Annual Report 2023

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AS Eesti Gaas

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PRINCIPAL ACTIVITY
sale of natural gas

BEGINNING OF THE FINANCIAL YEAR
1 January 2023

END OF THE FINANCIAL YEAR
31 December 2023

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Management Report

Eesti Gaas won the title of the most successful company in Estonia in 2023.

Photo: Raul Mee

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The ability to adapt leads to success

Margus Kaasik
Chairman of the Management Board

While the gas market stabilized in 2023, the year was anything but calm for Eesti Gaas. It proved to be one of our busiest and most productive years to date, achieving milestones that were beyond our imagination a few years ago.

In the summer, we bought the Latvian natural gas distribution network company Gaso

Eesti Gaas continued to strengthen its position as the largest privately-owned energy company in the Finnish-Baltic market, selling over 16 TWh of energy last year. Our market share of gas sales in the Finnish-Baltic region increased to 25%. Notably, one-third of gas imports to the region now come through Eesti Gaas, predominantly from Norway and the United States, arriving via sea to LNG terminals in Klaipeda, Lithuania, and Inkoo, Finland. In 2022, we imported 5 LNG cargoes, increasing to 18 in 2023.

Early in the year, we commenced gas deliveries to customers in Poland and successfully entered the Latvian household gas market in the spring. In a significant move, we acquired Gaso, the Latvian natural gas distribution network company, in the summer, marking a substantial leap in our infrastructure business segment.

We sold over 16 TWh of energy in the last year

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In seven years, Eesti Gaas has become billion-euro company

During the latter half of the year, our associate company significantly expanded local biomethane production, furthering Estonia's transition to green transport. In November, construction began on our first solar power plant in Latvia. To cap off the year, our parent company, Infortar, successfully went public, joining a select group of seven companies in the Nordic and Baltic regions doing initial public offering on the stock market during that challenging year.

In seven years within the Infortar group, Eesti Gaas has transformed from a local Estonian gas seller to an international company offering a diverse range of energy services. We have become a billion-euro company, with nearly 80 percent of our sales volume coming from foreign markets. Our efforts have not gone unnoticed - Eesti Gaas was named Estonia's most successful company of the year, securing the top spot in the Äripäev TOP rankings.

We were able to ensure accurate gas supplies to Finnish consumers

Tackling the challenge of the broken Balticconnector and the interruption of gas flow between Estonia and Finland, we swiftly adapted to the new circumstances, adjusting supply plans and procuring additional LNG vessels with the highest ice class to ensure Finland's winter gas supply. We met this challenge head-on, ensuring accurate and uninterrupted gas supplies to Finnish consumers and industrial companies.

We proved that it is possible to grow in the conditions of declining energy prices

Behind our growth in turnover and profit lies the increase of sales volume and our ability to adapt swiftly in challenging circumstances. We were among the few energy companies to prove that it is possible to grow and be profitable amidst declining energy prices. While 2023 presented its share of challenges, it ultimately proved to be an outstanding year for Eesti Gaas, aligned with our strategic plans.

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Company Overview

The Group is wholly owned by AS Infortar, which was listed on the Baltic main list of the Nasdaq Tallinn stock exchange on December 14, 2023. Infortar group is one of the largest investment holding companies in the Baltics in terms of assets. Over its more than twenty-five years of existence, the group has steadily expanded its investment portfolio, currently comprising 48 subsidiaries and investments in five affiliated and joint ventures. Infortar Group's core areas of focus include energy (Eesti Gaas Group), shipping, and real estate.

AS Eesti Gaas group (hereinafter referred to as the Group) is the largest privately owned energy company in the Finland-Baltic region, with roots in 1864. The Group's operations span across three key business segments:

- **energy sales** – trade and sale of natural gas and electricity,
- **energy infrastructure** – natural gas distribution service, sale and bunkering of LNG (liquefied natural gas), sale of CNG (compressed natural gas),
- **energy production** – mainly solar electricity production.

AS Eesti Gaas group includes subsidiaries Gaasivõrk AS (Estonia, 100% stake), AS "Gaso" (Latvia, 100%), Elenger Marine OÜ (Estonia, 100%), OÜ Pärnu Päikesepark 1 (Estonia, 80%), OÜ Pärnu Päikesepark 2 (Estonia, 80%), OÜ Pärnu Päikesepark 3 (Estonia, 80%), OÜ Pärnu Päikesepark 4 (Estonia, 80%), UAB Elenger (Lithuania, 100%), Elenger sp.z.o.o (Poland, 100%), SIA Elenger Marine (Latvia, 100%), SIA Elenger (Latvia, 100%), OY Elenger (Finland, 100%), SIA Solar Nica (Latvia, 100%), SIA Elenger Partners (Latvia, 80%), SIA Solar Marupe (Latvia, 100%), SIA Solar Olaine (Latvia, 100%). The subsidiary Elenger Crew Management (Estonia, 100%) was merged with Elenger Marine OÜ in 2023.

STRUCTURE OF THE EESTI GAAS GROUP
as at 31 December, 2023

Gas Market

The year 2023 continued to be volatile in the energy markets, but in contrast to the previous year, prices were in a strong downward trend. Key factors in the price decline were strong LNG imports, historically high storage levels, mild weather and a more modest than expected recovery in Asian demand.

The Inkoo terminal was completed in our region, where Eesti Gaas delivered the first commercial LNG cargo at the beginning of April

The downtrend started right in the first quarter, as the supply side was strong thanks to LNG flows, while on the demand side, mild weather reduced demand and European gas consumption fell by more than 20%. As a result, Europe emerged from the winter with a historically high storage levels (over 50%). In the first quarter, Germany launched two important LNG terminals, and the Inkoo terminal was completed in our region, where Eesti Gaas delivered the first commercial LNG cargo at the beginning of April.

Energy prices continued to be volatile, but on a downward trend

The summer period was very volatile, which was mainly caused by fluctuations in Norwegian exports. For a moment, TTF prices already fell below 23 EUR/MWh, which was the lowest price since May 2021, but then rose again close to 50 EUR/MWh. However, the price increase was temporary and a downward trend followed to 35 EUR/MWh. At the same time, the future curve remained significantly higher, above 50 EUR/MWh, which prompted market participants to store gas as quickly as possible and on a large scale in storages across Europe. As a result, throughout 2023, European storage capacity was at historically high levels, exerting strong downward pressure on prices.

Throughout 2023, European storage capacity was at historically high levels

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In October, the Balticconnector gas pipeline connecting Estonia and Finland was damaged

There was no clear price trend in the third quarter, but a lot of uncertainty was caused by the threat of potential strikes in Australian LNG production and a decrease in exports (Australia exports approx. 20% of the world's LNG). However, this risk did not materialize and therefore did not have a long-term effect. The fourth quarter started with a shake-up for our region, namely at the beginning of October, the Balticconnector gas pipeline connecting Estonia and Finland was damaged, necessitating immediate closure until at least April. However, the market participants reacted quickly and were able to supply Finland without problems in the fourth quarter, even despite the cold weather and the fragile market balance. Another shake-up came in the same quarter, when the outbreak of the Israel-Hamas war reduced gas supplies to the region and upset the global LNG balance. However, after the initial shock, its impact on world market prices was quite limited, and despite geo-political tensions, prices remained in a downward trend in the fourth quarter.

FUEL PRICES, 2022-2023 (EUR/MWh)

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Electricity Market

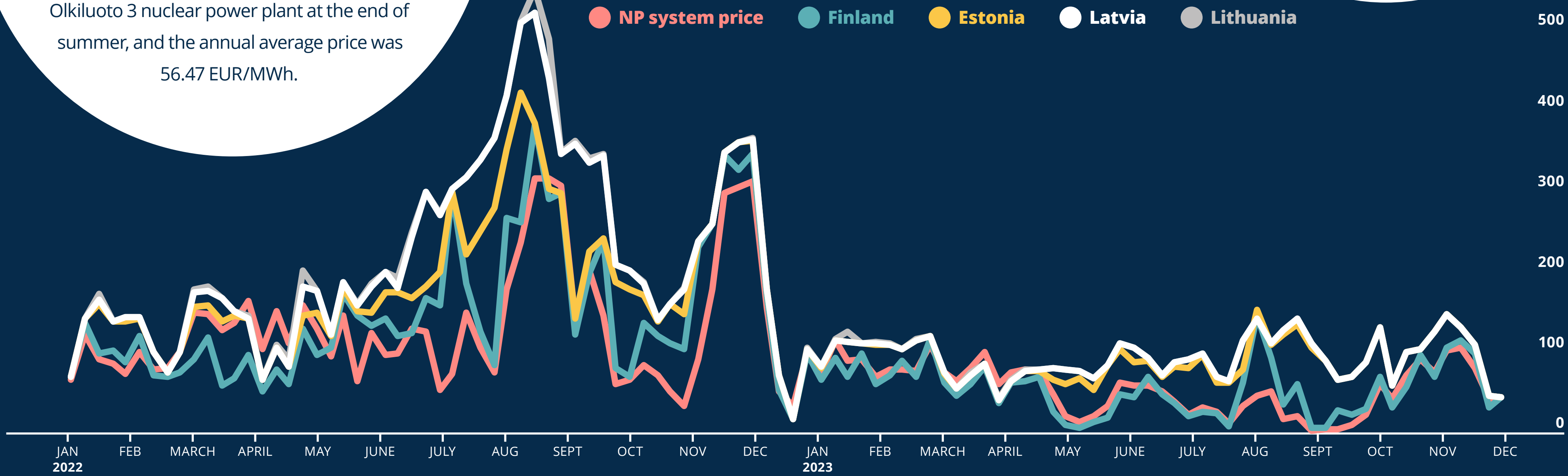
In 2023, the average price on the NordPool electricity exchange in the Estonian region was 53% lower than the previous year

Falling electricity prices characterized 2023 across Europe. The main reasons can be attributed to the drop in input prices, the better reliability of nuclear plants and the increasing importance of renewable electricity in the European energy balance.

In 2023, the average price on the NordPool electricity exchange in the Estonian region was 90.78 EUR/MWh, 53% lower than in 2022. We saw a similar price drop in our other markets too, the average price in the Latvian price area was 93.89 EUR/MWh and in Lithuania 94.44 EUR/MWh, or approximately 59% lower than last year. In Finland, the price drop was even greater, 63 percent, thanks to the regular start-up of the Olkiluoto 3 nuclear power plant at the end of summer, and the annual average price was 56.47 EUR/MWh.

Although Estonia's renewable electricity production remained at the same level as in 2022, proportionally the renewable sources made up 53% of the total production, i.e. significantly more than last year's 34%. At the same time, Estonia's annual electricity production made up 57% of the total consumption volume.

NORDPOOL DAY-AHEAD EXCHANGE PRICES AS WEEKLY AVERAGES, 2022-2023 (EUR/MWh)



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Overview of Business Activities

We delivered 18 shiploads of gas and thereby became the largest importer of LNG in the Finland-Baltic region.

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Energy Sales

Natural gas

Eesti Gaas is one of the leading sellers of natural gas in the Baltic countries and Finland, in 2023 its share in natural gas market in the Baltics and Finland was 25%. Despite falling prices, consolidated revenue from natural gas sales decreased by only 2.6% year-on-year and was 867 million euros in 2023 (including revenue from derivatives). The Group started selling natural gas in Latvia in 2017, Lithuania in 2018 and Finland in 2019.

After Russia started a full-scale war against Ukraine, Eesti Gaas has completely reorganized its natural gas supply chains to the basis of liquefied natural gas (LNG). The Group buys liquefied natural gas from various Western suppliers (e.g. Equinor, Total, Vitol, Glencore) with which framework agreements have been concluded. The supplied liquefied natural gas is mainly of United States and Norwegian origin. Eesti Gaas signed contracts for a total of 18 gas cargoes in the 2023 financial year - five deliveries to the Klaipeda LNG terminal in Lithuania and 13 deliveries to the Inkoo LNG terminal in Finland. Eesti Gaas imported approximately one third of the natural gas arriving in Finland and the Baltic region in the 2023 financial year. The Group has reserved the capacity of the Inkoo LNG terminal for 13 cargoes and the capacity of the Klaipeda LNG terminal for three cargoes in the 2024 financial year. If market conditions are suitable, Eesti Gaas will use the opportunity to store natural gas in gas storage facilities in Latvia and Poland.

Eesti Gaas continues to expand operations to new geographic markets and started sales activities in Poland at the end of 2022. The Group has approximately 39,000 natural gas customers. In foreign markets, the Group operates under the Elenger brand. In Finland, Lithuania and Poland, energy is sold mainly to industrial and business customers and other energy traders. In Estonia and Latvia, sales to household consumers are also in focus. Natural gas sales to Latvian household consumers began in the 2nd quarter of 2023 when the Latvian natural gas retail market was opened to competition.

Natural gas sales to Latvian household consumers began in the 2nd quarter of 2023

We import liquefied natural gas mainly from the United States and Norway

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Energy Sales

Natural gas

On October 8, 2023, the gas transmission network operators closed the Balticconnector gas transmission pipeline between Estonia and Finland due to a suspected leak and began investigations to identify the damage. Transmission of natural gas via Balticconnector has been suspended until the necessary repairs are carried out. According to current estimates, the repair work will take at least half a year, and the Balticconnector will be operational on April 22, 2024. Therefore, in the winter of 2023/2024, the Finnish market is supplied with natural gas mainly through the Inkoo and Hamina LNG terminals, and the transmission of natural gas from Estonia to Finland or from Finland to Estonia is not possible.

Eesti Gaas has ordered a total of four ice-class LNG cargoes to Finland from December to April in order to fulfill its customers' contracts and to ensure Finland's security of supply.

The consolidated income from the sale of electricity was 67.7 million euros

Electricity

In addition to natural gas, the Group sells electricity in Estonia, Latvia and Lithuania. Eesti Gaas buys most of the electricity it sells to customers from the NordPool electricity exchange, but it has also concluded power purchase agreements with producers. In addition, part of the electricity sold to customers is produced by the Group's own solar power plants located in Estonia. The consolidated income of Eesti Gaas from the sale of electricity in 2023 was 67.7 million euros, which is 0.9% more than in 2022. Over the year, the number of both household and business customers increased, and the Group has more than 12,000 electricity customers in total.

Energy Infrastructure

Natural gas distribution service in Estonia

AS Gaasivõrk is the largest natural gas distribution network company in Estonia, which manages 1,537 km of distribution pipelines and, in accordance with the Natural Gas Act (NGA), ensures the operation and orderliness of the distribution network in its network area, ensuring high-quality network connection and safe gas supply for consumers connected to the AS Gaasivõrk distribution network, and providing natural gas distribution services in more than 44 thousand consumption points.

AS Gaasivõrk manages 1,537 km of distribution pipelines

The consolidated sales revenue of the natural gas distribution service in Estonia totaled 26.3 million euros in 2023, which is 8% higher than in 2022. Pursuant to NGA § 37 subsection 3 point 4, in March 2023, the Competition Authority approved the gas network service price of AS Gaasivõrk of 7.991€/MWh, which became valid for AS Gaasivõrk's customers on June 1, 2023. In addition, the Competition Authority initiated a review and update of the weighted average cost of capital (WACC) methodology, as a result of which, in July 2023, it approved the price of the new AS Gaasivõrk network service of 8.241€/MWh, which became valid for AS Gaasivõrk customers on October 1, 2023. Since the price of AS Gaasivõrk's network service also includes the price of AS Elering's gas transmission service, the change of which took effect on December 4, 2023, the price of AS Gaasivõrk's gas network service is 12.139€/MWh from December 2023. Since coordinating the price of the network service and the justified modernization of the WACC methodology is a time-consuming process, AS Gaasivõrk has not been guaranteed the promised profitability in the reporting year.

