



ANNUAL  
REPORT  
2016

# ANNUAL REPORT 2016

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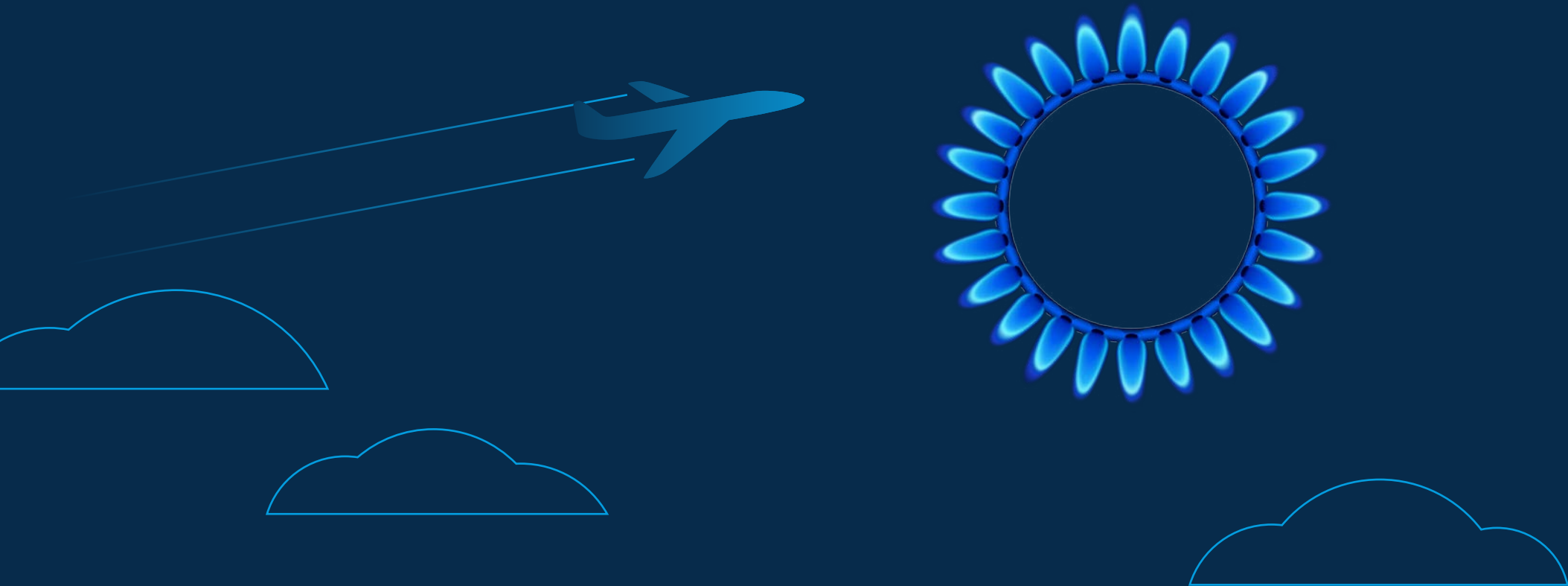
**Principal activity:** import and sale of natural gas

**The beginning of the financial year:** 1 January 2016

**The end of the financial year:** 31 December 2016

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# MANAGEMENT REPORT

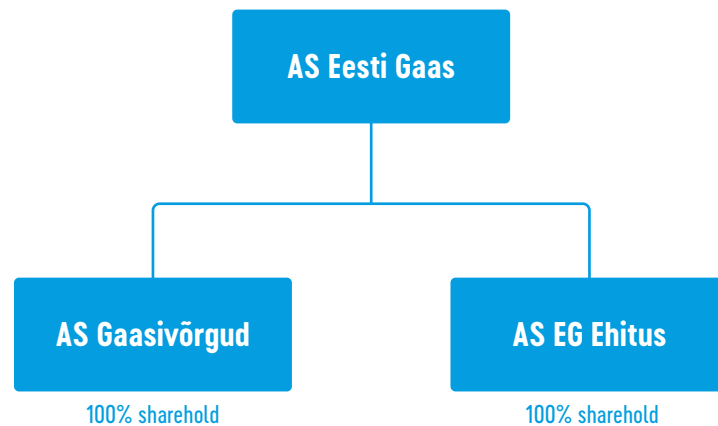
# About Eesti Gaas

AS Eesti Gaas is engaged in natural gas and electricity sales, gas distribution services and design and construction of gas pipelines and facilities. AS Eesti Gaas has two fully owned subsidiaries, AS Gaasivõrgud and AS EG Ehitus.

In 2016, Trilini Energy OÜ, the subsidiary of Infotar AS, bought shares of Eesti Gaas from former owners Fortum, Gazprom, Itera Latvija and minority shareholders. The ownership change has brought about changes in supervisory and management boards of AS Eesti Gaas.

Trilini Energy OÜ and AS Eesti Gaas merged in March 2017. The acquiring company was AS Eesti Gaas. As a result of the merger Trilini Energy OÜ shareholders became direct shareholders of AS Eesti Gaas and the merger had material effect on the capital structure of AS Eesti Gaas.

