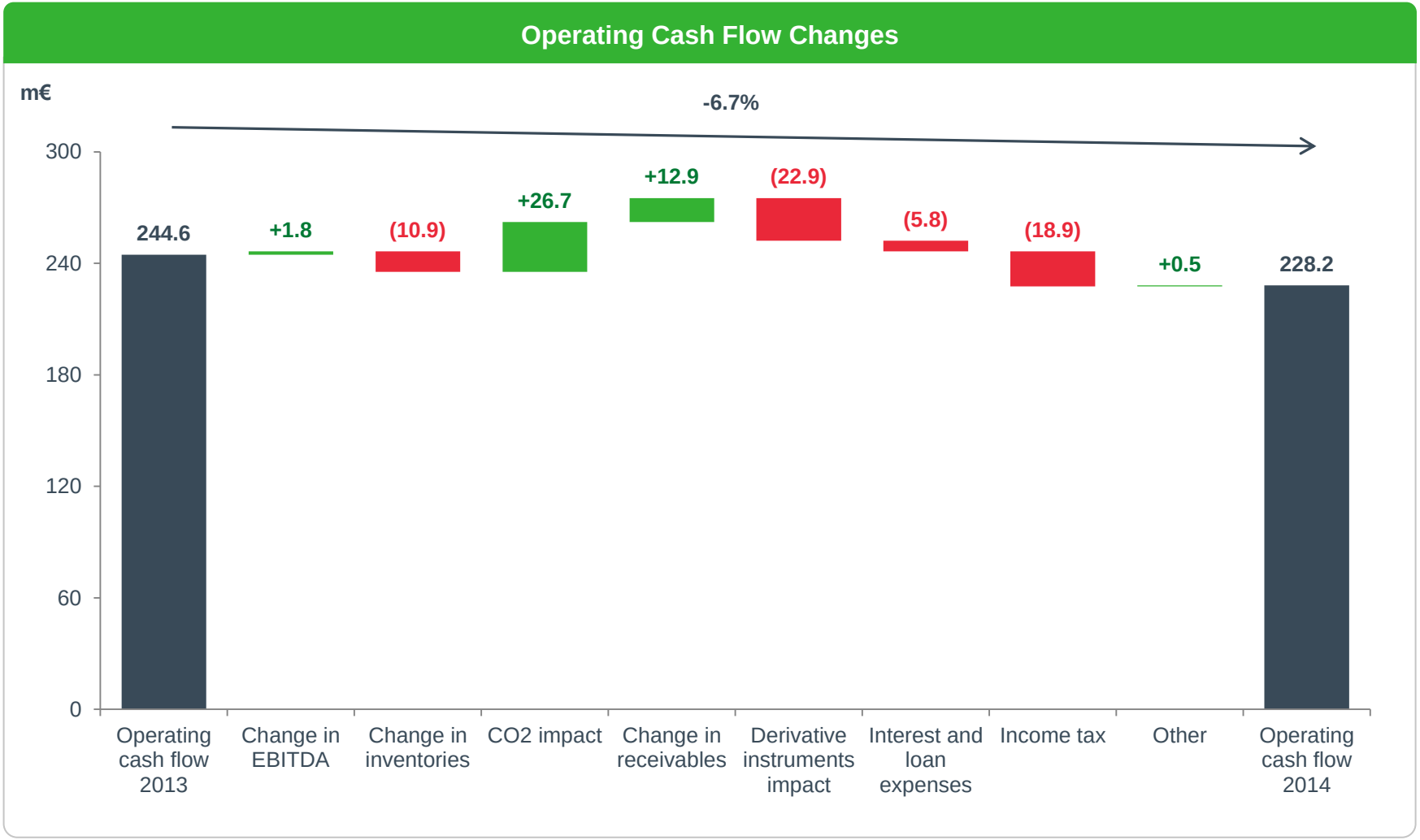
Eesti Energia

€228m Cash Flow from Operations



Eesti Energia

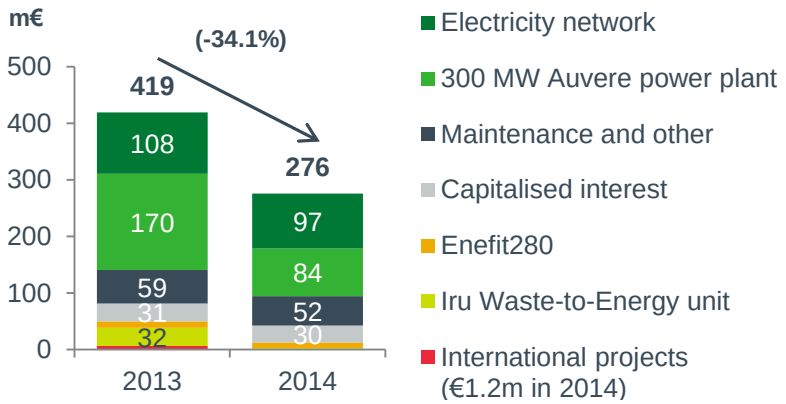
Cash From Operations 6.7% Lower



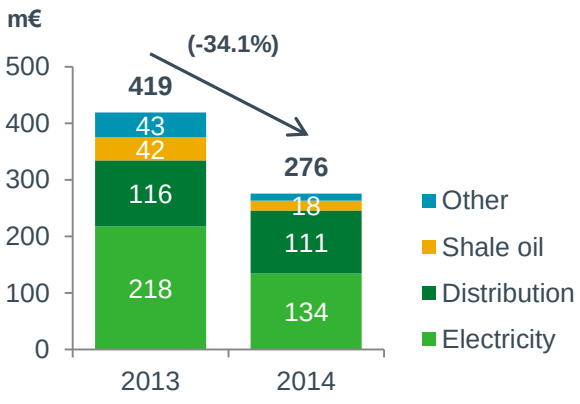
Eesti Energia

Capital Expenditure €276m in 2014

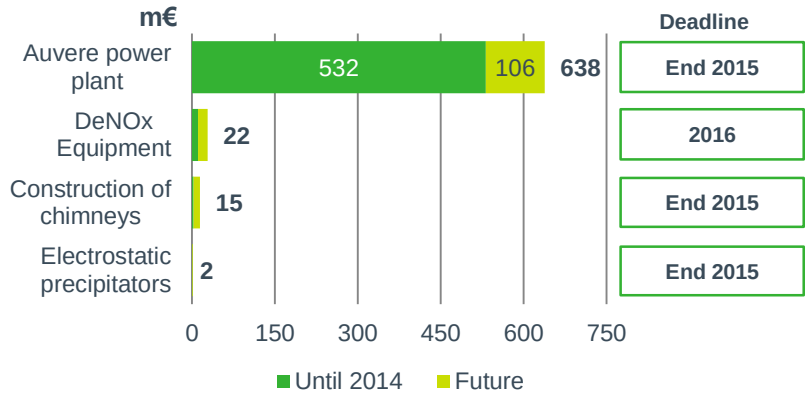
Capex Breakdown by Projects



Capex Breakdown by Products



Main Ongoing Projects

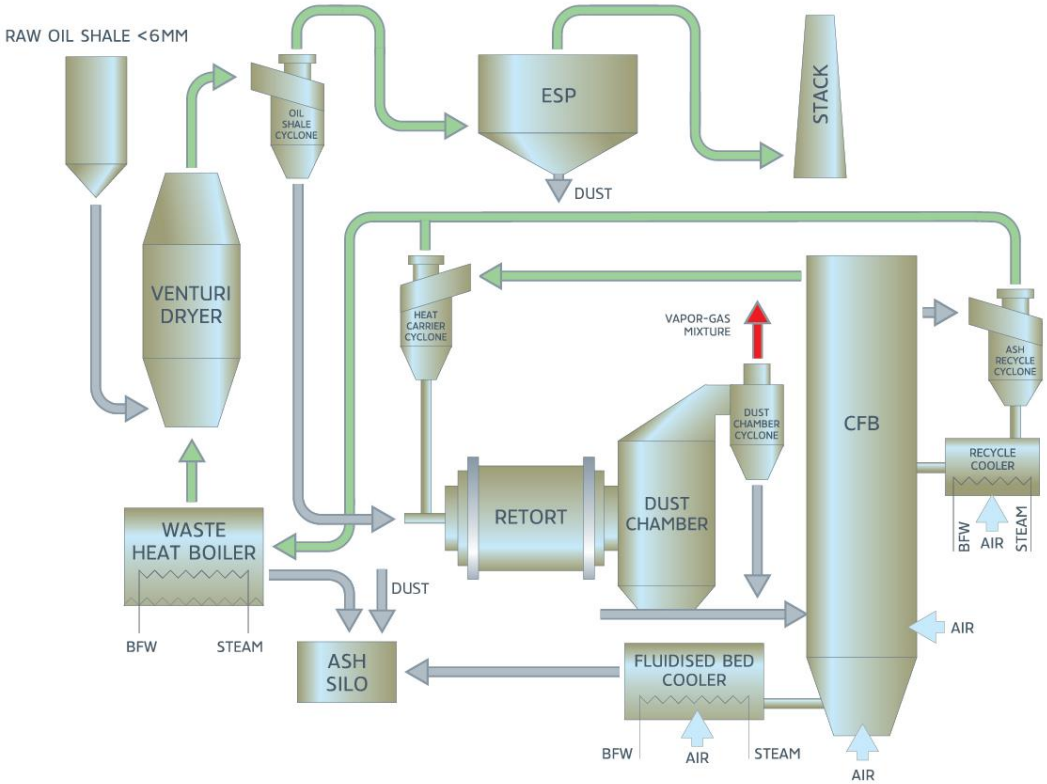


- Size of ongoing projects decreased. Capex related to Auvere power plant construction decreased 50.6% (-€85.9m). Iru WtE unit completed in 2013
