Eesti Energia Audited Financial Results for 2017

27 February 2018

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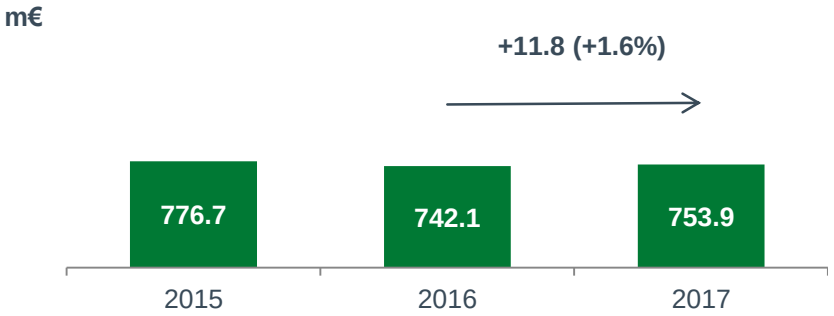
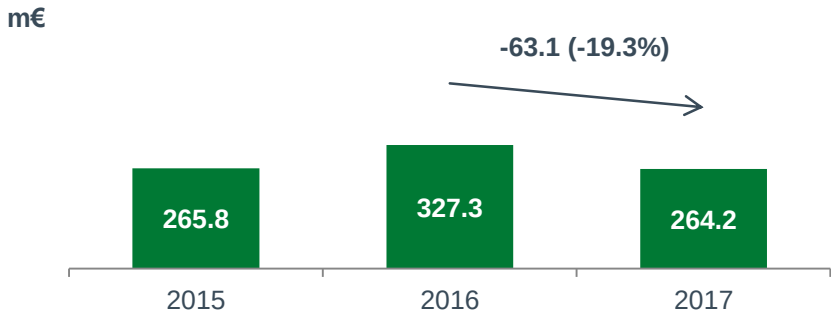
Sales Revenues +2%, EBITDA -19%

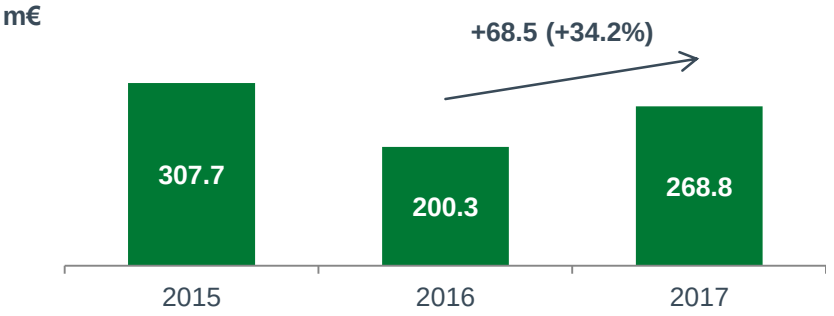
Sales Revenues



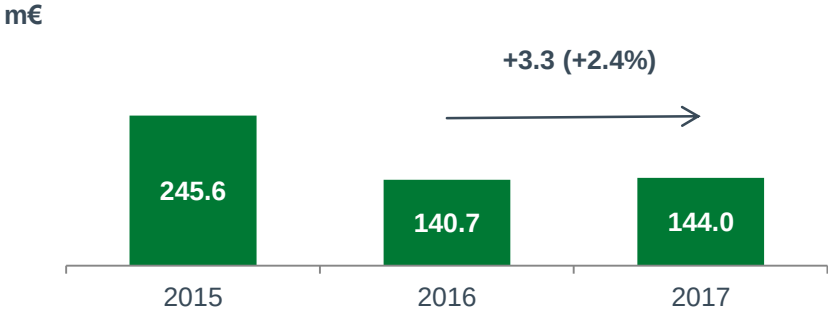
EBITDA



Operating Cash Flow



Investments

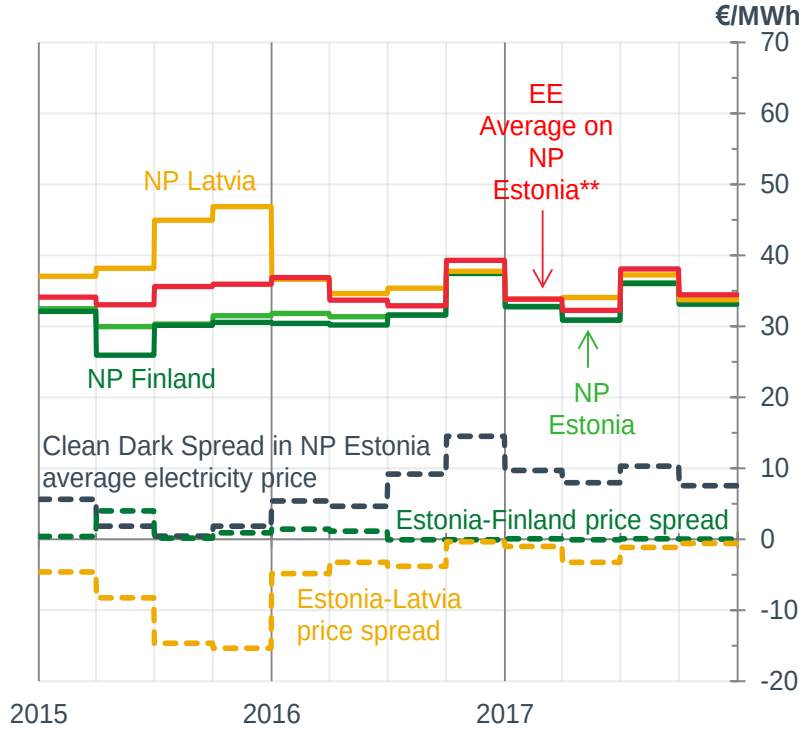


Nord Pool Baltic Electricity Prices Converging

- 2017 NP electricity prices stayed at the same level in Estonia and Finland. Price spreads decreased in Baltic states and between Estonia and Finland
- Average price in NP Estonia price area 33.2 €/MWh* (+0.2 €/MWh, +0.5%). The quarterly electricity prices achieved by Eesti Energia Narva power plants were 3-5% higher than NP Estonia average
- Price spread between Estonia and Finland decreased by 0.6 €/MWh to 0.03 €/MWh as Estonian price stayed slightly higher
- Average price in NP Latvia price area 34.7 €/MWh (-1.4 €/MWh, -3.9%). Estonia-Latvia price spread decreased by 1.6 €/MWh to -1.5 €/MWh, Latvian price remained higher. Price spread decrease is related to NordBalt cable
- Clean Dark Spread in NP Estonia average electricity market price increased to 9.0 €/MWh (+0.3 €/MWh):
  - higher CO_2 and lower oil shale costs had a combined impact of +0.2 €/MWh
  - higher NP Estonia average electricity price had a positive effect of +0.2 €/MWh

* average Nord Pool electricity market price. This price may differ compared with Eesti Energia's electricity sales prices achieved on wholesale market
** average electricity price achieved on Nord Pool Estonia electricity market by Eesti Energia Narva power plants

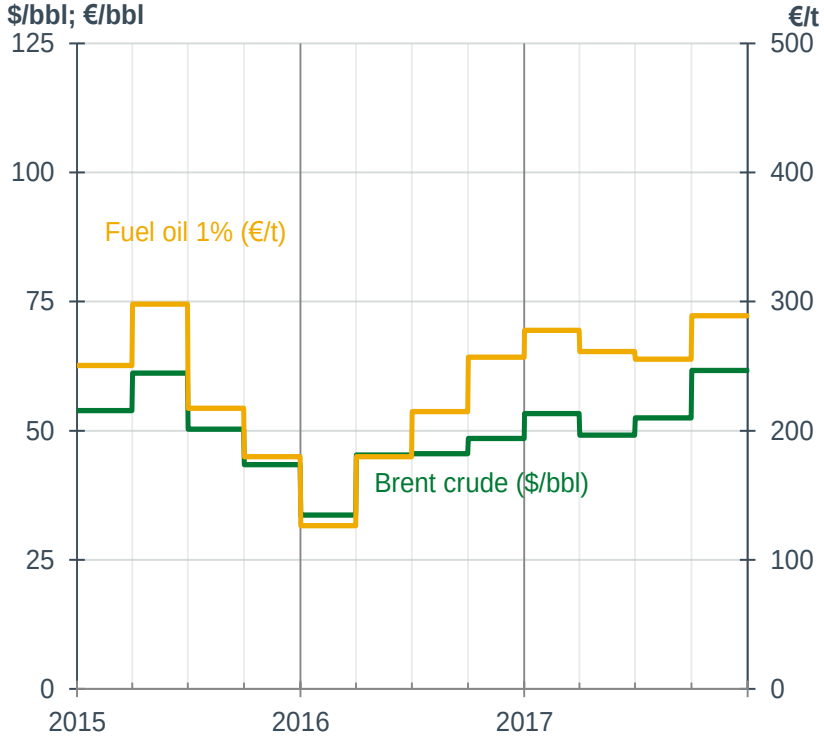
Average Quarter Nord Pool Electricity Prices



