

eesti gaas



**Annual Report 2018**

# Annual Report 2018

**Business name:** AS Eesti Gaas

**Commercial registry code:** 10178905

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**Principal activity:** sale of natural gas

**The beginning of the financial year:** 1 January 2018

**The end of the financial year:** 31 December 2018

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**eesti gaas**



# **Management Report**

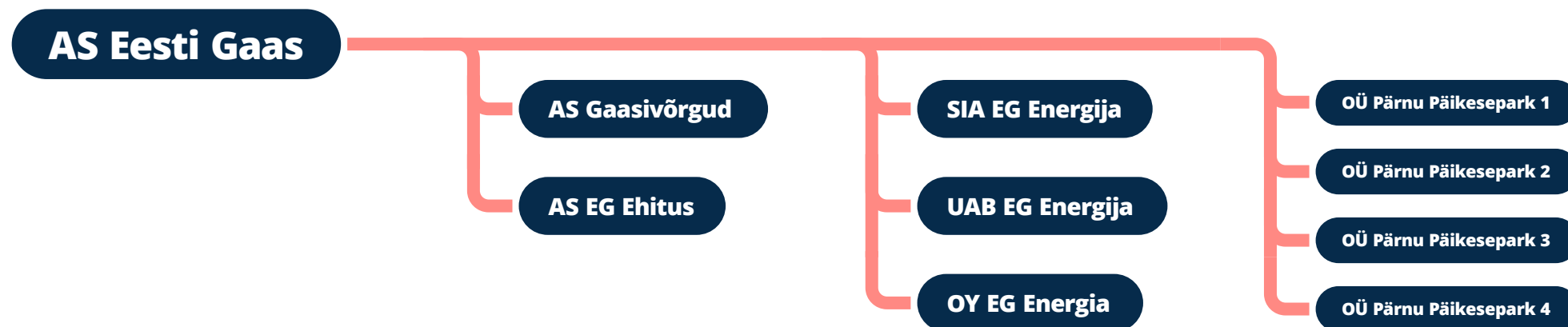
# About the Company

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

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

Eesti Gaas is wholly owned by Estonian private capital: the company's sole shareholder is AS Infotart. The interest previously held by minority shareholders was acquired by AS Infotart at the end of 2018.

## STRUCTURE OF AS EESTI GAAS GROUP

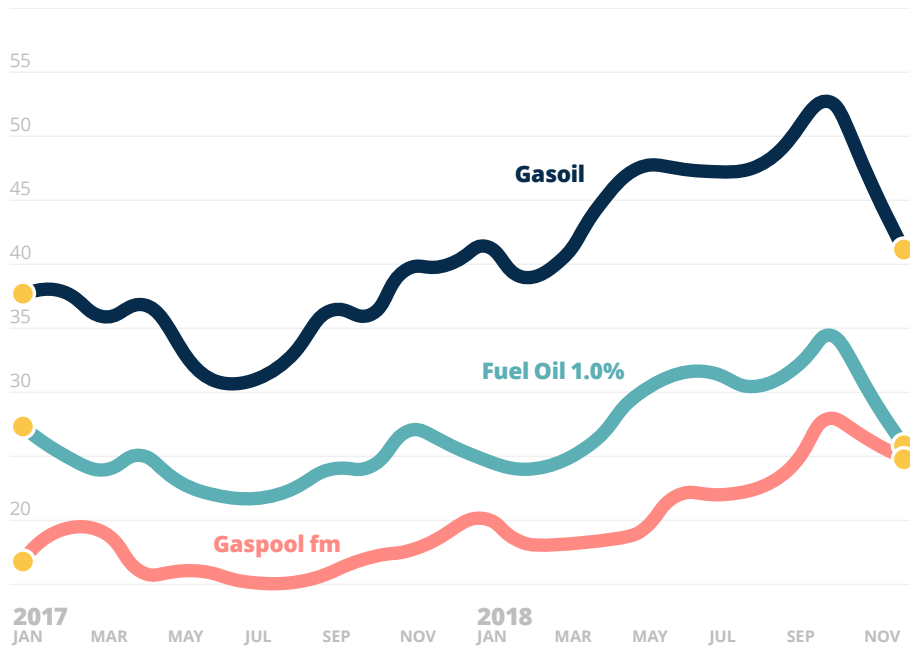


# Market Situation

## Natural gas market

In 2018, natural gas prices in Europe trended mainly upward in connection with a rise in the market price of oil. The price of natural gas was particularly volatile in the second half of the year, peaking in October when it hit the past five years' highest level. Besides the oil price, the price of natural gas was supported by demand for LNG in Asia, which drove up the LNG price both in Asia and Europe.

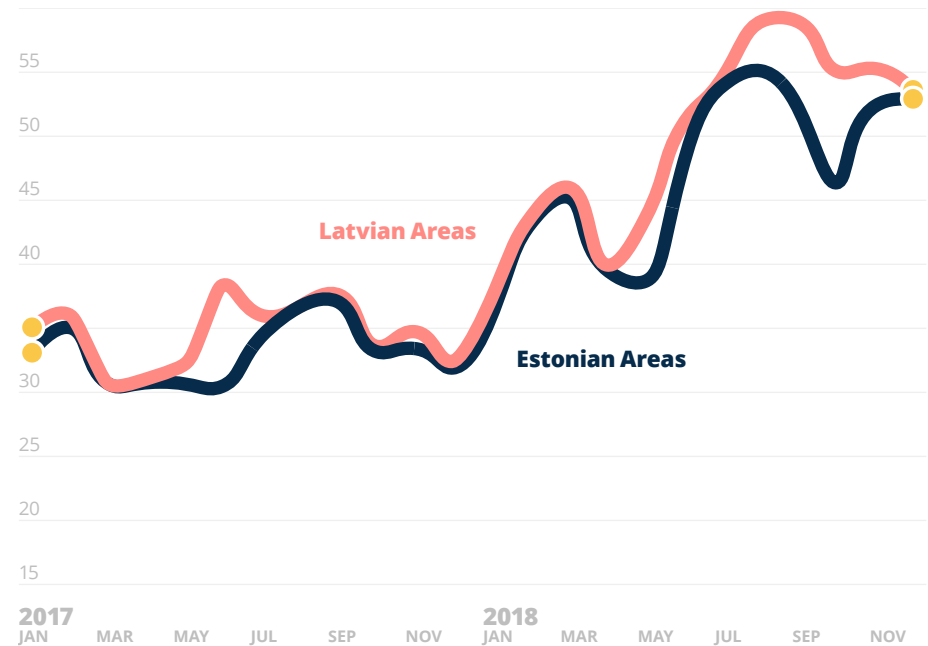
FUEL PRICES (EUR/MWh)



## Electricity market

Surging energy and CO<sub>2</sub> emission allowance prices triggered an upswing in electricity prices. In 2018, the day-ahead electricity price in the Estonian area of the NordPool Spot power exchange was 40% higher than the year before. Electricity prices in the other Baltic countries increased similarly. The electricity price began to decline in the fourth quarter of 2018, reflecting developments in the oil and gas market.

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

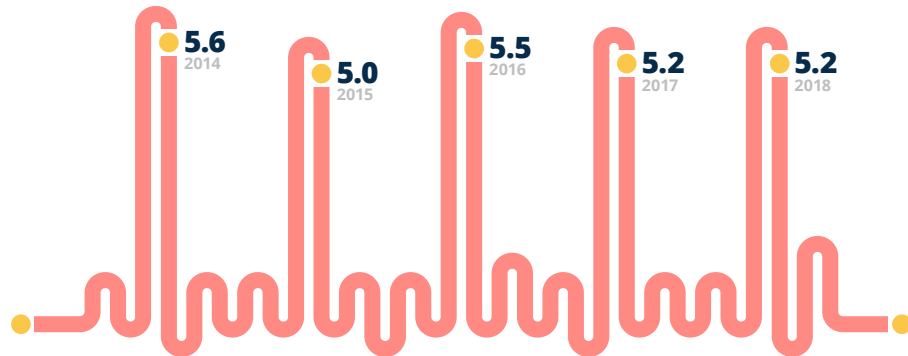


# Natural Gas Consumption

According to the Estonian transmission system operator, in 2018 natural gas consumption in Estonia remained at the same level as in the previous year. Estonia imported and consumed a total of 5.2 terawatt-hours (TWh) of natural gas in 2018, the same amount as in 2017.

According to the National Weather Service, in Estonia the year 2018 was on average warmer and sunnier than usual. The only months that were colder than in the comparative period were February, March and December and in those months the amount of gas sold exceeded that of the preceding year.

**NATURAL GAS CONSUMPTION (TWh)**



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

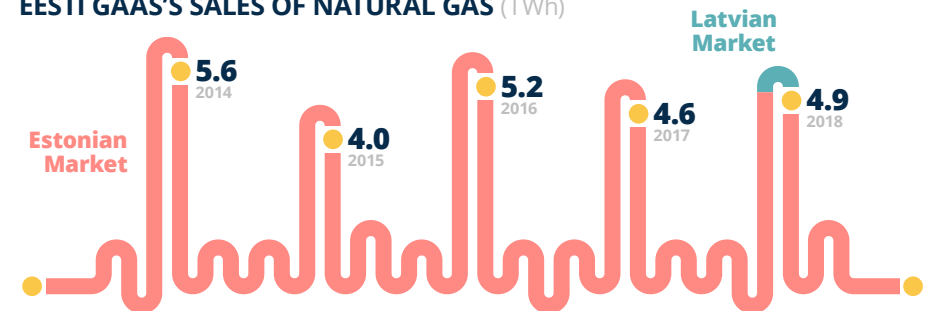
# Sales

## Natural gas

In 2018, Eesti Gaas sold 4.9 TWh of natural gas, of which 4.4 TWh in Estonia and 0.5 TWh in Latvia. The year before we sold 4.6 TWh of natural gas and all of it in Estonia. Consolidated revenue from the sale of natural gas grew by 22% year on year to 107.9 million euros. Revenue growth was mainly attributable to our entry into the new market and to a considerable rise in the market price of natural gas. In Estonia, revenue from the sale of natural gas grew by 9.1% to 96.4 million euros.

In the reporting period, 89.4% of gas sold in Estonia was supplied to the retail market (3.9 TWh). The retail sales volume grew somewhat: in the year before our retail sales volume was 3.8 TWh. Growth was achieved in the corporate customers segment where thanks to effective sales efforts we succeeded in increasing Eesti Gaas's portfolio with a number new contracts. The wholesale volume declined due to developments in the Baltic gas market where customers' gas purchasing opportunities have grown as new gas importers have entered the market.

