Interim Report

January 2018 – 31 March 2018

Contents

Letter from the CEO

Dear reader

The first three months of 2018 brought good news for energy producers – both electricity and oil prices increased.

At the same time, the price of CO2 emission allowances almost doubled, surging from 7.8 euros per tonne at the beginning of the year to 13.7 euros per tonne. The rise is emission allowance prices is driving up the cost price of energy produced from fossil fuels. The uptrend in emission allowance prices is attributable to the reform of the European Union's emissions trading system by which the European Union is hoping to achieve its renewable energy targets. In the first quarter of 2018 Eesti Energia's production units used around 3.5 million tonnes of CO2 emission allowances, which cost us 21.5 million euros.

Despite the upswing in the price of CO2 emission allowances, we were able to be competitive in the electricity market and to produce 2.7 terawatt hours of electricity. This is 3% less than in Q1 2017. Production decreased due to more extensive planned power plant maintenance than in the same period last year.

Electricity sales revenue amounted to 106 million euros. Quarterly electricity sales revenue that high was last seen in 2014. The average electricity price in the Estonian price area of the Nord Pool power exchange was 41.9 euros per megawatt hour, which is also the highest level since the third quarter of 2014. Compared to the first quarter of 2017, the market price of electricity was 28% higher. Electricity consumers who have become used to relatively low electricity prices in recent years were probably concerned because in some hours in February and March electricity prices rose above 250 euros per megawatt hour.

It is also worth noting that in the first quarter of 2018 the average market price of electricity in the Estonian price area was lower than in Finland. Moreover, Estonia continues to export electricity: in the first quarter of 2018 Estonia produced 3 terawatt hours of electricity, which exceeded its consumption by 0.6 terawatt hours. Eesti Energia's production accounted for 93% of total Estonian electricity output.

In the first quarter of 2018, the market price of fuel oil with 1% sulphur content grew by 6% year on year. Fuel oil with 1% sulphur content is a reference product for shale oil because it is a widely-traded liquid fuel, which is the most similar to shale oil. The price of Brent crude oil rose by 25% compared to the first quarter of 2017. The period's average price of Brent crude was 67 USD per barrel. The price of fuel oil rose less than that of crude oil because lower than usual demand limited fuel oil exports to Asia.

The rise in the price of fuel oil supported growth in our shale oil production, which rose to 104 thousand tonnes, a 3% increase compared with the same period last year. The rise in production was supported by more reliable operation of the Enefit 140 oil plant. In March Eesti Energia set a new oil production record – we produced over 42 thousand tonnes of oil per month.

In the first quarter of 2018, Eesti Energia launched electricity sales to household customers in Finland. Immediately after the end of the first quarter, in April, we also began selling electricity to both household and corporate customers in Sweden. Thus, we have increased the number of our electricity sales markets to six and can state that Eesti Energia has grown from an electricity supplier operating in the Baltics into an energy supplier operating in the Baltic Sea region. We wish to offer all our customers in all the markets where we operate the best customer experience by providing modern digital solutions. We have relevant know-how from Estonia where convenient contemporary services have been well received by customers.

Energy intensive businesses operating in Estonia have found their way to Eesti Energia. Most of them are from the data processing sector but they also include

a producer of innovative natural wall and floor covering materials. Customers can use the premises and infrastructure around our Iru and Balti power plants and consume electricity at a favourable price by connecting to the power plant directly. To date we have signed six contracts and several negotiations with interested parties are under way.

In the first quarter of 2018, Eesti Energia generated revenue of 229 million euros, 13 million euros or 6% more than in the same period last year. EBITDA amounted to 77 million euros. In the first quarter of 2017, we sold a stake in our oil shale power plant project in Jordan which boosted EBITDA by 9.2 million euros. Excluding the impact of this one-off transaction, EBITDA for the first quarter of 2018 was at the same level as in the first quarter of 2017. Including the impact of this transaction, EBITDA decreased by 9.7 million euros or 11% year on year. Net profit for the quarter amounted to 41 million euros.

Eesti Energia's capital expenditures grew by 37% year on year, rising to 36 million euros. The largest share of this, 13 million euros, was spent on improving the electricity network. Thanks to years of large-scale expenditures, 65% of Elektrilevi's distribution network is now weatherproof. We are planning to increase the share of the weatherproof network to 75% by 2025.

In the first quarter, important tests were carried out at the Auvere power plant. In January, a month-long trial run during which the plant had to operate without failure under pre-determined conditions and loads was successfully completed. In February, performance tests were carried out in the presence of independent experts. According to plan, a fault ride through test of the plant will be carried out after the plant's summer maintenance together with the transmission system operator Elering. If this goes successfully, we can accept the power plant from General Electric.

On the whole, in the first quarter of 2018 Eesti Energia's production figures were strong. Our large-scale energy production units operated at full capacity. This is evidenced by the largest oil shale consumption quantities over the years and our largest ever oil output in March. According to forecasts, both electricity and oil prices will continue to rise. The price of CO2 emission allowances is also expected to increase.

We are operating in a highly competitive and challenging environment. To succeed, we need smart solutions, efficiency, flexibility and a diverse production portfolio. We are consistently working to achieve these goals.

Hando Sutter
Chairman of the Management Board

Eesti Energia at a Glance

Eesti Energia is a company which operates in the electricity and gas markets of the Baltic Sea area and the international fuel market. The owner of Eesti Energia is the Republic of Estonia.

We have the most diverse energy portfolio in the Baltic Sea region: we produce energy from oil shale, biomass, tyre chips, municipal waste, wind, sun and water. We use oil shale to produce liquid fuels – shale oil and oil shale gasoline as well as electricity and heat.

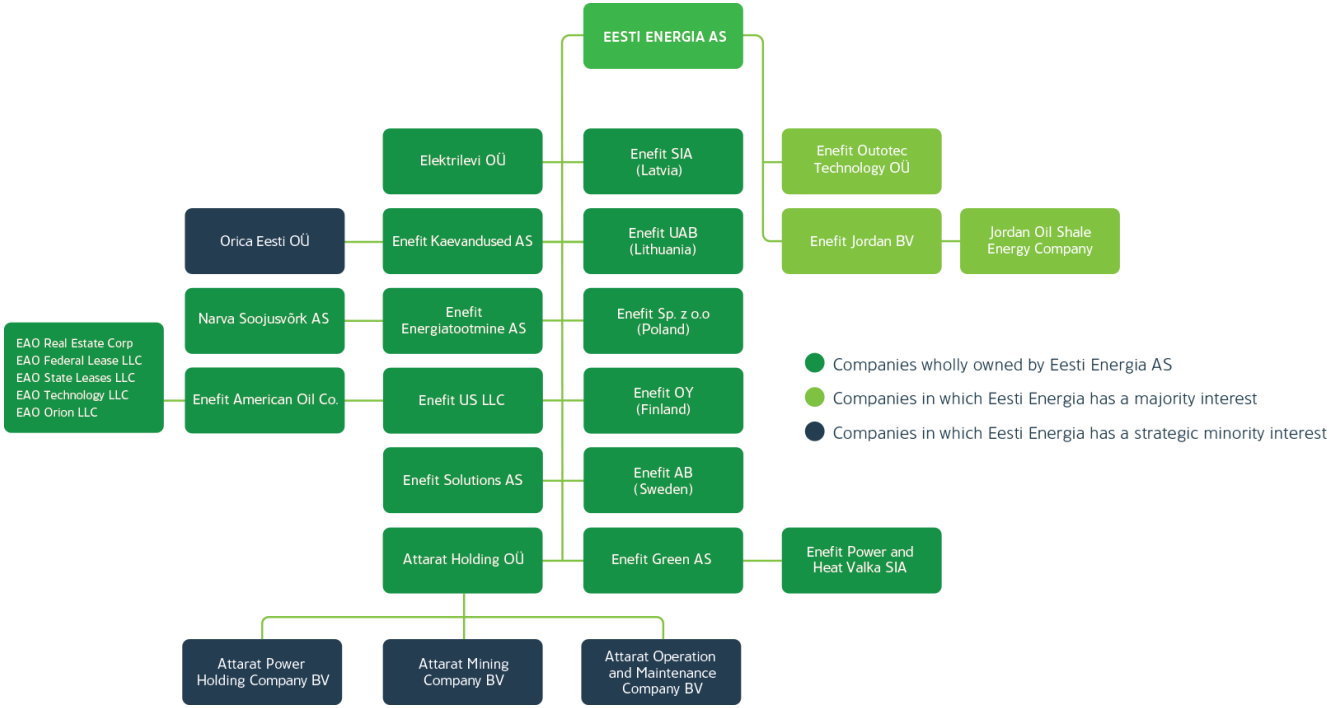
We consistently enhance our products and services and develop new solutions to make our production processes more efficient.

We sell electricity in the Baltic and Polish retail markets and the Nord Pool wholesale market, natural gas in the Estonian, Latvian, Lithuanian and Polish retail markets and liquid fuels in the international wholesale market. In 2018, we began selling electricity in Finland and Sweden. We offer smart energy solutions and associated services to both household and corporate customers.

Eesti Energia's subsidiary Elektrilevi is the largest distribution service provider in Estonia.

Eesti Energia group has five key business lines: Large-scale Energy Production, Renewable Energy, Network Services, Customer Services, and Development. We employ around 5,800 people.

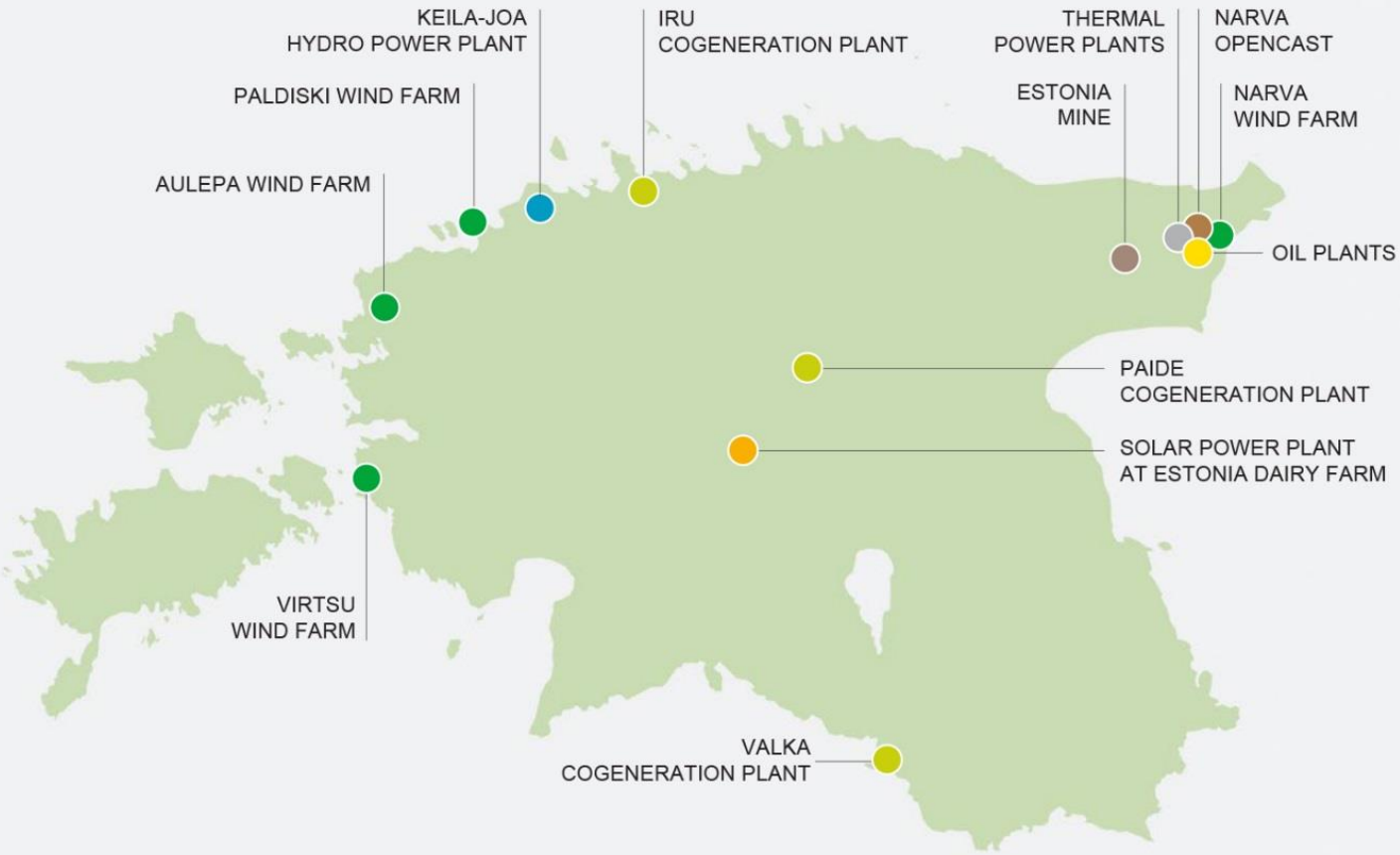
The Structure of Eesti Energia Group as at 31 March 2018