Oil Prices Increased Y-o-Y and Q-o-Q

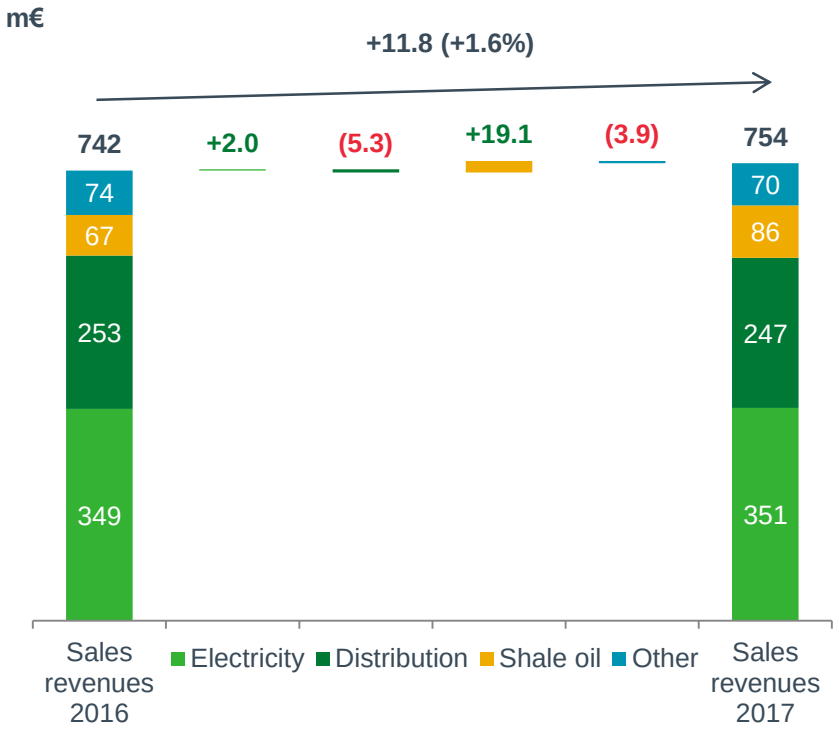
- Average price of Brent crude oil 54.1 $/bbl (+10.8 $/bbl, +25.0%)
  - During the first six months crude oil prices decreased mainly due to increased number of oil rigs in the U.S.
  - In the second half of 2017 crude oil prices increased mainly due to OPEC's decision to reduce production
- Average price of fuel oil (1% sulphur content) 270.8 €/t (+75.9 €/t, +38.9%).
  - In the first half of 2017 demand for fuel oil in Europe and Asia was high which kept fuel oil price higher compared to crude oil
  - In the second half of 2017 increase in fuel oil price was lower than in crude oil price due to the fact that European fuel oil market was characterised by low local demand and exports to Asia decreased

Average Quarter Fuel Oil and Brent Crude Oil Prices

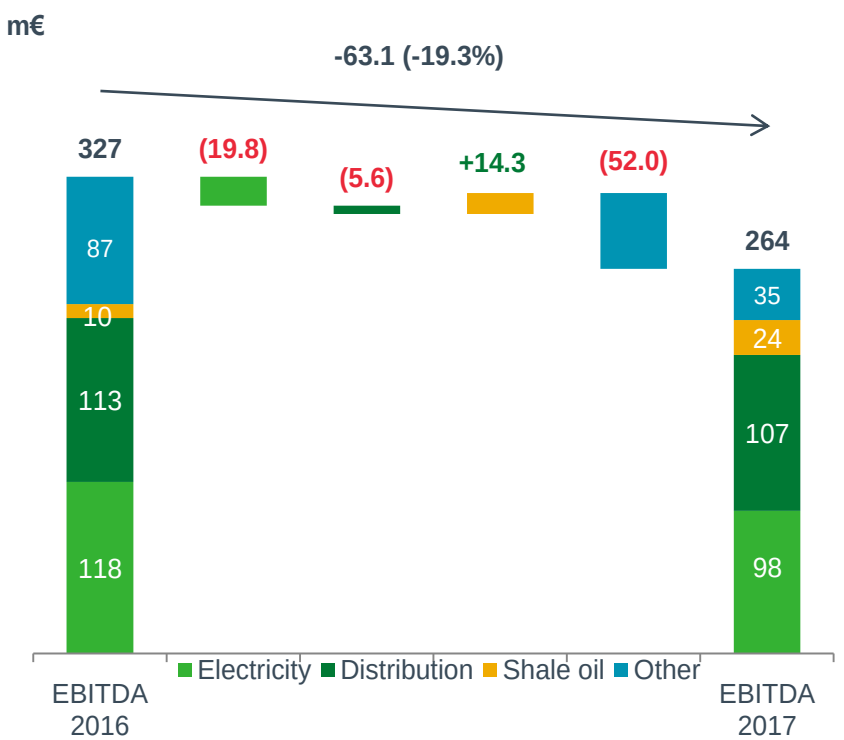


Group’s Sales Revenues Increased and EBITDA Decreased

Sales Revenues Breakdown and Y-o-Y Change



EBITDA* Breakdown and Y-o-Y Change



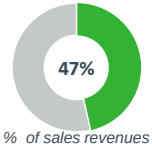
*Compared to 2016 annual report, segment reporting has been adjusted due to changes in accounting principles