In 2023, AS Gaasivõrk invested 2.6 million euros in the reconstruction and renovation of the distribution network (2.1 million euros in 2022). 0.2 million euros were invested to connect additional consumers to the natural gas pipeline (0.8 million euros in 2022). In 2024, the planned investments in the reconstruction and renovation of the distribution network will remain at the same level, as well as the investments to connect new consumers to the gas network due to the significant decrease in gas consumption and the downward trend.

The consolidated sales revenue of the natural gas distribution service in Estonia totaled 26.3 million euros

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Energy Infrastructure

Natural gas distribution service in Latvia

The largest investment of the year by Eesti Gaas was the acquisition of Gaso, the company that owns the Latvian gas distribution network. The contract was signed in the second quarter and the transaction was completed on July 17, 2023. The volume of the transaction was 122.2 million euros. The Gaso transaction is reported as an acquisition (business combination) in accordance with IFRS. As a result, when preparing the consolidated financial statements for all periods, the entire purchase price is allocated to the acquired property, plant and equipment, intangible assets and other assets, as well as assumed liabilities and contingent liabilities, based on their expected fair value as of the date of acquisition, with the amount by which identifiable net assets exceed the purchase price being recognized immediately in net profit.

AS Eesti Gaas has conducted a purchase analysis of the Gaso transaction. The only significant adjustment to fair value is related acquired tangible fixed assets. Gaso accounted fixed assets at revalued amounts. The management assessed that these values were approximately in line with fair value. After adjusting for accounting principles in the purchase analysis, the fixed assets were evaluated at fair value, consistent with the previously recognized revalued amounts. Similarly, the income statement includes additional depreciation expenses, as reflected in Gaso's tangible fixed assets under the revaluation model. The discount purchase income is recognized in the consolidated profit and loss account as a one-off in the financial year ending on December 31, 2023 and has no further continuing impact on the Group's results.

Approximately 364,000 customers have joined the Latvian distribution network

Gaso is the only gas distribution network operator in Latvia. Gaso operates approximately 5,458 km of gas distribution network pipelines, and approximately 364,000 customers have joined the distribution network. According to the Latvian Energy Act, Gaso is responsible for the operation, orderliness and safety of the gas distribution network, as well as the management and development of the gas distribution network. Gaso is obliged to ensure the long-term capacity to transmit natural gas through the gas distribution network according to the demand for natural gas.

Gaso operates 5,458 km of gas distribution network pipelines

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Energy Infrastructure

Natural gas distribution service in Latvia

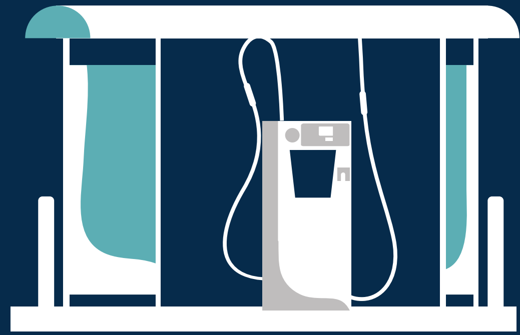
The five-month consolidated sales revenue of the natural gas distribution service in Latvia was 22.5 million euros

In Latvia, the regulation period (usually 2 to 5-year period; Gaso's current regulation period is from July 1, 2021 to December 31, 2025) and the tariff period (usually a calendar year) apply to the coordination of the regulated price in Latvia, while some pricing components are reviewed in each tariff period and some pricing components is fixed for the entire regulation period (for example, the value of the regulated asset and the weighted average cost of capital). The price of the Gaso network service, coordinated by the Latvian Public Utilities Board, consists of a fixed and a variable fee, and different prices apply to different consumer groups.

The consolidated sales revenue of the natural gas distribution service in Latvia was 22.5 million euros (in the period from August to December 2023). The investments made in the same period (5 months) were 3.7 million euros, and the planned investments in the reconstruction and renovation of the distribution network in 2024 will remain at the same level compared to the year's base.

Energy Infrastructure

Compressed gas



Eesti Gaas owns and operates one of the largest network of CNG (compressed natural gas) filling stations in Estonia, which consists of 11 stations connected to the gas distribution network. Compressed gas is under a higher pressure than the regular pipeline gas and is sold as an engine fuel for vehicles. Compressed gas can be produced from both natural gas and biomethane. Biomethane is a local fuel produced from biodegradable waste, sewage and sewage sludge, agricultural waste and biomass. The Group's CNG stations sell compressed gas produced solely from biomethane as well as the blended product of natural gas and biomethane. Eesti Gaas' consolidated compressed gas sales revenue was 4.8 million euros in 2023, which is 44% less than in 2022.

Consolidated sales revenue of compressed natural gas was 4.8 million euros

Since the beginning of 2019, the trading system for biomethane certificates has been launched in Estonia, which enables Eesti Gaas to earn additional income in the compressed gas business and to further invest in the introduction of environmentally friendly biomethane in transport. In total, environmentally friendly biomethane produced in Estonia accounted for 81.6% of all compressed gas sales.

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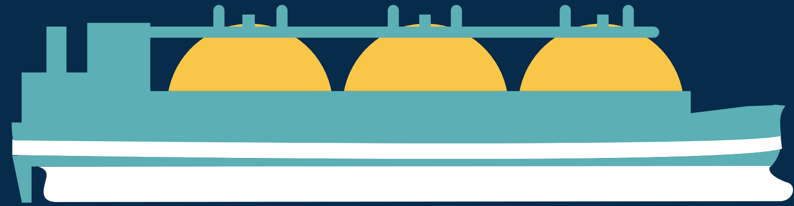
Energy Infrastructure

Sale and bunkering of liquefied natural gas



Elenger Marine OÜ, a subsidiary of Eesti Gaas, sells LNG (liquefied natural gas) and provides LNG bunkering services. LNG is mainly used as a marine fuel, but also in properties which are located outside the service area of the natural gas distribution network or to which the construction of a natural gas distribution network would be economically impractical.

Consolidated sales revenue of liquefied natural gas was 16.4 million euros

Eesti Gaas Group's consolidated sales revenue of liquefied natural gas was 16.4 million euros in 2023, which was 186% more than in 2022. The group provides ship-to-ship bunkering service with Optimus, the first LNG bunker vessel in the region, and truck-to-ship bunkering service with a fleet of special LNG trailers. LNG transport service is also offered to customers.

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Energy Production

The Group has four subsidiaries in Pärnu (Pärnu Päikesepark 1-4) which own and operate solar power plants with a total of 4.7 MW of panel capacity. In 2019, the Group started offering solar energy solutions to business customers under the Oma Päike brand in Estonia, within the framework of which a solar power plant is designed and built on the customer's property, and operated and maintained by Eesti Gaas. The total capacity of solar power plant panels built by the Group on customers' properties is 2.7 MW.

The construction of a solar power plant with a capacity of approximately 4 MW panels is underway in Latvia

As an important investment, the construction of a solar power plant with a capacity of approximately 4 MW panels is underway in Latvia by SIA Solar Nica. The total value of the investment is 2.7 million euros. The Group's strategy envisages increasing the share of renewable energy production. The Group has several development projects for the construction of additional solar power plants in Estonia and Latvia. The investment decision is made in case of suitable market conditions after the completion of the necessary preparatory work.

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Profitability

In 2023, the consolidated net profit of AS Eesti Gaas was 265.1 million euros (2022: 95.2 million euros). The Group's net profit increased by 169.9 million euros.

In 2023, earnings before interest, taxes, depreciation, and amortization (EBITDA) was 134.9 million euros, which is 18.8% higher than the year before. Excluding one-off effects, EBITDA increased by 18.6% compared to 2022.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) was 134.9 million euros

(in thousands of euros)	2023	2022	Change (%)
Revenue	1,022,554	1,012,557	1.0%
EBITDA	134,869	113,514	18.8%
Net profit	265,076	95,217	178.4%
EXTRAORDINARY PROFIT/LOSS:			
Profit/loss on sale of property, plant, and equipment	376	80	
Profit from subsidiaries	159,210		
Comparable EBITDA	134,493	113,434	18.6%
Comparable net profit	105,490	95,137	10.9%

The consolidated net profit of AS Eesti Gaas was 265.1 million euros

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Investments

Eesti Gaas invested 11.2 million euros in tangible and intangible fixed assets in 2023, which is 100% more compared to the previous period. 6.0 million euros were invested in gas distribution networks and 1.6 million euros in solar energy production. A total of 1.8 million euros was invested in IT development, mainly in energy retail systems.

In 2024, investments in gas distribution networks and renewable energy production will continue.

Compared to the previous period, 100% more was invested in tangible and intangible fixed assets

Financing

The balance of short-term bank loans and overdrafts at the end of the year was 146.5 million euros

The relative decrease in energy prices in 2023 significantly reduced Eesti Gaas' need for working capital. Short-term working capital loans and overdrafts from banks and from the owner are used to finance working capital. The balance of short-term bank loans and overdrafts at the end of the year was 146.5 million euros, which was 29% less than at the end of 2022. The owner's overdraft was not in use at the end of the year. Long-term investment loans were serviced according to contractual repayment schedules.

Macroeconomic Development and its Impact

According to the IMF, the world economy grew by 3.1% in 2023

According to the IMF (International Monetary Fund), the world economy grew by 3.1% in 2023, and similar growth is predicted for 2024 as well. This is lower than the historical average in recent years (3.8%). On the positive side of the global economy, the US economy still showed better-than-expected results in terms of employment, and inflation is showing signs of slowing down globally.

The combined effect of inflation, the energy crisis, the ongoing war in Ukraine, disrupted and more expensive supply chains due to sanctions, the base interest rate raise by the European Central Bank during 2023, as a result of which the 6-month EURIBOR moved from 2.8% at the beginning of the year to 4% at the end of the year, cooling demand on the world market and the most important export markets for Estonia (Sweden, Finland) has put the economy of all of Europe, including Estonia, under strong pressure. As an open and less regulated economy, in 2023, inflation in Estonia continued to be faster than the euro area average, and due to this, real GDP continued to decrease. Regarding the economies of the Baltic states, the changed sentiment of foreign investors is a negative factor - the Baltic states are seen as a region with increased risk due to the war in Ukraine.

According to the latest economic forecast of Eesti Pank, Estonia's recession will be longer than previously thought. According to the forecast, the Estonian economy will fall by 3.5% in 2023 and by 0.4% in 2024. Faster economic growth is expected from 2025 onwards. A shrinking economy will lead to a slight increase in unemployment next year, but consumer purchasing power will continue to improve as price increases have been subdued.

According to the forecast of Eesti Pank, faster economic growth is expected from 2025 onwards

Impact of Business Seasonality

Since the seasonality and weather changes affect the demand for the Group's products and services, seasonality has an impact on the financial results of Eesti Gaas. The main product of the Group is natural gas, the Group also sells electricity and provides natural gas distribution services in Estonia and Latvia. In the markets where the Group operates, the demand for energy is higher in the winter heating period (first and last quarter of the year) and lower in the second and third quarter, when it is warmer. Higher-than-normal temperatures during the winter heating season reduce demand for goods and services in the energy business segment.

Seasonality and changes in weather also affect the amount of output of solar power plants, although this effect is small compared to other business activities. Compressed gas and LNG sales are rather less affected by seasonality, since the end consumer is the transport sector, which operates stably throughout the year.

Social Impact

The most important social impact is the relationship between the Eesti Gaas Group as the employer and the employees of the companies in the group, which is based on mutual trust, fairness, and dedication. The HR principles of the Group rely on the following: a caring attitude towards its employees; appreciation for its people and mutual respect; a high work culture; purposeful, reliable, and loyal professional relationships; equal treatment; and good social behaviour. When recruiting employees, we look at a candidate's diligence, intelligence, reliability, professional training, and openness to technological development. We contribute to the personal development of our employees – by providing additional professional training, we support the acquisition of new knowledge.

Our salary policies are based on the inherent responsibility of a position, work results, competence, and the efficiency of the employee. When developing the working environment for our employees, we are guided by the principle of wanting our employees to enjoy working here. We value long-term employment relationships and a healthy work-life balance, and fully support parents. We guarantee excellent opportunities for our employees for taking care of and supporting health and improving fitness levels.

Risk Management Policy

The main goal of the Group's risk management policy is to ensure the stability of the Group's equity and to ensure the long-term development of the business in the desired direction. We define risks as possible unexpected changes in the business environment, the energy market, and the internal processes of the company, which adversely affect the financial results of the company. The main risks in the activities of the companies of the Group, which are managed by the Management Board, are:

Strategic market risk, which manifests primarily in a possible erroneous long-term strategic decision about the future prospects of a business area.

The Group manages the strategic risk by preparing prudent business plans and the necessary analyses when expanding into new markets and business areas.

Continuous assessment and management of financial risks (credit, liquidity, interest rate, and market).

The purpose of financial risk management is to maintain a balance between continued and flexible financing through the use of bank overdrafts, bank loans, and other financial instruments. In order to manage the cash flows of the Group as efficiently as possible, cash pooling account systems have been established in various banks.

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade receivables and contractual assets. The maximum amount exposed to credit risk is the carrying amount of financial assets and contractual assets.

Liquidity risk reflects the potential that the Group's ability to meet its obligations on time will decrease as the Group's financial position changes. The Group keeps the liquidity risk under control by maintaining sufficient reserves, banking instruments, and loan facilities, constantly monitoring cash flow projections and actual balances, and balancing the conditions for the terms of financial assets and liabilities.

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Interest risk arises from the changes of interest rates in the money markets, as a result of which the financing expenses of the Group may increase in the future. The majority of the loans of the Group are short-term loans and the majority of the interest rates are not fixed, but are indexed to Euribor. The upper management is monitoring the interest rate policies of central banks and different banks are used for funding the working capital to diffuse the refinancing risk. Group account systems have been opened in different banks to optimise the interest expenditure.

AS Eesti Gaas mainly trades in natural gas, compressed gas, liquefied natural gas, and electricity. The main market price risk is that projected cash flows may differ from expectations due to changes in the market price of different types of energy. This affects the Company's costs and/or revenues and financial performance. The Company uses derivatives, such as swap agreements for the purchase and sale of natural gas as well as the physical storage of natural gas in a storage facility, to mitigate the price risk. The goal of mitigating market price risks is to reduce the volatility of cash flows and to harmonise price bases for income and expenses, and to improve forecasting and the stability of financial results.

In managing market risks, we constantly analyse the strategic goals described in the business plans and the market changes that affect them, as well as other critical success factors. This allows us to anticipate and, if necessary, mitigate possible market fluctuations. This gives us the opportunity to make better use of market changes as opportunities and to mitigate market risks.

The Group trains its employees to increase their IT skills and raise cyber awareness

The majority of the loans of the Group are short-term loans

The operations of the Group may be adversely affected by information system failures, computer viruses, or cyber attacks.

The business of the Group depends significantly on the efficient, stable, and uninterrupted operation of its information technology (IT), management information, and communication systems. Errors or significant disruptions in the operation of the Group's information technology systems may impede the operations of the Group. In addition, the IT systems of the Group may be subject to computer viruses or cyber attacks, which may also cause disruptions or delays in the operations of the Group. The IT solutions and systems of Eesti Gaas have been created centrally throughout the Group, and IT systems are protected against external attacks mainly through a comprehensive solution agreement with an external partner. The Group trains its employees to increase their IT skills and raise cyber awareness.

