

# Interim Report

1 January 2014 - 31 March 2014



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## Summary of Q1 Results

Dear reader

In the first quarter of 2014, Eesti Energia's EBITDA increased 14% compared to last year to 83 million euros. Sales revenue amounted to 226 million euros, decreasing 19% year-on-year.

During the quarter, we produced 2.4 TWh of electricity that is 23% less as compared to the year ago. The decrease in generation volume is attributable to lower prices in Nord Pool Spot electricity market. Demand for electricity was significantly reduced by warm winter. Although electricity sales revenues were low, the profitability of our electricity sales was improved by financial hedges.

In the first quarter, the second underwater power cable between Estonia and Finland, Estlink2, was opened. This is good news for customers and producers of electricity. Strengthening of international connections has resulted in the convergence of prices in Estonia and Finland. Already the first quarter showed that prices in the two areas were the same for 89% of hours.

From the environmental aspect, the positive news is the continued decrease of air emissions in the electricity generation sector. The restriction on industrial emissions that enters into force in 2016 will impose stricter requirements on our activities. In order to maintain the production volume, we have installed desulphurisation equipment and started the installation of nitrogen filters on seven boilers of four generating units of Eesti Power Plant. Pilot project carried out on one boiler in 2013 resulted in almost halved NO<sub>x</sub> emissions. Since such technologies have not been used earlier in oil shale boilers, it is another example of innovation made in Eesti Energia.

Our oil plants produced 62 thousand tonnes of shale oil in Q1 2014. Compared to the year ago, sales volume of liquid fuels has somewhat decreased because temporary changes in oil parameters. Due to efforts made in the first quarter in improving the Enefit280 oil plant, we have reached the final stretch in the stabilisation of operations.

The strategy of Eesti Energia is clear and complies with the expectations set by the owner – to use the natural resource belonging to Estonia efficiently and to create maximum value for the Estonian state. In the previous quarter, Eesti Energia earned its sole shareholder 83 million euros in income. This figure represents the amounts payable as environmental fees, labour taxes and the profit mainly earned from adding value to oil shale – sale of electricity in wholesale markets, sale of shale oil and distributing electricity.

The future of state regulations and possible changes in the energy policy require that we are good discussion partners to ensure that any decisions impacting the sector are based on facts.



CEO and Chairman of the Management Board of Eesti Energia

Sandor Liive

## Key Figures and Ratios

		Q1 2014	Q1 2013	Change
Total electricity sales, of which	GWh	2,226	3,452	-35.5%
wholesale sales	GWh	557	1,529	-63.6%
retail sales	GWh	1,669	1,922	-13.2%
Electricity distributed	GWh	1,784	1,869	-4.5%
Shale oil sales	th t	35	51	-31.7%
Oil shale sales	th t	213	302	-29.4%
Heat sales	GWh	459	456	+0.8%
Distribution grid losses	%	6.4	5.9	+0.5pp
Average number of employees	No.	6,943	7,526	-7.7%
<hr/>				
Sales revenues	m€	226.4	278.6	-18.7%
EBITDA	m€	83.4	73.1	+14.1%
Operating profit	m€	51.8	44.2	+17.1%
Net Profit	m€	51.0	24.7	+106.4%
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Fixed assets	m€	2,410.0	2,156.3	+11.8%
Equity	m€	1,610.6	1,351.8	+19.1%
Net debt	m€	761.3	570.4	+33.5%
Investments	m€	73.8	74.1	-0.4%
Cash flow from operating activities	m€	56.2	68.4	-17.8%
FFO	m€	75.6	67.4	+12.3%
<hr/>				
Net debt/EBITDA	times	2.4	2.1	+0.3p
FFO/net debt	times	0.35	0.37	-0.0p
FFO/interest cover	times	8.5	8.1	+0.4p
EBITDA/interest cover	times	9.3	8.8	+0.6p
Leverage	%	32.1	29.7	+2.4pp
ROIC	%	10.7	8.7	+2.0pp
EBITDA margin	%	36.8	26.3	+10.6pp
Operating profit margin	%	22.9	15.9	+7.0pp

**Net debt** - debt obligations at amortized cost, less cash and cash equivalents, units in money market funds, investments into fixed income bonds

**Leverage** - net debt / (net debt + equity)

**ROIC** - operating profit / average invested capital

**FFO** - cash flow from operations, excl. change in working capital and unpaid/unsettled gain/loss on derivatives

## Operating Environment

### Global Economy

In Q1 2014, market prices of fuels prices were affected by the expectations on the recovery of the global economy, geopolitical tensions in Libya that influenced energy supply security, as well as by events unfolding in Ukraine and European Commission's measures to partly postpone the auctioning of CO<sub>2</sub> emission allowances. In addition, prices were influenced by more than usually warm weather in Q1 2014 that affected the supply and consumption of electricity and fuels as well as market prices of CO<sub>2</sub> emission allowances.

The IMF outlook on the global economy in 2014 became more conservative with regard to emerging economies as compared to the data published in January. In its April 2014 outlook<sup>1</sup>, the IMF lowered its global economic growth forecast by 0.1pp, and increased the economic growth forecast for the euro area by 0.1pp. In the opinion of the IMF, the global economy expanded 3.0% in 2013 and the growth in 2014 is forecast to be 3.6%. The euro area economy decreased by 0.5% in 2013 and the 2014 growth forecast is 1.2%. Estonian economy expanded 0.8% in 2013 and is expected to grow 2.4% in 2014, according to the IMF forecast. According to the outlook published by the Ministry of Finance in April 2014, the Estonian economy will grow 2.0% as compared to the year earlier.

In the second half of 2013 and at the beginning of 2014, economic growth was driven mainly by developed countries, whereas the situation in emerging economies has been weakening. US economy had significant impact on the recovery of the global economy, reporting stronger-than-expected growth figures thanks to higher exports and increased inventories. In core members of the euro area, especially in Germany, consumer confidence increased, reflected mainly by higher spending and investments. The remaining euro area economies were supported by exports and stabilization of local demand. However, growth in the local demand in the euro area remained slow because of high debt burdens and insufficient borrowing possibilities.

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<sup>1</sup> Macroeconomic data are based on IMF estimates unless referred otherwise. Source: International Monetary Fund, World Economic Outlook—Recovery Strengthens, Remains Uneven (Washington, April 2014)

## Liquid Fuels Prices

Brent crude oil price was 7.5% lower in Q1 2014 (-6.4 €/bbl) in comparison with Q1 2013. During the quarter, Brent crude prices decreased from 79.4 €/bbl to 77.3 €/bbl. In US Dollars, Brent crude oil price was 4.0% lower in Q1 2014 as compared to the year earlier.

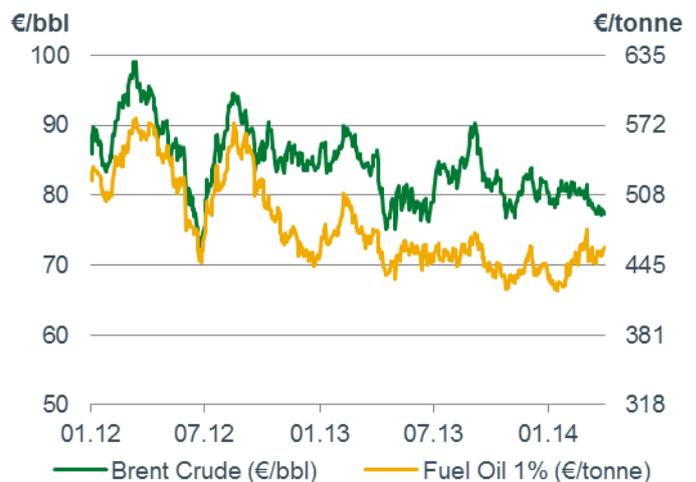
In Q1 2014, Brent crude oil prices were affected by market expectations that the US will ease its economic stimulus programme which will decrease consumption and demand for fuel. In the middle of the quarter, Brent crude oil price stayed higher than in January due to the distorted supply in Libya in connection with local strikes that started in the middle of 2013. Brent crude oil prices reached the quarter's highest price in March 2014 in connection with tensions in Ukraine and growing risks in gas supply security in Europe. At the end of the quarter, crude price fell to lower levels.

Fuel oil (1% sulphur content) price decreased 6.8% in Q1 2014 (-32.7 €/tonne) as compared to a year earlier. In US Dollars, fuel oil price was 3.3% lower in Q1 2014 than a year before.

During the quarter, the fuel oil price increased from 435.1 €/tonne at the beginning of the year to 461.0 €/tonne at the end of Q1 2014. Crack spread, describing the price difference between crude oil and fuel oil extracted from it, widened further within Q1 2014 as compared to the same quarter a year earlier. During the quarter, the crack spread decreased because the price of fuel oil started to grow, contrary to Brent crude oil price. At the beginning of Q1 2014, the fuel oil price was also affected by warm weather in Europe and elsewhere in the world, restricting export possibilities from European markets. In the middle of the quarter, the demand for fuel oil remained low in Europe, but fuel oil price increased because of improved export conditions that facilitated arbitrage possibilities to Asia and the US East Coast. At the end of February, similarly with the Brent crude oil price, the global fuel oil price was strongly affected by geopolitical tensions in Ukraine.

Average price	Unit	Q1 2014	Q1 2013	Change
Brent crude oil	€/bbl	79.6	86.1	-7.5%
Fuel oil (1%)	€/tonne	445.5	478.2	-6.8%
Fuel oil (1%) crack spread	€/bbl	-8.8	-8.1	+8.3%
Euro exchange rate	EUR/USD	1.3704	1.3200	+3.8%

Prices of Liquid Fuels



Fuel Oil Crack Spread



Source: Thomson Reuters

## Emission Allowance Prices

At the start of Q1 2014, the price of December 2014 CO<sub>2</sub> emission allowance futures traded 18.7% higher than in the same period a year earlier. During the quarter, emission allowance futures were volatile. At the beginning of the year the price of December 2014 CO<sub>2</sub> emission allowance futures was at the level of 4.8 €/tonne, but in the middle of the quarter, on 20 February, reached the highest level for the period at 7.2 €/tonne. By the end of Q1 2014, the emission allowances price decreased again to the similar level as at the beginning of the year to 4.7 €/tonne.

In Q1 2014, the prices of CO<sub>2</sub> emission allowances started to increase in the middle of January as a result of the allowance back-loading plan in EU. The market expected that the decisions regarding back-loading of emission allowances would be made before April which would have meant the removal of 400 million tonnes of emission allowances from the market in 2014 by the European Commission. If the decision was delayed, it would have been possible to postpone the auctioning of 300 million tonnes of emission allowances in 2014. At the beginning of 2014, the accelerated plan of postponing emission allowances was supported by the European Parliament and the markets considered that the first emission allowance auctions under the plan would take place already at the end of Q1 2014.

In Q1 2014, the price of December 2014 CO<sub>2</sub> emission allowances futures started to decrease again and reached the lowest level in the quarter (4.4 €/tonne) at the end of March. The decrease of emission allowances prices are explained by the lower levels of electricity prices in Europe, especially in Germany, due to excess production capacity on the market, taking into consideration warm temperatures in Q1 2014. Lower electricity prices means reductions in electricity production that in its turn can increase the offering of emission allowances on the market because energy companies that have acquired CO<sub>2</sub> emission allowances in advance wish to re-sell them on the market.

Average price	Unit	Q1 2014	Q1 2013	Change
CO <sub>2</sub> December 2013	€/tonne	5.9	5.0	+18.7%
CO <sub>2</sub> December 2014	€/tonne	6.2	5.2	+18.3%

Prices of CO<sub>2</sub> Emission Allowances, €/tonne



Source: Thomson Reuters

## Electricity Prices

In Q1 2014, electricity prices in the Nord Pool price area were lower as in the same period last year. The Nord Pool Spot (NPS) system price decreased 28.2% (-11.9 €/MWh) compared to Q1 2013. Average monthly prices in Finland and Baltic States decreased also during Q1 2014.