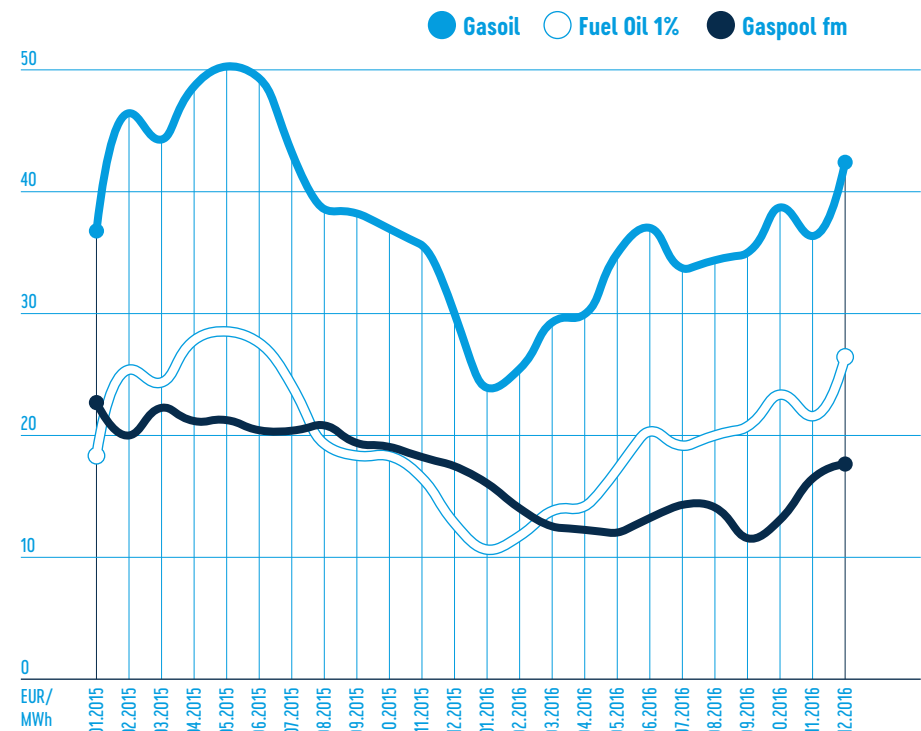
## STRUCTURE OF EESTI GAAS GROUP



# Market situation

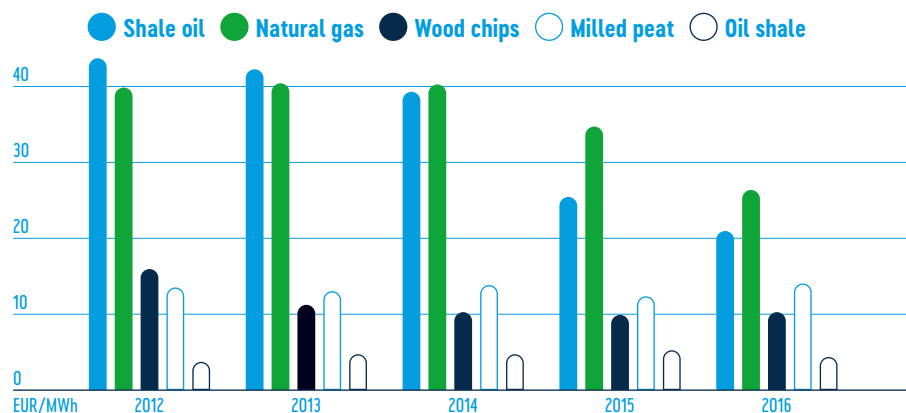
European gas prices decreased during the first months of 2016. The reason for the price decline was oil price decrease in 2015, which influenced the gas prices with a delay and over-supply of LNG on world markets. The price of oil started to increase from the spring and as a result the gas prices started to increase during the second half of the year. However the average market prices for natural gas were in Europe and in Estonia 30% lower than in 2015.

## FUEL PRICES 2015-2016



Gazprom Export gas auction for the Baltic market took place in March and Eesti Gaas bought some lots of gas to its portfolio. The conditions of the auction were relatively favourable and in addition to Eesti Gaas, our competitors too acquired some lots from the auction for the second half of 2016.

### THE PRICE OF FUELS USED FOR PRODUCING ENERGY [Statistical Office]

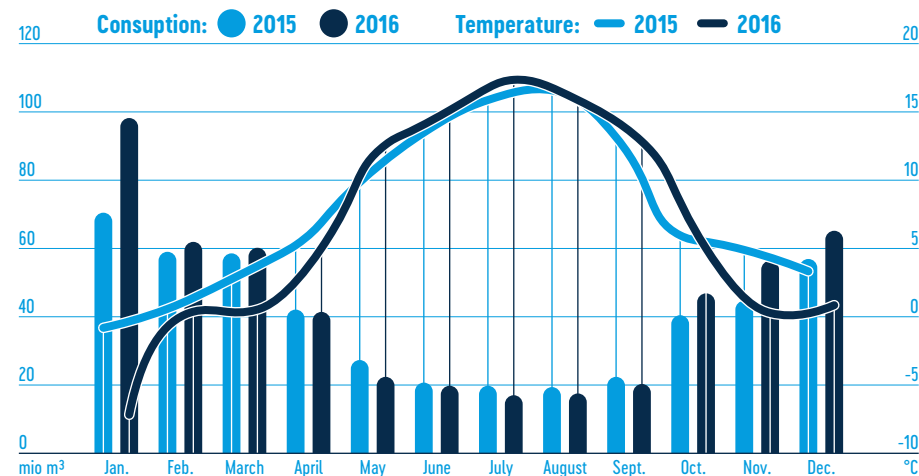


Natural gas was competitive with oil prices, but it is difficult to compete with local fuels. Both in 2015 and 2016 the prices of local fuels used for production of energy were cheaper than natural gas. Additionally, state supports local fuels by excise taxes and promotes the use of local fuels in heating through District Heating Act. Thus, the electricity and heat production companies prefer local fuels for baseload and natural gas is used as a fuel for peak power or reserve.

## Consumption of natural gas in Estonia

In 2016, consumption of natural gas in Estonia was 525.0 million m<sup>3</sup>, in previous year it was 481.2 million m<sup>3</sup>. The amount of gas consumed in Estonia increased by 43.8 million m<sup>3</sup>. The biggest growth in consumption took place in January and in the fourth quarter. According to the National Weather Service, January was 4.2 degrees colder than historic average and gas consumption increased in January compared to the same period of previous year by 41.5%, i.e. 28.2 million m<sup>3</sup>. 106.2 million m<sup>3</sup> of gas was consumed in the last quarter of 2015 compared to 161.6 million m<sup>3</sup> in 2016. The monthly average air temperature and gas consumption levels in 2015 and 2016 are shown on the following diagram.

### AIR TEMPERATURE AND CONSUMPTION OF GAS 2015-2016



# Sales Activities

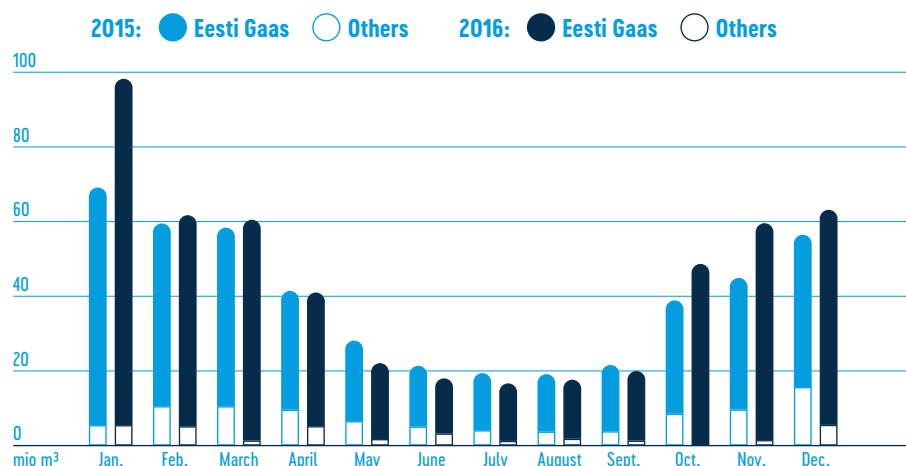
## NATURAL GAS

During the 2016 Eesti Gaas sold 489.3 million m<sup>3</sup> of gas, year earlier 382.8 million m<sup>3</sup>. Thus, Eesti Gaas increased gas sales compared to the previous year by 106.4 million m<sup>3</sup>, i.e. 27.7%.