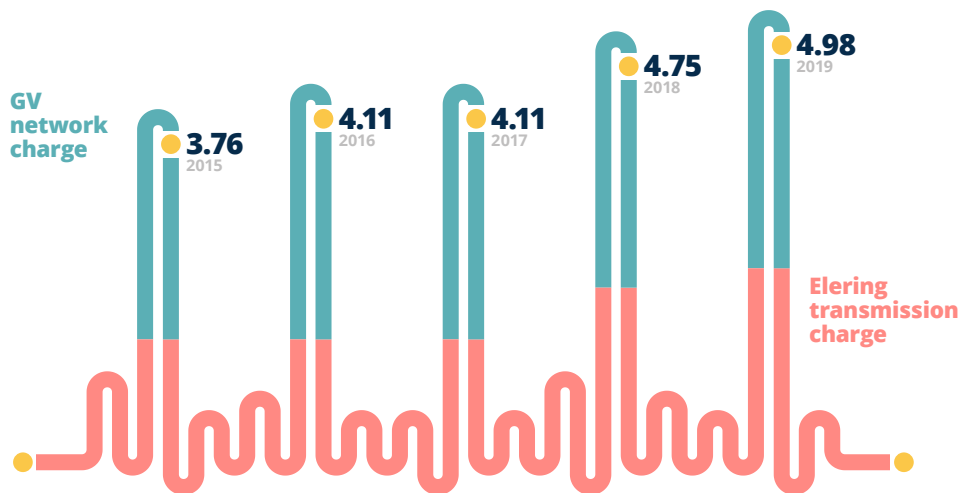
**EESTI GAAS'S SALES OF NATURAL GAS (TWh)**



## Distribution service

In 2018, AS Eesti Gaas distributed 4.6 TWh of natural gas, the same volume as in 2017. Of this amount, 0.6 TWh was distributed to household customers and 4.0 TWh to corporate customers and other network operators. Distribution service revenue for 2018 amounted to 19.6 million euros.

### PRICE OF THE DISTRIBUTION SERVICE (EUR/MWh)



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

During the year, we signed 331 connection agreements and 45 connection change agreements, in total slightly more than in 2017. The agreements increased customers' estimated annual gas consumption capacity by 16.9 million m<sup>3</sup> (in 2017 by 21.5 million m<sup>3</sup>).

In 2018, 352 new points of consumption were commissioned with a total contractual consumption capacity of 5.6 million m<sup>3</sup> per year. The corresponding figures for 2017 were 314 new points of consumption and 6.9 million m<sup>3</sup> of additional consumption capacity per year.

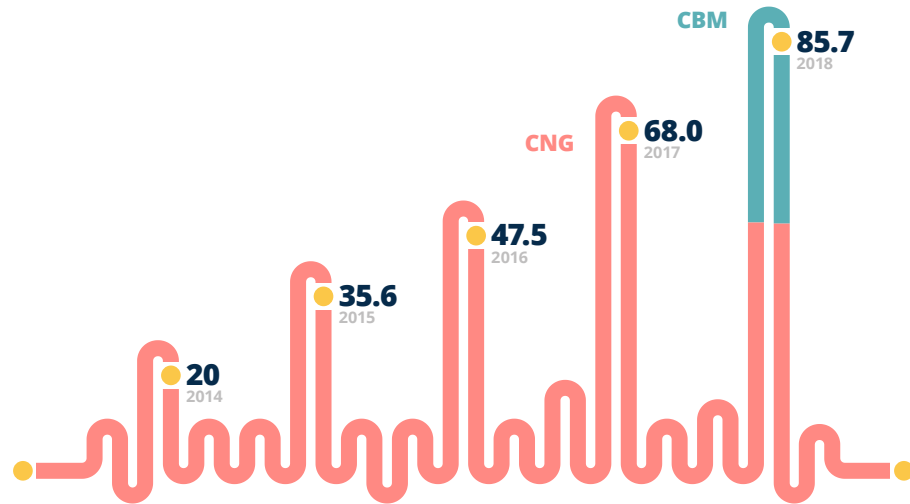
## Compressed natural gas

Eesti Gaas sold 85.7 GWh of compressed natural gas (CNG) in 2018, 23% more than in 2017. Revenue from the sale of CNG amounted to 3.7 million euros, a 32% increase on 2017.

During the year, we opened three new CNG filling stations – in autumn new stations began operating in Rakvere, Viljandi and Jõhvi. At the year-end, AS Eesti Gaas had 11 CNG filling stations across Estonia: four in Tallinn, two in Pärnu, and one in Tartu, Narva, Jõhvi, Rakvere and Viljandi.

In 2018, our filling stations were the first to start offering domestic green gas (compressed biomethane, CBM) whose sales for the year amounted to 37.8 GWh. At filling stations, green gas is sold as vehicle fuel both in pure form and as a blend with natural gas. In 2018, eco-friendly green gas accounted for 43% of our total CNG sales for vehicles.

## CNG SALES (GWh)



## Electricity

Eesti Gaas sold 90.1 GWh of electricity in 2018, increasing its sales volume 1.8 times. Electricity sales revenue for the year amounted to 4.1 million euros, a 2.3-fold improvement on 2017.

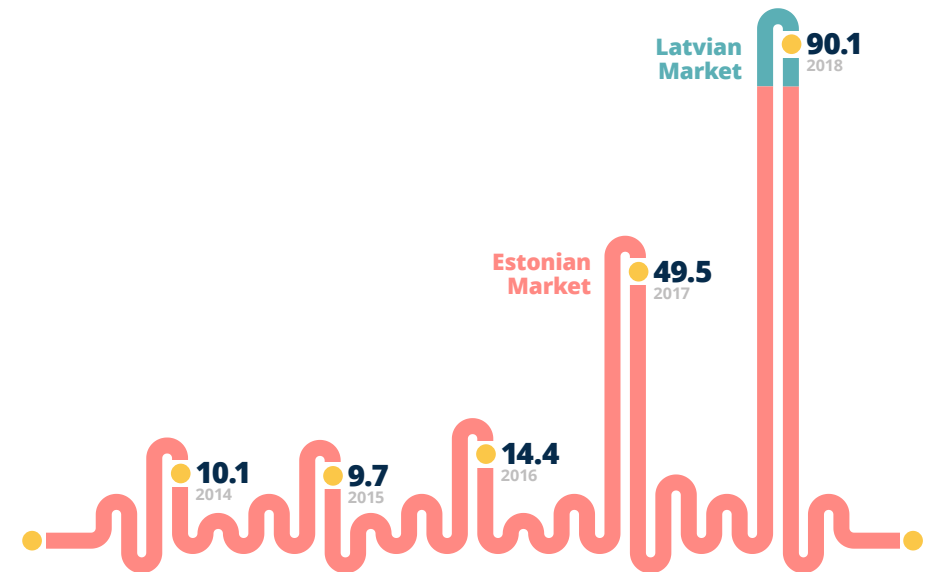
In Estonia, electricity sales volume grew 1.6 times to 81 GWh and electricity sales revenue increased more than two-fold, rising from 1.8 million euros in 2017 to 3.7 million euros.

In 2018, we also began selling electricity in Latvia where sales volume for the year amounted to 9.1 GWh and sales revenue amounted to 0.4 million euros.

Success was underpinned by making pricing more flexible and offering a wider range of electricity packages. Our sales efforts were supported by the year-end launch of a new 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 2018 Eesti Gaas supplied electricity to around 9,000 household points of consumption and over 1,000 corporate points of consumption.

## ELECTRICITY SALES (GWh)





## Liquefied natural gas

In January 2017, AS Eesti Gaas began the sales of liquefied natural gas (LNG). In 2018, annual sales volume of LNG, which was sourced from Russia, Finland and Lithuania, amounted to 196 GWh. In 2017, the sales volume was 170 GWh. LNG sales revenue for 2018 amounted to 8.1 million euros, 3.1 million euros up on 2017.

Since 2015, all passenger and cargo vessels on the Baltic Sea, including ferries making trips between Estonia's islands and mainland, have had to use more environmentally friendly fuel. LNG is the best choice because the use of gas as a marine fuel reduces the environmental impacts of shipping significantly (25% less CO<sub>2</sub> emissions, 95% less NO<sub>x</sub> and SO<sub>x</sub> 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.

## Energy production

Eesti Gaas started to offer customers energy solutions and produced 1.9 GWh of electricity and 10.3 GWh of heat in 2018. Relevant revenue amounted to 0.5 million euros. In 2018, Eesti Gaas built four solar power plants with a total capacity of 4 MW in Pärnu. We expect to start producing solar energy in 2019.

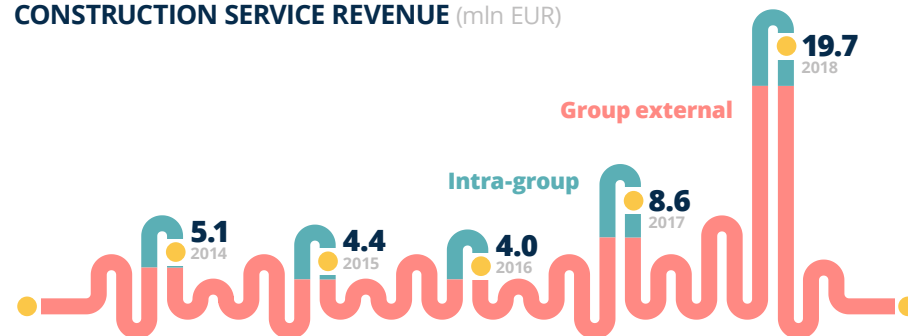
## Construction

In 2018, AS EG Ehitus, a subsidiary of AS Eesti Gaas, generated revenue of 19.7 million euros, 2.3 times more than the year before. Consolidated revenue from the sale of construction service amounted to 15.6 million euros, 3.1 times up on 2017.

The most important construction project of 2018 was the 54-km Kiili-Paldiski section of the onshore part of Balticconnector, a gas pipeline between Estonia and Finland. The diameter of the pipe is 700 millimetres and operating pressure up to 54 bars. The pipeline goes through the parishes of Kiili, Saku, Saue, and Lääne-Harju and the city of Keila. Balticconnector is scheduled to be completed by the end of 2019. The work is being done by a consortium in which AS EG Ehitus is the lead partner and other partners are AS Scanweld and UAB Alvora.

Other major projects included the construction of CNG filling stations in Rakvere, Jõhvi and Viljandi and the construction of district heating pipelines in Rakvere, Loksa and Võru.

CONSTRUCTION SERVICE REVENUE (mln EUR)



# Profitability

AS Eesti Gaas ended 2018 with a consolidated net profit of 2.3 million euros. The corresponding figure for 2017 was 4.0 million euros. The Group's net profit decreased by 1.7 million euros, mainly because the sales margin of gas declined due to a rise in its purchase price.

## PROFITABILITY (In thousands of euros)

	2018	2017	Change
Revenue	161,422	122,988	31.3%
Net profit	2,334	3,998	(41.6%)
EBITDA	10,006	11,218	(10.8%)
<b>EXCEPTIONAL ITEMS:</b>			
Compensation	20	16	
Revaluation of derivative financial instruments	(549)	548	
Gain on sale of property, plant and equipment	142	121	
Comparable EBITDA	10,393	10,533	(1.3%)

EBITDA for 2018 amounted to 10.0 million euros, 10.8% less than in 2017. Excluding the impacts of non-recurring exceptional items, EBITDA decreased by 1.3% year on year.

AS Eesti Gaas is not planning to distribute dividends in 2019 in connection with capital investments in business expansion.

# Capital Investments

AS Eesti Gaas invested 10.7 million euros in non-current assets in 2018, a 39% increase on the prior year.

We invested 5 million euros in the gas distribution network and 1.9 million euros in the construction of CNG filling stations, of which 0.5 million euros was covered by grants received. Expenditures on the acquisition of LNG equipment totalled 0.1 million euros. Investments in the production of solar power amounted to 3.1 million euros and expenditures on IT development, mostly systems for the retail sale of energy amounted to 0.9 million euros.

