Eesti Energia

Interim Report

1 July 2014 – 30 September 2014

Eesti Energia Aulepa Wind Park in Noarootsi, Estonia

Contents

Summary of Q3 Results

Dear reader

Eesti Energia's revenues for Q3 2014 were 197 million euros, a 9% decrease year over year, while EBITDA for the period grew by 3% to 74 million euros, mainly as a result of the sale of network construction subsidiary. Results were undermined by a decline in both shale oil and electricity sales volume. While shale oil sales were influenced by fuel oil market price dynamics and specific sales decisions, electricity sales shrank primarily due to lower generation.

One of the key events of the period was the sale of our network construction subsidiary for a consideration of 7 million euros. The subsidary required an owner focused on network design and construction and we believe that Leonhard Weiss Baltic Holding is the right company to continue development of a network construction entity.

Our distribution network operator Elektrilevi delivered strong performance – thanks to above-average air temperatures distribution sales volume grew by 4%. Average duration of interruptions resulting from network failures decreased noticeably – from 40 minutes a year ago to 37 minutes.

At the beginning of October, negotiations with the Jordanian government concluded with the signature of project agreements on the construction of Jordan's first oil shale-fired power plant and terms for the purchase and sale of the plant's electricity. Under an agreement guaranteed by the Jordanian government, during the first thirty years the plant's entire electricity output will be purchased by Jordan's National Electric Power Company (NEPCO) which may extend the agreement for another 14 years. Construction of the plant should begin at the end of 2015 when all financing matters have been resolved.

Q3 capital expenditures amounted to 71 million euros. The largest investments were made in the construction of the Auvere Power Plant and the quality of the distribution network. Work done in Auvere included completion of the plant's two vital units – the oil shale and biomass feeding and ash removal systems, and today preparations for hot commissioning are nearing completion. Our Paide Cogeneration Plant successfully passed its network tests and Elektrilevi confirmed its conformity with network regulations.

Installation of nitrogen emission capture systems at our Eesti Power Plant continued – during the period one boiler of the third generating unit was equipped with a capture system and successfully passed relevant tests.

In Q3 the planned two-month maintenance at our Enefit280 oil plant came to an end and in October an additional ash cooler was installed in the system. We have been increasing the plant's operating capacity since the end of maintenance and are making positive progress towards the target.

Our outlook for FY 2014 has not changed – we expect the Group's EBITDA to remain stable and revenues to decline compared with 2013. Due to the conclusion of major projects, we also anticipate a decrease in capital investments.

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

Key Figures and Ratios

		Q3 2014	Q3 2013	Change	9M 2014	9M 2013	Change
Total electricity sales, of which	GWh	2,289	2,515	-9.0%	6,766	8,801	-23.1%
wholesale sales	GWh	940	901	+4.3%	2,363	3,596	-34.3%
retail sales	GWh	1,349	1,613	-16.4%	4,403	5,205	-15.4%
Electricity distributed	GWh	1,356	1,304	+4.0%	4,556	4,604	-1.0%
Shale oil sales	th t	32	63	-48.5%	112	135	-17.3%
Oil shale sales	th t	219	192	+14.1%	655	647	+1.3%
Heat sales	GWh	33	47	-29.0%	662	664	-0.2%
Distribution grid losses	%	5.0	5.2	-0.2pp	5.6	4.8	+0.8pp
Average number of employees	No.	6,700	7,235	-7.4%	6,855	7,403	-7.4%
Sales revenues	m€	197.2	216.3	-8.8%	628.1	710.3	-11.6%
EBITDA	m€	74.2	72.1	+2.9%	225.3	217.4	+3.6%
Operating profit	m€	42.3	42.1	+0.6%	129.7	129.7	+0.0%
Net Profit	m€	44.1	41.8	+5.5%	101.4	109.9	-7.8%
Investments	m€	70.6	125.3	-43.7%	200.9	294.4	-31.7%
Cash flow from operating activities	m€	73.2	85.6	-14.5%	205.0	236.8	-13.4%
FFO	m€	63.9	64.5	-1.0%	204.5	201.9	+1.3%
Fixed assets	m€	2,473.4	2,309.4	+7.1%			
Equity	m€	1,502.6	1,444.3	+4.0%			
Net debt	m€	697.0	575.1	+21.2%			
Net debt / EBITDA*	times	2.19	2.11	+0.08p			
FFO* / net debt	times	0.37	0.40	-0.03p			
FFO* / interest cover*	times	7.24	6.93	+0.31p			
EBITDA* / interest cover*	times	8.87	8.11	+0.75p			
Leverage	%	31.7	28.5	+3.2pp			
ROIC	%	7.2	7.9	-0.7pp	7.4	8.4	-1.0pp
EBITDA margin	%	37.6	33.3	+4.3pp	35.9	30.6	+5.3pp
Operating profit margin	%	21.5	19.5	+2.0pp	20.6	18.3	+2.4pp

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

Leverage - net debt / (net debt + equity)

ROIC - operating profit / average invested capital

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

* rolling 12 months result

Operating Environment

Global Economy

In Q3 2014, crude oil prices were impacted by weak demand resulting from slow economic recovery. Electricity prices were impacted by transmission system maintenance and disruptions. A reduction in the supply of emission allowances in 2014 has triggered a rise in allowance prices.

The recovery of the global economy has slowed and IMF has made several downward revisions to its 2014 economic growth projections. The current global growth forecast for 2014 is 3.3%[1]. Advanced economies are expected to grow by 1.8% and developing economies by 4.4% while growth in the euro area is expected to reach 0.8%. According to IMF, in 2015 global economic growth should pick up and rise to 3.8%.

According to IMF's assessment, since spring a number of risks including geopolitical tensions have increased. Advanced economies are experiencing stagnation and low growth potential while emerging markets are adjusting to economic growth rates, which are lower than those reached in the pre- and post-crisis periods. Even though financial markets have been optimistic, this has not translated into a pickup in investment, which has remained particularly subdued in advanced economies. Both advanced and developing economies need to provide comprehensive support to economic growth. However, the pace of recovery will be country-specific.

In the first half of 2014, economic growth was uneven and fell short of expectations. In Q1 the US economic growth was surprisingly poor (-2.1%[2]) but in Q2 the situation improved (+4.6%). Growth in the euro area is suppressed by sluggish investment and exports and it is uncertain how long the situation may persist. To support economic growth the European Central Bank decided to launch a programme for the purchase of asset-backed securities and a new programme related to purchase of bonds starting in October.

According to IMF's October forecast, in 2014 the Estonian economy should grow by 1.2%. The Bank of Estonia September forecast assigns Estonia a growth rate of 2.1% for the current year and 2.5% for the next. According to the Bank's commentary, in the second quarter energy production exited the low point observed at the beginning of the year due to a warm winter and the launch of additional electricity transmission capacity. IMF's 2014 growth forecasts for the neighbouring countries are as follows: Finland -0.2%, Sweden 2.1%, Latvia 2.7%, Lithuania 3% and Russia 0.2%.

Liquid Fuels Prices

In Q3 2014, the average price of Brent crude was 76.8 €/bbl, lowest point since Q4 2010, and 8.8% (-7.4 €/bbl) down from a year ago. During the quarter, the price of Brent crude dropped from 81.1 €/bbl to 74.7 €/bbl.

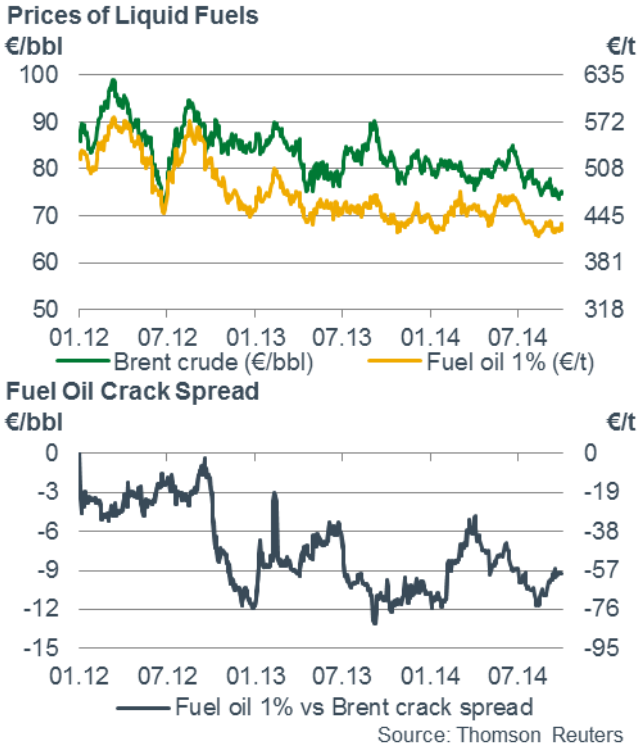
Average price		Q3 2014	Q3 2013	Change
Brent crude oil	€/bbl	76.8	84.2	-8.8%
Fuel oil (1% sulphur)	€/t	432.1	455.9	-5.2%
Fuel oil 1% crack spread	€/bbl	-10.1	-10.3	-1.9%

In Q3 2014, the price of crude oil tumbled because plentiful supply outstripped demand, which proved lower than expected (particularly in Europe and China) due to the weakening global economic outlook. As regards oil-producing countries, the geopolitical situation in Libya has been improving monthly but tensions in Iraq, Iran and Nigeria are still high. Despite this, oil supply for the year has been larger than a year ago. In July and August, non-OPEC production grew, balancing the decline in

[1] International Monetary Fund. World Economic Outlook – Legacies, Clouds, Uncertainties. Washington, October 2014
[2] Bureau of Economic Analysis, Department of Commerce. U.S. Economy at a Glance: Perspectives from the BEA Accounts

OPEC production. However, in September OPEC output resumed growth.

In Q3 2014, the price of fuel oil (1% sulphur content) was 432.1 €/t, a 5.2% (-23.8 €/t) decrease year over year. During the quarter, the price of fuel oil followed a downward trend – from 461.1 €/t at the start of the quarter to 434.1 €/t at the end. Compared to the previous year, European demand for fuel oil remained steady in July but declined in August and September, mainly on account of a weakened economic outlook.



In Q3 2014 the crack spread, measuring the difference between the prices of Brent crude and the fuel oil extracted from it, was at the same level as a year ago (-0.2 €/bbl, -1.9%). In July and August, the spread widened owing to subdued regional demand and limited arbitrage to Asia. Further widening of the spread was restrained by refineries' lower runs. In September the crack spread recovered slightly – maintenance operations at refineries hampered production but arbitrage opportunities to Asia improved.

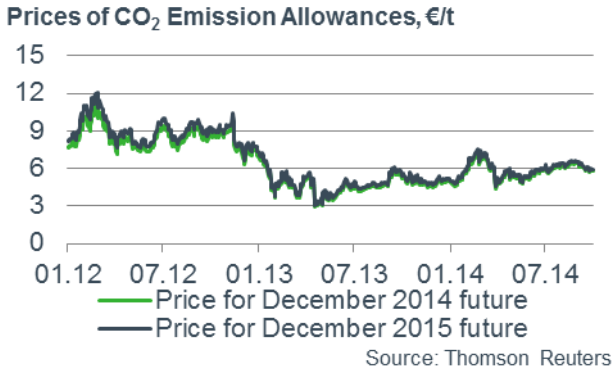
The price of fuel oil is also affected by the EU Sulphur Directive, which lowers the maximum sulphur content of bunker fuels used in Emission Control Areas (ECAs), including the Baltic Sea and the North Sea, from 1% to 0.1% from 1 January 2015. As a result, demand for fuel oil with 1% sulphur content (used as a blending component for bunker fuels) is decreasing.

Emission Allowance Prices

In Q3 2014, the average price of December 2014 CO_2 emission allowance futures traded 28% higher than in the same period last year. During the quarter, the price dropped from 6.1 €/t at the beginning of July to 5.8 €/t at the end of September.