EESTI ENERGIA'S BUSINESS OPERATIONS

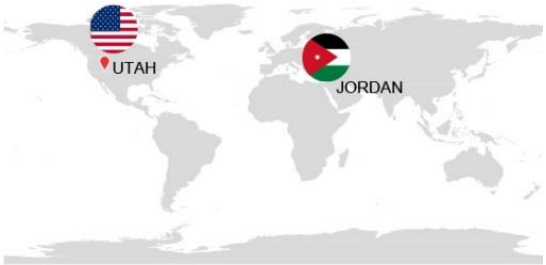
1. Oil shale mines
2. Thermal power plants
3. Oil plants
4. Hydro power plant
5. Cogeneration plants
6. Wind farms
7. Solar power plants
8. Electricity distribution network
9. Energy trading and sales

Eesti Energia's production units



HOME MARKETS IN ENERGY SALES BUSINESS

EESTI ENERGIA'S DEVELOPMENTS



Key Figures and Ratios

		Q1 2018	Q1 2017	Change
Total electricity sales*, of which	GWh	2,624	2,675	-1.9%
wholesale sales*	GWh	779	962	-19.0%
retail sales	GWh	1,845	1,713	+7.7%
Electricity distributed	GWh	2,060	1,914	+7.6%
Shale oil sales	th t	84	77	+8.8%
Heat sales	GWh	486	429	+13.3%
Average number of employees	No.	5,822	5,840	-0.3%
Sales revenues	m€	228.6	215.3	+6.2%
EBITDA	m€	76.8	86.5	-11.2%
Operating profit	m€	42.4	52.4	-19.0%
Net profit	m€	40.5	48.3	-16.1%
Investments	m€	35.6	26.0	+37.0%
Cash flow from operating activities	m€	74.9	131.9	-43.2%
FFO	m€	68.3	75.1	-9.0%
Non-current assets	m€	2,549.5	2,538.0	+0.5%
Equity	m€	1,808.9	1,767.1	+2.4%
Net debt	m€	546.4	598.1	-8.7%
Net debt / EBITDA**	times	2.1	1.7	+26.9%
FFO**/ net debt	times	0.40	0.49	-18.4%
FFO**/ interest cover**	times	6.4	8.4	-22.9%
EBITDA**/ interest cover**	times	7.4	10.0	-25.6%
Leverage	%	23.2	25.3	-2.1pp
ROIC**	%	5.1	9.0	-3.9pp
EBITDA margin	%	33.6	40.2	-6.6pp
Operating profit margin	%	18.5	24.3	-5.8pp

Definitions of ratios and terms are explained in the Glossary section of the report, page 47

** due to a change in the principle of reporting of sales volume, the total Auvere power plant's sales volume is included (The Group's sales revenue does not include the electricity generation variable cost and sales revenue in the extent in which it is capitalized)*
*** rolling 12 months result*

Operating Environment

Eesti Energia's operations and performance are influenced by various global and regional factors, including oil, electricity and emission allowance prices, competition in the customer services market, the euro exchange rate and regulations.

In Q1 2018, the following market developments had an impact on our performance:

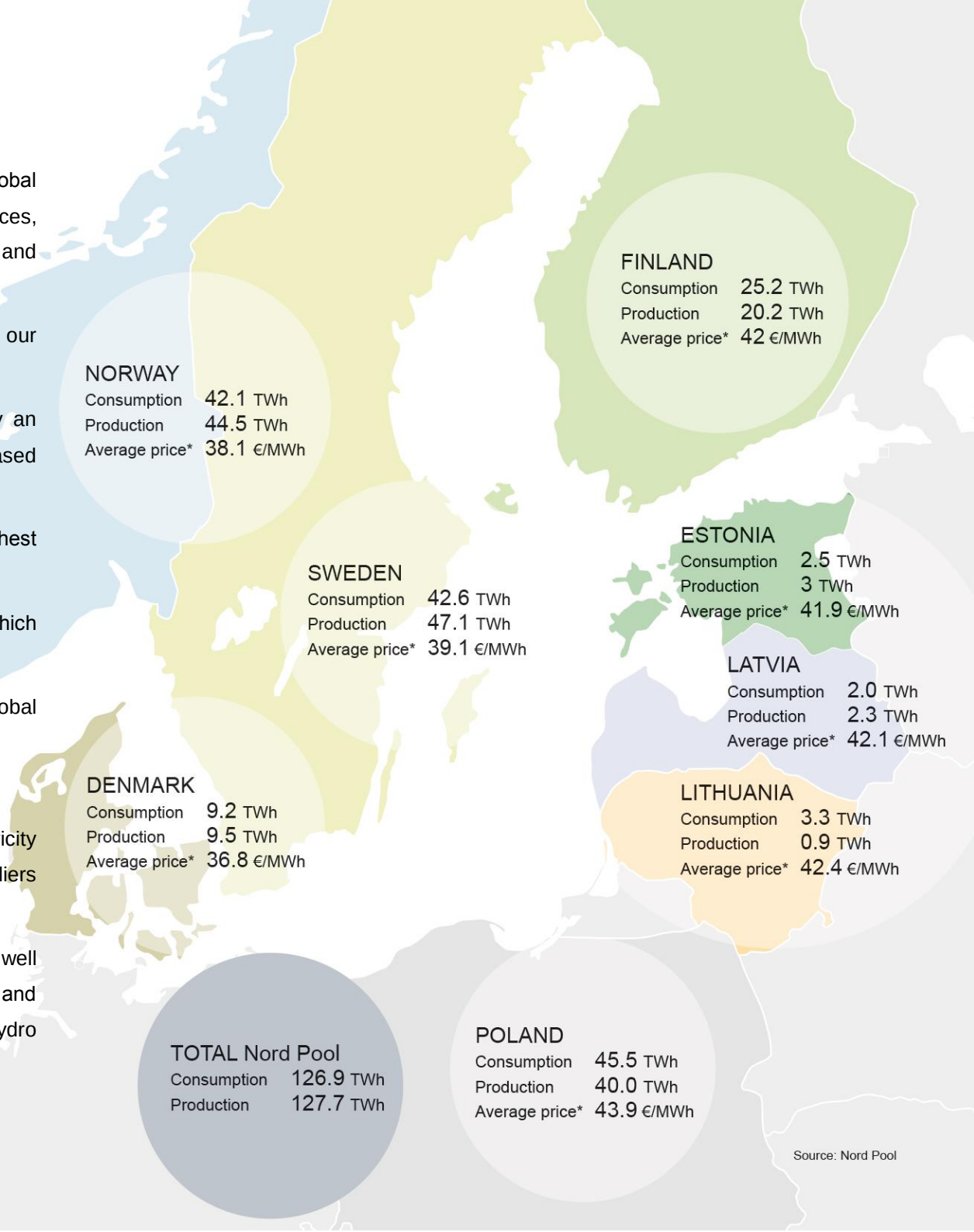
- electricity prices on the Nord Pool power exchange rose, driven by an upswing in emission allowance prices and colder weather, which increased demand;
- the world market prices of oil products surged to the past three years' highest level, which improved our liquid fuels' sales margins;
- emission allowance prices rose to the past five years' highest level, which raised our electricity production costs.

According to the forecast of the International Monetary Fund, in 2018 the global economy will grow by 3.9% and the economy of the euro area by 2.4%.

Nordic and Baltic Electricity Market

Estonia is a member of the Nord Pool power exchange where electricity producers sell the electricity they have produced and electricity suppliers purchase electricity in order to resell it to their customers.

The electricity markets of Estonia and its neighbouring countries are well connected via interconnectors. Therefore, Estonia's electricity production and prices are influenced, among other factors, by water levels at Norwegian hydro power plants and wind conditions in Denmark.



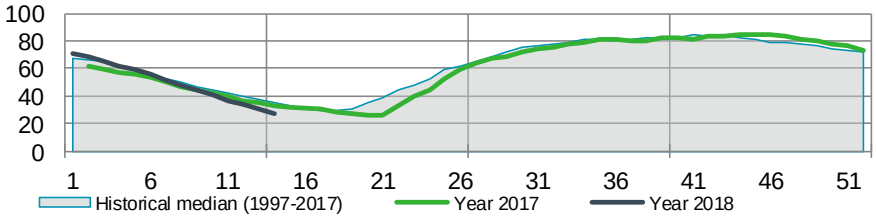
In Q1 2018, the Nordic and Baltic countries produced 127.7 TWh and consumed 126.9 TWh of electricity. Sweden, Norway, Denmark, Estonia and Latvia produced more than they consumed while Finland, Poland and Lithuania could not cover their needs with domestic output and had to import electricity.

In Q1 2018, Estonia produced 3.0 TWh of electricity, 0.6 TWh more than it consumed. Around one fifth of Estonia's total electricity output was exported via the Nord Pool power exchange. In Q1 2018, Eesti Energia's contribution to Estonia's electricity production was 93%, i.e. 2.7 TWh, which exceeded Estonia's consumption by 0.1 TWh.

Electricity Prices Rose on Higher Emission Allowance Prices and Colder Weather

In Q1 2018, the main factors which drove up electricity prices in Estonia and the neighbouring countries were cold weather, which increased demand, and a steep rise in emission allowance prices. To a certain extent, electricity prices were also influenced by wind farms' low output and interconnector outages and maintenance. In some hours at the end of February and the beginning of March, electricity prices rose above the 250 €/MWh threshold.

Weekly Levels of Nordic Water Reservoirs, % of Maximum

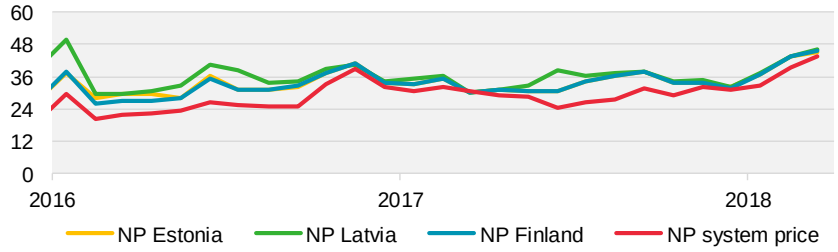


Source: Thomson Reuters

Interconnectors deliver to the Baltics Nordic hydro power, which is cheaper than electricity produced from other sources. In Q1 2018, the average level of the Nordic water reservoirs was 52.9% of the maximum, i.e. 3 percentage points higher than in Q1 2017.

In Q1 2018, the average electricity price in the Estonian price area was 41.9 €/MWh. The average monthly price was the highest in March, when a megawatt hour cost 45.3 euros.

Average monthly electricity prices, €/MWh



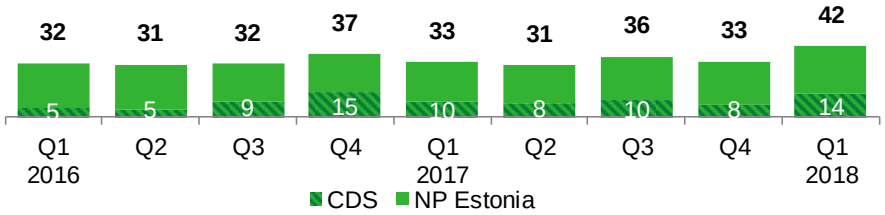
Historically, electricity prices in Estonia have been higher than in Finland but in recent years the price gap has narrowed and at times electricity costs less in Estonia than in Finland. In Q1 2018, the average electricity price in Estonia was also 0.1 €/MWh lower.

In Q1 2018, the average electricity price in Latvia was 42.3 €/MWh, i.e. 8.5 €/MWh higher than in Q1 2017. In the same period, the average electricity price in Lithuania was 42.4 €/MWh, i.e. 7.7 €/MWh higher than in Q1 2017.

