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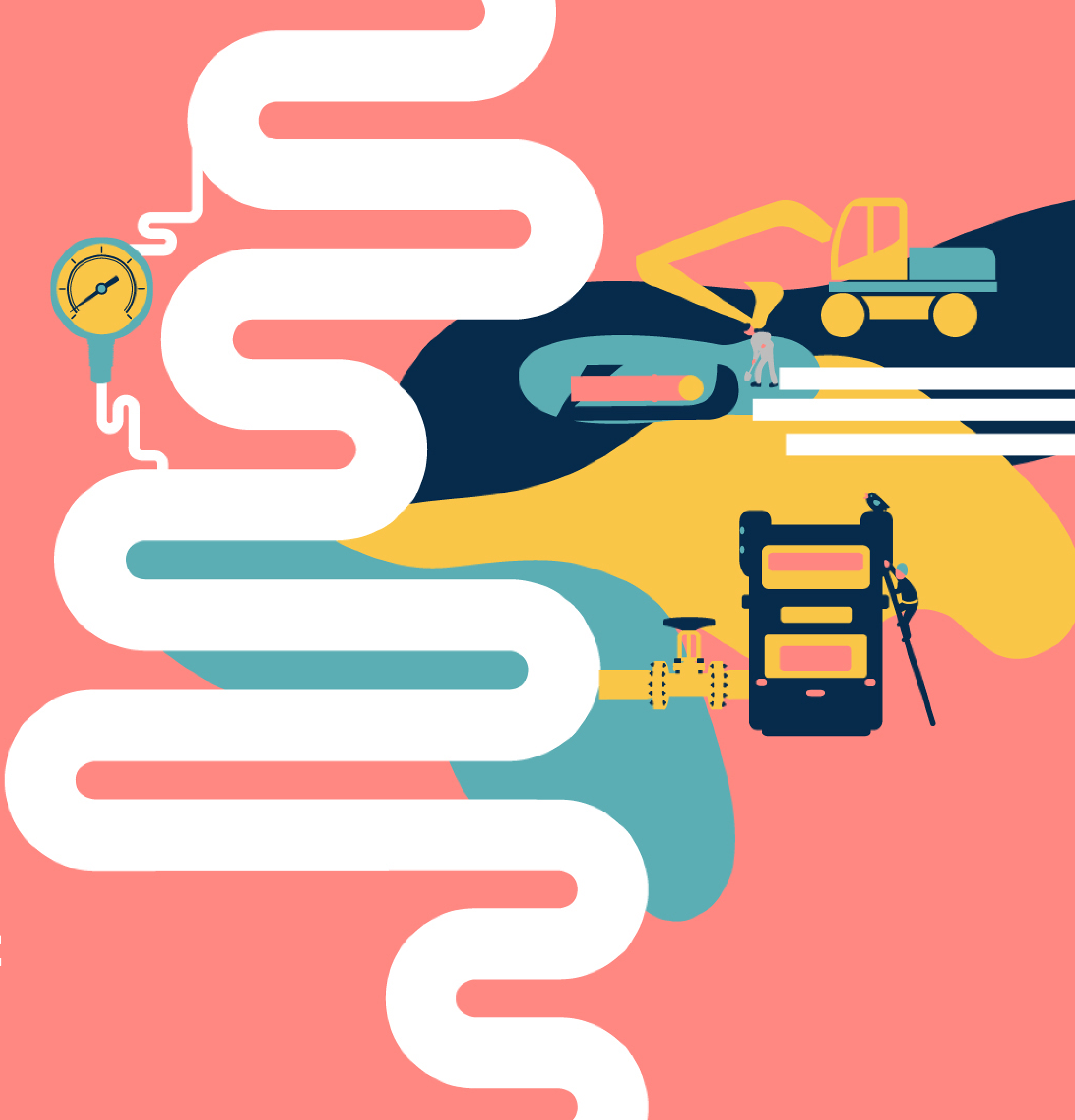

Annual Report 2019

Annual Report 2019

Business name: AS Eesti Gaas

Commercial registry code: 10178905

Address: Sadama 7, Tallinn 10111

Phone: +372 6 303 003

Email: info@gaas.ee

Principal activity: sale of natural gas

The beginning of the financial year: 1 January 2019

The end of the financial year: 31 December 2019

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Management Report

STRUCTURE OF AS EESTI GAAS GROUP

About the company

AS Eesti Gaas is a long-standing energy company, one of the largest in Estonia. Our core product and main area of competence is natural gas, which we sell in the form of different products: gas delivered via pipeline, compressed natural gas (CNG) and locally produced green gas (compressed biomethane, CBM) offered at filling stations, and liquefied natural gas (LNG) delivered with semitrailers or transferred to the customer directly at the terminal. Through our pipelines, we supply natural gas to ten counties across Estonia. Our network of CNG filling stations is the largest in the country and consistently growing. We are the only company in the Baltics that can provide stable LNG bunkering service. Our electricity sales continue to grow. We actively develop our renewable energy portfolio by producing and selling solar power and green gas (biomethane).

AS Eesti Gaas group includes wholly-owned subsidiaries AS Gaasivõrk, AS EG Ehitus, OÜ HG ProSolution and OÜ Elenger Marine, which operate in Estonia. Eesti Gaas has 80% stakes in four companies that are engaged in the production of solar power. The co-owner of the entities is OÜ Paikre, a company owned by the municipality of Pärnu. Eesti Gaas operates under the name of SIA Elenger in Latvia, UAB EG Energija in Lithuania and OY Elenger in Finland, offering energy solutions to corporate customers.

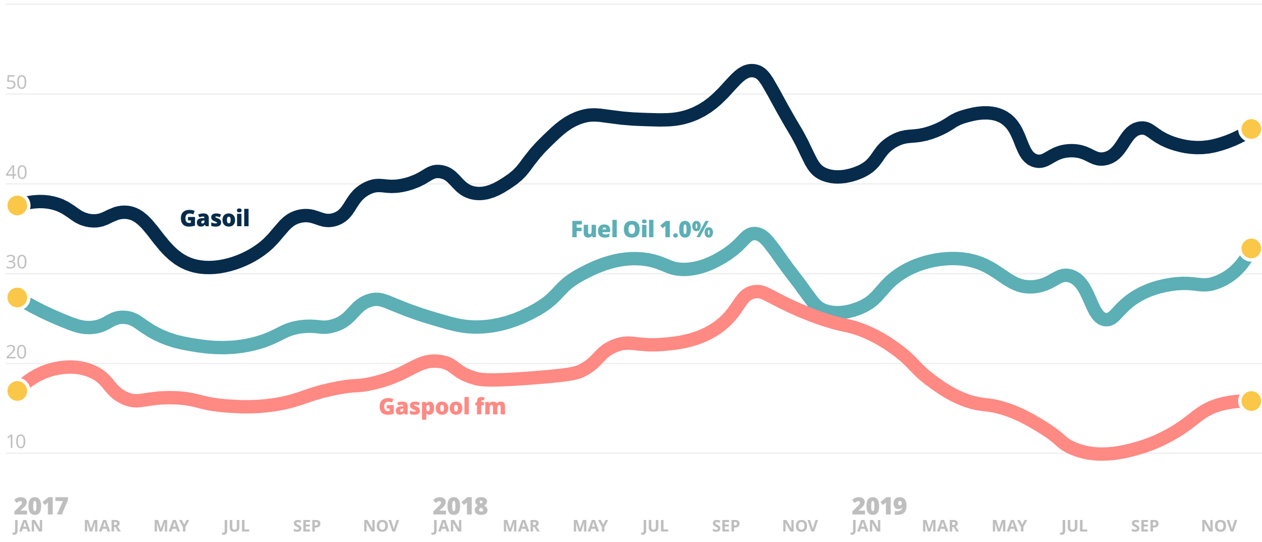
Eesti Gaas is wholly owned by Estonian private capital: the company's sole shareholder is AS Infortar.

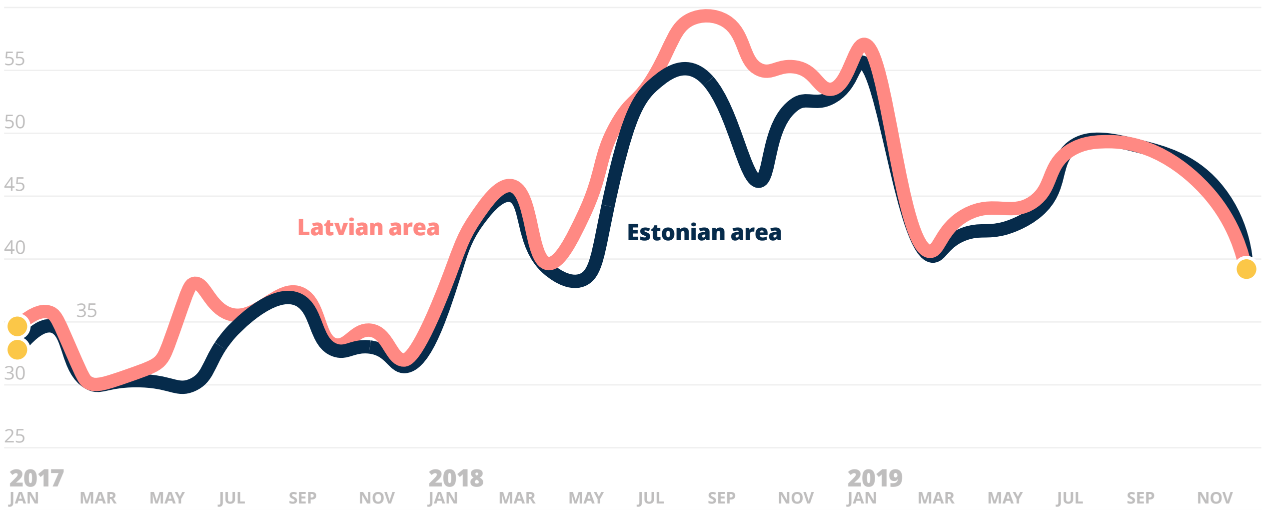
Market situation

Natural gas market

In 2019, natural gas prices in Europe dropped significantly. The main factor, which put pressure on prices, was the oversupply of LNG. In combination with high natural gas inventories it lowered both the spot and future prices. The price of natural gas was the lowest in August, when the Gaspool index for the next month was 10.8 EUR/MWh. The price of oil, on the other hand, trended slightly upward, making gas purchase contracts indexed to the oil price relatively expensive.

FUEL PRICES (EUR/MWh)



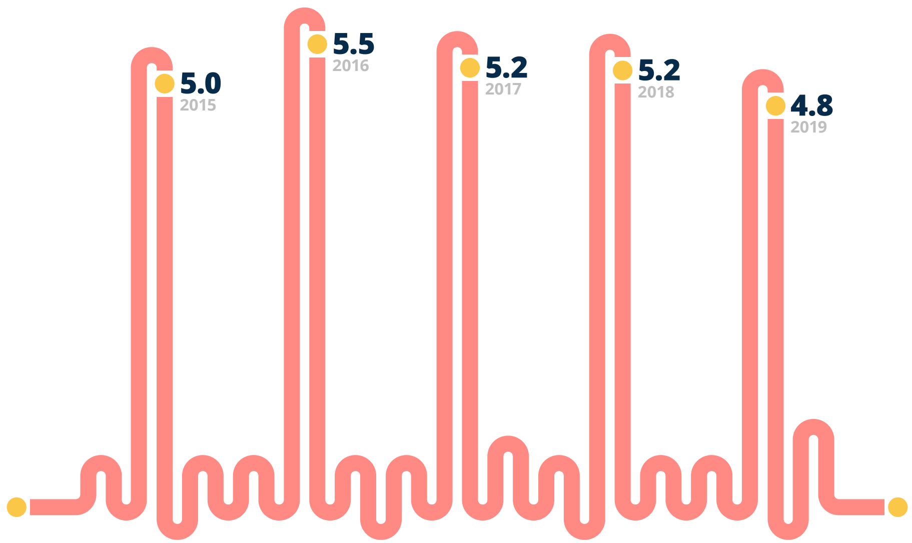


DAY-AHEAD ELECTRICITY PRICES OF NORD POOL SPOT (EUR/MWh)

Electricity market

Electricity prices mostly followed a downward trend in 2019. In spring, the prices bucked the trend and moved upward, largely due to a sharp rise in CO_2 emission allowance prices. In the second half of the year, electricity prices continued to decrease because supply grew and CO_2 emission allowance prices decreased slightly. Electricity prices in the Baltic area are quite high compared to the Nord Pool system price, which is attributable to the relatively high CO_2 intensity of local electricity production, which in turn causes heavy dependence on electricity imports.

