
75
YEARS
OF
ESTONIAN
ENERGY
Annual Report
2014
Eesti Energia

Contents

Dear readers

The year 2014 was an anniversary year for Eesti Energia – 75 years passed since the establishment of our predecessor, limited company Elektrikeskus. We also celebrated other noteworthy milestones such as 65 years since the launch of Eesti Energia's first power plant, 55 years since the completion of the Balti power plant and 45 years since the launch of the Eesti power plant.

Although sales revenues declined, Eesti Energia delivered solid performance, ending 2014 with an EBITDA of EUR 312 million and a net profit of EUR 159 million.

Turnover amounted to EUR 880 million. The key factor that influenced the development of sales revenues was smaller than planned electricity output. The decrease in electricity output may be partly attributed to exchange prices, which fell short of expectations, as well as unplanned interruptions at power plants, which exceeded projections. The sales price of shale oil also dropped at the year-end but the impact of this and weaker electricity prices was considerably alleviated by timely risk hedging transactions conducted in the financial markets in line with Eesti Energia's risk management policy. Altogether, Eesti Energia

generated 9.7 TWh of electricity, 297 GWh of this from renewable sources.

In 2014, Eesti Energia produced the targeted quantity, i.e., 265 thousand tonnes of shale oil. We are pleased that 45 thousand tonnes of our oil production was contributed by the new Enefit280 oil plant that operates on new technology. Eesti Energia's owner, the Republic of Estonia, expects us to add increasingly greater value to oil shale, Estonia's main mineral resource, while reducing the environmental impacts of the production process. Thus, the future of oil shale energy lies in implementing innovative technology for the cogeneration of oil, oil shale gas and electricity.

In 2014, Eesti Energia produced the targeted quantity, i.e., 265 thousand tonnes of shale oil.

In 2014, Eesti Energia paid the owner a dividend of EUR 94 million. Along with the period's retained earnings and various taxes, we created the owner value of EUR 308 million.

The company's capital expenditures totalled EUR 276 million. The largest amounts were invested in the construction of the Auvere power plant that will be completed in autumn 2015. Work performed included completion of the power plant's two vital units: the oil shale and biomass feeding and ash removal systems. At the end of the year, the first commissioning runs were carried out.

Distribution network operator Elektrilevi continued to invest in network quality by building 633 new substations and 1,901 kilometres of weather-proof lines. Thanks to these and earlier investments, the average duration of both unplanned and planned interruptions shortened significantly compared to the year before. Strong progress was made with Elektrilevi's remote reading project: by the year-end 65% of all meters installed in the framework of the project had been switched over to remote reading. Remote reading enables consumers to check their consumption with the precision of an hour and to optimise it based on the prices quoted on the power exchange.

The focus of Eesti Energia's environmental investments is to reduce emissions to air. In 2014, we began installing nitrogen emission capture systems by which our nitrogen emissions are going to decrease almost two-fold. In 2015, we intend to modernise our power plants' existing flue gas treatment systems. Modernisation of the systems will bring the power plants' emissions to air in conformity with the more stringent emission limits that take effect at the beginning of 2016.

Autumn brought good news about our development project in Jordan. In October, the developer of Jordan's first oil shale-fired power plant, Attarat Power Company in which Eesti Energia has a stake, and the government of Jordan signed a 30-year contract on the sale and purchase of electricity. In the next phase, financing activities have to be finalised so that preparations for opening an open cast mine and building the power plant could begin in 2015.

At the beginning of 2014, Eesti Energia conducted a successful bond issue of EUR 100 million (total face value). The issue attracted a lot of capital market investors and was four times oversubscribed. As a result, the price of a bond rose higher than the ones achieved in the company's previous bond issues.

In the third quarter, Eesti Energia sold its network construction subsidiary Eesti Energia Võrguehitus AS, increasing its revenues for the period by EUR 7 million.

The competence and commitment of our people make Eesti Energia the global oil shale leader. In 2014, Eesti Energia gave out its first award for the best engineering solution of the year. It went to the engineers of Eesti Energia's oil and technology industries who developed a conveyor system, which is 7 metres long, weighs 60 tonnes and can operate in 550-degree heat. The solution has helped Eesti Energia to continue development of its Enefit-technology.

The competence and commitment of our people make Eesti Energia the global oil shale leader.

Acknowledgement of employees is one of the reasons why the surveys conducted in 2014 again rated Eesti Energia as the most desirable employer in the country. Last year, we also received other accreditations – for example, for the third consecutive year Responsible Business Forum in Estonia awarded Eesti Energia its silver CSR (corporate social responsibility) label.

The year 2015 is going to be challenging. Even the most pessimistic scenarios did not foresee the level to which oil prices had plunged by the beginning of the year. In demanding times, Eesti Energia's diversified portfolio of production assets is of great help. We have made the right investment decisions. Cogeneration of oil and electricity ensures the most efficient use of oil shale as well as flexible production, which is essential in a volatile market situation. We are planning to increase our oil output. We are also going to lower emissions to air at our electricity generation sites which, together with the launch of the new Auvere power plant, will ensure Eesti Energia's continuing electricity production capability.

Hando Sutter
Chairman of the Management Board

Eesti Energia at a Glance

Eesti Energia is an international energy company that operates in the unified electricity market of the Baltic and Nordic countries. Its sole shareholder is the Republic of Estonia.

Eesti Energia offers energy solutions ranging from electricity, heat and fuel production to sales, customer service and ancillary energy services. Eesti Energia sells electricity to the Baltic retail customers and the wholesale market and Group entity Elektrilevi distributes electricity to customers in Estonia. Outside Estonia, the Group operates under the Enefit brand.

With its approximately 6,700 employees, Eesti Energia is one of the largest employers in Estonia.

SALES REVENUES

880.0 million euros

▼ -86.4 million euros, -8.9%

EBITDA

312.3 million euros

▲ +1.8 million euros, +0.6%

NET PROFIT

159.3 million euros

▼ -0.2 million euros, -0.1%

INVESTMENTS

275.9 million euros

▼ -143.0 million euros, -34.1%

CREDIT RATINGS

BBB+/Baa2

Stable outlook

ELECTRICITY SALES VOLUME

9.1 TWh

▼ -2.2 TWh, -19.6%

DISTRIBUTION SALES VOLUME

6.3 TWh

▲ +0.01 TWh, +0.2%

SHALE OIL SALES VOLUME

230.7 thousand t

▲ +22.6 thousand t, +10.8%

Key Events of 2014

Eesti Energia
New Year's Party

JANUARY

EESTI ENERGIA INCREASED THE VOLUME OF ITS EUROBONDS MATURING IN 2018 BY EUR 100 MILLION AT FACE VALUE.
Through the additional issue Eesti Energia's bonds were acquired by 40 international capital market investors and the total volume of Eesti Energia's Eurobonds maturing in 2018 rose to EUR 400 million.

FEBRUARY

EESTI ENERGIA'S SUPERVISORY BOARD DECIDED NOT TO EXERCISE THE OPTION FOR THE CONSTRUCTION OF UNIT 2 FOR THE GROUP'S AUVERE POWER PLANT.
The first unit of the plant will be completed in 2015.

Main building of Linnamäe hydroelectric plant in 1924

MARCH

THE GROUP'S TEST CENTRE, EESTI ENERGIA TESTIMISKESKUS, CELEBRATED ITS 50TH ANNIVERSARY.
The centre was founded in spring 1964 as a metals and welding lab for performing metal tests at the Narva Power Plants. In 2004, it was combined with the Group's technology industry entity, Eesti Energia Tehnoloogiatööstus.

LINNAMÄE HYDROELECTRIC POWER STATION, SITUATED ON JÄGALA RIVER AND THE LARGEST OF ITS KIND IN ESTONIA, CELEBRATED THE 90TH ANNIVERSARY OF ITS LAUNCH OF POWER PRODUCTION IN 1924. In those days, the power station that had a capacity of 1.1 MW and generated approximately 5,000 MWh of electricity per year was among the key electricity producers in Estonia.

APRIL

GROUP ENTITY EESTI ENERGIA ÕLITÖÖSTUS, INTERNATIONAL CONSULTING FIRM RAMBOLL AND THE ESTONIAN ENVIRONMENTAL RESEARCH CENTRE PARTNERED UP TO EXAMINE AND ASSESS THE ROLE OF EESTI ENERGIA'S SHALE OIL OPERATIONS IN THE ODOUR ISSUES occasionally emerging in the industrial part of Ida-Virumaa.

MAY

EESTI ENERGIA CELEBRATED THE 75TH ANNIVERSARY
of its foundation as a local electricity company in 1939.

EESTI ENERGIA AND LEONHARD WEISS BALTIC HOLDING SIGNED AN AGREEMENT ON THE SALE OF EESTI ENERGIA'S POWER NETWORK CONSTRUCTION SUBSIDIARY, EESTI ENERGIA VÕRGUEHITUS, TO LEONHARD WEISS.
The transaction generated income revenue of EUR 7 million. Eesti Energia is going to focus more on its oil shale business.

JUNE

THE EESTI POWER PLANT CELEBRATED ITS 45TH ANNIVERSARY.
The decision for the construction of the power plant was made in March 1963 and construction work began at the beginning of the next year. The first unit of the Eesti power plant was commissioned in 1969.

Eesti power plant
in the early years and in 2014

Key Events of 2014

Construction of Auvere power plant

JULY

THE GENERATOR OF THE PAIDE COGENERATION PLANT WAS SYNCHRONISED WITH THE POWER NETWORK and the plant began supplying electricity to the network and via the network to the consumers.

AUGUST

PREPARATIONS BEGAN FOR THE HOT COMMISSIONING OF THE GROUP'S AUVERE POWER PLANT.

EESTI ENERGIA ORGANISED AN ENVIRONMENT DAY IN JÕHVI, where participants could discuss matters related to the use, origin, taxation, and environmental and economic impacts of mine water.

SEPTEMBER

THE PAIDE COGENERATION PLANT SUCCESSFULLY PASSED ITS NETWORK TESTS and the distribution network operator Elektrilevi confirmed its conformity with network regulations.

THE AUVERE POWER PLANT'S VITAL SYSTEMS (OIL SHALE AND BIOFUEL FEEDING SYSTEM AND ASH REMOVAL SYSTEM) WERE COMPLETED.

IN LÄÄNE-VIRUMAA, THE CONSTRUCTION OF THE 0.5 KM SIMUNA-VAIATU ROAD WAS COMPLETED. The work was done using the oil shale ash of Eesti Energia's Narva Power Plants in a pilot project conducted under OSAMAT.

OCTOBER

ATTARAT POWER COMPANY IN WHICH EESTI ENERGIA HAS A STAKE THROUGH A HOLDING COMPANY AND THE GOVERNMENT OF JORDAN SIGNED A 30-YEAR AGREEMENT ON THE PURCHASE AND SALE OF ELECTRICITY and other project agreements required for the construction of an oil-shale fired power plant. The contract for the construction of the 554 MW oil shale-fired power plant was signed with the Chinese enterprise Guangdong Power Engineering Corporation. The plant will be designed by the international engineering firm WorleyParsons, the circulating fluidised bed boilers will be built by Foster Wheeler and the steam turbine and generator will be supplied by Siemens.

Geological studies of oil shale in Jordan

NOVEMBER

EESTI ENERGIA'S SUPERVISORY BOARD APPOINTED THE NEW MANAGEMENT BOARD OF EESTI ENERGIA. In addition to the new CEO Hando Sutter, from 1 December 2014 the Management Board comprises former board members Raine Pajo and Margus Rink as well as new board members Margus Vals and Andres Vainola.

DECEMBER

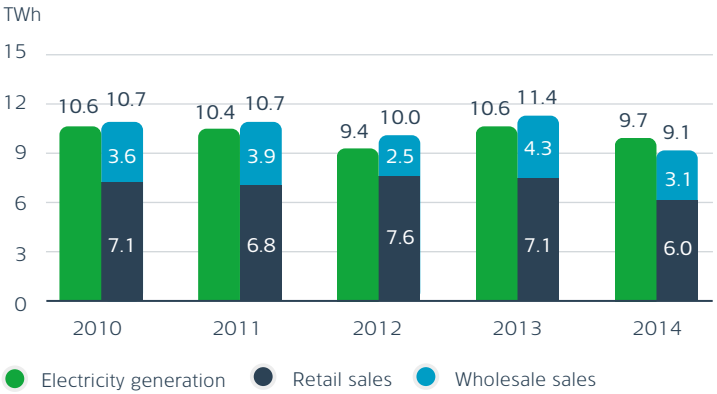
THE RAILWAY OF EESTI ENERGIA KAEVANDUSED, THE MINING SUBSIDIARY, CELEBRATED ITS 65TH ANNIVERSARY. The railway, which was designed for oil shale transport, was taken into use in 1949. Today it is operated by the logistics unit of Eesti Energia Kaevandused.

EESTI ENERGIA'S BALTI POWER PLANT CELEBRATED ITS 55TH ANNIVERSARY. The first generating unit of the power plant near Narva started operating in December 1959 and its launch marked the beginning of large-scale energy production in Estonia. Despite its age, the Balti power plant is still Estonia's second largest electricity producer after the Eesti power plant.

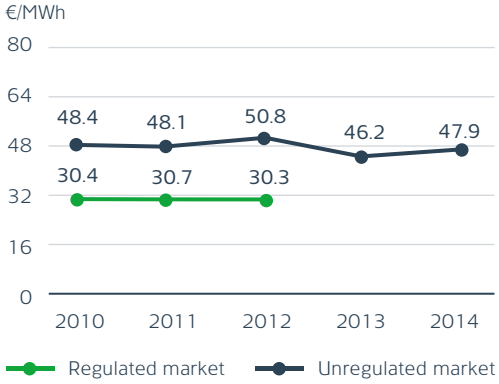
Group's Financial and Operating Indicators

		2010	2011	2012	2013	2014
Total electricity sales, of which	GWh	10,714	10,707	10,022	11,368	**9,137**
wholesale sales	GWh	3,572	3,869	2,453	4,271	**3,125**
retail sales	GWh	7,142	6,838	7,569	7,097	**6,012**
Electricity distributed	GWh	6,311	6,170	6,365	6,280	**6,294**
Shale oil sales	thousand t	181	164	189	208	**231**
Oil shale sales	thousand t	1,966	2,120	1,423	889	**837**
Heat sales	GWh	1,428	1,074	919	1,021	**1,063**
Distribution grid losses	%	6.6	5.8	5.7	5.2	**5.5**
Average number of employees	No.	7,423	7,585	7,573	7,314	**6,712**

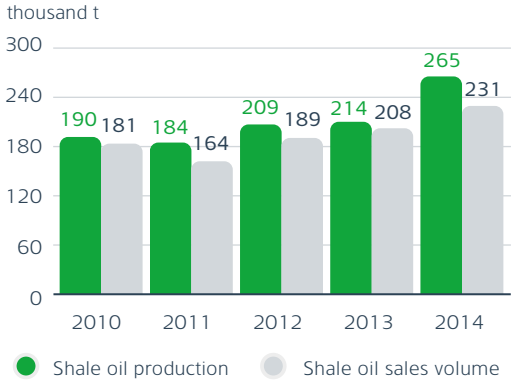
Electricity Generation and Sales Volume



Average Electricity Sales Price



Shale Oil Production and Sales Volume



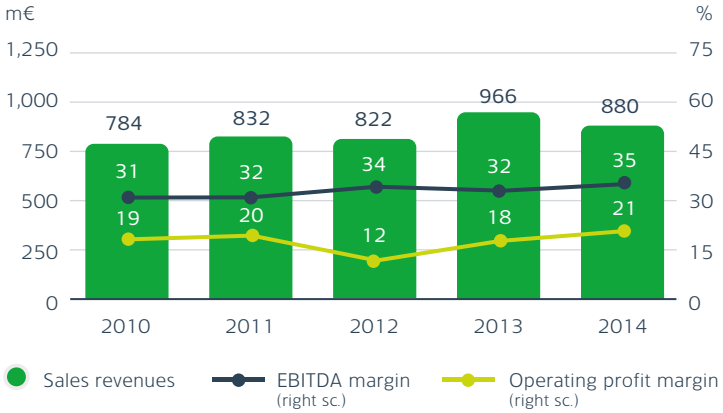
Distribution Sales Volume and Distribution Losses

Group's Financial and Operating Indicators

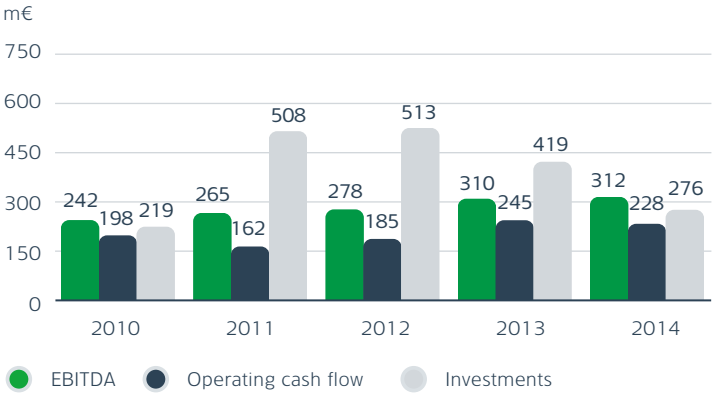
		2010	2011	2012	2013	2014
Sales revenues	m€	784.1	831.9	822.1	966.4	880.0
EBITDA	m€	242.3	265.1	278.4	310.5	312.3
Operating profit	m€	148.9	168.0	100.1	175.5	186.1
Net profit	m€	117.0	149.2	76.9	159.5	159.3
Investments	m€	218.5	507.8	513.5	418.9	275.9
Cash flow from operating activities	m€	198.1	161.8	185.2	244.6	228.2
FFO	m€	187.3	200.9	220.6	263.4	203.2
Non-current assets	m€	1,329.4	1,769.5	2,101.9	2,368.3	2,509.7
Equity	m€	1,107.1	1,236.6	1,409.1	1,547.7	1,619.4
Net debt	m€	112.3	380.2	581.0	744.3	834.7
Net debt / EBITDA	times	0.5	1.4	2.1	2.4	2.7
FFO / net debt	times	1.67	0.53	0.38	0.35	0.24
FFO / interest cover	times	11.5	10.5	7.2	7.9	5.5
EBITDA / interest cover	times	14.9	13.8	9.1	9.3	8.5
Leverage	%	9.2	23.5	29.2	32.5	34.0
ROIC	%	12.6	11.8	5.5	8.3	7.9
EBITDA margin	%	30.9	31.9	33.9	32.1	35.5
Operating profit margin	%	19.0	20.2	12.2	18.2	21.1

Definitions of ratios and terms are explained in the Glossary section of the report, page 143.

Sales Revenues, EBITDA Margin and Operating Profit Margin



EBITDA, Operating Cash Flow, Investments



Strategy

Eesti Energia is an energy company that uses oil shale for the production of shale oil, electricity and heat. The company's mission is to derive maximum value from oil shale by using it as efficiently as possible for operations with the highest added value.

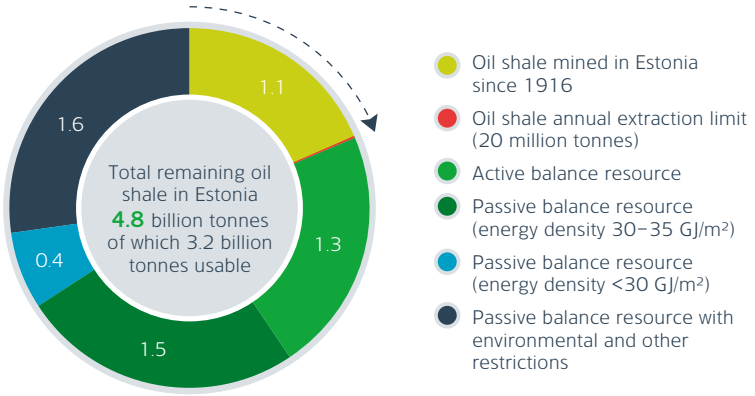
According to Eesti Energia's estimates, Estonia's extractable oil shale reserves will last for around 60–70[1] years, depending on the extent of the reserves that are determined to be usable and the rate at which oil shale is used. The resource is limited and must therefore be used in the best possible way. It must also be kept in mind that in order to add maximum value to oil shale, the resource should be used as much as possible in the period in which its value is the highest.

To use oil shale so that we create the highest possible value for the owner, the Republic of Estonia, we aim to increase shale oil production and diversify the portfolio of fuels used for electricity generation by which we expect to make a strong contribution to the Estonian economy. As an oil producer, we intend to increase our shale oil production capabilities. As an electricity producer, we make efficient use of shale oil by-products. New investments are made on the premise that they must generate return in light of the expected oil and fuel oil prices.

VISION:

EESTI ENERGIA IS THE WORLD LEADER IN OIL SHALE ENERGY

Estonian Oil Shale Resource and Mining, Billion Tonnes



[1] Based on the total annual permitted oil shale extraction volume of 20 million tonnes (Earth's Crust Act)

We act responsibly. We regard meeting environmental and safety requirements as a top priority. We respect the interests of the community and take responsibility for the development of the local energy industry. In the Ida-Virumaa county alone, oil shale provides jobs for more than 14,000 people, half of whom are directly employed by companies engaged in oil shale extraction and processing while the rest are employed by businesses ancillary to the oil shale industry. In addition, there are oil shale-related jobs in other counties across Estonia. Co-generation of shale oil and electricity will allow Eesti Energia to offer employment to thousands of people also in the future.

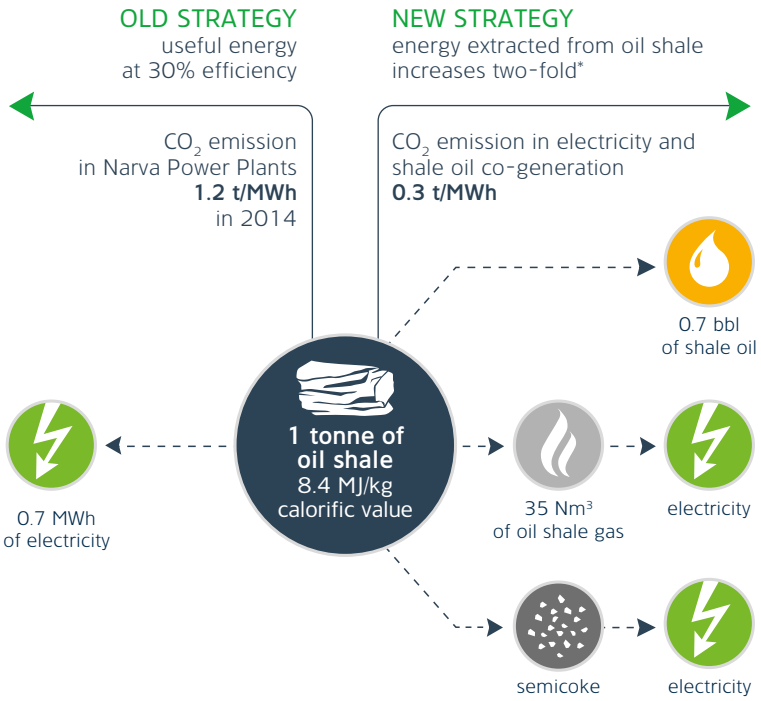
Oil shale energy: more oil = more electricity

Eesti Energia's strategy is based on adding value to oil shale reserves through the co-generation of shale oil and electricity. The greatest potential for increasing value lies in using oil shale as much as possible for oil production. We have developed Enefit, a unique technology for producing oil-shale based liquid fuels, which allows using all of the extracted oil shale, including fine particles, for industrial purposes. By directing semi-coke and oil shale gas, the by-products of pyrolysis, into electricity production, we derive twice the amount of energy previously obtained from oil shale. It should also be noted that the strategy significantly reduces the environmental impact per unit of production.

Eesti Energia's electricity production capacity, which is based on use of domestic fuels and the by-products of shale oil production, will exceed Estonia's annual electricity consumption for a long term. Thus Eesti Energia makes its contribution to securing Estonia's electricity supply.

To generate electricity at the lowest possible additional costs and CO_2-intensity, and to meet the increasingly stringent requirements of the EU climate policy, we modernise our existing capacities and increase the use of oil shale gas for energy production. Thus, we make maximum use

Electricity Production from Oil shale *vs* Co-generation of Electricity and Shale Oil



* Net production from co-generation of electricity and shale oil incl. new E280 oil plant and Auvere power plant.

Source: Eesti Energia estimate

of the potential of our available production capacities. Furthermore, in 2015 we will complete the construction of our new Auvere power plant that uses the more environment-friendly and highly energy efficient circulating fluidised bed technology.

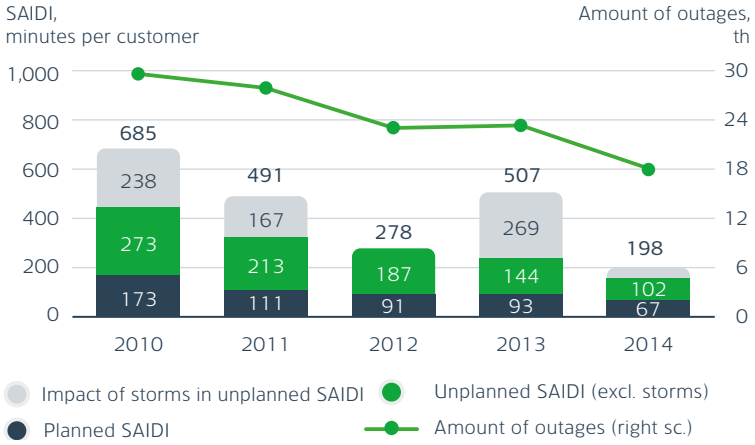
Eesti Energia sells electricity to both the retail and the wholesale market. We help retail customers make well-considered electricity purchase decisions by offering simple electricity products and a convenient service process. We advise residential customers in matters related to energy efficiency.

We increase the value of the distribution network operator Elektrilevi by improving the quality of the distribution network and increasing customer satisfaction.

The priorities of distribution network operator Elektrilevi are effective network management and growth in customer satisfaction. Elektrilevi has to ensure that all market participants have equal access to network services and that the quality requirements established by the regulator are met. Customer satisfaction is primarily increased by improving the network's storm resistance, reducing the duration of power outages and implementing smart meters. Elektrilevi consistently develops new solutions that help upgrade the operation, efficiency and reliability of its network.

The distribution network operator continuously invests in network reliability. Even though the number of network service interruptions is extensively influenced by weather conditions, recent years' decrease in the amount and duration of outages suggests that the distribution network has become more reliable.

Amount and Duration of Outages in the Distribution Network of Elektrilevi, the Distribution Network Operator



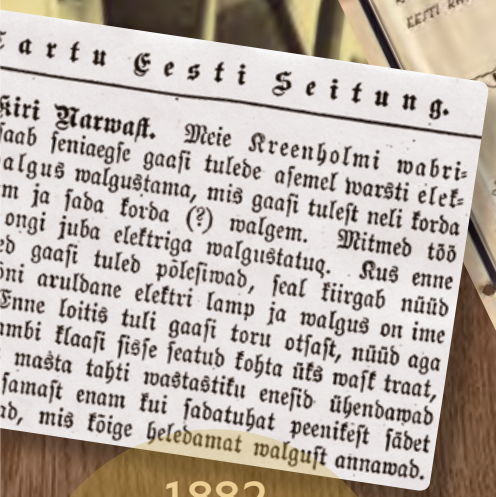
All of Elektrilevi's customers will be transferred to the remote reading system by the end of 2016. The project involves installing approximately 620,000 smart meters that record electricity consumption on an hourly basis. By the end of 2014, more than half of the smart meters had been installed (58%). The new meters will release customers from the obligation to report readings and will allow them to make more informed decisions about their electricity consumption and selection of electricity packages.

All of Elektrilevi's customers will be transferred to the remote reading system by the end of 2016.

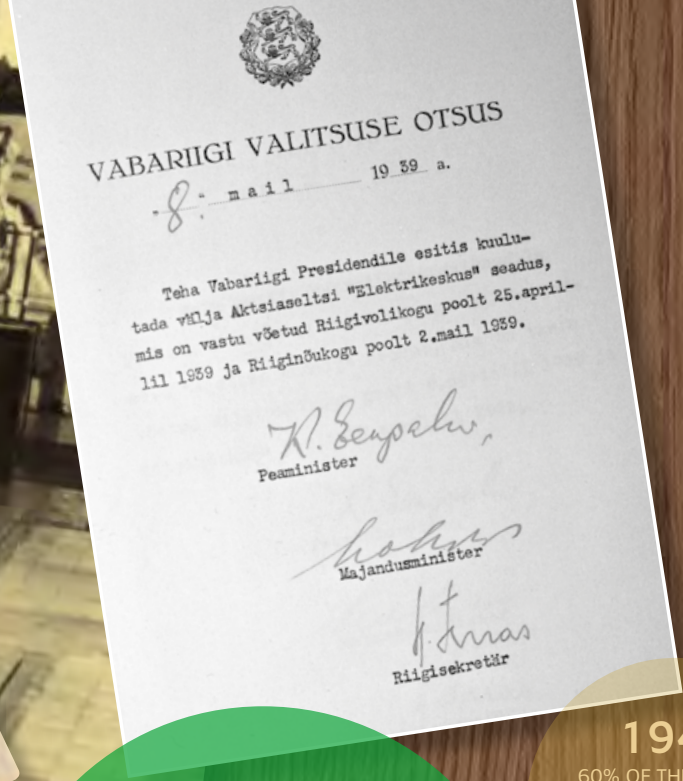
"Eesti Energia has a long history. In 2014 we celebrated 75 years since the President of Estonia Konstantin Päts signed founding documents of Elektrikeskus, the predecessor of Eesti Energia, on 8 May 1939."

Hando Sutter

Eesti Energia,
Chairman of the Management Board


Tartu Eesti Seitung.

Kiri Narwast. Meie Kreenholmi wabri-
saab feniaegse gaasi tulede asemel warsti elek-
algus walgustama, mis gaasi tuleft neli korda
m ja sada korda (?) walgem. Mitmed töö
ongi juba elektriga walgustatuq. Kus enne
ed gaasi tuled pöleſiwad, ſeal kiirgab nüüd
öni aruldane elektri lamp ja walgus on ime
Enne loitis tuli gaasi toru otsaſt, nüüd aga
mbi klaasi ſiſſe ſeatud kohta üks waſt traat,
masta tahti wastastiku eneſid ühendawad
ſamaſt enam kui ſadatuhat peenikeſt ſädet
ad, mis kõige heledamat walguſt annawad.


VABARIIGI VALITSUSE OTSUS

8. mail 19 39 a.

Teha Vabariigi Presidendile esitis kuulutada välja Aktsiaseltsi "Elektrikeskus" seadus, mis on vastu võetud Riigivolikogu poolt 25. aprillil 1939 ja Riigināukogu poolt 2. mail 1939.

K. Eenpalu,
Peaminister

Majandusminister

J. Anvelt
Riigisekretär

1939

ELEKTRIKESKUS, THE PREDECESSOR OF EESTI ENERGIA GROUP, IS FOUNDED

- The founding documents were signed by the President on Estonia Konstantin Päts.
- The role of Elektrikeskus was to implement the Estonian electrification plan and build the energy system.
- Although Elektrikeskus was only named Eesti Energia in 1945, it's founding marks the beginning of the Eesti Energia group.

1940

60% OF THE ANNUAL OUTPUT OF 1,870,000 TONNES OF OIL SHALE WAS USED FOR OIL PRODUCTION AND ONLY 40% FOR HEATING.

1937

ESTONIA IS GRANTED A FULL MEMBERSHIP OF WORLD ENERGY COUNCIL (WEC) DURING THE INTERNATIONAL POWER CONFERENCE IN PARIS.

1917

FIRST OIL SHALE MINE OPENED IN ESTONIA.

1919

TALLINNA RIIGI SADAMATEHAS IS THE FIRST TO ATTEMPT PRODUCING OIL FROM OIL SHALE.

1907

FIRST POWER PLANT IN ESTONIA FOR PUBLIC USAGE COMMISSIONED IN PÄRNU.

1882

TARTU EESTI SEITUNG, A REGIONAL NEWSPAPER, PUBLISHES THE FIRST NEWS ABOUT THE PRACTICAL USE OF ELECTRICITY IN ESTONIA. FIRST GENERATORS AND ARC LAMPS ARE INSTALLED FOR LIGHTING THE FACILITIES OF WIEGAND FACTORY IN TALLINN AND NARVA KREENHOLM.

Operating Environment

Global Economy

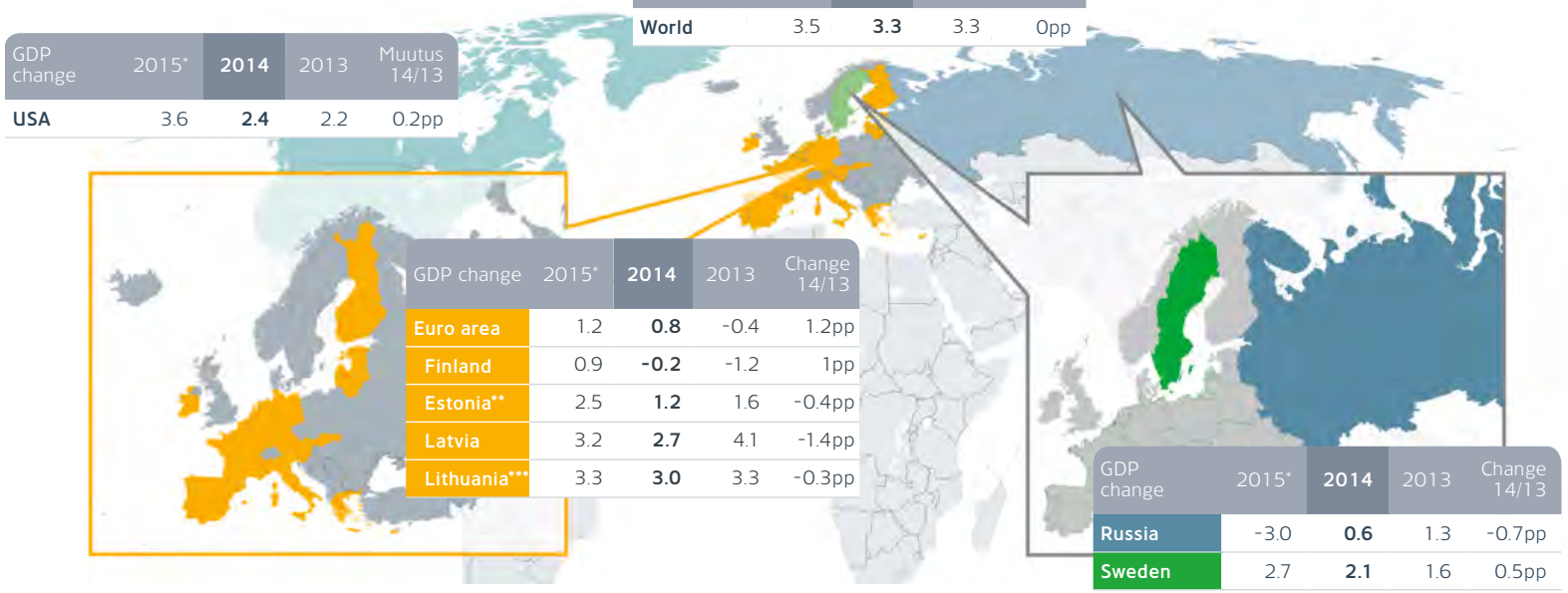
In 2014, the energy sector was impacted by the global economic recovery. According to the International Energy Agency (IEA), energy demand in the OECD countries, particularly in Europe, remained flat and growth was driven by demand from Asian countries. The role of renewables continued to increase. The year was characterised by a decrease in the prices of energy sources. The oil price hit the lowest level of the past four years.

In 2014, the world economy sustained growth at the same pace as the year before. According to the International Monetary Fund (IMF), in 2014 global economic growth was

Growth in the World's Economies

GDP change	2015*	2014	2013	Change 14/13
World	3.5	**3.3**	3.3	0pp

GDP change	2015*	2014	2013	Muutus 14/13
USA	3.6	**2.4**	2.2	0.2pp



GDP change	2015*	2014	2013	Change 14/13
Euro area	1.2	**0.8**	-0.4	1.2pp
Finland	0.9	**-0.2**	-1.2	1pp
Estonia**	2.5	**1.2**	1.6	-0.4pp
Latvia	3.2	**2.7**	4.1	-1.4pp
Lithuania***	3.3	**3.0**	3.3	-0.3pp

GDP change	2015*	2014	2013	Change 14/13
Russia	-3.0	**0.6**	1.3	-0.7pp
Sweden	2.7	**2.1**	1.6	0.5pp

* Forecast
** 1.9% in 2014 and 2.1% in 2015 according to the Bank of Estonia
*** Member of the euro area since 2015

Source: IMF

3.3%, the figures for advanced economies and emerging market and developing economies being 1.8% and 4.4% respectively.

During the year, IMF revised its World Economic Outlook downward. In the first half of the year, uncertainty was increased by the Q1 decline in the US economic activity, which proved temporary. In October, IMF reported that certain downside risks including geopolitical tensions, stagnation in advanced economies and a decline in potential growth in emerging markets had increased compared to spring. IMF expects global growth to rebound in 2015.

The euro area resumed economic growth in 2014. The unemployment rate declined but remained high (2014 December: 11.4%, -0.4 percentage points). Growth in the euro area was held back by weak investment and exports. Inflation remained low during the year and in December euro area inflation turned negative compared to the previous year. Inflation last reached the 2% level at the beginning of 2013. In the second half of the year, the European Central Bank took recent years' most decisive action to boost economic growth: a new bond purchase programme and an asset-backed securities purchase programme were launched. These as well as earlier measures will be applied into mid-2016 to expand the Eurosystem's balance sheet towards the level prevailing in the early 2012.

Compared with the previous year, in 2014 the US economy strengthened. At the time when the European Central Bank resolved to launch a bond purchase programme, the US Federal Reserve decided in light of the economic recovery that the quantitative easing policy, which had lasted for six years, should end in October. The situation in the labour market was positive – in December the unemployment rate dropped to 5.6%, the lowest level since the middle of 2008. Consumer spending, which accounts for more than two thirds of the US GDP, climbed 4.3% in the fourth quarter (year over year). The current situation index, which reflects consumer sentiment, surged to recent years' highest level. Moreover, the US trade deficit narrowed thanks to a decrease in imports.