# Financing

In November 2018, AS Eesti Gaas refinanced a syndicated loan provided by Luminor Bank AS and OP Corporate Bank PLC Estonian branch. The outstanding balance of the syndicated loan of 36.7 million euros was repaid and a new syndicated loan agreement on 40 million euros was signed with AS SEB Pank and OP Corporate Bank PLC Estonian branch. As a result of refinancing, loan servicing costs will decrease. In 2018, repayments of the syndicated loan totalled 1.5 million euros.

To meet our working capital needs, we signed short-term loan agreements of 20 million euros and settled liabilities under working capital loans and overdraft facilities of 7 million euros.

We took a long-term loan of 8 million euros to refinance a loan received from the shareholder. To finance investments in solar parks, we took a loan of 2.4 million euros for a term of 4 years.

# Financial Ratios

## THE GROUP'S KEY FINANCIAL RATIOS

	2018	2017	2016
Net margin	1.4%	3.3%	6.4%
Current ratio	1.23	1.12	1.28
ROA	1.4%	3.0%	7.3%
ROE	15.8%	32.1%	11.0%
Equity ratio	13.1%	11.7%	101.6%
Net debt / EBITDA	9.7	8.4	(0.1)
EBITDA margin	6.2%	9.1%	10.3%

## THE PARENT'S KEY FINANCIAL RATIOS

	2018	2017	2016
Net margin	1.1%	3.2%	6.4%
Current ratio	1.18	1.03	1.18
ROA	1.0%	2.8%	6.5%
ROE	35.2%	126.8%	9.9%
Equity ratio	3.6%	2.7%	99.9%
Net debt / EBITDA	13	9.7	0.01
EBITDA margin	6.3%	9.4%	10.5%

## UNDERLYING FORMULAS

Net margin = net profit / revenue

Current ratio (times) = current assets / current liabilities

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

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

Equity ratio = equity / (net debt + equity)

Net debt = borrowings – cash and cash equivalents

EBITDA = Net profit + expenses

EBITDA margin = EBITDA / revenue



eesti gaas



# Consolidated Financial Statements



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

	2018	2017	Note
Revenue	161,422	122,988	6
Other operating income	331	1,463	7
Change in inventories of finished goods and work-in-progress	6	-	
Work performed by the Group and capitalised	4,637	3,538	
Raw materials and consumables used	(144,533)	(105,792)	8
Payroll expenses	(8,398)	(8,006)	9
Depreciation and amortisation	(5,367)	(5,121)	15, 16
Impairment loss on trade receivables	(42)	(134)	24
Other operating expenses	(3,417)	(2,839)	10
<b>Operating profit</b>	<b>4,639</b>	<b>6,097</b>	
Finance income	60	1	11
Finance costs	(2,363)	(2,100)	11
<b>NET FINANCIAL EXPENSE</b>	<b>(2,303)</b>	<b>(2,099)</b>	<b>11</b>
<b>Profit before tax</b>	<b>2,336</b>	<b>3,998</b>	
Corporate income tax expense	(2)	-	
<b>Profit for the year</b>	<b>2,334</b>	<b>3,998</b>	
Profit attributable to: Owners of the Company	2,342	-	
Profit attributable to: Non-controlling interests	(8)	-	
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges – effective portion of changes in fair value	(68)	279	18
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(68)</b>	<b>279</b>	
<b>Total comprehensive income for the year</b>	<b>2,266</b>	<b>4,277</b>	
Profit attributable to: Owners of the Company	2,274	4,277	
Profit attributable to: Non-controlling interests	(8)	-	

The notes on pages 17–48 are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2018	31.12.2017	Note
<b>Assets</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	81,532	77,027	15
Intangible assets	7,744	7,851	16
Investment property	33	44	
Derivative financial assets	394	93	17, 24
Trade and other receivables	38	30	6, 13, 24
<b>TOTAL NON-CURRENT ASSETS</b>	<b>89,741</b>	<b>85,045</b>	
<b>CURRENT ASSETS</b>			
Inventories	10,948	7,277	12
Contract assets	17	260	6
Derivative financial assets	595	827	17, 24
Trade and other receivables	31,688	20,805	6, 13, 24
Prepayments for natural gas	12,080	14,544	
Other prepayments	860	204	
Cash and cash equivalents	25,821	2,490	14, 24
	<b>82,009</b>	<b>46,407</b>	
Assets held for sale	1,027	157	
<b>TOTAL CURRENT ASSETS</b>	<b>83,036</b>	<b>46,564</b>	
<b>Total assets</b>	<b>172,777</b>	<b>131,609</b>	

The notes on pages 17–48 are an integral part of these consolidated financial statements.

	31.12.2018	31.12.2017	Note
<b>Equity</b>			
Share capital	9,919	9,919	18
Statutory capital reserve	992	992	18
Hedging reserve	211	279	17, 18
Retained earnings	3,602	1,260	18
<b>Equity attributable to owners of the Company</b>	<b>14,724</b>	<b>12,450</b>	
<b>Non-controlling interests</b>	<b>12</b>	<b>-</b>	
<b>Total equity</b>	<b>14,736</b>	<b>12,450</b>	
<b>Liabilities</b>			
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	77,228	65,862	20, 24
Trade payables	21	15	21
Derivative financial liabilities	618	-	17, 24
Provisions	798	693	23
Contract liabilities	11,394	11,092	6
Deferred income	476	-	22
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>90,535</b>	<b>77,662</b>	
<b>CURRENT LIABILITIES</b>			
Borrowings	45,931	30,861	20, 24
Trade and other payables	11,629	10,386	21
Contract liabilities	9,739	43	6
Prepayments	171	171	
Provisions	36	36	23
<b>TOTAL CURRENT LIABILITIES</b>	<b>67,506</b>	<b>41,497</b>	
<b>Total liabilities</b>	<b>158,041</b>	<b>119,159</b>	
<b>Total equity and liabilities</b>	<b>172,777</b>	<b>131,609</b>	

## CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands of euros)

	2018	2017	Note
<b>Cash flows from operating activities</b>			
<b>PROFIT FOR THE YEAR</b>	<b>2,334</b>	<b>3,998</b>	
<b>ADJUSTMENTS</b>			
Depreciation of property, plant and equipment and investment property	4 367	4,146	15
Amortisation of intangible assets	1 000	975	16
Income from connection fees	(721)	(741)	6, 22
Recognition and adjustment of provisions	131	146	23
Gain on sale of non-current assets	(189)	(121)	7
Loss from write-off of non-current assets	46	4	10
Unsettled gain/loss on derivative financial instruments	481	(282)	
Interest expense	2 364	2,100	11
Interest income	(60)	(1)	11
Corporate income tax expense	2	-	
<b>ADJUSTED PROFIT FOR THE YEAR</b>	<b>9 755</b>	<b>10,224</b>	
<b>NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES</b>			
Change in trade receivables	(9,820)	(1,771)	13
Change in inventories	(3,671)	(3,360)	12
Change in prepayments for natural gas	2,464	(14,544)	
Net change in other current assets relating to operating activities	(1,004)	(344)	
<b>TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES</b>	<b>(12,031)</b>	<b>(20,019)</b>	
<b>NET CHANGE IN CURRENT LIABILITIES RELATING TO OPERATING ACTIVITIES</b>			
Use of provisions	(31)	(243)	23
Change in trade payables	908	(9,930)	21
Net change in other liabilities relating to operating activities	10,908	553	
<b>TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES</b>	<b>11,785</b>	<b>(9,620)</b>	
<b>NET CASH FROM/USED IN OPERATIONS</b>			
Interest received	56	1	
<b>Net cash from/used in operating activities</b>	<b>9,565</b>	<b>(19,414)</b>	

	2018	2017	Note
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	(10,754)	(6,569)	
Proceeds from connection fees	1,023	899	6
Proceeds from sale of non-current assets	249	190	
<b>Net cash used in investing activities</b>	<b>(9,482)</b>	<b>(5,480)</b>	
<b>Cash flows from financing activities</b>			
Bank loans received	70,440	4,000	20
Repayments of bank loans	(42,167)	(3,500)	20
Change in overdraft from bank	(2,996)	1,834	20
Change in overdraft from shareholder	1,399	(6,687)	28
Shareholder loan received	-	29,000	28
Repayment of finance lease liabilities	(166)	(523)	
Contributions from non-controlling interest	20	-	
Interest and loan fees paid	(3,282)	(1,621)	
<b>Net cash used in financing activities</b>	<b>23,248</b>	<b>22,503</b>	
<b>Net cash flows</b>			
Cash and cash equivalents at the beginning of the period	2,490	4,881	14
Cash and cash equivalents at the end of the period	25,821	2,490	14
<b>Net increase/decrease in cash and cash equivalents</b>	<b>23,331</b>	<b>(2,391)</b>	

The notes on pages 17–48 are an integral part of these consolidated financial statements.

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

	Attributable to owners of the Company						Non-controlling interests	Total equity	Note
	Share capital (Note 18)	Share premium	Statutory capital reserve (Note 18)	Hedge reserve (Note 17)	Retained earnings (Note 18)	Total			
<b>Equity as at 31 December 2016</b>	<b>9,919</b>	<b>4,857</b>	<b>992</b>	<b>-</b>	<b>51,860</b>	<b>67,628</b>	<b>-</b>	<b>67,628</b>	
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>									
Profit for the year	-	-	-	-	3,998	3,998	-	3,998	
Other comprehensive income	-	-	-	279	-	279	-	279	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>279</b>	<b>3,998</b>	<b>4,277</b>	<b>-</b>	<b>4,277</b>	
<b>TRANSACTIONS WITH OWNERS</b>									
Merger with sole shareholder	-	(4,857)	-	-	(54,598)	(59,455)	-	(59,455)	30
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>-</b>	<b>(4,857)</b>	<b>-</b>	<b>-</b>	<b>(54,598)</b>	<b>(59,455)</b>	<b>-</b>	<b>(59,455)</b>	
<b>Equity as at 31 December 2017</b>	<b>9,919</b>	<b>-</b>	<b>992</b>	<b>279</b>	<b>1,260</b>	<b>12,450</b>	<b>-</b>	<b>12,450</b>	
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>									
Profit for the year	-	-	-	-	2,342	2,342	(8)	2,334	
Other comprehensive income	-	-	-	(68)	-	(68)	-	(68)	
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(68)</b>	<b>2,342</b>	<b>2,274</b>	<b>(8)</b>	<b>2,266</b>	
<b>TRANSACTIONS WITH OWNERS</b>									
Proceeds from non-controlling interest	-	-	-	-	-	-	20	20	
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>20</b>	
<b>Equity as at 31 December 2018</b>	<b>9,919</b>	<b>-</b>	<b>992</b>	<b>211</b>	<b>3,602</b>	<b>14,724</b>	<b>12</b>	<b>14,736</b>	

The notes on pages 17–48 are an integral part of these consolidated financial statements.

eesti gaas



# 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, Estonia. The consolidated financial statements of Eesti Gaas group for the year ended 31 December 2018 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 compressed natural gas (CNG) through CNG filling stations around Estonia, where locally produced biomethane can also be fuelled. In addition the Group is engaged in selling electrical energy, construction of gas pipe systems and gas installations, developing gas-based cogeneration solutions and solar energy plants and providing other goods and services to customers. The Group operates in Latvia under the name SIA EG Energija and in Lithuania under the name UAB EG Energija. The Group has approximately 50 000 clients.

## 2. BASIS OF ACCOUNTING

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

The consolidated financial statements were authorised for issue by the Management Board on 18 April 2019. Under the Commercial code of Estonia, the annual report must first be approved by the Supervisory Board of the parent and ultimately by the general meeting of Shareholders.

