

ANNUAL REPORT 2017



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Business name: AS Eesti Gaas

Commercial registry code: 10178905

Address: Liivalaia 9, Tallinn 10118

Phone: +372 6 303 004

Fax: +372 6 313 070

Email: info@gaas.ee

Principal activity: import and sale of natural gas

The beginning of the financial year: 1 January 2017

The end of the financial year: 31 December 2017

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MANAGEMENT REPORT 2017

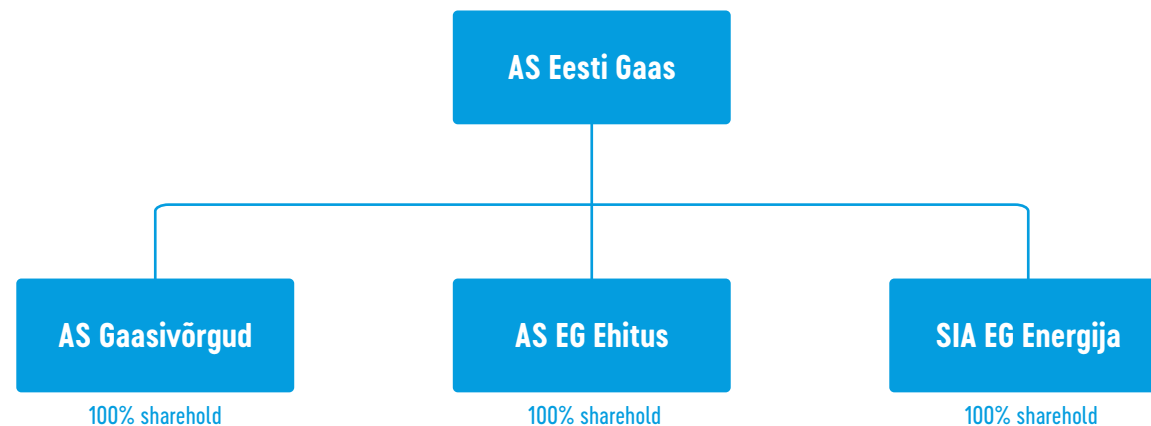
About AS Eesti Gaas

AS Eesti Gaas sells energy products, provides natural gas distribution service and designs and builds gas pipelines and installations. AS Eesti Gaas group (the Group) includes wholly-owned subsidiaries AS Gaasivõrgud and AS EG Ehitus, which operate in Estonia, and SIA EG Energija, which was incorporated in Latvia and has been offering energy solutions to corporate customers in Latvia since July 2017.

In 2016, Trilini Energy OÜ, a subsidiary of AS Infortar, purchased the shares in AS Eesti Gaas from the former owners – Fortum, Gazprom, Itera Latvija and small shareholders. In November 2016, AS Eesti Gaas and Trilini Energy OÜ signed a merger agreement by which Trilini Energy OÜ merged with AS Eesti Gaas. For the purposes of the statement of financial position, the date of the merger was 1 January 2017 and the acquirer was AS Eesti Gaas. As a result of the merger, the shareholders in Trilini Energy OÜ became shareholders in AS Eesti Gaas and the Group's capital structure changed.

AS Eesti Gaas has extensive experience in the energy industry and is one of the largest energy companies in Estonia. Our core product and main area of competence is natural gas which we sell in the form of different products: as gas supplied through the gas network, as compressed natural gas (CNG) and as liquefied natural gas (LNG) delivered by semitrailers or at terminals. 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 continues to grow. We are the only company in the Baltics that can offer stable LNG delivery and bunkering service. Electricity sales to household and corporate customers is also a growing business for us and we have started to develop a new business line – energy production solutions.

STRUCTURE OF AS EESTI GAAS GROUP

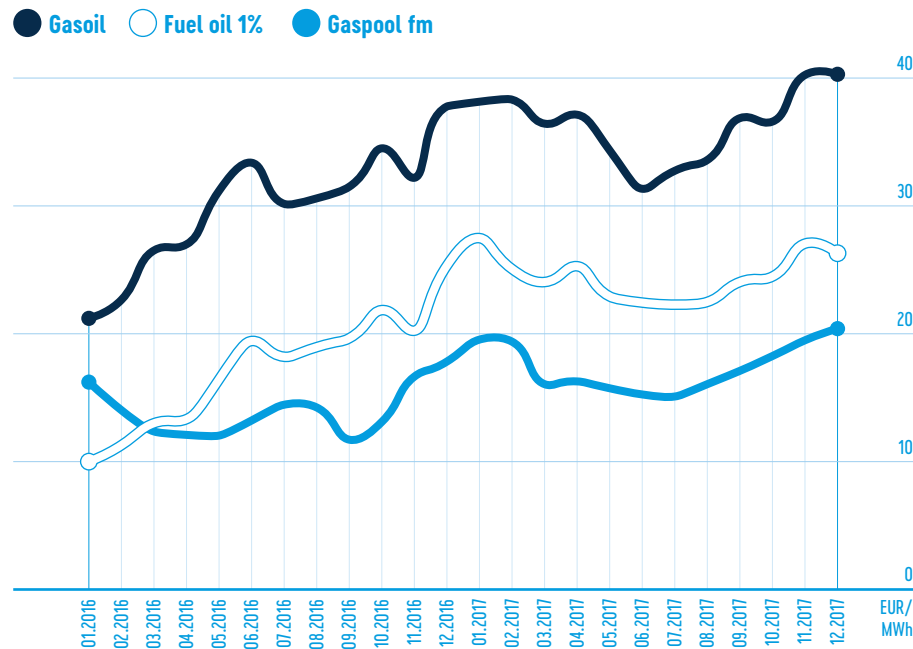


Market situation

NATURAL GAS MARKET

In the first and second quarter of 2017, natural gas prices in Europe declined due to a plunge in the market price of oil. From the second half of June, the oil price turned to a rise, which in August, after a certain time lag, triggered an upturn in the price of natural gas. At the end of the year, energy prices in Europe were influenced by the outage of the Forties oil pipeline. As a result, in December the price of natural gas hit a peak for the winter season.

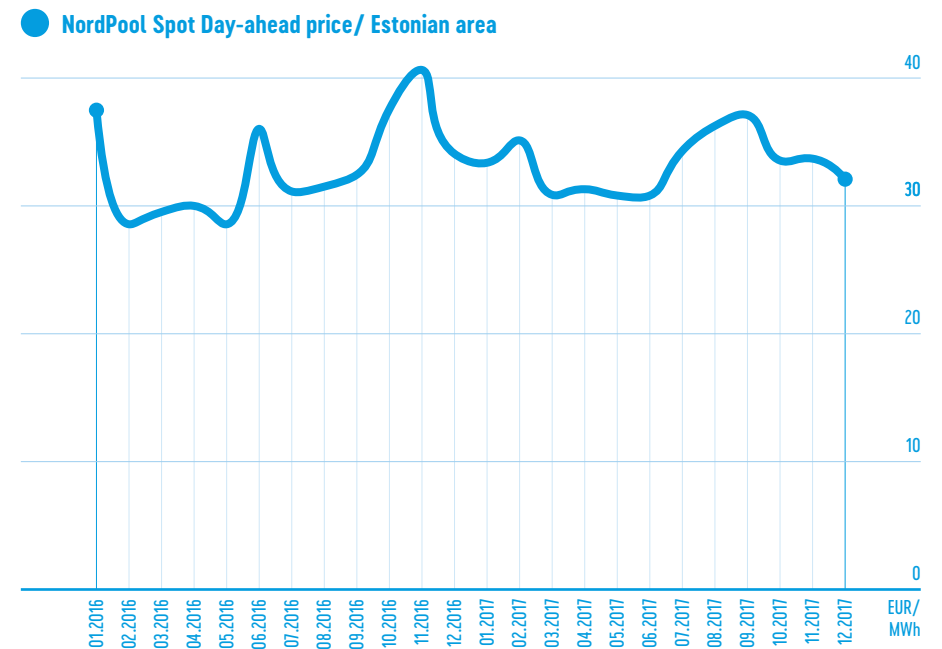
FUEL PRICES



ELECTRICITY MARKET

In the third quarter of 2017, the day-ahead electricity price in the Estonian area of the NordPool Spot power exchange increased as did electricity prices in the other Baltic countries. The electricity price peaked in September, driven by rising oil and EU emission allowance prices. In the fourth quarter of 2017, the electricity price in the Estonian price area dropped due to warmer than usual air temperature and a shift towards more economical energy consumption habits.

DAY-AHEAD ELECTRICITY PRICE IN THE ESTONIAN AREA OF NORDPOOL SPOT



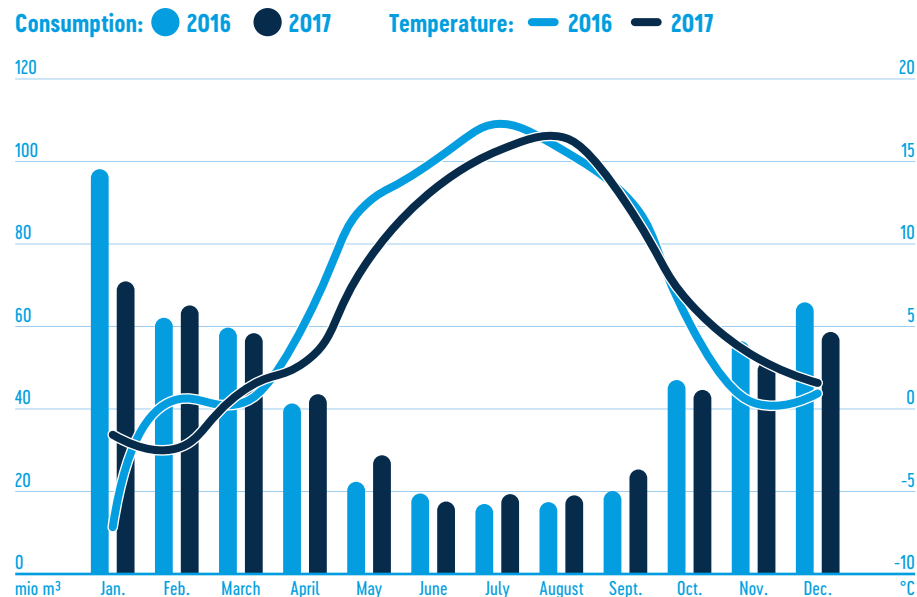
Natural gas consumption

In 2017, natural gas consumption in Estonia totalled 500.3 million m³, 25.2 million m³, i.e. 4.8%, down from 2016.