In 2014, the Estonian economy grew faster than the year before according to the Bank of Estonia (2014: 1.9%, +0.3 percentage points). According to the economic policy statement of the Bank of Estonia, in Q2 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. The unemployment rate, which is a bellwether of economic recovery, declined (2014: 7.4%, 2013: 8.6%). In 2015, economic growth is expected to accelerate. The Estonian economy depends on the external environment and the performance of its main trading partners. Further deterioration in the conflict between Russia and Ukraine and associated trade restrictions may put economic growth at risk.

Liquid Fuels Prices

In 2014, the average price of Brent crude was 74.5 €/bbl, 9.7% down from 2013 (-8.0 €/bbl). The year saw the average price of Brent crude to slide from 80.2 €/bbl in January to 50.9 €/bbl in December.

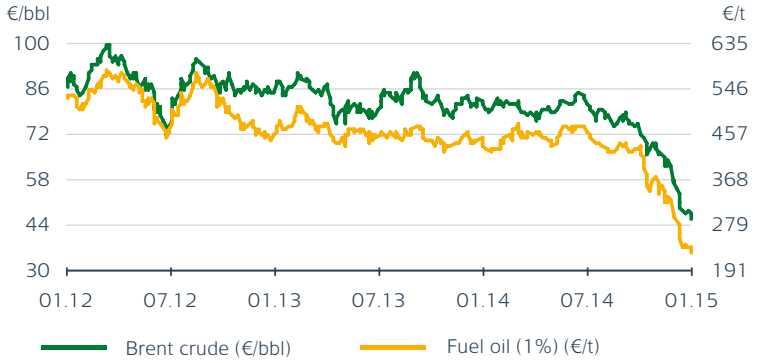
Liquid Fuels Prices

Average price		2014	2013	Change
Brent crude oil	€/bbl	74.5	82.5	▼ -9.7%
Fuel oil (1%)	€/t	414.5	456.5	▼ -9.2%
Fuel oil 1% crack spread	€/bbl	-9.3	-9.1	▲ +2.2%

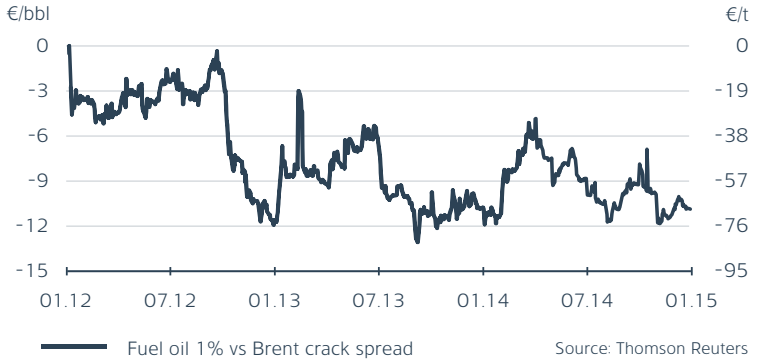
In 2014, the price of Brent crude was impacted by slower demand in the second half of the year. The slowdown resulted from a weaker economic outlook, particularly in Europe and Asia, increased efficiency and use of alternative fuels. Geopolitical tensions in oil-producing countries such as Libya and Iraq were the highest in the summer when the oil price reached its peak for the year (84.9 €/bbl). The conflict between Russia and Ukraine that flared up in spring 2014 also had an impact. Notwithstanding the above, oil supply in 2014 was higher than a year ago. The USA became the world's largest oil producer, it now imports much less than before. In November OPEC countries discussed production cuts to support the oil price. No agreement was reached and oil prices continued to fall also at the end of the year.

In 2014, the average price of fuel oil (1% sulphur content) dropped by 9.2% (-42.1 €/t). Similarly to the oil price, the price of fuel oil hit its recent years' lowest point in December. During the year, the price of fuel oil shifted from 429.1 €/t in January to 259.2 €/t in December. The crack spread, which measures the difference between the prices of Brent crude and the fuel oil extracted from it, remained at the level of the previous year (-0.2 €/bbl, +2,2%). In the first half of the year, the crack spread was wider and in the second half of the year narrower than in 2013. In Europe, demand for fuel oil continued to be subdued, remaining in most months below the corresponding figures for 2013. In the first half-year, the price of fuel oil increased. In Q1 the price was supported by a rise in export prospects, which improved arbitrage opportunities to Asia and the US East Coast. Developments in relations between Russia and Ukraine also had an impact. In the second half-year, the price of fuel oil began to decrease, mostly because the economic outlooks of countries weakened and European demand was subdued. During the summer months arbitrage opportunities to Asia declined, improved in September and declined again in October. In autumn, widening of the spread was restrained by refineries' lower runs due to performance of maintenance operations.

Prices of Liquid Fuels



Fuel Oil *vs* Brent Crack Spread



Source: Thomson Reuters

The price of fuel oil was also influenced by the EU Sulphur Directive that lowered the sulphur limit for marine fuels in SOx emission control areas (which include the Baltic Sea and the North Sea) from 1 January 2015 from 1% to 0.1%. As a result, demand for fuel oil with 1% sulphur content (used as a blending component for bunker fuels) has been decreasing.

Emission Allowance Prices

In 2014, the average price of CO_2 emission allowance futures with maturity in December 2014 traded 27.4% higher than in 2013. During the year, the price rose from 5.1 €/t in January to 6.8 €/t in December.

From mid-2011 to the end of 2013, the prices of emission allowances fell by over 70% due to oversupply. To reduce excess supply, at the end of 2012 the European Commission decided to postpone the auctioning of 900 million carbon allowance units from 2014-2015 to 2019-2020.

In 2014, the supply of emission allowances decreased by 400 million units.

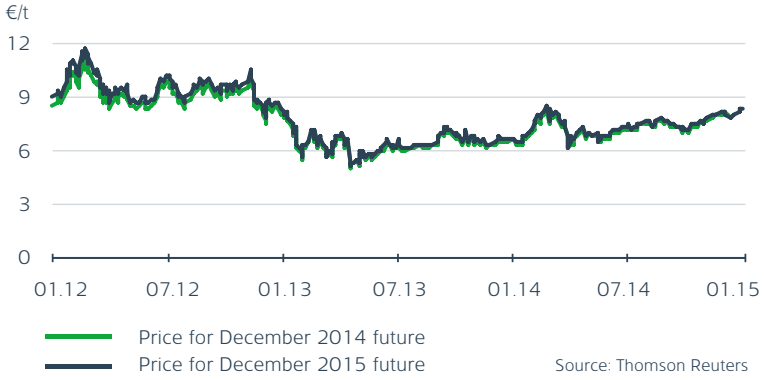
In 2014, the supply of emission allowances decreased by 400 million units, which raised the price somewhat higher than in 2013. In the year, the price of CO_2 emission allowances was the highest in the second half of February (7.2 €/t). At the beginning of the year, the price began rising in connection with the European Commission's back-loading plan but by the end of Q1 the price was down again due to a slide in European electricity prices caused by weaker demand resulting from a warm winter.

The emission allowance market remains saturated (by 2020 oversupply will increase to 2.6 billion units). Therefore, it is planned to set up a market stability reserve in 2021 to hold and release allowances to balance supply and prevent long-term price declines. The proposal requires the approval of the European Parliament. In September, voting on the matter was postponed until 2015, which triggered a fall in the price of emission allowances. In autumn, some EU countries expressed the opinion that the market stability reserve should be started four years earlier. In connection with this and expectations of a colder than average winter, in November and December CO_2 emission rates rose above the year's average.

Prices of CO_2 Emission Allowances

Average price		2014	2013	Change
CO_2 Dec 2014	€/t	6.0	4.7	▲ +27,4%
CO_2 Dec 2015	€/t	6,2	4,9	▲ +26,7%

Prices of CO_2 Emission Allowances



Electricity Prices

In 2014, the Nord Pool Spot (NPS) system price fell by 22.3% (-8.5 €/MWh) compared with 2013. Area prices were lower in the Nordic countries and Estonia but slightly higher in Latvia and Lithuania. In 2013, the higher system price was impacted by the level of the Nordic water reservoirs which stayed mostly below the historical median. In 2014, the general level of the water reservoirs was above the level of 2013 (+3.1 percentage points).

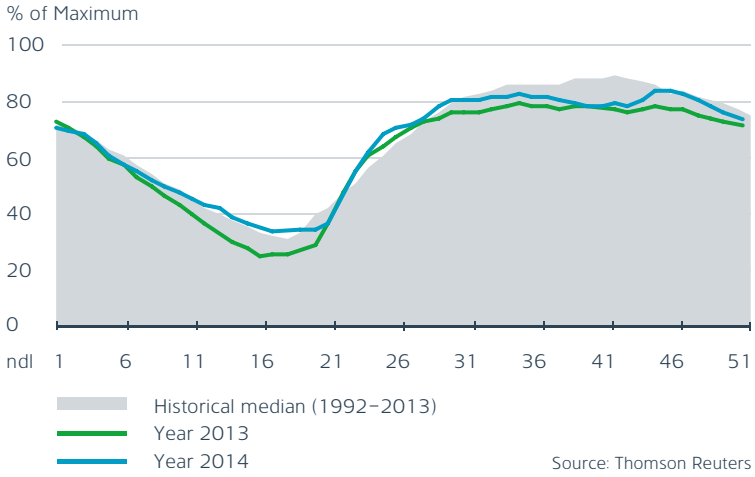
> Area prices were lower in the Nordic countries and Estonia but slightly higher in Latvia and Lithuania.

In 2014, electricity prices in Estonia and the Nordic countries trended downward. In the first half-year, the prices were influenced by warmer temperatures, favourable wind conditions and settings facilitating hydropower generation. In the second half-year, the Nordic and Estonian electricity prices were above the average. In Q3, maintenance was carried out on both the Estlink2 underwater power cable and the Loviisa nuclear power plant and inter-country grid connections experienced failures that lasted for several days. During the entire month of July, scheduled maintenance was carried out on Estlink2. Transmission capacity was particularly restricted in September when the Estlink1 cable was down for 12 days and failures affecting both Estlink1 and Estlink2 halted the entire electricity trade between Estonia and Finland for four days. Due to restricted supply, electricity prices were the highest in July and September.

Electricity Prices on NPS Electricity Exchange

Average price		2014	2013	Change
System price	€/MWh	29.6	38.1	▼ -22.3%
Finland	€/MWh	36.0	41.1	▼ -12.5%
Estonia	€/MWh	37.6	43.0	▼ -12.5%
Latvia	€/MWh	50.1	48.8	▲ +2.7%
Lithuania	€/MWh	50.1	48.8	▲ +2.7%

Levels of Nordic Water Reservoirs



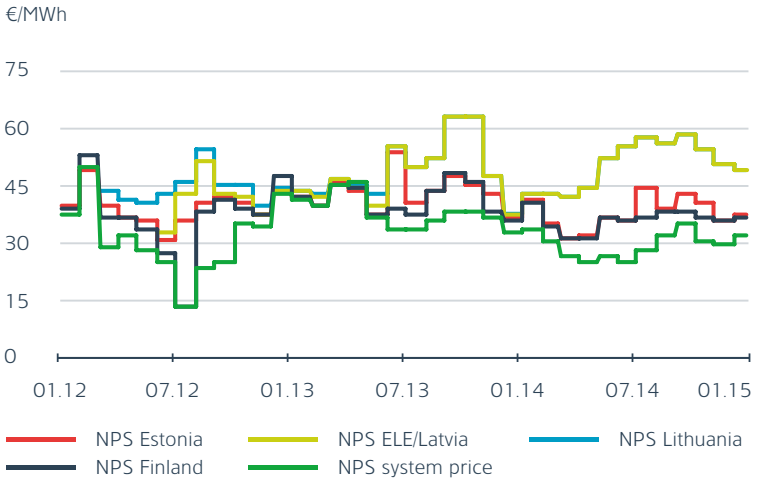
In 2014, the average Finnish electricity price exceeded the Swedish one by 4.4 €/MWh (2013: 1.7 €/MWh). Transmission capacities continued to be insufficient and the inter-country bottleneck effect became more prominent. Moreover, in Q2 the output of cogeneration plants decreased

and in May and June power supplies were impacted by maintenance operations at the Olkiluoto nuclear power plant. In Q3 maintenance work was carried out at the Loviisa nuclear power plant and supplies between Sweden and Finland were disrupted by failures in transmission connections. In 2014, the Finnish electricity generation did not meet domestic consumption and the deficit was increasingly covered with imports from Sweden. In the mix of Finnish electricity imports, the share of Sweden increased whereas the share of Russia decreased (2014: 84% of electricity was imported from Sweden; 2013: 70%).

In 2014, the average Estonian electricity price was 1.6 €/MWh higher than in Finland, the difference decreased 13.5% compared to 2013. In February 2014 the Estlink2 underwater power cable was commissioned and in July phase 2 of the Kiisa emergency power plant was completed. Thereafter the transmission capacity of connections between Estonia and Finland increased to 1 GW[2] in both directions. The growth in transmission capacities has further reduced the price differences between Estonia and Finland – in 2014 hourly prices in Estonia and Finland were equal 91% of the time and higher in Estonia 9% of the time (2013: 69% and 22% respectively). In Q1 and Q2 the Estonian electricity price was higher than the Finnish one because transmission capacities from Finland to Estonia were still restricted. In Q3, the Estonian electricity price was higher on the days when Estlink2 was undergoing maintenance and also some unexpected outages in underwater cables occurred. In Q4, Estlink1, Estlink2 and Kiisa emergency power plant were under maintenance; in addition, some unexpected interruptions occurred in the operation of Estlink1 and Estlink2.

During the year, the price difference between the Estonian and Latvian areas was 12.5 €/MWh, up 6.7 €/MWh

Monthly Average Electricity Prices



Source: Thomson Reuters

on 2013. The average electricity price in Latvia was higher than in Estonia. The price differences mainly stem from insufficient transmission capacity between Estonia and Latvia, which limits the supply of cheap Nordic electricity from Estonia to Latvia. Latvia's and Lithuania's generation capacities do not meet their domestic consumption (in 2014 domestic generation capacities covered 69% of domestic consumption in Latvia and 28% in Lithuania). The price hike in Latvia was also supported by the low level of the local water reservoirs in Q1 and Q3. In Q2 maintenance work was done on Latvian power lines and in Q3 on Latvian and Lithuanian generation installations; maintenance operations also limited transmission capacity between Belarus and Lithuania. In Q4, transmission capacity limitations were related to Latvian and Russian power line maintenance and failures. In 2014, hourly prices in the Latvian and Lithuanian price areas were the same practically all of the time (99.6% of hours).

[2] The commissioning of Estlink2 increased the transmission capacity between Estonia and Finland by 650 MW. The transmission capacity of Estlink1 is 350 MW.

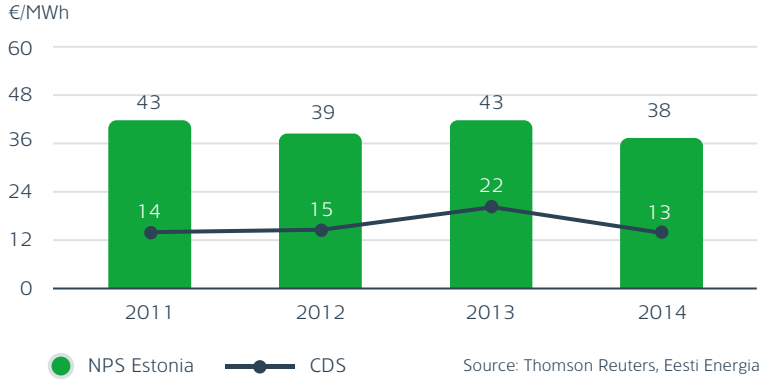
Since 2014, electricity traders have been able to hedge, to a limited extent, the price differences arising on the Estonian-Latvian border by Physical Transmission Rights (PTRs) contracts. In December 2013, 50 MW was auctioned for each hour of 2014 and every month of the year an additional 150 MW was auctioned for each hour of the next month. The yearly average auction price of one month's PTR was 8.1 €/MWh. Market participants requested that the opportunities for hedging the risks of cross-border trade be improved by increasing the volume and extending the terms of PTRs offered. In 2015 the volume of PTRs increased to 450 MW[3] and quarterly instruments were introduced, which allow managing the price risk of positions in three stages. From the end of 2014, the Latvian price risk can be hedged on the Nasdaq OMX Commodities market similarly to the price risks of many other NPS price areas.

In 2014, Eesti Energia's Clean Dark Spread (CDS) in the electricity price of NPS Estonia was 13.5 €/MWh (-8.6 €/MWh, -39.0% year over year). In contrast to 2013, when CDS increased due to a rise in the electricity price in NPS Estonia and a decline in the cost of CO_2 emission allowances, in 2014 the CDS declined because the electricity price in NPS Estonia decreased (-5.4 €/MWh, -12.5% year over year) and CO_2 and oil shale costs increased (impact -3.3 €/MWh).

The Estonian retail electricity market has been fully open since 2013 and free market prices apply.

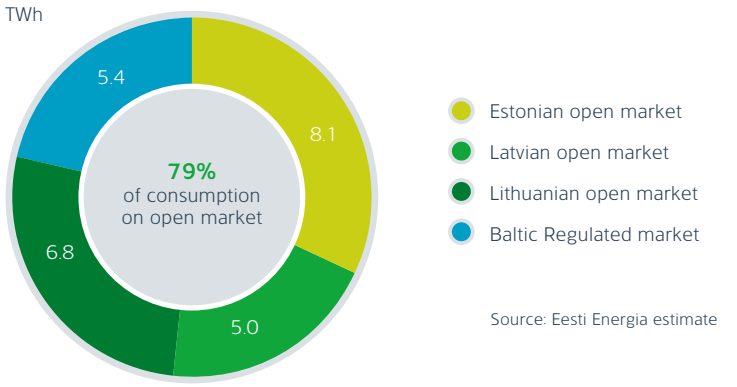
The Estonian retail electricity market has been fully open since 2013 and free market prices apply. In 2014, the Latvian and Lithuanian electricity markets were open to competition partly. All companies in Latvia and Lithuania bought electricity from the open market but household consumers who had no such obligation preferred to buy electricity at a regulated price, which was lower than the open market price. According to estimates, in 2014 around 70% of the Latvian electricity market and 67% of the Lithuanian electricity market (in terms of consumption volume) were open to competition. The Latvian electricity market was opened up completely at the beginning of 2015.

Eesti Energia Clean Dark Spread (CDS) in NPS Estonia Electricity Price



Source: Thomson Reuters, Eesti Energia

Electricity Consumption in the Baltic Open Market in 2014

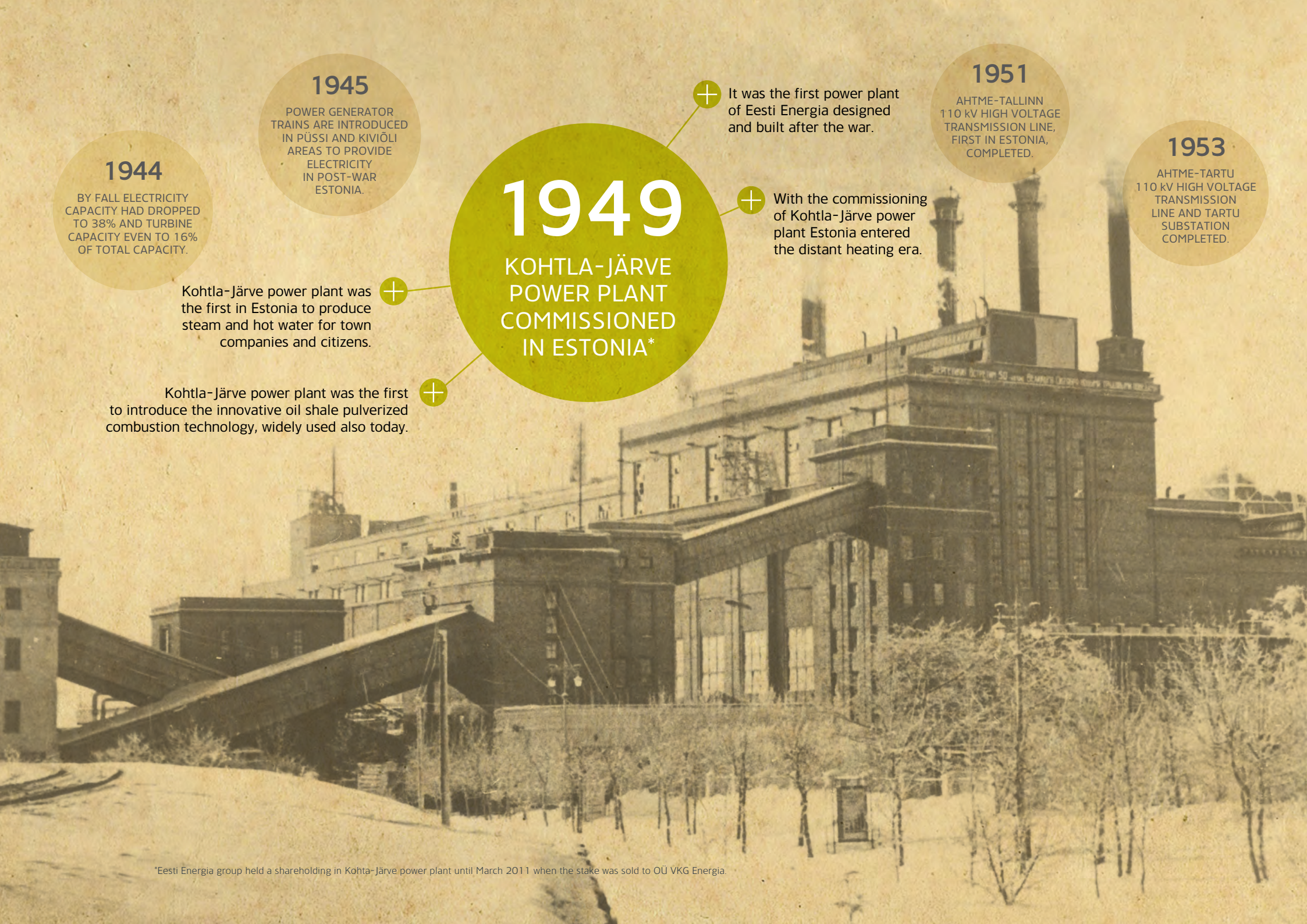


Source: Eesti Energia estimate

[3] Yearly auction 200 MW, quarterly auctions 100 MW, monthly auctions 150 MW

"Eesti Energia celebrates 65 years since the beginning of electricity generation when the power plant was commissioned in Kohtla-Järve on 22 January, 1949. Electricity generation began with one boiler with a capacity of 12 MW. Today, the total generation capacity of Eesti Energia is about 160 times higher or around 2000 MW."

Raine Pajo
Eesti Energia,
Member of the Management Board



*Eesti Energia group held a shareholding in Kohta-Järve power plant until March 2011 when the stake was sold to OÜ VKG Energia.

Financial Results

The Group's Sales Revenues and EBITDA

In 2014, the Group's sales revenues totalled EUR 880.0 million (-8.9%, EUR -86.4 million compared to 2013), EBITDA was EUR 312.3 million (+0.6%, EUR +1.8 million), operating profit was EUR 186.1 million (+6.0%, EUR +10.6 million) and net profit amounted to EUR 159.3 million (-0.1%, EUR -0.2 million). The decrease in the Group's sales revenues is mainly attributable to smaller electricity sales revenue, which resulted from a decline in sales volume.

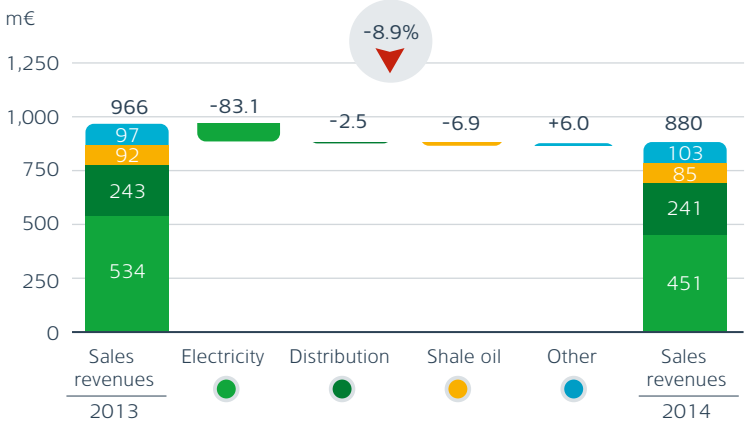
The main reason for the decrease in the Group's EBITDA was a decline in electricity sales volume (electricity EBITDA decreased by 17.1%, EUR -24.9 million).

Distribution EBITDA grew by 9.6%, EUR +8.5 million, mostly thanks to a higher sales margin and lower fixed distribution costs.

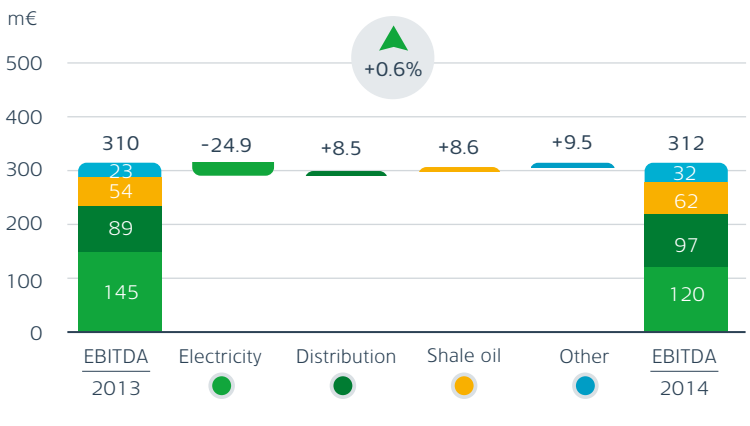
Shale oil EBITDA grew by 16.0%, EUR +8.6 million, through a larger sales volume and revaluation of derivative instruments.

EBITDA on other products and services increased by 41.6%, EUR +9.5 million, primarily thanks to growth in heat and oil shale EBITDA.

Sales Revenues Breakdown and Change



EBITDA Breakdown and Change

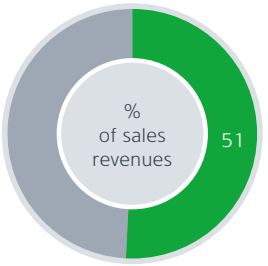


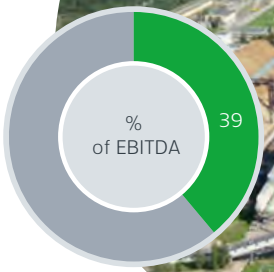
Electricity

Electricity sales revenue for 2014 amounted to EUR 451.0 million (-15.6%, EUR -83.1 million). During the year, Eesti Energia sold 9,137 GWh of electricity (-19.6%, -2,231 GWh), retail figures accounting for 6,012 GWh (-15.3%, -1,085 GWh) and wholesale for 3,125 GWh (-26.8%, -1,146 GWh) of the total. The average electricity sales price (excluding renewable energy subsidies, including gains on hedging transactions) was 47.9 €/MWh (+3.7%, +1.7 €/MWh).

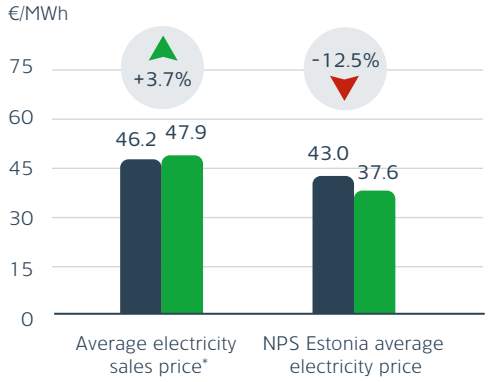
Above all, the volume of electricity sales decreased due to the combined effect of shrinkage in both the retail market share and electricity generation capacity. This did not allow increasing sales to the power exchange by the quantity not sold to the retail market. To a certain extent, electricity generation (and sale) was also influenced by low market prices, particularly at the beginning of the year.

Share of the electricity product in Group's sales revenues and EBITDA



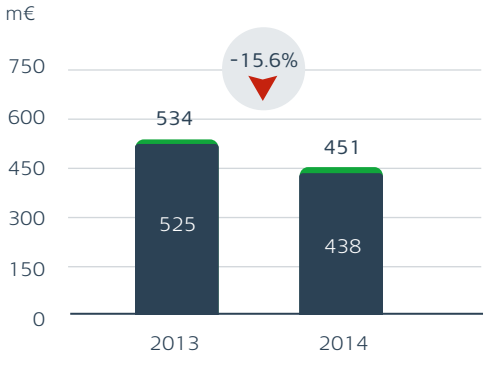


Average Sales Price

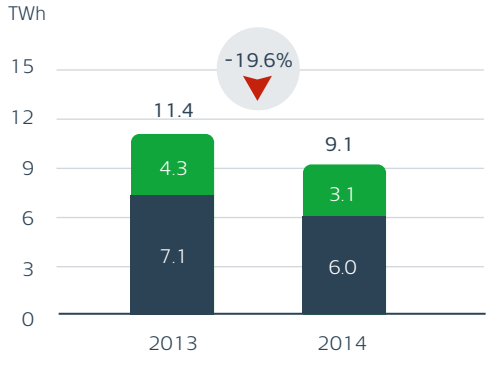


*Excluding renewable energy subsidies

Electricity Sales Revenue



Electricity Sales Volume



The decline in the wholesale volume (-26.8%, -1,146 GWh compared to 2013) is mainly attributable to the fact that in 2013 the Group changed its accounting policy for netting electricity purchases and sales[4].

The downshift in the retail sales volume, on the other hand, results from loss of market share. In terms of customers' electricity consumption, in 2014 Eesti Energia's market share in Estonia was 59% (-12 percentage points compared to 2013). The decrease in market share, predominantly in the large customer segment, may be explained by the competitors' increased activity.

Despite loss of market share, Eesti Energia is still the largest electricity supplier in Estonia in terms of the number of customers and the size of market share. At 1 January 2015, customers purchased electricity from Eesti Energia at about 458,400 points of consumption, a slight rise on 1 January 2014 (+1%, +4,300). In the first half-year, the number of consumption points dropped, mainly among residential customers, but in the second half-year the figure increased, mostly because the Group won several procurements arranged by local authorities. Besides contractual customers, Eesti Energia sold electricity to the universal service customers of the distribution network operator Elektrilevi. In 2014, the number of universal service consumption points trended downward. At the end of 2014, there were around 104,300 universal service consumption points, 11% (-13,000) down from the previous year-end.

Despite loss of market share, Eesti Energia is still the largest electricity supplier in Estonia in terms of the number of customers and the size of market share.

Electricity contracts are generally extended in the middle or at the end of the year because in 2013, when the market opened, most contracts were concluded for six months or one year. In summer 2014, customers extended 98% of Eesti Energia's electricity contracts that were going to expire and the year-end rate was 99%. On concluding contracts, customers continue to prefer fixed-price packages.

In Latvia and Lithuania, Eesti Energia operates under the Enefit brand. In 2014, the prices of the Estonian and the Latvian and Lithuanian price areas differed. Eesti Energia does not own substantial generation capacities in Latvia and Lithuania. Therefore, to meet its obligations under fixed-price sales contracts, the Group has to buy electricity from the power exchange. In the Latvian price area, the price is often higher than the sales price achieved by the Group's power plants in Estonia. Due to price differences between the Estonian and Latvian price areas, Eesti Energia incurred costs of EUR 22.3 million (+67.4%, EUR +9.0 million) in 2014. Since Q1 2014, we have been successfully selling indexed electricity products in Latvia (the price is indexed to the exchange price). In Q2, the sale of similar products was successfully launched in Lithuania. The volume of Eesti Energia's fixed-price contracts in Latvia and Lithuania decreased throughout 2014, reaching 813 GWh by the year-end.

At the end of 2014, Eesti Energia had around 12,700 consumption points in Latvia and Lithuania (-33.0%, -6,300 compared to 2013). The number was strongly influenced by termination of sale of fixed-price contracts. In 2014, Eesti Energia's respective market shares in Latvia and Lithuania were 15% and 7%, 2.0 and 1.9 percentage points down from 2013 respectively.

In 2014, the Group generated a total of 9,687 GWh of electricity (-8.3%, -874 GWh). Output was mainly reduced

[4] From June 2013, the quantities of electricity purchased in the Latvian and Lithuanian price areas are netted against the quantities of electricity sold in the Estonian price area in the same hour. If this netting policy had been applied since the beginning of 2013, the Group's electricity sales and purchases for 2013 would have been 862 GWh smaller.

by more extensive repairs and restriction of the maximum capacity at Narva Power Plants – generation capacity decreased by a total of 0.8 TWh. Electricity generation was also influenced by exceptionally low market prices, particularly in February, March and April.

In 2014, electricity generated from renewable sources accounted for 297.4 GWh (+13.2%, +34.7 GWh). The rise in the output of renewable energy is mainly attributable to the use of biomass at Eesti Energia's Balti power plant that was able to purchase limited quantities of competitively priced fuel (the volume of biomass electricity increased by 89.5%, +28.4 GWh). In addition, Iru power plant increased production of renewable energy from biodegradable waste (+100.8%, +10.4% GWh). Renewable energy and efficient cogeneration subsidies received by the Group totalled EUR 13.2 million (+47.3%, EUR +4.2 million). Most of the renewable energy (195.2 GWh, -2.5%, -5.0 GWh) was generated by wind parks.

Key Figures of Electricity Product

		2014	2013
Return on fixed assets*	%	**10.3**	14.2
Electricity EBITDA	€/MWh	**13.2**	12.8

*Excluding impairment of generation assets in December 2012 and 2013

Electricity EBITDA for 2014 was EUR 120.4 million (-17.1%, EUR -24.9 million).

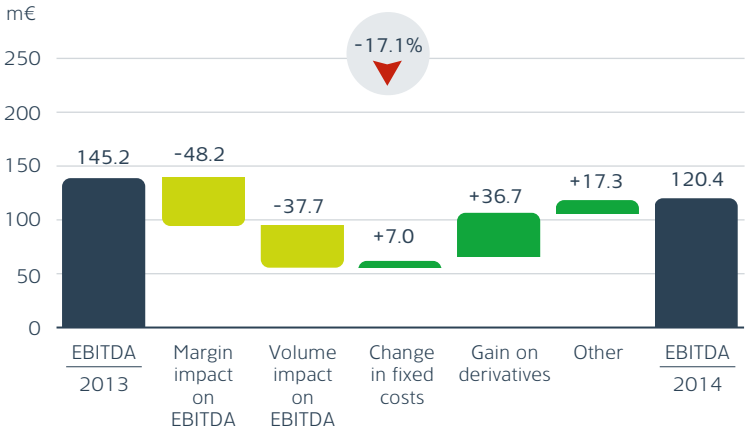
The impact of margin change on EBITDA was EUR -48.2 million. Lower exchange prices triggered a downswing in the average wholesale price of electricity (-4.5 €/MWh). The average sales price of electricity (excluding renewable energy subsidies and gains on derivative instruments) dropped by 2.5 €/MWh. The decline in sales price had a EUR -24.0 million impact on EBITDA. Average variable costs increased by 3.2 €/MWh, mostly because of higher environmental charges and CO_2 prices. Despite growth in border crossing costs, the profitability of retail sales improved thanks to a rise in the Estonian retail sales margin.

The decline in the volume of electricity sales lowered EBITDA by EUR 37.7 million. The main factor that reduced electricity output was smaller generation capacity compared to 2013.

The change in fixed costs had a EUR +7.0 million impact on electricity EBITDA. The fixed cost component that is linked to the inventory balance had a EUR +4.1 million impact on EBITDA; in 2014, the decrease in oil shale inventories was smaller. At the head office and the Group's retail entities, labour and IT costs decreased after a rise triggered in 2013 by the transition to a free electricity market.

The impact of derivatives transactions on EBITDA was EUR +36.7 million. Other impacts (EUR +17.3 million) of 2014 include mainly partial reversal of the provision made for the Latvian and Lithuanian electricity portfolios (impact EUR +15.1 million).

Electricity EBITDA Development



Distribution

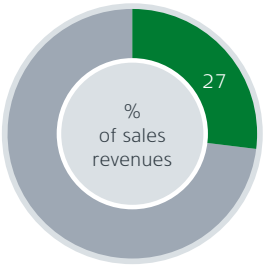
Distribution sales revenue for 2014 was EUR 240.7 million (-1.0%, EUR -2.5 million). Distribution sales volume amounted to 6,294 GWh (+0.2%, +14.3 GWh compared to 2013).

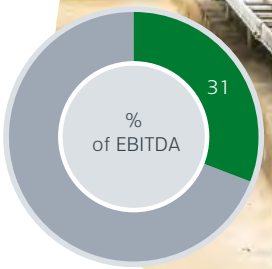
Sales volume was influenced by higher than average ambient air temperature at the beginning of the year, which lowered electricity consumption. Air temperature in the last quarter of the year was colder than usual. Altogether, distribution sales volume grew slightly.

Network losses amounted to 381 GWh or 5.5% (2013: 359 GWh or 5.2%).

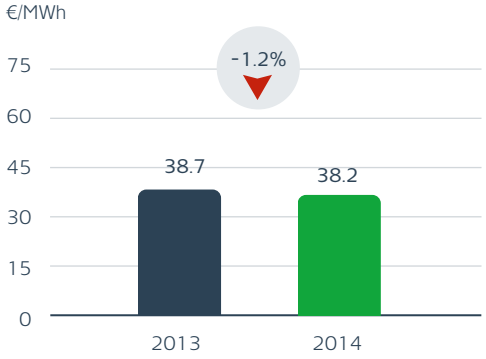
In 2014, the average distribution tariff was 38.2 €/MWh (-1.2%, -0.5 €/MWh). The distribution tariff is influenced by regular price corrections and the consumption structure of the distribution service. In August 2013, a tariff correction

Share of the distribution in Group's sales revenues and EBITDA

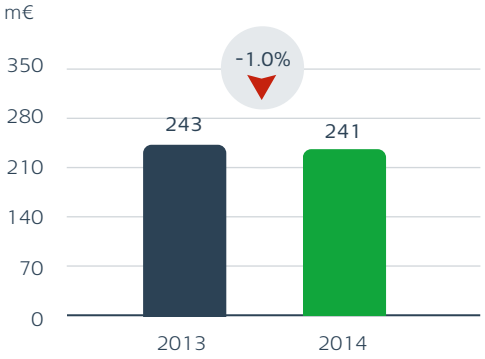




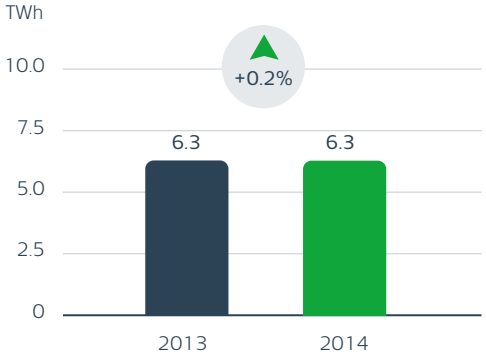
Average Distribution Tariff



Distribution Sales Revenue



Distribution Volume



took place because the Competition Authority reduced the rate of return allowed for distribution network operators. In addition, the tariff was lowered from April 2014 because an uncontrollable cost (the cost of the transmission service purchased from the transmission system operator Elering decreased).

