Interim report

1 January – 31 March 2020

Eesti Energia

Contents

Letter from the CEO

Dear reader

A lot of sectors were hit in the first quarter by the coronavirus which is ravaging the world. One of Eesti Energia's core values is Safety First. Accordingly, we paid particular attention to precautionary measures to protect the health of our people and partners. I am pleased to report that we were able to ensure the provision of essential service in a very complicated situation.

We made several bold decisions at the beginning of the year, which should help build our future success, and achieved a completely new level in our ambition to produce cleaner energy.

We increased Eesti Energia's reach as an energy solutions provider in the Baltic Sea region by beginning to sell electricity to household customers in Lithuania, which is now the fifth market besides Estonia, Latvia, Finland and Sweden where we serve residential customers.

Our Enefit brand has successfully gained recognition and trust in Lithuania, where we have been operating since 2007. Entering the household customer market was the logical strategic step at a time when Lithuania is moving towards deregulating its electricity market. Our strong value proposition includes 100% renewable energy, which we have been able to offer in Lithuania at a price below the regulated price.

Eesti Energia's renewable energy entity Enefit Green has five wind farms in Lithuania, where we are currently the largest wind energy producer. Around half of Enefit Green's annual wind power output is generated in Lithuania. This creates synergy we can exploit in our product offering.

We are planning to surprise our customers with a number of new services this year. Eesti Energia owns Estonia's largest electric vehicle charging network. In February, we relaunched it under the brand name Enefit VOLT to offer a faster, more convenient and more comprehensive charging service.

In energy production, we passed a historical milestone: renewable energy accounted for half of our first quarter electricity output. Renewable energy production grew by 14% year on year thanks to better wind conditions and high availability of the turbines, which has been a key focus area.

Developing renewable energy is our strategic priority. In Estonia, we acquired in an auction a 160 hectare plot in Pärnu county, which will enable us to complete the Tootsi wind farm in the next few years and to increase our current wind energy output by half.

We are actively seeking additional opportunities to develop wind energy in Estonia. We would like to build two more up to 70 MW wind farms in Pärnu county and a larger wind farm in Lääne county near Risti. The projects are in the environmental impact assessment and spatial planning phase.

In the first quarter, all producers operating on the Nord Pool power exchange were affected by unusually warm weather and the resulting fall in the demand for electricity. A further blow came from the coronavirus, which locked half of the world's population into their homes. Due to weather conditions, the level of the Nordic water reservoirs rose close to a historical high. As a result, prices on the power exchange plummeted, dropping in some countries at times even to the negative side. It was difficult for oil shale electricity to compete in such circumstances and the Group's electricity output dropped to 1 TWh.

In 2019 we reduced our carbon emissions by half and this year they will decrease even further as our older generating units, which have reached the end of their operational lifespan, will be closed. In the first quarter, our CO_2 emissions decreased by 65% year on year. We are probably the fastest carbon emissions reducer in Europe.

Production of liquid fuel from oil shale continued at a good pace comparable to last year – our first-quarter shale oil output was 122,000 tonnes. It is true, however, that by the end of the quarter an economic standstill caused by the virus and a sharp fall in oil prices had weakened outlook for shale oil production. Our situation is somewhat alleviated by hedging transactions, product storage capacity and flexibility to schedule annual oil plant maintenance for periods where the market prices are the lowest.

To add more value to oil shale by increasing the output of shale oil, we decided to invest in the construction the second Enefit 280 oil plant. The sole shareholder has supported this by increasing our share capital by 125 million euros. Construction work is expected to be completed in 2024.

According to current forecasts, global demand for oil products will recover in 2021 and will begin to grow thereafter. This means that the production of shale oil will remain competitive for at least the next two decades. It is also important to note that Eesti Energia uses the best available industrial technology which has attracted global interest: we have been exporting relevant know-how and expertise, most recently to Turkey and Israel.

Exceptionally low electricity prices, attributable to a warm winter, and the global measures implemented at the end of the quarter to restrict the spread of coronavirus had a significant adverse impact on our first-quarter results – revenue decreased by 15% to 239 million euros and we ended the quarter with a net loss of 2 million euros.

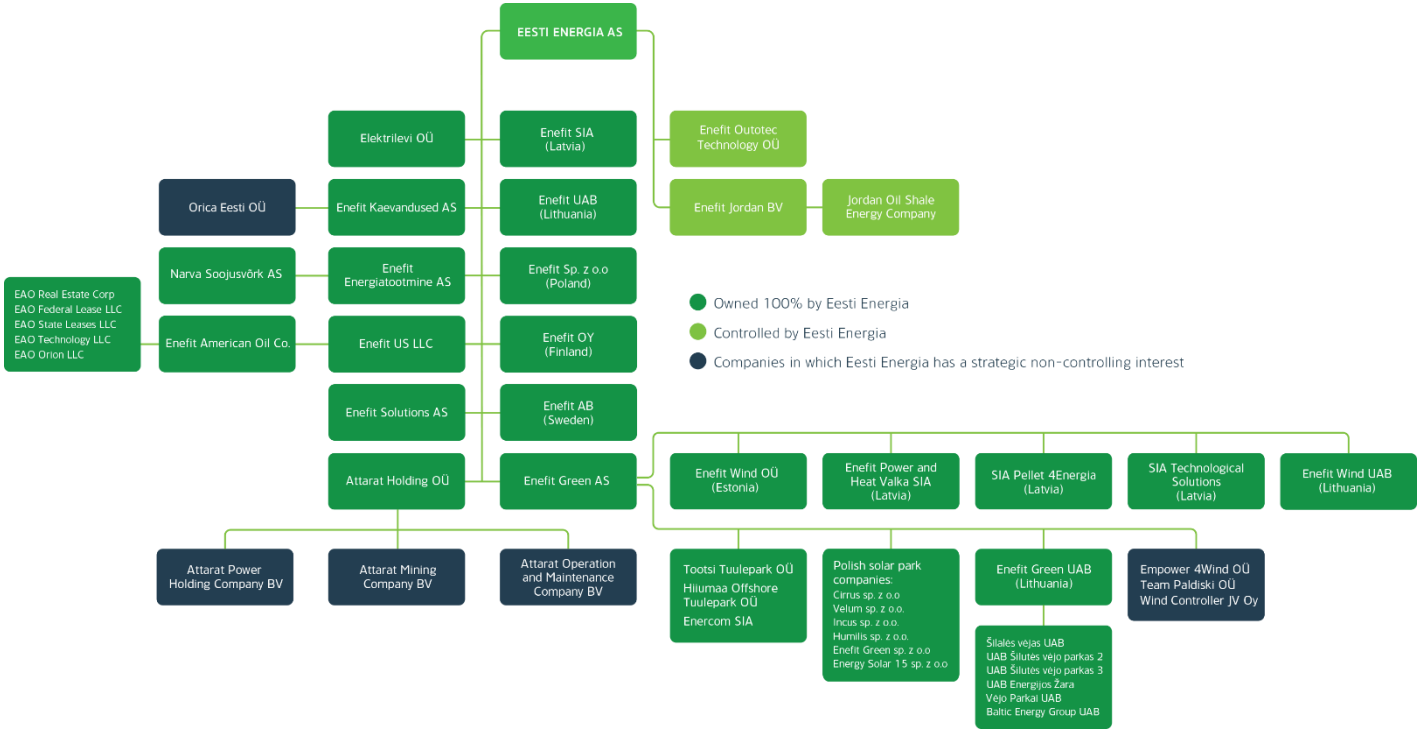
In the next quarters, we will probably have to face a deepening international economic crisis, which is why energy markets are likely to remain more volatile than usual. Eesti Energia's position is somewhat strengthened by the extensive restructuring carried out in our large-scale energy production business line last year but it is clear that we will have to continue to increase our efficiency and find cost-cutting options to successfully tackle the crisis. We must approach the current situation as an opportunity to create something new instead of fixing something old.

Hando Sutter
Chairman of the Management Board of Eesti Energia

This is Eesti Energia

- Established **in 1939**
- **4,839 employees**
- **100%** owner: **Republic of Estonia**
- **6 home markets:** Estonia, Latvia, Lithuania, Poland, Finland, Sweden
- **4 business lines:**
  - **Customer services** business line provides customers with useful energy solutions and exceptional customer experience. We sell electricity, heat, gas and energy solutions to both household and corporate customers.
  - **Renewable energy** business line consist of our subsidiary Enefit Green. Our renewable energy production sources are the most diverse in the Baltic Sea region. We produce energy from wind, sun, biomass, municipal waste and water.
  - **Large-scale energy production** business line incorporates our oil shale mining, electricity and oil production and asset management business units.
  - **Network services**: Our subsidiary Elektrilevi delivers electricity to almost all the households and companies in Estonia

The structure of Eesti Energia Group as at 31th March 2020



BUSINESS LINES

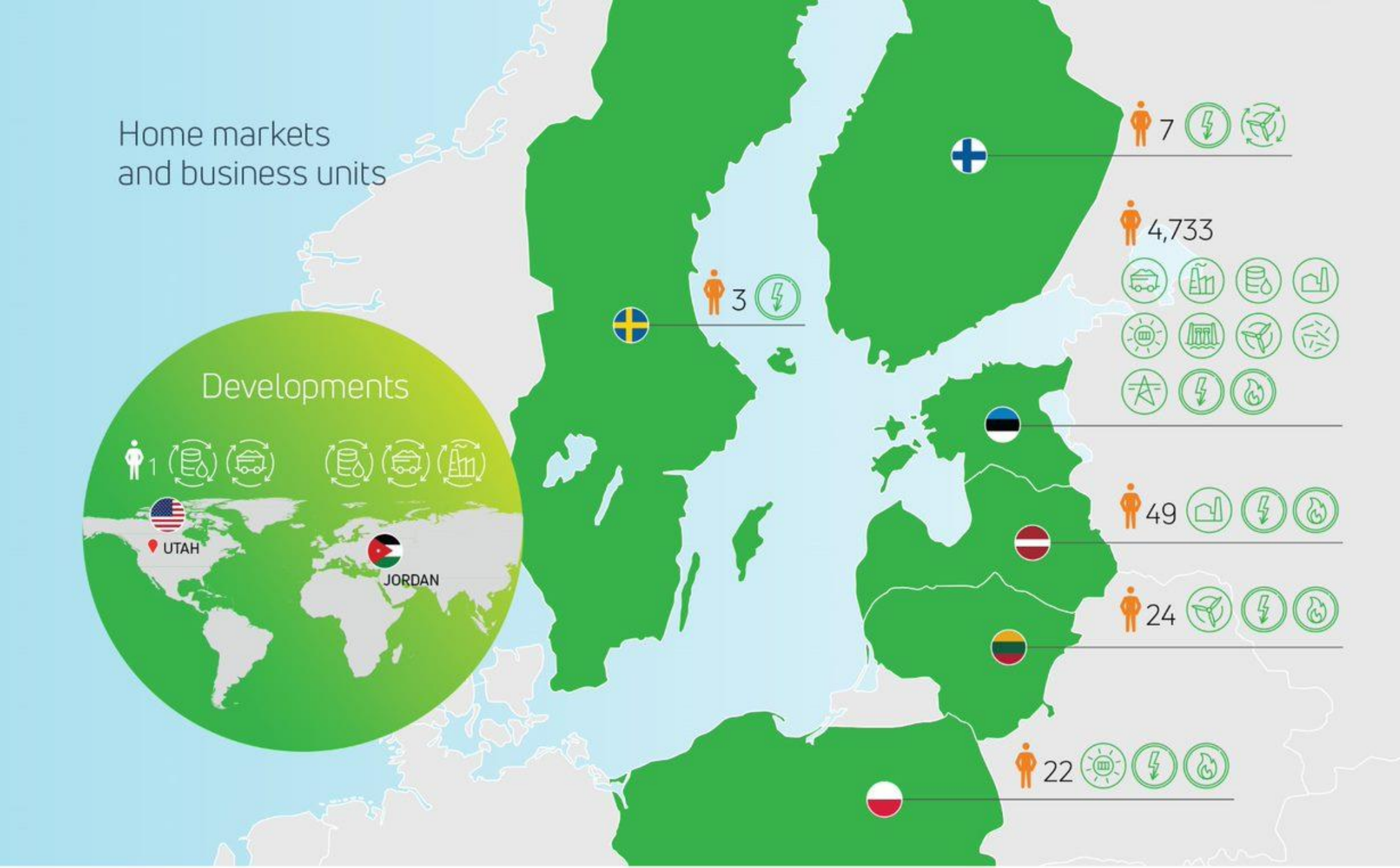
LARGE-SCALE ENERGY PRODUCTION **1.** Oil shale mines | **2.** Thermal power plants | **3.** Oil plants