The consumption of gas in Estonia increased 9.1% during the reporting year, while Eesti Gaas sales volume increased more, by 27.7%. The production of heat during the heating period helped to increase gas sales of Eesti Gaas, but even more important factor was the reduction of gas imports from Lithuania and winning back the customers.

The market share of Eesti Gaas in natural gas imports to Estonia was 80% in 2015, however Eesti Gaas imported 93% of gas in 2016.

### GAS SUPPLY TO ESTONIA IN 2015 AND 2016



Competition in gas market has intensified though, clients make monthly or quarterly tenders for gas supplies and clients are open for new offers.

### 2016 NATURAL GAS SALES BY CUSTOMER GROUPS ARE PRESENTED IN THE FOLLOWING TABLE:

	2016	2015	Comparison
Sales of natural gas (in million m <sup>3</sup> )	489.2	382.8	28%
incl. private clients	59.4	54.8	8%
incl. commercial clients	261.4	203.5	28%
incl. resellers	168.4	124.5	35%

Sales of gas to private customers was 59.4 million m<sup>3</sup> in 2016 and in the previous year 54.8 million m<sup>3</sup>, private customers bought 4.6 million m<sup>3</sup> of gas more in 2016. Gas sales to private customers increased primarily in the heating period because most of the gas is consumed for heating.

Commercial customers bought 429.8 million m<sup>3</sup> of gas in 2016, in the previous year the sales were 328.0 million m<sup>3</sup>, so the sales to commercial customers increased by 101.8 million m<sup>3</sup>. Here the main reasons for increased sales are colder weather and decrease of alternative supplies.

The sales of gas to resellers increased significantly because during 2015 resellers bought 20-30% of gas from other suppliers, this year the share of Eesti Gaas in the wholesale market increased. Several traders closed supply contracts with Eesti Gaas because of the additional flexibility offered.

The market share of Eesti Gaas to end customers was 61.1%, in the previous year the market share was 53.6%.

## DISTRIBUTION SERVICE

During 2016 Eesti Gaas distributed 433.3 million m<sup>3</sup> of natural gas, which is 25.7 million m<sup>3</sup> more than in 2015. The revenues of distribution network totalled 17.8 million euros in 2016.

During this period 55.0 million m<sup>3</sup> of gas was distributed to private clients (50 million m<sup>3</sup> in 2015) and 378.3 million m<sup>3</sup> of gas to commercial clients and other network operators.

282 new connection agreements and 91 connection change agreements were concluded in 2016. The summary of concluded connection agreements is presented in following table.

### 2016 CONCLUDED CONNECTION AGREEMENTS

	2016	2015
<b>Connection agreements</b>		
Total	282	318
Private client	237	240
Commercial client	45	78
<b>Connection capacity (thousand m<sup>3</sup>/year)</b>		
Total	3,560	7,375
Private client	1,466	1,354
Commercial client	2,094	6,021

### 2016 CONCLUDED CONNECTION CHANGE AGREEMENTS

	2016	2015
<b>Connection change agreements</b>		
Total	91	121
Private client	72	102
Commercial client	19	19
<b>Additional capacity (thousand m<sup>3</sup>/year)</b>		
Total	607	1,426
Private client	64	153
Commercial client	543	1,273

The new connection and connection change agreements add 4.2 million m<sup>3</sup> of estimated gas consumption per year. 324 new consumption points were commissioned during 2016, with total estimated consumption of 5.9 million m<sup>3</sup> of gas per year.

## COMPRESSED NATURAL GAS

Volume of natural gas used for producing the compressed natural gas (CNG) increased 33% in annual comparison. 4.5 million m<sup>3</sup> of natural gas was used for production of CNG in 2016 and 3,208 tons of CNG was sold. One year ago the consumption of CNG filling stations was in total of 3.4 million m<sup>3</sup> and 2,408 tons of CNG was sold.

CNG is significantly cheaper than diesel and petrol, and therefore we expect the CNG consumption to grow during the coming years.

### CNG SALES

	2016	2015	Comparison
Gas used for CNG production (in thousand m <sup>3</sup> )	4,519	3,387	33.4%
CNG sales (in tonnes)	3,208	2,408	33.2%
incl. Tallinn Sõjamäe	590	372	58.6%
incl. Tallinn Vinkli	1,148	914	25.6%
incl. Tartu	975	755	29.1%
incl. Pärnu	337	233	44.6%
incl. Narva	159	135	17.8%

## ELECTRICITY

Eesti Gaas sold 14.4 GWh of electricity, the electricity sales volume increased comparing with the last year by 48%. At the end of the year, Eesti Gaas had agreements for providing electricity to 4,123 consumption points. During the year the number of clients increased 3.8 times.

We were able to raise the interest for our electricity offer by extensive marketing campaigns launched in autumn. Autumn campaign brought new electricity clients, who will join us mainly from the January 2017. Thus, we expect increase in sales volume due to the increase in the number of clients next year.

### SALES OF ELECTRICITY

	2016	2015	Comparison
Sales of electricity (in MWh)	14,367	9,723	47.8%
incl. private clients	5,897	3,851	53.1%
incl. commercial clients	8,470	5,872	44.2%

## CONSTRUCTION

Sales revenues of EG Ehitus in 2016 were 3,971 thousand euros, which is 11% lower than during the previous year and sales remained below our expectations. The consolidated revenues of construction services in 2016 were 2,073 thousand euros, which is 9% lower than in 2015.

### SALES OF CONSTRUCTION SERVICES

	2016	2015	Comparison
EG Ehitus sales revenues	3,971	4,445	(10.7%)
Consolidated sales revenues of construction services	2,073	2,272	(8.7%)



# Profitability

The consolidated net profit of Eesti Gaas was 7.4 million euros in 2016; the group's profit was 0.5 million euros the year before. Eesti Gaas EBITDA was 11.9 million euros in 2016, which is 101% higher compared to the previous year. The group's profitability was higher than expected mainly because of the increased sales volumes.