Continuous and correct compliance with environmental, business, and regulatory requirements.

We observe the regulations and requirements related to the field in our business and contribute to the development of legislation through professional associations. We are continuously looking for new opportunities for making investment decisions and promoting business activities that are more in line with the climate objectives resulting from the green transition policies and the growing expectations of the public.

Covering asset risks with insurance contracts.

The management of the asset risks of the Group through insurance contracts is based on the objective of ensuring compensation to the extent of the damage that may occur to the assets and thereby ensuring that the Group remains a going concern.

Financial Ratios

KEY FINANCIAL RATIOS OF THE GROUP:

	2023	2022	2021
Net margin	25.9%	9.4%	6.8%
Current ratio	1.62	1.57	1.15
ROA	31.5%	15.7%	6.8%
ROE	65.3%	40.4%	45.9%
Equity ratio	50.0%	43.7%	22.5%
Net debt / EBITDA	1.5	1.6	4.2
EBITDA margin	13.2%	11.2%	9.7%

KEY FINANCIAL RATIOS OF THE PARENT COMPANY:

	2023	2022	2021
Net margin	14.7%	9.8%	6.8%
Current ratio	1.75	1.77	1.18
ROA	27.4%	18.4%	9.0%
ROE	51.8%	42.4%	53.9%
Equity ratio	52.9%	46.2%	22.3%
Net debt / EBITDA	0.8	1.4	3.8
EBITDA margin	11.9%	10.5%	8.0%

UNDERLYING FORMULAS:

Net margin = net profit / revenue

Current ratio (times) = current assets / current liabilities

ROA (return on assets) = net profit or loss / total assets

ROE (return on equity) = net profit or loss / total equity

Equity ratio = (equity + allocated shareholder loan) / total equity and liabilities

Net debt = borrowings – cash and cash equivalents

EBITDA = operating profit + depreciation

EBITDA margin = EBITDA / revenue

Consolidated Financial Statements

Infortar, the owner of Eesti Gaas, went public and its shares are listed on the Nasdaq Tallinn Stock Exchange.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (In thousands of euros)

	2023	2022	Note
Revenue	1,022,554	1,012,557	6
Other operating income	4,568	819	7
Change in inventories of finished goods and work-in-progress	-	(2)	
Work performed by the Group and capitalised	20	2,750	
Raw materials and consumables used	(859,911)	(885,407)	8
Payroll expenses	(20,861)	(12,495)	9
Depreciation and amortisation	(13,477)	(8,708)	15, 16, 26
Impairment loss on receivables	(231)	(25)	24
Other operating expenses	(11,270)	(4,682)	10
OPERATING PROFIT	**121,392**	**104,807**	
Gain from a bargain purchase	159,210	-	29
Other finance income	1,040	25	11
Finance costs	(16,300)	(6,914)	11
NET FINANCE COSTS	**143,950**	**(6,889)**	**11**
PROFIT BEFORE TAX	**265,342**	**97,918**	
Corporate income tax expense	(266)	(2,701)	
PROFIT FOR THE YEAR	**265,076**	**95,217**	
Profit attributable to:			
Owners of the Company	265,042	95,044	
Non-controlling interests	34	173	25
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Revaluation of post-employment benefit obligations	(44)	-	23
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges – change in hedging reserve	(58,189)	94,772	18
Foreign operations - foreign currency translation differences	(42)	3	
OTHER COMPREHENSIVE INCOME	**(58,275)**	**94,775**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**206,801**	**189,992**	
Profit attributable to:			
Owners of the Company	206,767	189,819	
Non-controlling interests	34	173	25

The notes on pages 32-61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2023	31.12.2022	Note
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	375,142	81,055	15
Intangible assets	11,130	5,393	16
Investment property	-	693	
Right-of-use assets	11,805	10,059	26
Derivative financial assets	1,125	12,865	17, 24
Deferred tax assets	2	-	
Trade and other receivables	8	-	6, 13, 24
TOTAL NON-CURRENT ASSETS	**399,212**	**110,065**	
CURRENT ASSETS			
Inventories	142,878	72,751	12
Derivative financial assets	28,727	71,109	17, 24
Trade and other receivables	178,801	226,071	6, 13, 24
Prepayments for natural gas	-	8,811	
Other prepayments	2,046	328	
Cash and cash equivalents	89,203	116,842	14, 24
TOTAL CURRENT ASSETS	**441,655**	**495,912**	
TOTAL ASSETS	**840,867**	**605,977**	

The notes on pages 32-61 are an integral part of these consolidated financial statements.

	31.12.2023	31.12.2022	Note
EQUITY			
Share capital	9,919	9,919	18
Statutory capital reserve	992	992	18
Hedging reserve	24,118	82,307	17, 18
Unrealised currency translation differences	(39)	3	
Post-employment benefit obligations reserve	(44)	-	
Retained earnings	370,970	142,137	18
Equity attributable to owners of the Company	**405,916**	**235,358**	
Non-controlling interests	**280**	**246**	25
TOTAL EQUITY	**406,196**	**235,604**	
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	127,791	39,484	20, 24
Provisions	8,151	614	23
Contract liabilities	25,017	13,023	6
Deferred income	318	350	22
Derivative financial liabilities	186	-	17, 24
Other liabilities	-	174	21
TOTAL NON-CURRENT LIABILITIES	**161,463**	**53,645**	
CURRENT LIABILITIES			
Borrowings	157,581	257,091	20, 24
Tax liabilities	30,837	28,643	
Trade and other payables	80,535	19,999	21
Derivative financial liabilities	3,659	1,667	17, 24
Prepayments	449	268	
Provisions	31	31	23
Contract liabilities	116	9,029	6
TOTAL CURRENT LIABILITIES	**273,208**	**316,728**	
TOTAL LIABILITIES	**434,671**	**370,373**	
TOTAL EQUITY AND LIABILITIES	**840,867**	**605,977**	

CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands of euros)

	2023	2022	Note
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE YEAR	**265,076**	**95,217**	
ADJUSTMENTS			
Depreciation of property, plant and equipment and right-of-use assets	11,960	7,723	15, 26
Amortisation of intangible assets	1,517	985	16
Income from connection fees	(1,851)	(811)	6
Amortisation of government grants received for purchasing of non-current assets	(32)	(31)	7, 22
Recognition and adjustment of provisions	5,637	40	23
Gain/loss on sale of non-current assets	(461)	(98)	7, 10
Gain/loss from write-off of non-current assets	(104)	11	10
Unsettled gain/loss on derivative financial instruments	(1,890)	5,901	
Net finance costs	(143,950)	6,889	11
Corporate income tax expense	266	2,701	
Profit/loss from other non-monetary transactions	(38)	-	
ADJUSTED PROFIT FOR THE YEAR	**136,130**	**118,527**	
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES			
Change in trade receivables	(38,687)	(7,238)	13
Change in inventories	(67,997)	(7,700)	12
Change in prepayments for natural gas	8,811	11,671	
Net change in other current assets relating to operating activities	90,396	(106,834)	13
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**(7,477)**	**(110,101)**	
NET CHANGE IN CURRENT LIABILITIES RELATING TO OPERATING ACTIVITIES			
Use of provisions	(195)	(469)	23
Change in trade payables	50,122	(8,082)	21
Net change in other liabilities relating to operating activities	(3,305)	(4,838)	
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**46,622**	**(13,389)**	
NET CASH USED IN OPERATIONS	**175,275**	**(4,963)**	
Interest received	976	9	
Corporate income tax paid	(2,726)	(2)	
NET CASH USED IN OPERATING ACTIVITIES	**173,525**	**(4,956)**	

	2023	2022	Note
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	(9,279)	(5,650)	
Proceeds from connection fees	224	623	6
Acquisition of subsidiaries, net of cash acquired	(103,412)	(170)	29
Proceeds from sale of subsidiaries, net of cash disposed of	-	3,139	30
Proceeds from sale of non-current assets	1,961	221	
NET CASH USED IN INVESTING ACTIVITIES	**(110,506)**	**(1,837)**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans received	273,055	167,350	20
Repayments of bank loans	(305,811)	(81,290)	20
Change in bank overdraft	23,358	(6,524)	20
Change in overdraft from owner	(12,019)	12,019	20, 28
Payment of lease liabilities	(2,370)	(1,885)	20
Dividends paid	(36,209)	(10,800)	18
Repayments of other loans	(14,705)	(3)	
Interest and loan fees paid	(15,957)	(6,561)	
NET CASH FROM FINANCING ACTIVITIES	**(90,658)**	**72,306**	20
NET CASH FLOWS	**(27,639)**	**65,513**	
Cash and cash equivalents at the beginning of the period	116,842	51,329	14
Cash and cash equivalents at the end of the period	89,203	116,842	14
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(27,639)**	**65,513**	

The notes on pages 32-61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (In thousands of euros)

	Attributable to owners of the Company								
	Share capital (Note 18)	Statutory capital reserve (Note 18)	Hedge reserve (Note 18)	Unrealised currency translation differences	Post-employment benefit obligations reserve (Note 23)	Retained earnings (Note 18)	Total	Non-cont-rolling interests (Note 25)	Total equity
EQUITY AS AT 31 DECEMBER 2021	**9,919**	**992**	**(12,465)**	**-**	**-**	**57,893**	**56,339**	**73**	**56,412**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	95,044	95,044	173	95,217
Other comprehensive income	-	-	94,772	3	-	-	94,775	-	94,775
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**94,772**	**3**	**-**	**95,044**	**189,819**	**173**	**189,992**
Dividends paid	-	-	-	-	-	(10,800)	(10,800)	-	(10,800)
EQUITY AS AT 31 DECEMBER 2022	**9,919**	**992**	**82,307**	**3**	**-**	**142,137**	**235,358**	**246**	**235,604**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	265,042	265,042	34	265,076
Other comprehensive income	-	-	(58,189)	(42)	(44)	-	(58,275)	-	(58,275)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**(58,189)**	**(42)**	**(44)**	**265,042**	**206,767**	**34**	**206,801**
Dividends paid	-	-	-	-	-	(36,209)	(36,209)	-	(36,209)
EQUITY AS AT 31 DECEMBER 2023	**9,919**	**992**	**24,118**	**(39)**	**(44)**	**370,970**	**405,916**	**280**	**406,196**

The notes on pages 32-61 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Eesti Gaas bought Latvijas Gaze's subsidiary Gaso and the Latvian natural gas distribution network.

1. REPORTING ENTITY

AS Eesti Gaas is a Company domiciled in Estonia. The Company's registered office is at Liivalaia 9, Tallinn 10118, Estonia. The consolidated financial statements of Eesti Gaas group for the year ended 31 December 2023 comprise AS Eesti Gaas and its subsidiaries (together referred to as the 'Group').

AS Eesti Gaas is one of the largest and most experienced energy companies in Estonia, whose core product and competence is natural gas that is supplied to clients as various products – pipeline gas, compressed natural gas (CNG) and liquefied natural gas (LNG). The Group sells compressed natural gas (CNG) through CNG filling stations around Estonia, where locally produced green gas or biomethane can also be fuelled. The subsidiaries AS Gaasivõrk and AS Gaso operate the biggest gas distribution networks in Estonia and Latvia. The Group has developed a stable LNG supply and bunkering capability and is ready to offer the service to all interested ports and companies. In addition, the Group is engaged in selling electricity, developing solar energy plants and providing other goods and services to clients. The Group operates in Finland, Latvia, Lithuania and Poland under the name Elenger.

2. BASIS OF ACCOUNTING

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

The consolidated financial statements were authorised for issue by the Management Board on 25 March 2024. Under the Commercial code of Estonia, the annual report must first be approved by the Supervisory Board of the parent and ultimately by the general meeting of Shareholders.

Details of the Group's accounting policies are included in Note 33.

These consolidated financial statements are presented in euros, which is the Company's and its subsidiaries' functional currency (except in Poland). All amounts in the primary financial statements and notes have been presented in thousands of euros, having been rounded to the nearest thousand, unless otherwise indicated.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following note:

NOTE 6

the Group provides customers permanent access to natural gas for the fees received for connecting to the natural gas network. When recognising the connection fees in accordance with the requirements of IFRS 15, the performance obligation that involves the activities that are necessary for the preparation of connection is regarded to be satisfied within the period when the gas network services are provided through the connection point with the property, plant and equipment acquired for the connection fees. According to the management's estimates this period should be equal to the estimated average useful life of the property, plant and equipment acquired for the connection fees or the estimated customer relationship period. The estimated average useful life of the property, plant and equipment acquired for the connection fees is calculated by dividing the average cost of the property, plant and equipment with the annual depreciation amount.

RECOGNITION OF DEFERRED INCOME TAX REGARDING THE INVESTMENTS TO ESTONIAN (AND LATVIAN) SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND BRANCHES

In accordance with paragraph 39 of IAS 12, the Group recognizes a deferred tax liability for all investments in subsidiaries, associates, joint ventures and branches that give rise to temporary taxable differences, unless: (a) the Group is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is not recognized if the investment meets both criteria (a) and (b) above. The Group's Management analysed the investments made in the subsidiaries and found that in those subsidiaries where there is a temporary taxable difference in the investment, both exclusion criteria (a) and (b) are met at the same time and there is no need to recognize deferred income tax.

B Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

NOTE 15

the estimate of the useful life of property, plant and equipment;

NOTE 16

the estimate of the useful life of intangible assets;

NOTES 23 AND 27

recognition of contingencies and provisions for possible losses in the future.

4. MEASUREMENT OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

LEVEL 1
quoted prices (unadjusted) in active markets for identical assets or liabilities.

LEVEL 2:
inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

LEVEL 3:
inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The information about the fair values of financial instruments is disclosed in Note 24.

5. CHANGES IN ACCOUNTING POLICIES AND ADJUSTMENT OF COMPARATIVE FIGURES

Standards, interpretations and amendments to published standards that became effective on 1 January 2023

The Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed to the financial statements. The amendments require the discloseure of 'material' accounting policies and also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. Management reviewed the accounting policies and made updates to the information disclosed in Note 33 'Material accounting policies' (2022: 'Significant accounting policies') in line with the amendments.

Other new standards that are effective from 1 January 2023 do not have a material effect on the Group's financial statements.

6. REVENUE

The Group's accounting policies relating to revenue from contracts with customers and the overview about the nature and satisfaction of performance obligations arising from contracts with customers are provided in Note 33.1.

A Revenue streams

(In thousands of euros)	2023	2022
Revenue from contracts with customers	**934,998**	**989,303**
OTHER REVENUE		
Property rentals (Note 26)	380	97
Other rentals	6,728	2,678
Hedging gains/losses (Note 18)	80,448	20,479
TOTAL REVENUE	**1,022,554**	**1,012,557**

B Disaggregation of revenue from contracts with customers

PRIMARY GEOGRAPHICAL MARKETS

(In thousands of euros)	2023	2022
RETAIL SALE		
Estonia	238,956	314,060
Finland	277,416	291,134
Latvia	109,665	100,676
Lithuania	56,505	47,983
Other	4,096	710
TOTAL RETAIL SALE	**686,638**	**754,563**
WHOLESALE OF NATURAL GAS	**248,360**	**234,740**
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**934,998**	**989,303**

In the wholesale of natural gas segment, natural gas is realized to the exchange or other wholesalers. In wholesale transactions, as a rule, it is not possible to identify the final consumer of the goods, since natural gas is sold through the exchange or transferred to another wholesaler at the virtual trading point of the natural gas transmission network (VTP).