According to the National Weather Service, the year 2017 was warmer and rainier than usual. In particular, the temperature was higher in January, March and the last months of the year, from September to December. Above-average air temperature during the heating period reduced the need for heat production and gas sales via the district and local heating systems decreased.

Natural gas consumption was also slightly lowered by the replacement of gas with local solid fuels.

NATURAL GAS CONSUMPTION AND AVERAGE AIR TEMPERATURE IN ESTONIA



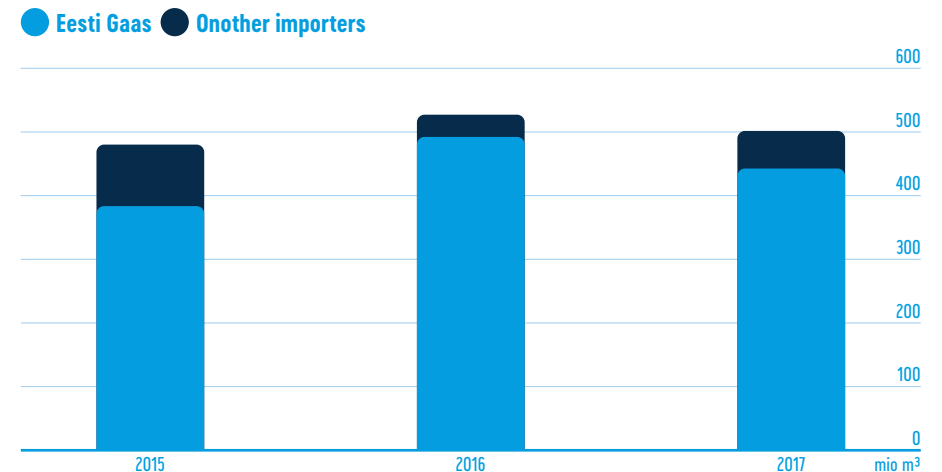
Sales results

NATURAL GAS

In 2017, AS Eesti Gaas sold 439.7 million m³ of natural gas, 49.5 million m³, i.e. 10.1%, less than in 2016. Revenue from the sale of natural gas decreased by 4.1% year on year to 88.4 million euros.

In terms of gas import, AS Eesti Gaas's market share in 2017 was 90% compared with 94% in 2016.

GAS SUPPLIES TO ESTONIA



In 2017, AS Eesti Gaas sold household customers 57.5 million m³ of natural gas, 1.9 million m³ less than the year before. Households' lower gas consumption is mainly attributable to warmer than usual weather during the heating season. However, it also reflects a trend in the Estonian gas consumption – use of natural gas for heating purposes is declining.

In the household segment of the gas market, competition stiffened during the year. The price level has dropped and competing suppliers' margins have levelled. To beat the competition, we enhanced our e-channels, launched new price packages and focused more on retaining/winning back our customers. At the end of 2017, AS Eesti Gaas had natural gas sales agreements with over 38,000 household customers.

In 2017, AS Eesti Gaas sold corporate customers 282.6 million m³ of gas, 21.2 million m³ more than in the previous year. Although the weather somewhat reduced gas consumption, winning back several large customers from other suppliers had a positive impact. At the end of 2017, AS Eesti Gaas had natural gas sales agreements with over 1,500 corporate customers.

SALES OF NATURAL GAS BY CUSTOMER GROUPS

	2017	2016	Change
Total sales of natural gas (million m³)	439.7	489.2	-10.1%
Of which: household customers	57.5	59.4	-3.2%
corporate customers	282.6	261.4	8.1%
resellers	99.5	168.4	-40.9%

DISTRIBUTION SERVICE

In 2017, AS Eesti Gaas distributed 429.3 million m³ of natural gas, 0.3 million m³ more than in 2016. Of this amount, 56.5 million m³ was distributed to household customers and 372.8 million m³ to corporate customers and other network operators. Distribution service revenue for 2017 amounted to 18.5 million euros.

During the year, we signed 277 connection agreements and 75 connection change agreements, slightly less than in 2016. New connection and connection change agreements increased the estimated annual gas consumption by 21.5 m³ [in 2016 4.2 million m³].

CONNECTION AGREEMENTS

	2017	2016
Number of connection agreements	277	282
Household	199	237
Corporate	78	45
Connected capacity (thousand m³/year)	15,466	3,560
Household	931	1,466
Corporate	14,535	2,094

CONNECTION CHANGE AGREEMENTS

	2017	2016
Number of connection change agreements	75	91
Household	59	72
Corporate	16	19
Additional capacity (thousand m³/year)	6,054	607
Household	92	64
Corporate	6,146	543

In 2017, 314 new points of consumption were commissioned with a total estimated consumption capacity of 6.9 million m³ per year. The corresponding figures for 2016 were 324 new points of consumption and 5.9 million m³ of estimated additional consumption capacity per year.

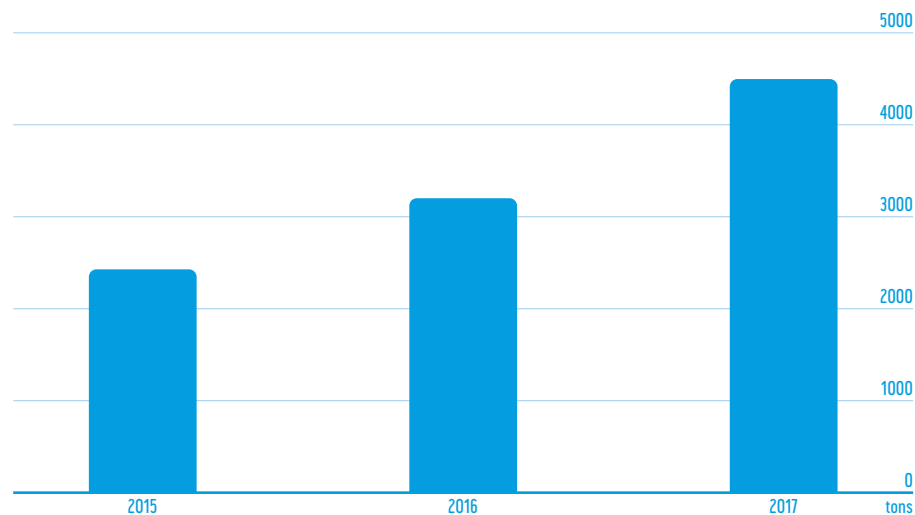
COMPRESSED NATURAL GAS

In 2017, AS Eesti Gaas sold 4,500 tonnes of compressed natural gas (CNG), 43% more than in 2016. Revenue from the sale of CNG amounted to 2.8 million euros, a 48% increase on 2016.

In 2017, we opened three new CNG filling stations – two in Tallinn (in Gaasi street and in Tehnika street) and one in Pärnu (in Savi street). At the year-end, AS Eesti Gaas had eight CNG filling stations across Estonia: four in Tallinn, two in Pärnu, one in Tartu and one in Narva.

In 2018, we are planning to open filling stations in Rakvere, Viljandi and Jõhvi.

CNG SALES



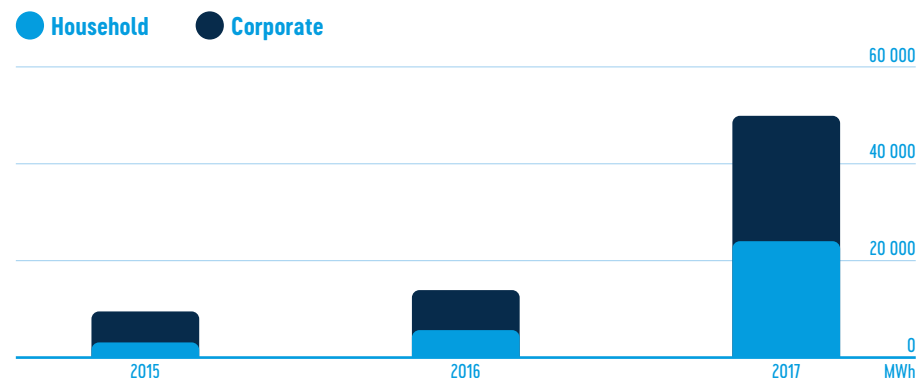
ELECTRICITY

In 2017, AS Eesti Gaas sold 49.9 GWh of electricity, increasing sales 3.5-fold. Electricity sales revenue for the year amounted to 1.8 million euros, also a 3.5-fold improvement on 2016.

Success was underpinned by making pricing more flexible and offering a wider range of electricity packages. Our efforts were supported by the year-end launch of a new and convenient self-service environment, where customers can quickly sign electricity contracts. Changes made to the organisational structure also helped win new electricity customers and increase focus on corporate customer contacts.

During the year, the number of household and corporate customers grew roughly two-fold and at the end of 2017 AS Eesti Gaas had an electricity contract with 6,200 household customers and 230 corporate customers. We supply electricity to around 8,200 points of consumption.

ELECTRICITY SALES



LNG

In January 2017, AS Eesti Gaas began bunkering liquefied natural gas (LNG) to Megstar, a new fast ferry brought to the Tallinn-Helsinki line operated by Tallink. Annual sales of LNG, which was mostly sourced from Russia, but partly also from Finland and Poland, totalled 12.3 thousand tonnes (170 GWh).

