

# Eesti Energia Unaudited Financial Results for Q2 2014

31 July 2014

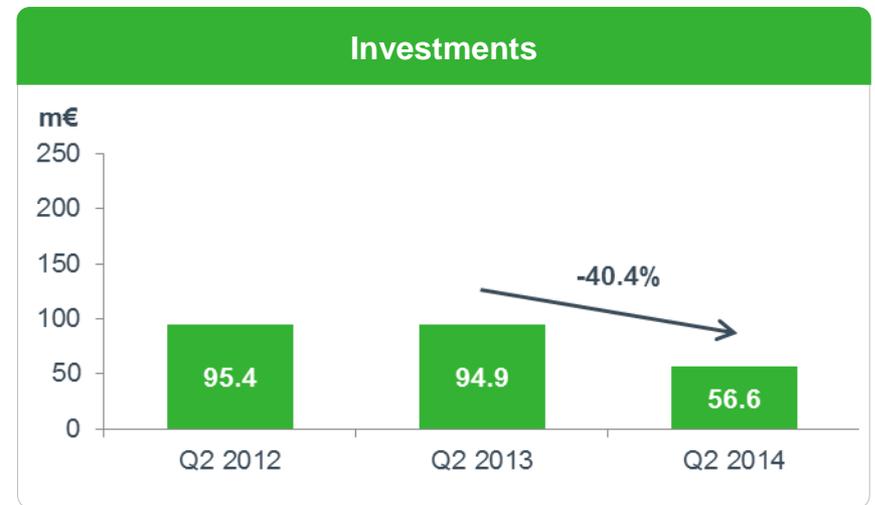
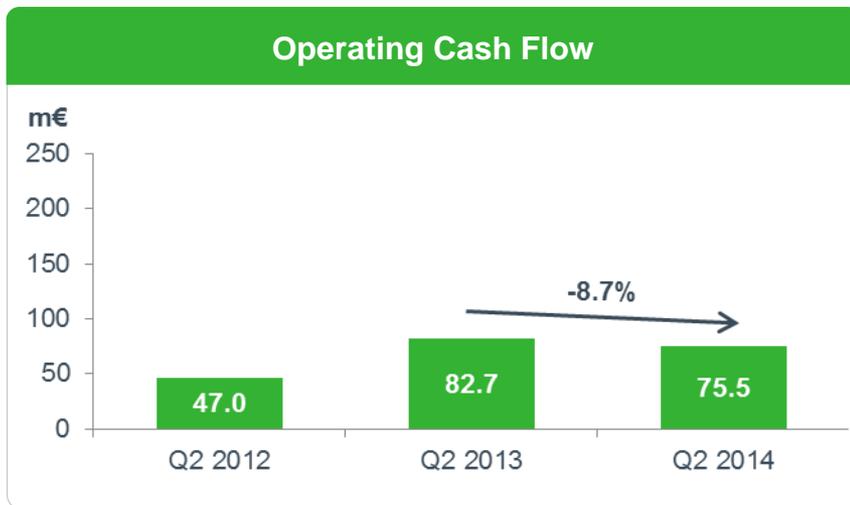
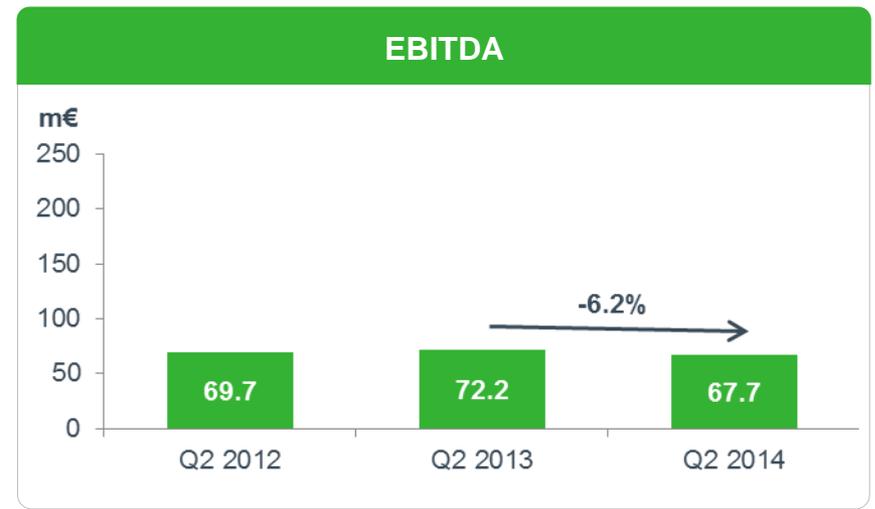
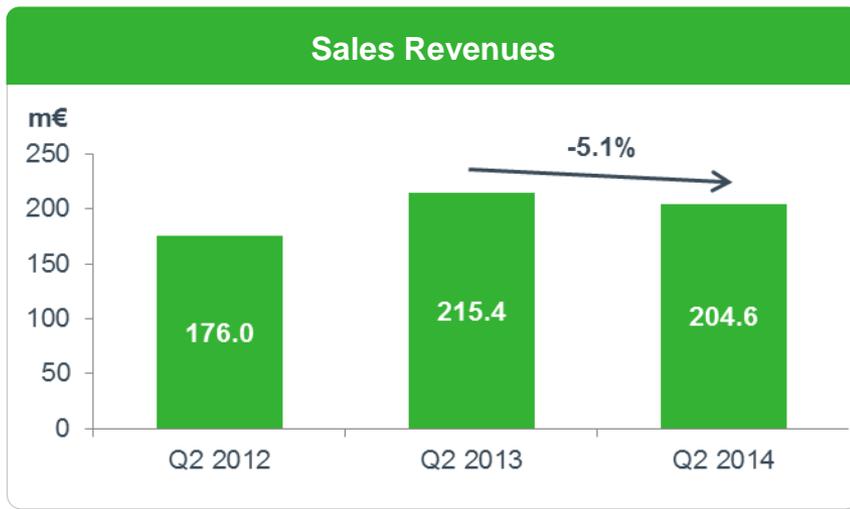


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# Resilient Results in Q2 2014

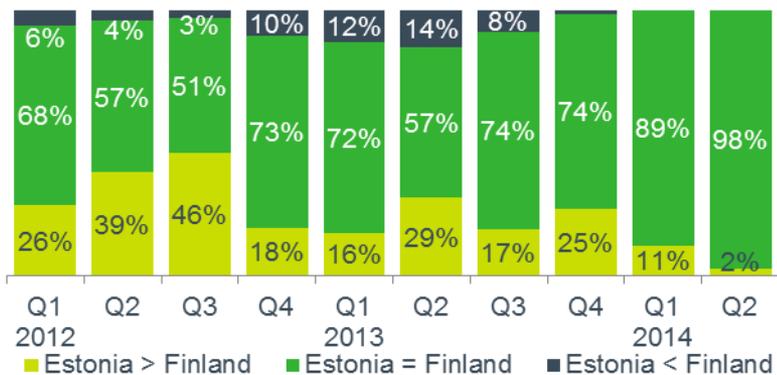


# NPS Estonia-Finland Price Convergence

## Almost 100%

- Average price in NPS Estonia price area 34.8 €/MWh (-9.7 €/MWh, -21.9%), in the Finnish price area 34.6 €/MWh (-5.4 €/MWh, -13.5%)
- Clean Dark Spread 11.3 €/MWh lower due to decreased electricity price (-9.7 €/MWh) and higher CO<sub>2</sub> and oil shale costs (+1.6 €/MWh)
- Nordic electricity prices impacted by favorable hydroelectricity supply mainly from Norway
- Hourly NPS Estonia price equal to Finnish price for 98% of hours and above the latter for 2% of hours

Electricity Price Spread Between NPS Estonia and Finland (% of Total Hours)