RENEWABLE ENERGY **4.** Hydro power plant | **5.** Cogeneration plants | **6.** Wind farms | **7.** Solar power plants | **8.** Pellet factory

NETWORK SERVICES **9.** Electricity distribution network

CUSTOMER SERVICES **10.** Sales of electricity and gas solutions

Home markets and business units



PRODUCTION UNITS: Oil shale mining, Oil shale electricity, Oil production, Cogeneration, Network services, Wind energy, Solar energy, Hydro energy, Waste-to-energy

DEVELOPMENTS: Oil shale mining, Oil shale electricity, Oil production, Wind energy

ENERGY SALES: Electricity, Gas

Key figures and ratios

		Q1 2020	Q1 2019	Change
Total electricity sales, of which	GWh	2,199	2,567	-14.3%
wholesale sales	GWh	231	512	-54.9%
retail sales	GWh	1,969	2,055	-4.2%
Electricity distributed	GWh	1,911	2,001	-4.5%
Shale oil sales	th t	102	102	+0.4%
Heat sales	GWh	291	352	-17.4%
Average number of employees	No.	4,911	5,679	-13.5%
Sales revenues	m€	226.8	271.4	-16.5%
EBITDA	m€	49.7	83.8	-40.6%
Operating profit	m€	5.5	34.8	-84.3%
Net profit	m€	-2.0	9.5	-121.1%
Investments	m€	68.7	21.4	+220.7%
Cash flow from operating activities	m€	-1.1	102.9	-101.0%
FFO	m€	8.1	87.9	-90.8%
Non-current assets	m€	3,084.7	3,037.5	+1.6%
Equity	m€	1,965.4	1,779.1	+10.5%
Net debt	m€	1,175.3	981.1	+19.8%
Net debt / EBITDA*	times	5.2	3.4	+53.9%
FFO*/ net debt	times	0.12	0.21	-42.0%
FFO*/ interest cover*	times	4.2	5.7	-25.9%
EBITDA*/ interest cover*	times	6.6	8.0	-16.9%
Leverage	%	37.4	35.5	+1.9pp
ROIC*	%	1.5	4.8	-3.3pp
EBITDA margin	%	21.9	30.9	-8.9pp
Operating profit margin	%	2.4	12.8	-10.4pp

Definitions of ratios and terms are explained in the Glossary section of the report, page 51

** rolling 12 months result*

Operating environment

Eesti Energia's operations and performance are affected by both global and regional factors. Above all, our business is influenced by oil, electricity and emission allowance prices, competition in the energy and customer services markets, regulations governing the energy sector and the growing competitiveness of renewable energy technologies.

In Q1 2020, many governments declared a state of emergency and adopted different measures to restrict the spread of Covid-19. The consequences, which have had a broad reach, have been a negative shock to the economy.

The following market developments affected the profitability of Eesti Energia's core products:

- electricity prices plummeted compared with the same period last year (in most home markets by 40%, in Poland by 20%);
- the price of crude oil fell by 20% and the price of fuel oil by 10% compared with the same period last year;
- emission allowance prices were volatile.

Electricity prices plummeted compared with Q1 last year

Our performance is affected the most by electricity prices in Estonia, Latvia, Lithuania and Poland because in those countries we both produce and sell electricity. In addition, we sell electricity in Finland and Sweden.

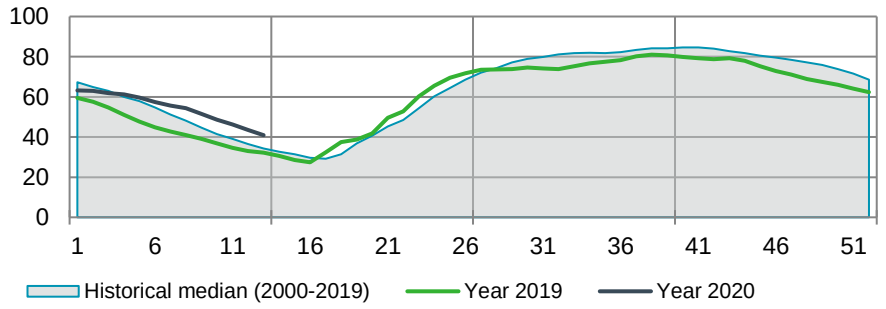
The electricity markets of Estonia and the neighbouring countries are well connected via interconnectors. Therefore, electricity production and prices are also affected by various factors outside our home markets, such as water levels at Norwegian hydropower plants and wind conditions in Denmark.

In Q1 2020, electricity prices dropped because the supply from hydropower plants increased while demand decreased due to a warm winter and the adverse impacts of Covid-19.

Average electricity price (€/MWh)	Q1 2020	Q1 2019	Change
Estonia	27.6	47.7	-42.1%
Latvia	27.6	48.0	-42.5%
Lithuania	27.5	47.8	-42.5%
Poland	41.3	51.3	-19.5%
Finland	24.0	47.5	-49.6%
Sweden	17.5	46.3	-62.2%
Norway	15.3	47.1	-67.6%
Denmark	21.2	43.0	-50.6%

The average level of the Nordic water reservoirs was 54.4% of the maximum in Q1 2020, 10.2 percentage points higher than in Q1 2019.

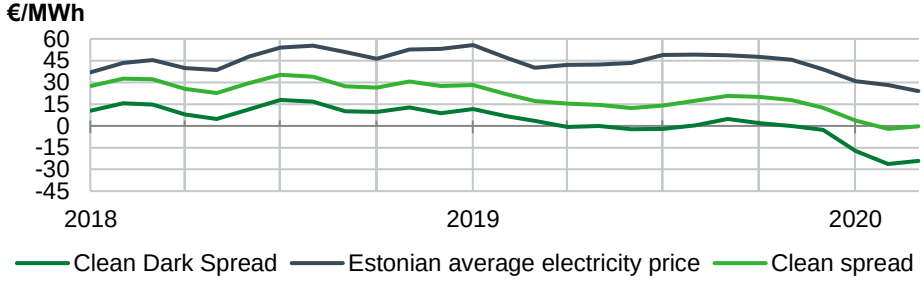
Weekly levels of Nordic water reservoirs, % of maximum



Source: Nord Pool

Eesti Energia's clean spread (the margin between the electricity price and CO2 costs) for Q1 2020 was 0.4 €/MWh, a decrease of 22.1 €/MWh from Q1 2019. The decline in the clean (carbon-free) spread reflects a rise in CO2 costs of 1.7 €/MWh and a decrease in electricity prices of 20.1 €/MWh..

Eesti Energia's carbon free spreads and Clean Dark Spread's relation to Estonian electricity price



Source: Nord Pool, Eesti Energia

Eesti Energia's clean dark spread (CDS) for Q1 2020 was -22.5 €/MWh (-27.4 €/MWh compared with Q1 2019).

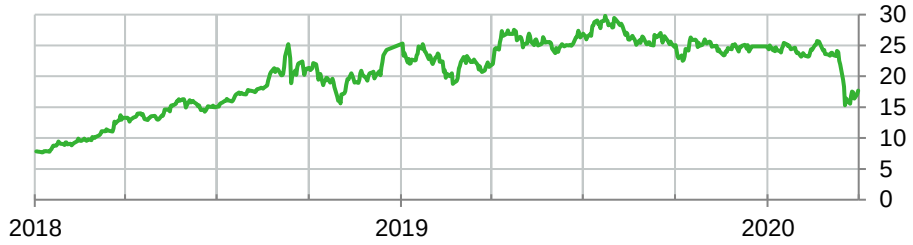
CO_2 emission allowance prices were volatile

The purpose of the European Union's emissions trading system is to reduce greenhouse gas emissions in Europe. For this, energy producers are encouraged to implement less carbon intensive raw materials and to invest in more efficient production technologies.

The price of CO_2 emission allowances affects the cost of electricity produced by direct burning of oil shale, particularly at our older production facilities whose carbon intensity is higher.

At the beginning of 2020, the price of CO_2 emission allowances was around 25 €/t. Due to the stock market crash, the emission allowance price dropped to 15 €/t at the end of Q1. The average price of CO_2 emission allowances in Q1 2020 was 22.8 €/t, 2.6% up on Q1 2019 (+0.6 €/t).

Prices of CO_2 emission allowances, €/t



Source: Intercontinental Exchange

Crude oil and fuel oil prices decreased year on year

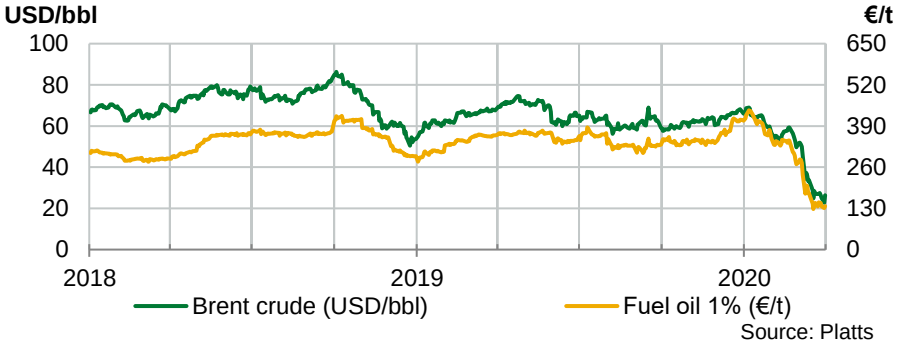
A widely-traded oil product that is closest to our shale oil is fuel oil with 1% sulphur content whose price depends mainly on the price of Brent crude oil.

The average price of Brent crude was 50.8 USD/bbl in Q1 2020, 20.3% lower than in Q1 2019 (-13.0 USD/bbl). The price moved from 63.6 USD/bbl in January to 55.44 USD/bbl in February and 33.9 USD/bbl in March 2020. The nosedive at the end of Q1 was attributable to the price war between Saudi Arabia and Russia as well as the economic impacts of Covid-19, which significantly lowered demand for oil products. It was the steepest fall in prices since the financial crisis of 2008.

The prices of oil products and fuel oil trended similarly in Q1 2020.

The average price of fuel oil with 1% sulphur content was 301.6 €/t, 10.2% lower than in Q1 2019 (-34.2 €/t).

Liquid fuels prices



Source: Platts

Key events and highlights of Q1

We implemented a number of critical measures in connection with the Covid-19 pandemic, which are designed to restrict the spread of the virus and protect the health of our employees. We reviewed our crisis management and business continuity guidelines and have responded swiftly to all developments to protect our people and ensure uninterrupted provision of our services. We keep our people informed about the government's instructions, the recommendations of the national health board and our internal work arrangements using a range of communication channels. These measures help ensure that we can continue our operations under different pandemic development scenarios.

