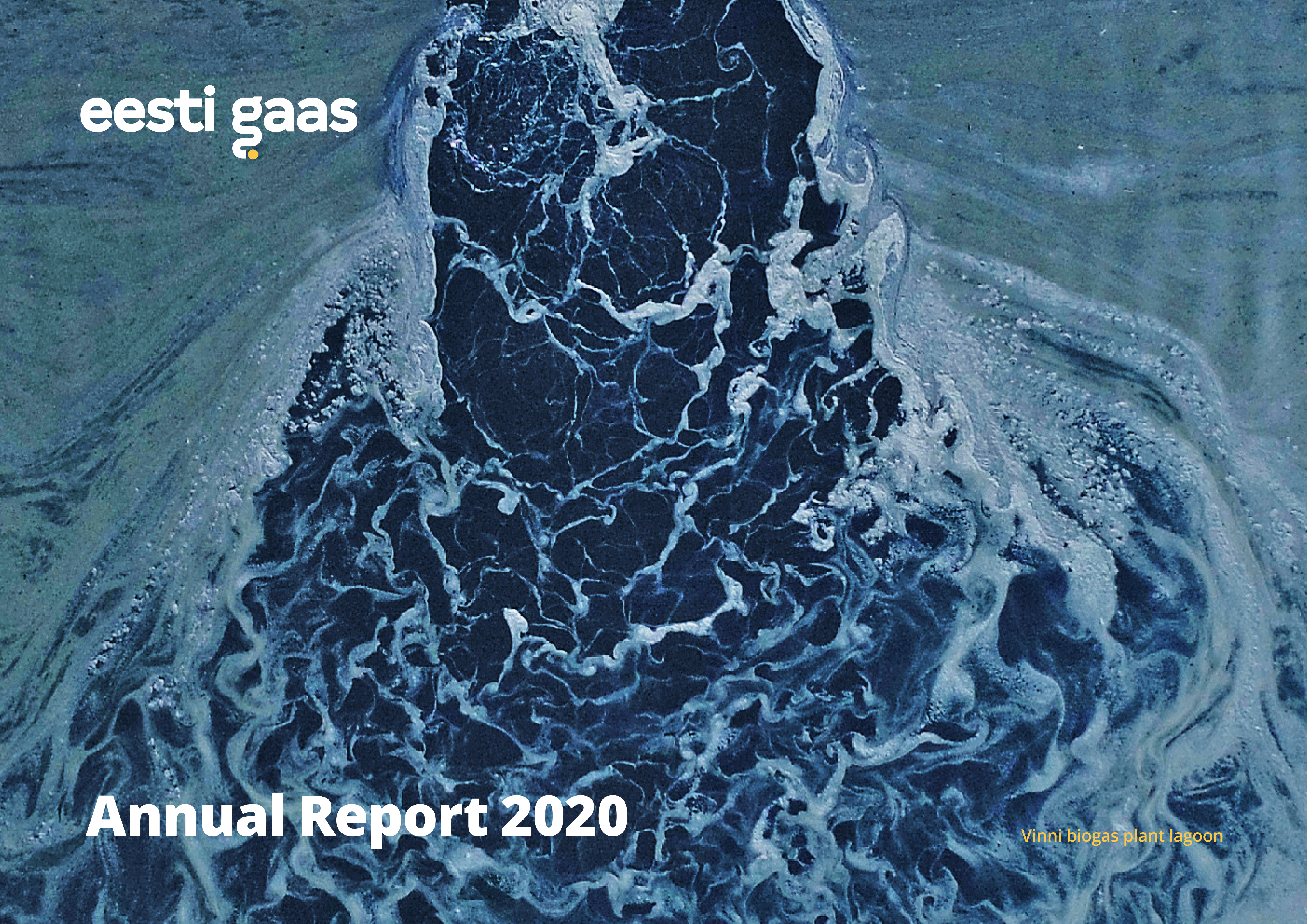
eesti gaas

Annual Report 2020



Vinni biogas plant lagoon

Annual Report 2020

Business name: AS Eesti Gaas

Commercial registry code: 10178905

Address: Sadama 7, Tallinn 10111

Phone: +372 6 303 003

Email: info@gaas.ee

Principal activity: Sale of natural gas

The beginning of the financial year: 1 January 2020

The end of the financial year: 31 December 2020

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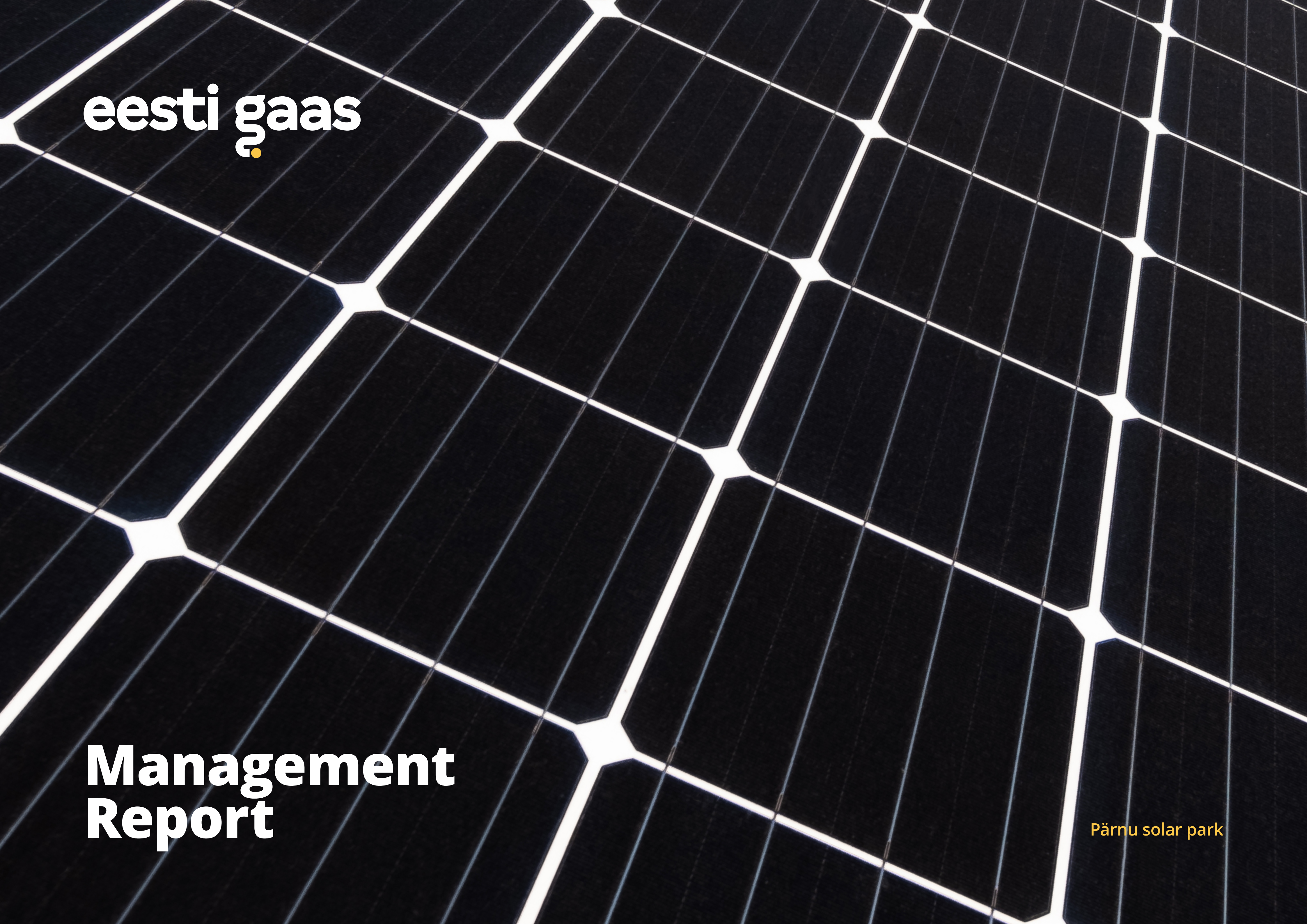


