Interim report

1 April – 30 June 2019

Eesti Energia

80 years of ESTONIAN ENERGY

Contents

Letter from the CEO

Dear reader

Despite volatile developments in the electricity market, Eesti Energia succeeded in maintaining its profitability in the second quarter of 2019 and remains on course for generating a billion euros in annual revenue.

The factor which influenced our performance the most was the average price of CO_2 emission allowances. Having grown by 76% year on year to 25.6 euros per tonne, it had two divergent impacts.

On the one hand, after the winter production peak electricity produced from oil shale has become increasingly less competitive. On the other hand, the surge in the price of emission allowances has driven up the market price of electricity, increased our revenue and boosted the output and profitability of renewable energy. Eesti Energia has made the right investments in renewable energy, we are keeping pace with the changes and our results reflect this.

Our wind energy output has grown four and a half times and total renewable energy output more than two times year on year. There have been weeks where our renewable energy output has exceeded our oil shale electricity output. It should be noted that our large-scale energy production business line has also been increasing its contribution to renewable energy output by using waste wood as fuel to lower the product cost of electricity produced.

By the end of the quarter, the share of renewable and alternative electricity in our portfolio grew to 33%. In Eesti Energia's strategy for 2019-2023 that was approved in May, we set a new and more ambitious target of producing 45% of electricity from renewable and alternative sources in 2023 at the latest.

Growth in renewable energy output, coupled with a decrease in the production of oil shale electricity, has helped reduce the carbon footprint of our production operations considerably. In the second quarter, our production facilities' total CO_2 emissions dropped by 52% to 1,2 million tonnes.

The large-scale energy production business line has had to seek efficiencies and adapt to the need to rapidly increase and decrease the output of power plants in response to fluctuations in the market price. Our engineers have developed solutions that provide the required flexibility: our power plants which were originally designed as steadily operating base load power plants can now operate at maximum capacity in the hours where the price is higher and at lower to zero capacity in the hours where the price is lower.

The market situation has reduced the need for oil shale. Therefore, in the second quarter we began to scale down our mining operations and notified the staff of the fact that in the summer and autumn we will have to implement forced leave, which involves reducing worktime and pay. The restructuring of large-scale energy production is a continuous process and in the third quarter we will decide whether and to what extent we will have to downsize. Since the beginning of the year, the Group's headcount has decreased by around 350 to 5,421 employees.

On a positive note, we are pleased to report that the other segment of the oil shale sector, which is liquid fuel production, is doing well. The operational reliability and productivity of the Enefit 280 oil plant adds viability to the plan of building a new oil plant to carry out Eesti Energia's and the state's strategic plan of adding maximum value to oil shale and producing more shale oil.

Although the oil price has decreased compared to the same time last year, the price of fuel oil has increased. Fuel oil with 1% sulphur content is a fuel widely traded in the global market that bears the greatest similarity to shale oil. Its price increase is attributable to the tighter cap on the sulphur content of marine fuels which will take effect next year. This will improve the export opportunities of our shale oil in the near term.

Eesti Energia's revenue for the second quarter grew by 13% year on year to 210.3 million euros. EBITDA increased by 19% to 63 million euros. The Group's net profit for the second quarter amounted to 9.4 million euros, 36% less than a year ago. Capital investments dropped by 5% to 45 million euros.

A highlight of the period was Eesti Energia's entry into the Polish renewable energy market. We purchased 20 solar park projects with a total capacity of 19.2 MW. Consistent with the plan to increase renewable energy output, we also filed an application to Lääne-Nigula local authority for the preparation of a detailed spatial plan to determine whether it would be possible to build a wind park at Risti in western Estonia.

We signed a memorandum of understanding with the global software producer Microsoft for working together to develop and, if we succeed, export digital energy and electricity network management solutions. Eesti Energia's strategic goal is to deliver an exceptional customer experience with the support of digital solutions and have 1 million customers in the Baltic Sea area by the year 2023.

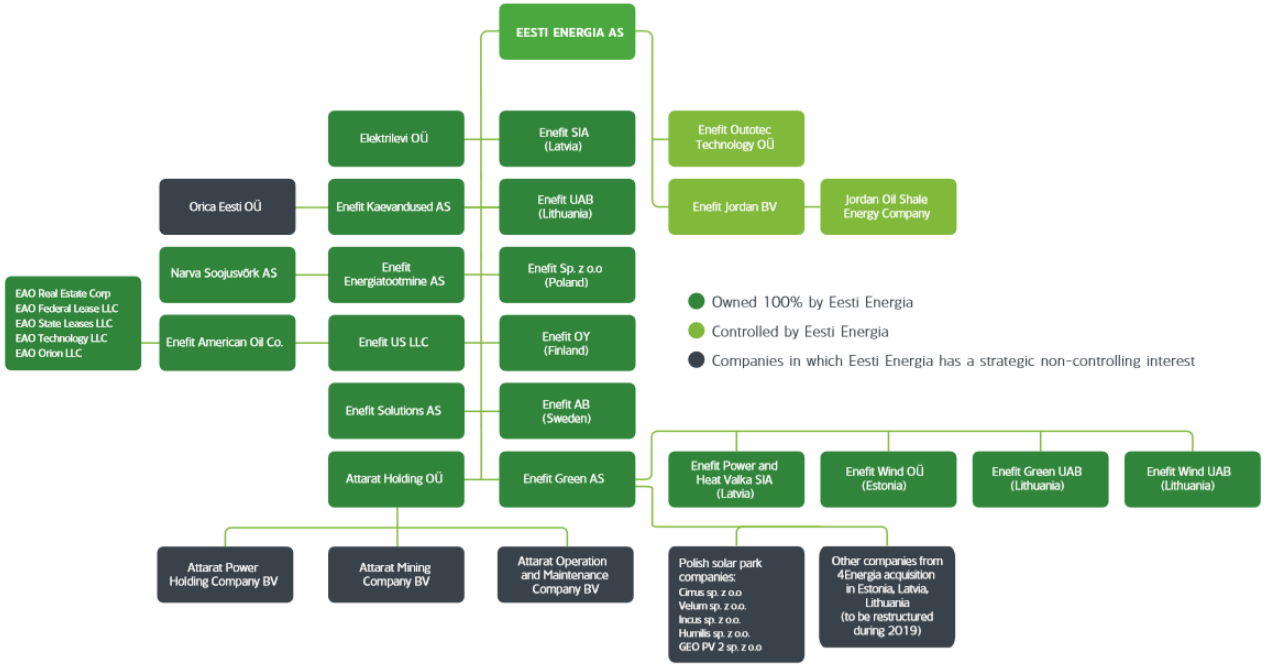
There were also several positive developments in the field of circular economy. We started to produce oil from old tyres. In addition, thorough research confirmed that our limestone can be used as a filler in the foundations of major infrastructure assets and our oil shale ash is safe to the environment, which is why the state will exclude it from the list of hazardous waste.

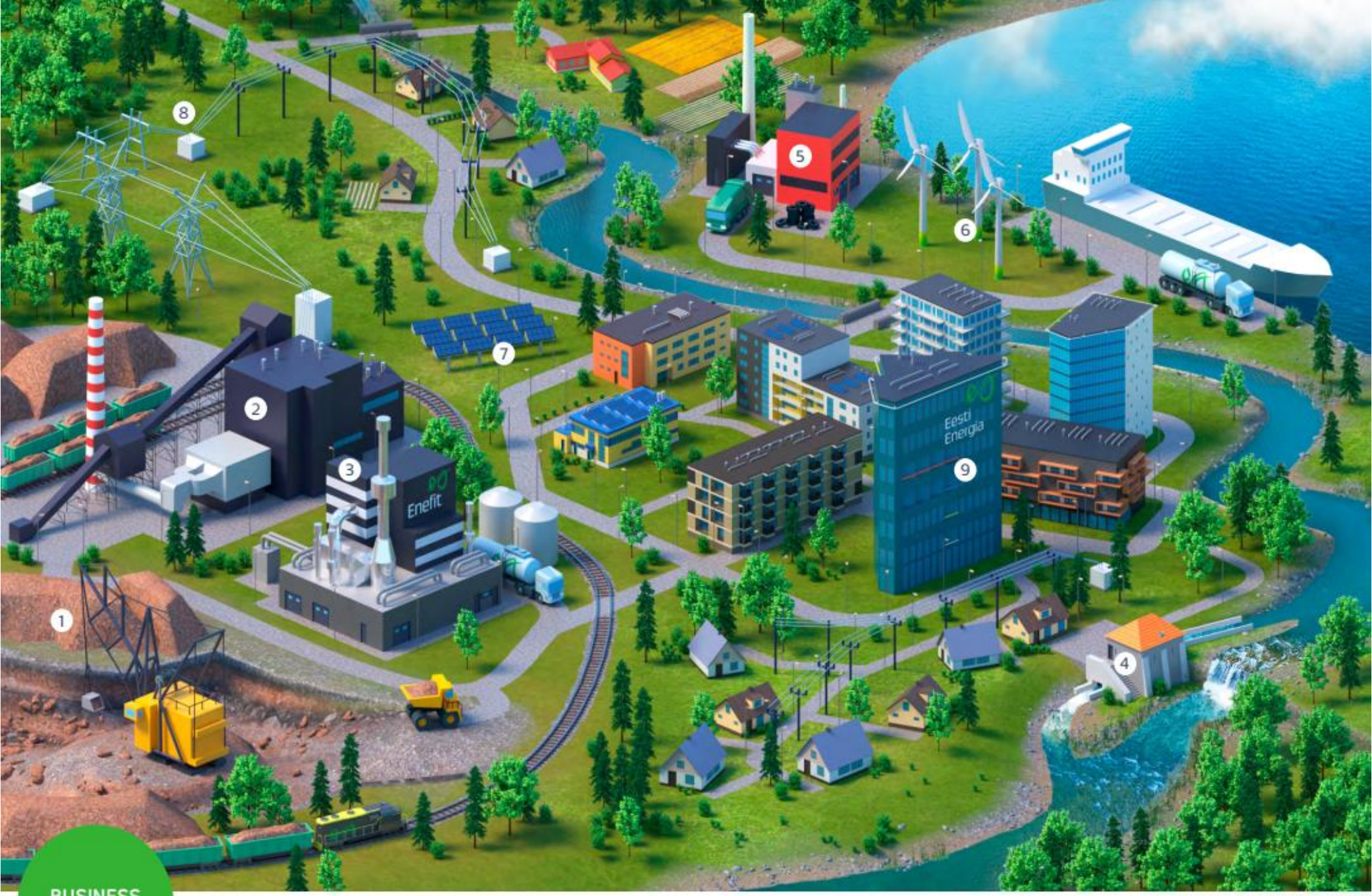
Hando Sutter
Chairman of the Management Board of Eesti Energia

This is Eesti Energia

- Established **in 1939**
- **5400 employees**
- **100%** owner: **Republic of Estonia**
- **6 home markets:** Estonia, Latvia, Lithuania, Poland, Finland, Sweden
- **4 business lines:**
  - **Customer services** business line provides customers with useful energy solutions and exceptional customer experience. We sell electricity, heat, gas and energy solutions to both household and corporate customers.
  - **Renewable energy** business line consist of our subsidiary Enefit Green. Our renewable energy production sources are the most diverse in the Baltic Sea region. We produce energy from wind, sun, biomass, municipal waste and water.
  - **Large-scale energy production** business line incorporates our oil shale mining, electricity and oil production and asset management business units.
  - **Network services**: Our subsidiary Elektrilevi delivers electricity to almost all the households and companies in Estonia