## PROFITABILITY

	2016	2015	Comparison
Sales revenues	115,681	126,593	(8.6%)
Net profit	7,427	485	1.431%
EBITDA	11,948	5,943	101%
EBITDA comparable	10,798	10,550	2.4%

EBITDA increased only 2.4% compared to 2015 excluding non-recurring effects. In 2016, profits increased due to the cancellation of the provision for take-or-pay losses amounting to 2,985 thousand euros, and due to the property received by EG Ehitus in court settlement, amounting to 246 thousand euros. Profits were decreased by 1,338 thousand euros due to 150 million m<sup>3</sup> of the higher priced take-or-pay gas bought into the storage in 2015 and by the loss of 743 thousand euros caused by the Gaspool price floor in the gas purchase contract.

Eesti Gaas does not plan to pay dividends in 2017 or in subsequent years because of the investments into the business expansion.

# Investments

In 2016, Eesti Gaas invested 5.9 million euros into fixed assets, which is 4% less compared to the same period last year. An important part of the investments, 3.1 million euros, was used for the reconstruction and renovation of gas networks and the construction of new connections. A prepayment of 1.4 million euros was made for the purchase of LNG semitrailers.

# Financing

In order to finance LNG-related investments, Eesti Gaas entered into a five-year capital lease agreement.

The bank loan of 45 million euros taken to finance the purchase of gas into the storage in 2015 was paid back during 2016. In addition, 3-year liquidity loan of 3 million euros became due and was paid back. New loan agreements were concluded in the amount of 2.7 million euros in order to finance current assets.

# Financial Ratios

## THE GROUP'S KEY FINANCIAL RATIOS

	2016	2015
Net margin	6.4%	0.4%
Current ratio	1.28	0.99
ROA	7.3%	0.4%
ROE	11.0%	0.8%
Equity ratio	66.1%	47.2%
Net debt / EBITDA	(0.1)	5.7
EBITDA margin	10.3%	4.7%

## THE PARENT COMPANY'S KEY FINANCIAL RATIOS

	2016	2015
Net margin	6.4%	1.3%
Current ratio	1.18	0.97
ROA	6.5%	1.2%
ROE	9.9%	2.5%
Equity ratio	66.0%	47.3%
Net debt / EBITDA	0.01	5.5
EBITDA margin	10.5%	5.8%

## UNDERLYING FORMULAS

Net margin = net profit / sales

Current ratio = current assets / current liabilities

Return on assets ROA = Net profit (loss) / total assets

Return on equity ROE = Net profit (loss) / Shareholders' equity

Equity ratio = equity / total capital

Net Debt = borrowings - cash and cash equivalents

EBITDA = operating profit + depreciation and amortisation

EBITDA margin = EBITDA / sales



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (In thousands of euros)

	2016	2015	Note
Revenue	115,681	126,593	5
Other operating income	673	576	6
Work performed by the Group and capitalised	2,379	2,948	
Raw materials and consumables used	(97,112)	(114,158)	7
Payroll expenses	(7,463)	(6,839)	8
Depreciation and amortisation	(4,406)	(4,158)	14, 15
Other operating expenses	(2,210)	(3,177)	9
<b>Operating profit</b>	<b>7,542</b>	<b>1,785</b>	
Financial income	1	2	10
Financial expenses	(116)	(62)	10
Net financial expense	(115)	(60)	10
<b>Profit before tax</b>	<b>7,427</b>	<b>1,725</b>	
Corporate income tax expense	-	(1,240)	
<b>Profit for the year</b>	<b>7,427</b>	<b>485</b>	
<b>Total comprehensive income for the year</b>	<b>7,427</b>	<b>485</b>	

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

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

	31.12.2016	31.12.2015	1.01.2015	Note
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	72,075	71,190	69,605	14
Intangible assets	1,841	1,361	1,166	15
Investment property	48	-	-	
Available-for-sale financial assets	-	58	58	
Trade receivables	6	6	-	12, 23
Prepayments	3	12	-	
<b>Total non-current assets</b>	<b>73,973</b>	<b>72,627</b>	<b>70,829</b>	
<b>Current assets</b>				
Inventories	3,963	28,630	615	11
Derivative financial assets	359	-	-	16, 23
Trade and other receivables	19,095	15,010	31,800	12, 23
Prepayments	80	82	119	
Cash and cash equivalents	4,881	11,148	9,641	13, 23
<b>Total current assets</b>	<b>28,378</b>	<b>54,870</b>	<b>42,175</b>	
<b>Total assets</b>	<b>102,351</b>	<b>127,497</b>	<b>113,004</b>	

	31.12.2016	31.12.2015	1.01.2015	Note
<b>Equity</b>				
Share capital	9,919	9,919	9,919	17
Share premium	4,857	4,857	4,857	
Statutory capital reserve	992	992	992	17
Retained earnings	51,860	44,433	48,908	17
<b>Total equity</b>	<b>67,628</b>	<b>60,201</b>	<b>64,676</b>	
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Borrowings	1,060	-	-	19, 23
Provisions	573	675	765	22
Deferred income	10,934	11,008	11,128	21
<b>Total non-current liabilities</b>	<b>12,567</b>	<b>11,683</b>	<b>11,893</b>	
<b>Current liabilities</b>				
Borrowings	2,772	45,000	3,000	19, 23
Trade and other payables	18,961	7,334	30,187	20
Prepayments	175	258	211	
Provisions	248	3,021	3,037	22
<b>Total current liabilities</b>	<b>22,156</b>	<b>55,613</b>	<b>36,435</b>	
<b>Total liabilities</b>	<b>34,723</b>	<b>67,296</b>	<b>48,328</b>	
<b>Total equity and liabilities</b>	<b>102,351</b>	<b>127,497</b>	<b>113,004</b>	

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

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

	2016	2015	Note
<b>Cash flows from operating activities</b>			
Profit before tax	7,427	1,725	
<b>Adjustments</b>			
Depreciation of property, plant and equipment	3,930	3,789	14
Amortisation of intangible assets	476	369	15
Income from connection fees	(737)	(726)	5, 21
Nonmonetary assets received as compensation	(246)	(250)	6
Loss from write-down of inventories	-	1,472	11
Recognition and adjustment of provisions	(2,765)	2,933	22
Gain on sale of property, plant and equipment and intangible assets	(45)	(51)	6
Loss from write-off of property, plant and equipment and intangible assets	7	3	9
Unsettled gain on derivatives	(359)	-	16
Loss from other investments	58	-	10
Interest expense	58	62	10
Interest income	(1)	(2)	10
Adjusted net profit before tax	7,803	9,324	
<b>Net change in current assets relating to operating activities</b>			
Change in trade receivables	(4,118)	16,651	12
Change in inventories	24,913	(29,487)	11
Net change in other current assets relating to operating activities	45	157	12
Total net change in current assets relating to operating activities	20,840	(12,679)	
<b>Net change in current liabilities relating to operating activities</b>			
Use of provisions	(110)	(3,039)	22
Change in trade payables	10,628	(20,319)	20
Net change in other liabilities relating to operating activities	702	(2,472)	20
Total net change in liabilities relating to operating activities	11,220	(25,830)	