The electricity price in Nord Pool's Estonian price area also influences the development of Eesti Energia's clean dark spread (CDS). In Q1 2018, Eesti Energia's clean dark spread was 13.6 €/MWh (+3.9 €/MWh, +40.6% compared to Q1 2017). The electricity price increased by 9.1 €/MWh year on year. The combined impact of a change in CO2 and oil shale costs was -5.1 €/MWh.

Clean dark spread reflects an electricity producer's estimated profit margin, which remains after fuel and CO2 emission allowance costs have been deducted from the average market price of electricity.

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



Source: Thomson Reuters, Eesti Energia

Liquid Fuels Prices Surged to the Past Three Years' Highest Level

A widely-traded oil product, which is closest to our shale oil, is fuel oil with 1% sulphur content. The price of fuel oil depends mainly on the price of Brent crude oil. Rises in crude oil and fuel oil prices have a positive impact on Eesti Energia because they raise the price of our shale oil and thus increase our revenue.

In January 2018, the average price of Brent crude oil was 69.4 USD/bbl, which is the highest average monthly price since the end of 2014. OPEC members and non-OPEC producers continued to restrict their oil production to keep the oil price higher. The price was also driven up by leaks in the Libyan and North Sea oil pipelines, which occurred in December, and a decrease in the US oil inventories.

In February, the US crude oil stockpiles resumed growth as the refineries' maintenance season kicked in and a decrease in consumption lowered the price of crude oil.

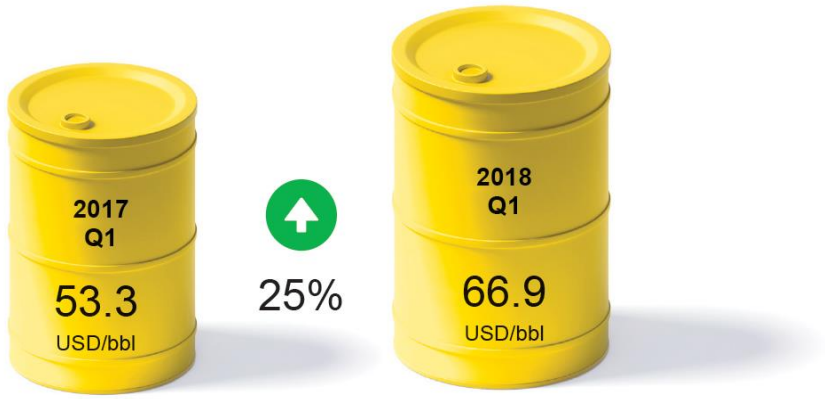
In March, the world market price of crude oil rose slightly. The average price for the month was 65.9 USD/bbl. The price rise was fuelled by political tensions in the Middle East, a decline in the US rig count (rigs in operation) and the forecast of the International Energy Agency according to which in the current year demand for crude oil will grow more quickly than previously anticipated.

In Q1 2018, the average price of Brent crude oil was 66.9 USD/bbl, i.e. significantly higher than in the same period in 2017 (+25.4%, +13.5 USD/bbl).

Liquid Fuels Prices

Average price		Q1 2018	Q1 2017	Change
Brent crude oil	USD/bbl	66.9	53.3	+25.4%
Fuel oil (1% sulphur content)	€/t	294.9	277.8	+6.1%
Euro exchange rate	EUR/ USD	1.2287	1.0654	+15.3%

Brent Crude Oil

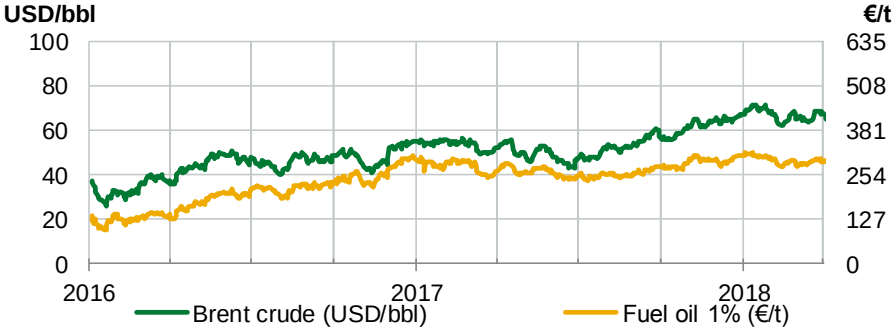


In Q1 2018, supply in the European fuel oil market outstripped demand. Lower than usual demand in the global energy production market reduced export opportunities to Asia and the Middle East. Asia is the main market for fuel oil with 1% sulphur content produced in Europe. When export opportunities to Asia

are limited, European fuel oil inventories increase and the price in the local market drops. As a result, in Q1 2018 the price of fuel oil rose less than the price of Brent crude.

In Q1 2018, the average price of fuel oil (1% sulphur content) was 294.9 €/t, i.e. 6.1% (17.0 €/t) up on Q1 2017. Similarly to the oil price, the fuel oil price was the highest in January (307.2 €/t) and the lowest in February (287.8 €/t).

Liquid Fuels Prices



Anticipation of the EU Emissions Trading System Reform is Driving Up Emission Allowance Prices

In Q1 2018, the market price of emission allowances rose rapidly, leaping from 7.8 €/t at the beginning of the year to 13.7 €/t at the end of March. Prices that high were last seen in March 2012.

In Q1 2018, the average price of CO2 emission allowance futures maturing in December 2018 was 9.8 €/t, 88.3% (4.6 €/t) higher than in Q1 2017.

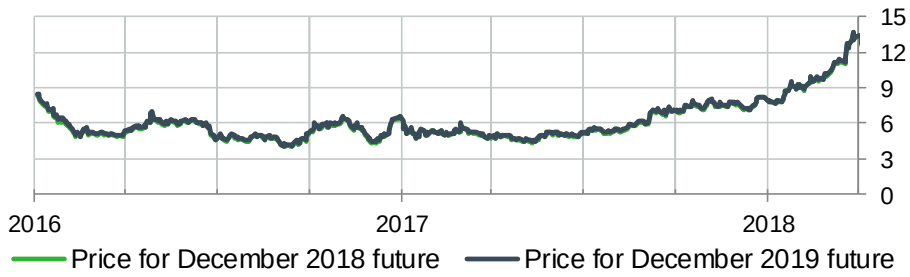
The emission allowance price rose mainly on the EU's decision to reform the emission allowance market in order to achieve its renewable energy targets. A further price hike at the end of March is attributable to the approach of the settlement date as the prior year's obligation for allowances has to be settled in April.

The higher the price of emission allowances, the higher our oil shale electricity production costs, which has a negative impact on our financial performance.

Prices of CO_2 Emission Allowances

Average price (€/t)	Q1 2018	Q1 2017	Change
CO_2 December 2018	9.8	5.2	+88.3%
CO_2 December 2019	9.9	5.3	+87.5%

Prices of CO_2 Emission Allowances, €/t



Source: Thomson Reuters

Financial Results

Revenue and EBITDA

Eesti Energia's revenue for Q1 2018 was 6.2% larger than in Q1 2017.

In Q1 2017, the sale of a stake in the Group's oil shale electricity project in Jordan increased EBITDA by 9.2 million euros. Excluding that transaction, EBITDA for Q1 2018 remained at the same level as in the prior year. Including that transaction, EBITDA declined by 9.7 million euros.

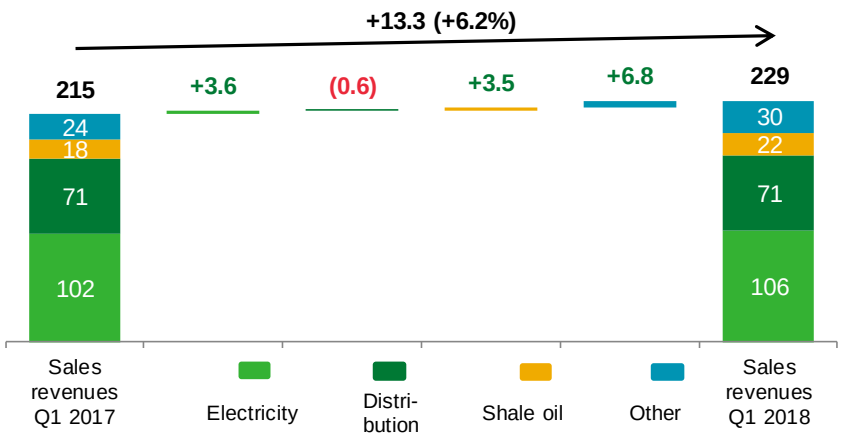
In Q1 2018, the Group generated revenue of 228.6 million euros and EBITDA of 76.8 million euros. Compared with Q1 2017, revenue grew by 6.2% (+13.3 million euros) while EBITDA decreased by 11.2% (-9.7 million euros). Net profit amounted to 40.5 million euros (-7.8 million euros), 16.1% less than a year ago.

The sales volumes of all the key products increased. Electricity and shale oil sales revenue grew, supported by an upswing in relevant market prices. Electricity distribution revenue declined due to a price decrease resulting from the reduction of network charges. Revenue from the sale of other products and services improved through stronger heat and gas sales.

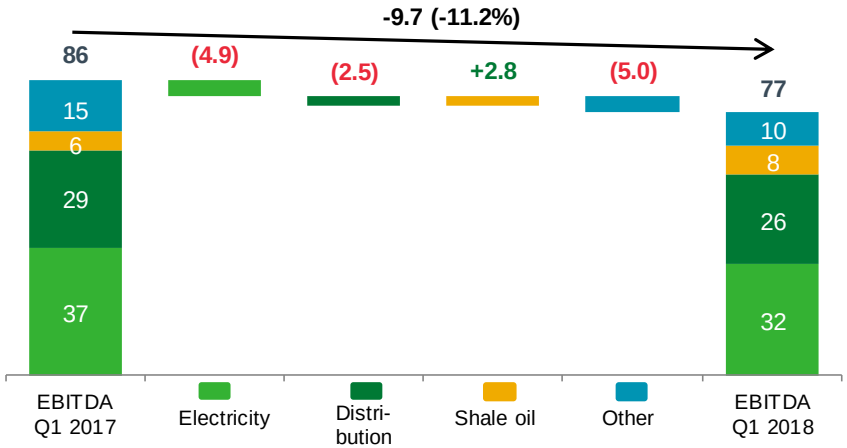
Electricity EBITDA decreased due to higher fixed costs and a negative impact of derivative transactions. The decline in distribution EBITDA is attributable to the reduction of network charges, which was somewhat counterbalanced by growth in sales volume. Shale oil EBITDA grew based on a higher margin and larger sales volume.

EBITDA on other products and services weakened considerably because this segment also includes one-off transactions such as the sale of a stake in the Group's oil shale electricity project in Jordan in 2017.

Group's Sales Revenue Breakdown and Change, m€



Group's EBITDA Breakdown and Change, m€



Electricity

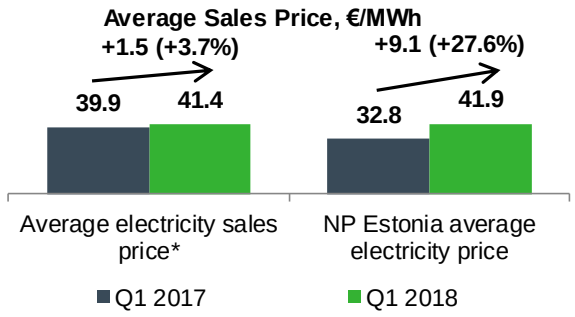
Through the years, electricity has been one of the main sources of Eesti Energia's revenue and profit. In Q1 2018, we also earned the largest share of revenue and EBITDA from electricity sales.

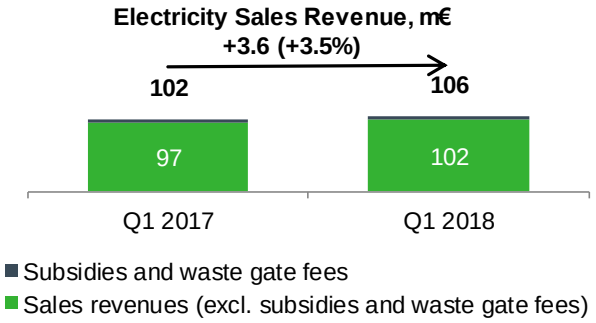
Electricity Sales Revenue

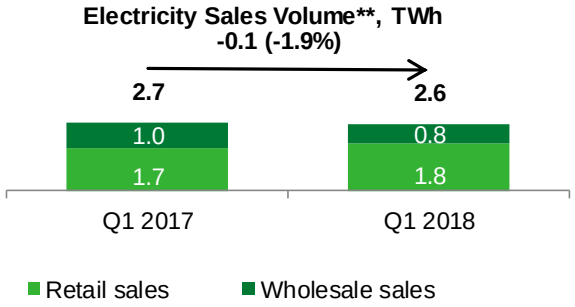
Compared with Q1 2017, both electricity sales price and sales volume increased. This improved electricity sales revenue for Q1 2018 by 3.5% to 105.6 million euros (+3.6 million euros).