Details of the Group's accounting policies are included in Note 31.

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

## 3. USE OF JUDGEMENTS AND ESTIMATES

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

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

### (a) Judgements

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

#### NOTES 6, 8-11,14 AND 21

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

#### NOTE 6

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

#### NOTE 30

upon the 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 the investment in the 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.



### 3. USE OF JUDGEMENTS AND ESTIMATES, CONTINUED

#### (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 2019 is included in the following notes:

##### NOTE 15

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

##### NOTE 16

– the estimate of the useful life of intangible assets;

##### NOTES 23 AND 27

– recognition of contingencies and provisions for possible losses in the future due to the take-or-pay provision of the natural gas purchase contract.

### 4. MEASUREMENT OF FAIR VALUES

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

#### LEVEL 1

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

#### LEVEL 2

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

#### LEVEL 3

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

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

### 5. CHANGES IN ACCOUNTING POLICIES

#### 5.1 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in other operating expenses. Consequently, the Group reclassified impairment losses, recognised under IAS 39, from other operating expenses to impairment loss on trade receivables in the statement of profit or loss and OCI for the year ended 31 December 2017. Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been applied to comparative information.

#### (a) Classification

IFRS 9 contains three classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. As a result of the adoption of IFRS 9, the Group reclassified the following financial assets:

Reclassified financial assets	Original classification under IAS 39	New classification under IFRS 9
Trade and other receivables	Loans and receivables	Measured at amortised cost

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see (c)). Explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, is disclosed in Note 31.12.

## (b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to the Group's financial assets measured at amortised cost and contract assets. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – additional information is disclosed in Note 31.15.

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 resulted in an immaterial additional allowance for impairment.

## (c) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The adoption of IFRS 9 accounting policies did not have an impact on the Group's financial statements, but it enabled to apply hedge accounting from 1 January 2018 for the hedging instruments that were previously recognised through profit or loss.

## (d) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 did not result in any adjustment of the carrying amounts of financial assets and financial liabilities. The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not generally meet the requirements of IFRS 9, but those of IAS 39.

All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

## 5.2 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and establishes a new comprehensive framework for determining whether, how much and when revenue is recognised. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement by management.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients). The initial application of IFRS 15 did not have any impact on the Group's financial statements, as the new accounting policies did not affect the timing of revenue. When recognising the connection fees in accordance with the requirements of IFRS 15, the performance obligation that involves the activities that are necessary for the preparation of connection, is regarded to be satisfied within the period when the gas network services are provided through the connection point with the property, plant and equipment acquired for the connection fees. According to the management's estimates this period should be still equal to the estimated average useful lives of property, plant and equipment acquired for the connection fees, as the following reconstructions of the property, plant and equipment will be financed through the gas network service fees. The disclosure requirements in IFRS 15 have been applied to comparative information, unless otherwise indicated.

Additional information about the Group's accounting policies relating to revenue recognition, is disclosed in Note 31.3.

## 6. REVENUE

The Group's accounting policies relating to revenue from contracts with customers and the overview about the nature and satisfaction of performance obligations are provided in Note 31.3. The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Note 5.2. Comparative information has also been restated to reflect the new requirements.

### (a) Revenue streams (In thousands of euros)

	2018	2017
<b>REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	<b>160,847</b>	<b>122,904</b>
<b>OTHER REVENUE</b>		
Property rentals (Note 26)	66	84
Hedging gains	509	-
<b>TOTAL REVENUE</b>	<b>161,422</b>	<b>122,988</b>

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

	2018	2017
<b>PRIMARY GEOGRAPHICAL MARKETS</b>		
Estonia	147,713	122,740
Latvia	12,256	164
Other	878	-
<b>TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	<b>160,847</b>	<b>122,904</b>
<b>MAJOR PRODUCTS/SERVICE LINES</b>		
Sales of natural gas	107,914	88,445
Sales of gas network service	19,563	18,485
Sales of construction and repair services	15,291	4,556
Sales of liquefied natural gas (LNG)	8,068	4,987
Sales of electricity	4,150	1,802
Sales of compressed gas (CNG)	3,745	2,841
Sales of gas appliances and other goods	725	433
Connection fees	721	741
Sales of other services	670	614
<b>TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	<b>160,847</b>	<b>122,904</b>

### (c) Contract balances (In thousands of euros)

	31.12.2018	31.12.2017
Receivables, which are included in 'trade and other receivables' (Note 13)	30,613	20,797
Contract assets	17	260
Current contract liabilities	(9,739)	(43)
Non-current contract liabilities (connection fees)	(11,394)	(11,092)

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

The amount of EUR 230 thousand recognised in contract assets and EUR 43 thousand recognised in current contract liabilities at the beginning of the period have been recognised as revenue in the reporting period. The amount recognised in contract assets and in current contract liabilities at the end of the period is expected to be recognised as revenue during year 2019. The amount of connection fees received and recognised as revenue in the reporting period was as follows.

### Connection fees (In thousands of euros)

	2018	2017
<b>DEFERRED CONNECTION FEES AT THE BEGINNING OF THE PERIOD</b>	<b>11,092</b>	<b>10,934</b>
Connection fees received	1,023	899
Connection fees recognised as income	(721)	(741)
<b>DEFERRED CONNECTION FEES AT THE END OF THE PERIOD</b>	<b>11,394</b>	<b>11,092</b>

The amortisation period of connection fees is up to 31 years (2017: 30 years).

## 7. OTHER OPERATING INCOME (In thousands of euros)

	2018	2017
Gain on sale of non-current assets	189	121
Compensations received	89	768
Fines and interest on arrears received	34	3
Gain from derivatives	-	548
Other operating income	19	23
<b>TOTAL OTHER OPERATING INCOME</b>	<b>331</b>	<b>1,463</b>

The majority of compensation received comprise of the compensation payments received for the interruption of liquefied natural gas (LNG) supplies.

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

	2018	2017
Natural gas sold	111,410	87,831
Construction materials	11,245	2,051
Gas network service	8,911	7,631
Other goods sold	4,272	1,967
Subcontracting works	3,326	3,034
Carriage services	973	891
Other goods, materials and services	4,396	2,387
<b>TOTAL RAW MATERIALS AND CONSUMABLES USED</b>	<b>144,533</b>	<b>105,792</b>

## 9. PAYROLL EXPENSES (In thousands of euros)

	2018	2017
Average number of employees and members of the Management Board of the Group	225	207
Wages, salaries, bonuses, vacation pay, other payments and benefits	6,029	5,776
Fringe benefits	151	105
Payroll taxes	2,062	1,979
Recognition/revaluation of employee related provisions (Note 23)	156	146
<b>TOTAL CALCULATED PAYROLL EXPENSES</b>	<b>8,398</b>	<b>8,006</b>

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

31.12.2018 31.12.2017

## ADDITIONAL INFORMATION ABOUT THE NUMBER OF EMPLOYEES OF THE PARENT

- the average number of the members of the Supervisory Board	7	7
- the average number of the members of the Management Board	3	3
- the average number of employees	67	61
- the average number of persons providing service under service contracts	5	4

## 10. OTHER OPERATING EXPENSES (In thousands of euros)

	2018	2017
IT services	1,065	1,071
Ineffective portion of changes in the fair value of derivative financial instruments	532	-
Legal and other consulting services, audit	389	391
Administrative costs of buildings	364	394
Advertising expenses	311	335
Office supplies and services	164	151
Travel and training expenses	141	117
Taxes and fees	60	53
Membership fees, sponsorship and donations	38	37
Bank transaction fees	16	19
Loss from write-off of non-current assets	46	4
Other operating expenses	291	267
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>3,417</b>	<b>2,839</b>

## 11. NET FINANCIAL EXPENSE (In thousands of euros)

	2018	2017
<b>Finance income</b>		
INTEREST INCOME	60	1
<b>TOTAL INTEREST INCOME</b>	<b>60</b>	<b>1</b>
<b>Total finance income</b>	<b>60</b>	<b>1</b>
<b>Finance costs</b>		
INTEREST EXPENSE		
Interest expense on borrowings	(2,358)	(2,095)
Interest expense on provisions	(5)	(5)
<b>TOTAL INTEREST EXPENSES</b>	<b>(2,363)</b>	<b>(2,100)</b>
<b>Total finance costs</b>	<b>(2,363)</b>	<b>(2,100)</b>
<b>Net financial expense</b>	<b>(2,303)</b>	<b>(2,099)</b>

## 12. INVENTORIES (In thousands of euros)

	31.12.2018	31.12.2017
Natural gas inventory in storage	10,384	6,496
Liquefied natural gas (LNG) inventory in the storage	2	253
Other goods and materials	555	519
Finished goods	6	-
Prepayments for other goods	1	9
<b>TOTAL INVENTORIES</b>	<b>10,948</b>	<b>7,277</b>

In the reporting period, illiquid and obsolete materials were written down in the amount of EUR 1 thousand (2017: EUR 5 thousand).

## 13. TRADE AND OTHER RECEIVABLES (In thousands of euros)

	31.12.2018	31.12.2017
<b>Trade receivables</b>		
<b>ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS</b>		
Accounts receivable	30,886	21,064
incl. accounts receivable from related parties (Note 28)	711	521
Allowance for doubtful receivables	(273)	(267)
<b>TOTAL ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS (Note 6)</b>	<b>30,613</b>	<b>20,797</b>
<b>OTHER ACCOUNTS RECEIVABLE</b>		
Accounts receivable	11	7
<b>TOTAL OTHER ACCOUNTS RECEIVABLE</b>	<b>11</b>	<b>7</b>
<b>Total trade receivables</b>	<b>30,624</b>	<b>20,804</b>
Accrued income	229	-
Other receivables	873	31
incl. from related parties (Note 28)	296	-
<b>Total trade and other receivables (Note 24)</b>	<b>31,726</b>	<b>20,835</b>
incl. current	31,688	20,805
non-current	38	30

Receivables and prepayments for services and goods are not secured.

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

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

As at 31 December 2018 and 2017, the majority of accounts receivable from related parties comprised of receivables for liquefied natural gas (LNG) sold.



#### 14. CASH AND CASH EQUIVALENTS (In thousands of euros)

	31.12.2018	31.12.2017
Bank accounts	15,070	2,135
Overnight deposits	10,588	349
Cash in transit	163	-
Cash on hand	-	6
<b>TOTAL CASH AND CASH EQUIVALENTS</b> (Note 24)	<b>25,821</b>	<b>2,490</b>

In the financial year, the effective interest rate of overnight deposits was 0.01% (2017: 0.01%).