The structure of Eesti Energia Group as at 30th June 2019





BUSINESS LINES

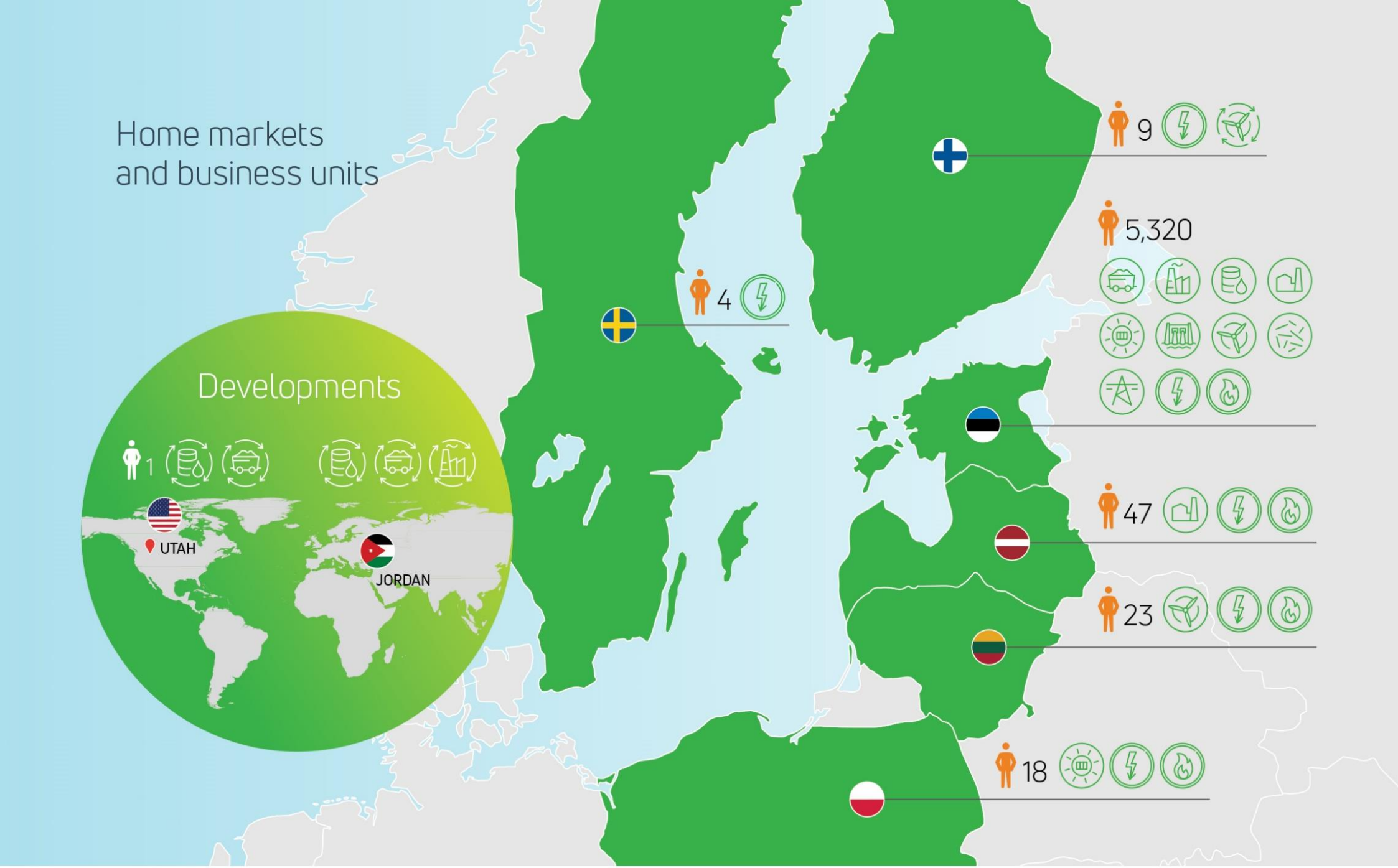
LARGE-SCALE ENERGY PRODUCTION: **1.** Oil shale mines | **2.** Thermal power plants | **3.** Oil plants

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

NETWORK SERVICES: **8.** Electricity distribution network

CUSTOMER SERVICES: **9.** Sales of electricity and gas solutions

Home markets and business units



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

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

ENERGY SALES: Electricity, Gas

Key figures and ratios

		Q2 2019	Q2 2018	Change
Total electricity sales*, of which	GWh	1,803	2,115	-14.8%
wholesale sales*	GWh	175	561	-68.8%
retail sales	GWh	1,635	1,554	+5.2%
Electricity distributed	GWh	1,537	1,542	-0.4%
Shale oil sales	th t	113	101	+12.0%
Heat sales	GWh	139	145	-3.9%
Average number of employees	No.	5,421	5,752	-5.8%
Sales revenues	m€	210.3	185.8	+13.2%
EBITDA	m€	63.0	53.0	+18.9%
Operating profit	m€	15.5	18.9	-18.1%
Net profit	m€	9.4	14.7	-35.9%
Investments	m€	45.0	47.3	-4.9%
Cash flow from operating activities	m€	22.9	9.5	+140.0%
FFO	m€	25.7	41.3	-37.7%
Non-current assets	m€	3,054.1	2,566.2	+19.0%
Equity	m€	1,796.8	1,764.7	+1.8%
Net debt	m€	1,022.1	567.1	+80.2%
Net debt / EBITDA**	times	3.4	2.3	+46.2%
FFO**/ net debt	times	0.19	0.36	-48.2%
FFO**/ interest cover**	times	5.2	6.0	-12.6%
EBITDA**/ interest cover**	times	8.2	7.1	+15.4%
Leverage	%	36.3	24.3	+11.9pp
ROIC**	%	4.5	4.6	-0.2pp
EBITDA margin	%	30.0	28.5	+1.4pp
Operating profit margin	%	7.4	10.2	-2.8pp

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

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

*** rolling 12 months result*

Operating environment

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

In Q2 2019, the following developments had an impact on the profitability of Eesti Energia's main products:

- electricity prices in the Baltic states remained stable compared with the same time last year;
- emission allowance prices grew by around 76% year on year;
- the price of crude oil decreased by 9%, whereas the price of fuel oil increased by 6% year on year.

According to the International Monetary Fund, in Q2 2019 the global economy grew by 3.3%.

Electricity prices remained stable compared with Q2 2018

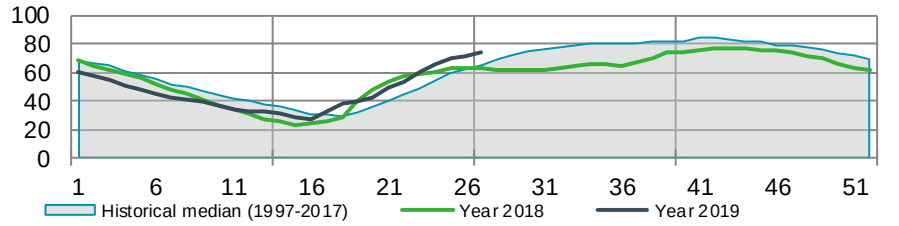
We produce electricity in Estonia, Latvia, Lithuania and Poland. We sell electricity in Estonia, Latvia, Lithuania, Finland, Sweden and Poland. Hence, our performance is influenced by electricity prices in those countries.

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

Average electricity price (€/MWh)	Q2 2019	Q2 2018	Change
Norway	36.2	39.2	-7.7%
Sweden	33.4	39.0	-14.4%
Finland	37.5	42.0	-10.7%
Denmark	36.9	39.7	-7.2%
Estonia	42.7	42.1	1.4%
Latvia	44.1	44.9	-1.8%
Lithuania	44.1	45.0	-2.0%
Poland	54.8	49.1	11.6%

In April there was less precipitation than expected, which influenced growth in electricity prices in the first half of the quarter. The level of the Nordic water reservoirs stabilised at the end of Q2. In Q2 2019, the average level of hydro resources was 46.5% of the maximum, i.e. 2.9 percentage points higher than in Q2 2018.

Weekly levels of Nordic water reservoirs, % of maximum



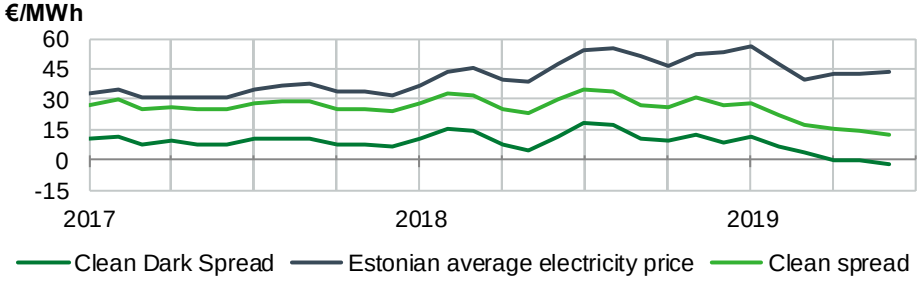
Source: Nord Pool

In Q2 2019, Eesti Energia's clean spread (margin between the electricity price and CO_2 costs) was 14.0 €/MWh, 11.9 €/MWh lower than in Q2 2018. This

means that CO_2 costs grew by 8.6 €/MWh while electricity prices grew by 0.6 €/MWh.

Eesti Energia's clean dark spread (CDS) for the period was -0.2 €/MWh (-8.2 €/MWh, -103% compared with Q2 2018). The changes in CO_2 and oil shale costs had impacts of -8.6 €/MWh and -0.2 €/MWh on CDS respectively.

Eesti Energias' carbon free spreads and Clean Dark Spreads' relation to Estonian electricity price



Source: Nord Pool, Eesti Energia

Crude oil prices decreased, while fuel oil prices increased year on year

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

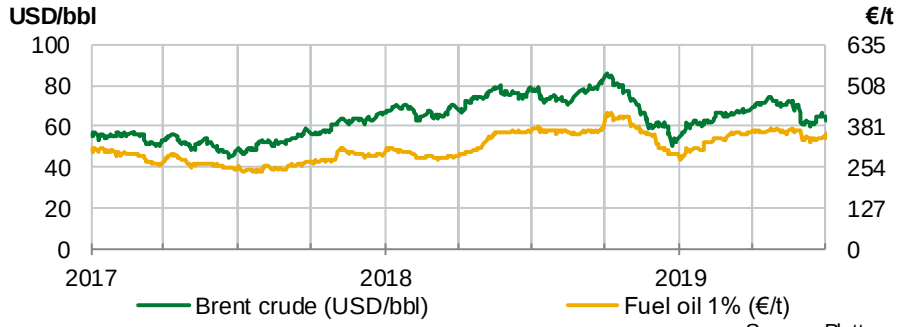
At the end of 2018, OPEC members agreed to cut oil production by 1.2 million barrels per day. The agreement lasted until the end of June 2019. Besides OPEC's production cuts, in Q2 2019 the oil price was influenced by economic sanctions imposed on Iran and Venezuela and the US-China trade dispute.

In Q2 2019, the average price of Brent crude oil was 68.4 USD/bbl, i.e. 8.8% (-6.6 USD/bbl) lower than in Q2 2018.

Usually the prices of oil products and fuel oil move in tandem. In Q2, however, fuel oil prices grew, whereas crude oil prices dropped. The price of fuel oil was driven up by preparations made for meeting the International Maritime Organization's tighter marine fuel sulphur cap in 2020. Under a convention adopted by the International Maritime Organization, vessels have to lower the sulphur content of their fuels from 2020. This will improve the export opportunities of our fuel oil.

In Q2 2019, the average price of fuel oil with 1% sulphur content was 359.0 €/t, i.e. 6.0% (+20.5 €/t) up on Q2 2018.

Liquid fuels prices



Source: Platts

CO_2 emission allowance prices grew by 76% year on year

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

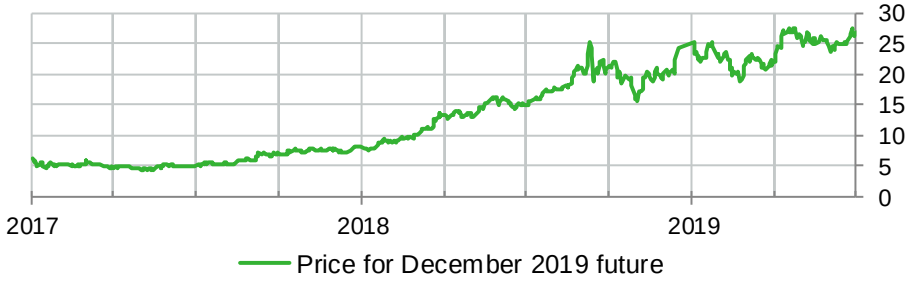
In February 2018, the European Commission approved the European Union's emissions trading system reform which is going to reduce the auction volume of emission allowances annually. Since the enactment of the reform, CO_2 emission allowance prices have risen sharply.

In Q2, CO_2 emission allowance prices were additionally influenced by the postponement of Brexit. The decision boosted market confidence in the

possibility that Brexit may not occur and Great Britain will continue to participate in the emissions trading system, which would increase allowance prices.