Compared to the previous year, network reliability indicators improved noticeably. The average duration of unplanned interruptions was 131 minutes including the impact of storms of 29 minutes (2013: 413 minutes including the impact of storms of 269 minutes). The average duration of planned interruptions was 67 minutes (2013: 93 minutes). To a certain extent, outages of the low-voltage electricity network can be reduced by replacing regular overhead lines with weather-proof cables. In addition, the number of network interruptions is strongly impacted by weather conditions.

Margin growth improved distribution EBITDA by EUR 4.7 million. The average distribution tariff declined by 0.5 €/MWh. The impact of the tariff decline was EUR -2.3 million. The decrease in the distribution tariff was outweighed by lower transmission costs (impact EUR +2.9 million) and shrinkage in the costs of covering network losses (impact EUR +3.1 million). The costs of covering network losses went down because the exchange price of electricity dropped.

Growth in sales volume (+0.2%) improved distribution EBITDA by EUR 0.3 million.

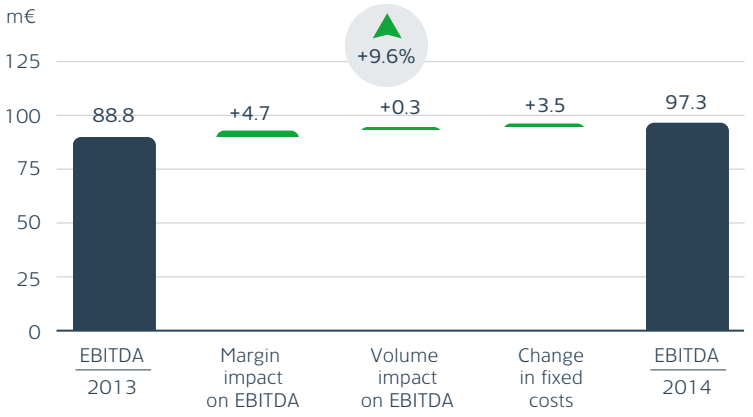
Fixed distribution costs decreased (impact EUR +3.5 million). The decline in fixed costs is mainly attributable to a decrease in the labour and other fixed costs of the Group's central functions (impact EUR +2.6 million). The fixed costs of the distribution network operator Elektrilevi also declined somewhat because the volume of storm-caused outages decreased in 2014.

Key Figures of Distribution Product

		2014	2013
Return on fixed assets	%	6.4	5.9
Distribution losses	GWh	381.0	358.6
SAIFI	index	0.1	0.2
SAIDI (unplanned)	index	66.7	93.4
SAIDI (planned)	index	131.2	413.2
Adjusted RAB	m€	685.5	636.6

Distribution EBITDA for 2014 was EUR 97.3 million (+9.6%, EUR +8.5 million).

Distribution EBITDA Development

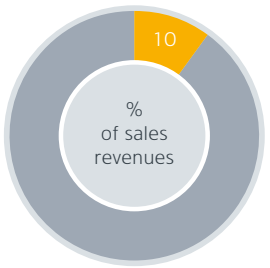


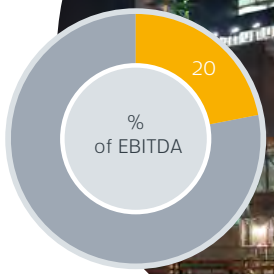
Shale Oil

Shale oil sales revenue for 2014 amounted to EUR 85.3 million (-7.4%, -6.9 million). Eesti Energia sold 230.7 thousand tonnes of shale oil (+10.8%, +22.6 thousand tonnes). Sales volume was increased by the contribution of the Enefit280 oil plant to the Group's oil production.

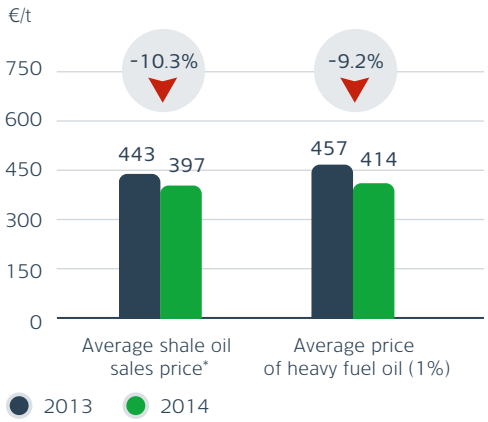
Revenue from the sale of shale oil decreased mostly in connection with a receivable related to the construction of the Enefit280 oil plant (impact on sales revenue EUR -6.3 million). The Group's revenues decreased because a non-group receivable related to the construction of the Enefit 280 oil plant was cancelled after a dispute with the builder of the plant was resolved. The transaction had no impact on oil shale EBITDA because relevant costs were capitalised.

Share of the shale oil in Group's sales revenues and EBITDA



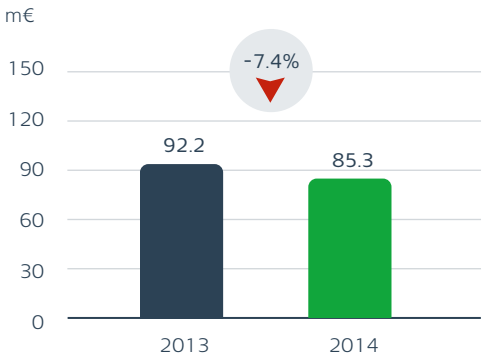


Average Shale Oil Sales Price

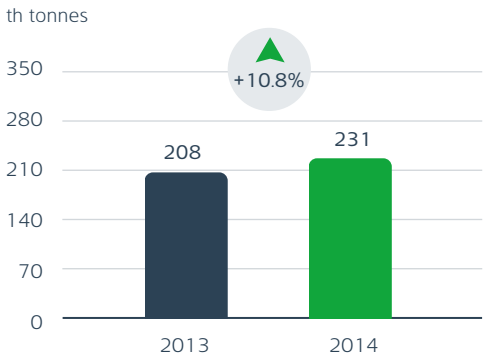


*excluding impact of canceling the receivable related to Enefit280 oil plant construction

Shale Oil Sales Revenue



Shale Oil Sales Volume



In 2014, the average sales price[5] of shale oil was 397.3 €/t (-10.3%, -45.7 €/t). In the period, the average sales price of shale oil fell more than the global market price of heavy fuel oil, the reference product. The price decrease exceeded that of the reference product due to the distribution of transactions in 2014 when larger quantities of shale oil were sold in the second half of the year when global fuel prices tumbled.

The average sales price was supported by gain on derivative instruments of 46.7 €/t (+38.6 €/t, +472.3%), 10.8 million euros in aggregate. Excluding the effect of derivative instruments, the average sales price of shale oil was 350.6 €/t (-84.3 €/t, -19.4%).

The Group's shale oil output was 265.3 thousand tonnes (+24.2%, +51.6 thousand tonnes). Output grew both at Eesti Energia's older oil plant, where this was achieved by optimising the production process and increasing the reliability of plant and equipment, and the new Enefit280 oil plant whose contribution to output growth was +44.3 thousand tonnes.

Key Figures of Shale Oil Product

		2014	2013
Return on fixed assets	%	**26.4**	47.0
Shale oil EBITDA	€/t	**269.5**	257.4

Shale oil EBITDA for 2014 was EUR 62.2 million (+16.0%, EUR +8.6 million).

The impact of margin change on EBITDA was EUR -20.0 million. Compared to the previous year, the sales margin for shale oil decreased by 86.8 €/t, primarily due to a lower average sales price (excluding gain on derivative instruments), which dropped by 84.3 €/t. The impact of the price decrease was EUR -19.4 million. The impact of a rise in variable costs was EUR -0.6 million.

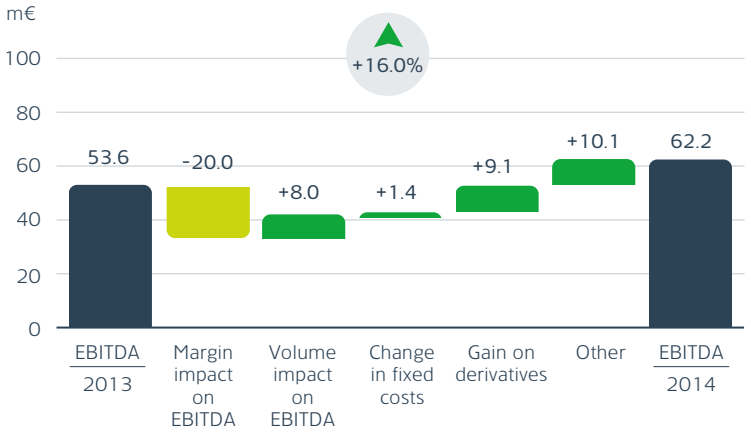
The impact of growth in sales volume was EUR +8.0 million, sales volume grew by 10.8%.

The impact of the change in fixed costs was EUR +1.4 million, which mainly resulted from a change in in the fixed cost component that is linked to the inventory balance.

Gain on shale oil-related derivative instruments grew by EUR 9.1 million.

Other impact on EBITDA was EUR +10.1 million. Revaluation of derivative instruments increased shale oil EBITDA by EUR 10.2 million.

Shale Oil EBITDA Development



[5] The average sales price does not include the impact of the cancellation of a receivable related to the construction of the Enefit280 oil plant of EUR -6.3 million.

Other Products and Services

Eesti Energia's sales revenues from other products and services totalled EUR 103.0 million (+6.2%, EUR +6.0 million).

EBITDA on other products and services was EUR 32.4 million (+41.6%, EUR +9.5 million).

Sales revenue from the sale of heat grew by 5.6%, EUR +2.3 million; sales volume increased by 4.1%, +41.9 GWh. The average sales price also rose slightly. Heat EBITDA grew by EUR 5.8 million (+103.7%). The rise in heat EBITDA is mainly attributable to growth in the use of more favourably priced fuels – in 2014 use of waste for heat production increased by over 20% while the use of natural gas decreased.

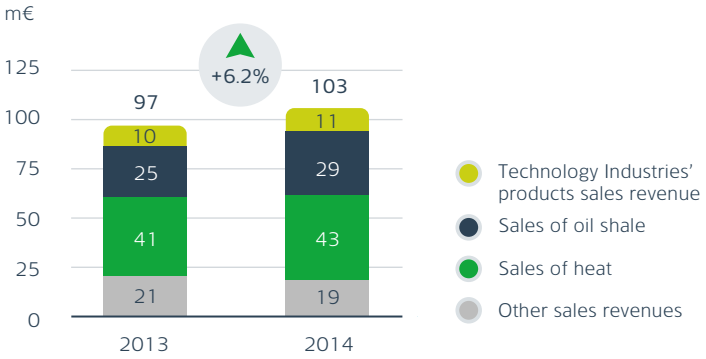
Sales revenue from the sale of oil shale increased by EUR 3.8 million (+15.1%). Sales volume declined (-5.9%, -52.3 thousand tonnes). Shale oil EBITDA grew by EUR 3.6 million (+42.0%).

Share of other products and services in Group's sales revenues and EBITDA

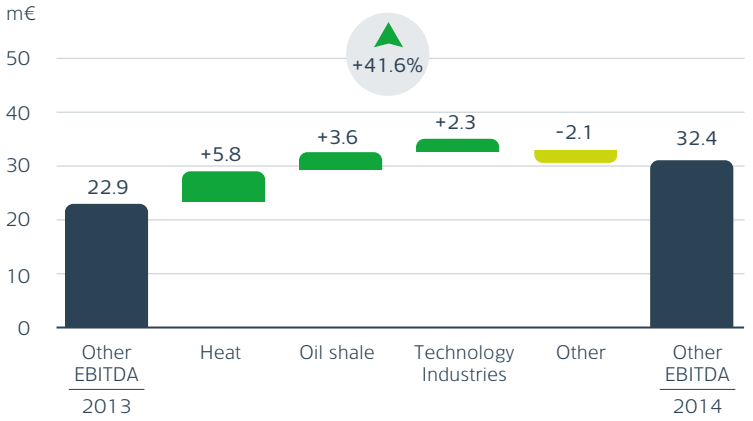
Sales revenue from Technology Industries' products grew by EUR 1.2 million (+11.6%). EBITDA on Technology Industries' products increased by EUR 2.3 million.

Other sales revenues declined by EUR 1.3 million (-6.2%). In other sales revenues, sales revenue from the sale of natural gas increased (EUR +2.5 million) and sales revenue from the sale of scrap metal decreased (-21.0%, EUR -1.9 million). Other EBITDA decreased by a total of EUR 2.1 million.

Sales Revenues From Other Products and Services



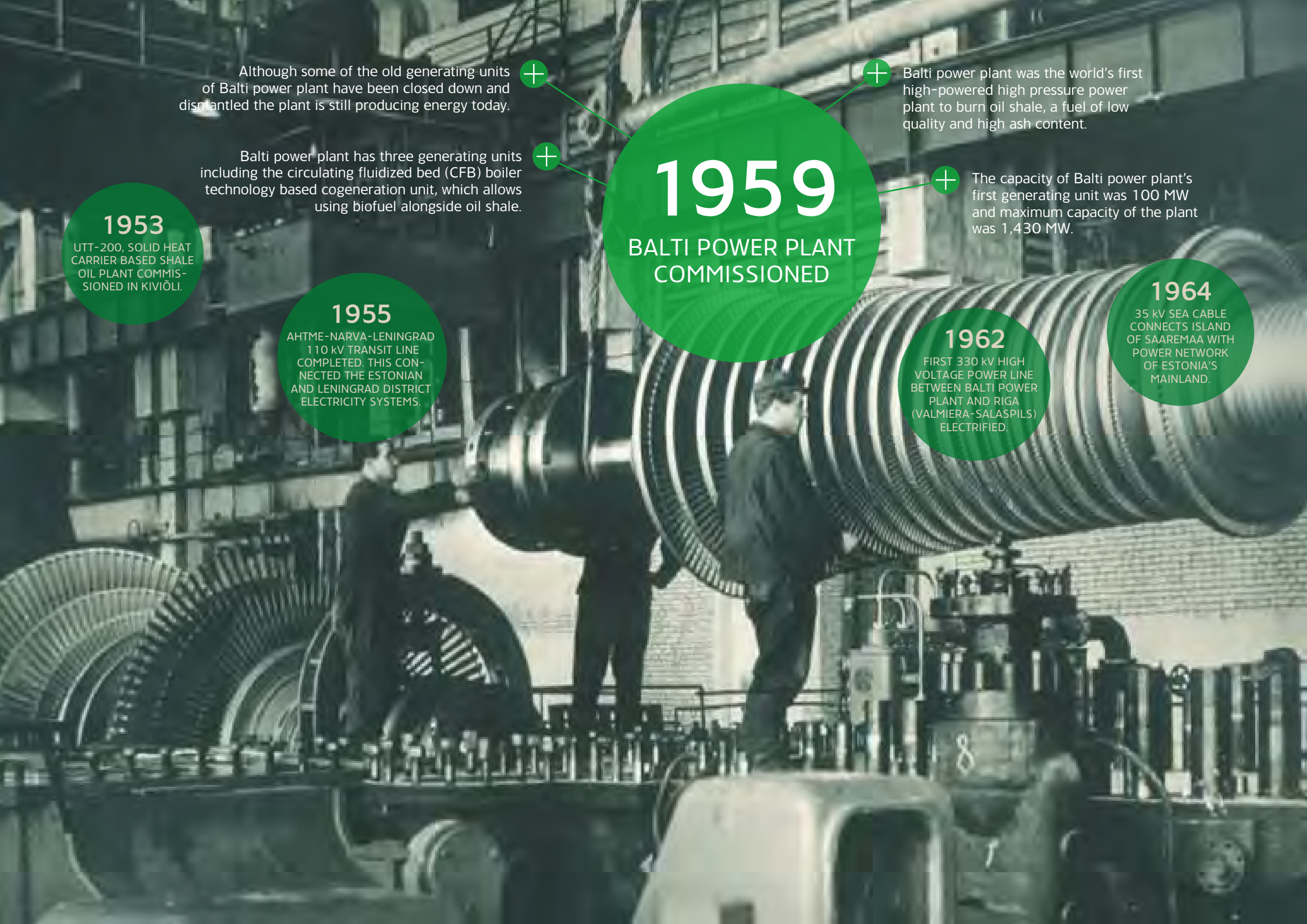
Other Products and Services EBITDA Development



Tõnu Aas

Eesti Energia Narva power plants,
Member of the Management Board

"Balti power plant celebrated its 55th anniversary in 2014. The commissioning of first energy unit of Balti power plant on 30 December 1959 marked the beginning of large-scale energetics era."



Although some of the old generating units of Balti power plant have been closed down and dismantled the plant is still producing energy today.

Balti power plant has three generating units including the circulating fluidized bed (CFB) boiler technology based cogeneration unit, which allows using biofuel alongside oil shale.

1953

UTT-200, SOLID HEAT CARRIER BASED SHALE OIL PLANT COMMISSIONED IN KIVIÕLI.

1955

AHTME-NARVA-LENINGRAD 110 kV TRANSIT LINE COMPLETED. THIS CONNECTED THE ESTONIAN AND LENINGRAD DISTRICT ELECTRICITY SYSTEMS.

1959

BALTI POWER PLANT COMMISSIONED

Balti power plant was the world's first high-powered high pressure power plant to burn oil shale, a fuel of low quality and high ash content.

The capacity of Balti power plant's first generating unit was 100 MW and maximum capacity of the plant was 1,430 MW.

1962

FIRST 330 kV HIGH VOLTAGE POWER LINE BETWEEN BALTI POWER PLANT AND RIGA (VALMIERA-SALASPILS) ELECTRIFIED.

1964

35 kV SEA CABLE CONNECTS ISLAND OF SAAREMAA WITH POWER NETWORK OF ESTONIA'S MAINLAND.

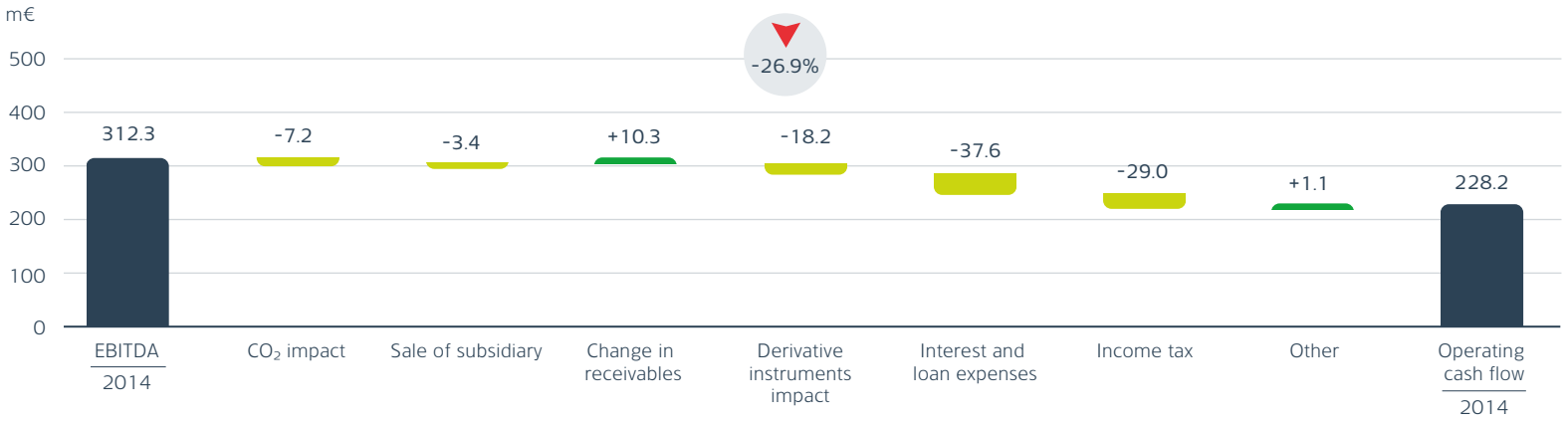
Cash Flows

In 2014, the Group's cash inflow from operating activities amounted to EUR 228.2 million. Compared to EBITDA for 2014 (EUR 312.3 million), operating cash flow was 26.9% or EUR 84.1 million smaller.

Compared with the Group's EBITDA (EUR 312.3 million), cash flow from operating activities was increased by settlement of receivables of EUR 10.3 million. Non-cash gain on the revaluation of derivative instruments, which amounted to EUR 18.2 million, rendered operating cash flow smaller than EBITDA. The impact of interest and borrowing costs paid was EUR -37.6 million and the impact of income tax paid was EUR -29.0 million. Purchase of CO_2 emission allowances rendered operating cash flow EUR 7.2 million smaller than EBITDA. Gain on the sale of the network construction subsidiary amounted to EUR 3.4 million (is reported in cash flows from investing activities).

Other impacts (EUR +1.1 million) resulted from an increase (total impact EUR -1.7 million, including an increase in shale oil inventories impact EUR -1.2 million) and some smaller items (impact EUR +2.9 million).

EBITDA to Operating Cash Flows Development



Compared to the previous year, net operating cash flow decreased by 6.7% (EUR -16.4 million).

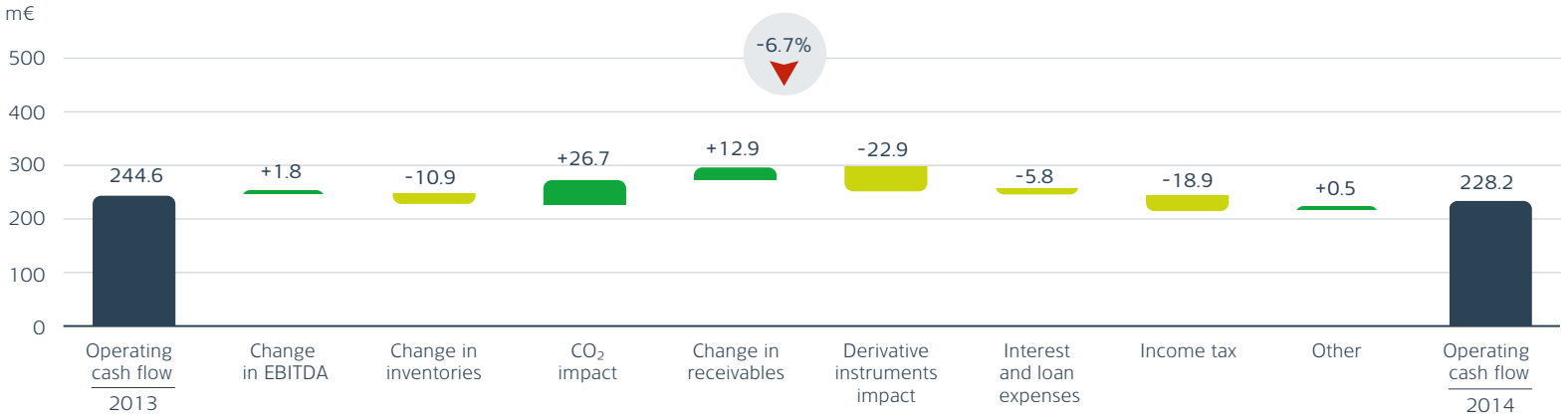
Operating cash flow was strengthened by the positive impact of CO_2 emission allowances (EUR +26.7 million) that resulted from settlements related to CO_2 emission allowance futures. The impact of a change in receivables was EUR +12.9 million, reflecting settlement of electricity and distribution receivables. The impact of derivative instruments was negative (EUR 22.9 million) because in 2014 the Group recognised a large non-cash gain on the revaluation of derivative instruments (EUR 18.2 million); in 2013 the Group recognised a non-cash loss (EUR 4.7 million).

In 2014, interest and borrowing cost payments were EUR 5.8 million larger and the income tax payment was EUR 18.9 million larger.

The impact of a change in inventories (EUR -10.9 million) is related to growth in the use of oil shale inventories compared to the previous year.

Other impacts on operating cash flow (EUR +0.5 million) largely reflect sale of the network construction subsidiary (impact EUR -3.4 million) and a decline in non-current asset disposal gains (impact EUR +3.6 million).

Operating Cash Flow Changes

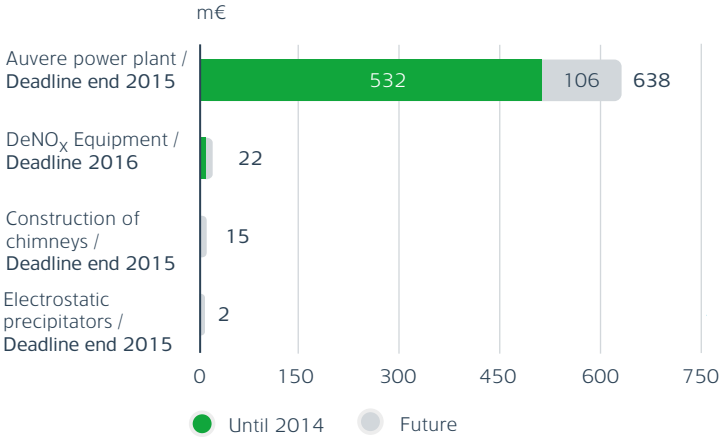


Investment

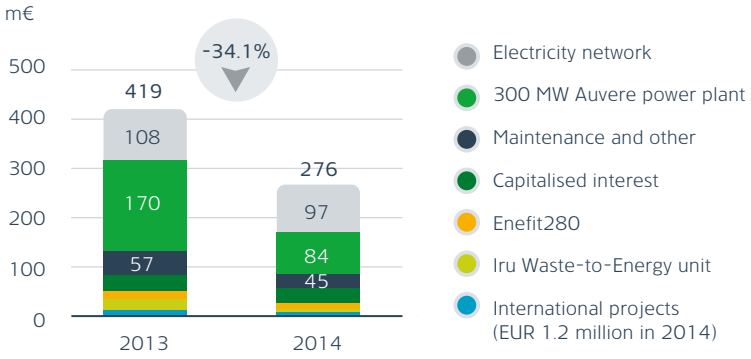
In 2014, the Group invested EUR 275.9 million (-34.1%, EUR -143.0 million).

Partly the year-on-year decrease is attributable to the fact that the waste-to-energy unit of the Iru power plant and numerous systems of the Auvere power plant were completed in 2013. In 2014, the largest investments were made in the 300 MW Auvere power plant and the quality of the distribution service.

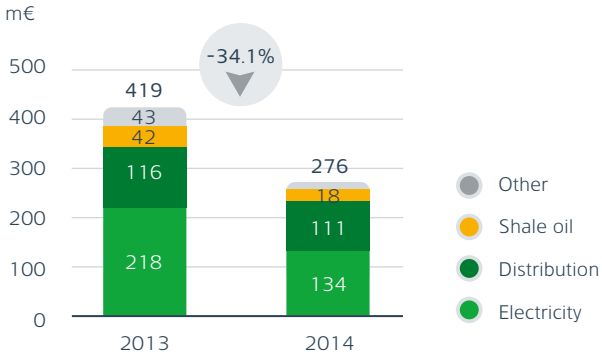
Main Ongoing Projects



Capex Breakdown by Projects



Investment Breakdown by Products



Construction of the 300 MW Auvere Power Plant

In summer 2011, Eesti Energia started to build a new modern circulating fluidised bed (CFB) power plant in Auvere. The power plant, which will be completed in 2015, allows using biofuel alongside oil shale (to the extent of 50%), which helps reduce its emissions to the level of a modern gas-fired 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 17.7 million tonnes of free CO_2 emission allowances. Of this amount, 5 million tonnes has been received (in April 2014) and 4.3 million tonnes will be received in 2015.

Auvere power plant will be completed in 2015.

In 2014, the assembly and installation of the equipment of the power plant continued. In Q1 construction of the electrostatic precipitator began, the oil shale conveyor (fuel feeding system), fuel transfer tower and ash removal system were built and works on the boiler refractory were carried out. In Q2, the water treatment plant became operational and the fuel feeding system was completed.

In Q3, ash station equipment was completed and system tests and preparations for hot commissioning could begin. The turbine room, boiler room, and rooms for ancillary equipment were substantially completed and the contractor began gradual handover of the core equipment and rooms to the testing and commissioning team. In September, the acid cleaning of the boiler was successfully performed and the last preparations for hot commissioning began.

In Q4 2014, the boiler was started for the first time using shale oil and drying of the boiler refractory was completed. The team began feeding oil shale to the boiler and continued adjusting the boiler system to oil shale-based operation.

In the first half of 2015, adjustment of the boiler system to biomass-based operation will be completed and the first synchronisation will take place.

The total cost of the construction of the Auvere power plant is EUR 638 million (including the fuel feeding system). By the end of 2014, EUR 532 million of this (83%) had been invested.

Reduction of NOx 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 (NOx) 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 supplied with a NOx capture system, which has allowed reducing its NOx emissions approximately two times.

In March 2014, approval was granted to phase 2 of the project that foresees equipping seven boilers of four generating units with emission capture systems. NOx emissions will be reduced in the boilers whose net production capacity is 672 MW.

In Q3, the capture system of the second boiler of the third generating unit was assembled and successfully passed warranty tests. In Q4 2014, both boilers of the sixth generating unit were supplied with NOx capture systems and adjustment of the systems began. Testing and commissioning of the systems of the sixth generating unit is scheduled for the first half of 2015.

According to plan, installation of NOx capture systems should be completed by 2016. The total cost of the project is EUR 22 million. By the end of 2014, EUR 11 million of this had been invested (48%).

Investments in Network Quality

In 2014, investments in the quality of the distribution network amounted to EUR 97 million compared with EUR 108 million the year before. In 2014, we built 633 substations and 1,901 kilometres of underground and overhead cables (2013: 679 substations and 1,826 kilometres of cables).

In 2013-2016, Elektrilevi is going to install smart remote reading meters at all consumption points in Estonia. In 2014, we installed 185 thousand smart meters and switched more than 169 thousand meters over to the remote reading system. By the end of 2014, 335 thousand new hourly smart meters had been installed and 65% of those meters had been switched over to the remote reading system. Smart meters accounted for 58% of all of Elektrilevi's power meters (+26 percentage points compared to 2013).

Preliminary Development of Electricity and Shale Oil Projects in Jordan

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

For the electricity project, in 2014 negotiations were held with the government of Jordan that resulted in an agreement on a package of contracts submitted at the end of 2013, including the terms of the electricity sale and purchase contract. The contracts were signed on 1 October 2014. Negotiations with the builder of the planned power plant (Guangdong Power Engineering Corp) were also completed and the engineering and construction contract was signed on 31 October 2014.

Work was done on the technical design of the mine and at the year-end assurance in received in respect of the mineable quantity of the resource (336 million tonnes) was obtained from SRK Consulting (UK) Limited, an independent international expert.

In addition, a procurement process was carried out for performance of additional hydrological studies. In the framework of the studies, drilling of two additional water boreholes was started at the end of 2014.

A data room for the financiers' due diligence procedures was set up and made available to banks and potential investors. Agreements were made with the banks' technical, commercial and legal advisors to conduct an audit of the project.

The environmental impact assessment annex was prepared and at the beginning of 2015 it was submitted for approval to the Ministry of the Environment of Jordan.

The planned net capacity of the first Jordanian oil shale power plant is 470 MW and it is scheduled for completion in 2018. When financing is secured, the investment decision may be made in 2015.

The preliminary 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[6] deposit. The work done in 2014 mostly included studying possibilities for increasing the oil yield. So far, the focus has been on the electricity project being developed in the south-eastern part of the deposit, which is in a more advanced phase.

Preliminary Development of the US Shale 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[7] of oil shale. In Utah, Eesti Energia operates under the name of Enefit American Oil. We plan to use our oil shale resources in Utah to develop a new liquid fuels industry with an ultimate capacity of 50 thousand barrels of high quality shale oil per day. This is a long-term project in which we are in the early stages focusing on design, engineering and permitting.

In 2014, Enefit American Oil conducted various process tests and carried out in house engineering to adjust the project to the local environment and the specific qualities of the Utah oil shale.

During the year, Enefit American Oil continued with the Environmental Impact Statement in cooperation with the Bureau of Land Management. Enefit American Oil submitted its detailed development plan in April 2014 and the impact analysis is currently being carried out. Although the project is being developed on Enefit's private property, the site is a greenfield and utilities (power, water, natural gas, and oil product pipeline) must cross federal land, requiring the Environmental Impact Statement. Detailed engineering studies for the utility crossing of the White River and the needed road improvements were completed in 2014. Further engineering work in support of the Environmental Impact Statement will continue in 2015. The next step in the process is for the Bureau of Land Management to issue the Draft Environmental Impact Statement for public review and comment.

Enefit American Oil also completed two baseline data collection items needed to support future permitting, including a full year of surface and groundwater data collection and a socioeconomic baseline study and impact analysis report. Further, in August 2014, the US Fish and Wildlife Service withdrew the proposal to include two plant species, which grow on Enefit American Oil's property, on the list of endangered species. The decision will allow the development of the project to proceed according to the initial plan while protecting these rare plants.

Due to the drop in oil price at the end of 2014 the Group is planning to review its action plan concerning the US development project.

[6] The area being explored 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.
[7] Measured resource 3.7 billion tonnes, indicated resource 2.5 billion tonnes, and inferred resource 0.4 billion tonnes.

Financing

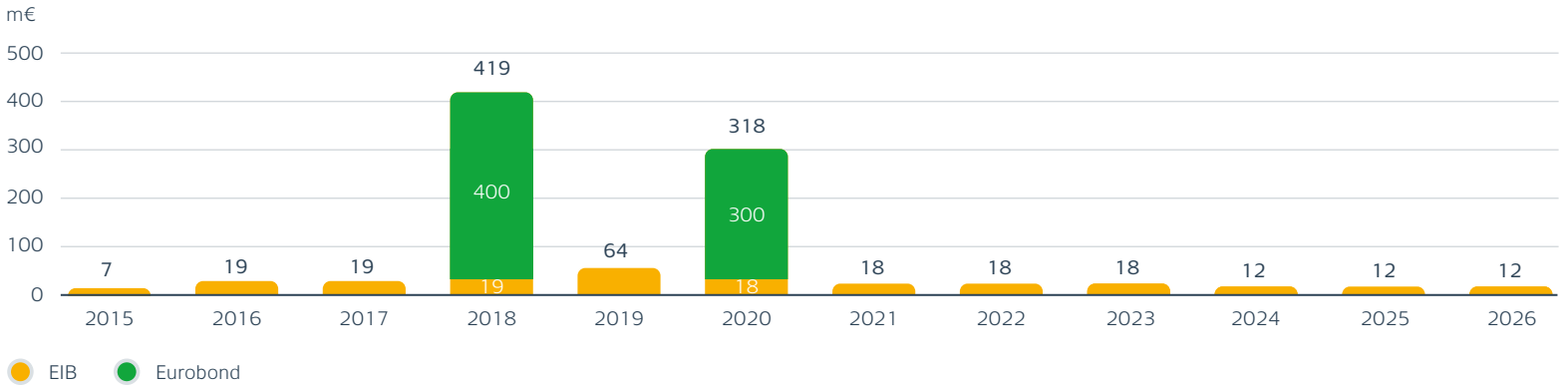
Eesti Energia's main sources of debt capital are the international bond market and bilateral investment loans from the European Investment Bank (EIB). In addition, the required liquidity loans and guarantee limits have been obtained from regional banks.

At the end of 2014, the total nominal value of the Group's borrowings was EUR 937.1 million (at the end of 2013: EUR 838.5 million). The amortised cost of borrowings amounted to EUR 934.9 million (at the end of 2013: EUR 827.9 million). Long-term borrowings comprised of Eurobonds listed on the London Stock Exchange with a nominal value of EUR 700 million and loans from the EIB with a nominal value of EUR 237.1 million. During the year, borrowings increased through an additional issue of Eurobonds maturing in 2018, which was conducted in January. The total face value of the issue was EUR 100 million. At the date of issue, the yield of the bonds was 2.181%, price was 109.1% and total cash raised amounted to EUR 110.5 million including accrued interest.

During the year, the Group made EIB loan repayments of EUR 1.4 million under an agreed repayment schedule. The largest repayments of borrowings are linked to the maturities of Eurobonds in 2018 and 2020. Principal repayments under the EIB loans are more evenly scheduled across loan terms.

At the end of 2014, the Group's liquid assets (including deposits with a maturity of more than 3 months and liquid financial assets) stood at EUR 100.2 million. In addition,

Debt Maturity



the Group's undrawn loans amounted to EUR 250 million consisting of bilateral credit facilities of EUR 150 million in aggregate provided by three regional banks (SEB, Pohjola and Nordea) that mature in September 2018 and a long-term loan of EUR 100 million raised from EIB. The EIB loan can be drawn until October 2015.

Eesti Energia has a sufficient amount of liquid assets and undrawn loans to cover its immediate liquidity requirements, complete the investment programme, make the dividend payment and meet other needs.

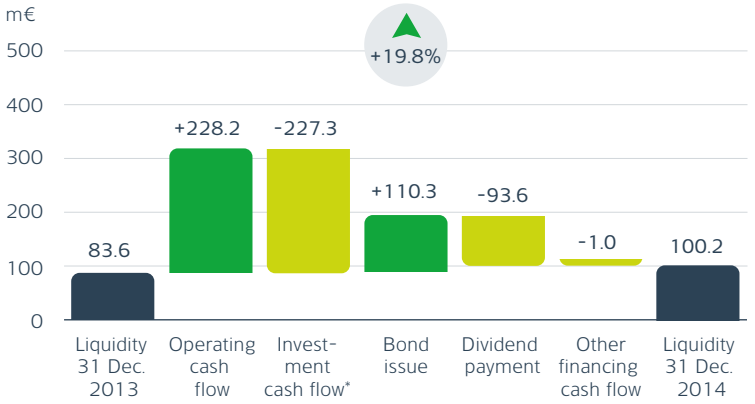
At the end of 2014, the Group's credit ratings were at the level of BBB+ (Standard & Poor's) and Baa2 (Moody's). During the year, Moody's downgraded the rating by one notch mainly due to Eesti Energia's CO_2 intense and oil shale based generation in a difficult commodity price environment. At the date of release of this report, the ratings issued by both agencies had a stable outlook.