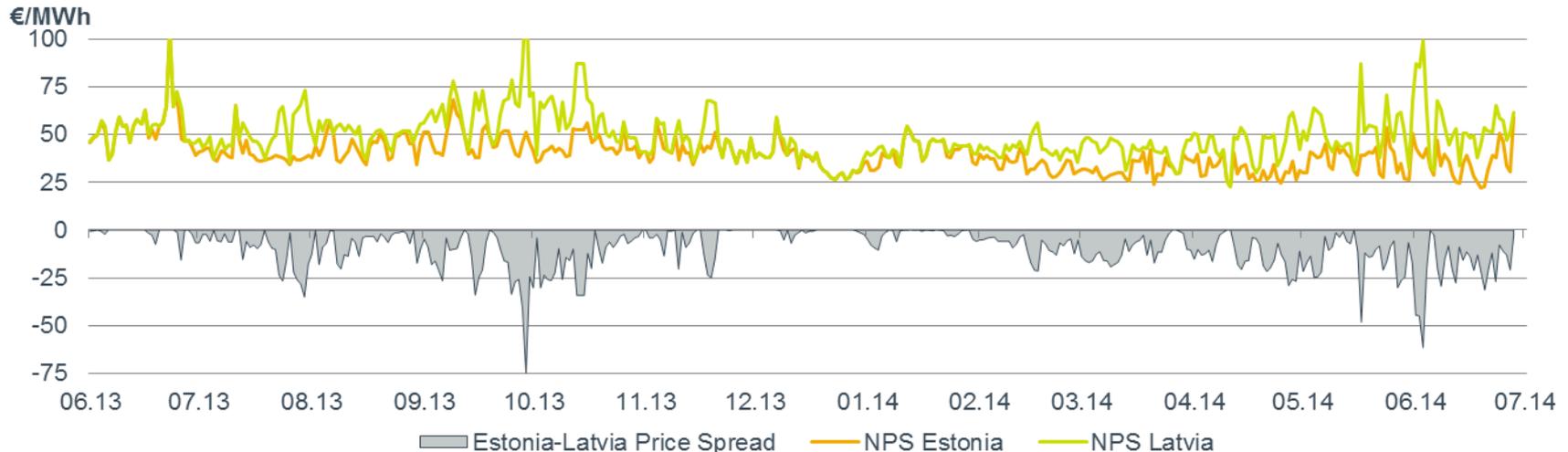


Eesti Energia Electricity Clean Dark Spread (CDS) Dynamics



# Substantial Increase of Estonia-Latvia Electricity Price Spread

Electricity Price Spread Between Nord Pool Spot Estonia and Latvia



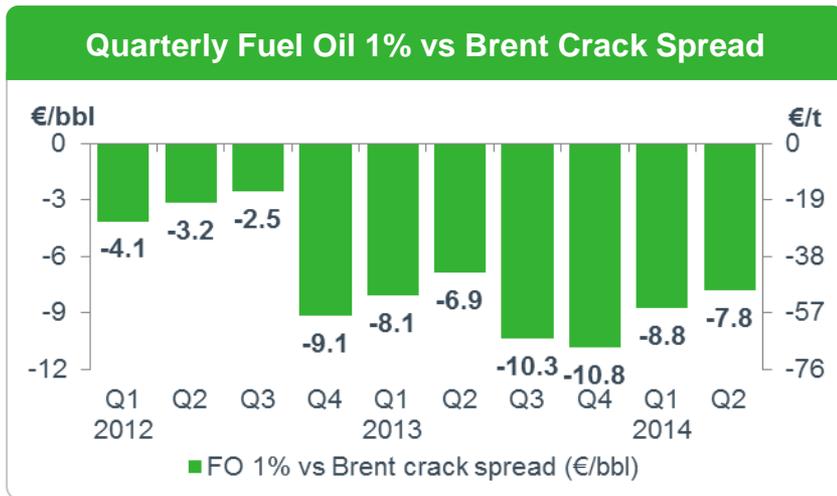
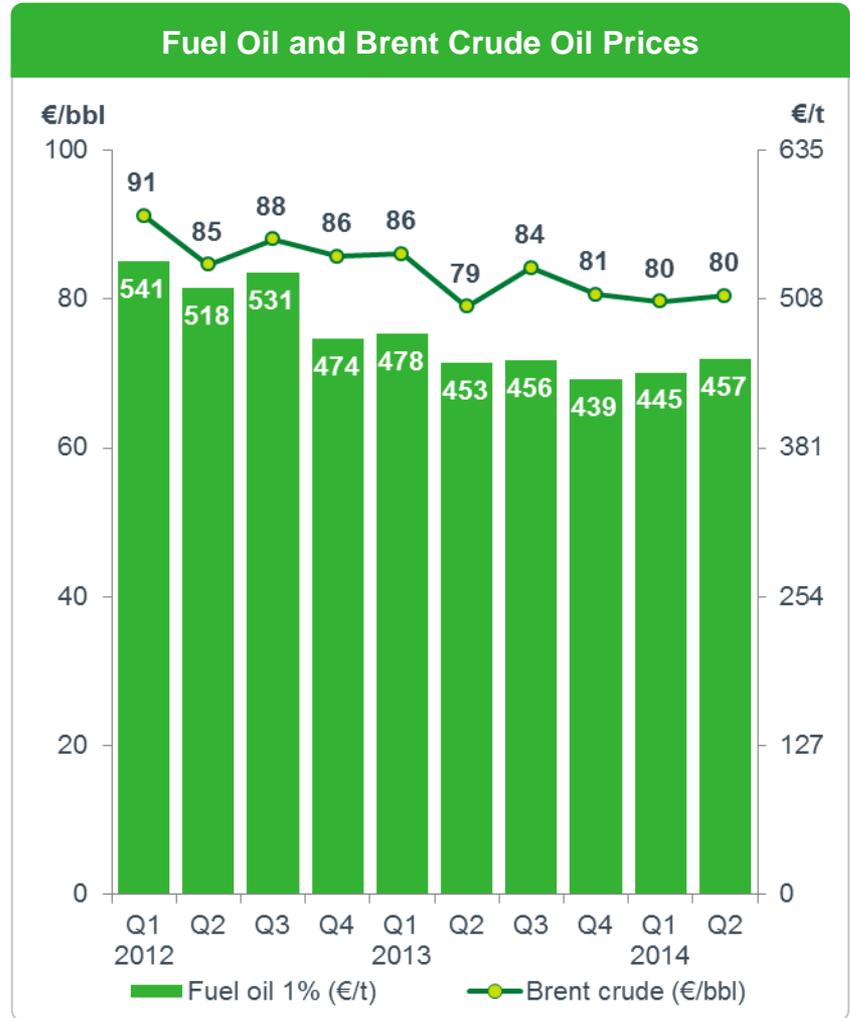
- Average Estonia-Latvia price spread has increased from -6.6 €/MWh (in Q1 2014) to -15.4 €/MWh (in Q2 2014) as electricity transmission capacities were unable to cover production deficit in Latvia and Lithuania
- Limited month ahead hedging of border crossing costs available via PTR\* contracts in 2014\*\*
- Entering into fixed price electricity contracts in Latvia and Lithuania suspended since September 2013. Successful sale of electricity products indexed to exchange prices continued in Q2 2014
- Exposure to Estonia-Latvia price differences is decreasing. Total amount of future fixed price contracts in Latvia and Lithuania 1,471 GWh (as of 30 June 2014), -440 GWh compared to the end of Q1 2014

\* PTR – Physical Transmission Rights. Price differences between Estonia and Latvia price areas are returned to market participants by TSO-s

\*\*50-150 MW auctioned monthly (5-16% of total Estonia-Latvia transmission capacity) for the next month

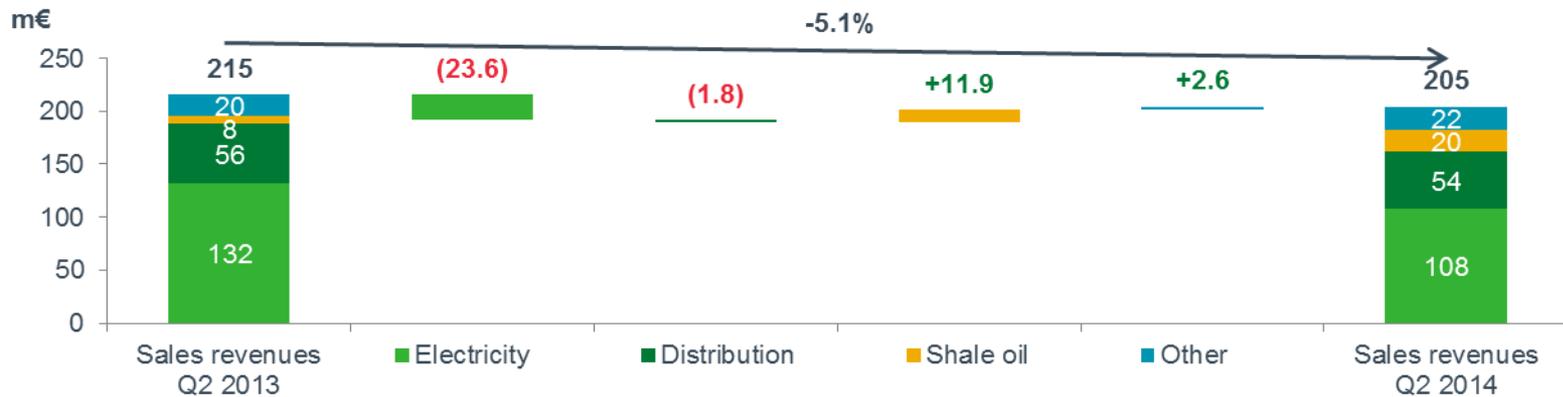
# Fuel Oil Price Increased Slightly by 0.8%

- Average price of Brent crude oil 80.4 €/bbl (+1.4 €/bbl, +1.8%)
- Brent crude oil impacted by geopolitical tensions in Iraq and Libya in Q2 2014 disrupting production volumes
- Fuel oil vs Brent crack spread widened by 0.9 €/bbl to -7.8 €/bbl, compared to Q2 2013
- Fuel oil demand in Europe remained subdued amid limited arbitrage to Asia compared to Q2 2013

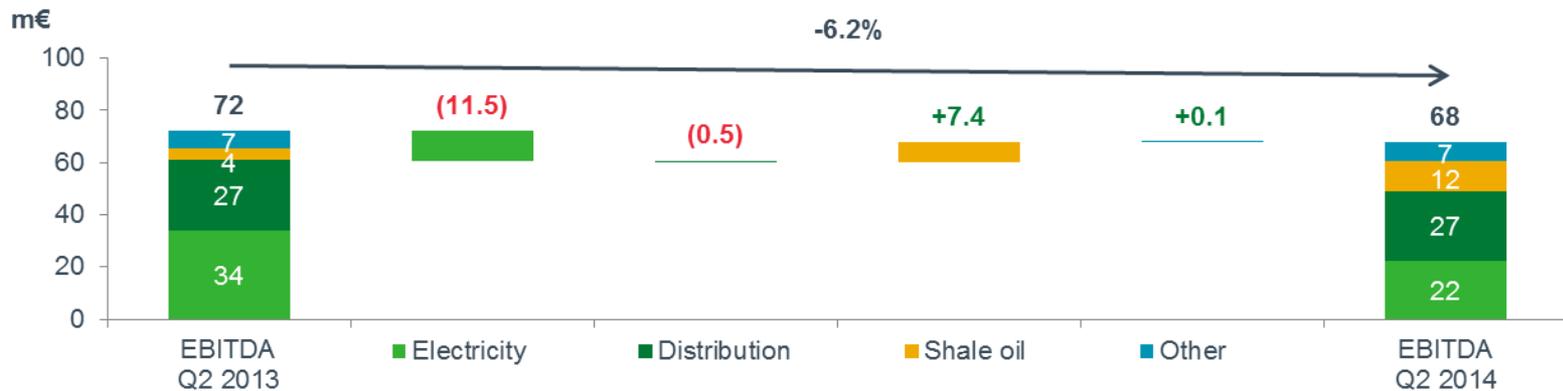


# Electricity Sales Mainly Behind Lower Revenues and EBITDA

## Sales Revenues Breakdown and Y-o-Y Change



## EBITDA Breakdown and Y-o-Y Change

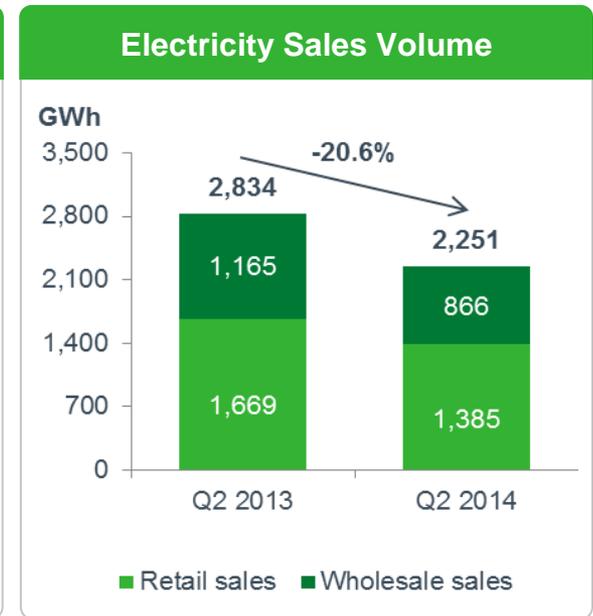
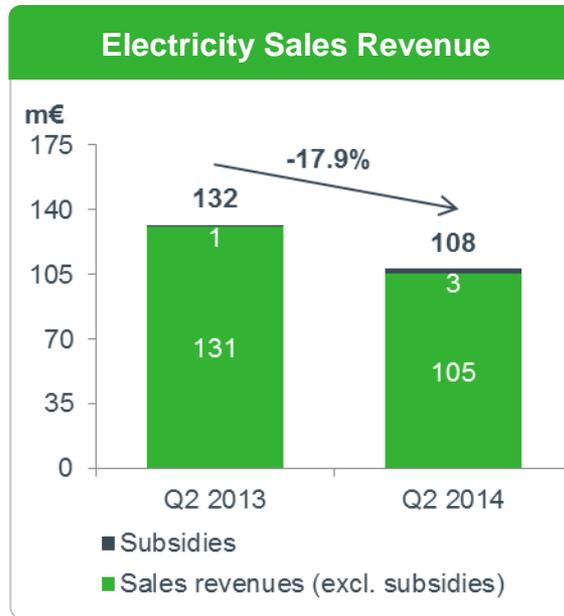
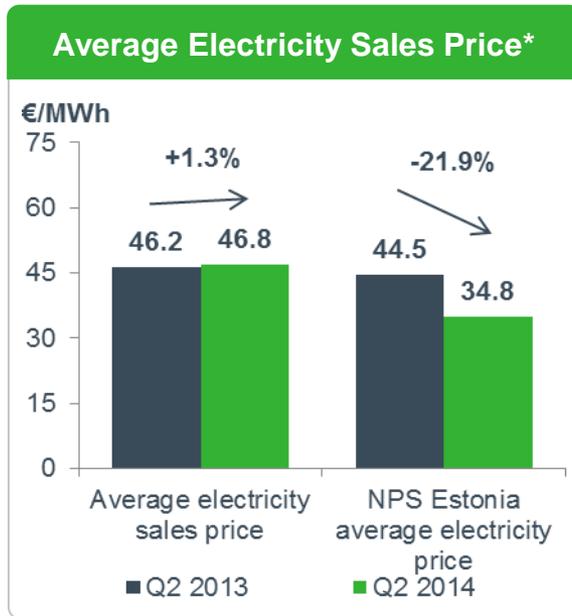