- Investments in distribution network quality continued. 633 substations and 1,901 kilometers of cables renovated and built in 2014. Installation of smart meters for Estonian clients ongoing
- Auvere power plant will be completed in the end of 2015

Eesti Energia

Enefit280 Update

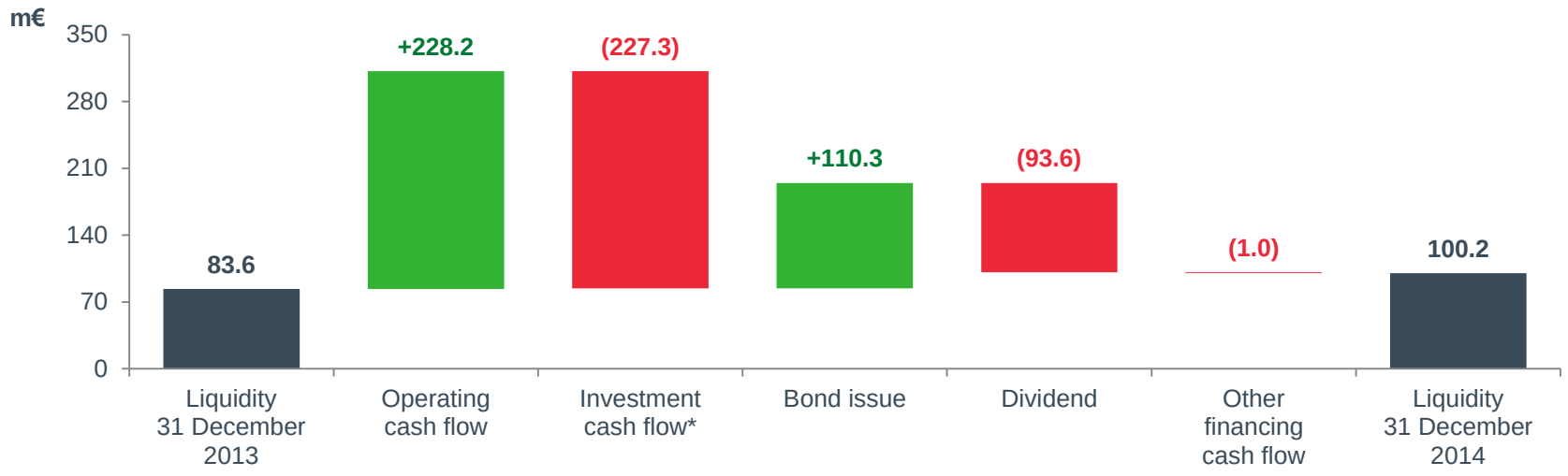
- Enefit280 oil plant produced 45 thousand tonnes of shale oil in 2014
- Power production from the by-products of oil was commissioned in Enefit280 in 2014. 25 MW of stable power production was reached
- During planned maintenance operations in 2015 modifications will be implemented to increase oil production capacity and reach design capacity during 2015