Electricity

Eesti Energia Auvere power plant in Ida-Virumaa, Estonia

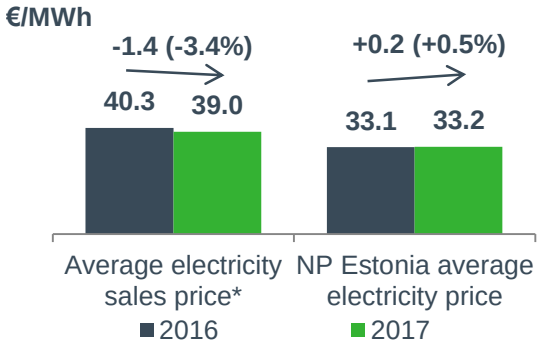
Eesti Energia

Electricity Sales Revenue Increased

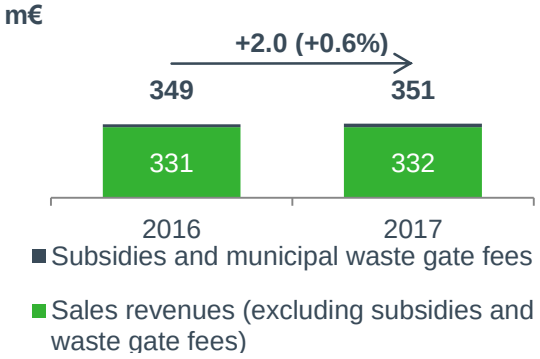


% of sales revenues

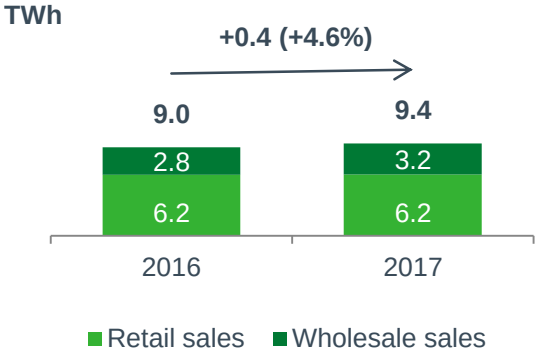
Average Electricity Sales Price*



Electricity Sales Revenue



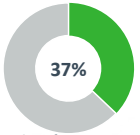
Electricity Sales Volume**



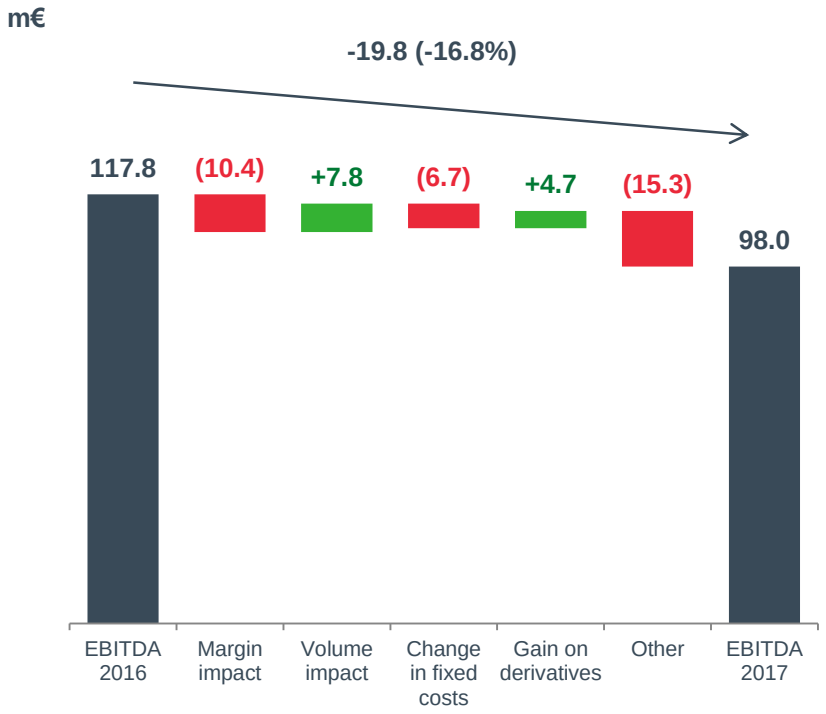
- Auvere power plant produced 1.4 TWh of electricity in 2017 of which 0.8 TWh was capitalized. Liquidated damages related to the delay in the delivery of the Auvere power plant are reflected in other revenues
- Average electricity sales price* decreased to 39.0 €/MWh (-1.4 €/MWh, -3.4%)
  - Gain on derivatives impacted price by +1.1 €/MWh in 2017 (+0.5 €/MWh y-o-y; €9.5m in abs. terms in 2017, +€4.7m y-o-y)
  - Average electricity sales price* excl. gain on derivatives decreased to 37.9 €/MWh (-1.9 €/MWh, -4.8%)
- Electricity sales volume 9.4 TWh (+4.6%)**. Wholesale sales increased by 401 GWh (+14.5%)
- Electricity generation amounted to 9.7 TWh (+0.7 TWh, +7.3%)
- 2018 sales hedged against price risk amounted to 4.1 TWh with an average price of 34.5 €/MWh;
  2019 sales hedged against price risk amounted to 0.9 TWh with an average price of 33.0 €/MWh

* total average sales price of electricity product (including retail sales, wholesale sales and gain on derivatives). Average sales price excludes subsidies for renewable energy and municipal waste gate fees
** includes sales volume of Auvere power plant. In the Group's accounting, the sales revenue and cost of Auvere power plant is partially capitalized as the plant is still under construction. Without including the netted sales volume of Auvere power plant, the Group's electricity sales would have increased by 4% or 322 GWh

Electricity EBITDA Decreased by 17%



Electricity EBITDA Development



- ✗ Total margin impact -€10.4m (-1.2 €/MWh). Average sales revenue decreased by 1.9 €/MWh (impact -€16.3m). Lower variable costs impact +€5.9m
- ✓ Volume impact +€7.8m (sales volume of Auvere power plant is not included in Group's sales revenue and EBITDA to the full extent)
- ✗ Fixed costs impacted EBITDA by -€6.7m. Increased maintenance costs impact -€6.8m as a larger number of maintenance works were planned and undertaken in 2017. Increased payroll costs impact -€4.1m. Fixed cost component in inventories impacted EBITDA by +€4.6m
- ✓ Gain on derivatives increased impacting EBITDA by +€4.7m (gain on derivatives €4.8m in 2016, €9.5m in 2017)
- ✗ Other changes (total impact -€15.3m) mainly related to change in value of derivative instruments (impact -€12.6m; net gain from revaluation +€13.9m in 2016, +€1.3m in 2017) and higher environmental provisions (impact -€2.2m)

Key Figures	2017	2016
Return on fixed assets* (%)	7.7	9.7
Electricity EBITDA (€/MWh)	11.5	14.4

* Rolling 12 months. Excluding impairment of generation assets in December 2013 and December 2015

Distribution

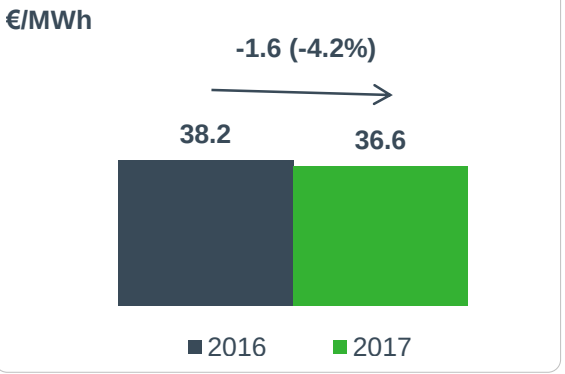
Distribution Cable Tunnel in Tallinn, Estonia