In Q2 2019, the average price of CO_2 emission allowances was 25.6 €/t, 76.3% (+11.1 €/t) higher than in Q2 2018.

Prices of CO_2 emission allowances, €/t



Source: Intercontinental Exchange

Highlights of Q2

Customer services

We began offering solar power solutions to individuals in Estonia

We now offer our household customers in Estonia a turnkey solution for implementing solar power where Eesti Energia will take care of all activities from design and construction to obtaining relevant permits and maintenance.

We won a streetlight upgrade contract in Taurage, Lithuania

Eesti Energia won a tender organised by Taurage town, Lithuania, for upgrading around 3,500 streetlights by replacing them with modern LED lights. Under an innovative energy services model, the Taurage local authority will not have to make any additional investments: the project will be fully funded with savings from lower energy consumption. The contract is for 10 years and includes installing new lights and providing subsequent maintenance service.

Renewable energy

We entered the Polish renewable energy market

On 18 June, Enefit Green signed a contract for the acquisition of 20 solar park projects in Poland. The total capacity of the solar parks is 19.2 MW and the investment amounted to 17.3 million euros. The target of Enefit Green is to increase the share of solar power in its renewable energy portfolio. The acquisition of the solar parks in Poland will help achieve this objective by increasing Enefit Green's solar power production capacity to 26 MW.

We are exploring the option of setting up a new wind park in western Estonia

In June, we filed an application for the preparation of a detailed spatial plan in order to start an environmental impacts assessment to determine whether it would be possible to build a wind park at Risti, an area in western Estonia that has excellent wind conditions. Depending on the turbines' location in the planning area, their maximum number could extend to 30. The wind park would be located in a forest, a kilometre from the nearest households.

Large-scale energy production

Our generating units' operating mode now ensures maximum flexibility

Record-high CO_2 emission allowance prices have rendered the output of our older generating units that operate on the pulverised combustion technology uncompetitive. This has made us seek ways to adjust the operating modes of their production processes. In Q2, the engineers of our energy production subsidiary Enefit Energiatootmine met the challenge by adjusting the generating units' operating mode so that the units can produce the steam needed for both power and oil production while disconnected from the turbine and the power network. The adjusted mode ensures flexible production and allows bringing the units to full capacity within three hours only.

Network services

We opened a separate service channel for corporate customers

Our distribution network operator Elektrilevi has 33,550 corporate customers whose needs and interests differ from those of our household customers.

To deliver a better service, in April Elektrilevi launched a separate service channel where professional corporate service staff advise corporate customers on network packages (distribution charge plans), additional services and connection to the network, and provide information about planned supply interruptions and other matters relevant to this customer group.

We signed contracts with builders of a high-speed internet network and telecommunication operators

In Q2, we continued extensive preparations for building a high-speed internet network. We carried out public procurements and signed contracts with 14 network construction companies for building a fibre optic communication network. We also made agreements with 12 telecommunication operators that are going to provide internet service on Elektrilevi's open fibre optic network. Elektrilevi is planning to make the high-speed internet network available to at least 200,000 households within five years.

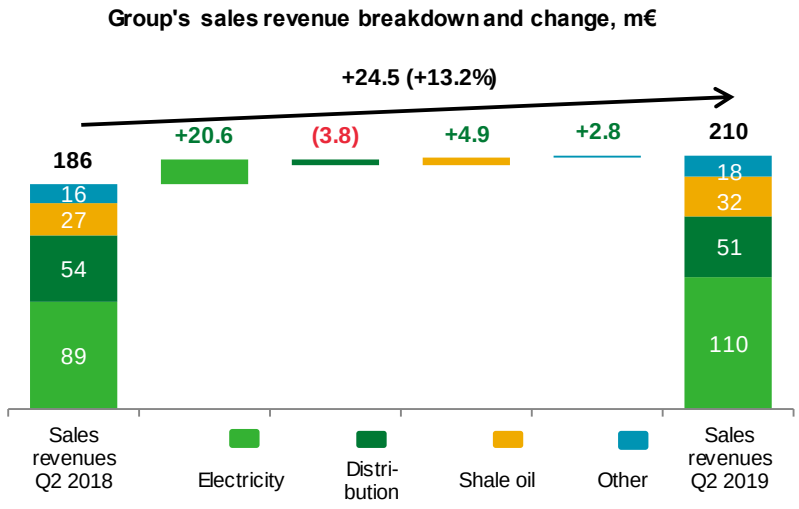
We signed a contract for the supply of off-grid solutions to the Lithuanian distribution network operator

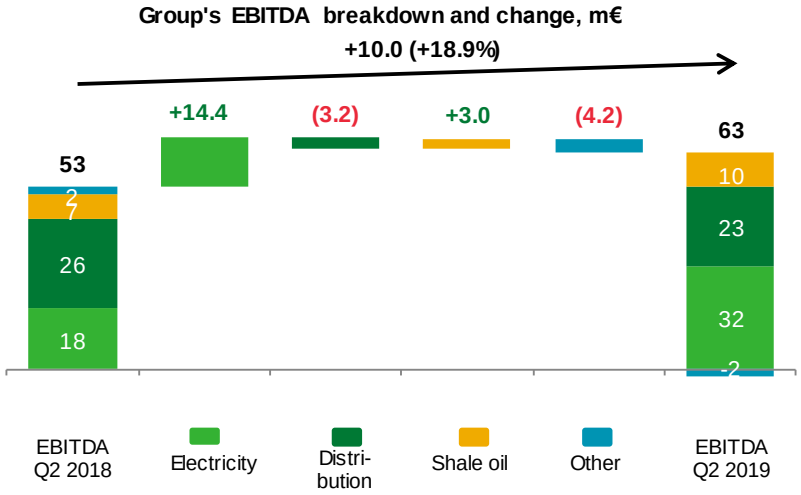
Elektrilevi won the procurement arranged by the Lithuanian distribution network operator ESO and signed a contract for the supply of two off-grid electricity solutions. Like Elektrilevi, the Lithuanian distribution network operator is going to use off-grid power systems in sparsely populated and remote areas. In the case of an off-grid solution, electricity is not delivered via the power grid but all the electricity required by a household is produced by a local system consisting of solar panels, batteries and a generator.

Financial Results

Revenue and EBITDA

Eesti Energia generated revenue of 210.3 million euros in Q2 2019, 13.2% up on Q2 2018 (+24.5 million euros).





EBITDA for the period amounted to 63.0 million euros, an 18.9% increase year on year (+10.0 million euros). The Group's net profit decreased by 35.9% to 9.4 million euros (-5.3 million euros).

Revenue from the sale of electricity grew, driven by a higher average sales price and the positive impacts of derivative transactions and subsidies. Revenue from electricity distribution service decreased due to a lower average sales price. Revenue from the sale of shale oil increased, supported by a higher average price and larger sales volume. Revenue from the sale of other products and services grew, mainly through higher revenue from the sale of mining products and pellets. Heat sales revenue declined year on year.

Electricity EBITDA improved thanks to a higher margin and the positive impact of derivative transactions. Distribution service EBITDA decreased due to a lower margin. Shale oil EBITDA grew, underpinned by higher sales prices and a larger sales volume.

EBITDA attributable to other products and services decreased year on year, primarily because in 2019 the Group did not receive liquidated damages for the delay in the delivery of the Auvere power plant that increased the segment's revenue for the comparative period.

Electricity

Through the years, electricity has been one of the main sources of Eesti Energia's revenue and profit. In Q2 2019, we also earned the largest share of our revenue from the sale of electricity.

Electricity revenue

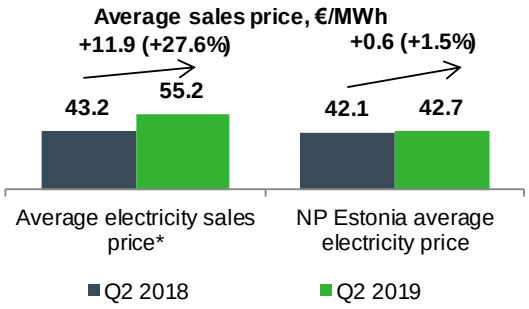
Compared to Q2 2018, the sales price of electricity grew but sales volume decreased slightly. In Q2 2019, revenue from the sale of electricity increased by 23.1% year on year, rising to 109.7 million euros (+20.6 million euros).

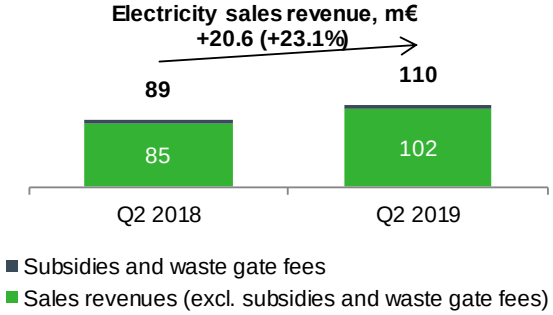
Average sales price of electricity

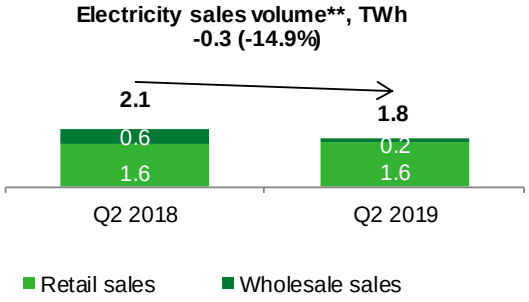
In Q2 2019, the Group's average sales price of electricity was 55.1 €/MWh, 27.5% higher than in the same period last year (+11.9 €/MWh).

The average sales price excludes the impact of derivative transactions. Including the impact of derivatives, the average sales price of Q2 2019 would have been 56.8 €/MWh, 31.4% higher than in Q2 2018 (+1.6 €/MWh).

Derivative transactions of Q2 2019 yielded a gain of 3.1 million euros compared with a gain of 0.02 million euros a year earlier.







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

Electricity sales volume and Eesti Energia's market share

In Q2 2019, we sold 1,803 GWh of electricity, 154 GWh, i.e. 7.9%, less than in the same period last year.

Compared to Q2 2018, wholesale sales decreased by 228 GWh (-56.6%) to 175 GWh and retail sales grew by 74 GWh (+4.7%) to 1,628 GWh. Retail sales broke down between markets as follows: Estonia 968 GWh (-23 GWh), Latvia 247 GWh (-27 GWh), Lithuania 259 GWh (+49 GWh) and Poland 146 GWh (+64 GWh).

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

In March 2019, we began to sell electricity to household customers in Latvia. We have been serving corporate customers in Latvia since 2006 already.

In terms of customers' electricity consumption volumes, in Q2 2019 Eesti Energia's market share in Estonia was 60%, remaining at the same level as in Q2 2018. At the end of Q2 2019, universal service was consumed at 20% of electricity consumption points.

In Q2 2019, Eesti Energia's market shares in Latvia and Lithuania were 14.0% and 10.0% respectively. Our total share of the Baltic retail electricity market was 26%, i.e. 1 percentage lower than in Q2 2018.

Electricity production volume

In Q2 2019, we produced 1,158 GWh of electricity, 42.9% less than in Q2 2018 (-869 GWh). The decrease in production volume is mainly attributable to growth in the price of CO_2 emission allowances that surged by 11.1 €/t to 25.5 €/t year on year and the downtime of the Auvere power plant. The Auvere power plant was out of operation due to additional adjustments made during its post-delivery warranty period.

In Q2 our renewable energy output was 250 GWh (+228%, +174 GWh) of which 223 GWh (+263%, +161 GWh) was produced at Enefit Green. The largest share of renewable energy was generated by wind parks that produced 194 GWh of electricity (+374%, +153 GWh). The rise is attributable to the addition of the wind parks of Nelja Energia and more favourable wind conditions than in Q2 2018.

Renewable energy and efficient co-generation subsidies received in Q2 amounted to 5.9 million euros (+2.4 million euros).