In the first quarter, electricity prices in the Nordic countries and Baltic States were generally affected by warmer temperatures. In Q1, production volumes of Nordic hydro-energy and, in particular, the level of hydro-reservoirs that influence the Nordic electricity price remained higher than a year earlier, moving in line with historic median level during the quarter.

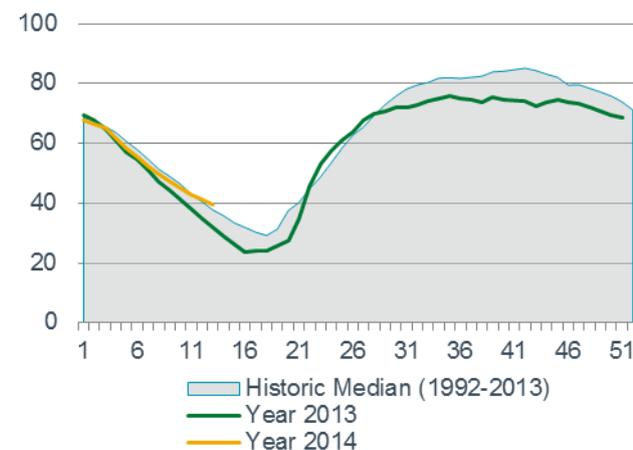
During the quarter, average monthly electricity prices in Nordic countries and Baltic States were the highest in January when air temperatures decreased on the previous month, increasing demand for electricity. In the middle and in the second half of the quarter, electricity prices fell in Nord Pool price areas due to the warmer-than-average weather and cheap Nordic electricity related to favourable wind conditions and hydro-resources.

In Q1 2014, average price spread between Swedish and Finnish price areas was -5.2 €/MWh, increasing by 5.0 €/MWh as compared to the year earlier, which means that the bottleneck effect between Sweden and Finland resulting from insufficient transmission capacity increased. The price spread was caused by the fact that Finland was net importer of electricity in Q1 2014, while in Sweden electricity production exceeded consumption in all months of the quarter. In addition, transmission capacity restrictions took place between the two areas.

In the first quarter of 2014, the price spread between the Estonian and Finnish price areas was 0.6 €/MWh, increasing by 0.3 €/MWh year on year. The testing of the underwater power cable Estlink2 that connects the two price areas started in October 2013 and the cable was fully commissioned in February 2014. After the completion of the Estlink2 cable, the Estonian-Finnish transmission capacity is 1,000 MW (as compared to the previous 350 MW for Estlink1 underwater cable). Until September 2014 the transmission capacity in the Finnish-Estonian direction will be limited to 860 MW in connection with the completion of Phase 2 of the Kiisa emergency power station. Since the price of electricity in Estonia was higher than in Finland in Q1 2014, the main load on the transmission capacity is in the direction from Finland to Estonia. However, there were limitations of transmission capacity between Estonian and Finnish price areas also in Q1 2014. Prices were equal in 89% of hours, while in 11% of hours electricity prices were higher in Estonia. In spite of the price spread increasing slightly in an annual basis, the addition of new transmission capacities will reduce the spreads between price areas. Electricity prices in Latvia and Lithuania were higher than in Estonia in all months of the first quarter.

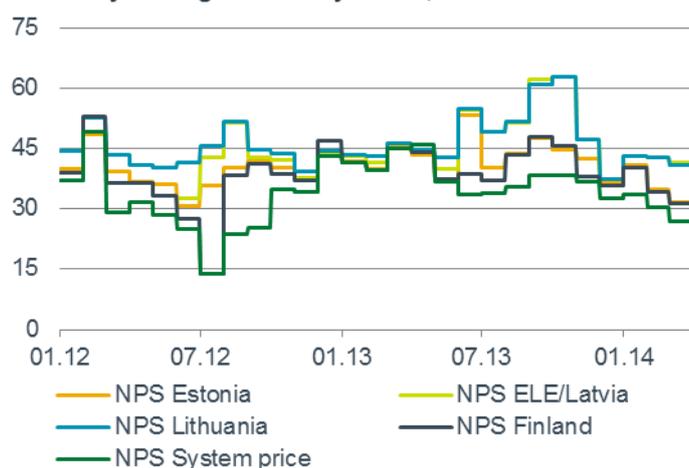
Average price	Unit	Q1 2014	Q1 2013	Change
System price	€/MWh	30.2	42.0	-28.2%
Finland	€/MWh	35.2	42.1	-16.3%
Estonia	€/MWh	35.8	42.4	-15.5%
ELE/Latvia	€/MWh	42.4	43.6	-2.8%
Lithuania	€/MWh	42.1	44.3	-5.0%

Levels of Nordic Water Reservoirs, % of Maximum



Source: Thomson Reuters

Monthly Average Electricity Prices, €/MWh



Source: Thomson Reuters

In Q1 2014, average price spread between Estonian and Latvian price areas was -6.6 €/MWh, increasing by 5.3 €/MWh compared to Q1 2013 (compared to ELE<sup>2</sup> price area prices in Q1 2013). On the contrary to high water levels in the Nordic hydro reservoirs, water levels in Latvia remained insufficient for Latvia to cover its local consumption with energy production in any month of the quarter. Lithuania is also a net importer of energy in the Baltic States.

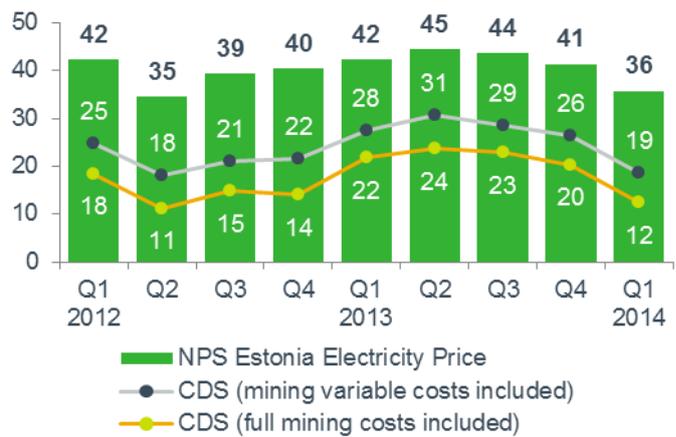
On 3 June 2013, the NPS Latvia price area was opened replacing the ELE area and introducing in full so-called implicit auction. As a result of the implicit auction, when there is a shortage of transmission capacities price differences may occur between price areas whose income is received by transmission system operators. Whereas in 2013, market participants were unable to hedge price differences on Estonian-Latvian border, starting from 2014 they can do it in a limited volume through PTR (Physical Transmission Rights) instruments. 50 MW has been put on the auction for one year and every month PTR instruments in the amounts of 50 to 150 MW can be sold. In Q1 2014, every month 150 MW amount of PTR instruments were sold on auctions. Relatively small part of the Estonian-Latvian transmission capacity has been sold in advance (5.4% to 16.2% from the total transmission capacity<sup>3</sup>) which has not enabled Eesti Energia to sell electricity at fixed price on the Latvian and Lithuanian retail market in Q1 2014.

In the first quarter, the clean dark spread<sup>4</sup> of oil shale of Eesti Energia and cost of CO<sub>2</sub> (CDS) was at the level of 12.4 €/MWh (-9.5 €/MWh, -43% as compared to the period a year earlier) in the NPS Estonian price area. The decrease was attributable mainly to the fall in the electricity price (electricity price in NPS Estonian area fell by 6.6 €/MWh, -15.5% as compared to the year before) and to the increase in the cost of CO<sub>2</sub> (cost of CO<sub>2</sub> and oil shale in the price of electricity increased by 2.9 €/MWh, +14.3% as compared to the period in 2013).

The Estonian electricity market was fully opened on 1 January 2013 and regulated electricity prices were replaced by free market prices. Latvian and Lithuanian electricity markets are opened partially. It is estimated that the Latvian market was open to the extent of 70% of the volume of electricity consumption in Q1 2014. In Q1 2014, the opening of the Latvian electricity market that was planned to take place on 1 April 2014 was postponed by the decision of the Government of Latvia until 1 January 2015.

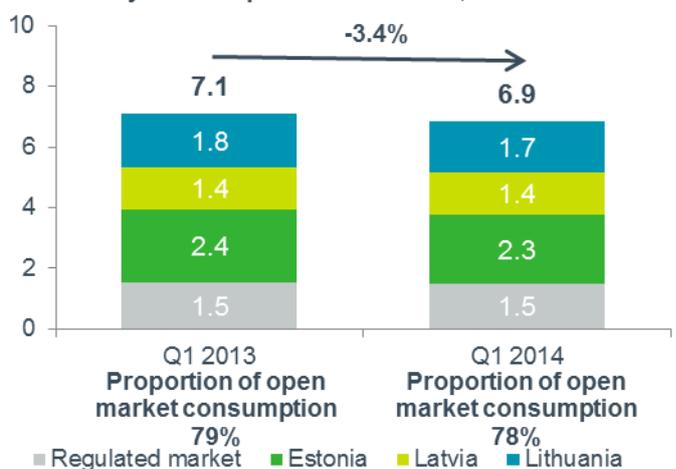
Starting from 2013, all business customers in Lithuania have been buying electricity on the open market. Household consumers have no obligation to buy electricity on the open market. In Lithuania, household consumers are able to buy electricity at regulated price that is lower than the open market price at least until the end of 2014. In Q1 2014, the Lithuanian market was open to the extent of 66% of the volume of electricity consumption.

**Eesti Energia Clean Dark Spread (CDS) in NPS Estonia Electricity Price, €/MWh**



Source: Thomson Reuters, Eesti Energia

**Electricity Consumption in the Baltics, TWh**



Source: Eesti Energia estimate

<sup>2</sup> ELE price area was set up on the Estonian-Latvian border in June 2012 in relation to limitations on cross-border transmission capacities

<sup>3</sup> Starting from 6 January 2014, the net transmission capacity between Estonia and Latvia is 925MW

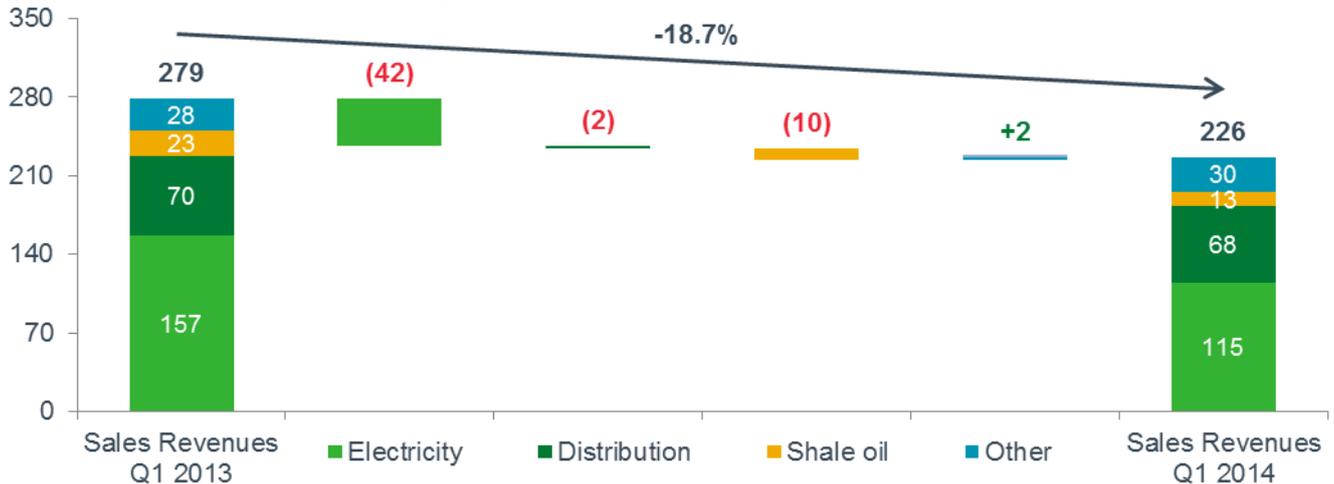
<sup>4</sup> In comparison with previous interim and annual reports of Eesti Energia, fuel costs for calculating CDS now take into account the full production cost of mining