From 2015, all passenger and cargo vessels on the Baltic Sea, including ferries making trips between the Estonian islands and mainland, have had to use more environmentally friendly fuel. LNG is the best choice because use of gas as marine fuel reduces the environmental impacts of shipping significantly (25% less CO₂ emissions, 95% less NO_x and SO_x emissions, practically no solid particles).

AS Eesti Gaas was the first company in the Baltics that set up reliable and flexible LNG supply and bunkering capabilities and is ready to offer the service to all ports in the area. We have a highly capable team that has unique experience in the field of LNG sources of supply, logistics and technological solutions.

CONSTRUCTION

In 2017, AS EG Ehitus, a subsidiary of AS Eesti Gaas, generated revenue of 8.6 million euros, over two times more than in 2016. Consolidated revenue from the sale of construction service amounted to 4.6 million euros, 2.8 times up on 2016.

REVENUE (thousands of euros)

	2017	2016	Change
AS EG Ehitus	8,578	3,971	116%
Construction service (consolidated)	4,556	1,652	176%

Profitability

AS Eesti Gaas ended 2017 with a consolidated net profit of 4.0 million euros. The corresponding figure for 2016 was 7.4 million euros. The Group's net profit decreased by 2.1 million euros due to growth in interest expense. It should also be noted that the profit for 2016 was increased by several one-off items, which did not recur in 2017.

Compared to the budgeted figure for 2017, net profit was 74% larger. The target was exceeded thanks to gas and distribution service revenue which proved significantly stronger than anticipated.

PROFITABILITY (thousands of euros)

	2017	2016	Change
Revenue	122,988	115,681	6.3%
Net profit	3,998	7,427	-46.2%
EBITDA	11,218	11,948	-6.1%
EBITDA (comparable)	10,533	10,394	1.3%

EBITDA for 2017 amounted to 11.2 million euros, falling 6% short of the figure for 2016. Excluding the impacts of one-off items, EBITDA grew by 1.3% compared to 2016.

The profit for 2017 was improved by the recognition of properties received through a compromise settlement of a lawsuit in which AS EG Ehitus was involved (16 thousand euros), gain on derivative instruments (548 thousand euros) and gain on the sale of non-current assets (121 thousand euros).

AS Eesti Gaas is not planning to distribute dividends in 2018 in connection with capital investments to be made in business expansion.

Capital investments

AS Eesti Gaas invested 7.7 million euros in non-current assets, a 30% increase on the prior year.

Capital expenditures on the gas distribution network totalled 2.7 million euros and on the construction of CNG filling stations 2.3 million euros. Expenditures on the acquisition of LNG trailers and equipment totalled 0.7 million euros. Together with the prepayment made in 2016, real investments in the LNG business totalled 2.1 million euros. Capital investments in energy production amounted to 0.7 million euros. Expenditures on IT development, mostly systems for the retail sale of energy amounted to 1 million euros.

Financing

In November 2016, based on a merger agreement signed between AS Eesti Gaas and Trilini Energy OÜ, Trilini Energy OÜ (the acquiree) merged with AS Eesti Gaas. For the purposes of the statement of financial position, the date of the merger was 1 January 2017.

As a result of the merger, a syndicated loan of 40 million euros and a shareholder loan subordinated to the syndicated loan of 27.7 million euros were recognised in the consolidated financial statements of AS Eesti Gaas. By the year-end, the shareholder loan grew to 50 million euros in connection with the need to raise working capital.

In 2017, the Group made repayments of the syndicated loan of 2 million euros. To raise working capital, loan and overdraft facility agreements of 7 million euros were signed with banks. Of this amount, 1.5 million euros was repaid during the year.

Financial ratios

THE GROUP'S KEY FINANCIAL RATIOS

	2017	2016	2015
Net margin	3.3%	6.4%	0.4%
Current ratio	1.12	1.28	0.99
ROA	3.0%	7.3%	0.4%
ROE	32.1%	11.0%	0.8%
Equity ratio	9.5%	66.1%	47.2%
Net debt / EBITDA	8.4	-0.1	5.7
EBITDA margin	9.1%	10.3%	4.7%

THE PARENT COMPANY'S KEY FINANCIAL RATIOS

	2017	2016	2015
Net margin	3.2%	6.4%	1.3%
Current ratio	1.03	1.18	0.97
ROA	2.8%	6.5%	1.2%
ROE	126.8%	9.9%	2.5%
Equity ratio	2.2%	66.0%	47.3%
Net debt / EBITDA	9.7	0.01	5.5
EBITDA margin	9.4%	10.5%	5.8%

UNDERLYING FORMULAS

Net margin = net profit / revenue

Current ratio (times) = current assets / current liabilities

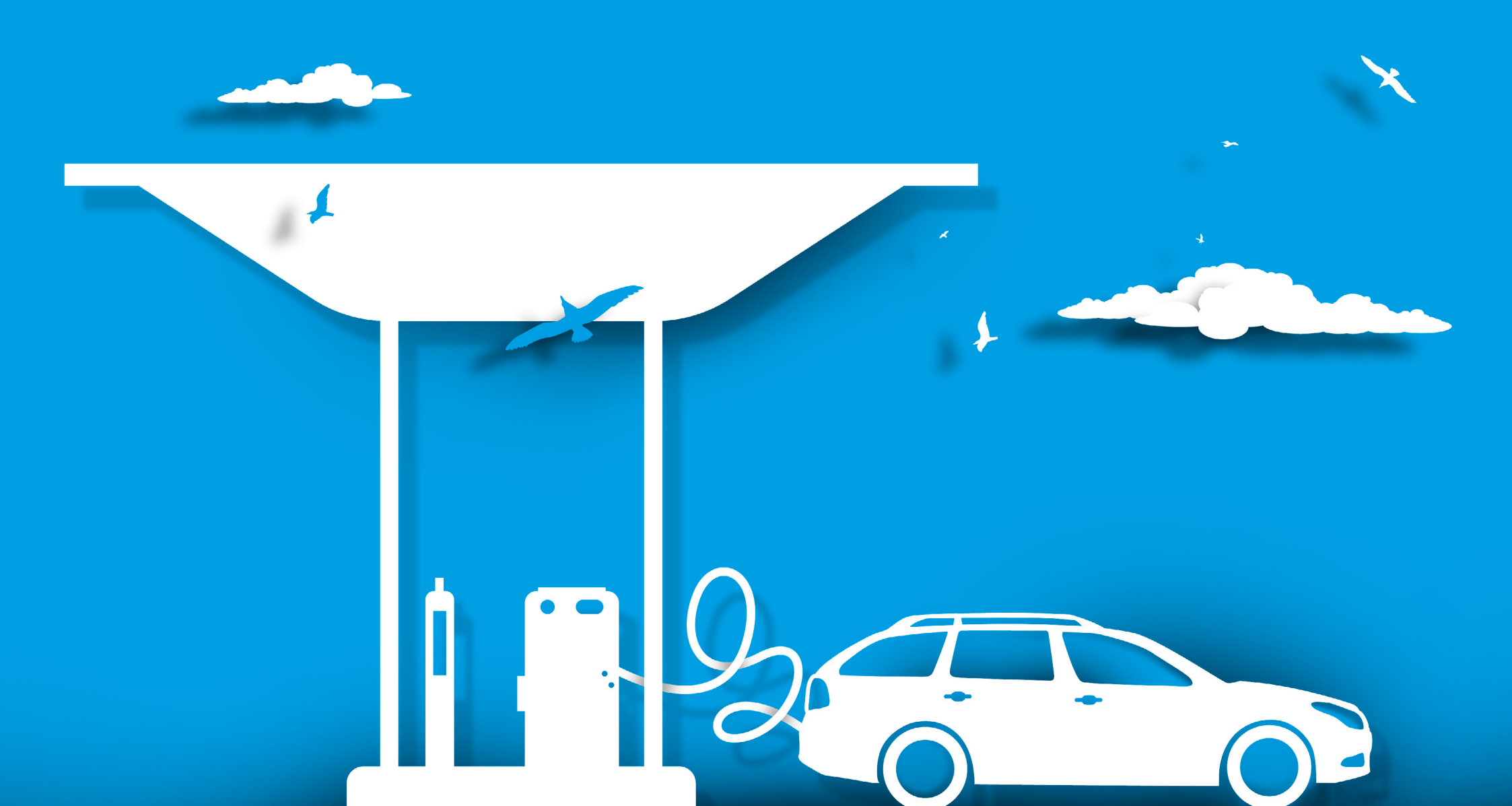
ROA (return on assets) = net profit or loss / total assets

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

Equity ratio = equity / total capital

Net debt = borrowings – cash and cash equivalents

EBITDA margin = EBITDA / revenue



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME [In thousands of euros]

	2017	2016	Note
Revenue	122,988	115,681	5
Other operating income	1,463	673	6
Work performed by the Group and capitalised	3,538	2,379	
Raw materials and consumables used	(105,792)	(97,112)	7
Payroll expenses	(8,006)	(7,463)	8
Depreciation and amortisation	(5,121)	(4,406)	14, 15
Other operating expenses	(2,973)	(2,210)	9
Operating profit	6,097	7,542	
Financial income	1	1	10
Financial expenses	(2,100)	(116)	10
Net financial expense	(2,099)	(115)	10
Profit before tax	3,998	7,427	
Profit for the year	3,998	7,427	
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges – effective portion of changes in fair value	279	-	16
Other comprehensive income	279	-	
Total comprehensive income for the year	4,277	7,427	