Key figures of the electricity product

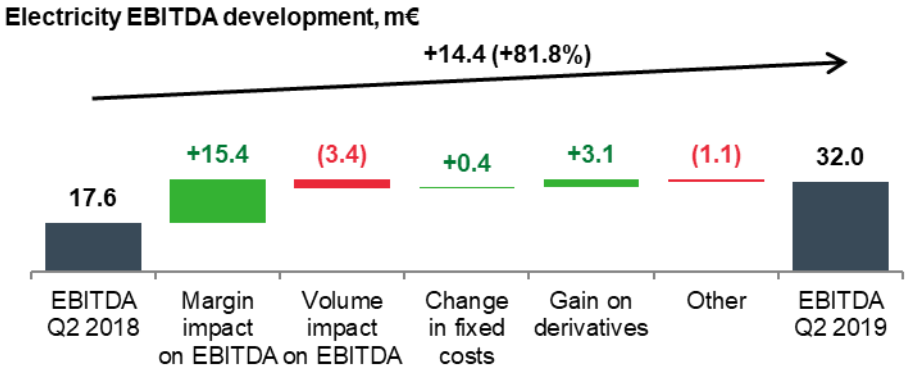
		Q2 2019	Q2 2018
Return on fixed assets*	%	4.0	6.2
Electricity EBITDA	€/MWh	17.8	9.0

* Excluding impairment of production assets recognised in December 2013 and December 2015

Electricity EBITDA

Electricity EBITDA for Q2 amounted to 32.0 million euros (+81.8%, +14.4 million euros).

The impact of a higher margin was +15.4 million euros (+8.6 €/MWh). Average electricity sales revenue per megawatt hour (excluding the impact of derivative transactions) grew by 13.7 euros (impact: +24.7 million euros). The figure comprises growth in the average sales price of electricity of 11.9 €/MWh, subsidies received of 1.5 €/MWh and municipal waste gate fees of +0.3 €/MWh. Growth in average variable costs had an impact of -9.3 million euros. The change in provisions for CO_2 emission allowances had an impact of 15.7 million euros. Variable costs grew mainly through higher electricity purchase costs.



The impact of a decrease in electricity sales volume was -3.4 million euros and growth in gain on derivative transactions had an impact of +3.1 million euros.

The impact of a change in fixed costs was +3.7 million euros, the figure reflecting the impacts of changes in the fixed costs of Enefit Green of -3.1 million euros, the customer services unit of -1.4 million euros and the large-scale energy production business line of +5.3 million euros.

Other impacts of -1.1 million euros resulted mainly from changes in the value of derivative financial instruments.

Distribution

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

Distribution revenue, sales volume and price

In Q2 2019, electricity distribution revenue decreased by 7.1% year on year to 50.5 million euros (-3.8 million euros) and sales volume declined by 0.4% to 1,537 GWh (-5.5 GWh).

The average price of distribution service was 32.9 €/MWh, 2.4 €/MWh lower than in Q2 2018. The decrease in distribution revenue and average price is mainly attributable to the reduction of network charges.

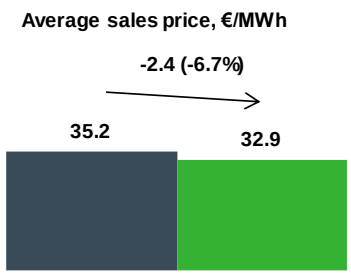
Distribution losses

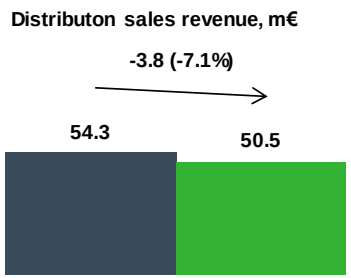
The period's electricity distribution losses totalled 67.2 GWh, i.e. 4.12% of electricity entering the network (Q2 2018: 67.0 GWh, i.e. 4.05%), remaining at the same level as in the previous year.

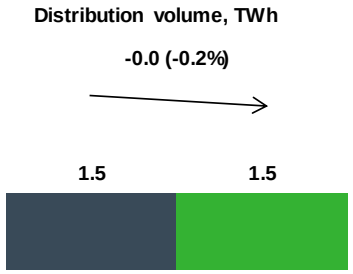
Supply interruptions

In Q2 2019, the average duration of unplanned interruptions decreased thanks to better weather conditions to 18.1 minutes (Q2 2018: 34.8 minutes).

The average duration of planned interruptions was 18.8 minutes (Q2 2018: 23.3 minutes). The duration of planned interruptions depends on the volume of scheduled network maintenance and renewal operations.







Q2 2018 Q2 2019

Key figures of the distribution product

		Q2 2019	Q2 2018
Return on fixed assets	%	4.2	6.0
Distribution losses	GWh	67.2	67.0
SAIFI	index	0.28	0.60
SAIDI (unplanned)	index	18.1	34.8
SAIDI (planned)	index	18.8	23.3
Adjusted RAB	m€	794	778

Power outages can be reduced by replacing bare conductors with weatherproof cables. At the end of Q2 2019, 89.2% of our low-voltage distribution network and 38.8% of our medium-voltage distribution network was weatherproof.

Distribution EBITDA

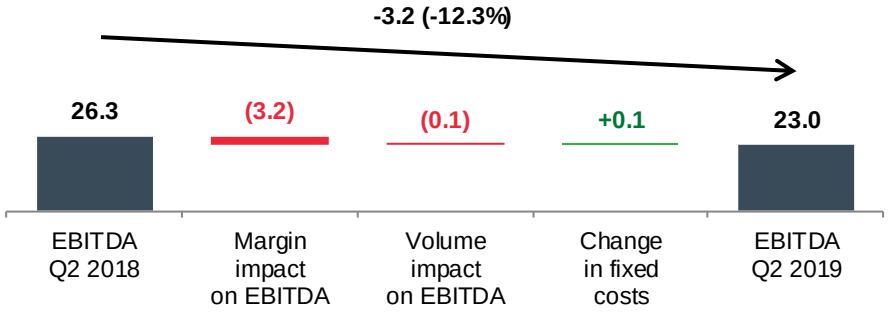
Distribution EBITDA for Q2 2019 amounted to 23.0 million euros (-12.3%, -3.2 million euros).

Distribution EBITDA decreased, mainly due to a lower margin (impact: -3.2 million euros) that resulted from a lower average sales price.

Distribution sales volume dropped by 0.4%, having a -0.1 million euro impact on distribution EBITDA.

Fixed costs from distribution service decreased year on year. Thanks to better than expected weather conditions, expenses on unplanned repairs and maintenance proved smaller than projected.

Distribution EBITDA development, m€



Shale oil

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

In Q2 2019, market prices grew by 6.0% compared to the same period in 2018.

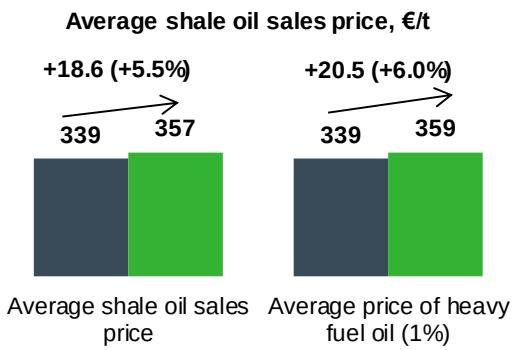
Shale oil revenue and sales volume

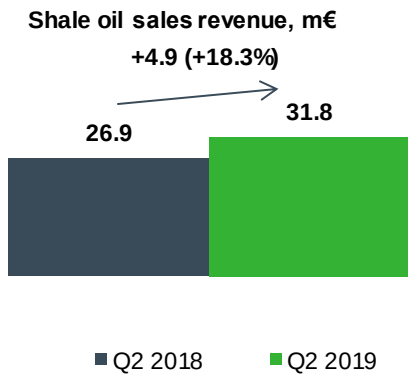
In Q2 2019, we sold 113.1 thousand tonnes of shale oil, which generated revenue of 31.8 million euros. Compared to the same period in 2018, revenue from the sale of shale oil grew by 18.3% (+4.9 million euros) and sales volume increased by 12.0% (+12.1 thousand tonnes).

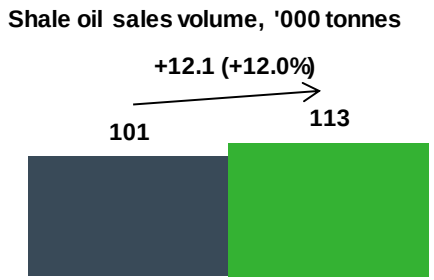
Shale oil sales volume and revenue grew year on year through a higher sales price and growth in output.

Shale oil price

In Q2 2019, the average sales price of shale oil (excluding the impact of derivative transactions) grew by 5.5% year on year to 357 €/t (+18.6 €/t). The rise was mainly attributable to higher market prices.







Derivative transactions of the period resulted in a loss of 76 €/t. Including the impact of derivative transactions, in Q2 2019 the average sales price of shale oil would have been 281.4 €/t (+5.7%, +15.1 €/t compared to Q2 2018). The world market price of the reference product, heavy fuel oil, increased by 6.0% year on year.

Shale oil production volume

In Q2 2019, we produced 93.5 thousand tonnes of shale oil, 3.7% (+3.3 thousand tonnes) more than in Q2 2018. The rise in output is attributable to the longer work time of the Enefit 280 oil plant: in June 2018 the plant was down for planned repairs.

Key figures of the shale oil product

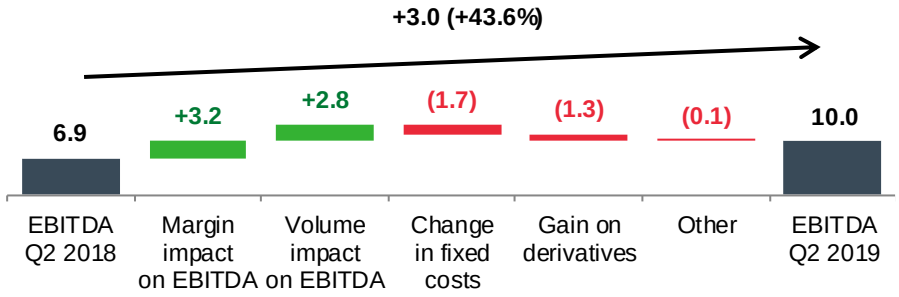
		Q2 2019	Q2 2018
Return on fixed assets*	%	9.7	2.8
Shale oil EBITDA	€/t	88.2	68.8

* Excluding impairment of production assets recognised in December 2013 and December 2015

Shale oil EBITDA

Shale oil EBITDA for Q2 2019 amounted to 10.0 million euros (+43.6%, +3.0 million euros).

Shale Oil EBITDA development, m€



Margin growth improved EBITDA by 3.2 million euros (+28.3 €/t), resulting mainly from a rise in the average sales price (+18.3 €/t).

The impact of growth in shale oil sales volume was +2.8 million euros.

The impact of a change in fixed costs was -1.7 million euros. Among other items, the figure includes growth in labour costs that had an impact of -1.6 million euros.

Growth in the loss on derivative transactions lowered shale oil EBITDA by 1.3 million euros.

Other products and services

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

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

In Q2 2019, our retail sales of natural gas in Estonia totalled 93.5 GWh and based on customers' gas consumption volumes, Eesti Energia's market share was 11.6%.

In other countries, our Q2 retail sales of gas totalled 35.8 GWh in Latvia, 17.5 GWh in Lithuania and 25.2 GWh in Poland. In terms of customers' gas consumption volumes, our Q2 market shares were 1.5% in Latvia, 0.3% in Lithuania and 0.1% in Poland.

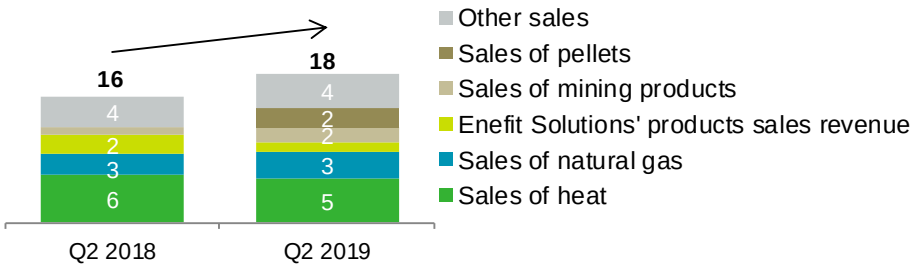
Revenue from the sale of other products and services

In Q2 2019, revenue from the sale of other products and services totalled 18.3 million euros, a 17.9% improvement on Q2 2018 (+2.8 million euros).