Natural gas consumption



NATURAL GAS CONSUMPTION IN ESTONIA (TWh)

According to the Estonian transmission system operator, in 2019 natural gas consumption in Estonia decreased by 7.3% compared with 2018. Estonia imported and consumed a total of 4.8 terawatt-hours (TWh) of natural gas in 2019.

According to the National Weather Service, in Estonia the year 2019 was, on average, warmer than usual and also warmer than the year before. Compared to the heating period of 2018, only January was colder while February, March, April and December were warmer. The temperature for October and November remained at the same level as in 2018.

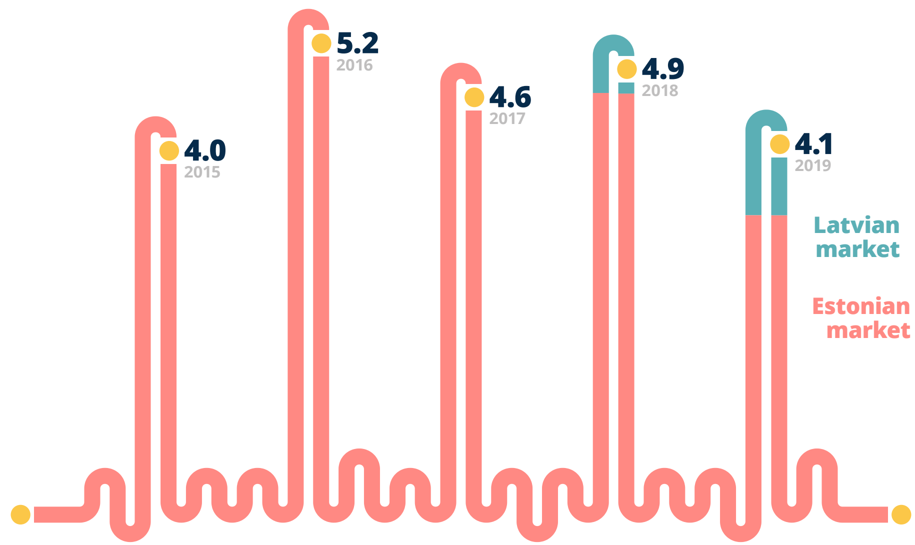
In the past five years, the natural gas consumption trend has stabilised. Although district heating boiler plants continue to replace natural gas with biomass, growing use of natural gas in transport has partly counterbalanced the adverse factors. An important development has also been the feed-in of local renewable biomethane into the natural gas network, which provides an opportunity to use natural gas in an environmentally friendly manner.

Sales

Natural gas

In 2019, Eesti Gaas sold 4.1 TWh of natural gas, of which 3.2 TWh in Estonia and 0.9 TWh in Latvia. The year before we sold 4.9 TWh of natural gas, of which 4.4 TWh in Estonia and 0.5 TWh in Latvia. The sales of natural gas decreased due to more aggressive competition; companies that increased their market share the most were Latvias Gaze and Eesti Energia. Consolidated revenue from the sale of natural gas dropped by 16.6% year on year to 90.5 million euros (including revenue from derivative financial instruments). Revenue declined because of lower market prices of gas and the Group's smaller market share in Estonia.

In the reporting period, 96% of gas sold in Estonia was supplied to the retail market (3.0 TWh). The retail sales volume decreased, in 2018 it was 3.9 TWh. The decline was attributable to considerably higher average air temperature and stiffer competition in the natural gas market.



EESTI GAAS'S SALES OF NATURAL GAS (TWh)

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Sales

Distribution service

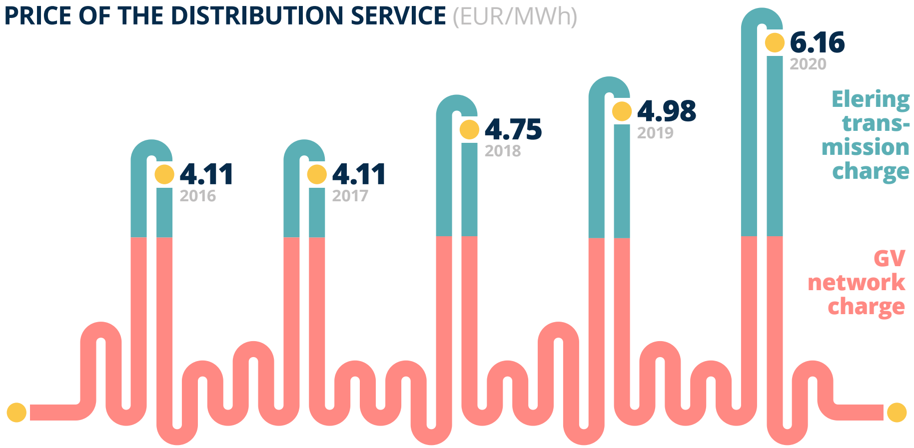
In 2019, Eesti Gaas distributed 4.3 TWh of natural gas, 0.3 TWh less than in 2018. Of this amount, 0.6 TWh was distributed to household customers and 3.7 TWh to corporate customers and other network operators. Distribution service revenue for 2019 amounted to 20.9 million euros.

For the past three years, we have maintained the costs of the distribution service at the same level and growth in the network charge is solely attributable to a rise in Elering's transmission charge.

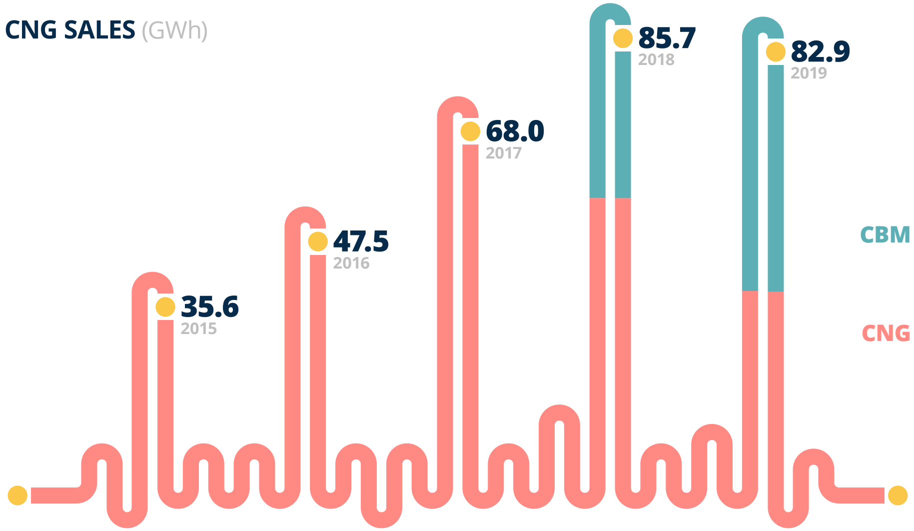
During the year, we signed 236 connection agreements and 54 connection change agreements, in total 23% less than in 2018. The agreements increased customers' estimated annual gas consumption capacity by 7.6 million m³ (2018: by 16.9 million m³).

In 2019, 352 new points of consumption were commissioned with a total contractual consumption capacity of 13.6 million m³ per year. The corresponding figures for 2018 were 321 new points of consumption and 5.6 million m³ of additional consumption capacity per year.

PRICE OF THE DISTRIBUTION SERVICE (EUR/MWh)



CNG SALES (GWh)



Compressed natural gas

Eesti Gaas sold 82.9 GWh of compressed natural gas (CNG) in 2019, 3.4% less than in 2018. Revenue from the sale of CNG amounted to 3.8 million euros, 2% up on 2018.

We did not build any new CNG filling stations in 2019. At the year-end, Eesti Gaas had 11 CNG filling stations: four in Tallinn, two in Pärnu, and one in Tartu, Narva, Jõhvi, Rakvere and Viljandi.

In 2019, we sold 51.5 GWh of green gas, 39.2% more than in 2018. Green gas accounted for 60.4% of total CNG sales.

At the beginning of 2019, a new biomethane certificate trading system was launched in Estonia. This enables us to earn additional revenue from the CNG business and make additional investments in the implementation of environmentally friendly biomethane in transport.

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Sales

Electricity

Eesti Gaas sold 123.3 GWh of electricity in 2019, increasing its sales volume 1.5 times. Electricity sales revenue for the year amounted to 6.2 million euros, a 1.5-fold improvement on 2018.

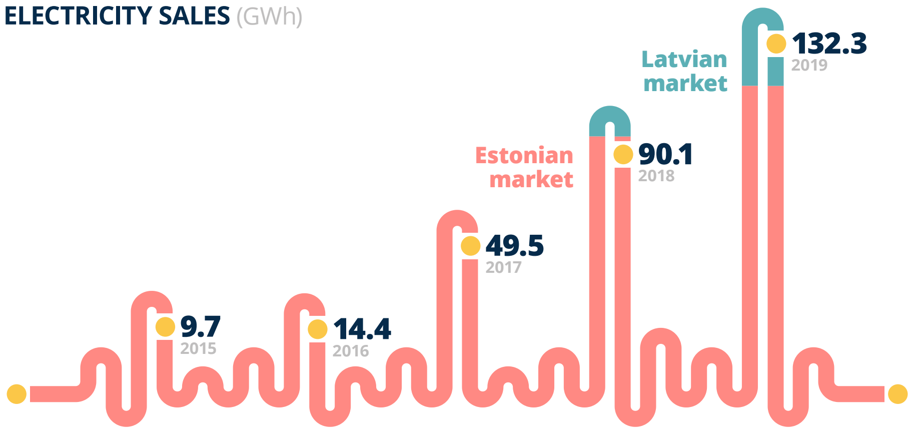
In Estonia, electricity sales volume grew 1.2 times to 101.5 GWh and electricity sales revenue was 4.7 million euros, more than 1.3 times larger than in 2018, when the figure was 3.7 million euros.

In 2018, we began selling electricity in Latvia where sales volume for the year amounted to 9.1 GWh. In 2019, we sold already 3 times more, i.e. 31 GWh. Electricity sales revenue in the Latvian market amounted to 1.3 million euros in 2019.

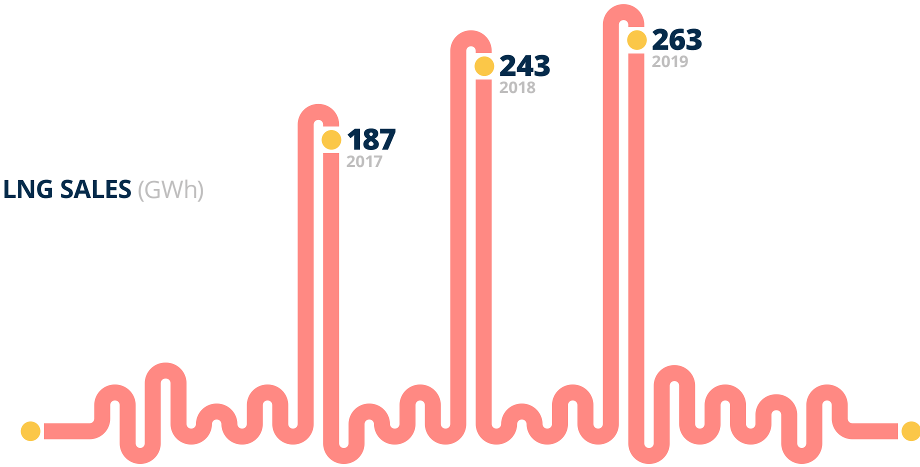
Success was underpinned by more flexible pricing, offering a wider range of electricity packages, and setting clearer goals and offering better incentives to our sales staff.