MAJOR PRODUCTS/SERVICE LINES

(In thousands of euros)	2023	2022
Sales of natural gas	786,596	869,752
Sales of electricity	67,667	67,034
Sales of gas network service	48,816	24,353
Sales of liquefied natural gas (LNG)	16,434	5,747
Sales of compressed natural gas (CNG)	4,774	8,522
Connection fees	1,851	811
Sales of gas appliances and other goods	318	1,138
Sales of construction and repair services	169	4,448
Sales of other services	8,373	7,498
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**934,998**	**989,303**

6. REVENUE, CONTINUED

C Contract balances

(In thousands of euros)	31.12.2023	31.12.2022
Receivables, which are included in 'trade and other receivables' (Note 13)	155,150	112,639
Current contract liabilities	(116)	(9,029)
Non-current contract liabilities (connection fees)	(25,017)	(13,023)

The majority of the current contract liabilities relate to the advance consideration received from customers under natural gas sales contracts.

The amount of EUR 8,926 thousand (2022: EUR 134 thousand) recognised in current contract liabilities at the beginning of the period has been recognised as revenue in the reporting period. The amount of connection fees received and recognised as revenue in the reporting period was as follows.

CONNECTION FEES

(In thousands of euros)	2023	2022
Deferred connection fees at the beginning of the period	**13,023**	**13,211**
Deferred connection fees assumed through business combination (Note 29)	13,621	-
Connection fees received	224	623
Connection fees recognised as income	(1,851)	(811)
Deferred connection fees at the end of the period	**25,017**	**13,023**

The amortisation period of connection fees in AS Gaasivõrk is up to 30 years (2022: 33 years), in AS Gaso 20 years.

7. OTHER OPERATING INCOME

(In thousands of euros)	2023	2022
Gain from derivatives (Note 18)	2,055	-
Gain on sale and write-off of non-current assets	651	105
Fines and interest on arrears received	403	398
Compensation received	205	250
Amortisation of government grants received for purchasing of non-current assets (Note 22)	32	31
Other operating income	1,222	35
TOTAL OTHER OPERATING INCOME	**4,568**	**819**

8. RAW MATERIALS AND CONSUMABLES USED

(In thousands of euros)	2023	2022
Natural gas sold	776,020	798,436
Other goods sold	55,505	61,540
Gas network service	13,926	13,208
Loss from onerous contracts (Note 23)	5,528	-
Subcontracting works	1,950	2,813
Carriage services	1,204	708
Construction materials	-	2,626
Other goods, materials and services	5,778	6,076
TOTAL RAW MATERIALS AND CONSUMABLES USED	**859,911**	**885,407**

9. PAYROLL EXPENSES

(In thousands of euros)	2023	2022
Average number of employees and members of the Management Board of the Group	**478**	**208**
Wages, salaries, bonuses, vacation pay, other payments and benefits	15,738	9,211
Fringe benefits	282	264
Payroll taxes	4,980	3,002
Recognition/revaluation of employee related provisions (Note 23)	(139)	18
TOTAL CALCULATED PAYROLL EXPENSES	**20,861**	**12,495**

The members of the Management Board of the parent are appointed by the Supervisory Board. According to the Articles of Association, the term of appointment is up to 3 years.

ADDITIONAL INFORMATION ABOUT THE NUMBER OF EMPLOYEES OF THE PARENT

	2023	2022
the average number of the members of the Supervisory Board	5	6
the average number of the members of the Management Board	3	3
the average number of employees	69	61
the average number of persons providing service under service contracts	2	3

10. OTHER OPERATING EXPENSES

(In thousands of euros)	2023	2022
IT services	2,261	1,707
Legal and other consulting services, audit	1,813	299
Administrative costs of buildings	979	451
Bank transaction fees	670	351
Taxes and fees	400	320
Office supplies and services	391	208
Advertising expenses	349	129
Travel and training expenses	218	155
Loss from sale and write-off of non-current assets	86	18
Membership fees, sponsorship and donations	69	64
Other operating expenses	4,034	980
TOTAL OTHER OPERATING EXPENSES	**11,270**	**4,682**

11. NET FINANCE COSTS

(In thousands of euros)	2023	2022
FINANCE INCOME		
Gain from a bargain purchase (Note 29)	159,210	-
INTEREST INCOME		
Interest income	1,034	9
TOTAL INTEREST INCOME	**1,034**	**9**
Gain on disposal of subsidiary (Note 30)	-	16
Other finance income	6	-
TOTAL FINANCE INCOME	**160,250**	**25**
FINANCE COSTS		
INTEREST EXPENSE		
Interest expense on borrowings	(15,813)	(6,789)
incl. interest expense on lease liabilities (Note 26)	(313)	(322)
Interest expense on provisions (Note 23)	(314)	(4)
TOTAL INTEREST EXPENSE	**(16,127)**	**(6,793)**
Loss on disposal of subsidiary (Note 30)	-	(116)
Other finance costs	(173)	(5)
TOTAL FINANCE COSTS	**(16,300)**	**(6,914)**
NET FINANCE COSTS	**143,950**	**(6,889)**

12. INVENTORIES

(In thousands of euros)	31.12.2023	31.12.2022
Natural gas inventory in storage	140,891	72,697
Other goods and materials	1,987	55
TOTAL INVENTORIES	**142,878**	**72,752**

In the reporting period, materials and goods were written down in the amount of EUR 1 thousand (2022: EUR 29 thousand).

13. TRADE AND OTHER RECEIVABLES

(In thousands of euros)	31.12.2023	31.12.2022
TRADE RECEIVABLES		
ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS		
Accounts receivable (Note 24)	155,517	112,814
incl. accounts receivable from related parties (Note 28)	2,405	1,109
Allowance for doubtful receivables (Note 24)	(367)	(175)
TOTAL ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS (Note 6)	**155,150**	**112,639**
OTHER ACCOUNTS RECEIVABLE		
Accounts receivable (Note 24)	5	103
TOTAL OTHER ACCOUNTS RECEIVABLE	**5**	**103**
TOTAL TRADE RECEIVABLES	**155,155**	**112,742**
Receivables for realised derivative financial instruments	5,958	108,917
Accrued income	65	391
incl. interest receivable from related parties (Note 28)	52	-
Collateral fees for derivative financial instruments	15,341	294
Other receivables	2,290	3,727
TOTAL TRADE AND OTHER RECEIVABLES (Note 24)	**178,809**	**226,071**
INCL. CURRENT	**178,801**	**226,071**
NON-CURRENT	**8**	**-**

Receivables and prepayments for services and goods are not secured.

All of the Group's receivables are denominated in euros or Polish zlotys.

Information about the credit quality of the trade receivables is disclosed in Note 24.

As at 31 December 2023 and 2022, the majority of accounts receivable from related parties comprised of receivables for pipeline gas, liquefied natural gas (LNG) and electricity sold. The other receivables as at 31 December 2022 comprised of the receivable in the amount of EUR 2,713 thousand for energy price compensations from Keskkonnainvesteeringute Keskus (Environmental Investment Centre) in Estonia and AB Energijos skirstymo operatorius in Lithuania. According to the governmental support measures, the invoices issued to consumers by energy sellers were reduced by compensation amounts.

14. CASH AND CASH EQUIVALENTS

(In thousands of euros)	31.12.2023	31.12.2022
Bank accounts	89,194	116,482
Cash in transit	9	360
TOTAL CASH AND CASH EQUIVALENTS (Note 24)	**89,203**	**116,842**

15. PROPERTY, PLANT AND EQUIPMENT

(In thousands of euros)	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and prepayments	Total
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2021						
Cost	3,133	120,102	19,793	445	1,424	144,897
Accumulated depreciation	(941)	(48,136)	(12,289)	(180)	-	(61,546)
CARRYING AMOUNT	**2,192**	**71,966**	**7,504**	**265**	**1,424**	**83,351**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022						
Additions	319	2	457	15	3,737	4,530
Acquisitions through business combinations	107	-	-	-	142	249
Depreciation	(58)	(3,688)	(1,473)	(44)	-	(5,263)
Disposals and write-offs	-	(31)	(23)	(1)	(8)	(63)
Disposal of subsidiaries (Note 30)	(444)	-	(584)	(35)	(3)	(1,066)
Transfers from construction in progress and prepayments	4	3,373	412	-	(3,789)	-
Reclassified to investment property	(693)	-	-	-	-	(693)
Reclassified from right-of-use assets	-	-	10	-	-	10
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022	**(765)**	**(344)**	**(1,201)**	**(65)**	**79**	**(2,296)**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2022						
Cost	2,141	123,391	16,551	328	1,503	143,914
Accumulated depreciation	(714)	(51,769)	(10,248)	(128)	-	(62,859)
CARRYING AMOUNT	**1,427**	**71,622**	**6,303**	**200**	**1,503**	**81,055**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2023						
Additions	56	181	372	764	6,932	8,305
Acquisitions through business combinations (Note 29)	27,406	249,551	12,994	2,919	3,567	296,437
Depreciation	(374)	(6,956)	(1,987)	(439)	-	(9,756)
Disposals and write-offs	(472)	(177)	(68)	(169)	(13)	(899)
Transfers from construction in progress and prepayments	197	5,487	975	572	(7,231)	-
Other reclassifications	(20)	11	9	-	-	-
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2023	**26,793**	**248,097**	**12,295**	**3,647**	**3,255**	**294,087**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2023						
Cost	28,540	378,152	30,539	4,215	4,758	446,204
Accumulated depreciation	(320)	(58,433)	(11,941)	(368)	-	(71,062)
CARRYING AMOUNT	**28,220**	**319,719**	**18,598**	**3,847**	**4,758**	**375,142**

In coordination with the Competition Authority, in AS Gaasivõrk the useful life in accounting of the pipelines was aligned with the technical useful life, changing the useful life of pipelines from 50 to 30 years. The impact of the amendment on the current reporting period is immaterial.

Capitalised borrowing costs related to the construction in progress totalled EUR 89 thousand (2022: EUR 0) and depreciation EUR 26 thousand (2022: EUR 0). Capitalisation rates were between 3.5%-8.0% (2022: 0%).

Assumptions and estimation uncertainties

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. The actual useful lives may be longer or shorter than the estimates. If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 976 thousand (2022: EUR 526 thousand).

16. INTANGIBLE ASSETS

(In thousands of euros)	Computer software	Customer contracts	Total
INTANGIBLE ASSETS AS AT 31 DECEMBER 2021			
Cost	9,144	6,300	15,444
Accumulated amortisation	(7,064)	(3,027)	(10,091)
CARRYING AMOUNT	**2,080**	**3,273**	**5,353**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022			
Purchases	1,072	-	1,072
Amortisation charge	(596)	(389)	(985)
Write-offs	(7)	-	(7)
Disposal of subsidiaries (Note 30)	(40)	-	(40)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022	**429**	**(389)**	**40**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2022			
Cost	9,831	6,300	16,131
Accumulated amortisation	(7,322)	(3,416)	(10,738)
CARRYING AMOUNT	**2,509**	**2,884**	**5,393**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2023			
Purchases	2,930	-	2,930
Amortisation charge	(1,211)	(306)	(1,517)
Acquisition of subsidiary (Note 29)	4,323	-	4,323
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2023	**6,042**	**(306)**	**5,736**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2023			
Cost	16,693	6,300	22,993
Accumulated amortisation	(8,141)	(3,722)	(11,863)
CARRYING AMOUNT	**8,552**	**2,578**	**11,130**

Assumptions and estimation uncertainties

The estimated useful lives of items of intangible assets are based on management's estimate of the period during which the asset will be used. The actual useful lives may be longer or shorter than the estimates. If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 152 thousand (2022: EUR 99 thousand).

17. DERIVATIVE FINANCIAL INSTRUMENTS

(In thousands of euros)	31 December 2023		31 December 2022	
	Assets	Liabilities	Assets	Liabilities
NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	1,092	-	12,865	-
incl. derivative financial instruments for which hedge accounting is applied	1,092	-	12,865	-
incl. swap contracts to hedge the price risk of gas sales at a fixed price	882	-	12,865	-
incl. swap contracts to hedge the price risk of gas sales at a floating price	210	-	-	-
Swap contracts for buying and selling electricity	33	(186)	-	-
incl. derivative financial instruments for which hedge accounting is applied	33	(186)	-	-
CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	27,347	(3,445)	70,526	(473)
incl. derivative financial instruments for which hedge accounting is applied	27,347	(3,445)	70,526	(473)
incl. swap contracts to hedge the price risk of gas sales at a fixed price	(23,310)	(4,109)	17,448	-
incl. swap contracts to hedge the price risk of gas sales at a floating price	51,224	696	77,965	315
incl. swap contracts to hedge the price risk of gas purchases for storage	(567)	(32)	(24,887)	(788)
Swap contracts for buying and selling electricity	1,380	(56)	583	(1,194)
incl. derivative financial instruments for which hedge accounting is applied	1,380	(56)	583	(1,194)
Currency exchange forwards	-	(158)	-	-
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS (Note 24)	**29,852**	**(3,845)**	**83,974**	**(1,667)**

The goal of the swap contracts for buying and selling natural gas is to manage the risk of changes in the purchase price of natural gas and the value of sales transactions. The goal of the swap contracts for buying and selling electricity is to manage the risk of changes in the purchase price of electricity. Additional information about the risk management principles is disclosed in Note 24.3 (c).

18. CAPITAL AND RESERVES

A Share capital

As at 31 December 2023, AS Eesti Gaas had 27,728,408 shares without nominal value (31 December 2022: 27,728,408 shares without nominal value). Each share grants one vote at the general meeting of shareholders.

INFORMATION ABOUT SHAREHOLDERS AS AT 31 DECEMBER 2023.

	31 December 2023		31 December 2022	
Shareholder	Number of shares	Interest	Number of shares	Interest
AS Infortar	27,728,408	100.0%	27,728,408	100.0%

The share registry is kept electronically at the Estonian Central Register of Securities.

B Statutory capital reserve

The statutory capital reserve has been formed in compliance with the requirements specified in the Commercial Code of Estonia. The size of the capital reserve is foreseen in the Articles of Association and it cannot be smaller than 1/10 of the share capital.

As at 31 December 2023, the Group's statutory capital reserve totalled EUR 992 thousand (31 December 2022: EUR 992 thousand). As at 31 December 2023 the Group has no obligation to make any additional transfers to the statutory capital reserve.

C Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or in the cost of inventories as the hedged cash flows affect profit or loss.