Customer services

We began selling electricity to household customers in Lithuania

Lithuania became the fifth market after Estonia, Latvia, Finland and Sweden where we sell electricity to residential customers. We have been operating in Lithuania under the Enefit brand since 2007 and within that time have gained a strong position as both an electricity and a gas seller. The goal is to be a partner that offers a full range of useful energy solutions to all customers. Our renewable energy entity Enefit Green owns five wind farms in Lithuania and we are planning to benefit from the synergy by supplementing our service offering with 100% renewable energy.

We refreshed the Eesti Energia website

In communicating with us, the Eesti Energia website is the number one channel for our customers – our external website has around 200,000 visits per month. We refreshed the structure, look and content of the website to better meet customer needs and make our products and services easier to find.

We also created a separate page for business customers and, as the use of smart devices is increasing, made the mobile view as user-friendly as the desktop one.

Renewable energy

We produced a record amount of wind energy

In January, our renewable energy company Enefit Green broke all its previous records, producing 165 GWh of wind power. During Q1 2020, we produced 450 GWh of wind energy, which is around a fifth more than at the same time last year. As a result, renewable energy accounted for over 50% of our total electricity output for the period.

We acquired the property of the Tootsi wind farm

We acquired the property (plot) of the Tootsi wind farm in an auction held on 18 February 2020 at the State Forest Management Centre. We have been developing the Tootsi wind farm project since 2010. Construction work on the property began in 2016 based on the building permission obtained. Among other things, the property includes a connection point built by the transmission system operator Elering consistent with a connection agreement signed with Eesti Energia. We can now move on with the development of the Tootsi project.

We are seeking opportunities to develop wind energy in Estonia

We submitted an application for a designated spatial plan to the Saarde local authority in Pärnu county in order to start an environmental impact assessment and determine whether it is possible to build a wind farm with up to 10 turbines and a total capacity of around 70 MW near Ristiküla.

We also submitted an application for a designated spatial plan to Pärnu city to start an environmental impact assessment and determine whether a wetland near Paikuse, nearly 20 km outside Pärnu, is suitable for building a wind farm, again with up to 10 turbines and a total capacity of around 70 MW.

Large-scale energy production

We are going to build a new oil plant

The government has given us a green light to build a new oil plant. The minister of finance was authorised by the government to increase Eesti Energia's equity with a monetary contribution of 125 million euros, which will enable us to build a new oil plant. In addition, the city government of Narva-Jõesuu has given us permission to build a new plant in the Auvere production complex. We have started preparing the procurements required for building the plant.

Network services

The amperage of the main circuit breaker can now be conveniently increased online

When customers begin to consume more power, they need a higher-amperage circuit breaker at their connection point. Previously, a customer needing this had to submit an application to the distribution network operator Elektrilevi, which sent back a connection offer within 10 days. Around 40% of applications for a higher-amperage circuit breaker we filed simply to find out the price of the service. At the beginning of 2020, we launched a solution which enables the customer to see the standard price of increasing the amperage of the main circuit breaker and the date of delivery of the service in Elektrilevi's online self-service environment. If the price and time are suitable, the customer can immediately sign a connection agreement, pay for the service and monitor the completion of the next steps in the work flow. The subsequent change to the network contract will also be made automatically. Digitalisation of raising the amperage of the main circuit breaker has been well received and has increased our customers' satisfaction.

We redesigned the Elektrilevi website

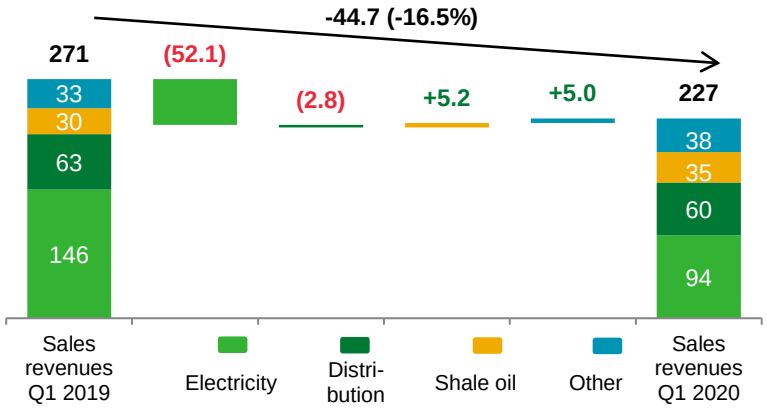
The redesigned website enables Elektrilevi's customers to obtain clearer information and to locate it more quickly. Clear information about the activities of a network operator must be available to customers, business partners, land owners, energy sellers and all other stakeholders. Feedback on the old website reflected that information was sometimes hard to find or difficult to understand. The improved website provides information in a more visual and simple way, in alignment with the customer's journey. We also continue to add contemporary bilateral communication features – the chat messaging option launched in the autumn for connection agreements was supplemented at the beginning of the year with a chat option for connecting to the electricity network.

Financial Results

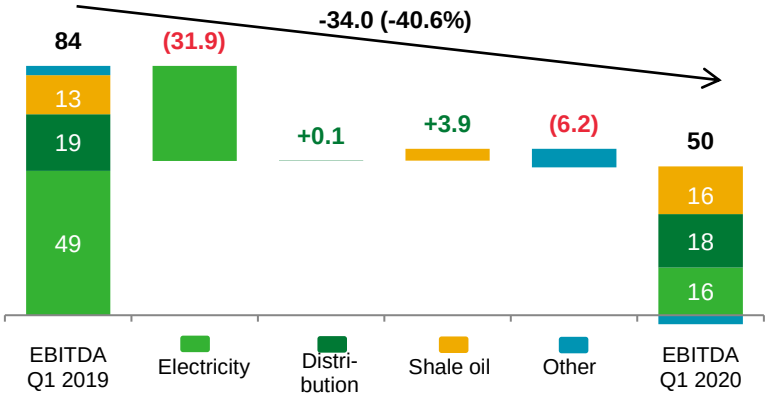
Revenue and EBITDA

Eesti Energia's revenue for Q1 2020 was 226.8 million euros, a decrease of 16.5% compared with Q1 2019 (-44.7 million euros).

Group's sales revenue breakdown and change, m€



Group's EBITDA breakdown and change, m€



EBITDA amounted to 49.7 million euros, a decrease of 40.6% year on year (-34.0 million euros). The period resulted in a net loss of 2.0 million euros (-11.5 million euros compared with the net profit for Q1 2019).

Revenue from the sale of electricity decreased due to lower market prices and a smaller sales volume. Revenue from the provision of electricity distribution service also declined due to a smaller sales volume. Shale oil sales revenue grew, supported by the positive impact of realised derivative transactions. Revenue from the sale of other products and services improved, mainly through higher revenue from the sale of natural gas.

Electricity EBITDA decreased due to a lower margin and a smaller sales volume. Distribution service EBITDA remained stable compared with the same period last year. Shale oil EBITDA grew, supported by gain on derivative transactions. EBITDA for other products and services decreased year on year.

Electricity

Through the years, electricity has been one of the main sources of Eesti Energia's revenue and profit. In Q1 2020, we also earned the largest share of our revenue from the sale of electricity.

Electricity revenue

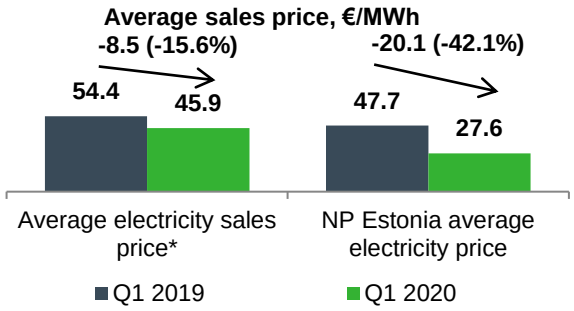
Both the sales price and sales volume of electricity decreased in Q1 2020 compared with the same period last year. As a result, revenue from the sale of electricity dropped by 35.6% year on year to 94.2 million euros (-51.1 million euros).

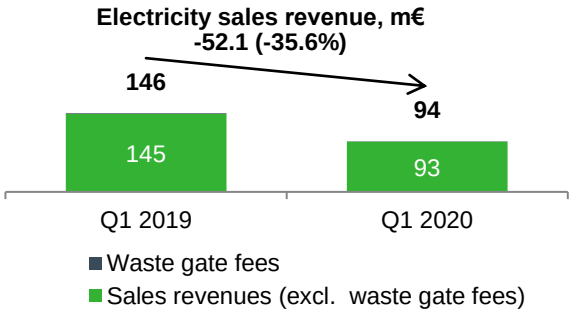
Average sales price of electricity

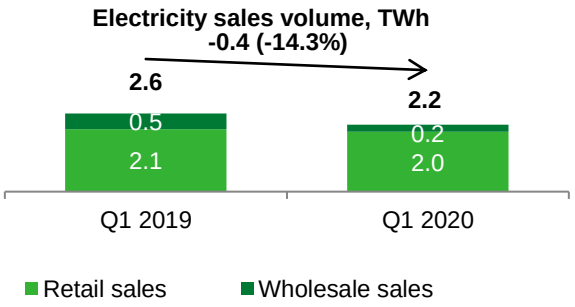
In Q1 2020, the Group's average sales price of electricity was 45.9 €/MWh, 15.6% lower than in Q1 2019 (-8.5 €/MWh).

The average sales price excludes the impact of derivative transactions. The Q1 average sales price including the impact of derivatives was 42.4 €/MWh, 25.1% lower than in Q1 2019 (-14.2 €/MWh).

Derivative transactions yielded a loss of 7.7 million euros in Q1 2020 compared with a gain of 5.7 million euros a year earlier.







* Total average sales price of electricity product (including retail sales and wholesale). Average sales price excludes gain on derivatives and municipal waste gate fees

Electricity sales volume and Eesti Energia's market share

In Q1 2020, we sold 2,199 GWh of electricity, 368 GWh, i.e. 14.3%, less than in the same period last year.

Compared with Q1 2020, wholesale sales declined by 282 GWh (-54.9%) to 231 GWh and retail sales decreased by 87 GWh (-4.2%) to 1,989 GWh. Retail sales broke down between markets as follows: Estonia 1,154 GWh (-120 GWh), Latvia 266 GWh (+5 GWh), Lithuania 339 GWh (+89 GWh) and Poland 180 GWh (-80 GWh).

Eesti Energia operates in Latvia, Lithuania, Poland, Finland and Sweden under the Enefit brand. In terms of customers' electricity consumption volumes, in Q1 2020 Eesti Energia's market share in Estonia was 58%, 2 percentage points larger than in Q1 2019. Our market shares in Latvia and Lithuania were 15% and 13%, respectively.

Electricity production volume

We produced 976 GWh of electricity in Q1 2020, 56.5% less than in Q1 2019 (-1,269 GWh). Production volume decreased due to the negative margins of oil shale electricity, attributable mainly to a consistently high carbon emission allowance price (22.8 EUR/t) and an exceptionally low market price of electricity. Electricity prices were low due to a warm and windy winter and unusually high levels of the Nordic water reservoirs. The price of electricity plummeted by 20.3 EUR/MWh (-42%) to 27.6 EUR/MWh compared with the same period last year, which is the lowest Q1 electricity price since 2010 when the Estonian electricity market was deregulated.

Our renewable energy output for the period was 452 GWh (+13.8%, +55 GWh), of which 451 GWh (+17.1%, +66 GWh) was produced at Enefit Green. The largest share of renewable energy was generated by wind farms, which produced 397 GWh of electricity (+27.3%, +85 GWh). The rise in output is mainly attributable to more favourable wind conditions than in Q1 2019.

Renewable energy and efficient co-generation subsidies received in Q1 amounted to 12.6 million euros (+1.5 million euros).