eesti gaas

Management Report

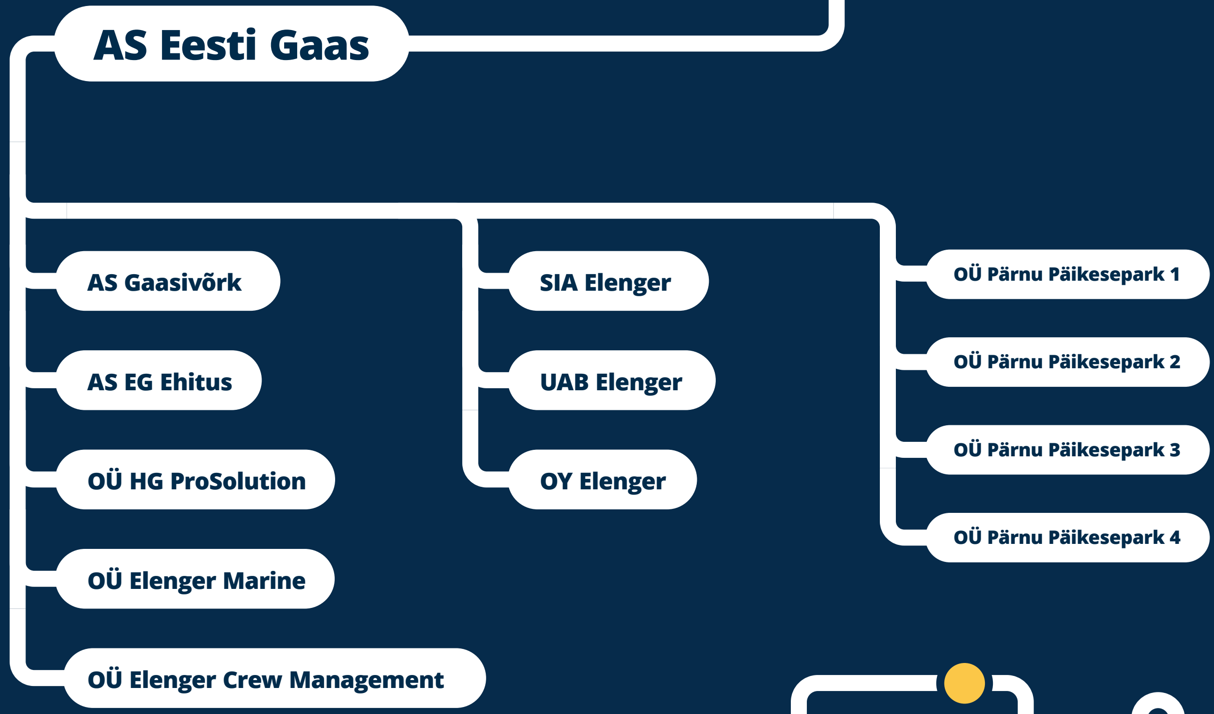
Pärnu solar park

About the company

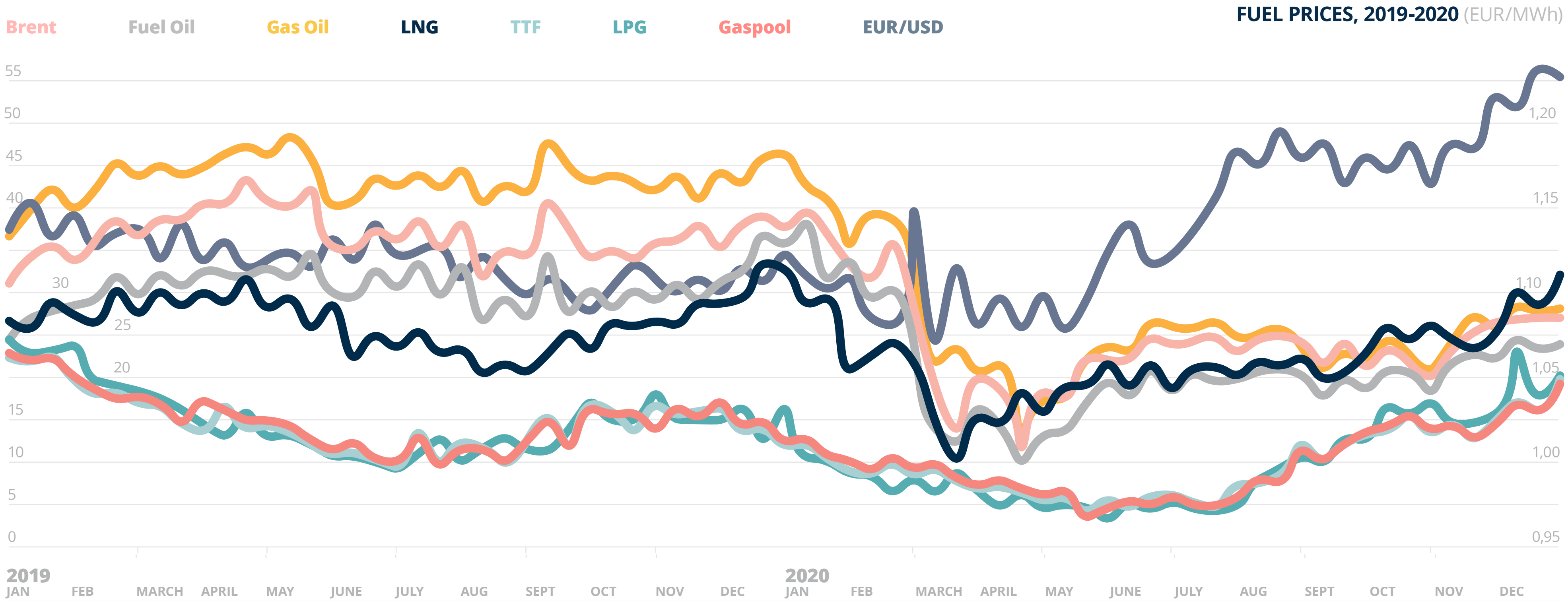
AS Eesti Gaas is one of the largest energy companies in Estonia, with roots in 1865. Our core product and main area of competence is natural gas, which we sell in the form of different products: gas delivered via pipeline, compressed natural gas (CNG) and locally produced compressed biomethane (CBM) offered at filling stations, and liquefied natural gas (LNG) delivered with semitrailers or transferred to the customer directly at the terminal. Through 1500 km of 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 regular LNG bunkering service. Our electricity sales continue to grow. We actively develop our renewable energy portfolio by producing and selling solar power and biomethane.

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

STRUCTURE OF AS EESTI GAAS GROUP



Market situation



Natural gas market

In the first half of 2020 gas prices decrease in Europe continued. Main factors, which put pressure on prices, were warm winter in 2019/2020 and large gas storage reserves in Europe. Additionally, Covid-19 had negative impact on demand. The second half of the year trend changed, and gas prices started to recover. Main drivers for gas price increase were oil and LNG price increase and gas consumption growth in Asia.

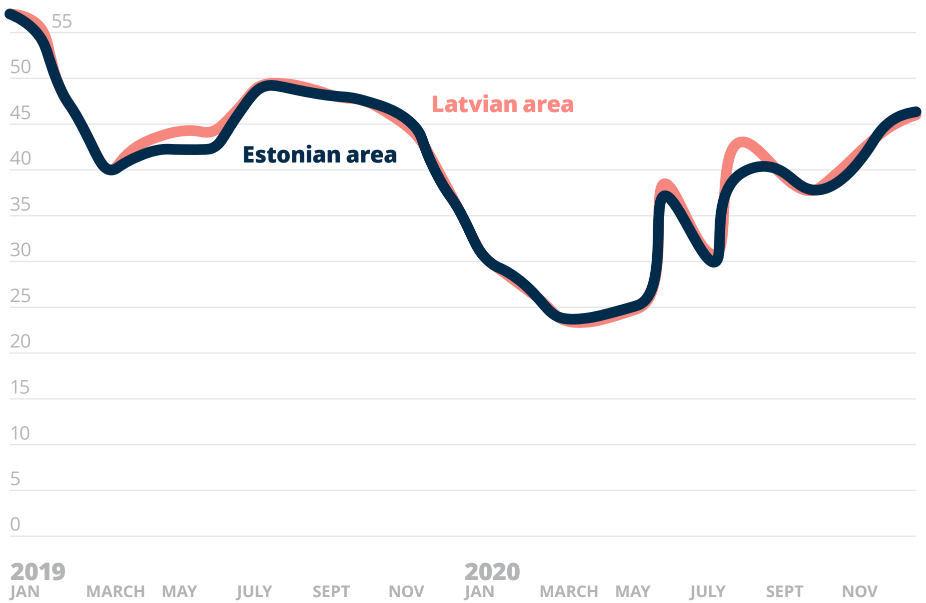
LNG market prices were extremely volatile during 2020 because of constantly changing demand. On one hand the demand was very low in the summer influenced by Covid-19 and related restrictions but on other hand the demand increased rapidly in the last months of 2020 due to cold weather. Unexpected increase in the demand of LNG with different restrictions caused price increase, especially in the last quarter.

Market situation

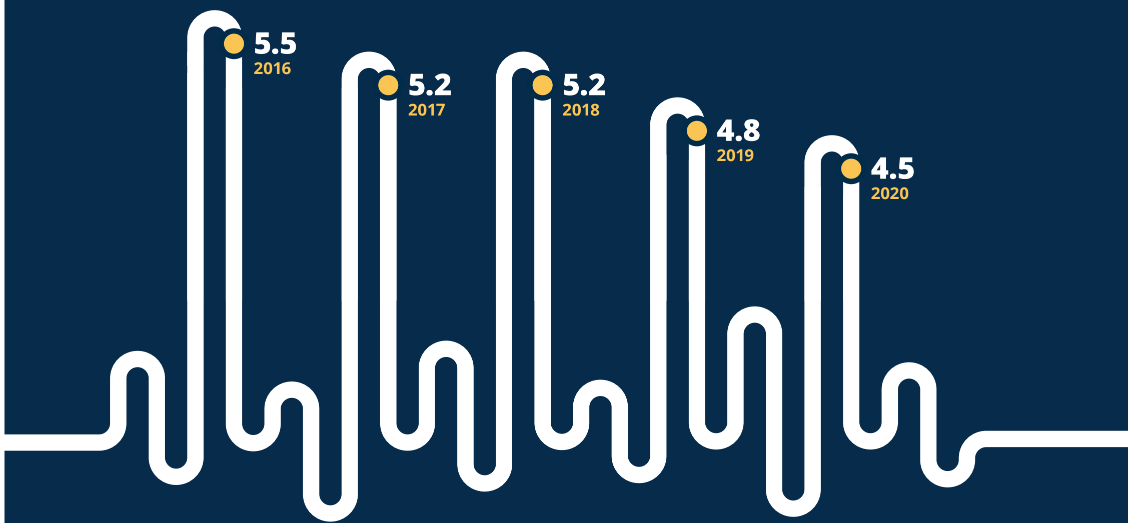
Electricity market

Electricity prices mostly followed a downward trend in the first half of 2020. From June 2020, the prices bucked the trend and moved upward, largely due to the recovery in demand and the price growth of energy resources. Electricity prices in the Baltic area are quite high compared to the Nord Pool system price, which is attributable to the relatively high CO_2 intensity of local electricity production, which in turn causes heavy dependence on electricity imports.

DAY-AHEAD ELECTRICITY PRICES IN THE ESTONIAN AND LATVIAN AREAS OF NORD POOL SPOT, 2019-2020 (EUR/MWh)



Natural gas consumption in Estonia



NATURAL GAS CONSUMPTION, 2016–2020 (TWh)

Since 2020 Estonian and Latvian natural gas markets are operating in the Common Balancing Zone. According to the Estonian transmission system operator in the past five years, the natural gas consumption trend has stabilised to the level of 4.5 TWh – 5.5 TWh per annum.

Main industries consuming natural gas in Estonia are energy and manufacturing sectors, that consume more than half of total consumption. According to the National Weather Service, in Estonia the year 2020 was, on average, warmer than usual.

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Sales

Natural gas

Consolidated revenue from the sales of natural gas increased by 42% year on year to 128.4 million euros (including revenue from derivative financial instruments). The sales of natural gas increased due to new sales started in Finland. Also, Eesti Gaas continued sales of natural gas in Latvia and preparations for starting new sales in Lithuania. The sales of natural gas in Estonia decreased due to more aggressive competition and warmer weather.

Distribution service

Distribution service revenue for 2020 amounted to 23.3 million euros, in total 12% more than in 2019. For years, we have maintained the costs of the distribution service at the same level and growth in the network charge is solely attributable to the rise in Elering transmission charge. Total natural gas consumption was influenced by weather, as the year 2020 was, on average, warmer than usual.

During the year, we signed 206 connection agreements and 59 connection change agreements, in total 9% less than in 2019. The agreements increased customers' estimated annual gas consumption capacity by 16.7 million m^3 (2019: by 7.6 million m^3).

In 2020, 236 new points of consumption were commissioned with a total contractual consumption capacity of 16.8 million m^3 per year. The corresponding figures for 2019 were 352 new points of consumption and 13.6 million m^3 of additional consumption capacity per year.

Compressed natural gas

Revenue from the sales of compressed natural gas (CNG) amounted to 3.8 million euros, remaining stable year over the year. We did not build any new CNG filling stations in 2020. At the year-end, Eesti Gaas had 11 CNG filling stations: four in Tallinn, two in Pärnu, and one in Tartu, Narva, Jõhvi, Rakvere and Viljandi. At the beginning of 2019, a new biomethane certificate trading system was launched in Estonia. This enables us to earn additional revenue from the CNG business and make additional investments in the implementation of environmentally friendly biomethane in transport. Biomethane accounted for 38.5% of the total CNG sales.

Electricity

Electricity sales revenue for the year amounted to 5.5 million euros, a 7.7% decrease compared to the year before. Eesti Gaas sells electricity in Estonia and Latvia, and during the year, the number of household and corporate customers grew and at the end of 2020 Eesti Gaas supplied electricity to around 10,000 household points of consumption and over 1,000 corporate points of consumption.

Sales

Liquefied natural gas

Liquefied natural gas (LNG) sales revenue for 2020 was 5.4 million euros, 36% down compared to 2019. AS Eesti Gaas provides regular LNG bunkering service in Estonian and Finnish ports. In 2020 Eesti Gaas began offering LNG to industrial companies operating outside the gas distribution network. Liquefied natural gas is transported by road in cryogenic tanks and re-gasified at the destination. The first LNG station was constructed for a food industry in Latvia.