Eesti Energia

Liquidity Buffer Has Increased 20%

Group's Liquidity Development in 2014

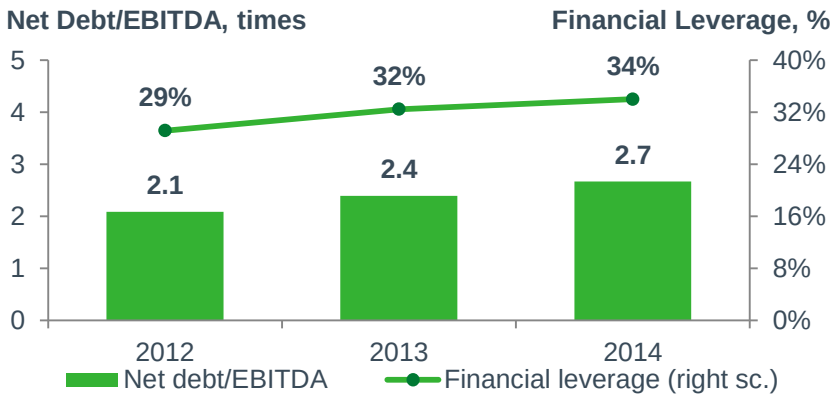


- €350m of liquid assets and unused loans available as of 31 December 2014 of which
  - €100m of liquid assets
  - €150m amount of liquidity contracts with SEB, Pohjola and Nordea
  - €100m loan agreement signed with European Investment Bank to finance distribution network investments (loan not yet drawn)
- Sufficient liquidity available for covering capex until the end of investment program, dividend payment and other needs