Eesti Energia

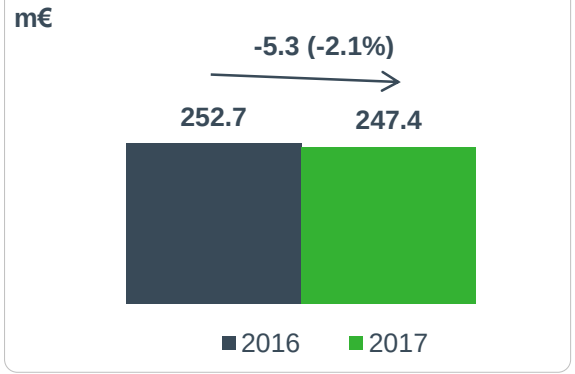
Distribution Revenue Decreased by 2%

% of sales revenues

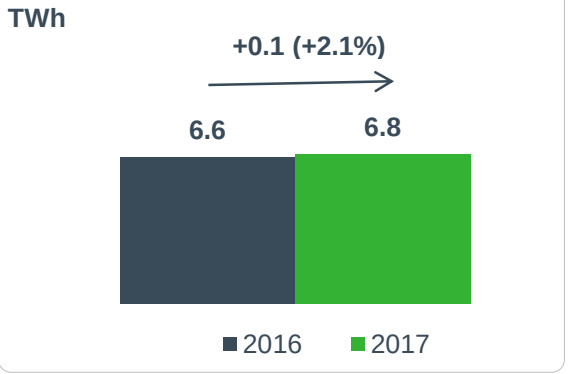
Average Distribution Sales Price



Distribution Sales Revenue

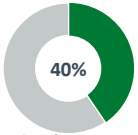


Distribution Volume

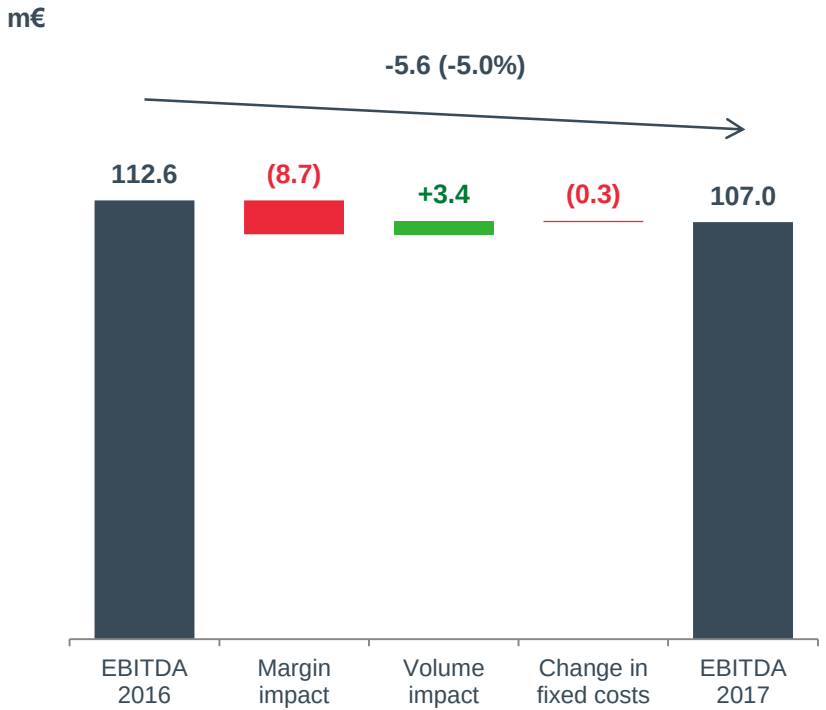


- Sales revenue decreased to €247.4m (-2.1%) due to decreased distribution sales price
- Distribution tariffs were decreased by 6.7% in July and 2.3% in November
  The decrease in November was due to a reduction in a corresponding decrease in the transmission system operator's tariffs and has no impact on EBITDA
- Network losses amounted to 4.7% (+0.6 percentage points) of electricity entered into distribution network.
  The increase was due to the correction of a measuring error by Elering that lasted from 2015 to 2017
- The average duration of unplanned interruptions was 105 minutes (2016: 163 minutes). The figure decreased due to better weather conditions and due to our effort to replace regular overhead lines with weather-proof cables

Distribution EBITDA Lower Mainly due to Decreased Price



Distribution EBITDA Development



- ✗ Total margin impact -€8.7m (-1.3 €/MWh) mainly due to decreased average sales price
- ✓ Distribution volume increased by 2.1%, impact on EBITDA +€3.4m
- ✗ Fixed costs increased by €0.3m

Key Figures	2017	2016
Return on fixed assets* (%)	6.7	6.8
Distribution losses (GWh)	343.5	293.4
SAIFI	1.9	1.6
SAIDI (unplanned)	105.3	163.0
SAIDI (planned)	79.6	78.3
Adjusted RAB* (m€)	777.7	757.0

* Rolling 12 months. RAB (Regulated Asset Base) allocated to distribution product

Shale Oil

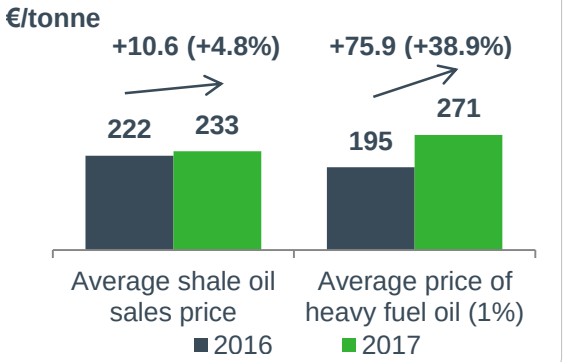
Eesti Energia Oil Industry in Ida-Virumaa, Estonia

Eesti Energia

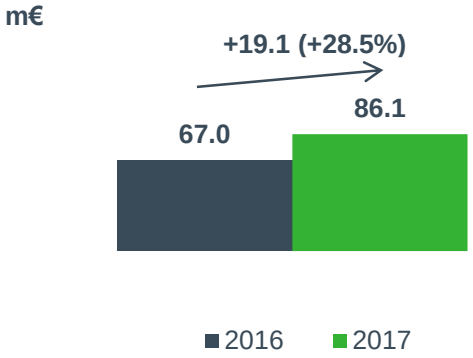
Shale Oil Sales Volume Increased

% of sales revenues

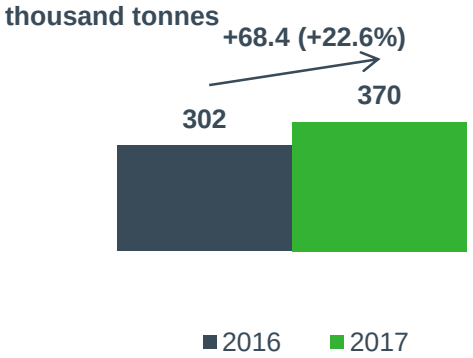
Average Shale Oil Sales Price



Shale Oil Sales Revenue

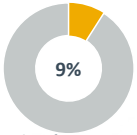


Shale Oil Sales Volume

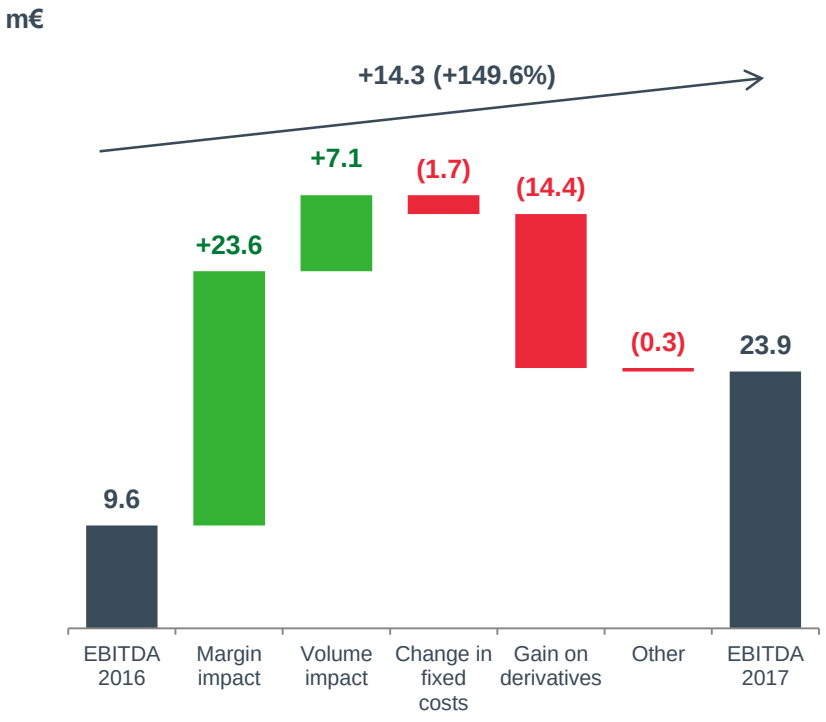


- Sales volume increased by 22.6% as production increased. The Groups' shale oil production in 2017 increased by 77.1 thousand tonnes (+24.2%) to 394.8 thousand tonnes, due to planned maintenance works done at the period of low market prices in 2016
  - Enefit280 oil plant produced 186.4 thousand tonnes of oil (+58.4 thousand tonnes, +45.7%)
- Average shale oil sales price increased to 233 €/t (+10.6 €/t, +4.8%)
  - Gain on derivatives impacted price by -28.4 €/t in 2017 (-41.1 €/t y-o-y, -€10.5m in abs. terms in 2017, -€14.4m y-o-y)
  - Average sales price excl. gain on derivatives increased to 261 €/t (+51.7€/t, +24.7%) due to an increase in the reference product average price (+75.9 €/t, +38.9%)
- 2018 sales hedged against price risk amounted to 297 thousand tonnes with an average price of 256 €/t
  2019 sales hedged against price risk amounted to 143 thousand tonnes with an average price of 261 €/t