Energy production

Eesti Gaas revenue from energy production amounted to 0.9 million euros. Four solar power plants with a total capacity of 4 MW are producing solar energy in Pärnu, additionally one CHP plant in Tallinn. Also, several up to 50kW solar power solutions were built on our customers' property.

Construction

In 2020, the revenue generated by AS EG Ehitus, a subsidiary of AS Eesti Gaas, was 19.7 million euros, 30% smaller than the year before. Revenue decrease was related to the closing of one large project - Kiili-Paldiski section of the onshore part of Balticconnector, a gas pipeline between Estonia and Finland and focusing into new areas related to European Green Deal.

Consolidated revenue from the sales of construction service amounted to 10.6 million euros, 2 times down on 2019. Other major projects included the construction of Vinni and Ilmatsalu biogas CHP plants and district heating pipelines on Peterburi street in Tallinn.

Profitability

AS Eesti Gaas ended 2020 with a consolidated net profit of 17.7 million euros. The corresponding figure for 2019 was 11.1 million euros. The Group's net profit increased by 6.6 million euros.

EBITDA for 2020 amounted to 27.5 million euros, 34% more than in 2019.

Excluding the impacts of one-off items, EBITDA increased by 50.8% year on year.

AS Eesti Gaas is not planning to distribute dividends in 2021 in connection with capital investments in business expansion.

CAPITAL INVESTMENTS (In Thousands Of Euros)

	2020	2019	Change
Revenue	182,356	156,515	16.5%
Net profit	17,701	11,053	60.1%
EBITDA	27,503	20,530	34.0%
Exceptional items:			
Gain on sale of property, plant and equipment	33	2,310	
Comparable EBITDA	27,470	18,220	50.8%

Capital investments

Eesti Gaas invested 6.5 million euros in property, plant and equipment and intangible assets in 2020, 17% less than in 2019.

We invested 3.9 million euros in the gas distribution network. The most important project was the installation of smart gas meters. We did not build any new CNG filling stations in 2020 but investments in the maintenance of existing ones amounted to 0.2 million euros. Investments in the production of solar power amounted to 0.6 million euros and expenditures on IT developments, mostly systems for the retail sales of energy amounted to 0.9 million euros.

Financing

AS Eesti Gaas and AS Gaasivõrk prolonged allocated long-term loan with AS Infortar until September 30th, 2024.

In 2020, we repaid working capital loans in the amount of 50 million euros and borrowed new working capital loans in the amount of 70 million euros. The overdraft liability to the owner decreased during the year by 24.8 million euros.

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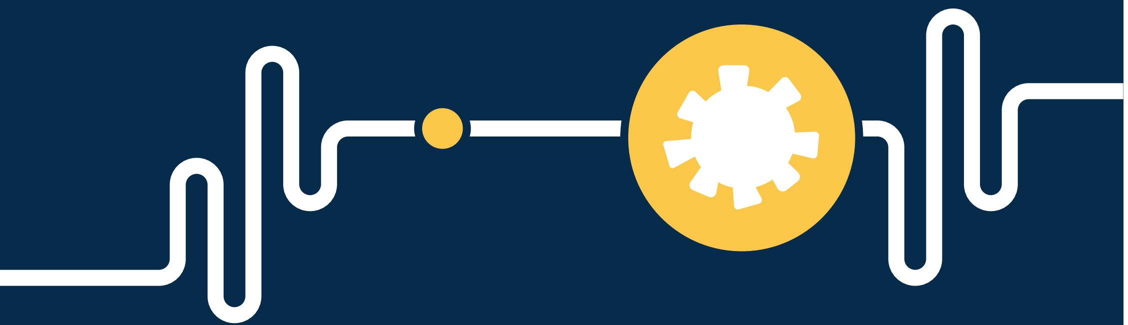
Covid-19 impact

Corona virus started to spread worldwide in the beginning of 2020 and in March WHO declared Coronavirus disease a pandemic situation. Restrictions were announced in Estonia and in other countries where we operate. During the year Covid-19 has continuously affected our and our customers' activities. After pandemic situation emerged Eesti Gaas changed the way of working and majority of the employees are cautiously working from home-offices. For those who continued working in the offices, strict precautions were applied to reduce internal and external contacts. Regular customer service continued via remote channels and self-service portal. As the physical service centres had been closed already some years ago, the direct impact of Covid-19 to customer service was minimal. Contacts with large customers were moved to remote channels as well and all customer events were cancelled.

The direct impact of the coronavirus disease pandemic to Eesti Gaas group financials results was modest. We managed the situation by reorganizing internal way of working and reviewing internal processes and activities related to credit risk assessment and managing debtors' portfolio. Also, expansion into new markets helped to mitigate the effect of Covid-19.



Financial ratios

THE GROUP'S KEY FINANCIAL RATIOS:

	2020	2019	2018
Net margin	9.7%	7.1%	1.4%
Current ratio	1.34	1.39	1.23
ROA	9.0%	5.7%	1.4%
ROE	56.0%	35.2%	15%
Equity ratio	22.2%	19.6%	13.1%
Net debt / EBITDA	4.0	6.3	9.7
EBITDA margin	15.1%	13.1%	6.2%

THE PARENT'S KEY FINANCIAL RATIOS:

	2020	2019	2018
Net margin	12.8%	9.5%	1.1%
Current ratio	1.39	1.42	1.18
ROA	16.6%	9.6%	1.0%
ROE	87.9%	52.4%	35.2%
Equity ratio	25.4%	21.0%	3.6%
Net debt / EBITDA	2.8	5.6	13.0
EBITDA margin	15.1%	12.3%	6.3%

UNDERLYING FORMULAS:

Net margin = net profit / revenue

Current ratio (times) = current assets / current liabilities

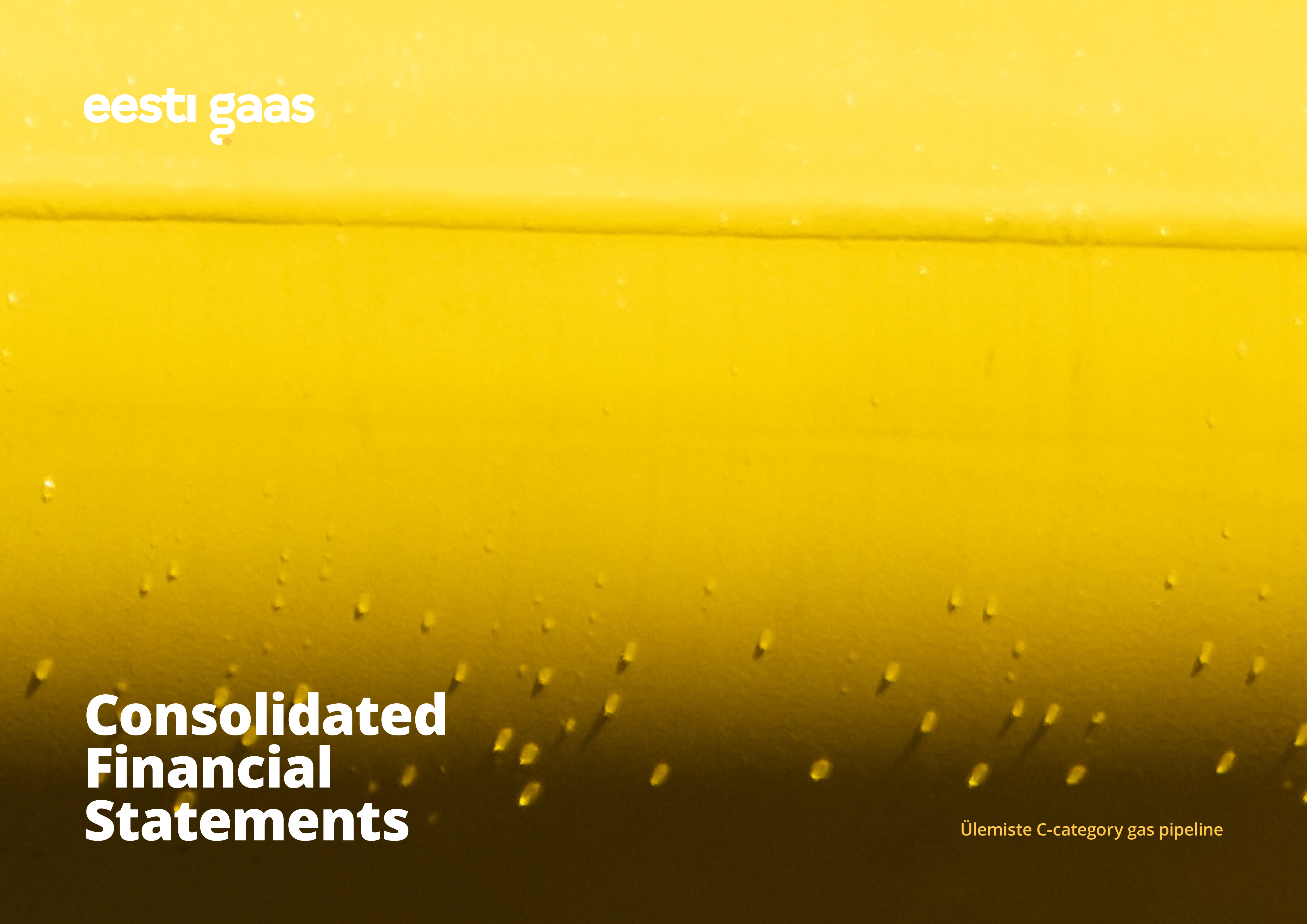
ROA (return on assets) = net profit or loss / total assets

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

Equity ratio = equity / (net debt + equity)

Net debt = borrowings – cash and cash equivalents

EBITDA margin = EBITDA / revenue



Consolidated Financial Statements

Ülemiste C-category gas pipeline

Consolidated Financial Statements

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

	2020	2019	Note
Revenue	182,356	156,515	6
Other operating income	711	4,033	7
Change in inventories of finished goods and work-in-progress	5	-	
Work performed by the Group and capitalised	4,549	1,796	
Raw materials and consumables used	(144,518)	(126,917)	8
Payroll expenses	(12,145)	(11,078)	9
Depreciation and amortisation	(7,286)	(6,902)	15, 16, 26
Impairment loss on receivables	(68)	(117)	24
Other operating expenses	(3,387)	(3,702)	10
OPERATING PROFIT	**20,217**	**13,628**	
Finance income	182	113	11
Finance costs	(2,696)	(2,687)	11
NET FINANCIAL EXPENSE	**(2,514)**	**(2,574)**	**11**
PROFIT BEFORE TAX	**17,703**	**11,054**	
Corporate income tax expense	(2)	(1)	
PROFIT FOR THE YEAR	**17,701**	**11,053**	
Profit attributable to:			
Owners of the Company	17,686	11,072	
Non-controlling interests	15	(19)	
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges – effective portion of changes in fair value	(17,471)	5,854	18
OTHER COMPREHENSIVE INCOME	**(17,471)**	**5,854**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**230**	**16,907**	
Profit attributable to:			
Owners of the Company	215	16,926	
Non-controlling interests	15	(19)	