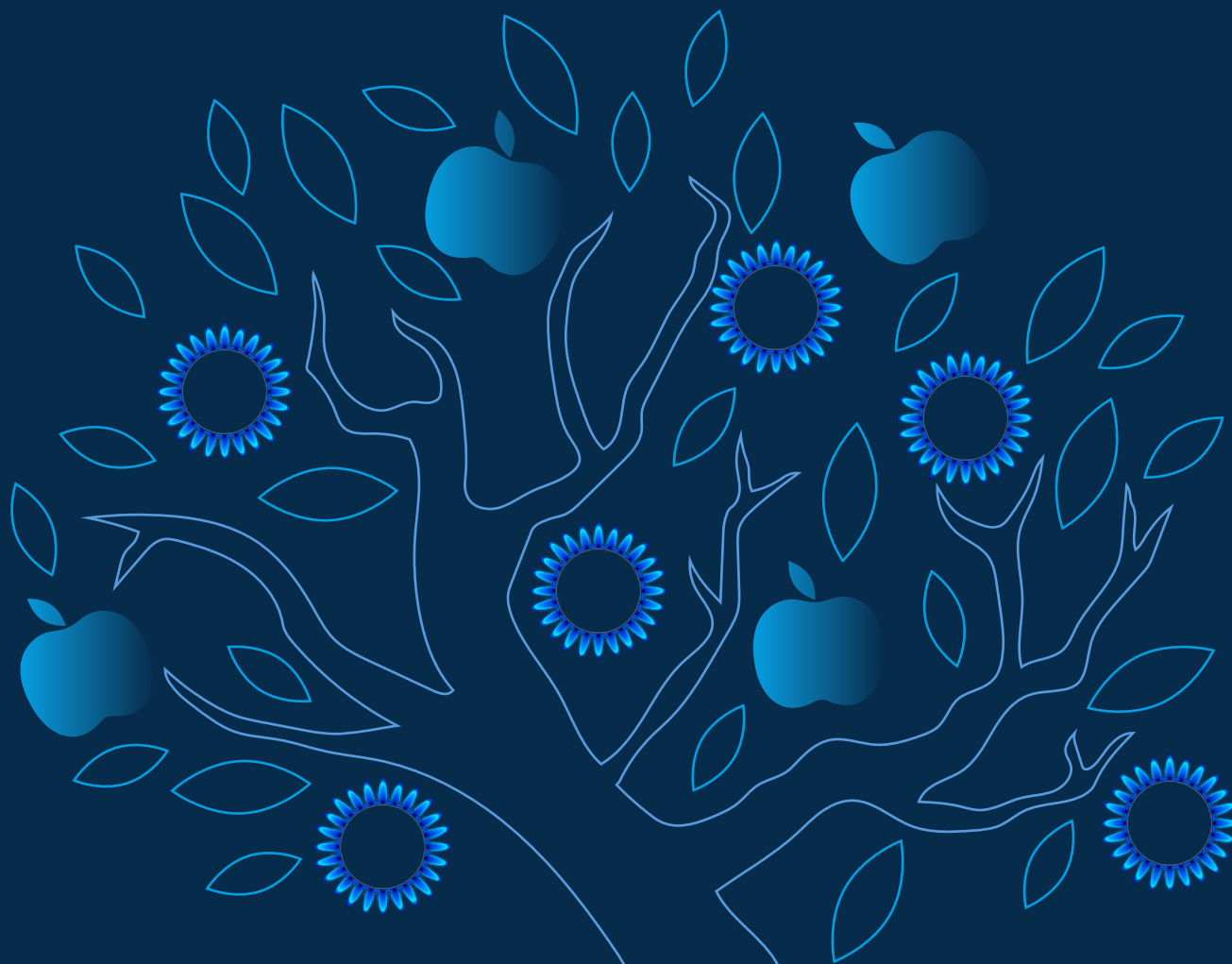
	2016	2015	Note
Net cash from/used in operations	39,863	(29,185)	
Interest received	1	2	
Corporate income tax paid	-	(1,240)	
Net cash generated from operating activities	39,864	(30,423)	
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets	(4,494)	(5,717)	
Proceeds from connection fees	663	606	21
Proceeds from sale of property, plant and equipment	135	52	
Net cash used in investing activities	(3,696)	(5,059)	
<b>Cash flows from financing activities</b>			
Bank loans received	4,500	71,500	19
Repayments of bank loans	(48,000)	(29,500)	19
Change in overdraft	1,162	-	19
Repayment of finance lease liabilities	(27)	-	
Interest and loan fees paid	(70)	(51)	
Dividends paid	-	(4,960)	17
Net cash used in financing activities	(42,435)	36,989	
Net cash flows	(6,267)	1,507	
Cash and cash equivalents at beginning of period	11,148	9,641	13
Cash and cash equivalents at end of period	4,881	11,148	13
Net increase/decrease in cash and cash equivalents	(6,267)	1,507	

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

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

	Share capital (Note 17)	Share premium	Statutory reserve capital (Note 17)	Retained earnings (Note 17)	Total
Equity as at 31 December 2014	9,919	4,857	992	48,908	64,676
Profit for the year	-	-	-	485	485
Total comprehensive income for the year	-	-	-	485	485
Dividends paid	-	-	-	(4,960)	(4,960)
Total contributions by and distributions to owners of the company, recognised directly in equity	-	-	-	(4,960)	(4,960)
Equity as at 31 December 2015	9,919	4,857	992	44,433	60,201
Profit for the year	-	-	-	7,427	7,427
Total comprehensive income for the year	-	-	-	7,427	7,427
Equity as at 31 December 2016	9,919	4,857	992	51,860	67,628

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 1. REPORTING ENTITY

AS Eesti Gaas is a Company domiciled in Estonia. The Company's registered office is at Liivalaia 9, Tallinn 10118, Republic of Estonia. The consolidated financial statements of Eesti Gaas group for the year ended 31 December 2016 comprise AS Eesti Gaas and its subsidiaries (together referred to as the 'Group'). The goal of the Group is to provide high-quality integrated services in order to make life convenient and environmentally-friendly by using natural gas. The Group sells natural gas and natural gas distribution services to approximately 42 000 clients in Estonia and compressed natural gas (CNG) through CNG filling stations around Estonia. In addition the Group is engaged in selling electrical energy, construction of gas pipe systems and gas installations, planning and performance of gas supply works, and the sales, installation and maintenance of the gas and heating systems and providing other goods and services to the clients.