During the year, the number of household and corporate customers grew roughly two times and at the end of 2019 Eesti Gaas supplied electricity to around 10,000 household points of consumption and over 1,000 corporate points of consumption.

ELECTRICITY SALES (GWh)



LNG SALES (GWh)



Liquefied natural gas

In January 2017, AS Eesti Gaas began selling liquefied natural gas (LNG). In 2019, the sales volume of LNG, which was sourced from Russia, Finland and Lithuania, amounted to 263 GWh. In 2018, the sales volume was 243 GWh. LNG sales revenue for 2019 was 8.3 million euros, 0.3 million euros up on 2018.

In 2017 and 2018 we provided bunkering service mainly in Estonia. However, in 2019 we began providing regular bunkering service also in Finnish ports.

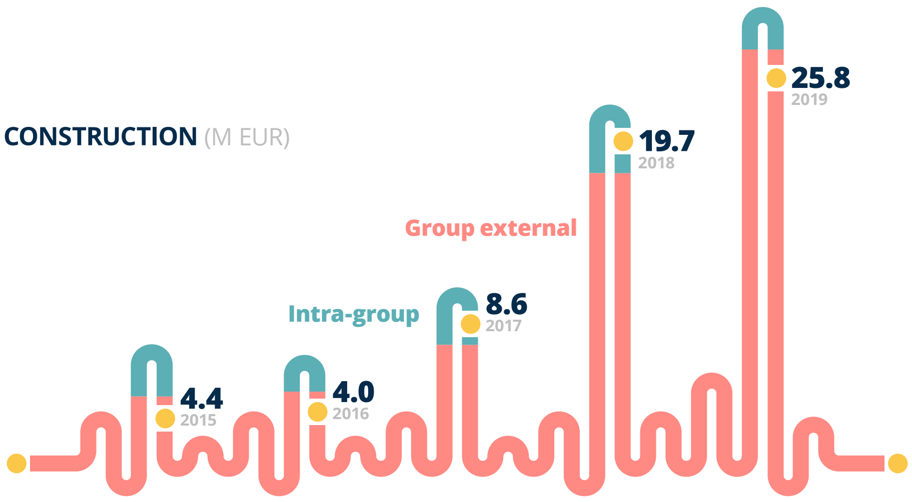
An important achievement in 2019 was the project of cooling down the 42,000 m3 tank of the Vysotsk LNG plant in Russia, which was necessary for starting the LNG plant.

Energy production

Eesti Gaas produced 3.9 GWh of electricity and 9.6 GWh of heat in 2019. Relevant revenue amounted to 0.7 million euros.

Four solar power plants with a total capacity of 4 MW in Pärnu started producing solar energy in June 2019. Also, the first up to 50kW solar power solutions provided to customers began producing energy.

Sales



Construction

In 2019, the revenue generated by AS EG Ehitus, a subsidiary of AS Eesti Gaas, was 25.8 million euros, 1.3 times larger than the year before. Consolidated revenue from the sale of construction service amounted to 22.6 million euros, 1.5 times up on 2018.

The most important construction project of 2019 was the 54-km Kiili-Paldiski section of the onshore part of Balticconnector, a gas pipeline between Estonia and Finland. The diameter of the pipe is 700 millimetres and operating pressure is up to 54 bars. The pipeline goes through the parishes of Kiili, Saku, Saue, and Lääne-Harju and the city of Keila. Balticconnector was completed at the end of 2019. The work was done by a consortium in which AS EG Ehitus was the lead partner and other partners were AS Scanweld and UAB Alvora.

Other major projects included the construction of heat pipelines in Kuhlbarsi street in Tallinn, the city centre of Rakvere and in the city of Jõgeva.

Profitability

AS Eesti Gaas ended 2019 with a consolidated net profit of 10.3 million euros. The corresponding figure for 2018 was 2.3 million euros. The Group's net profit increased by 8 million euros.

EBITDA for 2019 amounted to 19.8 million euros, 98.1% more than in 2018.

Excluding the impacts of one-off items, EBITDA increased by 68.5% year on year.

AS Eesti Gaas is not planning to distribute dividends in 2020 in connection with capital investments in business expansion.

CAPITAL INVESTMENTS (In thousands of euros)

	2019	2018	Change
Revenue	156,515	161,422	-3.0%
Net profit	10,342	2,334	343.1%
EBITDA	19,819	10,006	98.1%
Exceptional items:			
Compensation		20	
Revaluation of derivative financial instruments		-549	
Gain on sale of property, plant and equipment	2,310	142	
Comparable EBITDA	17,509	10,393	68.5%

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Capital investment

Eesti Gaas invested 7.8 million euros in property, plant and equipment and intangible assets in 2019, 27% less than in 2018.

We invested 4.7 million euros in the gas distribution network. The most important project was the installation of smart gas meters. We did not build any new CNG filling stations in 2019 but investments in the maintenance of existing ones amounted to 0.1 million euros. Expenditures on the acquisition of LNG equipment totalled 0.7 million euros. Investments in the production of solar power amounted to 0.4 million euros and expenditures on IT developments, mostly systems for the retail sale of energy amounted to 1.1 million euros.

Financing

Besides regular repayments, there were no changes in Eesti Gaas's long-term loans.

In 2019, we refinanced working capital loans of 20 million euros. The overdraft liability to the owner increased during the year by 6.7 million euros.

Financial ratios

THE GROUP'S KEY FINANCIAL RATIOS:

	2019	2018	2017
Net margin	6.6%	1.4%	3.3%
Current ratio	1.39	1.23	1.12
ROA	5.4%	1.4%	3.0%
ROE	33.4%	15.8%	32.1%
Equity ratio	19.4%	13.1%	11.7%
Net debt / EBITDA	6.5	9.7	8.4
EBITDA margin	12.7%	6.2%	9.1%

THE PARENT'S KEY FINANCIAL RATIOS:

	2019	2018	2017
Net margin	8.9%	1.1%	3.2%
Current ratio	1.41	1.18	1.03
ROA	9.0%	1.0%	2.8%
ROE	49.8%	35.2%	126.8%
Equity ratio	20.7%	3.6%	2.7%
Net debt / EBITDA	5.9	13	9.7
EBITDA margin	11.6%	6.3%	9.4%

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 / (net debt + equity)

Net debt = borrowings – cash and cash equivalents

EBITDA margin = EBITDA / revenue

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Consolidated Financial Statements

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

	2019	2018	Note
Revenue	156,515	161,422	6
Other operating income	4,033	331	7
Change in inventories of finished goods and work-in-progress	-	6	
Work performed by the Group and capitalised	1,796	4,637	
Raw materials and consumables used	(127,628)	(144,533)	8
Payroll expenses	(11,078)	(8,398)	9
Depreciation and amortisation	(6,902)	(5,367)	15, 16, 26
Impairment loss on receivables	(117)	(42)	24
Other operating expenses	(3,702)	(3,417)	10
ÄRIKASUM	**12,917**	**4,639**	
Finance income	113	60	11
Finance costs	(2,687)	(2,363)	11
NET FINANCIAL EXPENSE	**(2,574)**	**(2,303)**	**11**
PROFIT BEFORE TAX	**10,343**	**2,336**	
Corporate income tax expense	(1)	(2)	
PROFIT FOR THE YEAR	**10,342**	**2,334**	
Profit attributable to: Owners of the Company	10,361	2,342	
Profit attributable to: Non-controlling interests	(19)	(8)	
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges – effective portion of changes in fair value	5,854	(68)	18
OTHER COMPREHENSIVE INCOME	**5,854**	**(68)**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**16,196**	**2,266**	
Profit attributable to: Owners of the Company	16,215	2,266	
Profit attributable to: Non-controlling interests	(19)	-	

The notes on pages 17-43 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2019	31.12.2018	Note
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	81,637	81,532	15
Intangible assets	7,053	7,744	16
Investment property	-	33	
Right-of-use assets	5,667	-	26
Derivative financial assets	253	394	17, 24
Trade and other receivables	79	38	6, 13, 24
TOTAL NON-CURRENT ASSETS	**94,689**	**89,741**	
CURRENT ASSETS			
Inventories	39,045	10,948	12
Contract assets	695	17	6
Derivative financial assets	8,633	595	17, 24
Trade and other receivables	32,955	31,688	6, 13, 24
Prepayments for natural gas	12,724	12,080	
Other prepayments	1,492	860	
Cash and cash equivalents	1,906	25,821	14, 24
	97,450	**82,009**	
Assets held for sale	169	1,027	
TOTAL CURRENT ASSETS	**97,619**	**83,036**	
TOTAL ASSETS	**192,308**	**172,777**	

	31.12.2019	31.12.2018	Note
EQUITY			
Share capital	9,919	9,919	18
Statutory capital reserve	992	992	18
Hedging reserve	6,065	211	17, 18
Retained earnings	13,983	3,602	18
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**30,959**	**14,724**	
Non-controlling interests	8	12	
TOTAL EQUITY	**30,967**	**14,736**	
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	77,316	77,228	20, 24
Trade payables	-	21	21
Derivative financial liabilities	811	618	17, 24
Provisions	1,004	798	23
Contract liabilities	11,370	11,394	6
Deferred income	444	476	22
TOTAL NON-CURRENT LIABILITIES	**90,945**	**90,535**	
CURRENT LIABILITIES			
Borrowings	53,072	45,931	20, 24
Trade and other payables	16,406	11,629	21
Derivative financial liabilities	27	-	17, 24
Prepayments	233	171	
Provisions	228	36	23
Contract liabilities	430	9,739	6
TOTAL CURRENT LIABILITIES	**70,396**	**67,506**	
TOTAL LIABILITIES	**161,341**	**158,041**	
TOTAL EQUITY AND LIABILITIES	**192,308**	**172,777**	

The notes on pages 17-43 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands of euros)

	2019	2018	Note
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE YEAR	**10,342**	**2,334**	
ADJUSTMENTS			
Depreciation of property, plant and equipment, right-of-use assets and investment property	5,117	4,367	15, 26
Amortisation of intangible assets	1,785	1,000	16
Income from connection fees	(725)	(721)	6
Amortisation of government grants received for purchasing of non-current assets	(32)	-	22
Recognition and adjustment of provisions	432	131	23
Gain on sale of non-current assets	(2,299)	(189)	7
Loss from write-off of non-current assets	11	46	10
Unsettled gain/loss on derivative financial instruments	(1,824)	481	
Interest expense	2,687	2,364	11
Interest income	(113)	(60)	11
Corporate income tax expense	1	2	
ADJUSTED PROFIT FOR THE YEAR	**15,382**	**9,755**	
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES			
Change in trade receivables	(1,751)	(9,820)	13
Change in inventories	(28,097)	(3,671)	12
Change in prepayments for natural gas	(644)	2,464	
Net change in other current assets relating to operating activities	627	(1,004)	
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**(29,865)**	**(12,031)**	
NET CHANGE IN CURRENT LIABILITIES RELATING TO OPERATING ACTIVITIES			
Use of provisions	(38)	(31)	23
Change in trade payables	1,561	908	21
Net change in other liabilities relating to operating activities	(6,056)	10,908	
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**(4,533)**	**11,785**	
NET CASH FROM/USED IN OPERATIONS	**(19,016)**	**9,509**	
Interest received	105	56	
Corporate income tax paid	(2)	-	
NET CASH FROM/USED IN OPERATING ACTIVITIES	**(18,913)**	**9,565**	