The notes on pages 16-43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2020	31.12.2019	Note
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	82,270	81,637	15
Intangible assets	6,204	7,053	16
Right-of-use assets	5,219	5,667	26
Derivative financial assets	-	253	17, 24
Trade and other receivables	57	79	6, 13, 24
TOTAL NON-CURRENT ASSETS	**93,750**	**94,689**	
CURRENT ASSETS			
Inventories	40,752	39,435	12
Contract assets	312	695	6
Derivative financial assets	652	8,633	17, 24
Trade and other receivables	37,749	32,955	6, 13, 24
Prepayments for natural gas	9,901	12,724	
Other prepayments	1,154	1,492	
Cash and cash equivalents	11,376	1,906	14, 24
	101,896	**97,840**	
Assets held for sale	169	169	
TOTAL CURRENT ASSETS	**102,065**	**98,009**	
TOTAL ASSETS	**195,815**	**192,698**	

	31.12.2020	31.12.2019	Note
EQUITY			
Share capital	9,919	9,919	18
Statutory capital reserve	992	992	18
Hedging reserve	(11,406)	6,065	17, 18
Retained earnings	32,059	14,373	18
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**31,564**	**31,349**	
Non-controlling interests	23	8	
TOTAL EQUITY	**31,587**	**31,357**	
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	72,448	77,316	20, 24
Derivative financial liabilities	1,293	811	17, 24
Provisions	1,095	1,004	23
Contract liabilities	12,705	11,370	6
Deferred income	412	444	22
TOTAL NON-CURRENT LIABILITIES	**87,953**	**90,945**	
CURRENT LIABILITIES			
Borrowings	49,336	53,072	20, 24
Trade and other payables	15,517	16,406	21
Derivative financial liabilities	10,665	27	17, 24
Prepayments	272	233	
Provisions	206	228	23
Contract liabilities	279	430	6
TOTAL CURRENT LIABILITIES	**76,275**	**70,396**	
TOTAL LIABILITIES	**164,228**	**161,341**	
TOTAL EQUITY AND LIABILITIES	**195,815**	**192,698**	

The notes on pages 16-43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands of euros)

	2020	2019	Note
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE YEAR	**17,701**	**11,053**	
ADJUSTMENTS			
Depreciation of property, plant and equipment, right-of-use assets and investment property	5,586	5,117	15, 26
Amortisation of intangible assets	1,700	1,785	16
Income from connection fees	(742)	(725)	6
Amortisation of government grants received for purchasing of non-current assets	(32)	(32)	22
Recognition and adjustment of provisions	272	432	23
Gain/loss on sale of non-current assets	(31)	(2,299)	7
Loss from write-off of non-current assets	87	11	10
Unsettled gain/loss on derivative financial instruments	1,884	(1,824)	
Interest expense	2,696	2,687	11
Interest income	(182)	(113)	11
Corporate income tax expense	2	1	
ADJUSTED PROFIT FOR THE YEAR	**28,941**	**16,093**	
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES			
Change in trade receivables	(4,937)	(1,751)	13
Change in inventories	(1,317)	(28,808)	12
Change in prepayments for natural gas	2,823	(644)	
Net change in other current assets relating to operating activities	587	627	
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**(2,844)**	**(30,576)**	
NET CHANGE IN CURRENT LIABILITIES RELATING TO OPERATING ACTIVITIES			
Use of provisions	(207)	(38)	23
Change in trade payables	(819)	1,561	21
Net change in other liabilities relating to operating activities	(62)	(6,056)	
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**(1,088)**	**(4,533)**	

	2020	2019	Note
NET CASH FROM/USED IN OPERATIONS	**25,009**	**(19,016)**	
Interest received	157	105	
Corporate income tax paid	(1)	(2)	
NET CASH FROM/USED IN OPERATING ACTIVITIES	**25,165**	**(18,913)**	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	(6,545)	(7,881)	
Proceeds from connection fees	2,077	693	6
Government grants received for purchasing of non-current assets	-	476	
Loans granted	-	(2,100)	
Repayments of loans granted	323	129	
Proceeds from sale of non-current assets	48	3,289	
NET CASH USED IN INVESTING ACTIVITIES	**(4,097)**	**(5,394)**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans received	70,000	20,227	20
Repayments of bank loans	(53,365)	(23,365)	20
Change in overdraft from shareholder	(24,846)	6,671	28
Payment of lease liabilities	(673)	(538)	
Contributions from non-controlling interest	-	15	
Interest and loan fees paid	(2,714)	(2,618)	
NET CASH FROM/USED FINANCING ACTIVITIES	**(11,598)**	**392**	
NET CASH FLOWS	**9,470**	**(23,915)**	
Cash and cash equivalents at the beginning of the period	1,906	25,821	14
Cash and cash equivalents at the end of the period	11,376	1,906	14
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**9,470**	**(23,915)**	

The notes on pages 16-43 are an integral part of these consolidated financial statements.

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

	Attributable to owners of the Company							
	Share capital (Note 18)	Statutory capital reserve (Note 18)	Hedge reserve (Note 17)	Retained earnings (Note 18)	Total	Non-controlling interests	Total equity	Note
EQUITY AS AT 31 DECEMBER 2018	**9,919**	**992**	**211**	**3,602**	**14,724**	**12**	**14,736**	
Impact of change of accounting policy	-	-	-	(321)	(321)	-	(321)	5
ADJUSTED BALANCE AT 31 DECEMBER 2018	**9,919**	**992**	**211**	**3,281**	**14,403**	**12**	**14,415**	
Adjustment on initial application of IFRS 16	-	-	-	20	20	-	20	
ADJUSTED BALANCE AT 1 JANUARY 2019	**9,919**	**992**	**211**	**3,301**	**14,423**	**12**	**14,435**	
COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	11,072	11,072	(19)	11,053	
Other comprehensive income	-	-	5,854	-	5,854	-	5,854	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**5,854**	**11,072**	**16,926**	**(19)**	**16,907**	
TRANSACTIONS WITH OWNERS								
Contributions from non-controlling interest	-	-	-	-	-	15	15	
TOTAL TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**-**	**15**	**15**	
EQUITY AS AT 31 DECEMBER 2019	**9,919**	**992**	**6,065**	**14,373**	**31,349**	**8**	**31,357**	
COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	17,686	17,686	15	17,701	
Other comprehensive income	-	-	(17,471)	-	(17,471)	-	(17,471)	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**(17,471)**	**17,686**	**215**	**15**	**230**	
EQUITY AS AT 31 DECEMBER 2020	**9,919**	**992**	**(11,406)**	**32,059**	**31,564**	**23**	**31,587**	

The notes on pages 16-43 are an integral part of these consolidated financial statements.

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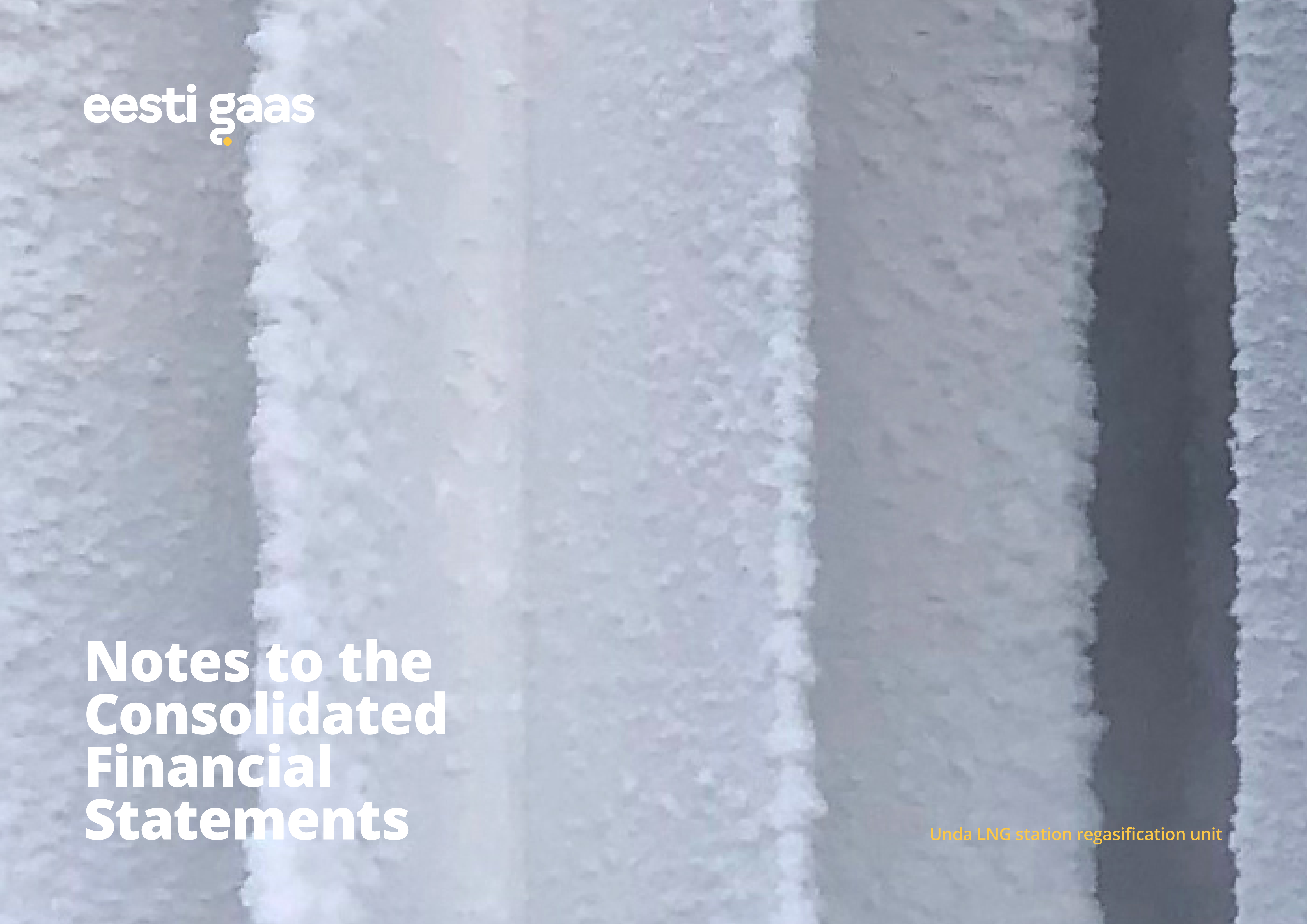

Notes to the Consolidated Financial Statements

Unda LNG station regasification unit

1. REPORTING ENTITY

AS Eesti Gaas is a Company domiciled in Estonia. The Company's registered office is at Sadama 7, Tallinn 10111, Estonia. The consolidated financial statements of Eesti Gaas group for the year ended 31 December 2020 comprise AS Eesti Gaas and its subsidiaries (together referred to as the 'Group').

AS Eesti Gaas is one of the largest and most experienced energy companies in Estonia, whose core product and competence is natural gas that is supplied to clients as various products – pipeline gas, compressed natural gas (CNG) and liquefied natural gas (LNG). The Group sells compressed natural gas (CNG) through CNG filling stations around Estonia, where locally produced biomethane can also be fuelled. The Group has developed a stable LNG supply and bunkering capability and is ready to offer the service to all interested ports and companies. In addition the Group is engaged in selling electricity, developing and maintaining pipelines and heating solutions, developing solar energy plants and providing other goods and services to customers. The Group operates in Finland, Latvia and Lithuania under the name Elenger. The Group has approximately 50,000 clients.

2. BASIS OF ACCOUNTING

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

The consolidated financial statements were authorised for issue by the Management Board on 29 March 2021. 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 equal to the estimated average useful life of the property, plant and equipment acquired for the connection fees, as the following reconstructions of the property, plant and equipment will be financed through the gas network service fees. The estimated average useful life of the property, plant and equipment acquired for the connection fees is calculated by dividing the average cost of the property, plant and equipment with the annual depreciation amount.