Average price		Q3 2014	Q3 2013	Change
CO_2 Dec 2013	€/t	6.1	4.8	+28.0%
CO_2 Dec 2014	€/t	6.3	4.9	+26.3%

CO_2 emission allowance prices reached their Q3 peak in August after which they declined. In Q3, the prices of CO_2 emission allowances and prices of energy carriers moved in opposite directions.



In August, sales of emission allowances at auctions are usually modest compared with the rest of the year. In response, EU governments decided to halve the offering of emission allowances. If before August the average auction volume was 8 to 11 million units per week, then in some weeks of August the figure was just above 5 million units. The prices of CO_2 emission allowances were additionally strengthened by the EU emission allowance back-loading plan, which has cut the supply of allowances in 2014 by 400 million tonnes. The markets also responded to Ukraine's warning that in the winter Russia may limit its natural gas supplies, which would render coal-fired electricity generation more attractive and increase demand for emission allowances.

The EU is planning to set up a market stability reserve for the EU emissions trading system in 2021 to guarantee greater market balance. The plan requires the approval of the EU legislators. In September, voting on the matter was postponed until 2015, which caused a slide in the price of CO_2 emission allowances.

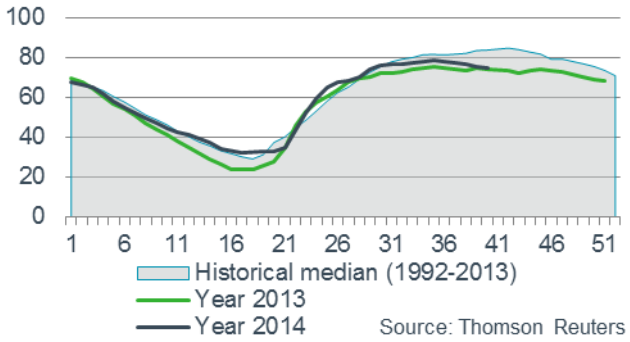
Electricity Prices

In Q3 2014, electricity prices in the Nord Pool Spot (NPS) Nordic and Estonian price areas were lower than in the same period last year whereas the average electricity prices in Latvia and Lithuania increased.

Average price		Q3 2014	Q3 2013	Change
NPS system price	€/MWh	31.8	35.8	-11.3%
NPS Finland	€/MWh	37.8	42.7	-11.4%
NPS Estonia	€/MWh	42.1	43.7	-3.8%
NPS Latvia	€/MWh	56.7	54.1	+4.9%
NPS Lithuania	€/MWh	56.7	54.1	+4.9%

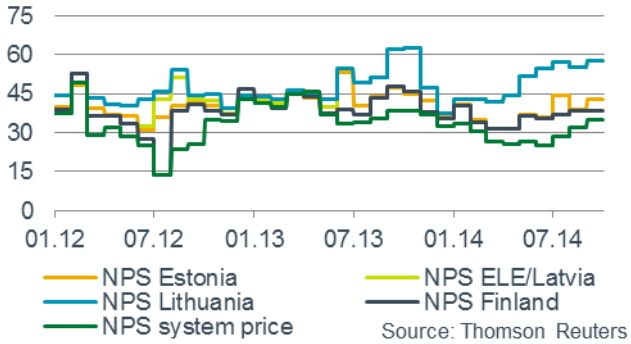
The level of the Nordic water reservoirs remained above the historical median until the beginning of August when lower than usual precipitation caused the level to drop more quickly than expected. In August, the Nordic countries had a net electricity deficit, i.e. generation in the area did not cover consumption.

Levels of Nordic Water Reservoirs, % of Maximum



In Q3 2014, the average price spread between the Swedish and Finnish price areas was -4.3 €/MWh, the Finnish electricity price exceeding the Swedish one. During the quarter, electricity generation in Finland fell typically short of local consumption but the proportion of Swedish electricity imports continued to expand through a decrease in Russian imports. In July, the Finnish electricity output was influenced by a maintenance outage at the Loviisa nuclear power plant and at the end of Q3 connection failures between Sweden and Finland emerged. This triggered a hike in the Finnish electricity price and had an indirect effect on the Baltic countries as well.

Monthly Average Electricity Prices, €/MWh



The Q3 price spread between Estonia and Finland was 4.2 €/MWh, the Estonian electricity price exceeding the Finnish one. Compared to the same period last year, the price spread widened by 3.2 €/MWh. During the quarter, hourly prices in Estonia and Finland were equal 83% of the time and higher in Estonia 17% of time. In Q3, the Estonian electricity price was strongly affected by significant transmission restrictions from Finland to Estonia. In July, Estlink2 underwater power cable underwent regular maintenance, which lowered the maximum transmission capacity from Finland to Estonia to a bare 342 MW. In August, there were 10 days when cable failures disrupted supplies between Estonia and Finland and in September all transmission connections between Estonia and Finland were out of service for four days due to cable failure.

Thanks to the commissioning of the Estlink2 underwater power cable at the end of 2013, transmission capacity between Estonia and Finland has increased compared to Q3 2013[3]. Phase 2 of the Kiisa emergency power plant, which was completed ahead of schedule at the beginning of July 2014, increased

[3] Completion of Estlink2 increased the transmission capacity between Estonia and Finland by 650 MW.

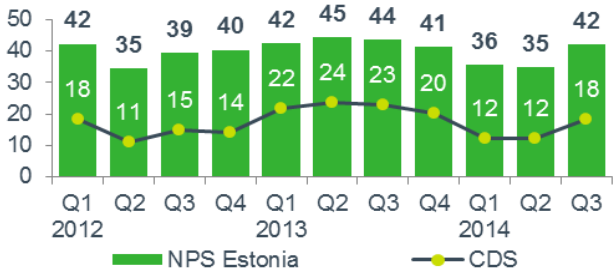
the transmission capacity of the Estlink2 underwater power cable that connects Estonia and Finland to 1,000 MW in both directions, removing the 860 MW limit that used to restrict supplies from Finland to Estonia.

In Q3 2014, the average price spread between the Estonian and Latvian price areas was -14.6 €/MWh (the Latvian electricity price being higher), having widened by 4.3 €/MWh year over year. Compared with the previous quarter, the price spread narrowed by 0.7 €/MWh, mainly on account of the higher-than-usual Estonian electricity price. Significant price differences between Estonia and Latvia result from insufficient transmission capacity, which limits the supply of relatively cheap Nordic electricity to Latvia. Latvia and Lithuania need to import electricity due to insufficient domestic generation, which does not fully cover their electricity consumption. In Q3, the Latvian and Lithuanian electricity prices were additionally impacted by maintenance outages at local generation units, lower than usual water reservoir levels in Latvia, and maintenance-related restrictions on transmission capacities between Belarus and Lithuania.

Since 2014, traders have been able to hedge price differences on the Estonian-Latvian border to a limited extent by using PTRs (Physical Transmission Rights). 50 MW has been auctioned for whole year and 150 MW has been auctioned monthly for the month ahead. Market participants have suggested that the opportunities for hedging the risks inherent in cross-border trade could be improved by increasing the volume and extending the terms of PTRs offered. By 2015 the volume of PTRs is expected to increase to 450 MW and quarterly instruments introduced, allowing price risk management in three stages.

In Q3 2014, Eesti Energia clean dark spread in the NPS Estonia price area was 18.0 €/MWh (-4.8 €/MWh, -21.2% year over year). The downward shift is mainly attributable to a rise in CO_2 and oil shale costs (impact -3.2 €/MWh). Compared with the previous year, the NPS Estonia electricity price decreased by 1.6 €/MWh (-3.8%).

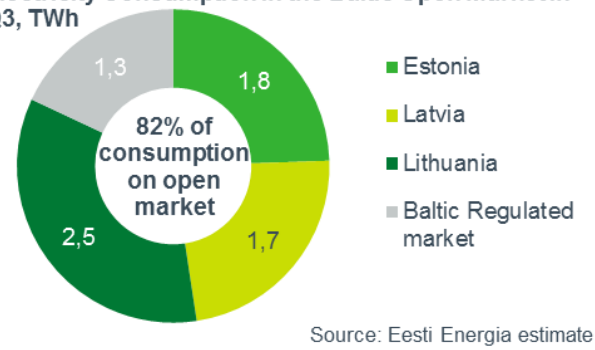
Eesti Energia Clean Dark Spread (CDS) in NPS Estonia Electricity Price, €/MWh



Source: Thomson Reuters, Eesti Energia

The Estonian electricity market has been fully open since 2013 and free market prices apply. The Latvian and Lithuanian electricity markets have been opened partially. Household consumers who have no obligation to buy electricity from the open market prefer to buy electricity at a regulated price, which is lower than the open market price. All companies in Latvia and Lithuania buy electricity from the open market. In Q3 2014 the Latvian electricity market had approximately been opened to the extent of 70% (in terms of consumption volume). The Latvian electricity market should be opened completely at the beginning of 2015. Lithuanian companies have been buying electricity from the open market since 2013. In Q3 2014 the Lithuanian electricity market had approximately been opened to the extent of 68% (in terms of consumption volume).

Electricity Consumption in the Baltic Open Market in Q3, TWh



Source: Eesti Energia estimate

Corporate Governance

Eesti Energia's governing bodies are the general meeting, the supervisory board, the management board and the audit committee. The company's highest governing body is the general meeting, which appoints members of the supervisory board. The supervisory board appoints and oversees the activities of members of the management board. In oversight matters, the supervisory board is advised by the audit committee.

In Q3 and at the beginning of Q4 2014, changes were made in the composition of Eesti Energia's governing bodies.

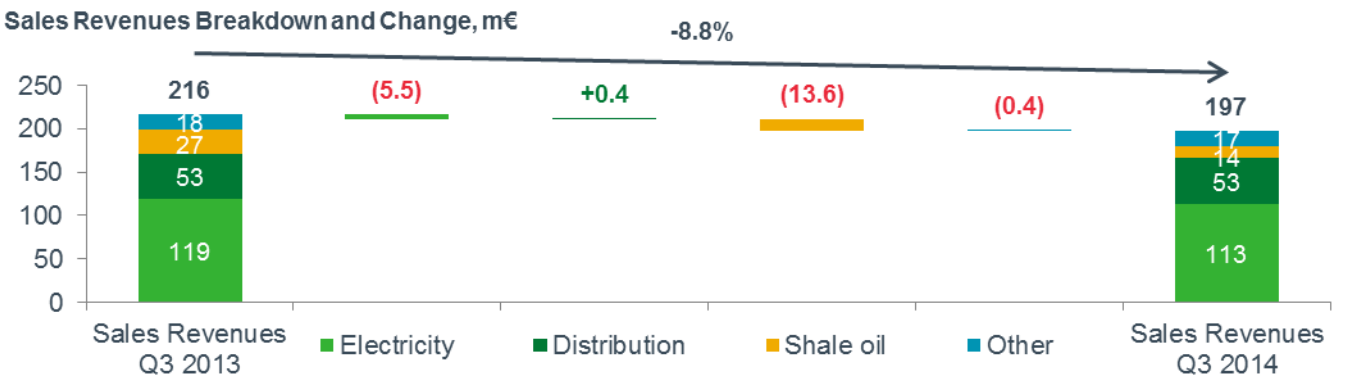
- Based on a resolution of the general meeting, Meelis Atonen, Jüri Käo, Indrek Kaju and Olari Taal were recalled from the supervisory board and Erkki Raasuke, Meelis Virkebau, Randel Länts and Peep Siitam were appointed.
- On 1 September 2014, the supervisory board of Eesti Energia decided to elect Erkki Raasuke as the new chairman of the supervisory board.
- In September, the supervisory board of Eesti Energia appointed Märt Vooglaid as a new member of Eesti Energia's audit committee. Andres Saame, Meelis Atonen and Jüri Käo were recalled from the audit committee in connection with their removal from the supervisory board.
- On 2 October 2014, the supervisory board of Eesti Energia decided to appoint Hando Sutter as the new chairman of the management board of Eesti Energia until 30 November 2017, effective from 1 December 2014.