The notes on pages 17-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2017	31.12.2016	Note
ASSETS			
Non-current assets			
Property, plant and equipment	77,027	72,075	14
Intangible assets	7,851	1,841	15
Investment property	44	48	
Derivative financial assets	93	-	16, 23
Trade receivables	30	6	12, 23
Prepayments	-	3	
Total non-current assets	85,045	73,973	
Current assets			
Inventories	7,277	3,716	11
Derivative financial assets	827	359	16, 23
Trade and other receivables	21,065	19,095	12, 23
Prepayments for natural gas	14,544	-	
Other prepayments	204	80	
Cash and cash equivalents	2,490	4,881	13, 23
	46,407	28,131	
Assets held for sale	157	247	
Total current assets	46,564	28,378	
Total assets	131,609	102,351	

	31.12.2017	31.12.2016	Note
EQUITY			
Share capital	9,919	9,919	17
Share premium	-	4,857	29
Statutory capital reserve	992	992	17
Hedging reserve	279	-	16, 17
Retained earnings	1,260	51,860	17, 29
Total equity	12,450	67,628	
LIABILITIES			
Non-current liabilities			
Borrowings	65,862	1,060	19, 23
Trade payables	15	-	20
Provisions	693	573	22
Deferred income	11,092	10,934	21
Total non-current liabilities	77,662	12,567	
Current liabilities			
Borrowings	30,861	2,772	19, 23
Trade and other payables	10,429	18,961	20
Prepayments	171	175	
Provisions	36	248	22
Total current liabilities	41,497	22,156	
Total liabilities	119,159	34,723	
Total equity and liabilities	131,609	102,351	

The notes on pages 17-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands of euros)

	2017	2016	Note
Cash flows from operating activities			
Profit for the year	3,998	7,427	
Adjustments			
Depreciation of property, plant and equipment and investment property	4,146	3,930	14
Amortisation of intangible assets	975	476	15
Income from connection fees	(741)	(737)	5, 21
Nonmonetary assets received as compensation	-	(246)	6
Recognition and adjustment of provisions	146	(2,765)	22
Gain on sale of property, plant and equipment and intangible assets	(121)	(45)	6
Loss from write-off of property, plant and equipment and intangible assets	4	7	9
Unsettled gain on derivatives	(282)	(359)	
Loss from other investments	-	58	10
Interest expense	2,100	58	10
Interest income	(1)	(1)	10
Adjusted profit for the year	10,224	7,803	
Net change in current assets relating to operating activities			
Change in trade receivables	(1,771)	(4,118)	12
Change in inventories	(3,360)	24,913	11
Change in prepayments for natural gas	(14,544)	-	
Net change in other current assets relating to operating activities	(344)	45	12
Total net change in current assets relating to operating activities	(20,019)	20,840	
Net change in current liabilities relating to operating activities			
Use of provisions	(243)	(110)	22
Change in trade payables	(9,930)	10,628	20
Net change in other liabilities relating to operating activities	553	702	20
Total net change in liabilities relating to operating activities	(9,620)	11,220	

The notes on pages 17-49 are an integral part of these consolidated financial statements.

	2017	2016	Note
Net cash from/used in operations	(19,415)	39,863	
Interest received	1	1	
Net cash generated from operating activities	(19,414)	39,864	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	(6,569)	(4,494)	
Proceeds from connection fees	899	663	21
Proceeds from sale of property, plant and equipment	190	135	
Net cash used in investing activities	(5,480)	(3,696)	
Cash flows from financing activities			
Shareholder loan received	29,000	-	27
Change in overdraft from shareholder	(6,687)	-	27
Bank loans received	4,000	4,500	19
Repayments of bank loans	(3,500)	(48,000)	19
Change in overdraft from bank	1,834	1,162	19
Repayment of finance lease liabilities	(523)	(27)	
Interest and loan fees paid	(1,621)	(70)	
Net cash used in financing activities	22,503	(42,435)	
Net cash flows	(2,391)	(6,267)	
Cash and cash equivalents at beginning of period	4,881	11,148	13
Cash and cash equivalents at end of period	2,490	4,881	13
Net increase/decrease in cash and cash equivalents	(2,391)	(6,267)	

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

	Share capital (Note 17)	Share premium	Statutory reserve capital (Note 17)	Hedge reserve(Note 16)	Retained earnings (Note 17)	Total	Note
Equity as at 31 December 2015	9,919	4,857	992	-	44,433	60,201	
Profit for the year	-	-	-	-	7,427	7,427	
Total comprehensive income for the year	-	-	-	-	7,427	7,427	
Equity as at 31 December 2016	9,919	4,857	992	-	51,860	67,628	
Comprehensive income for the year							
Profit for the year	-	-	-	-	3,998	3,998	
Other comprehensive income	-	-	-	279	-	279	
Total comprehensive income for the year	-	-	-	279	3,998	4,277	
Transactions with owners							
Merger with sole shareholder	-	(4,857)	-	-	(54,598)	(59,455)	29
Total transactions with owners	-	(4,857)	-	-	(54,598)	(59,455)	
Equity as at 31 December 2017	9,919	-	992	279	1,260	12,450	

The notes on pages 17-49 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 Liivalaia 9, Tallinn 10118, Republic of Estonia. The consolidated financial statements of Eesti Gaas group for the year ended 31 December 2017 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 gas (LNG). The Group sells natural gas and natural gas distribution services to more than 40,000 clients in Estonia and compressed natural gas (CNG) through CNG filling stations around Estonia. In addition the Group is engaged in selling electrical energy, construction of gas pipe systems and gas installations, developing gas-based cogeneration solutions and providing other goods and services to the clients. From July 2017, the Group started business operations in Latvia under the name SIA EG Energija.

2. BASIS OF ACCOUNTING

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

Consolidated financial statements were authorised for issue by the Management Board on 9 March 2018. Under Commercial code of the Republic of Estonia, the annual report must additionally be approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

Details of the Group's accounting policies are included in Note 30.

These consolidated financial statements are presented in euros, which is the Company's and its subsidiaries' functional currency. All amounts have 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:

- **Note 21** - the Group provides customers permanent access to the natural gas for the fees received for connecting to the natural gas network, due to that the connection fees received are recognised as income over the estimated average useful lives of property, plant and equipment acquired for the connection fees according to the IFRIC 18 Transfers of Assets from Customers. The estimated average useful lives of fixed assets acquired for the connection fees are calculated by dividing the average cost of fixed assets with annual depreciation amount.
- **Note 29** - upon merger with Trilini Energy OÜ the assets and liabilities of Trilini Energy OÜ were recognised on a line-by-line basis in the consolidated statement of financial position of the Group (excluding investment in subsidiary). Also the difference between the fair value and carrying amount of the gas distribution network assets and intangible asset (client contracts) recognised during the acquisition of controlling interest in AS Eesti Gaas by Trilini Energy OÜ were recognised in the consolidated statement of financial position of the Group. The Group's share premium and retained earnings were reduced by the difference between the values of recognised assets and liabilities.

(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 2018 is included in the following notes:

- **Note 14** - the estimate of the useful life of property, plant and equipment;
- **Note 14** - the estimate of intangible assets;
- **Notes 22 and 26** - recognition of contingencies and provisions for possible losses in the future due to the take-or-pay provision of 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 23.

5. REVENUE (In thousands of euros)

	2017	2016
Sales of natural gas	88,445	92,238
Sales of gas network service	18,485	17,840
Sales of liquefied natural gas (LNG)	4,987	-
Sales of construction and repair services	4,556	1,652
Sales of compressed gas (CNG)	2,841	1,921
Sales of electricity	1,802	522
Connection fees (Note 21)	741	737
Sales of gas appliances and other goods	433	495
Natural gas availability service	350	155
Sales of other services	348	121
Total revenue	122,988	115,681

6. OTHER OPERATING INCOME (In thousands of euros)

	2017	2016
Compensations received	768	246
Gain from derivatives (Note 16)	548	359
Gain on sale of non-current assets	121	45
Fines and interest on arrears received	3	-
Other operating income	23	23
Total other operating income	1,463	673

The majority of compensations received in the reporting period comprised of the compensations received for the breakdown of liquefied natural gas (LNG) supplies.

7. RAW MATERIALS AND CONSUMABLES USED (In thousands of euros)

	2017	2016
Natural gas sold	87,831	85,553
Gas network service	7,631	7,374
Subcontracting works	3,034	865
Other goods sold	1,967	965
Carriage services	891	58
Other goods, materials and services	4,438	2,297
Total raw materials and consumables used	105,792	97,112

In 2016 the cost of natural gas sold contained the reduction of expenses that resulted from the reversal of provision for onerous contract in the amount of EUR 2,985 thousand (Note 22).

8. PAYROLL EXPENSES (In thousands of euros)

	2017	2016
Average number of employees and members of the Management Board of the Group	207	197
Wages, salaries, bonuses, vacation pay, other payments and benefits	5,776	5,354
Fringe benefits	105	75
Payroll taxes	1,979	1,814
Recognition/reversal of employee related provisions (Note 22)	146	220
Total calculated payroll expenses	8,006	7,463

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

Additional information about the number of employees of the parent company

	31.12.2017	31.12.2016
the average number of the members of the Supervisory Board	7	9
the average number of the members of the Management Board	3	3
the average number of employees	61	56
the average number of persons providing service under contracts under the law of obligations	4	3

9. OTHER OPERATING EXPENSES (In thousands of euros)

	2017	2016
IT-related services	1,071	523
Administrative costs of buildings	394	497
Audit, legal and other consulting services	391	288
Advertising expenses	335	296
Office supplies and services	151	268
Gain/loss from doubtful trade receivables (Note 23)	134	-45
Travel and training expenses	117	145
Taxes and fees	53	38
Membership fees, sponsorship and donations	37	42
Bank transaction fees	19	33
Loss from write-off of non-current assets	4	7
Other operating expenses	267	118
Total other operating expenses	2,973	2,210

10. NET FINANCIAL EXPENSE (In thousands of euros)

	2017	2016
Financial income		
Interest income	1	1
Total interest income	1	1
Total financial income	1	1
Financial expenses		
Impairment of available-for-sale financial assets	-	(58)
Interest expense		
Interest expense on borrowings	(2,095)	(58)
Interest expense on provisions	(5)	-
Total interest expenses	(2,100)	(58)
Total financial expenses	(2,100)	(116)
Net financial expense	(2,099)	(115)

11. INVENTORIES (In thousands of euros)

	31.12.2017	31.12.2016
Natural gas inventory in the storage in Latvia	6,496	3,117
Liquefied natural gas (LNG) inventory in the storage in Lithuania	253	-
Other goods and materials	519	599
Prepayments for other goods	9	-
Total inventories	7,277	3,716

The natural gas inventory is stored in the Inčukalns natural gas storage.