	2019	2018	Note
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	(7,881)	(10,754)	
Proceeds from connection fees	693	1,023	6
Government grants received for purchasing of non-current assets	476	-	
Loans granted	(2,100)	-	
Repayments of loans granted	129	-	
Proceeds from sale of non-current assets	3,289	249	
NET CASH USED IN INVESTING ACTIVITIES	**(5,394)**	**(9,482)**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans received	20,227	70,440	20
Repayments of bank loans	(23,365)	(42,167)	20
Change in overdraft from bank	-	(2,996)	20
Change in overdraft from shareholder	6,671	1,399	28
Payment of lease liabilities (2018: repayment of finance lease liabilities)	(538)	(166)	
Contributions from non-controlling interest	15	20	
Interest and loan fees paid	(2,618)	(3,282)	
NET CASH FROM FINANCING ACTIVITIES	**392**	**23,248**	
NET CASH FLOWS	**(23,915)**	**23,331**	
Cash and cash equivalents at the beginning of the period	25,821	2,490	14
Cash and cash equivalents at the end of the period	1,906	25,821	14
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(23,915)**	**23,331**	

The notes on pages 17-43 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					Non-controlling interests	Total equity
	Share capital (Note 18)	Statutory capital reserve (Note 18)	Hedge reserve (Note 17)	Retained earings (Note 18)	Total		
EQUITY AS AT 31 DECEMBER 2017	**9,919**	**992**	**279**	**1,260**	**12,450**	**-**	**12,450**
COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year	-	-	-	2,342	2,342	(8)	2,334
Other comprehensive income	-	-	(68)	-	(68)	-	(68)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**(68)**	**2,342**	**2,274**	**(8)**	**2,266**
TRANSACTIONS WITH OWNERS							
Contributions from non-controlling interest	-	-	-	-	-	20	20
TOTAL TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**-**	**20**	**20**
EQUITY AS AT 31 DECEMBER 2018	**9,919**	**992**	**211**	**3,602**	**14,724**	**12**	**14,736**
Adjustment on initial application of IFRS 16 (Note 5)	-	-	-	20	20	-	20
ADJUSTED BALANCE AT 1 JANUARY 2019	**9,919**	**992**	**211**	**3,622**	**14,744**	**12**	**14,756**
COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year	-	-	-	10,361	10,361	(19)	10,342
Other comprehensive income	-	-	5,854	-	5,854	-	5,854
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**5,854**	**10,361**	**16,215**	**(19)**	**16,196**
TRANSACTIONS WITH OWNERS							
Contributions from non-controlling interest	-	-	-	-	-	15	15
TOTAL TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**-**	**15**	**15**
EQUITY AS AT 31 DECEMBER 2019	**9,919**	**992**	**6,065**	**13,983**	**30,959**	**8**	**30,967**

The notes on pages 17-43 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

AS Eesti Gaas is a Company domiciled in Estonia. The Company's registered office is at Sadama 7, Tallinn 10111, Estonia. The consolidated financial statements of Eesti Gaas group for the year ended 31 December 2019 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 biomethane can also be fuelled. 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 electrical energy, construction of gas pipe systems and gas installations, developing gas-based cogeneration solutions and solar energy plants and providing other goods and services to customers. The Group operates in Finland, Latvia and Lithuania under the name Elenger. The Group has approximately 50 000 clients.

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 12 March 2020. 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 31.

These consolidated financial statements are presented in euros, which is the Company's and its subsidiaries' functional currency. 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 are included in the following notes:

NOTES 6, 8-11,14 AND 21 -

the subsidiary AS EG Ehitus has concluded a Joint Operating Agreement with two contractual partners for the construction of a land segment of the Balticconnector gas pipeline. With regard to that contract the Group has recognised in the financial statements its revenue, expenses, assets and liabilities and its share of revenue, expenses, assets and liabilities incurred jointly.

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 still equal to the estimated average useful life of the property, plant and equipment acquired for the connection fees, as the following reconstructions of the property, plant and equipment will be financed through the gas network service fees. 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 2018, a new income tax system entered into force in Latvia. The system resembles the Estonian one but upon its application Latvian entities began to recognise deferred tax in their consolidated IFRS financial statements differently from the Estonian approach. In accordance with the Latvian treatment, 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. In line with the approach currently applied in Estonia, deferred tax liabilities are not recognised in such a case. There is no consensus yet in Estonia as to which treatment is correct. The Ministry of Finance has asked the IFRS Interpretations Committee (IFRIC) to express an opinion on the correct interpretation of IAS 12 Income Taxes. At the date of release of this report, IFRIC has not yet communicated its opinion.

3. USE OF JUDGEMENTS AND ESTIMATES, CONTINUED

The Group's management has decided to continue to account for deferred tax liabilities on investments in subsidiaries, associates, joint ventures and branches using the policy applied to date. In line with the latter, in jurisdictions where corporate income tax is to be paid on the distribution of profit (as in Estonia and Latvia), a deferred tax liability is always zero because deferred tax liabilities arising on investments located in those jurisdictions are measured at the zero rate applicable to undistributed profits, as provided in paragraph 52A of IAS 12.

At 31 December 2019, taxable temporary differences for which deferred tax liabilities have not been recognised amounted to EUR 4,542 thousand in Estonia and EUR 224 thousand in Latvia. If the Group changed its accounting policy and recognised deferred tax on the above investments, the liability to be recognised at 31 December 2019 would amount to EUR 953 thousand.

B Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2020 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 due to the take-or-pay provision of the natural gas purchase contract.

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

5.1 IFRS 16 LEASES

The Group initially applied IFRS 16 Leases from 1 January 2019. Other new standards that are also effective from 1 January 2019 do not have a material effect on the Group's financial statements.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not been applied to comparative information.

A Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. From 1 January 2019, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 31.17.

On transition to IFRS 16, the Group elected to apply the allowed practical expedient in the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases, were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B Leases as a lessee

As a lessee, the Group leases many assets including property, machinery and equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

On transition to IFRS 16, for the leases that were previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the interest rates implicit in the lease or its incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

As a practical expedient the Group did not recognise right-of-use assets and liabilities for leases of low value assets.

5.1 IFRS 16 LEASES, CONTINUED

On transition to IFRS 16, for the leases that were previously classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the leased asset and lease liability under IAS 17 immediately before that date.

C Leases as a lessor

The Group leases out the free space of properties in own use. The Group has classified these leases as operating leases. The Group was not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

D Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

Lease liabilities (In thousands of euros)	01.01.2019
Right-of-use assets (Note 26)	1,234
Prepaid expenses	(11)
Lease liabilities	1,203
Retained earnings	20
Finance lease liabilities recognised as at 31 December 2018 (Note 20)	1,562
TOTAL LEASE LIABILITIES AS AT 1 JANUARY 2019	**2,765**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using interest rates implicit in the lease or its incremental borrowing rate at 1 January 2019. The weighted average incremental borrowing rate applied was 3.02%.

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 are provided in Note 31.3.

A Revenue streams (In thousands of euros)

	2019	2018
REVENUE FROM CONTRACTS WITH CUSTOMERS	**153,628**	**160,847**
OTHER REVENUE		
Property rentals (Note 26)	59	66
Hedging gains	2,828	509
TOTAL REVENUE	**156,515**	**161,422**

B Disaggregation of revenue from contracts with customers (In thousands of euros)

	2019	2018
PRIMARY GEOGRAPHICAL MARKETS		
Estonia	131,867	147,713
Latvia	19,391	12,256
Lithuania	1,041	808
Other	1,329	70
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**153,628**	**160,847**
MAJOR PRODUCTS/SERVICE LINES		
Sales of natural gas	87,624	107,914
Sales of construction and repair services	22,579	15,291
Sales of gas network service	20,917	19,563
Sales of liquefied natural gas (LNG)	8,331	8,068
Sales of electricity	6,190	4,150
Sales of compressed gas (CNG)	3,811	3,745
Sales of gas appliances and other goods	1,163	725
Connection fees	725	721
Sales of other services	2,288	670
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**153,628**	**160,847**

C Contract balances (In thousands of euros)

	31.12.2019	31.12.2018
Receivables, which are included in 'trade and other receivables' (Note 13)	32,352	30,613
Contract assets	695	17
Current contract liabilities	(430)	(9,739)
Non-current contract liabilities (connection fees)	(11,370)	(11,394)

The contract assets relate to the Group's rights to consideration for work completed but not billed at the reporting date under construction contracts. The contract assets are transferred to receivables when the rights become unconditional. The current contract liabilities relate to the advance consideration received from customers under construction contracts.

The amounts of EUR 17 thousand (2018: EUR 230 thousand) recognised in contract assets and EUR 9739 thousand (2019: EUR 43 thousand) recognised in current contract liabilities at the beginning of the period have been recognised as revenue in the reporting period. The amount recognised in contract assets and in current contract liabilities at the end of the period is expected to be recognised as revenue during year 2020 (31 December 2018: during year 2019). The amount of connection fees received and recognised as revenue in the reporting period was as follows.

Connection fees (In thousands of euros)

	2019	2018
DEFERRED CONNECTION FEES AT THE BEGINNING OF THE PERIOD	**11,394**	**11,092**
Connection fees received	693	1,023
Connection fees recognised as income	(725)	(721)
Other movements	8	-
DEFERRED CONNECTION FEES AT THE END OF THE PERIOD	**11,370**	**11,394**

The amortisation period of connection fees is up to 32 years (2018: 31 years).

7. OTHER OPERATING INCOME

(In thousands of euros)

	2019	2018
Gain on sale of non-current assets	2,299	189
Gain from derivatives	1,367	-
Fines and interest on arrears received	191	34
Compensation received	117	89
Amortisation of government grants received for purchasing of non-current assets	32	-
Other operating income	27	19
TOTAL OTHER OPERATING INCOME	**4,033**	**331**

The majority of the gain on sale of non-current assets comprise of the gain on sale of the former office building property.

8. RAW MATERIALS AND CONSUMABLES USED

(In thousands of euros)

	2019	2018
Natural gas sold	87,025	111,410
Subcontracting works	12,061	3,326
Gas network service	10,860	8,911
Construction materials	6,290	11,245
Other goods sold	5,989	4,272
Carriage services	1,301	973
Other goods, materials and services	4,102	4,396
TOTAL RAW MATERIALS AND CONSUMABLES USED	**127,628**	**144,533**

9. PAYROLL EXPENSES (In thousands of euros)

	2019	2018
Average number of employees and members of the Management Board of the Group	230	225
Wages, salaries, bonuses, vacation pay, other payments and benefits	7,921	6,029
Fringe benefits	272	151
Payroll taxes	2,669	2,062
Recognition/revaluation of employee related provisions (Note 23)	216	156
TOTAL CALCULATED PAYROLL EXPENSES	**11,078**	**8,398**

The members of the Management Board 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	2019	2018
the average number of the members of the Supervisory Board	6	7
the average number of the members of the Management Board	4	3
the average number of employees	60	67
the average number of persons providing service under service contracts	4	5

10. OTHER OPERATING EXPENSES

(In thousands of euros)

	2019	2018
IT services	1,121	1,065
Advertising expenses	553	311
Administrative costs of buildings	384	364
Legal and other consulting services, audit	372	389
Travel and training expenses	225	141
Taxes and fees	215	60
Office supplies and services	213	164
Membership fees, sponsorship and donations	43	38
Bank transaction fees	27	16
Loss from write-off of non-current assets	11	46
Ineffective portion of changes in the fair value of derivative financial instruments	-	532
Other operating expenses	538	291
TOTAL OTHER OPERATING EXPENSES	**3,702**	**3,417**

11. NET FINANCIAL EXPENSE

(In thousands of euros)

	2019	2018
FINANCE INCOME		
Interest income	113	60
TOTAL INTEREST INCOME	**113**	**60**
TOTAL FINANCE INCOME	**113**	**60**
FINANCE COSTS		
INTEREST EXPENSE		
Interest expense on borrowings	(2,683)	(2,358)
incl. interest expense on lease liabilities (Note 26)	(100)	-
Interest expense on provisions	(4)	(5)
TOTAL INTEREST EXPENSE	**(2,687)**	**(2,363)**
TOTAL FINANCE COSTS	**(2,687)**	**(2,363)**
NET FINANCIAL EXPENSE	**(2,574)**	**(2,303)**

12. INVENTORIES (In thousands of euros)

	31.12.2019	31.12.2018
Natural gas inventory in storage	38,400	10,384
Other goods and materials	636	557
Finished goods	6	6
Prepayments for other goods	3	1
TOTAL INVENTORIES	**39,045**	**10,948**

In the reporting period, illiquid and obsolete materials were written down in the amount of EUR 0 thousand (2018: EUR 1 thousand).