# Electricity



Eesti Energia Balti Power Plant and Narva Wind Park in Ida-Virumaa, Estonia

# Lower Electricity Sales Volume Reduced Revenue



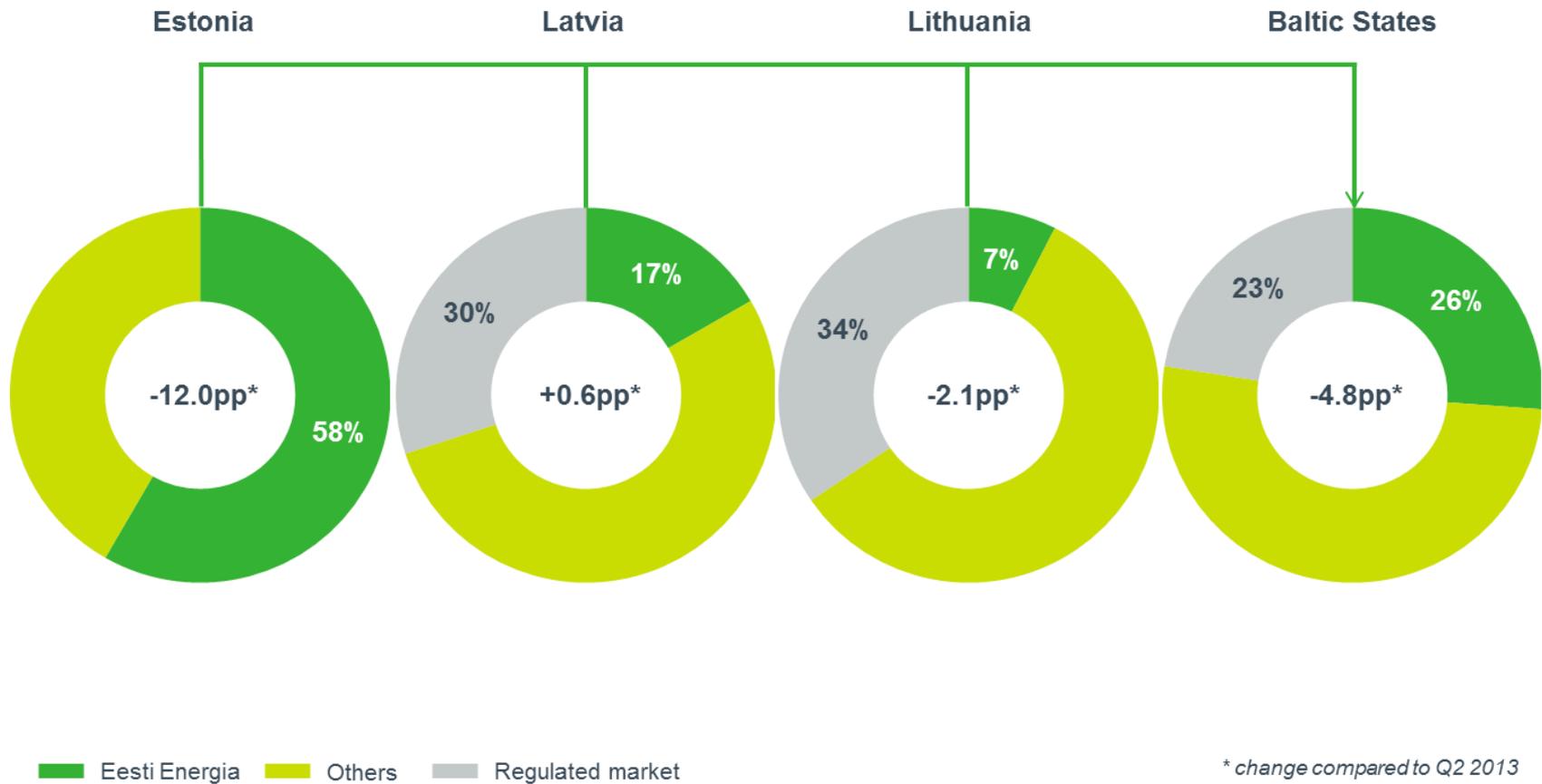
- Average electricity sales price\* increased to 46.8 €/MWh (+0.6 €/MWh, +1.3%)
  - Financial hedges impacted price by 5.2 €/MWh (€11.7m in abs. terms, +€9.5m, +437%)
  - Average electricity sales price\* excl. financial hedges decreased to 41.6 €/MWh (-3.0 €/MWh, -6.7%)\*\*
- Electricity wholesale sales volume decreased by 0.3 TWh mostly due to changes in netting cross-border electricity trade, retail sales decreased by 17.0% mainly due to decline in retail market share
- 2014 Q3-Q4 sales hedged against price risk amounted to 5.0 TWh with an average price of 43.7 €/MWh. 2015 sales hedged against price risk amounted to 6.0 TWh with an average price of 40.3 €/MWh

\* Average sales price excludes subsidies

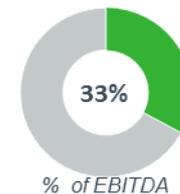
\*\* Estlink1 cable revenues impacted sales price by 0.9 €/MWh in Q2 2013

# 26% Retail Market Share in the Baltics

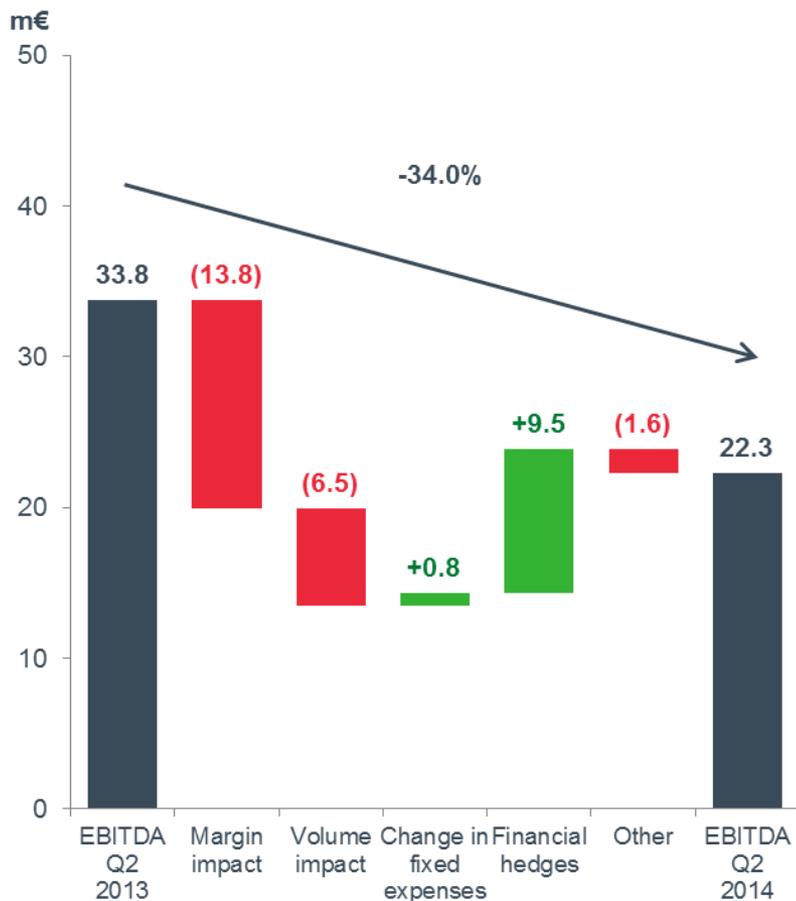
Eesti Energia Retail Market Share in Baltic Countries in Q2 2014



# Latvian and Lithuanian Retail Sales Mostly Behind Lower Electricity EBITDA



## Electricity EBITDA Development



- ✗ Decreased sales price impacted margin by -€6.5m. Border crossing cost impact -€7.0m. Other margin impact (€-0.3m) related to changes in production cost structure. Total impact on margin -€13.8m (-6.1 €/MWh)
- ✗ Volume of electricity sold decreased by 20.6% (-0.6 TWh). Volume impact on EBITDA -€6.5m
- ✓ Fixed costs decreased by €0.8m. Higher maintenance works in Narva power plants impact -€2.4m. Fixed costs decreased in mining subsidiary (+€1.5m), decrease of IT expenses impact +€1.1m
- ✓ Financial hedges impact on EBITDA +€9.5m
- ✗ Other changes (-€1.6m) related to changes in provision of Latvia and Lithuania energy sales portfolio (-€3.9m), revaluation of derivatives (+€3.2m) and -€0.8m due to provision in mining subsidiary

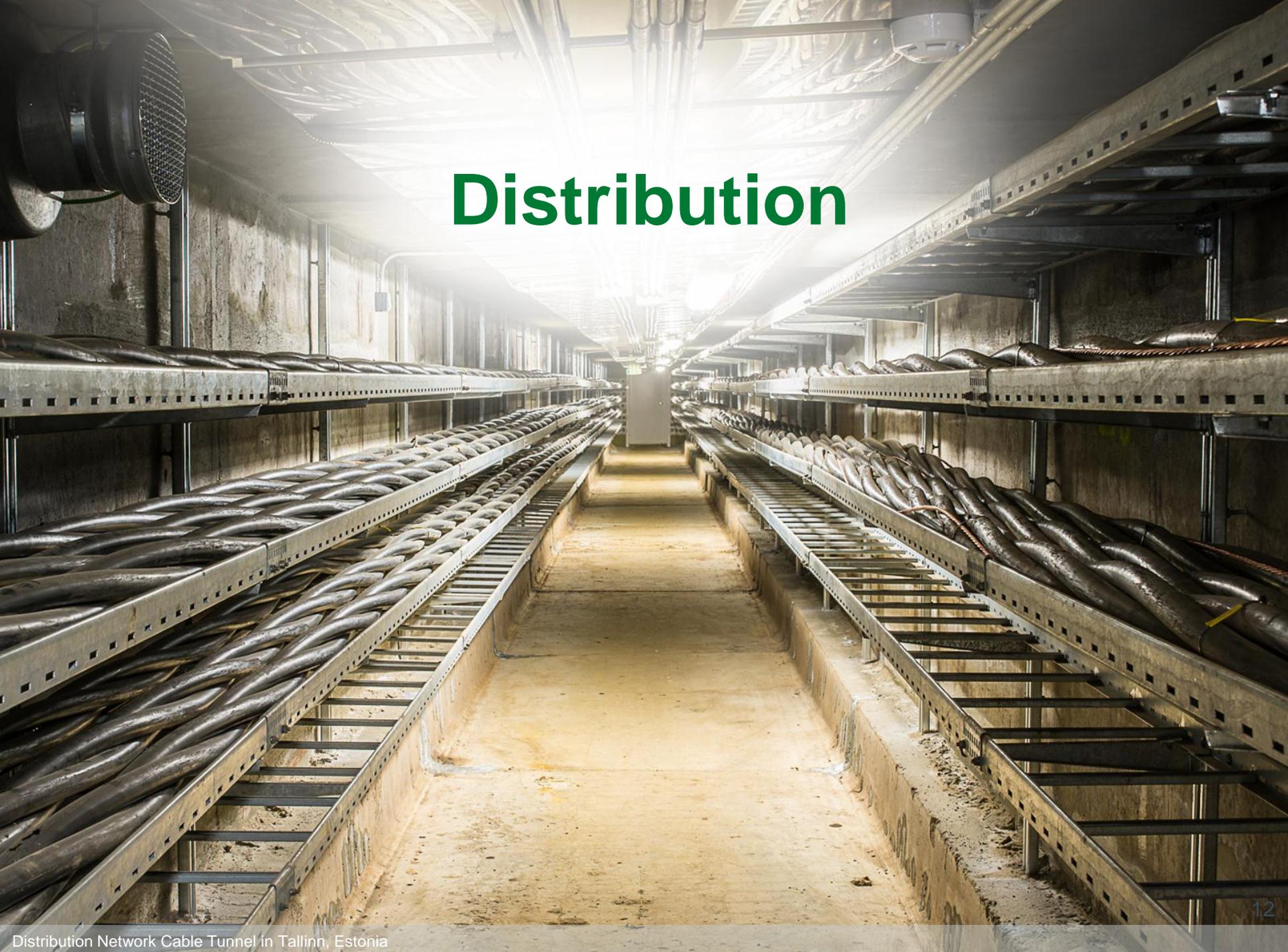
## Key Figures

	Q2 2014	Q2 2013
Return on fixed assets* (%)	15.2	9.0
Electricity EBITDA (€/MWh sold)	9.9	11.9