Average Sales Price of Electricity

The average sales price of electricity was 41.4 €/MWh, i.e. 3.7% higher than in Q1 2017 (+1.5 €/MWh). The average sales price includes the impact of derivative transactions. Excluding that, the average sales price of Q1 2018 would have been 42.8 €/MWh, i.e. 14.2% higher (+5.3 €/MWh) than in the same period in 2017. Compared with Q1 2017, gain on derivative transactions plummeted by 9.3 million euros (-157.8%) as in Q1 2018 derivative transactions resulted in a loss of 3.4 million euros.







* Total average sales price of electricity product (including retail sales, wholesale sales and gain on derivatives). Average sales price excludes subsidies for renewable energy and municipal waste gate fees
** Sales volume includes Auvere power plant's total sales volume

Electricity Sales Volume and Eesti Energia's Market Share

In Q1 2018, we sold 2,452 GWh of electricity, 25 GWh, i.e. 1% more than in Q1 2017.

Compared with a year earlier, wholesale sales decreased by 107 GWh (-15%) to 608 GWh and retail sales grew by 132 GWh (+7.7%) to 1,845 GWh.

Retail sales broke down between markets as follows: Estonia 1,345 GWh (+53 GWh), Latvia 293 GWh (+19 GWh), Lithuania 182 GWh (+35 GWh) and Poland 25 GWh (+25 GWh).

In terms of customers' electricity consumption volume, in Q1 2018 Eesti Energia's market share in Estonia was 60%, 1 percentage point down from the same period last year. At the end of Q1 2018, universal service was consumed at 20% of all electricity consumption points.

In Latvia, Lithuania and Poland, Eesti Energia operates under the Enefit brand. To meet our contractual sales commitments in those countries, we buy electricity from the power exchange.

During the period, Eesti Energia's retail sales of electricity in Latvia and Lithuania totalled 475 GWh (+13.0%, +54.5 GWh). We began to sell electricity in Poland in Q3 2017. In Q1 2018, our electricity supplies in the Polish market totalled 25 GWh.

In Q1 2018, Eesti Energia's market shares in Latvia and Lithuania were 14.4% and 6.5% respectively. Our total share of the Baltic retail electricity market was 27%, 1 percentage point larger than in Q1 2017.

Since March, Eesti Energia has also sold energy in Finland, selling electricity to household customers.

Electricity Production Volume

In Q1 2018, we produced 2,713 GWh of electricity, 3.2% less than in Q1 2017 (-90 GWh). Production volume dropped due to regular maintenance of the production units of the Eesti power plant and the CO_2 emission allowance price, which was significantly higher than in Q1 2017 and increased electricity production costs.

Eesti Energia's renewable energy output was 85.9 GWh (-18.5%, -19.5 GWh). Most of our renewable energy was generated by wind farms, which produced 44.5 GWh of electricity. The decrease in renewable energy production also resulted from wind farms whose output dropped by 15.8 GWh (-26.2%) compared with the same period last year.

Renewable energy and efficient co-generation support received in Q1 amounted to 3.8 million euros (-0.9 million euros).

Key Figures of Electricity Product

		Q1 2018	Q1 2017
Return on fixed assets*	%	7.1	12.1
Electricity EBITDA	€/MWh	13.2	15.4

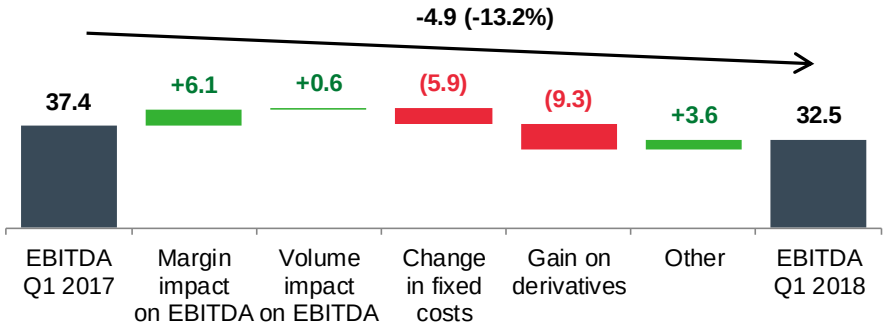
* Excluding impairment of production assets recorded in December 2013 and December 2015.

Electricity EBITDA

Electricity EBITDA decreased by 13.2% to 32.5 million euros (-4.9 million euros).

The impact of a higher margin on electricity EBITDA was +6.1 million euros (+2.5 €/MWh).

Electricity EBITDA Development, m€



Average electricity sales revenue per megawatt hour (excluding the impact of derivative financial instruments) grew by 4.8 euros (impact +11.8 million euros). This includes growth in the average sales price of electricity of +5.3 €/MWh and a decrease in support received of -0.4 €/MWh. Growth in average variable costs had an impact of -5.7 million euros. Variable costs grew mainly through higher CO_2 emission allowance costs (impact -4.4 million euros) and electricity purchase costs.

Growth in electricity sales volume improved EBITDA by 0.6 million euros and the fall in gain on derivative transactions had an impact of -9.3 million euros.

The impact of a change in fixed costs was -5.9 million euros. Among other items, the figure includes the impact of higher repair costs of -2.5 million euros, higher labour costs of -1.8 million euros and inventory-related fixed costs of -0.6 million euros.

Other impacts of +3.6 million euros include mainly the change in the value of derivative financial instruments.

Distribution

Distribution service is Eesti Energia's second-largest source of revenue and profit.

Distribution Sales Revenue, Sales Volume and Price

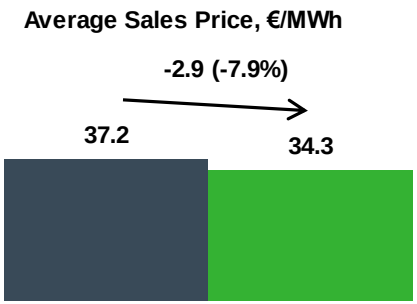
In Q1 2018, distribution sales revenue decreased by 0.8% although sales volume grew by 7.6%. Distribution sales revenue amounted to 70.7 million euros (-0.6 million euros) and sales volume to 2,060 GWh (+146.2 GWh).

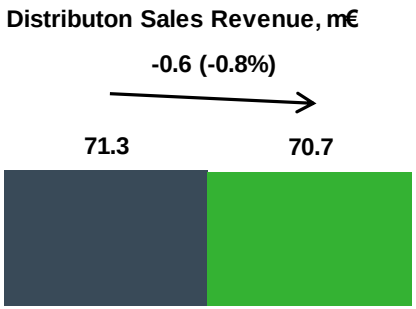
The growth in sales volume in Q1 2018 resulted from the weather which was considerably colder than usual and higher economic growth.

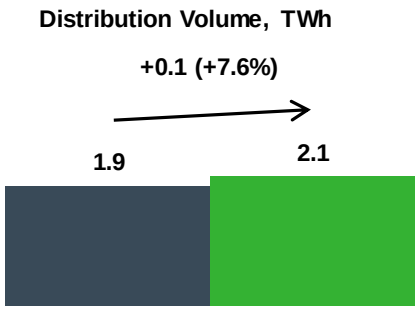
In Q1 2018, the average electricity distribution price was 34.3 €/MWh, 2.9 €/MWh lower than a year earlier due to the reduction of network charges.

Network Losses

Network losses totalled 101.7 GWh , i.e. 4.6% of electricity entering the network (Q1 2017: 87.9 GWh, i.e. 4.3%). Network losses grew in connection with metering differences detected in substations and related adjustments which were recognised in Q1 2018. As a result, in Q1 2018 network losses grew by 13.8 GWh.







Q1 2017 Q1 2018

Supply Interruptions

In Q1 2018, the average duration of unplanned interruptions was 18 minutes (Q1 2017: 16 minutes). The average duration of planned interruptions was 26 minutes (Q1 2017: 19 minutes). The duration of planned interruptions depends on the volume of scheduled network maintenance and renewal operations.

The rise in the planned System Average Interruption Duration Index (SAIDI) resulted from growth in work done on the medium voltage network, which increased the number of customers affected by network interruptions.

Key Figures of Distribution Product

		Q1 2018	Q1 2017
Return on fixed assets	%	6.4	7.0
Distribution losses	GWh	101.7	87.9
SAIFI	index	0.21	0.21
SAIDI (unplanned)	index	17.8	15.8
SAIDI (planned)	index	25.6	18.9
Adjusted RAB	m€	775	758

Power outages can be reduced by replacing bare conductors with weatherproof cables. At the end of Q1 2018, 85% of Elektrilevi's low-voltage network and 37% of its medium-voltage network was weatherproof.

Distribution EBITDA

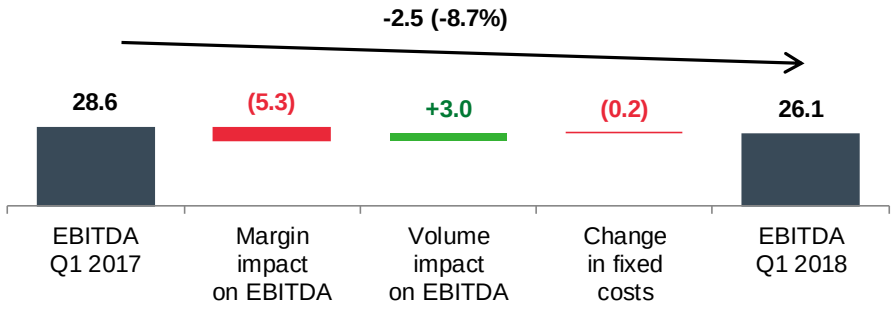
In Q1 2018, distribution EBITDA decreased by 8.7% to 26.1 million euros (-2.5 million euros compared with Q1 2017).

The decrease in distribution EBITDA is mainly attributable to a lower average sales price of the distribution service. The total impact of margin change was -5.3 million euros.

Distribution sales volume grew by 7.6%, improving distribution EBITDA by 3.0 million euros.

Fixed costs of the distribution service remained at the same level as in Q1 2017 (impact -0.2 million euros).

Distribution EBITDA Development, m€



Shale Oil

Shale oil production has strong potential but is strongly influenced by fluctuations in relevant market prices.

In Q1 2018, market prices grew by 6% compared with the same period in 2017.

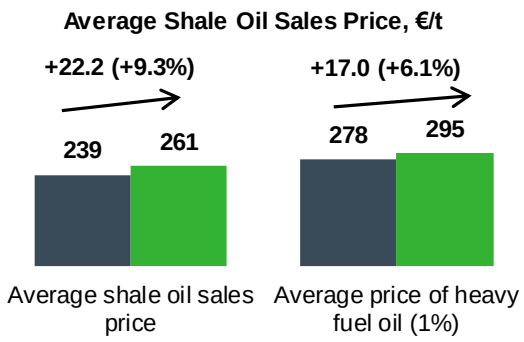
Shale Oil Sales Revenue and Sales Volume

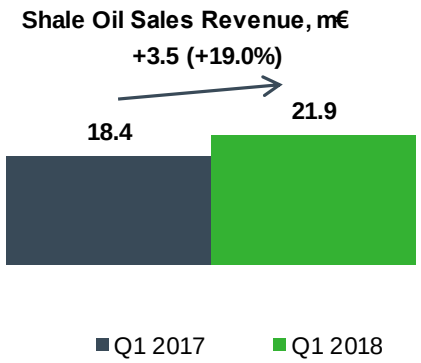
In Q1 2018, we sold 83.8 thousand tonnes of shale oil which generated sales revenue of 21.9 million euros. Compared to Q1 2017, shale oil sales revenue grew by 19% (+3.5 million euros) and sales volume increased by 9% (+6.8 thousand tonnes). Shale oil sales revenue and sales volume increased year on year through higher market prices and growth in output.