In the reporting period, the illiquid and obsolete materials were written down in the amount of EUR 5 thousand (2016: EUR 0 thousand).

12. TRADE AND OTHER RECEIVABLES (In thousands of euros)

	31.12.2017	31.12.2016
Trade receivables		
Accounts receivable	21,071	19,195
incl. accounts receivable from related parties (Note 27)	520	5
Allowance for doubtful receivables	(267)	(162)
Total trade receivables	20,804	19,033
Accrued income		
Amounts due from customers under the stage of completion method	260	63
Total accrued income	260	63
Other receivables	31	5
Total trade and other receivables (Note 23)	21,095	19,101
incl. current	21,065	19,095
non-current	30	6

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 23.

As at 31 December 2017, the majority of accounts receivable from related parties comprised of receivables for liquefied natural gas (LNG) sold.

13. CASH AND CASH EQUIVALENTS (In thousands of euros)

	31.12.2017	31.12.2016
Bank accounts	2,135	2,969
Short-term deposits	349	744
Cash on hand	6	8
Cash in transit	-	1,160
Total cash and cash equivalents (Note 23)	2,490	4,881

In the financial year, the effective interest rate of short-term deposits was 0.01% (2016: 0.01%).

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

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and prepayments	Total
Property, plant and equipment as at 31 December 2015						
Cost	5,214	92,230	15,327	148	506	113,425
Accumulated depreciation	(2,004)	(28,586)	(11,501)	(144)	-	(42,235)
Carrying amount	3,210	63,644	3,826	4	506	71,190
Total	3,210	63,644	3,826	4	506	71,190

Movements, 1 January - 31 December 2016

Additions	-	-	193	1	4,766	4,960
Depreciation and impairment charge	(157)	(2,852)	(919)	(2)	-	(3,930)
Disposals and write-offs	(92)	(1)	(4)	-	-	(97)
Transfers from construction in progress and prepayments	114	2,412	676	-	(3,202)	-
Reclassification to investment property	(48)	-	-	-	-	(48)
Total	(183)	(441)	(54)	(1)	1,564	885

Property, plant and equipment as at 31 December 2016

Cost	5,053	94,613	15,660	141	2,070	117,537
Accumulated depreciation	(2,026)	(31,410)	(11,888)	(138)	-	(45,462)
Carrying amount	3,027	63,203	3,772	3	2,070	72,075
Total	3,027	63,203	3,772	3	2,070	72,075

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and prepayments	Total
Movements, 1 January - 31 December 2017						
Additions	21	1	302	8	6,444	6,776
Effect of the merger with sole shareholder (Note 29)	-	2,562	-	-	-	2,562
Depreciation and impairment charge	(122)	(3,013)	(1,005)	(2)	-	(4,142)
Disposals and write-offs	(104)	(1)	(27)	(1)	-	(133)
Transfers from construction in progress and prepayments	-	3,867	3,401	-	(7,268)	-
Reclassification to assets held for sale	(111)	-	-	-	-	(111)
Total	(316)	3,416	2,671	5	(824)	4,952

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
Total	2,711	66,619	6,443	8	1,246	77,027

(a) Leased machinery and equipment

The Group leases LNG semi-trailers and other machinery under finance leases. As at 31 December 2017, the carrying amount of the leased assets was EUR 2,093 thousand. As at 31 December 2016, the prepayments for property, plant and equipment included the own contribution paid by the Group in the amount of EUR 200 thousand and the prepayment paid by the lessor to the seller of the semi-trailers in the amount of EUR 1,197 thousand.

According to the contracts the lease obligations are secured by the leased equipment. At the end of the leasing contract the ownership of the leased assets will be transferred 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 414 thousand (2016: EUR 393 thousand).

15. INTANGIBLE ASSETS (In thousands of euros)

	Computer software	Customer contracts	Total
Intangible assets as at 31 December 2015			
Cost	4,318	-	4,318
Accumulated amortisation	(2,957)	-	(2,957)
Total	1,361	-	1,361

Movements, 1 January - 31 December 2016

Purchases	956	-	956
Amortisation charge	(476)	-	(476)
Total	480	-	480

Intangible assets as at 31 December 2016

Cost	5,274	-	5,274
Accumulated amortisation	(3,433)	-	(3,433)
Carrying amount	1,841	-	1,841
Total	1,841	-	1,841

Movements, 1 January - 31 December 2017

Purchases	921	-	921
Effect of the merger with sole shareholder (Note 29)	-	5,996	5,996
Amortisation charge	(672)	(303)	(975)
Total	249	5,693	5,942

Intangible assets as at 31 December 2017

Cost	5,768	6,300	12,068
Accumulated amortisation	(3,678)	(539)	(4,217)
Total	2,090	5,761	7,851

16. DERIVATIVE FINANCIAL INSTRUMENTS (In thousands of euros)

	31.12.2017	31.12.2016
Swap contracts for buying and selling natural gas	920	359
incl. derivative financial instruments that are designated as cash flow hedges	279	-
Total derivative financial instruments (Note 23)	920	359
incl. current	827	359

The goal of the swap contracts of selling and buying natural gas is to manage the risk of changes in the purchase price of natural gas and the value of fixed price sales transactions. Additional information about the risk management principles is disclosed in Note 23.3 (c).

17. CAPITAL AND RESERVES

(a) Share capital

As at 31 December 2017, AS Eesti Gaas had 27,728,408 shares without nominal value (31 December 2016: 27,728,408 shares with nominal value). Each share grants to its owner one vote at the general meeting of shareholders.

In the reporting period the A- and B-type shares with nominal value were substituted with shares without nominal value. As at 31 December 2016, the number of A-type shares was 721,843 (nominal value EUR 10) and the number of B-type shares was 27,006,565 (nominal value EUR 0.10). Each A-type share granted one hundred votes to its owner at the general meeting of shareholders. In case of the transfer of shares, other A-type shareholders had the pre-emptive purchase right. Each B-type share granted one vote to its owner at the general meeting of shareholders. B-type shares were freely transferable. The owners of A- and B-type shares had the right for dividends in proportion to the nominal value of a share.

Information about shareholders as at 31 December 2017.

Shareholder	Number of shares	Share in share capital
Infortar AS	18,578,034	67.0%
IGLATS OÜ	3,466,051	12.5%
SKVL Vara OÜ	2,911,482	10.5%
GVA SYSTEMS OÜ	2,772,841	10.0%
Total	27,728,408	100.0%

17. CAPITAL AND RESERVES, CONTINUED (In thousands of euros)

The sole shareholder as at 31 December 2016 was Trilini Energy OÜ. From 1 January 2017 Trilini Energy OÜ and AS Eesti Gaas have been merged (Note 29).

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

(b) Statutory capital reserve

The statutory capital reserve is formed in compliance with the requirements specified in the Commercial Code of the Republic 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 2017, the Group's statutory capital reserve totalled EUR 992 thousand (31 December 2016: EUR 992 thousand). As at 31 December 2017 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 or items affect profit or loss.

	2017	2016
Hedging reserve at the beginning of the period	-	-
Cash flow hedges – effective portion of changes in fair value	279	-
Hedging reserve at the end of the period	279	-

(d) Profit distribution

As at 31 December 2017, the Group's distributable equity was EUR 1,260 thousand (31 December 2016: EUR 51,860 thousand). According to the Income Tax Act, the companies are taxed in Estonia upon distribution of dividends. Income tax on dividends is 20/80 of the amount payable as net dividends. Dividends distributed by Estonian company are exempt, if these are paid out of dividends received from other companies in which Estonian company has at least 10% participation.

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

	31.12.2017	31.12.2016
Retained earnings (Note 28)	1,260	51,860
Distributable shareholders' equity	1,260	51,860
Corporate income tax payable on the distribution of the entire unrestricted equity	252	10,372
Net dividends available for distribution	1,008	41,488

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

18. 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 2017 was as follows.

	31.12.2017	31.12.2016
Equity	12,450	67,628
Subordinated shareholder loan and overdraft (Note 19)	49,999	-
Total assets	131,609	102,351
Equity to total assets ratio	47%	66%

19. BORROWINGS (In thousands of euros)

Borrowings at amortised cost		
	31.12.2017	31.12.2016
Long-term borrowings		
Bank loans	35,300	-
Subordinated shareholder loan (Note 18)	29,000	-
Finance lease liabilities	1,562	1,060
Total long-term borrowings	65,862	1,060
Short-term borrowings		
Overdraft from a shareholder (Note 18)	20,999	-
Short-term bank loans	4,000	1,500
Bank overdraft	2,996	1,162
Current portion of long-term bank loans	2,700	-
Finance lease liabilities	166	110
Total short-term borrowings	30,861	2,772
Total borrowings	96,723	3,832

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is disclosed in Note 23.

