Eesti Energia

Interim Report

1 April 2014 – 30 June 2014

Eesti Energia Aulepa Wind Park in Noarootsi, Estonia

Contents

Summary of Q2 Results

Dear reader

In the second quarter of 2014, Eesti Energia's sales revenue amounted to 205 million euros (-5%) and EBITDA was 68 million euros, which is 6% less than a year earlier. The results were mainly affected by lower electricity EBITDA related to border crossing costs in Latvia and Lithuania. Eesti Energia managed to sell electricity for higher average price in Q2 2014, as successful hedging transactions outweighed low electricity exchange prices. A positive factor was also sale of shale oil, the volume and sales revenue of which increased 108% and 150%, respectively.

Beginning of July brought good news from the Jordanian development project that reached the next significant step by the government approval to the project. Necessary project contracts for development of the power plant have been in principle agreed with Jordanian government. In the next phase of the project, final project contracts must be signed, including contracts with financing banks and the contractor as well as complete the financing activities so that the construction of the plant could start in 2015.

For grand celebration of Eesti Energia's 75th anniversary, we opened the Energia Discovery Centre, a unique energy themed family science centre that is dedicated to physical sciences and is located in the venerable building of the Tallinn Power Plant which is more than 100 years old. We hope that the centre will help to create interest and curiosity for the energy sector among the youth.

During the second quarter, we celebrated also the 45th anniversary of the Eesti Power Plant, world's largest oil shale-fired thermal power plant. Thanks to extensive investments made over the years for modernising the plant's technology and meeting environmental requirements, we can use the plant's generation capacity also in the conditions of tough environmental requirements.

We are constantly looking for new ways on how to increase our production efficiency. In 2013 we started tests with oil shale of lower calorific value by mixing it with coal. In this way we can use most of the mined rock. Phase 1 of the tests showed that such a fuel mix is in essence suitable for using in our boilers that are designed to burn oil shale. We are continuing work to find the optimal percentage of coal in the fuel mix.

At the mining conference held at the start of May, Estonian Mining Board recognized Eesti Energia's mines by awarding us the title "Environmental Deed in Mining 2014". The award that was granted to us for the third time was for the contribution in dredging the rowing channel in the Aidu opencast mine. It is great that our efforts in managing former industrial areas are being noticed and appreciated.

Elektrilevi continued investing in improving the network quality, building 119 substations and 434 kilometres of weather-proof cables. Thanks to their efforts, there was a significant annual decrease in both the average duration of unplanned and planned interruptions. Also the remote reading project progressed: by the end of the quarter, a fifth of all power meters of Elektrilevi´s customers have been transferred to remote reading.

As the company's CEO, I am very proud that over the years we are being very highly appreciated by Estonians. In May, research company TNS Emor announced that respondents rated Eesti Energia the most preferred employer this year also.

CEO and Chairman of the Management Board of Eesti Energia
Sandor Liive

Key Figures and Ratios

		Q2 2014	Q2 2013	Change	6M 2014	6M 2013	Change
Total electricity sales, of which	GWh	2,251	2,834	-20.6%	4,477	6,286	-28.8%
wholesale sales	GWh	866	1,165	-25.7%	1,423	2,695	-47.2%
retail sales	GWh	1,385	1,669	-17.0%	3,054	3,591	-15.0%
Electricity distributed	GWh	1,416	1,431	-1.1%	3,200	3,300	-3.0%
Shale oil sales	th t	45	22	+107.7%	79	72	+9.9%
Oil shale sales	th t	223	153	+45.8%	436	455	-4.1%
Heat sales	GWh	170	161	+5.3%	629	617	+2.0%
Distribution grid losses	%	5.2	3.0	+2.2pp	5.9	4.7	+1.2pp
Average number of employees	No.	6,921	7,447	-7.1%	6,932	7,487	-7.4%
Sales revenues	m€	204.6	215.4	-5.1%	431.0	494.0	-12.8%
EBITDA	m€	67.7	72.2	-6.2%	151.1	145.3	+4.0%
Operating profit	m€	35.6	43.3	-17.8%	87.4	87.6	-0.2%
Net Profit	m€	6.2	43.3	-85.6%	57.3	68.1	-15.9%
Investments	m€	56.6	94.9	-40.4%	130.4	169.1	-22.9%
Cash flow from operating activities	m€	75.5	82.7	-8.7%	131.8	151.1	-12.8%
FFO	m€	65.0	70.0	-7.2%	140.6	137.4	+2.4%
Fixed assets	m€	2,427.8	2,239.7	+8.4%			
Equity	m€	1,467.5	1,430.2	+2.6%			
Net debt	m€	723.6	556.6	+30.0%			
Net debt / EBITDA*	times	2.29	2.05	+0.24p			
FFO* / net debt	times	0.36	0.42	-0.06p			
FFO* / interest cover*	times	7.43	6.94	+0.49p			
EBITDA* / interest cover*	times	9.02	8.10	+0.91p			
Leverage	%	33.0	28.0	+5.0pp			
ROIC	%	6.0	8.4	-2.4pp	7.5	8.6	-1.1pp
EBITDA margin	%	33.1	33.5	-0.4pp	35.1	29.4	+5.6pp
Operating profit margin	%	17.4	20.1	-2.7pp	20.3	17.7	+2.6pp

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

Leverage - net debt / (net debt + equity)

ROIC - operating profit / average invested capital

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

* rolling 12 months result

Operating Environment

Global Economy

In Q2 2014, market prices of fuels were affected by geopolitical tensions in such oil-producing countries as Iraq and Libya and the unresolved military conflict in Ukraine. Steps taken by the European Commission with regard to back-loading of CO_2 allowances have started to influence the markets.

The IMF outlook on the global economy in 2014 became more conservative with regard to developing economies as well as advanced economies compared to data published in April. In its July 2014 outlook[1], the IMF lowered its global economic growth forecast by 0.3pp, growth forecast in the euro area was retained. In the opinion of the IMF, the global economy will expand 3.4% in 2014 and the economy of the euro area will grow 1.1%.

In 2014, the global economic growth has been driven mainly by the developed countries, whereas the main source of economic growth continues to shift from emerging economies to developed countries.

The markets were surprised by the downward adjustment of the actual economic growth in US by 1.9% as reported in June 2014, the extent of which added to the lack of confidence in economic prospects. The adjustment was caused mainly by lower private consumption and exports in the US as compared to the previous estimation. In Q2 2014, economic indicators of the euro area continued to show signs of improvement but recovery remains uneven across the region. In the middle of Q2, the inflation rate fell to 0.5% and remained stable by the end of the quarter. In relation to low inflation rate, the ECB introduced different monetary policy measures, including imposing negative interest rates for banks. Unemployment in the euro area remained high (11.6% in May 2014), but decreased when compared to the start of the year.

Estonian economy expanded 0.8% in 2013 and is expected to grow 2.4% in 2014, according to the IMF forecast. However, according to the economic policy statement of the Bank of Estonia published in June 2014, the Estonian economy will grow only 0.7% in 2014. In its outlook, the Bank of Estonia contributed weak economic growth mainly to the weak result in Q1 that was influenced by the decrease of energy sector generation due to warm weather. Estonian economic growth is expected to pick up in the remaining part of the year.

Liquid Fuels Prices

Average price of Brent crude oil was 1.8% higher in Q2 2014 (+1.4 €/bbl) in comparison with Q2 2013. During the quarter, Brent crude prices increased from 77.0 €/bbl to 81.1 €/bbl.

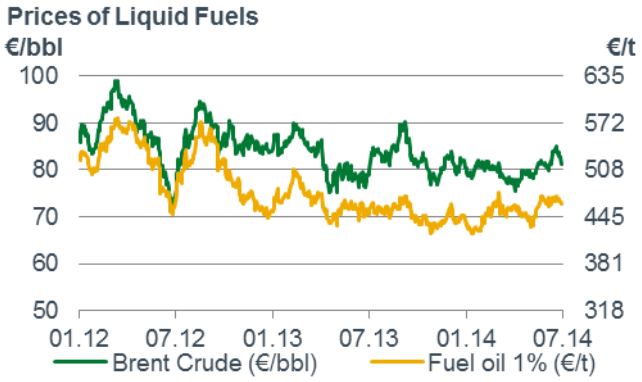
Average price		Q2 2014	Q2 2013	Change
Brent crude oil	€/bbl	80.4	79.0	+1.8%
Fuel oil (1% sulph. content)	€/t	457.1	453.2	+0.8%
Fuel oil 1% crack spread	€/bbl	-7.8	-6.9	+13.2%
Euro exchange rate	EUR/USD	1.3717	1.3063	+5.0%

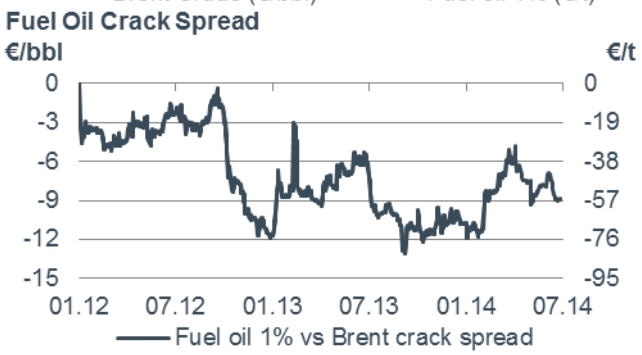
In Q2 2014, crude oil prices were affected by geopolitical tensions in such oil-producing countries as Iraq and Libya, resulting in reduced production volumes. In the second quarter, Brent crude price was affected also by the continued tensions between Ukraine and Russia. Oil supply in the North Sea decreased because of maintenance works in the region's production systems, while demand for crude oil increased by the end of seasonal outages in some European refineries.

The price of fuel oil (1% sulphur content) increased 0.8% (+3.9 €/t) as compared to a year earlier.

[1] Source: International Monetary Fund, World Economic Outlook Update—An Uneven Global Recovery Continues (Washington, July 2014)

During the quarter, the fuel oil price increased from 460.0 €/t to 461.8 €/t by the end of the quarter. Crack spread, describing the price difference between crude oil and fuel oil extracted from it, widened by 0.9 €/bbl, as compared to the same quarter a year earlier. In Q2 2014, the demand for European fuel oil remained subdued, while the supply side was activated by the production of refineries that had re-started work in the second quarter. Unlike in the same period in 2013, arbitrage to Asia in Q2 2014 was limited. Because of start of cruise shipping season, the markets expect increased demand for bunker fuels in the third quarter that could also impact fuel oil prices.





Source: Thomson Reuters

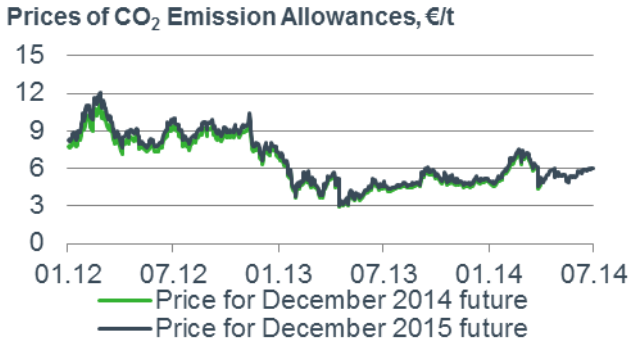
Emission Allowance Prices

During Q2 2014, the average price of December 2014 CO_2 emission allowance futures traded 31.7% higher than in the same period of 2013. During the quarter, the price was trending upward, from 5.1 €/t at the beginning of the quarter to 5.9 €/t in June 2014.

Average price		Q2 2014	Q2 2013	Change
CO_2 Dec 2013	€/t	5.4	4.1	+31.7%
CO_2 Dec 2014	€/t	5.5	4.2	+30.5%

In Q2 2014, the prices of CO_2 emission allowances were significantly higher year on year as a result of the EU allowance back-loading plan that will remove 400 million tonnes of emission allowances from the market in 2014. In addition, it was reported at the beginning of Q2 2014 that in April the European Investment Bank had terminated sale of emission allowances in connection with the bank's programme to raise funding for environmental conservation projects. At the beginning of the second quarter, the markets were becoming increasingly convinced that we are entering the era where the demand for CO_2 emission allowances will again exceed supply, resulting in the increase in emission allowance prices.