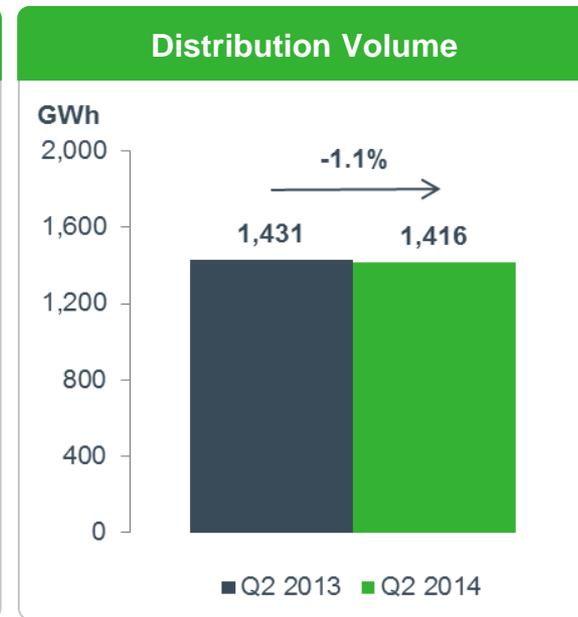
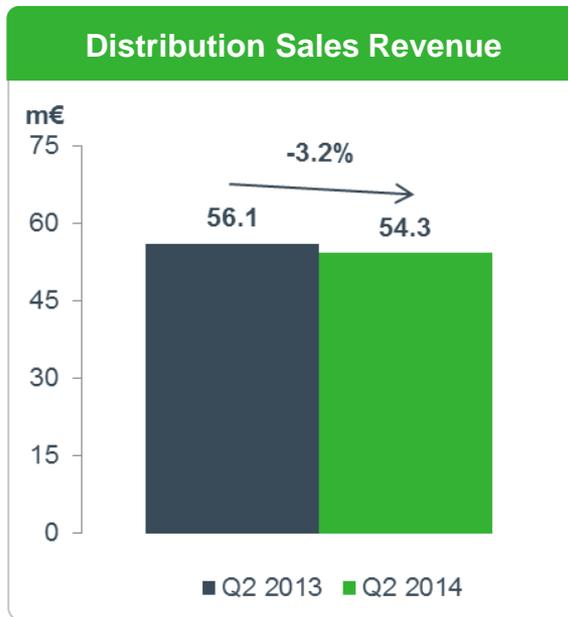
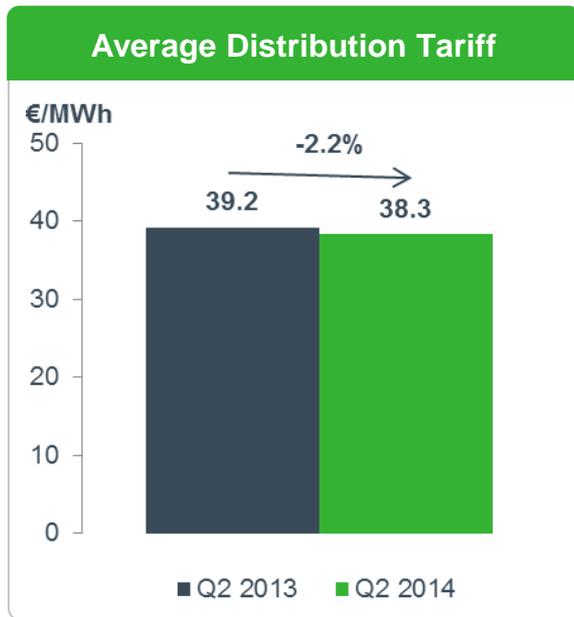
\* excluding impairment of generation assets in December 2012 and December 2013



# Distribution

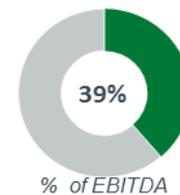


# Lower Tariff and Decreased Volume Reduced Revenue

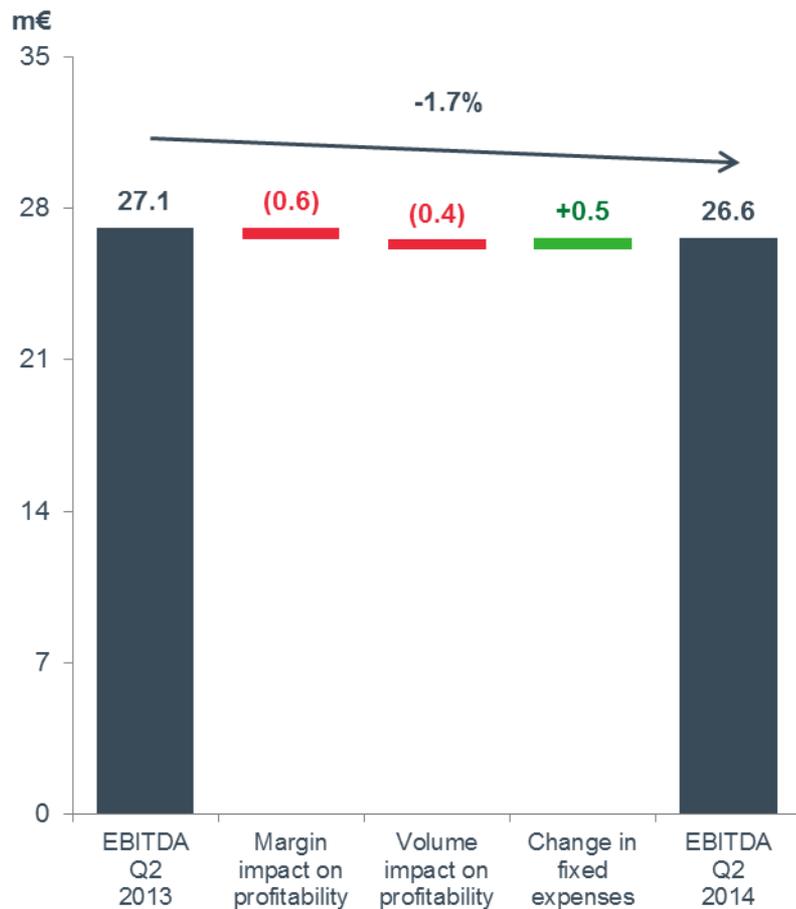


- Sales volume decreased slightly due to decrease in general Estonian electricity consumption related to warmer weather in April 2014
- Regulated return reduced in August 2013 to 6.76%, additional tariff adjustment in April 2014 due to decrease in transmission costs
- 80.3 GWh of network losses accounted in Q2 2014 (+33.2 GWh), 5.2% (+2.2 percentage points). Low losses in Q2 2013 related to Estonian electricity market opening, imprecise loss amounts in Q2 2013 were counted in later periods of 2013

# Distribution EBITDA Impacted by Lower Sales Volume and Margin



## Distribution EBITDA Development



- ✗ Average distribution sales price decreased by 0.8 €/MWh, margin impact on EBITDA -€1.2m. Lower transmission costs increased profitability by €0.5m. Total margin impact -€0.6m (-0.4 €/MWh)
- ✗ Distribution volume decreased 1.1% (-15.6 GWh). Impact on profitability -€0.4m
- ✓ Fixed expenses decreased slightly (+€0.5m) mainly due to decreased IT costs

## Key Figures

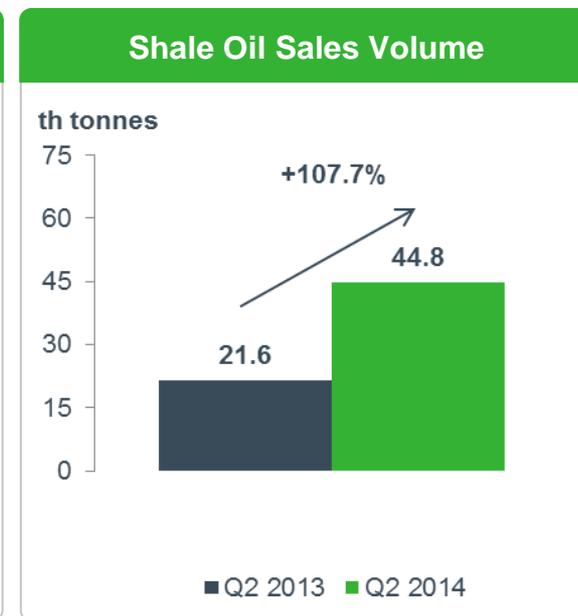
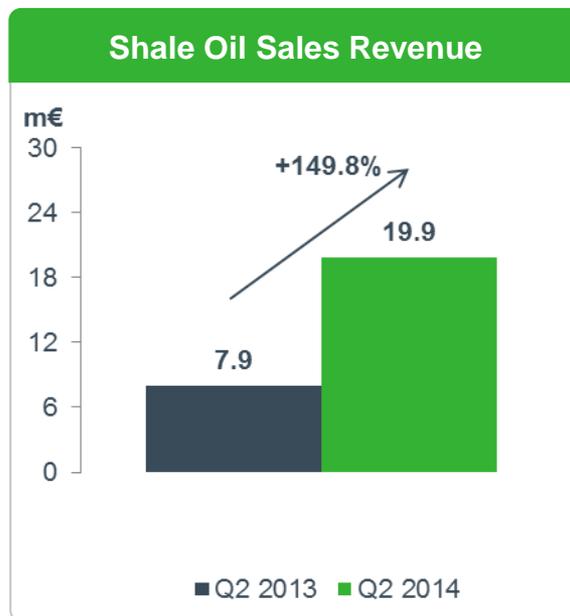
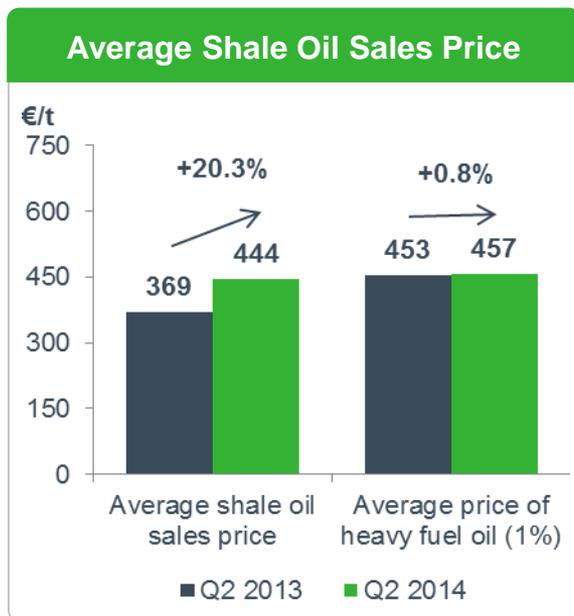
	Q2 2014	Q2 2013
Distribution losses (GWh)	80.3	47.0
Return on fixed assets (%)	6.1	7.2
SAIFI	0.1	0.2
SAIDI (planned)	15.9	22.1
SAIDI (unplanned)	28.0	36.7
Adjusted RAB* (m€)	653.1	600.4