Shale Oil EBITDA Increased Mainly due to Higher Sales Price



Shale Oil EBITDA Development

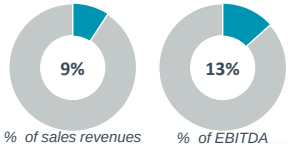


- ✓ Margin impact on profitability +€23.6m (+63.9 €/t). Increased average sales price impact +€19.1m. Lower variable costs increased EBITDA by €4.5m
- ✓ Sales volume increased by 23%, impact on EBITDA +€7.1m
- × Fixed costs increased by €1.7m. Increased payroll costs impact on EBITDA -€1.8m
- × Gain on derivatives decreased, impacting EBITDA by -€14.4m (gain on derivatives €3.8m in 2016, -€10.5m in 2017)
- × Other changes (-€0.3m) mainly related to change in value of derivative instruments (-€0.2m)

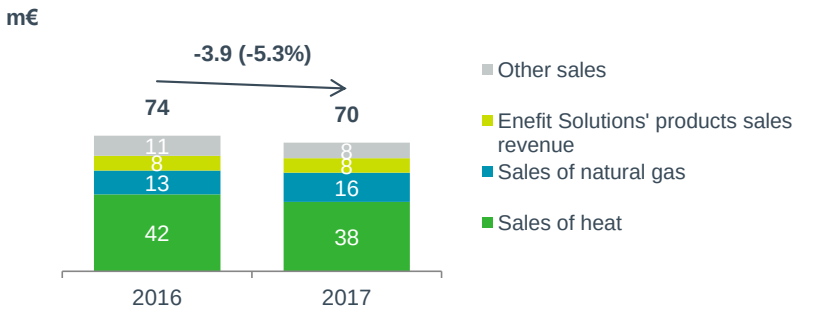
	2017	2016
Return on fixed assets (%)*	1.3	-3.6
Shale Oil EBITDA (€/t)	64.6	31.7

* Rolling 12 months

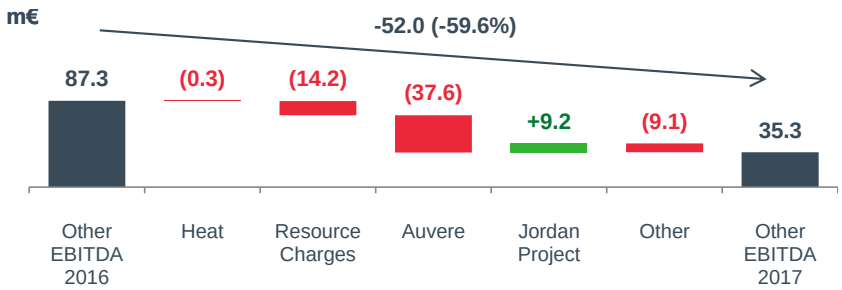
Other EBITDA Decreased Mainly due to One-off Impacts



Sales Revenues From Other Products and Services



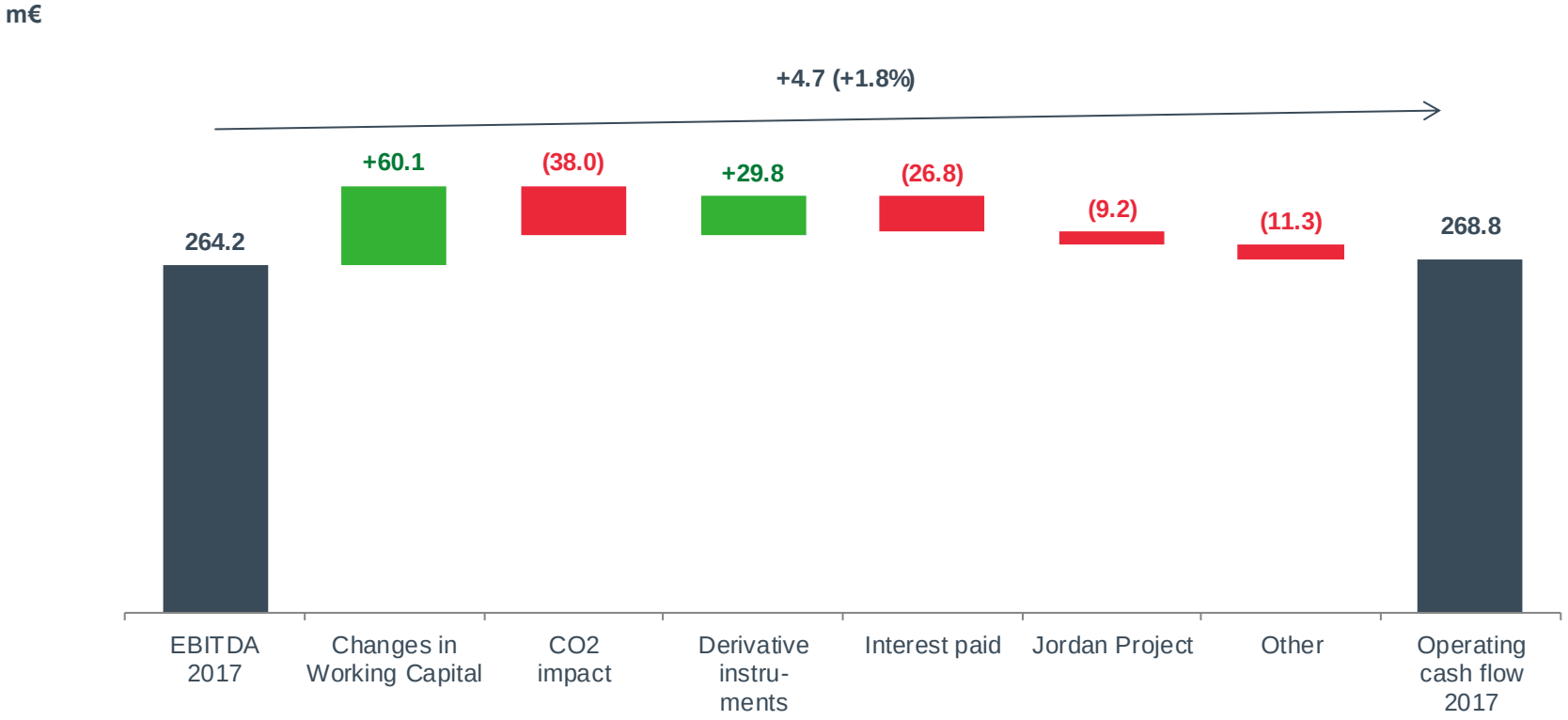
Other Products and Services EBITDA Development



- Retrospective reduction of resource charge rates improved EBITDA in 2016 by €14.2m
- EBITDA impact due to liquidated damages related to the delay in the delivery of the Auvere power plant -€37.6m y-o-y (+€68.6m in 2016; +€30.9m in 2017)
- Jordan electricity project impacted EBITDA by +€9.2m. Through the share sale transaction, we recovered our development investments of 29 million euros and earned a profit of 19 million euros. The Jordanian transaction's positive impact on our annual results was €9.2m. The rest of the profit was recognised in earlier periods
- Heat sales EBITDA decreased by €0.3m
- Natural gas sales revenue increased by €2.9m
- Other changes in EBITDA totalled -€9.1m