At the end of Q2 2014, the price of CO_2 emission allowance futures increased due to the stable purchasing interest from European utilities with the objective of hedging future price risks of CO_2 emission allowances.



Source: Thomson Reuters

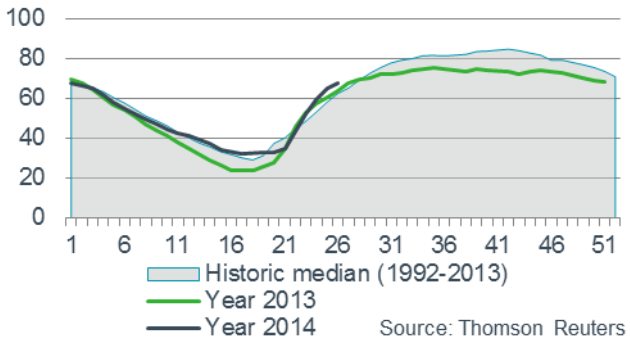
Electricity Prices

In Q2 2014, electricity prices in the Nordic and Estonian price areas of Nord Pool were lower than in the same period last year. Average electricity prices in Latvia and Lithuania increased compared to Q2 2013. The Nord Pool Spot (NPS) system price decreased 33.7% (-13.0 €/MWh) compared to Q2 2013.

Average price		Q2 2014	Q2 2013	Change
System price	€/MWh	25.7	38.7	-33.7%
Finland	€/MWh	34.6	39.9	-13.5%
Estonia	€/MWh	34.8	44.5	-21.9%
ELE[2]/Latvia	€/MWh	50.2	46.1	+8.9%
Lithuania	€/MWh	50.2	47.4	+5.8%

The decrease in the NPS system price was attributable to favourable hydro resources in the Nordic countries, especially in Norway where electricity generation in Q2 exceeded consumption by 18%. The level of Nordic hydro reservoirs exceeded the 2013 level already at the beginning of Q2 2014. In June 2014 the level exceeded the historic median value.

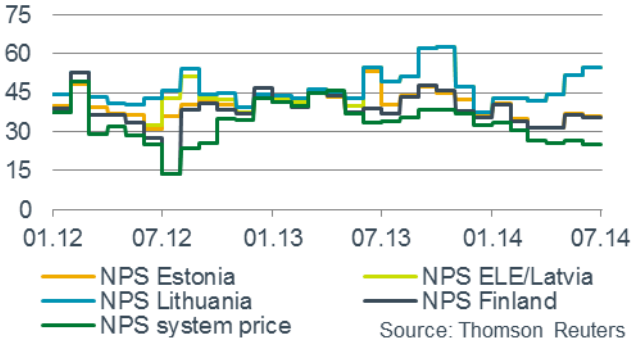
Levels of Nordic Water Reservoirs, % of Maximum



Electricity prices in Nordic countries were relatively stable in all months of Q2 2014. The electricity prices in the Baltic States, especially in Latvia and Lithuania, were volatile during the quarter.

In Q2 2014, average price spread between Swedish and Finnish price areas was -3.1 €/MWh i.e. the Finnish price exceeded Swedish price by 3.1 €/MWh. Price difference increased by 1.5 €/MWh compared to last year. In Q2 2014, Finnish electricity generation was lower than a year earlier mainly in connection with the decrease of the output in co-generation plants. In addition, Finnish electricity output in May and June was influenced by long maintenance work in the two reactors of the Olkiluoto Nuclear Power Plant. The volume of electricity imported into Finland from Sweden increased notably as Russia's portion decreased.

Monthly Average Electricity Prices, €/MWh



In the second quarter of 2014, the price spread between the Estonian and Finnish price areas was 0.2 €/MWh i.e. the Estonian electricity price was 0.2 €/MWh higher than in Finland. Price difference decreased by 4.3 €/MWh compared to Q2 2013. This means that the bottleneck in the transmission capacity between different areas was notably smaller than in the same period a year earlier. During the quarter, hourly prices in Estonia and Finland were equal in 98% of hours, while in the remaining 2% of hours electricity prices were higher in Estonia. Due to the commissioning of the Estlink2 underwater power cable at the end of 2013, the transmission capacity between Estonia and Finland increased substantially compared to Q2 2013[3], resulting in almost full convergence of hourly prices of these areas. Price differences only occurred in the Finland-Estonia direction where a transmission capacity limitation is still in place. The completion of the Phase 2 of the

[2] ELE price area was replaced by NPS Latvia price area since 3 June 2013

[3] Completion of Estlink2 increased the Estonian-Finnish transmission capacity by 650 MW, bringing the total capacity up to 1,000 MW

Kiisa emergency power station that was planned to take place in September happened already in July 2014 that enables to increase the transmission capacity of the Estlink2 underwater power cable between Estonia and Finland to 1,000 MW in both directions[4].

In Q2 2014, average price spread between Estonian and Latvian price areas was -15.4 €/MWh i.e. the power price in Estonia was 15.4 €/MWh lower compared to Latvia. Price difference increased by 13.8 €/MWh (compared partially to ELE price area prices in Q2 2013). The price difference increased also as compared to the previous quarter: in Q1 2014 the price spread was -6.6 €/MWh. Large price differences were still caused by insufficient transmission capacity between Estonia and Latvia which means that the supply of relatively cheap Nordic electricity to Latvia is limited. In Q2, the transmission capacity was further reduced due to maintenance works. In Q2 2014, Latvia and Lithuania were unable to cover their consumption by local generation. In Estonia, electricity generation exceeded consumption in all months. In Q2 2014, NPS Latvian and Lithuanian electricity prices were equal in all hours.

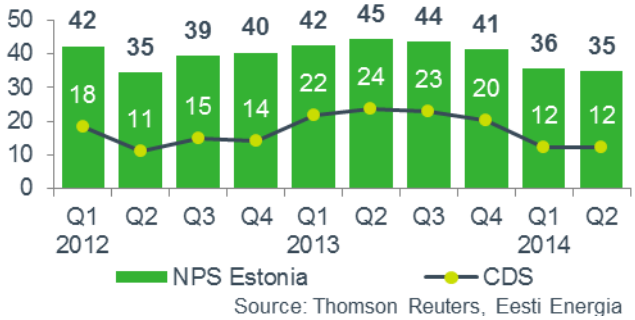
Starting from 2014, electricity traders have been able to hedge price differences on Estonian-Latvian border in a limited volume through PTR (Physical Transmission Rights) instruments. 50 MW has been auctioned for one year and amounts of 50 to 150 MW can be sold monthly. In Q2 2014 PTR instruments in amount of 150 MW were sold each month. Relatively small portion of the Estonian-Latvian transmission capacity has been sold in advance (5% to 16% from the total transmission capacity[5]), which has not enabled Eesti Energia to sell electricity at fixed price on the Latvian and Lithuanian retail market in Q2 2014.

[4] In Q2 2014, net transmission capacity in the Finland-Estonia direction was 860 MW

[5] Starting from 6 January 2014, the net transmission capacity between Estonia and Latvia is 925 MW

In the second quarter, Eesti Energia clean dark spread (CDS) was 12.3 €/MWh (-11.5 €/MWh, -48.0% as compared to Q2 2013) in the NPS Estonian price area. The decrease was attributable mainly to lower electricity price (NPS Estonia electricity price fell by 9.7 €/MWh, -21.9% as compared to Q2 2013), the cost of CO_2 and oil shale in electricity price increased by 1.6 €/MWh, +7.7% compared to Q2 2013).

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

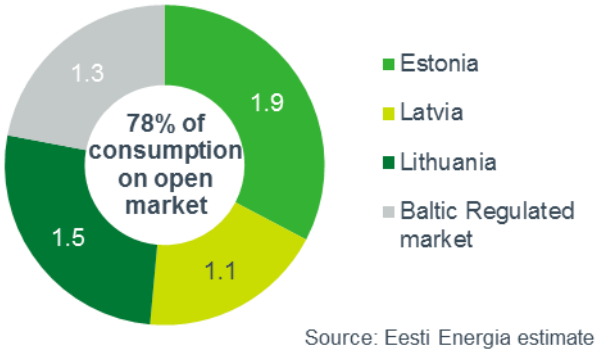


Source: Thomson Reuters, Eesti Energia

The Estonian electricity market has been fully open since 2013 and free market prices are in force. Latvian and Lithuanian electricity markets are open partially. Household consumers have no obligation to buy electricity on the open market which means that they prefer to buy electricity at regulated price that is lower than the open market price. All business entities in Latvia and Lithuania buy electricity from the open market. Latvian market was open to the extent of 70% of the volume of electricity consumption in Q2 2014. Full opening of the Latvian electricity market is planned to take place at the beginning of 2015.

Starting from 2013, all business entities in Lithuania are buying electricity on the open market. In Q2 2014, the Lithuanian market was open to the extent of 66% of the volume of electricity consumption.

Electricity Consumption in the Baltic Open Market, TWh



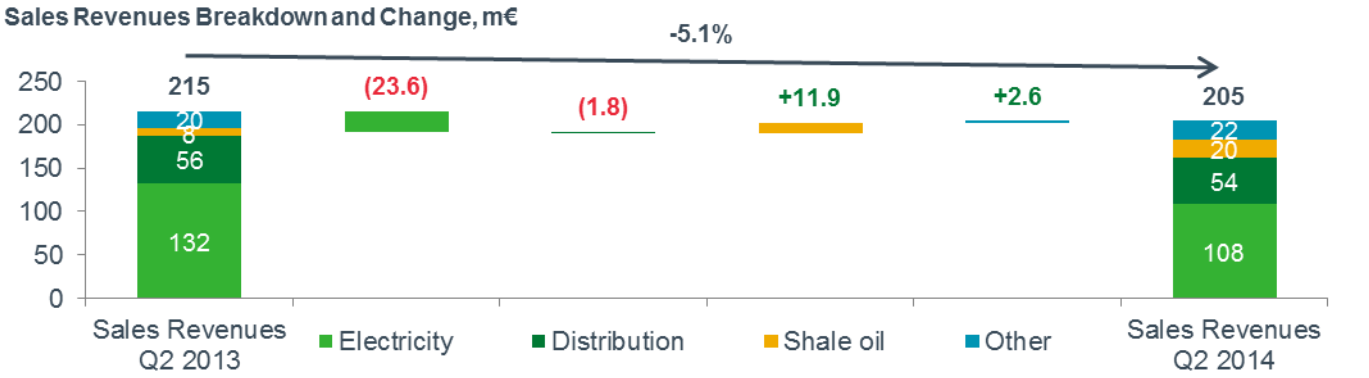
Source: Eesti Energia estimate

Financial Results

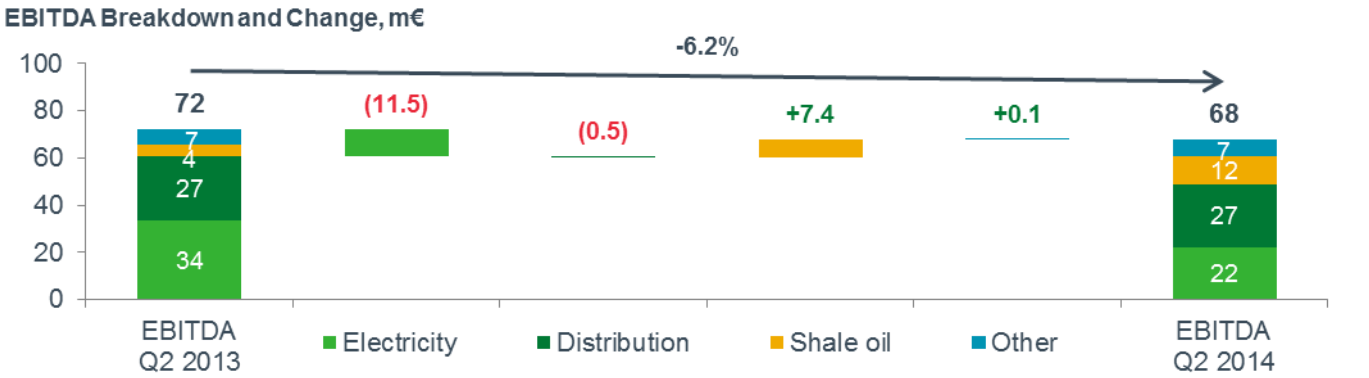
Group Sales Revenues and EBITDA

Eesti Energia's Q2 2014 sales revenue was 204.6 million euros (-5.1%, -10.9 million euros compared to Q2 2013), EBITDA amounted to 67.7 million euros (-6.2%, -4.5 million euros), operating profit was 35.6 million euros (-17.8%, -7.7 million euros) and net profit reached 6.2 million euros (-85.7%, -37.1 million euros). The decrease in Group's sales revenue was mainly related to lower electricity sales revenue that was partially offset by higher revenue from sale of shale oil.