(In thousands of euros)	2023	2022
HEDGING RESERVE AT THE BEGINNING OF THE PERIOD	**82,307**	**(12,465)**
Cash flow hedges – effective portion of changes in fair value	6,596	127,556
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	(69,296)	31,657
incl. from swap contracts to hedge the price risk of gas sales at a floating price	70,053	121,440
incl. from swap contracts to hedge the price risk of gas purchases for storage	373	(27,736)
incl. from swap contracts for buying and selling electricity	5,624	2,195
incl. from currency exchange forwards	(158)	-
Gain(-) / loss(+) reclassified to line "Revenue" of the statement of profit or loss and OCI (Note 6)	(80,448)	(20,479)
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	-	(25,886)
incl. from swap contracts to hedge the price risk of gas sales at a floating price	(80,448)	5,407
Gain(-) / loss(+) reclassified to line "Raw materials and consumables used" of the statement of profit or loss and OCI	8,605	(14,380)
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	12,447	(10,067)
incl. from swap contracts for buying and selling electricity	(3,842)	(4,313)
Gain(-) / loss(+) transferred to line "Inventories" of the statement of financial position	9,027	2,061
incl. from swap contracts to hedge the price risk of gas purchases for storage	9,027	2,061
Gain(-) / loss(+) reclassified to line "Other operating income" of the statement of profit or loss and OCI for which the hedged future cash flows are no longer expected to occur (Note 7)	(2,055)	-
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	156	-
incl. from swap contracts to hedge the price risk of gas sales at a floating price	(17,886)	-
incl. from swap contracts to hedge the price risk of gas purchases for storage	15,675	-
Gain(-) / loss(+) reclassified to line "Other operating expenses" of the statement of profit or loss and OCI for which the hedged future cash flows are no longer expected to occur	86	14
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	-	14
incl. from swap contracts for buying and selling electricity	86	-
HEDGING RESERVE AT THE END OF THE PERIOD	**24,118**	**82,307**

18. CAPITAL AND RESERVES, CONTINUED

D Profit distribution

According to the Income Tax Act, companies are taxed in Estonia on the distribution of dividends. On distribution of profits to shareholders, dividends that amount to up to three preceding years' average dividend distribution are subject to income tax of 14/86 of the net amount. The remaining dividends are subject to a tax rate of 20/80 of the net amount. Dividends distributed by a company are exempt, if these are paid out of dividends received from other companies in which the company has at least 10% interest.

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

(In thousands of euros)	31.12.2023	31.12.2022
Retained earnings (Note 31)	370,970	142,137
Distributable shareholders' equity	370,970	142,137
Corporate income tax payable on the distribution of the entire unrestricted equity	73,841	28,211
Net dividends available for distribution	297,129	113,926

In the reporting period, Eesti Gaas paid dividends of EUR 36,209 thousand (dividend per share 1.31 euros) (2022: EUR 10,800 thousand (dividend per share 0.39 euros)).

19. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors capital using a ratio of equity and shareholder loans to total assets. The Group's policy is to maintain the sustainable ratio.

The Group's equity to total assets ratio as at 31 December 2023 was as follows.

(In thousands of euros)	31.12.2023	31.12.2022
Equity	406,196	235,604
Subordinated shareholder loan and overdraft (Note 20)	14,297	41,019
Total assets	840,867	605,977
EQUITY TO TOTAL ASSETS RATIO	**50%**	**46%**

20. BORROWINGS

BORROWINGS AT AMORTISED COST

(In thousands of euros)	31.12.2023	31.12.2022
LONG-TERM BORROWINGS		
Bank loans	104,139	2,220
Subordinated loan from owner (Note 19)	14,297	29,000
Lease liabilities	9,355	8,264
TOTAL LONG-TERM BORROWINGS	**127,791**	**39,484**
SHORT-TERM BORROWINGS		
Short-term bank loans	123,050	206,927
Bank overdraft	23,407	49
Overdraft from owner (Note 19 and 28)	-	12,019
Current portion of long-term bank loans	8,667	35,810
Current portion of lease liabilities	2,457	2,286
TOTAL SHORT-TERM BORROWINGS	**157,581**	**257,091**
TOTAL BORROWINGS	**285,372**	**296,575**

Information about the Group' exposure to interest rate, currency and liquidity risks is disclosed in Note 24.

TERMS AND REPAYMENT SCHEDULE OF BORROWINGS

		Nominal value	
(In thousands of euros)	Maturity date	31.12.2023	31.12.2022
Bank loans	2023-2028	236,056	244,965
Subordinated loan from owner (Note 19)	2028	14,297	29,000
Bank overdraft	2024	23,407	49
Overdraft from owner (Note 19)	-	-	12,019
Lease liabilities	2023-2047	11,812	10,550
incl. lease liabilities to related parties (Note 28)		9,772	8,802
TOTAL BORROWINGS		**285,572**	**296,583**

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20. BORROWINGS, CONTINUED

All the bank loans have floating interest rates. As at 31 December 2023, the interest rates of bank loans were between 5.40% and 6.47% (31 December 2022: 2.08% and 4.50%) and the interest rates of subordinated shareholder loan and overdraft were between 4.00% and 8.00% (31 December 2022: 3.50% and 4.00%). As at 31 December 2023, the interest rates of lease contracts were between 1.29% and 6.30% (31 December 2022: 1.29% and 4.10%).

In 2023 the working capital loans in the amount of EUR 276.6 million were repaid (2022: EUR 77.9 million) and new working capital loans in the amount of EUR 192.7 million (2022: EUR 166.4 million) were received.

As at 31 December 2023 and 31 December 2022, the bank loans were secured by a commercial pledge registered on the assets of AS Gaasivõrk, by a mortgage registered on five properties (31 December 2022: six properties) belonging to AS Eesti Gaas, by commercial pledges registered on the assets of OÜ Pärnu Päikesepark 1-4 and a mortgage registered on a legal share of the right of superficies. The carrying amount of financial assets pleadged as collateral is immaterial.

MOVEMENTS OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(In thousands of euros)	Overdrafts used for cash management purposes	Loans	Lease liabilities	Retained earnings	Total
BALANCE AT 1 JANUARY 2023 (Note 24.3)	**12,068**	**273,957**	**10,550**	**142,137**	**438,712**
CHANGES FROM FINANCING CASH FLOWS					
Bank loans received	-	273,055	-	-	273,055
Repayments of bank loans	-	(305,811)	-	-	(305,811)
Repayments of other loans	-	(14,705)	-	-	(14,705)
Payment of lease liabilities	-	-	(2,370)	-	(2,370)
Dividends paid	-	-	-	(36,209)	(36,209)
Changes in overdrafts	11,339	-	-	-	11,339
Interest and loan fees paid	-	(232)	-	(15,725)	(15,957)
TOTAL CHANGES FROM FINANCING CASH FLOWS	**11,339**	**(47,693)**	**(2,370)**	**(51,934)**	**(90,658)**
OTHER CHANGES RELATED TO LIABILITIES					
Interest paid	-	-	-	15,725	15,725
New leases	-	-	4,585	-	4,585
Reassessment of the lease liabilities	-	-	66	-	66
Derecognition of leases	-	-	(1,442)	-	(1,442)
Acquisition of subsidiary (Note 29)	-	23,847	423	-	24,270
Amortisation of borrowing costs	-	42	-	-	42
TOTAL OTHER CHANGES	**-**	**23,889**	**3,632**	**15,725**	**43,246**
Changes related to equity	-	-	-	265,042	265,042
BALANCE AT 31 DECEMBER 2023 (Note 24.3)	**23,407**	**250,153**	**11,812**	**370,970**	**656,342**

21. TRADE AND OTHER PAYABLES

(In thousands of euros)	31.12.2023	31.12.2022
Trade payables	70,557	17,197
incl. payables to related parties (Note 28)	4,551	1,930
Payables for realised derivative financial instruments	1,463	-
Payables to employees	5,642	763
Accrued interest	605	297
incl. payables to related parties (Note 28)	62	16
Other payables	2,268	1,916
TOTAL TRADE AND OTHER PAYABLES (Note 24)	**80,535**	**20,173**
incl. current	80,535	19,999
non-current	-	174

22. DEFERRED INCOME

GOVERNMENT GRANTS

(In thousands of euros)	2023	2022
DEFERRED INCOME FROM GRANTS AT THE BEGINNING OF THE PERIOD	**350**	**381**
Amortisation of government grants received (Note 7)	(32)	(31)
DEFERRED INCOME FROM GRANTS AT THE END OF THE PERIOD	**318**	**350**

The Group has received grants for the construction of new CNG filling stations from Keskkonnainvesteeringute Keskus (Environmental Investment Centre).

23. PROVISIONS

(In thousands of euros)	Post-employment benefits for the members of the Management Board (Note 9)	Pensions (Note 9)	Employment and post-employment benefits (Note 9)	Onerous contracts (Note 8)	Environmental protection provisions	Warranties, fines, and other contractual obligations	Total
BALANCE AT 1 JANUARY 2023	**450**	**195**	**-**	**-**	**-**	**-**	**645**
Provisions made and restated during the year	30	14	(183)	5,528	204	-	5,593
Changes in actuarial assumptions	-	-	44	-	-	-	44
Unwind of discount (Note 11)	-	6	-	308	-	-	314
Provisions used during the year	(80)	(31)	(84)	-	-	-	(195)
Acquisition of subsidiary (Note 29)	-	-	1,093	-	688	-	1,781
BALANCE AT 31 DECEMBER 2023	**400**	**184**	**870**	**5,836**	**892**	**-**	**8,182**
incl. current	-	31	-	-	-	-	31
non-current	400	153	870	5,836	892	-	8,151
BALANCE AT 1 JANUARY 2022	**900**	**229**	**-**	**-**	**-**	**222**	**1,351**
Provisions made and restated during the year	25	(7)	-	-	-	22	40
Unwind of discount (Note 11)	-	4	-	-	-	-	4
Provisions used during the year	(362)	(31)	-	-	-	(76)	(469)
Disposal of subsidiaries (Note 30)	(113)	-	-	-	-	(168)	(281)
BALANCE AT 31 DECEMBER 2022	**450**	**195**	**-**	**-**	**-**	**-**	**645**
incl. current	-	31	-	-	-	-	31
non-current	450	164	-	-	-	-	614

Provisions have been discounted at the rate between of 5.599%-10.46% (31 December 2022: 3.42%).

A Post-employment benefits for the members of the Management Board

The provision for post-employment benefits for the members of the Management Board has been set up according to the conditions of the contracts in force.

B Pensions

The provision for pensions has been set up according to the conditions of the contract in force in order to pay the pension to a Member of the Supervisory Board.

C Employment and post-employment benefits

Under the Collective Agreement, the Company provides certain defined benefits upon termination of employment and over the rest of life to employees whose employment conditions meet certain criteria. The amount of benefit liability is calculated annually based on the current salary level and the number of employees who are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions, using the projected unit credit method.

D Onerous contracts

The provision for onerous contracts has been set up in connection with long-term fixed-price electricity purchase agreements. Due to the fall in market prices, part of the amount of electricity has not been resold to customers with long-term contracts. The provision has been established on the basis of projected future prices.

E Environmental protection provisionsd

The environmental protection provisions have been set up for improvements of environment and territory in property in Riga.

F Warranties, fines and other contractual obligations

The provision for warranties, fines and other contractual obligations has been set up to cover potential obligations arising from construction contracts.

24. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

24.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES

(In thousands of euros)	Fair value - hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value Level 2	Fair value Level 3
AS AT 31 DECEMBER 2023						
FINANCIAL ASSETS MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	29,852	-	-	29,852	29,852	-
	29,852	**-**	**-**	**29,852**		
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Trade and other receivables (Note 13)	-	178,809	-	178,809	***	***
Cash and cash equivalents (Note 14)	-	89,203	-	89,203	***	***
	-	**268,012**	**-**	**268,012**		
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity, currency exchange forwards (Note 17)	(3,845)	-	-	(3,845)	(3,845)	-
	(3,845)	**-**	**-**	**(3,845)**		
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE						
Overdrafts and loans (Note 20)**	-	-	(273,560)	(273,560)	(274,140)	-
Lease liabilities (Note 20)	-	-	(11,812)	(11,812)	(11,812)	-
Trade and other payables (Note 21)*	-	-	(74,893)	(74,893)	***	***
	-	**-**	**(360,265)**	**(360,265)**		

* Payables to employees are not included

** According to management's estimates the fair values of the bank loans and overdraft that had a floating interest rate did not differ from their carrying amounts as the risk margins at the end of reporting period met the level of the market's risk margin.

*** The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, trade and other receivables and payables, because their carrying amounts are a reasonable approximation of fair value.

24.1 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT, CONTINUED

(In thousands of euros)	Fair value - hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value Level 2	Fair value Level 3
AS AT 31 DECEMBER 2022						
FINANCIAL ASSETS MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	83,974	-	-	83,974	83,974	-
	83,974	**-**	**-**	**83,974**		
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Trade and other receivables (Note 13)	-	226,071	-	226,071	***	***
Cash and cash equivalents (Note 14)	-	116,842	-	116,842	***	***
	-	**342,913**	**-**	**342,913**		
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	(1,667)	-	-	(1,667)	(1,667)	-
	(1,667)	**-**	**-**	**(1,667)**		
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE						
Overdrafts and loans (Note 20)**	-	-	(286,025)	(286,025)	-	(285,163)
Lease liabilities (Note 20)	-	-	(10,550)	(10,550)	-	(10,550)
Trade and other payables (Note 21)*	-	-	(19,410)	(19,410)	***	***
	-	**-**	**(315,985)**	**(315,985)**		

* Payables to employees are not included

** According to management's estimates the fair values of the bank loans and overdrafts that had a floating interest rate did not differ from their carrying amounts as the risk margins at the end of reporting period met the level of the market's risk margin.

*** The Group has not disclosed the fair values for financial instruments such as cash and cash equivalents, trade and other receivables and payables, because their carrying amounts are a reasonable approximation of fair value.

24.2 MEASUREMENT OF FAIR VALUES

	Valuation technique	Significant unobservable inputs
FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE		
Derivative financial instruments - swap contracts for buying and selling natural gas	The fair value is determined using settlement prices for futures contracts at ICE Endex market at the reporting date	-
Derivative financial instruments - swap contracts for buying and selling electricity	The fair value is determined based on the observed market prices of Nasdaq electricity futures, historical Nasdaq and Nordpool electricity prices, border capacity auction prices, and feedback from market participants	-
Derivative financial instruments - currency exchange forwards	The fair value is determined based on forward rates	-
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE		
Loans, overdrafts and lease liabilities	Discounted cash flows: the valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate	Interest rates of borrowings

24.3 FINANCIAL RISK MANAGEMENT

THE GROUP HAS EXPOSURE TO THE FOLLOWING RISKS ARISING FROM FINANCIAL INSTRUMENTS:

- credit risk
- liquidity risk
- market risk

The parent's Management Board has responsibility for the establishment and oversight of the Group's risk management framework. The purpose of the Group's overall risk management programme is to mitigate financial risks and minimise the volatility of financial results in order to minimise adverse effects on the Group's financial performance. The Group's risk management activities focus on the identification and analysis of possible risks, setting appropriate risk limits and controls and monitoring adherence to limits. The efficiency of risk management and internal controls are monitored and analysed by the Supervisory Board.

A Credit risk

Credit risk is the risk that a customer or a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. Credit risk arises principally from the Group's receivables from customers and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

AS AT 31 DECEMBER 2023, THE MAXIMUM AMOUNT EXPOSED TO CREDIT RISK WAS AS FOLLOWS.

(In thousands of euros)	31.12.2023	31.12.2022
Derivative financial instruments (Note 17)	29,852	83,974
Trade and other receivables (Note 13)	178,809	226,071
Bank accounts (Note 14)	89,194	116,482
Cash in transit (Note 14)	9	360
TOTAL AMOUNT EXPOSED TO CREDIT RISK	**297,864**	**426,887**

TRADE AND OTHER RECEIVABLES

The Group's exposure to credit risk for accounts receivable is influenced mainly by the individual characteristics of each customer.

For business customers the credit analysis is performed prior to the conclusion of the contract and regularly during the validity of the contract. For household customers the seller of gas who has the greatest market share within a network area is obliged to sell gas within the technical limits of the network to all the household customers who have a network connection within the network area and who wish to purchase gas.