\* RAB (Regulated Asset Base) allocated to distribution product

# Shale Oil

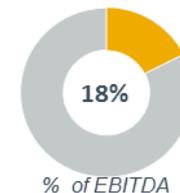


# Shale Oil Sales Revenue and Volume Increased

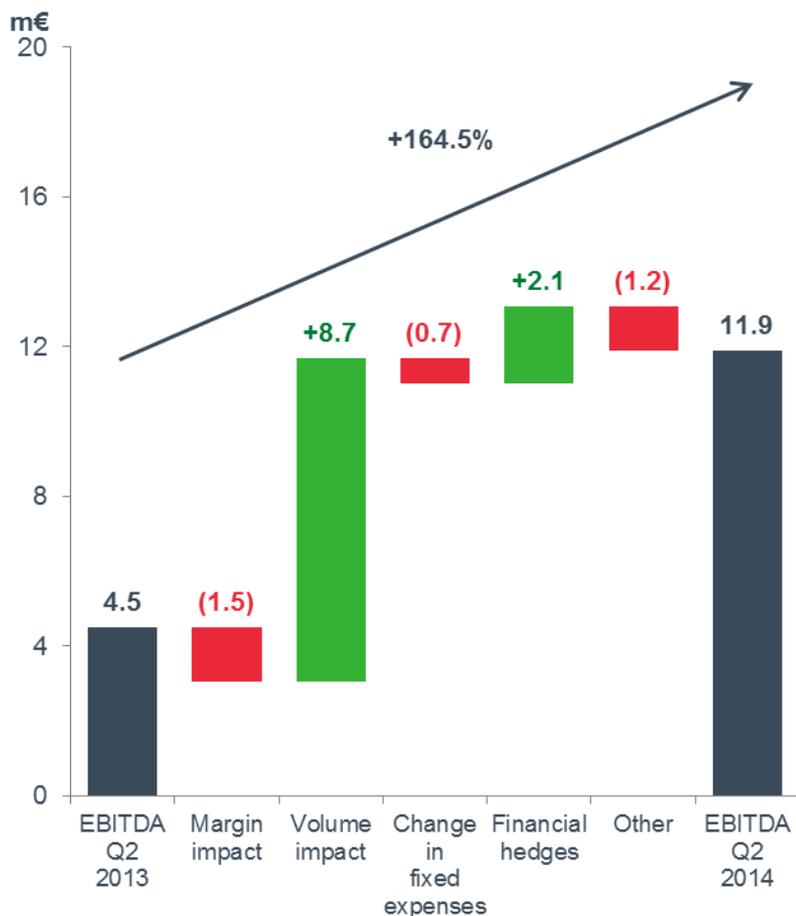


- Average shale oil sales price increased to 444 €/t (+74.9 €/t, +20.3%)
  - Financial hedges impacted price by 14.2 €/t (€0.6m in abs. terms, +€2.1m)
  - Average sales price excl. financial hedges decreased to 429.4 €/t (-5.3 €/t, -1.2%)
- Sales volume increased by 108% (+23.2 th tonnes), production increased by 53.6% to 56.6 th tonnes (+19.7 th tonnes)
- 2014 Q3-Q4 sales hedged against price risk amounted to 98 th tonnes with an average price of 471 €/t. 2015 sales hedged against price risk amounted to 192 th tonnes with an average price of 428 €/t

# Increased Sales Volume Boosted Shale Oil EBITDA



## Shale Oil EBITDA Development



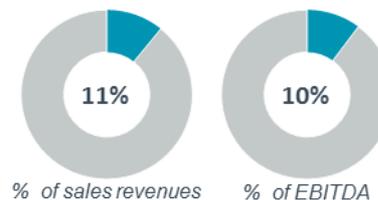
- ✗ Shale oil margin impact mainly related to increased CO<sub>2</sub> costs (impact -€0.9m) and costs related to environmental taxes (impact -€0.3m). Total margin impact -€1.5m (-32.7 €/t)
- ✓ Sales volume increased (+107.7%, +23.2 th tonnes), volume impact on profitability +€8.7m
- ✗ Increase of fixed costs (-€0.7m) mainly due to fixed cost component in increased inventories
- ✓ Financial hedges impacted EBITDA by €2.1m
- ✗ Other impact -€1.2m mainly due to revaluation of oil derivative instruments

## Key Figures

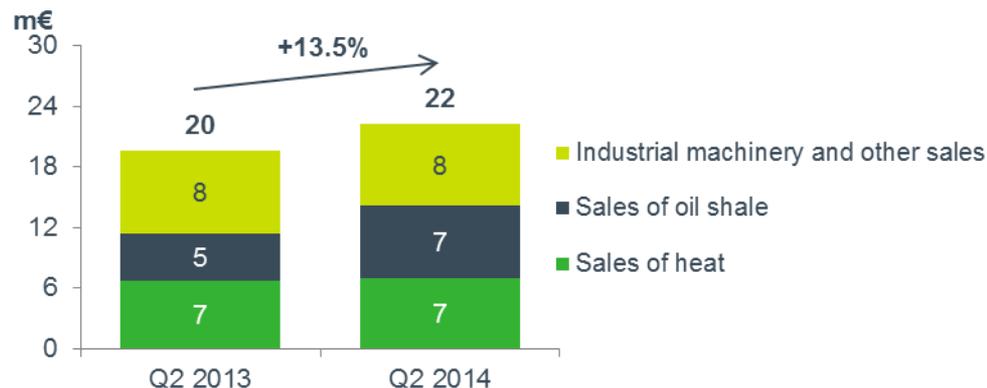
	Q2 2014	Q2 2013
Return on fixed assets (%)	30.2	37.2
Shale oil EBITDA (€/t)	265.9	208.7



# Other Sales Revenues and Profitability Increased

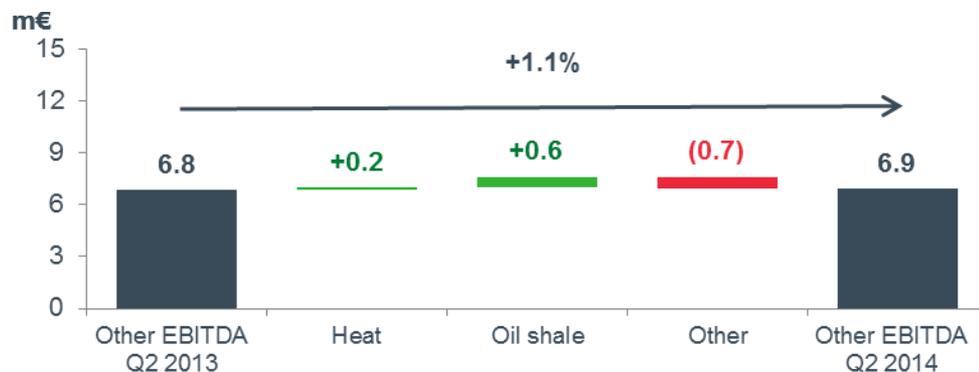


## Sales Revenues From Other Products and Services

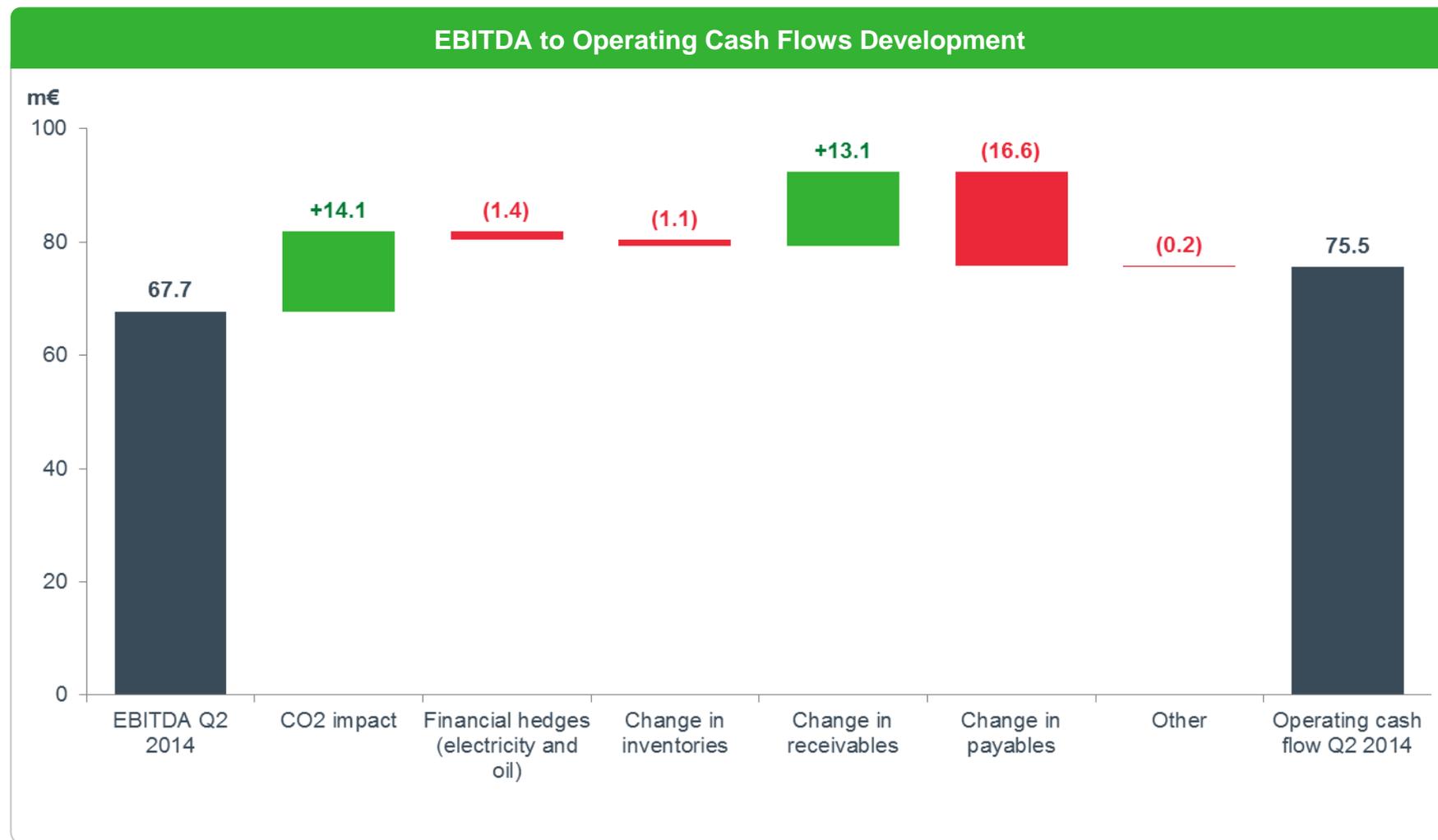


- Heat sales revenues increased by €0.3m, municipal waste gate fees increased by €0.1m. Heat sales EBITDA increased slightly by €0.2m as maintenance costs at Iru power plant increased
- Oil shale sales volume increased by 46%, sales revenues grew by €2.4m
- Other EBITDA decreased due to lower Technology Industries sales outside the group in 2014. Sale of fixed assets in 2014 impacted other EBITDA by +€0.6m