At the end of 2014, the weighted average interest rate of Eesti Energia's borrowings was 3.91% (31 December 2013: 3.86%). The Group's borrowings have predominantly fixed interest rates (95% of all borrowings). All borrowings are denominated in euros.

At the end of 2014, the Group's equity amounted to EUR 1,619.4 million. All the shares in Eesti Energia are held by the Republic of Estonia. During the year, the shareholder was made a dividend payment of EUR 93.6 million. In 2015, Eesti Energia is expected to make the shareholder a dividend payment of EUR 95.0 million.

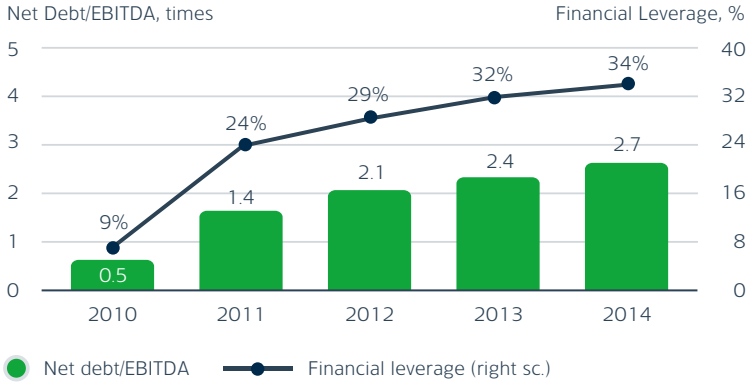
The Group's net debt as at the end of 2014 amounted to EUR 834.7 million (EUR +90.5 million compared to the end of 2013) and EBITDA to net debt ratio was 2.7 (2.4 at the end of 2013). Under its loan agreements, Eesti Energia has undertaken to comply with certain financial covenants. At the end of 2014, the Group's financial indicators complied with all contractual covenants.

Group's Liquidity Development in 2014



* excl. changes in deposits and other financial assets

Net Debt/EBITDA and Financial Leverage



Outlook for 2015

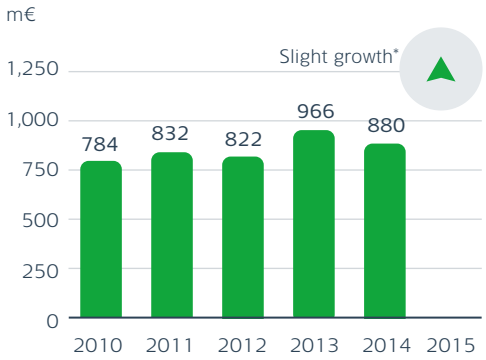
The Group's sales revenues for 2014 totalled EUR 880.0 million (-8.9%, EUR -86.4 million compared to 2013). EBITDA amounted to EUR 312.3 million, remaining at the same level as the year before (+0.6%, EUR +1.8 million), and capital investments totalled EUR 275.9 million (-34.1%, EUR -143.0 million).

According to current forecasts, in 2015 the Group's sales revenues will grow slightly compared to 2014, EBITDA will decline slightly and capital investments will increase*. The 2015 results will be impacted the most by a downtrend in the profitability of electricity and shale oil sales. EBITDA earned from sales of shale oil will increase somewhat, but the rise will result from growth in sales volume, average sales price will likely decrease. The profitability of electricity sales will also shrink, triggered by a lower average sales price.

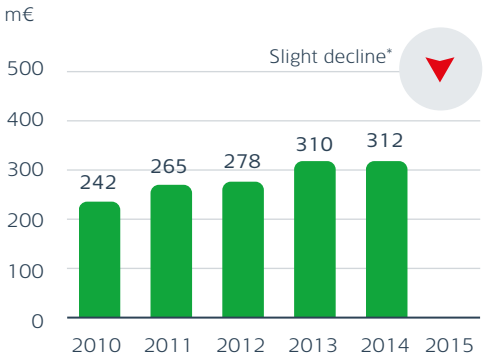
We do not expect the Group's electricity generation volume to change significantly in 2015 but sales volume should increase, mostly through growth in the volume of electricity purchased. Sales revenue from sale of electricity is likely to decline due to lower sales prices and the retail sales volumes of the Group's Latvian and Lithuanian entities are likely to decrease.

Sales revenue from shale oil sales is projected to increase through larger output underpinned by higher utilisation and more stable operation of the new oil plant. However,

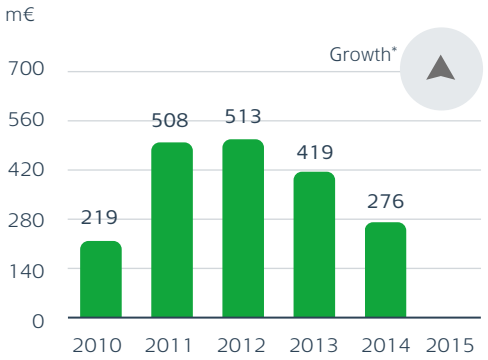
Sales Revenues



EBITDA



Investments



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

sales revenue growth will be weakened by a decline in the average sales price, caused by a lower world market price of oil.

We expect the volume of electricity distributed by the distribution network operator Elektrilevi to grow slightly in 2015. The sales volume of the distribution service will mainly depend on economic growth. Elektrilevi's network losses should decline compared to 2014.

The Group's fixed costs will not change significantly in 2015.

In 2015, we expect to make the owner a dividend distribution of EUR 95.0 million on which we will pay income tax of EUR 23.8 million. The Group's cash needs will be financed with cash from operations and, if necessary, we can also use a previously agreed investment loan.

Investment will increase, primarily through growth in repair and maintenance outlays, whereas investments in the Group's ongoing development projects will decrease.

Closed positions

The Group's sales revenues from electricity and shale oil sales depend on global market prices. The Group's performance indicators are mainly impacted by the electricity price on the Nord Pool Spot power exchange and the world market price of fuel oil with 1% sulphur content, which is a reference product for shale oil.

The European Commission granted Estonia the right to allocate existing producers free emission allowances for making investments in more environment-friendly production technologies. In the framework of the measure, Eesti Energia's new 300 MW Auvere power plant was allocated free emission allowances extending to a total of 17.7 million tonnes of CO_2 for the period 2013-2020.

The Group has sold forward 7.2 TWh of electricity (average price 40.5 €/MWh) and 207.0 thousand tonnes of shale oil (average price 419 €/t) to be delivered in 2015.

Forward sales for delivery in 2016 include 2.9 TWh of electricity (average price 38.1 €/MWh) and 11.3 thousand tonnes (excluding options)[8] of shale oil (average price 353 €/t).

The Group's CO_2 emissions position that has been covered with forward contracts (taking into account free emission allowances received from the state as investment support and the surplus of previous periods) amounts to 18.2 million tonnes (average price 4.2 €/t) for 2015 and 6.6 million tonnes (average price 2.0 €/t) for 2016.

[8] In addition, the Group owns liquid fuels options in the amount of 120 thousand tonnes maturing in 2016.

Environment

The oil shale industry is becoming more environment-friendly year by year and is able to use oil shale increasingly more efficiently.

Investments in technological development have already reduced its environmental impact. Investments will allow to continue doing this also in the future not only when production levels are lowered but also when they are increased.

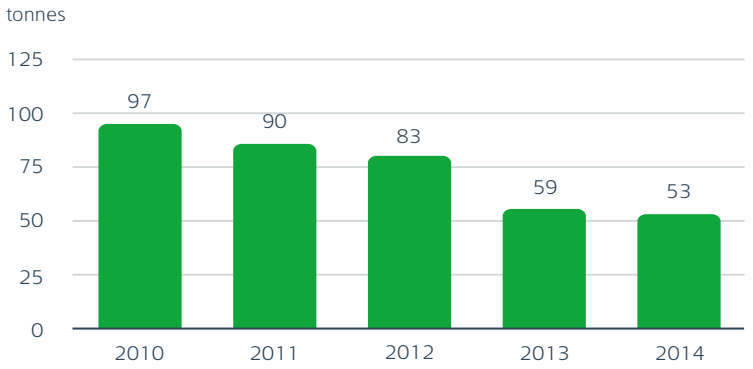
In 2014 we focused on air pollution reduction: we commenced installing nitrogen emission capture systems on seven boilers of Eesti power plant and reached the final stage of the construction of Auvere power plant. The air emissions of Auvere power plant will be significantly lower compared to older pulverised combustion technology due to CFB (circulating fluidised bed) boilers and biomass usage capability.

Environmental investments are the key to cleaner industry

Environmental investments have made the oil shale industry cleaner than ever before. Similarly to previous years, a number of outstanding projects helped to reduce environmental impacts in 2014.

By the end of 2014 the pilot project for the reduction of nitrogen emissions, the first in the history of oil shale industry, had run a little over 12 months. At the end of 2013, one boiler of the Eesti power plant was supplied with a NOx capture system. This has allowed reducing its NOx emissions approximately two times. Last year the pilot project was followed by

NO_X Emissions of Boiler Involved in NO_X Emissions Reduction Pilot Project, per 1,000 Working Hours



a three-year project to equip another seven boilers with similar emission capture systems.

In 2014, we started with the construction of five new chimneys to Eesti power plant. Additional chimneys allow reducing sulphur emissions through the maximum usage of desulphurisation equipment. The stricter environmental regulations make this investment significant and necessary.

In 2015, the commissioning of the modern Auvere power plant will be completed. The Auvere power plant is more environment-friendly than other similar power plants due to implementation of the best possible technology. The option of substituting up to 50% of oil shale with biomass, a renewable energy source, reduces the environmental impact of power generation and increases the competitiveness of Auvere power plant in the light of stricter European Union climate policy.

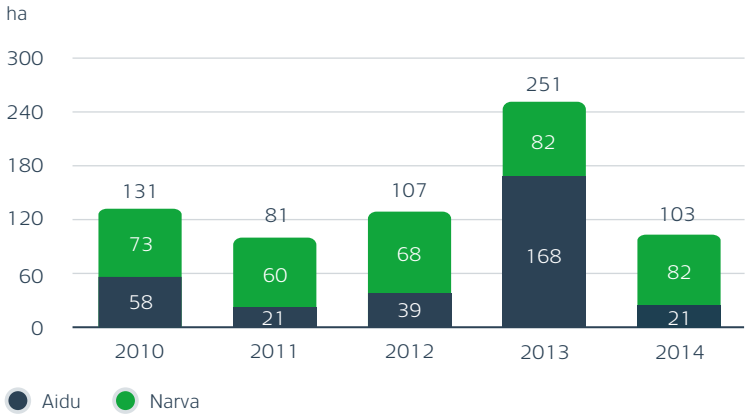
2014 was the second year when we used waste as fuel for heat and power cogeneration. We save approximately 70 million m^3 of natural gas by producing energy from waste. 221.4 thousand tonnes of mixed municipal waste was used to produce 248.1 GWh of heat and 111.8 GWh of electricity in 2014. The waste-based heat generated by Iru power plant is supplied to the inhabitants of Maardu and Tallinn at 25% lower prices. Iru waste-to-energy unit impacts every single inhabitant in Estonia since the waste management in Iru is approximately two times cheaper than landfilling. The Estonian waste management has become more environment-friendly and large-scale landfilling in the country has ended.

> 2014 was the second year when we used waste as fuel for heat and power cogeneration.

Restoration of Mine Areas

Before returning former open cast mine areas to natural and life environments the areas are restored through afforestation, turning them into arable land or creating a new purpose for the area. The reclamation of mined territory is a constant process and trees of 5 and 50 years of age are growing in the open cast mines. In 2014, 103 hectares of trees were planted to the mined areas. Over the last fifty years we have afforested about 14,000 hectares of land.

Afforestation in Former Eesti Energia Mining Terrritories



In 2013 we built a rowing channel in the closed Aidu open cast mine. The rowing channel is part of an international water sports centre opening in 2020. In 2014, several competitions and boat tours were already held in the Aidu rowing channel and hikers as well as extreme sports fans enjoyed its discovery. In 2014, the Estonian Mining Society granted Eesti Energia Kaevandused, the Group's mining subsidiary, the "Best environmental act in mining" award

for the construction of a rowing channel draught in the former Aidu open cast mine. The Estonian Mining Society recognised the new life given to the former industrial object and the development work done to achieve this.

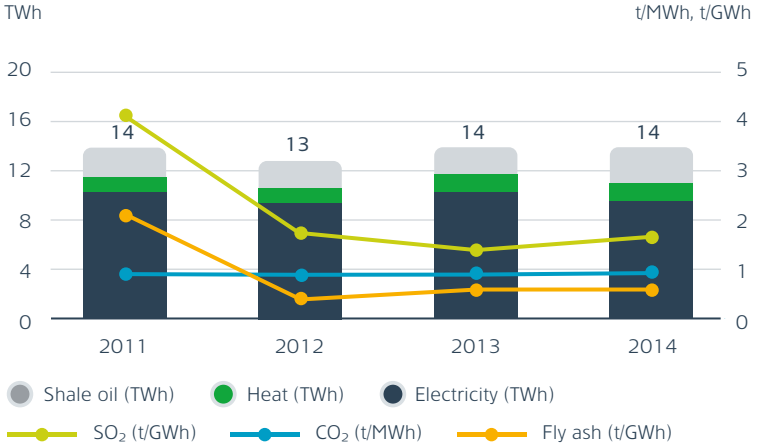
Eesti Energia's environmental goals for the next five years

- Using oil shale resource more efficiently and in a more environment-friendly manner by relying on new generation Enefit technology
- Reducing CO_2 footprint through oil and electricity co-generation
- Reducing air emissions of the oil shale industry.
- Decreasing mining losses by employing the best possible technology
- Enabling the use of water from closed mines in heat production in the area
- Increasing and diversifying the recycling of oil shale processing residues – waste rock and ash
- Restoring former mine areas considering the needs and expectations of the community

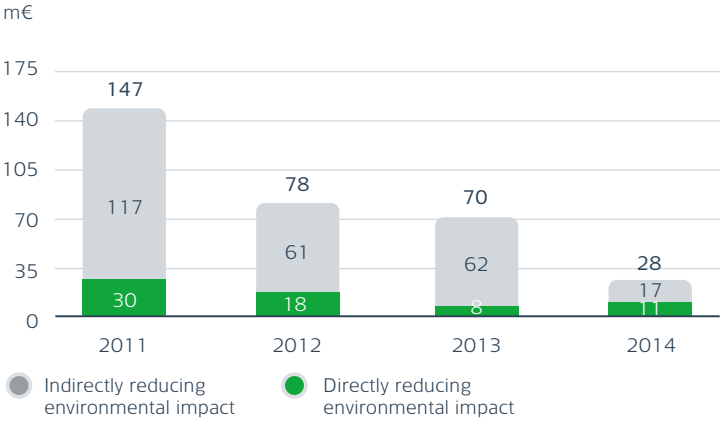
Key Environment Figures

		2011	2012	2013	2014
Production					
Electricity	GWh	10,428	9,378	10,560	9,687
Renewable electricity	GWh	408	534	263	297
Heat	GWh	1,263	1,137	1,242	1,309
Produced using biofuels and waste	GWh	107	155	223	337
Shale oil	thousand t	184	209	214	265
Retort gas	million m³	58	65	61	72
Resources Used					
Commercial oil shale	million t	15.8	14.8	17.2	17.0
Natural gas	million m³	97.7	61.1	47.3	43.7
Biofuels	million t	0.4	0.5	0.1	0.1
Municipal waste	thousand t	0.0	0.0	183.6	221.4
Cooling water	million m³	1,522.9	1,302.2	1,475.0	1,454.5
Pumped mining water	million m³	224.8	203.0	138.2	117.3
Water from open cast mines	million m³	131.8	112.2	61.6	57.0
Water from underground mines	million m³	93.0	90.8	76.5	60.3
Emissions					
SO_2	thousand t	56.8	23.2	20.9	24.2
incl. Narva Power Plants	thousand t	56.6	23.1	20.8	24.1
NOx	thousand t	12.8	9.7	8.8	8.5
Fly ash	thousand t	28.1	5.7	9.1	8.5
CO_2	million t	12.3	11.0	13.4	12.8
Solid Waste					
Oil shale ash	million t	7.1	6.9	8.1	7.9
incl. recycled	million t	0.1	0.1	0.1	0.1
Waste rock	million t	9.0	8.1	6.3	6.4
incl. recycled	million t	8.1	7.6	4.4	1.8
Water Pollutants					
Suspended matter	thousand t	1.7	1.1	0.8	0.8
Sulphates	thousand t	131.5	76.0	64.8	51.7
Environmental Fees Paid and Investments Towards Reducing Environmental Impact					
Resource fees	mln €	28.7	30.4	28.3	28.5
Pollution fees	mln €	19.8	17.8	24.5	31.8
Environment-related investments	mln €	147.1	78.5	69.8	28.5
Directly reducing environmental impact	mln €	30.2	17.9	7.7	11.2
Indirectly reducing environmental impact	mln €	116.9	60.6	62.1	17.2

The Group's Energy Production and Emissions per Unit of Production



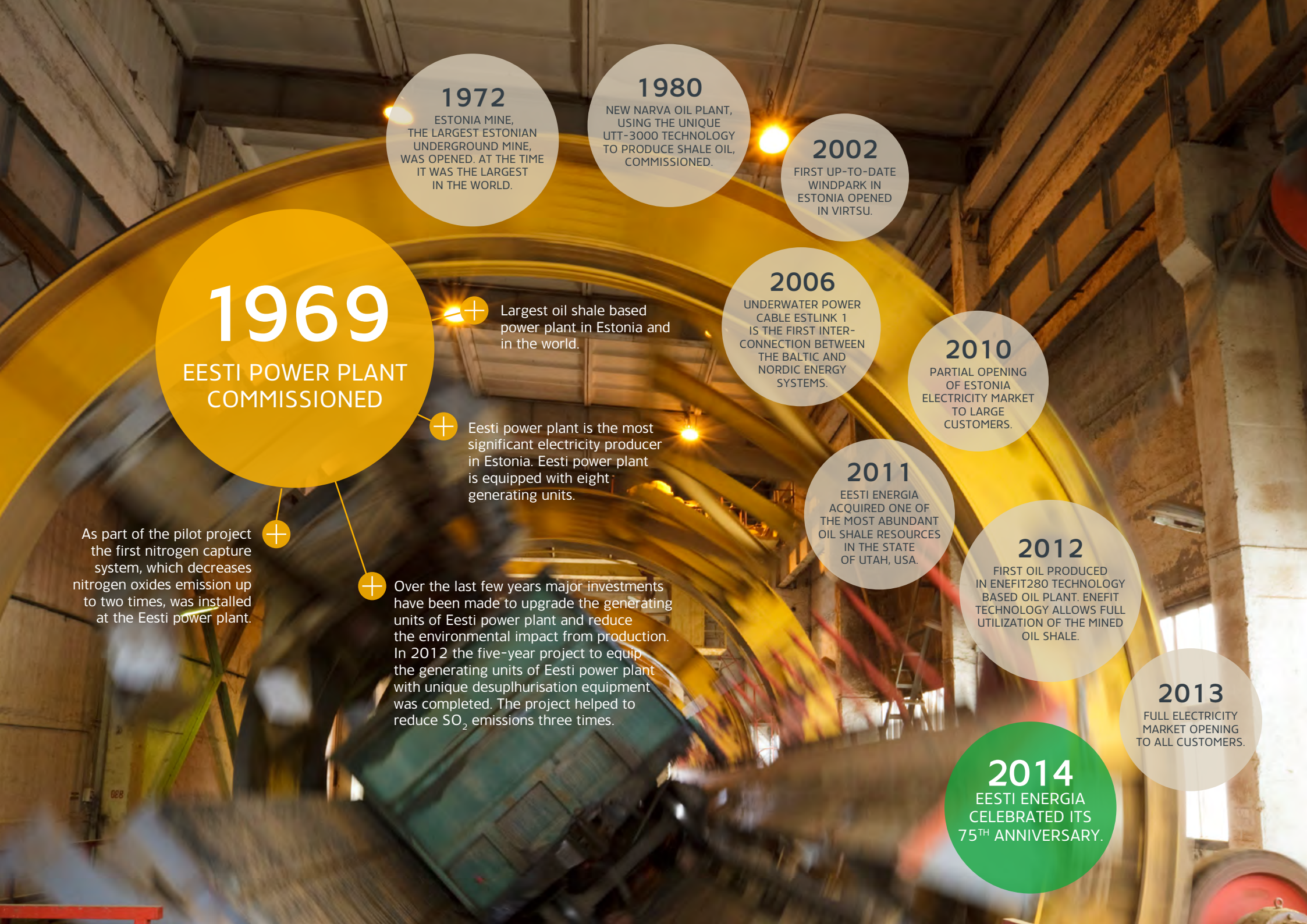
The Group's Investments Towards Reducing Environmental Impact



Tõnu Aas

Eesti Energia Narva power plants,
Member of the Management Board

"Eesti power plant, largest oil shale based power plant not only in Estonia but also in the world, celebrated its anniversary in 2014. The first generating unit of Eesti power plant was commissioned on 30 June 1969. The power plant reached its installed capacity of 1610 MW four years later in 1973."



1969
EESTI POWER PLANT COMMISSIONED

Largest oil shale based power plant in Estonia and in the world.

Eesti power plant is the most significant electricity producer in Estonia. Eesti power plant is equipped with eight generating units.

As part of the pilot project the first nitrogen capture system, which decreases nitrogen oxides emission up to two times, was installed at the Eesti power plant.

Over the last few years major investments have been made to upgrade the generating units of Eesti power plant and reduce the environmental impact from production. In 2012 the five-year project to equip the generating units of Eesti power plant with unique desuplhurisation equipment was completed. The project helped to reduce SO_2 emissions three times.

1972
ESTONIA MINE, THE LARGEST ESTONIAN UNDERGROUND MINE, WAS OPENED. AT THE TIME IT WAS THE LARGEST IN THE WORLD.

1980
NEW NARVA OIL PLANT, USING THE UNIQUE UTT-3000 TECHNOLOGY TO PRODUCE SHALE OIL, COMMISSIONED.

2002
FIRST UP-TO-DATE WINDPARK IN ESTONIA OPENED IN VIRTSU.

2006
UNDERWATER POWER CABLE ESTLINK 1 IS THE FIRST INTER-CONNECTION BETWEEN THE BALTIC AND NORDIC ENERGY SYSTEMS.

2010
PARTIAL OPENING OF ESTONIA ELECTRICITY MARKET TO LARGE CUSTOMERS.

2011
EESTI ENERGIA ACQUIRED ONE OF THE MOST ABUNDANT OIL SHALE RESOURCES IN THE STATE OF UTAH, USA.

2012
FIRST OIL PRODUCED IN ENEFIT280 TECHNOLOGY BASED OIL PLANT. ENEFIT TECHNOLOGY ALLOWS FULL UTILIZATION OF THE MINED OIL SHALE.

2013
FULL ELECTRICITY MARKET OPENING TO ALL CUSTOMERS.

2014
EESTI ENERGIA CELEBRATED ITS 75TH ANNIVERSARY.

Corporate Governance and Risk Management

The sole shareholder of Eesti Energia is the Republic of Estonia. Because of the ownership structure and the fact that the Eurobonds issued by Eesti Energia are listed on the London Stock Exchange, the governance of the company is based on the following guidelines, laws and regulations:

- The UK Corporate Governance Code issued by the Financial Reporting Council of the United Kingdom,
- Baltic Guidance on the Governance of Government-owned Enterprises issued by the Baltic Institute of Corporate Governance insofar as it relates to what is expected of the executive management, reporting and auditing,
- the State Assets Act,
- the Commercial Code,
- the Articles of Association of Eesti Energia.

For transparent and sound governance of Eesti Energia, we have developed a corporate governance model, which integrates the following elements:

1) a clear management structure and understanding of rights and obligations,
2) firm and recognised management principles,
3) agreed reporting principles,
4) effective supervision,
5) conscious risk management.

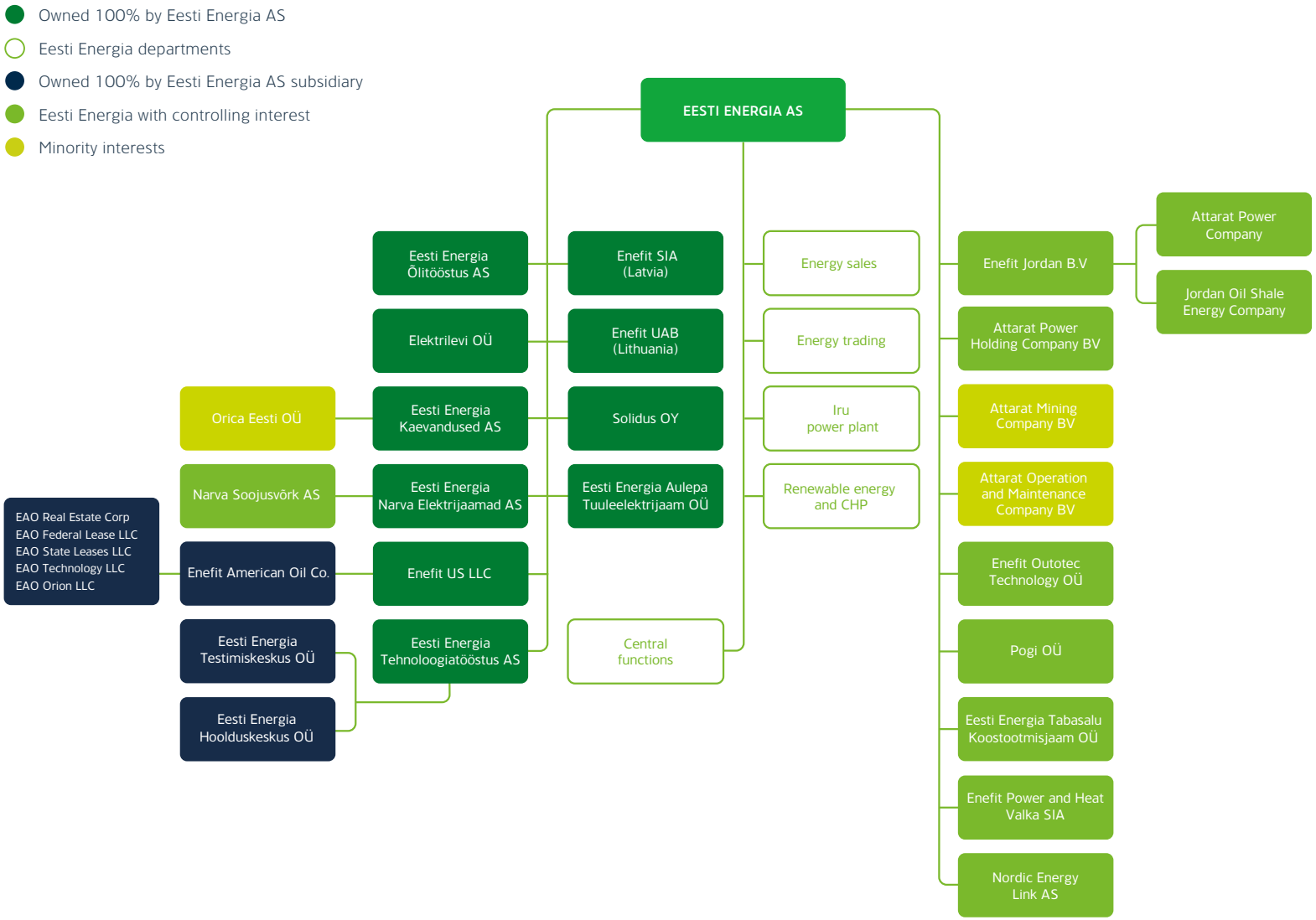
Organisational Structure

We strive to keep the organisational structure of Eesti Energia simple and to consider, above all, the Group's goals and needs. To make sure that management is highly effective and efficient, we make a distinction between the management structure and the legal structure. The governing bodies of Eesti Energia are the General Meeting, the Supervisory Board, the Management Board and the Audit Committee. The General Meeting is the highest governing body that appoints the members of the company's Supervisory Board. The Supervisory Board appoints the members and supervises the activities of the Management Board. The Audit Committee advises the Supervisory Board in matters related to supervision.

General Meeting

The General Meeting is the highest governing body of Eesti Energia that decides, among other things, the establishment and acquisition of new companies, dissolution of existing entities, election and removal of members of the Supervisory Board, major investments, appointment of the auditor, and approval of the results for the financial year. General meetings are called at least once a year. The Annual General Meeting that decides the approval of the annual report takes place no later than four months after the end of the financial year. An Extraordinary General Meeting can be called by giving one week's notice.

LEGAL STRUCTURE



The sole shareholder of Eesti Energia is the Republic of Estonia. Based on a resolution of the government of Estonia, from March 2013 the shares in Eesti Energia are held by the Ministry of Finance that is represented at the General Meeting by the Minister of Finance.

Supervisory Board

The Supervisory Board of Eesti Energia has eight members who are appointed by the resolution of the Minister of Finance that represents the sole shareholder. Half of the members of the Supervisory Board are appointed by the Minister of Finance based on the proposal of the Minister of Economic Affairs and Infrastructure.

Members of the Supervisory Board of Eesti Energia have to meet the requirements and expectations set out in the Commercial Code and the special requirements set out in the State Assets Act. In addition, in conducting its activities the Supervisory Board has to observe the Articles of Association of Eesti Energia AS and the rules of procedure approved by the sole shareholder. The primary functions of the Supervisory Board are as follows:

- representing the strategy approved by the sole shareholder and supervising its implementation,
- planning the activity of Eesti Energia, adopting the Group's major strategic decisions, organising the company's management and supervising the activity of the Management Board. The results of the supervision are communicated to the sole shareholder.

The work of the Supervisory Board is led by the Chairman of the Supervisory Board. In 2014, legal assistance to the Supervisory Board was arranged by Attorney at Law Sven Papp from the law firm Raidla Lejins & Norcous who acted as the Corporate Secretary.

In 2014, the composition of the Supervisory Board of Eesti Energia changed. Based on a resolution of the General Meeting, in June Toomas Tauts and Andres Saame were removed from the Supervisory Board and Danel Tuusis and Indrek Kaju were appointed as new members of the Supervisory Board. In August, Meelis Atonen and Jüri Käo were removed from the Supervisory Board and Erkki Raasuke and Meelis Virkebau were appointed as new members of the Supervisory Board. In September, Indrek Kaju and Olari Taal were removed from the Supervisory Board and Randel Länts and Peep Siitam were appointed as new members of the Supervisory Board. On 1 September 2014, the Supervisory Board of Eesti Energia resolved to elect Erkki Raasuke as the new Chairman of the Supervisory Board.

The principles of remunerating members of the Supervisory Board of Eesti Energia are regulated by the State Assets Act, under which the amount of the remuneration and the payment procedure are decided by the sole shareholder. The limits for the remuneration of members of the Supervisory Board are set out in a regulation issued by the Minister of Finance. Additional remuneration may be paid for participation in the work of bodies set up by the Supervisory Board (e.g. the Audit Committee). Members of the Supervisory Board are not entitled to termination benefits or other additional remuneration (except that provided for participation in the work of a body set up the Supervisory Board). Meetings of the Supervisory Board generally take place once a month, excluding the summer months. In 2014, the Supervisory Board held 14 meetings.

MEMBERS OF THE SUPERVISORY BOARD

ERKKI RAASUKE / 43
Chairman

Beginning of term of office:
1 August 2014 (Chairman of the Supervisory Board since 1 September 2014)
End of term of office:
31 July 2017

MEELIS VIRKEBAU / 57
Member

Beginning of term of office:
28 August 2014
End of term of office:
27 August 2017

KALLE PALLING / 29
Member

Beginning of term of office:
26 November 2009
End of term of office:
26 November 2015

TOOMAS LUMAN / 55
Member

Beginning of term of office:
17 March 1998
End of term of office:
20 September 2015

DANEL TUUSIS / 44
Member

Beginning of term of office:
12 June 2014
End of term of office:
1 June 2017

RANDEL LÄNTS / 36
Member

Beginning of term of office:
25 September 2014
End of term of office:
24 September 2017

MÄRT VOOGLAID / 46
Member

Beginning of term of office:
21 September 2011
End of term of office:
20 September 2017

PEEP SIITAM / 48
Member

Beginning of term of office:
26 September 2014
End of term of office:
25 September 2017

Participation of Supervisory Board Members in Meetings and the Total Remuneration Paid

	Participation in meetings	Total remuneration in 2014 (€)	Total remuneration in 2013 (€)
Erkki Raasuke	8	2,244	0
Meelis Virkebau	7	1,774	0
Kalle Palling	14	4,257	4,257
Toomas Luman	5	1,419	1,064

	Participation in meetings	Total remuneration in 2014 (€)	Total remuneration in 2013 (€)
Danel Tuusis	8	2,129	0
Randel Länts	4	774	0
Märt Vooglaid	13	3,902	3,547
Peep Siitam	4	1,113	0

Supervisory Boards of Subsidiaries and Associates

The powers and responsibilities of members of the Supervisory Boards of Eesti Energia's subsidiaries and associates are based on their Articles of Association. The Supervisory Boards are generally comprised of members of the Management Board of Eesti Energia. Exceptions include the following subsidiaries and associates:

- Enefit American Oil (Hando Sutter, Margus Vals, Rikki Lauren Hrenko-Browning, Stuart Rose, Michael Polt),
- Enefit Jordan B.V. (Hando Sutter, Margus Vals, Andres Anijalg, Swee Huat Chan, Seok Yeoh Hong, Mohammad Maaitah),
- Enefit Outotec Technology OÜ (Hando Sutter, Margus Vals, Indrek Aarna, Peter Weber, Andreas Orth, Mathias Noll),
- Narva Soojusvõrk AS (Tõnu Aas, Andres Vainola, Innar Kaasik, Vladimir Kalatšov, Aleksei Mägi).

Meetings of the Supervisory Boards of subsidiaries and associates take place according to need and are called in accordance with the Group's internal rules, the subsidiary's or associate's Articles of Association, the law and agreements with co-shareholders.

Management Board

Executive management is the responsibility of the Management Board of Eesti Energia. At the end of 2014, the Management Board had five members. Members of the Management Board are appointed by the Supervisory Board. The Chairman of the Management Board, who also performs the functions of the Chief Executive Officer, is separately appointed by the Supervisory Board.

In connection with the expiry of the service contract of the Chairman of the Management Board, Sandor Liive, in July 2014 the Supervisory Board of Eesti Energia announced a competition for finding the Chairman of the Management 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, effective from 1 December 2014. The service contract of the Chairman of the Management Board is effective until 30 November 2017.

On 27 November the Supervisory Board of Eesti Energia approved the new composition of the Management Board, effective from 1 December 2014. Former members of the Management Board Sandor Liive and Margus Kaasik stepped down from the Management Board of Eesti Energia. Margus Vals and Andres Vainola joined the Management Board as new members. In addition, term of office of Raine Pajo was extended to 30 November 2017.

The principles of remunerating members of the Management Board of Eesti Energia are regulated by the State Assets Act, under which the amount of their remuneration is decided by the Supervisory Board. Members of the Management Board are remunerated for fulfilling their responsibilities as members of the Management Board. The remuneration is set out in the contract signed with a member of the Management Board and it can only be altered subject to mutual agreement. Management Board members are also paid performance bonuses in line with the restrictions imposed by the State Assets Act and the results of the Group. The total amount of the performance bonus may not exceed four-fold average monthly remuneration received by the member of the Management Board in the previous financial year. Assignment of additional remuneration must be justified and consistent with the Group's performance, value added and market position. Termination benefits may only be paid if the Supervisory Board recalls a member of the Management Board on its own initiative before the term of office of the member of the Management Board expires and the amount may not exceed three-fold monthly remuneration of the member of the Management Board.

Meetings of the Management Board are generally held once a week. Where necessary, electronic voting is applied. In 2014, 50 meetings were held, 4 of which were conducted electronically.