Revenue from the sale of mining products grew by +1.0 million euros. During the period, Eesti Energia sold 75 thousand tonnes of oil shale to external customers (Q2 2018: 29 thousand tonnes). Revenue from the sale of pellets contributed 2.4 million euros to the segment's revenue growth.

Revenue from the sale of heat decreased by 0.5 million euros and revenue from the sale of gas grew by 0.8 million euros year on year.

Sales revenues from other products and services, m€
+2.8 (+17.9%)



EBITDA on other products and services

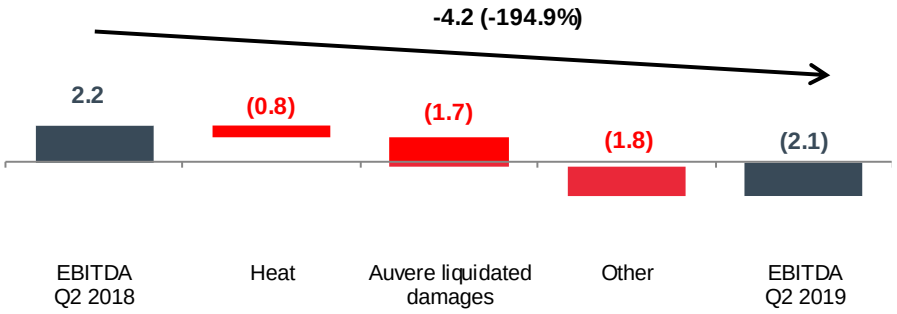
EBITDA on other products and services decreased by 4.2 million euros year on year, dropping to -2.1 million euros.

The impact of liquidated damages received in the comparative period for a delay in the delivery of the Auvere power plant was -1.7 million euros. Liquidated damages agreed with the builder were recognised until the delivery of the power plant. From Q3 2018, liquidated damages are not recognised.

EBITDA on heat supply decreased by 0.8 million euros due to lower sales volume and higher fixed costs.

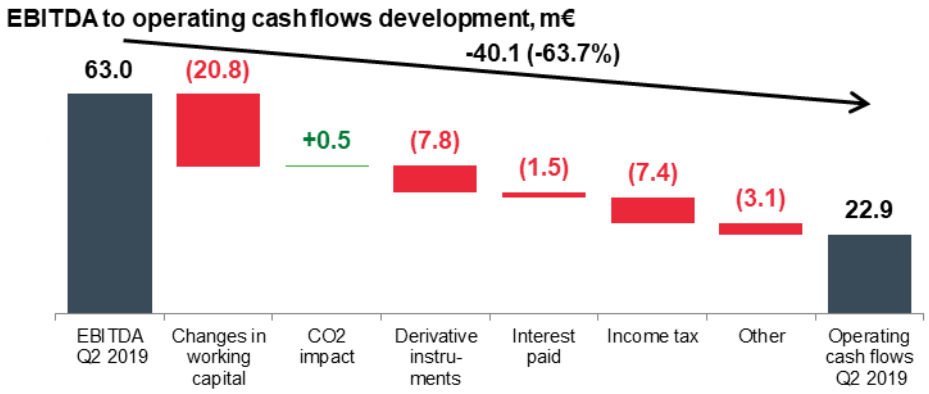
Other impacts lowered EBITDA by 1.8 million euros in total.

Other EBITDA development, m€



Cash flows

Net operating cash flow for Q2 2019 amounted to 22.9 million euros, being 63.7%, i.e. 40.1 million euros, smaller than EBITDA, which amounted to 63.0 million euros.



Changes in working capital decreased net operating cash flow relative to EBITDA by 20.8 million euros. Working capital was lowered by inventory growth and a decrease in current liabilities that had impacts of -13.4 million euros and -31.5 million euros respectively. Working capital was increased by a decrease in current receivables that had an impact of +29.4 million euros.

Settlements related to CO_2 emission allowances increased operating cash flow relative to EBITDA by 0.5 million euros.

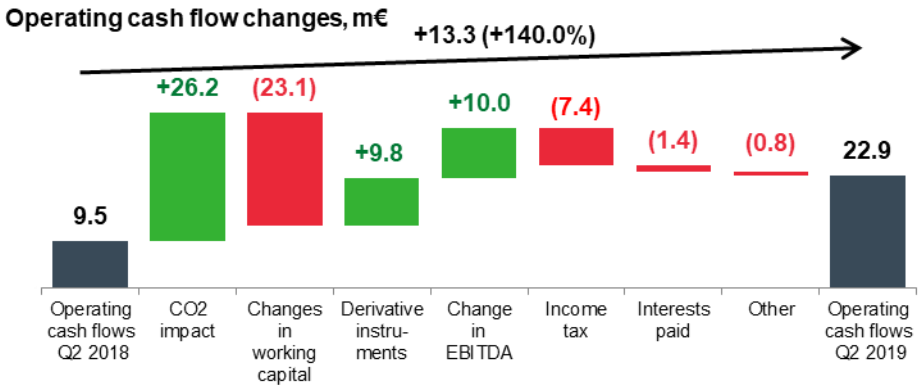
The impact of derivative financial instruments (excluding CO_2 instruments) was -7.8 million euros, including the impacts of electricity derivatives of +1.4 million euros and oil derivatives of -10.5 million euros. The impacts of derivatives comprise both monetary and non-monetary impacts on EBITDA and operating cash flow.

Interest paid on loans lowered net operating cash flow by 1.5 million euros.

Income tax recognised in 2018 and paid in Q2 2019 reduced operating cash flow by 7.4 million euros.

Other impacts totalled -3.1 million euros, including the impact of the recognition of connection fees of -2.2 million euros.

Compared to Q2 2018, net operating cash flow grew by 140% (+13.3 million euros).



The impact of changes in working capital was -23.1 million euros. The figure includes the impacts of a change in current receivables of +3.9 million euros, a change in inventories of -10.4 million euros and a change in current liabilities of -6.3 million euros.

The impact of settlements related to CO_2 emission allowances was +26.2 million euros.

The impact of derivative financial instruments (excluding CO_2 instruments) was 9.8 million euros, including the impacts of electricity derivatives of +12.4 million euros and oil derivatives of -4.7 million euros.

In Q2 2019, income tax paid on dividends was 7.4 million euros larger than in Q2 2018. In 2018, income tax on dividends distributed was paid in Q1.

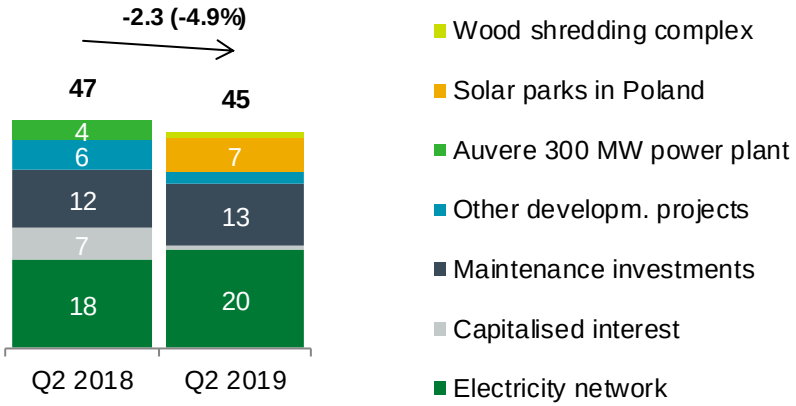
Loan interest paid in Q2 2019 was 1.4 million euros larger than a year earlier.

Other impacts totalled -0.8 million euros, including the impact of the recognition of connection fees of -0.2 million euros.

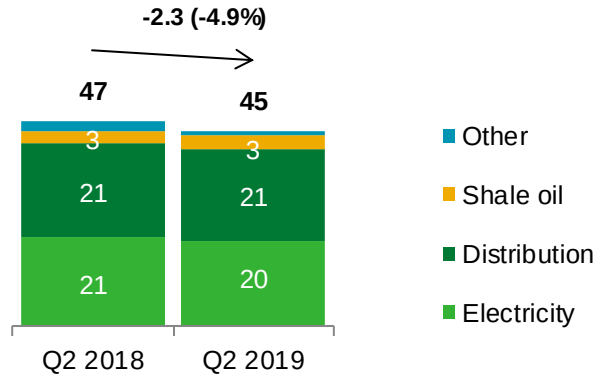
Investment

We invested 45.0 million euros in Q2 2019, 4.9% less than in Q2 2018 (-2.3 million euros). Expenditures on the distribution network amounted to 20.5 million euros (+12.4%, +2.3 million euros) and maintenance and repair expenditures (excluding the distribution network) totalled 13.2 million euros (+13.3%, +1.5 million euros).

Capex breakdown by projects, m€



Investment breakdown by products, m€



Increasing the share of renewable energy

To increase the output of renewable energy, in Q2 2019 we invested 7.3 million euros in the acquisition of companies holding solar park projects in Poland.

In Estonia, we invested 1.0 million euros in purchasing the properties required for building a wind park at Risti. In addition, we invested 0.3 million euros in completing the solar energy projects started in 2018.

Increasing the efficiency of large-scale energy production

In Q2 2019, we continued the construction and assembly of a waste wood shredding and metal removing complex. We also initiated a preliminary survey and commissioned a draft plan for a start-up boiler for the Eesti power plant.

We improved the infrastructure of industrial parks on the premises of the Balti power plant.

Improving the quality of distribution service

Investments made to maintain and continuously improve the quality of the distribution network totalled 20.5 million euros in Q2 2019 (Q2 2018: 18.2 million euros).

During the period, we built 75 substations and 301 km of network (Q2 2018: 72 substations and 417 km of network).

At the end of Q2 2019, 89% of Elektrilevi's low-voltage network was weatherproof (at the end of Q2 2018: 86%). Compared to the same period last year, the weatherproof low-voltage network increased by 884 km and the bare conductor network decreased by 993 km.

At period-end, 68% of our total low- and medium-voltage network was weatherproof (at the end of Q2 2018: 65%).

Financing

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

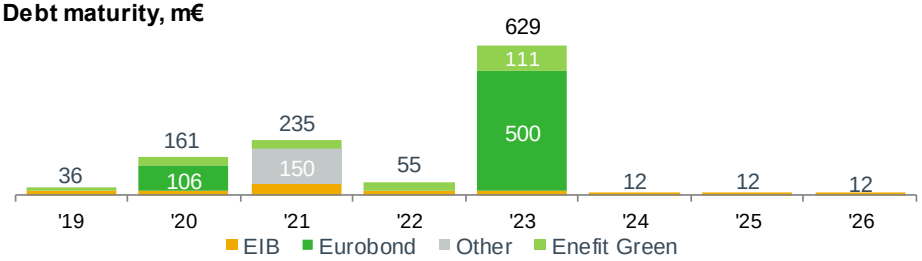
At the end of Q2 2019, the Group's borrowings totalled 1,155 million euros at nominal value (at the end of Q1 2019: 1,164 million euros) and 1,115 million euros at amortised cost (at the end of Q1 2019: 1,123 million euros).

Long-term borrowings as at the reporting date comprised Eurobonds listed on the London Stock Exchange of 606 million euros and loans from EIB and commercial banks of 157 million euros and 392 million euros respectively (all nominal amounts). Loans from commercial banks consisted of loans taken by Enefit Green of 242 million euros and loans taken by Eesti Energia's parent of 150 million euros. In Q2, we made regular contractual repayments of Enefit Green's bank loans of 9.3 million euros.

At the end of Q2 2019, the Group's liquid assets totalled 93 million euros. Eesti Energia's undrawn liquidity loans from two regional banks (SEB and OP Corporate Bank) amounted to 300 million euros. Out of that amount 150 million euros can be drawn down until July 2020 and 150 million euros until June 2021.

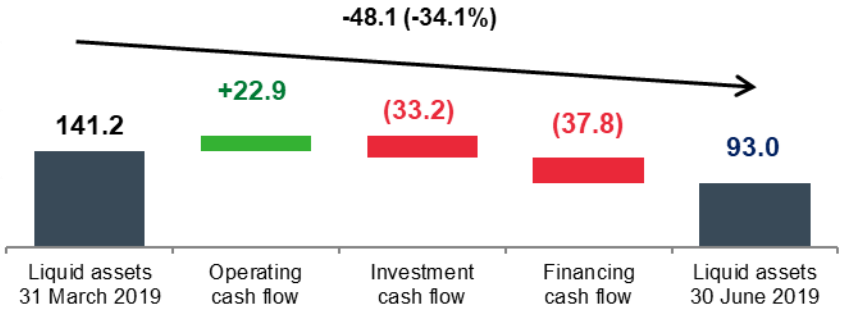
At the reporting date, the weighted average interest rate of Eesti Energia's borrowings was 2.03%, i.e. at the same level as at the end of Q1 2019.