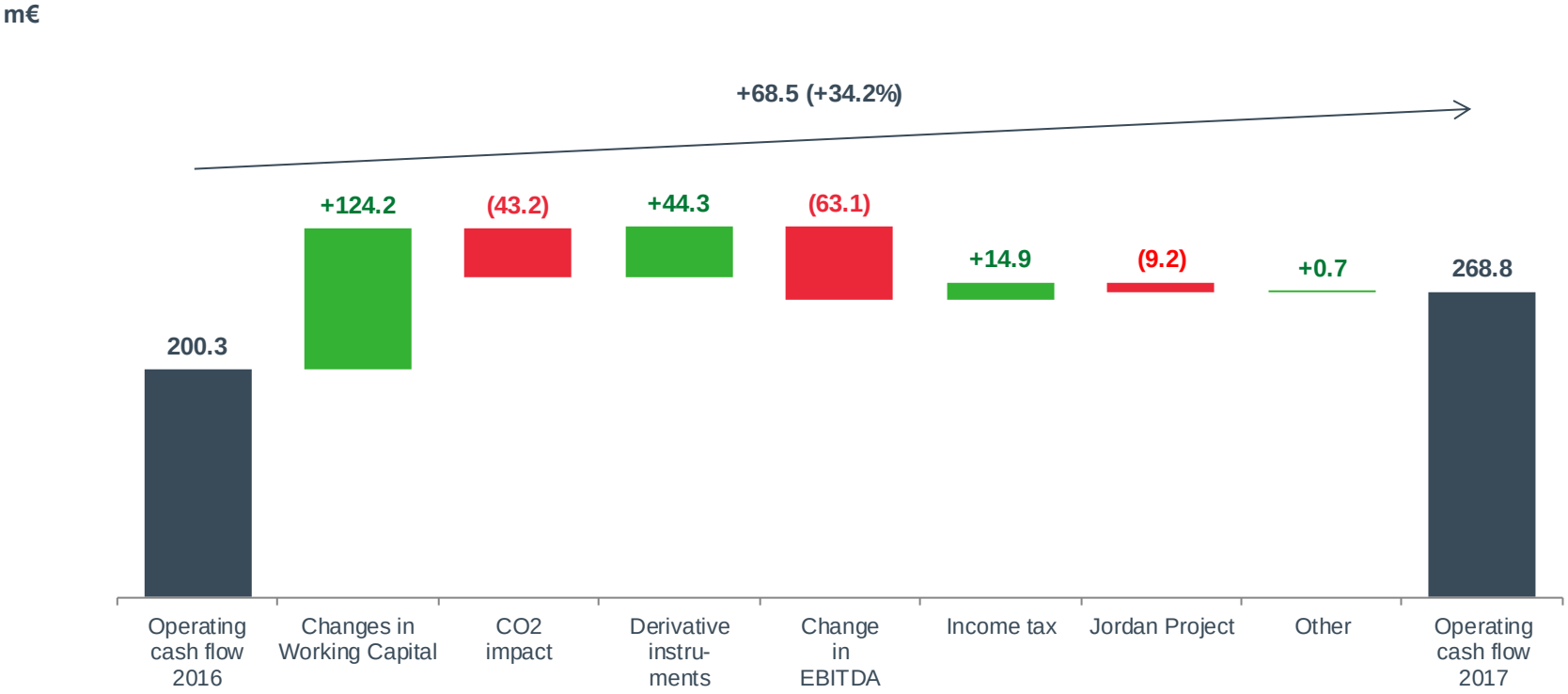
Operating Cash Flow €4.7m Higher than EBITDA

EBITDA to Operating Cash Flows Development



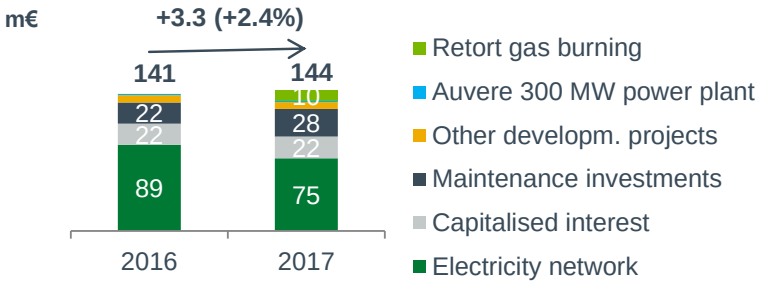
2017 Operating Cash Flow €69m Higher Y-o-Y

Operating Cash Flow Changes

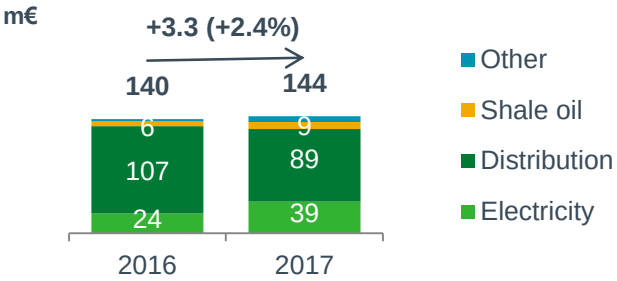


Capital Expenditure €144m in 2017

Capex Breakdown by Projects



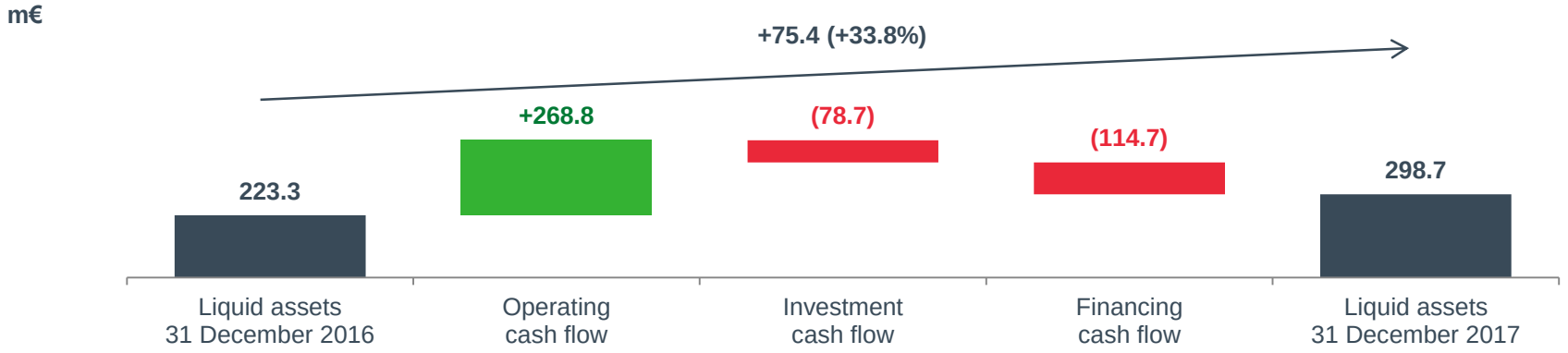
Capex Breakdown by Products



- Investments in distribution network amounted to €74.6m (-€13.9m, -16%), being the largest capital investment in 2017
- Maintenance investments (excl. distribution) increased by €6.8m to €28.5m
- Needed upgrade of fabric filters defers the acceptance of Auvere power plant from the contractor. In Q3 2017, the construction of fabric filters continued and at the end of the quarter the filters were installed. Pre-delivery tests show that fabric filters will keep the plant's particle emissions within established limits. Auvere power plant generated 1,427 GWh of electricity in 2017 (+27% compared to 2016). According to plan, the contractor, General Electric, will transfer the operation of Auvere plant to Eesti Energia in Q2 2018
- €10.3m was invested in the project for increasing the share of oil shale gas burnt in generating unit 8. The planned total cost of the project is €15m

€299m Amount of Liquid Assets at the End of 2017

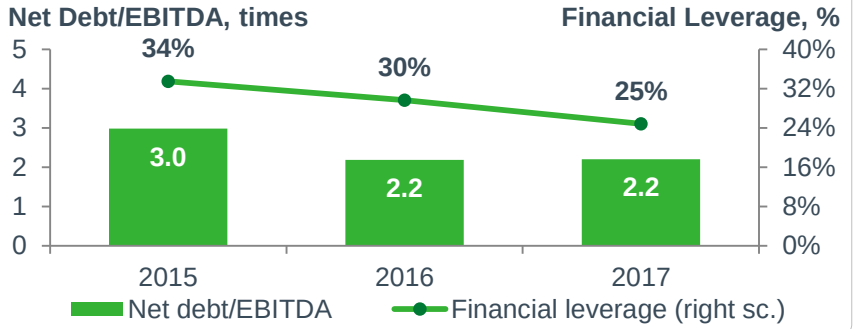
Group's Liquidity Development in 2017



- €449m of liquid assets and unused loans available as at 31 December 2017, including:
  - €299m of liquid assets
  - €150m revolving credit facilities with SEB and OP Corporate Bank