MEMBERS OF THE MANAGEMENT BOARD

HANDO SUTTER / 44
Chairman

Beginning of term of office:
1 December 2014

End of term of office:
30 November 2017

WORK EXPERIENCE:
- 2010-2014 Nord Pool Spot AS; Regional Market Manager; Estonia, Latvia, Lithuania and Russia
- 2006-2009 US Invest AS, Development Adviser
- 2002-2006 Olympic Entertainment Group AS, Chief Operating Officer

EDUCATION:
- Tallinn University of Technology, Mechanical Engineer
- Estonian Business School, MBA Course
- Media Training (Portland; London, 2014)
- Media Communication (Hill & Knowlton; Oslo, 2012)
- The Spot, Intraday and Financial Markets – Settlement and Training (Nord Pool Spot/Nasdaq OMX; London, 2010)

MARGUS RINK / 42
Member

Ametisse määramise aeg:
14 April 2008

End of term of office:
13 April 2016

WORK EXPERIENCE:
- 1996–2008 Hansapank AS (current name Swedbank), various positions including Head of Personal and Retail Banking

EDUCATION:
- University of Tartu, Financial Accounting and Analysis
- University of Tartu, MA in Business Administration
- INSEAD (International Executive Programme, 2005)
- Oxford Said Business School (Advanced Management and Leadership Programme, 2012)
- Executive Program in Strategy and Organization (Stanford Graduate School of Business, 2014)

RAINE PAJO / 38
Member

Ametisse määramise aeg:
1 December 2006

End of term of office:
30 November 2017

WORK EXPERIENCE:
- 2000–2006 OÜ Põhivõrk (current name Elering), various positions including Member of Management Board, Head of Development Department, Director of Electrical Grid Planning Division
- 1999–2000 Fingrid Oy (Finnish TSO)

EDUCATION:
- Tallinn University of Technology, Electrical Engineer
- Tallinn University of Technology, MSc and Doctor of Engineering
- Tallinn University of Technology, MA in Business Administration
- Authentic Leadership Development (Harvard Business School, 2013)

MARGUS VALS / 35
Member

Ametisse määramise aeg:
1 December 2014

End of term of office:
30 November 2017

WORK EXPERIENCE:
- 2013-2014 Eesti Energia AS, Director of Strategy
- 2008-2013 Eesti Energia AS, Director of Energy Trading
- 2002-2008 Eesti Energia AS, Financial Service Analyst, from 2006 Head of Department

EDUCATION:
- Tallinn University of Technology, BA in Economics
- London Business School, Master of Research
- Stanford Graduate School of Business, Strategy and Organization Program

ANDRES VAINOLA / 48
Member

Ametisse määramise aeg:
1 December 2014

End of term of office:
30 November 2017

WORK EXPERIENCE:
- 2008-2014 Empower Group Oy, Member of Management, CEO of Baltic Division
- 2000-2007 Empower EEE AS, Chairman of Management Board
- 1997-2000 Eesti Elektrivõrkude Ehituse AS, Chairman of Management Board
- 2004-2014 Eesti Liinirongid AS (ELRON) Member of Supervisory Board and Chairman of Audit Committee

EDUCATION:
- Tallinn University of Technology, Automation and Telemechanics
- Tallinn University of Technology, Business Administration
- Leadership Academy Helsinki. Program for Middle and Senior Executives of Finnish and Swedish Infrastructure Companies (2001-2002)

SANDOR LIIVE / 44
Chairman until 30 November 2014
Left Eesti Energia as from 1 December 2014

WORK EXPERIENCE:
- 2005-2014 Eesti Energia AS, Chairman of Management Board
- 1998-2005 Eesti Energia AS, Chief Financial Officer
- 1995-1998 AS Tallinna Sadam, Chief Financial Officer and Head of Treasury

EDUCATION:
- Tallinn University of Technology, Financial Management
- Stanford Graduate School of Business (The Effective Use of Power, 2012)
- IMD, Lausanne, Switzerland (2012, 2004)
- INSEAD (Advanced Management Program, 2007)

MARGUS KAASIK / 41
Member and CFO until 30 November 2014
Left Eesti Energia as from 1 December 2014

WORK EXPERIENCE:
- 2005-2014 Eesti Energia AS, Member of Management Board
- 2001–2005 Eesti Energia AS, Head of Management Accounting
- 2000–2001 Jaotusvõrk OÜ (current name Elektrilevi) of Eesti Energia, Chief Financial Officer
- 1994–1999 AS FKSM (previous name AS Kogeri & Sumbergi Grupp), Chief Financial Officer

EDUCATION:
- Tallinn University of Technology, Business Administration
- Tallinn University of Technology, Master of Research (Business Administration)

Participation of Management Board Members in Meetings and the Total Remuneration Paid

	Participation in meetings	Total remuneration in 2014 (€)	Total remuneration in 2013 (€)
Hando Sutter	4	11,300	0
Raine Pajo	49	124,493	122,864
Margus Rink	46	124,805	122,048
Margus Vals	4	7,300	0
Andres Vainola	4	7,300	0
Sandor Liive	41	173,427	182,629
Margus Kaasik	46	124,380	122,670

Management Principles

Eesti Energia's integrated set of clear and simple management principles supports multi-directional exchange of information. Ensuring the existence, development and enforcement of those principles is the responsibility of the Group's Management Board. The principles are aimed at increasing efficiency, making better use of the Group's resources and achieving optimal outsourcing of services. In 2014 there were no significant changes in the Group's management principles.

Owner's Expectations

In February 2014, the General Meeting of Eesti Energia approved the owner's expectations of the company's Supervisory Board and Management Board. The expectations outline the principles that the Supervisory Board and the Management Board have to observe in designing the company's strategy and action plan and the company's strategic objectives and financial targets.

The Republic of Estonia maintains an ownership interest in Eesti Energia based on the following considerations:

- to ensure that maximum value is added to oil shale and other natural resources,
- to increase the value of the company and earn stable dividend income,
- to ensure, both as an electricity producer and the owner of the distribution network, security of supply,
- to provide employment for regional labour resources and reduce environmental impacts.

The owner's strategic expectations of the company are as follows:

- to maintain a significant market share in the regional electricity market,
- to reduce CO_2 emissions in power generation,
- to develop oil production and other methods of adding value to oil shale,
- to reinforce the position of Eesti Energia as a competent authority on matters pertaining to oil shale energy,
- to improve the quality of the distribution network service,
- to minimise the environmental impacts of the company's operations.

In line with the owner's expectations, achievement of strategic objectives must be supported by the following financial targets:

- organising the Group's operations so that a sufficient rate of return on equity is earned,
- striving to improve operating efficiency,
- ensuring stable and consistently increasing dividend income for the owner,
- designing business operations based on an optimal capital structure and the industry's average risk level,
- financing investments generally with the Group's operating cash flows and debt capital,

- making sure that each of the Group's businesses generates return on invested capital and that it is measurable.

Extended Management Board and Management Groups

The Group has implemented a value chain-based management model. The value chain management model comprises of three bodies: the Extended Management Board, the Oil Shale Management Group and the Customer Offers Management Group.

The Extended Management Board comprises of the Group's Management Board and the managers of major Group companies and Support Services. The role of the Extended Management Board is to enforce the Group's policies, agree and approve goals and targets and monitor performance. In general, the Extended Management Board meets once a month.

The Oil Shale Management Group is responsible for developing and increasing the efficiency of the Group's oil shale value chain. The Management Group includes members of the Management Board and the managers of Group entities that extract and use oil shale. In general, the Oil Shale Management Group meets once a week.

The Customer Offers Management Group is responsible for integrating activities aimed at the Group's retail customers. The Management Group includes members of the Management Board and the managers of Energy Sales, Energy Trading, distribution network operator Elektrilevi, Business and Information Technology and Communication. In general, the Customer Offers Management Group meets once a week.

Support Services

The following functions that support achievement of the Group's business objectives have been centralised and operate Group-wide:

- strategy development,
- human resource management and training,
- environmental management,
- risk management,
- internal audit,
- real estate and vehicle management,
- fire safety, rescue and security services,
- treasury and financial accounting and management accounting,
- IT management and development,
- legal services,
- communication and marketing.

Differences Applying to Management of the Distribution Network Operator

Under the Electricity Market Act, Elektrilevi as the distribution network operator has to ensure, among other things, that the network operators' and electricity sellers' access to customer and business information is separated using appropriate processes and IT solutions. For this, Eesti Energia has put in place differences applying to the management of the distribution network operator, which ensure its independence in adopting investment decisions, conducting procurements and maintaining the confidentiality of information pertaining to market participants and customer contracts.

Agreed Reporting Principles

Quality management decisions are underpinned by adequate and timely information. It is essential that reporting should be both factual and forward-looking. This allows using the best knowledge to prevent potential risks from realising and turn them into competitive advantages.

Financial reporting mainly focuses on reporting the consolidated financial results of Group entities. We release information on the company's operations and information that may affect the price of the Eurobond in accordance with the rules of the London Stock Exchange and, in the first place, via its information system. We release information that is not expected to affect the price of the Eurobond via domestic media channels. In both cases, we disseminate the information in line with the Group's rules for handling inside information.

Management reporting is mainly designed for intra-Group use. It encompasses reporting on a variety of performance indicators, which reflect the performance of the Group and separate Group entities, and project reporting, which focuses on analysing realisation of investment and development projects. Improving reporting is an ongoing process in which we review the factors which influence achievement of the agreed targets.

Effective Supervision

Eesti Energia Group has implemented a multi-level and balanced chain of supervision, which is focused on the most critical risks. The risks determine what needs to be done to be able to adapt operations and help the Group best achieve its objectives.

Audit Committee

Eesti Energia's Supervisory Board has set up an Audit Committee and has assigned the Audit Committee rights and responsibilities based on the approved rules of procedure. In its work, the Audit Committee is mainly guided by the statutes of the Audit Committee and the Auditors Activities Act. The primary function of the Committee is to advise the Supervisory Board in supervision-related matters.

The Committee supervises adherence to accounting policies, preparation and approval of the financial budget and statements, sufficiency and efficacy of the external audit, development and functioning of the internal audit system (including risk management) and legal compliance of the company's activities. The Committee participates in ensuring the independence of the external audit and in planning and assessing the internal audit work. The principles of remunerating members of Eesti Energia's Audit Committee are regulated by the State Assets Act. The work of the Committee is organised by the director of Eesti Energia's Risk Management and Internal Audit Service. Subsidiaries have not set up their own audit committees. The Group's internal audit function provides the Audit Committee with the information required for making assessments in respect of the subsidiaries.

The Audit Committee has four members. The composition and the chairman of the Committee are determined by the Supervisory Board of Eesti Energia. In 2014, the members of Eesti Energia's Audit Committee changed. Andres Saame, Meelis Atonen and Jüri Käo were recalled from the Committee in connection with their removal from the Supervisory Board of Eesti Energia. In September, the Supervisory Board of Eesti Energia appointed Märt Vooglaid as a new member of the Audit Committee.

Meetings of the Audit Committee take place according to an agreed schedule at least once a quarter. In 2014, the Committee had 10 ordinary meetings. The Audit Committee submits a report to the Supervisory Board twice a year. The Audit Committee submits its annual report to the Supervisory Board before the Supervisory Board approves the annual report of Eesti Energia. In 2014 the Audit Committee fulfilled all the responsibilities set forth in the rules of procedure.

The Audit Committee Statement is presented on page 68.

Eesti Energia's financial statements are audited in accordance with International Standards on Auditing. Under Eesti Energia's Articles of Association, appointment of the auditor of financial statements is the responsibility of the General Meeting. Based on the tender results, the General Meeting appointed audit firm PricewaterhouseCoopers (PwC) as the auditor of financial statements for financial years 2014–2016. Based on the countries of incorporation of Group entities, different persons may be authorised to sign the entities' auditor's reports. The auditor responsible for the audit of the consolidated financial statements is Certified Public Accountant Tiit Raimla. Eesti Energia does not disclose the fee paid to the auditor of the financial statements because the Group believes that this would undermine the outcomes of future tenders and might thus cause a financial loss for Eesti Energia.

PwC presented the results of its work in two stages:

1) the results of the interim audit were presented at the meeting of the Audit Committee held on 18 December 2014; and
2) the results of the year-end audit were presented at the meeting of the Audit Committee held on 26 February 2015.

The auditor's report is presented on page 140.

MEMBERS OF THE AUDIT COMMITTEE

KALLE PALLING / 29
Chairman
Beginning of term of office:
28 March 2013
End of term of office:
27 March 2016

MEELIS VIRKEBAU / 57
Member
Beginning of term of office:
17 December 2009
End of term of office:
16 December 2015

KAIE KARNIOL / 44
Member
Beginning of term of office:
23 May 2013
End of term of office:
18 June 2016

MÄRT VOOGLAID / 46
Member
Beginning of term of office:
1 September 2014
End of term of office:
31 August 2017

Participation of Audit Committee Members in Meetings and the Total Remuneration Paid

	Participation in meetings	Total remuneration in 2014 (€)	Total remuneration in 2013 (€)
Kalle Palling	9	976	444
Meelis Virkebau	9	1,355	1,578
Kaie Karniol	10	2,000	1,000
Märt Vooglaid	4	355	0

Eesti Energia considers it important to help ensure the independence of the auditor of the financial statements and avoid conflicts of interest. For this, the Audit Committee has established a set of principles to be followed when the auditor wishes to provide additional services to Group entities. In 2014, PwC did not provide any services to Eesti Energia that might have compromised the auditor's independence.

We find that the audit of financial statements for 2014 was performed in accordance with all regulatory requirements, international standards and relevant expectations.

Internal Audit

The Group's internal audit function has been organised and carries out is responsibilities in accordance with the International Professional Practices Framework that sets out international standards for internal auditing. The work of the internal audit function covers the activities of the whole Group.

Ensuring effective operation of the internal audit function is the responsibility of the Internal Audit Department. The Department is accountable to the Audit Committee and the Supervisory Board and its plans and reports are also evaluated and approved by the Audit Committee. The role of the Internal Audit Department is to contribute to improving the internal control environment, risk management and business management culture. The staff of the Internal Audit Department are guaranteed full independence and complete access to all the information they need. The internal audit report for 2014 was submitted to the Audit Committee on 26 February 2015. The internal audit reports are also made available to the auditor of the financial statements.

The Group has established a system for disclosing economic interests by which employees who may have conflicts of interest in fulfilling their responsibilities disclose their economic interests and confirm their independence through regular self-assessment.

Handling of inside information is regulated by Eesti Energia's inside information handling rules because the Group has issued Eurobonds listed on the London Stock Exchange. Proper handling of inside information is essential for protecting the interests of bondholders and ensuring fair and orderly trade of the bonds. All significant information on Eesti Energia and its subsidiaries is to be made available to all bondholders and potential investors in a timely and consistent manner and on equal terms (to the same extent, at the same time and in the same manner).

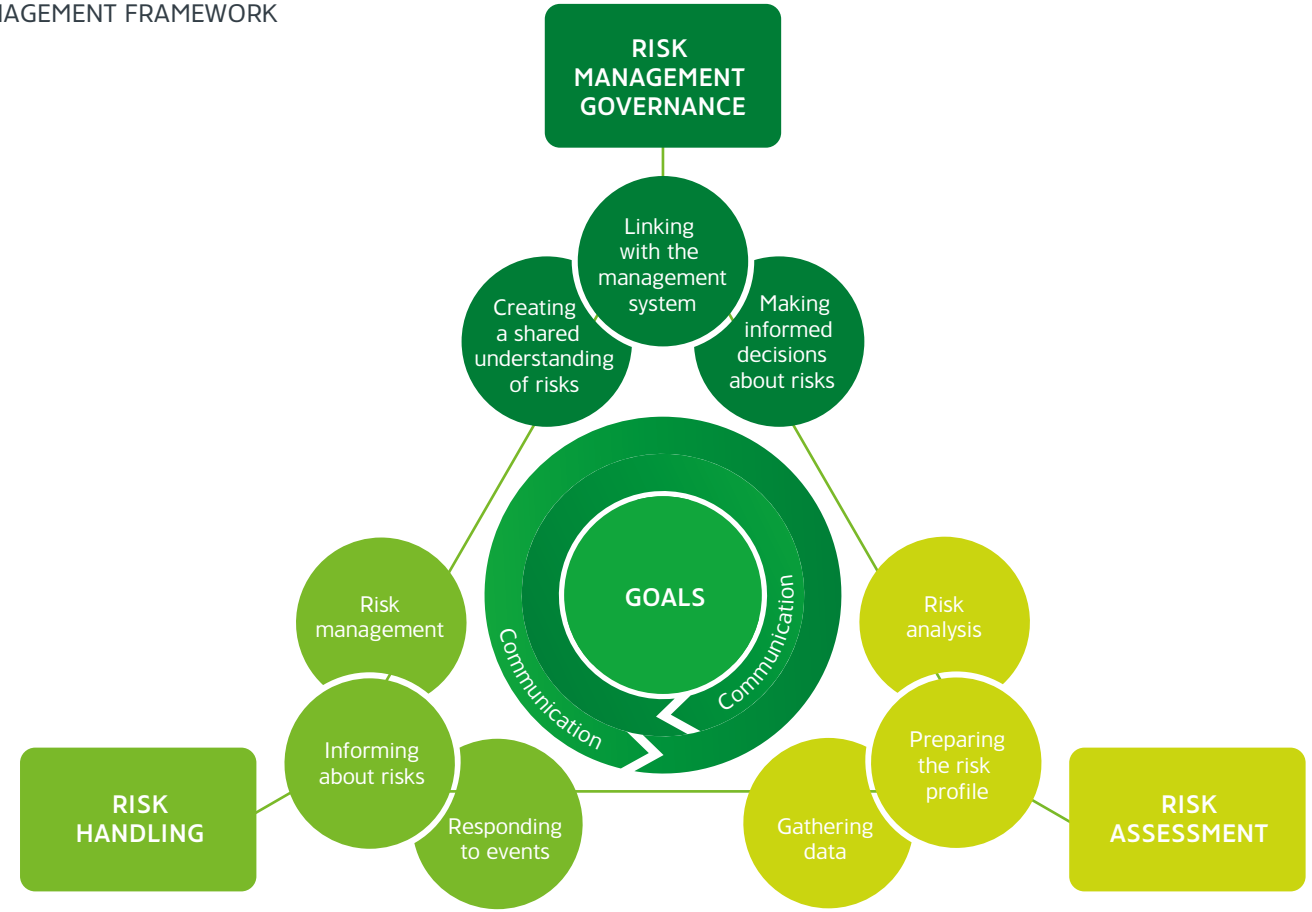
To the knowledge of Eesti Energia, the members of the Group's Management Board and the Management Boards of the subsidiaries had no conflicts of interest in 2014 and no related party transactions were conducted on terms that were not at arm's length. An overview of related party transactions conducted in 2014 is presented on page 134 of the financial statements.

It is inevitable that due to their position some people connected with Eesti Energia have at times more information about the Group than investors and the general public. To prevent misuse of such information, the Group has established rules for protecting inside information. To Eesti Energia's knowledge, there were no cases of misuse of inside information in 2014.

Risk Management

The Group's operations are accompanied by various strategic, financial, market and operational risks. To minimise the impacts of those risks, the Group continuously develops and enhances its risk management process. The primary goal of the Group's risk management is to ensure that the unhedged risks taken or carried by the Group do not exceed those that can be borne by the Group in the process of achieving its objectives.

RISK MANAGEMENT FRAMEWORK



Governance of Risk Management

The Group's risk management is coordinated by the Risk Management Department, which is part of the Risk Management and Internal Audit Service that reports to the Chairman of the Management Board and the Audit Committee. The Risk Management Department is responsible for developing, implementing and maintaining the process required for managing all important risks influencing the operations and results of Eesti Energia.

For managing market and financial risks, the Management Board has set up the Financial Risk Committee, which is responsible for ensuring that the Group's market and financial risks are managed in conformity with effective management policies and the strategies approved by the Management Board.

Each Group company and business unit has to ensure, in consideration of its goals and targets, that risks are managed on an ongoing basis. Risk-taking is a normal part of business but it must be certain that when a risk realises the company or business unit can continue carrying out its designated operations in a sustainable manner. In other words, the Group must not take risks that exceed its risk tolerance.

The Group assesses the risk exposures of both its current business operations and development projects. The risks and risk appetite of Eesti Energia Group can be divided into four broad categories.

<table>
<tr><td rowspan="2">STRATEGIC RISKS</td><td colspan="2">The Group takes well-considered risks to increase revenue</td></tr>
<tr><td rowspan="2">MARKET RISKS</td><td colspan="2" rowspan="2">The Group controls the risks and keeps them as low as possible because they are an inherent part of its business operations. However, taking the risks does not result in additional revenue or is not the Group's core activity</td></tr>
<tr><td>FINANCIAL RISKS</td></tr>
<tr><td rowspan="3">OPERATIONAL RISKS</td><td>ENVIRONMENTAL RISKS</td><td rowspan="2">The Group is not prepared to take these risks because doing so would jeopardise the environment, the health of the public and its employees, and its reputation</td></tr>
<tr><td>HEALTH AND SAFETY RISKS</td></tr>
<tr><td colspan="2">The Group controls the risks and keeps them as low as possible because they are an inherent part of its business operations</td></tr>
</table>

Risk Assessment and Management

In each category, the Group has developed risk management strategies, implemented a risk quantification and reporting system, and determined the parties responsible for managing the risks within the Group.

Strategic Risks

The Group's strategic risks mostly arise from changes in the political and legal environment. The Group's current operations and development projects in different markets depend on the activity of the regulators and political decisions. The main risk management tools include monitoring the changes and developments taking place in the political

and legal environment, participating in the development of new regulations, implementing changes within the Group, ongoing monitoring of compliance and identifying and resolving any instances of non-compliance. Regular identification of strategic risks is the responsibility of business and product managers and legal professionals.

Market Risks

Market risks which have a significant impact on the Group's performance include price risk, currency risk and interest rate risk.

Price risk arises on the sale of goods produced and services provided by the Group and the purchase of resources required for production. The most important price risks relate to the sale of electricity and shale oil and purchase of greenhouse gas emission allowances. The Group uses different derivative financial instruments to cover its price risk exposures. The purpose of hedging transactions is to ensure a set amount of variable profit. The Financial Risk Committee sets the target for closed positions for each period based on the Group's risk analyses. The task of the Energy Trading Department is to achieve the target based on the strategy for hedging the risk relating to variable profit.

Currency risk is mostly related to those shale oil sales transactions that are denominated in US dollars and have not been hedged with derivative transactions. The main measure for managing currency risk is risk avoidance. For this, long-term borrowings and electricity export contracts are mainly concluded in euros and the Group's unrestricted cash funds are generally held in euros.

Interest rate risk arises from floating rate borrowings and constitutes the threat that a rise in interest rates will increase finance costs. For managing the interest rate risk, the Group observes the principle that fixed rate borrowings should account for over 50% of the portfolio. The Group's interest rate and currency risks are managed at Group level by the parent company's Financial Department.

Financial Risks

Financial risks that have an impact on the Group's performance include credit risk and liquidity risk.

Credit risk arises from cash placed in bank deposits, available-for-sale financial assets, derivative financial instruments with a positive value, and trade and other receivables.

The Group has a uniform approach for mitigating counterparty credit risk from depositing unrestricted cash and conducting hedging transactions. There are requirements in place, which outline counterparties' acceptable credit risk characteristics, permitted transaction terms and maximum positions of concentration risk based on the credit risk level of the counterparty. Credit risk positions may only be opened with counterparties that have been approved by the Financial Risk Committee.

Unpaid customer invoices are handled by relevant departments. Customers whose accounts are overdue are sent reminders and cautions. There is a procedure in place for filing a debt collection claim with the court of law or transferring a receivable to a debt collection company.

Liquidity risk has two dimensions. Short-term liquidity risk is the risk that the Group's bank accounts do not include sufficient cash to meet the Group's financial commitments. Long-term liquidity risk is the risk that the Group does not have a sufficient amount of unrestricted cash and other sources of liquidity to meet its next 12 months' liquidity needs in order to carry out its business plan and meet its commitments, or that for the above reason the Group needs to raise additional cash in a hurry and on terms, which are less than optimal. Liquidity risk is mitigated with various financial instruments (loans, bonds and commercial paper) in line with internal regulations for measuring and managing liquidity risk. The Group's liquidity risk is managed at Group level by the parent company's Financial Department.

Operational Risks

Operational risks result from insufficient or ineffective processes, people, equipment, systems or external events. The main aim of managing operational risks is to minimise the impact of undesirable events. To achieve this, the Group consistently develops its internal control system. Considering the Group's business, it is essential for operational risk management to consistently improve and apply safety standards and regulations and increase control over compliance with environmental requirements. Implementation of quality and environment management systems is one of the tools of managing operational risks.

The key tools for managing risks related to plant and equipment and systems include maintenance planning, constant supervision and preparation of business continuity plans to ensure continuation of operation. The risks connected with production, work safety and the environment are assessed and managed at all Group entities and in all process phases (development, procurement, construction, commissioning, operation and maintenance). The Group uses insurance to cover its operational risks, particularly those risks that cannot be mitigated by any other means. Insurance is purchased based on risk analyses. Insurance is handled by the Risk Management Department, which is responsible for developing, implementing and maintaining the Group's insurance programme.

Risk Analysis Methodology

In 2014 the Group continued to improve its risk analysis methodology. Risk analysis is based on simulation methods, which analyse how the uncertainty of different factors impacts achievement of the Group's profit targets, generation of cash flows projected to be needed for investment, the ability to meet the required loan ratios and maintain the optimum level of loan ratios. The outcomes are used to choose the appropriate risk mitigation methods.

Risk Reporting

Significant risks that may impact achievement of the Group's goals and targets are regularly reported to the Group's Management Board and Audit Committee. The Group ensures that the Management Board is immediately notified of all significant risks and that such risks are included in the Group's risk profile. An overview of risks is a key input for planning internal audit activities.

Compliance with Good Corporate Governance Practice

We have evaluated the structure and operation of the Group's governance on the basis of the UK Corporate Governance Code issued by the Financial Reporting Council of the United Kingdom. In the sections above, we described the aspects that are important from the point of view of corporate governance.

Having evaluated the compliance of the structure and operation of the Group's governance system, we believe that, in all material respects, our organisation and activities are in compliance with the UK Corporate Governance Code. Our activities are likewise in conformity with Estonian laws, which regulate many of the principles laid out in the UK Corporate Governance Code in more detail.

Due to legal requirements, in 2014 our practice did not comply with the UK Corporate Governance Code in the following respects:

- no nomination committee has been set up (under Sections 80 and 81 of the State Assets Act, members of the Supervisory Board are appointed based on the decisions of the minister responsible for the field),
- the regularity of and rules for the re-election of members of the Supervisory Board differ (under Sections 80 and 81 of the State Assets Act, members of the Supervisory Board are appointed based on the decisions of the minister responsible for the field),
- members of the Management Board are elected and the Chairman of the Management Board is appointed based on the decision of the Supervisory Board,
- no remuneration committee has been set up (the principles of remunerating members of the governing bodies of state-owned companies are regulated by Sections 85 and 86 of the State Assets Act),
- self-assessment of the activities of the Supervisory Board is at variance (under Subsection 84 (1) of the State Assets Act, a member of the Supervisory Board is obliged to report to the minister who appointed him or her).

Having evaluated the compliance of the governance of Eesti Energia with the Baltic Guidance on the Governance of Government-owned Enterprises insofar as it relates to the executive management and reporting and auditing, we find that our governance complies with the said Guidance.

Audit Commitee Statement

The work of the Audit Committee in the financial year 2014 was based on the statutes of the Committee and its plan of activity. No restrictions have been imposed on our actions, and the Group's representatives have made all necessary information available to us. Well-defined reporting lines have ensured a fluent flow of necessary information to us. We have informed the members of the Management Board of our opinions formed and related suggestions made based on our work.

During the financial year 2014, we assessed the following points that have an impact on the operations of the Group:

- adherence to accounting principles,
- the preparation and approval of the financial budget and statements,
- the sufficiency and effectiveness of the external audit and assurance of its independence,
- the development and functioning of the internal audit system,
- the legality of the company's activities, and
- the organisation of the internal audit.

The Audit Committee as the body that creates confidence and is responsible for supervision finds that the activities of the Eesti Energia Group do not show any flaws of which the management is unaware or which could have a material impact on the annual report for the financial year 2014.

We submitted our assessments with the activity report to the Supervisory Board of Eesti Energia on 26 February 2015.

Kalle Palling

Chairman of the Audit Committee
26 February 2015

Consolidated Financial Statements

Consolidated Financial Statements

Consolidated Income Statement

in million EUR	1 January - 31 December		
	2014	**2013**	Note
Revenue	880.0	966.4	5, 26
Other operating income	23.4	8.8	27
Change in inventories of finished goods and work-in-progress	(0.9)	(11.4)	
Raw materials and consumables used	(375.5)	(419.6)	28
Payroll expenses	(142.2)	(148.2)	29
Depreciation and amortisation	(126.2)	(118.9)	5, 6, 8, 33
Impairment	-	(16.1)	5, 6, 33
Other operating expenses	(72.5)	(85.5)	30
OPERATING PROFIT	**186.1**	**175.5**	
Financial income	4.3	3.2	31
Financial expenses	(5.0)	(4.4)	31
Net financial income (-expense)	**(0.7)**	**(1.2)**	5,31
Profit (loss) from associates using equity method	(2.4)	(0.8)	5, 9, 33

in million EUR	1 January - 31 December		
	2014	**2013**	Note
PROFIT BEFORE TAX	**183.0**	**173.5**	5
Corporate income tax expense	**(23.7)**	**(14.0)**	32
PROFIT FOR THE YEAR	**159.3**	**159.5**	
PROFIT ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**159.5**	**159.5**	
Non-controlling interest	**(0.2)**	**-**	
Basic earnings per share (euros)	*0.26*	*0.26*	*37*
Diluted earnings per share (euros)	*0.26*	*0.26*	*37*

The notes on pages 75-139 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

in million EUR	1 January - 31 December		
	2014	2013	Note
PROFIT FOR THE YEAR	**159.3**	**159.5**	
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Revaluation of hedging instruments	-	35.5	21
Currency translation differences attributable to foreign subsidiaries	4.9	(1.6)	
Other comprehensive income for the year	**4.9**	**33.9**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**164.2**	**193.4**	
ATTRIBUTABLE TO:			
Equity holder of the Parent Company	**164.4**	**193.4**	
Non-controlling interest	**(0.2)**	**-**	

The notes on pages 75-139 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

in million EUR	31 December 2014	31 December 2013	Note
ASSETS			
Non-current assets			
Property, plant and equipment	2 408.5	2 258.1	6
Intangible assets	65.6	62.2	8
Investments in associates	2.0	22.4	5, 9
Derivative financial instruments	1.7	6.2	12, 14, 15
Long-term receivables	31.9	19.4	13
Total non-current assets	**2 509.7**	**2 368.3**	
Current assets			
Inventories	40.8	39.1	11
Greenhouse gas allowances	144.8	100.4	8
Trade and other receivables	124.3	185.1	13
Derivative financial instruments	75.7	41.4	12, 14, 15
Deposits at banks with maturities of more than three months	40.0	21.0	12, 15, 17
Cash and cash equivalents	60.2	62.6	12, 15, 18
Total current assets	**485.8**	**449.6**	
Total assets	**2 995.5**	**2 817.9**	5

in million EUR	31 December 2014	31 December 2013	Note
EQUITY			
Capital and reserves attributable to equity holder of the Parent Company			
Share capital	621.6	621.6	19
Share premium	259.8	259.8	
Statutory reserve capital	59.0	51.0	19
Hedge reserve	47.0	47.0	21
Unrealised exchange rate differences	5.7	0.8	
Retained earnings	624.0	566.1	19
Total equity and reserves attributable to equity holder of the Parent Company	**1 617.1**	**1 546.3**	
Non-controlling interest	**2.3**	**1.4**	
Total equity	**1 619.4**	**1 547.7**	
LIABILITIES			
Non-current liabilities			
Borrowings	928.0	826.5	12, 22
Other payables	3.8	3.3	23
Derivate financial instruments	1.7	1.5	12, 14
Deferred income	161.7	151.0	24
Provisions	31.7	28.8	25
Total non-current liabilities	**1 126.9**	**1 011.1**	
Current liabilities			
Borrowings	6.9	1.4	12, 22
Trade and other payables	167.0	178.4	23
Derivative financial instruments	0.8	2.5	12, 14
Deferred income	-	3.5	24
Provisions	74.5	73.3	25
Total current liabilities	**249.2**	**259.1**	
Total liabilities	**1 376.1**	**1 270.2**	
Total liabilities and equity	**2 995.5**	**2 817.9**	

The notes on pages 75-139 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

in million EUR	1 January - 31 December		
	2014	**2013**	Lisa
Cash flows from operating activities			
Cash generated from operations	294.0	285.9	33
Interest and loan fees paid	(37.6)	(31.8)	
Interest received	0.8	0.6	
Corporate income tax paid	(29.0)	(10.1)	
Net cash generated from operating activities	**228.2**	**244.6**	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	(260.2)	(387.4)	
Proceeds from connection and other fees	12.3	13.9	24
Proceeds from sale of property, plant and equipment	1.7	13.5	
Proceeds from grants of property, plant and equipment	-	4.4	
Dividends received from associates	5.6	1.5	
Net change in deposits at banks with maturities of more than 3 months	(19.0)	69.0	12, 15, 17
Net change in cash restricted from being used	3.2	9.4	13
Loans granted	(6.1)	(3.8)	38
Purchase of short-term financial investments	-	(4.7)	16
Purchase of shareholding in associate	-	(3.0)	36
Proceeds from repurchase of shares and liquidation of associate	11.6	-	9
Proceeds from sale and redemption of short-term financial investments	-	6.4	16
Acquisition of subsidiaries, net of cash acquired	-	-0.2	
Proceeds from disposal of subsidiary	4.7	-	35
Net cash used in investing activities	**(246.2)**	**(281.0)**	
Cash flows from financing activities			
Loans received	0.4	96.2	21
Proceeds from bonds issued	110.3	-	22
Repayments of bank loans	(1.4)	(1.3)	
Repayments of other loans	(0.1)	(0.8)	
Dividends paid	(93.6)	(55.2)	20, 32
Net cash used in financing activities	**15.6**	**38.9**	
Net cash flows	**(2.4)**	**2.5**	
Cash and cash equivalents at beginning of the period	62.6	60.1	12, 15, 18
Cash and cash equivalents at end of the period	60.2	62.6	12, 15, 18
Net increase/(-)decrease in cash and cash equivalents	**(2.4)**	**2.5**	

The notes on pages 75-139 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in million EUR	Attributable to equity holder of the Company						Non-controlling interest	Total equity	Note
	Share capital (Note 19)	Share premium	Statutory reserve capital (Note 19)	Other reserves	Retained earnings (Note 19)	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**	
Profit for the year	-	-	-	-	159.5	159.5	-	159.5	
Other comprehensive income for the year	-	-	-	33.9	-	33.9	-	33.9	
Total comprehensive income for the year	**-**	**-**	**-**	**33.9**	**159.5**	**193.4**	**-**	**193.4**	
Dividends paid	-	-	-	-	(55.2)	(55.2)	-	(55.2)	20, 32
Transfer of retained earnings	-	-	3.8	-	(3.8)	-	-	-	
Increase of non-controlling interest due to the conversion of subsidiary's debt into equity	-	-	-	-	-	-	0.4	0.4	
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**3.8**	**-**	**(59.0)**	**(55.2)**	**0.4**	**(54.8)**	
Equity as at 31 December 2013	**621.6**	**259.8**	**51.0**	**47.8**	**566.1**	**1 546.3**	**1.4**	**1 547.7**	
Profit for the year	-	-	-	-	159.5	159.5	(0.2)	159.3	
Other comprehensive income for the year	-	-	-	4.9	-	4.9	-	4.9	
Total comprehensive income for the year	**-**	**-**	**-**	**4.9**	**159.5**	**164.4**	**(0.2)**	**164.2**	
Dividends paid	-	-	-	-	(93.6)	(93.6)	-	(93.6)	20, 32
Transfer of retained earnings	-	-	8.0	-	(8.0)	-	-	-	
Increase of non-controlling interest due to the conversion of subsidiary's debt into equity	-	-	-	-	-	-	1.1	1.1	
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**8.0**	**-**	**(101.6)**	**(93.6)**	**1.1**	**(92.5)**	
Equity as at 31 December 2014	**621.6**	**259.8**	**59.0**	**52.7**	**624.0**	**1 617.1**	**2.3**	**1 619.4**	

The notes on pages 75-139 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General Information

The consolidated financial statements of Eesti Energia Group for the year ended 31 December 2014 include the financial information concerning Eesti Energia AS (parent company, legal form: public limited company) and its subsidiaries (the Group) and the Group's participation in associated entities.

Eesti Energia is an international energy company that offers energy solutions ranging from electricity, heat and fuel production to sales and customer service and many other energy services. The Group operates in the Baltics, the USA and Germany. The Group has investments in associates which operate in Jordan.

The registered address of the Parent Company is Laki 24, Tallinn 12915, Republic of Estonia.
The sole shareholder of Eesti Energia AS is the Republic of Estonia.
The bonds of Eesti Energia AS are listed on London Stock Exchange.

These consolidated financial statements of the Group were authorised for issue by the Management Board on 23 February 2015. Under the Commercial Code of the Republic of Estonia, the annual report must additionally be approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

2. Summary of significant accounting policies

The principal accounting policies used in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently used for all reporting periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC Interpretations, as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, except financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement and where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Changes in accounting policy and disclosures

(a) Adoption of New or Revised Standards and Interpretations

The following new or revised standards and interpretations became effective for the Group from 1 January 2014:

- *IFRS 12, Disclosure of Interests in Other Entities.* The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities.

The standard resulted in additional disclosures about the shareholdings in other companies.

There were no other new or revised standards or interpretations that were effective for the first time for the financial year beginning on or after 1 January 2014 that had a material impact to the Group.

(b) New standards and interpretations not yet adopted

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2015, and which the Group has not early adopted:

- *IFRS 9, Financial Instruments:* Classification and Measurement. The standard will be mandatory for the Group from 1 January 2018, not yet endorsed by the European Union. Key features of the new standard are:

  1. Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

  2. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

3. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

4. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

5. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

6. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The standard may have an effect on the classification of Group's financial instruments and value measurement.

- *Annual Improvements to IFRSs 2012*. The standard will be mandatory for the Group from 1 January 2015, not yet endorsed by the European Union. The improvements consist of changes to seven standards.

  IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

  Amendments in IFRS 8 may require additional disclosures in the financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

In preparation of consolidated financial statements, the financial statements of the Parent Company and its subsidiaries are consolidated on a line-by-line basis. In preparation of consolidated financial statements, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

In the Parent Company's separate financial statements the investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of

any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when the control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in the associates' other comprehensive income is recognised directly in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and is carrying value and recognises the amount adjacent to "Share of other profit/loss of the associates" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Management Board of the Parent Company.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the functional currency of the parent company and presentation currency of the Group. The financial statements have been rounded to the nearest million, unless stated otherwise.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the official exchange rates of the European Central Bank prevailing at the dates of the transactions or valuation where items are re-measured. When the European Central Bank does not quote a particular currency, the official exchange rate against the Euro of the central bank issuing the currency is used as the basis. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated using the official exchange rate of the European Central Bank prevailing at the balance sheet date or on the basis of the official exchange rate of the central bank of the country issuing the foreign currency when the European Central Bank does not quote the particular currency. Foreign exchange gains and losses from translation are recognised in the income statement, except for gains and losses from the revaluation of cash flow hedging instruments recognised as effective hedges, which are recognised in other comprehensive income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented as finance income and costs; other foreign exchange gains and losses are presented as other operating income or other operating expenses.

(c) Group companies

The results and financial position of the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate of the European Central Bank at the date of that balance sheet;
- income and expenses are translated at average exchange rates of the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiary and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

None of the subsidiaries in the Group operates in a hyper-inflationary economy.

2.6 Classification of assets and liabilities as current or non-current

Assets and liabilities are classified in the statement of financial position as current or non-current. Assets expected to be disposed of during the next financial year or during

the normal operating cycle of the Group are considered as current. Liabilities whose due date is during the next financial year or that are expected to be settled during the next financial year or during the normal operating cycle of the Group are considered as current. All other assets and liabilities are classified as non-current.

2.7 Property, plant and equipment

Property, plant and equipment (PPE) are tangible items that are used in the operating activities of the Group with an expected useful life of over one year. Property, plant and equipment are presented in the statement of financial position at historical cost less any accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of purchased non-current assets comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation of the asset. The cost of the self-constructed items of property, plant and equipment includes the cost of materials, services and payroll expenses.

If an item of property, plant and equipment consists of components with significantly different useful lives, these components are depreciated as separate items of property, plant and equipment.