Substantial decrease in net profit is related to recognizing income tax (28.8 million euros) in Q2 2014, while in 2013 it was accounted in Q1.



Higher sales revenue of shale oil increased the Group's EBITDA by 7.4 million euros (shale oil EBITDA grew 164.5%). Electricity EBITDA reduced by 11.5 million euros (-34.0%) mostly due to border crossing costs impact. Distribution sales volume decreased slightly and as a result EBITDA earned from distribution was reduced by 0.5 million euros (-1.7%). Sales of other products increased the Group's EBITDA by 0.1 million euros (+1.1%) as compared to the same period in 2013.

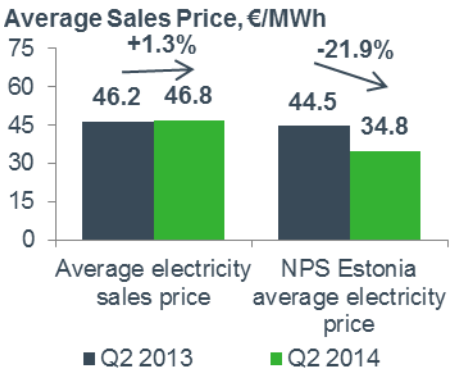


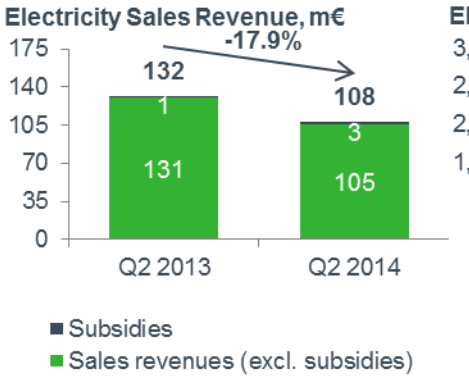
Eesti Energia Balti Power Plant in Ida-Virumaa, Estonia

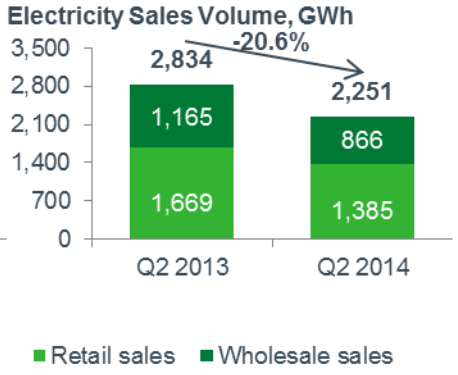
Electricity

Electricity sales revenue amounted to 108.2 million euros (-17.9%, -23.6 million euros). In Q2 2014, Eesti Energia sold 2,251 GWh of electricity (-20.6%, -583 GWh). Of this, retail sales of electricity amounted to 1,385 GWh (-17.0%, -284 GWh) while electricity wholesale market sales were 866 GWh (-25.7%, -299 GWh). Average electricity price (including revenue from financial hedges) was 46.8 €/MWh (+0.6 €/MWh, +1.3%).

In comparison with the previous year, both the volumes of wholesale and retail sale of electricity decreased. The decrease in wholesale volumes of electricity is attributable mainly to changes in netting cross-border electricity trade[6].







The decrease in the retail sales volume of electricity is due to the reduction of the market share of Eesti Energia on the Estonian electricity market and partially by warmer weather compared to the previous year. In Q2 2014, the market share of Eesti Energia in Estonia by the volume of electricity consumed by customers was 58% (-12pp as compared to the year ago, -2pp as compared to Q1 2014).

Regardless of the decrease in market share, Eesti Energia remains the electricity seller with the largest number of customers in Estonia. As at 31 June 2014, Eesti Energia had 361 thousand customers in Estonia (+3 thousand customers as compared to 31 June 2013 and -1 thousand customers as compared to 31 March 2014). In addition to contractual customers, Eesti Energia sold electricity also as universal electricity service to Elektrilevi customers. The number of universal electricity service customers decreased by 28 thousand as compared to the year before to the amount of 91 thousand customers. No significant change occurred in the number of universal electricity service customers as compared to Q1 (-2 thousand customers).

In the course of extending electricity contracts of small customers at the end of May and at the start of June 2014, offers were made to more than 45 thousand customers. Extensions covered a total of

[6] The Group started to balance volumes of electricity purchased in NPS Latvia and Lithuania price areas with sale of electricity in the Estonian price area in the same hour since June 2013. If the balancing of purchases and sales in all Baltic states would have been implemented from the start of Q2 2013, the Group's electricity sales and purchases would have been lower by 345 GWh in Q2 2013

84 GWh in annual consumption volume, of which 80.7 GWh extended contract with Eesti Energia.

Eesti Energia operates under the trademark of Enefit in Latvia and Lithuania. In Q2 2014, there were significant price differences between the Estonian price area and Latvian and Lithuanian price areas. As Eesti Energia does not own substantial electricity generation capacities in Latvia and Lithuania, in order to meet contracts with fixed prices, it is often necessary to buy electricity from the electricity exchange at a price higher than the sales price that the Group's power plants have earned in NPS Estonia. For this reason it was decided to end entering into new fixed price contracts with Latvian and Lithuanian retail customers in September 2013. Because of price differences between the Estonian and Latvian price areas, border crossing costs amounted to 7.0 million euros in Q2 2014. Since Q1 2014, we have been successfully selling electricity products indexed to exchange prices in Latvia. During Q2, same products were successfully sold in Lithuania (78 contracts were signed with the forecast consumption volume of 73 GWh).

By the end of the second quarter, Eesti Energia had 2,355 customers in Latvia and Lithuania (-114 customers compared to Q2 2013). The number of customers is significantly influenced by the end of sale in fixed price contracts. In the second quarter, Eesti Energia's market share in Latvia and Lithuania was 17% and 7%, respectively.

In Q2 2014, we generated a total of 2,366 GWh of electricity (-2.1%, -50 GWh). The decrease in electricity generation was related to lower electricity market prices compared to Q2 2013. In Q2 2014, electricity generated from renewable sources totaled 65.1 GWh (+19.3%, +10.5 GWh). Received renewable energy and co-generation subsidies amounted to 2.8 million euros (+240%, +2.0 million euros). The majority of energy generated from renewable sources came from wind parks totaling 39.6 GWh (-4.3%, -1.8 GWh).

Key Figures		Q2 2014	Q2 2013
Return on fixed assets*	%	15.2	9.0
Electricity EBITDA	€/MWh	9.9	11.9

* excluding impairment of generation assets in December 2012 and 2013

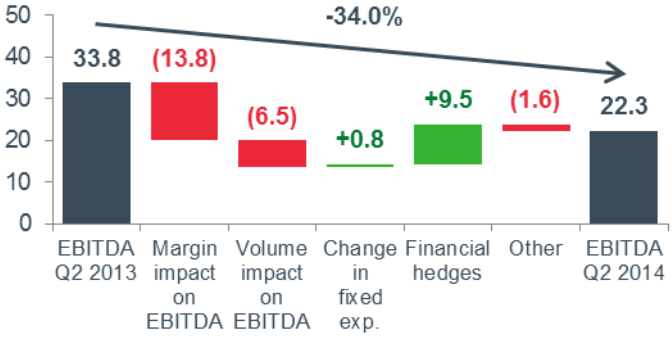
In Q2 2014, **EBITDA from electricity sales** amounted to 22.3 million euros (-34.0%, -11.5 million euros). Electricity EBITDA decreased mainly due to factors related to retail electricity sales in Latvia and Lithuania, evident under margin and other impacts.

Electricity sales margin in total reduced EBITDA by 13.8 million euros. Lower electricity sales price (excluding financial hedges) lowered profitability by 6.5 million euros, while border crossing costs reduced EBITDA by 7.0 million euros. Other margin impact (-0.3 million euros) was mainly related to increase of production costs (impact -7.5 million euros) which were offset by reduced electricity purchasing costs (impact +8.1 million euros).

Decrease in electricity sales volume reduced EBITDA by 6.5 million euros, in addition to margin impact. Volume of electricity sold decreased by 20.6% compared to the previous year.

Lower sales margin was offset by revenue from financial hedges (impact +9.5 million euros).

Electricity EBITDA Development, m€



Fixed costs decreased by 0.8 million euros. Increased maintenance works in Narva Power Plant (impact -2.4 million euros) were offset by lower costs of mining closures and reduced IT expenses (total impact +2.6 million euros).

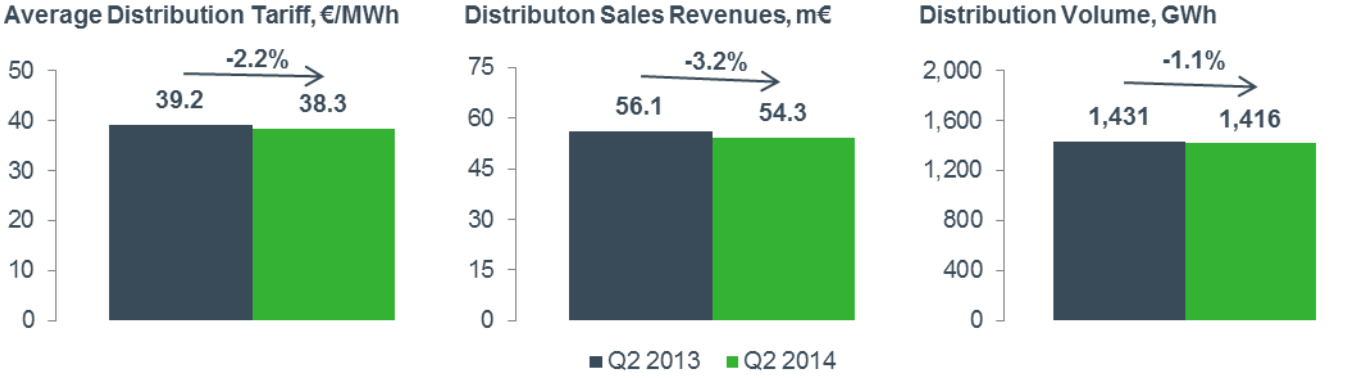
Other effects (-1.6 million euros) were mainly related to increase of provision of Latvia and Lithuania electricity sales portfolio recognized in 2013 (-3.9 million euros) and revaluation of derivative instruments (+3.2 million euros).

Eesti Energia Network Distribution Cable Tunnel in Tallinn, Estonia

Distribution

Distribution sales revenue amounted to 54.3 million euros (-3.2%, -1.8 million euros). In Q2 2014, volume of electricity distributed amounted to 1,416 GWh (-1.1%, -15.6 GWh), which is lower than in Q2 2013. The decrease in the distribution sales volume is attributable mainly to warmer air temperatures in April.

In Q2 2014, network losses amounted to 80 GWh or 5.2% (47 GWh or 3.0% in Q2 2013). The notable difference from the previous year is related to unusally low losses in Q2 2013. Related to Estonian electricity market opening, imprecise loss amounts in Q2 2013 were counted in later periods of 2013.