13. TRADE AND OTHER RECEIVABLES

(In thousands of euros)

	31.12.2019	31.12.2018
TRADE RECEIVABLES		
ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS		
Accounts receivable	32,598	30,886
incl. accounts receivable from related parties (Note 28)	1,198	711
Allowance for doubtful receivables	(246)	(273)
TOTAL ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS (Note 6)	**32,352**	**30,613**
OTHER ACCOUNTS RECEIVABLE		
Accounts receivable	36	11
Allowance for doubtful receivables	(13)	-
TOTAL OTHER ACCOUNTS RECEIVABLE	**23**	**11**
TOTAL TRADE RECEIVABLES	**32,375**	**30,624**
Accrued income	124	229
Other receivables	475	873
incl. from related parties (Note 28)	-	296
Costs to fulfil contracts	60	-
TOTAL TRADE AND OTHER RECEIVABLES (NOTE 24)	**33,034**	**31,726**
incl. current	32,955	31,688
non-current	79	38

Receivables and prepayments for services and goods are not secured. All of the Group's receivables are denominated in euros.

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

As at 31 December 2019 and 2018, the majority of accounts receivable from related parties comprised of receivables for liquefied natural gas (LNG) sold.

14. CASH AND CASH EQUIVALENTS

(In thousands of euros)

	31.12.2019	31.12.2018
Bank accounts	1,906	15,070
Overnight deposits	-	10,588
Cash in transit	-	163
TOTAL CASH AND CASH EQUIVALENTS (Note 24)	**1,906**	**25,821**

In the financial year, the effective interest rate of overnight deposits was 0.01% (2018: 0.01%).

15. PROPERTY, PLANT AND EQUIPMENT (In thousands of euros)

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in in progress and prepayments	Total
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2017						
Cost	4,616	101,106	18,827	128	1,246	125,923
Accumulated depreciation	(1,905)	(34,487)	(12,384)	(120)	-	(48,896)
CARRYING AMOUNT	**2,711**	**66,619**	**6,443**	**8**	**1,246**	**77,027**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2018						
Additions	-	55	259	7	9,517	9,838
Depreciation and impairment charge	(114)	(3,209)	(1,038)	(3)	-	(4,364)
Disposals and write-offs	(1)	-	(60)	-	-	(61)
Transfers from construction in progress and prepayments	75	5,226	1,455	-	(6,756)	-
Reclassification to assets held for sale	(908)	-	-	-	-	(908)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2018	**(948)**	**2,072**	**616**	**4**	**2,761**	**4,505**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2018						
Cost	2,833	106,387	19,525	131	4,007	132,883
Accumulated depreciation	(1,070)	(37,696)	(12,466)	(119)	-	(51,351)
CARRYING AMOUNT	**1,763**	**68,691**	**7,059**	**12**	**4,007**	**81,532**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2019						
Additions	-	213	2,799	320	3,414	6,746
Depreciation and impairment charge	(68)	(3,434)	(1,055)	(15)	-	(4,572)
Disposals and write-offs	(35)	-	(70)	-	-	(105)
Transfers from construction in progress and prepayments	101	5,814	415	-	(6,330)	-
Reclassification to right-of-use assets (Note 26)	-	-	(1,964)	-	-	(1,964)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2019	**(2)**	**2,593**	**125**	**305**	**(2,916)**	**105**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2019						
Cost	2,899	112,368	19,066	406	1,091	135,830
Accumulated depreciation	(1,138)	(41,084)	(11,882)	(89)	-	(54,193)
CARRYING AMOUNT	**1,761**	**71,284**	**7,184**	**317**	**1,091**	**81,637**

A Leased machinery and equipment classified as finance lease under IAS 17

As at 31 December 2018, the carrying amount of the leased assets was EUR 1,964 thousand.

According to the contracts the lease obligations are secured with the leased equipment. On the expiry of the lease the ownership of the leased assets will transfer to the Group.

B 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 457 thousand (2018: EUR 436 thousand).

16. INTANGIBLE ASSETS

(In thousands of euros)

	Computer software	Customer contracts	Total
INTANGIBLE ASSETS AS AT 31 DECEMBER 2017			
Cost	5,768	6,300	12,068
Accumulated amortisation	(3,678)	(539)	(4,217)
CARRYING AMOUNT	**2,090**	**5,761**	**7,851**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2018			
Purchases	893	-	893
Amortisation charge	(712)	(288)	(1,000)
TOTAL MOVEMENTS	**181**	**(288)**	**(107)**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2018			
Cost	6,597	6,300	12,897
Accumulated amortisation	(4,326)	(827)	(5,153)
CARRYING AMOUNT	**2,271**	**5,473**	**7,744**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2019			
Purchases	1,100	-	1,100
Amortisation charge	(819)	(966)	(1,785)
Disposals and write-offs	(6)	-	(6)
TOTAL MOVEMENTS	**275**	**(966)**	**(691)**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2019			
Cost	7,566	6,300	13,866
Accumulated amortisation	(5,020)	(1,793)	(6,813)
CARRYING AMOUNT	**2,546**	**4,507**	**7,053**

17. DERIVATIVE FINANCIAL INSTRUMENTS

(In thousands of euros)

	31.12.2019		31.12.2018	
	Assets	Liabi-lities	Assets	Liabi-lities
NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	253	811	394	618
incl. derivative financial inst-ruments that are designated as cash flow hedges	253	811	394	618
CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	8,633	27	595	-
incl. derivative financial inst-ruments that are designated as cash flow hedges	7,238	27	595	-
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS (Note 24)	**8,886**	**838**	**989**	**618**

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. Additional information about the risk management principles is disclosed in Note 24.3 (c).

18. CAPITAL AND RESERVES (In thousands of euros)

A Share capital

As at 31 December 2019, AS Eesti Gaas had 27,728,408 shares without nominal value (31 December 2018: 27,728,408 shares without nominal value). Each share grants one vote at the general meeting of shareholders.

In the comparative period, AS Infortar acquired the holdings of minority shareholders as a result of which AS Infortar was the sole shareholder as at 31 December 2018.

INFORMATION ABOUT SHAREHOLDERS AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018.

	31.12.2019		31.12.2018	
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 2019, the Group's statutory capital reserve totalled EUR 992 thousand (31 December 2018: EUR 992 thousand). As at 31 December 2019 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 as the hedged cash flows affect profit or loss.

	2019	2018
HEDGING RESERVE AT THE BEGINNING OF THE PERIOD	**211**	**279**
Cash flow hedges – effective portion of changes in fair value	7,193	903
Gain recognised on cash flow hedges before applying hedge accounting	-	559
Gain(-) / loss(+) on realised cash flow hedges	(1,339)	(1,530)
HEDGING RESERVE AT THE END OF THE PERIOD	**6,065**	**211**

D Profit distribution

As at 31 December 2019, the Group's distributable equity was EUR 13,983 thousand (31 December 2018: EUR 3,602 thousand). According to the Income Tax Act, companies are taxed in Estonia on the distribution of dividends. Income tax on dividends is calculated as 20/80 of the amount payable as net dividends (except for regularly payable dividends, to which the reduced income tax rate is applied). 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.

	31.12.2019	31.12.2018
Retained earnings (Note 29)	13,983	3,602
Distributable shareholders' equity	13,983	3,602
Corporate income tax payable on the distribution of the entire unrestricted equity	2,797	720
Net dividends available for distribution	11,186	2,882

In the reporting period and comparable period dividends were not paid.

19. CAPITAL MANAGEMENT (In thousands of euros)

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 keep the ratio not less than 30%.

The Group's equity to total assets ratio as at 31 December 2019 was as follows.

	31.12.2019	31.12.2018
Equity	30,967	14,736
Subordinated shareholder loan and overdraft (Note 20)	58,069	51,398
Total assets	192,308	172,777
EQUITY TO TOTAL ASSETS RATIO	**46%**	**38%**

20. BORROWINGS

BORROWINGS AT AMORTISED COST (In thousands of euros)

	31.12.2019	31.12.2018
LONG-TERM BORROWINGS		
Bank loans	43,713	46,834
Subordinated shareholder loan (Note 19)	29,000	29,000
Lease liabilities (2018: finance lease liabilities) (Note5)	4,603	1,394
TOTAL LONG-TERM BORROWINGS	**77,316**	**77,228**
SHORT-TERM BORROWINGS		
Overdraft from a shareholder (Note 19)	29,069	22,398
Short-term bank loans	20,000	20,000
Current portion of long-term bank loans	3,365	3,365
Current portion of lease liabilities (2018: current portion of finance lease liabilities) (Note5)	638	168
TOTAL SHORT-TERM BORROWINGS	**53,072**	**45,931**
TOTAL BORROWINGS	**130,388**	**123,159**

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

A Terms and repayment schedule of borrowings (In thousands of euros)

	Maturity date	Nominal value 31.12.2019	Nominal value 31.12.2018
Bank loans	2020-2023	67,135	70,273
Subordinated shareholder loan (Note 19)	2021	29,000	29,000
Shareholder overdraft (Note 19)	-	29,069	22,398
Lease liabilities (2018: finance lease liabilities)	2020-2047	5,241	1,562
incl. lease liabilities to related parties (Note 28)		2,559	-
TOTAL BORROWINGS		**130,445**	**123,233**

The bank loans have floating interest rates. As at 31 December 2019, the interest rates of bank loans were between 1.35% and 1.95% (31 December 2018: 1.2% and 1.95%). The interest rates of subordinated shareholder loan and overdraft were between 2.5% and 4.0% (31 December 2018: 1.8% and 4.0%). The interest rates of lease contracts were between 1.03% and 3.09% (31 December 2018: the interest rates of finance lease contracts: 1.05%-1.27%).

In 2019 the working capital loans in the amount of EUR 20 million were refinanced. In 2018 the syndicated loan in the amount of EUR 36.5 million was refinanced.

As at 31 December 2019 and 31 December 2018, the bank loans were secured by a commercial pledge registered on the assets of AS Gaasivõrk, by a combined mortgage registered on six properties belonging to AS Eesti Gaas and AS Gaasivõrk, 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.

B Finance lease liabilities (In thousands of euros)

31.12.2018	Future minimum lease payments	Interest	Present value of minimum lease payments
< 1 year	187	16	171
1 - 5 years	1,414	23	1,391
TOTAL	**1,601**	**39**	**1,562**

All the finance lease liabilities were denominated in euros.

21. TRADE AND OTHER PAYABLES (In thousands of euros)

	31.12.2019	31.12.2018
Trade payables	5,887	4,362
incl. payables to related parties (Note 28)	11	2
Tax liabilities	7,182	6,224
Payables to employees	1,904	859
Accrued interest	67	18
incl. payables to related parties (Note 28)	52	3
Other accrued expenses	1,366	187
TOTAL TRADE AND OTHER PAYABLES (Note 24)	**16,406**	**11,650**
incl. current	16,406	11,629
non-current	-	21

22. DEFERRED INCOME (In thousands of euros)

GOVERNMENT GRANTS	2019	2018
DEFERRED INCOME FROM GRANTS AT THE BEGINNING OF THE PERIOD	**476**	**-**
Grants received	-	476
Amortisation of government grants received	(32)	-
DEFERRED INCOME FROM GRANTS AT THE END OF THE PERIOD	**444**	**476**

The Group has received grants for the construction of new CNG filling stations from Keskkonna-investeeringute Keskus (Environmental Investment Center).