** excl. changes in deposits and other financial assets*

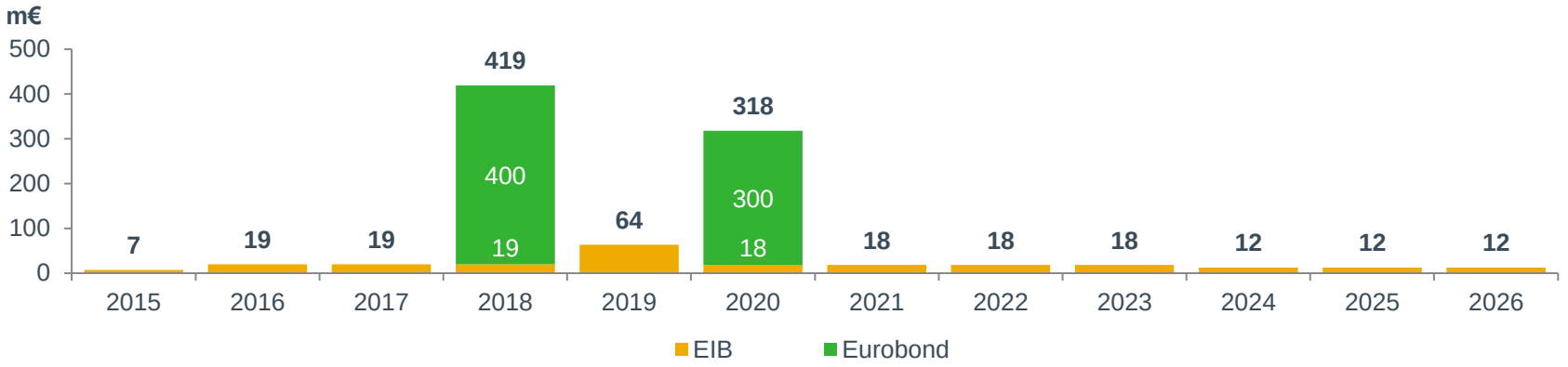
Debt Maturity Profile

Net Debt/EBITDA & Financial Leverage



- Eesti Energia credit ratings at investment grade level
  - BBB+ (S&P), stable outlook
  - Baa2 (Moody's), stable outlook
- Total debt €935m as of 31 December 2014
- Eurobond maturities in 2018 and 2020

