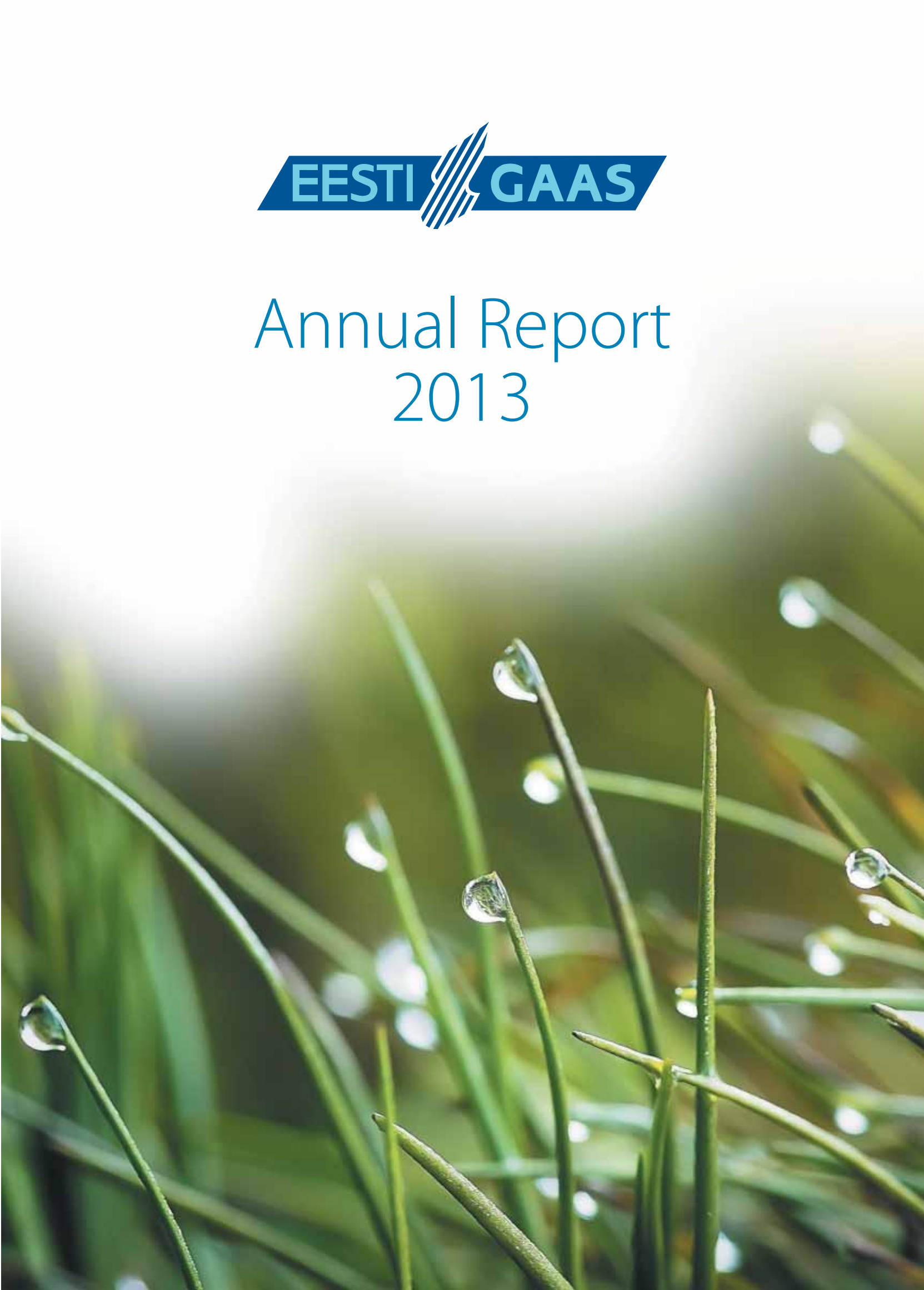


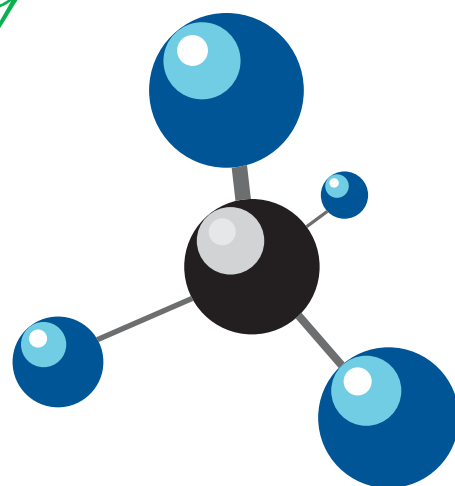


# Annual Report 2013





20<sup>th</sup>  
*Anniversary*



We thank all our customers and cooperation partners!



A moment from the anniversary concert  
at the Estonian National Opera on January 11, 2013

# Contents

Gas Pipelines in Estonia and in the Baltic States	2
Supervisory Board and Shareholders of AS Eesti Gaas	3
Statement of the Chairman of the Board of Directors	4
Sales and Financial Indicators	6
Activity Report of 2013	8
Consolidated Annual Accounting Report	10
Consolidated Balance Sheet	10
Consolidated Income Statement	12
Consolidated Cash Flow Statement	13
Consolidated Statement of Changes in Owners' Equity	14
Appendices to the Consolidated Annual Accounting Report	15



# Gas Pipelines in Estonia and in the Baltic States



## LEGEND

- Natural gas pipelines
- Kiili - Paldiski pipeline (under construction)
- Nord Stream gas pipelines
- Balticconnector (planned) gas pipelines
- Cities - natural gas consumers
- Border metering station in Värskas and Karksi
- Underground natural gas storage
- Compressor unit
- Border metering station

# Shareholders of AS Eesti Gaas



## Supervisory Board of Eesti Gaas in Tallinn

From left to right

**Boris Posyagin** (Vice-Chairman) **Aarne Saar** (Chairman), **Aleksander Mikheev**

Standing: **Georgy Fokin, Seppo Aho, Juris Savickis,**

**Dr Matthias Kohlenbach, Håkan Grefberg**

Not present: **Uwe Fip, Mario Nullmeier, Juri Bezzubov**

Type of shares	Number of shares	Share in share capital
A-type shares (nominal value 10.00 EUR)	721,843	72.77%
B-type shares (nominal value 0.10 EUR)	27,006,565	27.23%

## The shareholders of AS Eesti Gaas as of 31.12.2013

	A-type shares	B-type shares	
OAo Gazprom	367,268		37.03%
E.ON Ruhrgas International GmbH	254,598	7,929,186	33.66%
Fortum Heat and Gas OY	99,287	7,650,844	17.72%
Itera Latvija		9,936,535	10.02%
Other shareholders	690	1,490,000	1.57%

The share capital of AS Eesti Gaas amounts to EUR 9,919 million

The shares of AS Eesti Gaas are owned by 751 legal and private persons

**OAo GAZPROM**  
37.03%

**E.ON RUHRGAS  
INTERNATIONAL  
GMBH**  
33.66%

**FORTUM HEAT  
AND GAS OY**  
17.72%

**ITERA LATVIJA**  
10.02%

**OTHER  
SHAREHOLDERS**  
1.57%

# Statement of the Chairman of the Board of Directors

The year 2013 was a jubilee year in the history of AS Eesti Gaas. In 2013 we celebrated 20 years since the foundation of the public limited company, 25 years since the adoption of the Eesti Gaas business name and 65 years since the beginning of gas transportation through pipelines in Estonia. Our achievements have been based on the purposeful work performed by our employees during those years.



**Board of Directors of AS Eesti Gaas**  
From left to right: **Raul Kotov**, **Sergei Zagrebailov**,  
**Tiit Kullerkupp** (Chairman)

The jubilee year, however, turned out to be a complicated and even a revolutionary one for our company. In the first half of the year the company and its subsidiaries AS EG Võrguteenus and AS EG Ehitus operated as a well-functioning group in order to satisfy the interests of our customers. Subject to the requirements laid down in the amended Natural Gas Act of the Republic of Estonia a large-scale restructuring of the company was carried out in the second half of the year 2013.

In the first stage, AS EG Võrguteenus was divided through demerger and a new company, AS Gaasivõrgud, was registered on July 11, 2013. AS EG Võrguteenus whose main fields of activity had been the provision of natural gas transmission and distribution services and the maintenance of the whole gas supply system transferred to

AS Gaasivõrgud all the operations related to the distribution services as well as all the related contracts, rights and liabilities.

In the second stage, the resolution on the demerger of the company was adopted at the extraordinary general meeting of the shareholders of AS Eesti Gaas held in November, 2013 and the plan for the demerger of the company and the Articles of Association of the new company AS Võrguteenus Valdus were approved. As a result of the demerger the company's former subsidiary AS EG Võrguteenus passed over to the new company, AS Võrguteenus Valdus. As a result of this restructuring, AS Eesti Gaas satisfied the requirements of the Amendments to the Natural Gas Act of the Republic of Estonia concerning the ownership unbundling of the natural gas transmission network from any natural gas import or sale operation.



Despite this fundamental restructuring, we have succeeded in maintaining and even increasing the number of our good customers in 2013. More customers were connected to our distribution network in 2013 than in 2012. Moreover, the number of customers purchasing electricity from the company also increased. We have continually invested in the construction of CNG filling stations and the five filling stations in operation at present have contributed to a growth in the use of natural gas as a motor fuel. The location of the CNG filling stations makes it possible to drive successfully in the towns of Tallinn, Tartu, Narva and Pärnu as well as between these towns.