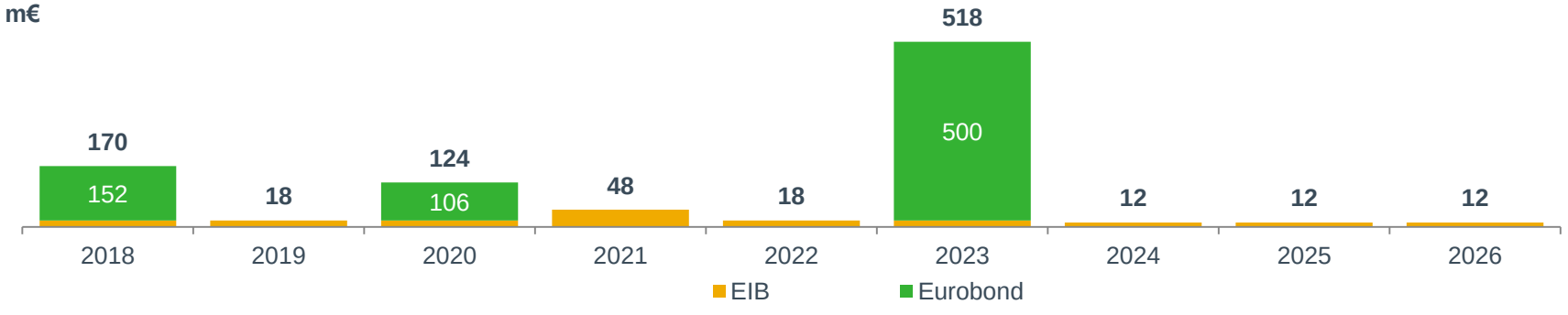
Debt Maturity Profile

Net Debt / EBITDA & Financial Leverage



- Eesti Energia credit ratings at investment grade level
  - BBB (S&P) negative outlook
  - Baa3 (Moody's) stable outlook
- Group's financial status in line with contractual loan covenants
- Total debt €881m, net debt €582m as at the end of 2017
- Outstanding eurobond of EUR 152 million maturing in October 2018 is expected to be redeemed out of existing cash

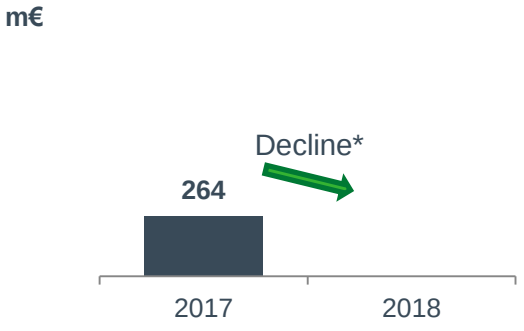
Debt Maturity



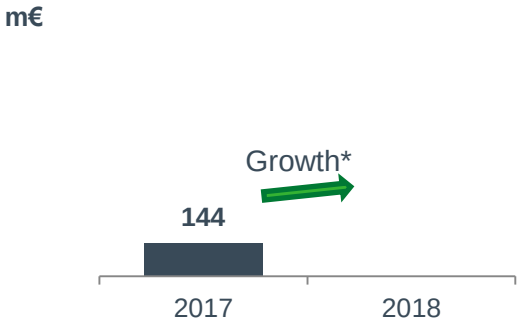
Outlook for FY2018

Sales Revenues

EBITDA



Investments



- 2018 sales revenues and investments are likely to grow*, EBITDA will decline*
  - Group's results impacted by forecasted higher market prices of oil and electricity
  - Excluding the positive impact of the liquidated damages related to the Auvere power plant (30.9 million euros) and Jordan project impact (9.2 million euros) in 2017, EBITDA for 2018 will remain at the same level as in 2017
  - Investments expected to grow mostly due to some 2017 maintenance investments being pushed to 2018 and increase in the volume of development investments. According to plan, the largest capital investment of 2018 will be the final payment for the Auvere power plant
  - Forecast for 2018 includes dividend payment €21.7m and income tax €5.4m

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

Summary

- 2017 sales revenues increased to €754m (+€11.8m)
  - Shale oil sales revenue increased by €19m
  - Electricity sales revenue increased by €2m
  - Distribution sales revenue decreased by €5m
- 2017 EBITDA decreased to €264m (-€63.1m)
  - EBITDA impact due to Auvere power plant €-38m
  - Electricity EBITDA decreased by €20m
  - Shale oil EBITDA increased by €14m
  - Distribution EBITDA decreased by €6m
- Investments increased 2% to €144m
- Financial leverage at 25% and net debt to EBITDA ratio 2.2. At the end of 2017, the Group's financial indicators complied with all contractual covenants

Eesti Energia

APPENDICES

Eesti Energia

Production and Sales in 2017

Distribution

6,757 GWh of electricity distributed to clients

Electricity

6,203 GWh sold in retail market

3,161 GWh** sold in wholesale market

9,364 GWh** of electricity sold*

404 GWh of renewable electricity produced, **342 GWh** of electricity purchased

9,332 GWh of non-renewable electricity produced

Shale oil

370 thousand tonnes of oil sold to clients

395 thousand tonnes of shale oil produced

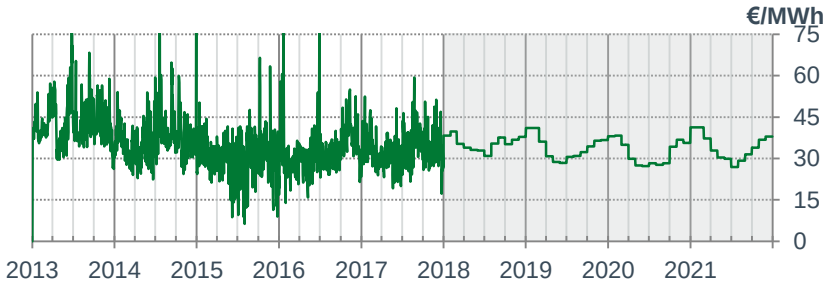
16.3 m tonnes used in electricity and shale oil production

Oil shale mined **15.8 m tonnes**

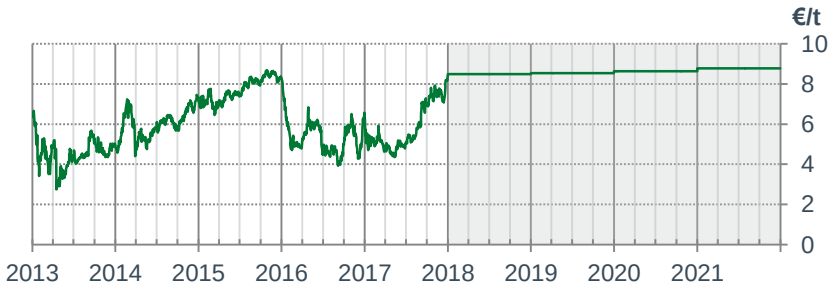
* includes sales volume of Auvere power plant. In the Group's accounting, the sales revenue and cost of Auvere power plant is partially capitalized as the plant is still under construction

Commodity Markets*

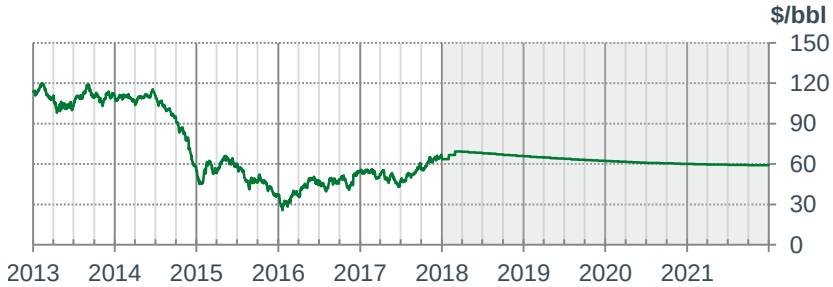
Nord Pool Estonia Electricity Price



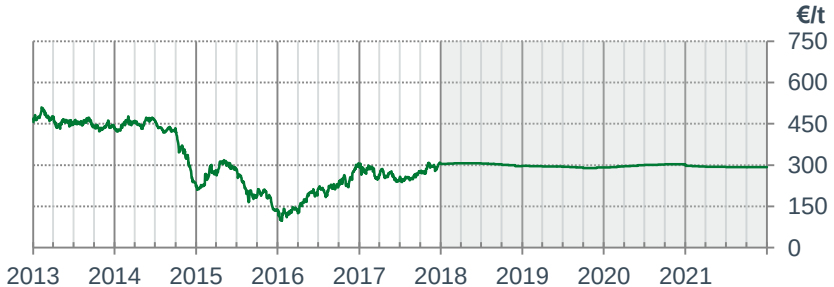
CO_2 Emission Allowance (December)