Key figures of the electricity product

		Q1 2020	Q1 2019
Return on fixed assets	%	0.5	6.4
Electricity EBITDA	€/MWh	7.6	18.9

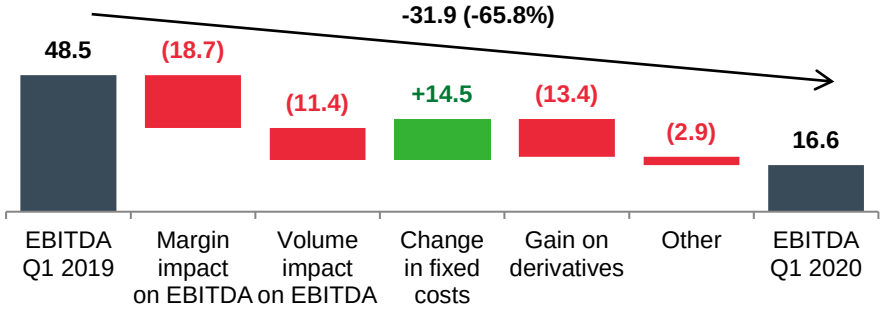
Electricity EBITDA

Electricity EBITDA for Q1 amounted to 16.6 million euros (-65.8%, -31.9 million euros).

A lower margin had a -18.7 million euro impact on EBITDA (-8.5 €/MWh). Average electricity sales revenue per megawatt hour (excluding the impact of derivative transactions) decreased by 7.0 euros (impact: -15.4 million euros). The figure comprises a decline in the average sales price of electricity of 8.5 €/MWh and growth in renewable energy subsidies received of 1.4 €/MWh. Growth in average variable costs had an impact of -3.4 million euros. Variable costs grew mainly due to higher electricity purchase costs.

A decrease in electricity sales volume had an impact of -11.4 million euros and a decrease in the gain on derivative transactions had an impact of -13.2 million euros.

Electricity EBITDA development, m€



The impact of a change in fixed costs was +14.5 million euros, the figure reflecting the impacts of lower maintenance and repair costs of +2.2 million euros and smaller labour costs of +11.2 million euros.

Other impacts of -2.9 million euros comprised changes in the value of derivative financial instruments.

Distribution

Electricity distribution service is another major source of revenue and profit for Eesti Energia.

Distribution revenue, sales volume and price

In Q1 2020, electricity distribution revenue decreased by 4.5% year on year to 59.8 million euros (-2.8 million euros) and sales volume declined by 4.5% to 1,911 GWh (-90.6 GWh).

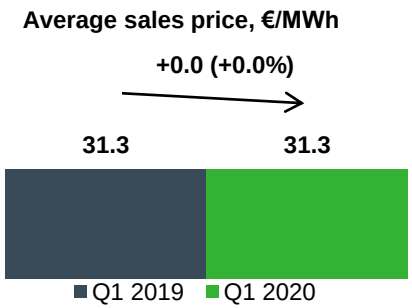
The average price of the distribution service was 31.3 €/MWh, which is comparable to Q1 2019.

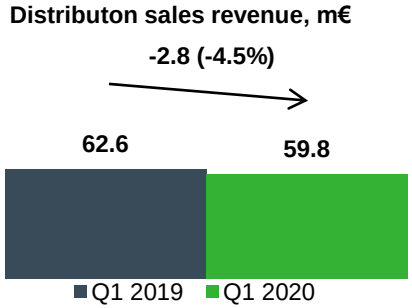
Distribution losses

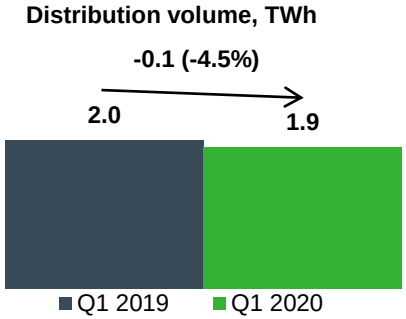
The period's electricity distribution losses totalled 79.4 GWh, i.e. 3.92% of electricity entering the network (Q1 2019: 85.2 GWh, i.e. 4.02%), remaining at the same level as a year ago.

Supply interruptions

The average duration of unplanned interruptions in Q1 2020 was 26.1 minutes (Q1 2019: 47.1 minutes). The figure decreased significantly thanks to better weather conditions.







The average duration of planned supply interruptions was 20.7 minutes (Q1 2019: 18 minutes). The duration of planned interruptions depends on the volume of planned network maintenance and renewal.

Key figures of the distribution product

		Q1 2020	Q1 2019
Return on fixed assets	%	3.3	5.0
Distribution losses	GWh	79.4	85.2
SAIFI	index	0.29	0.20
SAIDI (unplanned)	index	26.1	47.1
SAIDI (planned)	index	20.7	18.0
Adjusted RAB	m€	808	791

Power outages can be reduced by replacing bare conductors with weatherproof cables. At the end of Q1 2020, 90.4% of our low-voltage distribution network and 39.8% of our medium-voltage distribution network was weatherproof.

Distribution EBITDA

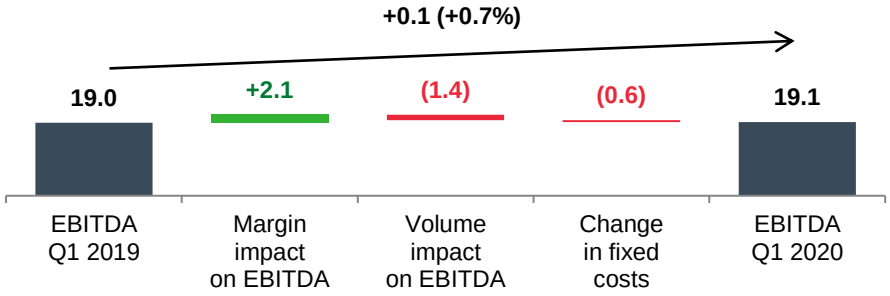
Distribution EBITDA for Q1 2020 amounted to 19.1 million euros (+0.7%, +0.1 million euros).

Distribution EBITDA grew, mainly due to a higher margin (impact: +2.1 million euros), which was attributable to smaller network losses.

Distribution sales volume decreased by 5%, which had a -1.4 million euro impact on distribution EBITDA.

Fixed costs from electricity distribution service increased year on year due to larger repair and maintenance costs.

Distribution EBITDA development, m€



Shale oil

Shale oil production is a business line that has great potential but is strongly influenced by fluctuations in relevant market prices.

In Q1 2020, market prices fell by 10.1% year on year.

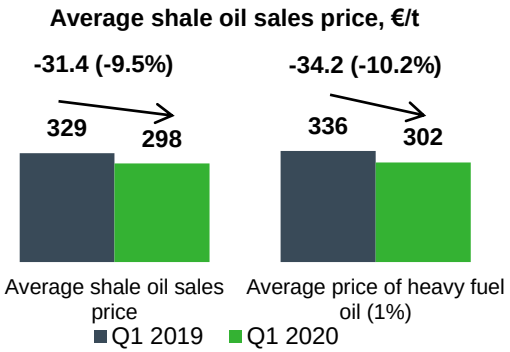
Shale oil revenue and sales volume

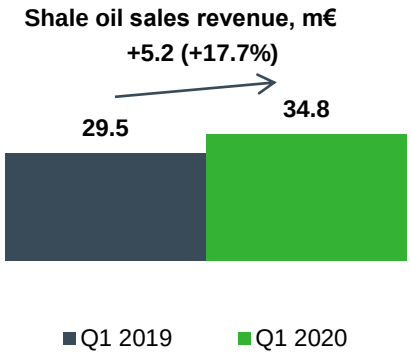
We sold 102.5 thousand tonnes of shale oil in Q1 2020, which generated revenue of 34.8 million euros. Revenue from the sale of shale oil grew by 17.7% (+5.2 million euros) and shale oil sales volume increased by 0.4% (+0.4 thousand tonnes) compared with the same period in 2019.

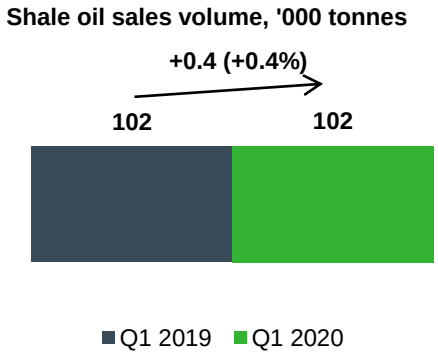
Shale oil sales volume and revenue grew year on year through a higher sales price and growth in output.

Shale oil price

In Q1 2020, the average sales price of shale oil (excluding the impact of derivative transactions) decreased by 9.5% year on year to 297.7 €/t (-31.4 €/t), mainly due to lower market prices







Derivative transactions of the period resulted in a gain of 41.3 €/t. The Q1 average sales price of shale oil including the impact of derivative transactions was 339.3 €/t (+17.2%, +49.9 €/t compared to Q1 2019). The world market price of the reference product, heavy fuel oil, decreased by 10.2% year on year

Shale oil production volume

We produced 122.3 thousand tonnes of shale oil in Q1 2020, 2.2% (-2.7 thousand tonnes) less than in Q1 2019. The decrease in output is attributable to a shorter operating time of the Enefit 280 oil plant: at the end of March 2020 the plant was closed for planned maintenance.

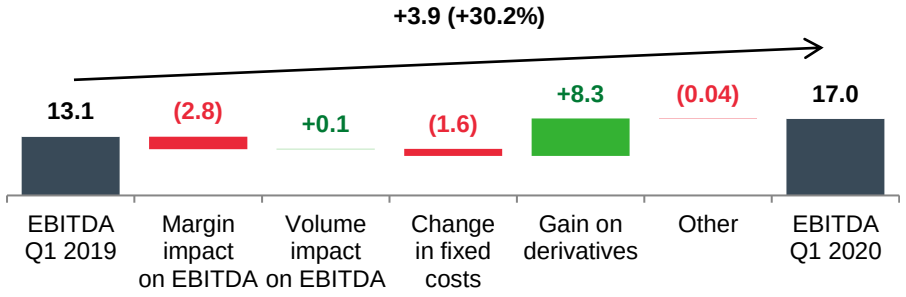
Key figures of the shale oil product

		Q1 2020	Q1 2019
Return on fixed assets	%	10.5	10.6
Shale oil EBITDA	€/t	166.1	128.1

Shale oil EBITDA

Shale oil EBITDA for Q1 2020 amounted to 17.0 million euros (+30.2%, +3.9 million euros).

Shale Oil EBITDA development, m€



Margin decrease had an impact of -2.8 million euros (-27.5 €/t), resulting mainly from a decline in the average sales price (-31.4 €/t).

Shale oil sales volume remained at the same level as last year.

Changes in fixed costs had an impact of -1.6 million euros. Among other items, the figure reflects growth in labour costs, which had an impact of -1.7 million euros.

Gain on derivative transactions improved EBITDA by 8.3 million euros year on year.

Other products and services

Sales of heat, natural gas, new supplementary services and industrial equipment supplement Eesti Energia's product portfolio and generate additional revenue.

Eesti Energia sells natural gas in Estonia, Latvia, Lithuania and Poland. In Estonia, we sell gas to both household and corporate customers. In other countries, we focus on corporate customers only.

Our retail sales of natural gas in Estonia totalled 131.0 GWh in Q1 2020 and based on customers' gas consumption volumes, Eesti Energia's Q1 market share was 21.4%.