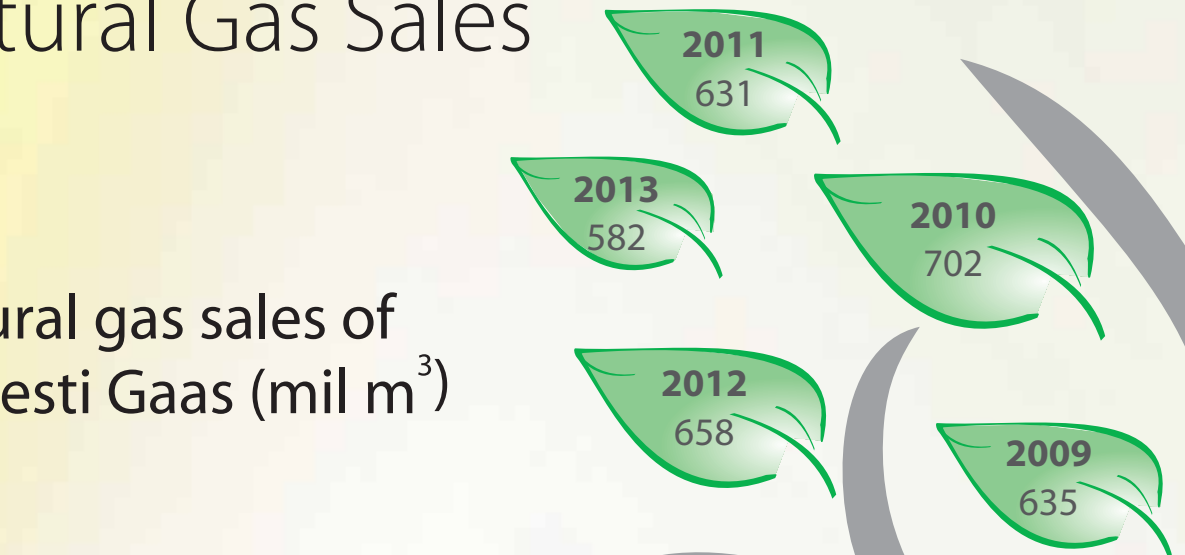
I would like to express gratitude to all our employees who did their best in the complicated conditions in 2013 so that we could be optimistic about the future of our company. AS Eesti Gaas will endeavour to provide our present and future customers with natural gas as an environmentally friendly and sustainable fuel.

Tiit Kullerkupp  
Chairman of the Board of Directors

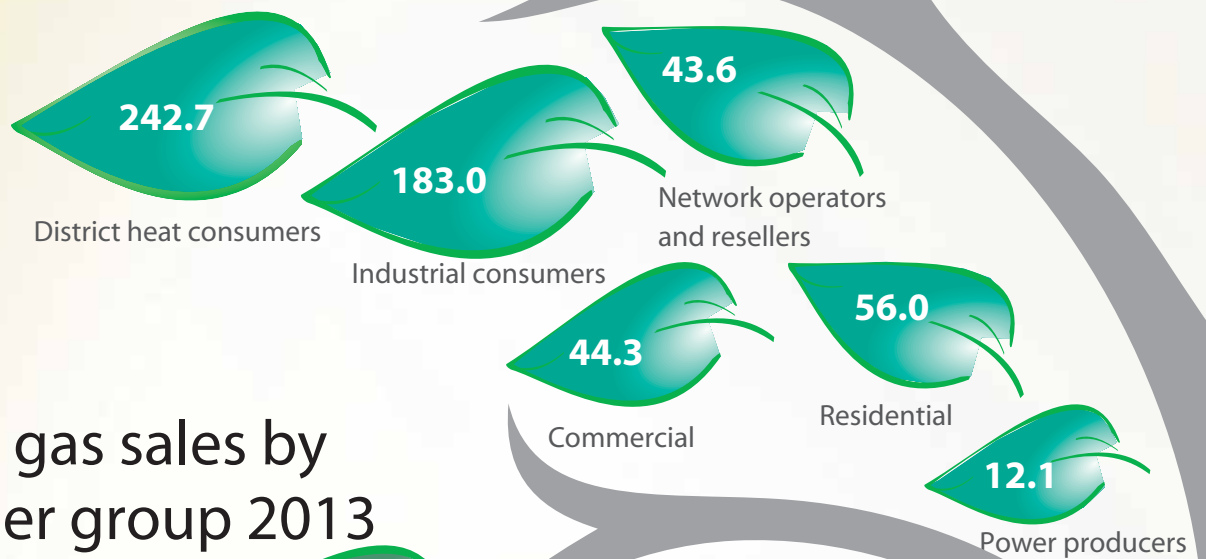
A handwritten signature in blue ink, appearing to read 'Tiit Kullerkupp', written in a cursive style.

# Natural Gas Sales

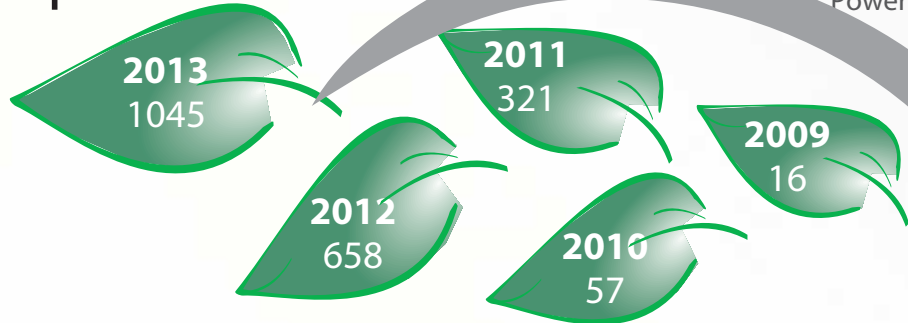
Natural gas sales of AS Eesti Gaas (mil m<sup>3</sup>)



Natural gas sales by customer group 2013 (mil m<sup>3</sup>)

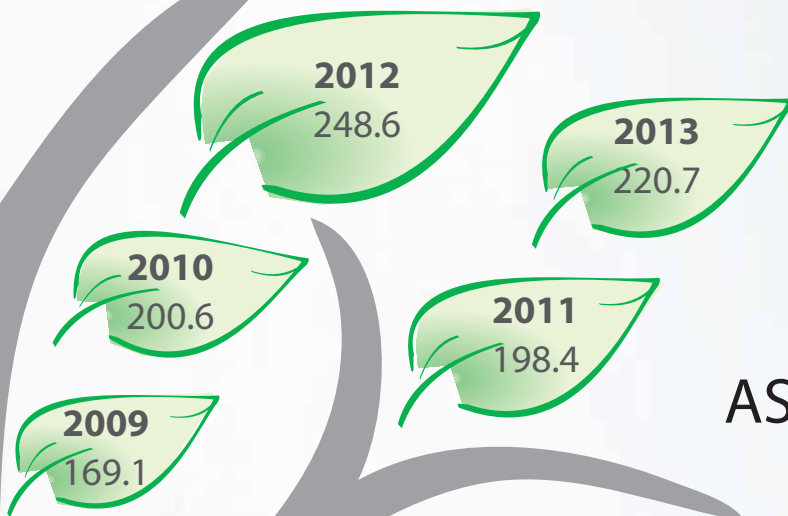


Sales of compressed natural gas in car filling stations of AS Eesti Gaas (th m<sup>3</sup>)

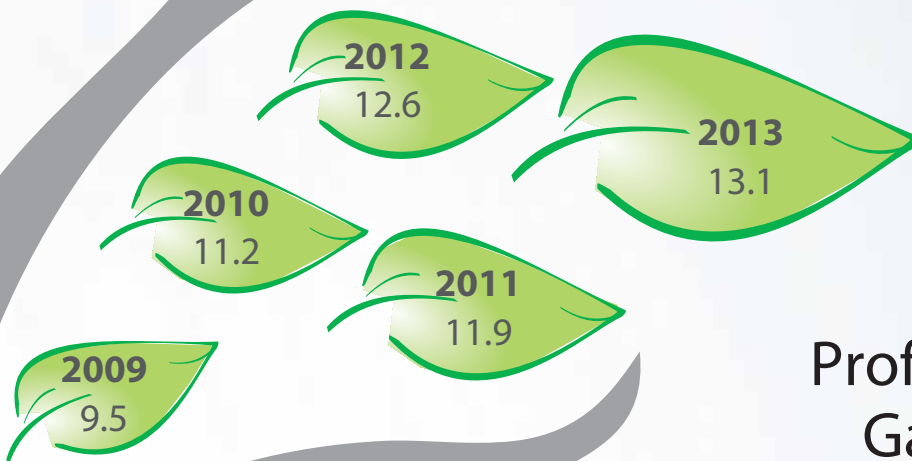




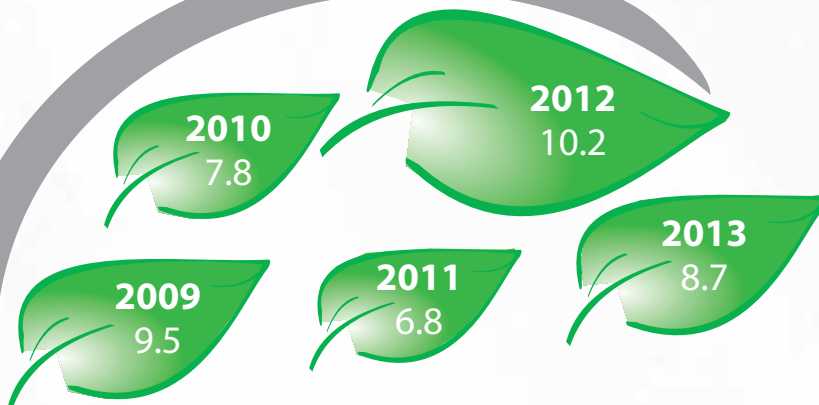
# Financial Indicators



Real investments of  
AS Eesti Gaas (mil EUR)



Profit of AS Eesti  
Gaas (mil EUR)



Net turnover of  
AS Eesti Gaas (mil EUR)

# AS Eesti Gaas Activity Report of 2013

The sales income of AS Eesti Gaas amounted to EUR 220.7 million in the 2013 fiscal year. The volume of natural gas sales in 2013 totalled 581.8 million m<sup>3</sup>, including 457.9 million m<sup>3</sup> sold to eligible customers, 56.0 million m<sup>3</sup> to residential customers and 67.9 million m<sup>3</sup> sold to resellers. The sales volume in 2012 amounted to 657.6 million m<sup>3</sup>.