When the construction of an item of property, plant and equipment lasts for a substantial period of time and is funded with a loan or other debt instrument, the related borrowing costs (interest) are capitalised in the cost of the item being constructed. Borrowing costs are capitalised if the borrowing costs and expenditures for the asset have been incurred and the construction of the asset has commenced. Capitalisation of borrowing costs is ceased when the construction of the asset is completed or when the construction has been suspended for an extended period of time.

Subsequent expenditures incurred for items of property, plant and equipment are included in the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the asset can be measured reliably. The replaced component or proportion of the replaced item of PPE is de-recognised. Costs related to ongoing maintenance and repairs are charged to the income statement.

Land is not depreciated. Depreciation on other asses is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	30–40 years
Facilities, including	
electricity lines	12.5–50 years
other facilities	10–60 years
Machinery and equipment, including	
transmission equipment	5–45 years
power plant equipment	7–30 years
other machinery and equipment	3–30 years
Other property, plant and equipment	3–10 years

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, when subsequent expenditures are recognised and in the case of significant changes in development plans. When

the estimated useful life of an asset differs significantly from the previous estimate, it is treated as a change in the accounting estimate, and the remaining useful life of the asset is changed, as a result of which the depreciation charge of the following periods also changes.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

To determine the gains and losses from the sale of property, plant and equipment, the carrying amount of the assets sold is subtracted from the proceeds. The resulting gains and losses are recognised in the income statement items under "Other operating income" or "Other operating expenses" respectively.

2.8 Intangible assets

Intangible assets are recognised in the statement of financial position only if the following conditions are met:

- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Intangible assets (except for goodwill) are amortised using the straight-line method over the useful life of the asset.

Intangible assets are tested for impairment if there are any impairment indicators, similarly to the testing of impairment for items of property, plant and equipment (except for goodwill). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amount with their recoverable amount.

(a) Goodwill

Goodwill acquired in a business combination is not subject to amortisation. Instead, for the purpose of impairment testing, goodwill is allocated to cash-generating units and an impairment test is performed at the end of each reporting period (or more frequently if an event or change in circumstances demands it). The allocation is made to those cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. Goodwill is allocated to a cash generating unit or a group of units, not larger than an operating segment. Goodwill is written down to its recoverable amount when this is lower than the carrying amount. Impairment losses on goodwill are not subsequently reversed. Goodwill is reported in the statement of financial position at the carrying amount (cost less any impairment losses) (Note 2.9). When determining gains and losses on the disposal of a subsidiary, the carrying amount of goodwill relating to the entity sold is regarded as part of the carrying amount of the subsidiary.

(b) Development costs

Development costs are costs that are incurred in applying research findings for the development of specific new products or processes. Development costs are capitalised if all of the criteria for recognition specified in IAS 38 have been met. Capitalised development costs are amortised over the period during which the products are expected to be used. Expenses related to starting up a new business unity, research carried out for collecting new scientific or technical information and training costs are not capitalised.

(c) Contractual rights

Contractual rights acquired in a business combination are recognised at fair value on acquisition and are subsequently

carried at cost less any accumulated amortisation. Contractual rights are amortised using the straight-line basis over the expected duration of the contractual right.

(d) Computer software

Costs associated with the ongoing maintenance of computer software programs are recognised as an expense as incurred.

Acquired computer software which is not an integral part of the related hardware is recognised as an intangible asset. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources for completing the development and using the software product are available;
- the expenditure attributable to the software product during its development can be reliably measured.

Capitalised software development costs include payroll expenses and an appropriate portion of related overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs are amortised over their estimated useful lives (not exceeding seven years) using the straight-line method.

(e) Right of use of land

Payments made for rights of superficies and servitudes meeting the criteria for recognition as intangible assets are recognised as intangible assets. The costs related to rights of use of land are depreciated according to the contract period, not exceeding 99 years.

(f) Greenhouse gas emission allowances

Greenhouse gas emission allowances controllable by the Group are accounted for as current asset. Greenhouse gas emission allowances received from the state free of charge are recognised at zero cost. Any additionally purchased allowances are recognised at purchase cost or at the market price, if the Group has acquired the greenhouse gas emission allowances more than presumably needed and the Group has a plan to sell the allowances. The provision for greenhouse gas emissions is set up in the average price of the greenhouse gas emission allowances that are owned by the Group or that will be allocated to the Group free of charge (Note 2.24).

(g) Exploration and evaluation assets of mineral resources

Expenditures that are included in the initial measurement of exploration and evaluation assets include the acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; sampling and activities related to evaluation of the technical feasibility and economic viability of extracting a mineral resource.

Exploration and evaluation assets are initially recognised at cost. Depending on the nature of the asset, the exploration and evaluation assets are classified as intangible assets or items of property, plant and equipment. Expenditure on the construction, installation and completion of infrastructure facilities is capitalised within items of property, plant and

equipment, other exploration and evaluation assets are recognised as intangible assets. After initial recognition, exploration and evaluation assets are measured using the cost model.

Exploration and evaluation assets are tested for impairment (Note 2.9) when one or more of the following circumstances are present:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on future exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(h) Mining rights

Mining rights controllable by the Group are accounted for as current or non-current intangible assets depending on the expected realisation period. Mining rights received from the state free of charge are recognised at zero cost. The fee for extracted natural resources that is paid according to the volume of natural resources extracted is recognised in expenses as incurred (Note 2.22).

2.9 Impairment of non-financial assets

Assets that have indefinite useful lives (for example goodwill or intangible assets not ready to use) are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation/depreciation and land are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's:

- fair value less costs of disposal; and
- value in use.

If the fair value of the asset less costs to sell cannot be determined reliably, the recoverable amount of the asset is its value in use. The value in use is calculated by discounting the expected future cash flows generated by the asset to their present value.

An impairment test is carried out if any of the following indicators of impairment exist:

- the market value of similar assets has decreased;
- the general economic environment and the market situation have worsened, and therefore it is likely that the future cash flows generated by assets will decrease;
- market interest rates have increased;
- the physical condition of the assets has considerably deteriorated;
- revenue generated by assets is lower than expected;
- results of some operating areas are worse than expected;
- the activities of a certain cash generating unit are planned to be terminated.

If the Group identifies any other evidence of impairment, an impairment test is performed.

Impairment tests are performed either for an individual asset or group of assets (cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows generated by other assets or groups of assets. An impairment loss is recognised immediately as an expense in the income statement.

At the end of each reporting period, it is assessed whether there is any indication that the impairment loss recognised in the prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. According to the results of the estimate, the impairment loss can be partially or wholly reversed. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

2.10 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, acquired for the purpose of selling in the short term. Derivatives are also recognised at fair value through profit or loss unless they are designated and effective hedging instruments. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables are included in the statement of financial position lines "Cash and cash equivalents", "Deposits at banks with maturities of more than three months", "Trade and other receivables".

2.11.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised or de-recognised using the trade-date accounting method. Investments which are not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards incidental to ownership. Financial assets at fair value through profit or loss and available-for sale are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement line “Net financial income (-expense)”in the period in which they arise or are incurred (Note 31). Interest income on available-for-sale financial assets and on loans and receivables is reported in the income statement line "Financial income" (Note 31). The Group has not received any interest income or dividend income on financial assets recognised at fair value through profit or loss in the current and comparative reporting period.

The profit/loss from the changes in the fair value of the available-for-sale financial assets is recognised in other comprehensive income.

The fair values of quoted investments are based on the bid prices prevailing at the end of the reporting period. To find the fair value of unquoted financial assets, various valuation techniques are used. Depending on the type of financial asset, these include the listed market prices of instruments that are substantially the same, quotes by intermediaries and estimated cash flow analysis. The Group uses several different measures and makes assumptions which are based on the market conditions at the end of each reporting period. The fair value of derivatives is based on the quotes of exchange.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.13 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the

consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method for recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if it is, the nature of the item being hedged. The Group uses cash flow hedging instruments in order to hedge the risk of changes of the prices of shale oil and electricity.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, and also its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment and tests, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 14. Movements on the hedge reserve in other comprehensive income are disclosed in Note 21. The full fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives held for trading are classified as current assets or liabilities.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as a net amount within other operating income or operating expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately recognised as other operating income or operating expenses in the income statement.

Hedging instruments, which are combined from various components of derivative instruments, are recognised

at fair value with changes through profit or loss until the acquisition of all components.

(b) Derivatives at fair value through profit or loss

Derivatives which are not designated as hedging instruments are carried at fair value through profit or loss. The gains and losses arising from changes in the fair value of such derivatives are included within other operating income or operating expenses in the income statement.

(c) Derivatives at own use

Derivative contracts that are entered into use and continue to be held for the purpose of the receipt of the underlying commodity in accordance with the Group's expected purchase requirements are accounted for as regular purchases of underlying commodities. For example, any futures contracts for buying greenhouse gas emissions allowances that are necessary for the Group's electricity production purposes are not recognised as derivatives on the balance sheet; the emissions allowances purchased are recognised as intangible assets when settlement of future contract occurs and emissions allowances are transferred to the Group. Any payments made to the counterparty before the settlement date are recognised as prepayments for intangible assets.

If the terms of the contracts permit either party to settle it net in cash or another financial instrument or the commodity that is the subject of the contracts is readily convertible to cash, the contracts are evaluated to see if they qualify for own use treatment. Contracts that do not qualify for own use treatment, are accounted for as derivatives as described above

2.15 Inventories

Inventories are stated in the statement of financial position at the lower of cost or net realisable value. The weighted average method is used to expense inventories. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but it excludes borrowing costs. The cost of raw and other materials consists of the purchase price, expenditure on transportation and other costs directly related to the purchase.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. Material receivables are assessed individually. The rest of the receivables are collectively assessed for impairment,

using previous years' experience of impairment which is adjusted to take account of current conditions. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a receivable is classified as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement against other operating expenses.

If collection is expected within one year or less, the receivables are classified as current assets. If not, they are presented as non-current assets. Long-term receivables from customers are recognised at the present value of the collectible amount. The difference between the nominal value and the present value of the collectible receivable is recognised as interest income during the period remaining until the maturity date using the effective interest rate.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank account balances and cash in transit as well as short-term highly liquid investments with original maturities of 3 months or less.

2.18 Share capital and statutory reserve capital

Ordinary shares are classified as equity. No preference shares have been issued. Unavoidable incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds. Shares approved at the General Meeting but not yet registered in the Commercial Registry are recognised in the equity line "Unregistered share capital".

The Commercial Code requires the Parent Company to set up statutory reserve capital from annual net profit allocations, the minimum amount of which is 1/10 of share capital. The amount of allocation to annual statutory reserve capital is 1/20 of the net profit of the financial year until the reserve reaches the limit set for reserve capital. Reserve capital may be used to cover a loss that cannot be covered from distributable equity, or to increase share capital.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that

it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred and treated as a transaction cost when the draw-down occurs.

Borrowings are recognised as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the end of reporting period.

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Taxation

(a) Corporate income tax on dividends in Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008 until 31 December 2014, the tax rate on the net dividends paid out of retained earnings was 21/79. From 1 January 2015, the tax rate on the net dividends paid out of retained earnings is 20/80. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The income tax liability is due on the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. The maximum income tax liability which would accompany the distribution of retained earnings is disclosed in the notes to the financial statement.

(b) Other taxes in Estonia

The following taxes had an effect on the Group's expenses:

Tax	Tax rate
Social security tax	33% of the payroll paid to employees and of fringe benefits
Unemployment insurance tax	1.0% of the payroll paid to employees
Fringe benefit income tax	Until 31 December 2014 21/79 of fringe benefits paid to employees, from 1 January 2015 20/80 of fringe benefits paid to employees.
Pollution charges	Paid for contamination of the air, water, ground water, soil and waste storage, and based on tonnage and type of waste
Fee for extraction right for oil shale	2.00 euros per tonne of oil shale extracted (in 2013 until 31 March 1.39 and from 1 April 1.67 euros per tonne of oil shale extracted)
Water utilisation charges	2.29-160.35 euros per 1000 m^3 of pond or ground water used (in 2013 until 31 March 1.59–152.74 and from 1 April 1.91-152.74 euros per 1000 m^3 of pond or ground water used).
Land tax	0.1–2.5% on taxable value of land per annum
Tax on heavy trucks	3.50 – 232.60 euros per truck per quarter
Excise tax on electricity	4.47 euros per MWh of electricity
Excise tax on natural gas	23.45 euros per 1000 m^3 of natural gas
Excise tax on shale oil	15.01 euros per 1000 kg of shale oil
Excise tax on oil shale	0.30 euros per giga-joule
Corporate income tax on non-business related expenses	Until 31 December 2014 21/79 on non-business related expenses, from 1 January 2015 20/80 on non-business related expenses.

(c) Income tax rates in foreign countries in which the Group operates

Latvia	Income earned by resident legal persons is taxed at an income tax rate of 15%
Lithuania	Income earned by resident legal persons is taxed at an income tax rate of 15%
Germany	Income earned by resident legal persons is taxed at an income tax rate of 28.425% (corporate and trade tax combined)
the USA	Income earned by resident legal persons is taxed at an income tax rate of 35%
Jordan	Income earned by resident legal persons is taxed at an income tax rate of 24%. Jordan Oil Shale Energy is fully and Attarat Power company in the 75% extent exempted from income tax according to the contracts concluded with the Hashemite Kingdom of Jordan.
the Netherlands	Income earned by resident legal persons is taxed at an income tax rate of 25%

(d) Deferred income tax

Deferred income tax is recognised in foreign subsidiaries on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets and liabilities are recognised under the liability method. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset and liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

As at 31 December 2014 and 31 December 2013, the Group had neither any deferred income tax assets nor deferred income tax liabilities

2.23 Employee benefits

Short-term employee benefits

Short-term employee benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur within 12 months from the end of the period in which the employee worked, and other benefits payable after the end of the period during which the employee worked.

If during the reporting period the employee has provided services in return for which benefits are expected to be paid, the Group will set up a liability (accrued expense) for the amount of the forecast benefit, from which all paid amounts are deducted.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value. Redundancy provisions are set up for redundancies occurring in the course of restructuring (Note 2.24).

Other employee benefits

Provisions have been set up to cover the benefits arising from collective agreements and other agreements and the compensation for work-related injuries (Note 2.24).

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions are recognised based on management's estimates. If required, independent experts may be involved. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of an outflow of resources may be small for any individual item, it may be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, the provision is recognised (if the other recognition criteria are met).

Provisions are reviewed at the end of each reporting period and adjusted to reflect current best estimates. The costs related to setting up provisions are charged to operating expenses or are included within the acquisition cost of an item of PPE when the provision is related to the dismantlement, removal or restoration or other obligation, incurred either when the item is acquired or as a consequence of use of the item during a particular period.

Provisions are used only to cover the expenses for which they were set up.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the Group settles the obligation. The reimbursement shall be treated as a separate asset. The amount of the reimbursement may not exceed the amount of the provision.

(a) Provisions for post-employment benefits and work-related injury compensation

If the Group has the obligation to pay post-employment benefits to their former employees, a provision is set up to cover these costs. The provision is based on the terms of the obligation and the estimated number of people eligible for the compensation.

Provisions for work-related injuries are recognised to cover expenditure related to future payments to former employees according to court orders over the estimated period of such an obligation.

(b) Environmental protection provisions

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by law or when the Group's past environmental policies have demonstrated that the Group has a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions.

(c) Provisions for the termination of mining operations

Provisions for the termination of mining operations are set up to cover the costs related to the closing of mines and quarries, if it is required by law. Experts' opinion and prior experience gained from the termination of mining operations is used to set up the provisions.

(d) Provision for termination benefits

Provisions for termination benefits have been recognised to cover the costs related to employee redundancy if the Group has announced a restructuring plan, identifying the expenditure, the business or part of a business concerned, the principal locations affected, the location, function and approximate number of employees who will be compensated for termination of their services, the timing of the implementation of the plan; and if the Group has raised a valid expectation among those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

(e) Provision for the dismantling cost of assets

The provisions for the dismantling of assets are set up to cover the estimated costs relating to the future dismantling of assets if the dismantling of assets is required by law or if the Group's past practice has demonstrated that the Group has a present constructive obligation to incur these costs. The present value of the dismantling costs of assets is included within the cost of property, plant and equipment.

(f) Provisions for greenhouse gas emissions

A provision for greenhouse gas emissions is set up in the average price of the greenhouse gas emission allowances that are owned by the Group or that will be allocated to the Group free of charge to meet the obligations arising from legislation relating to greenhouse gas emissions. When the Group surrenders the greenhouse gas emission allowances to the state for the greenhouse gases emitted, both the provision and the intangible assets are reduced by equal quantities and amounts (Note 2.8).

(g) Provisions for onerous contracts

A provision for onerous contract is set up if the Group has concluded a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The provision is set up in the amount which is the lower of the cost of fulfilling it (revenues received less expenses occurred of fulfilling the contract) and any compensation or penalties arising from failure to fulfill it.

(h) Provision for obligations arising from treaties

Provision for obligations arising from treaties is set up to meet the obligations arising from treaties, in which realization of timing or amount is uncertain.

2.25 Contingent liabilities

Possible obligations where it is not probable that an outflow of resources will be required to settle the obligation, or where the amount of the obligation cannot be measured with sufficient reliability, but which may become in certain circumstances liabilities, are disclosed in the notes to the financial statements as contingent liabilities.

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of business. Revenue is shown net of value-added tax and discounts after the elimination of intra-group transactions. Revenue is recognised only when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group, all significant risks and rewards incidental to ownership have been transferred from the seller to the buyer, and the additional criteria presented below have been met. The amount of revenue can be measured reliably only when all the conditions related to the transaction are evident.

(a) Sale of electricity and grid services

Revenue is recognised on the basis of meter readings of customers. Meter readings are reported by customers, read by remote counter reading systems based on actual consumption, or estimated based on past consumption patterns. Additionally, estimates are made of the potential impact of readings either not reported or incorrectly reported by the end of the reporting period, resulting in a more precise estimation of the actual consumption and sale of electricity.

(b) Recognition of connection fees

When connecting to the electricity network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The revenue from connection fees is deferred and recognised as income over the estimated average useful lives of assets acquired for the connections. The average amortisation period of connection fees is 32 years. Deferred connection fees are carried in the statement of financial position as long-term deferred income.

(c) Revenue recognition under the stage of completion method

Revenue from unfinished and finished but undelivered services is recognised using the stage of completion method. Under this method, contract revenue and profit is recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract were incurred. Unbilled but recognised revenue is recorded as accrued income in the statement of financial position. Where progress billings at the end of the reporting period exceed costs incurred plus recognised profits, the balance is shown as due to customers on construction contracts, under accrued expenses.

(d) Interest income

Interest income is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Interest income is recognised using the effective interest rate, unless the receipt of interest is uncertain. In such cases the interest income is accounted for on a cash basis.

(e) Dividend income

Dividend income is recognised when the Group has established the right to receive payment.

2.27 Government grants

Government grants are recognised at fair value, when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants are recognised as income over the periods necessary to match them with the costs which they are intended to compensate.

Assets acquired through government grants are initially recognised in the statement of financial position at cost. The amount received as a government grant is recognised as deferred income related to the government grant. Related assets are depreciated and the grant is recognised as income over the estimated useful life of the depreciable asset.

2.28 Leases

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases which transfer all significant risks and rewards incidental

to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

(a) The Group as the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) The Group as the lessor

The accounting policies for items of property, plant and equipment are applied to assets leased out under operating lease terms. Rental income is recognised in the income statement on a straight-line basis over the lease term.

2.29 Dividend distribution

Dividends are recognised as a reduction of retained earnings and a payable to shareholders at the moment the dividends are announced.

2.30 Related party transactions

For the purposes of preparing the consolidated financial statements, the related parties include the associates of the Group, the members of the Supervisory and Management Boards of Eesti Energia AS and other individuals and entities who can control or significantly influence the Group's financial and operating decisions. As the shares of Eesti Energia AS belong 100% to the Republic of Estonia, the related parties also include entities under the control or significant influence of the state.

3. Financial risk management

3.1 Financial risks

The Group's activities are accompanied by a variety of financial risks: market risk (which includes currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The purpose of financial risk management is to mitigate financial risks and minimise the volatility of financial results. The risk and internal audit department under the Chairman of the Management Board and auditing committee is engaged in risk management and is responsible for the development, implementation and maintenance of the Group's risk management system. The Group's financial risks are managed in accordance with the principles established by the Management Board at the Group level. The Group's liquidity, interest rate and currency risks are managed in the finance department of the Parent Company.

3.1.1 Market risks

3.1.1.1 Currency risk

Currency risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to exchange rate changes. The financial assets and liabilities denominated in euros are considered to be free of currency risk. All long-term borrowings and electricity export contracts are also concluded in euros to avoid currency risk.

The Group's main currency risk arises in connection with the part of the sales transactions of shale oil denominated in US dollars that is not hedged with future transactions (Note 14). In addition, a few other procurement and other contracts have been concluded in a currency other than the functional currency of the Group companies. The majority of these transactions included the transactions concluded in US dollars.

At the end of reporting period, the Group had the following balances of financial assets and liabilities denominated in US dollars.

in million EUR	31 December	
	2014	2013
Cash and cash equivalents (Note 18)	0.2	0.3
Trade and other receivables	37.4	29.2
Trade and other payables	0.5	0.3

Had the US dollar's exchange rate at 31 December 2014 been 13% (31 December 2013: 8%) higher or lower (with other factors remaining constant), the Group's profit for the financial year would have been EUR 6.2 million higher/lower (2013: EUR 2.5 million higher/lower) as a result of the revaluation of the balances of cash and cash equivalents, trade and other receivables and trade and other payables.

The cash and cash equivalents by currencies is disclosed in Note 18.

3.1.1.2 Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future for reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The sale of goods produced and services provided by the Group under free market conditions, the purchase of resources used in production, and financial assets recognised at fair value through profit or loss are impacted by price risk.

3.1.1.2.1 The price risk of commodities

The most significant price risks of goods and services are the price risks related to the sale of electricity and shale oil, and to the purchase of greenhouse gas emission allowances. The Group uses various derivatives to hedge the price risks related to the sale of goods and services and purchase and sale of greenhouse gas emission allowances. To hedge the risk related to changes in the price of electricity, forward contracts are used which are entered into for the sale of a specific volume of electricity at each trading hour. The volume of derivative transactions for sales of electricity through the power exchange Nord Pool depends on the price difference between the market price of electricity and the price level of greenhouse gas emission allowances and the planned production capacity of electrical energy.

Swap and option transactions are used to hedge the risk in the price of shale oil. With these transactions, the Group or a transaction partner undertakes to pay the difference between the fixed price and the market price in the reporting period. According to the risk hedging principles of the Group, the goal of hedging transactions is to ensure predefined profits after variable expenses. The volume of the underlying assets, the risks of which are being hedged, is determined separately for each period. The minimum price level is set for price risk hedge transactions, after which transactions can be concluded. The volume of transactions depends on the time horizon of the underlying period and the contract price offered.

The need to buy greenhouse gas emission allowances arises when CO_2 emissions exceed the number of greenhouse

gas emission allowances allocated free of charge by the state. To lower the risk from changes in the price of the amount of greenhouse gas emissions allowed, the Group uses option and future transactions (Note 14). According to the risk management strategy concerning greenhouse gas emission allowances, the missing quantity is purchased on a dispersed basis throughout the year based on the expected price and shortage of greenhouse gas emission allowances.

3.1.1.3 Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. Cash flow interest rate risk arises to the Group from floating interest rate borrowings and lies in the danger that financial expenses increase when interest rates increase.

Sensitivity analysis is used to assess the interest rate risk. For managing the Group's interest rate risks, the principle that the share of fixed interest rate borrowings in the portfolio should be over 50% is followed. As at the financial year-end, 95% of the Group's borrowings were fixed and 5% had floating interest rates (31 December 2013: fixed 94% and floating 6%). Due to that the changes in the market interest rate don't have material effect on the Group's borrowings, however they may affect the fair value of the borrowings.

Overnight deposits and term deposits have been entered into with fixed interest rates and they do not result in an interest rate risk for cash flows to the Group. Any reasonably possible change in the fair value of financial assets at fair value through profit or loss would not have had significant impact on the Group's net profit.

3.1.2 Credit risk

Credit risk is the risk that the Group will incur a monetary loss caused by the other party to a financial instrument because of that party's inability to meet its obligations. Cash in bank deposits, derivatives with a positive value and trade and other receivables are exposed to credit risk.

According to the principles of depositing of available monetary funds of the Group, the following principles are followed

- preserving capital
- ensuring liquidity at the right moment for the needs of business;
- optimal return considering the previous two goals.

Short-term monetary funds can be deposited in the following domestic and foreign financial instruments:

- money market funds and interest rate funds in which holdings or shares can be redeemed or sell on a regular basis;
- deposits of credit institutions;
- freely negotiable bonds and other freely negotiable debt instruments.

Requirements for the level of credit risk of issuers and partners of financial instruments (including hedge transactions) and maximum positions of each partner are approved by the Group's committee of the financial risks.

The available monetary funds can be deposited only in financial instruments nominated in euros. In addition there are certain requirements for the maturities of the financial instruments and diversification.

The unpaid invoices of clients are handled on a daily basis in the departments specifically set up for this purpose. The automated reminder and warning system sends messages to customers about overdue invoices with the warning that if they are not paid, the clients will be cut off from the electricity network. After that, a collection petition is filed

at the court or a collection agency. Special agreements are in the jurisdiction of special credit committees.

The maximum amount exposed to credit risk was as follows as at the end of the reporting period:

in million EUR	31 December	
	2014	**2013**
Deposits at banks with maturities of more than three months (Notes 12, 15 and 17)	40.0	21.0
Trade and other receivables (Notes 12 and 13)*	150.9	158.9
Bank accounts and term deposits with maturities lower than 3 months at banks (Note 12, 15 and 18)	60.2	62,6
Derivatives with positive value (Notes 3.3, 12, 14 and 15)	77.4	47.6
Total amount exposed to credit risk	**328.5**	**290.1**

* Total trade and other receivables less prepayments

Trade receivables are shown net of impairment losses. Although the collection of receivables can be impacted by economic factors, management believes that there is no significant risk of loss beyond the provisions already recorded. The types of other receivables do not contain any impaired assets.

More detailed information on credit risk is disclosed in Notes 13 and 15.

3.1.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations due to insufficient cash inflows. Liquidity risk is managed through the use of various financial instruments such as loans, bonds and commercial papers.

In order to finance its extensive capital expenditure programme, the Group has issued 4-year international bonds for EUR 100 million (31 December 2013 0 million EUR), 6-year international bonds for EUR 300 million (31 December 2013: 300 million EUR) and 15-year international bonds for EUR 300 million (31 December 2013: 300 million EUR) (Note 22) and has drawn loans for a total of EUR 237.1 million (31 December 2013: EUR 238.5 million) (Note 22). To lower the level of the interest rate on the borrowings, the Group has obtained credit ratings from the agencies Standard & Poor's and Moody's; as at 31 December 2014, the ratings were BBB+ stable and Baa2 stable, respectively (31 December 2013: BBB+ stable ja Baa1 negative).

As at 31 December 2014, the Group had undrawn loan facilities of EUR 250.0 million (31 December 2013: EUR 250.0 million) (Note 22). As at the end of the financial year, the Group had spare monetary balances (including cash and cash equivalents and deposits at banks with maturities of more than three months) of EUR 100.2 million (31 December 2013: EUR 83.6 million). The cash flow forecasts are prepared for a 12-month period and approved by the Supervisory Board once a year. Bank account limits are used within the Group to manage the liquidity of subsidiaries.

The following liquidity analysis includes the division between the Group's current and non-current liabilities (including derivatives with net payments) by the maturity date of liabilities. All amounts shown in the table are contractual undiscounted cash flows. The payables due within 12 months after the end of the reporting period, except for borrowings, are shown at their carrying amount.

Division of liabilities by maturity date as at 31 December 2014 (in million EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 12 and 22)*	35.6	647.2	734.8	**1,417.6**	934.9
Derivatives (Notes 3.3, 12 and 14)	0.8	1.7	-	**2.5**	2.5
Trade and other payables (Notes 12 and 23)	109.6	2.1	-	**111.7**	111.7
Tax liabilities and payables to employees (Note 23)	51.3	-	-	**51.3**	51.3
Total	**197.3**	**651.0**	**734.8**	**1,583.1**	**1,100.4**

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2014.

Division of liabilities by maturity date as at 31 December 2013 (in million EUR):

	Less than 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Notes 3.2, 12 and 22)*	26.8	492.2**	516.3**	**1 035.3**	827.9
Derivatives (Notes 3.3, 12 and 14)	2.5	1.5	-	**4.0**	4.0
Trade and other payables (Notes 12 and 23)	124.0	3.3	-	**127.3**	127.3
Tax liabilities and payables to employees (Note 23)	53.9	-	-	**53.9**	53.9
Total	**207.2**	**497.0**	**516.3**	**1,220.5**	**1,013.1**

* Interest expenses have been estimated on the basis of the interest rates prevailing as at 31 December 2013.
** Following reclassifications have been made in this annual report retroactively due to the classification mistake:

	changed	before	difference
Between 1 and 5 years	492.2	192.2	300.0
Later than 5 years	516.3	816.3	(300.0)

The information about the dividends that will be declared and become payable after the end of the reporting period is disclosed in Note 20.

3.2 Management of equity

All shares of Eesti Energia AS belong to the state. Decisions concerning dividend distribution and increases or decreases of share capital are made by the Republic of Estonia through the Ministry of Finance. Each financial year, the dividends payable by Eesti Energia AS to the state budget are defined by order of the Government of the Republic of Estonia (Notes 19 and 20).

The Group follows a strategy according to which net debt should not exceed EBITDA more than three times and equity should be at least 50% of the total assets. As at 31 December 2014 and 31 December 2013, the net debt to EBITDA ratio and the equity to assets ratio were as follows (in million EUR):

in million EUR	31 December	
	2014	**2013**
Debt (Notes 3.1, 12 and 22)	934.9	827.9
Less: cash and cash equivalents and deposits at banks with maturities of more than three months, (Notes 3.1, 12, 17 and 18)	-100.2	-83.6
Net debt	834.7	744.3
Equity	1,619.4	1,547.7
EBITDA	312.3	310.5
Assets	2,995.5	2,817.9
Net debt/EBITDA	2.67	2.40
Equity/assets	54%	55%

3.3 Fair value

The Group estimates that the fair values of assets and liabilities reported at amortised cost in the statement of financial position as at 31 December 2014 and 31 December 2013 do not materially differ from the carrying amounts reported in the consolidated financial statements, with the exception of bonds (Note 21). The carrying amount of current accounts receivable and payable less impairments is estimated to be approximately equal to their fair value. For disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market interest rate which is available for similar financial instruments of the Group.

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 31 December 2014 and 31 December 2013:

in million EUR	31. December 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives (Notes 14 and 15)	-0.7	22.0	10.8	**32.1**
Cash flow hedges (Notes 14 and 15)	12.1	33.2	-	**45.3**
Total financial assets (Notes 3.1, 12, 14 and 15)	**11.4**	**55.2**	**10.8**	**77.4**
Liabilities				
Trading derivatives (Notes 12 and 14)	-	0.8	-	**0.8**
Derivatives used for hedging (Notes 3.1, 12 and 14)	1.7	-	-	**1.7**
Total financial liabilities (Notes 3.1, 12 and 14)	**1.7**	**0.8**	**-**	**2.5**

in million EUR	31. December 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Trading derivatives (Notes 12, 14 and 15)	-	4.8	0.2	**5.0**
Cash flow hedges (Notes 12, 14 and 15)	42.5	0.1	-	**42.6**
Total financial assets (Notes 3.1, 12, 14 and 15)	**42.5**	**4.9**	**0.2**	**47.6**
Liabilities				
Trading derivatives (Notes 12 and 14)	-	0.6	-	**0.6**
Derivatives used for hedging (Notes 3.1, 12 and 14)	-	3.4	-	**3.4**
Total financial liabilities (Notes 3.1, 12 and 14)	**-**	**4.0**	**-**	**4.0**

(a) Financial instruments 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.

(b) Financial instruments 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 Marcetscani 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.

(c) Financial instruments in level 3

The following table represents the changes in Level 3 instruments for the year ended 31 December 2014

	Trading derivatives at fair value through profit or loss	Total
Opening balance	0.2	0.2
Option premiums paid	2.1	2.1
Gains and losses recognised in profit or loss	8.5	8.5
Closing balance	10.8	10.8
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period under "Other operating income/expenses"	8.7	8.7
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**8.5**	**8.5**

The following table represents the changes in Level 3 instruments for the year ended 31 December 2013

	Trading derivatives at fair value through profit or loss	Total
Opening balance	0	0
Transfers into Level 3	0.7	0.7
Gains and losses recognised in profit or loss	-0.5	-0.5
Closing balance	0.2	0.2
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period under "Other operating income/expenses"	-0.5	-0.5
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**-0.5**	**-0.5**

All instruments in Level 3 are options. The fair value of options is found using analytical solution of turnbull-wakeman Asian-type option pricing. In 2013 the Group transferred fuel oil option contracts from level 2 into level 3 due to the change in estimation.

3.4 Offsetting financial assets and financial liabilities

(a) Financial assets

The following financial assets are subject to offsetting:

As at 31. December 2014

in million EUR	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet (Notes 3.1, 3.3, 12, 14 ja 15)	Related amounts not set off in he balance sheet	Net amount
Derivative financial instruments	89.9	-12.4	77.5	-1.7	75.8

As at 31. December 2013

in million EUR	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet (Notes 3.1, 3.3, 12, 14 ja 15)	Related amounts not set off in he balance sheet	Net amount
Derivative financial instruments	70.1	-22.5	47.6	-0.5	47.1

(b) Financial liabilities

The following financial liabilities are subject to offsetting:

As at 31. December 2014

in million EUR	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet (Notes 3.1, 3.3, 12, 14 ja 15)	Related amounts not set off in the balance sheet	Net amount
Derivative financial instruments	14.9	-12.4	2.5	-1.7	0.8

As at 31. December 2013

in million EUR	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet (Notes 3.1, 3.3, 12, 14 ja 15)	Related amounts not set off in the balance sheet	Net amount
Derivative financial instruments	26.5	-22.5	4.0	-0.5	3.5

Agreements between the Group and the counterparties allows for offsetting in concrete single transaction when mutual claims are in the same currency. In some agreements offsetting between two or more transactions is allowed.

4. Critical accounting estimates and assumptions

Accounting estimates and assumptions

AThe preparation of the financial statements requires the use of estimates and assumptions that impact the reported amounts of assets and liabilities, and the disclosure of off-balance sheet assets and contingent liabilities in the notes to the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

Changes in management's estimates are recognised in the income statement of the period of the change.

The estimates presented below have the most significant impact on the financial information disclosed in the financial statements.

(a) Determination of the useful lives of items of property, plant and equipment

The estimated useful lives of items of property, plant and equipment are based on management's estimate of the period during which the asset will be used. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 December 2014, the net book amount of property, plant and equipment of the Group totalled EUR 2.4 billion (31 December 2013: EUR 2.3 billion), and the depreciation charge of the reporting period was EUR 120.4 million (2012: EUR 113.3 million) (Note 6). If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 12.0 million (2013: EUR 11.3 million).

(b) Evaluation of the recoverable amount of property, plant and equipment

As needed, the Group performs impairment tests to determine the recoverable amount of items of property, plant and equipment. When carrying out impairment tests, management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of assets, as well as estimates for inflation and growth rates and likelihood of getting grants. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or previously recognised impairment could be partially or wholly reversed. The recoverable amounts of fixed assets used for network services are impacted by the Competition Board which determines the reasonable rate of return to be earned on these assets. If the income, expenses and investments related to the sale of network services remain within the expected limits, the revenue derived from the sale of goods and services guarantees a reasonable rate of return for these assets. Information about impairment losses incurred in the comparative period is disclosed in Note 6.

(c) Recognition and revaluation of provisions

As at 31 December 2014, the Group had set up provisions for environmental protection, termination of mining operations and employees related totalling EUR 38.0 million (31 December 2013: EUR 39.7 million) (Note 25). The amount and/or timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties.

(d) Contingent assets and liabilities

When estimating contingent assets and liabilities, the management considers historical experience, general information about the economic and social environment and the assumptions and conditions of possible events in the future based on the best knowledge of the situation. Further information is disclosed in Note 34.

(e) Effectiveness testing of hedging instruments

The Group has conducted a significant number of future transactions to hedge the risk of the changes in the prices of electricity and shale oil with regard to which hedge accounting is applied, meaning that the gains and losses from changes in the fair value of effective hedging instruments are accounted through other comprehensive income. The evaluation of the effectiveness of hedging is based on management's estimates for future sales transactions concerning electricity and liquid fuels. When hedging instruments turn out to be ineffective, the total gain/loss from the changes in the fair value should be recognised in the income statement. As at 31 December 2014, the amount of the hedge reserve was EUR 47.0 million (31 December 2013: EUR 47.0 million) (Note 21).

5. Segment reporting

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

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

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

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

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

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

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

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

For Network Services segment, the sales prices need to be approved by the Estonian Competition Authority as stipulated by the Electricity Market Act of Estonia. The Estonian Competition Authority has an established methodology for approving the prices that considers the costs necessary to fulfil the legal obligations and ensures justified profitability on invested capital. Generally, the Estonian Competition Authority considers the annual average 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). The sales prices for all other segments are not regulated by the law.