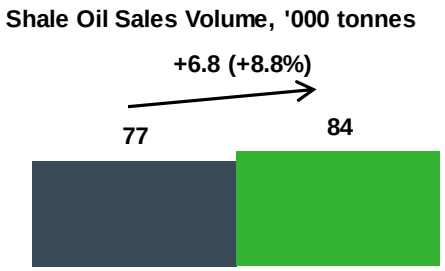
Average Sales Price of Shale Oil

In Q1 2018, the average sales price of shale oil (including the impact of derivative financial instruments) grew by 9.3% year on year, rising to 261.3 €/t (+22.2 €/t). The rise is mainly attributable to higher market prices.

Derivative transactions resulted in a loss of 27.4 €/t. In Q1 2017, derivative transactions gave rise to a loss of 37.4 €/t. Excluding the impact of derivative transactions, in Q1 2018 the average sales price of shale oil was 288.7 €/t (+4.4%, +12.1 €/t). The world market price of the reference product, heavy fuel oil, increased by 6% year on year.







Shale Oil Production Volume

In Q1 2018, we produced 104.5 thousand tonnes of shale oil, 3.1% (+3.1 thousand tonnes) more than in the same period in 2017. The rise in output is attributable to a difference in the number of days when maintenance was carried out in the Enefit140 oil plant.

The output of the Enefit280 oil plant dropped to 47.0 thousand tonnes (-6%, -3.0 thousand tonnes) and the output of the Enefit140 oil plant increased by 12% (+6.2 thousand tonnes).

Key Figures of Shale Oil Product

		Q1 2018	Q1 2017
Return on fixed assets*	%	2.3	-2.5
Shale oil EBITDA	€/t	100.3	73.3

* Excluding impairment of production assets recorded in December 2013 and December 2015.

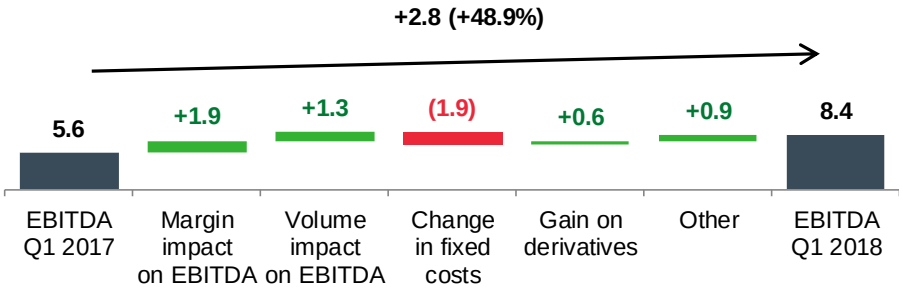
Shale Oil EBITDA

In Q1 2018, shale oil EBITDA grew by 48.9% to 8.4 million euros (+2.8 million euros).

The impact of growth in shale oil sales volume was +1.3 million euros.

Margin growth improved EBITDA by 1.9 million euros (+22.6 €/t). The figure includes the impacts of a higher average sales price of +1.0 million euros and lower variable costs of +0.9 million euros.

Shale Oil EBITDA Development, m€



The impact of a change in fixed costs was -1.9 million euros. The figure includes the impacts of growth in repair and maintenance costs of -0.7 million euros and change in inventory-related fixed costs of -0.9 million euros.

A decline in loss on derivative financial instruments improved shale oil EBITDA by 0.6 million euros.

Other impacts on shale oil EBITDA of +0.9 million euros include mainly the change in the value of derivative financial instruments (impact +0.7 million euros).

Other Products and Service

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

Eesti Energia sells natural gas in Estonia and from 2017 also in Latvia, Lithuania and Poland. In Estonia, we sell natural gas to both household and corporate customers. In other countries, we focus only on corporate customers. In Q1 2018, our retail sales of natural gas in the Estonian market totalled 275.2 GWh. In terms of customers' gas consumption volumes, in Q1 2018 Eesti Energia's share of the Estonian gas market was 12.2%.

During the period, our retail sales of natural gas in Latvia totalled 216.4 GWh and in Lithuania 24.5 GWh. In Poland, gas sales are in the start-up phase. In terms of customers' gas consumption volumes, Eesti Energia's share of the Latvian and Lithuanian gas market was 3.5% and 0.4% respectively.

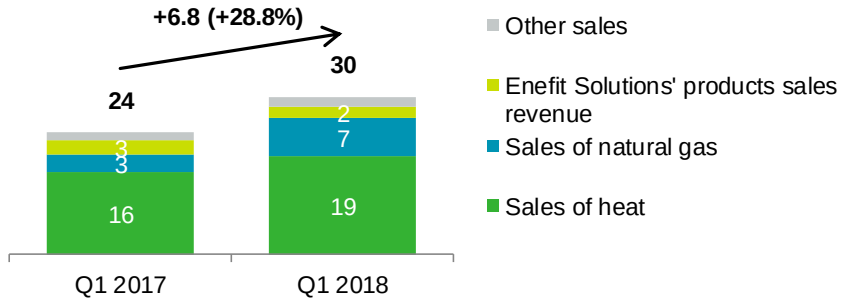
Sales Revenue on Other Products and Services

In Q1 2018, revenues on the sale of other products and services totalled 30.4 million euros, a rise of 28.8% (+6.8 million euros) on Q1 2017

Revenue on other products and services grew through growth in the sales of natural gas (+3.9 million euros) and heat (+3.2 million euros). Sales of industrial equipment decreased by 0.5 million euros.

Heat sales volume grew by 57 GWh (+13.3%).

Sales Revenues From Other Products and Services, m€



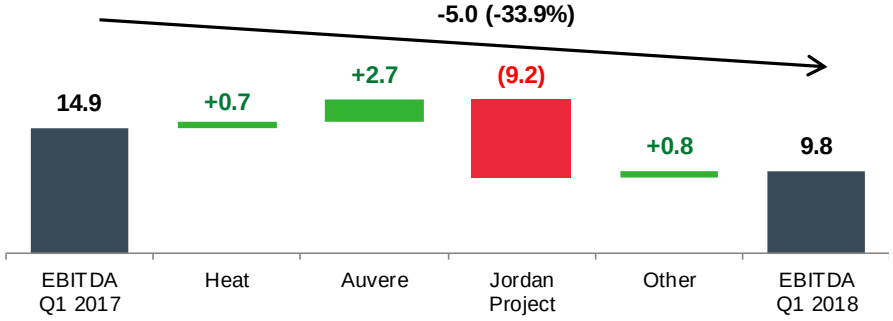
EBITDA on Other Products and Services

In Q1 2018, EBITDA on other products and services decreased by 5.0 million euros compared to the same period in 2017, dropping to 9.8 million euros.

The impact of liquidated damages received for the delay in the delivery of the Auvere power plant was +2.7 million euros. Liquidated damages agreed with the builder accrue on a monthly basis until the delivery of the plant. In Q1 2017 liquidated damages totalled 5.0 million euros and in Q1 2018 7.7 million euros.

In Q1 2017, the Group reduced its ownership interest in an oil shale electricity project in Jordan, which improved EBITDA by 9.2 million euros. In the comparison of the periods, the impact of the transaction is presented as a decrease in EBITDA.

Other EBITDA Development, m€



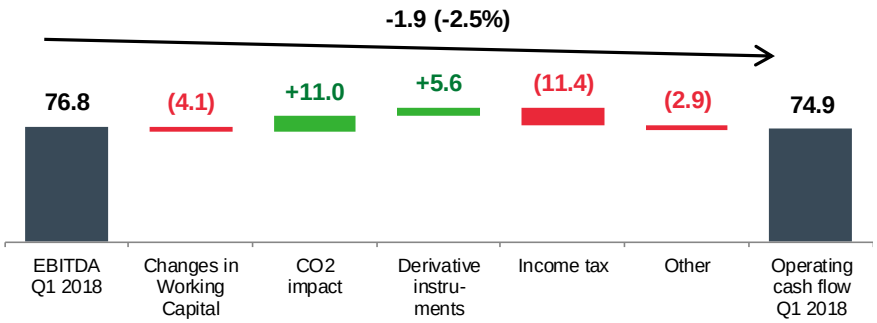
Heat EBITDA grew by 0.7 million euros, mostly through an increase in sales volume.

Other impacts increased EBITDA by 0.8 million euros.

Cash Flows

The Group's net operating cash flow for Q1 2018 amounted to 74.9 million euros, being 2.5%, i.e. 1.9 million euros lower than EBITDA, which amounted to 76.8 million euros.

EBITDA to Operating Cash Flows Development, m€



Changes in working capital reduced operating cash flow relative to EBITDA by 4.1 million euros. Working capital increased mainly because the receivables of the energy sales unit grew by 7.9 million euros.

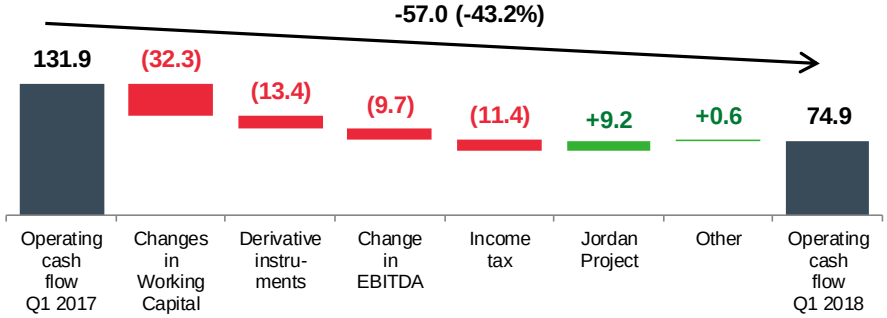
Settlements related to CO_2 emission allowances increased operating cash flow by 11.0 million euros.

The impact of derivative transactions (excluding CO_2 instruments) was +5.6 million euros, including the impacts of electricity derivatives of -3.3 million euros and shale oil derivatives of +9.0 million euros. The item comprises both non-monetary and monetary impacts on EBITDA and net operating cash flow.

In Q1 2018, we paid income tax on dividends of 11.4 million euros and other impacts on operating cash flow totalled -2.9 million euros, including the impact of the recognition of network connection fees of -2.0 million euros.

Compared to Q1 2017, net operating cash flow decreased by 43.2% (-57.0 million euros).

Operating Cash Flow Changes, m€



Changes in working capital reduced net operating cash flow compared to Q1 2017 by 32.3 million euros. Compared to the same period in 2017, proceeds from liquidated damages related to the Auvere power plant were smaller, reducing net cash flow by 24.5 million euros. The impact of an increase in receivables related to energy sales was -6.0 million euros.

The impact of derivative instruments (excluding CO_2 instruments) was -13.4 million euros, including the impacts of electricity derivatives of -22.3 million euros and oil derivatives of +9.0 million euros.

The impact of a change in EBITDA was -9.7 million euros and other impacts totalled +0.6 million euros

The impact of income tax paid on dividends in Q1 2018 was -11.4 million euros because in Q1 2017 no income tax was paid.

In the comparison of the periods, the transaction in Jordan in Q1 2017 had a positive impact on net operating cash flow for Q1 2018 because in Q1 2017 the impact on operating cash flow was -9.2 million euros since the transaction was reported in cash flows from investing activities.

Strategy

Foundations for new success

In 2017, we updated Eesti Energia's strategic action plan for the period 2017-2021, which was approved in June the same year.

The goal of the five-year strategy is to gradually increase Eesti Energia's EBITDA and create a basis for long-term competitiveness, profitability and ability to pay the owner dividends in a situation where market prices are low.

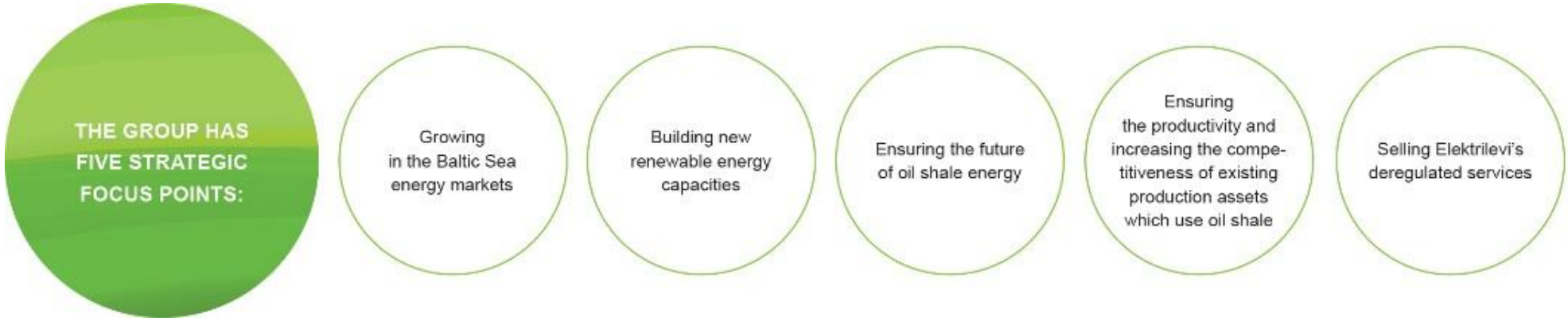
The strategy has five main focus areas:

1. Ensuring the profitability and increasing the competitiveness of existing production assets which use oil shale
2. Ensuring the future of oil shale energy
3. Building new renewable energy capacities
4. Growing in the Baltic Sea energy markets
5. Selling Elektrilevi's deregulated services

Within the focus areas, 14 development projects and initiatives have already been agreed.