AS Eesti Gaas operates five filling stations for vehicles using natural gas as motor fuel, two of the CNG filling stations are in Tallinn and one in Tartu, Pärnu and Narva. The CNG filling stations in Pärnu and Narva started operating in 2013. A total of 735.9 metric tons of compressed natural gas was sold in the fiscal year, which is by 35.9% more than in 2012. In 2013, the annual volume of natural gas used for the production of compressed gas surpassed one million m<sup>3</sup> for the first time.

The company started selling electricity on the open electricity market in 2013. The company sold 11.3 GWh of electricity to its customers in 2013 and customers of more than 1,000 consumption sites have entered into electricity purchase contracts with the company.

The balance sheet total of AS Eesti Gaas amounted to EUR 192.6 million as of December 31, 2013.

Noncurrent assets amounted to EUR 124.3 million in total assets as of December 31, 2013, increasing by EUR 1.3 million in the fiscal year.

Current assets amounted to EUR 68.3 million at the end of the fiscal year, decreasing by EUR 20.5 million if compared with the amount at the beginning of the year in connection with a decrease in customer receivables.

Cash at bank amounted to EUR 6.4 million as of December 31, 2013.

Liabilities totalled EUR 62.2 million as of December 31, 2013, decreasing by EUR 24.4 million in comparison with the amount at the beginning of the year.

The company's net profit of the 2013 fiscal year amounted to EUR 13.1 million and the net profit margin of sales was 5.9%.

Owners' equity amounted to EUR 130.4 million as of December 31, 2013. In comparison with the end-standing of the preceding fiscal year, owners' equity increased by EUR 5.3 million as a result of economic activity.

AS Eesti Gaas had an average of 83 employees as of the end of 2013. Real investments made by AS Eesti Gaas totalled EUR 8.7 million in 2013. The company financed the construction of gas supply systems for new customers in the amount of EUR 4.0 million and the reconstruction and renovation of noncurrent assets in the amount of EUR 3.7 million.

AS Eesti Gaas was restructured in 2013 in compliance with the Amendments to the Natural Gas Act passed on June 06, 2012.

A decision concerning the demerger of AS EG Võrguteenus was made in April, 2013. The demerger of AS EG Võrguteenus and the new company AS Gaasivõrgud were registered on July 11, 2013. All the operations related to the distribution services as well as the related assets, contracts, rights and liabilities were transferred by AS EG Võrguteenus to AS Gaasivõrgud. AS Gaasivõrgud, a subsidiary of AS Eesti Gaas, started economic operations on August 01, 2013.



Resolution concerning the demerger of the company was adopted by the shareholders of AS Eesti Gaas at the extraordinary general meeting held on November 19, 2013 (in addition, the plan for the demerger of the company was approved and the Articles of Association of AS Võrguteenus Valdus were adopted at the meeting). As a result of the demerger, the former subsidiary of the company, AS EG Võrguteenus, went over to the new company AS Võrguteenus Valdus registered on January 02, 2014.

The main fields of activity of the subsidiary AS EG Võrguteenus were the provision of natural gas transmission service through the natural gas network and, until August 01, 2013, the provision of distribution services as well as the maintenance and renovation of the gas supply systems. The company had 72 employees in December, 2013 and the sales income amounted to EUR 14.8 million. The main fields of activity of the subsidiary AS Gaasivõrgud are selling natural gas distribution service through natural gas distribution network, maintenance, renovation and development of the distribution network, performing gas work and offering consulting and training services in this field. The company had 92 employees in December, 2013 and the sales income amounted to EUR 6.7 million. The main fields of activity of the subsidiary AS EG Ehitus are the construction and renovation of gas networks, construction of heating systems, construction management and designing, replacement and maintenance of gas appliances. The company had 63 employees in December, 2013 and the sales income amounted to EUR 10.1 million.

The consolidated economic indicators of AS Eesti Gaas and its subsidiaries have been presented in the 2013 Annual Accounting Report and the unconsolidated main statements of the parent company have been included in the appendices thereto.

The main goals of AS Eesti Gaas in 2014 are to expand possibilities of using natural gas as a car fuel as well as in small-scale power industry and to secure the interest of our customers in natural gas as an energetically efficient and environmentally friendly fuel.

# Consolidated Annual Accounting Report

## CONSOLIDATED BALANCE SHEET

ASSETS		thousand EUR	
	31.12.2013	31.12.2012	Appendix
<b>CURRENT ASSETS</b>			
Cash at bank and in hand	9 786	21 649	2
Customer receivables			
Accounts receivable	27 532	43 225	
Allowance for uncollectible receivables (minus)	-450	-503	
Total customer receivables	27 082	42 722	3
Miscellaneous receivables	20	18	4
Prepaid expenses	87	80	5
Inventories			
Goods purchased for resale	35 973	26 570	6
<b>TOTAL CURRENT ASSETS</b>	<b>72 948</b>	<b>91 039</b>	
<b>NONCURRENT ASSETS</b>			
Long-term financial investments	58	58	7
Tangible assets			
Land and buildings (at cost)	171 400	165 868	
Machinery and equipment (at cost)	17 217	16 507	
Other tangible assets (at cost)	158	155	
Accumulated depreciation of noncurrent assets (minus)	-67 258	-61 237	
Construction-in-progress	255	816	
Total tangible assets	121 772	122 109	7
Intangible assets			
IT systems	1 091	649	7
<b>TOTAL NONCURRENT ASSETS</b>	<b>122 921</b>	<b>122 816</b>	
<b>TOTAL ASSETS</b>	<b>195 869</b>	<b>213 855</b>	

# LIABILITIES AND OWNERS' EQUITY

## LIABILITIES

thousand EUR

<b>CURRENT LIABILITIES</b>	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>Appendix</b>
Loan commitments			
Short-term bank loans	0	23 000	10
Short-term financial lease payables	0	30	8
Total loan commitments	0	23 030	
Customer prepayments for goods and services	313	220	
Supplier payables	53 525	49 382	
Customer payables	62	319	
Tax liabilities	5 206	8 455	9
Accrued expenses (unpaid expenses of the fiscal period)			
Salary-related accrued expenses	886	790	
Interest payable	0	2	
Other accrued expenses	1	1	
Total accrued expenses	887	793	
Short-term provisions	37	37	10
Other deferred income	652	1 474	
<b>TOTAL CURRENT LIABILITIES</b>	<b>60 682</b>	<b>83 711</b>	
<b>NONCURRENT LIABILITIES</b>			
Long-term provisions	885	714	10
Other deferred income	-	1 820	
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>885</b>	<b>2 534</b>	
<b>TOTAL LIABILITIES</b>	<b>61 567</b>	<b>86 245</b>	
<b>OWNERS' EQUITY</b>			11
Share capital (nominal value)	9 919	9 919	
Share premium	4 857	4 857	
Reserves			
Legal reserve	992	992	
Other reserves	58	58	
Retained earnings	67 507	59 206	
Retained earnings from the revaluation of natural gas pipelines	36 424	39 017	
Profit for the fiscal year	14 545	13 561	
<b>TOTAL OWNERS' EQUITY</b>	<b>134 302</b>	<b>127 610</b>	
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>195 869</b>	<b>213 855</b>	

# Consolidated Income Statement

thousand EUR

<b>REVENUE</b>	<b>2013</b>	<b>2012</b>	<b>Appendix</b>
Sales income	220 705	249 460	12
Other revenue	48	40	13
<b>Total revenue</b>	<b>220 753</b>	<b>249 500</b>	
<b>EXPENSES</b>			
Work performed by the undertaking for its own purpose and capitalised	-4 930	-6380	
Goods, raw materials and services	190 231	223 188	14
Miscellaneous operating expenses	2 928	2 499	15
Labour costs			
a) wages and salaries	6 659	5 976	
b) social taxes	2 242	2 005	
Depreciation and impairment of noncurrent assets	6 852	6 390	7
Other business expenses	115	86	16
<b>Total expensa</b>	<b>204 097</b>	<b>233 764</b>	
<b>OPERATING PROFIT</b>	<b>16 656</b>	<b>15 736</b>	
<b>FINANCIAL INCOME AND EXPENSES</b>			
a) interest expense	-22	-104	
b) other financial income and expenses	-1	17	
<b>Total financial income and expenses</b>	<b>-23</b>	<b>-87</b>	
<b>PROFIT FROM ECONOMIC OPERATIONS</b>	<b>16 633</b>	<b>15 649</b>	
<b>PROFIT BEFORE TAXES</b>	<b>16 633</b>	<b>15 649</b>	
Income tax	2 088	2 088	
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>14 545</b>	<b>13 561</b>	