## Financial Results

### Group Sales Revenues and EBITDA

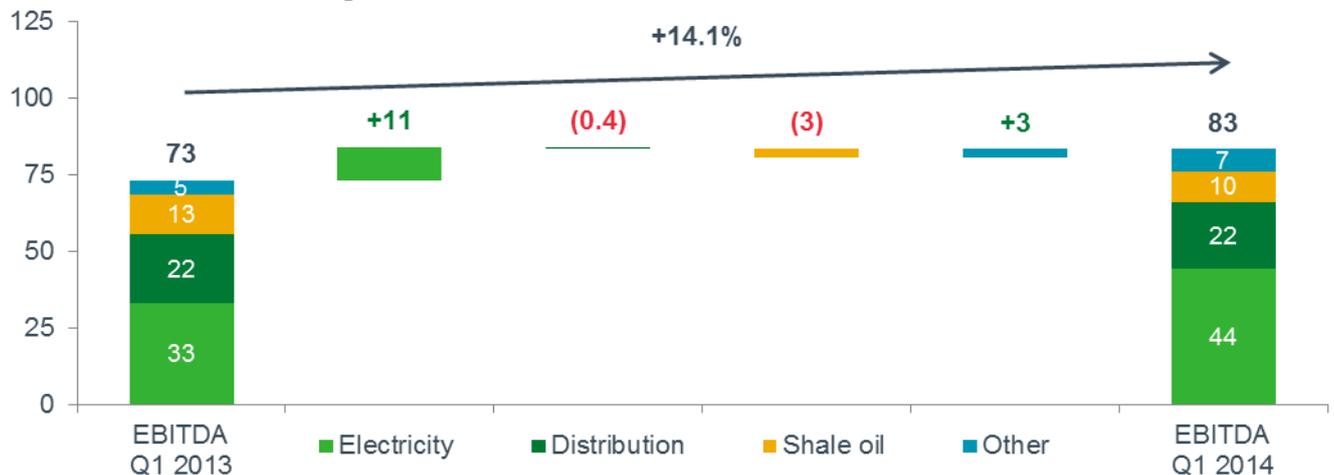
Eesti Energia's Q1 2014 sales revenue was 226.4 million euros (-18.7% as compared to the Q1 2013, -52.1 million euros), EBITDA amounted to 83.4 million euros (+14.1%, +10.3 million euros), operating profit was 51.8 million euros (+17.1%, +7.6 million euros) and net profit reached 51.0 million euros (+106.4%, +26.3 million euros). Sales revenue of all core products decreased as compared to Q1 2013.

#### Sales Revenues Breakdown and Change, m€



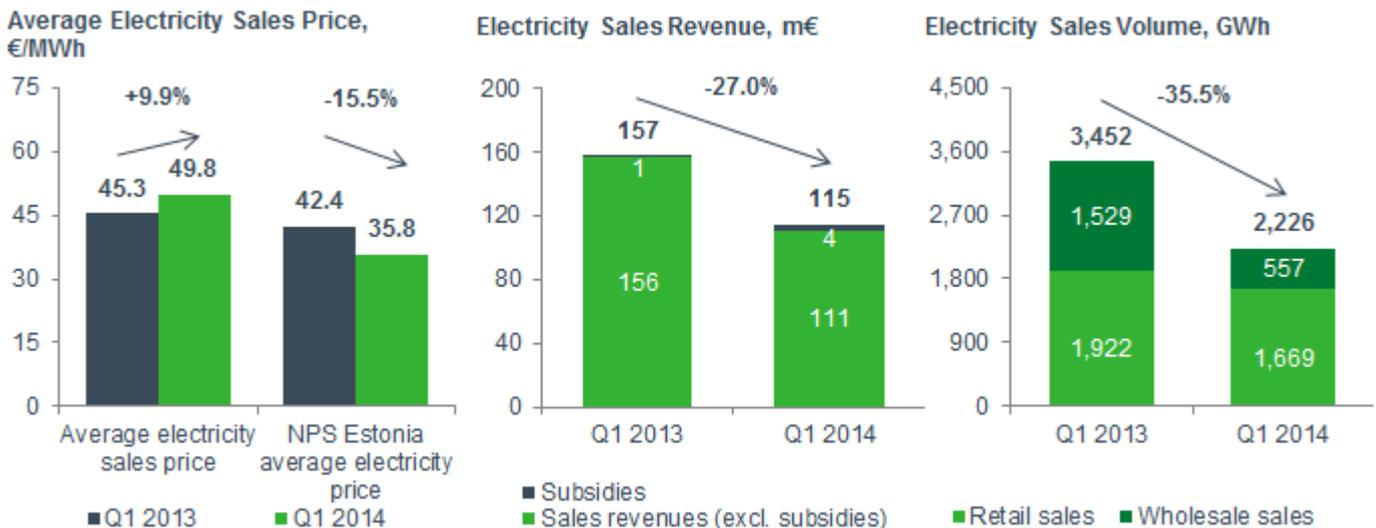
The Group's EBITDA in Q1 2014 was 83.4 million euros (+14.1%, +10.3 million euros). Group's EBITDA increased mainly due to higher electricity profitability (+32.9%, +11.0 million euros), while EBITDA growth was reduced by shale oil (-22.0%, -2.9 million euros) and distribution (-1.9%, -0.4 million euros) sales revenue decrease. Sales of other products increased the Group's EBITDA by 2.6 million euros (+57.7%) as compared to the same period in 2013.

#### EBITDA Breakdown and Change, m€



## Electricity

**Electricity sales revenue** totalled 114.7 million euros (-27.0%, -42.5 million euros). In Q1 2014, Eesti Energia sold 2,226 GWh of electricity (-35.5%, -1,225 GWh). Of this, retail sales of electricity amounted to 1,669 GWh (-13.2%, -253 GWh), while electricity wholesale market sales were 557 GWh (-63.6%, -972 GWh). Average electricity price (including financial hedges) was 49.8 €/MWh (+4.5 €/MWh, +9.9%).



The decrease in the retail sales volumes of electricity is attributable to switching in larger customer segment in Estonia at the start of 2014 and warmer-than-normal weather in the first quarter. At the start of January, several enterprises that are significant electricity consumers and represent a large volume of total Estonian electricity consumption changed their electricity sellers. Lower electricity wholesale volume is mainly due to lower electricity market price (leading to lower Group electricity generation) and accounting changes in recognizing cross-border electricity trade<sup>5</sup>.

Eesti Energia remains the electricity seller with the largest market share in Estonia. In Q1 2014, the market share of Eesti Energia in Estonia by electricity consumption was 60%<sup>6</sup> (-11pp as compared to the year ago). The decrease in market share is mainly attributable to larger customers switching their suppliers.

In the first quarter of 2014, Eesti Energia successfully completed its first extension period of electricity contracts, with 97% of former customers deciding to remain customers of Eesti Energia. In Q1, the number of Eesti Energia's contractual customers increased by 12 thousand year on year, totalling 362 thousand customers. In addition to contractual customers, Eesti Energia sold the universal electricity service to customers of distribution network operator Elektrilevi. The total number of universal electricity service customers decreased by 36 thousand year-on-year to 93 thousand customers.

In Latvia and Lithuania Eesti Energia operates under the trademark of Enefit. Due to the principles of dividing transmission capacities that entered into force in June 2013, it was not possible to fix in advance price differences on the Estonian-Latvian border. In 2014 a limited hedging possibility emerged which enables to fix price differences for one month ahead. In Q1 2014, a price differences occurred between the electricity exchanges of Estonia, Latvia and Lithuania. As Eesti Energia does not have substantial electricity generation capacities in Latvia or Lithuania, in order to meet contracts with fixed prices, it is often necessary to buy electricity from the electricity exchange at a higher price than the sales price that Group's power plants have earned in Estonian price area. As a result of price differences between the Estonian and Latvian price area, border crossing cost for Eesti Energia in the first quarter of 2014 was 2.5 million euros. For this reason it was decided in September 2013 to end entering into new fixed price contracts with Latvian and Lithuanian retail customers. In the first quarter of 2014 in Latvia we successfully sold electricity products that were indexed to exchange prices, ending the earlier market practice by which only products at fixed prices are purchased.

The termination of fixed price contracts is also reflected in the number of customers in Latvia and Lithuania. By the end of the first quarter, Eesti Energia had 2,292 customers in Latvia and Lithuania (+22 customers year on year).

<sup>5</sup> After opening the Latvian Nord Pool Spot price area in June 2013, the Group started to balance volumes of electricity purchased in Latvia and Lithuanian Nord Pool Spot areas with sale of electricity in the Estonian price area in the same hour. If the balancing of purchases and sales in all Baltic states would have been implemented from the start of Q2 2013, the Group's electricity sales and purchases would have been lower by 524 GWh in Q1 2013

<sup>6</sup> The market share of Eesti Energia by electricity amount (including electricity consumed as a general service and network losses) according to the data of the system operator Elering

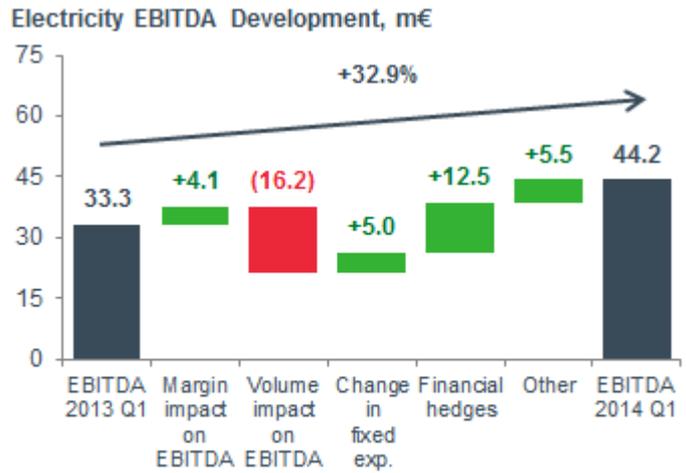
In Q1 2014, we generated a total of 2,369 GWh of electricity<sup>7</sup> (-22.9%, -705 GWh). Volume of electricity produced from oil shale decreased due to lower electricity market prices. In Q1, electricity generated from renewable sources totalled 72.6 GWh (+17.9%, +11.0 GWh). Renewable energy and co-generation subsidies received by Eesti Energia totalled 3.9 million euros (+347%, +3.1 million euros). The majority of energy generated from renewable sources came from wind parks totalling 59.0 GWh (+34.5%, +15.2 GWh).

In Q1 2014, **EBITDA from electricity sales** amounted to 44.2 million euros (+32.9%, +11.0 million euros). Margin impact on profitability was positive (+4.1 million euros) due to increased subsidies (+3.3 million euros) and lower CO<sub>2</sub> costs (related to free CO<sub>2</sub> allowances, +3.0 million euros). Border crossing costs had a negative margin impact of -2.5 million euros.

Volume impact had the most significant negative effect on electricity EBITDA (-16.2 million euros), electricity sales volume decreased 35.5% compared to Q1 2013.

Fixed costs decreased by 5.0 million euros mainly due to decreased oil shale usage in electricity generation. Financial hedges impact was positive, increasing electricity EBITDA by 12.5 million euros.

Other effects on EBITDA (+5.5 million euros) were related to reduction of provision of Latvia and Lithuania electricity sales portfolio (+6.4 million euros) and revaluation of derivative instruments.