23. PROVISIONS (In thousands of euros)

	Post-employment benefits for the member of the Management Board (Note 9)	Pensions (Note 9)	Warranties and fines	Total
BALANCE AS AT 1 JANUARY 2019	**545**	**259**	**30**	**834**
Provisions made and restated during the year	189	27	216	432
Unwind of discount (Note 11)	-	4	-	4
Provisions used during the year	-	(31)	(7)	(38)
BALANCE AS AT 31 DECEMBER 2019	**734**	**259**	**239**	**1,232**
incl. current	-	31	197	228
non-current	734	228	42	1,004
BALANCE AS AT 1 JANUARY 2018	**393**	**281**	**55**	**729**
Provisions made and restated during the year	152	4	(25)	131
Unwind of discount (Note 11)	-	5	-	5
Provisions used during the year	-	(31)	-	(31)
BALANCE AS AT 31 DECEMBER 2018	**545**	**259**	**30**	**834**
incl. current	-	31	5	36
non-current	545	228	25	798

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 Warranties and fines

The provision for warranties and fines has been set up to cover potential warranty and fine expenses arising from construction contracts.

24. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (In thousands of euros)

24.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES

	Fair value - hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value	
					Level 2	Level 3
AS AT 31 DECEMBER 2019						
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**8,886**	**-**	**-**	**8,886**		
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	8,886	-	-	8,886	8,886	-
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE	**-**	**34,940**	**-**	**34,940**		
Trade and other receivables (Note 13)	-	33,034	-	33,034	***	***
Cash and cash equivalents (Note 14)	-	1,906	-	1,906	***	***
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**(838)**	**-**	**-**	**(838)**		
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	(838)	-	-	(838)	(838)	-
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE	**-**	**-**	**(137,708)**	**(137,708)**		
Overdrafts and loans (Note 20)**	-	-	(125,147)	(125,147)	-	(125,394)
Lease liabilities (Note 20)	-	-	(5,241)	(5,241)	-	(5,247)
Trade and other payables (Note 21)*	-	-	(7,320)	(7,320)	***	***
AS AT 31 DECEMBER 2018						
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**989**	**-**	**-**	**989**		
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	989	-	-	989	989	-
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE	**-**	**57,547**	**-**	**57,547**		
Trade and other receivables (Note 13)	-	31,726	-	31,726	***	***
Cash and cash equivalents (Note 14)	-	25,821	-	25,821	***	***
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**(618)**	**-**	**-**	**(618)**		
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	(618)	-	-	(618)	(618)	-
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE	**-**	**-**	**(127,726)**	**(127,726)**		
Overdrafts and loans (Note 20)**	-	-	(121,597	(121,597)	-	(121,750)
Finance lease liabilities (Note 20)	-	-	(1,562)	(1,562)	-	(1,556)
Trade and other payables (Note 21)*	-	-	(4 567)	(4 567)	***	***

* Payables to employees and tax liabilities are not included

** According to management's estimates the fair values of the bank loans and shareholder overdraft did not differ from their carrying amounts as these had a floating interest rate and the risk margins at the end of reporting period met the level of the market's risk margin. The Group also treats the shareholder overdraft in calculating the fair value as a floating interest rate borrowing as the shareholder has a right to unilaterally change the interest rate.

*** 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 - swaps 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	-
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE		
Loans, overdrafts and lease liabilitities	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 contract assets. The carrying amount of financial assets and contract assets represents the maximum credit exposure.

AS AT 31 DECEMBER 2019, THE MAXIMUM AMOUNT EXPOSED TO CREDIT RISK WAS AS FOLLOWS. (In thousands of euros)

	31.12.2019	31.12.2018
Trade and other receivables (Note 13)	33,034	31,726
Derivative financial instruments (Note 17)	8,886	989
Bank accounts (Note 14)	1,906	15,070
Contract assets (Note 6)	695	17
Overnight deposits (Note 14)	-	10,588
Cash in transit (Note 14)	-	163
TOTAL AMOUNT EXPOSED TO CREDIT RISK	**44,521**	**58,553**

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 and prepayment invoices). 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 Natural Gas Act after the prescribed term date has passed.

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

AS AT 31 DECEMBER 2019, THE MAXIMUM EXPOSURE TO CREDIT RISK BY THE TYPE OF RECEIVABLE WAS AS FOLLOWS (In thousands of euros)

	31.12.2019	31.12.2018
Trade receivables for gas and network service, incl.		
commercial consumers	22,028	24,810
household customers	3,194	3,530
Trade receivables for other goods and services	7,153	2,284
Other receivables	659	1,102
TOTAL TRADE AND OTHER RECEIVABLES (Note 13)	**33,034**	**31,726**

THE ALLOWANCE FOR DOUBTFUL RECEIVABLES BY THE TYPE OF RECEIVABLE AS AT 31 DECEMBER 2019 WAS AS FOLLOWS (In thousands of euros)

	31.12.2019	31.12.2018
Allowance for doubtful receivables for gas and network service, incl.		
commercial consumers	(186)	(113)
household customers	(41)	(145)
Allowance for doubtful receivables for other goods and services	(32)	(15)
TOTAL ALLOWANCE FOR DOUBTFUL RECEIVABLES (Note 13)	**(259)**	**(273)**

As at 31 December 2019, the Group's most significant customer accounted for EUR 1,294 thousand of trade and other receivables (31 December 2018: EUR 7,361 thousand).

AN ANALYSIS OF THE CREDIT QUALITY OF ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2019 WAS AS FOLLOWS (In thousands of euros)

	31.12.2019	31.12.2018
Receivables from new customers (client relationship shorter than 6 months)	1,210	1,648
Receivables from existing customers (client relationship longer than 6 months)	29,270	27,332
TOTAL ACCOUNTS RECEIVABLE NOT YET DUE	**30,480**	**28,980**

EXPECTED CREDIT LOSS ASSESSMENT FOR ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2019

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.

In thousands of euros	Weighted average loss rate	Gross carrying amount	Impairment loss allowance
Accounts receivable not yet due	0.03%	30,480	9
1-30 days past due	0.58%	1,666	10
31-179 days past due	14.10%	256	36
More than 180 days past due	87.83%	232	204
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**32,634**	**259**

EXPECTED CREDIT LOSS ASSESSMENT FOR ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2018

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.

In thousands of euros	Weighted average loss rate	Gross carrying amount	Impairment loss allowance
Accounts receivable not yet due	0.05%	28,980	14
1-30 days past due	0.65%	1,276	8
31-179 days past due	5.70%	351	20
More than 180 days past due	79.65%	290	231
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**30,897**	**273**

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

THE MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL RECEIVABLES DURING THE YEAR WAS AS FOLLOWS (In thousands of euros)

	2019	2018
Allowance for doubtful receivables at the beginning of the period	(273)	(267)
Classified as doubtful and collected during the accounting period	(117)	(42)
Classified as irrecoverable	131	36
Allowance for doubtful receivables at the end of the period (Note 13)	(259)	(273)

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

BANK ACCOUNTS AND SHORT-TERM DEPOSITS (In thousands of euros)

	31.12.2019	31.12.2018
At banks with Moody's credit rating of Aa2	1,884	25,214
At banks with Moody's credit rating of Aa3	2	-
At banks with Moody's credit rating of Baa1	20	444
TOTAL BANK ACCOUNTS AND SHORT-TERM DEPOSITS AT BANKS (Note 14)	**1,906**	**25,658**

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.

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 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 finance lease contracts.

The following are the remaining contractual 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 2019						
Bank loans (Note 20)	67,078	69,681	22,065	2,098	45,518	-
Subordinated shareholder loan (Note 20)	29,000	30,933	580	580	29,773	-
Shareholder overdraft (Note 20)	29,069	29,795	363	363	29,069	-
Lease liabilities (Note 20)	5,241	5,974	392	369	3,220	1,993
Trade and other payables (Note 21)	16,406	16,406	16,406	-	-	-
TOTAL	**146,794**	**152,789**	**39,806**	**3,410**	**107,580**	**1,993**
31 DECEMBER 2018						
Bank loans (Note 20)	70,199	73,614	12,100	12,143	49,371	-
Subordinated shareholder loan (Note 20)	29,000	32,093	580	580	30,933	-
Shareholder overdraft (Note 20)	22,398	22,401	22,401	-	-	-
Finance lease liabilities (Note 20)	1,562	1,602	92	92	1,418	-
Trade and other payables (Note 21)	11,650	11,650	11,629	-	21	-
TOTAL	**134,809**	**141,360**	**46,802**	**12,815**	**81,743**	**-**

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 and the take-or-pay provision in the natural gas purchase contract. The Group uses derivatives - swap contracts for buying and selling natural gas - to manage price risks. The swap contracts have been entered into for the purchase or sale of a fixed volume of natural gas 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 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 2019, the Group had concluded swap contracts for buying natural gas for the years 2020 - 2024 in the volume of - 331,879 MWh (31 December 2018: 794,857 MWh for the years 2019 - 2021). The basis for determining the fair value of the transactions are the quotes at ICE Endex market (Note 17). Additional information about the take-or-pay provision in the natural gas purchase contract is disclosed in Note 27.

CURRENCY RISK

The Group's financial instruments are not exposed to currency risk as all the sales, purchases and borrowing contracts have been concluded in euros.

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 2019, borrowings with a fixed interest rate accounted for 26% and borrowings with a floating interest rate 74% of the total amount of borrowings (31 December 2018: 43% of borrowings had a fixed interest rate and 57% of borrowings had a floating interest rate).

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

In thousands of euros	31.12.2019	31.12.2018
FIXED-RATE INSTRUMENTS		
Financial liabilities	34,227	52,940
VARIABLE-RATE INSTRUMENTS		
Financial liabilities	96,218	70,293
TOTAL (Note 20)	**130,445**	**123,233**

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 reasonably possible change in interest rates as at 31 December 2019 and 31 December 2018 would have an immaterial effect on profit or loss, as a material change in Euribor rates is not anticipated.

A possible change of 100 basis points in interest rates at the reporting date of variable-rate instruments would have increased (decreased) profit or loss as at 31 December 2019 by the amounts shown below.

	Profit or loss	
In thousands of euros	100 bp increase	100 bp decrease
31 DECEMBER 2019		
Variable-rate instruments	(795)	795

25. LIST OF SUBSIDIARIES

THE GROUP HAD THE FOLLOWING SUBSIDIARIES AS AT 31 DECEMBER 2019:

Name of the subsidiary	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group 31.12.2019	31.12.2018
AS Gaasivõrk	Estonia	Sale of distribution services through natural gas distribution network	100.0%	100.0%
AS EG Ehitus	Estonia	Construction of gas, water and sewage pipelines	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%
Bussitanklad OÜ	Estonia	Sale of natural gas	100.0%	-
HG ProSolution OÜ	Estonia	Professional design and project management	100.0%	-
Elenger Marine OÜ	Estonia	Sale of natural gas	100.0%	-
SIA Elenger	Latvia	Sale of natural gas and electricity	100.0%	100.0%
UAB EG Energija	Lithuania	Sale of natural gas and electricity	100.0%	100.0%
Elenger OY	Finland	Sale of natural gas	100.0%	-

Bussitanklad OÜ, HG ProSolution OÜ, Elenger Marine OÜ ja Elenger OY were established in 2019.

As at 31 December 2019 the assets of OÜ Pärnu Päikesepark 1-4 totalled EUR 3,739 thousand, liabilitites EUR 3,700 thousand and revenue EUR 138 thousand (31 December 2018: assets EUR 3,304 thousand, liabilities 3,243 thousand, revenue EUR 0 thousand).

26. LEASES (In thousands of euros)

A Leases as a lessee

The Group leases office building, 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.