# Consolidated Cash Flow Statement

thousand EUR

<b>CASH FLOWS FROM OPERATIONS</b>	<b>2013</b>	<b>2012</b>	<b>Appendix</b>
Net profit of the fiscal year	16 656	15 736	
Value adjustments			
Depreciation and impairment of noncurrent assets	6 852	6 390	7
Profit(-), loss from the sale of noncurrent assets	-30	-26	
Loss from the write-off of noncurrent assets	6	3	
Formation of provisions	201	64	
Change in business-related receivables	15 631	-11 653	
Change in inventory	-9 403	4 046	
Change in business-related liabilities	-1 787	40 240	
Interests received	10	28	
Interests received	-2 088	-2 088	
<b>Total cash flows from operations</b>	<b>26 048</b>	<b>52 740</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of noncurrent assets	-7 031	-9 920	
Sale of noncurrent assets	38	28	
<b>Total cash flows from investing activities</b>	<b>-6 993</b>	<b>-9 892</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans	5 000	27 000	10
Redeemed loans	-28 000	-46 383	10
Paid interests	-35	-168	
Financial lease main instalments	-30	-45	8
Paid dividends	-7 853	-7 853	
<b>Total cash flows from financing activities</b>	<b>-30 918</b>	<b>-27 449</b>	
<b>TOTAL CASH FLOWS</b>	<b>-11 863</b>	<b>15 399</b>	
Cash and its equivalents at the beginning of the fiscal period	21 649	6 250	
Change in cash and its equivalents	-11 863	15 399	
<b>Cash and its equivalents at the end of the fiscal period</b>	<b>9 786</b>	<b>21 649</b>	

*Natural gas -  
a key into the clean environment!*

# Consolidated Statement of Changes in Owners` Equity

thousand EUR

	Share capital	Share premium	Legal reserve capital	Other reserves	Retained earnings	Retained earnings from the revaluation of noncurrent assets	Total
<b>Balance 31.12.2011</b>	<b>9 919</b>	<b>4 857</b>	<b>992</b>	<b>58</b>	<b>64 466</b>	<b>41 610</b>	<b>121 902</b>
Net profit of the fiscal period	-	-	-	-	13 561	-	13 561
Announced dividends	-	-	-	-	-7 853	-	-7 853
Adjustment of the retained earnings from the revaluation of noncurrent assets	-	-	-	-	+2 593	-2 593	-
<b>Balance 31.12.2012</b>	<b>9 919</b>	<b>4 857</b>	<b>992</b>	<b>58</b>	<b>72 767</b>	<b>39 017</b>	<b>127 610</b>
Net profit of the fiscal period	-	-	-	-	14 545	-	14 545
Announced dividends	-	-	-	-	-7 853	-	-7 853
Adjustment of the retained earnings from the revaluation of noncurrent assets	-	-	-	-	+2 593	-2 593	-
<b>Balance 31.12.2013</b>	<b>9 919</b>	<b>4 857</b>	<b>992</b>	<b>58</b>	<b>82 052</b>	<b>36 424</b>	<b>134 302</b>



# Appendices to the Consolidated Annual Accounting Report

## APPENDIX 1. ACCOUNTING METHODS AND COMPILING PRINCIPLES

The 2013 Consolidated Annual Accounting Report of AS Eesti Gaas has been compiled in compliance with the accounting principles generally accepted in the Republic of Estonia, based on internationally accepted accounting and reporting principles. The main requirements for generally accepted accounting principles are laid down in the Accounting Act of the Republic of Estonia and supplemented by the regulations issued by the Estonian Accounting Standards Board. The Consolidated Income Statement of AS Eesti Gaas has been compiled on the basis of the Income Statement Format 1 in Appendix 2 of the Accounting Act of the Republic of Estonia.

The Consolidated Annual Accounting Report is compiled in euros, using thousand as a unit. AS Eesti Gaas and its subsidiaries form the AS Eesti Gaas Group. The consolidated performance indicators of AS Eesti Gaas and its subsidiaries have been presented in the Annual Accounting Report in compliance with the provisions of the Accounting Act of the Republic of Estonia. The unconsolidated main statements of the parent company have been included in the appendices to the Report (See Appendix 18).

### Change in accounting principles

The Annual Accounting Reports compiled for the accounting periods starting on January 01, 2013 and on later dates were to comply with the new regulations issued by the Accounting Standards Board. The following consolidated accounting principles were changed as a result of the compulsory application of the new regulations:

#### Recording of connection fees (RTJ 10)

Connection fees shall be recorded on the balance sheet as income in case the connection service has been provided (i.e., the construction of the noncurrent assets necessary for the connection has been completed), connection fees have been paid and there is no real risk of repayment of the connection fees. In the past, connection fees were recorded on the balance sheet in the course of five years, which is the period when customers presumably consume the connection-related service. Income from connection fees in 2013 decreased by EUR 941 thousand due to the change in accounting principles. This accounting principle was not applied retroactively because of a marginal effect and it has been in use since the beginning of the fiscal year.

### Recording consolidations

All consolidations between independent parties are recorded using the purchase method. The assets and liabilities or the net assets acquired in the course of a consolidation are registered in the accounting documents at their fair value.

### Consolidation principles

A subsidiary is a company which is controlled by its parent company. A subsidiary is considered to be controlled in case its parent company owns either directly or through its subsidiary over 50 % of the votes or share capital of the subsidiary, in case the parent company controls the

financial and operating policies of the subsidiary under a contract or an agreement, or in case the parent company has the right to appoint or to recall a majority of the members of the management or of the highest directing body.

The financial indicators of the companies belonging to the Group have been consolidated using the line-by-line method. Transactions between the companies belonging to the Group, the unrealised profits and losses resulting from these transactions as well as mutual receivables and liabilities have been fully eliminated. These accounting principles were also applied to record the financial indicators of the parent company and subsidiaries in the Consolidated Annual Accounting Report.

### Cash and cash equivalents

Cash and cash equivalents include short-term (in general, up to 3 months) investments of high liquidity which can be converted into a definite amount of cash and have no significant risk of a change in their market value (e.g., cash in hand and at banks and bank deposits).

The cash flow statement records cash flows from business by indirect method, i.e. while determining the cash flows from business, the operating profit has been adjusted by eliminating the influence of non-monetary transactions as well as the balance changes in business-related receivables and liabilities.

Cash flows from investment and financing activity are recorded by direct method.

### Customer receivables

Customer receivables are recorded on the balance sheet at adjusted acquisition cost. Accounts receivable are evaluated on the balance sheet on the basis of the sums likely to be received. Liability discount is based on the failure to meet the deadlines, bankruptcy of the debtor or significant solvency problems. Each case is viewed separately while evaluating the accounts receivable,

considering the available information on the customer's solvency. Doubtful customer receivables are included in the expenses of the fiscal period and are recorded on the balance sheet with a minus sign under "Allowance for uncollectible receivables".

Liabilities, which have earlier been recorded as expenses, but are collected during the fiscal period, are recorded as an adjusted sum of doubtful receivables and as a reduction of expenses in the income statement of the fiscal period. Uncollectible accounts receivable have been recorded off the balance sheet.

### Inventories

Inventories are recorded at acquisition cost, which consists of the purchase price, other irredeemable taxes and acquisition-related direct expenses.

The average acquisition cost method is used upon recording the materials, goods and spare parts under expenses and upon calculation of their book value. The gas reserve is recorded as expenses using the FIFO method.

Inventories are evaluated on the balance sheet on the basis of the lower cost, either the acquisition cost or the net realisation value. The discount amount is recorded under "Goods, raw materials and services" in the income statement.

### Long-term financial investments

Securities purchased for a longer period than one year are recorded as long-term financial investments. Long-term financial investments are recorded on the balance sheet using the acquisition cost method. Loss from depreciation is recorded in the income statement of the fiscal period.

Investments in subsidiaries are also recorded in the unconsolidated main statements of the parent company using the acquisition cost method (see Appendix 18).

### Noncurrent assets

Noncurrent assets are the assets with a useful life exceeding one year and the value exceeding EUR 700, except for gas meters and correctors, which are considered to be noncurrent assets regardless of their cost. Assets of lower acquisition cost or shorter useful life shall be recorded as expense at the time of their operation and off-balance accounting is kept over them.

Noncurrent assets are recorded on the balance sheet so that accumulated depreciation and discounts related to depreciation are deducted from the acquisition cost. The acquisition cost of noncurrent assets consists of the assets' value and the expenditure on their operation. Expenses on capitalized production shall be capitalized at acquisition cost, which consists of actual manufacturing expenses entered into expenditure.

In case the noncurrent asset facility consists of different important components, which have different useful lives, those components shall be registered in accounting documents as separate asset facilities. Separate depreciation rates shall be fixed to them according to the useful life of the components.