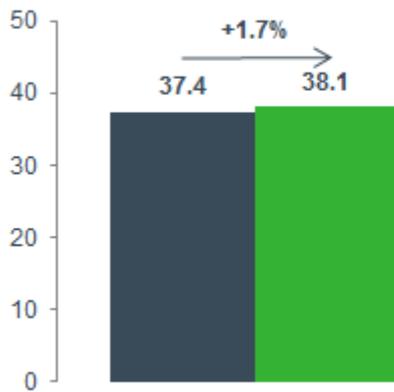
<sup>7</sup> Net production of electricity

## Distribution

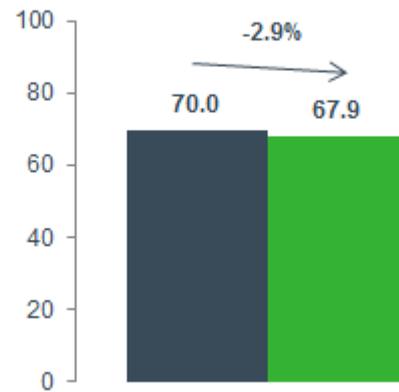
**Distribution sales revenue** amounted to 67.9 million euros (-2.9%, -2.0 million euros). In Q1 2014, volume of electricity distributed amounted to 1,784 GWh (-4.5%, -84.4 GWh), which is notably lower than in Q1 2013. The decrease in the distribution sales volume is attributable to warmer air temperatures. In Q1 2014, network losses amounted to 127.0 GWh (+5.4 GWh, +4.5%), an increase of 6.4% (+0.5 pp as compared to the same period in 2013).

In Q1 2014, the average price of the distribution service was 38.1 €/MWh (+1.7%, +0.6 €/MWh). Sales price of distribution service is affected by regular price corrections and the structure of distribution service consumption. A tariff correction took effect at 1 August 2013, when permitted return for distribution companies was reduced by the Estonian Competition Authority. The maximum permitted return from capital invested in the electrical network was set to 6.76%.

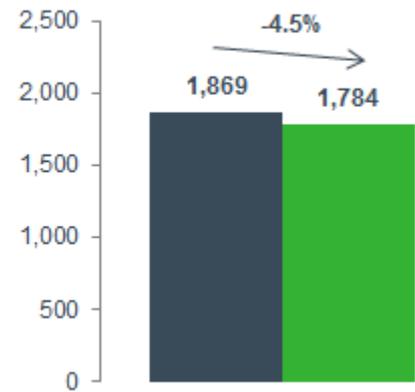
Average Distribution Tariff, €/MWh



Distribution Sales Revenues, m€



Distribution Volume, GWh



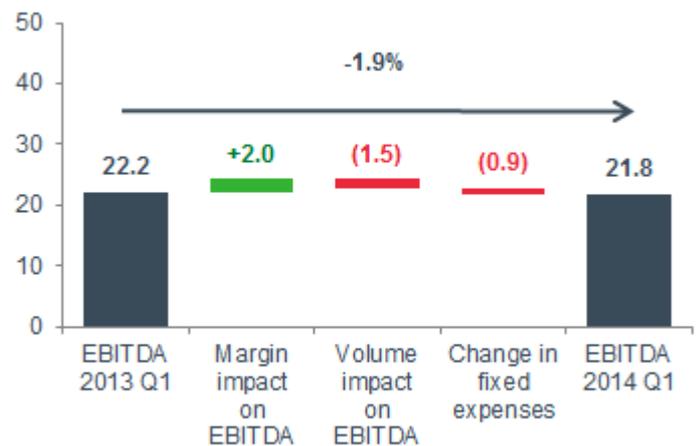
■ Q1 2013 ■ Q1 2014

In comparison with Q1 2013, the indicators for interruptions have somewhat increased. Average duration of unplanned interruptions was 20 minutes (17 minutes in Q1 2013), whereas the average duration of planned interruptions was 19 minutes (18 minutes in Q1 2013). In March, the number of outages was above normal and there were a total of 3,650 outages in Q1 (2,733 outages in Q1 2013).

In Q1 2014 **EBITDA from sales of distribution service** totalled 21.8 million euros (-1.9%, -0.4 million euros). Distribution service EBITDA was positively influenced by margin growth (+2.0 million euros). Distribution service EBITDA decreased due to fall in distribution volume (-1.5 million euros) and higher fixed costs (+0.9 million euros).

In comparison with the year before, the distribution service margin increased due to higher sales price and lower purchasing costs of energy for losses. Although the volume of network losses increased, the electricity exchange prices that are the basis for purchasing loss energy were lower than in Q1 2013. Fixed costs of distribution have grown because of higher repair costs in connection with liquidating damages of storms caused at the end of 2013.

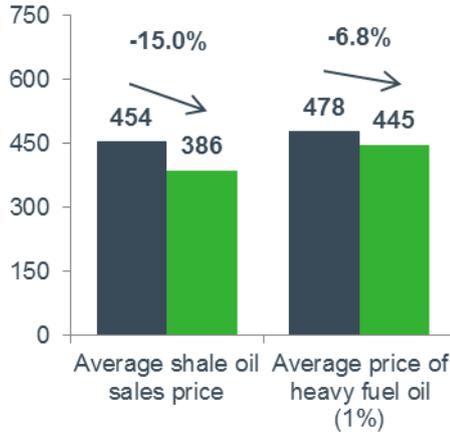
Distribution EBITDA Development, m€



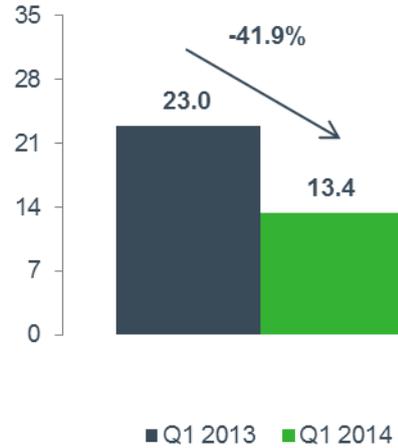
## Shale Oil

The sales revenue from the sales of shale oil totalled 13.4 million euros (-41.9%, -9.6 million euros). In the first quarter, Eesti Energia sold 34.6 thousand tonnes of shale oil (-31.7%, -16.0 thousand tonnes).

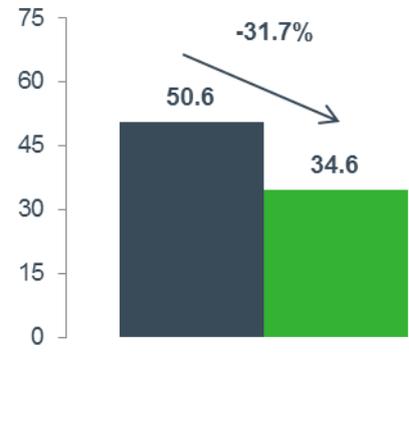
Average Shale Oil Sales Price, €/t



Shale Oil Sales Revenues, m€



Shale Oil Sales Volume, th tonnes



In Q1 2014, the average sales price of shale oil was 386.0 €/tonne (-15.0%, -68.1 €/tonne). As compared to Q1 2013, the average price decreased more than the global market price of heavy fuel oil, the reference product.

The decrease in sales revenue and volumes is related to the temporary deterioration of technical parameters in oil product in the old oil plant of Eesti Energia. Various measures have been developed for improving production quality, in which some have already been put into practice. In the first quarter of 2014, the continuous operation time of Enefit280, the new oil plant, has been growing.

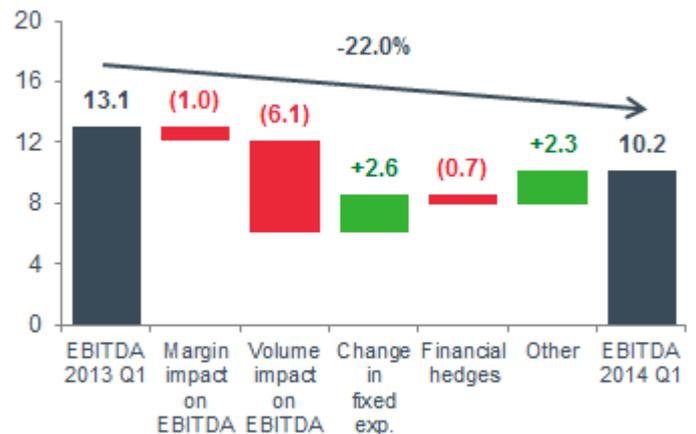
The Group's liquid fuels sales price is hedged against fluctuations in world market prices of liquid fuels by financial hedges. In Q1 2014, the impact of hedge transactions on the sale of shale oil was -1.0 million euros (-0.7 million euros as compared to the same period a year ago) or -28.5 €/tonne. Without considering the impact of financial hedges, the average sales price of shale oil was 414.5 €/tonne (-9.8%, -45.2 €/tonne as compared to the same period in 2013).

In Q1 2014, **EBITDA from sale of shale oil** totalled 10.2 million euros (-22.0%, -2.9 million euros). Negative margin impact was partially offset by lower CO<sub>2</sub> and other expenses. Total margin impact on profitability was -1.0 million euros.

Shale oil EBITDA was significantly reduced by volume impact on profitability, lower sales volume decreased EBITDA by 6.1 million euros. Decreased fixed costs increased shale oil EBITDA by 2.6 million euros.

Impact of financial hedges on profitability was negative (-0.7 million euros), but other positive effect on profitability was mainly related to revaluation of derivative contracts.

Shale Oil EBITDA Development, m€

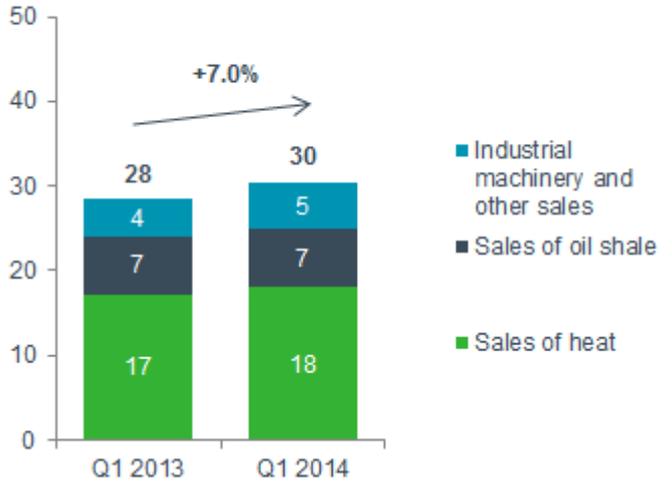


### Other Products and Services

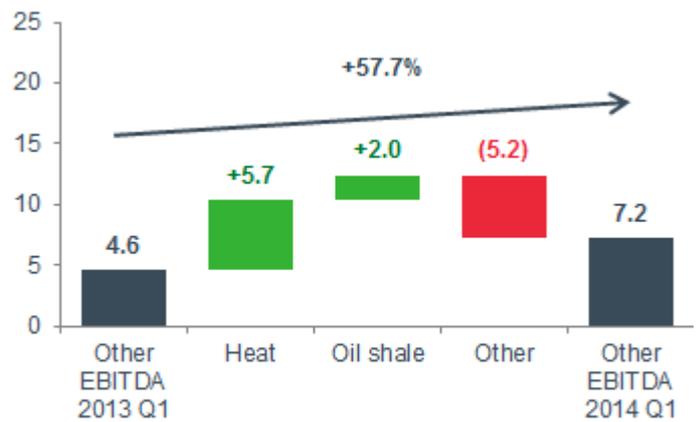
In Q1 2014, sales revenue from sale of other products totalled 30.4 million euros (+7.0%, +2.0 million euros). Growth of other revenue was positively influenced by growth in heat sales volume (+0.8 million euros). Sales revenue of technology industry and other sales increased 1.2 million euros mainly due to sale of scrap metal and other products (+1.8 million euros).

In Q1 2014, EBITDA of other products amounted to 7.2 million euros (+57.7%, +2.6 million euros). EBITDA of other products was mainly positively impacted by increased sales of heat (EBITDA impact +5.7 million euros) and oil shale (+2.0 million euros). Heat EBITDA increased due to usage of lower-cost fuel in producing heat. Production of heat produced from oil shale in Baltic Power Plant in Narva Power Plants has decreased and the production of heat from waste in Iru Power Plant has increased. EBITDA of other products decreased mainly because of sale of fixed assets at the start of 2013.