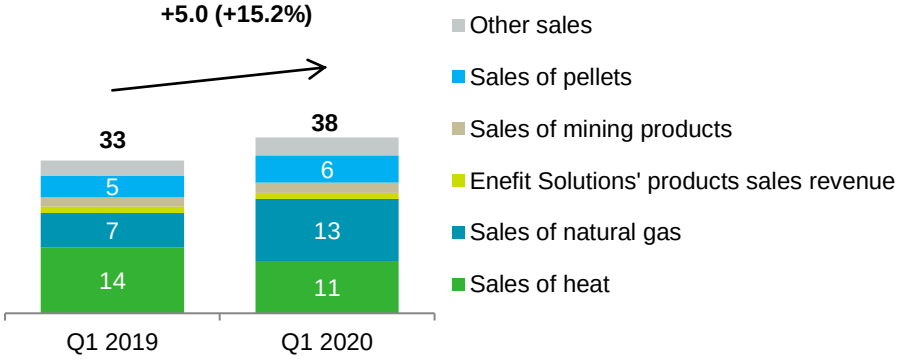
In other countries, our Q1 retail sales of gas totalled 132.5 GWh in Latvia, 32.1 GWh in Lithuania and 277.4 GWh in Poland. In terms of customers' gas consumption volumes, our Q1 market shares were 3.6% in Latvia, 0.5% in Lithuania and 0.1% in Poland.

Revenue from the sale of other products and services

Revenue from the sale of other products and services totalled 38.1 million euros in Q1 2020. Revenue grew by 15.2% (+5.0 million euros) compared with the same period last year.

Revenue from the sale of natural gas grew by 6.1 million euros and revenue from the sale of pellets increased by 1.1 million euros. Revenue from the sale of heat decreased by 3.0 million euros year on year.

Sales revenues from other products and services, m€

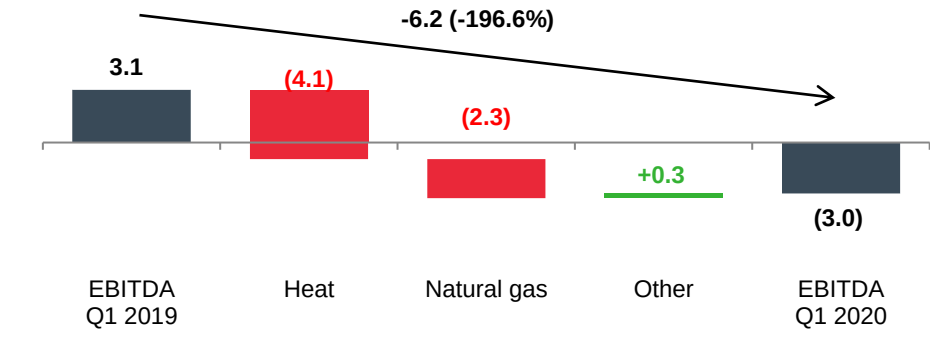


EBITDA for other products and services

EBITDA for other products and services decreased by 6.2 million euros year on year to -3.0 million euros.

Heat EBITDA decreased by 4.1 million euros and natural gas EBITDA declined by 2.3 million euros. The figure includes the impact of derivative transactions of -3.3 million euros. Other impacts improved EBITDA by 0.3 million euros in total.

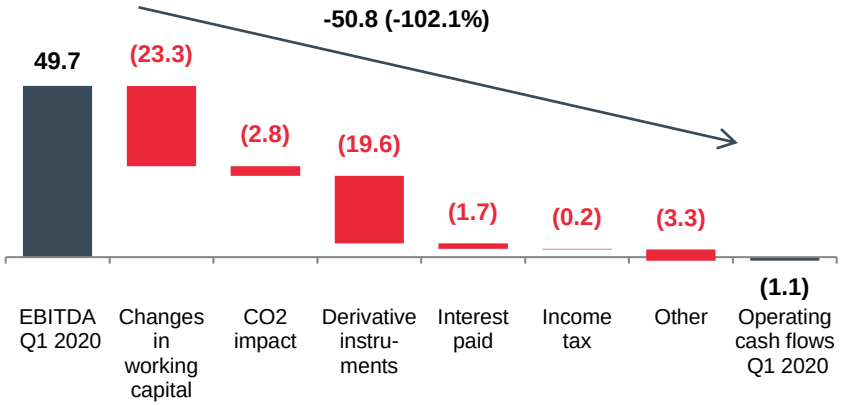
Other EBITDA development, m€



Cash flows

Net operating cash flow for Q1 2020 was -1.1 million euros, 102.1% (50.8 million euros) smaller than EBITDA, which amounted to 49.7 million euros.

EBITDA to operating cash flows development, m€



Movements in working capital lowered net operating cash flow relative to EBITDA by 23.3 million euros. Working capital was influenced by a decrease in current liabilities, which had an impact of -9.4 million euros, an increase in inventories, which had an impact of -7.7 million euros, and a decrease in current receivables, which had an impact of +10.0 million euros.

Settlements related to CO2 emission allowances increased operating cash flow relative to EBITDA by -2.8 million euros.

The impact of derivative financial instruments (excluding CO2 instruments) was -19.6 million euros, including the impacts of electricity derivatives of -57.4 million euros, shale oil derivatives of +32.9 million euros and natural gas derivatives of +4.9 million euros. The impacts of derivatives comprise both monetary and non-monetary impacts on EBITDA and operating cash flow.

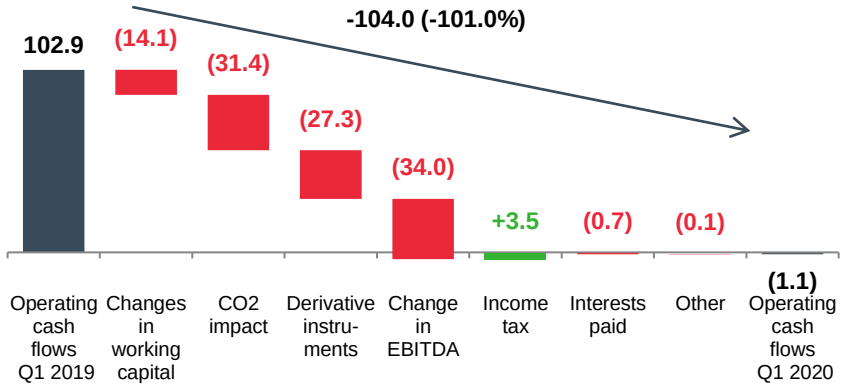
Interest paid on borrowings reduced operating cash flow by 1.7 million euros.

Income tax paid amounted to 0.2 million euros.

Other impacts totalled -3.3 million euros, including the impacts of the recognition of connection fees of -2.3 million euros.

Compared to Q1 2019, net operating cash flow decreased by 101.0% (-104.0 million euros).

Operating cash flow changes, m€



Changes in working capital had an impact of -14.1 million euros relative to Q1 2019. The figure includes, among other items, the impacts of a change in current receivables of +4.0 million euros, a change in inventories of +3.7 million euros, and a change in current liabilities of -5.0 million euros.

The impact of settlements related to CO_2 emission allowances was -31.4 million euros compared to Q1 2019.

The impact of derivative financial instruments (excluding CO_2 instruments) was -27.3 million euros, including the impacts of electricity derivatives of -79.0 million euros, shale oil derivatives of +44.5 million euros, natural gas derivatives of +3.3 million euros and other transactions of +3.8 million euros.

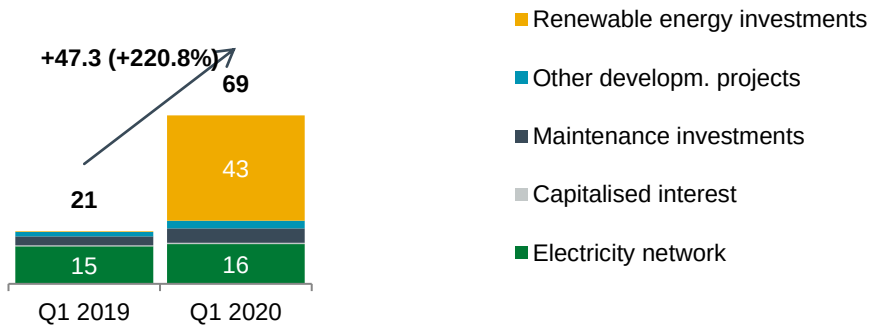
Interest paid on borrowings in Q1 2020 was 0.7 million euros lower than in Q1 2019.

Income tax paid in Q1 2020 was 3.5 million euros smaller than in Q1 2019.

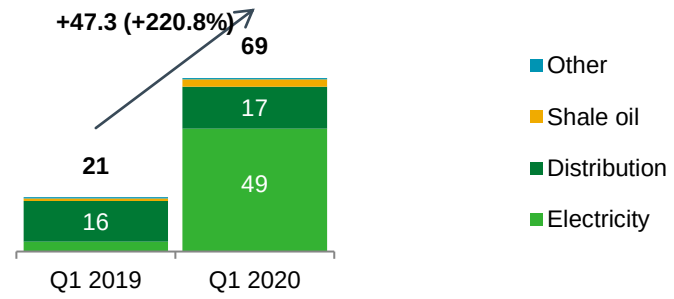
Investment

Our capital expenditure for Q1 2020 was 68.7 million euros, 220.8% more than in Q1 2019 (+47.3 million euros). Expenditure on the distribution network amounted to 16.2 million euros (+6.1%, +0.9 million euros) and maintenance and repair expenditures (excluding the distribution network) totalled 5.9 million euros (+62.1%, +2.3 million euros).

Capex breakdown by projects, m€



Investment breakdown by products, m€



Increasing the share of renewable energy

We invested 43 million euros in acquiring the property of the depleted Tootsi Suursoo peat extraction site to move on with the development of the Tootsi wind farm, a project aimed at increasing our renewable energy production capacity.

Increasing safety and efficiency in large-scale energy production

In Q1 2020, we invested 2.2 million euros in acquiring a hole drilling machine to increase occupational safety and optimise costs by mechanising processes.

In addition, we invested around 1.2 million euros in acquiring bulldozers.

Improving the quality of the distribution service

Investments made to maintain and continuously improve the quality of the distribution service totalled 15.2 million euros in Q1 2020 (Q1 2019:15.3 million euros). During the period, we built 39 substations and 205 km of network (Q1 2019: 45 substations and 254 km of network).

At the end of Q1 2020, 90% of Elektrilevi's low-voltage distribution network was weatherproof (at the end of Q1 2019: 89%). Compared to the same period last year, the weatherproof low-voltage distribution network increased by 533 km and the bare conductor distribution network decreased by 588 km.

At period-end, 69% of our total low- and medium-voltage distribution network was weatherproof (at the end of Q1 2019: 67%).

Financing

Eesti Energia's main sources of debt capital are the international bond market and investment loans from the European Investment Bank (EIB) and commercial banks. These are complemented with liquidity loans and guarantee facilities obtained from regional banks.

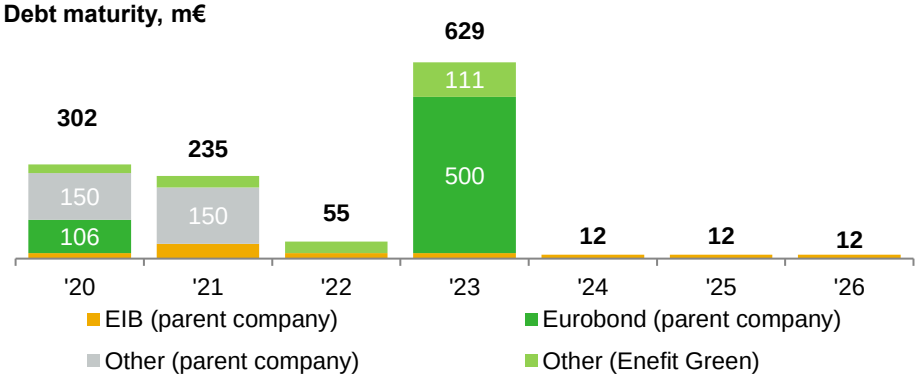
At the end of Q1 2020, the Group's borrowings totalled 1,261 million euros at nominal value (at the end of 2019: 1,171 million euros) and 1,229 million euros at amortised cost (at the end of 2019: 1,136 million euros).