Noncurrent assets are amortized on a straight-line basis, considering their useful life. The following useful life rates have been fixed to the noncurrent asset groups:

Noncurrent asset group	Useful life
Land	not depreciated
Buildings and constructions	120 – 600 months
Machinery and equipment	40 – 180 months
Transportation vehicles	48 – 60 months
Inventory	40 – 60 months
Intangible assets	60 months

The depreciation rates of noncurrent assets are reviewed upon circumstances, which may significantly change the useful life of the noncurrent asset or noncurrent asset group. The influence of the assessment amendments shall be recorded in the fiscal period and the following periods.

Later improvement costs of noncurrent asset facilities shall be added to the facility's acquisition cost in case they correspond to the notion of noncurrent assets and satisfy the criteria for recording these on the balance sheet. Routine maintenance and repair expenses shall be recorded in the expenses of the fiscal period.

Income or loss from the sale of noncurrent assets shall be recorded in the income statement under "Other revenue" or "Other business expenses", respectively.

The value of noncurrent asset facilities is critically assessed by the management of the company on each balance day to detect any sign of depreciation. In case of doubts indicating the depreciation of a noncurrent asset facility below its carrying amount, a test of the recoverable amount of the asset facility is performed. The recoverable value equals the higher of the two indicators, i.e. either the fair value of the noncurrent asset facility (minus sales-related expenses) or the use value calculated on the basis of discounted cash flows. Noncurrent asset facilities are depreciated to their recoverable amount if the testing results reveal that their recoverable amount is less than their carrying amount. In case the value of a definite noncurrent asset facility cannot be tested, the recoverable amount is calculated for the smallest group of assets (money-generating unit) to which this particular noncurrent asset facility belongs. Devaluations of assets are recorded as expense of the fiscal period.

If the results of the recoverable amount test of an earlier discounted asset facility reveal that the recoverable amount has exceeded the carrying amount, the earlier discount shall be cancelled and the carrying amount of the asset facility shall be increased. The upper limit is the carrying amount of the asset facility, which would have been formed considering normal depreciation in these years.

### **Rent accounting**

Financial lease is a rental relationship, upon which all significant ownership-related risks and benefits are carried over to the lessee. Other rental transactions are recorded as operating lease.

#### *Company as a lessor*

Assets, rented under financial lease conditions, are recorded on the balance sheet as receivables in the amount of the net investment in financial lease. Financial lease instalments receivable are divided into financial lease main instalments and financial income. Financial income is recorded during the rental period.

Assets, rented out under operating lease conditions, are recorded on the balance sheet analogously to the recording of other assets of the company. Operating lease instalments are recorded as income during the rental period.

#### *Company as a lessee*

Noncurrent assets, rented under financial lease conditions, are recorded on the balance sheet when the lease enters into force in the sum of noncurrent asset and commitment asset fair value. Rental instalments paid to the lessor are divided into reimbursements of the main part and financial expense. Financial expenses are recorded during the rental period. According to the conditions of financial lease, rented noncurrent assets are depreciated using the same depreciation principles as valid for the same type of assets procured by the company.

Operating lease instalments are recorded linearly as expense during the rental period.

### **Financial liabilities**

All financial liabilities, such as supplier payables, loans, accrued expenses and other current and noncurrent liabilities, are recorded on the balance sheet using the acquisition cost method, which also includes all acquisition-related direct expenses. Later recordings are based on adjusted acquisition cost method.

Liabilities are divided into current and noncurrent liabilities. The adjusted acquisition cost of current financial liabilities is, in general, equal to their nominal value and, therefore,

current liabilities are recorded on the balance sheet as amounts payable. Calculation of the noncurrent financial liabilities starts with registration of these liabilities on the balance sheet at fair value of the payment received minus transaction costs and in subsequent periods interest expense on liabilities is calculated using the internal interest rate method. Liabilities with a maturity date of more than one year are regarded as noncurrent liabilities. All the remaining liabilities are current liabilities.

### **Provisions and conditional liabilities**

The company shall form provisions in case it has a legal or operation-related liability before the balance day, the realisation of the provision is likely and the amount of the liability can be reliably assessed. The amount of the provision and determination of its realisation time shall be based on the management's evaluations. Long-term provisions are recorded on the balance sheet in the sum of the present value of provision-related discounted disbursements in case of significant discounting influence. Discounting is based on the interest rate of similar liabilities in the market.

Expenses of provision realisation are evaluated as of every balance day.

Conditional liabilities are the liabilities, the realisation probability of which is under 50% or the amount of which cannot be reliably evaluated. Records of conditional liabilities are kept off-balance.

### **Corporate income tax**

According to the present income tax law, a tax is imposed on the dividends at the rate of 21/79 from the sum paid out as net-dividend. The corporate income tax, accompanying the dividend payment, is recorded as a liability on the balance sheet and as an income tax expense in the income statement at the time of the dividend announcement.

The possible income tax liability amount related to dividend payment is included in Appendix 11.

### **Income calculation**

Income from the sale of goods shall be recorded in case all significant ownership-related risks have been transferred to the purchaser and the sales income as well as the transaction-related expenses can be reliably determined.

Income from the sale of services is recorded on the basis of the rate-of-completion method, i.e. the income and profit from the service rendering shall be recorded proportionally in the same periods as the expenses related to the service. In case of building contracts, rate of completion is determined on the basis of the inspection results of the work completed which has been accepted by the customer.

In case of projects in which by the balance day the amounts of invoices issued to the customer for contractual work exceed the income share corresponding to the expenses of the project the difference is recorded as a liability on the balance sheet under "Customer payables". On the other hand, in case the amounts of invoices issued to the customer for contractual work are smaller than the income share corresponding to the expenses of the project, the difference is recorded as a receivable on the balance sheet under "Amounts due from customers". In case the total expenses arising from the rendering of services exceed the income from the rendering of services, the anticipated loss shall be recorded in full and immediately in the income statement of the financial period.

Connection fees paid by the new customers connected to the natural gas network shall be recorded on the balance sheet as income in case the connection service has been provided (i.e., the construction of the noncurrent assets necessary for the connection has been completed), connection fees have been paid and there is no real risk of repayment of the connection fees. The sums of the connection fees are recorded as customer receivables and as other short-term current payables on the balance sheet upon the issue of the invoice. Connection fees received from the customers before the service is provided is recorded on the balance sheet as short-term or long-term entries under "other deferred income".

Interest income is shown as income upon occurrence of the right of claim.

Income and expense accounting is based on the accrual accounting principle and the matching principle of income and expenses. Interest on arrears is recorded on cash basis as an exception, as their receipts are uncertain.

#### Transactions based on foreign currency

Transactions in foreign currency shall be recorded in bookkeeping in euros at the exchange rate of the European Central Bank on the transaction day. The monetary assets and liabilities, recorded in foreign currency as of 31.12.2013, have been re-evaluated into euros at the exchange rates fixed by the European Central Bank on the balance day. Profits and losses from the transactions in foreign currency are recorded in the income statement as the income and expense of the period.

#### Vacation pay provision

Expenses of the vacation pay are recorded in the period of the occurrence of the liability. The vacation pay provision is adjusted once a year – as of the end of the fiscal year. The earned vacation pay is recorded as expenses in the income statement and as short-term liability to the employees on the balance sheet.

#### Related parties

Parties are related when one party has control over the other party or significant influence on the other party's economic decisions.

In the consolidated report, AS Eesti Gaas treats the following persons as related parties: shareholders of the parent company holding over 10% of the share capital, the management and the highest supervisory body of the parent company as well as the close relatives of the persons in the management and the highest supervisory body and the companies related to them.

#### Events following the balance day

The Annual Accounting Report includes important circumstances influencing the assessment of assets and liabilities, which occurred in the period between the balance date of December 31, 2013 and the date of compiling the report, but which are related to the transactions taken place in the accounting period or earlier periods. The reflection of the events after the balance day, but before the adoption of the report depends on whether it is a corrective or non-corrective event.

Corrective event following the balance day confirms the circumstances existing on the balance day and its influence shall be reflected on the balance sheet and in the income statement of the fiscal year.

Non-corrective event following the balance day does not provide evidence of the circumstances existing on the balance day and in case of the occurrence of non-corrective events, they shall be included in the appendices to the annual report.

#### APPENDIX 2. CASH AND BANK

thousand EUR

	31.12.2013	31.12.2012
Cash in hand	12	19
Clearing accounts	47	26
Deposits	9 727	21 604
<b>Total cash and bank</b>	<b>9 786</b>	<b>21 649</b>

*A cleaner tomorrow!*

**APPENDIX 3. CUSTOMER RECEIVABLES**

thousand EUR

	31.12.2013	31.12.2012
Accounts receivable for natural gas	26 175	41 154
Other accounts receivable	326	1 319
Amounts due from customers	1 031	752
Total accounts receivable	27 532	43 225
Doubtful receivables	-450	-503
	<b>27 082</b>	<b>42 722</b>

**Doubtful receivables as of 31.12.2011****-527**

In the period of 01.01.2012 – 31.12.2012

• doubtful receivables	62
• doubtful receivables written off additionally	-150
• collected earlier doubtful accounts	112

**Doubtful receivables as of 31.12.2012****-503**

In the period of 01.01.2013 – 31.12.2013:

• doubtful receivables	62
• doubtful receivables written off additionally	-101
• collected earlier doubtful accounts	92

**Doubtful receivables as of 31.12.2013****-450****APPENDIX 4. OTHER RECEIVABLES**

thousand EUR

	31.12.2013	31.12.2012
Loans to employees	14	17
Other short-term receivables	6	1
<b>Total other receivables</b>	<b>20</b>	<b>18</b>

**APPENDIX 5. PREPAID EXPENSES**

thousand EUR

	31.12.2013	31.12.2012
Prepayment for IT services	34	36
Prepaid insurance expenses	24	14
Other prepaid expenses	29	30
<b>Total prepaid expenses</b>	<b>87</b>	<b>80</b>

**APPENDIX 6. INVENTORIES**

thousand EUR

	31.12.2013	31.12.2012
Natural gas reserve at the storage in Latvia	34 874	25 215
Materials and spare parts of the gas network	599	798
Other goods and materials	500	557
<b>Total inventories</b>	<b>35 973</b>	<b>26 570</b>

The total natural gas reserve, which is recorded on the balance sheet under "Inventories", is stored in the Latvian natural gas storage and deposited into the storage with liability to AS Latvijas Gaze.