Financial Results

Revenues and EBITDA

In Q3 2014, the Group generated revenues of 197.2 million euros (-8.8%, -19.1 million euros compared to Q3 2013), EBITDA of 74.2 million euros (+2.9%, +2.1 million euros), operating profit of 42.3 million euros (+0.6%, +0.2 million euros) and net profit of 44.1 million euros (+5.5%, +2.3 million euros).

The decrease in revenues is mainly attributable to weaker shale oil and electricity sales revenues related to lower sales volumes compared to Q3 2013.

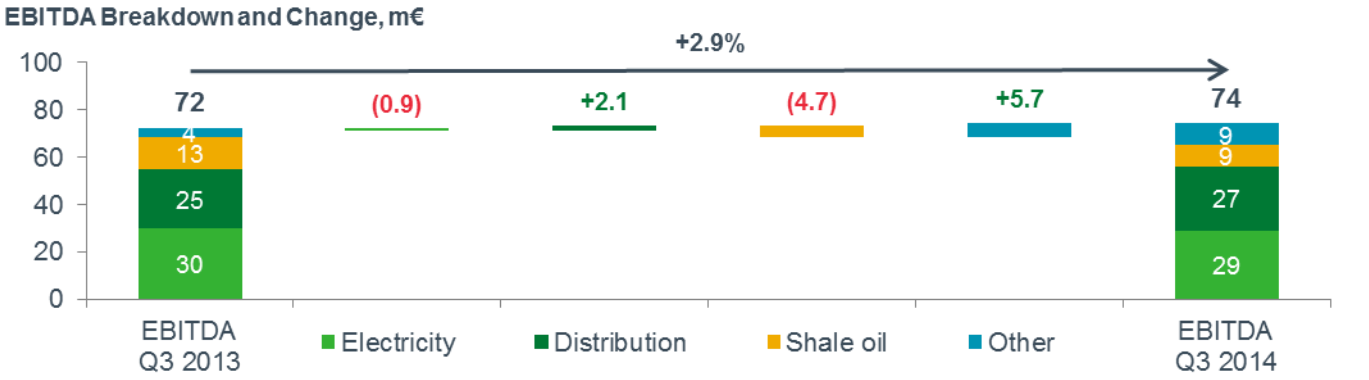


The Group's EBITDA was substantially improved by non-recurring gain on the sale of network construction subsidiary (impact on other EBITDA +3.4 million euros).

The Group's EBITDA was weakened the most by the reduction of shale oil sales volume - shale oil EBITDA dropped by 34.9% (4.7 million euros). Similarly, electricity EBITDA decreased 3.1% (-0.9 million euros).

Volume of power distributed increased year over year, improving distribution EBITDA by 8.2% (+2.1 million euros).

EBITDA for other products and services grew mainly through stronger oil shale sales volume which increased EBITDA (impact +1.8 million euros).

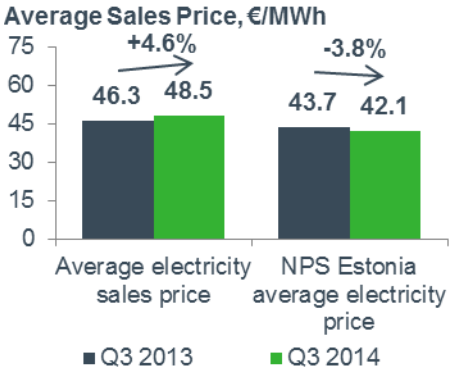


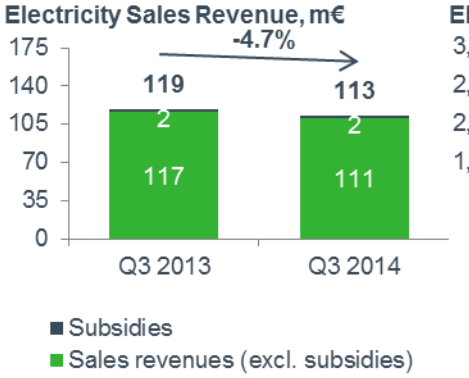
Eesti Energia Balti Power Plant in Ida-Virumaa, Estonia

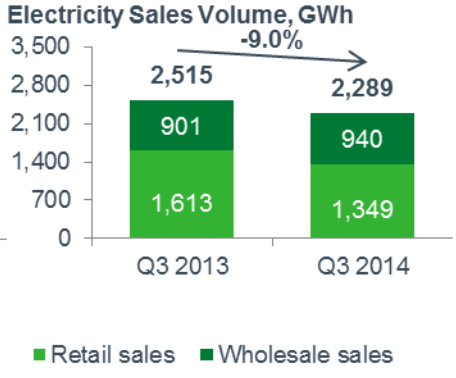
Electricity

Electricity sales revenue amounted to 113.2 million euros (-4.7%, -5.5 million euros). In Q3 2014, Eesti Energia sold 2,289 GWh of electricity (-9%, -226 GWh), retail and wholesale figures accounting for 1,349 GWh (-16.4%, -264 GWh) and 940 GWh (+4.3%, +38 GWh) of the total respectively. The average electricity sales price (including revenue from financial hedges) was 48.5 €/MWh (+2.1 €/MWh, +4.6%).

Total electricity sales declined year over year due to lower generation capacity owing to higher maintenance. The wholesale figure improved, mostly through shrinkage in the Group's retail market share, which boosted sales to the power exchange.







Retail sales of electricity have decreased primarily due to the contraction of Eesti Energia's share of the Estonian retail electricity market. In terms of customers' electricity consumption, in Q3 2014 Eesti Energia's market share in Estonia was 59% (-13pp compared to Q3 2013, +0.3pp compared to Q2 2014).

Despite the loss in market share, Eesti Energia remains the electricity supplier that has the largest number of customers and market share in Estonia. At the end of Q3 2014, Eesti Energia had 361 thousand customers across Estonia. The number has remained steady since the end of Q2 2014 (-3 thousand customers compared to the end of Q3 2013). In addition to contractual customers, Eesti Energia sold electricity to Elektrilevi's universal service customers. Compared to the same period last year, the number of universal service customers decreased by 19 thousand to 90 thousand. Compared to Q2 2014, there was no significant change in the number of universal service customers (-1 thousand).

Around 94% of all electricity contracts for metering points that required extension in Q3 2014 were extended with Eesti Energia. Extensions covered clients with 44 GWh of the annual consumption volume of which 41 GWh was extended with Eesti Energia. Customers continue to prefer fixed-price contracts.

In Latvia and Lithuania, Eesti Energia operates under the Enefit brand. In Q3 2014, there were price differences between the Estonian and the Latvian and Lithuanian price areas. Eesti Energia does not own substantial generation capacities in Latvia and Lithuania. Therefore, to meet its obligations under fixed-price contracts, the Group often has to buy electricity from the exchange at NPS Latvia prices that exceed the sales prices achieved by the Group's power plants in NPS Estonia. Because of the price differences between the Estonian and Latvian price areas, in Q3 2014 Eesti Energia incurred costs of 6.9 million euros (-1.6%, -0.1 million euros). Since Q1 2014, we have been successfully selling electricity products indexed to the exchange price in Latvia. In Q2, the sale of similar products was successfully launched in Lithuania.

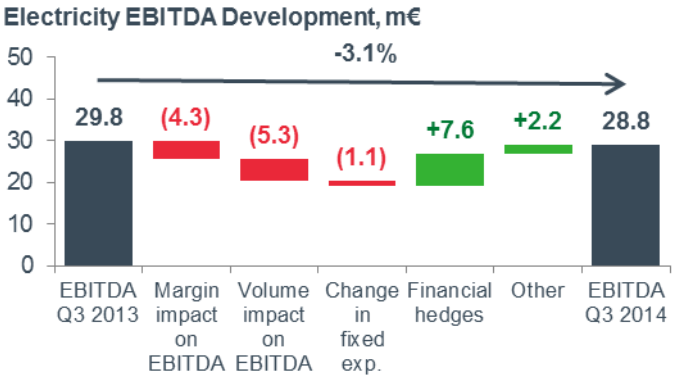
By the end of Q3, Eesti Energia had 2,287 customers in Latvia and Lithuania (-302 customers compared to Q3 2013). The number of customers was strongly impacted by the Group's decision to discontinue offering fixed-price contracts. In Q3, Eesti Energia's market shares in Latvia and Lithuania were 15% and 7%, decreasing year on year by -6.0 and -2.4 percentage points respectively.

In Q3 2014, the Group generated a total of 2,385 GWh of electricity (-7.1%, -183 GWh). Reduction of Group power generation was driven by higher level of maintenance works in Group's Balti and Eesti power plants. In Q3 2014, electricity generated from renewable sources amounted to 60.0 GWh (+27.2%, +12.8 GWh). The growth in the output of renewable energy is mainly attributable to the use of biomass at the Balti Power Plant where competitively priced fuel could be purchased in limited quantities. Renewable energy and efficient cogeneration subsidies received by the Group amounted to 2.2 million euros (+2.0%, +0.04 million euros). Most of the renewable energy, i.e. 36.9 GWh was generated by wind parks (+5.7%, +2.0 GWh).

Key Figures		Q3 2014	Q3 2013
Return on fixed assets*	%	14.5	9.4
Electricity EBITDA	€/MWh	12.6	11.8

* excluding impairment of generation assets in December 2012 and 2013

Electricity EBITDA for Q3 2014 was 28.8 million euros (-3.1%, -0.9 million euros).



Lower exchange prices triggered a fall in the average wholesale price of electricity (-3.0 €/MWh), which lowered electricity EBITDA margin earned by 6.7 million euros. Retail sales of electricity did not yield a profit but shrinkage in relevant losses improved electricity EBITDA by 2.2 million euros. The net margin change impact on EBITDA was 4.3 million euros.

A 9% decline in sales volumes lowered electricity EBITDA by a further 5.3 million euros.

Q3 fixed costs from electricity sales increased by 1.1 million euros compared to Q3 2013 because more fixed costs were capitalised last year in connection with the construction of the new power plant.

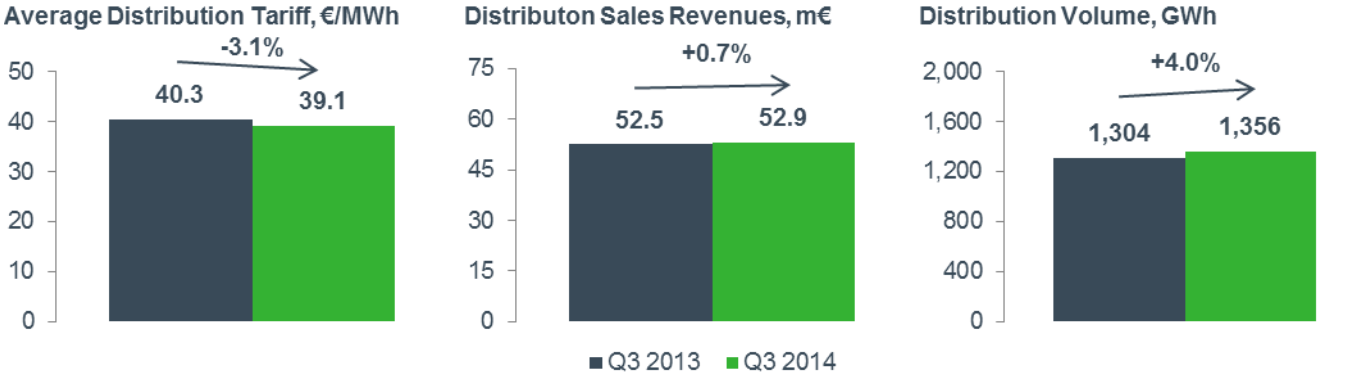
Electricity EBITDA was strengthened by revenues from financial hedges (+7.6 million euros) and partial reversal of provisions recognised for potential losses from Latvian and Lithuanian electricity contracts (+2.1 million euros).