Long-term borrowings as at the reporting date comprised Eurobonds listed on the London Stock Exchange of 606 million euros, loans from EIB and commercial banks of 139 million euros and 514 million euros, respectively, and long-term lease liabilities for right-of-use assets of 2.7 million euros (all nominal amounts). Loans from commercial banks consisted of loans taken by Enefit Green of 214 million euros and loans taken by the parent of Eesti Energia group of 300 million euros (150 million euros from Swedbank, 50 million euros from SEB and 100 million euros from OP Corporate Bank). In Q1, we made regular contractual repayments of Enefit Green's bank loans of 9.3 million euros.

At the end of Q1 2020, the Group's liquid assets totalled 53 million euros. Eesti Energia had undrawn loans of 325 million euros, consisting of liquidity loans of 150 million euros (50 million euros from SEB and 100 million euros from OP Corporate Bank) and long-term loans of 175 million euros. Long-term loans comprised a loan of 175 million euros raised from the EIB under an agreement signed in December 2019, which at the date of release of this report has not been drawn down.

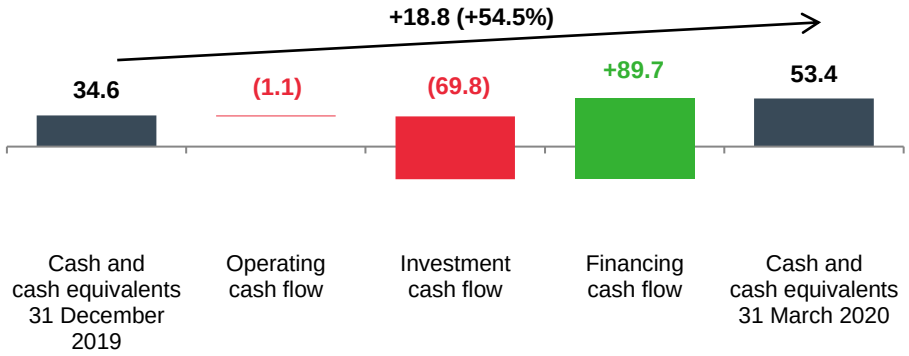
At the end of Q1 2020, the weighted average interest rate of Eesti Energia's borrowings was 1.88% (1.99% at the end of 2019).

Debt maturity, m€



At the reporting date, borrowings of 745 million euros had fixed base rates and borrowings of 514 million euros had floating base rates (at the end of 2019 borrowings of 745 million euros had fixed base rates and 423 million euros had floating base rates). All of the Group's borrowings are denominated in euros.

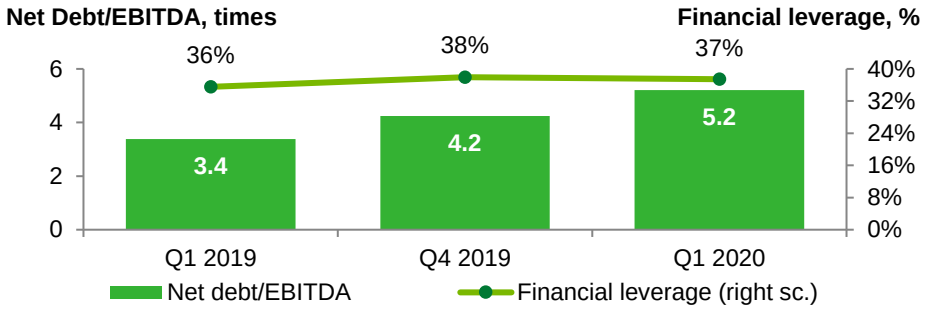
Liquidity development in 2020 Q1, m€



At the end of Q1 2020, the Group's net debt amounted to 1,176 million euros (1,101 million euros at the end of 2019) and net debt to EBITDA ratio was 5.2 (4.2 at the end of 2019). The current net debt to EBITDA ratio is above the target ceiling of 3.5 set out in the Group's financing policy. Eesti Energia's strategy includes measures for bringing the ratio to the desired level. On 1 April, the owner increased share capital with a contribution of 125 million euros – net debt to EBITDA ratio for Q1 2020 adjusted for the owner's contribution to share capital would be 4.65.

The Group's credit ratings at the end of Q1 2020 were BBB- (Standard and Poor's, outlook stable) and Baa3 (Moody's, outlook stable). Eesti Energia's financing policy is aimed at maintaining investment grade credit ratings from international rating agencies.

Net debt/EBITDA ratio and financial leverage



Outlook for 2020

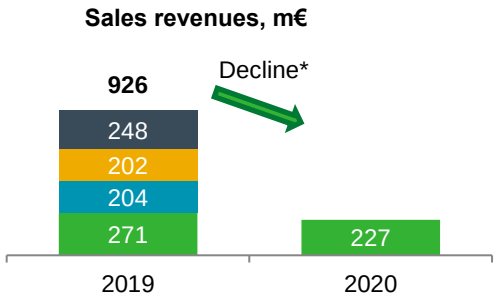
Due to the effects of the coronavirus disease, COVID-19, the year 2020 will be one of adjustment to a new environment. Accordingly, we forecast that our revenue and EBITDA will decrease compared to 2019.

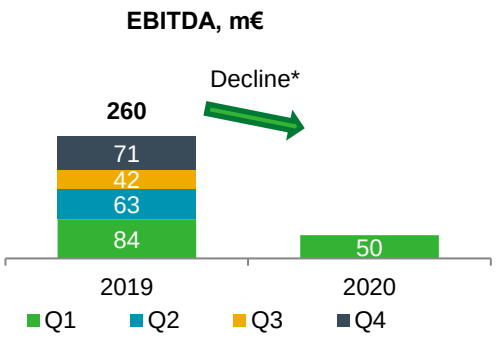
Electricity revenue and EBITDA will be lowered by the fall in the market price of electricity. We also forecast a decrease in shale oil revenue and EBITDA because the demand for oil products has declined and the market price has dropped significantly.

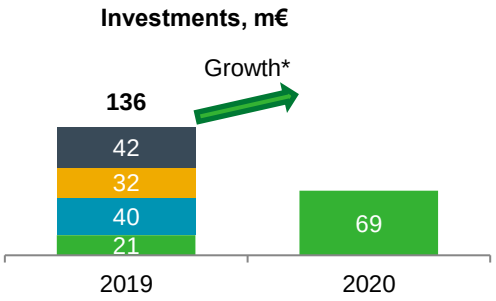
We expect that distribution service revenue and EBITDA will remain at the level of 2019. The sale of new supplementary services should have a positive impact on revenue.

The largest investments of 2020 will be made in the development of our renewable energy portfolio. Investments in the oil shale sector will decrease significantly.

We will not pay the owner a dividend for 2019.







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

Hedging transactions

Eesti Energia's revenues from the sale of electricity and shale oil depend on global market prices. We hedge the risks resulting from fluctuations in market prices by entering into derivative transactions. We have signed hedging contracts for the production of electricity of 0.6 TWh at an average price of 38.7 €/MWh for 2020. We have signed forward contracts on the retail sale of electricity of 1.7 TWh at an average price of 36.5 €/MWh for 2020 and of 2.2 TWh at an average price of 35.5 €/MWh for 2021. We have signed hedging contracts on the production shale oil of 233.7 thousand tonnes at an average price of 314.8 €/t for 2020 and of 283.5 thousand tonnes at an average price of 312.9 €/t for 2021. Our CO_2 emission allowance position for 2020 amounts to 3.4 million tonnes at an average price of 14.5 €/t. Our CO_2 emission allowance position for 2021 is 0.9 million tonnes.

Condensed consolidated interim income statement and statement of comprehensive income

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

in million EUR	Note	Q1 2020	Q1 2019	12m 2020/19	12m 2019/18
Revenue	3, 14	226.8	271.4	881.1	904.7
Other operating income	5	14.8	13.3	93.5	38.1
Government grants		0.2	0.1	0.8	0.4
Change in inventories of finished goods and work-in-progress		8.5	9.7	12.9	20.0
Raw materials and consumables used		(144.2)	(149.3)	(546.4)	(459.8)
Payroll expenses		(36.4)	(45.3)	(149.5)	(163.0)
Depreciation, amortisation and impairment		(44.3)	(49.0)	(183.3)	(169.1)
Other operating expenses		(19.9)	(16.1)	(66.6)	(50.2)
OPERATING PROFIT		**5.5**	**34.8**	**42.5**	**121.1**
Financial income		0.2	-	0.2	0.3
Financial expenses		(7.9)	(11.5)	(33.3)	(34.5)
Net financial income (expense)		**(7.7)**	**(11.5)**	**(33.0)**	**(34.2)**
Profit from associates using equity method		0.1	0.3	(0.3)	6.7
PROFIT BEFORE TAX		**(2.2)**	**23.6**	**9.2**	**93.6**
CORPORATE INCOME TAX EXPENSE		**0.2**	**(14.1)**	**2.5**	**(18.4)**
PROFIT FOR THE PERIOD		**(2.0)**	**9.5**	**11.7**	**75.2**
Equity holder of the Parent Company		**(2.2)**	**9.4**	**10.9**	**74.8**
Non-controlling interest		**0.2**	**0.1**	**0.8**	**0.4**
Basic earnings per share (euros)	9	(0.00)	0.02	0.02	0.12
Diluted earnings per share (euros)	9	(0.00)	0.02	0.02	0.12

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	Note	Q1 2020	Q1 2019	12m 2020/19	12m 2019/18
PROFIT FOR THE PERIOD		**(2.0)**	**9.5**	**11.7**	**75.2**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Revaluation of hedging instruments		41.5	(33.4)	51.2	(35.2)
Currency translation differences attributable to foreign subsidiaries		(0.8)	0.5	(0.6)	2.2
Other comprehensive income for the period		**40.7**	**(32.9)**	**50.6**	**(33.0)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**38.7**	**(23.4)**	**62.3**	**42.2**
Equity holder of the Parent Company		**38.5**	**(23.5)**	**61.5**	**41.8**
Non-controlling interest		**0.2**	**0.1**	**0.8**	**0.4**

Condensed consolidated interim statement of financial position

in million EUR	Note	31.03.2020	31.03.2019	31.12.2019
ASSETS				
Non-current assets				
Property, plant and equipment	6	2,936.0	2,926.9	2,913.4
Right-use-of assets		2.7	-	2.7
Intangible assets		70.9	62.4	69.2
Deferred tax assets		1.9	1.1	1.8
Investments in associates		43.2	45.5	43.5
Derivative financial instruments	7	28.1	-	4.3
Long-term receivables		2.0	1.6	1.8
Total non-current assets		**3,084.7**	**3,037.5**	**3,036.7**
Current assets				
Inventories		118.7	101.9	111.0
Greenhouse gas allowances		76.9	126.9	76.1
Trade and other receivables		328.8	148.8	199.7
Derivative financial instruments	7	75.5	15.9	10.0
Cash and cash equivalents		53.4	141.2	34.6
Total current assets		**653.3**	**534.7**	**431.4**
Total assets	**3**	**3,738.0**	**3,572.2**	**3,468.1**

in million EUR	Note	31.03.2020	31.03.2019	31.12.2019
EQUITY				
Capital and reserves attributable to equity holder of the Parent Company				
Share capital	8	621.6	621.6	621.6
Unregistered share capital	8	125.0	-	-
Share premium		259.8	259.8	259.8
Statutory reserve capital		62.1	62.1	62.1
Hedge reserve		9.0	(42.2)	(32.5)
Unrealised exchange rate differences		9.5	10.1	10.3
Retained earnings		876.9	866.0	879.1
Total equity and reserves attributable to equity holder of the Parent Company		**1,964.0**	**1,777.4**	**1,800.4**
Non-controlling interest		**1.4**	**1.7**	**1.2**
Total equity		**1,965.4**	**1,779.1**	**1,801.6**
LIABILITIES				
Non-current liabilities				
Borrowings	10	917.1	1,076.4	924.1
Deferred tax liabilities		12.1	12.7	12.2
Other payables		0.5	1.5	0.5
Derivate financial instruments	7	2.6	5.5	6.1
Deferred income		239.7	216.3	234.7
Provisions	12	30.1	31.7	29.9
Total non-current liabilities		**1,202.1**	**1,344.1**	**1,207.5**
Current liabilities				
Borrowings	10	311.6	45.9	211.7
Trade and other payables		129.2	250.1	147.5
Derivative financial instruments	7	38.2	28.6	24.1
Deferred income		0.3	0.3	-
Provisions	12	91.3	124.1	75.7
Total current liabilities		**570.6**	**449.0**	**459.0**
Total liabilities		**1,772.7**	**1,793.1**	**1,666.5**
Total liabilities and equity		**3,738.0**	**3,572.2**	**3,468.1**