In Q2 2014, the average price of the distribution service was 38.3 €/MWh (-2.2%, -0.8 €/MWh). Sales price of the distribution service is affected by regular price corrections and the structure of distribution service consumption. A tariff correction took effect since August 2013, when permitted return for distribution companies was reduced by the Estonian Competition Authority. Network tariff decreased also in April 2014, the non-controlled cost in the distribution service price decreased (transmission service costs procured from TSO – Elering – decreased).

In comparison with Q2 2013, network reliability has notably improved. Average duration of unplanned interruptions was 28 minutes (37 minutes in Q2 2013). Average duration of planned interruptions was 16 minutes (22 minutes in Q2 2013). In the second quarter, there were 4,658 outages in the electricity network (5,722 outages in Q2 2013).

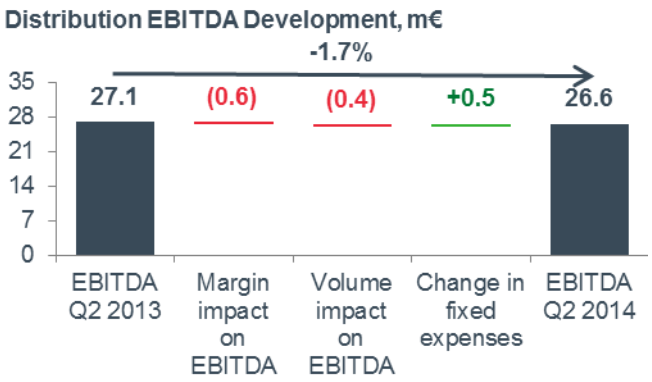
In the low-voltage network, the number of outages is decreasing also by the replacement of normal overhead lines with weather-proof cables. However, weather continues to significantly influence the number of outages as there were notably more thunderstorms in Q2 2013.

Key Figures		Q2 2014	Q2 2013
Return on fixed assets	%	6.1	7.2
Distribution losses	GWh	80.3	47.0
SAIFI	index	0.1	0.2
SAIDI (planned)	index	15.9	22.1
SAIDI (unplanned)	index	28.0	36.7
Adjusted RAB	m€	653.1	600.4

SAIFI - System Average Interruption Frequency Index (no of times)
SAIDI - System Average Interruption Duration Index (in minutes)
RAB - Regulated Asset Base

In Q2 2014, **EBITDA from sales of distribution service** reached 26.6 million euros (-1.7%, -0.5 million euros). Profitability of the distribution service was negatively influenced by lower margin (impact on EBITDA -0.6 million euros). The margin of distribution service decreased because of lower distribution sales price (impact -1.2 million euros) that was partially offset by lower transmission costs (impact +0.5 million euros).

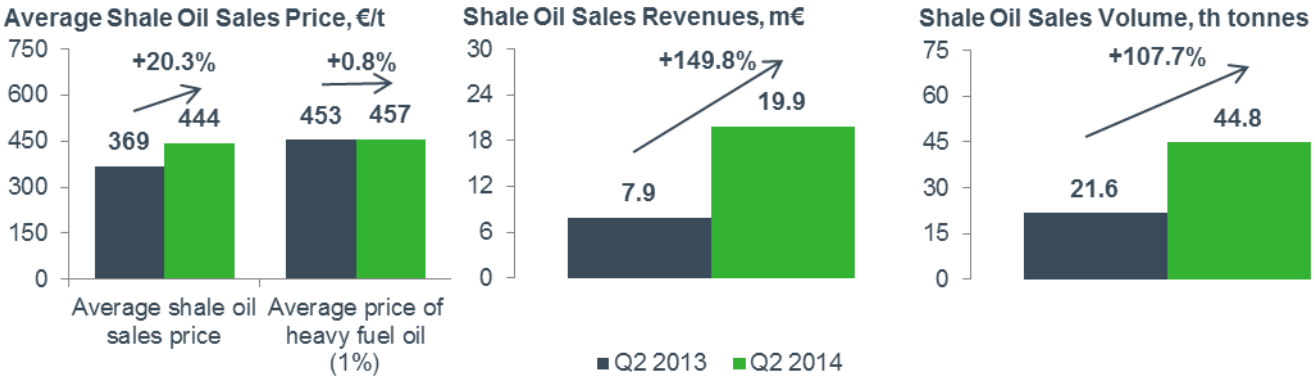
Reduction in the distribution volume impacted EBITDA by -0.4 million euros. Profitability of distribution was increased by lower fixed costs (+0.5 million euros) mainly related to lower IT expenses.



Eesti Energia Oil Industry in Ida-Virumaa, Estonia

Shale oil

In Q2 2014, **the sales revenue from the sales of shale oil** amounted to 19.9 million euros (+149.8%, +11.9 million euros). In the second quarter, Eesti Energia sold 44.8 thousand tonnes of shale oil (+107.7%, +23.2 thousand tonnes). In Q2 2014, the average sales price of shale oil was 443.5 €/t (+20.3%, +74.9 €/t). As compared to Q2 2013, the average price increased more than the global market price of heavy fuel oil, the reference product. The growth in sales price is attributable mainly to the increase in the profitability of derivative contracts as compared to the previous year.

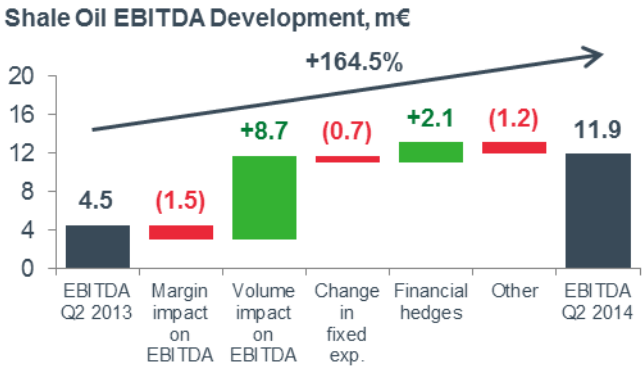


The Group's shale production reached 56.6 thousand tonnes in Q2 2014 (+53.6%, +19.7 thousand tonnes compared to previous year).

In Q2 2014, we substantially increased the working time at Eesti Energia Enefit280 oil plant at 60% capacity. In the summer we will conduct planned maintenance, in the course of which we will liquidate some shortcomings discovered during commissioning that will allow us to operate the plant at stable capacity in autumn and move step-by-step towards achieving design capacity.

The Group's shale oil sales price is hedged against fluctuations in world market prices of shale oil by financial hedges. In Q2 2014, impact of financial hedges on shale oil sales revenues was 0.6 million euros (+2.1 million euros compared to the previous year) or 14.2 €/t. Without the impact of derivative contracts, the average sale price of fuel oil was 429.4 €/t (-1.2%, -5.3 €/t as compared to Q2 2013).

Key Figures		Q2 2014	Q2 2013
Return on fixed assets	%	30.2	37.2
Shale oil EBITDA	€/t	265.9	208.7



In Q2 2014, **EBITDA from sale of shale oil** was 11.9 million euros (+164.5%, +7.4 million euros). Margin decreased mainly due to higher CO_2 expenses (impact -0.9 million euros) and increased environ-

mental taxes (-0.3 million euros). Total margin impact on profitability was -1.5 million euros.

Profitability of shale oil increased substantially due to higher sales volumes. The impact of higher sales volumes on profitability was 8.7 million euros.

Higher fixed costs reduced shale oil EBITDA by 0.7 million euros due to fixed cost component in increased inventories.

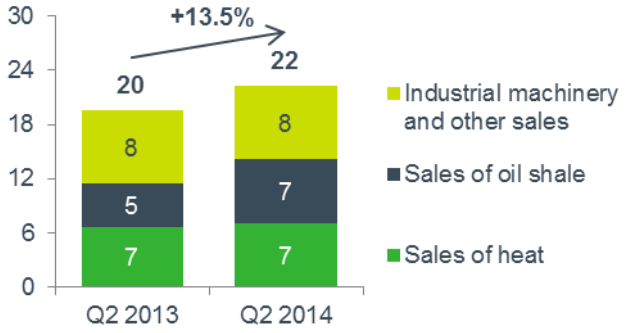
The impact of financial hedges on shale oil was positive (+2.1 million euros), other negative impact on profitability (-1.2 million euros) was mainly related to revaluation of derivative contracts.

Eesti Energia Iru Power Plant in Tallinn, Estonia

Other Products and Services

In Q2 2014, **sales revenue from sale of other products and services** totalled 22.2 million euros (+13.5%, +2.6 million euros). Growth of other revenue was positively influenced by higher oil shale sales volume (impact on sales revenues +2.4 million euros) and increased heat sales (+0.3 million euros). Sales revenue of Eesti Energia Technology Industries and other sales amounted to 8.0 million euros (-0.1 million euros).

Sales Revenues From Other Products and Services, m€

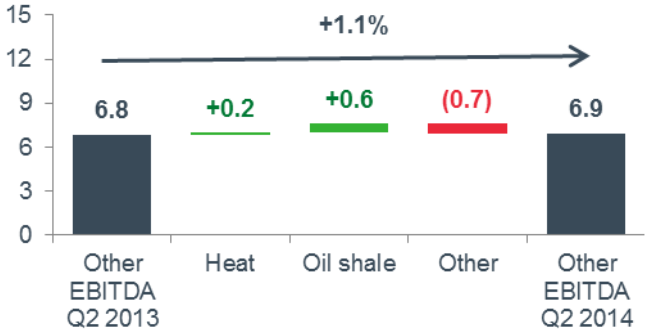


In Q2 2014, **EBITDA of other products** amounted to 6.9 million euros (+1.1%, +0.1 million euros). EBITDA of other products was mainly positively influenced by increased sales of oil shale (EBITDA impact +0.6 million euros) and heat (impact +0.2 million euros). Higher revenue from waste reception gate fees increased heat EBITDA by 0.1 million euros. Heat EBITDA decreased due to growth in the repair expenses in Iru Power Plant.

Oil shale EBITDA increased due to growth in external sale of oil shale. The external sales volume of oil shale increased to 223 thousand tonnes (45.8%, +70.0 thousand tonnes).

EBITDA of other products and services decreased in total by 0.7 million euros due to lower external sales volumes of Eesti Energia Technology Industries. Other EBITDA decrease was partially offset by sale of fixed assets in mining subsidiary in 2014 (impact +0.6 million euros).

Other Products and Services EBITDA Development, m€

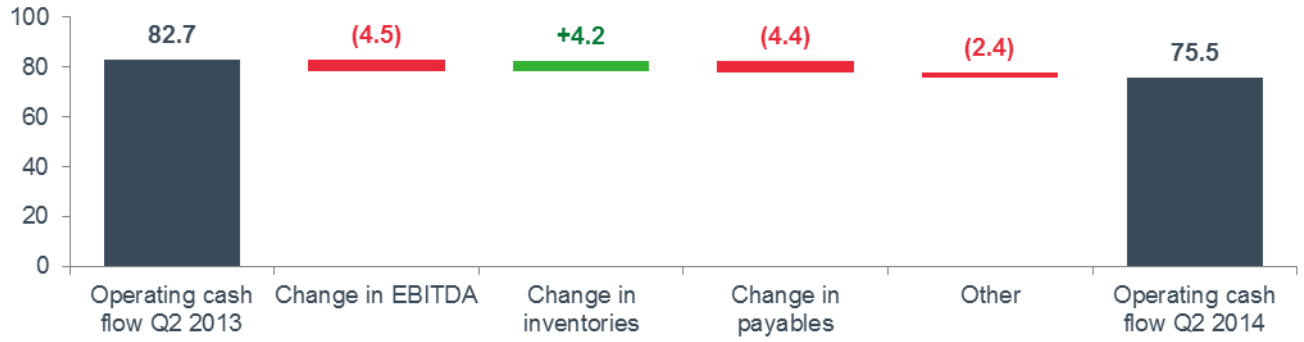


Cash Flows

In Q2 2014, Eesti Energia's cash flows from operating activities amounted to 75.5 million euros. Compared to previous year, Eesti Energia's cash flows from operating activities decreased by 8.7% (-7.2 million euros).