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

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

B Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2020 is included in the following notes:

NOTE 15 – the estimate of the useful life of property, plant and equipment;

NOTE 16 – the estimate of the useful life of intangible assets;

NOTES 23 AND 27 – recognition of contingencies and provisions for possible losses in the future due to the take-or-pay provision of the natural gas purchase contract.

4. MEASUREMENT OF FAIR VALUES

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

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

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

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

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

5. CHANGES IN ACCOUNTING POLICIES

5.1 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT BECAME EFFECTIVE ON 1 JANUARY 2020

The new standards that are effective from 1 January 2020 do not have a material effect on the Group's financial statements.

5.2 CHANGE OF ACCOUNTING POLICY OF NATURAL GAS INVENTORY (IAS 2 *INVENTORIES*)

The Group has changed retrospectively the cost recognition method of inventories by replacing the FIFO formula with weighted average cost formula. In the current financial statements the comparative information has been adjusted as if the new accounting policy had always been applied.

IMPACT OF THE CHANGE (In thousands of euros)

	As previously reported	As restated	Adjustments
Line 'Inventories' of consolidated statement of financial position as at 31 December 2019	39,045	39,435	390
Line 'Retained earnings' of consolidated statement of financial position as at 31 December 2019	13,983	14,373	390
Line 'Raw materials and consumables used' of consolidated statement of profit or loss and other comprehensive income 1 January 2019 - 31 December 2019	(127,628)	(126,917)	711

6. REVENUE

The Group's accounting policies relating to revenue from contracts with customers and the overview about the nature and satisfaction of performance obligations are provided in Note 31.3.

A Revenue streams (In thousands of euros)

	2020	2019
REVENUE FROM CONTRACTS WITH CUSTOMERS	**172,210**	**153,628**
OTHER REVENUE		
Property rentals (Note 26)	21	59
Hedging gains	10,125	2,828
TOTAL REVENUE	**182,356**	**156,515**

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

	2020	2019
PRIMARY GEOGRAPHICAL MARKETS		
Estonia	105,489	131,867
Finland	51,826	489
Latvia	10,094	19,391
Lithuania	4,453	1,041
Other	348	840
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**172,210**	**153,628**
MAJOR PRODUCTS/SERVICE LINES		
Sales of natural gas	118,246	87,624
Sales of gas network service	23,345	20,917
Sales of construction and repair services	10,624	22,579
Sales of electricity	5,913	6,190
Sales of liquefied natural gas (LNG)	5,371	8,331
Sales of compressed gas (CNG)	3,811	3,811
Sales of gas appliances and other goods	908	1,163
Connection fees	742	725
Sales of other services	3,250	2 288
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**172,210**	**153,628**

6. REVENUE, CONTINUED

C Contract balances (In thousands of euros)

	31.12.2020	31.12.2019
Receivables, which are included in 'trade and other receivables' (Note 13)	37,301	32,352
Contract assets	312	695
Current contract liabilities	(279)	(430)
Non-current contract liabilities (connection fees)	(12,705)	(11,370)

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

The amounts of EUR 695 thousand (2019: EUR 17 thousand) recognised in contract assets and EUR 430 thousand (2019: EUR 9739 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 2021 (31 December 2019: during year 2020). The amount of connection fees received and recognised as revenue in the reporting period was as follows.

CONNECTION FEES (In thousands of euros)

	2020	2019
DEFERRED CONNECTION FEES AT THE BEGINNING OF THE PERIOD	**11,370**	**11,394**
Connection fees received	2,077	693
Connection fees recognised as income	(742)	(725)
Other movements	-	8
DEFERRED CONNECTION FEES AT THE END OF THE PERIOD	**12,705**	**11,370**

The amortisation period of connection fees is up to 32 years (2019: 32 years).

7. OTHER OPERATING INCOME

(In thousands of euros)

	2020	2019
Gain from derivatives	426	1,367
Fines and interest on arrears received	124	191
Compensation received	67	117
Gain on sale of non-current assets	33	2,299
Amortisation of government grants received for purchasing of non-current assets	32	32
Other operating income	29	27
TOTAL OTHER OPERATING INCOME	**711**	**4,033**

The majority of the gain on sale of non-current assets in the comparative period comprised of the gain on sale of the former office building property.

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

	2020	2019
Natural gas sold	110,495	86,314
Gas network service	14,358	10,860
Construction materials	6,099	6,290
Other goods sold	5,914	5,989
Subcontracting works	3,656	12,061
Carriage services	1,251	1,301
Other goods, materials and services	2,745	4,102
TOTAL RAW MATERIALS AND CONSUMABLES USED	**144,518**	**126,917**

9. PAYROLL EXPENSES

(In thousands of euros)

	2020	2019
Average number of employees and members of the Management Board of the Group	233	230
Wages, salaries, bonuses, vacation pay, other payments and benefits	8,949	7,921
Fringe benefits	137	272
Payroll taxes	2,960	2,669
Recognition/revaluation of employee related provisions (Note 23)	99	216
TOTAL CALCULATED PAYROLL EXPENSES	**12,145**	**11,078**

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

ADDITIONAL INFORMATION ABOUT THE NUMBER OF EMPLOYEES OF THE PARENT

	2020	2019
The average number of the members of the Supervisory Board	6	6
The average number of the members of the Management Board	4	4
The average number of employees	60	60
The average number of persons providing service under service contracts	2	4

10. OTHER OPERATING EXPENSES
(In thousands of euros)

	2020	2019
IT services	1,606	1,121
Legal and other consulting services, audit	323	372
Administrative costs of buildings	238	384
Office supplies and services	205	213
Taxes and fees	185	215
Advertising expenses	163	553
Loss from write-off of non-current assets	87	11
Travel and training expenses	74	225
Membership fees, sponsorship and donations	65	43
Bank transaction fees	53	27
Other operating expenses	388	538
TOTAL OTHER OPERATING EXPENSES	**3,387**	**3,702**

11. NET FINANCIAL EXPENSE
(In thousands of euros)

	2020	2019
FINANCE INCOME		
Interest income	182	113
TOTAL INTEREST INCOME	**182**	**113**
TOTAL FINANCE INCOME	**182**	**113**
FINANCE COSTS		
INTEREST EXPENSE		
Interest expense on borrowings	(2,692)	(2,683)
incl. interest expense on lease liabilities (Note 26)	(125)	(100)
Interest expense on provisions	(4)	(4)
TOTAL INTEREST EXPENSE	**(2,696)**	**(2,687)**
TOTAL FINANCE COSTS	**(2,696)**	**(2,687)**
NET FINANCIAL EXPENSE	**(2,514)**	**(2,574)**

12. INVENTORIES
(In thousands of euros)

	31.12.2020	31.12.2019
Natural gas inventory in storage	40,053	38,790
Other goods and materials	688	636
Finished goods	11	6
Prepayments for other goods	-	3
TOTAL INVENTORIES	**40,752**	**39,435**

In the reporting period, illiquid and obsolete materials were written down in the amount of EUR 1 thousand (2019: EUR 0 thousand).

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

	31.12.2020	31.12.2019
TRADE RECEIVABLES		
ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS		
Accounts receivable	37,585	32,598
incl. accounts receivable from related parties (Note 28)	1,412	1,198
Allowance for doubtful receivables	(284)	(246)
TOTAL ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS (Note 6)	**37,301**	**32,352**
OTHER ACCOUNTS RECEIVABLE		
Accounts receivable	36	36
Allowance for doubtful receivables	(25)	(13)
TOTAL OTHER ACCOUNTS RECEIVABLE	**11**	**23**
TOTAL TRADE RECEIVABLES	**37,312**	**32,375**
Accrued income	286	124
Other receivables	171	475
Costs to fulfil contracts	37	60
TOTAL TRADE AND OTHER RECEIVABLES (Note 24)	**37,806**	**33,034**
incl. current	37,749	32,955
non-current	57	79

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 2020 and 2019, 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)

	31.12.2020	31.12.2019
Bank accounts	11,376	1,906
TOTAL CASH AND CASH EQUIVALENTS (Note 24)	11,376	1,906

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

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and prepayments	Total
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2018						
Cost	2,833	106,387	19,525	131	4,007	132,883
Accumulated depreciation	(1,070)	(37,696)	(12,466)	(119)	-	(51,351)
CARRYING AMOUNT	**1,763**	**68,691**	**7,059**	**12**	**4,007**	**81,532**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2019						
Additions	-	213	2,799	320	3,414	6,746
Depreciation and impairment charge	(68)	(3,434)	(1,055)	(15)	-	(4,572)
Disposals and write-offs	(35)	-	(70)	-	-	(105)
Transfers from construction in progress and prepayments	101	5,814	415	-	(6,330)	-
Reclassification to right-of-use assets (Note 26)	-	-	(1,964)	-	-	(1,964)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2019	**(2)**	**2,593**	**125**	**305**	**(2,916)**	**105**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2019						
Cost	2,899	112,368	19,066	406	1,091	135,830
Accumulated depreciation	(1,138)	(41,084)	(11,882)	(89)	-	(54,193)
CARRYING AMOUNT	**1,761**	**71,284**	**7,184**	**317**	**1,091**	**81,637**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2020						
Additions	-	4	1,487	12	4,107	5,610
Depreciation and impairment charge	(71)	(3,538)	(1,225)	(41)	-	(4,875)
Disposals and write-offs	-	(21)	(80)	(1)	-	(102)
Transfers from construction in progress and prepayments	4	4,008	186	6	(4,204)	-
Other reclassifications	-	(7)	7	-	-	-
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2020	**(67)**	**446**	**375**	**(24)**	**(97)**	**633**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2020						
Cost	2,903	116,348	20,109	418	994	140,772
Accumulated depreciation	(1,209)	(44,618)	(12,550)	(125)	-	(58,502)
CARRYING AMOUNT	**1,694**	**71,730**	**7,559**	**293**	**994**	**82,270**

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 488 thousand (2019: EUR 457 thousand).

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16. INTANGIBLE ASSETS (In thousands of euros)

	Computer software	Customer contracts	Total
INTANGIBLE ASSETS AS AT 31 DECEMBER 2018			
Cost	6,597	6,300	12,897
Accumulated amortisation	(4,326)	(827)	(5,153)
CARRYING AMOUNT	**2,271**	**5,473**	**7,744**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2019			
Purchases	1,100	-	1,100
Amortisation charge	(819)	(966)	(1,785)
Disposals and write-offs	(6)	-	(6)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2019	**275**	**(966)**	**(691)**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2019			
Cost	7,566	6,300	13,866
Accumulated amortisation	(5,020)	(1,793)	(6,813)
CARRYING AMOUNT	**2,546**	**4,507**	**7,053**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2020			
Purchases	842	-	842
Amortisation charge	(991)	(709)	(1,700)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2020	**(149)**	**(709)**	**(858)**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2020			
Cost	8,396	6,300	14,696
Accumulated amortisation	(5,989)	(2,503)	(8,492)
CARRYING AMOUNT	**2,407**	**3,797**	**6,204**

Assumptions and estimation uncertainties

The estimated useful lives of items of intangible assets are based on management's estimate of the period during which the asset will be used. The actual useful lives may be longer or shorter than the estimates. If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 170 thousand (2019: EUR 179 thousand).