Condensed consolidated interim statement of cash flows

in million EUR	Note	Q1 2020	Q1 2019	12m 2020/19	12m 2019/18
Cash flows from operating activities					
Cash generated from operations	11	0.7	107.5	82.4	229.8
Interest and loan fees paid		(1.7)	(1.0)	(25.3)	(31.8)
Interest received		-	-	0.2	0.2
Corporate income tax paid		(0.2)	(3.6)	(13.7)	(3.9)
Net cash generated from operating activities		**(1.1)**	**102.9**	**43.6**	**194.3**
Cash flows from investing activities					
Purchase of property, plant and equipment and intangible assets		(78.4)	(36.4)	(185.4)	(162.6)
Proceeds from connection and other fees		5.9	5.2	23.0	23.4
Proceeds from grants of property, plant and equipment		2.2	-	2.1	0.2
Proceeds from sale of property, plant and equipment		0.3	0.7	5.7	2.4
Acquisiton of financial investments		-	(0.4)	0.4	(0.4)
Loans granted		(0.1)	-	(0.1)	-
Repayments of loans granted		-	-	0.6	-
Contribution to the share capital of associates		(1.4)	(0.9)	(4.7)	(3.2)
Acquisiton of subsidiaries, net of cash acquired		-	-	(13.8)	(249.9)
Dividends received from long-term financial investments		1.8	2.1	3.7	2.5
Proceeds from repurchase of shares and liquidation of associate		-	-	0.6	-
Net cash used in investing activities		**(69.8)**	**(29.7)**	**(168.0)**	**(387.6)**
Cash flows from financing activities					
Received long-term loans		100.0	290.0	300.0	560.0
Redeemed bonds		-	-	-	(200.5)
Repayments of bank loans		(9.3)	(272.4)	(205.1)	(332.6)
Repayments of other loans		(1.0)	-	(1.0)	-
Repayments of financial leases		(0.1)	(11.0)	(0.3)	(11.5)
Acquisition of non-controlling interest in a subsidiary		-	(0.1)	-	(1.8)
Dividends paid		-	-	(57.0)	(15.8)
Net cash used in financing activities		**89.7**	**6.5**	**36.6**	**(2.2)**
Net cash flows		**18.8**	**79.7**	**(87.8)**	**(195.5)**
Cash and cash equivalents at the beginning of the period		34.6	61.5	141.2	336.7
Cash and cash equivalents at the end of the period		53.4	141.2	53.4	141.2
Net increase / (-) decrease in cash and cash equivalents		**18.8**	**79.7**	**(87.8)**	**(195.5)**

Condensed consolidated interim statement of changes in equity

in million EUR	Attributable to equity holder of the Parent Company							Non-control-ling interest	Total
	Share capital (Note 8)	Unregistered share capital	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total		
Equity as at 31.12.2018	**621.6**	**-**	**259.8**	**62.1**	**0.8**	**913.7**	**1,858.0**	**1.6**	**1,859.6**
Profit for the period	-	-	-	-	-	9.4	9.4	0.1	9.5
Other comprehensive income for the period	-	-	-	-	(32.9)	-	(32.9)	-	(32.9)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(32.9)**	**9.4**	**(23.5)**	**0.1**	**(23.4)**
Dividends declared	-	-	-	-	-	(57.0)	(57.0)	-	(57.0)
Acquisition of non-controlling interest of subsidiary	-	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**(57.1)**	**(57.1)**	**-**	**(57.1)**
Equity as at 31.03.2019	**621.6**	**-**	**259.8**	**62.1**	**(32.1)**	**866.0**	**1,777.4**	**1.7**	**1,779.1**
Equity as at 31.12.2019	**621.6**	**-**	**259.8**	**62.1**	**(22.2)**	**879.1**	**1,800.4**	**1.2**	**1,801.6**
Profit for the period	-	-	-	-	-	(2.2)	(2.2)	0.2	(2.0)
Other comprehensive income for the period	-	-	-	-	40.7	-	40.7	-	40.7
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**40.7**	**(2.2)**	**38.5**	**0.2**	**38.7**
Increase of share capital (Note 8)	-	125.0	-	-	-	-	125.0	-	125.0
Total transactions with owners of the company, recognised directly in equity	**-**	**125.0**	**-**	**-**	**-**	**-**	**125.0**	**-**	**125.0**
Equity as at 31.03.2020	**621.6**	**125.0**	**259.8**	**62.1**	**18.5**	**876.9**	**1,964.0**	**1.4**	**1,965.4**

Notes to the condensed interim consolidated financial statement

1. Accounting policies

These condensed consolidated interim financial statements have 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". The consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with IFRSs as adopted by the EU.

Accounting policies and presentation of financial statements applied to this interim report were consistent with those used in financial statements for the financial year that ended on 31 December 2019.

Other new International Financial Reporting Standards adopted, amendments to and International Financial Reporting Interpretations Committee interpretations that became mandatory for the Group from 1 January 2020 did not have any impact to the Group's accounting policies and financial statements.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

According to the Management Board the interim report prepared for the period 1 January 2019 – 31 March 2020 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 or otherwise verified by auditors.

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 2018. There have been no material changes in any risk management policies compared to the previous year end.

2.2. Fair value estimation

The tables below analyse 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 2020 and 31 December 2019:

31.03.2020

in million EUR	Level 1	Level 2	Total
Assets			
Trading derivatives (Note 7)	-	31.4	31.4
Cash flow hedges (Note 7)	0.5	71.7	72.2
Total financial assets	**0.5**	**103.1**	**103.6**
Liabilities			
Trading derivatives (Note 7)	-	38.9	38.9
Cash flow hedges (Note 7)	1.0	0.9	1.9
Total financial liabilities	**1.0**	**39.8**	**40.8**

31.12.2019

in million EUR	Level 1	Level 2	Total
Assets			
Trading derivatives (Note 7)	-	13.5	13.5
Cash flow hedges (Note 7)	0.1	0.7	0.8
Total financial assets	**0.1**	**14.2**	**14.3**
Liabilities			
Trading derivatives (Note 7)	5.0	18.7	23.7
Cash flow hedges (Note 7)	0.1	6.4	6.5
Total financial liabilities	**5.1**	**25.1**	**30.2**

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 derivatives that have been cleared in Nasdaq OMX.

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 Nasdaq OMX, ICE, Platt's European Marketscan 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.

Valuation techniques and inputs used on measurement in level 3

At the end of reporting period the Group had no financial instruments in level 3.

2. Financial risk management , cont.

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

The fair value of bonds, bank loans and finance lease liabilities:

in million EUR	31.03.2020	31.12.2019
Nominal value of bonds	606.3	606.3
Market value of bonds on the basis of quoted sales price	625.0	642.1
Nominal value of bank loans with fixed interest rate	138.8	138.8
Fair value of bank loans with fixed interest rate	142.5	142.0
Nominal value of bank loans with floating interest rate and finance lease liabilities	516.4	425.8
Fair value of bank loans with floating interest rate and finance lease liabilities	516.4	425.8

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 bank loans with fixed interest rate is based on the cash flows discounted using input that is within level 3 of the fair value hierarchy. Management estimates that the fair value of the loans with a floating interest rate at the end of comparative period does not differ from their carrying amounts as the risk margins have not changed.

Other financial assets and liabilities of which fair value is approximate to their carrying amount:

- Trade and other receivables
- Deposits not recognised as cash equivalents
- Cash and cash equivalents
- Trade and other payables

3. Segment reporting

For the purposes of monitoring the Group's performance and making management decisions, the management board uses product-based reporting. The Group has determined main products and services, i.e. value-creating units that generated 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":

1) electricity (production and sale of electricity generated from renewable and non-renewable sources, and electricity trading);
2) distribution (sale of electricity distribution network services on regulated market and sale of additional services by Elektrilevi);
3) shale oil (production and sale of liquid fuels);
4) Other segments (including production and sale of heat, construction of power engineering equipment and services, sale of old metal, sale of mining products, sale of gas, other products and services).

Other segments include co-products which individual share of the Group's revenue and EBITDA is immaterial. None of these co-products meet the quantitative thresholds that would require reporting separate information.

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 (e.g. 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 (e.g. 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 their purpose of use. 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.

The sales prices of network charges 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 carrying amount 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.

Also according to the District Heating Act the heating undertakings which sell heat to customers or to network operators who sell heat to customers or produce heat in the process of combined generation of heat and power must obtain the approval of the Competition Authority regarding the maximum price of the heat to be sold.

3. Segment reporting, cont.

Revenue

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.

REVENUE FROM EXTERNAL CUSTOMERS

in million EUR	Q1 2020	Q1 2019*
Electricity	94.2	146.2
Distribution	59.8	62.6
Shale oil	34.8	29.5
Other products and services	38.1	33.0
Total	**226.8**	**271.4**

*Comparative information in electricity segment has been adjusted due to a change in the distribution of income. Additional information is disclosed in Note 14.

EBITDA

in million EUR	Q1 2020	Q1 2019
Electricity	16.6	48.5
Distribution	19.1	19.0
Shale oil	17.0	13.1
Other products and services	(3.0)	3.2
Total	**49.7**	**83.8**
Depreciation and amortisation	(44.3)	(49.0)
Net financial income (expense)	(7.7)	(11.5)
Profit from associates using equity method	0.1	0.3
Profit before tax	**(2.2)**	**23.6**

ASSETS

in million EUR	31.03.2020	31.03.2019	31.12.2019
Electricity	1,757.8	1,772.2	1,649.3
Distribution	1,133.5	1,054.9	1,075.4
Shale oil	363.3	343.4	339.4
Other products and services	483.4	401.6	404.0
Total	**3,738.0**	**3,572.2**	**3,468.1**

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. Other operating income

in million EUR	Q1 2020	Q1 2019
Renewable energy grant	12.6	11.2
Gain from revaluation of derivatives	1.0	0.6
Fines, penalties and compensations	0.8	0.6
Other operating income	0.3	0.9
Total other operating income	**14.8**	**13.3**

6. Property, plant and equipment

in million EUR	Land	Buildings	Const-ruction	Plant and equipment	Other	Construction in progress and prepayments	Total
Property, plant and equipment as at 31.12.2019							
Cost	44.4	330.0	1,196.8	3,140.9	6.1	74.6	4,792.8
Accumulated depreciation	-	(118.1)	(486.9)	(1,269.1)	(5.3)	-	(1,879.4)
Net book amount	44.4	211.9	709.9	1,871.8	0.8	74.6	2,913.4
Total property, plant and equipment as at 31.12.2019	**44.4**	**211.9**	**709.9**	**1,871.8**	**0.8**	**74.6**	**2,913.4**
Movements in the reporting period							
Purchases of property, plant and equipment	42.9	-	-	2.0	-	22.0	66.9
Depreciation charge	-	(1.8)	(7.8)	(33.9)	(0.1)	-	(43.6)
Exchange differences	0.1	-	-	(0.8)	-	-	(0.7)
Transfers	0.1	0.2	7.2	11.2	-	(18.7)	-
Total movements in Q1 2020 period	**43.1**	**(1.6)**	**(0.6)**	**(21.5)**	**(0.1)**	**3.3**	**22.6**
Property, plant and equipment as at 31.03.2020							
Cost	87.6	330.2	1,204.0	3,149.4	6.1	77.9	4,855.2
Accumulated depreciation	-	(119.9)	(494.8)	(1,299.1)	(5.4)	-	(1,919.2)
Net book amount	87.6	210.3	709.2	1,850.3	0.7	77.9	2,936.0
Total property, plant and equipment as at 31.03.2020	**87.6**	**210.3**	**709.2**	**1,850.3**	**0.7**	**77.9**	**2,936.0**

As at 31 March 2020, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 47.1 million (31 December 2019 EUR 37.3 million).