## 2. BASIS OF ACCOUNTING

The consolidated financial statements of the Group have been prepared in accordance with the **International Financial Reporting Standards (IFRS)**, as adopted by the European Union. These consolidated financial statements are the Group's first IFRS financial statements. The information about the adjustments arising from the transition to IFRSs is disclosed in Note 29.

Consolidated financial statements were authorised for issue by the Management Board on 24 March 2017. Under Commercial code of the Republic of Estonia, the annual report must additionally be approved by the Supervisory Board of the Parent Company and authorised for issue by the General Meeting of Shareholders.

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

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

## 3. USE OF JUDGEMENTS AND ESTIMATES

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

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

### (a) Judgements

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

**Note 21** - the Group provides customers permanent access to the natural gas for the fees received for connecting to the natural gas network, due to that the connection fees received are recognised as income over the estimated average useful lives of property, plant and equipment acquired for the connection fees according to the IFRIC 18 *Transfers of Assets from Customers*. The estimated average useful lives of fixed assets acquired for the connection fees are calculated by dividing the average cost of fixed assets with annual depreciation amount.

### (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 2017 is included in the following notes:

**Note 14** - the estimate of the useful life of property, plant and equipment;

**Notes 22 and 26** - recognition of contingencies and provisions for possible losses in the future due to the take-or-pay provision of natural gas purchase contract.

## 4. MEASUREMENT OF FAIR VALUES

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

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

The information about the fair values of financial instruments is disclosed in Note 23.

## 5. REVENUE (In thousands of euros)

	2016	2015
Sales of natural gas	92,238	105,795
Sales of gas network service	17,840	15,725
Sales of compressed gas (CNG)	1,921	1,540
Sales of construction and repair services	1,652	2,124
Sales of electricity	522	339
Connection fees (Note 21)	737	726
Sales of gas appliances and other goods	495	212
Sales of other services	276	132
<b>Total revenue</b>	<b>115,681</b>	<b>126,593</b>

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

	2016	2015
Gain from revaluation of derivatives (Note 16)	359	-
Compensations received	246	500
Gain on sale of non-current assets	45	51
Fines and interest on arrears received	-	5
Other operating income	23	20
<b>Total other operating income</b>	<b>673</b>	<b>576</b>

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

	2016	2015
Natural gas sold	85,553	102,208
Other goods sold	965	571
Gas network service	7,374	6,916
Other goods, materials and services	3,220	4,463
<b>Total raw materials and consumables used</b>	<b>97,112</b>	<b>114,158</b>

In 2016 the cost of natural gas sold contains the reduction of expenses that resulted from the reversal of provision for onerous contract in the amount of EUR 2,985 thousand (Note 22); in 2015 the cost of natural gas sold contains the impairment loss of natural gas inventory in the amount of EUR 1,400 thousand (Note 11).

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

	2016	2015
Average number of employees and members of the Management Board of the Group	197	222
Wages, salaries, bonuses, vacation pay, other payments and benefits	5 354	5,125
Fringe benefits	75	80
Payroll taxes	1 814	1,736
Recognition/reversal of employee related provisions (Note 22)	220	(102)
<b>Total calculated payroll expenses</b>	<b>7 463</b>	<b>6,839</b>

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

### Additional information about the number of employees of the parent company in 2016:

	2016
the average number of the members of the Supervisory Board	9
the average number of the members of the Management Board	3
the average number of employees	56
the average number of persons providing service under contracts under the law of obligations	3

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

	2016	2015
IT-related services	523	398
Administrative costs of buildings	497	597
Advertising expenses	296	119
Audit, legal and other consulting services	288	378
Office supplies and services	268	271
Travel and training expenses	145	100
Membership fees, sponsorship and donations	42	56
Taxes and fees	38	42
Bank transaction fees	33	92
Loss from write-off of non-current assets	7	3
Gain/loss from doubtful trade receivables (Note 23)	(45)	974
Other operating expenses	118	147
<b>Total other operating expenses</b>	<b>2,210</b>	<b>3,177</b>

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

	2016	2015
<b>Financial income</b>		
Interest income	1	2
Total interest income	1	2
<b>Total financial income</b>	<b>1</b>	<b>2</b>
<b>Financial expenses</b>		
Impairment of available-for-sale financial assets (Note 23)	(58)	-
Interest expenses	(58)	(62)
<b>Total financial expenses</b>	<b>(116)</b>	<b>(62)</b>
<b>Net financial expense</b>	<b>(115)</b>	<b>(60)</b>

## 11. INVENTORIES (In thousands of euros)

	31.12.2016	31.12.2015	1.01.2015
Natural gas inventory in the storage in Latvia	3,117	28,134	-
Other goods and materials	846	496	615
<b>Total inventories</b>	<b>3,963</b>	<b>28,630</b>	<b>615</b>

The natural gas inventory is stored in the Inčukalna natural gas storage. In the comparative period the natural gas inventory was written down by the amount of EUR 1,400 thousand to the forecasted net realisable value of the natural gas. The impairment loss is recognised in the cost of natural gas sold (Note 7). As at 31 December 2016 the management did not identify the need for recognising an impairment loss of natural gas inventory.

In the reporting period, the illiquid and obsolete materials were written down in the amount of EUR 0 thousand (2015: EUR 72 thousand).

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

	31.12.2016	31.12.2015	1.01.2015
<b>Short-term trade and other receivables</b>			
<b>Trade receivables</b>			
Accounts receivable	19,195	16,086	31,812
incl. accounts receivable from related parties (Note 27)	5	-	75
Allowance for doubtful receivables	(162)	(1,180)	(242)
<b>Total trade receivables</b>	<b>19,033</b>	<b>14,906</b>	<b>31,570</b>
<b>Accrued income</b>			
Amounts due from customers under the stage of completion method	63	44	217
<b>Total accrued income</b>	<b>63</b>	<b>44</b>	<b>217</b>
<b>Other receivables</b>	<b>5</b>	<b>66</b>	<b>13</b>
<b>Total trade and other receivables (Note 23)</b>	<b>19,101</b>	<b>15,016</b>	<b>31,800</b>
incl. current	19,095	15,010	31,800
non-current	6	6	-

Receivables and prepayments for services and goods are not secured.