Activities Related to Strategic Initiatives in Q1 2018

- In the framework of the **project for increasing the share of oil shale gas burnt in generating unit 8 of the Eesti power plant**, Sumitomo SHI FW completed the post-reconstruction adjustment of boiler no. 1, which had started in Q4 2017. In addition, the contractor carried out the boiler's integration and demonstration and warranty testing. According to plan, Sumitomo SHI FW will deliver the work to Eesti Energia in Q2 2018 after which a two-year warranty period will begin.
- In the framework of the project **Enefit Technology Parks** we have signed a total of six contracts with major energy consumers interested in having a direct link to the Balti power plant in Ida-Viru county or the Iru power plant in Harju county.



Investment

In Q1 2018, our capital expenditures totalled 35.6 million euros, a 37% increase on Q1 2017 (+9.6 million euros). Expenditures on the distribution network totalled 12.8 million euros (-5.3%, -0.7 million euros) and maintenance and repair expenditures (excluding the distribution network) amounted to 3.3 million euros (+29.9%, +0.8 million euros).

New Strategic Development Projects

In the period 2017-2021 we will carry out a number of projects outlined in our strategic action plan, which are aimed at increasing Eesti Energia's competitiveness.

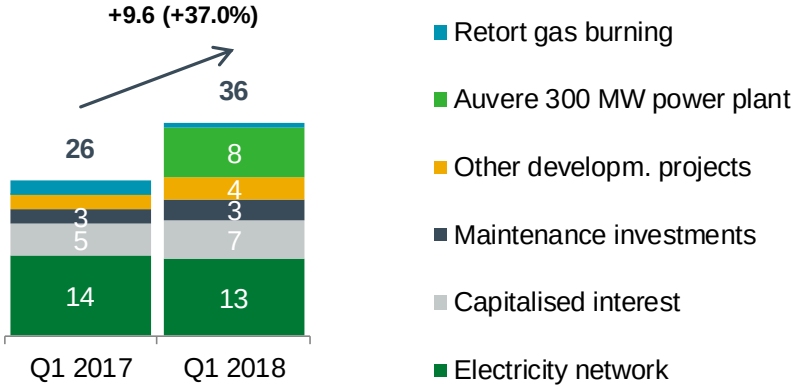
In Q1 2018, capital expenditures on the projects listed in the strategic action plan totalled 3.8 million euros. Out of this amount, 0.7 million euros was invested in the project for increasing the share of oil shale gas burnt in generating unit 8 of the Eesti power plant. The planned cost of the investment project is 15.1 million euros. By the end of Q1 2018, Eesti Energia had paid the contractor Sumitomo SHI FW 80% of the total cost, i.e. 11.7 million euros. According to plan, the remaining 20% will be paid in Q2.

Auvere Power Plant

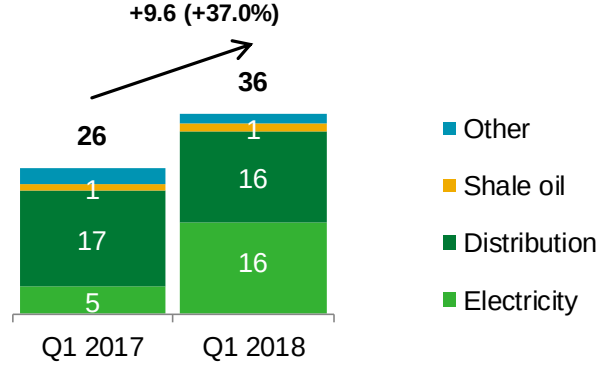
- In Q1 2018, a month-long trial run and contractual performance tests of the Auvere power plant were successfully completed.

The construction of the Auvere power plant began in 2011. The Auvere power plant is a modern 300 MW circulating fluidised bed (CFB) power plant where oil shale fuel can be supplemented with wood chips (up to 50%), peat (up to 20%) and oil shale gas (up to 10%). The plant's maximum annual net generation is around 2.2 TWh, i.e. it can cover around one fourth of Estonia's annual electricity consumption.

Capex Breakdown by Projects, m€



Investment Breakdown by Products, m€



The plant began producing electricity in 2015 already but in the commissioning phase it appeared that under higher production capacities the plant's particle emissions exceeded regulatory limits. To reduce particle emissions, in 2017 the general contractor, General Electric, built additional fabric filters and ancillary equipment. During the construction period, the plant operated at lower capacity so that the permitted emission levels would not be exceeded. After the

installation of the fabric filters in August 2017 the builder adjusted the power plant and the filters and at the end of Q3 the commissioning of the plant began.

In January 2018, the plant successfully passed a month-long trial run, in the course of which it had to operate without failure under pre-determined conditions and loads. In the first half of February, contractual performance tests were carried out in the presence of independent experts. According to plan, a fault ride through (FRT) of the plant will be carried out after the plant's regular summer maintenance, in collaboration with the transmission system operator Elering.

In Q1 2018, there were no technical production restrictions and until its regular summer maintenance the Auvere power plant should operate according to the production schedule set by the owner.

The budget of the project is 638 million euros. By the end of Q1 2018, 576.7 million euros (90.4%) of this had been invested.

In Q1 2018, the gross output of the Auvere power plant was 454.3 GWh and since its start-up in 2015 until the end of Q1 2018 the plant has produced 3.9 TWh of electricity.

Improving Electricity Distribution Quality

In Q1 2018, capital expenditures on maintaining and continuously improving the quality of the distribution network totalled 12.8 million euros (Q1 2017: 13.5 million euros). During the quarter, 44 substations and 367 km of network were built (Q1 2017: 47 substations and 640 km of network).

At the end of Q1 2018, 85% of Elektrilevi's low-voltage network was weatherproof (at the end of Q1 2017: 81%). Within a year, the share of weatherproof low-voltage network increased by 1,394 km and the bare conductor network decreased by 1,454 km.

At the end of Q1 2018, 65% of the entire low- and medium-voltage network was weatherproof (at the end of Q1 2017: 62%).

Financing

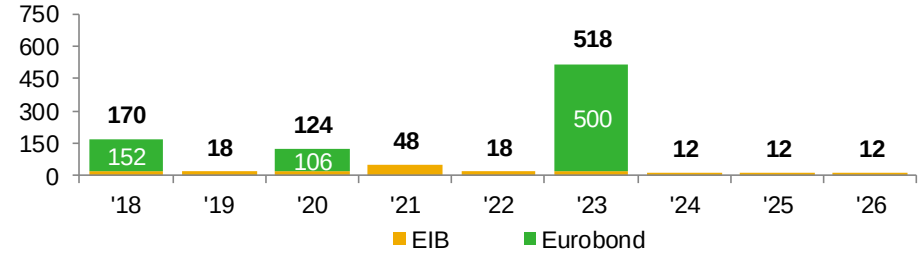
Eesti Energia's main sources of debt capital are the international bond market and investment loans from the European Investment Bank (EIB). These are complemented with liquidity loans and guarantee facilities obtained from regional banks.

At the end of Q1 2018, the nominal value of the Group's borrowings was 932.9 million euros (932.9 million euros at the end of 2017). The amortised cost of the Group's borrowings was 883.0 million euros (881.1 million euros at the end of 2017).

At the end of Q1 2018, long-term borrowings comprised Eurobonds listed on the London Stock Exchange with a nominal value of 758.3 million euros and loans from EIB with a nominal value of 174.6 million euros.

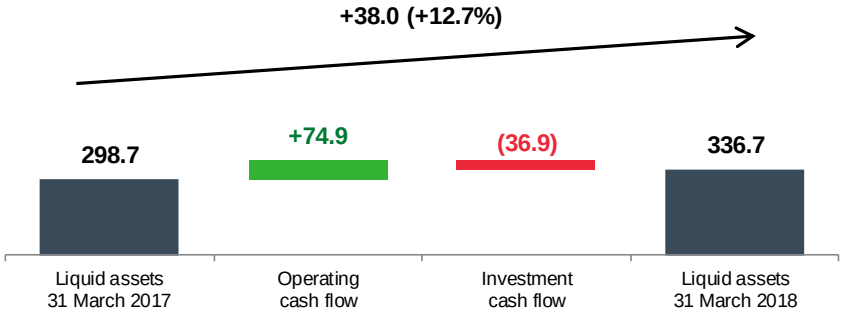
In Q1 2018, the Group did not make any loan repayments nor were there any other changes in borrowings.

Debt Maturity, m€



At the end of Q1 2018, the Group's liquid assets stood at 336.7 million euros. In addition, the Group had undrawn loans of 150 million euros maturing in July 2020, provided by two regional banks (SEB and OP Corporate Bank) under revolving credit agreements.

Liquidity Development in Q1 2018, m€



In March 2018, rating agency Standard & Poor's left Eesti Energia's credit rating at BBB but upgraded its outlook from negative to stable. At the end of Q1 2018, the Group's credit ratings were BBB (Standard & Poor's, outlook stable) and Baa3 (Moody's, outlook stable).

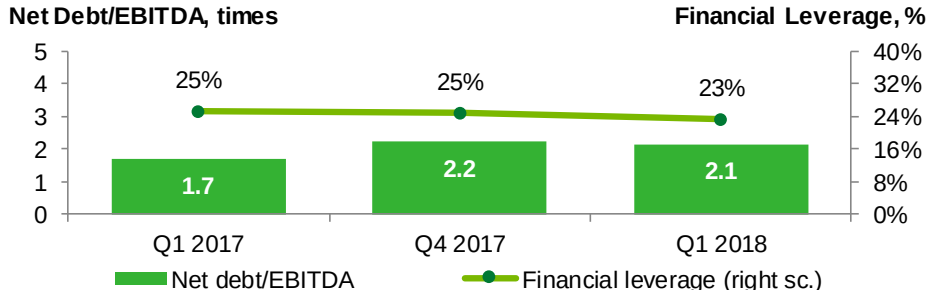
At the end of Q1 2018, the weighted average interest rate of Eesti Energia's borrowings was 2.76%, i.e. at the same level as at the end of 2017.

After the settlement of the floating-rate EIB loans in July 2017, the Group has fully locked in the risk resulting from fluctuations in the base rate component of the interest rates of its borrowings. The base rates of all borrowings are fixed until maturity and all borrowings are denominated in euros.

At the end of Q1 2018, the Group's net debt amounted to 546.4 million euros (582.4 million euros at the end of 2017). The net debt to EBITDA ratio was 2.1 (2.2 at the end of 2017). The objective of Eesti Energia's financing policy is to maintain the net debt to EBITDA ratio below 3.5.

Under its loan agreements, Eesti Energia has undertaken to comply with certain financial covenants. At the end of Q1 2018, the Group's financial indicators complied with all contractual covenants.

Net Debt/EBITDA Ratio and Financial Leverage



Outlook for 2018

The Group's outlook for 2018 has not changed compared with the forecast presented in the annual report for 2017.

According to our projections, in 2018 our revenue and capital expenditures will increase and EBITDA will decrease compared with 2017. Excluding the one-off impacts of 2017 (liquidated damages received for the Auvere power plant of 30.9 million euros and a gain on the transaction conducted in Jordan of 9.2 million euros), EBITDA for 2018 will remain at the same level as in 2017.