7. Derivative financial instruments

in million EUR	31.03.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Forward- and future contracts for buying and selling electricity as cash flow hedges	1.1	1.9	0.6	0.2
Forward- and future contracts for buying and selling electricity as trading derivatives	2.8	7.7	0.2	8.0
Future contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	0.1	0.2	0.1	0.2
Swap and future contracts for buying and selling gas as trading derivatives	22.4	29.7	11.0	13.5
Swap and forward contracts for selling fuel oil as cash flow hedges	71.2	-	0.1	6.3
Swap and forward contracts for selling fuel oil as trading derivatives	6.0	1.3	2.2	2.0
Total derivative financial instruments	**103.6**	**40.8**	**14.3**	**30.2**
including non-current portion:				
Swap, forward and option contracts for selling fuel oil as cash flow hedges	0.3	0.4	0.1	-
Forward- and future contracts for buying and selling electricity as cash flow hedges	0.4	1.3	-	0.4
Future contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	-	-	0.1	0.2
Swap and future contracts for buying and selling gas as trading derivatives	0.6	0.9	4.0	4.2
Swap and forward contracts for selling fuel oil as trading derivatives	26.8	-	0.1	1.3
Total non-current portion	**28.1**	**2.6**	**4.3**	**6.1**
Total current portion	**75.5**	**38.2**	**10.0**	**24.1**

8. Share capital and dividends

As at 31 March 2020, Eesti Energia AS had 621 645 750 registered shares (31 December 2019: 621 645 750 registered shares). The nominal value of each share is 1 euro.

The sole shareholder of Eesti Energia, the Republic of Estonia, has given a mandate on 27 March 2020 to the Extraordinary General Meeting of Eesti Energia to pass the resolution by which the share capital of the company will be increased by EUR 125.0 million. The company's share capital increases from EUR 621.6 million to EUR 746.6 million through issue of 125 million new shares with nominal value of 1 euro.

As of 31 March 2020, the share capital increase has not been completed and the entry has not been recorded in the Commercial Register, therefore the amount is recorded in the unregistered share capital line in this report. The increase in the share capital of Eesti Energia was conducted on 1 April 2020.

9. Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the equity holder of the Parent 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.

	Q1 2020	Q1 2019	12m 2020/19	12m 2019/18
Profit attributable to the equity holders of the company (million EUR)	(2.2)	9.4	10.9	74.8
Weighted average number of shares (million)	621.6	621.6	621.6	621.6
Basic earnings per share (EUR)	(0.0)	0.02	0.02	0.12
Diluted earnings per share (EUR)	(0.0)	0.02	0.02	0.12

10. Borrowings at amortised cost

in million EUR	Short-term borrowings			Long-term borrowings			
	Bank loans	Bonds issued	Lease liabilities	Bank loans	Bonds issued	Lease liabilities	Total
Borrowings at amortised cost 31.12.2019	**105.1**	**106.3**	**0.3**	**456.3**	**465.1**	**2.7**	**1,135.8**
Movements in the reporting period							
Amortization of borrowing expenses	-	-	-	-	2.3	-	2.3
Borrowings received	100.0	-	-	-	-	-	100.0
Repayments of borrowings	-	-	(0.1)	(9.3)	-	-	(9.4)
Total movements in Q1 2020 period	**100.0**	**-**	**(0.1)**	**(9.3)**	**2.3**	**-**	**92.9**
Borrowings at amortised cost 31.03.2020	**205.1**	**106.3**	**0.2**	**447.0**	**467.4**	**2.7**	**1,228.7**

As at 31 March 2020 the Group had undrawn loan facilities of EUR 325.0 million (31 December 2019: EUR 425.0 million), consisting of liquidity loans of EUR 150.0 million (EUR 50 million from SEB and EUR 100 million from OP Corporate Bank) and long-term loans of EUR 175 million. Long-term loans comprised a loan of EUR 175.0 million raised from the EIB under an agreement signed in December 2019, which at the date of release of this report has not been drawn down.

11. Cash Generated from Operations

in million EUR	Q1 2020	Q1 2019	12m 2020/19	12m 2019/18
Profit before tax	**(2.2)**	**23.6**	**9.2**	**93.6**
Adjustments				
Depreciation and impairment of property, plant and equipment	43.6	48.5	180.9	166.7
Amortisation and impairment of intangible assets	0.7	0.5	2.4	2.4
Deferred income from connection and other service fees	(2.3)	(2.2)	(9.2)	(8.4)
Gain on disposal of property, plant and equipment	(0.3)	(0.3)	(4.4)	(1.2)
Loss on disposal of associate	-	-	1.4	-
Amortisation of government grant received to purchase non-current assets	(0.2)	(0.1)	(0.7)	(0.4)
Profit/loss from associates using equity method	(0.1)	(0.3)	0.3	(6.7)
Unpaid/unsettled gain/loss on derivatives	(37.2)	12.0	(29.8)	(35.3)
Profit (loss) from other non-cash transactions	-	-	0.1	(0.9)
Interest expense on borrowings	7.8	11.5	32.2	33.0
Interest and other financial income	-	(0.7)	(0.1)	(0.8)
Adjusted net profit before tax	**9.8**	**92.5**	**182.3**	**242.0**
Net change in current assets relating to operating activities				
Change in receivables related to operating activities	10.0	6.1	(8.8)	6.5
Change in inventories	(7.7)	(11.4)	(16.8)	(27.1)
Net change in other current assets relating to operating activities	(17.5)	10.1	2.7	(25.9)
Total net change in current assets relating to operating activities	**(15.2)**	**4.8**	**(22.9)**	**(46.5)**
Net change in current liabilities relating to operating activities				
Change in provisions	15.7	29.4	(34.4)	29.7
Change in trade payables	(11.0)	(3.9)	(14.0)	(9.1)
Net change in liabilities relating to other operating activities	1.4	(15.3)	(28.5)	13.7
Total net change in liabilities relating to operating activities	**6.1**	**10.2**	**(76.9)**	**34.3**
Cash generated from operations	**0.7**	**107.5**	**82.4**	**229.8**

12. Provisions

in million EUR	Opening balance 31.12.2019	Recognition and reversal of provisions	Interest charge	Use	Closing balance 31.03.2020	Closing balance 31.03.2020
					Short term provision	Long term provision
Environmental protection provisions	22.4	-	0.1	(0.3)	3.0	19.3
Provision for termination of mining operations	0.7	-	-	-	-	0.7
Employee related provisions	6.4	-	-	(0.6)	1.2	4.6
Provision for dismantling cost of assets	5.4	-	0.1	-	-	5.5
Provision for greenhouse gas emissions	69.2	15.7	-	-	85.0	-
Provision for onerous contracts	0.2	-	-	-	0.2	-
Provision for obligations arising from treaties	0.1	-	-	-	-	-
Provision for renewable energy certificates	1.2	0.6	-	-	1.8	-
Total provisions	**105.6**	**16.4**	**0.2**	**(0.9)**	**91.3**	**30.1**

13. Related party transactions

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.

TRANSACTIONS WITH ASSOCIATES

in million EUR	Q1 2020	Q1 2019
Purchase of goods	2.4	4.7
Purchase of services	0.2	-
Purchase of property, plant and equipment	0.1	-
Proceeds from sale of services	-	0.6
Loans granted	0.1	-

RECEIVABLES FROM ASSOCIATES AND PAYABLES TO ASSOCIATES AND TO OTHER RELATED PARTIES

in million EUR	31.03.2020	31.12.2019
Receivables	12.1	11.8
incl long-term loan receivables	*12.1*	*11.7*
Allowance for doubtful loan receivables	(12.0)	(11.7)
Payables	0.4	0.5

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. During the period 1 January – 31 March 2020 remuneration to management and supervisory boards amounted to EUR 1.1 million (1 January - 31 March 2019: EUR 1.1 million).

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

The sales of electricity, network services and heat to the entities over which the state has control or significant influence have been taken place under normal business activity. The Group has performed in the reporting and comparative period purchase and sales transactions in the material amounts with Elering AS, which is fully state-owned enterprise.

TRANSACTIONS WITH ELERING AS

in million EUR	Q1 2020	Q1 2019
Purchase of services	26.2	27.9
Purchase of goods	4.0	3.3
Purchase of property, plant and equipment and prepayments	0.1	0.2
Sale of goods and services (incl. renewable energy grant)	14.8	9.9

RECEIVABLES FROM ELERING AS AND PAYABLES TO ELERING AS

in million EUR	31.03.2020	31.12.2019
Receivables	5.0	6.3
Payables	19.8	19.8

14. Effects of changes in the comparative figures

Due to the change in the distribution of income, as a result of which the renewable energy grant is recognized in the line Other operating income, following reclassifications have been made in income statement retroactively:

in million EUR	Q1 2019 changed	Q1 2019 before	difference
Revenue	271.4	282.6	(11.2)
Other operating income	13.3	2.1	11.2

in million EUR	12m 2019/2018 changed	12m 2019/2018 before	difference
Revenue	904.7	929.3	(24.6)
Other operating income	38.1	13.5	24.6

Glossary

Circulating fluidised bed (CFB) technology – Circulating fluidised bed combustion technology whereby larger (unburnt) particles are returned to the furnace

Clean Dark Spread (CDS) – Eesti Energia's margin between the price of electricity (in NP Estonia) and 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

Controllable production assets – Production assets which operate on energy sources such as oil shale, oil shale gas, wood chips, peat and tyre chips

EBITDA – Earnings before interest, taxes, depreciation and amortisation

EBITDA margin – Earnings before interest, taxes, depreciation and amortisation divided by revenue

FFO – Funds from operations. Cash flow from operations, excluding changes in working capital

Financial leverage – Net debt divided by the sum of net debt and equity

Future – A contract between counterparties which obligates to buy or sell an underlying asset (e.g. a commodity) at a pre-agreed price

Green paper on industrial policy – A document prepared by the state and employers' associations which outlines the bottlenecks of industrial development and suggests solutions for their elimination and improving industrial development

Level of water reservoirs – The level of water in the reservoirs of hydro power plants as a percentage of the maximum possible level. Most of the Nordic countries' electricity production is based on hydro power whose output depends on the level of water reservoirs

Liquidity – Amount of liquid assets. Sum of cash and cash equivalents, short-term financial investments and deposits with a maturity of more than 3 months

Maintenance and repair expenditures – Expenditures incurred to maintain the existing production capacities

MWh – megawatt hour. 1 MWh is 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

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. To a lesser extent, 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

OHSAS, ISO 14001 – International standards which deal with risk management in the area of occupational health and safety, the environment management system, and accident prevention

Oil shale resource charge – A charge to be paid to the state for the use of 1 tonne of oil shale located in the mineral deposit

Position hedged with forward transactions – The quantity of electricity and shale oil to be sold and emission allowances to be purchased in future periods whose average price 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 excluding assets under construction (allocated to specific products)

ROIC – Return on Invested Capital, calculated by dividing operating profit by average invested capital

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

Tax footprint – An indicator which reflects the contribution made to society through taxes

Variable profit – Profit after deducting variable costs from sales revenue