Eesti Energia Network Distribution Cable Tunnel in Tallinn, Estonia

Distribution

Distribution sales revenue for the period amounted to 52.9 million euros (+0.7%, +0.4 million euros). In Q3 2014, Eesti Energia distributed 1,356 GWh of electricity (+4.0%, +52.0 GWh), which is more than in Q3 2013. One of the factors that contributed to growth in distribution sales volume was higher ambient temperature in July and August that increased the need for cooling.

Network losses for Q3 amounted to 74.2 GWh or 5.0% (74.9 GWh or 5.2% in Q3 2013). Accounted losses are impacted by imprecise loss amounts being adjusted in later periods.



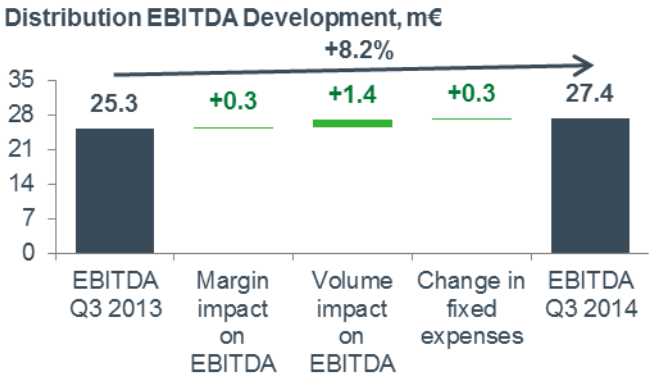
In Q3 2014, the average distribution tariff was 39.1 €/MWh (-3.1%, -1.3 €/MWh). The distribution tariff is affected by regular price corrections and the consumption structure of distribution service. In August 2013 a tariff correction took effect because the Competition Authority reduced the rate of return allowed for distribution network operators. In addition, the tariff decreased from April 2014 because an uncontrollable cost (the cost of the transmission service purchased from Elering – the TSO – decreased).

Compared with Q3 2013, network reliability indicators improved noticeably. The average duration of unplanned interruptions was 37 minutes (40 minutes in Q3 2013) and the average duration of planned interruptions was 13 minutes (26 minutes in Q3 2013). To a certain extent, the number of failures in the low-voltage network can be reduced by the replacement of regular overhead lines with weather-proof cables. However, the number of unplanned service interruptions is significantly affected by weather conditions and thunderstorms occurred in August 2013 resulting in a higher figure the previous year.

Key Figures		Q3 2014	Q3 2013
Return on fixed assets	%	6.2	7.0
Distribution losses	GWh	74.2	74.9
SAIFI	index	0.2	0.2
SAIDI (planned)	index	13.2	26.1
SAIDI (unplanned)	index	37.4	39.9
Adjusted RAB	m€	666.1	616.4

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

Distribution EBITDA for Q3 2014 amounted to 27.4 million euros (+8.2%, +2.1 million euros).



The figure was improved by a rise in the sales margin (total impact on EBITDA +0.3 million euros). The impact of a decrease in the average distribution tariff (impact -1.7 million euros) was offset by a decline in transmission costs (impact +1.2 million euros) and shrinkage in the cost of energy losses (impact +0.6 million euros).

The main factor that improved distribution EBITDA was year over year growth in sales volume (impact +1.4 million euros).

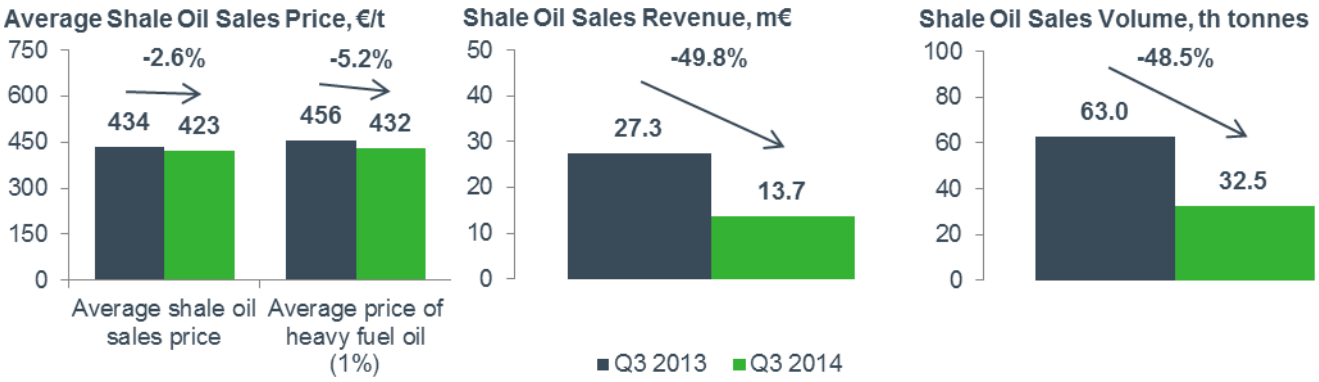
Distribution fixed costs decreased (impact +0.3 million euros), mainly thanks to a decline in network maintenance costs.

Eesti Energia Oil Industry in Ida-Virumaa, Estonia

Shale Oil

Shale oil sales revenue amounted to 13.7 million euros (-49.8%, -13.6 million euros). In Q3 2014, Eesti Energia sold 32.5 thousand tonnes of shale oil (-48.5%, -30.6 thousand tonnes). Sales volumes dropped due to near term uncertainties that rendered the fuel oil market highly volatile. Because of the requirements of the EU Sulphur Directive that take effect from 2015 (and also affect the North Sea and the Baltic Sea areas), buyers are trying to push the prices of liquid fuels down while sellers are trying to avoid lowering the price and are seeking better deals.

In Q3 2014, the average shale oil sales price was 422.9 €/t (-2.6%, -11.1 €/t).



Compared to the same period in 2013, the average sales price of shale oil decreased less than the market price of heavy fuel oil, the reference product. The average sales price was supported by revenues of financial hedges of 6.8 €/t (+8.5 €/t) amounting to 0.2 million euros (+0.3 million euros). Excluding the effect of financial hedges, the average shale oil price was 416.2 €/t (-4.5%, -19.6 €/t).

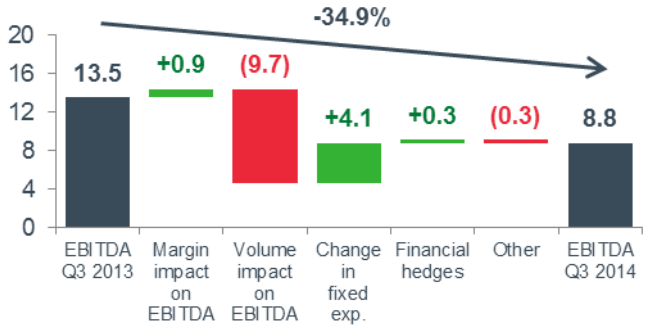
The Group's shale oil production for Q3 2014 amounted to 52.9 thousand tonnes (-4.4%, -2.4 thousand tonnes). The decrease in output is partly attributable to a shift in maintenance and repair schedules.

In Q3 2014 the planned two-month maintenance period of the Enefit280 oil plant, which was also used to carry out additional development activities, was completed. Following the maintenance and development operations, Enefit280 has been steadily operated at 50% capacity when operating. Capacity will be further increased in October when the system has been supplied with another enhanced ash cooler.

Key Figures		Q3 2014	Q3 2013
Return on fixed assets	%	32.9	38.0
Shale oil EBITDA	€/t	270.3	214.0

Shale oil EBITDA for Q3 2014 amounted to 8.8 million euros (-34.9%, -4.7 million euros).

Shale Oil EBITDA Development, m€



The key factor that undermined EBITDA was a substantial decrease in sales volume (-48.5%, -30.6 thousand tonnes compared to Q3 2013), which lowered EBITDA by 9.7 million euros.

The sales margin for the period was higher than a year ago (+0.9 million euros, +26.4 €/t). The main reason for the improvement is the decrease of variable costs in Q3 2014. EBITDA per tonne of oil sold amounted to 270 €/t (+56.3 €/t, +26.3%).

Fixed costs decreased by 4.1 million euros year over year, mostly because in Q3 2014 shale oil inventories grew. The fixed cost component in inventories decreased compared to the same period in 2013.

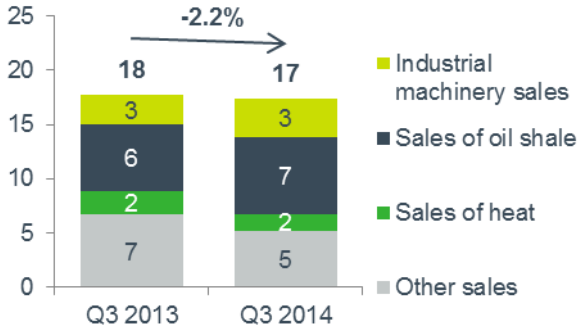
Oil shale EBITDA was further strengthened by impact of financial hedges (+0.3 million euros) and undermined by expenses related to revaluation of derivative instruments (-0.3 million euros).

Eesti Energia Iru Power Plant in Tallinn, Estonia

Other Products and Services

Eesti Energia's Q3 revenues from the sale of other products and services amounted to 17.3 million euros (-2.2%, -0.4 million euros).

Sales Revenues From Other Products and Services, m€

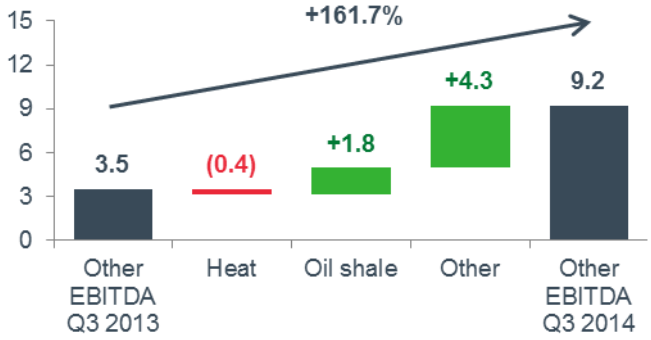


The decrease in other revenues resulted from a decline in heat sales volume, which reduced heat revenue (-25.0%, -0.5 million euros). In volume terms, heat sales dropped by 29% year over year. Contributing factors included higher ambient temperatures in Q3 2014 as well as unplanned repair work at Iru Power Plant.

Absence of asset disposal income, which was earned last year on the closure of the Aidu opencast mine lowered other revenue for Q3 2014 by 1.4 million euros. Revenue from the sale of oil shale grew by 14.8% or 0.9 million euros. Industrial machinery sales revenue increased by 28.2% or 0.8 million euros.

EBITDA on other products and services amounted to 9.2 million euros (+161.7%, +5.7 million euros).

Other Products and Services EBITDA Development, m€



The decline in heat sales impacted other EBITDA to the extent of -0.4 million euros.

Sales of oil shale to external customers grew to 219 thousand tonnes (+14.1%, +27.1 thousand tonnes) and there was also a slight increase in the average sales price. The impact of oil shale sales on other EBITDA was +1.8 million euros.