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

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and prepayments	Total
<b>PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2016</b>						
Cost	5,053	94,613	15,660	141	2,070	117,537
Accumulated depreciation	(2,026)	(31,410)	(11,888)	(138)	-	(45,462)
<b>CARRYING AMOUNT</b>	<b>3,027</b>	<b>63,203</b>	<b>3,772</b>	<b>3</b>	<b>2,070</b>	<b>72,075</b>

##### MOVEMENTS, 1 JANUARY - 31 DECEMBER 2017

Additions	21	1	302	8	6,444	6,776
Effect of the merger with sole shareholder (Note 30)	-	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)
<b>TOTAL</b>	<b>(316)</b>	<b>3,416</b>	<b>2,671</b>	<b>5</b>	<b>(824)</b>	<b>4,952</b>

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and prepayments	Total
<b>PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2017</b>						
Cost	4,616	101,106	18,827	128	1,246	125,923
Accumulated depreciation	(1,905)	(34,487)	(12,384)	(120)	-	(48,896)
<b>CARRYING AMOUNT</b>	<b>2,711</b>	<b>66,619</b>	<b>6,443</b>	<b>8</b>	<b>1,246</b>	<b>77,027</b>

##### MOVEMENTS, 1 JANUARY - 31 DECEMBER 2018

Additions	-	55	259	7	9,517	9,838
Depreciation and impairment charge	(114)	(3,209)	(1,038)	(3)	-	(4,364)
Disposals and write-offs	(1)	-	(60)	-	-	(61)
Transfers from construction in progress and prepayments	75	5,226	1,455	-	(6,756)	-
Reclassification to assets held for sale	(908)	-	-	-	-	(908)
<b>TOTAL</b>	<b>(948)</b>	<b>2,072</b>	<b>616</b>	<b>4</b>	<b>2,761</b>	<b>4,505</b>

##### PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2018

Cost	2,833	106,387	19,525	131	4,007	132,883
Accumulated depreciation	(1,070)	(37,696)	(12,466)	(119)	-	(51,351)
<b>CARRYING AMOUNT</b>	<b>1,763</b>	<b>68,691</b>	<b>7,059</b>	<b>12</b>	<b>4,007</b>	<b>81,532</b>

#### (a) Leased machinery and equipment

The Group leases various machinery under finance leases. As at 31 December 2018, the carrying amount of the leased assets was EUR 1,964 thousand (31 December 2017: EUR 2,093 thousand).

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

#### (b) Assumptions and estimation uncertainties

The estimated useful lives of items of property, plant and equipment are based on management's estimate of the period during which the asset will be used. The actual useful lives may be longer or shorter than the estimates. If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 436 thousand (2017: EUR 414 thousand).

## 16. INTANGIBLE ASSETS (In thousands of euros)

	Computer software	Customer contracts	Total
<b>INTANGIBLE ASSETS AS AT 31 DECEMBER 2016</b>			
Cost	5,274	-	5,274
Accumulated amortisation	(3,433)	-	(3,433)
<b>CARRYING AMOUNT</b>	<b>1,841</b>	<b>-</b>	<b>1,841</b>
<b>MOVEMENTS, 1 JANUARY - 31 DECEMBER 2017</b>			
Purchases	921	-	921
Effect of the merger with sole shareholder (Note 30)	-	6,064	6,064
Amortisation charge	(672)	(303)	(975)
<b>TOTAL</b>	<b>249</b>	<b>5,761</b>	<b>6,010</b>
<b>INTANGIBLE ASSETS AS AT 31 DECEMBER 2017</b>			
Cost	5,768	6,300	12,068
Accumulated amortisation	(3,678)	(539)	(4,217)
<b>CARRYING AMOUNT</b>	<b>2,090</b>	<b>5,761</b>	<b>7,851</b>
<b>MOVEMENTS, 1 JANUARY - 31 DECEMBER 2018</b>			
Purchases	893	-	893
Amortisation charge	(712)	(288)	(1,000)
<b>TOTAL</b>	<b>181</b>	<b>(288)</b>	<b>(107)</b>
<b>INTANGIBLE ASSETS AS AT 31 DECEMBER 2018</b>			
Cost	6,597	6,300	12,897
Accumulated amortisation	(4,326)	(827)	(5,153)
<b>CARRYING AMOUNT</b>	<b>2,271</b>	<b>5,473</b>	<b>7,744</b>

## 17. DERIVATIVE FINANCIAL INSTRUMENTS (In thousands of euros)

	31.12.2018		31.12.2017
	Assets	Liabilities	Assets
<b>NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS</b>			
Swap contracts for buying and selling natural gas	394	618	93
incl. derivative financial instruments that are designated as cash flow hedges	394	618	93
<b>CURRENT DERIVATIVE FINANCIAL INSTRUMENTS</b>			
Swap contracts for buying and selling natural gas	595	-	827
incl. derivative financial instruments that are designated as cash flow hedges	595	-	186
<b>TOTAL DERIVATIVE FINANCIAL INSTRUMENTS (Note 24)</b>	<b>989</b>	<b>618</b>	<b>920</b>

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

## 18. CAPITAL AND RESERVES

### (a) Share capital

As at 31 December 2018, AS Eesti Gaas had 27,728,408 shares without nominal value (31 December 2017: 27,728,408 shares without nominal value). Each share grants one vote at the general meeting of shareholders.

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

#### INFORMATION ABOUT SHAREHOLDERS AS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017.

Shareholder	31.12.2018		31.12.2017	
	Number of shares	Interest	Number of shares	Interest
AS Infortar	27,728,408	100.0%	18,578,034	67.0%
IGLATS OÜ			3,466,051	12.5%
OÜ SKVL Vara			2,911,482	10.5%
GVA SYSTEMS OÜ			2,772,841	10.0%
<b>TOTAL</b>	<b>27,728,408</b>	<b>100.0%</b>	<b>27,728,408</b>	<b>100.0%</b>

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

### (b) Statutory capital reserve

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

As at 31 December 2018, the Group's statutory capital reserve totalled EUR 992 thousand (31 December 2017: EUR 992 thousand). As at 31 December 2018 the Group has no obligation to make any additional transfers to the statutory capital reserve.

### (c) Hedging reserve

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

#### HEDGING RESERVE (In thousands of euros)

	2018	2017
<b>HEDGING RESERVE AT THE BEGINNING OF THE PERIOD</b>	<b>279</b>	<b>-</b>
Cash flow hedges – effective portion of changes in fair value	903	279
Gain recognised on cash flow hedges before applying hedge accounting	559	-
Gain(-) / loss(+) on realised cash flow hedges	(1,530)	-
<b>HEDGING RESERVE AT THE END OF THE PERIOD</b>	<b>211</b>	<b>279</b>

### (d) Profit distribution

As at 31 December 2018, the Group's distributable equity was EUR 3,602 thousand (31 December 2017: EUR 1,260 thousand). According to the Income Tax Act, companies are taxed in Estonia on the distribution of dividends. The tax rate is 20%. Income tax on dividends is calculated as 20/80 of the amount payable as net dividends (except for regularly payable dividends, to which the reduced income tax rate is applied). Dividends distributed by a company are exempt, if these are paid out of dividends received from other companies in which the company has at least 10% interest.

#### THE FOLLOWING TABLE PRESENTS THE BASIS FOR CALCULATING THE DISTRIBUTABLE SHAREHOLDERS' EQUITY, POTENTIAL DIVIDENDS AND THE ACCOMPANYING CORPORATE INCOME TAX.

(In thousands of euros)

	31.12.2018	31.12.2017
Retained earnings (Note 29)	3,602	1,260
Distributable shareholders' equity	3,602	1,260
Corporate income tax payable on the distribution of the entire unrestricted equity	720	252
Net dividends available for distribution	2,882	1,008

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

## 19. CAPITAL MANAGEMENT (In thousands of euros)

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors capital using a ratio of equity and shareholder loans to total assets. The Group's policy is to keep the ratio not less than 30%.

### THE GROUP'S EQUITY TO TOTAL ASSETS RATIO AS AT 31 DECEMBER 2018 WAS AS FOLLOWS.

	31.12.2018	31.12.2017
Equity	14,736	12,450
Subordinated shareholder loan and overdraft (Note 20)	51,398	49,999
Total assets	172,777	131,609
<b>EQUITY TO TOTAL ASSETS RATIO</b>	<b>38%</b>	<b>47%</b>

## 20. BORROWINGS (In thousands of euros)

### BORROWINGS AT AMORTISED COST

	31.12.2018	31.12.2017
<b>LONG-TERM BORROWINGS</b>		
Bank loans	46,834	35,300
Subordinated shareholder loan (Note 19)	29,000	29,000
Finance lease liabilities	1,394	1,562
<b>TOTAL LONG-TERM BORROWINGS</b>	<b>77,228</b>	<b>65,862</b>
<b>SHORT-TERM BORROWINGS</b>		
Overdraft from a shareholder (Note 19)	22,398	20,999
Short-term bank loans	20,000	4,000
Bank overdraft	-	2,996
Current portion of long-term bank loans	3,365	2,700
Finance lease liabilities	168	166
<b>TOTAL SHORT-TERM BORROWINGS</b>	<b>45,931</b>	<b>30,861</b>
<b>Total borrowings</b>	<b>123,159</b>	<b>96,723</b>

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

### (a) Terms and repayment schedule of overdrafts and loans

	Maturity date	Nominal value	
		31.12.2018	31.12.2017
Bank loans	2018–2023	70,273	42,000
Subordinated shareholder loan (Note 19)	2021	29,000	29,000
Shareholder overdraft (Note 19)	-	22,398	20,999
Bank overdraft	2018	-	2,996
<b>TOTAL OVERDRAFTS AND LOANS</b>		<b>121,671</b>	<b>94,995</b>

The bank loans have floating interest rates. As at 31 December 2018, the interest rates of bank loans were between 1.2% and 1.95% (31 December 2017: 0.95% and 1.99%). The interest rates of subordinated shareholder loan and overdraft were between 1.8% and 4.0% (31 December 2017: 1.8% and 4.0%).

In 2018 the syndicated loan in the amount of EUR 36.5 millions was refinanced.

As at 31 December 2018, the bank loans were secured by a commercial pledge registered on the assets of AS Gaasivõrgud, by combined mortgage registered on six properties belonging to AS Eesti Gaas and AS Gaasivõrgud, by commercial pledges registered on the assets of OÜ Pärnu Päikesepark 1-4 and a mortgage registered on a legal share of the right of superficies. As at 31 December 2017, the bank loans were secured by commercial pledges registered on the assets of AS Eesti Gaas and its subsidiaries and a mortgage registered on the property situated on Liivalaia street in Tallinn.

### (b) Finance lease liabilities

	Future minimum lease payments	Interest	Present value of minimum lease payments
<b>31 DECEMBER 2018</b>			
< 1 year	187	16	171
1 - 5 years	1,414	23	1,391
<b>TOTAL</b>	<b>1,601</b>	<b>39</b>	<b>1,562</b>
<b>31 DECEMBER 2017</b>			
< 1 year	184	18	166
1 - 5 years	1,601	39	1,562
<b>TOTAL</b>	<b>1,785</b>	<b>57</b>	<b>1,728</b>

The finance lease contracts have been concluded for leasing of various machinery (Note 15). As at 31 December 2018, the interest rates of finance lease contracts were between 1.05% and 1.27% (31 December 2017: 1.05% and 1.27%). All the finance lease liabilities are denominated in euros.