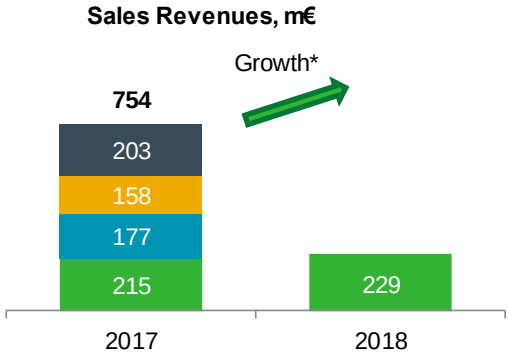
Electricity sales revenue should be supported by a rise in the average sales price of electricity, which will also have a positive impact on electricity EBITDA.

However, the latter indicator will be adversely affected by growth in emission allowance prices.

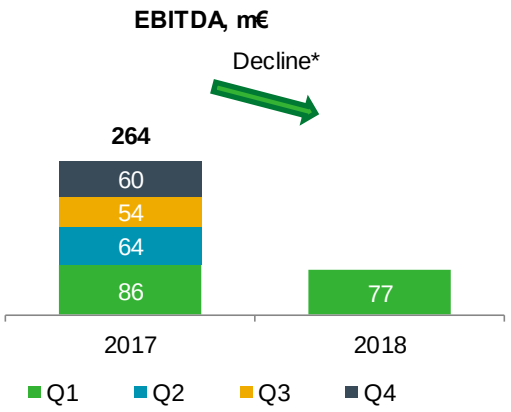
We expect that our shale oil sales volume and EBITDA will increase, underpinned by a higher market price and growth in output.

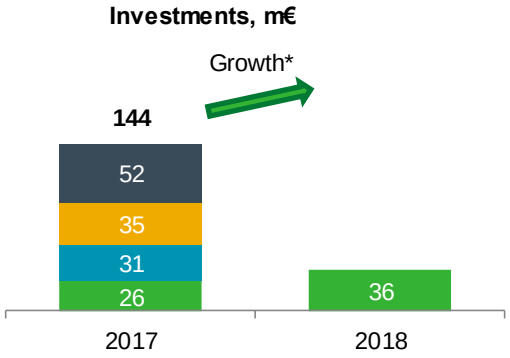
Capital expenditures will grow compared to 2017, mainly in connection with the deferral of some of the maintenance and repair investments of 2017 to 2018 and a rise in the volume of development projects. The largest planned capital investment of 2018 is the final payment for the Auvere power plant.

For 2017, we will pay the owner a dividend of 15.8 million euros, which will give rise to income tax expense of 4.0 million euros.



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





Hedging Transactions

Eesti Energia's revenues from electricity and liquid fuel sales depend on global market prices. The key factors which influence our performance indicators are electricity price on the Nord Pool power exchange and the world market price of fuel oil with 1% sulphur content, which is the reference product for shale oil.

Our forward sales for delivery in 2018 comprise 2.6 TWh of electricity (including forward sales in the retail market) at an average price of 36.2 €/MWh and 222.7 thousand tonnes of shale oil at an average price of 256.2 €/t.

Forward sales for delivery in 2019 comprise 1.0 TWh of electricity at an average price of 33.2 €/MWh and 236.7 thousand tonnes of shale oil at an average price of 268.9 €/t.

Our CO2 emission allowance position for 2018 amounts to 8.7 million tonnes at an average price of 5.8 €/t (comprises futures, free emission allowances transferred as investment support, and the sur¬plus of previous periods). The position for 2019 amounts to 0.2 million tonnes (comprises futures and free emission allowances transferred as investment support).

Condensed Consolidated Interim Income Statement and Statement of Comprehensive Income

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

in million EUR	Note	Q1 2018	Q1 2017	12m 2018/17	12m 2017/16
Revenue	3	228.6	215.3	767.1	760.4
Other operating income	4	10.4	24.8	51.7	109.3
Government grants		0.1	0.1	0.3	0.4
Change in inventories of finished goods and work-in-progress		0.9	3.3	(0.8)	(16.5)
Raw materials and consumables used		(106.2)	(90.7)	(341.5)	(284.7)
Payroll expenses		(37.9)	(35.7)	(143.8)	(132.6)
Depreciation, amortisation and impairment		(34.4)	(34.1)	(136.0)	(142.3)
Other operating expenses		(19.1)	(30.6)	(78.5)	(82.8)
OPERATING PROFIT		**42.4**	**52.4**	**118.5**	**211.2**
Financial income		0.1	0.1	0.9	0.2
Financial expenses		(2.1)	(4.9)	(17.0)	(13.3)
Net financial income (expense)		**(2.0)**	**(4.8)**	**(16.1)**	**(13.1)**
Profit from associates using equity method		0.2	0.7	2.1	1.9
PROFIT BEFORE TAX		**40.6**	**48.3**	**104.5**	**200.0**
CORPORATE INCOME TAX EXPENSE	**-**	**(0.1)**	**-**	**(11.5)**	**(0.1)**
PROFIT FOR THE PERIOD		**40.5**	**48.3**	**93.0**	**199.9**
Equity holder of the Parent Company		**40.6**	**48.4**	**92.8**	**200.0**
Non-controlling interest		**(0.1)**	**(0.1)**	**0.2**	**(0.1)**
Basic earnings per share (euros)	9	0.07	0.08	0.15	0.32
Diluted earnings per share (euros)	9	0.07	0.08	0.15	0.32

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE

in million EUR	Q1 2018	Q1 2017	12m 2018/17	12m 2017/16
PROFIT FOR THE PERIOD	**40.5**	**48.3**	**93.0**	**199.9**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Revaluation of hedging instruments	5.2	21.2	0.3	(23.4)
Currency translation differences attributable to foreign subsidiaries	(0.7)	(0.4)	(3.6)	1.5
Other comprehensive income for the period	**4.5**	**20.8**	**(3.3)**	**(21.9)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**45.0**	**69.1**	**89.7**	**178.0**
Equity holder of the Parent Company	**45.1**	**69.2**	**89.5**	**178.1**
Non-controlling interest	**(0.1)**	**(0.1)**	**0.2**	**(0.1)**

Condensed Consolidated Interim Statement of Financial Position

in million EUR	Note	31.03.2018	31.03.2017	31.13.2017
Non-current assets				
Property, plant and equipment	6	2,474.9	2,461.4	2,474.5
Intangible assets		38.7	39.4	38.7
Investments in associates		34.5	2.8	35.6
Derivative financial instruments	7	0.2	0.8	0.2
Long-term receivables		1.2	33.6	1.3
Total non-current assets		**2,549.5**	**2,538.0**	**2,550.3**
Current assets				
Inventories		69.2	67.3	67.9
Greenhouse gas allowances		111.0	47.3	97.1
Trade and other receivables		130.8	148.7	125.2
Derivative financial instruments	7	4.2	6.9	3.3
Cash and cash equivalents		336.7	342.9	298.7
Total current assets		**651.9**	**613.1**	**592.2**
Total assets	**3**	**3,201.4**	**3,151.1**	**3,142.5**

in million EUR	Note	31.03.2018	31.03.2017	31.13.2017
EQUITY				
Capital and reserves attributable to equity holder of the Parent Company				
Share capital	8	621.6	621.6	621.6
Share premium		259.8	259.8	259.8
Statutory reserve capital		62.1	62.1	62.1
Hedge reserve		(7.0)	(7.3)	(12.2)
Unrealised exchange rate differences		7.9	11.5	8.6
Retained earnings		864.2	818.6	823.6
Total equity and reserves attributable to equity holder of the Parent Company		**1,808.6**	**1,766.3**	**1,763.5**
Non-controlling interest		**0.3**	**0.8**	**0.4**
Total equity		**1,808.9**	**1,767.1**	**1,763.9**
LIABILITIES				
Non-current liabilities				
Borrowings	10	713.1	921.7	711.2
Other payables		1.5	2.0	1.5
Derivate financial instruments	7	-	0.3	-
Deferred income		199.2	184.9	195.8
Provisions	12	32.8	30.4	32.5
Total non-current liabilities		**946.6**	**1,139.3**	**941.0**
Current liabilities				
Borrowings	10	169.9	19.3	169.9
Trade and other payables		164.1	142.4	177.6
Derivative financial instruments	7	19.5	7.9	18.2
Deferred income		0.3	-	0.3
Provisions	12	92.1	75.1	71.6
Total current liabilities		**445.9**	**244.7**	**437.6**
Total liabilities		**1,392.5**	**1,384.0**	**1,378.6**
Total liabilities and equity		**3,201.4**	**3,151.1**	**3,142.5**

Condensed Consolidated Interim Statement of Cash Flows

in million EUR	Note	Q1 2018	Q1 2017	12m 2018/17	12m 2017/16
Cash flows from operating activities					
Cash generated from operations	11	86.3	131.9	249.7	317.9
Interest and loan fees paid		(0.1)	(0.1)	(26.8)	(30.3)
Interest received		0.1	0.1	0.3	0.2
Corporate income tax paid		(11.4)	-	(11.4)	(0.1)
Net cash generated from operating activities		**74.9**	**131.9**	**211.8**	**287.7**
Cash flows from investing activities					
Purchase of property, plant and equipment and intangible assets		(43.8)	(32.7)	(124.0)	(119.8)
Proceeds from connection and other fees		5.1	5.2	18.9	17.7
Proceeds from grants of property, plant and equipment		-	-	0.3	-
Proceeds from sale of property, plant and equipment		0.5	0.5	2.2	5.0
Loans granted	13	-	(33.3)	(0.2)	(36.2)
Repayments of loans granted		-	28.4	-	28.4
Contribution to the share capital of associates		(0.8)	-	(3.1)	-
Dividends received from long-term financial investments		2.1	1.6	2.1	1.6
Proceeds from repurchase of shares and liquidation of associate		-	18.5	-	18.5
Net cash used in investing activities		**(36.9)**	**(11.8)**	**(103.8)**	**(84.8)**
Cash flows from financing activities					
Received long-term loans		-	0.2	-	0.2
Repayments of bank loans		-	(0.7)	(65.6)	(19.3)
Repayments of other loans		-	-	(0.6)	(0.7)
Acquisition of non-controlling interest in a subsidiary		-	-	(1.0)	(0.9)
Dividends paid		-	-	(47.0)	(0.1)
Net cash used in financing activities		**-**	**(0.5)**	**(114.2)**	**(20.8)**
Net cash flows		**38.0**	**119.6**	**(6.2)**	**182.1**
Cash and cash equivalents at the beginning of the period		298.7	223.3	342.9	160.8
Cash and cash equivalents at the end of the period		336.7	342.9	336.7	342.9
Net increase / (-) decrease in cash and cash equivalents		**38.0**	**119.6**	**(6.2)**	**182.1**

Condensed Consolidated Interim Statement of Changes in Equity

in million EUR	Attributable to equity holder of the Parent Company						Non-controlling interest	Total
	Share capital	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total		
Equity as at 31.12.2016	**621.6**	**259.8**	**62.1**	**(16.6)**	**770.2**	**1,697.1**	**0.9**	**1,698.0**
Profit for the period	-	-	-	-	48.4	48.4	(0.1)	48.3
Other comprehensive income for the period	-	-	-	20.8	-	20.8	-	20.8
Total comprehensive income for the period	**-**	**-**	**-**	**20.8**	**48.4**	**69.2**	**(0.1)**	**69.1**
Equity as at 31.03.2017	**621.6**	**259.8**	**62.1**	**4.2**	**818.6**	**1,766.3**	**0.8**	**1,767.1**
Equity as at 31.12.2017	**621.6**	**259.8**	**62.1**	**(3.6)**	**823.6**	**1,763.5**	**0.4**	**1,763.9**
Profit for the period	-	-	-	-	40.6	40.6	(0.1)	40.5
Other comprehensive income for the period	-	-	-	4.5	-	4.5	-	4.5
Total comprehensive income for the period	**-**	**-**	**-**	**4.5**	**40.6**	**45.1**	**(0.1)**	**45.0**
Equity as at 31.03.2018	**621.6**	**259.8**	**62.1**	**0.9**	**864.2**	**1,808.6**	**0.3**	**1,808.9**

Additional information about equity is disclosed in Note 8.

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 2017, 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 2017.

Disclosure Initiative - Amendments to IAS 7 became effective for the Group from 1 January 2017. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group disclosed a reconciliation of movements in liabilities arising from financing activities in the notes to the financial statement.

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 2018 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 2017.