	Land and buildings	Machinery and equipment	Total
RECOGNITION AS AT 1 JANUARY 2019 (Note 5)	**613**	**621**	**1,234**
Reclassification from property, plant and equipment	-	1,964	1,964
Additions to right-of-use assets	2,361	659	3,020
Depreciation charge	(176)	(369)	(545)
Derecognition of right-of-use assets	-	(6)	(6)
BALANCE AT 31 DECEMBER 2019	**2,798**	**2,869**	**5,667**

AMOUNTS RECOGNISED IN PROFIT OR LOSS UNDER IFRS 16

(In thousands of euros)	2019
Interest expense on lease liabilities (Note 11)	100
Expenses relating to short-term leases	728

LEASE EXPENSES OF OPERATING LEASES RECOGNISED IN PROFIT OR LOSS UNDER IAS 17

(In thousands of euros)	2018
Machinery and equipment	519
Vehicles	168
Buildings	35
Other	28
TOTAL	**750**

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(In thousands of euros)	2019
Total cash outflow for leases	1,366

EXTENSION OPTIONS

Some property leases contain extension options exercisable by the Group. The Group assesses at 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 2019, the property rentals of EUR 59 thousand (2018: EUR 66 thousand) were included in revenue (Note 6).

27. COMMITMENTS AND CONTINGENCIES

A Capital commitments arising from construction contracts

As at 31 December 2019, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 58 thousand (31 December 2018: EUR 333 thousand).

B Contingencies arising from natural gas purchase contract

The natural gas purchase contract concluded by the Group contains a take-or-pay provision according to which the Group has an obligation for purchasing an agreed amount of natural gas. This provision may cause a loss to the Group if the purchase price of such volume of natural gas is higher than the selling price of the same volume of natural gas. Based on management's estimates losses are not probable and no provision has been set up in the statement of financial position as at 31 December 2019 and 31 December 2018.

C Commitments arising from the Natural Gas Act

According to the Natural Gas Act a network operator is responsible for the functioning and maintenance of the network which it owns or possesses and is required to develop the network in a manner which ensures that all consumer installations located within its 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 2019 and 31 December 2018 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)	2019	2018
Short-term employee benefits	1,239	1,039
Social taxes	377	343
TOTAL	**1,616**	**1,382**

* 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 2019 was EUR 886 thousand (with social tax) (31 December 2018: EUR 630 thousand).

C Other related party transactions

	Transaction values		Balance outstanding	
(In thousands of euros)	2019	2018	31.12.2019	31.12.2018
SALE OF GOODS AND SERVICES				
Transactions with owners and with entities under the control of owners (Note 13)	3,869	482	654	337
Transactions with entities under significant influence of owners (Note 13)	6,696	7,170	544	670
PURCHASE OF GOODS AND SERVICES				
Transactions with owners and with entities under the control of owners (Note 21)	579	27	10	1
Transactions with entities under significant influence of owners (Note 21)	40	11	1	1
OTHER				
Subordinated shareholder loan (Note 20)	-	-	29,000	29,000
Change in overdraft from shareholder (Note 20 and 30)	6,671	1,399	29,069	22,398
Interest expense on borrowings (excluding lease liabilities) from shareholder (Note 21)	1,465	1,425	52	3
Lease liabilities to owners (Note 20)	-	-	2,559	-

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29. 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)

	2019	2018
Revenue	110,908	132,658
Other operating income	3,889	250
Raw materials and consumables used	(94,944)	(118,066)
Payroll expenses	(4,405)	(3,547)
Depreciation and amortisation	(1,790)	(4,764)
Other operating expenses	(2,551)	(2,872)
OPERATING PROFIT	**11,107**	**3,659**
Finance income	83	56
Finance costs	(1,355)	(2,290)
NET FINANCIAL EXPENSE	**(1,272)**	**(2,234)**
PROFIT BEFORE TAX	**9,835**	**1,425**
PROFIT FOR THE YEAR	**9,835**	**1,425**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges – effective portion of changes in fair value	5,854	(68)
OTHER COMPREHENSIVE INCOME	**5,854**	**(68)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**15,689**	**1,357**

STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2019	31.12.2018
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	7,446	74,271
Intangible assets	2,456	2,251
Investment property	1,459	1,459
Right-of-use assets	4,359	-
Derivative financial instruments	253	394
Investments in subsidiaries	3,520	3,383
TOTAL NON-CURRENT ASSETS	**19,493**	**81,758**
CURRENT ASSETS		
Inventories	38,404	10,399
Derivative financial instruments	8,633	595
Trade and other receivables	29,589	32,555
Prepayments for natural gas	12,724	12,080
Other prepayments	166	125
Cash and cash equivalents	50	11,178
	89,566	**66,932**
Assets held for sale	123	981
TOTAL CURRENT ASSETS	**89,689**	**67,913**
TOTAL ASSETS	**109,182**	**149,671**

	31.12.2019	31.12.2018
EQUITY		
Share capital	9,919	9,919
Statutory capital reserve	992	992
Hedging reserve	6,065	212
Retained earnings	2,757	(7,077)
TOTAL EQUITY	**19,733**	**4,046**
LIABILITIES		
NON-CURRENT LIABILITIES		
Borrowings	24,050	74,997
Derivative financial instruments	811	618
Provisions	713	620
Contract liabilities	-	11,394
Deferred income	444	476
TOTAL NON-CURRENT LIABILITIES	**26,018**	**88,105**
CURRENT LIABILITIES		
Borrowings	51,636	45,694
Trade and other payables	11,449	11,624
Derivative financial instruments	27	-
Prepayments	288	171
Provisions	31	31
TOTAL CURRENT LIABILITIES	**63,431**	**57,520**
TOTAL LIABILITIES	**89,449**	**145,625**
TOTAL LIABILITIES AND EQUITY	**109,182**	**149,671**

29. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

CASH FLOW STATEMENT (In thousands of euros)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT FOR THE YEAR	**9,835**	**1,425**
ADJUSTMENTS		
Depreciation of property, plant and equipment, right-of-use assets and investment property	985	4,065
Amortisation of intangible assets	805	699
Income from connection fees	-	(721)
Amortisation of government grants received for purchasing of non-current assets	(32)	-
Recognition and adjustment of provisions	120	110
Gain on sale of non-current assets	(2,250)	(154)
Loss from write-off of non-current assets	-	46
Unsettled gain/loss on derivative financial instruments	(1,824)	481
Interest expense	1,355	2,291
Interest income	(83)	(56)
ADJUSTED PROFIT FOR THE YEAR	**8,911**	**8,186**
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES		
Change in trade receivables	8,817	(8,407)
Change in inventories	(28,005)	(3,647)
Change in prepayments for natural gas	(644)	2,464
Net change in current assets relating to other operating activities	(4,884)	(1,488)
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**(24,716)**	**(11,078)**
NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES		
Use of provisions	(31)	(31)
Change in trade payables	957	(301)
Net change in liabilities related to other operating activities	(656)	2,027
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**270**	**1,695**
NET CASH FROM/USED IN OPERATIONS	**(15,535)**	**(1,197)**
Interest received	100	37
NET CASH USED IN OPERATING ACTIVITIES	**(15,435)**	**(1,160)**

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2,727)	(7,694)
Proceeds from connection fees	-	1,023
Government grants received for purchasing of non-current assets	476	-
Proceeds from sale of non-current assets	3,210	213
Loans granted to subsidiary	(160)	(2,730)
Repayments of loans granted to subsidiary	160	1,980
Change in overdraft to subsidiaries	(1,568)	(901)
Contribution to the share capital of subsidiary	(71)	(83)
NET CASH USED IN INVESTING ACTIVITIES	**(680)**	**(8,192)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in overdraft from shareholder	6,671	1,399
Bank loans received	20,000	68,000
Repayments of bank loans	(21,143)	(42,167)
Change in overdraft from bank	-	(2,996)
Change in overdraft from subsidiaries	1,049	(749)
Payment of lease liabilities (2018: repayment of finance lease liabilities)	(291)	(151)
Interest and loan fees paid	(1,299)	(3,195)
TOTAL CASH GENERATED FROM FINANCING ACTIVITIES	**4,987**	**20,141**
NET CASH FLOWS	**(11,128)**	**10,789**
Cash and cash equivalents at the beginning of the period	11,178	389
Cash and cash equivalents at the end of the period	50	11,178
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(11,128)**	**10,789**

29. 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	Retained earnings	Total
EQUITY AS AT 31 DECEMBER 2017	**9,919**	**-**	**992**	**279**	**(8,503)**	**2,687**
Carrying amount of holdings under control					(2,567)	(2,567)
Value of holdings under control using the equity method					4,095	4,095
Effect of the merger with sole shareholder (Note 30)					8,235	8,235
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2017 (Note 18)					**1,260**	**12,450**
Profit for the year	-	-	-	-	1,425	1,425
Other comprehensive income	-	-	-	(68)	-	(68)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**(68)**	**1,425**	**1,357**
EQUITY AS AT 31 DECEMBER 2018	**9,919**	**-**	**992**	**211**	**(7,078)**	**4,044**
Carrying amount of holdings under control					(3,383)	(3,383)
Value of holdings under control using the equity method					6,204	6,204
Effect of the merger with sole shareholder (Note 30)					7,859	7,859
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2018 (Note 18)					**3,602**	**14,724**
Profit for the year	-	-	-	-	9,835	9,835
Other comprehensive income	-	-	-	5,854	-	5,854
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**5,854**	**9,835**	**15,689**
EQUITY AS AT 31 DECEMBER 2019	**9,919**	**-**	**992**	**6,065**	**2,757**	**19,733**
Carrying amount of holdings under control					(3,520)	(3,520)
Value of holdings under control using the equity method					7,941	7,941
Effect of the merger with sole shareholder (Note 30)					6,805	6,805
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2019 (Note 18)					**13,983**	**30,959**

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

30. 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 18% per year (2018: 5% per year). As at 31 December 2019, the carrying amount of the price difference of the gas distribution network assets and customer contracts was EUR 6,805 thousand (31 December 2018: EUR 7,859 thousand) (Note 29).

31. SIGNIFICANT ACCOUNTING POLICIES

31.1 BASIS OF CONSOLIDATION

A Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

B Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

C Loss of control over subsidiary

When the Group loses control over a subsidiary, it derecognises subsidiary's assets, liabilities and components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

31.2 FOREIGN CURRENCY

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. In translation the official exchange rates of the European Central Bank are used. Foreign currency differences are recognised in profit or loss.

31.3 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of business. Revenue is shown net of value-added tax and discounts after the elimination of intra-group transactions. The Group recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. The good or service is transferred when the customer obtains control of that good or service.

A Sale of natural gas, electricity and network services

Revenue is recognised on the basis of meter readings of customers. Customers report readings based on their actual consumption or readings are taken by remote reading systems or estimated based on past consumption patterns. Additionally, estimates are made of the potential impact of readings either not reported or incorrectly reported by the end of the reporting period, resulting in a more precise 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 Natural Gas Act a network operator has to submit the prices of network services and the grounds for establishing such prices to the Competition Authority for approval, and must, at the request of the Competition Authority, 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 at least three months prior to the date as of which such prices come into effect.

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, are 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, as the following reconstructions of the property, plant and equipment will be financed through the gas network service fees. 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 Construction contracts

Revenue from construction contracts is recognised over time as the services are provided based on the cost-to-cost method. The related costs are recognised in profit or loss when they are incurred. Advances received are included in contract liabilities. The length of the contracts depends on the asset being constructed and it may be beyond one year. Settlement terms are short, except for warranty amounts.

D 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 biomethane) loyalty cards are offered to customers which provide a discount.

31.4 EMPLOYEE BENEFITS

A Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

B Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

C Other 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).

31.5 FINANCE INCOME AND FINANCE COSTS

The Group's finance income and finance costs include:

- interest income;
- interest expense.

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

31.6 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. The income tax rate is 20%, calculated as 20/80 of the net distribution (except for regular dividend distributions that are a subject to a reduced income tax rate). 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.

Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends out of the retained earnings is not recognised in the statement of financial position. 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. As at 31 December 2019 and 31 December 2018, the Group had neither any deferred income tax assets nor deferred income tax liabilities.