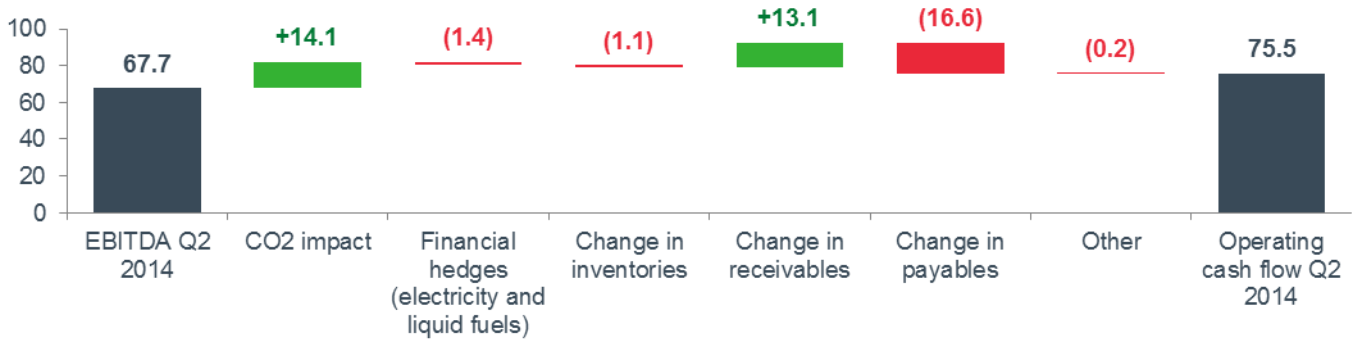
Decrease in EBITDA (-4.5 million euros) impacted operating cash flows the most compared to previous year. Inventories were reduced faster compared to Q2 2013 (impact +4.2 million euros). Decrease in payables was higher in Q2 2014 compared to the previous year impacting operating cash flows by 4.4 million euros.

Operating Cash Flow Changes, m€



In Q2, cash flows from operating activities were higher than EBITDA by 7.8 million euros. As compared to the Group's EBITDA (67.7 million euros), cash flow from operating activities was increased by future purchases of CO_2 allowances (+14.1 million euros). The total influence of changes in working capital on cash flows was negative, the decrease of receivables impacted cash flows from operating activities by 13.1 million euros, but it was offset by changes in payables (impact -16.6 million euros).

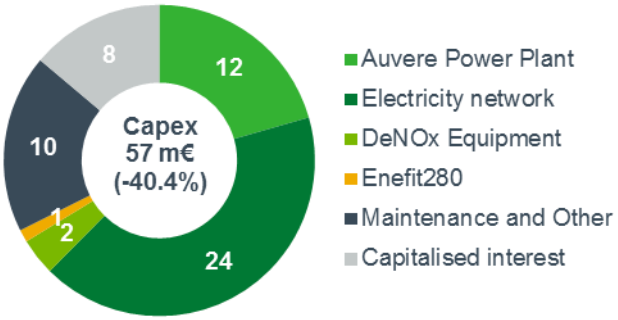
EBITDA to Operating Cash Flows Development, m€



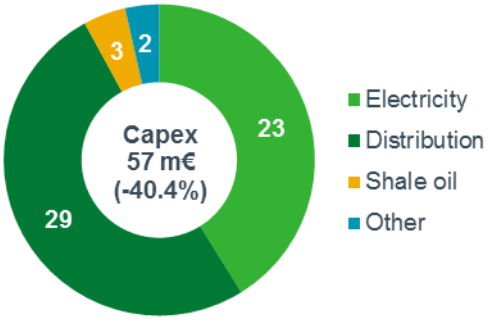
Investments

The volume of capital expenditure has decreased substantially since several large investment projects were completed last year. In the second quarter of 2014, the Group invested 56.6 million euros (-40.4%, -38.4 million euros). The main investments in Q2 were made in the new 300 MW Auvere Power Plant and improvements in the quality of distribution network.

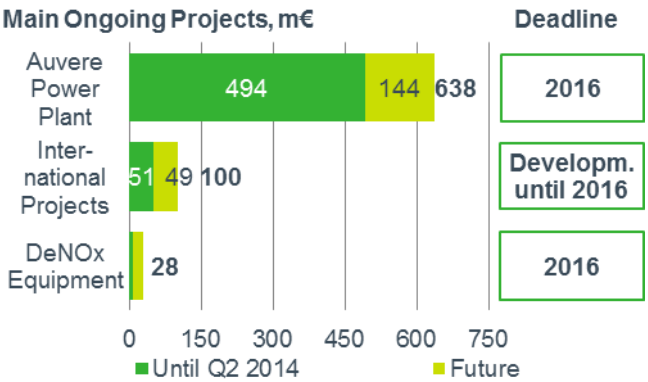
Capex Breakdown by Projects, m€



Capex Breakdown by Products, m€



In Q2 2014, work continued with the commissioning of the new Enefit280 oil plant, the installation of nitrogen filters in the Eesti Power Plant, and preparations in connection with international projects of Eesti Energia.



Construction of the 300 MW Auvere Power Plant

In the summer of 2011, Eesti Energia started the construction of a new power plant running on the modern circulating fluidized bed (CFB) technology in Auvere. The construction and commissioning of the new Auvere power plant should be completed by 2016. The power plant design allows using up to 50% of biofuel alongside oil shale, which will reduce the plant's CO_2 footprint to the level of a modern gas plant. The maximum annual net generation of the Auvere power plant is 2,192 GWh. For financing the construction of Auvere Power Plant, the European Commission approved the Government of Estonia's request to allocate 18 million tonnes of greenhouse gas emission allowances free of charge for 2013-2020 to Eesti Energia as an investment subsidy, 5 million tonnes of which were received by Eesti Energia in April 2014.

In Q2 2014, assembly and installation of power plant equipment continued. Fuel feeding conveyors and ash station equipment were installed and preparations for first start-up procedures were started. In parallel, construction works continued in the boiler room, turbine room, cooling water pumping station, ash station, administrative building, water preparatory building and other smaller buildings.

Reduction of nitrogen emissions in Eesti Power Plant

The industrial emissions directive that entered into force in January 2011 provides that starting from 2016 the concentration of nitrogen oxides (NO_x) of large burning equipment in smoke gases released to the atmosphere cannot exceed 200 mg/Nm^3. In 2013, NO_x reduction technology was successfully implemented by installing NO_x filters on one boiler in the Eesti Power Plant as part of a pilot project that enabled to reduce the NO_x amount by half.

In March 2014, Phase 2 of the project was approved, in the course of which another 7 boilers of four

generating units will be equipped with filters. In total, net production capacity of boilers for which NO_x emissions will be reduced is 672 MW at present.

In Q2 2014, assembly works were started with the second boiler of the third generating unit. The installation of NO_x filters will be completed by 2016. The total cost of the project is 28 million euros, of which 6.9 million euros has been invested by the end of Q2 2014.

Improving the quality of distribution service

For improving the quality of the distribution service, we invested 24 million euros in Q2 2014, which is at the level of Q2 2013. During the quarter, 119 substations and 434 kilometres of underground and overhead cables were renovated and built (134 substations and 347 kilometres of cables in Q2 2013).

In 2013-16, Elektrilevi will install smart meters in all consumption sites in Estonia. In the second quarter, we installed 49 thousand smart meters and switched more than 55 thousand meters into the remote reading system. By the end of June 2014, 263 thousand new hourly smart meters were installed in the framework of the remote reading project. By the end of Q2 2014, 20% of total meters were switched into the remote reading system, installed smart meters accounted for 41% of all power meters of Elektrilevi (+32pp as compared to Q2 2013, +8pp as compared to Q1 2014).

Preliminary development of the Jordanian electricity and oil projects

Eesti Energia owns 65% of the Jordanian electricity and oil projects. Project partners are Malaysian YTL Power International Berhad with a holding of 30% and Jordanian partner Near East Investment with a holding of 5%.

In the framework of the electricity project, in the second quarter of 2014, negotiations were continued with the Government of Jordan, as a result of which an agreement was reached on the package of project contracts submitted at the end of 2013, including terms of the electricity sale and purchase contract. As a result of a tender for carrying out additional hydrological studies, the driller of water boreholes and the tester of water pumping were selected. Work in designing the mine continued.

The preliminary development of the Jordanian oil project is expected to last until 2016. During the preliminary development phase, Eesti Energia will develop a part of the Attarat Um Ghudran mine[7]. In the second quarter 2014 work continued in planning a test programme to study possibilities to increase the output of oil.

The planned capacity of the Jordanian first oil shale power plant is 470 MW and its completion is planned to take place in 2018.

Preliminary development of US oil production project

In March 2011, Eesti Energia acquired the oil shale resource in Uintah County, Utah (USA), estimated at 6.6 billion tonnes[8]. In Utah, we continue to operate under the name of Enefit American Oil.

In the second quarter of 2014, the socio-economic impact assessment report was completed, defining the significant employment and economic benefits anticipated from the project. Progress on the Environmental Impact Statement in cooperation with the Bureau of Land Management continued. Two engineering firms were selected and contracted, one in connection with the utility crossing of the White River and the second for supporting the development of the overall project engineering design.

[7] The area under research is estimated to contain 3.5 billion tonnes of oil shale of which 0.9 billion tonnes represents measured resource for developing electricity project

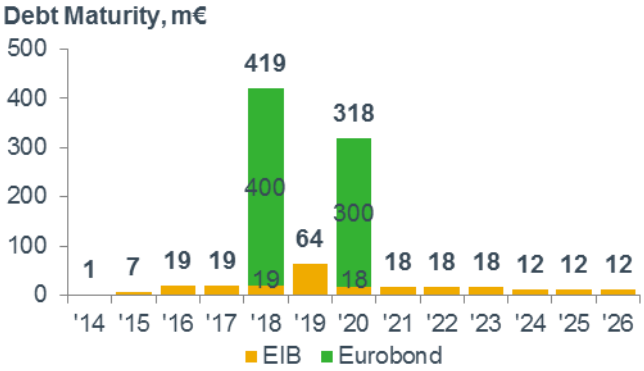
[8] Measured resource 3.7 billion tonnes, indicated 2.5 billion tonnes, inferred 0.4 billion tonnes

Financing

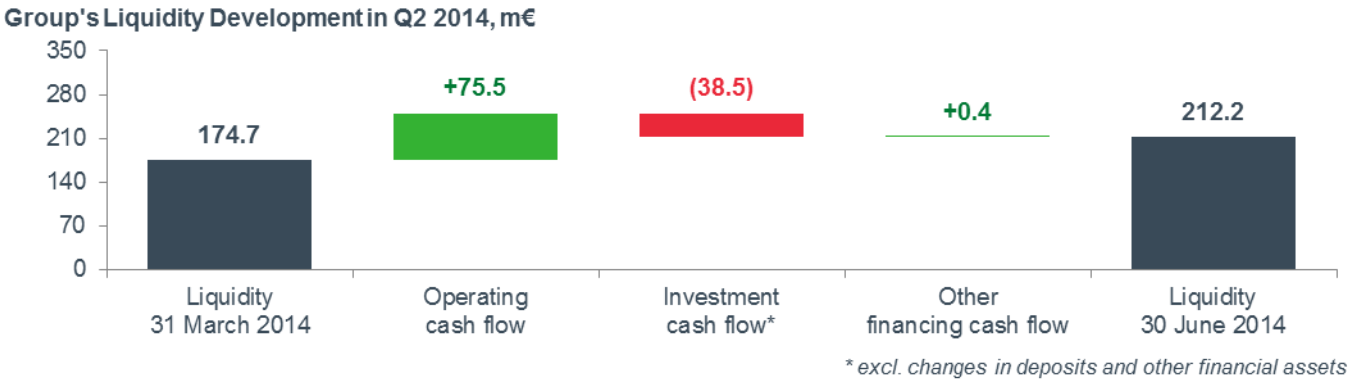
Eesti Energia's main sources of borrowings are the international bond market and bilateral investment loans agreed with the European Investment Bank (EIB). The necessary liquidity loans and guarantee limits are secured by regional banks.