17. DERIVATIVE FINANCIAL INSTRUMENTS (In thousands of euros)

	31.12.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	-	1,286	253	811
incl. derivative financial instruments that are designated as cash flow hedges	-	1,286	253	811
Swap contracts for buying and selling electricity	-	7	-	-
incl. derivative financial instruments that are designated as cash flow hedges	-	7	-	-
CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	554	10,654	8,633	27
incl. derivative financial instruments that are designated as cash flow hedges	554	11,103	7,238	27
Swap contracts for buying and selling electricity	98	11	-	-
incl. derivative financial instruments that are designated as cash flow hedges	98	11	-	-
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS (Note 24)	**652**	**11,958**	**8,886**	**838**

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

18. CAPITAL AND RESERVES

A Share capital

As at 31 December 2020, AS Eesti Gaas had 27,728,408 shares without nominal value (31 December 2019: 27,728,408 shares without nominal value). Each share grants one vote at the general meeting of shareholders.

INFORMATION ABOUT SHAREHOLDERS AS AT 31 DECEMBER 2020.

	31.12.2020		31.12.2019	
Shareholder	Number of shares	Interest	Number of shares	Interest
AS Infortar	27,728,408	100,0%	27,728,408	100,0%

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

B Statutory capital reserve

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

As at 31 December 2020, the Group's statutory capital reserve totalled EUR 992 thousand (31 December 2019: EUR 992 thousand). As at 31 December 2020 the Group has no obligation to make any additional transfers to the statutory capital reserve.

C Hedging reserve (In thousands of euros)

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.

(In thousands of euros)	2020	2019
HEDGING RESERVE AT THE BEGINNING OF THE PERIOD	**6,065**	**211**
Cash flow hedges – effective portion of changes in fair value	(19,544)	7,193
Gain(-) / loss(+) on realised cash flow hedges	2,073	(1,339)
HEDGING RESERVE AT THE END OF THE PERIOD	**(11,406)**	**6,065**

D Profit distribution

As at 31 December 2020, the Group's distributable equity was EUR 33,184 thousand (31 December 2019: EUR 14,373 thousand). According to the Income Tax Act, companies are taxed in Estonia on the distribution of dividends. Income tax on dividends is calculated as 20/80 of the amount payable as net dividends (except for regularly payable dividends, to which the reduced income tax rate is applied). Dividends distributed by a company are exempt, if these are paid out of dividends received from other companies in which the company has at least 10% interest.

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

(In thousands of euros)	31.12.2020	31.12.2019
Retained earnings (Note 29)	32,059	14,373
Distributable shareholders' equity	32,059	14,373
Corporate income tax payable on the distribution of the entire unrestricted equity	6,412	2,875
Net dividends available for distribution	25,647	11,498

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

19. CAPITAL MANAGEMENT

(In thousands of euros)

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

The Group's equity to total assets ratio as at 31 December 2020 was as follows.

	31.12.2020	31.12.2019
Equity	31,587	31,357
Subordinated shareholder loan and overdraft (Note 20)	33,223	58,069
Total assets	195,815	192,698
EQUITY TO TOTAL ASSETS RATIO	**33%**	**46%**

20. BORROWINGS

BORROWINGS AT AMORTISED COST (In thousands of euros)

	31.12.2020	31.12.2019
LONG-TERM BORROWINGS		
Bank loans	40,366	43,713
Subordinated shareholder loan (Note 19)	29,000	29,000
Lease liabilities	3,082	4,603
TOTAL LONG-TERM BORROWINGS	**72,448**	**77,316**
SHORT-TERM BORROWINGS		
Short-term bank loans	40,000	20,000
Overdraft from a shareholder (Note 19)	4,223	29,069
Current portion of long-term bank loans	3,365	3,365
Current portion of lease liabilities	1,748	638
TOTAL SHORT-TERM BORROWINGS	**49,336**	**53,072**
TOTAL BORROWINGS	**121,784**	**130,388**

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

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

	Maturity date	Nominal value 31.12.2020	Nominal value 31.12.2019
Bank loans	2021-2023	83,770	67,135
Subordinated shareholder loan (Note 19)	2024	29,000	29,000
Shareholder overdraft (Note 19)	-	4,223	29,069
Lease liabilities	2021-2047	4,830	5,241
incl. lease liabilities to related parties (Note 28)		2,064	2,559
TOTAL BORROWINGS		**121,823**	**130,445**

The bank loans have floating interest rates. As at 31 December 2020, the interest rates of bank loans were between 1.45% and 1.95% (31 December 2019: 1.35% and 1.95%). The interest rates of subordinated shareholder loan and overdraft were between 2.5% and 4.0% (31 December 2019: 2.5% and 4.0%). The interest rates of lease contracts were between 1.05% and 3.09% (31 December 2019: 1.03%-3.09%).

In 2020 the working capital loans in the amount of EUR 50 million were repaid (2019: EUR 20 million) and new working capital loans in the amount of EUR 70 million (2019: EUR 20 million) were received. The term of the subordinated loan was extended until 2024.

As at 31 December 2020 and 31 December 2019, the bank loans were secured by a commercial pledge registered on the assets of AS Gaasivõrk, by a mortgage registered on six properties belonging to AS Eesti Gaas, by commercial pledges registered on the assets of OÜ Pärnu Päikesepark 1-4 and a mortgage registered on a legal share of the right of superficies.

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

	31.12.2020	31.12.2019
Trade payables	4,986	5,887
incl. payables to related parties (Note 28)	4	11
Tax liabilities	6,325	7,182
Payables to employees	2,458	1,904
Accrued interest	28	67
incl. payables to related parties (Note 28)	12	52
Other accrued expenses	1,720	1,366
TOTAL TRADE AND OTHER PAYABLES (Note 24)	**15,517**	**16,406**
incl. current	15,517	16,406

22. DEFERRED INCOME

GOVERNMENT GRANTS (In thousands of euros)

	2020	2019
DEFERRED INCOME FROM GRANTS AT THE BEGINNING OF THE PERIOD	**444**	**476**
Amortisation of government grants received	(32)	(32)
DEFERRED INCOME FROM GRANTS AT THE END OF THE PERIOD	**412**	**444**

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

23. PROVISIONS (In thousands of euros)

	Post-employment benefits for the members of the Management Board (Note 9)	Pensions (Note 9)	Warranties, fines, and other contractual obligations	Total
BALANCE AS AT 1 JANUARY 2020	**734**	**259**	**239**	**1,232**
Provisions made and restated during the year	75	24	173	272
Unwind of discount (Note 11)	-	4	-	4
Provisions used during the year	-	(31)	(176)	(207)
BALANCE AS AT 31 DECEMBER 2020	**809**	**256**	**236**	**1,301**
incl. current	-	31	175	206
non-current	809	225	61	1 095
BALANCE AS AT 1 JANUARY 2019	**545**	**259**	**30**	**834**
Provisions made and restated during the year	189	27	216	432
Unwind of discount (Note 11)	-	4	-	4
Provisions used during the year	-	(31)	(7)	(38)
BALANCE AS AT 31 DECEMBER 2019	**734**	**259**	**239**	**1,232**
incl. current	-	31	197	228
non-current	734	228	42	1,004

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, fines and other contractual obligations

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

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

24.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES

	Fair value - hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value Level 2	Fair value Level 3
AS AT 31 DECEMBER 2020						
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**652**	**-**	**-**	**652**		
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	652	-	-	652	652	-
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE	**-**	**49,182**	**-**	**49,182**		
Trade and other receivables (Note 13)	-	37,806	-	37,806	***	***
Cash and cash equivalents (Note 14)	-	11,376	-	11,376	***	***
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**(11,958)**	**-**	**-**	**(11,958)**		
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	(11,958)	-	-	(11,958)	-	-
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE	**-**	**-**	**(128,518)**	**(128,518)**		
Overdrafts and loans (Note 20)**	-	-	(116,954)	**(116,954)**	-	(118,379)
Lease liabilities (Note 20)	-	-	(4,830)	**(4,830)**	-	(4,834)
Trade and other payables (Note 21)*	-	-	(6,734)	**(6,734)**	***	***
AS AT 31 DECEMBER 2019						
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**8,886**	**-**	**-**	**8,886**		
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	8,886	-	-	**8,886**	8 886	-
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE	**-**	**34,940**	**-**	**34,940**		
Trade and other receivables (Note 13)	-	33,034	-	**33,034**	***	***
Cash and cash equivalents (Note 14)	-	1,906	-	1,906	***	***
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE	**(838)**	**-**	**-**	**(838)**		
Derivative financial instruments - swaps for buying and selling natural gas (Note 17)	(838)	-	-	**(838)**	(838)	-
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE	**-**	**-**	**(137,708)**	**(137,708)**		
Overdrafts and loans (Note 20)**	-	-	(125,147)	**(125,147)**	-	(125,394)
Lease liabilities (Note 20)	-	-	(5,241)	**(5,241)**	-	(5,247)
Trade and other payables (Note 21)*	-	-	(7,320)	**(7,320)**	***	***

* Payables to employees and tax liabilities are not included.

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

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

24.2 MEASUREMENT OF FAIR VALUES

	Valuation technique	Significant unobservable inputs
FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE		
Derivative financial instruments - swaps contracts for buying and selling natural gas	The fair value is determined using settlement prices for futures contracts at ICE Endex market at the reporting date	-
Derivative financial instruments - swaps contracts for buying and selling electricity	The fair value is determined using Nord Pool's settlement prices of Estonian and Latvian price area at the reporting date	-
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE		
Loans, overdrafts and lease liabilities	Discounted cash flows: the valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate	Interest rates of borrowings

24.3 FINANCIAL RISK MANAGEMENT

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

- credit risk
- liquidity risk
- market risk

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

A Credit risk

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

AS AT 31 DECEMBER 2020, THE MAXIMUM AMOUNT EXPOSED TO CREDIT RISK WAS AS FOLLOWS.

(In thousands of euros)

	31.12.2020	31.12.2019
Trade and other receivables (Note 13)	37,806	33,034
Derivative financial instruments (Note 17)	652	8,886
Bank accounts (Note 14)	11,376	1,906
Contract assets (Note 6)	312	695
TOTAL AMOUNT EXPOSED TO CREDIT RISK	**50,146**	**44,521**

TRADE AND OTHER RECEIVABLES

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

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

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

AS AT 31 DECEMBER 2020, THE MAXIMUM EXPOSURE TO CREDIT RISK BY THE TYPE OF RECEIVABLE WAS AS FOLLOWS. (In thousands of euros)

	31.12.2020	31.12.2019
Trade receivables for gas and network service, incl.		
commercial consumers	30,043	22,028
household customers	3,077	3,194
Trade receivables for other goods and services	4,192	7,153
Other receivables	494	659
TOTAL TRADE AND OTHER RECEIVABLES (Note 13)	**37,806**	**33,034**

THE ALLOWANCE FOR DOUBTFUL RECEIVABLES BY THE TYPE OF RECEIVABLE AS AT 31 DECEMBER 2020 WAS AS FOLLOWS. (In thousands of euros)

	31.12.2020	31.12.2019
Allowance for doubtful receivables for gas and network service, incl.		
commercial consumers	(246)	(186)
household customers	(23)	(41)
Allowance for doubtful receivables for other goods and services	(40)	(32)
TOTAL ALLOWANCE FOR DOUBTFUL RECEIVABLES (Note 13)	**(309)**	**(259)**

As at 31 December 2020, the Group's most significant customer accounted for EUR 7,481 thousand of trade and other receivables (31 December 2019: EUR 1,294 thousand).