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

Information about the credit quality of the trade receivables is disclosed in Note 23.

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

	31.12.2016	31.12.2015	1.01.2015
Bank accounts	2,969	4,786	692
Cash in transit	1,160	4	5
Short-term deposits	744	6,350	8,933
Cash on hand	8	8	11
<b>Total cash and cash equivalents (Note 23)</b>	<b>4,881</b>	<b>11,148</b>	<b>9,641</b>

In the financial year, the effective interest rate of short-term deposits was 0.01% (2015: 0.01%).

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

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and pre-payments	Total
<b>Property, plant and equipment as at 31 December 2014</b>						
Cost	4,925	88,227	15,088	151	420	108,811
Accumulated depreciation	(1,878)	(25,833)	(11,348)	(147)	-	(39,206)
Carrying amount	3,047	62,394	3,740	4	420	69,605
<b>Total property, plant and equipment</b>	<b>3,047</b>	<b>62,394</b>	<b>3,740</b>	<b>4</b>	<b>420</b>	<b>69,605</b>

### Movements, 1 January - 31 December 2015

Additions	250	-	149	1	4,978	5,378
Depreciation charge	(126)	(2,760)	(902)	(1)	-	(3,789)
Disposals and write-offs	-	-	(4)	-	-	(4)
Transfers from construction in progress and prepayments	39	4,010	843	-	(4,892)	-
<b>Total movements</b>	<b>163</b>	<b>1,250</b>	<b>86</b>	<b>-</b>	<b>86</b>	<b>1,585</b>

### Property, plant and equipment as at 31 December 2015

Cost	5,214	92,230	15,327	148	506	113,425
Accumulated depreciation	(2,004)	(28,586)	(11,501)	(144)	-	(42,235)
Carrying amount	3,210	63,644	3,826	4	506	71,190
<b>Total property, plant and equipment</b>	<b>3,210</b>	<b>63,644</b>	<b>3,826</b>	<b>4</b>	<b>506</b>	<b>71,190</b>

	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and pre-payments	Total
<b>Movements, 1 January - 31 December 2016</b>						
Additions	-	-	193	1	4,766	4,960
Depreciation and impairment charge	(157)	(2,852)	(919)	(2)	-	(3,930)
Disposals and write-offs	(92)	(1)	(4)	-	-	(97)
Transfers from construction in progress and prepayments	114	2,412	676	-	(3,202)	-
Transfers to investment property	(48)	-	-	-	-	(48)
<b>Total movements</b>	<b>(183)</b>	<b>(441)</b>	<b>(54)</b>	<b>(1)</b>	<b>1,564</b>	<b>885</b>

### Property, plant and equipment as at 31 December 2016

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

### (a) Leased machinery and equipment

In the reporting period the Group concluded finance lease contracts for leasing LNG semi-trailers. As at 31 December 2016 the prepayments for property, plant and equipment include the own contribution paid by the Group in the amount of EUR 200 thousand and the prepayment paid by the lessor to the seller of the semi-trailers in the amount EUR 1,197 thousand. The seller delivered the trailers in the beginning of year 2017.

According to the contracts the lease obligations are secured by the leased equipment. At the end of the leasing contract the ownership of the leased assets will be transferred to the Group.

### (b) Assumptions and estimation uncertainties

The estimated useful lives of items of property, plant and equipment are based on management's estimate of the period during which the asset will be used. The actual useful lives may be longer or shorter than the estimates. If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 393 thousand (2015: EUR 379 thousand).

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

	Computer software	Total
<b>Intangible assets as at 31 December 2014</b>		
Cost	3,795	3,795
Accumulated amortisation	(2,629)	(2,629)
<b>Total intangible assets</b>	<b>1,166</b>	<b>1,166</b>
<b>Movements, 1 January - 31 December 2015</b>		
Purchases	564	564
Amortisation charge	(369)	(369)
<b>Total movements</b>	<b>195</b>	<b>195</b>
<b>Intangible assets as at 31 December 2015</b>		
Cost	4,318	4,318
Accumulated amortisation	(2,957)	(2,957)
<b>Total intangible assets</b>	<b>1,361</b>	<b>1,361</b>
<b>Movements, 1 January - 31 December 2016</b>		
Purchases	956	956
Amortisation charge	(476)	(476)
<b>Total movements</b>	<b>480</b>	<b>480</b>
<b>Intangible assets as at 31 December 2016</b>		
Cost	5,274	5,274
Accumulated amortisation	(3,433)	(3,433)
Carrying amount	1,841	1,841
<b>Total intangible assets</b>	<b>1,841</b>	<b>1,841</b>

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

	31.12.2016	31.12.2015	1.01.2015
Swap contracts for buying natural gas	359	-	-
<b>Total derivative financial instruments (Note 23)</b>	<b>359</b>	<b>-</b>	<b>-</b>
incl. current	359	-	-

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

## 17. CAPITAL AND RESERVES (In thousands of euros)

### (a) Share capital

As at 31 December 2016, AS Eesti Gaas had 27,728,408 shares [31 December 2015 and 1 January 2015: 27,728,408 shares]. The company has two types of shares: A- and B-type registered shares. The total sum of the nominal values of B-type shares may not exceed 28% of the share capital. The sole shareholder as at 31 December 2016 was Trilini Energy OÜ.

As at 31 December 2016 the number of A-type shares was 721,843 and the nominal value of each share was EUR 10 [31 December 2015 and 1 January 2015: the number of shares 721,843, nominal value EUR 10]. Each A-type share grants one hundred votes to its owner at the general meeting of shareholders. In case of the transfer of shares, other A-type shareholders have the pre-emptive purchase right.

As at 31 December 2016 the number of B-type shares was 27,006,565 and the nominal value of each share was EUR 0.10 [31 December 2015 and 1 January 2015: the number of shares 27,006,565, nominal value EUR 0.10]. Each B-type share grants one vote to its owner at the general meeting of shareholders. B-type shares are freely transferable.

The owners of A- and B-type shares have the right for dividends in proportion to the nominal value of a share.

The following table presents the breakdown of the total amount of the share capital:

	31.12.2016	31.12.2015	1.01.2015
A-type shares in nominal value <small>(in thousands of euros)</small>	7,218	7,218	7,218
B-type shares in nominal value <small>(in thousands of euros)</small>	2,701	2,701	2,701
<b>Total</b>	<b>9,919</b>	<b>9,919</b>	<b>9,919</b>
Share in share capital of A-type shares	72.77%	72.77%	72.77%
Share in share capital of B-type shares	27.23%	27.23%	27.23%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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

### (b) Statutory capital reserve

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

As at 31 December 2016, the Group's statutory capital reserve totalled EUR 992 thousand [31 December 2015 and 1 January 2015: EUR 992 thousand]. As at 31 December 2016 the Group has no obligation to make any additional transfers to the statutory capital reserve.