(a) Terms and repayment schedule of overdrafts and loans

	Nominal interest rate	Date of maturity	Nominal value	
			31.12.2017	31.12.2016
Syndicated loan (Note 29)	6 month EURIBOR+1.99%	2021	38,000	-
Subordinated shareholder loan (Note 18)	4.00%	2021	29,000	-
Shareholder overdraft	1.80%	-	20,999	-
Revolving credit line loan for financing of current assets	6 month EURIBOR+0.95%	2018	4,000	-
Bank overdraft	EONIA+1%	2021	2,996	1,162
Revolving credit line loan for financing of current assets	6 month EURIBOR+0.95%	2017	-	1,500
Total			94,995	2,662

The syndicated loan is secured by the commercial pledges registered on the assets of AS Eesti Gaas and its subsidiaries and mortgage registered on the property situated on Liivalaia street in Tallinn. The bank overdraft is secured by the collaterals defined in the syndicated loan agreement.

19. BORROWINGS, CONTINUED (In thousands of euros)

(b) Finance lease liabilities

	Future minimum lease payments	Interest	Present value of minimum lease payments
31.12.2017			
< 1 year	184	18	166
1 - 5 years	1,601	39	1,562
Total	1,785	57	1,728
31.12.2016			
< 1 year	122	12	110
1 - 5 years	1,094	34	1,060
Total	1,216	46	1,170

The finance lease contracts have been concluded for leasing of LNG semi-trailers and other machinery (Note 14). As at 31 December 2017, the interest rates of finance lease contracts were between 1.05% and 1.27% (31 December 2016: 1,05%). All the finance lease liabilities are denominated in euros.

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

	31.12.2017	31.12.2016
Trade payables	3,477	13,418
incl. payables to the related parties (Note 27)	1	23
Tax liabilities	4,422	4,087
Payables to employees	1,615	1,311
Accrued interest	867	-
Other accrued expenses	63	145
Total trade and other payables (Note 23)	10,444	18,961
incl. current	10,429	18,961
non-current	15	-

21. DEFERRED INCOME (In thousands of euros)

Connection fees	2017	2016
Deferred connection fees at the beginning of the period	10,934	11,008
Connection fees received	899	663
Connection fees recognised as income (Note 5)	(741)	(737)
Deferred connection fees at the end of the period	11,092	10,934

The weighted average amortisation period of connection fees is 30 years (2016: 30 years).

22. PROVISIONS (In thousands of euros)

	Onerous contract	Post-employment benefits for the members of the Management Board (Note 8)	Pensions (Note 8)	Warranties	Total
Balance as at 1 January 2017	-	486	280	55	821
Provisions made and restated during the year	-	120	26	-	146
Unwind of discount	-	-	5	-	5
Provisions used during the year	-	(213)	(30)	-	(243)
Balance as at 31 December 2017	-	393	281	55	729
incl. current	-	-	31	5	36
non-current	-	393	250	50	693
Balance as at 1 January 2016	2,985	504	152	55	3,696
Provisions made and restated during the year	-	62	158	-	220
Provisions used during the year	-	(80)	(30)	-	(110)
Provisions reversed during the year	(2,985)	-	-	-	(2,985)
Balance as at 31 December 2016	-	486	280	55	821
incl. current	-	213	30	5	248
non-current	-	273	250	50	573

(a) Onerous contract

As at 31 December 2015, the provision for onerous contract was set up for the gas import agreement valid until 31 December 2015 under which 91 million m³ of natural gas due to be purchased was not purchased. As the purchase price of such volume of natural gas would have been higher than the selling price of the same volume of natural gas, the provision in the amount of EUR 2,985 thousand was recognised as at 31 December 2015 for the onerous contract. In determining the amount of the provision the forecast of anticipated natural gas purchase and selling prices based on the futures prices on the liquid fuels market. On 29 January 2016 AS Eesti Gaas concluded a new gas import agreement with PAO Gazprom as a result of which the obligation of purchasing 91 million m³ of natural gas was annulled. As the provision had been set up to cover the loss when reselling the given volume of natural gas, the provision was reversed in January 2016.

(b) 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.

(c) 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.

(d) Warranties

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

23. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

23.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES (In thousands of euros)

As at 31 December 2017

	Carrying amount					Fair value	
	Financial assets at fair value through profit or loss	Financial assets at fair value - hedging instruments	Loans and receivables	Other financial liabilities	Total	Level 2	Level 3
Financial assets measured at fair value							
Derivative financial instruments - swaps for buying and selling natural gas <small>(Note 16)</small>	641	279	-	-	920	920	-
	641	279	-	-	920		
Financial assets not measured at fair value							
Trade and other receivables <small>(Note 12)</small>	-	-	21,095	-	21,095	***	***
Cash and cash equivalents <small>(Note 13)</small>	-	-	2,490	-	2,490	***	***
	-	-	23,585	-	23,585		
Financial liabilities not measured at fair value							
Overdrafts and loans <small>(Note 19)**</small>	-	-	-	94,995	94,995	-	94,995
Finance lease liabilities <small>(Note 19)</small>	-	-	-	1,728	1,728	-	1,715
Trade and other payables <small>(Note 20)*</small>	-	-	-	10,429	10,429	***	***
	-	-	-	107,152	107,152		

* Payables to employees and tax liabilities are not included

** According to the management's estimates the fair value of the bank loans and 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 market's risk margin. The fair value of the subordinated shareholder loan and overdraft did not differ from their carrying amounts as the contracts were concluded near the end of the financial year.

*** 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.

23.1 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT, CONTINUED (In thousands of euros)

As at 31 December 2016						
	Carrying amount				Fair value	
	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total	Level 2	Level 3
Financial assets measured at fair value						
Derivative financial instruments - swaps for buying natural gas (Note 16)	359	-	-	359	359	-
	359	-	-	359		
Financial assets not measured at fair value						
Trade and other receivables (Note 12)	-	19,101	-	19,101	***	***
Cash and cash equivalents (Note 13)	-	4,881	-	4,881	***	***
	-	23,982	-	23,982		
Financial liabilities not measured at fair value						
Overdraft and bank loan (Note 19)**	-	-	2,662	2,662	-	2,662
Finance lease liabilities (Note 19)	-	-	1,170	1,170	-	1,174
Trade and other payables (Note 20)*	-	-	13,563	13,563	***	***
	-	-	17,395	17,395		

* Payables to employees and tax liabilities are not included

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

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

23.2 MEASUREMENT OF FAIR VALUES

	Valuation technique	Significant unobservable inputs
Financial assets 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		
Bank loans and finance lease liabilities	Discounted cash flows: the valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate	Interest rates of borrowings

23.3 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

The Parent Company's Management Board has responsibility for 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 being monitored and analysed by the Supervisory Board.

23.3 FINANCIAL RISK MANAGEMENT (In thousands of euros)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of financial assets represent the maximum credit exposure.

As at 31 December 2017, the maximum amount exposed to credit risk was as follows.

	31.12.2017	31.12.2016
Trade and other receivables (Note 12)	21,095	19,101
Bank accounts (Note 13)	2,135	2,969
Derivative financial instruments (Note 16)	920	359
Short-term deposits (Note 13)	349	744
Cash in transit (Note 13)	-	1,160
Total amount exposed to credit risk	24,499	24,333

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 the reminders are sent to customer or customer is contacted by phone, if necessary an enforcement procedure is started at the court or a collection agency. The supply of gas may be interrupted in accordance with the conditions stipulated by the Natural Gas Act after the prescribed term date has passed.

23.3 FINANCIAL RISK MANAGEMENT, CONTINUED (In thousands of euros)

As at 31 December 2017, the maximum exposure to credit risk by the type of receivable was as follows.

	31.12.2017	31.12.2016
Accounts receivable for gas and network service, incl.		
large consumers	13,545	13,232
small consumers	2,084	2,664
household customers	2,899	2,579
Accounts receivable for other goods and services	2,276	558
Other receivables	291	68
Total trade and other receivables (Note 12)	21,095	19,101

The allowance for doubtful receivables by the type of receivable as at 31 December 2017 was as follows.

	31.12.2017	31.12.2016
Allowance for doubtful receivables for gas and network service, incl.		
large consumers	(69)	(1)
small consumers	(28)	(7)
household customers	(155)	(152)
Allowance for doubtful receivables for other goods and services	(15)	(2)
Total allowance for doubtful receivables (Note 12)	(267)	(162)

As at 31 December 2017, the Group's most significant customer accounted for EUR 4,317 thousand of the trade and other receivables (31 December 2016: EUR 3,118 thousand).

As at 31 December 2017, the ageing of accounts receivable that were not impaired was as follows.

	31.12.2017	31.12.2016
Accounts receivable not yet due	19,718	18,273
Accounts receivable due but not classified as doubtful		
1-30 days past due	847	647
31-90 days past due	202	81
91-180 days past due	36	32
more than 180 days past due	1	-
Total accounts receivable due but not classified as doubtful	1,086	760
Total accounts receivable not classified as doubtful	20,804	19,033

An analysis of the credit quality of accounts receivable that are neither past due nor impaired is as follows.

	31.12.2017	31.12.2016
Receivables from new clients (client relationship shorter than 6 months)	301	544
Receivables from existing clients (client relationship longer than 6 months)	19,417	17,729
Total accounts receivable not yet due	19,718	18,273

23.3 FINANCIAL RISK MANAGEMENT, CONTINUED (In thousands of euros)

The movement in the allowance for doubtful receivables during the year was as follows.

	2017	2016
Allowance for doubtful receivables at the beginning of the period	(162)	(1,180)
Classified as doubtful and collected during the accounting period (Note 9)	(134)	45
Classified as irrecoverable	29	973
Allowance for doubtful receivables at the end of the period (Note 12)	(267)	(162)

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

Bank accounts and short-term deposits

	31.12.2017	31.12.2016
At banks with Moody's credit rating of Aa3	2,453	3,707
At banks with Moody's credit rating of A1	-	6
At banks without credit rating	31	-
Total bank accounts and short-term deposits in banks (Note 13)	2,484	3,713

(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 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 certain amount of cash buffer in its bank accounts in order to have 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 a revolving credit line loan agreement. Short term need for extra financing may occur when the Group purchases natural gas for depositing in the storage.