The customers' debt is monitored on a daily basis and additional measures are applied if necessary (for example interim invoices, prepayment invoices or deposits). For overdue invoices reminders are sent to customers or customers are contacted by phone, if necessary an enforcement procedure is started through the court or a collection agency. The supply of gas may be interrupted in accordance with the conditions stipulated in the legal acts after the prescribed term date has passed.

AS AT 31 DECEMBER 2023, THE MAXIMUM EXPOSURE TO CREDIT RISK BY THE TYPE OF RECEIVABLE WAS AS FOLLOWS.

(In thousands of euros)	31.12.2023	31.12.2022
Trade receivables for gas and network service, incl.		
commercial consumers	128,291	84,769
household customers	6,919	7,395
Trade receivables for other goods and services	19,945	20,578
Other receivables	23,654	113,329
TOTAL TRADE AND OTHER RECEIVABLES (Note 13)	**178,809**	**226,071**

THE ALLOWANCE FOR DOUBTFUL RECEIVABLES BY THE TYPE OF RECEIVABLE AS AT 31 DECEMBER 2023 WAS AS FOLLOWS.

(In thousands of euros)	31.12.2023	31.12.2022
Allowance for doubtful receivables for gas and network service, incl.		
commercial consumers	(90)	(122)
household customers	(39)	(19)
Allowance for doubtful receivables for other goods and services	(238)	(34)
TOTAL ALLOWANCE FOR DOUBTFUL RECEIVABLES (Note 13)	**(367)**	**(175)**

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

As at 31 December 2023, the Group's most significant customer accounted for EUR 20,538 thousand (31 December 2022: EUR 20,009 thousand) of trade receivables and the Group's most significant transaction party of realised derivative financial instrument EUR 2,990 thousand (31 December 2022: EUR 83,771 thousand).

AN ANALYSIS OF THE CREDIT QUALITY OF ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2023 WAS AS FOLLOWS.

(In thousands of euros)	31.12.2023	31.12.2022
Receivables from new customers (client relationship shorter than 6 months)	5,578	8,152
Receivables from existing customers (client relationship longer than 6 months)	138,495	102,101
TOTAL ACCOUNTS RECEIVABLE NOT YET DUE	**144,073**	**110,253**

EXPECTED CREDIT LOSS ASSESSMENT FOR ACCOUNTS RECEIVABLE

The Group uses an allowance matrix to measure the expected credit losses of accounts receivable, which comprise a very large number of balances. Loss rates are based on actual credit loss experience and are calculated separately for exposures in different segments based on the geographic region and the type of products/service lines. If necessary, the loss rates based on historical information are adjusted taking into account the overall economic outlook.

As at 31 December 2023, the Group had not observed any deterioration in customers' payment behavior.

(In thousands of euros)	Weighted average loss rate	Gross carrying amount	Impairment loss allowance
31 DECEMBER 2023			
Accounts receivable not yet due	0.03%	144,073	37
1-30 days past due	0.04%	10,661	4
31-179 days past due	5.81%	413	24
More than 180 days past due	80.62%	375	302
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**155,522**	**367**
31 DECEMBER 2022			
Accounts receivable not yet due	0.02%	110,253	17
1-30 days past due	0.14%	1,859	3
31-179 days past due	2.83%	639	18
More than 180 days past due	82.93%	166	137
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**112,917**	**175**

THE MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL RECEIVABLES DURING THE YEAR WAS AS FOLLOWS.

(In thousands of euros)	2023	2022
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE BEGINNING OF THE PERIOD	**(175)**	**(237)**
Classified as doubtful and collected during the accounting period	(231)	(25)
Classified as irrecoverable	39	87
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE END OF THE PERIOD (Note 13)	**(367)**	**(175)**

The other receivables do not contain any assets that have been written down.

BANK ACCOUNTS AND SHORT-TERM DEPOSITS

(In thousands of euros)	31.12.2023	31.12.2022
At banks with Moody's credit rating of Aa3	86,038	115,440
At banks with Moody's credit rating of A1	289	-
At banks with Moody's credit rating of A3	608	414
At banks with Moody's credit rating of Baa1	1,819	628
At banks with Moody's credit rating of Baa2	440	-
TOTAL BANK ACCOUNTS AND SHORT-TERM DEPOSITS AT BANKS (Note 14)	**89,194**	**116,482**

B Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses and risking damage to the Group's reputation. Long-term liquidity risk is the risk that the Group does not have a sufficient amount of unrestricted cash or other sources of liquidity to meet its future liquidity needs in order to carry out its business plan and meet its commitments, or that for the above reasons the Group needs to raise additional cash quickly which may result in higher costs.

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

Short-term liquidity risk is mitigated so that the Group keeps a certain amount of cash buffer in its bank accounts in order to have a sufficient amount of cash also available in case there are deviations from the cash flow forecast. In order to have a sufficient amount of cash available, the Group has concluded overdraft agreements, factoring agreements and bank loan agreements for financing current assets. Short term need for extra financing may occur when the Group purchases natural gas for depositing in storage.

In order to finance investments related to various machinery the Group has concluded lease contracts.

The following are the remaining contractual amounts by maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments.

		Contractual cash flows				
(In thousands of euros)	Carrying amount	Total	6 months or less	7-12 months	1-5 years	More than 5 years
31 DECEMBER 2023						
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bank loans (Note 20)	235,856	(266,560)	(133,957)	(7,815)	(124,788)	-
Subordinated loan from owner (Note 20)	14,297	(19,730)	(572)	(572)	(18,586)	-
Bank overdraft (Note 20)	23,407	(24,027)	(24,027)	-	-	-
Lease liabilities (Note 20)	11,812	(14,015)	(1,472)	(1,473)	(7,310)	(3,760)
Trade and other payables (Note 21)	80,535	(80,535)	(80,461)	-	(74)	-
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**365,907**	**(404,867)**	**(240,489)**	**(9,860)**	**(150,758)**	**(3,760)**
DERIVATIVE FINANCIAL LIABILITIES						
Outflow	3,845	(4,984)	(3,657)	(412)	(915)	-
Inflow	-	1,139	408	2	729	-
TOTAL DERIVATIVE FINANCIAL LIABILITIES (Note 17)	**3,845**	**(3,845)**	**(3,249)**	**(410)**	**(186)**	**-**
31 DECEMBER 2022						
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bank loans (Note 20)	244,957	(249,906)	(212,574)	(34,404)	(2,928)	-
Subordinated loan from owner (Note 20)	29,000	(31,030)	(580)	(580)	(29,870)	-
Bank overdraft (Note 20)	49	(49)	(49)	-	-	-
Overdraft from owner (Note 20)	12,019	(12,032)	(12,032)	-	-	-
Lease liabilities (Note 20)	10,550	(11,403)	(1,285)	(1,264)	(7,841)	(1,013)
Trade and other payables (Note 21)	20,173	(20,173)	(19,999)	-	(174)	-
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**316,748**	**(324,593)**	**(246,519)**	**(36,248)**	**(40,813)**	**(1,013)**
DERIVATIVE FINANCIAL LIABILITIES						
Outflow	1,667	(2,011)	(1,347)	(664)	-	-
Inflow	-	344	344	-	-	-
TOTAL DERIVATIVE FINANCIAL LIABILITIES (Note 17)	**1,667**	**(1,667)**	**(1,003)**	**(664)**	**-**	**-**

The interest payments on variable interest rate loans, overdraft and lease liabilities in the tables above reflect existing interest rates at the reporting date and these amounts may change as market interest rate change.

The Group's major finance agreements contain covenants. In case of breach of covenant it is possible to remedy the violation within the agreed period.

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

C Market risk

Market risk is the risk that changes in market prices - such as commodities, foreign exchange rates, interest rates and equity prices - will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

PRICE RISK OF COMMODITIES

The Group's major price risks of commodities arise from fixed-price gas sales contracts, floating price gas sales and purchase contracts and floating-price electricity purchase contracts. The Group uses derivatives - swap contracts for buying and selling natural gas and electricity - to manage price risks. The swap contracts have been entered into for the purchase or sale of a fixed volume of natural gas or electricity at each hour and their price is denominated in euros. 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. A hedging relationship meets the hedge effectiveness requirements if there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes and the hedge ratio is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item. The Group's goal is to apply a hedge ratio approximately 1:1 or 100%. The possible sources for ineffectiveness may be the differences in the quantities, underlying commodities and prices. The fair value changes of the other transactions are recognised in profit or loss. As at 31 December 2023, the Group had concluded swap contracts for buying and selling natural gas for the years 2024 - 2027 in the volume of - 308,488 MWh (31 December 2022: 873,095 MWh for the years 2023 - 2027) and swap contracts for buying and selling electricity for the years 2024 - 2027 in the volume of 67,163 MWh (31 December 2022: 4,380 MWh for the year 2023). The basis for determining the fair value of the transactions are the quotes at ICE Endex market and Nord Pool (Note 17).

NOMINAL AMOUNTS, QUANTITIES AND AVERAGE CONTRACT PRICES PER MWH OF CASH FLOW DERIVATIVE FINANCIAL INSTRUMENTS

(In thousands of euros)	1-6 months	7-12 months	More than 1 years	Total
31 DECEMBER 2023				
Nominal amount of swap contracts to hedge the price risk of gas sales at a fixed price	(22,855)	(4,565)	883	**(26,537)**
Nominal amount of swap contracts to hedge the price risk of gas sales at a floating price	51,920	-	210	**52,130**
Nominal amount of swap contracts to hedge the price risk of gas purchases for storage	(599)	-	-	**(599)**
TOTAL NOMINAL AMOUNT OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (Note 17)	**28,466**	**(4,565)**	**1,093**	**24,994**
Nominal amount of swap contracts for buying electricity	326	531	-	**857**
Nominal amount of swap contracts for selling electricity	155	312	(153)	**314**
TOTAL NOMINAL AMOUNT OF SWAP CONTRACTS FOR BUYING AND SELLING ELECTRICITY (Note 17)	**481**	**843**	**(153)**	**1,171**
NOMINAL AMOUNT OF CURRENCY EXCHANGE FORWARDS (Note 17)	**(158)**	**-**	**-**	**(158)**
Quantity of swap contracts to hedge the price risk of gas sales at a fixed price (MWh)	1,644,605	357,531	225,863	**2,228,000**
Quantity of swap contracts to hedge the price risk of gas sales at a floating price (MWh)	(2,776,488)	-	(105,000)	**(2,881,488)**
Quantity of swap contracts to hedge the price risk of gas purchases for storage (MWh)	345,000	-	-	**345,000**
TOTAL QUANTITY OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (MWH)	**(786,883)**	**357,531**	**120,863**	**(308,488)**
Quantity of swap contracts for buying electricity (MWh)	144,346	101,591	-	**245,937**
Quantity of swap contracts for selling electricity (MWh)	(12,664)	(12,809)	(153,300)	**(178,774)**
TOTAL QUANTITY OF SWAP CONTRACTS FOR BUYING AND SELLING ELECTRICITY (MWH)	**131,682**	**88,782**	**(153,300)**	**67,163**
Average price of swap contracts to hedge the price risk of gas sales at a fixed price (€/MWh)	47	47	30	
Average price of swap contracts to hedge the price risk of gas sales at a floating price (€/MWh)	52	-	40	
Average price of swap contracts to hedge the price risk of gas purchases for storage (€/MWh)	38	-	-	
Average price of swap contracts for buying electricity (€/MWh)	33	14	-	
Average price of swap contracts for selling electricity (€/MWh)	117	117	3	

Swap contracts for buying electricity contain EPADs (electricity price area differentials) and as a result the average price shown does not reflect the entire fixed price.

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

NOMINAL AMOUNTS, QUANTITIES AND AVERAGE CONTRACT PRICES PER MWH OF CASH FLOW DERIVATIVE FINANCIAL INSTRUMENTS

(In thousands of euros)	1-6 months	7-12 months	More than 1 years	Total
31 DECEMBER 2022				
Nominal amount of swap contracts to hedge the price risk of gas sales at a fixed price	8,971	8,476	12,865	**30,312**
Nominal amount of swap contracts to hedge the price risk of gas sales at a floating price	78,280	-	-	**78,280**
Nominal amount of swap contracts to hedge the price risk of gas purchases for storage	(25,674)	-	-	**(25,674)**
TOTAL NOMINAL AMOUNT OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (Note 17)	**61,577**	**8,476**	**12,865**	**82,918**
Nominal amount of swap contracts for buying electricity	284	299	-	**583**
Nominal amount of swap contracts for selling electricity	(530)	(664)	-	**(1,194)**
TOTAL NOMINAL AMOUNT OF SWAP CONTRACTS FOR BUYING AND SELLING ELECTRICITY (Note 17)	**(246)**	**(365)**	**-**	**(611)**
Quantity of swap contracts to hedge the price risk of gas sales at a fixed price (MWh)	538,230	303,906	369,132	**1,211,268**
Quantity of swap contracts to hedge the price risk of gas sales at a floating price (MWh)	(1,041,979)	-	-	**(1,041,979)**
Quantity of swap contracts to hedge the price risk of gas purchases for storage (MWh)	703,806	-	-	**703,806**
TOTAL QUANTITY OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (MWH)	**200,057**	**303,906**	**369,132**	**873,095**
Quantity of swap contracts for buying electricity (MWh)	28,229	28,711	-	**56,940**
Quantity of swap contracts for selling electricity (MWh)	(26,058)	(26,502)	-	**(52,560)**
TOTAL QUANTITY OF SWAP CONTRACTS FOR BUYING AND SELLING ELECTRICITY (MWH)	**2,171**	**2,209**	**-**	**4,380**
Average price of swap contracts to hedge the price risk of gas sales at a fixed price (€/MWh)	77	54	33	
Average price of swap contracts to hedge the price risk of gas sales at a floating price (€/MWh)	151	-	-	
Average price of swap contracts to hedge the price risk of gas purchases for storage (€/MWh)	141	-	-	
Average price of swap contracts for buying electricity (€/MWh)	17	17	-	
Average price of swap contracts for selling electricity (€/MWh)	152	152	-	

Swap contracts for buying electricity contain EPADs (electricity price area differentials) and as a result the average price shown does not reflect the entire fixed price.

CURRENCY RISK

The Group has sales and purchase contracts that are denominated in Polish zlotys. The rest of the Group's sales, purchase, derivative financial instruments and borrowing contracts have been concluded in euros.

As at 31 December 2023, the maximum amount exposed to currency risk was as follows.

(In thousands of euros)	31.12.2023	31.12.2022
Bank accounts (Note 14)	4,301	47
Trade and other receivables (Note 13)	2,183	673
Trade and other payables (Note 21)	(60)	(27)
TOTAL AMOUNT EXPOSED TO CURRENCY RISK	**6,424**	**693**

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.

A sensitivity analysis is used to assess the interest rate risk. As at 31 December 2023, borrowings with a fixed interest rate accounted for 9% and borrowings with a floating interest rate 91% of the total amount of borrowings (31 December 2022: 13% of borrowings had a fixed interest rate and 87% of borrowings had a floating interest rate).

The interest rate profile of the Group's interest-bearing borrowings in nominal amounts is as follows.

(In thousands of euros)	31.12.2023	31.12.2022
FIXED-RATE INSTRUMENTS		
Financial liabilities	24,745	38,581
VARIABLE-RATE INSTRUMENTS		
Financial liabilities	260,827	258,002
TOTAL (Note 20)	**285,572**	**296,583**

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED-RATE INSTRUMENTS

The Group does not account for any fixed-rate financial liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE-RATE INSTRUMENTS

A possible change of 100 basis points in interest rates of variable-rate instruments would have increased (decreased) profit or loss as at 31 December 2023 by the amounts shown below.