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

	31.12.2018	31.12.2017
Trade payables	4,362	3,477
incl. payables to the related parties (Note 28)	2	1
Tax liabilities	6,224	4,422
Payables to employees	859	1,615
Accrued interest	18	867
Other accrued expenses	187	20
<b>TOTAL TRADE AND OTHER PAYABLES (Note 24)</b>	<b>11,650</b>	<b>10,401</b>
incl. current	11,629	10,386
non-current	21	15

## 22. DEFERRED INCOME (In thousands of euros)

	2018	2017
<b>DEFERRED INCOME FROM GRANTS AT THE BEGINNING OF THE PERIOD</b>	-	-
Grants received	476	-
<b>DEFERRED INCOME FROM GRANTS AT THE END OF THE PERIOD</b>	<b>476</b>	-

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

## 23. PROVISIONS (In thousands of euros)

	Post-employment benefits for the members of the Management Board (Note 9)	Pensions (Note 9)	Warranties	Total
<b>BALANCE AS AT 1 JANUARY 2018</b>	<b>393</b>	<b>281</b>	<b>55</b>	<b>729</b>
Provisions made and restated during the year	152	4	(25)	131
Unwind of discount (Note 11)	-	5	-	5
Provisions used during the year	-	(31)	-	(31)
<b>BALANCE AS AT 31 DECEMBER 2018</b>	<b>545</b>	<b>259</b>	<b>30</b>	<b>834</b>
incl. current	-	31	5	36
non-current	545	228	25	798
<b>BALANCE AS AT 1 JANUARY 2017</b>	<b>486</b>	<b>280</b>	<b>55</b>	<b>821</b>
Provisions made and restated during the year	120	26	-	146
Unwind of discount (Note 11)	-	5	-	5
Provisions used during the year	(213)	(30)	-	(243)
<b>BALANCE AS AT 31 DECEMBER 2017</b>	<b>393</b>	<b>281</b>	<b>55</b>	<b>729</b>
incl. current	-	31	5	36
non-current	393	250	50	693

### (a) Post-employment benefits for the members of the Management Board

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

### (b) Pensions

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

### (c) Warranties

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



## 24. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

### 24.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES (In thousands of euros)

	Fair value - hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value	
					Level 2	Level 3
<b>As at 31 December 2018</b>						
<b>FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>						
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	989	-	-	989	989	-
	<b>989</b>	<b>-</b>	<b>-</b>	<b>989</b>		
<b>FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>						
Trade and other receivables (Note 13)	-	31,726	-	31,726	***	***
Cash and cash equivalents (Note 14)	-	25,821	-	25,821	***	***
	<b>-</b>	<b>57,547</b>	<b>-</b>	<b>57,547</b>		
<b>FINANCIAL LIABILITIES MEASURED AT FAIR VALUE</b>						
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	(618)	-	-	(618)	(618)	-
	<b>(618)</b>	<b>-</b>	<b>-</b>	<b>(618)</b>		
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>						
Overdrafts and loans (Note 20)**	-	-	(121,597)	(121,597)	-	(121,750)
Finance lease liabilities (Note 20)	-	-	(1,562)	(1,562)	-	(1,556)
Trade and other payables (Note 21)*	-	-	(4,567)	(4,567)	***	***
	<b>-</b>	<b>-</b>	<b>(127,726)</b>	<b>(127,726)</b>		

\* Payables to employees and tax liabilities are not included

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

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

## 24.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES, CONTINUED (In thousands of euros)

	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
<b>As at 31 December 2017</b>							
<b>FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>							
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	641	279	-	-	920	920	-
	<b>641</b>	<b>279</b>	<b>-</b>	<b>-</b>	<b>920</b>		
<b>FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE</b>							
Trade and other receivables (Note 13)	-	-	20,835	-	20,835	***	***
Cash and cash equivalents (Note 14)	-	-	2,490	-	2,490	***	***
	<b>-</b>	<b>-</b>	<b>23,325</b>	<b>-</b>	<b>23,325</b>		
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>							
Overdrafts and loans (Note 20)**	-	-	-	(94,995)	(94,995)	-	(94,995)
Finance lease liabilities (Note 20)	-	-	-	(1,728)	(1,728)	-	(1,715)
Trade and other payables (Note 21)*	-	-	-	(4,364)	(4,364)	***	***
	<b>-</b>	<b>-</b>	<b>-</b>	<b>(101,087)</b>	<b>(101,087)</b>		

\* 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.

## 24.2 MEASUREMENT OF FAIR VALUES

	Valuation technique	Significant unobservable inputs
<b>FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE</b>		
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	-
<b>FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE</b>		
Bank loans and finance lease liabilities	Discounted cash flows: the valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate	Interest rates of borrowings

## 24.3 FINANCIAL RISK MANAGEMENT (In thousands of euros)

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

- credit risk
- liquidity risk
- market risk

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

### (a) Credit risk

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

### AS AT 31 DECEMBER 2018, THE MAXIMUM AMOUNT EXPOSED TO CREDIT RISK WAS AS FOLLOWS.

	31.12.2018	31.12.2017
Trade and other receivables (Note 13)	31,726	20,835
Overnight deposits (Note 14)	10,588	349
Bank accounts (Note 14)	15,070	2,135
Derivative financial instruments (Note 17)	989	920
Cash in transit (Note 14)	163	-
Contract assets (Note 6)	17	260
<b>TOTAL AMOUNT EXPOSED TO CREDIT RISK</b>	<b>58,553</b>	<b>24,499</b>

### TRADE AND OTHER RECEIVABLES

The Group's exposure to credit risk for accounts receivable is influenced mainly by the individual characteristics of each customer. For business customers the credit analysis is performed prior to the conclusion of the contract and regularly during the validity of the contract. For household customers the seller of gas who has the greatest market share within a network area is obliged to sell gas within the technical limits of the network to all the household customers who have a network connection within the network area and who wish to purchase gas.

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

## 24.3 FINANCIAL RISK MANAGEMENT, CONTINUED (In thousands of euros)

AS AT 31 DECEMBER 2018, THE MAXIMUM EXPOSURE TO CREDIT RISK BY THE TYPE OF RECEIVABLE WAS AS FOLLOWS.

	31.12.2018	31.12.2017
Trade receivables for gas and network service, incl.		
commercial consumers	24,810	15,629
household customers	3,530	2,899
Trade receivables for other goods and services	2,284	2,276
Other receivables	1,102	31
<b>TOTAL TRADE AND OTHER RECEIVABLES (Note 13)</b>	<b>31,726</b>	<b>20,835</b>

THE ALLOWANCE FOR DOUBTFUL RECEIVABLES BY THE TYPE OF RECEIVABLE AS AT 31 DECEMBER 2018 WAS AS FOLLOWS.

	31.12.2018	31.12.2017
Allowance for doubtful receivables for gas and network service, incl.		
commercial consumers	(113)	(97)
household customers	(145)	(155)
Allowance for doubtful receivables for other goods and services	(15)	(15)
<b>TOTAL ALLOWANCE FOR DOUBTFUL RECEIVABLES (Note 13)</b>	<b>(273)</b>	<b>(267)</b>

As at 31 December 2018, the Group's most significant customer accounted for EUR 7,361 thousand of trade and other receivables (31 December 2017: EUR 4,317 thousand).

AN ANALYSIS OF THE CREDIT QUALITY OF ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2018 WAS AS FOLLOWS.

	31.12.2018	31.12.2017
Receivables from new customers (client relationship shorter than 6 months)	1,648	301
Receivables from existing customers (client relationship longer than 6 months)	27,332	19,417
<b>TOTAL ACCOUNTS RECEIVABLE NOT YET DUE</b>	<b>28,980</b>	<b>19,718</b>

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

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

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance
Accounts receivable not yet due	0.05%	28,980	14
1-30 days past due	0.65%	1,276	8
31-90 days past due	5.70%	351	20
More than 180 days past due	79.65%	290	231
<b>TOTAL ACCOUNTS RECEIVABLE (Note 13)</b>		<b>30,897</b>	<b>273</b>

### COMPARATIVE INFORMATION UNDER IAS 39

As at 31 December 2018, the ageing of accounts receivable that were not impaired was as follows.

	31.12.2017
<b>ACCOUNTS RECEIVABLE NOT YET DUE</b>	<b>19,718</b>
<b>ACCOUNTS RECEIVABLE DUE BUT NOT CLASSIFIED AS DOUBTFUL</b>	
1-30 days past due	847
31-90 days past due	238
more than 180 days past due	1
<b>TOTAL ACCOUNTS RECEIVABLE DUE BUT NOT CLASSIFIED AS DOUBTFUL</b>	<b>1,086</b>
<b>TOTAL ACCOUNTS RECEIVABLE NOT CLASSIFIED AS DOUBTFUL</b>	<b>20,804</b>

## 24.3 FINANCIAL RISK MANAGEMENT, CONTINUED (In thousands of euros)

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

	2018	2017
<b>ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE BEGINNING OF THE PERIOD</b>	<b>(267)</b>	<b>(162)</b>
Classified as doubtful and collected during the accounting period	(42)	(134)
Classified as irrecoverable	36	29
<b>ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE END OF THE PERIOD (Note 13)</b>	<b>(273)</b>	<b>(267)</b>

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

### BANK ACCOUNTS AND SHORT-TERM DEPOSITS

	31.12.2018	31.12.2017
At banks with Moody's credit rating of Aa2	25,214	-
At banks with Moody's credit rating of Aa3	-	2,453
At banks with Moody's credit rating of Baa1	444	-
At banks without credit rating	-	31
<b>TOTAL BANK ACCOUNTS AND SHORT-TERM DEPOSITS IN BANKS (Note 14)</b>	<b>25,658</b>	<b>2,484</b>

### (b) Liquidity risk

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

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

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

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

	Carrying amount	Contractual cash flows				
		Total	3 months or less	4-6 months	7-12 months	1-5 years
<b>31 DECEMBER 2018</b>						
Bank loans (Note 20)	70,199	73,614	11,030	1,070	12,143	49,371
Subordinated shareholder loan (Note 20)	29,000	32,093	290	290	580	30,933
Shareholder overdraft (Note 20)	22,398	22,401	22,401	-	-	-
Finance lease liabilities (Note 20)	1,562	1,602	46	46	92	1,418
Trade and other payables (Note 21)	11,650	11,650	11,629	-	-	21
<b>TOTAL</b>	<b>134,809</b>	<b>141,360</b>	<b>45,396</b>	<b>1,406</b>	<b>12,815</b>	<b>81,743</b>
<b>31 DECEMBER 2017</b>						
Bank loans (Note 20)	42,000	44,503	5,394	684	1,365	37,060
Subordinated shareholder loan (Note 20)	29,000	33,254	102	102	203	32,847
Shareholder overdraft (Note 20)	20,999	21,998	884	21,072	-	42
Bank overdraft (Note 20)	2,996	3,025	7	7	3,011	-
Finance lease liabilities (Note 20)	1,728	1,785	46	46	92	1,601
Trade and other payables (Note 21)	9,534	9,534	8,568	944	7	15
<b>TOTAL</b>	<b>106,257</b>	<b>114,099</b>	<b>15,001</b>	<b>22,855</b>	<b>4,678</b>	<b>71,565</b>

## 24.3 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 fixed-price gas sales contracts and the take-or-pay provision in the natural gas purchase contract. The Group uses derivatives - swap contracts for buying and selling natural gas - to manage price risks. The swap contracts have been entered into for the purchase or sale of a fixed volume of natural gas at each hour and their price is denominated in euros. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. A hedging relationship meets the hedge effectiveness requirements if there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes and the hedge ratio is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item. The possible sources for ineffectiveness may be the differences in the quantities, underlying commodities and prices. The fair value changes of the other transactions are recognised in profit or loss. As at 31 December 2018, the Group had concluded swap contracts for buying natural gas for the years 2019 - 2021 in the volume of 794,857 MWh (31 December 2017: 444,876 MWh for years 2018 - 2020). The basis for determining the fair value of the transactions are the quotes at ICE Endex market (Note 17). Additional information about the take-or-pay provision in the natural gas purchase contract is disclosed in Note 27.