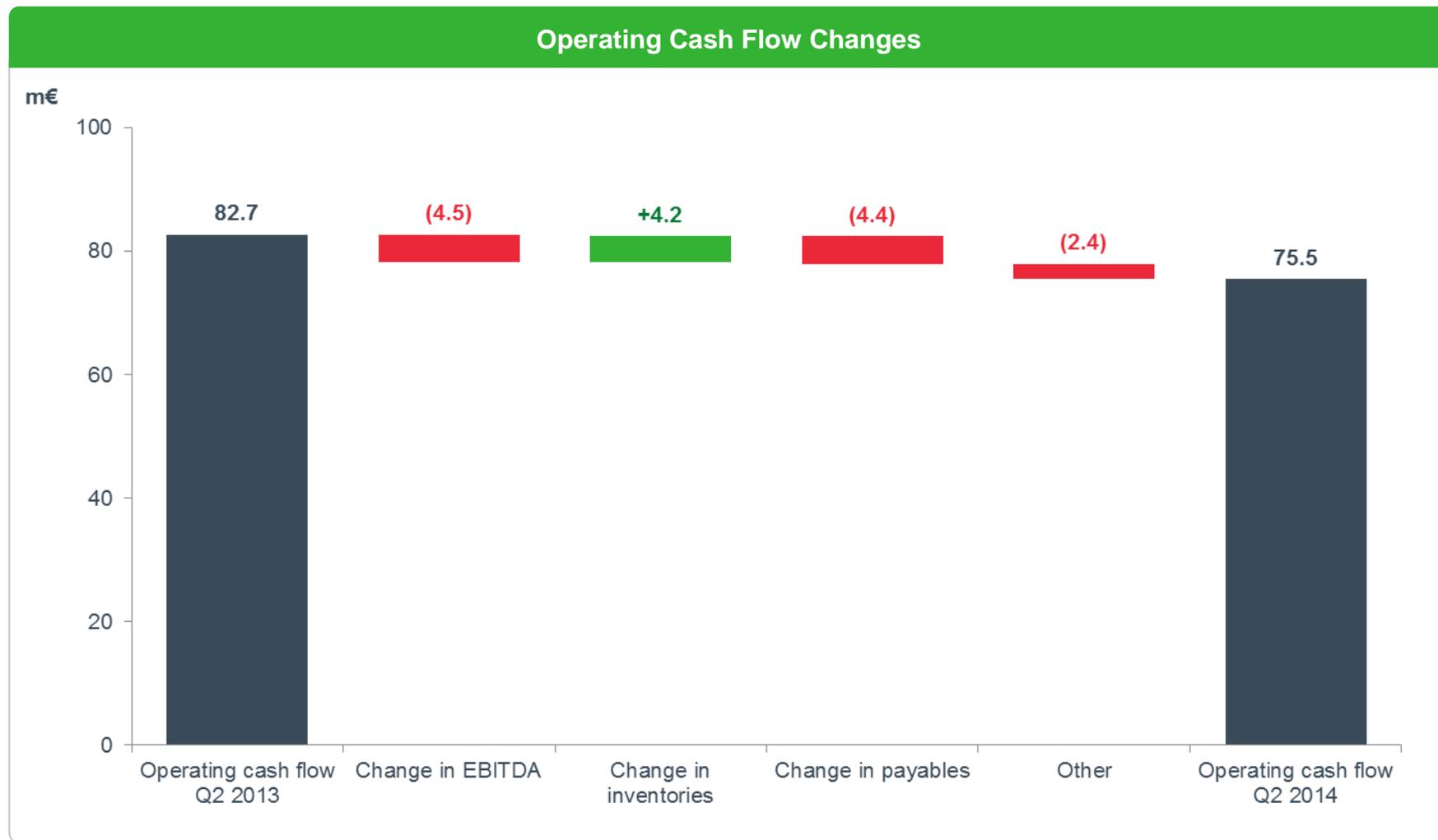
## Other Products and Services EBITDA Development



# €76m Cash Flow from Operations

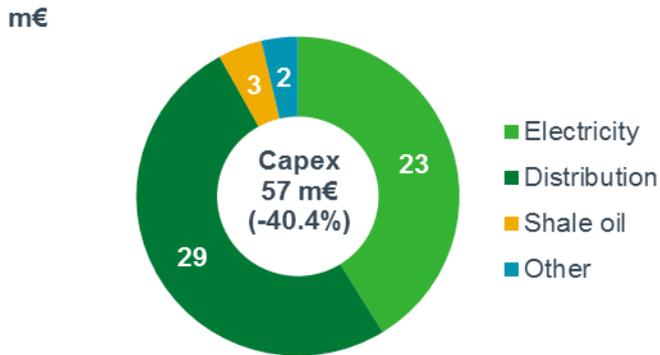


# Cash From Operations 9% Lower

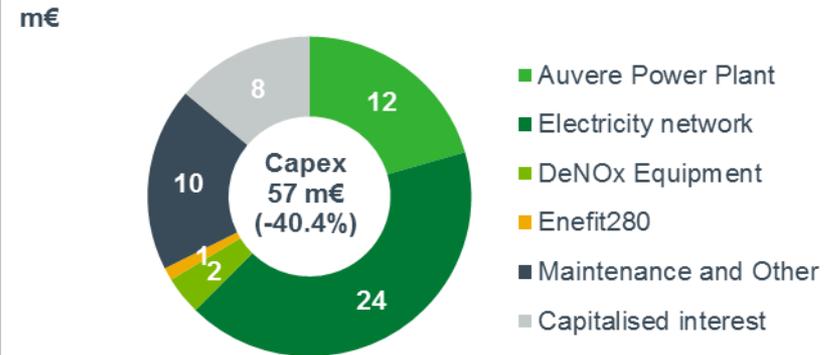


# Capital Expenditure €57m in Q2 2014

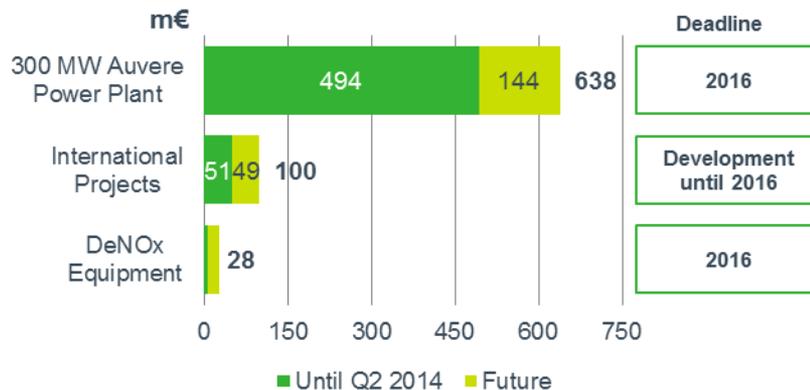
## Q2 2014 Capex Breakdown by Products



## Q2 2014 Capex Breakdown by Projects



## Main Ongoing Projects

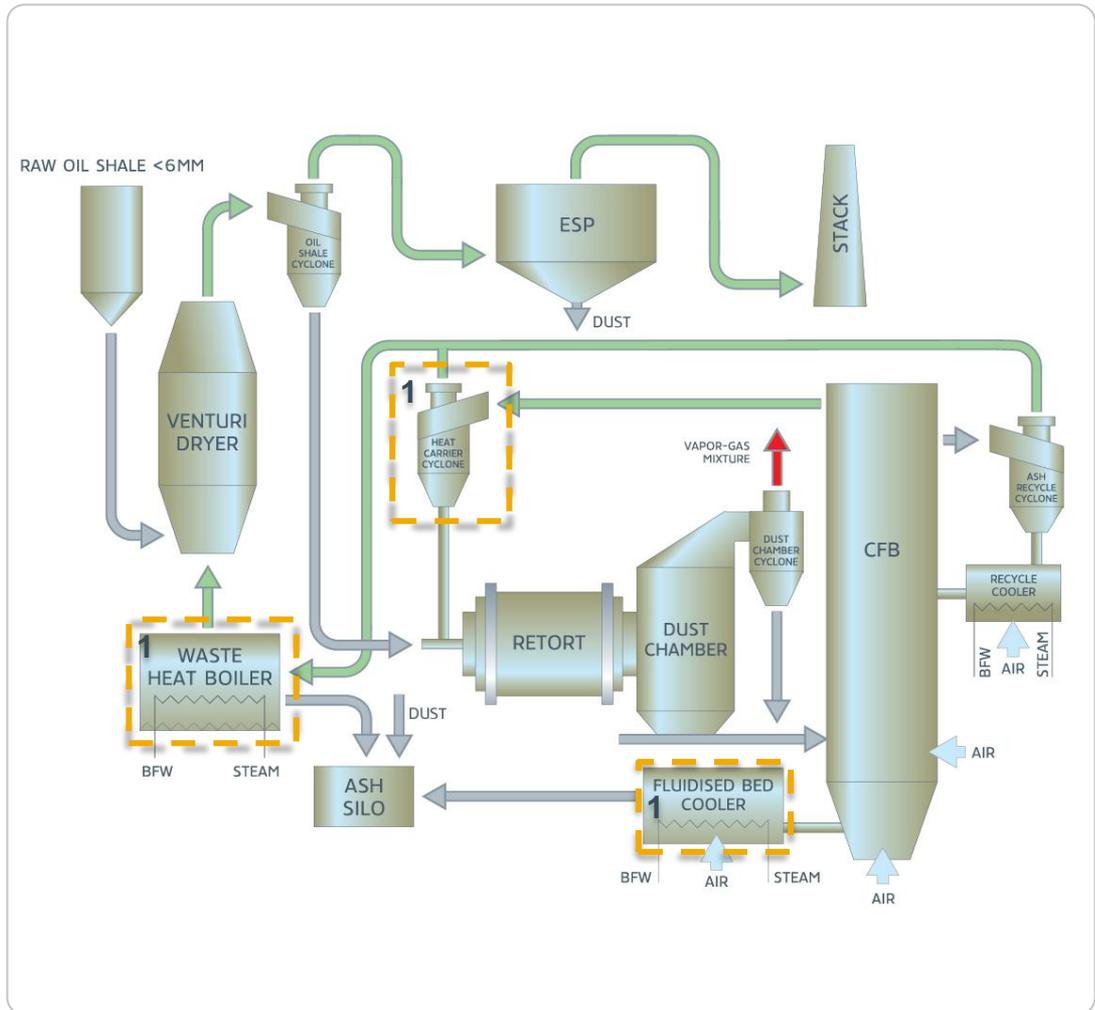


- Installation of equipment continued in Auvere power plant in parallel with construction in related buildings
- 119 distribution substations and 434 kilometers of cables renovated and built. Installation of smart meters for all Estonian clients ongoing, 41% of total meters installed (49 th meters in Q2 2014)
- Nitrogen emissions reducing equipment on 4 generating units\* in Eesti Power Plant will be installed by 2016. Assembly started in Q2 2014