Sales Revenues From Other Products and Services, m€



Other Products and Services EBITDA Development, m€

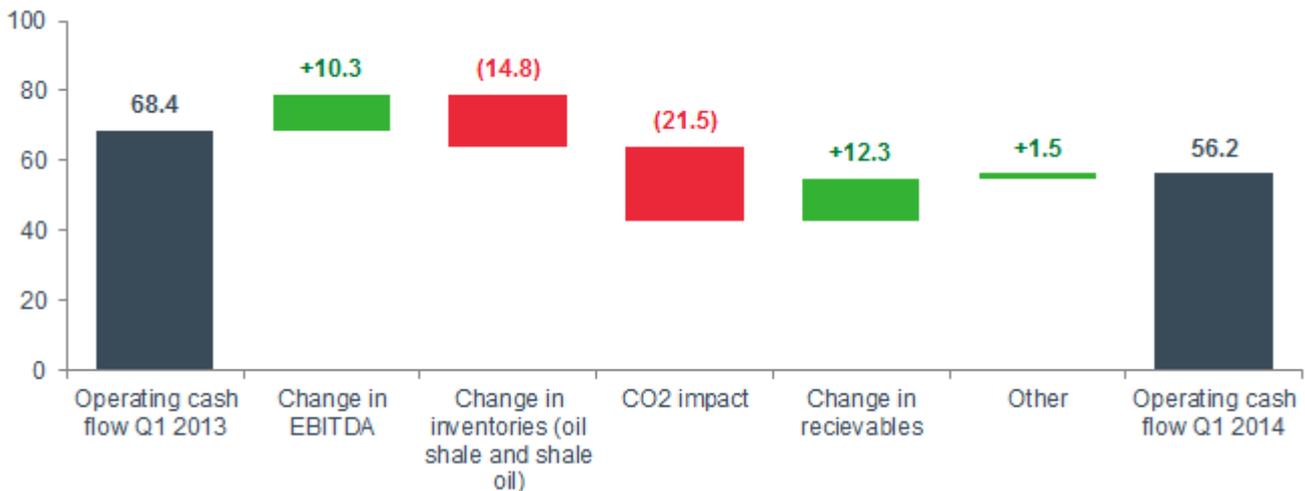


## Cash Flows

In Q1 2014, Eesti Energia's cash flows from operating activities amounted to 56.2 million euros. In comparison with the same period a year before, Eesti Energia's cash flows from operating activities decreased by 17.8% or by 12.2 million euros.

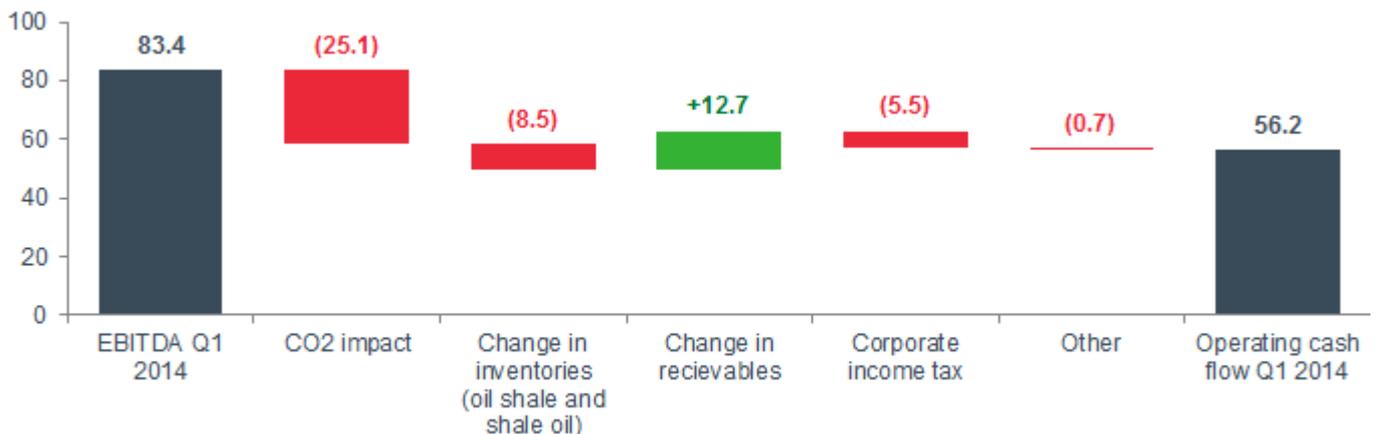
Main reason for the decrease was the earlier purchase of CO<sub>2</sub> allowances (negative impact of 21.5 million euros). In addition, cash flows from operating activities were reduced by higher oil shale and shale oil inventory (-14.8 million euros). In comparison with the year earlier, cash flows from operating activities were supported by the growth of EBITDA (+10.3 million euros) and lower receivables (+12.3 million euros).

### Operating Cash Flow Changes, m€



Compared to the Group's EBITDA (83.4 million euros), operating cash flow was mainly reduced by earlier purchases of CO<sub>2</sub> allowances (-25.1 million euros). In addition to that, operating cash flow was reduced by increase of oil shale and shale oil inventories (-8.5 million euros) and payment of corporate income tax in Q1 2014 (-5.5 million euros) due to dividend payment to the owner in December 2013. Operating cash flow increased due to reduction of trades receivable (+12.7 million euros).

### EBITDA to Operating Cash Flows Development, m€

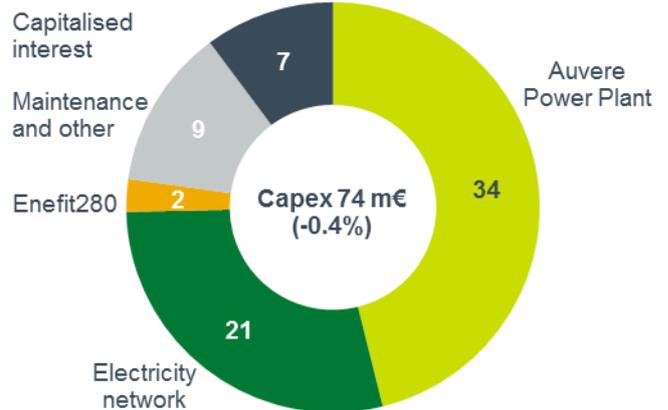


## Investments

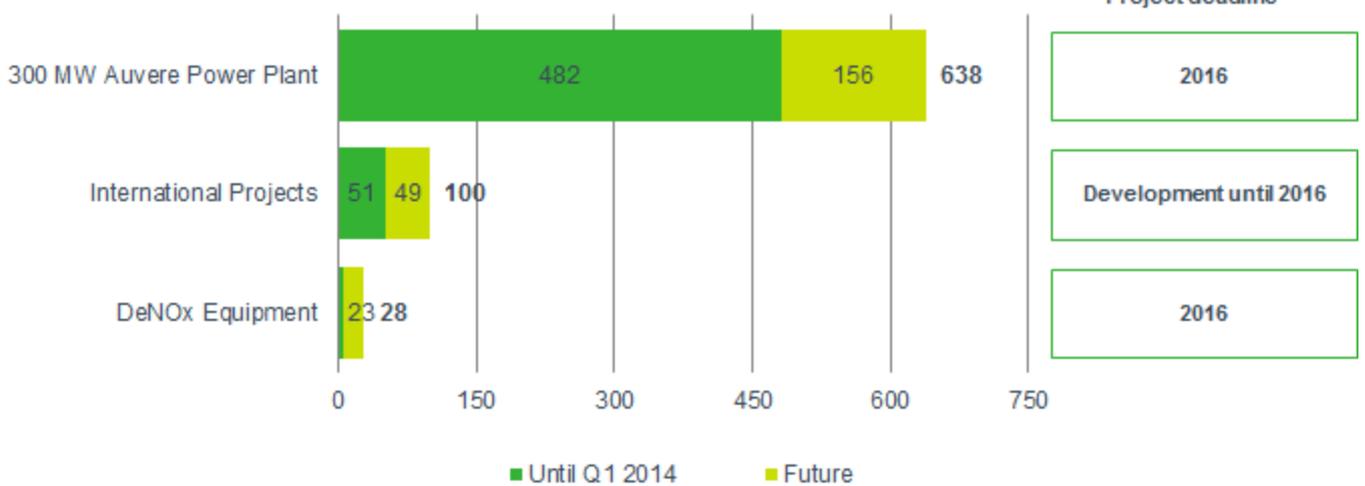
In Q1 2014, the Group’s investments totalled 73.8 million euros, which was 0.3 million euros or 0.4% less than a year earlier. The main investments in Q1 were made in the new 300 MW Auvere Power Plant and improvements in the quality of distribution network.

The construction of the 300 MW Auvere Power Plant and pre-development of international projects will continue in the upcoming year. In the first quarter, commissioning of the new generation Enefit280 oil plant continued and phase II of installation of nitrogen filters in the Narva Power Plants was started.

Capex Breakdown by Projects, m€



Main Ongoing Projects, m€



### Construction of a new 300 MW Auvere Power Plant using circulating fluidized bed (CFB) technology

In the summer of 2011, Eesti Energia started the construction of a new power plant running on the modern circulating fluidized bed (CFB) technology in Auvere. The construction and commissioning of the new Auvere power plant should be completed by 2016. Power plant design allows using up to 50% of biofuel alongside oil shale, which will reduce the plant’s CO<sub>2</sub> footprint to the level of a modern gas plant. The maximum annual net generation of the new power plant is 2,192 GWh. For financing the construction of Auvere power plant, the European Commission approved the Government of Estonia’s request to allocate 18 million tonnes of greenhouse gas emission allowances free of charge for 2013-2020 to Eesti Energia as an investment subsidy.

At the start of 2014, assembly and installation of power plant equipment continued. Welding of heating surfaces of the boiler was completed and preparations for pressure tests were started. Fuel feeding conveyors were installed in parallel with construction works in the boiler room, turbine room, cooling water pumping station, ash station, administrative building, water preparatory building and other smaller buildings. The cooling water pumping station was connected to the cooling water channel.

### Reduction of nitrogen emissions in Eesti Power Plant

The industrial emissions directive that entered into force in January 2011 provides that starting from 2016, the concentration of nitrogen oxides (NO<sub>x</sub>) of large burning equipment in smoke gases released to the atmosphere cannot exceed 200 mg/Nm<sup>3</sup>. In July 2012, contract was signed for installation of NO<sub>x</sub> reduction equipment with Fortum Power and Heat Oy in Eesti Power Plant.

In 2013, NO<sub>x</sub> reduction technology was successfully implemented by installing NO<sub>x</sub> filters on one boiler in the Eesti Power Plant as part of a pilot project that enabled to reduce the NO<sub>x</sub> amount by half.

In March 2014, Phase II of the project was approved, in the course of which another 7 boilers of four generating units will be equipped with filters. In total, net production capacity of boilers for which NO<sub>x</sub> emissions will be

reduced is 672 MW at present. The installation of NO<sub>x</sub> filters will be completed by 2016. The total cost of the project is 28 million euros.

### **Improving the quality of distribution service**

For improving the quality of the distribution service, we invested 21 million euros in Q1 2014. During the quarter, 82 substations and 233 kilometres of underground and overhead cables were renovated and built.

In 2013-16, Elektrilevi will install remote power meters in all consumption sites in Estonia. In the first quarter, we installed 52 thousand remote power meters and switched more than 21 thousand meters into the remote reading system. By the end of March 2014, more than 214 thousand new hourly remote power meters were installed. Of all power metres of Elektrilevi, 55% of all power metres were replaced by remote power meters or included in the remote reading system by the end of Q1 2014.

### **Preliminary development of the Jordanian electricity and oil projects**

Eesti Energia owns 65% of the Jordanian electricity and oil projects. Project partners are Malaysian YTL Power International Berhad with a holding of 30% and Jordanian partner Near East Investment with a holding of 5%. The planned capacity of the Jordanian first oil shale power plant is 470 MW and its completion is planned to take place in 2017.