Brent Crude Oil



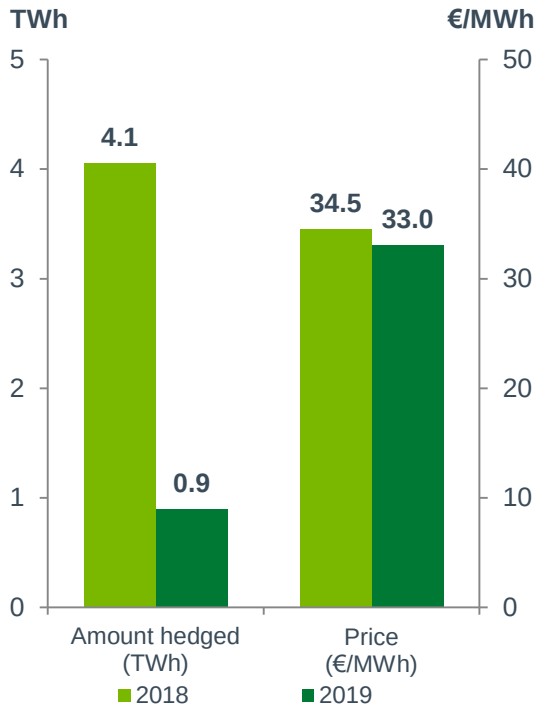
Fuel Oil 1% NWE



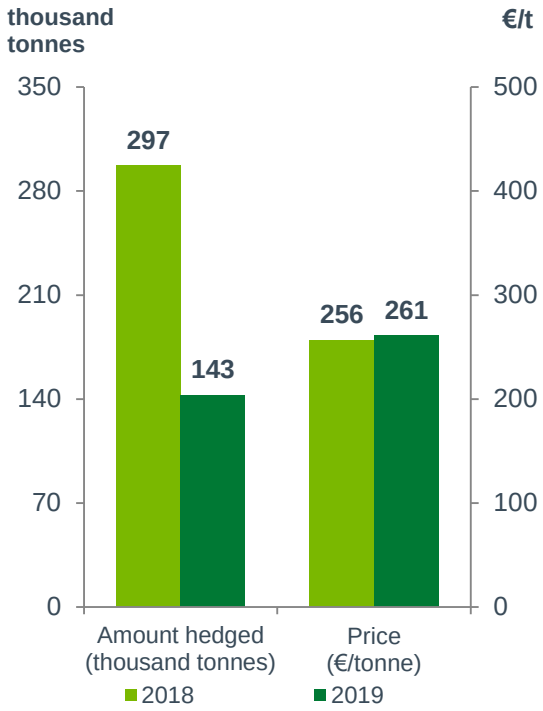
* Based on futures prices as at 17 January 2018

Hedged Positions as at 31 December 2017

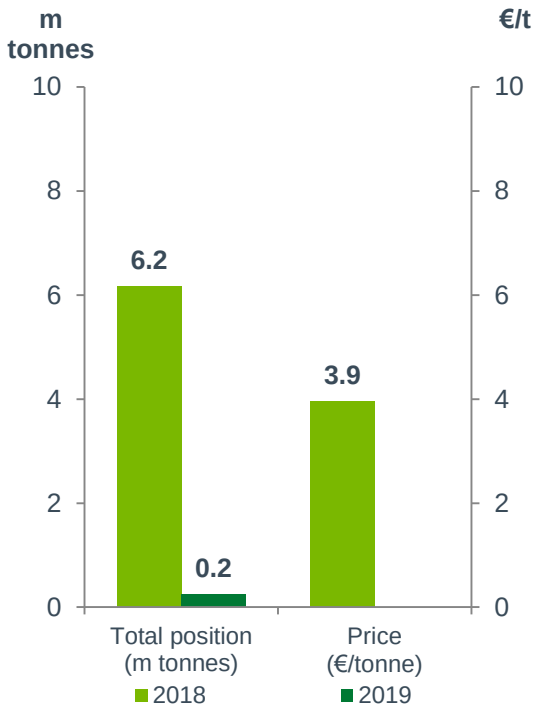
Electricity



Fuel Oil



CO_2*



* including free CO_2 allowances related to power plant construction in Auvere. 2017 position consists mostly of free CO_2 allowances

Profit and Loss Statement

million euros	2017	2016	Change
Sales revenues	**753.9**	**742.1**	**+11.8**
Other revenues	57.2	89.6	-32.4
Expenses (excl. depreciation), incl:	**546.9**	**504.4**	**+42.5**
Electricity purchasing costs	101.4	107.8	-6.4
Environmental fees	44.0	31.6	+12.4
CO2 emission costs	64.9	47.0	+17.9
Change in inventories	-1.5	14.5	-16.0
Other	338.1	303.6	+34.5
EBITDA	**264.2**	**327.3**	**-63.1**
Depreciation	135.8	143.4	-7.6
EBIT	**128.4**	**183.9**	**-55.5**
Net financial income (-expenses)	-18.9	-13.8	-5.1
Net profit from associates	2.7	1.0	+1.6
Earnings before tax	**112.2**	**171.1**	**-58.9**
Income tax expense	11.4	0.1	+11.3
Net profit	**100.8**	**171.0**	**-70.2**

Balance Sheet

million euros	December 2017	December 2016	Change yoy
Assets	**3,142.5**	**3,087.2**	**+1.8%**
Current assets	**592.2**	**536.6**	**+10.4%**
Cash and cash equivalents	298.7	223.3	+33.8%
Trade receivables	104.4	158.5	-34.1%
Inventories and prepaid expenses	70.5	71.0	-0.8%
Other current assets	118.6	83.9	+41.5%
Non-current assets	**2,550.3**	**2,550.6**	
Liabilities and equity	**3,142.5**	**3,087.2**	**+1.8%**
Liabilities	**1,378.6**	**1,389.2**	**-0.8%**
Trade payables	98.5	84.2	+17.0%
Borrowings	**881.1**	**939.9**	**-6.3%**
Current liabilities	169.9	19.3	+781.1%
Long-term liabilities	711.2	920.6	-22.7%
Provisions	104.1	88.5	+17.7%
Deferred income	196.1	181.0	+8.3%
Other liabilities	98.8	95.6	+3.2%
Equity	**1,763.9**	**1,698.0**	**+3.9%**

Cash Flow Statement

million euros	2017	2016	Change	Change
Net cash from operating activities	**268.8**	**200.3**	**+68.5**	**+34.2%**
Purchase of fixed assets	-113.0	-126.7	+13.7	-10.8%
Connection and other fees received	19.0	15.2	+3.8	+25.2%
Net change of cash under limited use	0.0	-6.9	+6.9	-100.0%
Dividends recieved from financial investments	1.6	2.0	-0.5	-22.7%
Proceeds from sale of business	18.5	0.0	+18.5	-
Proceeds from sales of non-current assets	2.2	4.9	-2.7	-54.4%
Loans granted	-35.7	-4.3	-31.4	+722.9%
Repayment of loans granted	28.4	0.0	+28.4	-
Net change in bank loans paid and received	-66.1	-19.3	-46.9	+243.0%
Dividend	-47.0	-0.1	-46.9	N/A
Acquisition of non-controlling interest in a subsidiary	-1.0	-0.9	-0.1	+8.0%
Other	-0.3	-0.7	+0.5	-68.5%
Net cash flows	**75.4**	**63.5**	**+12.0**	**+18.8%**

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 average price of electricity (in NPS Estonia), 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)
- **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
- **NP system price** – The price on the Nord Pool 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