#### CURRENCY RISK

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

#### INTEREST RATE RISK

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

A sensitivity analysis is used to assess the interest rate risk. As at 31 December 2018, borrowings with a fixed interest rate accounted for 43% and borrowings with a floating interest rate 57% of the total amount of borrowings (31 December 2017: 53% of borrowings had a fixed interest rate and 47% of borrowings had a floating interest rate).

#### THE INTEREST RATE PROFILE OF THE GROUP'S INTEREST-BEARING FINANCIAL INSTRUMENTS IN NOMINAL AMOUNT IS AS FOLLOWS.

	31.12.2018	31.12.2017
<b>FIXED-RATE INSTRUMENTS</b>		
Financial liabilities	52,940	51,700
<b>VARIABLE-RATE INSTRUMENTS</b>		
Financial liabilities	70,293	45,023
<b>TOTAL (Note 20)</b>	<b>123,233</b>	<b>96,723</b>

#### 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 2018 and 31 December 2017 would have an immaterial effect on profit or loss, as a material change in Euribor rates is not anticipated.

## 25. LIST OF SUBSIDIARIES

THE GROUP HAD THE FOLLOWING SUBSIDIARIES AS AT 31 DECEMBER 2018.

Name of the subsidiary	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group	
			31.12.2018	31.12.2017
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%	100.0%
UAB EG Energija	Lithuania	Sale of natural gas and electricity	100.0%	-
OÜ Pärnu Päikesepark 1	Estonia	Production of electricity	80.0%	-
OÜ Pärnu Päikesepark 2	Estonia	Production of electricity	80.0%	-
OÜ Pärnu Päikesepark 3	Estonia	Production of electricity	80.0%	-
OÜ Pärnu Päikesepark 4	Estonia	Production of electricity	80.0%	-

UAB EG Energija and OÜ Pärnu Päikesepark 1-4 were established in 2018. As at 31 December 2018 the assets of OÜ Pärnu Päikesepark 1-4 totalled EUR 3,304 thousand and liabilities EUR 3,243 thousand. In the reporting period OÜ Pärnu Päikesepark 1-4 did not generate revenue.

## 26. OPERATING LEASES

### (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 2018, the property rentals of EUR 66 thousand (2017: EUR 84 thousand) were included in revenue (Note 6).

### (b) Leases as lessee

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

## LEASE EXPENSES RECOGNISED IN PROFIT OR LOSS (In thousands of euros)

	2018	2017
Machinery and equipment	519	181
Means of transport	168	124
Buildings	35	12
Other	28	71
<b>TOTAL</b>	<b>750</b>	<b>388</b>

## 27. COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments arising from construction contracts

As at 31 December 2018, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 333 thousand (31 December 2017: EUR 194 thousand).

### (b) Contingencies arising from natural gas purchase contract

The natural gas purchase contract concluded by the Group contains a take-or-pay provision according to which the Group has an obligation for purchasing an agreed amount of natural gas. This provision may cause a loss to the Group if the purchase price of such volume of natural gas is higher than the selling price of the same volume of natural gas. Based on management's estimates losses are not probable and no provision has been set up in the statement of financial position as at 31 December 2018 and 31 December 2017.

### (c) Commitments arising from the Natural Gas Act

According to the Natural Gas Act a network operator is responsible for the functioning and maintenance of the network which it owns or possesses and is required to develop the network in a manner which ensures that all consumer installations located within its network area are connected to the network. The fulfilment of these obligations requires making regular expenses and investments.



## 28. RELATED PARTIES

### (a) Parent and ultimate controlling party

As at 31 December 2018 and 31 December 2017 the parent of AS Eesti Gaas and the ultimate controlling party of the Group was AS Infotar.

### (b) Key management personnel compensation (In thousands of euros)

	2018	2017
Short-term employee benefits	1,039	904
Post-employment benefits (Note 23)	-	183
Social taxes	343	359
<b>TOTAL</b>	<b>1,382</b>	<b>1,446</b>

\* calculated compensations that have become collectible by the key management

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

The expenses related to setting up the provision for post-employment benefits for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board. The total amount of gross liabilities without the influence of cut-off as at 31 December 2018 was EUR 630 thousand (with social tax) (31 December 2017: EUR 585 thousand).

### (c) Other related party transactions (In thousands of euros)

	Transaction values		Balance outstanding	
	2018	2017	31.12.2018	31.12.2017
<b>SALE OF GOODS AND SERVICES</b>				
Transactions with owners	482	3	337	1
Transactions with entities under the control of owners	7,170	5,034	670	520
<b>PURCHASE OF GOODS AND SERVICES</b>				
Transactions with owners	27	-	1	-
Transactions with entities under the control of owners	11	145	1	1
<b>OTHER</b>				
Subordinated shareholder loan received (Note 20)	-	29,000	29,000	29,000
Change in overdraft from shareholder (Note 20 and 30)	1,399	(6,687)	22,398	20,999
Interest expense on borrowings from shareholder	1,425	1,249	3	811

## 29. FINANCIAL INFORMATION ON THE PARENT

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

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

	2018	2017
Revenue	132,658	106,409
Other operating income	250	1,390
Raw materials and consumables used	(118,066)	(91,899)
Payroll expenses	(3,547)	(3,439)
Depreciation and amortisation	(4,764)	(4,475)
Other operating expenses	(2,872)	(2,473)
<b>Operating profit</b>	<b>3,659</b>	<b>5,513</b>
Finance income	56	1
Finance costs	(2,290)	(2,106)
<b>NET FINANCIAL EXPENSE</b>	<b>(2,234)</b>	<b>(2,105)</b>
<b>Profit before tax</b>	<b>1,425</b>	<b>3,408</b>
<b>Profit for the year</b>	<b>1,425</b>	<b>3,408</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges – effective portion of changes in fair value	(68)	279
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(68)</b>	<b>279</b>
<b>Total comprehensive income for the year</b>	<b>1,357</b>	<b>3,687</b>

## 29. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

### STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2018	31.12.2017
<b>Assets</b>		
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	74,271	72,637
Intangible assets	2,251	2,056
Investment property	1,459	1,317
Derivative financial instruments	394	93
Investments in subsidiaries	3,383	2,567
<b>TOTAL NON-CURRENT ASSETS</b>	<b>81,758</b>	<b>78,670</b>
<b>CURRENT ASSETS</b>		
Inventories	10,399	6,752
Derivative financial instruments	595	827
Trade and other receivables	32,555	21,256
Prepayments for natural gas	12,080	14,544
Other prepayments	125	115
Cash and cash equivalents	11,178	389
	<b>66,932</b>	<b>43,883</b>
Assets held for sale	981	111
<b>TOTAL CURRENT ASSETS</b>	<b>67,913</b>	<b>43,994</b>
<b>Total assets</b>	<b>149,671</b>	<b>122,664</b>

	31.12.2018	31.12.2017
<b>Equity</b>		
Share capital	9,919	9,919
Statutory capital reserve	992	992
Hedging reserve	212	279
Retained earnings	(7,077)	(8,503)
<b>Total equity</b>	<b>4,046</b>	<b>2,687</b>
<b>Liabilities</b>		
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	74,997	65,808
Derivative financial instruments	618	-
Provisions	620	536
Deferred income	11,870	11,092
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>88,105</b>	<b>77,436</b>
<b>CURRENT LIABILITIES</b>		
Borrowings	45,694	31,595
Trade and other payables	11,624	10,745
Prepayments	171	170
Provisions	31	31
<b>TOTAL CURRENT LIABILITIES</b>	<b>57,520</b>	<b>42,541</b>
<b>Total liabilities</b>	<b>145,625</b>	<b>119,977</b>
<b>Total liabilities and equity</b>	<b>149,671</b>	<b>122,664</b>

## 29. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

### CASH FLOW STATEMENT (In thousands of euros)

	2018	2017
<b>Cash flows from operating activities</b>		
<b>PROFIT FOR THE YEAR</b>	<b>1,425</b>	<b>3,408</b>
<b>ADJUSTMENTS</b>		
Depreciation of property, plant and equipment and investment property	4,065	3,816
Amortisation of intangible assets	699	659
Income from connection fees	(721)	(741)
Recognition and adjustment of provisions	110	108
Gain on sale of non-current assets	(154)	(63)
Loss from write-off of non-current assets	46	4
Unsettled gain/loss on derivative financial instruments	481	(282)
Interest expense	2,291	2,106
Interest income	(56)	(1)
<b>ADJUSTED PROFIT FOR THE YEAR</b>	<b>8,186</b>	<b>9,014</b>
<b>NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES</b>		
Change in trade receivables	(8,407)	(1,319)
Change in inventories	(3,647)	(3,635)
Change in prepayments for natural gas	2,464	(14,544)
Net change in current assets relating to other operating activities	(1,488)	(290)
<b>TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES</b>	<b>(11,078)</b>	<b>(19,788)</b>
<b>NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES</b>		
Use of provisions	(31)	(182)
Change in trade payables	(301)	(10,158)
Net change in liabilities related to other operating activities	2,027	320
<b>TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES</b>	<b>1,695</b>	<b>(10,020)</b>
Interest received	37	1
<b>Net cash flows from operating activities</b>	<b>(1,160)</b>	<b>(20,793)</b>

	2018	2017
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and intangible assets	(7,694)	(6,826)
Proceeds from connection fees	1,023	899
Proceeds from sale of non-current assets	213	166
Loans granted to subsidiary	(2,730)	(50)
Repayments of loans granted to subsidiary	1,980	-
Change in overdraft to subsidiaries	(901)	-
Contribution to the share capital of subsidiary	(83)	(3)
<b>Net cash used in investing activities</b>	<b>(8,192)</b>	<b>(5,814)</b>
<b>Cash flows from financing activities</b>		
Shareholder loan received	-	29,000
Change in overdraft from shareholder	1,399	(6,687)
Bank loans received	68,000	4,000
Repayments of bank loans	(42,167)	(3,500)
Change in overdraft from bank	(2,996)	1,835
Change in overdraft from subsidiaries	(749)	749
Repayment of finance lease liabilities	(151)	(512)
Interest and loan fees paid	(3,195)	(1,620)
<b>Total cash generated from financing activities</b>	<b>20,141</b>	<b>23,265</b>
<b>Net cash flows</b>	<b>10,789</b>	<b>(3,342)</b>
Cash and cash equivalents at the beginning of the period	389	3,731
Cash and cash equivalents at the end of the period	11,178	389
<b>Net increase/decrease in cash and cash equivalents</b>	<b>10,789</b>	<b>(3,342)</b>