In the framework of the electricity project, in the first quarter of 2014, negotiations were started with the Government of Jordan aimed at reaching an agreement on the package of project contracts submitted at the end of 2013, including terms of the electricity sale and purchase contract. Work in designing the mine and preparation of additional hydrological studies was started.

The preliminary development of the Jordanian oil project is expected to last until 2016. During the preliminary development phase, Eesti Energia will develop a part of the Attarat Um Ghudran mine<sup>8</sup>. In the first quarter 2014 work was started at planning a test programme to study possibilities to increase the output of oil.

### **Preliminary development of US oil production project**

In March 2011, Eesti Energia acquired the oil shale resource in Uintah County, Utah (USA), estimated at 6.6 billion tonnes<sup>9</sup>. In Utah, we continue to operate under the name of Enefit American Oil (EAO). We plan to use our oil shale resources in Utah as a base to develop a liquid fuel industry with a capacity of 50,000 barrels of shale oil per day.

In the first quarter 2014, preparation of the environmental impact statement (EIS) in cooperation with the Bureau of Land Management (BLM) of Utah continued. The necessary contracts for collecting baseline data for socio-economic impact statement and impact assessment report were signed. Collection of baseline data has been completed and the impact will be assessed in the second quarter.

<sup>8</sup> The area under research is estimated to contain 3.5 billion tonnes of oil shale of which 0.9 billion tonnes represents measured resource for developing electricity project

<sup>9</sup> High reliability of 3.7 billion tonnes, reliable 2.5 billion tonnes, forecast of 0.4 billion tonnes (reserves constitute the volume of underground oil shale of high economic potential determined on the basis of geological surveys, which have not taken into account potential restrictions limiting their use)

## Financing

In January 2014, the rating agency Moody's lowered Eesti Energia's credit rating by one notch from Baa1 to Baa2 and a stable outlook was assigned replacing the previous negative outlook. As at 31 March 2014, Eesti Energia's credit ratings were BBB+ (Standard & Poor's) and Baa2 (Moody's), both with a stable outlook. Eesti Energia's credit ratings are at the investment grade level that allows the Group to access debt capital markets if needed.

As at 31 March 2014, Eesti Energia's total borrowings in nominal value amounted to 937.8 million euros (+99.3 million euros from 31 December 2013). The borrowings amounted to 935.9 million euros (+108.1 million euros from 31 December 2013), using the amortised cost method. The significant borrowings of the Group included the following:

- Eurobonds listed on the London Stock Exchange in the nominal value of 700 million euros (due in 2018 and 2020).
- Loans received from the European Investment Bank accounted for 237.8 million euros of borrowings in nominal value.

In January 2014, Eesti Energia carried out an additional Eurobond issue in the nominal amount of 100 million euros with the maturity date in 2018. The yield of newly issued notes was 2.181%. Together with bonds issued in April 2012 the total volume of bonds with maturity date on 2 October 2018 amounts to 400 million euros.

As at 31 March 2014, the Group's liquid assets (including deposits with maturity of more than 3 months and liquid financial assets) amounted to 175 million euros. The Group's undrawn loans amounted to 250 million euros as at 31 March 2014 including the following:

- Bilateral revolving credit facilities for the total amount of 150 million euros signed with three regional banks (SEB, Pohjola and Nordea) that are due in September 2018.
- Long-term loan with the European Investment Bank in the amount of 100 million euros.

As at 31 March 2014, the weighted average interest rate of the Group's borrowings was 3.91% (31 December 2013, 3.86%). At the end of Q1, the weighted average rate of borrowings with fixed interest rates was 94% of the Group's total debt. All borrowings are denominated in euros.

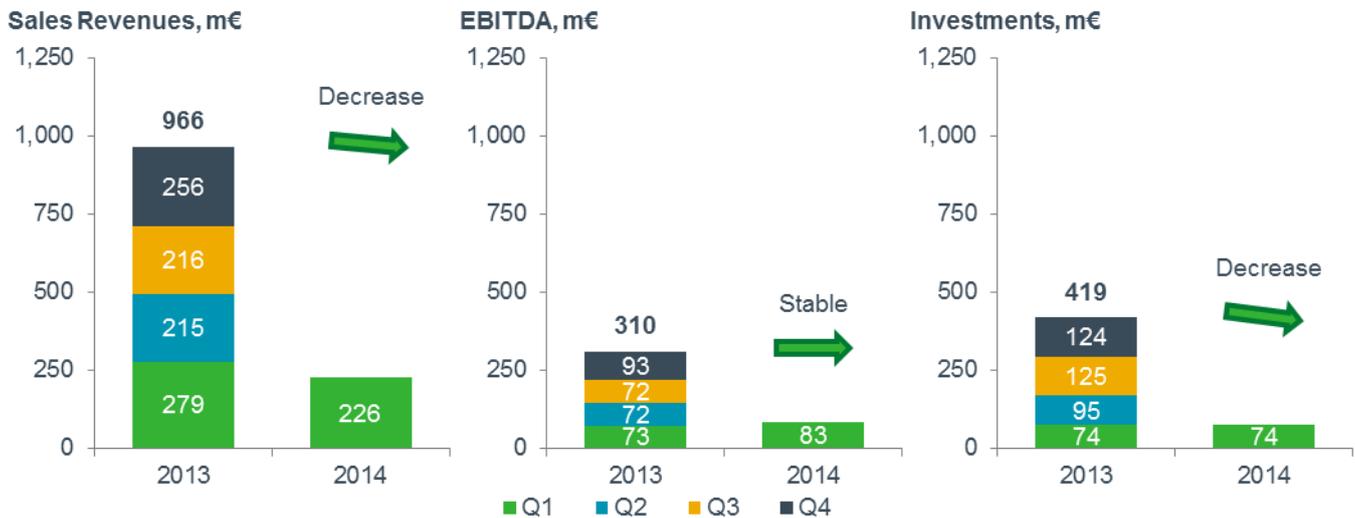
As at 31 March 2014, the equity of Eesti Energia amounted to 1,611 million euros. 100% of the shares of Eesti Energia are owned by the Republic of Estonia.

As at 31 March 2014, the Group's net debt<sup>10</sup> was 761 million euros, having increased by 17 million euros during the quarter. As at 31 March, the ratio of EBITDA to net debt was 2.4 (2.4 at the end of Q4 2013). According to loan agreements, Eesti Energia is bound to comply with certain financial covenants. As at the end of Q1 2014, the Group complied with these financial covenants.

<sup>10</sup> Net debt - debt obligations at amortised cost, less cash and cash equivalents, units in money market funds, investments into fixed income bonds

## Outlook for FY2014

Eesti Energia Group's sales revenue in the first quarter 2014 decreased 19% compared to the same period last year. At the same time the Group's EBITDA was 14% higher than a year earlier and investments remained at the same level (-0.4% as compared to the same period last year).



Compared to the previous outlook, it is expected that the Group's revenues for 2014 will decrease compared to FY2013, as subdued price level in wholesale power market is likely to bring about lower electricity generation and sales also in the remainder of 2014. Electricity generated and sold will decrease compared to 2013.

Outlook has not changed regarding EBITDA and investments. We expect that in 2014 the dividend payment to the sole shareholder will reach 113.6 million euros, in addition to the income tax payable to the state in the amount of 30 million euros.

The Group has sold forward 6.8 TWh of power for the remaining 9 months of 2014 at the average price of 43.1 €/MWh and also hedged 130 thousand tonnes of shale oil production at the average price of 468 €/tonne. In year 2015, 5.7 TWh of power at the average price of 39.6 €/MWh and 192 thousand tonnes of liquid fuels at the average price of 446 €/tonne has been sold forward.

The Group's CO<sub>2</sub> emissions exposure for the whole year 2014 has been hedged via forward purchases (incl. free allowances related to power plant construction and surplus from previous periods) for 27.5 million tonnes at the average price of 4.9 €/tonne. In 2015 the hedged CO<sub>2</sub> amounts account for 6.7 million tonnes at the average price of 1.9 €/tonne.

# Consolidated Income Statement and Statement of Comprehensive Income

in million EUR

	3 months		12 months		Note
	1 January - 31 March		1 April - 31 March		
	2014	2013	2013/14	2012/13	
Revenue	226,4	278,6	914,2	880,0	3
Other operating income	3,8	10,5	1,7	41,2	
Government grants	-	-	0,4	0,5	
Change in inventories of finished goods and work-in-progress	6,6	-8,8	4,0	-5,0	
Raw materials and consumables used	-102,2	-142,3	-379,5	-417,1	
Payroll expenses	-34,3	-35,0	-147,6	-150,6	
Depreciation and amortisation	-31,6	-28,9	-121,6	-118,0	
Impairment	-	-	-16,1	-63,3	
Other operating expenses	-16,9	-29,9	-72,5	-79,9	
<b>OPERATING PROFIT</b>	<b>51,8</b>	<b>44,2</b>	<b>183,0</b>	<b>87,8</b>	
Financial income	0,9	0,7	3,5	3,5	
Financial expenses	-1,7	-0,9	-5,3	-8,5	
<b>Net financial income (-expense)</b>	<b>-0,8</b>	<b>-0,2</b>	<b>-1,8</b>	<b>-5,0</b>	
Gain from associates using equity method	-	-	-0,8	-0,2	
<b>PROFIT BEFORE TAX</b>	<b>51,0</b>	<b>44,0</b>	<b>180,4</b>	<b>82,6</b>	3
<b>CORPORATE INCOME TAX EXPENSE</b>	<b>-</b>	<b>-19,3</b>	<b>5,4</b>	<b>-37,1</b>	
<b>PROFIT FOR THE YEAR</b>	<b>51,0</b>	<b>24,7</b>	<b>185,8</b>	<b>45,5</b>	
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the Parent Company	50,9	24,4	186,0	45,6	
Non-controlling interest	0,1	0,3	-0,2	-0,1	
<i>Basic earnings per share (euros)</i>	<i>0,08</i>	<i>0,04</i>	<i>0,30</i>	<i>0,07</i>	8
<i>Diluted earnings per share (euros)</i>	<i>0,08</i>	<i>0,04</i>	<i>0,30</i>	<i>0,07</i>	8

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR

	3 months		12 months	
	1 January - 31 March		1 April - 31 March	
	2014	2013	2013/14	2012/13
<b>PROFIT FOR THE YEAR</b>	<b>51,0</b>	<b>24,7</b>	<b>185,8</b>	<b>45,5</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Revaluation of risk hedge instruments	10,6	-9,6	55,7	10,6
Currency translation differences attributable to foreign subsidiaries	0,2	1,1	-2,5	1,0
<b>Other comprehensive income for the year</b>	<b>10,8</b>	<b>-8,5</b>	<b>53,2</b>	<b>11,6</b>
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>61,8</b>	<b>16,2</b>	<b>239,0</b>	<b>57,1</b>
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	61,7	15,9	239,2	57,2
Non-controlling interest	0,1	0,3	-0,2	-0,1