According to the Management Board the interim report prepared for the period 1 January 2018 - 31 March 2018 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 2017. 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 2018 ja 31 December 2017:

31 March 2018

in million EUR	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives (Note 7)	-	2.5	-	2.5
Cash flow hedges (Note 7)	1.8	0.1	-	1.9
Total financial assets	**1.8**	**2.6**	**-**	**4.4**
Liabilities				
Trading derivatives (Note 7)	-	11.3	-	11.3
Cash flow hedges (Note 7)	-	8.2	-	8.2
Total financial liabilities	**-**	**19.5**	**-**	**19.5**

31 December 2017

in million EUR	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives (Note 7)	0.6	2.1	-	2.7
Cash flow hedges (Note 7)	0.8	-	-	0.8
Total financial assets	**1.4**	**2.1**	**-**	**3.5**
Liabilities				
Trading derivatives (Note 7)	-	1.3	-	1.3
Cash flow hedges (Note 7)	-	16.9	-	16.9
Total financial liabilities	**-**	**18.2**	**-**	**18.2**

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

All instruments in Level 3 are options. The fair value of options is found using analytical solution of Turnbull-Wakeman Asian-type option pricing, inputs for which include the futures price, the strike price, volatility of the underlying, the risk free interest rate, time to maturity, time to the beginning of average period, the already realised average futures price during the average period.

2. Financial Risk Management , cont.

2.3. Fair Value of Financial Assets and Liabilities Measured at Amortised Cost

The fair value of bonds and bank loans:

in million EUR	31.03.2018	31.12.2017
Nominal value of bonds	758.3	758.3
Market value of bonds on the basis of quoted sales price	811.5	817.8
Nominal value of bank loans with fixed interest rate	174.6	174.6
Fair value of bank loans with fixed interest rate	177.8	177.4
Nominal value of bank loans with floating interest rate	-	-
Fair value of bank loans with floating interest rate	-	-

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.

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, sale of oil-shale, construction of electrical network, power engineering equipment and services, development and sale of technology for production and sale of liquid fuels, sale of old metal, ash of oil-shale, other products and services).

Other segments include co-products which individual share of the Group's revenue and EBITDA is immaterial. Non 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 (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.

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).

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 2018	Q1 2017
Electricity	105.6	102.0
Distribution	70.7	71.3
Shale oil	21.9	18.4
Other products and services	30.4	23.6
Total	**228.6**	**215.3**

EBITDA

in million EUR	Q1 2018	Q3 2017
Electricity	32.5	37.4
Distribution	26.1	28.6
Shale oil	8.4	5.6
Other products and services	9.8	14.9
Total	**76.8**	**86.5**
Depreciation and amortisation	(34.4)	(34.1)
Net financial income (expense)	(2.0)	(4.8)
Profit from associates using equity method	0.2	0.7
Profit before tax	**40.6**	**48.3**

ASSETS

in million EUR	31.03.2018	31.03.2017	31.12.2017
Electricity	1,378.7	1,288.7	1,300.2
Distribution	1,068.2	1,079.8	1,069.4
Shale oil	333.6	304.6	280.6
Other products and services	420.9	478.0	492.3
Total	**3,201.4**	**3,151.1**	**3,142.5**

4. Other operating income

in million EUR	3m 2018	3m 2017
Fines, penalties and compensations	8.4	5.7
Gain from revaluation of derivatives	1.3	0.1
Gain on disposal of associate	-	18.5
Other operating income	0.7	0.5
Total other operating income	**10.4**	**24.8**

5. 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.

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 31.12.2017							
Cost	42.9	248.4	1,041.5	2,116.9	6.2	605.2	4,061.1
Accumulated depreciation	-	(105.2)	(432.3)	(1,044.2)	(4.9)	-	(1,586.6)
Net book amount	42.9	143.2	609.2	1,072.7	1.3	605.2	2,474.5
Total property, plant and equipment as at 31.12.2017	**42.9**	**143.2**	**609.2**	**1,072.7**	**1.3**	**605.2**	**2,474.5**
Movements in the reporting period							
Purchases of property, plant and equipment	-	-	-	1.0	-	33.4	34.4
Depreciation charge	-	(1.3)	(7.1)	(25.1)	(0.1)	-	(33.6)
Disposals	-	(0.1)	-	(0.1)	-	-	(0.2)
Exchange differences	(0.1)	-	-	-	-	-	(0.1)
Transfers	-	0.4	7.0	29.7	-	(37.2)	(0.1)
Total movements in 3m 2018 period	**(0.1)**	**(1.0)**	**(0.1)**	**5.5**	**(0.1)**	**(3.8)**	**0.4**
Property, plant and equipment as at 31.03.2018							
Cost	42.8	248.7	1,048.5	2,146.0	6.2	601.4	4,093.6
Accumulated depreciation	-	(106.5)	(439.4)	(1,067.8)	(5.0)	-	(1,618.7)
Net book amount	42.8	142.2	609.1	1,078.2	1.2	601.4	2,474.9
Total property, plant and equipment as at 31.03.2018	**42.8**	**142.2**	**609.1**	**1,078.2**	**1.2**	**601.4**	**2,474.9**

As at 31 March 2018, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 127.1 million (31 December 2017 EUR 102.7 million).

7. Derivative Financial Instruments

in million EUR	31.03.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Future contracts for buying and selling electricity as cash flow hedges	1.9	-	0.8	-
Forward and future contracts for buying and selling electricity as trading derivatives	1.0	3.0	1.0	1.6
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	0.1	-	0.1	0.2
Swap, forward and option contracts for selling shale oil as cash flow hedges	-	8.1	-	16.8
Swap and option contracts for selling shale oil as trading derivatives	1.3	8.2	1.5	(0.6)
Total derivative financial instruments	**4.4**	**19.5**	**3.5**	**18.2**
including non-current portion:				
Swap, forward and option contracts for selling fuel oil as cash flow hedges	-	-	0.2	-
Future contracts for buying and selling electricity as cash flow hedges	0.2	-	-	-
Total non-current portion	**0.2**	**-**	**0.2**	**-**
Total current portion	**4.2**	**19.5**	**3.3**	**18.2**

8. Share capital

As at 31 March 2018, Eesti Energia AS had 621 645 750 registered shares (31 December 2017: 621 645 750 registered shares). The nominal value of each share is 1 euro.

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.

Earnings per share	Q1 2018	Q1 2017	12m 2018/17	12m 2017/16
Profit attributable to the equity holders of the company (million EUR)	40.6	48.4	92.8	200.0
Weighted average number of shares (million)	621.6	621.6	621.6	621.6
Basic earnings per share (EUR)	0.07	0.08	0.15	0.32
Diluted earnings per share (EUR)	0.07	0.08	0.15	0.32

10. Borrowings at amortised cost

in million EUR	Short-term borrowings		Long-term borrowings		Total
	Bank loans	Bonds issued	Bank loans	Bonds issued	
Borrowings at amortised cost 31.12.2017	**17.9**	**152.0**	**156.5**	**554.7**	**881.1**
Movements in the reporting period					
Amortization of borrowing expenses	-	-	-	1.9	1.9
Total movements in 3m 2018 period	**-**	**-**	**-**	**1.9**	**1.9**
	-	**-**	**-**	**-**	**-**
Borrowings at amortised cost 31.03.2018	**17.9**	**152.0**	**156.5**	**556.6**	**883.0**

As at 31 March 2018 the Group had undrawn loan facilities of EUR 150.0 million (31 December 2017: EUR 150.0 million), the figure includes bilateral liquidity loan agreements with floating interest rate of EUR 150.0 million in aggregate, with SEB and OP Corporate bank, which will mature in five years (July 2020).

11. Cash Generated from Operations

in million EUR	Q1 2018	Q1 2017	12m 2018/17	12m 2017/16
Profit before tax	**40.6**	**48.3**	**104.5**	**200.0**
Adjustments				
Depreciation and impairment of property, plant and equipment	33.6	33.4	132.8	137.9
Amortisation and impairment of intangible assets	0.8	0.7	3.2	4.4
Deferred income from connection and other service fees	(2.0)	(1.9)	(7.7)	(7.2)
Gain on disposal of property, plant and equipment	(0.2)	(0.3)	(0.8)	(1.2)
Gain on disposal of associate	-	(18.5)	-	(18.5)
Amortisation of government grant received to purchase non-current assets	(0.1)	(0.1)	(0.4)	(0.3)
Profit/loss from associates using equity method	(0.2)	(0.7)	(2.1)	(1.9)
Unpaid/unsettled gain/loss on derivatives	5.6	0.5	15.0	(9.7)
Loss from doubtful loan receivables	-	9.4	0.2	10.3
Foreign exchange gain/loss from lending in foreign currency	-	1.1	3.6	(1.7)
Interest expense on borrowings	1.7	3.3	10.4	14.1
Interest and other financial income	(0.1)	(0.1)	(0.3)	(0.2)
Adjusted net profit before tax	**79.7**	**75.1**	**258.4**	**326.0**
Net change in current assets relating to operating activities				
Change in receivables related to operating activities	(8.0)	28.3	17.9	(45.3)
Change in inventories	(1.3)	(2.1)	(1.9)	12.2
Net change in other current assets relating to operating activities	(11.5)	20.8	(63.6)	(9.6)
Total net change in current assets relating to operating activities	**(20.8)**	**47.0**	**(47.6)**	**(42.7)**
Net change in current liabilities relating to operating activities				
Change in provisions	20.7	17.0	19.4	21.6
Change in trade payables	(1.5)	(1.6)	9.3	10.8
Net change in liabilities relating to other operating activities	8.2	(5.6)	10.2	2.2
Total net change in liabilities relating to operating activities	**27.4**	**9.8**	**38.9**	**34.6**
Cash generated from operations	**86.3**	**131.9**	**249.7**	**317.9**

12. Provisions

in million EUR	Opening balance 31.12.2017	Recognition and reversal of provisions	Interest charge	Use	Closing balance 31.03.2018	Closing balance 31.03.2018
					Short term provision	Long term provision
Environmental protection provisions	28.7	-	0.2	(0.2)	4.9	23.8
Provision for termination of mining operations	0.8	-	-	-	-	0.8
Employee related provisions	5.3	-	-	(0.3)	0.6	4.4
Provision for dismantling cost of assets	3.7	-	0.1	-	-	3.8
Provision for greenhouse gas emissions	65.1	21.5	-	-	86.6	-
Provision for onerous contracts	0.5	(0.5)	-	-	-	-
Total provisions	**104.1**	**21.0**	**0.3**	**(0.5)**	**92.1**	**32.8**

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	3m 2018	3m 2017
Purchase of goods	4.7	5.3
Sale of services	0.4	-
Loans granted	-	33.3

RECEIVABLES FROM ASSOCIATES AND PAYABLES TO ASSOCIATES

in million EUR	31.03.2018	31.12.2017
Receivables	10.7	10.9
incl long-term loan receivables	10.7	10.9
Allowance for doubtful loan receivables	(10.7)	(10.9)
Payables	3.0	3.2
incl long-term payables	1.5	1.5

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 2018 remuneration to management and supervisory boards amounted to EUR 1.0 million.

In purchasing and selling network services, the prices set by the Estonian Competition Authority are used. All ohter 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	3m 2018	3m 2017
Purchase of services	29.5	28.9
Purchase of goods	4.0	3.3
Purchase of property, plant and equpiment and prepayments	1.8	-
Sale of goods and services (incl. renewable energy grant)	5.6	5.9

RECEIVABLES FROM ELERING AS AND PAYABLES TO ELERING AS

in million EUR	31.03.2018	31.12.2017
Receivables	2.2	2.6
Payables	21.4	20.6

Glossary

Arbitrage – Concurrent purchase and sale of goods or securities of the same kind in different markets to earn a profit on the difference in market prices

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

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 CO2 costs (taking into account the price of CO2 allowance futures maturing in December and the amount of CO2 emitted in the generation of a MWh of electricity)

CO2 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 (CO2). The limit on the total number of emission allowances available gives them a monetary value

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

Eesti Energia market share on electricity retail market – Electricity sales to the final consumer divided by total electricity consumption in the area (including network losses)

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 largest part of the Nordic countries' electricity generation 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

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, HAZOP – 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

OSAMAT – Management of Environmentally Sound Recycling of Oil Shale Ashes into Road Construction Products. Demonstration in Estonia – a project carried out to test the use of oil shale ash in road construction

Position hedged with forward transactions – The average price and the corresponding amount of electricity and shale oil sold and emission allowances purchased in the future is previously fixed.

RAB – Regulated Asset Base, which represents the value of assets used to provide regulated services

Return on Fixed Assets (ROFA) – Operating profit (rolling 12 months) divided by average fixed assets excluding assets under construction (allocated to specific product).

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