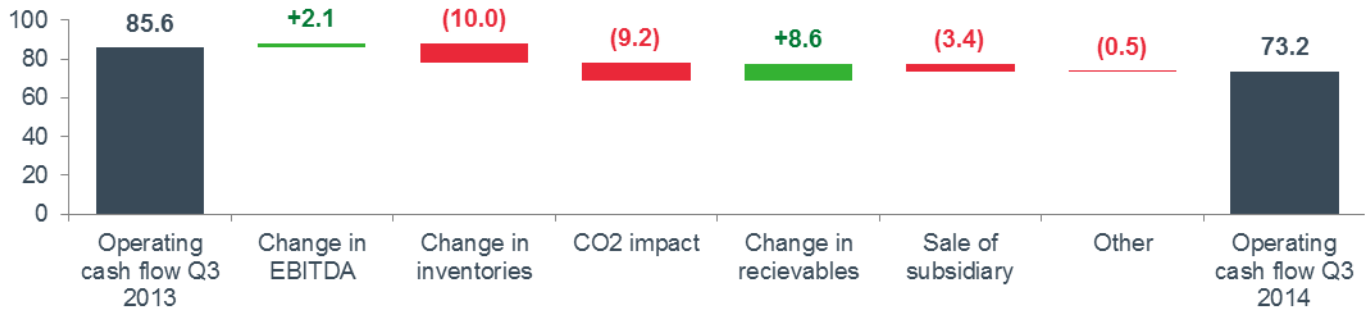
The strongest impact on other EBITDA resulted from the sale of network construction subsidiary, which took place in Q3 2014 (impact +3.4 million euros).

Cash Flows

In Q3 2014, the Group's net cash flow from operating activities amounted to 73.2 million euros. Compared to the same period in 2013, net operating cash flow decreased by 14.5% (-12.4 million euros).

Compared to the same period last year, cash flows from operating activities were supported by a decrease in receivables (impact +8.6 million euros) and a rise in EBITDA (+2.1 million euros). The main factor that reduced operating cash flow compared to Q3 2013 was inventory growth (impact 10.0 million euros). Cash flow from operating activities also declined compared to Q3 2013 due to a decrease in the provision recognised for the purchase of CO_2 emission allowances and transactions conducted with CO_2 emission allowances in the comparative period (total impact -9.2 million euros). The sale of the network construction subsidiary impacted operating cash flow by -3.4 million euros.

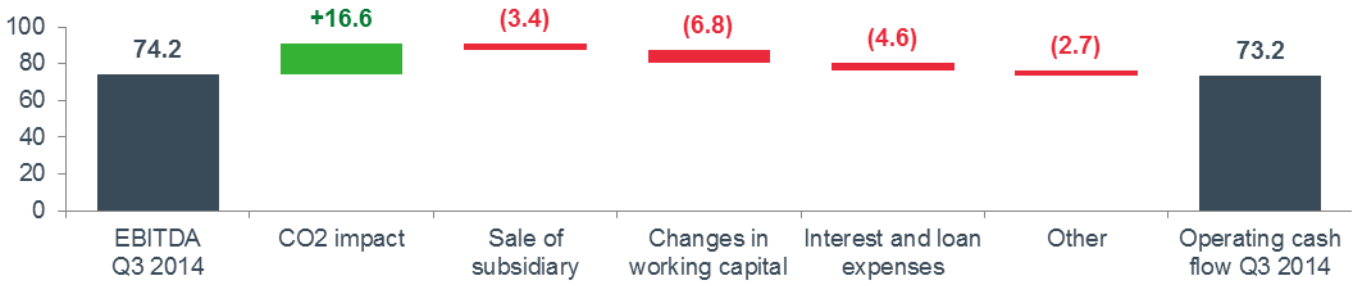
Operating Cash Flow Changes, m€



The Group's Q3 net operating cash flow remained 1 million euros smaller than EBITDA. Compared to EBITDA (74.2 million euros), cash flow from operating activities was increased by the effect of CO_2 emission allowance purchases to be settled in the future (+16.6 million euros) and reduced by impact of the sale of subsidiary (3.4 million euros). The net effect of working capital changes on operating cash flow was negative at -6.8 million euros, including a change in inventories impact of -4.5 million euros and an increase in receivables impact of -1.1 million euros.

The effect of interest paid and borrowing costs on net operating cash flow was -4.6 million euros.

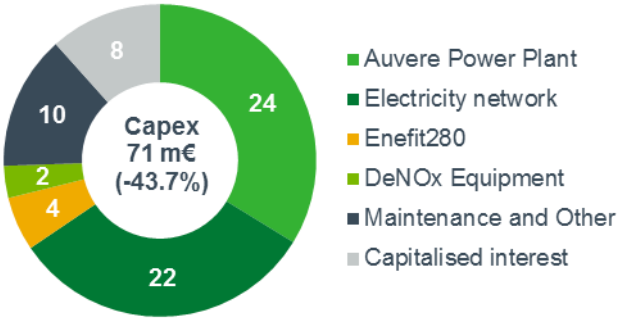
EBITDA to Operating Cash Flows Development, m€



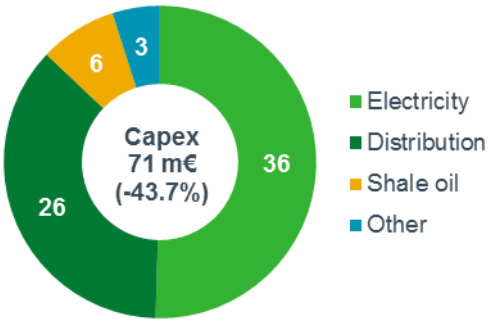
Investment

In Q3 2014, the Group's capital expenditures amounted to 70.6 million euros (-43.7%, -54.8 million euros). Investment decreased year on year due to completion of the Iru Power Plant in 2013 and major investments into Auvere Power Plant and electricity network in Q3 2013. In Q3 2014, the main investments were 300 MW Auvere Power Plant and investments in the quality of the distribution service.

Capex Breakdown by Projects, m€

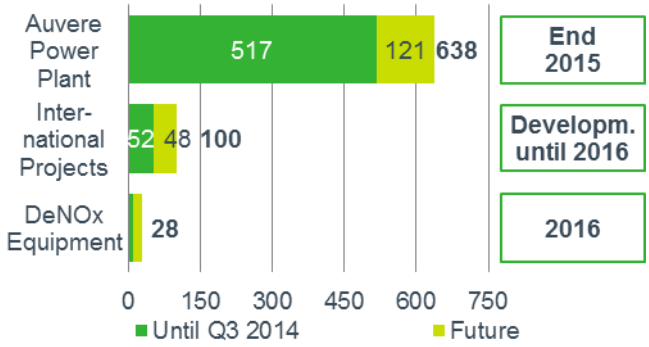


Capex Breakdown by Products, m€



Eesti Energia continued installation of nitrogen emission capture systems at the Eesti Power Plant and preparations of its international projects. The two-month maintenance at the Enefit280 oil plant was completed.

Main Ongoing Projects, m€ **Deadline**



Construction of the 300 MW Auvere Power Plant

In summer 2011, Eesti Energia started to build a new modern CFB (circulating fluidized bed) power plant in Auvere. The power plant, which should be completed in 2016, allows using biofuel alongside oil shale (to the extent of 50%), which will reduce its CO_2 footprint to the level of a modern gas plant. The maximum annual net generation of the Auvere Power Plant is 2,192 GWh. For financing the construction of the Auvere Power Plant, the European Commission permitted the Estonian government to allocate to Eesti Energia for the period 2013-2020 a total of 18 million tonnes of free CO_2 emission allowances; 5 million tonnes of the total was received in April 2014.

In Q3, installation of the plant's fuel feeding conveyors and ash station equipment was completed and in August system tests and preparations for hot commissioning could begin. Construction of the turbine room, the boiler room and the rooms for ancillary equipment was substantially completed and the EPC contractor began gradual handover of the core equipment and rooms to the testing and commissioning team. All construction works should be completed in Q4 2014. In September, the acid cleaning of the boiler was successfully performed and at the end of the month the last preparations began for the first start-ups of the boiler using shale oil.

The total cost of the construction of the Auvere Power Plant is 638 million euros. By the end of Q3 2014, 517 million of this had been invested.

Reduction of Nitrogen Emissions at Eesti Power Plant

The EU Industrial Emissions Directive that entered into force in January 2011 provides that starting from 2016 the concentrations of nitrogen oxides (NO_x) in the waste gases released to the atmosphere by large combustion plants may not exceed 200 mg/Nm^3. In a pilot project conducted in 2013, one boiler of the Eesti Power Plant was successfully supplied with NO_x capture system, which has allowed reducing its NO_x emissions approximately two times.

In March 2014, approval was granted to Phase 2 of the project, in the course of which another seven boilers of four generating units will be equipped with emission capture systems. The current net production capacity of the boilers whose NO_x emissions will be reduced is 672 MW.

During the quarter, the assembly of the second boiler of the third generating unit was completed and in September it successfully passed warranty tests. Installation of NO_x capture systems is scheduled for completion by 2016. The total cost of the project is 28 million euros. By the end of Q3 2014, 9 million of this had been invested.

Improving the Quality of Distribution Network

In Q3 2014, investments in the quality of the distribution network amounted to 22 million euros compared with 30 million euros in Q3 2013. During the quarter, 120 substations and 349 kilometres of underground and overhead cables were built (187 substations and 535 kilometres of cables in Q3 2013).

In 2013-2016, Elektrilevi is going to install smart meters at all consumption sites in Estonia. In Q3, 37 thousand smart meters were installed and more than 55 thousand meters were switched over to the remote reading system. By the end of September 2014, 300 thousand new hourly smart meters had been installed in the framework of the remote reading project. Altogether, by the end of the quarter 32% of the meters had been switched over to the remote reading system and smart meters accounted for 50% of all of Elektrilevi's power meters (+33pp compared to Q3 2013, +9pp compared to Q2 2014).

Preliminary Development of the Jordanian Electricity and Oil Projects

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

In the framework of the electricity project, negotiations with the government of Jordan continued through Q3. The parties reached agreement on the package of contracts submitted at the end of 2013, including the terms of the electricity sale and purchase contract, at the end of the quarter and signed the contracts on 1 October 2014. In addition, contract negotiations were held for drilling water boreholes and carrying out water pumping tests. Preparations were made for opening a data room for the financiers' due diligence procedures and negotiations were held with the financiers with a view to finding potential tax, insurance, technical and legal advisors. Design of the mine continued as well.

The pre-development phase of the oil project is expected to last until 2016. Within that time, Eesti Energia will develop a part of the Attarat Um Ghudran mine[4]. In Q3 2014 work continued on the preparation of a pilot programme for studying possibilities for increasing the oil yield.

The planned net capacity of the first Jordanian oil shale power plant is 470 MW and it is scheduled for completion in 2018.

Preliminary Development of the US Oil Production Project

In March 2011, Eesti Energia acquired an oil shale resource in Uintah County, Utah (USA), which is estimated to contain 6.6 billion tonnes[5] of oil shale. In Utah, Eesti Energia operates under the name of Enefit American Oil.

In Q3 2014, the Group continued preparing the Environmental Impact Statement in cooperation with the Bureau of Land Management and the preliminary feasibility study for the whole project. Detailed engineering studies for a utility crossing of the White

[4] The area under research is estimated to contain 3.5 billion tonnes of oil shale of which 0.9 billion tonnes represents measured resource for carrying out the electricity project.

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

River were completed and an engineering study for a road improvement was continued.

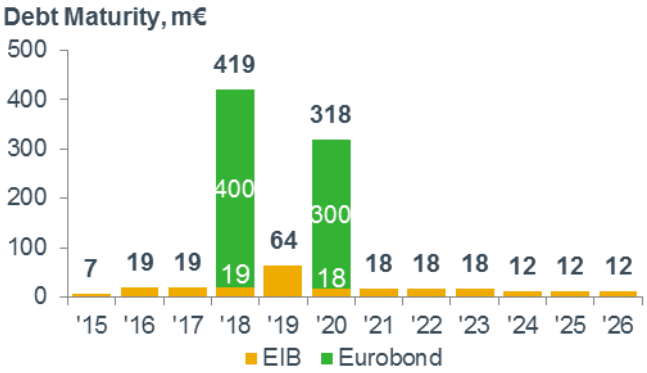
In August, the US Fish and Wildlife Service withdrew the proposal to include two plant species, which grow on Enefit American Oil's property, in the list of endangered species and approved the Penstemon Conservation Agreement, which will allow development of the project to proceed according to the initial plan.