# Consolidated Statement of Financial Position

in million EUR

ASSETS	31 March 2014	31 March 2013	31 December 2013	Note
<b>Non-current assets</b>				
Property, plant and equipment	2 301,1	2 021,5	2 258,1	5
Intangible assets	61,5	63,7	62,2	
Investments in associates	18,5	21,3	22,4	
Derivative financial instruments	7,7	3,2	6,2	6
Long-term receivables	21,2	46,6	19,4	
<b>Total non-current assets</b>	<b>2 410,0</b>	<b>2 156,3</b>	<b>2 368,3</b>	
<b>Current assets</b>				
Inventories	47,6	42,1	39,1	
Greenhouse gas allowances	133,3	11,6	100,4	
Trade and other receivables	158,2	186,1	185,1	
Derivative financial instruments	57,4	10,5	41,4	6
Financial assets at fair value through profit or loss	-	0,6	-	
Deposits with maturities greater than three months at bank:	137,0	33,0	21,0	
Cash and cash equivalents	37,7	128,7	62,6	
<b>Total current assets</b>	<b>571,2</b>	<b>412,6</b>	<b>449,6</b>	
<b>Total assets</b>	<b>2 981,2</b>	<b>2 568,9</b>	<b>2 817,9</b>	
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holder of the Parent Company</b>				
Share capital	621,6	621,6	621,6	7
Share premium	259,8	259,8	259,8	
Statutory reserve capital	51,0	51,0	51,0	
Hedge reserve	57,6	1,9	47,0	
Unrealised exchange rate differences	1,0	3,5	0,8	
Retained earnings	617,0	412,7	566,1	
<b>Total equity and reserves attributable to equity holder of t</b>	<b>1 608,0</b>	<b>1 350,5</b>	<b>1 546,3</b>	
<b>Non-controlling interest</b>	<b>2,6</b>	<b>1,3</b>	<b>1,4</b>	
<b>Total equity</b>	<b>1 610,6</b>	<b>1 351,8</b>	<b>1 547,7</b>	
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	934,6	731,3	826,5	9
Other payables	2,6	2,8	3,3	
Derivate financial instruments	0,5	1,8	1,5	6
Deferred income	153,2	138,8	151,0	
Provisions	28,0	24,3	28,8	
<b>Total non-current liabilities</b>	<b>1 118,9</b>	<b>899,0</b>	<b>1 011,1</b>	
<b>Current liabilities</b>				
Borrowings	1,4	1,4	1,4	9
Trade and other payables	157,3	258,7	178,4	
Derivative financial instruments	4,5	5,8	2,5	6
Deferred income	3,2	2,2	3,5	
Provisions	85,3	50,0	73,3	
<b>Total current liabilities</b>	<b>251,7</b>	<b>318,1</b>	<b>259,1</b>	
<b>Total liabilities</b>	<b>1 370,6</b>	<b>1 217,1</b>	<b>1 270,2</b>	
<b>Total liabilities and equity</b>	<b>2 981,2</b>	<b>2 568,9</b>	<b>2 817,9</b>	

## Consolidated Statement of Cash Flows

in million EUR

	3 months		12 months		Note
	1 January - 31 March 2014	2013	1 April - 31 March 2013/14	2012/13	
<b>Cash flows from operating activities</b>					
Cash generated from operations	62,1	68,5	279,5	236,6	10
Interest and loan fees paid	-0,4	-0,3	-31,9	-26,1	
Interest received	-	0,3	0,4	1,3	
Corporate income tax paid	-5,5	-0,1	-15,6	-17,2	
<b>Net cash generated from operating activities</b>	<b>56,2</b>	<b>68,4</b>	<b>232,4</b>	<b>194,6</b>	
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment and intangible assets	-88,7	-86,5	-389,6	-440,5	
Proceeds from connection and other fees	3,4	3,3	13,9	14,6	
Proceeds from sale of property, plant and equipment	0,1	12,5	1,1	16,7	
Proceeds from grants of property, plant and equipment	-	-	4,4	1,5	
Net change in deposits with maturities greater than 3 months	-116,0	57,0	-104,0	-33,0	
Net change in cash restricted from being used	7,6	14,6	2,4	-	
Purchase of short-term financial investments	-	-4,6	-3,0	-24,4	
Loans granted	-1,0	-1,6	-3,2	-4,2	12
Dividends received from long-term financial investments	3,9	-	5,4	1,4	
Acquisition of subsidiaries, net of cash acquired	-	-	-0,2	-	
Proceeds from sale and redemption of short-term financial investment	-	5,8	0,7	33,1	
<b>Net cash used in investing activities</b>	<b>-190,7</b>	<b>0,5</b>	<b>-472,1</b>	<b>-434,8</b>	
<b>Cash flows from financing activities</b>					
Received long-term bank loans	-	0,4	95,8	1,7	
Proceeds from bonds issued	110,3	-	110,3	297,0	
Repayments of bank loans	-0,7	-0,7	-1,4	-26,4	
Repayments of other loans	-	-	-0,8	-	
Contribution to the share capital	-	-	-	150,0	
Dividends paid	-	-	-55,2	-65,2	
<b>Net cash used in financing activities</b>	<b>109,6</b>	<b>-0,3</b>	<b>148,7</b>	<b>357,1</b>	
<b>Net cash flows</b>	<b>-24,9</b>	<b>68,6</b>	<b>-91,0</b>	<b>116,9</b>	
Cash and cash equivalents at the beginning of the period	62,6	60,1	128,7	11,8	
Cash and cash equivalents at the end of the period	37,7	128,7	37,7	128,7	
<b>Net increase/(-)decrease in cash and cash equivalents</b>	<b>-24,9</b>	<b>68,6</b>	<b>-91,0</b>	<b>116,9</b>	

## Consolidated Statement of Changes in Equity

in million EUR

	Attributable to equity holder of the Company					Total	Non- control- ling interest	Total equity
	Share capital (Note 6)	Share premium	Statutory legal reserve	Other reserves	Retained earnings			
<b>Equity as at 31 December 2012</b>	<b>621,6</b>	<b>259,8</b>	<b>47,2</b>	<b>13,9</b>	<b>465,6</b>	<b>1 408,1</b>	<b>1,0</b>	<b>1 409,1</b>
Comprehensive income for the year	-	-	-	-	24,4	24,4	0,3	24,7
Comprehensive income for the year	-	-	-	-8,5	-	-8,5	-	-8,5
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-8,5</b>	<b>24,4</b>	<b>15,9</b>	<b>0,3</b>	<b>16,2</b>
Dividends declared	-	-	-	-	-73,5	-73,5	-	-73,5
Transfer of retained earning to statutory reserve capital	-	-	3,8	-	-3,8	-	-	-
<b>Total transactions with owners of the company, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>3,8</b>	<b>-</b>	<b>-77,3</b>	<b>-73,5</b>	<b>-</b>	<b>-73,5</b>
<b>Equity as at 31 March 2013</b>	<b>621,6</b>	<b>259,8</b>	<b>51,0</b>	<b>5,4</b>	<b>412,7</b>	<b>1 350,5</b>	<b>1,3</b>	<b>1 351,8</b>
<b>Equity as at 31 December 2013</b>	<b>621,6</b>	<b>259,8</b>	<b>51,0</b>	<b>47,8</b>	<b>566,1</b>	<b>1 546,3</b>	<b>1,4</b>	<b>1 547,7</b>
Profit for the year	-	-	-	-	50,9	50,9	0,1	51,0
Comprehensive income for the year	-	-	-	10,8	-	10,8	-	10,8
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,8</b>	<b>50,9</b>	<b>61,7</b>	<b>0,1</b>	<b>61,8</b>
Increase of non-controlling interest due to capital increase in subsidiary's share capital	-	-	-	-	-	-	1,1	1,1
<b>Total transactions with owners of the company, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,1</b>	<b>1,1</b>
<b>Equity as at 31 March 2014</b>	<b>621,6</b>	<b>259,8</b>	<b>51,0</b>	<b>58,6</b>	<b>617,0</b>	<b>1 608,0</b>	<b>2,6</b>	<b>1 610,6</b>

## Notes to the Financial Statements

### 1 Accounting Policies

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

Accounting policies and presentation of financial statements applied to this interim report were identical to those used in financial statements for the financial year that ended on 31 December 2013.

New International Financial Reporting Standards adopted, amendments to and International Financial Reporting Interpretations Committee interpretations that became mandatory for the Group from 1 January 2014 did not have any impact to the Group's accounting policies and financial statements.

According to the Management Board the Interim Report prepared for the period 1 January 2014 - 31 March 2014 presents a true and fair view of the financial position, the cash flows and the results of operations of Eesti Energia AS and its subsidiaries (Group).

The information contained in the Interim Financial Statements has not been audited.

## 2 Financial Risk Management

### 2.1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2013. There have been no material changes in any risk management policies since the year end.

### 2.2 Fair value estimation

The tables below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (Level 2);
- inputs for the asset or liability that are not based on observable market data (Level 3).

The following tables present the Group's assets and liabilities that are measured at fair value by the level in the fair value hierarchy as at 31 March 2014 and 31 March 2013:

in million EUR	31 March 2014			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Trading derivatives (Note 6)	-	12,7	0,1	12,8
Cash flow hedges (Note 6)	52,4	-0,1	-	52,3
<b>Total financial assets</b>	<b>52,4</b>	<b>12,6</b>	<b>0,1</b>	<b>65,1</b>
<b>Liabilities</b>				
Trading derivatives (Note 6)	-	3,5	-	3,5
Cash flow hedges (Note 6)	-	1,5	-	1,5
<b>Total financial liabilities</b>	<b>-</b>	<b>5,0</b>	<b>-</b>	<b>5,0</b>

in million EUR	31 March 2013			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Financial assets at fair value through profit or loss	-	0,6	-	0,6
Trading derivatives (Note 6)	2,7	5,1	-	7,8
Cash flow hedges (Note 6)	5,9	-	-	5,9
<b>Total financial assets</b>	<b>8,6</b>	<b>5,7</b>	<b>-</b>	<b>14,3</b>
<b>Liabilities</b>				
Trading derivatives (Note 6)	-	0,2	0,1	0,3
Cash flow hedges (Note 6)	-	7,3	-	7,3
<b>Total financial liabilities</b>	<b>-</b>	<b>7,5</b>	<b>0,1</b>	<b>7,6</b>

## 2 Financial Risk Management, cont.

### 2.2 Fair value estimation, cont.

#### Valuation techniques and inputs used on measurement in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

In level 1 are classified the Group's electricity and greenhouse gas emissions allowances derivatives that have been cleared in exchange.

#### Valuation techniques and inputs used on measurement in level 2

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. An instrument is included in level 2 if all the significant inputs required to establish the fair value of the instrument are observable. If one or more significant inputs are not based on observable market data, an instrument is included in level 3. The value of trading derivatives and cash flow hedges are found using notations of ICE EUA, Platt's European Marcetscan and Nymex.

- The fair value of forward, swap and future contracts is determined using forward prices at the balance sheet date, with the resulting value discounted back to present value.
- The fair value of options is found using analytical solution of turnbull-wakeman Asian-type option pricing.
- Valuation of financial assets at fair value through profit or loss is based on discounted cash flow method.

### 2.3 Fair value of financial assets and liabilities measured at amortised cost

#### The fair value of bonds and bank loans with fixed interest rate are as follows:

in million EUR

	31 March	
	2014	2013
Nominal value of bonds	700,0	600,0
Market value of bonds on the basis of quoted sales price	774,2	657,6
Nominal value of bank loans with fixed interest rate	186,0	136,0
Fair value of bank loans with fixed interest rate	194,6	147,6

The bonds are denominated in euros and listed on the London Stock Exchange. The fair value of the bonds is based on the input that is within level 1 of the fair value hierarchy.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Deposits with maturities greater than three months at banks
- Cash and cash equivalents
- Trade and other payables
- Bank loans with a floating interest rate

### 3 Segment Reporting

From 1 January 2013, for the purposes of monitoring the Group's performance and making management decisions, the Management Board uses product-based reporting instead of previously used reporting that was based on legal structure. The Group has determined main products and services, i.e. value-creating units that generate external revenues and profit, and has built up a methodology of allocation of revenues and expenses, and assets to the products.

The Group has distinguished three main products and services, which are presented as separately reportable segments, and a number of minor products and services that are presented together as "Other segments" (none of them meeting the quantitative thresholds that would require reporting separate information):

1. Electrical Energy (production and sale of electricity generated from renewable and non-renewable sources, and electricity trading);
2. Network Services (sale of electricity distribution network services on regulated market);
3. Liquid Fuels (production and sale of liquid fuels, and development and sale of related technology);
4. Other segments (including production and sale of heat, sale of oil-shale, construction of electrical network, power engineering equipment and services, telecommunication services, sale of old metal, ash of oil-shale, other products and services).

Segment revenues include revenues from external customers only, generated by the sale of respective products or services.