(In thousands of euros)	Profit or loss 100 bp increase	100 bp decrease
31 DECEMBER 2023		
Variable-rate instruments	(4,988)	4,988
31 DECEMBER 2022		
Variable-rate instruments	(1,849)	1,849

EQUITY SENSITIVITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS

A possible change of 10% in settlement prices that are used as a basis of calculation the value of derivative financial instruments would have increased (decreased) equity as at 31 December 2023 by the amounts shown below.

(In thousands of euros)	Equity 10% increase in settlement prices	10% decrease in settlement prices
31 DECEMBER 2023		
Derivative financial instruments	749	(749)
31 DECEMBER 2022		
Derivative financial instruments	8,662	(8,662)

D Offsetting of financial assets and liabilities

Group's agreements of derivative financial instruments allow offsetting, which means that in the statement of financial position the financial assets or liabilities are recognised in net amounts.

(In thousands of euros)	Gross amounts of financial instruments	Off-setting	Net amounts of financial instruments in the statement of financial position
31 DECEMBER 2023			
FINANCIAL ASSETS			
Derivative financial instruments (Note 17)	59,809	(29,957)	**29,852**
FINANCIAL LIABILITIES			
Derivative financial instruments (Note 17)	(33,802)	29,957	**(3,845)**
31 DECEMBER 2022			
FINANCIAL ASSETS			
Derivative financial instruments (Note 17)	126,806	(42,832)	**83,974**
FINANCIAL LIABILITIES			
Derivative financial instruments (Note 17)	(44,499)	42,832	**(1,667)**

25. LIST OF SUBSIDIARIES

THE GROUP HAD THE FOLLOWING SUBSIDIARIES AS AT 31 DECEMBER 2023.

Name of the subsidiary	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group (%) 31.12.2023	31.12.2022
AS Gaasivõrk	Estonia	Sale of distribution services through natural gas distribution network	100.0	100.0
Elenger Crew Management OÜ	Estonia	Vessel crew management	-	100.0
Elenger Marine OÜ	Estonia	Sale of natural gas	100.0	100.0
OÜ Pärnu Päikesepark 1	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 2	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 3	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 4	Estonia	Production of electricity	80.0	80.0
SIA Elenger	Latvia	Sale of natural gas and electricity	100.0	100.0
SIA Elenger Marine	Latvia	Sea freight water transport	100.0	100.0
AS "Gaso"	Latvia	Sale of distribution services through natural gas distribution network	100.0	-
SIA Solar Nica	Latvia	Production of electricity	100.0	100.0
SIA Elenger Partners	Latvia	Activities of holding companies	80.0	80.0
SIA Solar Marupe	Latvia	Production of electricity	80.0	80.0
SIA Solar Olaine	Latvia	Production of electricity	80.0	80.0
UAB Elenger	Lithuania	Sale of natural gas and electricity	100.0	100.0
Elenger OY	Finland	Sale of natural gas	100.0	100.0
Elenger Sp. z.o.o.	Poland	Sale of natural gas	100,0	100,0

25. LIST OF SUBSIDIARIES, CONTINUED

FINANCIAL INFORMATION RELATING TO GROUP'S MATERIAL SUBSIDIARIES THAT HAVE NON-CONTROLLING INTERESTS (NCI)

OÜ PÄRNU PÄIKESEPARK 1-4

(In thousands of euros)	2023	2022
31 DECEMBER		
NCI percentage (%)	20	20
Assets	3,943	4,313
Liabilities	2,543	3,083
Net assets	1,400	1,230
NET ASSETS ATTRIBUTABLE TO NCI	**280**	**246**
1 JANUARY - 31 DECEMBER		
Revenue	530	1,195
Profit for the year	167	864
PROFIT ALLOCATED TO NCI	**34**	**173**

26. LEASES

A Leases as a lessee

The Group leases office spaces, vehicles and other machinery and equipment and has concluded the right of superficies and personal right of use contracts for the use of land.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term and/or for leases of low-value assets.

(In thousands of euros)	Land and buildings	Machinery and equipment	Total
BALANCE AT 1 JANUARY 2023	**2,019**	**8,040**	**10,059**
Additions to right-of-use assets	4,431	154	4,585
Reassessment of the lease liability	62	4	66
Depreciation charge	(318)	(1,912)	(2,230)
Derecognition of right-of-use assets	(1,238)	(20)	(1,258)
Acquisition of subsidiary (Note 29)	-	583	583
BALANCE AT 31 DECEMBER 2023	**4,956**	**6,849**	**11,805**
BALANCE AT 1 JANUARY 2022	**2,301**	**10,948**	**13,249**
Additions to right-of-use assets	-	423	423
Reassessment of the lease liability	7	-	7
Depreciation charge	(289)	(2,171)	(2,460)
Derecognition of right-of-use assets	-	(82)	(82)
Disposal of subsidiaries (Note 30)	-	(1,068)	(1,068)
Reclassfied to property, plant and equiment	-	(10)	(10)
BALANCE AT 31 DECEMBER 2022	**2,019**	**8,040**	**10,059**

AMOUNTS RECOGNISED IN PROFIT OR LOSS UNDER IFRS 16

(In thousands of euros)	2023	2022
Interest expense on lease liabilities (Note 11)	313	322
Expenses relating to short-term leases	155	490

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(In thousands of euros)	2023	2022
Total cash outflow for leases	2,838	2,697

EXTENSION OPTIONS

Some property leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. The Group assesses at the lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

B Leases as a lessor

The Group leases out the free space of properties in own use. Operating lease agreements are cancellable with short-term notice.

During 2023, the property rentals of EUR 380 thousand (2022: EUR 97 thousand) were included in revenue (Note 6).

27. COMMITMENTS AND CONTINGENCIES

A Capital commitments arising from construction contracts

As at 31 December 2023, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 1,385 thousand (31 December 2022: EUR 147 thousand).

B Commitments arising from legal acts regulating the field

According to the legal acts, the network operators are responsible for the functioning and maintenance of the network which they own or possess and are required to develop the network in a manner which ensures that all consumer installations located within their network area are connected to the network. The fulfilment of these obligations requires making regular expenses and investments.

28. RELATED PARTIES

A Parent and ultimate controlling party

As at 31 December 2023 and 31 December 2022 the parent of AS Eesti Gaas and the ultimate controlling party of the Group was AS Infortar.

B Key management personnel compensation

(In thousands of euros)	2023	2022
Short-term employee benefits	2,351	2,457
Social taxes	681	724
TOTAL	**3,032**	**3,181**

* calculated compensations that have become collectible by the key management

Short-term employee benefits of the Group's key management personnel include salaries, vacation pay, benefits and compensations. Information about the provision that has been set up for post-employment benefits for the members of the Management Board is disclosed in Note 23.

The expenses related to setting up the provision for post-employment benefits for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board. The total amount of gross liabilities without the influence of cut-off as at 31 December 2023 was EUR 401 thousand (with social tax) (31 December 2022: EUR 483 thousand).

C Other related party transactions

(In thousands of euros)	Transaction values		Balance outstanding	
	2023	2022	2023	2022
SALE OF GOODS AND SERVICES				
Transactions with owner and with entities under the control of owner (Note 13)	2,971	2,886	153	307
Transactions with entities under significant influence of owner (Note 13)	16,824	8,203	2,252	802
PURCHASE OF GOODS AND SERVICES				
Transactions with owner and with entities under the control of owner (Note 21)	12,007	3,661	4,359	1,162
Transactions with entities under significant influence of owner (Note 21)	2,479	6,798	192	768
OTHER				
Subordinated loan from owner (Note 20)			14,297	29,000
Change in overdraft from owner (Note 20)	(12,019)	12,019	-	12,019
Sale of subsidiaries to the entities under the control of owner (Note 30)	-	4,843	-	-
Interest income from owner (Note 13)	903	-	52	-
Interest expense on borrowings (excluding lease liabilities) from owner (Note 21)	1,672	1,448	62	16
Lease liabilities to owner (Note 20)			9,772	8,802

29. ACQUISITION OF SUBSIDIARY

On 14 April 2023, AS Eesti Gaas entered into a share purchase and sale agreement with the Latvian company AS "Latvijas Gāze" for the purchase of 39,900,000 shares of the Latvian natural gas distribution network company AS "Gaso". The transaction entered into force on 17 July 2023 after obtaining the consents of the Government of Latvia and the Competition Authority. The consent of the Latvian Government was required as Gaso is a strategic company for Latvia. As a result of the transaction, the Group acquired 100 percent of the shares and voting rights in Latvian gas distribution company AS "Gaso".

The acquisition of the Latvian distribution network is an important step in the Group's expansion into the largest privately owned energy company of the Baltic Sea region. The Group has concluded that the acquired set is a business and as a result the transaction has been recognised as a business combination.

For the five months ended 31 December 2023, AS "Gaso" contributed revenue of EUR 24,595 thousand and profit of EUR 1,533 thousand to the Group's results. If the acquisition had occured on 1 January 2023, management estimates that consolidated revenue for the year would have been EUR 1,060,365 thousand, and consolidated profit for the year would have been EUR 270,789 thousand. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2023.

The Group incurred acquisition-related costs of EUR 123 thousand on legal fees and due diligence. These costs have been included in other operating expenses.

(In thousands of euros)	
CONSIDERATION TRANSFERRED	
Cash	122,069
TOTAL CONSIDERATION TRANSFERRED	**122,069**
IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED	
Cash and cash equivalents	18,656
Trade receivables	4,151
Other receivables	80
Prepayments for natural gas	99
Other prepayments	1,871
Inventories	2,031
Property, plant and equipment (Note 15)	296,437
Intangible assets (Note 16)	4,323
Right-of-use assets (Note 26)	583
Borrowings (Note 20)	(24,270)
Trade and other payables	(7,280)
Provisions (Note 23)	(1,781)
Contract liabilities (Note 6)	(13,621)
TOTAL IDENTIFIABLE NET ASSETS ACQUIRED	**281,279**

29. ACQUISITION OF SUBSIDIARY, CONTINUED

(In thousands of euros)	Trade receiva-bles	Other receiva-bles	Total receiva-bles
Gross contractual amounts receivable	4,784	80	**4,864**
Estimate at the acquisition date of the contactual cash flows not expected to be collected	(633)	-	**(633)**
FAIR VALUE OF RECEIVABLES	**4,151**	**80**	**4,231**

The fair value of property, plant and equipment was determined on the basis of the value of property, plant and equipment recognised under the revaluation method of AS "Gaso". Management estimates that the fair value of other assets and liabilities was also close to their carrying amount.

(In thousands of euros)	
GAIN FROM A BARGAIN PURCHASE	
Consideration transferred	122,069
Fair value of identifiable net assets	(281,279)
GAIN FROM A BARGAIN PURCHASE	**(159,210)**

As a result of the business combination, income was generated from a bargain purchase, which is the difference between the fair values of the identifiable assets acquired and liabilities assumed and the consideration transferred. The emergence of income from the bargain purchase was justified because the sale transaction took place under regulatory compulsion. As according to European Union and Latvian legislation, the ownership of the Latvian distribution network company, as a strategically important asset/company, was not allowed to belong to Russian or Belarusian capital, the previous owner of AS "Gaso", AS "Latvijas Gāze", was forced to dispose of the company. The circle of potential buyers was significantly limited by the Russian war in Ukraine and the status of Latvia as a border state. The third reason were restrictions, because of which the use of foreign capital was practically excluded.

The gain from a bargain purchase is recognised in a separate line in the statement of profit or loss under net finance costs.

30. DISPOSAL OF SUBSIDIARIES

A Disposal of subsidiary AS EG Ehitus

On 3 October 2022, the Group entered into a sales contract for the sale of the 100% shareholding in AS EG Ehitus to OÜ INF Engineering.

NET ASSETS OF THE SUBSIDIARY DISPOSED

(In thousands of euros)	3.10.2022
Cash and cash equivalents	1,690
Trade and other receivables	1,747
Contract assets	914
Prepayments	39
Inventories	1,590
Assets held for sale	47
Property, plant and equipment (Note 15)	1,059
Intangible assets (Note 16)	40
Right-of-use assets (Note 26)	1,056
Borrowings (Note 20)	(949)
Trade and other payables	(1,534)
Provisions (Note 23)	(281)
Contract liabilities	(491)
TOTAL NET ASSETS OF THE SUBSIDIARY DISPOSED	**4,927**
Sales price (Note 28)	4,811
Loss on sale (Note 11)	116
Cash inflows in transaction	
Proceeds of sale	4,811
Cash of subsidiary in bank accounts	(1,690)
TOTAL CASH INFLOWS IN TRANSACTION	**3,121**

B Disposal of subsidiary HG Prosolution OÜ

On 1 November 2022, the Group entered into a sales contract for the sale of the 100% shareholding in HG Prosolution OÜ to AS EG Ehitus.

NET ASSETS OF THE SUBSIDIARY DISPOSED

(In thousands of euros)	1.11.2022
Cash and cash equivalents	14
Contract assets	34
Prepayments	14
Property, plant and equipment (Note 15)	7
Right-of-use assets (Note 26)	12
Borrowings (Note 20)	(12)
Trade and other payables	(52)
Contract liabilities	(1)
TOTAL NET ASSETS OF THE SUBSIDIARY DISPOSED	**16**
Sales price (Note 28)	32
Gain on sale (Note 11)	16
Cash inflows in transaction	
Proceeds of sale	32
Cash of subsidiary in bank accounts	(14)
TOTAL CASH INFLOWS IN TRANSACTION	**18**

31. FINANCIAL INFORMATION ON THE PARENT

Financial information disclosed on the parent includes the primary separate financial statements of the parent, the disclosure of which is required by the Accounting Act of Estonia. The primary financial statements of the parent have been prepared using the same accounting policies that have been used in the preparation of the consolidated financial statements. Investments in subsidiaries are reported at cost in the separate financial statements of the parent.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(In thousands of euros)	2023	2022
Revenue	919,228	950,729
Other operating income	5,726	2,050
Work performed by the Group and capitalised	-	2
Raw materials and consumables used	(801,570)	(836,402)
Payroll expenses	(7,119)	(5,636)
Depreciation and amortisation	(2,002)	(1,621)
Other operating expenses	(6,962)	(11,194)
OPERATING PROFIT	**107,301**	**97,928**
Finance income	37,550	2,966
Finance costs	(9,725)	(5,055)
NET FINANCE COSTS	**27,825**	**(2,089)**
PROFIT BEFORE TAX	**135,126**	**95,839**
Corporate income tax expense	-	(2,700)
PROFIT FOR THE YEAR	**135,126**	**93,139**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges – change in hedging reserve	(57,783)	94,772
OTHER COMPREHENSIVE INCOME	**(57,783)**	**94,772**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**77,343**	**187,911**

STATEMENT OF FINANCIAL POSITION

(In thousands of euros)	31.12.2023	31.12.2022
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	8,738	8,549
Intangible assets	3,337	2,477
Investment property	-	1,172
Right-of-use assets	3,620	1,776
Derivative financial assets	1,291	12,866
Investments in subsidiaries	87,248	3,183
Other receivables	1,570	-
TOTAL NON-CURRENT ASSETS	**105,804**	**30,023**
CURRENT ASSETS		
Inventories	131,544	72,672
Derivative financial assets	29,092	71,109
Trade and other receivables	157,078	211,005
Prepayments for natural gas	-	8,719
Other prepayments	263	157
Cash and cash equivalents	68,955	113,035
	386,932	**476,697**
Assets held for sale	98	98
TOTAL CURRENT ASSETS	**387,030**	**476,795**
TOTAL ASSETS	**492,834**	**506,818**
EQUITY		
Share capital	9,919	9,919
Statutory capital reserve	992	992
Hedging reserve	24,524	82,307
Retained earnings	225,260	126,343
TOTAL EQUITY	**260,695**	**219,561**