Debt maturity, m€



At period-end, the Group's borrowings comprised loans with fixed interest rates of 763 million euros (at the end of Q1 2019: 763 million euros) and borrowings with floating interest rates of 391 million euros (at the end of Q1 2019: 401 million euros). All of the Group's borrowings are denominated in euros.

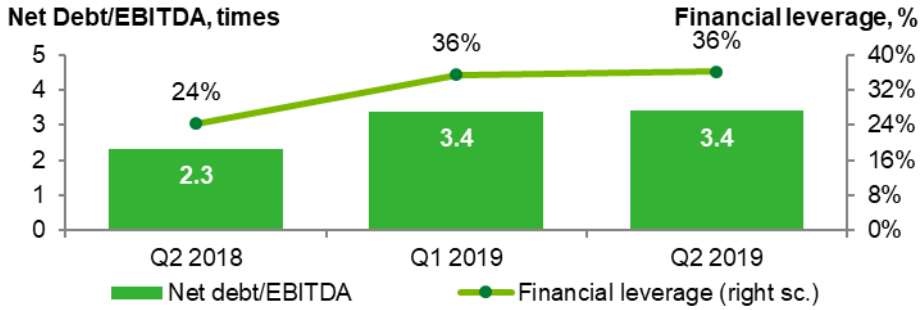
Liquidity development in Q2 2019, m€



At the end of Q2 2019, the Group's net debt amounted to 1,022 million euros (at the end of Q1 2019: 981 million euros) and net debt to EBITDA ratio was 3.4 (at the end of Q1 2019: 3.4), meeting the target set in the Group's financing policy according to which the net debt to EBITDA ratio should be below 3.5.

Under its loan agreements, Eesti Energia has undertaken to comply with certain financial covenants. At the end of Q2 2019, the Group's financial indicators complied with all contractual covenants.

Net debt/EBITDA ratio and financial leverage



At the end of Q2 2019, the Group's credit ratings were BBB (Standard and Poor's, outlook negative) and Baa3 (Moody's, outlook stable).

Outlook for 2019

The Group's outlook for 2019 has not changed compared to the forecast presented in the interim report for Q1 2019.

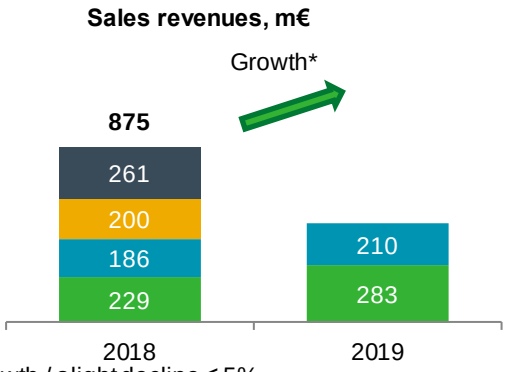
According to our projections, in 2019 our revenue and capital expenditures will increase and EBITDA will remain at the same level as in 2018.

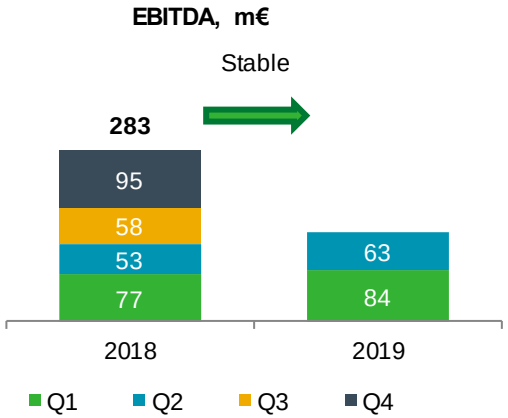
We expect that revenue from the sale of electricity will be supported by a rise in the average sales price of electricity, which will also have a positive impact on electricity EBITDA. However, the positive impact of higher electricity prices will be neutralised by growth in CO_2 emission allowance prices.

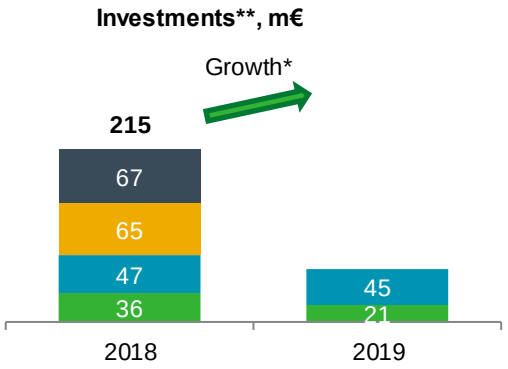
We expect that our shale oil sales volume and EBITDA will increase, driven by a rise in output and higher market prices.

Capital expenditures will grow compared to 2018. According to plan, the largest investments will be made in renewable energy.

For 2018 we will make the owner a dividend distribution of 57.0 million euros on which we will pay income tax of 12.3 million euros.







* Slight growth / slight decline ≤ 5%, growth / decline > 5%
** 2018 figure excludes the acquisition of Nelja Energia

Hedging transactions

Eesti Energia's revenues from the sale of electricity and shale oil depend on global market prices. We hedge the risks resulting from fluctuations in market prices by entering into derivative transactions.

Our forward sales for delivery in 2019 comprise 2.5 TWh of electricity (including forward sales in the retail market) at an average price of 43.1 €/MWh and 246.6 thousand tonnes of shale oil at an average price of 273.2 €/t.

Forward sales for delivery in 2020 comprise 0.5 TWh of electricity at an average price of 38.7 €/MWh and 280.5 thousand tonnes of shale oil at an average price of 303.1 €/t.

Our CO_2 emission allowance position for 2019 amounts to 9.4 million tonnes at an average price of 11.6 €/t. The position for 2020 is 0.8 million tonnes.

Condensed consolidated interim income statement and statement of comprehensive income

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

in million EUR	Note	Q2 2019	Q2 2018	6m 2019	6m 2018	12m 2019/18	12m 2018/17
Revenue	3	210.3	185.8	492.9	414.4	953.7	775.5
Other operating income		8.7	4.0	10.8	14.4	18.2	48.5
Government grants		0.3	0.1	0.4	0.2	0.6	0.4
Change in inventories of finished goods and work-in-progress		8.0	1.2	17.7	2.2	26.8	5.8
Raw materials and consumables used		(112.4)	(87.6)	(261.8)	(193.8)	(479.0)	(363.6)
Payroll expenses		(38.0)	(35.7)	(83.3)	(73.7)	(165.3)	(146.0)
Depreciation, amortisation and impairment		(47.5)	(34.1)	(96.5)	(68.5)	(182.5)	(136.2)
Other operating expenses		(13.9)	(14.8)	(29.9)	(33.9)	(54.8)	(77.1)
OPERATING PROFIT		**15.5**	**18.9**	**50.3**	**61.3**	**117.7**	**107.3**
Financial income		0.1	0.1	0.1	0.3	0.2	0.4
Financial expenses		(8.5)	(1.8)	(20.0)	(3.9)	(41.2)	(12.0)
Net financial income (expense)		**(8.4)**	**(1.7)**	**(19.9)**	**(3.6)**	**(41.0)**	**(11.6)**
Profit from associates using equity method		0.4	0.6	0.8	0.7	6.6	2.1
PROFIT BEFORE TAX		**7.5**	**17.8**	**31.2**	**58.4**	**83.3**	**97.8**
CORPORATE INCOME TAX EXPENSE		**1.9**	**(3.1)**	**(12.3)**	**(3.2)**	**(13.4)**	**(3.2)**
PROFIT FOR THE PERIOD		**9.4**	**14.7**	**18.9**	**55.2**	**69.9**	**94.6**
Equity holder of the Parent Company		**9.2**	**14.6**	**18.6**	**55.2**	**69.3**	**94.6**
Non-controlling interest		**0.2**	**0.1**	**0.3**	**-**	**0.6**	**-**
Basic earnings per share (euros)	9	0.01	0.02	0.03	0.09	0.11	0.15
Diluted earnings per share (euros)	9	0.01	0.02	0.03	0.09	0.11	0.15

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	Note	Q2 2019	Q2 2018	6m 2019	6m 2018	12m 2019/18	12m 2018/17
PROFIT FOR THE PERIOD		**9.4**	**14.7**	**18.9**	**55.2**	**69.9**	**94.6**
Other comprehensive income							
Items that may be reclassified subsequently to profit or loss:							
Revaluation of hedging instruments		8.4	(44.3)	(25.0)	(39.1)	17.5	(52.5)
Currency translation differences attributable to foreign subsidiaries		(0.1)	1.2	0.4	0.5	0.9	(0.8)
Other comprehensive income for the period		**8.3**	**(43.1)**	**(24.6)**	**(38.6)**	**18.4**	**(53.3)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**17.7**	**(28.4)**	**(5.7)**	**16.6**	**88.3**	**41.3**
Equity holder of the Parent Company		**17.5**	**(28.5)**	**(6.0)**	**16.6**	**87.7**	**41.3**
Non-controlling interest		**0.2**	**0.1**	**0.3**	**-**	**0.6**	**-**

Condensed consolidated interim statement of financial position

in million EUR	Note	30.06.2019	30.06.2018	31.12.2018
Non-current assets				
Property, plant and equipment	6	2,922.2	2,488.0	2,955.4
Intangible assets		67.6	40.0	61.3
Deferred tax assets		1.1	-	0.6
Investments in associates		46.9	36.6	44.2
Derivative financial instruments	7	14.9	0.3	11.5
Long-term receivables		1.4	1.3	1.6
Total non-current assets		**3,054.1**	**2,566.2**	**3,074.6**
Current assets				
Inventories		115.8	72.7	90.5
Greenhouse gas allowances	5	49.8	107.1	126.4
Trade and other receivables		126.5	104.3	167.0
Derivative financial instruments	7	53.3	9.5	39.1
Cash and cash equivalents		93.1	317.9	61.5
Total current assets		**438.5**	**611.5**	**484.5**
Total assets	**3**	**3,492.6**	**3,177.7**	**3,559.1**

in million EUR	Note	30.06.2019	30.06.2018	31.12.2018
EQUITY				
Capital and reserves attributable to equity holder of the Parent Company				
Share capital	8	621.6	621.6	621.6
Share premium		259.8	259.8	259.8
Statutory reserve capital		62.1	62.1	62.1
Hedge reserve		(33.8)	(51.3)	(8.8)
Unrealised exchange rate differences		10.0	9.1	9.6
Retained earnings		875.2	863.0	913.7
Total equity and reserves attributable to equity holder of the Parent Company		**1,794.9**	**1,764.3**	**1,858.0**
Non-controlling interest		**1.9**	**0.4**	**1.6**
Total equity		**1,796.8**	**1,764.7**	**1,859.6**
LIABILITIES				
Non-current liabilities				
Borrowings	10	1,060.0	715.1	966.8
Deferred tax liabilities		12.6	-	12.9
Other payables		1.5	1.5	1.6
Derivative financial instruments	7	14.9	-	2.8
Deferred income		225.1	204.0	213.0
Provisions	12	31.9	33.0	31.4
Total non-current liabilities		**1,346.0**	**953.6**	**1,228.5**
Current liabilities				
Borrowings	10	55.1	169.9	142.7
Trade and other payables		205.9	171.8	212.6
Derivative financial instruments	7	37.6	59.8	20.5
Deferred income		0.2	0.3	0.3
Provisions	12	51.0	57.6	94.9
Total current liabilities		**349.8**	**459.4**	**471.0**
Total liabilities		**1,695.8**	**1,413.0**	**1,699.5**
Total liabilities and equity		**3,492.6**	**3,177.7**	**3,559.1**