As at the end of Q2 2014, total borrowings in nominal value amounted to 937.8 million euros (unchanged compared to Q1 2014). The borrowings amounted to 935.8 million euros (-0.1 million euros compared to Q1 2014), using the amortised cost method. At the end of the reporting period, long-term borrowings included eurobonds listed on the London Stock Exchange in the nominal value of 700 million euros and loans received from the EIB accounted for 237.8 million euros of borrowings in nominal value.

Main repayments of borrowings are related to the maturities of eurobonds in 2018 and 2020. The last due date of the longest EIB loan is 2026. The precise schedule of repayments depends on the specific loan.



As at the end of Q2 2014, the Group's liquid assets (including deposits with maturity of more than 3 months and liquid financial assets) amounted to 212 million euros. In addition, the Group's undrawn loans amounted to 250 million euros as at the end of Q2 including bilateral revolving credit facilities for the total amount of 150 million euros signed with three regional banks (SEB, Pohjola and Nordea) that are due in September 2018, and a long-term loan with the European Investment Bank in the amount of 100 million euros.



We estimate that the volume of Eesti Energia's liquid assets and the volume of signed, but undrawn loans are at present sufficient for covering the Group's immediate liquidity requirement, the decreasing investment programme, dividend payment and other needs.

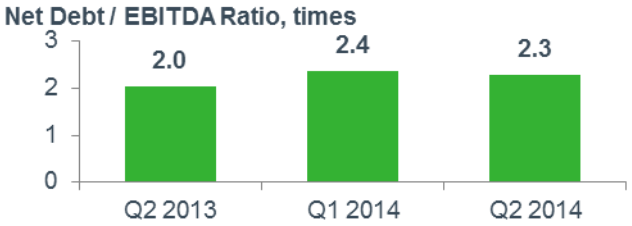
At the end of the second quarter, credit ratings of Eesti Energia were at BBB+ (Standard & Poor's)[9] and Baa2 (Moody's), both with a stable outlook. Credit ratings are at the investment grade level that allows the Group to access capital markets if needed.

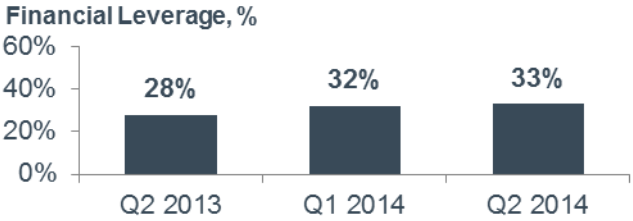
[9] In June 2014, S&P published a new report which retains the rating at the current level of BBB+, regardless of the lowering of Eesti Energia's independent rating by one notch

As at 31 June 2014, the weighted average interest rate of the Group's borrowings was 3.92% (3.91% at the end of Q1 2014). The majority of Group borrowings have fixed interest rates (94% of the Group's total debt). All borrowings are denominated in euros.

As at the end of Q2, the equity of Eesti Energia amounted to 1,467.5 million euros. 100% of the shares of Eesti Energia are owned by the Republic of Estonia. With the resolution of the sole shareholder, the dividend payable by AS Eesti Energia in 2014 is approved in the amount of 113.6 million euros (55.2 million euros in 2013), plus income tax. The dividend will be paid out in Q4.

As at the end of Q2, the Group's net debt was 723.6 million euros (-37.6 million euros as compared to the end of Q1 2014). As at the end of Q2, EBITDA to net debt ratio was 2.3 (2.4 at the end of Q1 2014). According to loan agreements, Eesti Energia is bound to comply with certain financial covenants. As at the end of Q2 2014, the Group complied with these financial covenants.





Outlook for FY2014

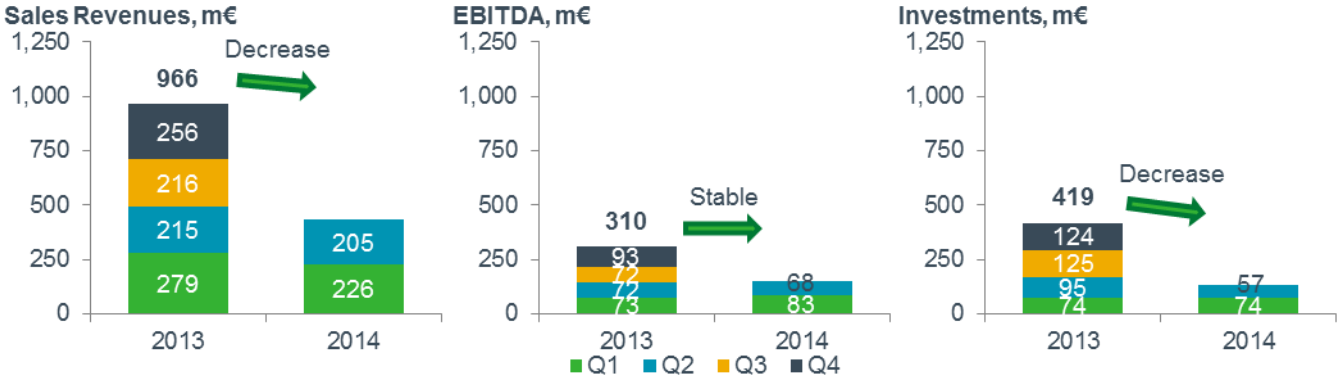
The Group's first-half year sales revenue was 431.0 million euros (-12.8%, -63.0 million euros). Six-month EBITDA amounted to 151.1 million euros, which is higher than in the same period a year earlier (+4.0%, +5.8 million euros). Group's investments in the first half of 2014 totalled 130.4 million euros (-22.9%, -38.7 million euros).

Outlook has not changed as compared to the previous quarter. We still expect the Group's revenues to decrease as compared to FY2013, as subdued price level in electricity exchange is likely to bring about lower electricity generation and sales also in the remainder of 2014. EBITDA is expected to remain at the same level as in the previous year, whereas investments are expected to decrease.

We expect that in Q4 2014, the dividend payment to the sole shareholder will reach 113.6 million euros, in addition to the income tax payable to the state in the amount of 30.2 million euros.

The Group has sold forward 5.0 TWh of power for the remaining 6 months of 2014 at the average price of 43.7 €/MWh and 98 thousand tonnes of shale oil production at the average price of 471 €/t. In year 2015, 6.0 TWh of power at the average price of 40.3 €/MWh and 192 thousand tonnes of shale oil at the average price of 428 €/t has been sold forward.

The Group's CO_2 emissions exposure for year 2014 has been hedged via forward purchases (incl. free allowances related to power plant construction and surplus from previous periods) for 27.6 million tonnes at the average price of 4.6 €/t. In 2015 the hedged CO_2 amounts account for 6.5 million tonnes at the average price of 1.5 €/t.



Consolidated Income Statement and Statement of Comprehensive Income

CONSOLIDATED INCOME STATEMENT in million EUR	3 months 1 April - 30 June 2014	3 months 1 April - 30 June 2013	6 months 1 January - 30 June 2014	6 months 1 January - 30 June 2013	12 months 1 July - 30 June 2014/13	12 months 1 July - 30 June 2013/12	*Note*
Revenue	204.6	215.4	430.9	494.0	903.3	919.5	*3*
Other operating income	3.0	(4.1)	6.8	6.4	8.8	36.1	
Government grants	-	0.1	0.1	0.1	0.4	0.6	
Change in inventories of finished goods and work-in-progress	(0.1)	4.4	6.5	(4.4)	(0.5)	(10.5)	
Raw materials and consumables used	(84.9)	(96.3)	(187.0)	(238.6)	(368.1)	(440.1)	
Payroll expenses	(32.9)	(35.2)	(67.2)	(70.2)	(145.2)	(152.8)	
Depreciation, amortisation and impairment	(32.1)	(28.9)	(63.7)	(57.7)	(141.0)	(182.8)	
Other operating expenses	(22.0)	(12.1)	(39.0)	(42.0)	(82.3)	(81.1)	
OPERATING PROFIT	**35.6**	**43.3**	**87.4**	**87.6**	**175.4**	**88.9**	***3***
Financial income	1.0	0.7	2.0	1.4	3.8	3.2	
Financial expenses	(1.6)	(1.2)	(3.3)	(2.1)	(5.7)	(7.9)	
Net financial income (-expense)	**(0.6)**	**(0.5)**	**(1.3)**	**(0.7)**	**(1.9)**	**(4.7)**	
Gain from associates using equity method	-	-	-	-	(0.8)	(0.2)	
PROFIT BEFORE TAX	**35.0**	**42.8**	**86.1**	**86.9**	**172.7**	**84.0**	
CORPORATE INCOME TAX EXPENSE	**(28.8)**	**0.5**	**(28.8)**	**(18.8)**	**(24.0)**	**(19.7)**	
PROFIT FOR THE YEAR	**6.2**	**43.3**	**57.3**	**68.1**	**148.7**	**64.3**	
Equity holders of the Parent Company	**6.2**	**43.2**	**57.1**	**67.7**	**148.9**	**64.4**	
Non-controlling interest	**-**	**0.1**	**0.2**	**0.4**	**(0.2)**	**(0.1)**	
Basic earnings per share (euros)	*0.01*	*0.07*	*0.09*	*0.11*	*0.24*	*0.10*	*8*
Diluted earnings per share (euros)	*0.01*	*0.07*	*0.09*	*0.11*	*0.24*	*0.10*	*8*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME in million EUR	3 months 1 April - 30 June 2014	3 months 1 April - 30 June 2013	6 months 1 January - 30 June 2014	6 months 1 January - 30 June 2013	12 months 1 July - 30 June 2014/13	12 months 1 July - 30 June 2013/12
PROFIT FOR THE YEAR	**6.2**	**43.3**	**57.3**	**68.1**	**148.7**	**64.3**
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss:						
Revaluation of risk hedge instruments	(36.1)	35.9	(25.5)	26.3	(16.3)	33.6
Currency translation differences attributable to foreign subsidiaries	0.3	(0.9)	0.5	0.2	(1.3)	(1.9)
Other comprehensive income for the year	**(35.8)**	**35.0**	**(25.0)**	**26.5**	**(17.6)**	**31.7**
COMPREHENSIVE INCOME FOR THE YEAR	**(29.6)**	**78.3**	**32.3**	**94.6**	**131.1**	**96.0**
Equity holders of the Parent Company	**(29.6)**	**78.2**	**32.1**	**94.2**	**131.3**	**96.1**
Non-controlling interest	**-**	**0.1**	**0.2**	**0.4**	**(0.2)**	**(0.1)**