(In thousands of euros)	31.12.2023	31.12.2022
LIABILITIES		
NON-CURRENT LIABILITIES		
Borrowings	4,562	16,405
Derivative financial liabilities	186	38
Provisions	6,323	474
Deferred income	317	349
TOTAL NON-CURRENT LIABILITIES	**11,388**	**17,266**
CURRENT LIABILITIES		
Borrowings	147,834	232,568
Tax liabilities	4,230	11,321
Trade and other payables	64,635	14,203
Derivative financial liabilities	3,784	3,822
Prepayments	234	253
Provisions	31	31
Contract liabilities	3	7,793
TOTAL CURRENT LIABILITIES	**220,751**	**269,991**
TOTAL LIABILITIES	**232,139**	**287,257**
TOTAL LIABILITIES AND EQUITY	**492,834**	**506,818**

31. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

CASH FLOW STATEMENT

(In thousands of euros)	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT FOR THE YEAR	**135,126**	**93,139**
ADJUSTMENTS		
Depreciation of property, plant and equipment, right-of-use assets and investment property	1,134	1,045
Amortisation of intangible assets	868	576
Amortisation of government grants received for purchasing of non-current assets	(32)	(32)
Recognition and adjustment of provisions	5,566	8
Gain on sale of non-current assets	(439)	(87)
Gain/loss from write-off of non-current assets	(188)	13
Unsettled gain/loss on derivative financial instruments	(3,702)	7,648
Net finance costs	(27,825)	2,089
Corporate income tax expense	-	2,700
ADJUSTED PROFIT FOR THE YEAR	**110,508**	**107,099**
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES		
Change in trade receivables	1,982	(11,622)
Change in inventories	(58,871)	(32,468)
Change in prepayments for natural gas	8,719	11,763
Net change in current assets relating to other operating activities	73,948	(88,263)
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**25,778**	**(120,590)**
NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES		
Use of provisions	(31)	(350)
Change in trade payables	45,141	(5,286)
Net change in liabilities relating to other operating activities	(8,124)	(4,413)
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**36,986**	**(10,049)**
NET CASH USED IN OPERATIONS	**173,272**	**(23,540)**
Interest received	1,163	312
Corporate income tax paid	(2,700)	-
NET CASH USED IN OPERATING ACTIVITIES	**171,735**	**(23,228)**

(In thousands of euros)	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2,415)	(2,271)
Proceeds from sale of non-current assets	1,938	344
Acquisition of subsidiaries	(122,069)	(169)
Proceeds from sale of subsidiaries	-	4,847
Change in overdraft to subsidiaries	(21,932)	5,135
Loans granted	(1,580)	(94)
Repayments of loans	10	894
Dividends received	36,209	-
Contributions to the equity of subsidiary	(1,496)	(1,871)
Equity payouts received from subsidiaries	39,501	-
NET CASH FROM INVESTING ACTIVITIES	**(71,834)**	**6,815**
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in overdraft from owner	(12,019)	12,019
Bank loans received	192,754	166,350
Repayments of bank loans	(277,772)	(79,068)
Repayment of subordinated loan to owner	(14,703)	-
Change in bank overdraft	23,358	(6,524)
Change in overdraft from subsidiaries	(9,871)	9,871
Payment of lease liabilities	(302)	(268)
Dividends paid	(36,209)	(10,800)
Interest and loan fees paid	(9,217)	(4,733)
NET CASH FROM FINANCING ACTIVITIES	**(143,981)**	**86,847**
NET CASH FLOWS	**(44,080)**	**70,434**
Cash and cash equivalents at the beginning of the period	113,035	42,601
Cash and cash equivalents at the end of the period	68,955	113,035
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(44,080)**	**70,434**

31. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

STATEMENT OF CHANGES IN EQUITY

(In thousands of euros) Parent	Share capital	Share premium	Statutory capital reserve	Hedging reserve	Other reserves	Retained earnings	Total
EQUITY AS AT 31 DECEMBER 2021	**9,919**	**-**	**992**	**(12,465)**	**-**	**44,004**	**42,450**
Carrying amount of holdings under control				-	-	(3,515)	(3,515)
Value of holdings under control using the equity method				-	-	12,008	12,008
Effect of the merger with sole shareholder (Note 32)				-	-	5,396	5,396
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2021 (Note 18)				**(12,465)**	**-**	**57,893**	**56,339**
Profit for the year		-	-	-	-	93,139	93,139
Other comprehensive income		-	-	94,772	-	-	94,772
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**94,772**	**-**	**93,139**	**187,911**
Dividends paid	-	-	-	-	-	(10,800)	(10,800)
EQUITY AS AT 31 DECEMBER 2022	**9,919**	**-**	**992**	**82,307**	**-**	**126,343**	**219,561**
Carrying amount of holdings under control				-	-	(3,183)	(3,183)
Value of holdings under control using the equity method				-	3	14,057	14,060
Effect of the merger with sole shareholder (Note 32)				-	-	4,920	4,920
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2022 (Note 18)				**82,307**	**3**	**142,137**	**235,358**
Profit for the year	-	-	-	-	-	135,126	135,126
Other comprehensive income	-	-	-	(57,783)	-	-	(57,783)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**(57,783)**	**-**	**135,126**	**77,343**
Dividends paid	-	-	-	-	-	(36,209)	(36,209)
EQUITY AS AT 31 DECEMBER 2023	**9,919**	**-**	**992**	**24,524**	**-**	**225,260**	**260,695**
Carrying amount of holdings under control				-	-	(87,248)	(87,248)
Value of holdings under control using the equity method				(406)	(83)	228,432	227,943
Effect of the merger with sole shareholder (Note 32)				-	-	4,526	4,526
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2023 (Note 18)				**24,118**	**(83)**	**370,970**	**405,916**

Under the Accounting Act of Estonia, adjusted unconsolidated retained earnings are the amount from which a limited company can make payments to its shareholders.

32. MERGER WITH SOLE SHAREHOLDER

On 17 November 2016 a merger agreement was concluded between AS Eesti Gaas and Trilini Energy OÜ (the sole shareholder of AS Eesti Gaas at the moment of the merger). As a result of the merger Trilini Energy OÜ (acquiree) merged with AS Eesti Gaas and was deemed to be dissolved. The balance sheet date of the merger was 1 January 2017.

As a result of the merger the difference between the fair value and carrying amount of the gas distribution network assets and intangible asset (customer contracts) recognised in the consolidated statement of financial position of Trilini Energy OÜ during the acquisition of controlling interest in AS Eesti Gaas, were recognised in the consolidated statement of financial position of Eesti Gaas Group. The estimated useful life of the price difference of the gas distribution network assets value is 30 years, the value of customer contracts is amortised using the declining balance method at the rate of 11% per year (2022: 12% per year). As at 31 December 2023, the carrying amount of the price difference of the gas distribution network assets and customer contracts was EUR 4,526 thousand (31 December 2022: EUR 4,920 thousand) (Note 31).

33. MATERIAL ACCOUNTING POLICIES

33.1 REVENUE RECOGNITION

A Sale of natural gas, electricity and network services

The sale of natural gas and electricity is recognised using gross method as the Group is responsible for fulfilling the promise to provide the goods, has inventory risk and has full discretion in establishing the price.

Revenue is recognised based on the quantities found according to the meter readings or the agreed quantities. The quantities underlying the sale of natural gas and electricity are obtained from the data exchange platform of the system operator. The quantities on which the sale of natural gas network services are based, are measured by the network operator by collecting the meter readings or by forecasting them or as an exception by concluding quantity agreement acts. In case of material effect, additionally estimates are made of the potential impact of readings either not reported, reported late or incorrectly reported by the end of the reporting period, resulting in a more precise recognition of actual consumption.

The revenue from network services is based on the natural gas quantities that have passed through the natural gas distribution network. According to the legal acts in force in Estonia and Latvia, a network operator has to submit the prices of network services and the grounds for establishing such prices to the regulator for approval, and must, at the request of the regulator, provide reasons for the prices set. A network operator has to publish the approved prices for its licensed area and inform the consumers in its licensed area thereof according to the conditions stipulated in legal acts.

The Group recognises revenue from the sale of natural gas, electricity and network services usually over time, except for transactions in which natural gas is sold in storage. In that case revenue is recognised when the ownership of the goods has been transferred. Invoices are payable within a short-period.

B Recognition of connection fees

When connecting to the natural gas network, customers must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. When recognising the connection fees, the performance obligation that involves the activities that are necessary for the preparation of connection, is regarded to be satisfied within the period in which the gas network services are provided through the connection point with the property, plant and equipment acquired for the connection fees. This period is considered to be equal to the estimated average useful life of the property, plant and equipment acquired for the connection fees or the estimated customer relationship period. The estimated average useful life of the property, plant and equipment acquired for the connection fees is calculated by dividing the average cost of the property, plant and equipment with annual depreciation. Deferred connection fees are carried in the statement of financial position as long-term contract liabilities.

C Revenue recognition on the sale of goods

The performance obligation is regarded to be satisfied and revenue is recognised when the goods have been delivered to the customer. Invoices are payable within a short-period. For certain goods (for example compressed natural gas and green gas) loyalty cards are offered to customers which provide a discount.

33.2 EMPLOYEE BENEFITS

Provisions have been set up to cover the benefits payable under the termination of the service contracts with the members of the Management Board and benefits arising from other agreements with former employees. The expenses related to setting up the provision for post-employment payments for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board (Note 23).

33.3 INCOME TAX

A Income tax 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, entertainment expenses, non-business related disbursements and adjustments of the transfer price. On distribution of profits to shareholders until 31 December 2024, dividends that amounts to up to three preceding years' average dividend distribution are subject to income tax of 14/86 of the net amount. The remaining dividends are subject to a tax rate of 20/80 of the net amount. From 1 January 2025 the corporate income tax rate will rise to 22% (22/78 of net dividend amount) and the reduced 14% rate will be abolished. 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 the 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.

33.3 INCOME TAX, CONTINUED

Due to the nature of the taxation system, the entities registered in Estonia or Latvia 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 out of the retained earnings is not recognised in the statement of financial position, unless for the deferred tax for investments in subsidiaries, associates, joint ventures and branches. The deferred tax for investments in subsidiaries, associates, joint ventures and branches is to be recognised even if the investments are located in jurisdictions where corporate income tax is to be paid on the distribution of profit (for example Estonia and Latvia), except to the extent that the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The maximum income tax liability which would arise if all of the retained earnings were distributed is disclosed in the notes to the financial statement.

B Income tax in foreign countries

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 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 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.

33.4 INVENTORIES

The cost of inventories is based on the weighted average principle. The cost of inventories does not include borrowing costs.

33.5 PROPERTY, PLANT AND EQUIPMENT

A Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

B Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Assets leased under a finance lease are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

THE ESTIMATED USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT FOR CURRENT AND COMPARATIVE PERIODS ARE AS FOLLOWS:

	Useful lives in years
buildings	20–100
facilities	15–80
machinery and equipment	3–30
inventory	2–15

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if necessary.

33.6 INTANGIBLE ASSETS

A Recognition and measurement

Customer contracts comprise the value of the customer base that existed and was recognised during the business combination.

B Amortisation

The value of customer contracts is amortised using the declining balance method at the rate of 11% (2022: 12% per year) and the asset's recoverable amount is tested for impairment at each reporting date. During the test, the cash flow from customer contracts is discounted at a risk-free rate of return. Estimated quantities, margins and costs of customer contracts are used in the calculation of cash flow. Amortisation of other intangible assets is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives. The amortisation expense is recognised in profit or loss.

The estimated useful life of computer software for the current and comparative period was 5 years.

33.7 FINANCIAL INSTRUMENTS

A Classification and subsequent measurement of financial assets

As at 31 December 2023 and 31 December 2022 the Group classified all its non-derivative financial assets as measured at amortised cost. The accounting policy for derivatives, designated as hedging instruments, is disclosed in subsection (c).

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. For the purposes of the assessment whether contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

B Classification and subsequent measurement of financial liabilities

As at 31 December 2023 and 31 December 2022 the Group classified all its non-derivative financial liabilities as measured at amortised cost. The accounting policy for derivatives, designated as hedging instruments, is disclosed in subsection (c).

C Derivative financial instruments

The Group holds derivative financial instruments to hedge its natural gas and electricity price risk exposures.

Derivatives are both initially and subsequent to initial recognition measured at fair value. The Group designates most of the derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in the commodity prices.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in the hedging reserve is reclassified to profit or loss or in the cost of inventories in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is reclassified to profit or loss or in the cost of inventories in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

33.8 SHARE CAPITAL

Ordinary shares are classified as equity. No preference shares have been issued.

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

33.9 IMPAIRMENT

Non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets. The Group measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

ECLs are a probability-weighted estimate of credit losses. Evidence that a financial asset is credit-impaired includes the following observable data:default or delinquency by a debtor;

- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

33.10 PROVISIONS

POST-EMPLOYMENT BENEFITS FOR THE MEMBERS OF THE MANAGEMENT BOARD

If the Group has the obligation to pay post-employment benefits to their former members of the management board, 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. The expenses related to setting up the provision for post-employment benefits for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board.

33.11 LEASES

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

A Group as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

LEASE PAYMENTS INCLUDED IN THE MEASUREMENT OF THE LEASE LIABILITY COMPRISE THE FOLLOWING:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

B Group as a lessor

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'Revenue'.

33.12 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

34. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The following new and amended standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements. The new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS1);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7):
- Lease Liability in a Sale and Leaseback (Amendments to IFRS16);
- Lack of Exchangeability (Amendments to IAS21).

Signatures of the Management Board to the Annual Report for the Financial Year 2023

The annual report of Eesti Gaas Group for the financial year ended on 31 December 2023 consists of the management report, the consolidated financial statements, the independent auditors' report and the profit allocation proposal. The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

CHAIRMAN OF THE MANAGEMENT BOARD

MARGUS KAASIK

/signed digitally/

MEMBER OF THE MANAGEMENT BOARD

RAUL KOTOV

/signed digitally/

MEMBER OF THE MANAGEMENT BOARD

DĀVIS SKULTE

/signed digitally/

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholder of AS Eesti Gaas

Opinion

We have audited the consolidated financial statements of AS Eesti Gaas (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia) (including Independence Standards) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/digitally signed/

Andris Jegers

Certified Public Accountant, Licence No 171

/digitally signed/

Kelli Kukk

Certified Public Accountant, Licence No 731

Tallinn, 25 March 2024

KPMG Baltics OÜ
Licence No 17

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Revenue of the Parent by Activities

1 JANUARY - 31 DECEMBER 2023 (In thousands of euros)

Activity	Sales revenue
Trade of gas through mains (35231)	865,467
Trade of electricity (35141)	37,604
Retail sale of automotive fuel incl. activities of fuelling stations (47301)	4,793
Wholesale of automotive fuel (46712)	1,294
Other goods and services	10,070
TOTAL	**919,228**

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Eesti Gaas' energy trading team played an important role in ensuring Finland's winter gas supply security through the Inkoo terminal.

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