## 29. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

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

Parent	Share capital	Share premium	Statutory capital reserve	Hedging reserve	Retained earnings	Total
<b>Equity as at 31 December 2016</b>	<b>9,919</b>	<b>4,857</b>	<b>992</b>	<b>-</b>	<b>51,313</b>	<b>67,081</b>
Carrying amount of holdings under control					(2,564)	(2,564)
Value of holdings under control using the equity method					3,111	3,111
<b>ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2016</b>					<b>51,860</b>	<b>60,201</b>
Profit for the year	-	-	-	-	3,408	3,408
Other comprehensive income	-	-	-	279	-	279
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>279</b>	<b>3,408</b>	<b>3,687</b>
<b>TRANSACTIONS WITH OWNERS</b>						
Merger with sole shareholder (Note 30)	-	(4,857)	-	-	(63,224)	(68,081)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<b>-</b>	<b>(4,857)</b>	<b>-</b>	<b>-</b>	<b>(63,224)</b>	<b>(68,081)</b>
<b>Equity as at 31 December 2017</b>	<b>9,919</b>	<b>-</b>	<b>992</b>	<b>279</b>	<b>(8,503)</b>	<b>2,687</b>
Carrying amount of holdings under control					(2,567)	(2,567)
Value of holdings under control using the equity method					4,095	4,095
Effect of the merger with sole shareholder (Note 30)					8,235	8,235
<b>ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2017 (Note 18)</b>					<b>1,260</b>	<b>12,450</b>
Profit for the year	-	-	-	-	1,425	1,425
Other comprehensive income	-	-	-	(68)	-	(68)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(68)</b>	<b>1,425</b>	<b>1,357</b>
<b>Equity as at 31 December 2018</b>	<b>9,919</b>	<b>-</b>	<b>992</b>	<b>211</b>	<b>(7,078)</b>	<b>4,044</b>
Carrying amount of holdings under control					(3,383)	(3,383)
Value of holdings under control using the equity method					6,204	6,204
Effect of the merger with sole shareholder (Note 30)					7,859	7,859
<b>ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2018 (Note 18)</b>					<b>3,602</b>	<b>14,724</b>

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

### 30. MERGER WITH SOLE SHAREHOLDER (In thousands of euros)

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

#### 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 December 2016	Effect of the merger	After the merger as at 1 January 2017
<b>ASSETS</b>			
Property, plant and equipment	72,075	2,562	74,637
Intangible assets	1,841	6,064	7,905
<b>TOTAL ASSETS</b>	<b>73,916</b>	<b>8,626</b>	<b>82,542</b>
<b>LIABILITIES AND EQUITY</b>			
Borrowings	3,832	67,686	71,518
incl. syndicated loan	-	40,000	40,000
incl. shareholder overdraft (Note 20)	-	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)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>79,510</b>	<b>8,626</b>	<b>88,136</b>

As a result of the merger the difference between the fair value and carrying amount of the gas distribution network assets and intangible asset (customer contracts) recognised in the consolidated statement of financial position of Trilini Energy OÜ during the acquisition of controlling interest in AS Eesti Gaas, were recognised in the consolidated statement of financial position of Eesti Gaas Group. The estimated useful life of the price difference of the gas distribution network assets value is 30 years, the value of customer contracts is amortised using the declining balance method at the rate of 5% per year. As at 31 December 2018, the carrying amount of the price difference of the gas distribution network assets and customer contracts was EUR 7,859 thousand (31 December 2017: EUR 8,235 thousand) (Note 29).

### 31. SIGNIFICANT ACCOUNTING POLICIES

#### 31.1 BASIS OF CONSOLIDATION

##### (a) Subsidiaries

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

##### (b) Transactions eliminated on consolidation

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

##### (c) Loss of control over subsidiary

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

#### 31.2 FOREIGN CURRENCY

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

#### 31.3 REVENUE RECOGNITION

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

## 31.3 REVENUE RECOGNITION, CONTINUED

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

#### POLICY FROM 1 JANUARY 2018

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

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 has to set off the difference in prices with the customer within three months.

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

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

#### POLICY BEFORE 1 JANUARY 2018

Before 1 January 2018 the same policy was applied.

### (b) Recognition of connection fees

When connecting to the natural gas network, customers must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. When recognising the connection fees, the performance obligation that involves the activities that are necessary for the preparation of connection, are regarded to be satisfied within the period in which the gas network services are provided through the connection point with the property, plant and equipment acquired for the connection fees. This period is considered to be equal to the estimated average useful life of the property, plant and equipment acquired for the connection fees, as the following reconstructions of the property, plant

and equipment will be financed through the gas network service fees. The estimated average useful life of the property, plant and equipment acquired for the connection fees is calculated by dividing the average cost of the property, plant and equipment with annual depreciation. Deferred connection fees are carried in the statement of financial position as long-term contract liabilities.

#### POLICY BEFORE 1 JANUARY 2018

Before 1 January 2018 the same policy was applied.

### (c) Construction contracts

#### POLICY FROM 1 JANUARY 2018

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

#### POLICY BEFORE 1 JANUARY 2018

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

### (d) Revenue recognition on the sale of goods

#### POLICY FROM 1 JANUARY 2018

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

#### POLICY BEFORE 1 JANUARY 2018

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

## 31.4 EMPLOYEE BENEFITS

### (a) Short-term employee benefits

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

### (b) Termination benefits

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

### (c) Other employee benefits

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

## 31.5 FINANCE INCOME AND FINANCE COSTS

The Group's finance income and finance costs include:

- interest income;
- interest expense.

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

## 31.6 INCOME TAX

### (a) Income tax in Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, entertainment expenses,

non-business related disbursements and adjustments of the transfer price. The income tax rate is 20%, calculated as 20/80 of the net distribution (except for regular dividend distributions that are a subject to a reduced income tax rate). In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which the dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The income tax liability is due on the 10th day of the month following the payment of dividends.

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

### (b) Income tax in foreign countries

Deferred income tax is recognised in foreign subsidiaries on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets and liabilities are recognised under the liability method. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. As at 31 December 2018 and 31 December 2017, the Group had neither any deferred income tax assets nor deferred income tax liabilities.

## 31.7 INVENTORIES

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



## 31.8 PROPERTY, PLANT AND EQUIPMENT

### (a) Recognition and measurement

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

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

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

### (b) Subsequent expenditure

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

### (c) Depreciation

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

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

buildings	33 years
gas pipelines	50 years
other buildings and constructions	10-50 years
computers and office equipment	3 years
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 necessary.

## 31.9 INTANGIBLE ASSETS

### (a) Recognition and measurement

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

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

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

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

### (b) Subsequent expenditure

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

### (c) Amortisation

The value of customer contracts is amortised using the declining balance method at the rate of 5% per year. Amortisation of other intangible assets is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives. The amortisation expense is recognised in profit or loss.

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

## 31.10 INVESTMENT PROPERTY

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

## 31.11 ASSETS HELD FOR SALE

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

## 31.12 FINANCIAL INSTRUMENTS

### (a) Classification and subsequent measurement of financial assets

#### POLICY FROM 1 JANUARY 2018

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

As at 31 December 2018 the Group classified all its non-derivative financial assets as measured at amortised cost. The accounting policy for derivatives, designated as hedging instruments, is disclosed in subsection (d).

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

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

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

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

#### POLICY BEFORE 1 JANUARY 2018

The Group classified its non-derivative financial assets into the category of loans and receivables. The Group initially recognised loans and receivables on the date when they were originated and they were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables were measured at amortised cost using the effective interest method.

### (b) Classification and subsequent measurement of financial liabilities

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

As at 31 December 2018 the Group classified all its non-derivative financial liabilities as measured at amortised cost. The accounting policy for derivatives, designated as hedging instruments, is disclosed in subsection (d).

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

### (c) Derecognition and offsetting

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

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

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

## 31.12 FINANCIAL INSTRUMENTS, CONTINUED

### (d) Derivative financial instruments

#### POLICY FROM 1 JANUARY 2018

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

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

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

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

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

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

#### POLICY BEFORE 1 JANUARY 2018

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. The requirements to achieve, continue and discontinue hedge accounting, were different before 1 January 2018.

## 31.13 CASH AND CASH EQUIVALENTS

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

## 31.14 SHARE CAPITAL

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

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

## 31.15 IMPAIRMENT

### (a) Non-derivative financial assets

#### POLICY FROM 1 JANUARY 2018

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

ECLs are a probability-weighted estimate of credit losses. Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

#### POLICY BEFORE 1 JANUARY 2018

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

Objective evidence that financial assets were impaired included:

- 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 was a measurable decrease in the expected cash flows from a group of financial assets.

#### Financial assets measured at amortised cost

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

An impairment loss was 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 were recognised in profit or loss and recognised in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of an impairment loss subsequently decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss. Accounts receivable were usually written down in full, if the customer had 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 had not been concluded in writing, or if an action had been filed against the customer, or the customer had been declared bankrupt or liquidated. When a receivable was classified as uncollectible, it was written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off were credited in the income statement against other operating expenses.

## 31.15 IMPAIRMENT, CONTINUED

### (b) Non-financial assets

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

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

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

## 31.16 PROVISIONS

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

## WARRANTIES

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

## EMPLOYEE RELATED PROVISIONS

If the Group has the obligation to pay post-employment benefits to their former employees, a provision is set up to cover these costs. The provision is based on the terms of the obligation and the estimated number of people eligible for the compensation. The expenses related to setting up the provision for post-employment benefits for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board.

## 31.17 LEASES

### (a) Leased assets

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

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

### (b) Lease payments

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

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

### 31.18 OPERATING PROFIT

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

### 31.19 FAIR VALUE MEASUREMENT

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

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

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

### 31.20 CONTINGENCIES

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

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

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2018 and have not been applied in preparing these financial statements:

### IFRS 16 LEASES

The 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 applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach. The cumulative effect on adopting IFRS 16 was recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. As at 1 January 2019 the Group recognised additional right-of-use assets and lease liabilities in the amount of EUR 1.2 million.

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.

## 33. SUBSEQUENT EVENTS

On 2 October 2018 the parent AS Eesti Gaas concluded a demerger agreement with the subsidiary AS Gaasivõrgud, according to which AS Eesti Gaas transferred as at 1 January 2019 to AS Gaasivõrgud fixed assets related to the gas distribution network, contract liabilities related to connection fees and part of the borrowings. The demerger did not have an effect on the Group's consolidated financial statements.



# Signatures of the management board to the annual report for the financial year 2018

The annual report of Eesti Gaas Group for the financial year ended on 31 December 2018 consists of the management report, the consolidated financial statements, the independent auditors' report and the profit allocation proposal. The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

**CHAIRMAN OF THE  
MANAGEMENT BOARD**

**ANTS NOOT**



**MEMBER OF THE  
MANAGEMENT BOARD**

**MARGUS KAASIK**



**MEMBER OF THE  
MANAGEMENT BOARD**

**RAUL KOTOV**



**MEMBER OF THE  
MANAGEMENT BOARD**

**KALEV REILJAN**





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# 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 2018, 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 15-60 present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

Tallinn, 18 April 2019

**Andris Jegers**

Certified Public Accountant, Licence No. 171

**KPMG Baltics OÜ**

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# Profit Allocation Proposal

The retained earnings of Eesti Gaas Group as at 31 December 2018 were 3,601,301.44 euros, of which the net profit for the year 2018 amounted to 2,342,075.49 euros.

The Management Board proposes under section 332 of the Commercial Code of Estonia to transfer the net profit of Eesti Gaas Group for the year 2018 to retained earnings.

## REVENUE OF THE PARENT BY ACTIVITIES

1 JANUARY 2018 - 31 DECEMBER 2018 (In thousands of euros)

Activity	Sales revenue
Trade of gas through mains (35231)	108,684
Renting and operational leasing of other machinery, equipment and tangible assets not classified elsewhere (77399)	5,618
Wholesale of automotive fuel (46712)	8,068
Retail sale of automotive fuel incl. activities of fuelling stations (47301)	3,762
Trade of electricity (35141)	3,787
Rental and operating of own or leased real estate (68201)	378
Other goods and services	2,361
<b>TOTAL</b>	<b>132,658</b>