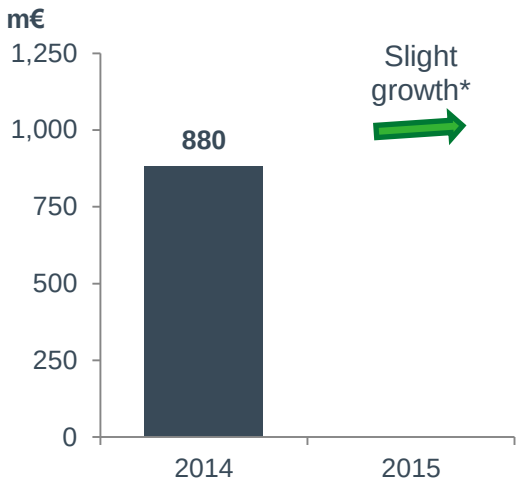
Debt Maturity



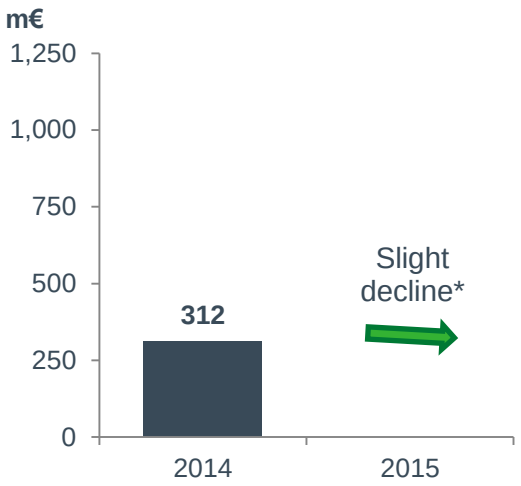
Eesti Energia

Outlook for FY2015 Forecasts Lower EBTIDA Despite Increased Revenues

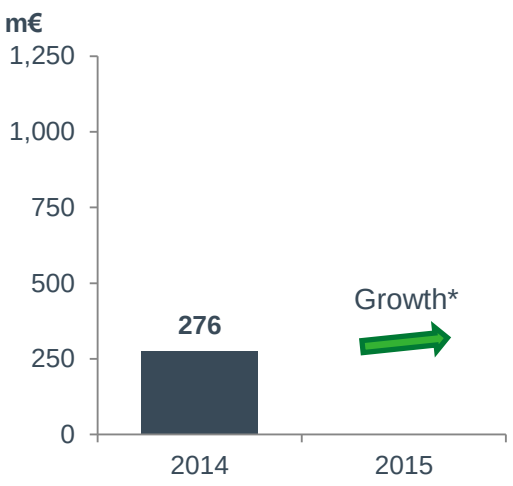
Sales Revenues



EBITDA



Investments



- Sales revenues in 2015 expected to grow slightly, EBITDA is likely to decline as profitability of electricity and shale oil sales will probably decrease
  - Electricity sales volume expected to grow but lower sales prices impact sales revenue
  - Shale oil sales revenue is likely to increase due to larger production despite projected lower sales price
- Capex will increase due to higher maintenance investments mainly in Narva Power Plants
- Planned dividend payment of €95.0m and income tax of €23.8m in 2015

* slight growth/slight decline until 5%, growth/decline >5%

Eesti Energia

Summary

- 2014 sales revenues decreased 9% to 880 million euros
  - Electricity sales revenue decreased by 83 million euros mainly due to lower sales volume
  - Shale oil sales decreased by 7 million euros. Higher sales volume partially supported sales revenues as average sales price decreased
- 2014 EBITDA increased 0.6% to 312 million euros
  - Electricity EBITDA decreased by 25 million euros mainly due to lower sales volume
  - Shale oil EBITDA increased 9 million euros as sales volume growth and hedging contributed to EBITDA in a challenging price environment
  - Distribution EBITDA increased by 9 million euros due to lower variable and fixed costs
- Investments decreased 34% to 276 million euros

APPENDICES

Production and Sales in 2014

Distribution Network

6,294 GWh of electricity distributed to clients

Electricity

6,012 GWh sold in retail market

3,125 GWh sold in wholesale market

9,137 GWh of electricity sold

297 GWh of renewable electricity produced, **140 GWh** of electricity purchased

9,389 GWh of non-renewable electricity produced

Shale oil

231 thousand tonnes of oil sold to clients

265 thousand tonnes of shale oil produced

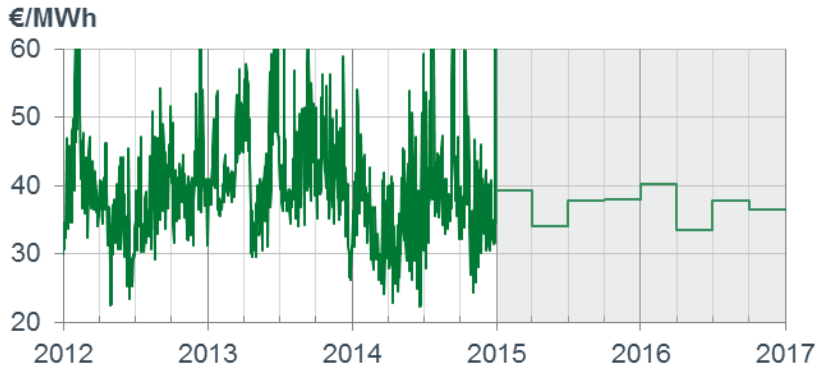
17 m tonnes used in electricity and shale oil production