## APPENDIX 7. NONCURRENT ASSETS

### TANGIBLE ASSETS

thousand EUR

	Land and buildings	Facilities	Machinery and equipment	Other	Total
Acquisition cost as of 31.12.2012	5 650	160 218	16 507	155	182 530
Acquisitions and improvements	96	5 443	1 303	6	6848
Reclassification	0	-7	7	0	0
Sales and write-offs	0	0	-600	-3	-603
Acquisition cost as of 31.12.2013	5 746	165 654	17 217	158	188 775
<b>Accumulated depreciation</b>					
Accumulated depreciation as of 31.12.2012	1 973	47 339	11 773	152	61 237
Depreciation in the fiscal period	142	5 363	1 102	3	6 610
Sales and write-offs	0	0	-586	-3	-589
Accumulated depreciation as of 31.12.2013	2 115	52 702	12 289	152	67 258
<b>Construction and reconstruction in progress</b>					
Balance as of 31.12.2012	0	791	25	0	816
Construction and repairs	106	4 845	1 158	0	6 109
Completed construction and repairs	-96	-5 443	-1 131	0	-6 670
Balance as of 31.12.2013	10	193	52	0	255
<b>Residual value</b>					
Residual value as of 31.12.2012	3 677	113 670	4 759	3	122 109
Residual value as of 31.12.2013	3 641	113 145	4 980	6	121 772

## INTANGIBLE ASSETS

### IT systems, PC software, development expenses

thousand EUR

#### Acquisition cost

Acquisition cost as of 31.12.2012	3 034
Acquisitions	684
Sales and write-offs	-15
Acquisition cost as of 31.12.2013	3 703

#### Accumulated depreciation

Accumulated depreciation as of 31.12.2012	2 385
Depreciation in the fiscal period	242
Sales and write-offs	-15
Accumulated depreciation as of 31.12.2013	2 612

#### Residual value

Residual value as of 31.12.2012	649
Residual value as of 31.12.2013	1 091

The management of AS Eesti Gaas has performed a recoverable value test concerning the tangible assets and found that devaluation of assets was not necessary. The balance residual value of the noncurrent assets of the gas distribution network as of December 31, 2013, business plans and forecasts of AS Gaasivõrgud approved by the Supervisory Board and a discount rate of 7.01% were used for the purpose of the test.

#### Other shares and securities

Twelve shares of the Rocca al Mare Suurhall AS for the value of EUR 58 thousand are recorded on the balance sheet under "Long-time financial investments".

## APPENDIX 8. FINANCIAL AND OPERATING LEASE

### Company as a lessee

The company has acquired transportation vehicles under the financial lease conditions, which are recorded on the balance sheet under "Machinery and equipment". The underlying currency in the financial lease agreements is EUR both in 2013 and 2012 and the annual interest rate is 6-month Euribor added by a margin of 0.6 – 0.9 %.

The company has rented under the operating lease conditions transportation vehicles and premises for the purpose of advertising the company and employee training.

thousand EUR

#### Financial lease

Acquisition cost	Depreciated cost as of 31.12.2012	Depreciated cost as of 31.12.2013	Payments paid in 2012	Payments paid in 2013	Payments paid in 2014	Payments due in the next 1-5 years
151	135	0	45	30	0	0

#### Operating lease

	Rent expenses in 2012	Rent expenses in 2013
Transportation vehicles	63	90

### Company as a lessor

Rental income from the partial lease of the buildings belonging to AS Eesti Gaas amounted to EUR 59 thousand in the 2013 fiscal year (EUR 61 thousand in 2012). According to the management's assessments, the rental income in future years is anticipated to remain in the same limits as in 2013.

## APPENDIX 9. DEBT OBLIGATIONS

thousand EUR

	31.12.2013	31.12.2012
Value added tax	3 986	6 553
Natural gas excise duty	935	1 554
Personal income tax	95	114
Social tax	168	203
Unemployment insurance premium	11	20
Funded pension premium	7	7
Income tax on fringe benefits	4	4
<b>Total debt obligations</b>	<b>5 206</b>	<b>8 455</b>

**APPENDIX 10. LOAN COMMITMENTS AND PROVISIONS**

thousand EUR

<b>Bank loans</b>					
<b>Underlying currency</b>	<b>Due date of paymente</b>	<b>Balance 31.12.11</b>	<b>Loan reserved</b>	<b>Loan repaid</b>	<b>Balance 31.12.12</b>
SEB Bank, revolving credit line loan, financing of current assets					
EUR	17.12.13	5 900	7 000	9 900	3 000
SEB Bank, storing natural gas into the Latvian storage					
EUR	24.04.12	36 483	0	36 483	0
SEB Bank, storing natural gas into the Latvian storage					
EUR	01.08.13	0	20 000	0	20 000
<b>Total 2012</b>		<b>42 383</b>	<b>27 000</b>	<b>46 383</b>	<b>23 000</b>

<b>Underlying currency</b>	<b>Due date of paymente</b>	<b>Balance 31.12.12</b>	<b>Loan reserved</b>	<b>Loan repaid</b>	<b>Balance 31.12.13</b>
SEB Bank, revolving credit line loan, financing of current assets					
EUR	17.12.13	3 000	5 000	8 000	0
SEB Bank, storing natural gas into the Latvian storage					
EUR	01.08.13	20 000	0	20 000	0
<b>Total 2013</b>		<b>23 000</b>	<b>5 000</b>	<b>28 000</b>	<b>0</b>

The annual interest rate of loans is equal to one-month Euribor plus 0.4-0.45%.

In the 2013 financial year the loan to AS SEB Bank was repaid on time and new loan agreements were concluded to finance the current assets and the purchasing of natural gas into the Latvian storage.

**Long-term and short-term provisions**

Short-term provisions related to employment contracts recorded on the balance sheet as of December 31, 2013 and December 31, 2012 are formed of pension liabilities in the amount of EUR 31 thousand payable in 2014 and paid in 2013 and a provision in the amount of EUR 6 thousand is formed under the terms of construction contracts.

Long-term provisions include pension liabilities in the amount of EUR 122 thousand (EUR 122 thousand in 2012) and dismissal compensations in the amount of EUR 762 thousand (EUR 592 thousand in 2012). Long-term provisions are recorded at undiscounted value due to a negligible influence of discounting.



# *With natural gas we save the Estonian nature!*

## **APPENDIX 11. OWNERS' EQUITY**

### **Share capital**

In compliance with its Articles of Association the share capital of AS Eesti Gaas amounts to EUR 9,919 thousand, divided into 4,338,544 nominal shares, which have been issued. The company has two types of shares - A- and B-type registered shares, whereas the total sum of the nominal values of B-type shares shall not exceed 28% of the share capital.

The number of A-type shares is 721,843 and the nominal value of each share is EUR 10. Each share grants one hundred votes to its owner at the general meeting of shareholders. In case of the dispossession of shares, other A-type shareholders have the preemptive purchase right.

The number of B-type shares is 27,006,565 and the nominal value of each share is EUR 0.1. Each share grants one vote to its owner at the general meeting of shareholders. B-type shares are freely tradable. The share registry is kept electronically at the Central Depository of Securities.

The total amount of the share capital of EUR 9,919 thousand includes, both, as of the beginning of the year and the end of the year:

- A-type shares in the amount of EUR 7,218 thousand, which totals 72.77% of the company's share capital;
- B-type shares in the amount of EUR 2,701 thousand, which totals 27.23% of the company's share capital.

### **Legal reserve capital**

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

The legal reserve capital amounts to EUR 992 thousand, both, at the beginning of the fiscal year and as of 31.12.2013, i.e. 1/10 of the share capital. No provisions from net profit were transferred into the legal reserve capital in the fiscal year.

### **Profit distribution**

The Board of Directors has anticipated a dividend payout in the amount of EUR 9,919 thousand in the proposal for the 2013 profit distribution. That would bring about a tax liability in the amount of EUR 2,637 thousand.

Disregarding the amount on the balance sheet under "Retained earnings from the revaluation of noncurrent assets", retained earnings amount to EUR 85,408 thousand. That amount enables to pay out EUR 67,472 thousand as dividends and an income tax liability of EUR 17,936 thousand would follow upon the paying of the amount as dividends.

### **Retained earnings from the revaluation of noncurrent assets**

A revaluation of the natural gas pipelines, acquired in 1995 or earlier, was performed as of 31.12.2004, and the results of the revaluation were recorded on the balance sheet under "Retained earnings from the revaluation of noncurrent assets": EUR 2,593 thousand was transferred from this entry to "Retained earnings" in 2012 and 2013. This figure reflects the difference between the depreciation based on the revaluated carrying cost of the revaluated natural gas pipelines as of 31.12.2004 and the depreciation based on their initial acquisition cost before the revaluation was performed.