AN ANALYSIS OF THE CREDIT QUALITY OF ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2020 WAS AS FOLLOWS. (In thousands of euros)

	31.12.2020	31.12.2019
Receivables from new customers (client relationship shorter than 6 months)	1,290	1,210
Receivables from existing customers (client relationship longer than 6 months)	35,067	29,270
TOTAL ACCOUNTS RECEIVABLE NOT YET DUE	**36,357**	**30,480**

EXPECTED CREDIT LOSS ASSESSMENT FOR ACCOUNTS RECEIVABLE

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

(In thousands of euros)	Weighted average loss rate	Gross carrying amount	Impairment loss allowance
31 DECEMBER 2020			
Accounts receivable not yet due	0,02%	36,357	9
1-30 days past due	0,60%	875	6
31-179 days past due	11,39%	52	6
More than 180 days past due	85,55%	337	288
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**37,621**	**309**
31 DECEMBER 2019			
Accounts receivable not yet due	0,03%	30,480	9
1-30 days past due	0,58%	1,666	10
31-179 days past due	14,10%	256	36
More than 180 days past due	87,83%	232	204
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**32,634**	**259**

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

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

	2020	2019
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE BEGINNING OF THE PERIOD	**(259)**	**(273)**
Classified as doubtful and collected during the accounting period	(68)	(117)
Classified as irrecoverable	18	131
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE END OF THE PERIOD (Note 13)	**(309)**	**(259)**

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

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

	31.12.2020	31.12.2019
At banks with Moody's credit rating of Aa2	409	1,884
At banks with Moody's credit rating of Aa3	10,926	2
At banks with Moody's credit rating of Baa1	41	20
TOTAL BANK ACCOUNTS AND SHORT-TERM DEPOSITS AT BANKS (Note 14)	**11,376**	**1,906**

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

		Contractual cash flows				
(In thousands of euros)	Carrying amount	Total	6 months or less	7-12 months	1-5 years	More than 5 years
31 DECEMBER 2020						
Bank loans (Note 20)	83,731	85,802	42,250	2,065	41,487	-
Subordinated shareholder loan (Note 20)	29,000	33,350	580	580	32,190	-
Shareholder overdraft (Note 20)	4,223	4,236	4,236	-	-	-
Lease liabilities (Note 20)	4,830	5,444	408	1,455	1,917	1,664
Trade and other payables (Note 21)	15,517	15,517	15,517	-	-	-
TOTAL	**137,301**	**144,349**	**62,991**	**4,100**	**75,594**	**1,664**
31. DETSEMBER 2019						
Bank loans (Note 20)	67,078	69,681	22,065	2,098	45,518	-
Subordinated shareholder loan (Note 20)	29,000	30,933	580	580	29,773	-
Shareholder overdraft (Note 20)	29,069	29,795	363	363	29,069	-
Lease liabilities (Note 20)	5,241	5,974	392	369	3,220	1,993
Trade and other payables (Note 21)	16,406	16,406	16,406	-	-	-
TOTAL	**146,794**	**152,789**	**39,806**	**3,410**	**107,580**	**1,993**

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

C Market risk

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

PRICE RISK OF COMMODITIES

The Group's major price risks of commodities arise from fixed-price gas sales contracts and the take-or-pay provision in the natural gas purchase contract. The Group uses derivatives - swap contracts for buying and selling natural gas - to manage price risks. The swap contracts have been entered into for the purchase or sale of a fixed volume of natural gas at each hour and their price is denominated in euros. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. A hedging relationship meets the hedge effectiveness requirements if there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes and the hedge ratio is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item. The possible sources for ineffectiveness may be the differences in the quantities, underlying commodities and prices. The fair value changes of the other transactions are recognised in profit or loss. As at 31 December 2020, the Group had concluded swap contracts for buying natural gas for the years 2021 - 2024 in the volume of - 1,734,117 MWh (31 December 2019: -331,879 MWh for the years 2020 - 2024). 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 2020, borrowings with a fixed interest rate accounted for 28% and borrowings with a floating interest rate 72% of the total amount of borrowings (31 December 2019: 26% of borrowings had a fixed interest rate and 74% of borrowings had a floating interest rate).

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

(In thousands of euros)	31.12.2020	31.12.2019
FIXED-RATE INSTRUMENTS		
Financial liabilities	33,766	34,227
VARIABLE-RATE INSTRUMENTS		
Financial liabilities	88,057	96,218
TOTAL (Note 20)	**121,823**	**130,445**

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 2020 and 31 December 2019 would have an immaterial effect on profit or loss, as a material change in Euribor rates is not anticipated.

A possible change of 100 basis points in interest rates at the reporting date of variable-rate instruments would have increased (decreased) profit or loss as at 31 December 2020 by the amounts shown below.

	Profit or loss	
(In thousands of euros)	100 bp increase	100 bp decrease
31 DECEMBER 2020		
Variable-rate instruments	(851)	851
31 DECEMBER 2019		
Variable-rate instruments	(795)	795

25. LIST OF SUBSIDIARIES

THE GROUP HAD THE FOLLOWING SUBSIDIARIES AS AT 31 DECEMBER 2020.

Name of the subsidiary	Country of incor-poration	Nature of business	Proportion of ordinary shares held by the Group (%) 31.12.2020	31.12.2019
AS Gaasivõrk	Estonia	Sale of distribution services through natural gas distribution network	100.0	100.0
AS EG Ehitus	Estonia	Construction and engi-neering of the pipelines and boiler plants and repair work	100.0	100.0
OÜ Elenger Crew Management	Estonia	Ship crew management	100.0	100.0
OÜ HG ProSolution	Estonia	Professional design and project management	100.0	100.0
OÜ Elenger Marine	Estonia	Sale of natural gas	100.0	100.0
OÜ Pärnu Päikesepark 1	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 2	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 3	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 4	Estonia	Production of electricity	80.0	80.0
SIA Elenger	Latvia	Sale of natural gas and electricity	100.0	100.0
UAB Elenger	Lithuania	Sale of natural gas and electricity	100.0	100.0
OY Elenger	Finland	Sale of natural gas	100.0	100.0

As at 31 December 2020 the assets of OÜ Pärnu Päikesepark 1-4 totalled EUR 3,589 thousand, liabilities EUR 3,482 thousand and revenue EUR 402 thousand (31 December 2019: assets EUR 3,739 thousand, liabilities 3,700 thousand, revenue EUR 138 thousand).

26. LEASES

A Leases as a lessee

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

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

(In thousands of euros)	Land and buil-dings	Machinery and equipment	Total
BALANCE AS AT 1 JANUARY 2020	**2,798**	**2,869**	**5,667**
Additions to right-of-use assets	-	316	316
Reassessment of the lease liability	(15)	-	(15)
Depreciation charge	(261)	(450)	(711)
Derecognition of right-of-use assets	-	(38)	(38)
BALANCE AT 31 DECEMBER 2020	**2,522**	**2,697**	**5,219**
RECOGNITION AS AT 1 JANUARY 2019	**613**	**621**	**1,234**
Reclassification from pro-perty, plant and equipment (Note 15)	-	1,964	1,964
Additions to right-of-use assets	2,361	659	3,020
Depreciation charge	(176)	(369)	(545)
Derecognition of right-of-use assets	-	(6)	(6)
BALANCE AT 31 DECEMBER 2019	**2,798**	**2,869**	**5,667**

AMOUNTS RECOGNISED IN PROFIT OR LOSS UNDER IFRS 16

(In thousands of euros)	2020	2019
Interest expense on lease liabilities (Note 11)	125	100
Expenses relating to short-term leases	413	728

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

(In thousands of euros)	2020	2019
Total cash outflow for leases	1,211	1,366

EXTENSION OPTIONS

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

B Leases as a lessor

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

During 2020, the property rentals of EUR 21 thousand (2019: EUR 59 thousand) were included in revenue (Note 6).

27. COMMITMENTS AND CONTINGENCIES

A Capital commitments arising from construction contracts

As at 31 December 2020, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 82 thousand (31 December 2019: EUR 58 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 2020 and 31 December 2019.

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 2020 and 31 December 2019 the parent of AS Eesti Gaas and the ultimate controlling party of the Group was AS Infortar.

B Key management personnel compensation

(In thousands of euros)	2020	2019
Short-term employee benefits	1,602	1,239
Social taxes	479	377
TOTAL	**2,081**	**1,616**

* 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 2020 was EUR 886 thousand (with social tax) (31 December 2019: EUR 886 thousand).

C Other related party transactions (In thousands of euros)

	Transaction values		Balance outstanding	
	2020	2019	31.12.2020	31.12.2019
SALE OF GOODS AND SERVICES				
Transactions with owners and with entities under the control of owners (Note 13)	1,005	3,869	884	654
Transactions with entities under significant influence of owners (Note 13)	4,709	6,696	528	544
PURCHASE OF GOODS AND SERVICES				
Transactions with owners and with entities under the control of owners (Note 21)	381	579	4	10
Transactions with entities under significant influence of owners (Note 21)	6	40	-	1
OTHER				
Subordinated shareholder loan (Note 20)	-	-	29,000	29,000
Change in overdraft from shareholder (Note 20 and 30)	(24,846)	6,671	4,223	29,069
Interest expense on borrowings (excluding lease liabilities) from shareholder (Note 21)	1,353	1,465	12	52
Lease liabilities to owners (Note 20)	-	-	2,064	2,559

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29. FINANCIAL INFORMATION ON THE PARENT

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

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

	2020	2019
Revenue	146,013	110,908
Other operating income	577	3,889
Raw materials and consumables used	(117,278)	(94,233)
Payroll expenses	(4,741)	(4,405)
Depreciation and amortisation	(2,112)	(1,790)
Other operating expenses	(2,460)	(2,551)
OPERATING PROFIT	**19,999**	**11,818**
Finance income	162	83
Finance costs	(1,494)	(1,355)
NET FINANCIAL EXPENSE	**(1,332)**	**(1,272)**
PROFIT BEFORE TAX	**18,667**	**10,546**
PROFIT FOR THE YEAR	**18,667**	**10,546**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges – effective portion of changes in fair value	(17,562)	5,854
OTHER COMPREHENSIVE INCOME	**(17,562)**	**5,854**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,105**	**16,400**

STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2020	31.12.2019
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	7,486	7,446
Intangible assets	2,330	2,456
Investment property	1,392	1,459
Right-of-use assets	4,010	4,359
Derivative financial instruments	-	253
Investments in subsidiaries	3,520	3,520
TOTAL NON-CURRENT ASSETS	**18,738**	**19,493**
CURRENT ASSETS		
Inventories	40,072	38,794
Derivative financial instruments	560	8,633
Trade and other receivables	36,409	29,589
Prepayments for natural gas	9,901	12,724
Other prepayments	179	166
Cash and cash equivalents	6,227	50
	93,348	**89,956**
Assets held for sale	123	123
TOTAL CURRENT ASSETS	**93,471**	**90,079**
TOTAL ASSETS	**112,209**	**109,572**