Oil shale mined **16 m tonnes**

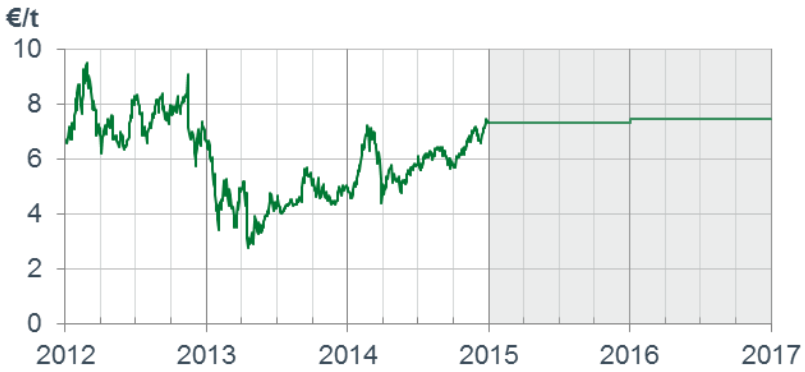
Eesti Energia

Commodity Markets*

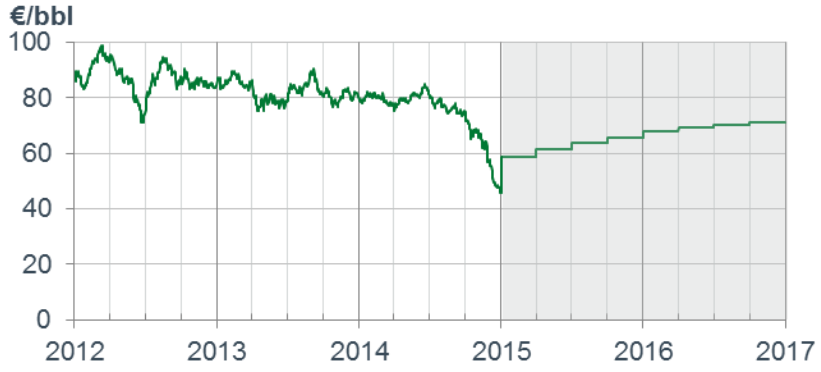
Nord Pool Estonia Electricity Price



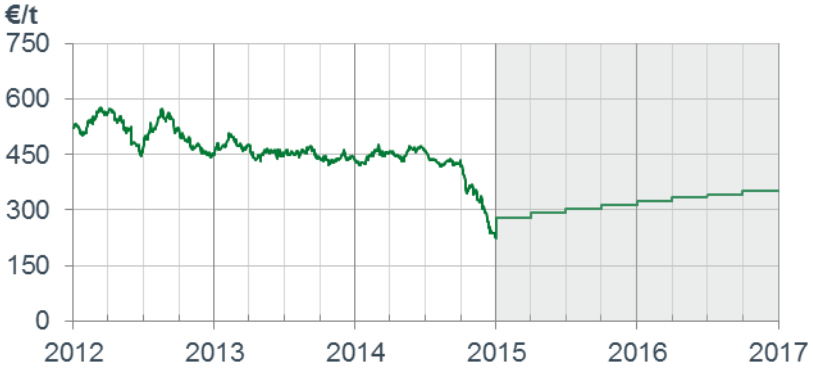
December CO_2 Emission Allowance



Brent Crude Oil



Fuel Oil 1% NWE

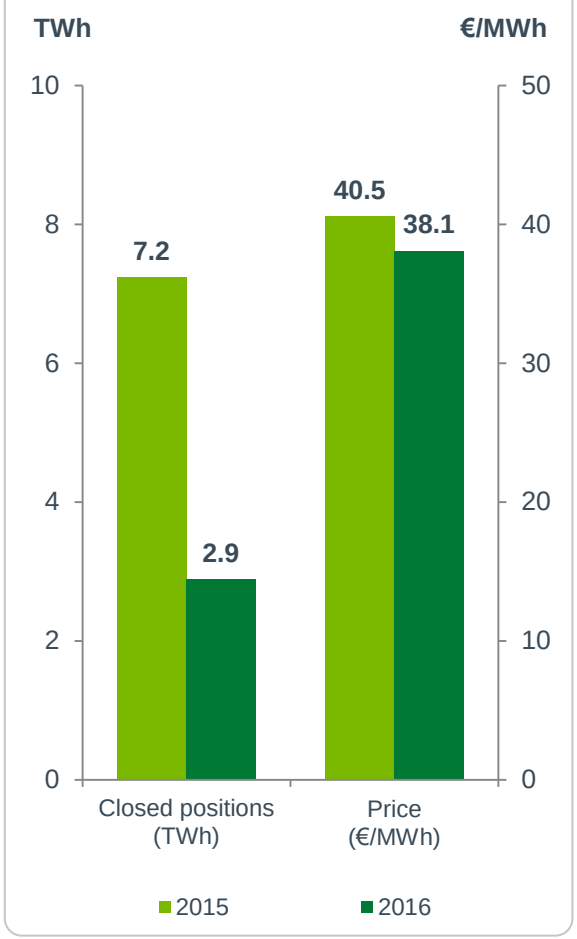


** futures prices as of 31 December 2014*

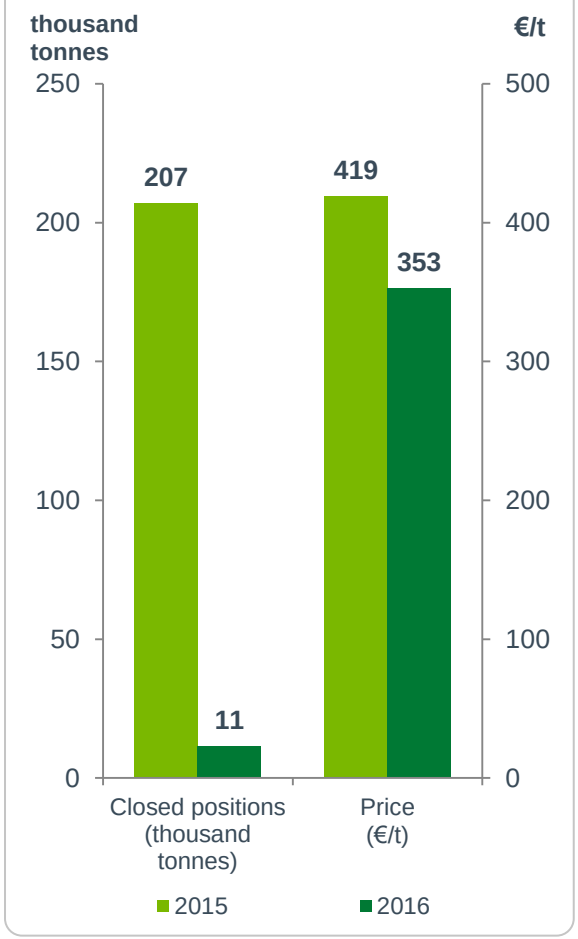
Eesti Energia

Closed Positions as of 31 Dec. 2014

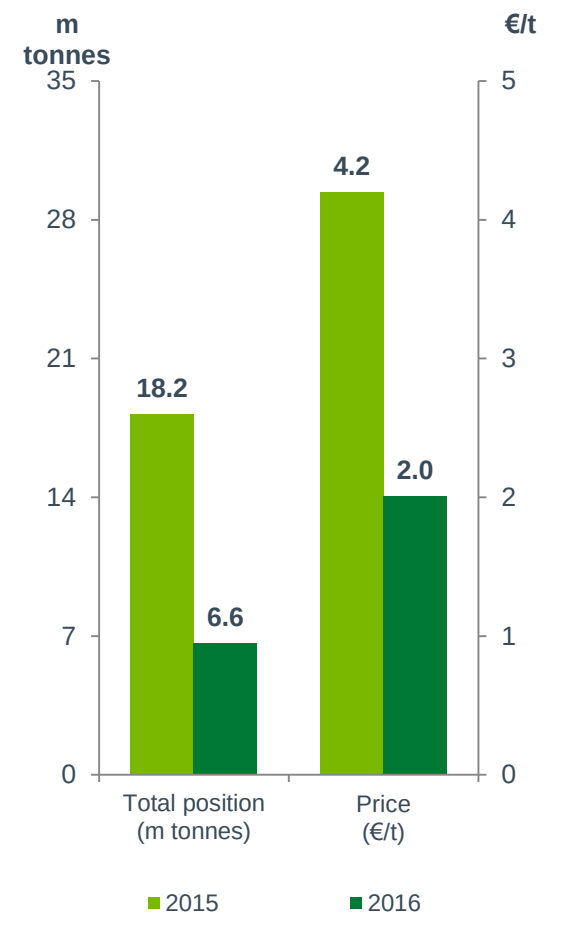
Electricity



Fuel Oil*



CO_2**



** in addition, the Group owns options in the amount of 120 thousand tonnes maturing in 2016*

*** including free CO_2 allowances related to power plant construction in Auvere*

Eesti Energia

Profit and Loss Statement

million euros	2014	2013	Change	Change
Sales revenues	**880.0**	**966.4**	**-86.4**	**-8.9%**
Other revenues	23.5	8.8	+14.7	+166.5%
Expenses (excl. depreciation)	**591.1**	**664.7**	**-73.5**	**-11.1%**
EBITDA	**312.3**	**310.5**	**+1.8**	**+0.6%**
Depreciation	126.2	135.0	-8.8	-6.5%
EBIT	**186.1**	**175.5**	**+10.6**	**+6.0%**
Net financial income (-expenses)	-0.6	-1.2	+0.6	-46.8%
Earnings before tax	**185.4**	**174.3**	**+11.2**	**+6.4%**
Income tax	23.7	14.0	+9.7	+69.7%
Net profit from associates	-2.4	-0.8	-1.6	+211.2%
Net profit	**159.3**	**159.5**	**-0.2**	**-0.1%**