Consolidated Statement of Financial Position

in million EUR	30 June 2014	30 June 2013	31 December 2013	*Note*
ASSETS				
Non-current assets				
Property, plant and equipment	2,325.5	2,086.9	2,258.1	*5*
Intangible assets	61.1	63.3	62.2	
Investments in associates	17.5	21.3	22.4	
Derivative financial instruments	0.1	16.1	6.2	*6*
Long-term receivables	22.9	52.1	19.4	
Total non-current assets	**2,427.1**	**2,239.7**	**2,368.3**	
Current assets				
Inventories	48.8	47.4	39.1	
Greenhouse gas allowances	81.8	11.6	100.4	
Trade and other receivables	120.5	164.1	185.1	
Derivative financial instruments	46.3	21.4	41.4	*6*
Deposits with maturities greater than three months at banks	132.0	73.0	21.0	
Cash and cash equivalents	77.7	103.3	62.6	
Total current assets	**507.1**	**420.8**	**449.6**	
Assets of disposal group classified as held for sale	**5.5**	**-**	**-**	***12***
Total assets	**2,939.7**	**2,660.5**	**2,817.9**	
EQUITY				
Capital and reserves attributable to equity holder of the Parent Company				
Share capital	621.6	621.6	621.6	*7*
Share premium	259.8	259.8	259.8	
Statutory reserve capital	59.0	51.0	51.0	
Hedge reserve	21.5	37.8	47.0	
Unrealised exchange rate differences	1.3	2.6	0.8	
Retained earnings	501.6	456.0	566.1	
Total equity and reserves attributable to equity holder of the Parent Company	**1,464.8**	**1,428.8**	**1,546.3**	
Non-controlling interest	**2.7**	**1.4**	**1.4**	
Total equity	**1,467.5**	**1,430.2**	**1,547.7**	
LIABILITIES				
Non-current liabilities				
Borrowings	934.5	731.6	826.5	*9*
Other payables	5.9	2.7	3.3	
Derivate financial instruments	2.6	-	1.5	*6*
Deferred income	154.5	143.7	151.0	
Provisions	28.6	25.1	28.8	
Total non-current liabilities	**1,126.1**	**903.1**	**1,011.1**	
Current liabilities				
Borrowings	1.4	1.4	1.4	*9*
Trade and other payables	286.4	254.0	178.4	
Derivative financial instruments	7.5	9.5	2.5	*6*
Deferred income	3.2	2.4	3.5	
Provisions	45.0	59.9	73.3	
Total current liabilities	**343.5**	**327.2**	**259.1**	
Liabilities of disposal group classified as held for sale	**2.6**	**-**	**-**	***12***
Total liabilities	**1,472.2**	**1,230.3**	**1,270.2**	
Total liabilities and equity	**2,939.7**	**2,660.5**	**2,817.9**	

Consolidated Statement of Cash Flows

in million EUR	3 months 1 April - 30 June 2014	3 months 1 April - 30 June 2013	6 months 1 January - 30 June 2014	6 months 1 January - 30 June 2013	12 months 1 July - 30 June 2014/13	12 months 1 July - 30 June 2013/12	*Note*
Cash flows from operating activities							
Cash generated from operations	75.9	83.0	138.0	151.4	272.5	255.0	*10*
Interest and loan fees paid	(0.4)	(0.3)	(0.8)	(0.6)	(32.1)	(25.5)	
Interest received	0.1	0.1	0.2	0.4	0.4	1.2	
Corporate income tax paid	(0.1)	(0.1)	(5.6)	(0.1)	(15.6)	(0.4)	
Net cash generated from operating activities	**75.5**	**82.7**	**131.8**	**151.1**	**225.2**	**230.3**	
Cash flows from investing activities							
Purchase of property, plant and equipment and intangible assets	(43.4)	(77.2)	(132.1)	(163.7)	(355.8)	(396.9)	
Proceeds from connection and other fees	2.6	3.1	6.0	6.4	13.5	13.6	
Proceeds from sale of property, plant and equipment	0.5	0.1	0.6	12.6	1.4	16.6	
Proceeds from grants of property, plant and equipment	-	3.5	-	3.5	0.9	5.0	
Net change in deposits with maturities greater than 3 months	5.0	(40.0)	(111.0)	17.0	(59.0)	(8.0)	
Net change in cash with limited usage	(0.1)	0.5	7.5	15.1	1.8	14.1	
Purchase of short-term financial investments	-	-	-	(4.6)	(3.0)	(19.1)	
Loans granted	(0.8)	-	(1.9)	(1.6)	(4.0)	(2.3)	*13*
Dividens received from long-term financial investments	1.7	1.5	5.6	1.5	5.6	1.5	
Acquisition of subsidiaries, net of cash acquired	-	(0.2)	-	(0.2)	-	(0.2)	
Proceeds from sale and redemption of short-term financial investments	1.1	0.6	1.1	6.4	1.1	27.8	
Net cash used in investing activities	**(33.4)**	**(108.1)**	**(224.2)**	**(107.6)**	**(397.5)**	**(347.9)**	
Cash flows from financing activities							
Received long-term loans	0.4	-	0.4	0.4	96.3	1.7	
Proceeds from bonds issued	-	-	110.3	-	110.3	-	
Repayments of bank loans	-	-	(0.7)	(0.7)	(1.4)	(1.4)	
Repayments of other loans	-	-	-	-	(0.8)	-	
Contribution to the share capital	-	-	-	-	-	150.0	
Dividends paid	-	-	-	-	(55.2)	-	
Net cash used in financing activities	**0.4**	**-**	**110.0**	**(0.3)**	**149.2**	**150.3**	
Net cash flows	**42.5**	**(25.4)**	**17.6**	**43.2**	**(23.1)**	**32.7**	
Cash and cash equivalents at the beginning of the period	37.7	128.7	62.6	60.1	103.3	70.6	
Cash and cash equivalents classified as held for sale	*(2.5)*	-	*(2.5)*	-	*(2.5)*	-	*12*
Cash and cash equivalents at the end of the period	77.7	103.3	77.7	103.3	77.7	103.3	
Net increase/(-)decrease in cash and cash equivalents	**42.5**	**(25.4)**	**17.6**	**43.2**	**(23.1)**	**32.7**	

Consolidated Statement of Changes in Equity

in million EUR	Attributable to equity holder of the Company						Non-controlling interest	Total equity
	Share capital (Note 7)	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total		
Equity as at 31 December 2012	**621.6**	**259.8**	**47.2**	**13.9**	**465.6**	**1,408.1**	**1.0**	**1,409.1**
Income for the year	-	-	-	-	67.7	67.7	0.4	68.1
Comprehensive income for the year	-	-	-	26.5	-	26.5	-	26.5
Comprehensive income for the year	**-**	**-**	**-**	**26.5**	**67.7**	**94.2**	**0.4**	**94.6**
Dividends declared	-	-	-	-	(73.5)	(73.5)	-	(73.5)
Transfer of retained earning to statutory reserve capital	-	-	3.8	-	(3.8)	-	-	-
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**3.8**	**-**	**(77.3)**	**(73.5)**	**-**	**(73.5)**
Equity as at 30 June 2013	**621.6**	**259.8**	**51.0**	**40.4**	**456.0**	**1,428.8**	**1.4**	**1,430.2**
Equity as at 31 December 2013	**621.6**	**259.8**	**51.0**	**47.8**	**566.1**	**1,546.3**	**1.4**	**1,547.7**
Income for the year	-	-	-	-	57.1	57.1	0.2	57.3
Comprehensive income for the year	-	-	-	(25.0)	-	(25.0)	-	(25.0)
Comprehensive income for the year	**-**	**-**	**-**	**(25.0)**	**57.1**	**32.1**	**0.2**	**32.3**
Increase of non-controlling interest due to the conversion of subsidiary's debt into equity	-	-	-	-	-	-	1.1	1.1
Dividends declared	-	-	-	-	(113.6)	(113.6)	-	(113.6)
	-	-	-	-	-	-	-	-
Transfer of retained earning to statutory reserve capital	-	-	8.0	-	(8.0)	-	-	-
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**8.0**	**-**	**(121.6)**	**(113.6)**	**1.1**	**(112.5)**
Equity as at 30 June 2014	**621.6**	**259.8**	**59.0**	**22.8**	**501.6**	**1,464.8**	**2.7**	**1,467.5**

Notes to the Financial Statements

1 Accounting Policies

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

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

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

According to the Management Board the Interim Report prepared for the period 1 January 2014 - 30 June 2014 presents a true and fair view of the financial position, the cash flows and the results of operations of Eesti Energia AS and its subsidiaries (Group).

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

2 Financial Risk Management

2.1 Financial risk factors

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

2.2 Fair value estimation

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

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

The following tables present the Group's assets and liabilities that are measured at fair value by the level in the fair value hierarchy as at 30 June 2014 and 30 June 2013:

	30 June 2014			
in million EUR	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Trading derivatives (Note 6)	-	24.3	1.7	26.0
Cash flow hedges (Note 6)	20.9	(0.5)	-	20.4
Total financial assets	**20.9**	**23.8**	**1.7**	**46.4**
Liabilities	**-**	**-**	**-**	**-**
Trading derivatives (Note 6)	-	1.3	-	1.3
Cash flow hedges (Note 6)	-	8.8	-	8.8
Total financial liabilities	**-**	**10.1**	**-**	**10.1**

	30 June 2013			
in million EUR	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Trading derivatives (Note 6)	0.9	-	0.7	1.6
Cash flow hedges (Note 6)	32.7	3.2	-	35.9
Total financial assets	**33.6**	**3.2**	**0.7**	**37.5**
Liabilities	**-**	**-**	**-**	**-**
Trading derivatives (Note 6)	-	8.5	-	8.5
Cash flow hedges (Note 6)	-	1.0	-	1.0
Total financial liabilities	**-**	**9.5**	**-**	**9.5**

2 Financial Risk Management, cont.

2.2 Fair value estimation, cont.

Valuation techniques and inputs used on measurement in level 1

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

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

Valuation techniques and inputs used on measurement in level 2

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

- The fair value of forward, swap and future contracts is determined using forward prices at the balance sheet date, with the resulting value discounted back to present value.
- Valuation of financial assets at fair value through profit or loss is based on discounted cash flow method.

Valuation techniques and inputs used on measurement in level 3

- The fair value of options is found using analytical solution of turnbull-wakeman Asian-type option pricing.

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

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

in million EUR	30 June	
	2014	2013
Nominal value of bonds	700.0	600.0
Market value of bonds on the basis of quoted sales price	781.6	657.9
Nominal value of bank loans with fixed interest rate	186.0	136.0
Fair value of bank loans with fixed interest rate	196.9	144.9

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.

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

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

3 Segment Reporting

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

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

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

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

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

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

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

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

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

3 Segment Reporting, cont.

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.

in million EUR	1 April - 30 June 2014	1 April - 30 June 2013
	Revenue from external customers	Revenue from external customers*
Electrical Energy	108.2	131.8
Network Services	54.3	56.1
Liquid Fuels	19.9	7.9
Other	22.2	19.6
Total	**204.6**	**215.4**

EBITDA

in million EUR	1 April - 30 June 2014	1 April - 30 June 2013
	EBITDA	EBITDA
Electrical Energy	22.3	33.8
Network Services	26.6	27.1
Liquid Fuels	11.9	4.5
Other	6.9	6.8
Total	**67.7**	**72.2**
Depreciation and amortisation	(32.1)	(28.9)
Net financial income (-expense)	(0.6)	(0.5)
Profit before tax	**35.0**	**42.8**

* In connection with minor adjustment of the methodology the comparative figures have been recalculated compared to the data disclosed in the interim report as at 30 June 2013

3 Segment Reporting, cont.

in million EUR	1 January - 30 June 2014	1 January - 30 June 2013
	Revenue from external customers	**Revenue from external customers***
Electrical Energy	223.0	289.1
Network Services	122.2	126.0
Liquid Fuels	33.2	30.9
Other	52.5	48.0
Total	**430.9**	**494.0**

EBITDA

in million EUR	1 January - 30 June 2014	1 January - 30 June 2013
	EBITDA	**EBITDA**
Electrical Energy	74.6	67.6
Network Services	48.0	49.3
Liquid Fuels	15.8	17.1
Other	12.7	11.3
Total	**151.1**	**145.3**
Depreciation and amortisation	(63.7)	(57.7)
Net financial income (-expense)	(1.3)	(0.7)
Profit before tax	**86.1**	**86.9**

* In connection with minor adjustment of the methodology the comparative figures have been recalculated compared to the data disclosed in the interim report as at 30 June 2013