In order to finance investments related to LNG the Group has concluded finance lease contracts with the maturity of 5 years.

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.

23.3 FINANCIAL RISK MANAGEMENT, CONTINUED (In thousands of euros)

31 December 2017

	Carrying amount	Contractual cash flows				
		Total	3 months or less	4-6 months	7-12 months	1-5 years
Syndicated loan (Note 19)	38,000	40,497	1,388	684	1,365	37,060
Subordinated shareholder loan (Note 19)	29,000	33,254	102	102	203	32,847
Shareholder overdraft (Note 19)	20,999	21,998	884	21,072	-	42
Revolving credit line loan for financing of current assets (Note 19)	4,000	4,006	4,006	-	-	-
Bank overdraft (Note 19)	2,996	3,025	7	7	3,011	-
Finance lease liabilities (Note 19)	1,728	1,785	46	46	92	1,601
Trade and other payables (Note 20)*	9,535	9,535	8,569	944	7	15
Total	106,258	114,100	15,002	22,855	4,678	71,565

* Amounts due to customers under the stage of completion method are not included

31 December 2016

	Carrying amount	Contractual cash flows				
		Total	3 months or less	4-6 months	7-12 months	1-5 years
Revolving credit line loan for financing of current assets (Note 19)	1,500	1,507	-	1,507	-	-
Bank overdraft (Note 19)	1,162	1,162	-	-	-	1,162
Finance lease liabilities (Note 19)	1,170	1,216	30	31	61	1,094
Trade and other payables (Note 20)*	18,922	18,922	18,190	732	-	-
Total	22,754	22,807	18,220	2,270	61	2,256

* Amounts due to customers under the stage of completion method are not included

23.3 FINANCIAL RISK MANAGEMENT, CONTINUED (In thousands of euros)

(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 the 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. The fair value changes of the other transactions are recognised in profit or loss. As at 31 December 2017, the Group had concluded swap contracts for buying natural gas for the years 2018 - 2020 in the volume of 444,876 MWh (31 December 2016: 168,500 MWh for year 2017). The basis for determining the fair value of the transactions are the quotes at ICE Endex market (Note 16). Additional information about the take-or-pay provision in the natural gas purchase contract is disclosed in Note 26.

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.

Sensitivity analysis is used to assess the interest rate risk. As at 31 December 2017, the borrowings with fixed interest rate accounted for 53% and the borrowings with floating interest rate 47% of the total amount of borrowings (31 December 2016: 31% of borrowings had fixed interest rate and 69% of borrowings had floating interest rate).

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

	31.12.2017	31.12.2016
Fixed-rate instruments		
Financial liabilities	51,700	1,170
Variable-rate instruments		
Financial liabilities	45,023	2,662
Total (Note 19)	96,723	3,832

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 2017 and 31 December 2016 would have immaterial effect on profit or loss, as the material change in Euribor rates is not anticipated.

24. LIST OF SUBSIDIARIES

The Group had the following subsidiaries as at 31 December 2017.

Name of the subsidiary	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group	
			31.12.2017	31.12.2016
AS Gaasivõrgud	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%
SIA EG Energija	Latvia	Sale of natural gas and electricity	100.0%	-

SIA EG Energija was established on 10 July 2017.

25. OPERATING LEASES (In thousands of euros)

(a) Leases as lessor

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

During 2017, the property rentals of EUR 84 thousand (2016: EUR 121 thousand) were included in revenue.

(b) Leases as lessee

The Group leases under operating leases primarily machinery and equipment and transportation.

Lease expenses recognised in profit or loss

	2017	2016
Machinery and equipment	181	37
Means of transport	124	58
Buildings	12	2
Other	71	19
Total	388	116

26. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments arising from construction contracts

As at 31 December 2017, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 194 thousand (31 December 2016: EUR 584 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 until year 2018. This provision may cause the loss to the Group if the purchase price of such volume of natural gas will be 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 2017 and 31 December 2016.

(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.

27. RELATED PARTIES (In thousands of euros)

(a) Parent and ultimate controlling party

As at 1 January 2017 AS Eesti Gaas merged with its sole shareholder (Trilini Energy OÜ) as a result of which the new parent company and the ultimate controlling party of AS Eesti Gaas is AS Infortar. As at 31 December 2016 the parent company of AS Eesti Gaas was Trilini Energy OÜ and the ultimate controlling party was AS Infortar.

(b) Key management personnel compensation

	2017	2016
Short-term employee benefits	904	880
Post-employment benefits (Note 22)	183	83
Social taxes	359	318
Total	1,446	1,281

* 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 22.

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 2017 was EUR 585 thousand (with social tax) (31 December 2016: EUR 681 thousand).

(c) Other related party transactions

	Transaction values		Balance outstanding	
	2017	2016	31.12.2017	31.12.2016
Sale of goods and services				
Transactions with owners	3	18	1	-
Transactions with entities under the control of owners	5,034	37	520	5
Purchase of goods and services				
Transactions with owners	-	20,148	-	-
Transactions with entities under the control of owners	145	31	1	23
Other				
Subordinated shareholder loan received (Note 19)	29,000	-	29,000	-
Change in overdraft from shareholder (Note 19 and 29)	(6,687)	-	20,999	-
Interest expense on borrowings from shareholder	1,249	-	811	-

28. FINANCIAL INFORMATION ON THE PARENT COMPANY (In thousands of euros)

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

	2017	2016
Revenue	106,409	102,543
Other operating income	1,390	402
Raw materials and consumables used	(91,899)	(86,818)
Payroll expenses	(3,439)	(3,561)
Depreciation and amortisation	(4,475)	(4,072)
Other operating expenses	(2,473)	(1,772)
OPERATING PROFIT	5,513	6,722
Financial income	1	2
Financial expenses	(2,106)	(117)
Net financial expense	(2,105)	(115)
PROFIT BEFORE TAX	3,408	6,607
PROFIT FOR THE YEAR	3,408	6,607
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges – effective portion of changes in fair value	279	-
OTHER COMPREHENSIVE INCOME	279	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,687	6,607

28. FINANCIAL INFORMATION ON THE PARENT COMPANY, CONTINUED (In thousands of euros)

STATEMENT OF FINANCIAL POSITION					
	31.12.2017	31.12.2016		31.12.2017	31.12.2016
ASSETS			EQUITY		
Non-current assets			Share capital		
Property, plant and equipment	72,637	69,963		9,919	9,919
Intangible assets	2,056	1,794		-	4,857
Investment property	1,317	1,061		992	992
Derivative financial instruments	93	-		279	-
Investments in subsidiaries	2,567	2,564		(8,503)	51,313
Total non-current assets	78,670	75,382		2,687	67,081
Current assets			LIABILITIES		
Non-current liabilities			Non-current liabilities		
Inventories	6,752	3,117	Borrowings	65,808	1,060
Derivative financial instruments	827	359	Provisions	536	453
Trade and other receivables	21,256	19,695	Deferred income	11,092	10,934
Prepayments for natural gas	14,544	-	Total non-current liabilities	77,436	12,447
Other prepayments	115	17	Current liabilities		
Cash and cash equivalents	389	3,731	Borrowings	31,595	2,772
	43,883	26,919	Trade and other payables	10,745	19,659
Assets held for sale	111	-	Prepayments	170	160
Total current assets	43,994	26,919	Provisions	31	182
Total assets	122,664	102,301	Total current liabilities	42,541	22,773
			Total liabilities	119,977	35,220
			Total liabilities and equity	122,664	102,301

28. FINANCIAL INFORMATION ON THE PARENT COMPANY, CONTINUED (In thousands of euros)

CASH FLOW STATEMENT			CASH FLOW STATEMENT		
	2017	2016		2017	2016
Cash flows from operating activities			Cash flows from investing activities		
Profit for the year	3,408	6,607	Purchase of property, plant and equipment and intangible assets	(6,826)	(4,481)
Adjustments			Proceeds from connection fees	899	663
Depreciation of property, plant and equipment	3,816	3,609	Proceeds from sale of property, plant and equipment	166	153
Amortisation of intangible assets	659	463	Loans granted to subsidiary	(50)	(62)
Income from connection fees	(741)	(737)	Repayments of loans granted to subsidiary	-	100
Recognition and adjustment of provisions	108	(2,775)	Contribution to the share capital of subsidiary	(3)	-
Gain on sale of property, plant and equipment and intangible assets	(63)	(20)	Net cash used in investing activities	(5,814)	(3,627)
Loss from write-off of property, plant and equipment and intangible assets	4	7	Cash flows from financing activities		
Unsettled gain on derivatives	(282)	(359)	Shareholder loan received	29,000	-
Loss from other investments	-	58	Change in overdraft from shareholder	(6,687)	-
Interest expense	2,106	59	Bank loans received	4,000	4,500
Interest income	(1)	(2)	Repayments of bank loans	(3,500)	(48,000)
Adjusted profit for the year	9,014	6,910	Change in overdraft from bank	1,835	1,162
Net change in current assets relating to operating activities			Change in overdraft from subsidiaries	749	-
Change in trade receivables	(1,319)	(4,053)	Repayment of finance lease liabilities	(512)	(27)
Change in inventories	(3,635)	25,017	Interest and loan fees paid	(1,620)	(70)
Change in prepayments for natural gas	(14,544)	-	Total cash generated from financing activities	23,265	(42,435)
Net change in current assets relating to other operating activities	(290)	234	Net cash flows	(3,342)	(6,445)
Total net change in current assets relating to operating activities	(19,788)	21,198	Cash and cash equivalents at beginning of period	3,731	10,176
Net change in liabilities relating to operating activities			Cash and cash equivalents at end of period	389	3,731
Use of provisions	(182)	(31)	Net increase/decrease in cash and cash equivalents	(3,342)	(6,445)
Change in trade payables	(10,158)	10,535			
Net change in liabilities related to other operating activities	320	1,003			
Total net change in liabilities relating to operating activities	(10,020)	11,507			
Interest received	1	2			
Net cash flows from operating activities	(20,793)	39,617			