Financing

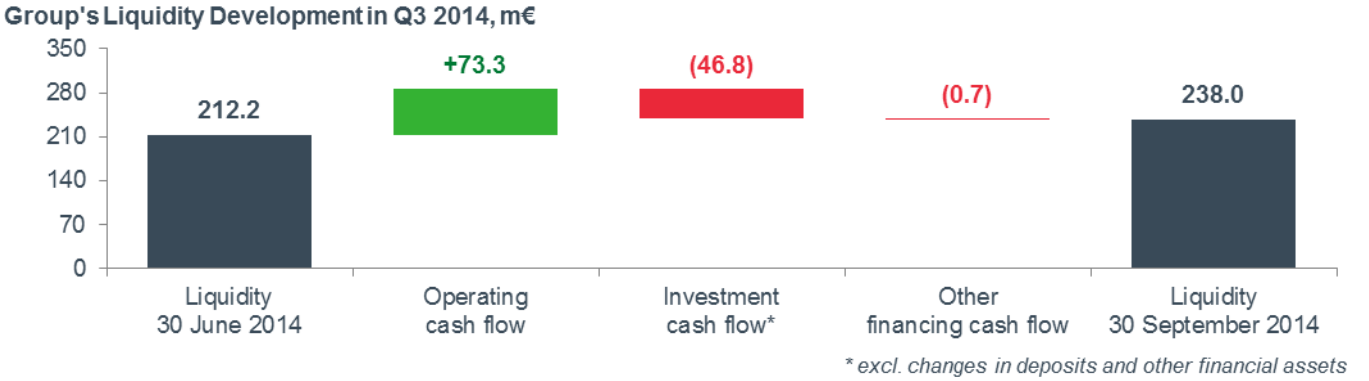
Eesti Energia's main sources of debt capital are the international bond market and bilateral investment loans from the European Investment Bank (EIB). The required liquidity loans and guarantee limits are raised from regional banks.

At the end of Q3 2014, the total nominal value of the Group's borrowings was 937.1 million euros (during the quarter, the figure decreased by 0.7 million euros through minor loan repayments). The amortised cost of borrowings amounted to 935 million euros (-0.8 million euros compared to the end of Q2 2014). Long-term borrowings comprised eurobonds listed on the London Stock Exchange (nominal value of 700 million euros) and loans from the EIB (nominal value of 237.1 million euros).

The largest repayments are linked to the maturities of eurobonds in 2018 and 2020. Principal repayments under the EIB loans are more evenly scheduled across the loan terms.



At the end of Q3 2014, the Group's liquid assets (including deposits with a maturity of more than 3 months and liquid financial assets) stood at 238 million euros. In addition, the Group's undrawn loans amounted to 250 million euros consisting of bilateral credit facilities of 150 million euros in aggregate provided by three regional banks (SEB, Pohjola and Nordea) that mature in September 2018 and a long-term loan of 100 million euros raised from the European Investment Bank. In October it was agreed to extend the term for drawing the loan by one year until October 2015.



The Group has a sufficient amount of liquid assets and undrawn loans to cover its immediate liquidity requirements, finalising investment programme, dividend payment and other needs.

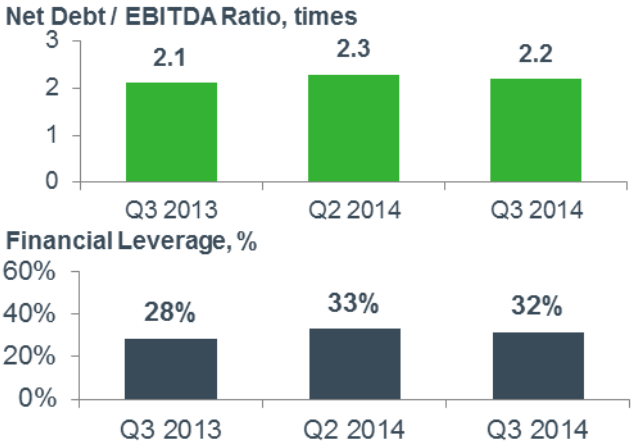
In Q3, Eesti Energia's credit ratings remained at the level of BBB+ (Standard & Poor's) and Baa2 (Moody's), both with a stable outlook.

At the end of Q3 2014, the weighted average interest rate of the Group's borrowings was 3.92%

(unchanged from Q2 2014). The Group's borrowings have predominantly fixed interest rates (95% of all borrowings). All borrowings are denominated in euros.

At the end of Q3, the Group's equity amounted to 1,502.6 million euros. All the shares in Eesti Energia are held by the Republic of Estonia. The sole shareholder has decided that the dividends will be paid out in Q4.

The Group's net debt as at the end of Q3 2014 amounted to 697 million euros (-26.6 million euros compared to the end of Q2 2014) and EBITDA to net debt ratio was 2.2 (2.3 at the end of Q2 2014). Under its loan agreements, Eesti Energia has undertaken to comply with certain financial covenants. At the end of Q3 2014, the Group complied with all applicable covenants.



Outlook for FY 2014

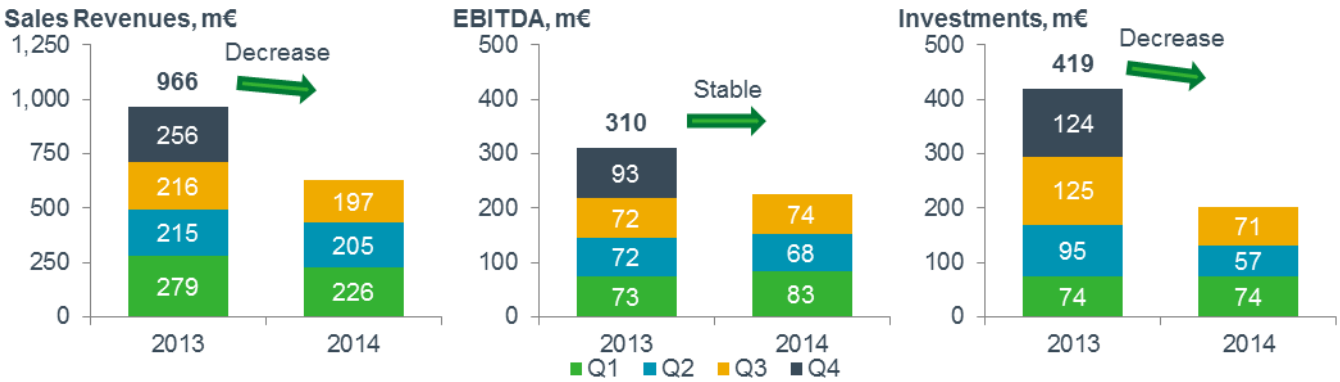
The Group's revenues for the first 9 months of 2014 amounted to 628.1 million euros (-11.6%, -82.2 million euros compared to 9M 2013) and EBITDA amounted to 225.3 million euros, which is higher than in the same period of 2013 (+3.6%, +7.9 million euros). Capital investments of the first 9 months of 2014 amounted to 200.9 million euros (-31.7%, -93.4 million euros).

Outlook has not changed. We still expect revenue to decline compared to 2013 because electricity prices in the wholesale market remain subdued, reducing electricity generation and sales. EBITDA should remain at the same level as last year while investments are going to decrease.

We expect to make a dividend payment to the shareholder in Q4 2014.

The Group has sold forward 2.6 TWh of electricity for delivery in Q4 2014 at the average price of 43.9 €/MWh and 53.3 thousand tonnes of shale oil at the average price of 466 €/t. Forward sales for delivery in 2015 include 6.2 TWh of electricity at the average price of 40.3 €/MWh and 192 thousand tonnes of shale oil at the average price of 428 €/t.

In FY 2014, the Group's CO_2 emissions position which was hedged with forward transactions (including emission allowances received from the state as free investment support and the surplus from previous periods) amounted to 27.5 million tonnes at the average price of 4.5 €/t. The CO_2 emissions position for FY 2015 which was hedged with forward transactions (including emissions allowances received from the state free of charge) amounted to 6.5 million tonnes at the average price of 1.4 €/t.



Consolidated Income Statement and Statement of Comprehensive Income

CONSOLIDATED INCOME STATEMENT in million EUR	3 months 1 July - 30 September 2014	 2013	9 months 1 January - 30 September 2014	 2013	12 months 1 October - 30 September 2014/13	 2013/12	*Note*
Revenue	197.2	216.3	628.1	710.3	884.2	936.9	*3*
Other operating income	4.7	1.6	11.5	8.0	11.9	35.1	
Government grants	-	-	0.1	0.2	0.3	0.5	
Change in inventories of finished goods and work-in-progress	3.9	(5.6)	10.4	(10.0)	9.0	(16.6)	
Raw materials and consumables used	(86.9)	(93.3)	(273.9)	(332.0)	(361.6)	(453.7)	
Payroll expenses	(30.8)	(32.0)	(98.0)	(102.2)	(144.0)	(152.3)	
Depreciation, amortisation and impairment	(31.9)	(30.0)	(95.6)	(87.7)	(142.9)	(181.5)	
Other operating expenses	(13.9)	(14.9)	(52.9)	(56.9)	(81.3)	(77.3)	
OPERATING PROFIT	**42.3**	**42.1**	**129.7**	**129.7**	**175.6**	**91.1**	
Financial income	1.1	0.7	3.1	2.1	4.2	3.0	
Financial expenses	0.7	(1.0)	(2.6)	(3.1)	(4.0)	(5.6)	
Net financial income (-expense)	**1.8**	**(0.3)**	**0.5**	**(1.0)**	**0.2**	**(2.6)**	
Gain from associates using equity method	-	-	-	-	(0.8)	(0.2)	
PROFIT BEFORE TAX	**44.1**	**41.8**	**130.2**	**128.7**	**175.0**	**88.3**	*3*
CORPORATE INCOME TAX EXPENSE	**-**	**-**	**(28.8)**	**(18.8)**	**(24.0)**	**(19.6)**	
PROFIT FOR THE YEAR	**44.1**	**41.8**	**101.4**	**109.9**	**151.0**	**68.7**	
Attributable to:							
Equity holders of the Parent Company	**44.3**	**41.9**	**101.4**	**109.7**	**151.3**	**68.3**	
Non-controlling interest	**(0.2)**	**(0.1)**	**-**	**0.2**	**(0.3)**	**0.4**	
Basic earnings per share (euros)	*0.07*	*0.07*	*0.16*	*0.18*	*0.24*	*0.11*	*8*
Diluted earnings per share (euros)	*0.07*	*0.07*	*0.16*	*0.18*	*0.24*	*0.11*	*8*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME in million EUR	3 months 1 July - 30 September 2014	 2013	9 months 1 January - 30 September 2014	 2013	12 months 1 October - 30 September 2014/13	 2013/12
PROFIT FOR THE YEAR	**44.1**	**41.8**	**101.4**	**109.9**	**151.0**	**68.7**
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss:						
Revaluation of risk hedge instruments	(12.5)	(26.9)	(38.0)	(0.5)	(2.0)	18.8
Currency translation differences attributable to foreign subsidiaries	3.5	(1.3)	4.0	(1.1)	3.5	(2.3)
Other comprehensive income for the year	**(9.0)**	**(28.2)**	**(34.0)**	**(1.6)**	**1.5**	**16.5**
COMPREHENSIVE INCOME FOR THE YEAR	**35.1**	**13.6**	**67.4**	**108.3**	**152.5**	**85.2**
Attributable to:						
Equity holders of the Parent Company	**35.3**	**13.7**	**67.4**	**108.1**	**152.8**	**84.8**
Non-controlling interest	**(0.2)**	**(0.1)**	**-**	**0.2**	**(0.3)**	**0.4**