\* Units net generating capacity 672 MW

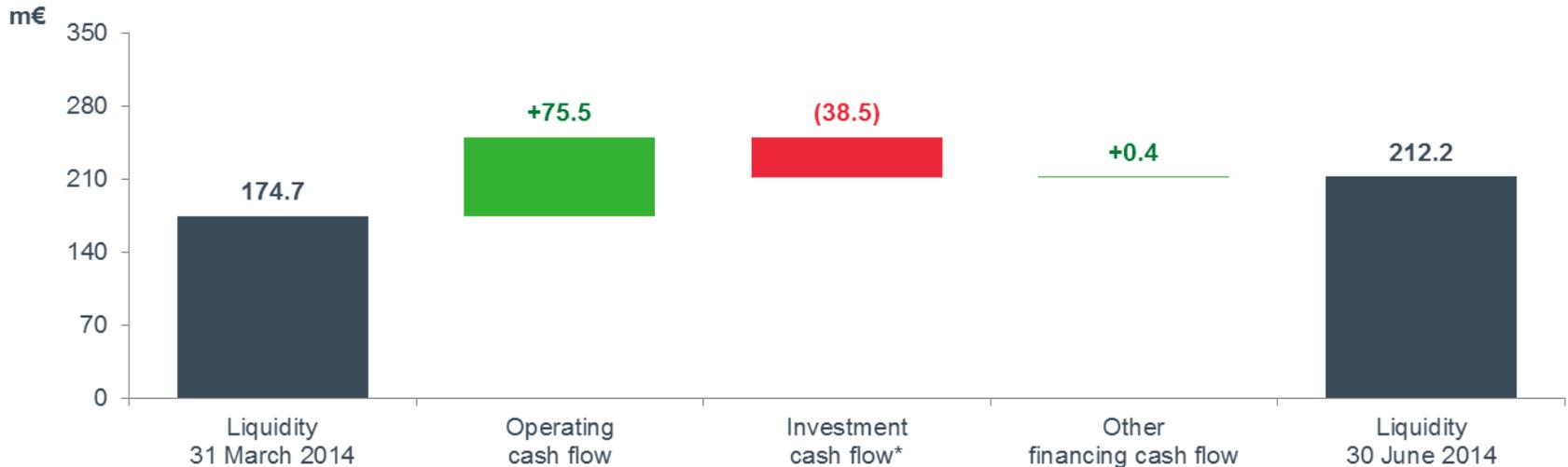
# Enefit280 Update

- Continuous operation time of the plant increased in Q2 2014
- Planned improvements until August 2014 to increase availability:
  - improving plant ash particles distribution and plant ash balance **(1)** by increasing the efficiency of cyclones and ash coolers and modifying ash conveying system in waste heat boiler and ash coolers
  - resolving some mechanical issues, which have caused interruptions during previous commissioning runs
- Commissioning activities to reach higher capacity usage will be continued after that
- Improvement in lowering air emissions compared to Enefit140 oil plant. Stabilization of operation has improved product quality



# Liquidity Buffer Has Increased

## Group's Liquidity Development in Q2 2014

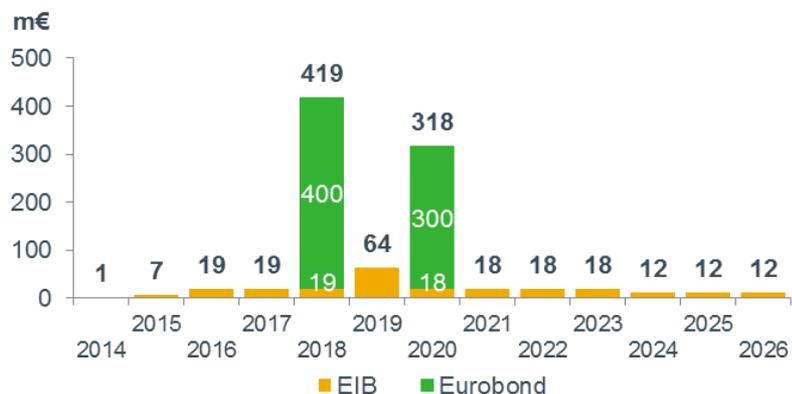


- €462m of liquid assets and unused loans available as of 30 June 2014 of which
  - €212m of liquid assets
  - €150m amount of liquidity contracts with SEB, Pohjola and Nordea
  - €100m loan agreement signed with European Investment Bank in 2013 to finance distribution network investments (loan not yet drawn)
- Sufficient liquidity available for covering capex until the end of investment program, dividend payment and other needs

\* excl. changes in deposits and other financial assets

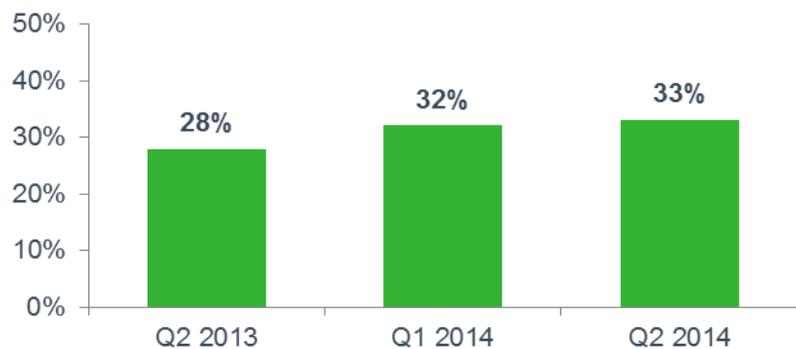
# Balanced Debt Maturity Profile

## Debt Maturity



- Eesti Energia credit ratings at investment grade level:
  - BBB+ (S&P), stable outlook\*
  - Baa2 (Moody's), stable outlook
- Total debts €935.8m as of 30 June 2014
- Balanced maturity profile with bond maturities in 2018 and 2020

## Financial Leverage

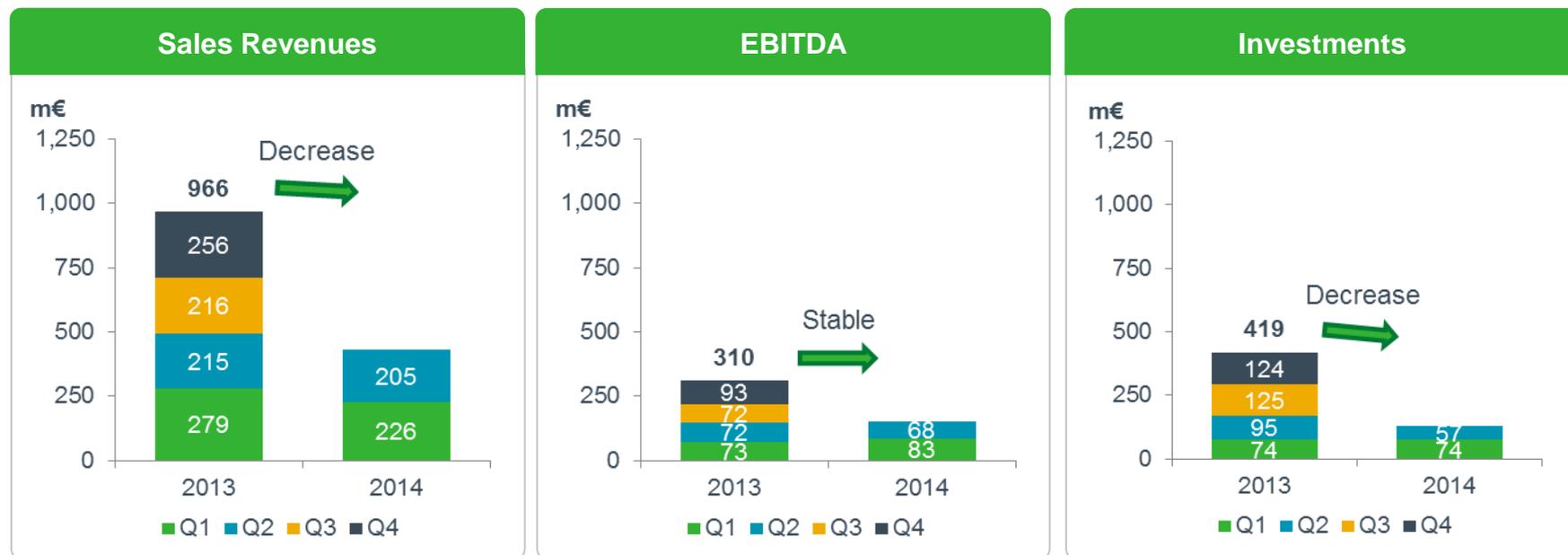


## Net Debt / EBITDA



\* S&P affirmed BBB+ rating in June 2014, outlook remains stable

# Outlook for FY2014 Remains Unchanged



- Sales revenue outlook decrease retained. 1H 2014 sales revenues €431.0m (-€63.0m, -12.8%)
  - ✗ Expected decline in electricity generation compared to 2013 as spot prices have not improved in Q2
- EBITDA expected to remain stable compared to 2013. 1H 2014 EBITDA €151.1m (+€5.8m, +4.0%)
- Investments expected to decrease in 2014. 1H 2014 investments €130.4m (-€38.7m, -22.9%)
- Dividend payment in Q4 to sole shareholder in amount of €113.6m, income tax to the state €30.2m

# Summary

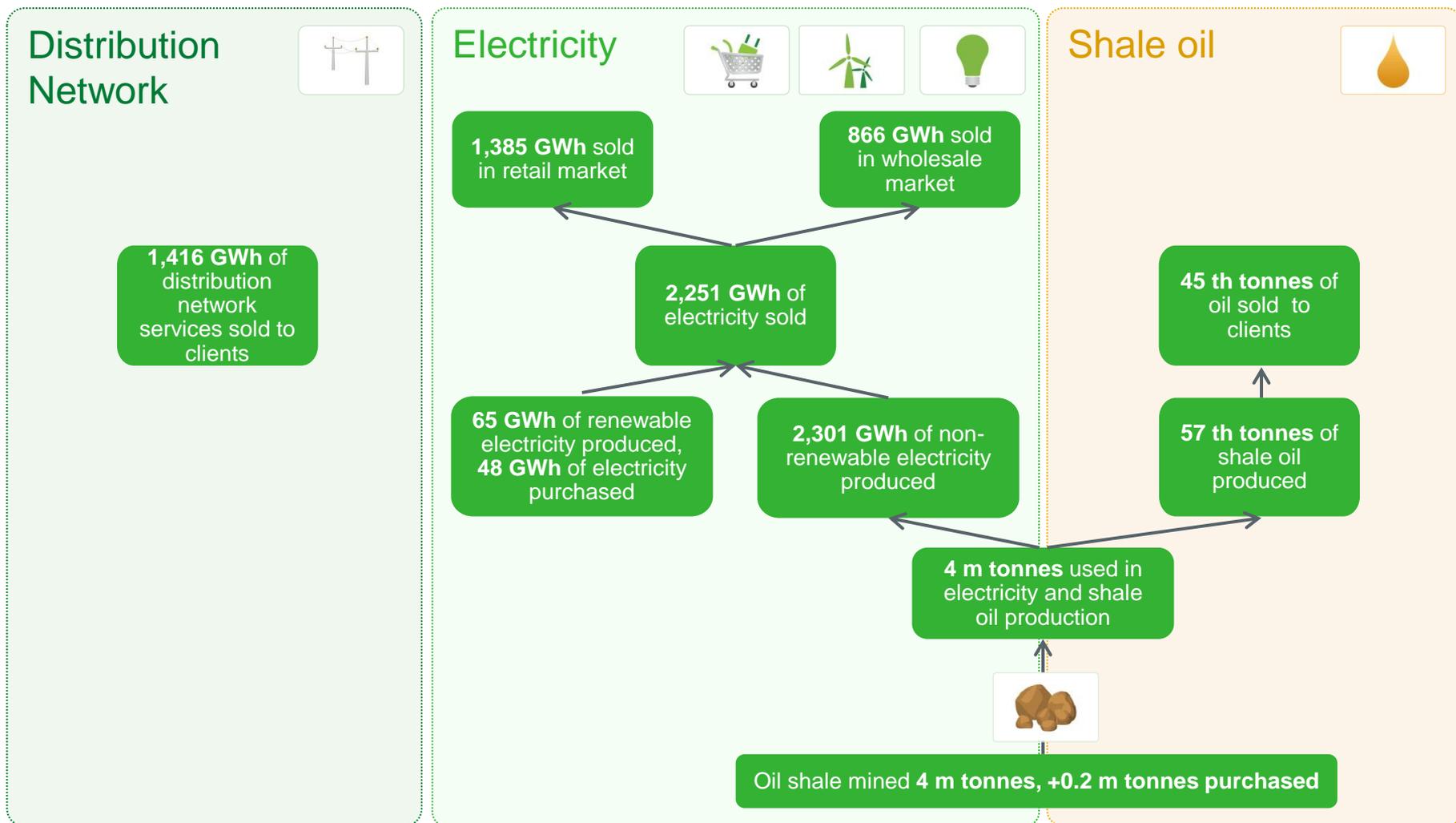
- Q2 2014 sales revenues decreased 5% to 205 million euros
  - Electricity sales revenue decreased by 24 million euros related to lower sales volume, financial hedges helped to sustain average sales price amid low spot prices
  - Shale oil sales volume doubled and sales price grew substantially increasing shale oil sales revenues by 12 million euros
- Q2 2014 EBITDA decreased 6% to 68 million euros
  - Electricity EBITDA decreased mainly due to higher border crossing costs and provisions for Latvian and Lithuanian retail portfolio
  - Shale oil EBITDA grew mainly due to increased sales volume
- Investments decreased 40% to 57 million euros. Cash flows positive in Q2 2014