Condensed consolidated interim statement of cash flows

in million EUR	Note	Q2 2019	Q2 2018	6m 2019	6m 2018	12m 2019/18	12m 2018/17
Cash flows from operating activities							
Cash generated from operations	11	31.7	9.6	139.2	95.8	252.0	193.8
Interest and loan fees paid		(1.5)	(0.1)	(2.5)	(0.2)	(33.2)	(26.6)
Interest received		0.1	-	0.1	0.2	0.2	0.3
Corporate income tax paid		(7.4)	-	(11.0)	(11.4)	(11.3)	(11.4)
Net cash generated from operating activities		**22.9**	**9.5**	**125.8**	**84.4**	**207.7**	**156.1**
Cash flows from investing activities							
Purchase of property, plant and equipment and intangible assets		(31.5)	(33.3)	(67.9)	(77.1)	(160.8)	(133.9)
Proceeds from connection and other fees		6.2	6.4	11.3	11.5	23.1	21.0
Proceeds from grants of property, plant and equipment		-	-	-	-	0.3	0.3
Proceeds from sale of property, plant and equipment		0.7	0.1	1.4	0.6	3.0	2.1
Acquisiton of financial investments	5	(0.5)	-	(0.9)	-	(0.9)	-
Loans granted		-	-	-	-	-	(0.2)
Repayments of loans granted		0.2	-	0.2	-	0.2	-
Contribution to the share capital of associates		(1.1)	(1.5)	(1.9)	(2.3)	(2.8)	(3.2)
Acquisiton of subsidiaries, net of cash acquired	13	-	-	(7.3)	-	(257.2)	-
Dividends received from long-term financial investments		0.1	-	2.2	2.1	2.6	2.1
Net cash used in investing activities		**(33.2)**	**(28.3)**	**(62.9)**	**(65.2)**	**(392.5)**	**(111.8)**
Cash flows from financing activities							
Received long-term loans	10	-	-	290.0	-	560.0	-
Redeemed bonds		-	-	-	-	(200.5)	
Repayments of bank loans	10	(9.3)	-	(281.7)	-	(341.9)	(65.6)
Repayments of financial leases	10	-	-	(11.0)	-	(11.5)	-
Acquisition of non-controlling interest in a subsidiary		-	-	(0.1)	-	(1.8)	-
Dividends paid	8	(28.5)	-	(28.5)	-	(44.3)	(47.0)
Net cash used in financing activities		**(37.8)**	**-**	**(31.3)**	**-**	**(40.0)**	**(112.6)**
Net cash flows		**(48.1)**	**(18.8)**	**31.6**	**19.2**	**(224.8)**	**(68.3)**
Cash and cash equivalents at the beginning of the period		141.2	336.7	61.5	298.7	317.9	386.1
Cash and cash equivalents at the end of the period		93.1	317.9	93.1	317.9	93.1	317.9
Net increase / (-) decrease in cash and cash equivalents		**(48.1)**	**(18.8)**	**31.6**	**19.2**	**(224.8)**	**(68.2)**

Condensed consolidated interim statement of changes in equity

in million EUR	Attributable to equity holder of the Parent Company						Non-control-ling interest	Total
	Share capital (Note 8)	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total		
Equity as at 31.12.2017	**621.6**	**259.8**	**62.1**	**(3.6)**	**823.6**	**1,763.5**	**0.4**	**1,763.9**
Profit for the period	-	-	-	-	55,2	55,2	-	55,2
Other comprehensive income for the period	-	-	-	-38,6	-	-38,6	-	-38,6
Total comprehensive income for the period	**-**	**-**	**-**	**-38,6**	**55,2**	**16,6**	**-**	**16,6**
Dividends declared	**-**	**-**	**-**	**-**	**-15,8**	**-15,8**	**-**	**-15,8**
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**-15,8**	**-15,8**	**-**	**-15,8**
Equity as at 30.06.2018	**621.6**	**259.8**	**62.1**	**-42,2**	**863,0**	**1 764,3**	**0,4**	**1 764,7**
Equity as at 31.12.2018	**621,6**	**259,8**	**62,1**	**0,8**	**913,7**	**1 858,0**	**1,6**	**1 859,6**
Profit for the period	-	-	-	-	18,6	18,6	0,3	18,9
Other comprehensive income for the period	-	-	-	-24,6	-	-24,6	-	-24,6
Total comprehensive income for the period	**-**	**-**	**-**	**-24,6**	**18,6**	**-6,0**	**0,3**	**-5,7**
Dividends declared	**-**	**-**	**-**	**-**	-57,0	-57,0	-	-57,0
Acquisition of non-controlling interest of subsidiary	**-**	**-**	**-**	**-**	-0,1	-0,1	-	-0,1
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**-**	**-**	**-57,1**	**-57,1**	**-**	**-57,1**
Equity as at 30.06.2019	**621,6**	**259,8**	**62,1**	**-23,8**	**875,2**	**1 794,9**	**1,9**	**1 796,8**

Notes to the condensed interim consolidated financial statement

1. Accounting policies

These condensed consolidated interim financial statements have been prepared in accordance with **International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations** as adopted by the European Union. These consolidated interim condensed financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". The consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRSs as adopted by the EU.

Accounting policies and presentation of financial statements applied to this interim report were consistent with those used in financial statements for the financial year that ended on 31 December 2018.

Other new International Financial Reporting Standards adopted, amendments to and International Financial Reporting Interpretations Committee interpretations that became mandatory for the Group from 1 January 2019 did not have any impact to the Group's accounting policies and financial statements.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

According to the Management Board the interim report prepared for the period 1 January 2019 - 30 June 2019 presents a true and fair view of the financial position, the cash flows and the results of operations of Eesti Energia AS and its subsidiaries (Group).

The information contained in the interim financial statements has not been audited or otherwise verified by auditors.

2. Financial risk management

2.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2017. There have been no material changes in any risk management policies compared to the previous year end.

2.2. Fair value estimation

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

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

The following tables present the Group's assets and liabilities that are measured at fair value by the level in the fair value hierarchy as at 30 June 2019 and 31 December 2018:

30.06.2019

in million EUR	Level 1	Level 2	Total
Assets			
Trading derivatives (Note 7)	-	52.7	52.7
Cash flow hedges (Note 7)	0.4	15.1	15.5
Total financial assets	**0.4**	**67.8**	**68.2**
Liabilities			
Trading derivatives (Note 7)	1.5	30.1	31.6
Cash flow hedges (Note 7)	-	20.9	20.9
Total financial liabilities	1.5	**51.0**	**52.5**

31.12.2018

in million EUR	Level 1	Level 2	Total
Assets			
Trading derivatives (Note 7)	0.6	42.3	42.9
Cash flow hedges (Note 7)	0.6	7.1	7.7
Total financial assets	**1.2**	**49.4**	**50.6**
Liabilities			
Trading derivatives (Note 7)	-	18.3	18.3
Cash flow hedges (Note 7)	-	1.2	1.2
Interest rate swap (Note 7)	-	3.8	3.8
Total financial liabilities	**-**	**23.3**	**23.3**

2. Financial risk management , cont.

2.2. Fair value estimation, cont.

Valuation techniques and inputs used on measurement in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. In level 1 are classified the Group's electricity derivatives that have been cleared in Nasdaq OMX.

Valuation techniques and inputs used on measurement in level 2

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

- The fair value of forward, swap and future contracts is determined using forward prices at the balance sheet date, with the resulting value discounted back to present value.

Valuation techniques and inputs used on measurement in level 3

All instruments in Level 3 are options. At the end of reporting period the Group had no options in use.

2. Financial risk management , cont.

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

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

in million EUR	30.06.2019	31.12.2018
Nominal value of bonds	606.3	606.3
Market value of bonds on the basis of quoted sales price	641.7	637.0
Nominal value of bank loans with fixed interest rate	156.7	156.7
Fair value of bank loans with fixed interest rate	161.9	159.5
Nominal value of bank loans with floating interest rate and finance lease liabilities	391.7	394.4
Fair value of bank loans with floating interest rate and finance lease liabilities	391.7	394.4

The bonds are denominated in euros and listed on the London Stock Exchange. The fair value of the bonds is based on the input that is within level 1 of the fair value hierarchy; the fair value of bank loans with fixed interest rate is based on the cash flows discounted using input that is within level 3 of the fair value hierarchy. Management estimates that the fair value of the loans with a floating interest rate at the end of comparative period does not differ from their carrying amounts as the risk margins have not changed.

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

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

3. Segment reporting

For the purposes of monitoring the Group's performance and making management decisions, the management board uses product-based reporting. The Group has determined main products and services, i.e. value-creating units that generated external revenues and profit, and has built up a methodology of allocation of revenues and expenses, and assets to the products.

The Group has distinguished three main products and services, which are presented as separately reportable segments, and a number of minor products and services that are presented together as "Other segments":

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

Other segments include co-products which individual share of the Group's revenue and EBITDA is immaterial. Non of these co-products meet the quantitative thresholds that would require reporting separate information.

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

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

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

The Group's assets are allocated to the segments based on their purpose of use. Liabilities are not allocated to the segments as they are managed centrally by the Group’s finance department.

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

The sales prices of network charges need to be approved by the Estonian Competition Authority as stipulated by the Electricity Market Act of Estonia. The Estonian Competition Authority has an established methodology for approving the prices that considers the costs necessary to fulfil the legal obligations and ensures justified profitability on invested capital. Generally, the Estonian Competition Authority considers the annual average carrying amount of non-current assets plus 5% of external sales revenue as invested capital. The rate for justified profitability is the Company's weighted average cost of capital (WACC).

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

3. Segment reporting, cont.

Revenue

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

REVENUE FROM EXTERNAL CUSTOMERS

in million EUR	Q2 2019	Q2 2018	6m 2019	6m 2018
Electricity	109.7	89.0	267.0	194.7
Distribution	50.5	54.3	113.1	125.0
Shale oil	31.8	26.9	61.4	48.8
Other products and services	18.3	15.6	51.4	46.0
Total	**210.3**	**185.8**	**492.9**	**414.4**

EBITDA

in million EUR	Q2 2019	Q2 2018	6m 2019	6m 2018
Electricity	32.0	17.6	80.6	50.1
Distribution	23.0	26.3	42.0	52.3
Shale oil	10.0	6.9	23.1	15.3
Other products and services	(2.0)	2.2	1.1	12.0
Total	**63.0**	**53.0**	**146.8**	**129.8**
Depreciation and amortisation	(47.5)	(34.1)	(96.5)	(68.5)
Net financial income (expense)	(8.4)	(1.7)	(19.9)	(3.6)
Profit from associates using equity method	0.4	0.6	0.8	0.7
Profit before tax	**7.5**	**17.8**	**31.2**	**58.4**

ASSETS

in million EUR	30.06.2019	30.06.2018	31.12.2018
Electricity	1,693.2	1,354.0	1,884.0
Distribution	1,056.2	1,069.1	1,015.4
Shale oil	336.6	329.3	304.1
Other products and services	406.6	425.4	355.6
Total	**3,492.6**	**3,177.7**	**3,559.1**

4. Seasonality of operating profit

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

5. Greenhouse gas allowances and certificates of origin

in million EUR	6m 2019	6m 2018
Greenhouse gas allowances at the beginning of the period	**123.3**	**96.8**
Acquired	0.1	69.4
Acquired as short term financial investment	0.9	-
Disposed	(0.1)	-
Returned to state for the greenhouse gas emissions (Note 12)	(77.9)	(60.3)
Greenhouse gas allowances at the end of the period	**46.4**	**105.9**
Certificates of origin at the beginning of the period	**3.1**	**0.3**
Acquired	0.3	0.9
Disposed	(0.3)	-
Surrendered	(0.6)	-
Certificates of origin at the end of the period	**3.4**	**1.2**
Total greenhouse gas allowances and certificates of origin at the end of the period	**49.8**	**107.1**

The value of greenhouse gas allowances acquired is recognised as intangible current assets. In the first half of this year 11 294 984 tonnes of greenhouse gas emission allowances were returned to state (6 months in 2018: 12 183 437 tonnes).