Consolidated Statement of Financial Position

in million EUR	30 September 2014	30 September 2013	31 December 2013	*Note*
ASSETS				
Non-current assets				
Property, plant and equipment	2,364.5	2,179.5	2,258.1	*5*
Intangible assets	64.2	64.4	62.2	
Investments in associates	17.5	21.3	22.4	
Derivative financial instruments	-	1.5	6.2	*6*
Long-term receivables	27.2	42.7	19.4	
Total non-current assets	**2,473.4**	**2,309.4**	**2,368.3**	
Current assets				
Inventories	53.3	41.9	39.1	
Greenhouse gas allowances	81.6	11.6	100.4	
Trade and other receivables	122.1	165.8	185.1	
Derivative financial instruments	29.6	16.5	41.4	*6*
Deposits with maturities greater than three months at banks	105.0	35.0	21.0	
Cash and cash equivalents	133.0	122.5	62.6	
Total current assets	**524.6**	**393.3**	**449.6**	
Total assets	**2,998.0**	**2,702.7**	**2,817.9**	
EQUITY				
Capital and reserves attributable to equity holder of the Parent Company				
Share capital	621.6	621.6	621.6	*7*
Share premium	259.8	259.8	259.8	
Statutory reserve capital	59.0	51.0	51.0	
Hedge reserve	9.0	11.0	47.0	
Unrealised exchange rate differences	4.8	1.3	0.8	
Retained earnings	545.9	498.0	566.1	
Total equity and reserves attributable to equity holder of the Parent Company	**1,500.1**	**1,442.7**	**1,546.3**	
Non-controlling interest	**2.5**	**1.6**	**1.4**	
Total equity	**1,502.6**	**1,444.3**	**1,547.7**	
LIABILITIES				
Non-current liabilities				
Borrowings	933.6	731.3	826.5	*9*
Prepayments	3.5	-	-	
Other payables	2.1	3.3	3.3	
Derivate financial instruments	4.8	1.1	1.5	*6*
Deferred income	156.0	147.1	151.0	
Provisions	30.8	26.5	28.8	
Total non-current liabilities	**1,130.8**	**909.3**	**1,011.1**	
Current liabilities				
Borrowings	1.4	1.4	1.4	*9*
Trade and other payables	299.7	263.8	178.4	
Derivative financial instruments	3.3	1.1	2.5	*6*
Deferred income	3.2	3.0	3.5	
Provisions	57.0	79.8	73.3	
Total current liabilities	**364.6**	**349.1**	**259.1**	
Total liabilities	**1,495.4**	**1,258.4**	**1,270.2**	
Total liabilities and equity	**2,998.0**	**2,702.7**	**2,817.9**	

Consolidated Statement of Cash Flows

in million EUR	3 months 1 July - 30 September		9 months 1 January - 30 September		12 months 1 October - 30 September		*Note*
	2014	2013	2014	2013	2014/13	2013/12	
Cash flows from operating activities							
Cash generated from operations	78.0	91.2	216.0	242.6	259.3	289.7	*10*
Interest and loan fees paid	(4.6)	(4.8)	(5.4)	(5.3)	(31.9)	(25.5)	
Interest received	0.2	0.1	0.4	0.5	0.5	1.0	
Corporate income tax paid	(0.4)	(0.9)	(6.0)	(1.0)	(15.1)	(1.0)	
Net cash generated from operating activities	**73.2**	**85.6**	**205.0**	**236.8**	**212.8**	**264.2**	
Cash flows from investing activities							
Purchase of property, plant and equipment and intangible assets	(53.3)	(104.5)	(185.5)	(268.2)	(304.6)	(395.6)	
Proceeds from connection and other fees	2.8	3.4	8.8	9.8	12.9	13.6	
Proceeds from sale of property, plant and equipment	0.6	0.6	1.2	13.2	1.4	17.1	
Proceeds from grants of property, plant and equipment	-	-	-	3.5	0.9	4.1	
Net change in deposits with maturities greater than 3 months	27.0	38.0	(84.0)	55.0	(70.0)	100.0	
Net change in cash with limited usage	-	(2.0)	7.6	13.2	3.9	8.9	
Purchase of short-term financial investments	-	-	-	(4.7)	(3.0)	(9.0)	
Loans granted	(1.5)	(1.0)	(3.4)	(2.7)	(4.5)	(3.1)	*13*
Dividens received from long-term financial investments	-	-	5.6	1.5	5.6	1.5	
Acquisition of subsidiaries, net of cash acquired	-	-	-	(0.2)	-	(0.2)	
Proceeds from disposal of subsidiary	4.7	-	4.7	-	4.7	-	*12*
Proceeds from sale and redemption of financial investments	-	-	1.1	6.4	1.1	23.8	
Net cash used in investing activities	**(19.7)**	**(65.5)**	**(243.9)**	**(173.2)**	**(351.6)**	**(238.9)**	
Cash flows from financing activities							
Received long-term loans	-	0.6	0.5	1.0	95.7	1.9	
Proceeds from bonds issued	-	-	110.3	-	110.3	-	
Repayments of bank loans	(0.7)	(0.7)	(1.4)	(1.4)	(1.4)	(1.4)	
Repayments of other loans	-	(0.8)	(0.1)	(0.8)	(0.1)	(0.8)	
Dividends paid	-	-	-	-	(55.2)	-	
Net cash used in financing activities	**(0.7)**	**(0.9)**	**109.3**	**(1.2)**	**149.3**	**(0.3)**	
Net cash flows	**52.8**	**19.2**	**70.4**	**62.4**	**10.5**	**25.0**	
Cash and cash equivalents at the beginning of the period	77.7	103.3	62.6	60.1	122.5	97.5	
Cash and cash equivalents classified as held for sale at the beginning of the period	2.5	-	-	-	-	-	
Cash and cash equivalents at the end of the period	133.0	122.5	133.0	122.5	133.0	122.5	
Net increase/(-)decrease in cash and cash equivalents	**52.8**	**19.2**	**70.4**	**62.4**	**10.5**	**25.0**	

Consolidated Statement of Changes in Equity

in million EUR	Attributable to equity holder of the Company						Non-control-ling interest	Total equity
	Share capital (Note 7)	Share premium	Statutory legal reserve	Other reserves	Retained earnings	Total		
Equity as at 31 December 2012	**621.6**	**259.8**	**47.2**	**13.9**	**465.6**	**1,408.1**	**1.0**	**1,409.1**
Income for the year	-	-	-	-	109.7	109.7	0.2	109.9
Comprehensive income for the year	-	-	-	(1.6)	-	(1.6)	-	(1.6)
Comprehensive income for the year	**-**	**-**	**-**	**(1.6)**	**109.7**	**108.1**	**0.2**	**108.3**
Dividends declared	-	-	-	-	(73.5)	(73.5)	-	(73.5)
Transfer of retained earning to statutory reserve capital	-	-	3.8	-	(3.8)	-	-	-
Increase of non-controlling interest due to the conversion of subsidiary's debt into equity	-	-	-	-	-	-	0.4	0.4
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**3.8**	**-**	**(77.3)**	**(73.5)**	**0.4**	**(73.1)**
Equity as at 30 September 2013	**621.6**	**259.8**	**51.0**	**12.3**	**498.0**	**1,442.7**	**1.6**	**1,444.3**
Equity as at 31 December 2013	**621.6**	**259.8**	**51.0**	**47.8**	**566.1**	**1,546.3**	**1.4**	**1,547.7**
Income for the year	-	-	-	-	101.4	101.4	-	101.4
Comprehensive income for the year	-	-	-	(34.0)	-	(34.0)	-	(34.0)
Comprehensive income for the year	**-**	**-**	**-**	**(34.0)**	**101.4**	**67.4**	**-**	**67.4**
Increase of non-controlling interest due to the conversion of subsidiary's debt into equity	-	-	-	-	-	-	1.1	1.1
Dividends declared	-	-	-	-	(113.6)	(113.6)	-	(113.6)
Transfer of retained earning to statutory reserve capital	-	-	8.0	-	(8.0)	-	-	-
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**8.0**	**-**	**(121.6)**	**(113.6)**	**1.1**	**(112.5)**
Equity as at 30 september 2014	**621.6**	**259.8**	**59.0**	**13.8**	**545.9**	**1,500.1**	**2.5**	**1,502.6**

Notes to the Financial Statements

1 Accounting Policies

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

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

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

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

The information contained in the Interim Financial Statements has not been audited or reviewed by auditors in any way.

2 Financial Risk Management

2.1 Financial risk factors

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

2.2 Fair value estimation

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

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

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

in million EUR	30. September 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives (Note 6)	-	21.4	1.0	22.4
Cash flow hedges (Note 6)	8.1	(0.9)	-	7.2
Total financial assets	**8.1**	**20.5**	**1.0**	**29.6**
Liabilities	**-**	**-**	**-**	**-**
Trading derivatives (Note 6)	-	1.3	-	1.3
Cash flow hedges (Note 6)	2.7	4.1	-	6.8
Total financial liabilities	**2.7**	**5.4**	**-**	**8.1**

in million EUR	30. September 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives (Note 6)	0.2	9.1	0.4	9.7
Cash flow hedges (Note 6)	5.3	3.0	-	8.3
Total financial assets	**5.5**	**12.1**	**0.4**	**18.0**
Liabilities				
Trading derivatives (Note 6)	-	-	-	-
Cash flow hedges (Note 6)	1.2	1.0	-	2.2
Total financial liabilities	**1.2**	**1.0**	**-**	**2.2**

2 Financial Risk Management, cont.

2.2 Fair value estimation, cont.

Valuation techniques and inputs used on measurement in level 1

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

Valuation techniques and inputs used on measurement in level 2

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

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

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

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

in million EUR	30. September 2014	30. September 2013
Nominal value of bonds	700.0	600.0
Market value of bonds on the basis of quoted sales price	785.3	654.0
Nominal value of bank loans with fixed interest rate	186.0	136.0
Fair value of bank loans with fixed interest rate	194.8	141.5

The bonds are denominated in euros and listed on the London Stock Exchange. The fair value of the bonds is based on the input that is within level 1 of the fair value hierarchy; the fair value of bank loans with fixed interest rate is based on the cash flows discounted using input that is within level 3 of the fair value hierarchy.

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

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

3 Segment Reporting

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

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

1. 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);
3. Shale Oil (production and sale of liquid fuels, and development and sale of related technology);
4. Other segments (including production and sale of heat, sale of oil-shale, construction of electrical network, power engineering equipment and services, sale of old metal, ash of oil-shale, other products and services).