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 January - 31 December 2014	1 January - 31 December* 2013
	Revenue from external customers	**Revenue from external customers**
Electrical Energy	451.0	534.1
Network Services	240.7	243.2
Liquid Fuels	85.3	92.2
Other	103.0	96.9
Total	**880.0**	**966.4**

* Comparative figures have been adjusted due to a change in revenue allocation methods as a result of which other revenue generated by entities involved in the development of shale oil business and technology are reported within the revenue of the Liquid Fuels segment and revenue from Narva Power Plants' reactive power and regulation services is reported within 'Other' segments.

	changed	before	difference
Electrical Energy	534.1	534.1	-
Network Services	243.2	244.4	-1.2
Liquid Fuels	92.2	91.1	1.1
Other	96.9	96.8	0.1
Total	**966.4**	**966.4**	**-**

EBITDA

in million EUR	1 January - 31 December 2014	1 January - 31 December* 2013
	EBITDA	**EBITDA**
Electrical Energy	120.4	145.2
Network Services	97.3	88.8
Liquid Fuels	62.2	53.6
Other	32.4	22.9
Total	**312.3**	**310.5**
Depreciation and amortisation (Notes 6 and 8)	(126.2)	(118.9)
Impairment	-	(16.1)
Net financial income (-expense)	(0.7)	(1.2)
Profit (loss) from associates using equity method (Note 9)	(2.4)	(0.8)
Profit before tax	**183.0**	**173.5**

* Comparative figures have been adjusted due to a change in revenue and cost allocation methods as a result of which other revenue generated by entities involved in the development of shale oil business and technology are reported within the revenue of the Liquid Fuels segment and revenue from Narva Power Plants' reactive power and regulation services is reported within 'Other' segments. In addition, the Group specified the inter-segment elimination of expenditures capitalised into the cost of assets constructed within the Group.

	changed	before	difference
Electrical Energy	145.2	136.3	8.9
Network Services	88.8	90.6	(1.8)
Liquid Fuels	53.6	31.9	21.7
Other	22.9	51.7	(28.8)
Total	**310.5**	**310.5**	**-**

Other profit and loss disclosures

in million EUR	1 January - 31 December 2014			1 January - 31 December* 2013		
	Depreciation and amortisation	Impairment	Recognition (-) and reversal (+) of provisions	Depreciation and amortisation	Impairment	Recognition (-) and reversal (+) of provisions
Electrical Energy	(62.0)	-	(58.2)	(61.2)	(8.2)	(64.8)
Network Services	(45.7)	-	(1.1)	(44.8)	-	(1.1)
Liquid Fuels	(8.7)	-	(4.0)	(5.5)	(7.7)	(3.8)
Other	(9.8)	-	(1.6)	(7.4)	(0.2)	(0.2)
Total	**(126.2)**	**-**	**(64.9)**	**(118.9)**	**(16.1)**	**(69.9)**

* Comparative figures have been adjusted due to a change in cost allocation methods as a result of which depreciation and amortisation are allocated to segments for each period separately whereas previously allocation was based on the prior year's natural units. In addition, the Group specified allocation of amortisation of capitalised interest, price differences on intra-Group non-current asset sales and unrealised gains on the construction of investees' assets.

Depreciation and amortisation

	changed	before	difference
Electrical Energy	(61.2)	(56.1)	(5.1)
Network Services	(44.8)	(46.4)	1.6
Liquid Fuels	(5.5)	(6.8)	1.3
Other	(7.4)	(9.6)	2.2
Total	**(118.9)**	**(118.9)**	**-**

Interest income and expenses, corporate income tax expense and profit (loss) from associates using equity method are not divided between segments and the information is not provided to the management board of the parent company.

Additional information about the impairment, depreciation and amortisation is disclosed in Notes 6 and 8 and recognition and change of provisions in Note 25.

5. Segment reporting, continued

Assets

The amounts reported to the management board of the parent company with respect to total assets are measured in a manner consistent with that of the consolidated financial statements.

in million EUR	1 January - 31 December 2014			1 January - 31 December 2013		
	Total assets	Investments in associates (Note 9)	Capital expenditure (Notes 6 and 8)	Total assets	Investments in associates (Note 9)	Capital expenditure (Notes 6 and 8)
Electrical Energy	1,324.7	1.7	134.4	1,268.6	16.1	217.7
Network Services	904.3	-	111.0	851.1	-	116.4
Liquid Fuels	394.7	0.2	17.8	343.3	4.2	41.5
Other	371.8	0.1	12.7	354.9	2.1	43.1
Total	**2,995.5**	**2.0**	**275.9**	**2,817.9**	**22.4**	**418.7**

The Group operates mostly in Estonia, but electricity, liquid fuels and some other goods and services are also sold in other countries.

Entity-wide information

External revenue by location of clients

in million EUR	1 January - 31 December 2014	1 January - 31 December 2013
Estonia	705.7	751.1
Latvia	69.3	72.0
Lithuania	33.3	70.0
Nordic countries	55.5	16.2
Other countries	16.2	57.1
Total external revenue (Note 26)	**880.0**	**966.4**

Allocation of non-current assets by location*

in million EUR	31 December 2014	31 December 2013
Estonia	2,412.9	2,263.7
USA	48.9	42.4
Latvia	9.2	9.6
Lithuania	-	0.1
Other countries	3.1	4.5
Total (Notes 6 and 8)	**2,474.1**	**2,320.3**

* other than financial instruments and investments in associates

The Group did not have in the reporting period nor in the comparable period any clients whose revenues from transactions amounted to 10% or more of the Group's revenues.

6. Property, plant and equipment

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Property, plant and equipment as at 31 December 2012						
Cost	42.7	157.1	815.3	1,455.6	5.5	2,476.2
Accumulated depreciation	-	(95.9)	(321.5)	(726.7)	(4.5)	(1,148.6)
Net book amount	42.7	61.2	493.9	728.9	1.0	1,327.6
Construction in progress	-	0.9	36.9	581.4	-	619.2
Prepayments	-	-	-	41.6	-	41.6
Total property, plant and equipment as at 31 December 2012	**42.7**	**62.1**	**530.7**	**1,351.9**	**1.0**	**1,988.4**
Movements, 1 January - 31 December 2013						
Purchases (Note 5)	-	21.9	50.8	334.8	0.4	407.9
Depreciation charge (Notes 4, 5 and 33)	-	(4.8)	(23.6)	(84.5)	(0.4)	(113.3)
Impairment loss (Notes 4, 5 and 33)	-	(0.2)	(1.3)	(14.6)	-	(16.1)
Disposals	(0.5)	(7.8)	-	(0.4)	-	(8.7)
Exchange differences	(0.1)	-	-	-	-	(0.1)
Total movements, 1 January - 31 December 2013	**(0.6)**	**9.1**	**25.9**	**235.3**	**-**	**269.7**
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 (Notes 4)	**42.1**	**71.2**	**556.6**	**1,587.2**	**1.0**	**2,258.1**

6. Property, plant and equipment, continued

in million EUR	Land	Buildings	Facilities	Machinery and equipment	Other	Total
Movements, 1 January - 31 December 2014						
Purchases (Note 5)	0.1	107.6	58.7	105.0	0.3	271.7
Depreciation charge (Notes 4, 5 and 33)	-	(5.1)	(24.7)	(90.2)	(0.4)	(120.4)
Disposals	-	(0.3)	(0.1)	(0.2)	-	(0.6)
Disposal of subsidiary (Note 35)	-	-	-	(0.7)	-	(0.7)
Exchange differences	0.4	-	-	-	-	0.4
Total movements, 1 January - 31 December 2014	**0.5**	**102.2**	**33.9**	**13.9**	**(0.1)**	**150.4**
Property, plant and equipment as at 31 December 2014						
Cost	42.6	254.3	917.2	1,885.7	5.4	3,105.2
Accumulated depreciation	-	(96.4)	(361.9)	(849.7)	(4.5)	(1,312.5)
Net book amount	42.6	157.9	555.3	1,036.0	0.9	1,792.7
Construction in progress	-	15.5	35.2	530.0	-	580.7
Prepayments	-	-	-	35.1	-	35.1
Total property, plant and equipment as at 31 December 2014 (Note 4)	**42.6**	**173.4**	**590.5**	**1,601.1**	**0.9**	**2,408.5**

In 2013 the assets of Aulepa Wind Plant were tested for impairment, according to which an impairment loss of EUR 8.2 million was recognised. The recoverable amount was determined based on the value in use of the assets. The expected future cash flows were discounted using the discount rate of 9%. The impairment was caused mainly by the lower operational reliability of production assets. In addition the construction in progress of the oil refinery project in the amount of EUR 7.7 million was written off.

The amount of construction in progress and prepayments as at 31 December 2014 includes the construction costs of the new Auvere Power Plant of EUR 506.0 million (31 December 2013: EUR 431.9 million) whose future value in use depends greatly upon the receipt of renewable energy subsidy.

In 2014 Narva Power Plants assets (totalling EUR 787.6 million in carrying amount as at 31 December 2014) were tested for impairment. The impairment test did not indicate a need for a recognising an impairment loss. The recoverable amount of the assets was determined on the basis of value in use. The expected future cash flows were discounted by applying a 10% discount rate. The assets of Narva Power Plants are sensitive to changes in the market price of electricity and the rate of renewable energy revenue. Electricity prices for the next years were estimated by reference to marked to market forwards and assuming a 2% growth rate from 2023 onward. The rate of renewable energy revenue was forecast based on the projected market prices of electricity and taking into account that from 2016 the Group can participate in statistical transfers (pan-European auction of renewable energy units for countries whose legislation supports this in line with Directive 2009/28/EC). If the above assumptions do not realize in the extent expected, the impairment loss on the assets of Narva Power plants may amount up to

one third of the total value of Narva Power Plants´ assets (including the effect of investments planned for 2015).

In 2014 the assets of the Enefit280 Oil Plant were tested for impairment. The impairment test did not indicate a need for recognising an impairment loss. The recoverable amount of the assets was determined on the basis of value in use. The expected future cash flows were discounted by applying an 11% discount rate. The market prices of the output of the Oil Plant were forecast by reference to the global market prices of heavy fuel oil (the reference product) forwards and the next years' closed positions and assuming a 1.5% growth rate from 2023 onward.

In 2014 also the Aulepa Wind Plant was re-tested for impairment. The impairment test did not indicate a need for reversing the previously recognised impairment loss or recognising an additional impairment loss.

During the year, the Group has capitalised borrowing costs amounting to EUR 29.8 million (2013: EUR 31.5 million) on qualifying assets. The capitalisation rate of 4.0% (2013: 4.5%) was used to determine the amount of borrowing costs eligible for capitalisation (Note 31).

Buildings and facilities leased out under operating lease terms

in million EUR	31 December	
	2014	2013
Cost	6.6	5.4
Accumulated depreciation at the beginning of the financial year	(3.3)	(2.8)
Depreciation charge	(0.2)	(0.1)
Net book amount	**3.1**	**2.5**

Leased assets are partly used in the Group's own operations and partly for earning rental income. Cost and depreciation have been calculated on the basis of the part of the asset leased out. Income from lease assets is disclosed in Note 7.

7. Operating lease

in million EUR	1 January - 31 December	
	2014	2013
Rental and maintenance income		
Buildings	1.4	1.1
of which contingent rent	*0.6*	*0.7*
Total rental and maintenance income (Note 26)	**1.4**	**1.1**
Rental expense		
Buildings	2.3	2.3
Transport vehicles	0.5	0.6
Other machinery and equipment	1.4	1.5
Total rental expense (Note 30)	**4.2**	**4.4**

Future minimum lease receivables under non-cancellable operating lease contracts by due dates

in million EUR	1 January - 31 December	
	2014	2013
Rental income		
< 1 year	0.6	0.7
1 - 5 years	2.4	3.0
> 5 years	7.8	10.7
Total rental ncome	**10.8**	**14.4**

The oil terminal has been leased out under non-cancellable lease agreement.

Operating lease agreements, where the Group is lessee, are mostly cancellable with short-term notice.

8. Intangible assets

in million EUR	Goodwill	Computer software	Right of use of land	Exploration and evaluation assets for mineral resources	Contractual rights	Total
Intangible assets as at 31 December 2012						
Cost	3.5	23.6	2.5	3.9	30.4	63.9
Accumulated amortisation	-	(9.3)	(0.5)	-	-	(9.8)
Net book amount	3.5	14.3	2.0	3.9	30.4	54.1
Intangible assets not yet available for use	-	4.6	-	-	-	4.6
Total intangible assets as at 31 December 2012	**3.5**	**18.9**	**2.0**	**3.9**	**30.4**	**58.7**
Movements, 1 January - 31 December 2013						
Purchases (Note 5)	-	6.0	-	4.8	-	10.8
Amortisation charge (Notes 5 and 33)	-	(5.6)	-	-	-	(5.6)
Exchange differences	-	-	-	(0.4)	(1.3)	(1.7)
Total movements, 1 January - 31 December 2013	**-**	**0.4**	**-**	**4.4**	**(1.3)**	**3.5**
Intangible assets as at 31 December 2013						
Cost	3.5	29.1	2.5	8.3	29.1	72.5
Accumulated amortisation	-	(14.8)	(0.5)	-	-	(15.3)
Net book amount	3.5	14.3	2.0	8.3	29.1	57.2
Intangible assets not yet available for use	-	5.0	-	-	-	5.0
Total intangible assets as at 31 December 2013	**3.5**	**19.3**	**2.0**	**8.3**	**29.1**	**62.2**
Movements, 1 January - 31 December 2014						
Purchases (Note 5)	-	3.1	-	1.1	-	4.2
Amortisation charge (Notes 5 and 33)	-	(5.7)	(0.1)	-	-	(5.8)
Exchange differences	-	-	-	1.2	3.8	5.0
Total movements, 1 January - 31 December 2014	**-**	**(2.6)**	**(0.1)**	**2.3**	**3.8**	**3.4**
Intangible assets as at 31 December 2014						
Cost	3.5	32.8	2.5	10.6	32.9	82.3
Accumulated amortisation	-	(20.3)	(0.6)	-	-	(20.9)
Net book amount	3.5	12.5	1.9	10.6	32.9	61.4
Intangible assets not yet available for use	-	4.2	-	-	-	4.2
Total intangible assets as at 31 December 2014	**3.5**	**16.7**	**1.9**	**10.6**	**32.9**	**65.6**

Goodwill

Allocation of goodwill by cash-generating units

in million EUR	Mining	Valka co-generation plant	Paide co-generation plant
Carrying amount at 31 December 2014	2.5	0.6	0.4
Carrying amount at 31 December 2013	2.5	0.6	0.4

The recoverable amount of assets is determined on the basis of their value in use and using the cash flow forecast prepared up to the next 20 years.

The selection of the periods is based on an investment horizon regularly used in the electricity business. The cash flow forecasts are based on historical data and the forecasts of the Estonian energy balance. The weighted average cost of capital (WACC) is used as the discount rate, which is being determined on the basis of area of operations of the Company and its risk level. No impairment was identified during these tests.

Key assumptions used in determining value in use

Discount rate	31 December	
	2014	2013
Mining	10.0%	11.0%
Valka co-generation plant	9.0%	10.0%
Paide co-generation plant	7.0%	10.0%

Exploration and evaluation assets of mineral resources

The costs related to the exploration of an oil shale mine located in the state of Utah, USA are recognised as exploration and evaluation assets of mineral resources.

Contractual rights

The costs related to the mining rights acquired in the state of Utah are recognised as contractual rights, the estimated useful life of which is 20 years.

In 2014 the assets of Enefit American Oil (EAO) were tested for impairment. The impairment test did not indicate a need for recognising an impairment loss. The basis of comparison for the purpose of impairment testing was the value of a company established in the same US state and for the same purpose as EAO. Since the comparative company was a listed entity, its value was determined by reference to the value of its shares as at December 2014. The comparison was performed by comparing the value of assets in the ground, i.e., by projecting the value of underground barrels of oil belonging to the companies. The projections took into account the projected amounts of the mineral resources, ownership rights and license fees. Based on the comparison of the two companies, it was concluded that there was no need for recognising an impairment loss on the assets of EAO. It was also taken into account that compared to the basis for comparison, EAO has rights to a larger share of the total projected oil shale deposit, the level of reliability of the oil shale resource is higher and EAO holds rights to a previously proven (and patented) technology.

Intangible current assets - greenhouse gas allowances

The value of greenhouse gas allowances acquired is recognised as intangible current assets. In 2014 28 708 000 tonnes (2013: 27 392 207 tonnes) of greenhouse gas allowances were acquired and 15 000 000 tonnes (2013: 11 000 000 tonnes) were sold.

In 2014 13 425 952 tonnes (2013: 10 979 989 tonnes) of greenhouse gas emission allowances were returned to state.

in million EUR	1 January - 31 December	
	2014	**2013**
Greenhouse gas allowances at the beginning of the period	**100.4**	**11.6**
Acquired	191.8	139.2
Sold	(88.0)	(50.0)
Returned to state for the greenhouse gas emissions (Note 25)	(59.8)	(0.1)
Profit(+)/loss(-) from trading	0.4	(0.3)
Greenhouse gas allowances at the end of the period	**144.8**	**100.4**

9. Investments in associates

Nature of investments in associates 2014 and 2013:

Name of the company	Place of business	Ownership (%)	Nature of the relationship	Measurement method
Nordic Energy Link Group	Estonia, Finland Netherlands	50.0	Note 1	Equity
Enefit Jordan B.V. Group	Jordan	65.0	Note 2	Equity
Orica Eesti OÜ*	Estonia	35.0	Note 3	Equity

* The financial year of Orica Eesti OÜ is from 1 October to 30 September

Note 1: Nordic Energy Link Group is the process of being liquidated

Note 2: Enefit Jordan B.V. is engaged with the oil shale development project in Jordan. Enefit Jordan B.V. Group is recognised as associate as according to the Shareholders' Agreement, the Group does not have the right to make any relevant decisions regarding Enefit Jordan B.V. Group without the consent of one or, in cases, both of other shareholders who hold the remainder of the 35% shares. Based on voting quorom requirements for different decisions joint control is not established.

Note 3: Orica Eesti OÜ manufactures and sales explosives and is a strategic partner for Eesti Energia Kaevandused AS.

According to the opinion of the Management Board none of the associates is material to the Group.

Reconciliation of summarised financial information of associates

in million EUR	1 January - 31 December	
	2014	**2013**
Summarised net assets of associates at the beginning of the period	**25.7**	**27.1**
Profit/loss for the period	(6.9)	3.0
Other comprehensive income	(2.7)	0.5
Repurchase of shares	(2.2)	-
Dividends declared	(13.1)	(4.9)
Liquidation proceeds paid	(20.9)	-
Summarised net assets of associates at the end of the period	**(20.1)**	**25.7**
Interest in associates	(14.8)	10.1
Notional goodwill	12.3	12.3
Group's share in negative net assets not recognised by the Group using the equity method	4.5	-
Carrying amount at the end of the period (Note 5)	**2.0**	**22.4**
Group's share of associates profit/loss for the period (Notes 5 and 33)	**-2.4**	**-0.8**
Group's share of associates other comprehensive income	**-0.7**	**0.4**

10. Principal subsidiaries

The Group had the following subsidiaries at 31 December 2014

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by noncontrolling interests (%)	Proportion of preference shares held by the Group (%)
Eesti Energia Õlitööstus AS	Estonia	Producing liquid fuels and retort gas from oil shale	100.0	100.0	-	-
Elektrilevi OÜ	Estonia	Network operator	100.0	100.0	-	-
Eesti Energia Kaevandused AS	Estonia	Oil shale mining	100.0	100.0	-	-
Eesti Energia Narva Elektrijaamad AS	Estonia	Production of electrical energy	100.0	100.0	-	-
AS Narva Soojusvõrk (Note 40)	Estonia	Distribution and sale of heat	-	66.0	34.0	
Eesti Energia Tehnoloogiatööstus AS	Estonia	Manufacture and supply of metal structures, energy industry machinery and other industrial equipment	100.0	100.0	-	-
Eesti Energia Hoolduskeskus AS	Estonia	Maintenance and repair of power engineering equipment	-	100.0	-	-
Eesti Energia Testimiskeskus OÜ	Estonia	Testing and providing expertise for metals and welded joints; certifying welders and welding procedures (WPQR)	-	100.0	-	-
Eesti Energia Aulepa Tuuleelektrijaam OÜ	Estonia	Establishment and operation of wind parks	100.0	100.0	-	-
Enefit Outotec Technology OÜ	Estonia and Germany	Developing and licensing the new generation of Enefit shale oil production technology	60.0	60.0	40.0	-
Eesti Energia Tabasalu Koostootmisjaam OÜ	Estonia	Establishment of heat-and-power cogeneration station	55.0	55.0	45.0	-
OÜ Pogi	Estonia	Production and sale of heat and electrical energy	66.5	66.5	33.5	-
Enefit SIA	Latvia	Selling electricity to end consumers	100.0	100.0	-	-
Enefit Power & Heat Valka SIA	Latvia	Production and sale of heat and electrical energy	90.0	90.0	10.0	-
Solidus Oy	Finland	In the process of liquidation	100.0	100.0	-	-
Enefit UAB	Lithuania	Selling electricity to end consumers	100.0	100.0	-	-
Enefit U.S., LLC	USA	Holding	100.0	100.0	-	-
Enefit American Oil Co.	USA	Developing of liquid fuels production	-	100.0	-	-

As at 31. December 2013 the parent company held 100% of ordinary shares in Eesti Energia Võrguehitus AS, that was sold on 14 August 2014. Proportions of shares in other subsidiaries have not changed compared to the year 2013.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company

does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group. None of the carrying amounts of the non-controlling interests as at 31 December 2014 and 31 December 2013 was material.

Significant restrictions

Until the investments of the network operator (Elektrilevi OÜ) do not exceed the limits of the approved financing plan, according to the Electricity Market Act of Estonia the parent company may not intervene in the everyday economic activities of the network operator or in the decisions concerning the construction or upgrades of the network.

11. Inventories

in million EUR	31 December	
	2014	2013
Raw materials and materials at warehouses	**22.8**	**19.9**
Work-in-progress		
Stored oil shale	11.8	14.8
Stripping works in quarries	2.2	2.0
Other work-in-progress	1.8	1.2
Total work-in-progress	**15.8**	**18.0**
Finished goods		
Shale oil	1.9	0.7
Other finished goods	0.3	0.2
Total finished goods	**2.2**	**0.9**
Prepayments to suppliers	**-**	**0.3**
Total inventories (Notes 4 and 33)	**40.8**	**39.1**

In the reporting period, the Group wrote down damaged and slow-moving inventories of raw materials and materials totalling EUR 0.8 million (2013: EUR 0.6 million).

12. Division of financial instruments by category

in million EUR	Loans and receivables	Financial assets at fair value through profit or loss	Derivatives for which hedge accounting is applied	Total
As at 31 December 2014				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1 and 13)	150.9	-	-	150.9
Derivative financial instruments (Notes 3.1, 3.3, 14 and 15)	-	32.1	45.3	77.4
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 15 and 17)	40.0	-	-	40.0
Cash and cash equivalents (Notes 3.1, 3.2, 15 and 18)	60.2	-	-	60.2
Total financial asset items in the statement of financial position	**251.1**	**32.1**	**45.3**	**328.5**
As at 31 December 2013				
Financial asset items in the statement of financial position				
Trade and other receivables excluding prepayments (Notes 3.1 and 13)	158.9	-	-	158.9
Derivative financial instruments (Notes 3.1, 3.3, 14 and 15)	-	2.3	45.3	47.6
Term deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 15 and 17)	21.0	-	-	21.0
Cash and cash equivalents (Notes 3.1, 3.2, 15 and 18)	62.6	-	-	62.6
Total financial asset items in the statement of financial position	**242.5**	**2.3**	**45.3**	**290.1**

12. Division of financial instruments by category, continued

in million EUR	Liabilities at fair value through profit or loss	Derivatives for which hedge accounting is applied	Other financial liabilities	Total
As at 31 December 2014				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	934.9	934.9
Trade and other payables (Notes 3.1 and 23)	-	-	111.7	111.7
Derivative financial instruments (Notes 3.1, 3.3 and 14)	0.8	1.7	-	2.5
Total financial liability items in the statement of financial position	**0.8**	**1.7**	**1,046.6**	**1,049.1**
As at 31 December 2013				
Financial liability items in the statement of financial position				
Borrowings (Notes 3.1, 3.2 and 22)	-	-	827.9	827.9
Trade and other payables (Notes 3.1 and 23)	-	-	127.3	127.3
Derivative financial instruments (Notes 3.1, 3.3 and 14)	1.0	3.0	-	4.0
Total financial liability items in the statement of financial position	**1.0**	**3.0**	**955.2**	**959.2**

13. Trade and other receivables

in million EUR	31 December	
	2014	**2013**
Short-term trade and other receivables		
Trade receivables		
Accounts receivable	106.4	117.1
Allowance for doubtful receivables (Note 4)	(2.4)	(2.2)
Total trade receivables	**104.0**	**114.9**
Accrued income		
Amounts due from customers under the stage of completion method (Note 15)	2.7	4.3
Other accrued income (Note 15)	0.5	4.6
Total accrued income	**3.2**	**8.9**
Prepayments	5.3	45.3
Receivables from associates (Notes 15 and 38)	3.2	2.8
Cash restricted from being used (Note 15)	6.1	9.3
Other receivables (Note 15)	2.5	3.9
Total short-term trade and other receivables	**124.3**	**185.1**
Long-term receivables		
Prepayments	-	0.3
Receivables from associates (Notes 15 and 38)	30.5	18.1
Other long-term receivables (Note 15)	1.4	1.0
Total long-term receivables	**31.9**	**19.4**
Total trade and other receivables (Notes 3.1 and 12)	**156.2**	**204.5**

Prepayments on 31 December 2013 include prepayments for greenhouse gas emission allowances totalling EUR 38.8 million. The receivables from associates include the term-less loan granted to the associate Enefit Jordan B.V. with the interest rate 15% (2013: 15%). Under cash restricted from being used are recognised financial resources that are held on SEB Futures account as a guarantee for the transactions.

The fair values of receivables and prepayments do not significantly differ from their carrying amounts. Collection of receivables and prepayments for services and goods is not covered by securities. Most of the Group's receivables and prepayments are in euros. The amount of receivables denominated in US dollars is disclosed in Note 3.1.

13. Trade and other receivables, continued

Analysis of accounts receivable

in million EUR	31 December	
	2014	**2013**
Accounts receivable not yet due (Note 15)	96.9	105.9
Accounts receivable due but not classified as doubtful		
1-30 days past due	6.6	2.7
31-60 days past due	0.5	1.6
61-90 days past due	0.3	0.8
Total accounts receivable due but not classified as doubtful	**7.4**	**5.1**
Accounts receivable written down		
3-6 months past due	0.3	0.8
more than 6 months past due	1.8	5.3
Total accounts receivable that are more than 3 months past due	**2.1**	**6.1**
Total accounts receivable	**106.4**	**117.1**

Under the accounting policies of the Group, receivables 90 days past due are usually written down in full. The total amount of allowance for receivables 90 days past due is adjusted using prior experience of how many of the receivables classified as doubtful are collected in a later period and how many of the receivables not more than 90 days past due are not collected in a later period. Also other individual and extraordinary impacts like the global economic recession are taken into account during evaluation.

Changes in allowance for doubtful receivables

in million EUR	1 January - 31 December	
	2014	**2013**
Allowance for doubtful receivables at the beginning of the period	**(2.2)**	**(3.2)**
Classified as doubtful and collections during the accounting period	(1.6)	(0.8)
Classified as irrecoverable	1.4	1.8
Allowance for doubtful receivables at the end of the period (Note 4)	**(2.4)**	**(2.2)**

The other receivables do not contain any impaired assets.

Revenue under the stage of completion method

in million EUR	31 December	
	2014	**2013**
Unfinished projects at the end of the period		
Revenue of unfinished projects	11.4	42.2
Progress billing submitted	(9.2)	(38.0)
Amounts due from customers under the stage of completion method	2.7	4.3
Amounts due to customers under the stage of completion method	(0.5)	(0.1)
Total expenses on unfinished projects	(10.0)	(40.1)
Profit/loss calculated on unfinished projects	1.4	2.1
Total revenue from construction projects in the financial year	12.8	11.9
Total expenses on construction projects in the financial year	(12.1)	(12.3)
Total profit calculated on construction projects	0.7	(0.4)

Long-term construction projects are mostly power equipment manufacturing and network equipment design and construction.

14. Derivative financial instruments

in million EUR	31 December 2014		31 December 2013	
	Assets	Liabilities	Assets	Liabilities
Forward contracts for buying and selling electricity as cash flow hedges	12.1	1.7	42.5	0.4
Forward contracts for buying and selling electricity as trading derivatives	0.2	-	-	-
Future contracts for buying and selling greenhouse gas emissions allowances as trading derivatives	15.6	0.8	2.3	0.6
Swap contracts for selling fuel oil as cash flow hedges	33.2	-	0.1	3.0
Swap and option contracts for selling fuel oil as trading derivatives	16.3	-	2.7	-
Total derivative financial instruments (Notes 3.1, 3.3, 12, 15 and 21)	**77.4**	**2.5**	**47.6**	**4.0**
including non-current portion:				
Forward contracts for buying and selling electricity as cash flow hedges	-	1.7	6.2	-
Swap contracts for selling fuel oil as cash flow hedges	1.7	-	-	1.5
Total non-current portion	**1.7**	**1.7**	**6.2**	**1.5**
Total current portion	**75.7**	**0.8**	**41.4**	**2.5**

Forward and option contracts for buying and selling electricity

The goal of the forward contracts for buying and selling electricity is to manage the risk of changes in the price of electricity or earn income on changes in the price of electricity. All forward contracts have been entered into for the sale or purchase of a fixed volume of electricity at each trading hour and their price is denominated in euros. The transactions, the goal of which is to hedge the risk in the price of electricity, are designated as cash flow hedging instruments, where the underlying instrument being hedged is the estimated electricity sales transactions of high probability on the power exchange Nord Pool. The effective portion of the change in the fair value of transactions concluded for hedging purposes is recognised through other comprehensive income and is recognised either as revenue or reduction of revenue at the time the sales transactions of electricity occur or other operating income/expenses when it is evident that sales transactions are unlikely to occur in a given period.

The forward contracts of buying and selling electricity the goal of which is to hedge the risk in the price of electricity will realise in 2015-2016 (31 December 2013: in 2014-2015). As at 31 December 2014 3 457 844 MWh had been hedged for the year 2015 and 1 343 952 MWh for the year 2016 (31 December 2013: 5 788 468 MWh had been hedged for the year 2014 and 3 144 840 MWh for the year 2015). The basis for determining the fair value of the instruments is the quotes on Nord Pool.

Future contracts for buying and selling greenhouse gas emissions allowances

The future contracts (except for own use contracts) for buying and selling greenhouse gas emission allowances are classified as trading derivatives. The fair value changes of these transactions are recognised as gains or losses in the income statement. The basis for determining the fair value of transactions is the quotes of ICE EUA. The prices are denominated in euros.

Swap and option contracts for selling fuel oil

The goal of the swap contracts for buying and selling fuel oil classified as hedges is to hedge the risk of price changes for shale oil. The transactions have been concluded for the sale of a specified volume of shale oil in future periods and they are designated as cash flow hedging instruments, where the underlying instruments to be hedged are highly probable shale oil sales transactions. The basis for determining the fair value of transactions is the quotes by Platt's European Marcetscan and Nymex.

Hedging instruments, which are combined from various components of derivative instruments, are recognised at fair value with changes through profit or loss until the acquisition of all components.

Liquidity swap transactions, that have been concluded in order to transfer the value changes of previously concluded transactions to partners, where the trading doesn't require daily coverage of market values, are classified as trading derivatives. Also the option contracts have been classified as trading derivatives.

The prices are denominated in euros and US dollars.

The swap contracts for selling fuel oil which aim to hedge the risk of price changes of shale oil will realise in 2015-2016. (31 December 2013: in 2014-2015). As at 31 December 2014 591 425 tonnes had been hedged for the year 2015 and 37 228 tonnes for the year 2016 (31 December 2013: 453 827 tonnes for the year 2014 and 540 425 tonnes for the year 2015).

15. Credit quality of financial assets

The basis for estimating the credit quality of financial assets not due yet and not written down is the credit ratings assigned by rating agencies or, in their absence, the earlier credit behaviour of clients and other parties to the contract.

in million EUR	31 December	
	2014	**2013**
Trade receivables		
Receivables from new clients (client relationship shorter than 6 months)	1.0	5.9
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have not exceeded the due date	55.4	45.0
Receivables from existing clients (client relationship longer than 6 months), who in the last 6 months have exceeded the due date	40.5	55.0
Total trade receivables (Note 13)	**96.9**	**105.9**

15. Credit quality of financial assets, continued

in million EUR	31 December	
	2014	2013
Bank accounts and short-term deposits in banks		
At banks with Moody's credit rating of Aa3	22.0	48.0
At banks with Moody's credit rating of A1	17.9	13.2
At banks with Moody's credit rating of A2	0.3	0.3
At banks with Moody's credit rating of A3	20.0	-
At banks with Moody's credit rating of Aa2	-	1.1
Total bank accounts and short-term deposits in banks (Notes 3.1, 3.2, 12 and 18)	**60.2**	**62.6**
Deposits at banks with maturities of more than 3 months		
At banks with Moody's credit rating of Aa3	3.0	16.0
At banks with Moody's credit rating of A1	37.0	5.0
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 12 and 17)	**40.0**	**21.0**
Other receivables and accrued income		
Other receivables with Moody's credit rating of A1	6.2	9.3
Receivables without credit rating from an independent party	40.7	34.7
Total other receivables (Note 13)	**46.9**	**44.0**
Derivative financial instruments		
Derivatives with positive value with Moody's credit rating of Aa3	5.2	0.3
Derivatives with positive value with Moody's credit rating of A1	18.9	-
Derivatives with positive value with Moody's credit rating of A2	40.7	4.8
Derivatives with positive value with Moody's credit rating of Baa1	0.3	-
Derivatives with positive value through Nasdaq OMX clearing house	11.4	42.5
Derivatives with positive value without credit rating from an independent party	0.9	-
Derivatives with positive value (Notes 3.1, 3.3, 12 and 14)	**77.4**	**47.6**

Nasdaq OMX constitutes a clearing house that is subject to official financial regulation, in relation to whom various risk management measures are applied, the most important of which is the requirement for the clearing house members to issue warrants for their liabilities. Also the requirements for minimum equity amounts are applied on clearing houses and based on that the credit risk is considered

According to the estimate of the management the other receivables and accrued income without a credit rating from an independent party do not involve material credit risk, as there is no evidence of circumstances that would indicate impairment loss.

As at 31 December 2014 and 31 December 2013, the Group did not have any major credit risk concentrations.

16. Financial assets at fair value through profit or loss

Units of Danske Invest Euro Interest Fund

Changes in financial assets reported at fair value through profit or loss

in million EUR	1 January - 31 December	
	2014	**2013**
Fair value at the beginning of the period	**-**	**1.7**
Acquired	-	4.7
Disposed	-	(6.4)
Fair value at the end of the period	**-**	**-**

The units of Danske Invest Euro Interest Fund were denominated in euros. The fair value of fund units was the net asset value of fund units based on the market value of the net assets of the fund. The change in the fair value of fund units was recognised as financial income in the income statement.

17. Deposits at banks with maturities of more than 3 months

in million EUR	31 December	
	2014	2013
Deposits at banks with maturities of more than 3 months	40.0	21.0
Total deposits at banks with maturities of more than 3 months (Notes 3.1, 3.2, 12 and 15)	**40.0**	**21.0**

In the financial year, the effective interest rates of term deposits with maturities of more than 3 months were between and 0.3-0.8% (2013: 0.3-1.52%). In the reporting period the due dates of deposits were 91 to 272 days (2013: 31-193 days).

18. Cash and cash equivalents

in million EUR	31 December	
	2014	2013
Bank accounts	31.2	8.9
Short-term deposits	29.0	53.7
Total cash and cash equivalents (Notes 3.1, 3.2, 12 and 15)	**60.2**	**62.6**

Cash and cash equivalents by currencies

in million EUR	31 December	
	2014	2013
Euro	60.0	60.5
US dollar	0.2	0.3
Latvian lat	-	1.7
Lithuanian lit	-	0.1
Total cash and cash equivalents (Notes 3.1, 3.2, 12 and 15)	**60.2**	**62.6**

In the financial year, the effective interest rates of term deposits with maturities of up to 3 months were between 0.1 and 0.4% (2013: 0.1-0.8%).

19. Share capital, statutory reserve capital and retained earnings

As at 31 December 2014, Eesti Energia AS had 621 645 750 registered shares (31 December 2013: 621 645 750 registered shares). The nominal value of each share is 1 euro. The sole shareholder is the Republic of Estonia. The administrator of the shares and the exerciser of the rights of shareholders is the Estonian Ministry of Finance, represented by the Minister of Finance at the General Meeting of Shareholders. According to the articles of association of Eesti Energia AS, the minimum share capital is EUR 250,0 million and the maximum share capital is EUR 1000,0 million.

As at 31 December 2014, the Group's statutory reserve capital totalled EUR 59.0 million (31 December 2013: EUR 51.0 million). As at 31 December 2014, Eesti Energia AS had an obligation to transfer an additional EUR 3.1 million to statutory reserve capital (31 December 2013: EUR 8.0).

As at 31 December 2014, the Group's distributable equity was EUR 620,9 million (31 December 2013: EUR 558.1 million). Corporate income tax is payable upon the distribution of dividends to shareholders. Income tax on dividends is 20/80 of the amount payable as net dividends (until 31. December 2014 21/79 of the amount payable as net dividends).

If all retained earnings were distributed as dividends, the corporate income tax would amount to EUR 124.2 million (31 December 2013: EUR 117.2 million). It is possible to pay out EUR 496.7 million (31 December 2013: EUR 440.9 million) as net dividends.

According to the dividend distribution plan announced by the Government of the Republic, Eesti Energia AS is

required to pay EUR 95.0 million as dividends after the approval of the 2014 Annual Report by the General Meeting of Shareholders. The corresponding income tax totals EUR 23.8 million.

The following table presents the basis for calculating the distributable shareholders' equity, potential dividends and the accompanying corporate income tax.

in million EUR	31 December	
	2014	**2013**
Retained earnings (Note 39)	624.0	566.1
Obligation to increase statutory reserve capital	(3.1)	(8.0)
Distributable shareholder's equity	620.9	558.1
Corporate income tax on dividends if distributed	124.2	117.2
Net dividends available for distribution	496.7	440.9

20. Dividends per share

In 2014, Eesti Energia paid dividends of EUR 93,6 million to the Republic of Estonia or EUR 0,15 per share (2013: EUR 55,2 million, dividends per share EUR 0,09) (Note 39).

The Management Board proposed to the Annual Meeting to pay dividends of EUR 0.15 per share for the financial year ended 31 December 2014, totalling EUR 95.0 million. These financial statements do not reflect this amount as a liability as the dividend had not been approved as at 31 December 2014.