28. FINANCIAL INFORMATION ON THE PARENT COMPANY, CONTINUED (In thousands of euros)

STATEMENT OF CHANGES IN EQUITY						
	Share capital	Share premium	Statutory reserve capital	Hedging reserve	Retained earnings	Total
Equity as at 31 December 2015	9,919	4,857	992	-	44,706	60,474
Carrying amount of holdings under control					(2,564)	(2,564)
Value of holdings under control using equity method					2,291	2,291
Adjusted unconsolidated equity as at 31 December 2015 (Note 17)					44,433	60,201
Profit for the year	-	-	-	-	6,607	6,607
Total comprehensive income for the year	-	-	-	-	6,607	6,607
Equity as at 31 December 2016	9,919	4,857	992	-	51,313	67,081
Carrying amount of holdings under control					(2,564)	(2,564)
Value of holdings under control using equity method					3,111	3,111
Adjusted unconsolidated equity as at 31 December 2016 (Note 17)					51,860	67,628
Profit for the year	-	-	-	-	3,408	3,408
Other comprehensive income	-	-	-	279	-	279
Total comprehensive income for the year	-	-	-	279	3,408	3,687
Transactions with owners						
Merger with sole shareholder (Note 29)	-	(4,857)	-	-	(63,224)	(68,081)
Total transactions with owners	-	(4,857)	-	-	(63,224)	(68,081)
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 equity method					4,095	4,095
Effect of the merger with sole shareholder (Note 29)					8,235	8,235
Adjusted unconsolidated equity as at 31 December 2017 (Note 17)					1,260	12,450

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

29. MERGER WITH SOLE SHAREHOLDER (In thousands of euros)

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

The information about the effect of the merger on the Group's assets, liabilities and equity was as follows.

	Before the merger as at 31.12.2016	Effect of the merger	After the merger as at 1.01.2017
Assets			
Property, plant and equipment	72,075	2,562	74,637
Intangible assets	1,841	6,064	7,905
Total assets	73,916	8,626	82,542
Liabilities and equity			
Borrowings	3,832	67,686	71,518
incl. syndicated loan (Note 19)	-	40,000	40,000
incl. shareholder overdraft (Note 19)	-	27,686	27,686
Trade and other payables	18,961	395	19,356
Share premium	4,857	(4,857)	-
Retained earnings	51,860	(54,598)	(2,738)
Total liabilities and equity	79,510	8,626	88,136

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 is 30 years, the value of customer contracts is amortised using declining balance method applying 5% amortisation rate per year. As at 31 December 2017, the carrying amount of the price difference of the gas distribution network assets and customer contracts was EUR 8,235 thousand (Note 28).

30. SIGNIFICANT ACCOUNTING POLICIES

30.1 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 the assets and liabilities of the subsidiary 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.

30.2 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.

30.3 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. Revenue is recognised only when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group, all significant risks and rewards incidental to ownership have been transferred from the seller to the buyer, and the additional criteria presented below have been met.

(a) Sale of natural gas, electricity and network services

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

According to the Natural Gas Act the gas undertaking in a dominant position must obtain the approval of the Competition Authority for the ceiling rate of its sales margin of gas for household customers. If the weighted average price of the gas sold during a calendar year exceeds the weighted average purchase price of gas for the same period, to which the sales margin has been added, the gas undertaking in a dominant position shall set off the difference in prices with the customer within three months.

The revenue from network services is based on the natural gas quantities undergone the natural gas distribution network. According to the Natural Gas Act a network operator shall submit the prices of network services and the grounds for establishing such prices to the Competition Authority for approval, and shall, at the request of the Competition Authority, provide reasons for the prices set. A network operator shall publish the approved prices for its licensed territory and inform the consumers in its licensed territory thereof at least three months prior to the date as of which such prices come into effect.

(b) Recognition of connection fees

When connecting to the natural gas network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The revenue from connection fees is deferred and recognised as income over the estimated average useful lives of assets acquired for the connections. The average amortisation period of connection fees is 30 years. Deferred connection fees are carried in the statement of financial position as long-term deferred income.

30.3 REVENUE RECOGNITION, CONTINUED

(c) Construction contracts

Revenue from unfinished and finished but undelivered services is recognised using the stage of completion method. If the outcome of a construction contract can be estimated reliably, then contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion of construction contracts is determined by method according to which the actual costs of rendering the service are divided by the estimated total expenses. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognised immediately in profit or loss.

(d) Revenue recognition on the sale of goods

Revenue from the sale of goods is recognised when significant risks and rewards incidental to ownership have been transferred from the seller to the buyer, the amount of revenue from the sales transaction can be measured reliably and the receipt of payment from the transaction is probable.

30.4 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 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 22).

30.5 FINANCE INCOME AND FINANCE COSTS

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- impairment losses recognised on financial assets (other than trade receivables).

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, the interest income is accounted for on a cash basis.

30.6 INCOME TAX

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

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

30.7 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 applicable variable selling expenses. The cost of natural gas inventory in the 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.

30.8 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 the 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 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
transportation 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 appropriate.

30.9 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 customer base that was existing and 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 applying 5% amortisation rate per year. Amortisation of the other intangible assets are 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 current and comparative period was 5 years.

30.10 INVESTMENT PROPERTY

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

30.11 CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress represent the gross amount expected to be collected from customers for contract work performed to date. They are measured at costs incurred plus profits recognised to date less progress billings and recognised losses.

In the statement of financial position, construction contracts in progress for which costs incurred plus recognised profits exceed progress billings and recognised losses are presented as trade and other receivables. Contracts for which progress billings and recognised losses exceed costs incurred plus recognised profits are presented as deferred income/revenue. Advances received from customers are presented as deferred income/revenue.

30.12 FINANCIAL INSTRUMENTS

The Group classifies its non-derivative financial assets into the category of loans and receivables.

(a) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument. Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

The Group derecognises a financial asset when the contractual rights to the cash flows from the 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 it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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 offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(b) Non-derivative financial liabilities – Measurement

Non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

30.12 FINANCIAL INSTRUMENTS

(c) Derivative financial instruments

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss as other income or other operating expenses. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash flow hedges

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. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

30.13 CASH AND CASH EQUIVALENTS

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

30.14 SHARE CAPITAL

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

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

30.15 IMPAIRMENT

(a) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- 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;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss. Accounts receivable are usually written down in full, if the client has not paid the invoice issued for the product or service within 180 days from the due date and an agreement on the repayment or rescheduling of debts has not been concluded in writing, or if an action has been filed to court against the client, or declared bankrupt or liquidated. When a receivable is classified as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement against other operating expenses.

(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.

30.16 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 has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the discount due to the passage of time is recognised as 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.
Onerous contracts	A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.
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.

30.17 LEASES

(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.

30.18 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.

30.19 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.

30.20 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 in certain circumstances liabilities, are disclosed in the notes to the financial statements as contingent liabilities.

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

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2017 and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments (2014)

Standard is effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

This standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order 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 outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required. The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Group does not expect IFRS 9 (2014) to have a material impact on the financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds. However the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss model. Also it is possible that the Group will start applying different accounting policies for recognition of derivative financial instruments.

IFRS 15 Revenue from Contracts with Customers

Standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled.

Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although the Group has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns. The Group's accounting policies will be changed in relation to the recognition of connection fees as the basis of the period over which the connection fees are recognised as income will be changed (instead of recognising the income over the estimated average useful lives of property, plant and equipment acquired for the connection fees the income will be recognised during the expected contract periods of customers). The referred change will not have material impact on the timing of the Group's revenues. The Group has not yet decided which transition method will be used.

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

IFRS 16 Leases

Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

„Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new standard and the distinction between operating and finance leases will be retained.

The Group does not expect that the new standard, when initially applied, will have material impact on the financial statements because the Group has concluded arrangements that would be in the scope of IFRS 16 in immaterial value.

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT FOR FINANCIAL YEAR 2017

The Annual Report of Eesti Gaas Group for the financial year ended on 31 December 2017 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



Profit Allocation Proposal

The retained earnings of Eesti Gaas Group as at 31 December 2017 were 1,259,225.95 euros, of which the net profit for the year 2017 amounted to 3,998,009.24 euros.

The Management Board proposes under section 332 of the Commercial Code of Estonia to transfer the net profit for the year 2017 of Eesti Gaas Group to the retained earnings.

EMTAK

THE DIVISION OF SALES REVENUE OF PARENT COMPANY BY ACTIVITIES, 1 JANUARY 2017 - 31 DECEMBER 2017 (In thousands of euros)

Activity	Sales revenue
Trade of gas through mains <small>(35231)</small>	89,031
Renting and operational leasing of other machinery, equipment and tangible assets not classified elsewhere <small>(77399)</small>	5,618
Wholesale of automotive fuel <small>(46712)</small>	4,987
Retail sale of automotive fuel incl. activities of fuelling stations <small>(47301)</small>	2,857
Trade of electricity <small>(35141)</small>	1,817
Rental and operating of own or leased real estate <small>(68201)</small>	415
Other services	1,684
Total	106,409



Independent Auditors' Report

To the Shareholders of Eesti Gaas AS

Opinion

We have audited the consolidated financial statements of Eesti Gaas AS (the Company), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements, as set out on pages 13 to 49 present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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

Tallinn, 9 March 2018

A handwritten signature in blue ink, appearing to read 'Andris Jegers', written in a cursive style.

Andris Jegers

Certified Public Accountant, Licence No 171

KPMG Baltics OÜ

Licence No 17

KPMG Baltics OÜ

Narva mnt 5
Tallinn 10117
Estonia

Tel +372 626 8700
Fax +372 626 8777
www.kpmg.ee

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