## APPENDIX 12. SALES INCOME

By fields of activity, the sales income is as follows:

	thousand EUR	
	2013	2012
Sale of gas network service	195 603	224 116
Sale of construction service	15 804	13 275
Ehitusteenuse müük	5 840	8 464
Connection fees	800	1 546
Sale of gas appliances and other goods	1 144	417
Other services	1 514	1 642
<b>Total</b>	<b>220 705</b>	<b>249 460</b>

99.99 % of the sales income was earned in the Republic of Estonia (99.53 % in 2012).

## APPENDIX 13. OTHER REVENUE

	thousand EUR	
	2013	2012
Fines and penalties	8	5
Income from the sale of noncurrent assets	30	26
Other revenue	10	9
<b>Total</b>	<b>48</b>	<b>40</b>

## APPENDIX 14. GOODS, RAW MATERIALS AND SERVICES

	thousand EUR	
	2013	2012
Natural gas	179 473	209 146
Other goods, materials and services	9 859	12 931
Fuels and energy	899	1 111
<b>Total</b>	<b>190 231</b>	<b>223 188</b>

## APPENDIX 15. OTHER OPERATING EXPENSES

	thousand EUR	
	2013	2012
Advertising expenses	126	135
Office and communication expenses	397	388
Taxes and fees	130	97
Business-related travel and training expenses	207	154
Repair, security and maintenance expenses of the buildings	563	504
Transport maintenance and transportation service expenses	98	106
Insurance expenses	88	95
Purchased maintenance services of the gas network	197	82
Loan expenses and bank transaction fees	44	47
IT-related services	402	346
Audit, legal and counselling services	341	316
Expenses of doubtful receivables	3	37
Other expenses	332	192
<b>Total</b>	<b>2 928</b>	<b>2 499</b>



**APPENDIX 16. OTHER BUSINESS EXPENSES**

thousand EUR

	2013	2012
Loss from the sale and liquidation of noncurrent assets	2	3
Paid membership fees and donations	68	60
Other expenses	44	23
<b>Total</b>	<b>114</b>	<b>86</b>

**APPENDIX 17. TRANSACTIONS WITH RELATED PARTIES**

The following transactions were performed with the related parties in the fiscal year:

thousand EUR

Purchase transactions	Content	2013	2012	Balance	
				31.12.2013	31.12.2012
OA0 Gazprom	Natural gas	188 851	201 468	52 981	48 184
E.ON Ruhrgas International AG	Service	0	40	0	11
Itera Latvija	Natural gas	0	3 659	0	0
<b>Total</b>		<b>188 851</b>	<b>205 167</b>	<b>52 981</b>	<b>48 195</b>

Sales transactions	Content	2013	2012	Balance	
				31.12.2013	31.12.2012
OA0 Gazprom	Service	870	936	17	55
E.ON Ruhrgas International AG	Service	25	12	1	3
Fortum Heat and Gaz OY	Service	7	0	0	0
<b>Total</b>		<b>902</b>	<b>948</b>	<b>18</b>	<b>58</b>

Transactions related to purchasing natural gas from OA0 Gazprom and Itera Latvija are recorded in appendices to the annual report – in Appendix 6 “Inventories” and in Appendix 14 “Goods, Raw Materials and Services”. Services purchased from E.ON Ruhrgas International AG are recorded in Appendix 15 “Other Operating Expenses”. Sales transactions with related parties are recorded in Appendix 12 “Sales Income”.

The calculated remunerations of the members of the Board of Directors and the Supervisory Board amounted to EUR 845 thousand in the fiscal year (EUR 799 thousand in 2012) and the balance totalled EUR 51 thousand as of 31.12.2013 (EUR 40 thousand as of 31.12.2012).

On the average, the number of employees of the Group was 304 in 2013 and 293 in 2012..

## APPENDIX 18. UNCONSOLIDATED MAIN STATEMENTS OF THE PARENT COMPANY

### UNCONSOLIDATED BALANCE SHEET OF THE PARENT COMPANY

#### ASSETS

thousand EUR

<b>CURRENT ASSETS</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Cash at bank and in hand	6 419	21 162
Customer receivables	25 827	40 805
Miscellaneous receivables and accrued income	1 182	1 527
Prepaid/refundable deferred expenses	42	41
Inventories	34 874	25 215
<b>TOTAL CURRENT ASSETS</b>	<b>68 344</b>	<b>88 750</b>
<b>NONCURRENT ASSETS</b>		
Long-term financial investments	53 822	1 522
Tangible assets	69 614	120 802
Intangible assets	819	638
<b>TOTAL NONCURRENT ASSETS</b>	<b>124 255</b>	<b>122 962</b>
<b>TOTAL ASSETS</b>	<b>192 599</b>	<b>211 712</b>

#### LIABILITIES AND OWNERS' EQUITY

<b>LIABILITIES</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>CURRENT LIABILITIES</b>		
• Debt obligations	0	23 000
• Customer prepayments for goods and services	313	217
• Supplier payables	53 238	48 836
• Other short-term payables	3 322	4 393
• Tax liabilities	3 695	5 895
• Accrued expenses	408	368
• Short-term provisions	31	31
• Other deferred income	652	1 474
<b>TOTAL CURRENT LIABILITIES</b>	<b>61 659</b>	<b>84 214</b>
<b>NONCURRENT LIABILITIES</b>		
• Long-term provisions	553	553
• Other deferred income	-	1 820
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>553</b>	<b>2 373</b>
<b>TOTAL LIABILITIES</b>	<b>62 212</b>	<b>86 587</b>
<b>OWNERS' EQUITY</b>		
Share capital (nominal value)	9 919	9 919
Share premium	4 857	4 857
Reserves	1 050	1 050
Retained earnings	65 022	57 697
Retained earnings from the revaluation of noncurrent assets	36 424	39 017
Net profit for the financial year	13 115	12 585
<b>TOTAL OWNERS' EQUITY</b>	<b>130 387</b>	<b>125 125</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>192 599</b>	<b>211 712</b>

UNCONSOLIDATED INCOME STATEMENT OF THE PARENT COMPANY

thousand EUR

<b>REVENUE</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Sales income	220 667	248 561
Other revenue	24	19
<b>Total revenue</b>	<b>220 691</b>	<b>248 580</b>
<b>EXPENSES</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Goods, raw materials and services	195 161	222 931
Miscellaneous operating expenses	2 061	1 775
Labour costs		
a) wages and salaries	2 596	2 381
b) social taxes	857	789
Depreciation and impairment of noncurrent assets	4 745	5 926
Other business expenses	95	79
<b>Total expenses</b>	<b>205 515</b>	<b>233 881</b>
<b>OPERATING PROFIT</b>	<b>15 176</b>	<b>14 699</b>
<b>FINANCIAL INCOME AND EXPENSES</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
a) interest expense	22	103
b) other financial income and expenses	49	77
<b>Total financial income and expenses</b>	<b>27</b>	<b>-26</b>
<b>PROFIT FROM ECONOMIC OPERATIONS</b>	<b>15 203</b>	<b>14 673</b>
PROFIT BEFORE TAXES	15 203	14 673
Income tax	2 088	2 088
<b>NET PROFIT FOR THE FINANCIAL YEAR</b>	<b>13 115</b>	<b>12 585</b>

UNCONSOLIDATED CASH FLOW STATEMENT OF THE PARENT COMPANY  
thousand EUR

<b>CASH FLOWS FROM OPERATIONS</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Net profit for the financial year	15 176	14 699
Value adjustments		
Depreciation and impairment of noncurrent assets	4 745	5 926
Profit (-), loss from the sale of noncurrent assets	- 6	- 6
Loss from the write-off of noncurrent assets	4	3
Formation of provisions	31	31
Change in business-related receivables	15 323	-10 800
Interests received	- 9 659	3 616
Calculatory corporate income tax	579	40 983
Change in inventory	61	89
Change in business-related liabilities	-2 088	-2 088
<b>Total cash flows from operations</b>	<b>24 166</b>	<b>52 453</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Acquisition of noncurrent assets	- 8 026	- 9 730
Sale of noncurrent assets	5	7
<b>Total cash flows from investing activities</b>	<b>- 8 021</b>	<b>- 9 723</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Loans	5 000	27 000
Redeemed loans	- 28 000	- 46 383
Paid interests	- 35	-167
Paid dividends	- 7 853	- 7 853
<b>Total cash flows from financing activities</b>	<b>-30 888</b>	<b>-27 403</b>
<b>TOTAL CASH FLOWS</b>	<b>-14 743</b>	<b>15 327</b>
Cash and its equivalents at the beginning of the fiscal period	21 162	5 835
Change in cash and its equivalent	- 14 743	15 327
<b>Cash and its equivalents at the end of the fiscal period</b>	<b>6 419</b>	<b>21 162</b>

UNCONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE PARENT COMPANY  
thousand EUR