# APPENDICES

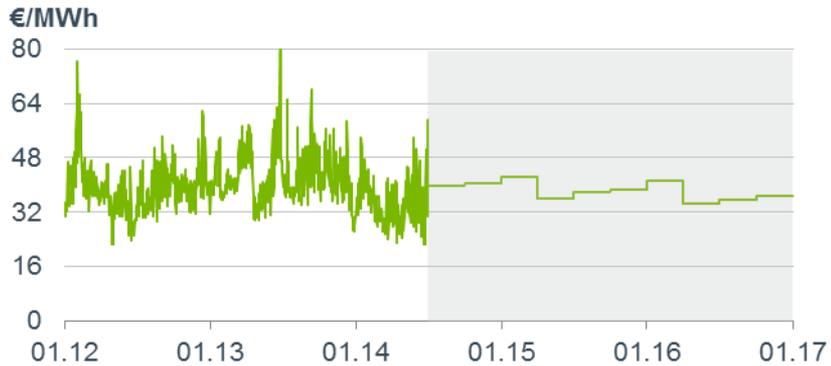


# Production and Sales in Q2 2014

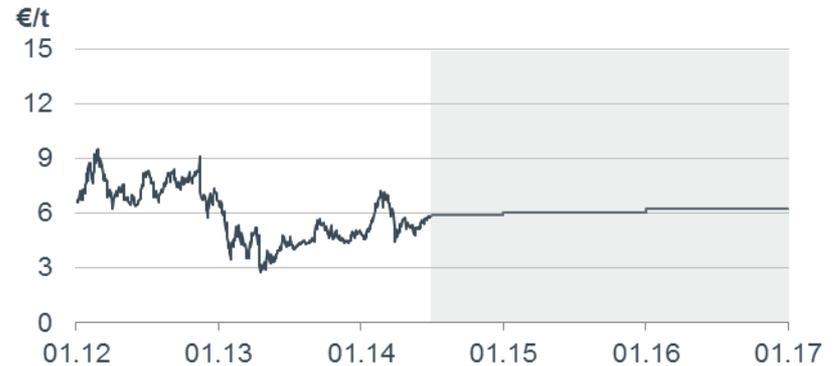


# Commodity Markets\*

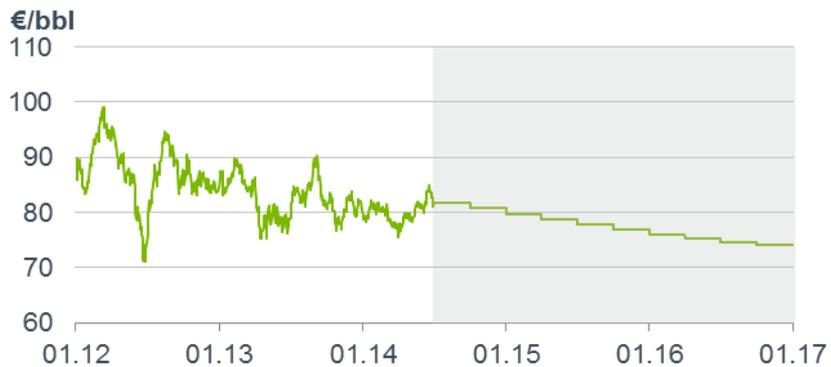
## Nord Pool Estonia Electricity Price



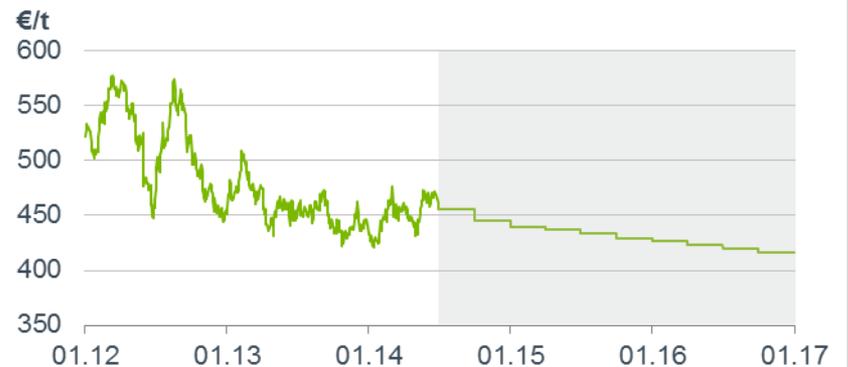
## December CO<sub>2</sub> Emission Allowance



## Brent Crude Oil



## Fuel Oil 1% NWE



\* futures prices as of 30 June 2014

# Closed Positions as of 30 June 2014\*



\* closed positions include forward contracts and exclude options

\*\* including free CO<sub>2</sub> allowances related to power plant construction in Auverre

# Profit and Loss Statement

million euros	Q2 2014	Q2 2013	Change	6M 2014	6M 2013	Change
<b>Sales revenues</b>	204.6	215.4	-5.1%	431.0	494.0	-12.8%
Other revenues	3.1	-4.0	-178.0%	6.9	6.6	+5.6%
<b>Expenses (excl. depreciation)</b>	139.9	139.3	+0.5%	286.8	355.2	-19.3%
<b>EBITDA</b>	67.7	72.2	-6.2%	151.1	145.3	+4.0%
Depreciation	32.1	28.9	+11.4%	63.7	57.8	+10.3%
<b>EBIT</b>	35.6	43.3	-17.8%	87.4	87.6	-0.2%
Net financial income (-expenses)	-0.5	-0.5	+5.8%	-1.3	-0.7	+98.9%
Income tax	28.8	-0.5	-59.0x	28.8	18.8	+53.2%
<b>Net profit</b>	6.2	43.3	-85.6%	57.3	68.1	-15.9%

# Balance Sheet

million euros	June 2014	June 2013	Change y-o-y	March 2014	Change q-o-q
<b>Assets</b>	<b>2,939.7</b>	<b>2,660.6</b>	<b>+10.5%</b>	<b>2,981.2</b>	<b>-1.4%</b>
<b>Current assets</b>	<b>507.1</b>	<b>420.9</b>	<b>+20.5%</b>	<b>571.3</b>	<b>-11.2%</b>
Cash and cash equivalents	77.7	103.3	-24.8%	37.7	+106.2%
Deposits with maturity of more than 3 months	132.0	73.0	+80.8%	137.0	-3.6%
Trade receivables	78.3	86.8	-9.8%	92.5	-15.3%
Inventories and prepaid expenses	79.1	107.8	-26.7%	94.5	-16.3%
Other current assets	139.9	49.9	+180.6%	209.6	-33.2%
<b>Assets held for sale</b>	<b>5.5</b>				
<b>Non-current assets</b>	<b>2,427.1</b>	<b>2,239.7</b>	<b>+8.4%</b>	<b>2,410.0</b>	<b>+0.7%</b>
<b>Liabilities and equity</b>	<b>2,939.7</b>	<b>2,660.6</b>	<b>+10.5%</b>	<b>2,981.2</b>	<b>-1.4%</b>
<b>Liabilities</b>	<b>1,472.2</b>	<b>1,230.3</b>	<b>+19.7%</b>	<b>1,370.6</b>	<b>+7.2%</b>
Trade payables	71.8	89.2	-19.5%	79.6	-9.7%
<b>Borrowings</b>	<b>935.8</b>	<b>732.9</b>	<b>+27.7%</b>	<b>935.9</b>	<b>-0.0%</b>
Current liabilities	1.4	1.4	-0.3%	1.4	-
Long-term liabilities	934.5	731.6	+27.7%	934.6	-0.0%
Provisions	73.5	85.0	-13.6%	113.3	-35.1%
Deferred income	157.7	146.1	+7.9%	153.2	+2.9%
Other liabilities	230.7	177.1	-11.0%	88.6	+160.6%
<b>Liabilities of assets held for sale</b>	<b>2.6</b>				
<b>Equity</b>	<b>1,467.5</b>	<b>1,430.2</b>	<b>+2.6%</b>	<b>1,610.6</b>	<b>-8.9%</b>

# Cash Flow Statement

million euros	Q2 2014	Q2 2013	Change	6M 2014	6M 2013	Change
<b>Net cash from operating activities</b>	<b>75.5</b>	<b>82.7</b>	<b>-8.7%</b>	<b>131.8</b>	<b>151.1</b>	<b>-12.8%</b>
Purchase of fixed assets	-43.4	-77.2	-43.8%	-132.1	-163.7	-19.3%
Proceeds from sales of fixed assets	0.5	0.1	+249.1%	0.6	12.6	-95.4%
Proceeds from bonds issued	0.0	0.0		110.3	0.0	
Change in bank loans	0.5	0.0		-0.2	-0.3	-25.2%
Net change in deposits with maturities greater than 3 months	5.0	-40.0	-112.5%	-111.0	17.0	-753.0%
Dividends received from financial investments	1.7	1.5	+11.1%	5.6	1.5	+261.2%
Other	2.8	7.4	-62.7%	12.8	25.0	-48.9%
<b>Net cash flows</b>	<b>42.5</b>	<b>-25.4</b>	<b>-267.4%</b>	<b>17.6</b>	<b>43.3</b>	<b>-59.3%</b>

# Glossary

- **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
- **Financial leverage**
  - $\text{Net debt} / (\text{net debt} + \text{equity})$
- **ROFA (Return On Fixed Assets)**
  - $\text{EBIT (rolling 12 months)} / \text{average fixed assets excl. assets in construction (allocated to specific product)}$
- **RAB (Regulated Asset Base)**
- **SAIFI (System Average Interruption Frequency Index)**
  - $\text{Total number of customer interruptions} / \text{total number of customers served}$
- **SAIDI (System Average Interruption Duration Index)**
  - $\text{Sum of all customer interruption durations} / \text{total number of customers served}$