4 Seasonality of Operating Profit

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

5 Property, Plant and Equipment

in million EUR	Land	Buildings	Const-ruction	Plant and equipment	Other	Total
Property, plant and equipment as at 31 December 2013						
Cost	42.1	153.7	859.6	1,643.7	5.5	2,704.6
Accumulated depreciation	-	(93.5)	(340.1)	(789.7)	(4.5)	(1,227.8)
Net book amount	42.1	60.2	519.5	854.0	1.0	1,476.8
Construction in progress	-	11.0	37.1	691.5	-	739.6
Prepayments	-	-	-	41.7	-	41.7
Total property, plant and equipment as at 31 December 2013	**42.1**	**71.2**	**556.6**	**1,587.2**	**1.0**	**2,258.1**
Movements 1 January - 30 June 2014						
Purchases of property, plant and equipment	0.1	4.4	18.3	106.2	-	129.0
Depreciation charge	-	(2.3)	(12.4)	(45.9)	(0.1)	(60.7)
Net book amount of non-current assets disposed	-	-	-	(0.1)	-	(0.1)
Classified as held for sale (Note 12)	-	-	-	(0.7)	-	(0.7)
Exchange differences	(0.1)	-	-	-	-	(0.1)
Movements 1 January - 30 June 2014	**-**	**2.1**	**5.9**	**59.5**	**(0.1)**	**67.4**
Property, plant and equipment as at 30 June 2014						
Cost	42.1	152.4	878.7	1,699.4	5.6	2,778.2
Accumulated depreciation	-	(94.0)	(352.2)	(824.8)	(4.7)	(1,275.7)
Net book amount	42.1	58.4	526.5	874.6	0.9	1,502.5
Construction in progress	-	14.9	36.0	731.1	-	782.0
Prepayments	-	-	-	41.0	-	41.0
Total property, plant and equipment as at 30 June 2014	**42.1**	**73.3**	**562.5**	**1,646.7**	**0.9**	**2,325.5**

6 Derivative Financial Instruments

in million EUR	30 June 2014		30 June 2013	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	20.9	-	32.7	0.2
Forward contracts for buying and selling electricity as trading derivatives	-	0.1	-	-
Forward and option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	19.0	1.2	1.1	8.5
Swap contracts for selling shale oil as cash flow hedges	(0.5)	8.8	3.2	0.8
Swap and option contracts for selling shale oil as trading derivatives	7.0	-	0.5	-
Total derivative financial instruments	**46.4**	**10.1**	**37.5**	**9.5**
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	0.1	-	14.6	-
Swap contracts for selling shale oil as cash flow hedges	-	2.6	1.5	-
Total non-current portion	**0.1**	**2.6**	**16.1**	**-**
Total current portion	**46.3**	**7.5**	**21.4**	**9.5**

7 Share Capital

As at 30 June 2014, Eesti Energia AS had 621 645 750 registered shares (30 June 2013: 621 645 750 registered shares). The nominal value of each share is 1 euro.

8 Earnings per Share

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

	3 months 1 April - 30 June		6 months 1 January - 30 June		12 months 1 July - 30 June	
	2014	2013	2014	2013	2014/13	2013/12
Profit attributable to the equity holders of the company (million EUR)	6.2	43.2	57.1	67.7	148.9	64.4
Weighted average number of shares (million)	621.6	621.6	621.6	621.6	621.6	621.6
Basic earnings per share (EUR)	0.01	0.07	0.09	0.11	0.24	0.10
Diluted earnings per share (EUR)	0.01	0.07	0.09	0.11	0.24	0.10

9 Nominal Value and Amortised Cost of Borrowings

in million EUR	30 June 2014		30 June 2013	
	Nominal value	Amortised cost	Nominal value	Amortised cost
Short- term borrowings				
Current portion of long-term bank loans	1.4	1.4	1.4	1.4
Total short-term borrowings	**1.4**	**1.4**	**1.4**	**1.4**
Long- term borrowings				
Bank loans	236.5	236.2	142.8	142.7
Bonds issued	700.0	698.3	600.0	588.9
Total long- term borrowings	**936.5**	**934.5**	**742.8**	**731.6**
Total borrowings	**937.9**	**935.9**	**744.2**	**733.0**

As at 30 June 2014 the Group had undrawn loan facilities of EUR 250.0 million (30 June 2013: EUR 395.0 million), of which EUR 150 million can be taken into use until August 2018 and has a floating interest rate and other EUR 100 million can be taken into use until October 2014. The interest rate will become obvious when the loan is taken into use.

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

10 Cash Generated from Operations

in million EUR	3 months 1 April - 30 June 2014	3 months 1 April - 30 June 2013	6 months 1 January - 30 June 2014	6 months 1 January - 30 June 2013	12 months 1 July - 30 June 2014/13	12 months 1 July - 30 June 2013/12
Profit before income tax	**35.0**	**42.8**	**86.1**	**86.9**	**172.7**	**84.0**
Adjustments						
Depreciation and impairment of property, plant and equipment	30.6	27.5	60.7	55.0	135.1	177.1
Amortisation of intangible assets	1.5	1.4	3.0	2.7	5.9	5.7
Deferred income from connection and other service fees	(1.5)	(1.4)	(3.0)	(2.7)	(5.8)	(5.1)
Gain on disposal of property, plant and equipment	(0.3)	(0.1)	(0.4)	(4.1)	(1.0)	(6.7)
Amortisation of government grant received to purchase non-current assets	-	(0.1)	(0.1)	(0.1)	(0.3)	(0.1)
Profit/loss from associates using equity method	-	-	-	-	0.8	0.2
Other gains from investments	-	-	-	-	-	(0.1)
Unpaid/unsettled gain/loss on derivatives	(12.4)	13.8	(18.1)	12.4	(24.4)	22.1
Foreign exchange loss (gain) from lending and borrowing from foreign currency	(0.2)	0.3	(0.2)	(0.1)	0.8	(0.1)
Interest expense on borrowings	1.4	0.5	2.8	1.5	3.4	5.7
Interest and other financial income	(1.1)	(0.7)	(2.0)	(1.4)	(3.8)	(3.2)
Adjusted net profit before tax	**53.0**	**84.0**	**128.8**	**150.1**	**283.4**	**279.6**
Net change in current assets relating to operating activities						
Change in receivables related to operating activities	13.4	29.8	35.8	25.4	7.8	(9.5)
Change in inventories	(1.1)	(5.3)	(9.7)	0.9	(1.4)	8.4
Net change in other current assets relating to operating activities	73.6	(14.9)	37.9	(54.7)	(1.1)	(84.1)
Total net change in current assets relating to operating activities	**85.9**	**9.6**	**64.0**	**(28.4)**	**5.3**	**(85.2)**
Net change in current liabilities relating to operating activities						
Change in provisions	(40.5)	10.7	(29.3)	48.2	(12.2)	49.8
Change in trade payables	(7.8)	(8.9)	(15.5)	(11.6)	(1.3)	1.1
Net change in liabilities relating to other operating activities	(14.7)	(12.4)	(10.0)	(6.9)	(2.7)	9.7
Total net change in liabilities relating to operating activities	**(63.0)**	**(10.6)**	**(54.8)**	**29.7**	**(16.2)**	**60.6**
Cash generated from operations	**75.9**	**83.0**	**138.0**	**151.4**	**272.5**	**255.0**

11 Contingent Liabilities

Contingent liabilities arising from potential tax audit

Tax authorities have neither started nor performed any tax audits at the Company or single case audits at any Group company. Tax authorities have the right to review the Company's tax records within 5 years after the reported tax year and if they find any errors they may impose additional taxes, interest and fines. The Group's management considers that there are not any circumstances which may give rise to a potential material liability in this respect.

Collaterals, guarantees and court actions

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

Other disputes

No changes concerning other disputes have occurred compared to information stated in 2013 annual report.

12 Assets and Liabilites of Disposal Group Classified as Held for Sale

As at 30 June 2014 the assets and liabilities of subsidiary Eesti Energia Võrguehitus AS were presented as held for sale in these financial reports as the Group was in the middle of the sale process of Eesti Energia Võrguehitus AS. The transaction is expected to be completed in August 2014.

Assets of disposal group classified as held for sale in million EUR	30 June 2014	 2013
Cash and cash equivalents	2.5	-
Trade and other receivables	2.3	-
Property, plant and equipment and intangible assets (Note 5)	0.7	-
Total assets classified as held for sale	**5.5**	**-**

Liabilities of disposal group classified as held for sale in million EUR	30 June 2014	 2013
Trade and other payables	2.6	-
Total liabilities classified as held for sale	**2.6**	**-**

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.

in million EUR	1 January - 30 June 2014	 2013
Transactions with associates		
Purchase of goods and services	10.3	13.5
Proceeds from sale of goods and services	0.6	2.6
Financial income	1.5	1.1
Loans granted	1.9	1.6

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

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

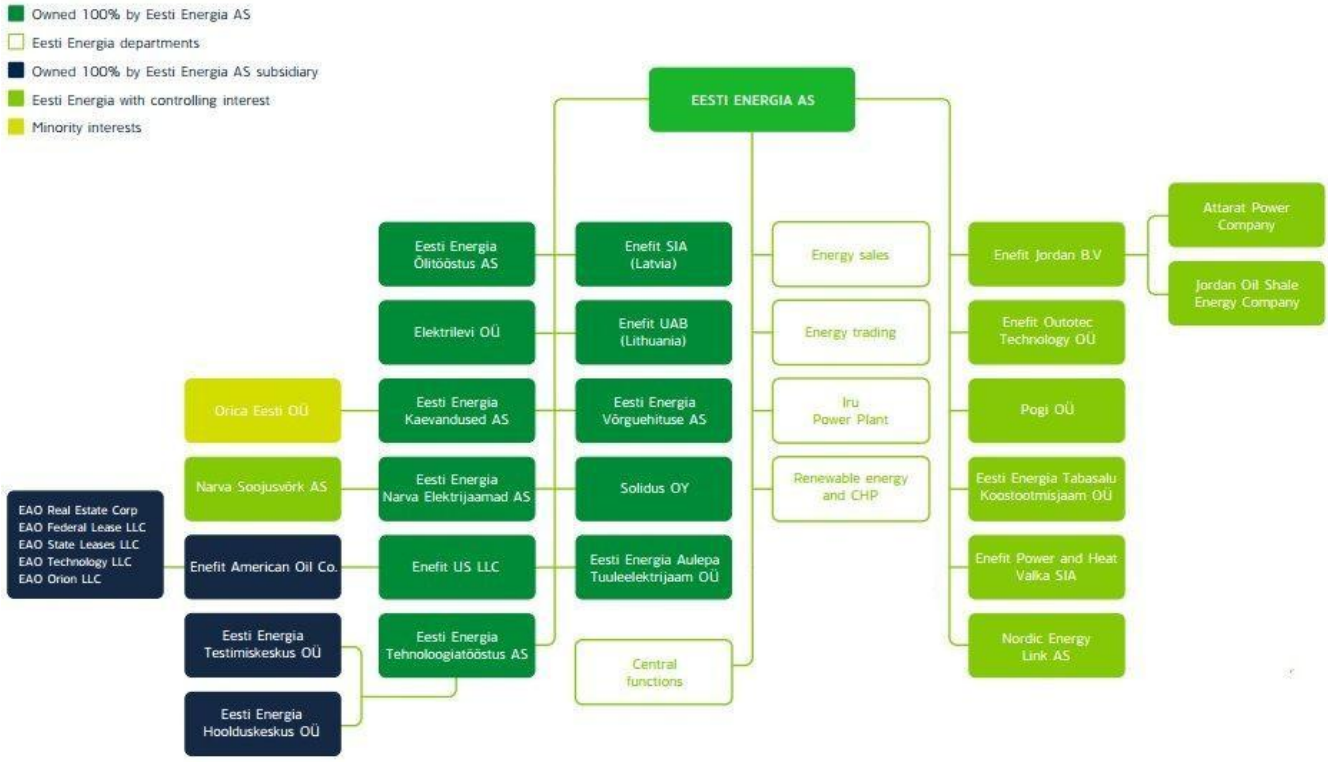
In purchasing and selling network services, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

Summary of Eesti Energia

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

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

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



Glossary

Financial leverage – net debt / (net debt + equity)

Net debt – debt obligations at amortized cost, less cash and cash equivalents (incl. deposits with maturity of more than 3 months), units in money market funds, investments into fixed income bonds

RAB – Regulated Asset Base

ROFA – Return On Fixed Assets. EBIT (rolling 12 months) divided by average fixed assets excl. assets in construction (allocated to specific product)

SAIDI – System Average Interruption Duration Index. Sum of all customer interruption durations divided by total number of customers served

SAIFI – System Average Interruption Frequency Index. Total number of customer interruptions divided by total number of customers served