	31.12.2020	31.12.2019
EQUITY		
Share capital	9,919	9,919
Statutory capital reserve	992	992
Hedging reserve	(11,497)	6,065
Retained earnings	21,814	3,147
TOTAL EQUITY	**21,228**	**20,123**
LIABILITIES		
NON-CURRENT LIABILITIES		
Borrowings	21,505	24,050
Derivative financial instruments	1,293	811
Provisions	762	713
Deferred income	413	444
TOTAL NON-CURRENT LIABILITIES	**23,973**	**26,018**
CURRENT LIABILITIES		
Borrowings	46,950	51,636
Trade and other payables	9,106	11,449
Derivative financial instruments	10,665	27
Prepayments	199	288
Provisions	31	31
Contract liabilities	57	-
TOTAL CURRENT LIABILITIES	**67,008**	**63,431**
TOTAL LIABILITIES	**90,981**	**89,449**
TOTAL LIABILITIES AND EQUITY	**112,209**	**109,572**

29. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

CASH FLOW STATEMENT (In thousands of euros)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT FOR THE YEAR	**18,667**	**10,546**
ADJUSTMENTS		
Depreciation of property, plant and equipment, right-of-use assets and investment property	1,144	985
Amortisation of intangible assets	968	805
Amortisation of government grants received for purchasing of non-current assets	(32)	(32)
Recognition and adjustment of provisions	77	120
Gain on sale of non-current assets	-	(2,250)
Loss from write-off of non-current assets	1	-
Unsettled gain/loss on derivative financial instruments	1,885	(1,824)
Interest expense	1,494	1,355
Interest income	(162)	(83)
ADJUSTED PROFIT FOR THE YEAR	**24,042**	**9,622**
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES		
Change in trade receivables	(1,830)	8,817
Change in inventories	(1,278)	(28,716)
Change in prepayments for natural gas	2,823	(644)
Net change in current assets relating to other operating activities	2,886	(4,884)
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**2,601**	**(25,427)**
NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES		
Use of provisions	(31)	(31)
Change in trade payables	(530)	957
Net change in liabilities relating to other operating activities	(1,758)	(656)
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**(2,319)**	**270**
NET CASH FROM/USED IN OPERATIONS	**24,324**	**(15,535)**
Interest received	142	100
NET CASH USED IN OPERATING ACTIVITIES	**24,466**	**(15,435)**

	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(1,624)	(2,727)
Government grants received for purchasing of non-current assets	-	476
Proceeds from sale of non-current assets	5	3,210
Loans granted to subsidiary	-	(160)
Repayments of loans granted to subsidiary	-	160
Change in overdraft to subsidiaries	(7,867)	(1,568)
Contribution to the share capital of subsidiary	-	(71)
NET CASH USED IN INVESTING ACTIVITIES	**(9,486)**	**(680)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in overdraft from shareholder	(24,846)	6,671
Bank loans received	70,000	20,000
Repayments of bank loans	(51,143)	(21,143)
Change in overdraft from subsidiaries	(912)	1,049
Payment of lease liabilities	(377)	(291)
Interest and loan fees paid	(1,525)	(1,299)
TOTAL CASH GENERATED FROM FINANCING ACTIVITIES	**(8,803)**	**4,987**
NET CASH FLOWS	**6,177**	**(11,128)**
Cash and cash equivalents at the beginning of the period	50	11,178
Cash and cash equivalents at the end of the period	6,227	50
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**6,177**	**(11,128)**

29. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

STATEMENT OF CHANGES IN EQUITY (In thousands of euros)

Parent	Share capital	Share premium	Statutory capital reserve	Hedging reserve	Retained earnings	Total
EQUITY AS AT 31 DECEMBER 2018	**9,919**	**-**	**992**	**211**	**(7,078)**	**4,044**
Impact of change of accounting policy	-	-	-	-	(321)	(321)
ADJUSTED BALANCE AS AT 31 DECEMBER 2018	**9,919**	**-**	**992**	**211**	**(7,399)**	**3,723**
Carrying amount of holdings under control					(3,383)	(3,383)
Value of holdings under control using the equity method					6,224	6,224
Effect of the merger with sole shareholder (Note 30)					7,859	7,859
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2018 (Note 18)					**3,301**	**14,423**
Profit for the year	-	-	-	-	10,546	10,546
Other comprehensive income	-	-	-	5,854	-	5,854
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**5,854**	**10,546**	**16,400**
EQUITY AS AT 31 DECEMBER 2019	**9,919**	**-**	**992**	**6,065**	**3,147**	**20,123**
Carrying amount of holdings under control					(3,520)	(3,520)
Value of holdings under control using the equity method					7,941	7,941
Effect of the merger with sole shareholder (Note 30)					6,805	6,805
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2019 (Note 18)					**14,373**	**31,349**
Profit for the year	-	-	-	-	18,667	18,667
Other comprehensive income	-	-	-	(17,562)	-	(17,562)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**(17,562)**	**18,667**	**1,105**
EQUITY AS AT 31 DECEMBER 2020	**9,919**	**-**	**992**	**(11,497)**	**21,814**	**21,228**
Carrying amount of holdings under control				-	(2,720)	(2,720)
Value of holdings under control using the equity method				91	6,957	7,048
Effect of the merger with sole shareholder (Note 30)				-	6,008	6,008
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2020 (Note 18)				**(11,406)**	**32,059**	**31,564**

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

30. MERGER WITH SOLE SHAREHOLDER

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

As a result of the merger the difference between the fair value and carrying amount of the gas distribution network assets and intangible asset (customer contracts) recognised in the consolidated statement of financial position of Trilini Energy OÜ during the acquisition of controlling interest in AS Eesti Gaas, were recognised in the consolidated statement of financial position of Eesti Gaas Group. The estimated useful life of the price difference of the gas distribution network assets value is 30 years, the value of customer contracts is amortised using the declining balance method at the rate of 16% per year (2019: 18% per year). As at 31 December 2020, the carrying amount of the price difference of the gas distribution network assets and customer contracts was EUR 6,008 thousand (31 December 2019: EUR 6,805 thousand) (Note 29).

31. SIGNIFICANT ACCOUNTING POLICIES

31.1 BASIS OF CONSOLIDATION

A Subsidiaries

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

B Transactions eliminated on consolidation

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

C Loss of control over subsidiary

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

31.2 FOREIGN CURRENCY

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

31.3 REVENUE RECOGNITION

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

A Sale of natural gas, electricity and network services

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

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

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

B Recognition of connection fees

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

C Construction contracts

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

D Revenue recognition on the sale of goods

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

31.4 EMPLOYEE BENEFITS

A Short-term employee benefits

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

B Termination benefits

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

C Other employee benefits

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

31.5 FINANCE INCOME AND FINANCE COSTS

THE GROUP'S FINANCE INCOME AND FINANCE COSTS INCLUDE:

- interest income;
- interest expense.

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

31.6 INCOME TAX

A Income tax in Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, entertainment expenses, non-business related disbursements and adjustments of the transfer price. The income tax rate is 20%, calculated as 20/80 of the net distribution (except for regular dividend distributions that are a subject to a reduced income tax rate). In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which the dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The income tax liability is due on the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends out of the retained earnings is not recognised in the statement of financial position, unless for the deferred tax for investments in subsidiaries, associates, joint ventures and branches. The deferred tax for investments in subsidiaries, associates, joint ventures and branches is to be recognised even if the investments are located in jurisdictions where corporate income tax is to be paid on the distribution of profit (for example Estonia and Latvia), except to the extent that the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The maximum income tax liability which would arise if all of the retained earnings were distributed is disclosed in the notes to the financial statement.

B Income tax in foreign countries

Deferred income tax is recognised in foreign subsidiaries on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets and liabilities are recognised under the liability method. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. As at 31 December 2020 and 31 December 2019, 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 other inventories is based on the weighted average principle. The cost of inventories does not include borrowing costs. 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:

	Useful lives in years
buildings	33
gas pipelines	50
other buildings and constructions	10–50
computers and office equipment	3
vehicles	4–20
other machinery and equipment	3-30
inventory	3–10

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 16% (2019: 18% per year) and the asset's recoverable amount is tested for impairment. During the test, the cash flow from customer contracts is discounted at a risk-free rate of return. Estimated quantities, margins and costs of customer contracts are used in the calculation of cash flow. Amortisation of other intangible assets is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives. The amortisation expense is recognised in profit or loss.

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

31.10 INVESTMENT PROPERTY

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

31.11 ASSETS HELD FOR SALE

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

31.12 FINANCIAL INSTRUMENTS

A Classification and subsequent measurement of financial assets

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

As at 31 December 2020 and 31 December 2019 the Group classified all its non-derivative financial assets as measured at amortised cost. The accounting policy for derivatives, designated as hedging instruments, is disclosed in subsection (d).

A FINANCIAL ASSET IS MEASURED AT AMORTISED COST IF IT MEETS BOTH OF THE FOLLOWING CONDITIONS:

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

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

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

B Classification and subsequent measurement of financial liabilities

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

As at 31 December 2020 and 31 December 2019 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.

31.12 FINANCIAL INSTRUMENTS, CONTINUED

C Derecognition and offsetting

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

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

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

D Derivative financial instruments

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

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

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

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

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

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

31.13 CASH AND CASH EQUIVALENTS

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

31.14 SHARE CAPITAL

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

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

31.15 IMPAIRMENT

A Non-derivative financial assets

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

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

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

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

B Non-financial assets

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

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

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

31.16 PROVISIONS

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

WARRANTIES

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

EMPLOYEE RELATED PROVISIONS

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

31.17 LEASES

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

A Group as a lessee

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

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

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

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

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

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

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

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

B Group as a lessor

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

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

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 financial expense and income taxes.

31.19 FAIR VALUE MEASUREMENT

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

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

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

31.20 CONTINGENCIES

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

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

The following new and amended standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements. The new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- COVID-19-Related Rent Concessions (Amendment to IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to Conceptual Framework (Amendments to IFRS 3);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

33. SUBSEQUENT EVENTS

The price of AS Gaasivõrk network service changed as of 1 March 2021. The new price for network service approved by the Competition Authority is 0.06973 €/m^3.

Signatures Of The Management Board To The Annual Report For The Financial Year 2020

The annual report of Eesti Gaas Group for the financial year ended on 31 December 2020 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

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

Independent Auditors' Report

To the Shareholders of Eesti Gaas AS

Opinion

We have audited the consolidated financial statements of Eesti Gaas AS (collectively, the Group), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual 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 scepticism throughout the audit. We also:

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

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

Tallinn, 29 March 2021

Andris Jegers

Certified Public Accountant, Licence No 171

Kaidi Rannak

Certified Public Accountant, Licence No 696

KPMG Baltics OÜ
Licence No 17

KPMG Baltics OÜ

Narva mnt 5
Tallinn 10117
Estonia

Tel +372 626 8700
www.kpmg.ee

Profit allocation proposal

The retained earnings of Eesti Gaas Group as at 31 December 2020 were 32,058,479.35 euros, of which the net profit for the year 2020 amounted to 17,686,115.51 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 2020 to retained earnings.

Revenue of the parent by activities

1 JANUARY - 31 DECEMBER 2020 (In thousands of euros)

Activity	Sales revenue
Trade of gas through mains (35231)	127,464
Wholesale of automotive fuel (46712)	5,486
Trade of electricity (35141)	4,088
Retail sale of automotive fuel incl. activities of fuelling stations (47301)	3,833
Rental and operating of own or leased real estate (68201)	411
Other goods and services	4,731
TOTAL	**146,013**