31.7 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs necessary to make the sale. The cost of natural gas inventory in storage is based on the first-in, first-out principle; the cost of other inventories is based on the weighted average principle. The cost of other goods and materials consists of the purchase price, expenditure on transportation and other costs directly related to the purchase.

31.8 PROPERTY, PLANT AND EQUIPMENT

A Recognition and measurement

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

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

B Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

C 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:

- buildings 33 years
- gas pipelines 50 years
- other buildings and constructions 10-50 years
- computers and office equipment 3 years
- vehicles 4-20 years
- other machinery and equipment 5-15 years
- inventory 3-5 years

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

31.9 INTANGIBLE ASSETS

A Recognition and measurement

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

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

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

Acquired computer software is recognised as an intangible asset if it is not an integral part of the related hardware.

B Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

C Amortisation

The value of customer contracts is amortised using the declining balance method at the rate of 18% (2018: 5% per year) and the asset's recoverable amount is tested for impairment. 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.

31.10 INVESTMENT PROPERTY

Investment property is initially recognised at cost and is subsequently measured using the cost model.

31.11 ASSETS HELD FOR SALE

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held-for-sale, non-current assets are no longer amortised or depreciated.

31.12 FINANCIAL INSTRUMENTS

A Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

As at 31 December 2019 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 (d).

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

B Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss.

As at 31 December 2019 and 31 December 2018 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 (d).

Financial liabilities measured at amortised cost are subsequent to initial recognition measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

C Derecognition and offsetting

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

D Derivative financial instruments

The Group holds derivative financial instruments to hedge its natural gas 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 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 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.

31.13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank account balances and cash in transit as well as short-term highly liquid investments at banks.

31.14 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.

31.15 IMPAIRMENT

A 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.

B Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

31.16 PROVISIONS

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

WARRANTIES

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

EMPLOYEE RELATED PROVISIONS

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

31.17 LEASES

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

POLICY APPLICABLE FROM 1 JANUARY 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

A Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

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

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

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

POLICY APPLICABLE BEFORE 1 JANUARY 2019

A Leased assets

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

B Lease payments

Payments made under operating leases are recognised as expenses on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

31.18 OPERATING PROFIT

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs and income taxes.

31.19 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.

31.20 CONTINGENCIES

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

32. 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 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. The new and amended standards are not expected to have a significant impact on the Group’s consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8);
- IFRS 17 Insurance Contracts.

33. SUBSEQUENT EVENTS

From 1 January 2020 the Group has started sale of pipeline gas in Finland.

Signatures of the management board to the annual report for the financial year 2019

The annual report of Eesti Gaas Group for the financial year ended on 31 December 2019 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

ANTS NOOT

MEMBER OF THE MANAGEMENT BOARD

MARGUS KAASIK

MEMBER OF THE MANAGEMENT BOARD

RAUL KOTOV

MEMBER OF THE MANAGEMENT BOARD

KALEV REILJAN

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Sõltumatu vandeaudiitori aruanne

Eesti Gaas AS aktsionäridele

Arvamus

Oleme auditeerinud Eesti Gaas AS (kontsern) konsolideeritud raamatupidamise aastaaruannet, mis sisaldab konsolideeritud finantsseisundi aruannet seisuga 31. detsember 2019, konsolideeritud kasumi ja koondkasumiaruannet, konsolideeritud rahavoogude aruannet ja konsolideeritud omakapitali muutuste aruannet eeltoodud kuupäeval lõppenud aasta kohta ja konsolideeritud raamatupidamise aastaaruande lisasid, mis sisaldavad oluliste arvestuspõhimõtete kokkuvõtet ning muud selgitavat informatsiooni.

Meie arvates kajastab lehekülgedel 16 kuni 64 esitatud konsolideeritud raamatupidamise aastaaruanne kõigis olulistes osades õiglaselt kontserni konsolideeritud finantsseisundit seisuga 31. detsember 2019 ning sellel kuupäeval lõppenud majandusaasta konsolideeritud finantstulemust ja konsolideeritud rahavoogusid kooskõlas rahvusvaheliste finantsaruandluse standarditega, nagu Euroopa Liit on need vastu võtnud.

Arvamuse alus

Teostasime oma auditi kooskõlas rahvusvaheliste auditeerimise standarditega (Eesti). Meile nende standarditega pandud kohustusi on täiendavalt kirjeldatud käesoleva aruande alalõigus „Vandeaudiitori kohustused seoses konsolideeritud raamatupidamise aastaaruande auditiga". Oleme kontsernist sõltumatud kooskõlas Eesti Vabariigis konsolideeritud raamatupidamise aruande auditile kohalduvate eetikanõuetega ja oleme täitnud oma muud eetikaalased kohustused vastavalt neile nõuetele. Usume, et auditi tõendusmaterjal, mille oleme hankinud, on piisav ja asjakohane, et olla aluseks meie arvamusele.

Muu informatsioon

Juhatus vastutab muu informatsiooni eest. Muu informatsioon sisaldab tegevusaruannet, kuid ei sisalda konsolideeritud raamatupidamise aastaaruannet ega meie vandeaudiitori aruannet.

Meie arvamus konsolideeritud raamatupidamise aastaaruande kohta ei hõlma muud informatsiooni ja me ei esita selle kohta mitte mingis vormis kindlustandvat järeldust.

Seoses konsolideeritud raamatupidamise aastaaruande auditiga on meil kohustus lugeda muud informatsiooni ja kaaluda seejuures, kas see lahkneb oluliselt konsolideeritud raamatupidamise aastaaruandest või teadmistest, mille auditi käigus omandasime, või kas see näib olevat muul viisil oluliselt väärkajastatud. Kui me teeme oma töö alusel järelduse, et muu informatsioon on oluliselt väärkajastatud, siis oleme kohustatud sellest asjaolust teavitama. Meil ei ole sellega seoses millestki teavitada.

Juhatuse ja nende, kelle ülesandeks on valitsemine, kohustused seoses konsolideeritud raamatupidamise aastaaruandega

Juhatus vastutab konsolideeritud raamatupidamise aastaaruande koostamise ja õiglase esitamise eest kooskõlas rahvusvaheliste finantsaruandluse standarditega, nagu Euroopa Liit on need vastu võtnud, ja sellise sisekontrolli eest, mida juhatus peab vajalikuks, et oleks võimalik koostada pettusest või veast tuleneva olulise väärkajastamiseta konsolideeritud raamatupidamise aastaaruanne.

Konsolideeritud raamatupidamise aastaaruande koostamisel on juhatus kohustatud hindama, kas kontsern suudab oma tegevust jätkata, esitama infot tegevuse jätkuvusega seotud asjaolude kohta, kui see on asjakohane, ja kasutama arvestuses tegevuse jätkuvuse alusprintsiipi, välja arvatud juhul, kui juhatus kavatseb kontserni likvideerida või selle tegevuse lõpetada või kui tal puudub sellele realistlik alternatiiv.

Need, kelle ülesandeks on valitsemine, vastutavad kontserni finantsaruandlusprotsessi järelevalve eest.

Vandeaudiitori kohustused seoses konsolideeritud raamatupidamise aastaaruande auditiga

Meie eesmärk on saada põhjendatud kindlus selle kohta, kas konsolideeritud raamatupidamise aastaaruanne tervikuna on pettusest või veast tuleneva olulise väärkajastamiseta ja anda välja vandeaudiitori aruanne, mis sisaldab meie arvamust. Põhjendatud kindlus on kõrgetasemeline kindlus, kuid see ei taga, et olulise väärkajastamise esinemisel see kooskõlas rahvusvaheliste auditeerimise standarditega

(Eesti) teostatud auditi käigus alati avastatakse. Väärkajastamised võivad tuleneda pettusest või veast ja neid peetakse oluliseks siis, kui võib põhjendatult eeldada, et need võivad üksikult või koos mõjutada majanduslikke otsuseid, mida kasutajad konsolideeritud raamatupidamise aastaaruande alusel teevad.

Rahvusvaheliste auditeerimise standardite (Eesti) kohase auditi käigus kasutame kutsealast otsustust ja säilitame kutsealase skeptitsismi kogu auditi vältel. Lisaks:

- teeme kindlaks konsolideeritud raamatupidamise aastaaruande pettusest või veast tuleneva olulise väärkajastamise riskid ja hindame neid, kavandame riskidele vastavad auditiprotseduurid ja teostame neid ning hangime piisava ja asjakohase auditi tõendusmaterjali, mis on aluseks meie arvamusele. Pettusest tuleneva olulise väärkajastamise mitteavastamise risk on suurem kui veast tuleneva väärkajastamise puhul, sest pettus võib tähendada salakokkulepet, võltsimist, informatsiooni tahtlikku esitamata jätmist või vääresitust või sisekontrolli eiramist;
- omandame arusaamise auditi jaoks asjakohasest sisekontrollist, et kavandada antud tingimustes asjakohaseid auditiprotseduure, kuid mitte selleks, et avaldada arvamust kontserni sisekontrolli tulemuslikkuse kohta;
- hindame kasutatud arvestuspõhimõtete asjakohasust ning juhatuse raamatupidamishinnangute ja nende kohta avalikustatud informatsiooni põhjendatust;
- teeme järelduse selle kohta, kas arvestuses tegevuse jätkuvuse alusprintsiibi kasutamine juhatuse poolt on asjakohane ja kas hangitud auditi tõendusmaterjali põhjal esineb sündmustest või tingimustest tulenevat olulist ebakindlust, mis võib tekitada märkimisväärset kahtlust kontserni jätkuva tegutsemise suhtes. Kui järeldame, et eksisteerib oluline ebakindlus, siis oleme kohustatud juhtima vandeaudiitori aruandes tähelepanu konsolideeritud raamatupidamise aastaaruandes selle kohta avalikustatud informatsioonile või kui avalikustatud informatsioon on ebapiisav, siis modifitseerima oma arvamust. Meie järeldused põhinevad kuni vandeaudiitori aruande kuupäevani hangitud auditi tõendusmaterjalil. Tulevased sündmused või tingimused võivad põhjustada seda, et kontsern ei jätka oma tegevust;
- hindame konsolideeritud raamatupidamise aastaaruande üldist esitusviisi, struktuuri ja sisu, sealhulgas avalikustatud informatsiooni, ning seda, kas konsolideeritud raamatupidamise aastaaruanne esitab selle aluseks olevaid tehinguid ja sündmusi õiglasel viisil;
- hangime kontserni majandusüksuste või äritegevuse finantsinformatsiooni kohta piisavalt asjakohast tõendusmaterjali, et avaldada arvamust kontserni konsolideeritud raamatupidamise aastaaruande kohta. Vastutame kontserni auditi juhtimise, järelevalve ja teostamise eest. Oleme ainuvastutavad oma auditiarvamuse eest.

Vahetame informatsiooni nendega, kelle ülesandeks on valitsemine, muuhulgas auditi planeeritud ulatuse ja ajastuse ning märkimisväärsete auditi tähelepanekute, kaasa arvatud auditi käigus tuvastatud märkimisväärsete sisekontrolli puuduste kohta.

Tallinn, 12. märts 2020

Andris Jegers

Vandeaudiitori number 171

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Profit Allocation Proposal

The retained earnings of Eesti Gaas Group as at 31 December 2019 were 13,982,684.80 euros, of which the net profit for the year 2019 amounted to 10,361,236.52 euros.

The Management Board proposes under section 332 of the Commercial Code of Estonia to transfer the net profit of Eesti Gaas Group for the year 2019 to retained earnings.

Revenue of the parent by activities

1 JANUARY 2019 - 31 DECEMBER 2019 (In thousands of euros)

Activity	Sales revenue
Trade of gas through mains (35231)	89,894
Wholesale of automotive fuel (46712)	8,374
Trade of electricity (35141)	4,796
Retail sale of automotive fuel incl. activities of fuelling stations (47301)	3,832
Rental and operating of own or leased real estate (68201)	371
Other goods and services 3 641	3,641
TOTAL	**110,908**

eesti gaas