21. Hedge reserve

in million EUR	1 January - 31 December	
	2014	**2013**
Hedge reserve at the beginning of the period	**47.0**	**11.5**
Change in fair value of cash flow hedges	58.0	47.7
Recognised as an increase of revenue	(58.0)	(12.2)
of which recognised as an increase of revenue of electricity	*(47.2)*	*(10.5)*
which recognised as an increase of revenue of shale oil	*(10.8)*	*(1.7)*
Hedge reserve at the end of the period	**47.0**	**47.0**

22. Borrowings

Borrowings at amortised cost

in million EUR	31 December	
	2014	**2013**
Short-term borrowings		
Current portion of long-term bank loans	6.9	1.4
Total short-term borrowings	**6.9**	**1.4**
Long-term borrowings		
Bonds issued	698.0	589.6
Bank loans	230.0	236.9
Total long-term borrowings	**928.0**	**826.5**
Total borrowings (Notes 3.1, 3.2 and 12)	**934.9**	**827.9**

The fair value of bonds and bank loans:

in million EUR	31 December	
	2014	**2013**
Nominal value of bonds (Note 3.1)	700.0	600.0
Market value of bonds on the basis of quoted sales price (Note 3.3)	788.9	658.3
Nominal value of bank loans with fixed interest rate (Note 3.1)	186.0	186.0
Fair value of bank loans with fixed interest rate (Note 3.3)	196.4	191.3
Nominal value of bank loans with floating interest rate (Note 3.1)	51.1	52.5
Fair value of bank loans with floating interest rate (Note 3.3)	51.1	52.5

22. Borrowings, continued

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.

Management estimates that the fair value of the loans with a floating interest rate at the end of reporting and comparative period does not differ from their carrying amounts as the risk margins have not changed. The fair values of bank loans with fixed interest rate are based on cash flows discounted using discount rates between 1.235%-1.318% (2013: 2.342%-2.609%) that are within level 3 of the fair value hierarchy.

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.

Long-term bank loans at nominal value by due date

in million EUR	31 December	
	2014	**2013**
< 1 year	6.9	1.4
1 - 5 years	121.4	64.8
> 5 years	108.8	172.3
Total	**237.1**	**238.5**

All loans are denominated in euros. As at 31 December 2014 the interest rates of loans were between 0.7 and 3.2% (31 December 2013: 0.9-3.2%).

As at 31 December 2014, the weighted average nominal interest rate on loans was 2.6% (31 December 2013: 2.6%). The loan agreements concluded by Eesti Energia AS contain certain financial ratios that the Group needs to comply with. The Group has complied with all attached conditions.

In the fourth quarter of 2013 the Group took into use long-term investment loans from European Investment Bank (EIB) of EUR 95.0 million (agreements were made in 2011). Of which EUR 50.0 million was taken into use with fixed interest rate (2.528%), the repayments of principal will take place in annual equal instalments during the period November 2015- November 2023. The remaining part of the loan EUR 45.0 million was taken into use with a floating interest rate, the repayment of principal will take place in the year 2019.

As at 31 December 2014 the Group had undrawn loan facilities of EUR 250.0 million (31 December 2013: EUR 250.0 million), of which EUR 150.0 million were liquidity loan agreements with Nordea, SEB and Pohjola bank contracted in September 2013. Mentioned liquidity loans can be taken into use until August 2018 and have a floating interest rate. In October 2013 the Group contracted investment loan agreement with EIB of EUR 100.0 million. The loan can be taken into use until October 2015. The interest rate will be agreed when the loan is taken into use.

Borrowings by period that interest rates are fixed for

in million EUR	31 December	
	2014	**2013**
< 1 year	56.6	52.4
1 - 5 years	476.3	356.5
> 5 years	402.0	419.0
Total (Notes 3.1, 3.2 and 12)	**934.9**	**827.9**

Period until earlier of next interest rate repricing date and maturity date.

Weighted average effective interest rates of borrowings

	31 December	
	2014	**2013**
Long-term bank loans	2.6%	2.6%
Bonds	4.3%	4.7%

23. Trade and other payables

in million EUR	31 December	
	2014	**2013**
Financial payables within trade and other payables		
Trade payables	96.4	109.2
Accrued expenses	8.9	7.6
Payables to associates (Note 38)	4.1	6.6
Other payables	2.3	3.9
Total financial payables within trade and other payables (Note 3.1 and 12)	**111.7**	**127.3**
Payables to employees (Note 3.1)	19.6	21.4
Tax liabilities (Note 3.1)	31.7	32.5
Prepayments	7.8	0.5
Total trade and other payables	**170.8**	**181.7**
of which short-term trade and other payables	*167.0*	*178.4*
of which long-term trade and other payables	*3.8*	*3.3*

24. Deferred income

Trade and other payables

in million EUR	1 January - 31 December	
	2014	**2013**
Deferred connection and other service fees at the beginning of the period	**147.2**	**136.0**
Connection and other service fees received	12.3	13.9
The value of assets transferred for connection fees	1.5	2.8
Connection and other service fees recognised as income (Notes 26 and 33)	(6.1)	(5.5)
Deferred connection and other service fees at the end of the period	**154.9**	**147.2**

Government grants

in million EUR	1 January - 31 December	
	2014	**2013**
Deferred income from grant at the beginning of the period	**7.3**	**3.0**
of which short-term deferred income	*3.5*	*2.4*
which long-term deferred income	*3.8*	*0.6*
Grants received	0.2	5.1
Transferred grants	(0.2)	(0.4)
Recognised as income (Note 27)	(0.2)	(0.4)
Reversal	(0,3)	-
Deferred income from grant at the end of the period	**6.8**	**7.3**
of which short-term deferred income	*-*	*3.5*
which long-term deferred income	*6.8*	*3.8*

Majority of the grants have been received from the Cohesion Fund (ISPA),Enterprise Estonia, Environmental Investment Center and Estonian Unemployment Insurance Fund.

25. Provisions

in million EUR	Opening balance 31 December 2013	Recognition and reversal of provisions (Note 5)	Interest charge (Note 31)	Use	Closing balance 31 December 2014	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	22.1	5.2	0.8	(1.6)	4.8	21.7
Provision for termination of mining operations (Note 30)	1.3	(0.5)	-	-	0.1	0.7
Employee related provisions (Note 29)	4.5	0.6	0.1	(0.5)	0.8	3.9
Provision for dismantling cost of assets	3.0	-	0.2	-	-	3.2
Provision for greenhouse gas emissions (Notes 8 and 28)	62.4	65.6	-	(59.8)	68.2	-
Provision for onerous contracts	7.8	-	-	(7.2)	0.6	-
Provision for obligations arising from treaties	1.0	1.2	-	-	-	2.2
Total provisions (Note 4)	**102.1**	**72.1**	**1.1**	**(69.1)**	**74.5**	**31.7**

in million EUR	Opening balance 31 December 2012	Recognition and reversal of provisions (Note 5)	Interest charge (Note 31)	Use	Closing balance 31 December 2013	
					Short-term provision	Long-term provision
Environmental protection provisions (Note 30)	20.6	3.5	0.8	(2.8)	3.5	18.6
Provision for termination of mining operations (Notes 29 and 30)	1.9	1.2	-	(1.8)	0.7	0.6
Employee related provisions (Note 29)	5.7	(0.3)	0.1	(1.0)	0.8	3.7
Provision for dismantling cost of assets	2.8	-	0.2	-	-	3.0
Provision for greenhouse gas emissions (Notes 8 and 28)	5.8	56.7	-	(0.1)	62.4	-
Provision for onerous contracts						
Provision for obligations arising from treaties						
Total provisions (Note 4)	**36.8**	**69.9**	**1.1**	**(5.7)**	**73.3**	**28.8**

Recognition and change in the provisions during financial year 2014 in the amount of EUR 1.6 million (2013: EUR 1.9 million) resulted from the change in discount rate.

Environmental protection provisions and provisions for the termination of mining operations have been set up for:

- restoring land damaged by mining;
- cleaning contaminated land surfaces;
- restoring water supplies contaminated as a result of mining activities;
- closing landfills and neutralising excess water;
- maintenance of closed ash fields;
- closing of industrial waste dump;
- eliminating asbestos in power plants;
- for payment of mining rights fee;
- for dismantling and gathering of equipment and impregnated poles.

Long-term environmental protection provisions will be settled at the Eesti Energia Kaevandused in 2016 - 2038, and at Narva Elektrijaamad in 2016 - 2058.

25. Provisions, continued

Provisions related to the termination of mining operations will be settled in 2015 - 2038.

Employee related provisions have been set up for:
- payment of benefits laid down in collective agreements and other acts;
- compensation of work-related injuries;
- payment of termination benefits;
- payments of scholarships.

Long-term employee related provisions will be settled during the periods specified in the contracts or during the remaining life expectancy of the employees, period of which is determined using data from Statistics Estonia on life expectancies by age groups.The provisions for payments of termination benefits in mines and quarries will be set up when the detailed plans for the closure of these mines and quarries have been announced.

The provision for the dismantling costs of assets has been set up to cover the future dismantling costs of the renovated power blocks No. 8 and 11 and industrial waste dump of the Narva power plants. The present value of the dismantling costs of the assets was included in the cost of property, plant and equipment. The provision for the dismantling costs is expected to be settled in 2034-2035.

The provision for greenhouse gas emissions has been set up in the average price of the greenhouse gas emission allowances that are owned by the Group or that will be allocated to the Group free of charge for the purpose of modernisation of electricity production or for heat production. In the reporting and comparative period the following amounts of the greenhouse gas emission allowances have been allocated to the Group free of charge:

a) for the purpose of modernisation of electricity production - 4 284 748 tonnes for the investements made in 2014 (as at 31 December 2014 this amount was not yet transferred to the Group), 4 998 874 tonnes for the investments made in 2013.
b) for heat production - 404 380 tonnes for heat production in 2014, 454 697 tonnes for heat production in 2013.
The greenhouse gas emission allowances allocated free of charge are taken into account for the purpose of calculating the provisions in the period for which the allowances are allocated irrespective of their actual transfer (Note 34).

The provision for obligations arising from treaties has been set up for a part of contractual payment for automatic meter reading system installation works that will be paid after the implementation of the system. The provision will presumably be settled in 2017.

The provision for onerous contracts has been set up for the losses that will probably occur in Latvia and Lithuania in the future, which is driven by the fact that the purchase prices of electricity in the power exchange are expected to be higher than the fixed-prices of sales contracts. The above-mentioned situation has occurred due to the deficit of transmission capacities on the Estonian-Latvian border. All the losses that could occur until the expiring of the contracts have been taken into account when setting up the provision. Due to the contractual clauses and the requirements in the legal acts, it is not possible to terminate the contracts prematurely by paying penalties.

The provision are discounted at the rate of 1.07-4.72% (2013: 1.55-4.98%). From the year 2012 discount curve is used instead of average discount rate for discounting provisions. It allows more accurate evaluation of the provisions in different time horizons.

26. Revenue

in million EUR	1 January - 31 December	
	2014	**2013**
By activity		
Sale of goods		
Electricity	448.5	527.0
Shale oil	90.8	91.1
Heat	39.8	38.2
Oil shale	28.7	24.7
Power equipment	5.3	6.8
Other goods	12.4	13.2
Total sale of goods	625.5	701.0
Sale of services		
Sales of services related to network	234.9	244.2
Connection fees (Notes 24 and 33)	6.1	5.5
Repair and construction services	2.7	5.8
Rental and maintenance income (Note 7)	1.4	1.1
Other services	9.4	8.8
Total sale of services	254.5	265.4
Total revenue (Note 5)	**880.0**	**966.4**

27. Other operating income

in million EUR	1 January - 31 December	
	2014	**2013**
Gain from revaluation of derivatives	11.4	0.1
Fines, penalties and compensations	6.2	1.9
Gain on disposal of subsidiaries (Note 33 and 35)	3.4	-
Gain on disposal of property, plant and equipment (Note 33)	1.0	4.6
Government grants (Note 24)	0.2	0.4
Other operating income	1.2	1.8
Total other operating income	**23.4**	**8.8**

28. Raw materials and consumables used

in million EUR	1 January - 31 December	
	2014	**2013**
Transmission services	81.0	89.4
Greenhouse gases emissions expense (Note 25)	65.6	56.7
Maintenance and repairs	42.6	36.7
Electricity	35.1	85.0
Resource tax on mineral resources	28.5	28.3
Technological fuel	27.7	24.2
Other raw materials and consumables used	95.0	99.3
Total raw materials and consumables used	**375.5**	**419.6**

29. Payroll expenses

	1 January - 31 December	
Number of employees	**2014**	**2013**
Number of employees at the beginning of the period	6,960	7,560
Number of employees at the end of the period	6,601	6,960
Average number of employees	6,712	7,314
Payroll expenses		
in million EUR		
Wages, salaries, bonuses and vacation pay	117.4	121.0
Average monthly pay (in euros)	*1,458*	*1,379*
Other payments and benefits to employees	4.3	5.3
Payroll taxes	41.2	42.9
Recognition/reversal of employee related provisions (Note 25)	0.6	(0.3)
Total calculated payroll expenses	**163.5**	**168.9**
Of which remuneration to management and supervisory boards (Note 38)		
Salaries, bonuses, additional remuneration	2.4	2.3
Fringe benefits	0.1	0.1
Total paid to management and supervisory boards	2.5	2.4
Capitalised in the cost of self-constructed assets	(21.4)	(18.9)
Covered from the provisions for the termination of mining operations and environmental protection (Note 25)	0.1	(1.8)
Total payroll expenses	**142.2**	**148.2**

The Management Board members are appointed by the Supervisory Board. The term of appointment for 5 years.

30. Other operating expenses

in million EUR	1 January - 31 December	
	2014	**2013**
Environmental pollution charges	31.8	24.5
Miscellaneous office expenses	8.3	12.0
Recognition of environmental and mining termination provisions (Note 25)	4.7	4.7
Rental expense (Note 7)	4.2	4.4
Research and development costs	3.0	2.3
Other operating expenses	20.5	37.6
Total other expenses	**72.5**	**85.5**

31. Net financial income (-expense)

in million EUR	1 January - 31 December	
	2014	**2013**
Financial income		
Interest income	4.3	2.9
Total interest income	**4.3**	**2.9**
Other financial income	-	0.3
Total financial income (Note 33)	**4.3**	**3.2**
Financial expenses		
Interest expense		
Interest expenses on bonds and loans	(36.8)	(33.6)
Amounts capitalised on qualifying assets (Note 6)	29.8	31.5
Total interest expenses on borrowings (Note 33)	**(7.0)**	**(2.1)**
Interest expenses on provisions (Note 25)	(1.1)	(1.1)
Total interest expenses	**(8.1)**	**(3.2)**
Foreign exchange gain/losses	3.3	(1.0)
Other financial expenses	(0.2)	(0.2)
Total financial expenses	**(5.0)**	**(4.4)**
Net financial income (-expense)	**(0.7)**	**(1.2)**

32. Corporate income tax

Under the Income Tax Act, the dividends payable out of retained earnings are taxed in Estonia. From 1 January 2008, the income tax rate is 21/79 of the net dividend paid. If the Group receives dividends from other companies registered in Estonia where the Group has at least 10% of the shares, then the amount of income tax paid to the state by the distributer of the dividends can be deducted by the Group from the corporate income tax payable once the Group distributes its dividends.

Average effective income tax rate

in million EUR	1 January - 31 December	
	2014	**2013**
Estonia		
Net dividends	93.6	55.2
Income tax applicable for dividends	21/79	21/79
Theoretical income tax at applicable rates	24.9	14.7
Impact of dividends paid by associates	(1.5)	(0.4)
Effective income tax on dividends	23.4	14.3
Average effective income tax rate	19.7%	20.4%
Income tax from liquidation proceeds	-	(0.2)
Income tax expense arising from the subsidiaries in Finland and Latvia	0.3	(0.1)
Total income tax expense	**23.7**	**14.0**

As at 31 December 2014 and 31 December 2013, the Group did not have any deferred income tax assets and liabilities.

33. Cash generated from operations

in million EUR	1 January - 31 December	
	2014	**2013**
Profit before income tax	**183.0**	**173.5**
Adjustments		
Depreciation and impairment of property, plant and equipment (Notes 5 and 6)	120.4	129.4
Amortisation of intangible assets (Notes 5 and 8)	5.8	5.6
Deferred income from connection and other service fees (Notes 4, 24 and 26)	(6.1)	(5.5)
Gain on disposal of subsidiary (Note 27 and 35)	(3.4)	-
Gain on disposal of property, plant and equipment (Note 27)	(1.0)	(4.6)
Amortisation of government grant received to purchase non-current assets	(0.2)	(0.3)
Profit (loss) from associates using equity method (Note 9)	2.4	0.8
Unpaid/unsettled gain/loss on derivatives	(31.3)	6.2
Currency exchange gain/loss on loans granted	(3.2)	0.9
Interest expense on borrowings (Note 31)	7.0	2.1
Interest and other financial income (Note 31)	(4.3)	(3.2)
Adjusted net profit before tax	**269.1**	**304.9**
Net change in current assets relating to operating activities		
Change in receivables related to operating activities (Note 13)	10.3	(2.8)
Change in inventories (Note 11)	(1.7)	9.2
Net change in other current assets relating to operating activities	2.8	(93.7)
Total net change in current assets relating to operating activities	**11.4**	**(87.3)**
Net change in current liabilities relating to operating activities		
Change in provisions	2.9	65.3
Change in trade payables	1.9	2.6
Net change in liabilities relating to other operating activities	8.7	0.4
Total net change in liabilities relating to operating activities	**13.5**	**68.3**
Cash generated from operations	**294.0**	**285.9**

34. Off-balance sheet assets, contingent liabilities and commitments

(a) Off-balance sheet assets

Oil shale Resources

The overview of the resources of oil shale in the possession of the Group and its associates is presented in the table below. The resources of oil shale of Estonian Republic represent the resources of oil shale in the official balance of natural resources. The resources of oil shale of international development projects are recognised based on the disclosure requirements of international standards of evaluation of resources and reserves. The classification of the resource is performed by the authorized experts and is proved appropriate according to the standard both by the level of exploration and economical perspective. Depending on the development phase the known technical, environmental and social-economical restrictions have been adjusted and taken into account when recognising the resources.

in millions of tonnes	31 December	
	2014	**2013**
Estonia		
Measured*	509	522
Jordan		
Measured*	924	930
Inferred**	2,604	2,604
USA**		
Measured **	3,680	3,680
Indicated**	2,540	2,540
Inferred**	368	368

* Resource represents a part of in place Resource, after it has been modified by desired cut-off grade, technical, economical and already defined modifying factors.

** Resource is defined as amount of total in place oil shale, that has high possibility for commercial interest. This definition is applied for resources before the pre-technical analyses, to which possible modifying factors have not been applied.

Emission rights

On implementation of article 10c of EU Emissions Trading System the Group may receive for the purpose of modernisation of electricity production up to 17.7 million tonnes of greenhouse gas emission allowances free of charge in the period 2013 to 2017. In addition it is possible for the Group according to the article 10a to receive in the period 2013 to 2020 up to 2.1 million tonnes of greenhouse gas emission allowances free of charge for heat production (Note 25).

(b) Contingent liabilities

Contingent liabilities arising from potential tax audit

Estonia

Tax authorities have neither started nor performed any tax audits 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.

Foreign countries

The Group's management considers that there are not any circumstances which may give rise to a potential material liability in this respect.

Financial covenants

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

(c) Commitments

Requirement to comply with the environmental norms

According to the legislation of European Union and Estonia, the pollutants from oil shale boilers into atmospheric air need to comply with the environmental requirements which will become more rigorous from year 2016. Completing this obligation requires additional investment to be made.

Capital commitments arising from construction contracts

As at 31 December 2014, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 102.3 million (31 December 2013: EUR 168.4 million).

Contracts for buying greenhouse gas emissions allowances

As at 31 December 2014 the group had concluded contracts for buying greenhouse gas emissions allowances in December 2015 and 2016 in the amount of EUR 36.1 million (31 December 2013: EUR 108.0 million).

35. Disposal of subsidiaries

Eesti Energia Võrguehitus AS

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 (Note 6)	0.7
Trade and other payables	-2.6
Total net assets of th subsidiary disposed	**3.8**
Sales price	7.2
Gain on sale (Notes 27 and 33)	3.4
Cash in flows 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**

36. Acquisition of an additional interest in an associate

On 30 December 2013 the Group acquired an additional interest (10.1%) in an associate AS Nordic Energy Link.

After the acquisition of an additional interest the Group now holds 50% of the share capital of AS Nordic Energy Link.

Information about the transaction

in million EUR	
Consideration for the acquired shareholding (Note 9)	3.0
Group's share of fair value of net assets acquired	3.2
Negative goodwill	**-0.2**

In 2014 no additional interests were acquired.

37. 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 basic earnings per share in all the periods.

In 2013 and 2014 there were no changes in the share capital.

	1 January - 31 December	
	2014	**2013**
Profit attributable to the equity holders of the company (million EUR)	159.5	159.5
Weighted average number of shares (million)	621.6	621.6
Basic earnings per share (EUR)	0.26	0.26
Diluted earnings per share (EUR)	0.26	0.26

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

in million EUR	1 January - 31 December	
	2014	2013
Transactions with associates		
Purchase of goods and services	21.3	26.5
Proceeds from sale of goods and services	1.6	4.7
Financial expenses	3.5	2.4
Loans granted	6.1	3.8
Transactions with entities over which the members of Management and Supervisory Board have significant influence		
Purchases of goods and services	5.4	3.3

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.

in million EUR	1 January - 31 December	
	2014	2013
Transactions with Elering AS		
Purchases of goods and services	88.9	99.9
Proceeds from sale of goods and services	22.2	17.7

in million EUR	31 December	
	2014	2013
Receivables from Elering AS and payables to Elering AS		
Receivables (Note 13)	5.4	5.4
incl off-balance sheet receivable for damages	*1.8*	*1.8*
Payables (Note 23)	18.1	19.4

The remuneration paid to the members of the Management and Supervisory Boards is disclosed in Note 29. Receivables from associates are disclosed in Note 13 and payables to associates in Note 23. No impairment loss from receivables was recognised in the reporting period or in the comparative 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.

39. Financial information on the parent company

Financial information disclosed on the parent company includes the primary separate financial statements of the parent company, the disclosure of which is required by the Accounting Act of Estonia. The primary financial statements of the parent company have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements. Investments in subsidiaries and associates are reported at cost in the separate financial statements of the parent company.

Income Statement

in million EUR	1 January - 31 December	
	2014	**2013**
Revenue	349.4	427.9
Other operating income	103.1	7.7
Government grants	-	0.1
Raw materials and consumables used	(315.1)	(369.0)
Other operating expenses	(20.4)	(23.8)
Payroll expenses	(29.8)	(33.3)
Depreciation, amortisation and impairment	(12.8)	(10.3)
Other expenses	(4.7)	(6.0)
OPERATING PROFIT	**69.7**	**(6.7)**
Financial income	82.7	65.7
Financial expenses	(30.1)	(36.0)
Total financial income and expenses	**52.6**	**29.7**
PROFIT BEFORE TAX	**122.3**	**23.0**
Profit (loss) from associates	3.4	-
Corporate income tax expense	**(8.4)**	**(5.4)**
NET PROFIT FOR THE FINANCIAL YEAR	**117.3**	**17.6**

Statement of Comprehensive Income

in million EUR	1 January - 31 December	
	2014	**2013**
PROFIT FOR THE YEAR	**117.3**	**17.6**
Other comprehensive income		
Revaluation of risk hedge instruments	(32.1)	30.0
Other comprehensive income for the year	**(32.1)**	**30.0**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**85.2**	**47.6**

39 Financial information on the parent company, continued

Statement of financial position

in million EUR	31 December	
	2014	**2013**
ASSETS		
Non-current assets		
Property, plant and equipment	210.8	216.6
Intangible assets	7.7	9.6
Investments in subsidiaries	521.2	505.5
Investments in associates	13.2	25.2
Derivative financial instruments	-	6.2
Receivables from subsidiaries	253.7	230.5
Total non-current assets	**1,006.6**	**993.6**
Current assets		
Greenhouse gas allowances	104.8	88.8
Inventories	-	-
Trade and other receivables	1,020.8	954.2
Derivative financial instruments	35.8	41.1
Deposits at banks with maturities of more than 3 months	40.0	21.0
Cash and cash equivalents	52.1	53.7
Total current assets	**1,253.5**	**1,158.8**
Total assets	**2,260.1**	**2,152.4**

in million EUR	31 December	
	2014	**2013**
EQUITY		
Share capital	621.6	621.6
Share premium	259.8	259.8
Statutory reserve capital	59.0	51.0
Hedge reserve	10.3	42.4
Retained earnings	273.4	257.7
Total equity	**1,224.1**	**1,232.5**
LIABILITIES		
Non-current liabilities		
Borrowings	928.0	826.5
Other payables	1.7	1.2
Deferred income	0.1	0.1
Provisions	1.0	0.9
Derivative financial instruments	1.7	-
Total non-current liabilities	**932.5**	**828.7**
Current liabilities		
Borrowings	6.9	1.4
Trade and other payables	95.4	88.7
Derivative financial instruments	0.9	1.0
Provisions	0.3	0.1
Total current liabilities	**103.5**	**91.2**
Total liabilities	**1,036.0**	**919.9**
Total liabilities and equity	**2,260.1**	**2,152.4**

39 Financial information on the parent company, continued

Cash flow Statement

in million EUR	1 January - 31 December	
	2014	**2013**
Cash flows from operating activities		
Profit before tax	**125.7**	**23.0**
Adjustments		
Depreciation of property, plant and equipment	10.4	7.7
Amortisation of intangible assets	2.4	2.6
Amortisation of government grant received to purchase non-current assets	-	(0.1)
Profit/loss from sale of property, plant and equipment	-	(1.2)
Profit from sale of a subsidiary	(5.6)	-
Other gains/losses on investments	(61.5)	(34.1)
Gain/loss on unpaid/unsettled derivatives	(18.9)	(1.1)
Currency exchange gain/loss on loans granted	(8.5)	2.6
Interest expense on borrowings	37.0	33.4
Interest income	(24.9)	(31.6)
Adjusted net profit	**56.1**	**1.2**
Net change in current assets relating to operating activities		
Loss from doubtful receivables	1.1	2.0
Change in receivables relating to operating activities	6.3	2.2
Net change in current assets relating to other operating activities	28.2	(68.9)
Total net change in current assets relating to operating activities	**35.6**	**(64.7)**
Net change in liabilities relating to operating activities		
Change in provisions	0.2	(0.2)
Change in trade payables	(0.8)	(0.4)
Net change in liabilities related to other operating activities	12.7	(31.2)
Total net change in liabilities relating to operating activities	**12.1**	**(31.8)**
Interest paid and borrowing costs	**(37.8)**	**(31.7)**
Interest received	**18.8**	**27.5**
Corporate income tax paid	**(13.8)**	**-**
Net cash flows from operating activities	**71.0**	**(99.5)**

in million EUR	1 January - 31 December	
	2014	**2013**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(4.3)	(43.0)
Proceeds from sale of property, plant and equipment	0.4	10.7
Net change in cash restricted from being used	3.2	9.4
Dividends received from financial investments	61.9	34.1
Net change in term deposits with maturities of more than 3 months	(19.0)	69.0
Purchase of short-term financial investments	-	(4.7)
Contribution to the share capital of subsidiaries	(15.6)	(7.8)
Proceeds from sale and redemption of short-term financial investments	11.6	6.4
Proceeds from sale of subsidiaries	7.2	-
Purchase of subsidiary	-	(0.2)
Purchase of shareholding in associate	-	(3.0)
Loans granted to subsidiaries	(0.8)	(2.0)
Repayments of loans granted to subsidiaries	0.2	3.9
Change in overdraft granted to subsidiaries	(124.9)	(1.0)
Other loans granted	(6.1)	(3.8)
Net cash used in investing activities	**(86.2)**	**68.0**
Cash flows from financing activities		
Proceeds from bonds issued	110.3	-
Bank loans received	-	95.0
Repayments of bank loans	(1.4)	(1.4)
Change in overnight deposit received from subsidiaries	(1.7)	1.7
Dividends paid	(93.6)	(55.2)
Total cash generated from financing activities	**13.6**	**40.1**
Net cash flows	**(1.6)**	**8.6**
Cash and cash equivalents at the beginning of the period	53.7	45.1
Cash and cash equivalents at the end of the period	52.1	53.7
Net increase/decrease in cash and cash equivalents	**(1.6)**	**8.6**

39 Financial information on the parent company, continued

Statement of Changes in Equity

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2012	**621.6**	**259.8**	**47.2**	**12.4**	**-**	**299.1**	**1,240.1**
Carrying amount of holdings under controlling and significant influence						(497.1)	(497.1)
Carrying amount of holdings under controlling and significant influence using equity method				(0.9)	2.4	663.6	665.1
Adjusted unconsolidated equity as at 31 December 2012				**11.5**	**2.4**	**465.7**	**1,408.1**
Profit for the year	-	-	-	-	-	17.6	17.6
Other comprehensive income for the year	-	-	-	30.0	-	-	30.0
Total comprehensive income for the year	**-**	**-**	**-**	**30.0**	**-**	**17.6**	**47.6**
Dividends paid (Note 19)	-	-	-	-	-	(55.2)	(55.2)
Transfer of retained earnings to statutory reserve capital	-	-	3.8	-	-	(3.8)	-
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**3.8**	**-**	**-**	**(59.0)**	**(55.2)**
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**3.8**	**-**	**-**	**(59.0)**	**(55.2)**
Equity as at 31 December 2013	**621.6**	**259.8**	**51.0**	**42.4**	**-**	**257.7**	**1,232.5**
Carrying amount of holdings under controlling and significant influence						(505.5)	(505.5)
Carrying amount of holdings under controlling and significant influence using equity method				4.6	0.8	813.9	819.3
Adjusted unconsolidated equity as at 31 December 2013 (Note 19)				**47.0**	**0.8**	**566.1**	**1,546.3**

Statement of Changes in Equity

in million EUR	Share capital	Share premium	Statutory reserve capital	Hedge reserve	Currency translation differences	Retained earnings	Total
Equity as at 31 December 2013	**621.6**	**259.8**	**51.0**	**42.4**	**-**	**257.7**	**1,232.5**
Carrying amount of holdings under controlling and significant influence						(505.5)	(505.5)
Carrying amount of holdings under controlling and significant influence using equity method				4.6	0.8	813.9	819.3
Adjusted unconsolidated equity as at 31 December 2013 (Note 19)				**47.0**	**0.8**	**566.1**	**1,546.3**
Profit for the year	-	-	-	-	-	117.3	117.3
Other comprehensive income for the year	-	-	-	(32.1)	-	-	(32.1)
Total comprehensive income for the year	**-**	**-**	**-**	**(32.1)**	**-**	**117.3**	**85.2**
Dividends paid (Note 19)	-	-	-	-	-	(93.6)	(93.6)
Transfer of retained earnings to statutory reserve capital	-	-	8.0	-	-	(8.0)	-
Total contributions by and distributions to owners of the company, recognised directly in equity	**-**	**-**	**8.0**	**-**	**-**	**(101.6)**	**(93.6)**
Total transactions with owners of the company, recognised directly in equity	**-**	**-**	**8.0**	**-**	**-**	**(101.6)**	**(93.6)**
Equity as at 31 December 2014	**621.6**	**259.8**	**59.0**	**10.3**	**-**	**273.4**	**1,224.1**
Carrying amount of holdings under controlling and significant influence						(534.4)	(534.4)
Carrying amount of holdings under controlling and significant influence using equity method				36.7	5.7	885.0	927.4
Adjusted unconsolidated equity as at 31 December 2014 (Note 19)				**47.0**	**5.7**	**624.0**	**1,617.1**

Under the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which a public limited company can make payments to its shareholders.

40. Events after the reporting period

On 18 February 2015, the Group acquired an additional 34% of the share capital of AS Narva Soojusvõrk (Note 10), after which AS Narva Soojusvõrk is fully owned by Eesti Energia Narva Elektrijaamad AS. The purchase price of shares was EUR 1.2 million.

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of Eesti Energia AS

We have audited the accompanying consolidated financial statements of Eesti Energia AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eesti Energia AS and its subsidiaries as of 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Tiit Raimla
Auditor's Certificate No. 287

Svetlana Kotšina
Auditor's Certificate No. 575

23 February 2015

* This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Profit Allocation Proposal

The retained earnings of Eesti Energia Group as at 31 December 2014 were EUR 623,909,600.66, of which the net profit for the year 2014 amounted to EUR 159,524,133.31.

Paragraph 1 of § 77 of the State Assets Act states that the dividends payable by an entity where the state has controlling interest shall be approved by the Government of Estonia at the proposal of the Minister of Finance. According to the dividend distribution plan announced by the Government of the Republic, Eesti Energia AS is required to pay EUR 95,000,000.00 as dividends in 2015.

The Management Board thus proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of Eesti Energia Group as at 31 December 2014 as follows:

1. to pay EUR 95,000,000.00 as dividends to the shareholder;
2. to transfer to the statutory reserve capital EUR 3,141,455.16;
3. not to distribute the remaining retained earnings of EUR 525,768,145.50, due to the continuing financing needs of the Eesti Energia Group.

Signatures of the Management Board to the Annual Report for Financial Year 2014

In the 2010 financial year, the Eesti Energia Management Board complied as required with the duties of members of the Management Board, and led the Eesti Energia Group to achieve its targets. The Management Board has regularly reported to the Supervisory Board, has acted within its powers and has submitted all of the information necessary for decision-making to the Supervisory Board. The Management Board is aware of and hereby confirms its responsibility for the preparation of the annual report and for the data therein.

The Annual Report of the Eesti Energia Group for the financial year ended on 31 December 2014 consists of the management report, the consolidated financial statements, the auditor's report and the profit allocation proposal. The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

MANAGEMENT BOARD
23 February 2015

Chairman of the Management Board

Hando Sutter

Members of the Management Board

Raine Pajo

Margus Rink

Andres Vainola

Margus Vals

Glossary

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

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

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

Clean Dark Spread (CDS) – Eesti Energia's margin between the price of electricity (in NPS Estonia) and the sum of total 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). Calculation methodology has been improved compared to annual report 2013, by taking into account total instead of variable oil shale costs.

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.

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

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.

Level of water reservoirs – The largest part of the Nordic countries' electricity generation is based on hydro power whose output depends on the level of water reservoirs.

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

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

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

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

OSAMAT – Acronym for the project *Management of Environmentally Sound Recycling of Oil Shale Ashes into Road Construction Products. Demonstration in Estonia*, undertaken for testing the possibilities of using oil shale ash in road construction.

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

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

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

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

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

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

Variable profit – Profit after deducting variable costs from sales revenues.

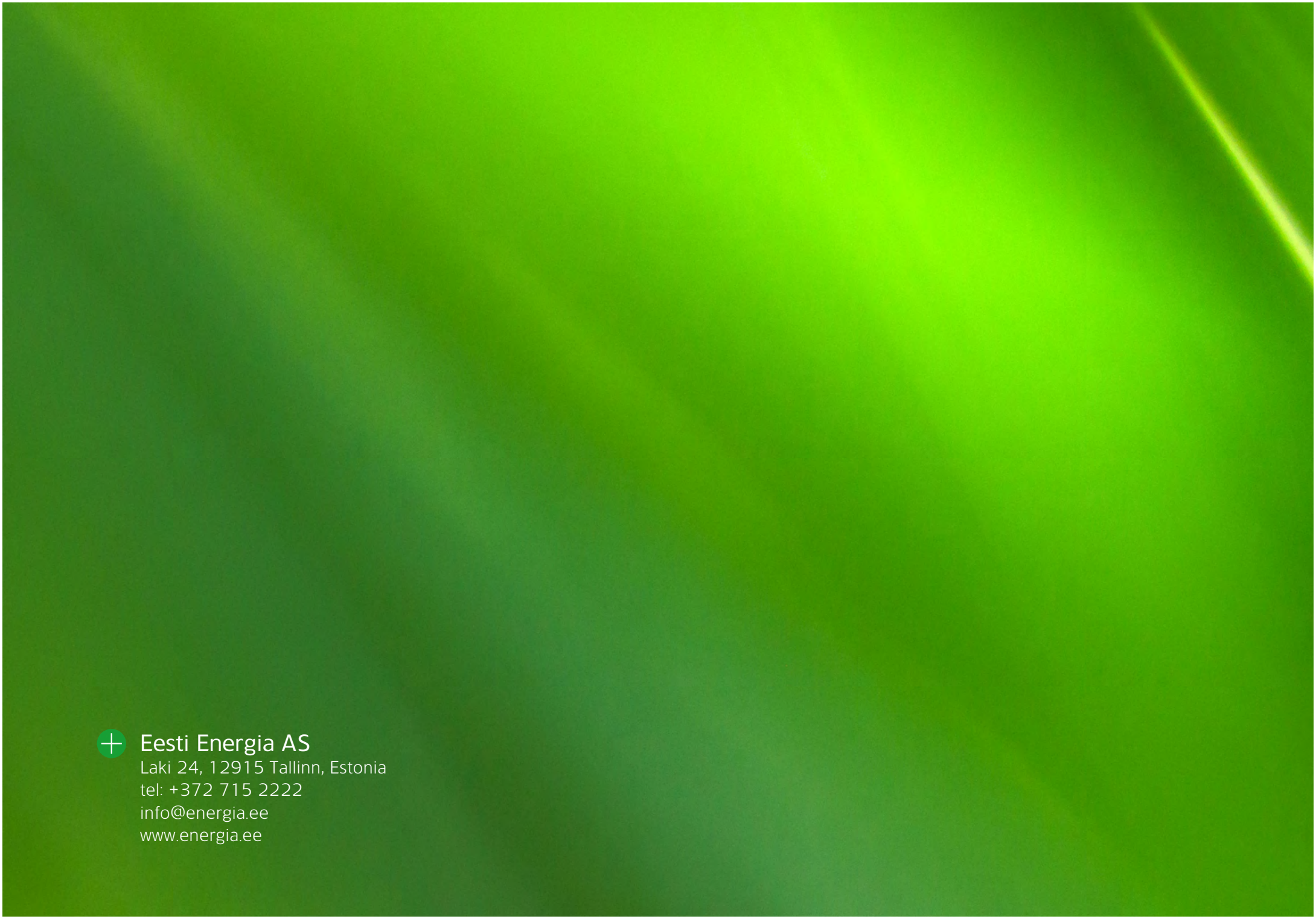
Investor Information

The Group's results concerning the financial year 2015 are released as follows.

- Q1 interim report – 30 April 2015.
- Q2 interim report – 31 July 2015.
- Q3 interim report – 30 October 2015.
- The audited results for the financial year 2015 – 26 February 2016.

Eesti Energia's financial results and contacts for investor relations are available on the Group's web page: www.energia.ee/en/investor

Eesti Energia's social responsibility and contribution to the society is further explained in the Corporate Social Responsibility Report for the year 2014.



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