All operating expenses of the Group are allocated to the products and services to which they relate. If a product (eg electricity) is created by several Group entities in a vertically integrated chain, then the related expenses include the production cost of each entity involved in preparation of the product (eg the cost of electricity includes the cost of oil shale used for its production). Group overheads are allocated to products and services proportionally to the services provided.

The Management Board assesses the performance of the segments primarily based on EBITDA and it also monitors operating profit. Finance income and expenses, and income tax are not allocated to the segments.

The Group's assets are allocated to the segments based on the same proportion as the related expenses. Liabilities are not allocated to the segments as they are managed centrally by the Group's finance department.

As the segments are based on externally sellable products and services (as opposed to legal entities), there are no transactions between segments to be eliminated.

For Network Services segment, the sales prices need to be approved by the Estonian Competition Authority as stipulated by the Electricity Market Act of Estonia. The Estonian Competition Authority has an established methodology for approving the prices that considers the costs necessary to fulfil the legal obligations and ensures justified profitability on invested capital. Generally, the Estonian Competition Authority considers the annual average residual value of non-current assets plus 5% of external sales revenue as invested capital. The rate for justified profitability is the Company's weighted average cost of capital (WACC). The sales prices for all other segments are not regulated by the law.

### 3 Segment Reporting, cont.

#### Revenue

in million EUR

The revenue from external customers reported to the management board of the parent company is measured in a manner consistent with that in the consolidated income statement.

	1 January - 31 March 2014	1 January - 31 March 2013
	<b>Revenue from external customers</b>	<b>Revenue from external customers</b>
Electrical Energy	114,7	157,2
Network Services	67,9	70,0
Liquid Fuels	13,4	23,0
Other	30,4	28,4
<b>Total</b>	<b>226,4</b>	<b>278,6</b>

#### EBITDA

in million EUR

	1 January - 31 March 2014	1 January - 31 March 2013
	<b>EBITDA</b>	<b>EBITDA</b>
Electrical Energy	44,2	33,3
Network Services	21,8	22,2
Liquid Fuels	10,2	13,1
Other	7,2	4,6
<b>Total</b>	<b>83,4</b>	<b>73,1</b>
Depreciation and amortisation	-31,6	-28,9
Net financial income (-expense)	-0,8	-0,2
<b>Profit before tax</b>	<b>51,0</b>	<b>44,0</b>

## 4 Seasonality of Operating Profit

Temperature is the most important factor influencing the domestic electricity and heat demand. Lower temperatures in winter induce higher energy consumption and thus higher revenues and operating profit. In summer, higher temperatures lead to lower electricity and heat consumption and correspondingly to lower revenues and lower operating profit.

## 5 Property, Plant and Equipment

### 5 Property, Plant and Equipment

in million EUR

	Land	Buildings	Const- ruction	Plant and equipment	Other	Total
<b>Property, plant and equipment as at 31 December 2013</b>						
Cost	42,1	153,7	859,6	1 643,7	5,5	2 704,6
Accumulated depreciation	-	-93,5	-340,1	-789,7	-4,5	-1 227,8
Net book amount	42,1	60,2	519,5	854,0	1,0	1 476,8
Construction in progress	-	11,0	37,1	691,5	-	739,6
Prepayments	-	-	-	41,7	-	41,7
<b>Total property, plant and pquipment as at 31 December 2013</b>	<b>42,1</b>	<b>71,2</b>	<b>556,6</b>	<b>1 587,2</b>	<b>1,0</b>	<b>2 258,1</b>
<b>Movements 1 January - 31 March 2014</b>						
Purchases of property, plant and equipment	-	3,5	8,1	61,5	-	73,1
Depreciation charge (Note 10)	-	-1,1	-6,2	-22,7	-0,1	-30,1
<b>Movements 1 January - 31 March 2014</b>	<b>-</b>	<b>2,4</b>	<b>1,9</b>	<b>38,8</b>	<b>-0,1</b>	<b>43,0</b>
<b>Property, plant and equipment as at 31 March 2014</b>						
Cost	42,1	152,6	869,8	1 687,6	5,5	2 757,6
Accumulated depreciation	-	-93,3	-346,0	-809,7	-4,6	-1 253,6
Net book amount	42,1	59,3	523,8	877,9	0,9	1 504,0
Construction in progress	-	14,3	34,7	708,6	-	757,6
Prepayments	-	-	-	39,5	-	39,5
<b>Total property, plant and equipment as at 31 March 2014</b>	<b>42,1</b>	<b>73,6</b>	<b>558,5</b>	<b>1 626,0</b>	<b>0,9</b>	<b>2 301,1</b>

## 6 Derivative Financial Instruments

in million EUR

	31 March 2014		31 March 2013	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	52,4	-	5,9	-
Forward contracts for buying and selling electricity as trading derivatives	0,2	-	-	-
Option contracts for buying and selling electricity as trading derivatives	-	-	-	0,1
Forward and option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	10,4	3,5	7,8	0,2
Swap and option contracts for selling fuel oil as cash flow hedges	-0,1	1,5	-	7,3
Swap and option contracts for selling fuel oil as trading derivatives	2,2	-	-	-
<b>Total derivative financial instruments (Note 2.2)</b>	<b>65,1</b>	<b>5,0</b>	<b>13,7</b>	<b>7,6</b>
<b>including non-current portion:</b>				
Forward contracts for buying and selling electricity as cash flow hedges	7,7	-	3,2	-
Swap and option contracts for selling fuel oil as cash flow hedges	-	0,5	-	1,8
<b>Total non-current portion</b>	<b>7,7</b>	<b>0,5</b>	<b>3,2</b>	<b>1,8</b>
<b>Total current portion</b>	<b>57,4</b>	<b>4,5</b>	<b>10,5</b>	<b>5,8</b>

## 7 Share Capital

As at 31 March 2014, Eesti Energia AS had 621 645 750 registered shares (31 March 2013: 621 645 750 registered shares). The nominal value of each share is 1 euro.

## 8 Earnings Per Share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the company by the weighted average number of ordinary shares outstanding. As there are no potential ordinary shares, diluted earnings per share equal to basic earnings per share all the periods.

	3 months		12 months	
	1 January - 31 March		1 April - 31 March	
	2014	2013	2013/14	2012/13
Profit attributable to the equity holders of the	50,9	24,4	186,0	45,6
Weighted average number of shares (million)	621,6	621,6	621,6	608,5
Basic earnings per share (EUR)	0,08	0,04	0,30	0,07
Diluted earnings per share (EUR)	0,08	0,04	0,30	0,07

## 9 Nominal Value and Amortised Cost of Borrowings

in million EUR

	31 March 2014		31 March 2013	
	Nominal value	Amortised cost	Nominal value	Amortised cost
<b>Short- term borrowings</b>				
Current portion of long-term bank loans	1,4	1,4	1,4	1,4
<b>Total short-term borrowings</b>	<b>1,4</b>	<b>1,4</b>	<b>1,4</b>	<b>1,4</b>
<b>Long- term borrowings</b>				
Bank loans	236,5	236,2	142,8	142,6
Bonds issued	700,0	698,4	600,0	588,7
<b>Total long- term borrowings</b>	<b>936,5</b>	<b>934,6</b>	<b>742,8</b>	<b>731,3</b>
<b>Total borrowings</b>	<b>937,9</b>	<b>936,0</b>	<b>744,2</b>	<b>732,7</b>

As at 31 March 2014 the Group had undrawn loan facilities of EUR 250.0 million (31 March 2013: EUR 395.0 million), of which EUR 150 million can be taken into use until August 2018 and has a floating interest rate and other EUR 100 million can be taken into use until October 2014. The interest rate will become obvious when the loan is taken into use.

On 23 January 2014 the Group completed an additional issue of Eurobonds due in 2018 and with a coupon rate 4.25%, with a nominal value of EUR 100 million and yield of 2.181%. This additional issue raised total volume of the Group's bonds to EUR 700 million, of which EUR 400 million are with the maturity date in 2018 and other long-term bonds are with the maturity date in 2020.

## 10 Cash Generated from Operations

in million EUR

	3 months		12 months	
	1 January - 31 March 2014	2013	1 April - 31 March 2013/14	2012/13
<b>Profit before income tax</b>	51,0	44,0	180,4	82,6
<b>Adjustments</b>				
Depreciation and impairment of property, plant and equipment (Note 5)	30,1	27,6	131,8	176,0
Amortisation of intangible assets	1,5	1,3	5,9	5,3
Deferred income from connection and other service fees	-1,5	-1,3	-5,7	-4,9
Gain on disposal of property, plant and equipment	-0,1	-4,1	-0,7	-6,7
Gain on disposal of subsidiaries	-	-	-	-0,1
Amortisation of government grant received to purchase non-current asse	-	-	-0,3	-
Profit/loss from associates using equity method	-	-	0,8	0,2
Other gains from investments	-	-	-	-0,1
Unpaid/unsettled gain/loss on derivatives	-5,7	-1,4	1,8	3,7
Foreign exchange loss (gain) from lending and borrowing from foreign ci	-	-0,4	1,4	-0,4
Interest expense on borrowings	1,4	1,0	2,5	7,2
Interest and other financial income	-0,9	-0,7	-3,5	-3,4
<b>Adjusted net profit before tax</b>	<b>75,8</b>	<b>66,0</b>	<b>314,4</b>	<b>259,5</b>
<b>Net change in current assets relating to operating activities</b>	-	-	-	-
Change in receivables related to operating activities	22,3	-4,4	24,1	-9,1
Change in inventories	-8,5	6,2	-5,5	1,7
Net change in other current assets relating to operating activities	-35,8	-39,8	-89,6	-49,8
<b>Total net change in current assets relating to operating activities</b>	<b>-22,0</b>	<b>-38,0</b>	<b>-71,0</b>	<b>-57,2</b>
<b>Net change in current liabilities relating to operating activities</b>	-	-	-	-
Change in provisions	11,2	37,5	39,0	26,6
Change in trade payables	-7,6	-2,6	-2,5	-2,4
Net change in liabilities relating to other operating activities	4,7	5,6	-0,4	10,1
<b>Total net change in liabilities relating to operating activities</b>	<b>8,3</b>	<b>40,5</b>	<b>36,1</b>	<b>34,3</b>
<b>Cash generated from operations</b>	<b>62,1</b>	<b>68,5</b>	<b>279,5</b>	<b>236,6</b>

## 11 Contingent Liabilities

### Collaterals, guarantees and court actions

The loan agreements concluded by the Group set certain covenants on the Group's consolidated financial indicators. The covenants have been adhered to.

### Other disputes

Outotec GMBH has raised a claim against subsidiary Eesti Energia Õlitööstus AS in the amount of EUR 28 million for additional work performed during the construction of new Enefit280 shale oil plant. As the essence of the claim is not clear, the liability has not been recognised in the statement of financial position as at 31 March 2014. Based on management's estimates, the realization of the liability is not probable.

## 12 Related Party Transactions

in million EUR

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

Related parties also include entities under the control or significant influence of the state.

	1 January - 31 March	
	2014	2013
<b>Transactions with associates</b>		
Purchase of goods and services	6,1	6,1
Proceeds from sale of goods and services	0,3	1,2
Financial income	0,7	0,6
Loans granted	1,0	1,6

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

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

In purchasing and selling network services, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

## Summary of Eesti Energia

Eesti Energia is an international energy company operating in the unified energy market of the Baltic and Nordic countries. 100% of the shares of Eesti Energia are owned by the Republic of Estonia.

The core business of Eesti Energia is oil shale mining for electricity, heat and shale oil production. As electricity retail company we sell electricity to retail customers in Baltic Countries and to energy wholesale market. Elektrilevi, Eesti Energia Group company provides distribution network services to Estonian customers. Internationally, we operate under the name of Enefit.

Our unique experience in processing oil shale and our skills and technology are held in high regard around the world. Oil shale resource belonging to Eesti Energia in Estonia, Jordan and the US are estimated at 11 billion tonnes. With nearly 7,000 employees, Eesti Energia is one of the largest employers in Estonia.