6. Property, plant and equipment

in million EUR	Land	Buildings	Const-ruction	Plant and equipment	Other	Construction in progress and prepayments	Total
Property, plant and equipment as at 31.12.2018							
Cost	42.9	327.4	1,153.8	3,057.0	6.3	82.5	4,669.9
Accumulated depreciation	-	(111.5)	(458.8)	(1,139.1)	(5.1)	-	(1,714.5)
Net book amount	42.9	215.9	695.0	1,917.9	1.2	82.5	2,955.4
Total property, plant and equipment as at 31.12.2018	**42.9**	**215.9**	**695.0**	**1,917.9**	**1.2**	**82.5**	**2,955.4**
Movements in the reporting period							
Purchases of property, plant and equipment	1.1	-	-	4.8	0.1	53.2	59.2
Depreciation charge	-	(3.7)	(16.0)	(75.4)	(0.3)	(0.1)	(95.5)
Disposals	(0.1)	(0.5)	-	(0.3)	-	-	(0.9)
Exchange differences	0.1	-	-	-	-	-	0.1
Changes in accounting policies	-	-	-	3.9	-	-	3.9
Transfers	-	1.5	21.6	31.0	-	(54.1)	-
Total movements in 6m 2019 period	**1.1**	**(2.7)**	**5.6**	**(36.0)**	**(0.2)**	**(1.0)**	**(33.2)**
Property, plant and equipment as at 30.06.2019							
Cost	44.0	327.9	1,175.3	3,092.5	6.1	81.5	4,727.3
Accumulated depreciation	-	(114.7)	(474.7)	(1,210.6)	(5.1)	-	(1,805.1)
Net book amount	44.0	213.2	700.6	1,881.9	1.0	81.5	2,922.2
Total property, plant and equipment as at 30.06.2019	**44.0**	**213.2**	**700.6**	**1,881.9**	**1.0**	**81.5**	**2,922.2**

As at 30 June 2019, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 65.4 million (31 December 2018 EUR 69.0 million).

7. Derivative financial instruments

in million EUR	30.06.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Future contracts for buying and selling electricity as cash flow hedges	1.2	0.1	1.1	1.2
Forward and future contracts for buying and selling electricity as trading derivatives	0.5	2.9	2.0	9.1
Future contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	26.1	0.2	21.2	0.2
Swap and future contracts for buying and selling gas as trading derivatives	25.5	26.8	7.4	5.8
Swap, forward and option contracts for selling shale oil as cash flow hedges	14.3	20.8	6.6	-
Swap and option contracts for selling shale oil as trading derivatives	0.6	1.7	12.3	3.2
Interest rate swap	-	-	-	3.8
Total derivative financial instruments	**68.2**	**52.5**	**50.6**	**23.3**
including non-current portion:				
Future contracts for buying and selling electricity as cash flow hedges	-	-	0.1	-
Forward and future contracts for buying and selling electricity as trading derivatives	0.1	0.2	0.1	0.6
Future contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	0.1	0.2	-	-
Swap and future contracts for buying and selling gas as trading derivatives	3.1	3.2	-	-
Swap, forward and option contracts for selling shale oil as cash flow hedges	-	-	5.2	-
Swap and option contracts for selling shale oil as trading derivatives	11.6	11.3	6.1	0.1
Interest rate swap	-	-	-	2.1
Total non-current portion	**14.9**	**14.9**	**11.5**	**2.8**
Total current portion	**53.3**	**37.6**	**39.1**	**20.5**

8. Share capital and dividends

As at 31 March 2019, Eesti Energia AS had 621 645 750 registered shares (31 December 2018: 621 645 750 registered shares). The nominal value of each share is 1 euro.

On 27 March 2019 the sole shareholder made a resolution to pay to the shareholder dividend EUR 57.0 million (dividend per share 0.09 euros) of which EUR 28.5 million had been paid out by the end of the reporting period. Remaining dividend payable EUR 28.5 million and the income tax payable on remaining dividend is recognised in the statement of financial position as at 30 June 2019 in the line "Trade and other payables". The corresponding income tax of the shareholder resolution totals EUR 12.3 million.

9. Earnings per share

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

Earnings per share	Q2 2019	Q2 2018	6m 2019	6m 2018	12m 2019/18	12m 2018/17
Profit attributable to the equity holders of the company (million EUR)	9.2	14.6	18.6	55.2	69.3	94.6
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	0.02	0.03	0.09	0.11	0.15
Diluted earnings per share (EUR)	0.01	0.02	0.03	0.09	0.11	0.15

10. Borrowings at amortised cost

in million EUR	Short-term borrowings		Long-term borrowings			Total
	Bank loans	Finance lease liabilities	Bank loans	Bonds issued	Finance lease liabilities	
Borrowings at amortised cost 31.12.2018	**131.6**	**11.1**	**403.9**	**562.7**	**0.2**	**1,109.5**
Movements in the reporting period						
Amortization of borrowing expenses	-	-	4.0	4.3	-	8,3
Borrowings received	-	-	290.0	-	-	290,0
Repayments of borrowings	(143.0)	(11.0)	(138.7)	-	-	-292,7
Transfers	66.4	-	(66.4)	-	-	-
Total movements in 6m 2019 period	**(76.6)**	**(11.0)**	**88.9**	**4.3**	**-**	**5,6**
						-
Borrowings at amortised cost 30.06.2019	**55.0**	**0.1**	**492.8**	**567.0**	**0.2**	**1,115.1**

As at 30 June 2019 the Group had undrawn loan facilities of EUR 300.0 million (31 December 2018: EUR 481.5 million). The figure comprises facilities by two regional banks (SEB and OP Corporate Bank) of which EUR 150.0 million can be drawn down until July 2020 and EUR 150.0 million can be drawn down until June 2021.

11. Cash Generated from Operations

in million EUR	Q2 2019	Q2 2018	6m 2019	6m 2018	12m 2019/18	12m 2018/17
Profit before tax	**7.5**	**17.8**	**31.2**	**58.4**	**83.3**	**97.8**
Adjustments						
Depreciation and impairment of property, plant and equipment	46.9	33.4	95.5	67.0	180.2	133.0
Amortisation and impairment of intangible assets	0.6	0.7	1.0	1.5	2.3	3.2
Deferred income from connection and other service fees	(2.2)	(2.0)	(4.5)	(4.0)	(8.6)	(7.8)
Gain on disposal of property, plant and equipment	(0.1)	(0.1)	(0.4)	(0.4)	(1.1)	(0.7)
Amortisation of government grant received to purchase non-current assets	(0.2)	(0.1)	(0.3)	(0.2)	(0.5)	(0.4)
Profit/loss from associates using equity method	(0.4)	(0.6)	(0.8)	(0.7)	(6.6)	(2.1)
Unpaid/unsettled gain/loss on derivatives	(25.5)	(9.3)	(13.5)	(3.7)	(51.5)	9.3
Loss from doubtful loan receivables	-	-	-	-	-	0.2
Foreign exchange gain/loss from lending in foreign currency	-	-	-	-	-	1.5
Profit (loss) from other non-cash transactions	-	-	-	-	(0.9)	-
Interest expense on borrowings	8.1	1.6	19.6	3.3	39.5	8.7
Interest and other financial income	(0.1)	(0.1)	(0.7)	(0.2)	(0.8)	(0.3)
Adjusted net profit before tax	**34.6**	**41.3**	**127.1**	**121.0**	**235.3**	**242.4**
Net change in current assets relating to operating activities						
Change in receivables related to operating activities	29.4	25.5	35.4	17.5	10.4	(8.2)
Change in inventories	(13.9)	(3.5)	(25.3)	(4.9)	(37.5)	(8.3)
Net change in other current assets relating to operating activities	70.8	4.7	80.9	(6.8)	40.2	(61.4)
Total net change in current assets relating to operating activities	**86.3**	**26.7**	**91.0**	**5.8**	**13.1**	**(77.9)**
Net change in current liabilities relating to operating activities						
Change in provisions (Note 12)	(72.9)	(34.3)	(43.4)	(13.6)	(9.0)	18.5
Change in trade payables	(12.4)	(13.6)	(16.3)	(15.1)	(7.8)	5.0
Net change in liabilities relating to other operating activities	(3.9)	(10.5)	(19.2)	(2.3)	20.4	5.8
Total net change in liabilities relating to operating activities	**(89.2)**	**(58.4)**	**(78.9)**	**(31.0)**	**3.6**	**29.3**
Cash generated from operations	**31.7**	**9.6**	**139.2**	**95.8**	**252.0**	**193.8**

12. Provisions

in million EUR	Opening balance 31.12.2018	Recognition and reversal of provisions	Interest charge	Use	Closing balance 30.06.2019	Closing balance 30.06.2019
					Short term provision	Long term provision
Environmental protection provisions	25.2	0.1	0.3	(0.7)	3.7	21.2
Provision for termination of mining operations	0.7	-	-	-	-	0.7
Employee related provisions	6.7	-	-	(1.5)	0.4	4.8
Provision for dismantling cost of assets	5.1	-	0.1	-	-	5.2
Provision for greenhouse gas emissions	87.6	35.7	-	(77.9)	45.4	-
Provision for onerous contracts	0.2	-	-	-	0.2	-
Provision for renewable energy certificates	0.8	1.1	-	(0.6)	1.3	-
Total provisions	**126.3**	**36.9**	**0.4**	**(80.7)**	**51.0**	**31.9**

13. Acquisition of solar parks in Poland

On 18 June 2019 Eesti Energia renewable energy subsidiary Enefit Green signed an agreement to acquire 20 solar park projects in Poland. The total capacity of the solar power plants to be acquired is 19,15 megawatts. Of the 20 projects to be acquired, 9 solar parks are already completed. The remaining plants are in the final stages of construction and will be completed by autumn. Enefit Green's investment amounts to EUR 17,3 million.

14. Related party transactions

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

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

TRANSACTIONS WITH ASSOCIATES

in million EUR	6m 2019	6m 2018
Purchase of goods	7.6	8.9
Proceeds from sale of goods	-	0.1
Proceeds from sale of services	1.1	1.6

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

in million EUR	30.06.2019	31.12.2018
Receivables	11.7	14.0
incl long-term loan receivables	11.6	11.8
Allowance for doubtful loan receivables	(11.5)	(11.5)
Payables	0.9	1.4

Upon premature termination of the service contract with a member of the management board, the service contracts stipulate the payment of 3 months' remuneration as termination benefits. During the period 1 January – 30 June 2019 remuneration to management and supervisory boards amounted to EUR 1.7 million (1 January - 30 June 2018: EUR 1.5 million).

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

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

TRANSACTIONS WITH ELERING AS

in million EUR	6m 2019	6m 2018
Purchase of services	40.4	42.9
Purchase of goods	6.3	5.9
Purchase of property, plant and equpiment and prepayments	1.0	4.1
Sale of goods and services (incl. renewable energy grant)	20.6	10.1

RECEIVABLES FROM ELERING AS AND PAYABLES TO ELERING AS

in million EUR	30.06.2019	31.12.2018
Receivables	2.7	3.5
Payables	11.3	22.6

Glossary

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

Clean Dark Spread (CDS) – Eesti Energia's margin between the price of electricity (in NP Estonia) and oil shale costs and CO_2 costs (taking into account the price of CO_2 allowance futures maturing in December and the amount of CO_2 emitted in the generation of a MWh of electricity)

CO_2 emission allowance – According to the European Union Emissions Trading System (ETS), one emission allowance gives the holder the right to emit one tonne of carbon dioxide (CO_2). The limit on the total number of emission allowances available gives them a monetary value

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

EBITDA – Earnings before interest, taxes, depreciation and amortisation

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

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

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

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

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

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

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

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

MWh – megawatt hour. 1 MWh is the unit of energy generated (or consumed) in one hour by a device operating at a constant power of 1 MW (megawatt)

1,000,000 MWh = 1,000 GWh = 1 TWh

Net debt – Debt obligations (amortised) less cash and cash equivalents (incl. bank deposits with maturities exceeding 3 months), units in money market funds and investments in fixed income bonds

Network losses – The amount of electricity delivered to customers is somewhat smaller than the amount supplied from power plants to the network because during transfer a part of electricity in the power lines and transformers converts into heat. To a lesser extent, network losses are caused by power theft and incorrect measuring. The network operator has to compensate energy losses and for this a corresponding amount of electricity has to be purchased every hour

NP system price – The price on the Nord Pool power exchange that is calculated on the basis of all purchase and sale bids without taking into account transmission capacity limitations

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

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

Position hedged with forward transactions – The quantity of electricity and shale oil to be sold and emission allowances to be purchased in future periods whose average price is previously fixed

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

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

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

SAIDI – System Average Interruption Duration Index. The sum of all customer interruption durations in minutes divided by the total number of customers served

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

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

Variable profit – Profit after deducting variable costs from sales revenue