Balance Sheet

million euros	December 2014	December 2013	Change	Change
Assets	**2,995.5**	**2,817.9**	**+177.7**	**+6.3%**
Current assets	**485.9**	**449.5**	**+36.3**	**+8.1%**
Cash and cash equivalents	60.2	62.6	-2.4	-3.9%
Deposits with maturity of more than 3 months	40.0	21.0	+19.0	+90.5%
Trade receivables	104.0	114.8	-10.9	-9.5%
Inventories and prepaid expenses	46.1	84.4	-38.3	-45.4%
Other current assets	235.6	166.7	+68.9	+41.4%
Non-current assets	**2,509.7**	**2,368.3**	**+141.3**	**+6.0%**
Liabilities and equity	**2,995.5**	**2,817.9**	**+177.7**	**+6.3%**
Liabilities	**1,376.1**	**1,270.1**	**+106.0**	**+8.3%**
Trade payables	96.4	109.1	-12.7	-11.7%
Borrowings	**934.9**	**827.9**	**+107.1**	**+12.9%**
Current liabilities	6.9	1.4	+5.6	+407.9%
Long-term liabilities	928.0	826.5	+101.5	+12.3%
Provisions	106.2	102.1	+4.1	+4.0%
Deferred income	161.7	154.5	+7.2	+4.7%
Other liabilities	76.9	76.6	+0.3	+111.2%
Equity	**1,619.4**	**1,547.8**	**+71.7**	**+4.6%**

Cash Flow Statement

million euros	2014	2013	Change	Change
Net cash from operating activities	**228.2**	**244.6**	**-16.4**	**-6.7%**
Purchase of fixed assets	-260.2	-387.4	+127.2	-32.8%
Proceeds from sales of fixed assets	1.7	13.4	-11.7	-87.3%
Net change in deposits with maturities greater than 3 months	-19.0	69.0	-88.0	-127.5%
Connection and other fees received	12.3	13.9	-1.6	-11.4%
Dividends recieved from financial investments	5.6	1.5	+4.0	+261.2%
Proceeds from bonds issued	110.3		+110.3	
Bank loans received	0.5	96.2	-95.8	-99.5%
Dividend payment	-93.6	-55.2	-38.4	+69.6%
Sale of business	4.8		+4.8	
Other	7.1	6.4	+0.7	+11.6%
Net cash flows	**-2.4**	**2.5**	**-5.0**	**-196.0%**

Glossary

- **1 MWh** – 1 megawatt hour. The unit of energy generated (or consumed) in one hour by a device operating at a constant power of 1 MW (megawatt).
  1,000,000 MWh = 1,000 GWh = 1 TWh
- **Clean Dark Spread (CDS)** – Eesti Energia's margin between the price of electricity (in NPS Estonia) and the sum of total oil shale costs and CO_2 costs (taking into account the price of CO_2 allowance futures maturing in December and the amount of CO_2 emitted in the generation of a MWh of electricity). Calculation methodology has been improved compared to annual report 2013, by taking into account total instead of variable oil shale costs
- **CO_2 emission allowance** – According to the European Union Emissions Trading System (ETS), one emission allowance gives the holder the right to emit one tonne of carbon dioxide (CO_2). The limit on the total number of emission allowances available gives them a monetary value
- **Financial leverage** – Net debt divided by the sum of net debt and equity
- **Net debt** – Debt obligations (amortised) less cash and cash equivalents (incl. bank deposits with maturities exceeding 3 months), units in money market funds and investments in fixed income bonds
- **Network losses** – The amount of electricity delivered to customers is somewhat smaller than the amount supplied from power plants to the network because during transfer a part of electricity in the power lines and transformers converts into heat. In smaller amount, network losses are caused by power theft and incorrect measuring. The network operator has to compensate energy losses and for this a corresponding amount of electricity has to be purchased every hour
- **NPS system price** – The price on the Nord Pool Spot power exchange that is calculated on the basis of all purchase and sale bids without taking into account transmission capacity limitations
- **Position hedged with forward transactions** – The average price and the corresponding amount of electricity and shale oil sold and emission allowances purchased in the future is previously fixed.
- **RAB** – Regulated Asset Base, which represents the value of assets used to provide regulated services
- **Return on Fixed Assets (ROFA)** – Operating profit (rolling 12 months) divided by average fixed assets excl. assets under construction (allocated to specific product)
- **SAIDI** – System Average Interruption Duration Index. The sum of all customer interruption durations in minutes divided by the total number of customers served
- **SAIFI** – System Average Interruption Frequency Index. The total number of customer interruptions divided by the total number of customers served
- **Variable profit** – Profit after deducting variable costs from sales revenues