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

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

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

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

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

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

3 Segment Reporting, cont.

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.

in million EUR	1 July - 30 September 2014	1 July - 30 September 2013
	Revenue from external customers	Revenue from external customers*
Electricity	113.2	118.7
Distribution	52.9	52.5
Shale Oil	13.7	27.3
Other	17.4	17.8
Total	**197.2**	**216.3**

EBITDA

in million EUR	1 July - 30 September 2014	1 July - 30 September 2013
	EBITDA	EBITDA
Electricity	28.8	29.8
Distribution	27.4	25.3
Shale Oil	8.8	13.5
Other	9.2	3.5
Total	**74.2**	**72.1**
Depreciation and amortisation	(31.9)	(30.0)
Net financial income (-expense)	1.8	(0.3)
Profit before tax	**44.1**	**41.8**

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

3 Segment Reporting, cont.

Revenue

in million EUR	1 January - 30 September 2014	1 January - 30 September 2013
	Revenue from external customers	**Revenue from external customers***
Electricity	336.1	407.8
Distribution	175.1	178.6
Shale Oil	46.9	58.3
Other	70.0	65.6
Total	**628.1**	**710.3**

EBITDA

in million EUR	1 January - 30 September 2014	1 January - 30 September 2013
	EBITDA	**EBITDA**
Electricity	96.3	97.1
Distribution	75.8	74.6
Shale Oil	31.1	32.7
Other	22.1	13.0
Total	**225.3**	**217.4**
Depreciation and amortisation	(95.6)	(87.7)
Net financial income (-expense)	0.5	(1.0)
Profit before tax	**130.2**	**128.7**

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

4 Seasonality of Operating Profit

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

5 Property, Plant and Equipment

in million EUR	Land	Buildings	Const-ruction	Plant and equipment	Other	Total
Property, plant and equipment as at 31 December 2013						
Cost	42.1	153.7	859.6	1,643.7	5.5	2,704.6
Accumulated depreciation	-	(93.5)	(340.1)	(789.7)	(4.5)	(1,227.8)
Net book amount	42.1	60.2	519.5	854.0	1.0	1,476.8
Construction in progress	-	11.0	37.1	691.5	-	739.6
Prepayments	-	-	-	41.7	-	41.7
Total property, plant and equipment as at 31 December 2013	**42.1**	**71.2**	**556.6**	**1,587.2**	**1.0**	**2,258.1**
Movements 1 January - 30 September 2014						
Purchases of property, plant and equipment	0.2	4.9	31.8	161.3	0.1	198.3
Depreciation charge	-	(3.4)	(18.7)	(68.8)	(0.2)	(91.1)
Net book amount of non-current assets disposed	-	(0.1)	-	-	-	(0.1)
Disposal of subsidiary (Note 12)	-	-	-	(0.7)	-	
Movements 1 January - 30 September 2014	**0.2**	**1.4**	**13.1**	**91.8**	**(0.1)**	**106.4**
Property, plant and equipment as at 30 September 2014						
Cost	42.3	152.5	887.5	1,712.0	5.4	2,799.7
Accumulated depreciation	-	(95.1)	(358.5)	(841.8)	(4.5)	(1,299.9)
Net book amount	42.3	57.4	529.0	870.2	0.9	1,499.8
Construction in progress	-	15.2	40.7	766.9	-	822.8
Prepayments	-	-	-	41.9	-	41.9
Total property, plant and equipment as at 30 September 2014	**42.3**	**72.6**	**569.7**	**1,679.0**	**0.9**	**2,364.5**

6 Derivative Financial Instruments

in million EUR	30 September 2014		30 September 2013	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	8.1	2.7	5.3	1.8
Forward contracts for buying and selling electricity as trading derivatives	-	0.2	-	-
Forward and option contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	18.1	1.1	9.3	-
Swap contracts for selling shale oil as cash flow hedges	(0.9)	4.1	3.0	0.4
Swap and option contracts for selling shale oil as trading derivatives	4.3	-	0.4	-
Total derivative financial instruments	**29.6**	**8.1**	**18.0**	**2.2**
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	-	2.7	-	1.1
Swap contracts for selling shale oil as cash flow hedges	-	2.1	1.5	-
Total non-current portion	**-**	**4.8**	**1.5**	**1.1**
Total current portion	**29.6**	**3.3**	**16.5**	**1.1**

7 Share Capital

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

8 Earnings per Share

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

	3 months 1 July - 30 September		6 months 1 January - 30 September		12 months 1 October - 30 September	
	2014	2013	2014	2013	2014/13	2013/12
Profit attributable to the equity holders of the company (million EUR)	44.3	41.9	101.4	109.7	151.3	68.3
Weighted average number of shares (million)	621.6	621.6	621.6	621.6	621.6	621.6
Basic earnings per share (EUR)	0.07	0.07	0.16	0.18	0.24	0.11
Diluted earnings per share (EUR)	0.07	0.07	0.16	0.18	0.24	0.11

9 Nominal Value and Amortised Cost of Borrowings

in million EUR	30 September 2014		30 September 2013	
	Nominal value	Amortised cost	Nominal value	Amortised cost
Short- term borrowings				
Current portion of long-term bank loans	1.4	1.4	1.4	1.4
Total short-term borrowings	**1.4**	**1.4**	**1.4**	**1.4**
Long- term borrowings				
Bank loans	235.7	235.5	142.1	142.0
Bonds issued	700.0	698.1	600.0	589.3
Total long- term borrowings	**935.7**	**933.6**	**742.1**	**731.3**
Total borrowings	**937.1**	**935.0**	**743.5**	**732.7**

As at 30 September 2014 the Group had undrawn loan facilities of EUR 250.0 million (30 September 2013: EUR 245.0 million), of which EUR 150 million can be taken into use until August 2018 and has a floating interest rate and other EUR 100 million can be taken into use until October 2015. The interest rate will become obvious when the loan is taken into use.

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

10 Cash Generated from Operations

in million EUR	3 months 1 July - 30 September		6 months 1 January - 30 September		12 months 1 October - 30 September		*Note*
	2014	2013	2014	2013	2014/13	2013/12	
Profit before income tax	**44.1**	**41.8**	**130.2**	**128.7**	**175.0**	**88.3**	
Adjustments							
Depreciation and impairment of property, plant and equipment	30.5	28.5	91.1	83.5	137.0	175.4	
Amortisation of intangible assets	1.4	1.5	4.5	4.2	5.9	6.1	
Deferred income from connection and other service fees	(1.5)	(1.4)	(4.5)	(4.0)	(5.9)	(5.3)	
Gain on disposal of subsidiaries	(3.4)	-	(3.4)	-	(3.4)	-	*12*
Gain on disposal of property, plant and equipment	(0.4)	(0.2)	(0.8)	(4.4)	(1.0)	(6.8)	
Amortisation of government grant received to purchase non-current assets	-	-	(0.1)	(0.1)	(0.3)	(0.2)	
Profit/loss from associates using equity method	-	-	-	-	0.8	0.2	
Other gains from investments	-	-	-	-	-	(0.1)	
Unpaid/unsettled gain/loss on derivatives	2.0	(14.5)	(16.1)	(2.1)	(7.9)	5.0	
Foreign exchange loss (gain) from lending and borrowing from foreign currency	(1.9)	0.6	(2.1)	0.5	(1.7)	0.5	
Interest expense on borrowings	1.1	-	3.9	1.6	4.4	3.3	
Interest and other financial income	(1.2)	(0.7)	(3.2)	(2.2)	(4.3)	(3.0)	
Adjusted net profit before tax	**70.7**	**55.6**	**199.5**	**205.7**	**298.6**	**263.4**	
Net change in current assets relating to operating activities							
Change in receivables related to operating activities	(1.1)	(9.7)	34.7	15.6	16.4	(6.4)	
Change in inventories	(4.5)	5.5	(14.2)	6.4	(11.4)	14.8	
Net change in other current assets relating to operating activities	(0.3)	21.2	37.6	(33.5)	(22.6)	(58.9)	
Total net change in current assets relating to operating activities	**(5.9)**	**17.0**	**58.1**	**(11.5)**	**(17.6)**	**(50.5)**	
Net change in current liabilities relating to operating activities							
Change in provisions	14.1	21.3	(15.2)	69.5	(19.4)	67.5	
Change in trade payables	(0.1)	2.9	(15.6)	(8.6)	(4.4)	6.7	
Net change in liabilities relating to other operating activities	(0.8)	(5.6)	(10.8)	(12.5)	2.1	2.6	
Total net change in liabilities relating to operating activities	**13.2**	**18.6**	**(41.6)**	**48.4**	**(21.7)**	**76.8**	
Cash generated from operations	**78.0**	**91.2**	**216.0**	**242.6**	**259.3**	**289.7**	

11 Contingent Liabilities

Contingent liabilities arising from potential tax audit

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

Collaterals, guarantees and court actions

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

Other disputes

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

12 Disposal of Subsidiary

On 14 August 2014 the transaction of the sale of the 100% shareholding in Eesti Energia Võrguehitus AS was completed.

Net assets of the subsidiary disposed in million EUR	14 August 2014
Cash and cash equivalents	2.5
Trade and other receivables	3.2
Property, plant and equipment and intangible assets (Note 5)	0.7
Trade and other payables	(2.6)
Total net assets of the subsidiary disposed	**3.8**
Sales price	7.2
Gain on sale	3.4
Cash inflows in transaction	
Proceeds from sale	7.2
Cash and cash equivalents of subsidiary in bank accounts	(2.5)
Total cash inflows in transaction	**4.7**

13 Related Party Transactions

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

in million EUR	1 January - 30 September 2014	2013
Transactions with associates		
Purchase of goods and services	15.4	19.4
Proceeds from sale of goods and services	1.0	3.7
Financial income	2.4	1.7
Loans granted	3.4	2.7

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

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

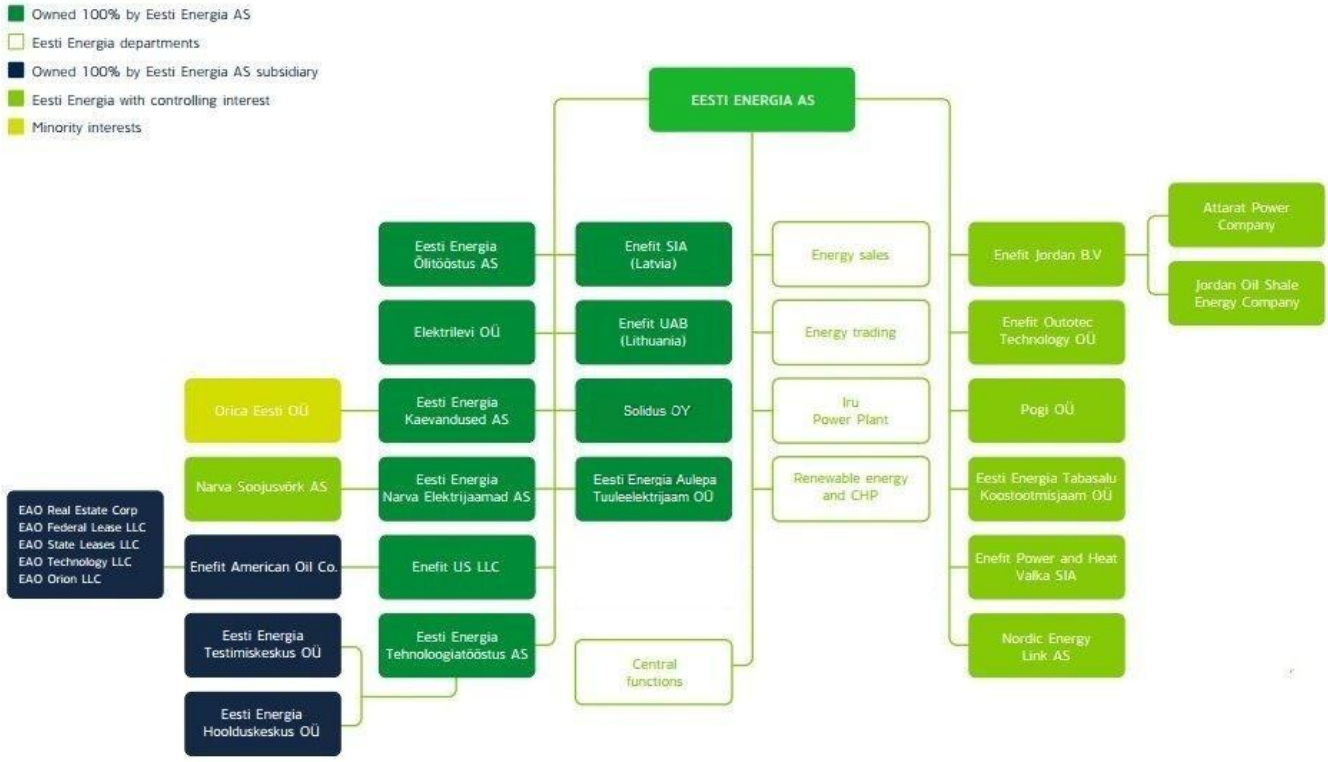
In purchasing and selling network services, the prices set by the Estonian Competition Authority are used. All other transactions are concluded using agreed prices.

Summary of Eesti Energia

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

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

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



Glossary

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

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

RAB – Regulated Asset Base

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

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

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