	<b>Share capital</b>	<b>Share premium</b>	<b>Legal reserve capital</b>	<b>Other reserve</b>	<b>Retained earnings</b>	<b>Retained earnings from the revaluation of noncurrent assets</b>	<b>Total</b>
<b>Balance 31.12.2011</b>	<b>9 919</b>	<b>4 857</b>	<b>992</b>	<b>58</b>	<b>62 956</b>	<b>41 610</b>	<b>120 392</b>
Net profit of the fiscal period	-	-	-	-	12 585	-	12 585
Announced dividends	-	-	-	-	- 7 853	-	- 7 853
Adjustment of the retained earnings from the revaluation of noncurrent assets	-	-	-	-	+2 593	-2 593	-
<b>Balance 31.12.2012</b>	<b>9 919</b>	<b>4 857</b>	<b>992</b>	<b>58</b>	<b>70 282</b>	<b>39 017</b>	<b>125 125</b>
Net profit of the fiscal period	-	-	-	-	13 115	-	13 115
Announced dividends	-	-	-	-	- 7 853	-	- 7 853
Adjustment of the retained earnings from the revaluation of noncurrent assets	-	-	-	-	+ 2 593	- 2 593	-
<b>Balance 31.12.2013</b>	<b>9 919</b>	<b>4 857</b>	<b>992</b>	<b>58</b>	<b>78 137</b>	<b>36 424</b>	<b>130 387</b>

The adjusted unconsolidated owners' equity of AS Eesti Gaas totalled EUR 134 302 thousand as of December 31, 2013 (EUR 127,610 thousand as of December 31, 2012). The adjusted unconsolidated owners' equity is equal to the unconsolidated owners' equity of AS Eesti Gaas minus the carrying amount of the subsidiaries recorded on the balance sheet of AS Eesti Gaas in the amount of EUR 53,765 thousand as of December 31, 2013 and in the amount of EUR 1,464 thousand as of December 31, 2012 (See Appendix 19) and plus the value of the holdings in the subsidiaries calculated using the equity method in the amount of EUR 57 680 thousand as of December 31, 2013 and in the amount of EUR 3,949 thousand as of December 31, 2012.

## APPENDIX 19. SUBSIDIARIES

AS Eesti Gaas had two 100% subsidiaries in the Republic of Estonia at the beginning of the fiscal year, viz. AS EG Ehitus and AS EG Võrguteenus. The nominal value of each share of both AS EG Ehitus and AS EG Võrguteenus was EUR 10.

Subject to the requirements laid down in the amended Natural Gas Act passed on June 06, 2012, AS Eesti Gaas was restructured in 2013. A decision concerning the demerger of AS EG Võrguteenus into two companies was taken in April, 2013 and, as a result, a new company, AS Gaasivõrgud, was established through demerger. As of the date of the registration of AS Gaasivõrgud on July 11, 2013, AS EG Võrguteenus transferred all the operations related to the distribution service as well as the related assets, contracts, rights and liabilities to AS Gaasivõrgud.

The nominal value of each share of AS Gaasivõrgud is EUR 10 and AS Eesti Gaas owns 100 percent of the shares. AS Gaasivõrgud started economic operations on August 01, 2013. AS EG Võrguteenus has been operating as a transmission network company since the same date.

A resolution to increase the share capital of the company by EUR 52,301 thousand by issuing new shares was passed at the general meeting of the shareholders of AS EG Võrguteenus on May 31, 2013. AS Eesti Gaas paid for the shares in the form of nonmonetary contribution with assets used in natural gas transmission.

Thus, AS Eesti Gaas had three 100% subsidiaries in the Republic of Estonia at the end of the fiscal year.

### Shares and holdings of the subsidiaries

	EG Ehitus AS	EG Võrguteenus AS	Gaasivõrgud AS
Main field of activity	Construction of gas, water and sewage pipelines	Sale of natural gas transmission and distribution services through natural gas network	Sale of distribution services through natural gas distribution network
<b>Accounting value of the subsidiary in thousand EUR as of 31.12.2012</b>	665	799	-
<b>Accounting value of the subsidiary in thousand EUR as of 31.12.2013</b>	665	53 100	0
Number of shares 31.12.2012	66 468	79 889	-
Number of shares 31.12.2013	66 468	5 310 028	200 000
Holding 31.12.2012	100%	100%	-
Holding 31.12.2013	100%	100%	100%

### The owners` equity of the subsidiaries as of 31.12.2013

	EG Ehitus AS	EG Võrguteenus AS	Gaasivõrgud AS
Share capital	665	53 100	2 000
Share premium	2	-	-
Legal reserve capital	38	80	-
Retained earnings	88	277	-
Net profit for the financial year	183	1 716	-147
Total owners` equity	976	55 173	1 853
Holding of the parent company in owners` equity	100%	100%	100%

### The owners` equity of the subsidiaries as of 31.12.2012

	EG Ehitus AS	EG Võrguteenus AS
Share capital	665	799
Share premium	2	-
Legal reserve capital	35	80
Retained earnings	33	1 359
Net profit for the financial year	58	918
Total owners` equity	793	3 156
Holding of the parent company in owners` equity	100%	100%

## APPENDIX 20. EVENTS AFTER THE BALANCE DAY

AS Eesti Gaas owned 100% of the shares of AS EG Võrguteenus before January 02, 2014. Under the demerger plan signed by the AS Eesti Gaas Board of Directors on October 10, 2013, AS Eesti Gaas was divided through demerger and the separation of AS EG Võrguteenus from the AS Eesti Gaas Group continued.

The demerger was entered in the Commercial Register and the new company AS Võrguteenus Valdus established upon demerger was registered on January 02, 2014. AS Eesti Gaas paid for the shares of the new company in the form of nonmonetary contribution, the object of which were the shares of AS EG Võrguteenus. AS Eesti Gaas transferred to the new company AS Võrguteenus Valdus all the shares of AS EG Võrguteenus in the amount of EUR 53,100 thousand and, as a result, the amounts under "Long-term financial investments" on the balance sheet of the parent company and under "Retained earnings" in the owners' equity of the parent company decreased respectively. AS Võrguteenus Valdus owns 100% of the shares of the transmission system operator AS EG Võrguteenus.

AS EG Võrguteenus does not belong to AS Eesti Gaas Group since January 02, 2014 and the business activities related to providing transmission service have been unbundled from AS Eesti Gaas. The net profit of the fiscal period related to providing transmission service amounted to EUR 891 thousand (EUR 581 thousand in 2012). The balance sheet total of AS Eesti Gaas Group decreases by EUR 55,703 thousand as a result of the unbundling of transmission operations and separation of AS EG Võrguteenus.

*All energy from one place!*







## **Independent Auditors' Report**

*(Translation from the Estonian original)*

To the shareholders of AS Eesti Gaas

We have audited the accompanying consolidated financial statements of AS Eesti Gaas, which comprise the consolidated balance sheet as at 31 December 2013, the consolidated statements of income, consolidated changes in equity and consolidated cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 31.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Estonia, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

In connection with the amendment of the Estonian Accounting Standards Board Guidelines as from 1 January 2013, the group changed its policy for accounting for connection fees as described in note 1 to the financial statements. In line with the new accounting policy, connection fees received from customers are recognised as revenue on the customers' connection to the network service. The prices of the network service are regulated and in determining them the Competition Authority does not take into account the carrying amounts of such non-current assets for which the customers have paid a connection fee. As a result, the carrying amount of non-current assets used for the provision of the network service is higher than the carrying amount of the asset base that is used for determining the price of the network service, which consists of assets used for the provision of the network service less assets for which the customers have paid a connection fee.

The group's management tested assets for impairment as required by Estonian Accounting Standards Board Guideline 5 *Property, Plant and Equipment and Intangible Assets* and did not determine a need for recognising any impairment loss for assets used in the provision of the network service.



In our opinion, some of the assumptions management used in carrying out the impairment test were not appropriate because they were not in accordance with certain significant principles that the Competition Authority applies in determining the prices of the network service. Had the impairment test been performed in accordance with all the significant principles applied by the Competition Authority in determining the prices of the network service then, in our opinion, the recoverable amount of non-current assets used in the provision of the network service would have proved 10.3 million euros smaller than their carrying amount.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects the consolidated financial position of AS Eesti Gaas as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting principles generally accepted in Estonia.

Tallinn, 7 March 2014

*Signed*

Andris Jegers

*Authorized Public Accountant no 171*

KPMG Baltics OÜ

Licence No 17

Narva mnt. 5, Tallinn 10117

All energy  
from one  
place



New energy  
solutions



A cleaner  
environment



Driving with  
natural gas



Customer  
friendliness



A natural gas era continues ...



AS Eesti Gaas  
Liivalaia 9, 10118 Tallinn  
Tel +372 630 3004, Fax +372 631 3884  
E-mail: [info@gaas.ee](mailto:info@gaas.ee)  
[www.gaas.ee](http://www.gaas.ee)



AS EG Ehitus  
Radisti tee 7, 75322 Rae vald, Harju maakond  
Tel +372 658 0240, Fax +372 658 0241  
E-mail: [info@ege.ee](mailto:info@ege.ee)  
[www.ege.ee](http://www.ege.ee)



AS Gaasivõrgud,  
Gaasi 5, 11415 Tallinn,  
Tel +372 605 6801, Fax +372 601 2925,  
E-mail: [gaasivorgud@gaas.ee](mailto:gaasivorgud@gaas.ee)  
[www.gaasivorgud.ee](http://www.gaasivorgud.ee)



AS EG Võrguteenus  
Punane 56, 13619 Tallinn,  
Tel +372 617 0020, Fax +372 617 0030,  
E-mail: [info@egv.ee](mailto:info@egv.ee)  
[www.egvorguteenus.ee](http://www.egvorguteenus.ee)



*A cleaner tomorrow!*