### (c) Profit distribution

As at 31 December 2016, the Group's distributable equity was EUR 51,860 thousand [31 December 2015: EUR 44,433 thousand; 1 January 2015: 48,908 thousand]. According to the Income Tax Act, the companies are taxed in Estonia upon distribution of dividends. Income tax on dividends is 20/80 of the amount payable as net dividends. Dividends distributed by Estonian company are exempt, if these are paid out of dividends received from other companies in which Estonian company has at least 10% participation.

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

	31.12.2016	31.12.2015	1.01.2015
Retained earnings <small>(Note 28)</small>	51,860	44,433	48,908
Distributable shareholders' equity	51,860	44,433	48,908
Corporate income tax payable on the distribution of the entire unrestricted equity	10,372	8,887	9,782
Net dividends available for distribution	41,488	35,546	39,126

In the reporting period the dividends were not paid. In 2015, the Group paid dividends to the shareholders of EUR 4,960 thousand (dividend per A-type share 5 euros and per B-type share 0.05 euros).

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

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors capital using a ratio of equity 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 2016 was as follows:

	31.12.2016	31.12.2015	1.01.2015
Equity	67,628	60,201	64,676
Total assets	102,351	127,497	113,004
Equity to total assets ratio	66%	47%	57%

## 19. BORROWINGS (In thousands of euros)

### Borrowings at amortised cost

	31.12.2016	31.12.2015	1.01.2015
<b>Long-term borrowings</b>			
Finance lease liabilities	1,060	-	-
<b>Total long-term borrowings</b>	<b>1,060</b>	<b>-</b>	<b>-</b>
<b>Short-term borrowings</b>			
Bank loans	1,500	45,000	3,000
Overdraft	1,162	-	-
Finance lease liabilities	110	-	-
<b>Total short-term borrowings</b>	<b>2,772</b>	<b>45,000</b>	<b>3,000</b>
<b>Total borrowings</b>	<b>3,832</b>	<b>45,000</b>	<b>3,000</b>

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

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

The terms and conditions of outstanding loans are as follows.

	Nominal interest rate	Date of maturity	Nominal value		
			31.12.2016	31.12.2015	1.01.2015
Overdraft	EONIA+1%	2021	1,162	-	-
Revolving credit line loan for financing of current assets	6 months EURIBOR+0.95%	2017	1,500	-	-
Loan for storing natural gas into the Latvian storage	3 months EURIBOR+0.34%	2016	-	45,000	-
Revolving credit line loan for financing of current assets	1 month EURIBOR+0.45%	2016	-	-	3,000
<b>Total bank loans</b>			<b>2,662</b>	<b>45,000</b>	<b>3,000</b>

All the loans are with floating interest rate and are denominated in euros. The overdraft is secured by the collaterals defined in the syndicated loan agreement concluded by the sole shareholder.

### (b) Finance lease liabilities

31.12.2016	Future minimum lease payments	Interest	Present value of minimum lease payments
< 1 year	122	12	110
1 - 5 years	1,094	34	1,060
<b>Total</b>	<b>1,216</b>	<b>46</b>	<b>1,170</b>

The finance lease contracts are concluded for the leasing of LNG semi-trailers (Note 14). The contracts are with fixed interest rate 1.05% and are denominated in euros.

As at 31 December 2015 and 1 January 2015 the Group didn't have any finance lease liabilities.

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

	31.12.2016	31.12.2015	1.01.2015
Trade payables	13,418	2,565	22,909
incl. payables to the related parties (Note 27)	23	794	22,599
Tax liabilities	4,087	3,240	6,605
Payables to employees	1,311	704	666
Accrued expenses	145	825	7
<b>Total trade and other payables (Note 23)</b>	<b>18,961</b>	<b>7,334</b>	<b>30,187</b>

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

Connection fees	2016	2015
Deferred connection fees at the beginning of the period	11,008	11,128
Connection fees received	663	606
Connection fees recognised as income (Note 5)	(737)	(726)
Deferred connection fees at the end of the period	10,934	11,008

The weighted average amortisation period of connection fees is 30 years (2015: 30 years).



## 22. PROVISIONS [In thousands of euros]

	Onerous contract	Post-employment benefits for the members of the Management Board (Note 8)	Pensions (Note 8)	Warranties	Total
Balance as at 1 January 2016	2,985	504	152	55	3,696
Provisions made and restated during the year	-	62	158	-	220
Provisions used during the year	-	(80)	(30)	-	(110)
Provisions reversed during the year	(2,985)	-	-	-	(2,985)
Balance as at 31 December 2016	-	486	280	55	821
incl. current	-	213	30	5	248
non-current	-	273	250	50	573
Balance as at 1 January 2015	3,000	643	153	6	3,802
Provisions made and restated during the year	2,985	(132)	30	50	2,933
Provisions used during the year	(3,000)	(7)	(31)	(1)	(3,039)
Balance as at 31 December 2015	2,985	504	152	55	3,696
incl. current	2,985	-	31	5	3,021
non-current	-	504	121	50	675

### (a) Onerous contract

As at 31 December 2015 the provision for onerous contract was set up for the gas import agreement valid until 31 December 2015 under which 91 million m<sup>3</sup> of natural gas due to be purchased was not purchased. As the purchase price of such volume of natural gas would have been higher than the selling price of the same volume of natural gas, the provision in the amount of EUR 2,985 thousand was recognised as at 31 December 2015 for the onerous contract. In determining the amount of the provision the forecast of anticipated natural gas purchase and selling prices based on the futures prices on the liquid fuels market. On 29 January 2016 AS Eesti Gaas concluded a new gas import agreement with PAO Gazprom as a result of which the obligation of purchasing 91 million m<sup>3</sup> of natural gas was annulled. As the provision had been set up to cover the loss when reselling the given volume of natural gas, the provision was reversed in January 2016.

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

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

### (c) Pensions

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

### (d) Warranties

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

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

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

As at 31 December 2016

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

\* Payables to employees and tax liabilities are not included

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

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

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

As at 31 December 2015

	Carrying amount				Fair value	
	Loans and receivables	Available-for-sale	Other financial liabilities	Total	Level 2	Level 3
<b>Financial assets not measured at fair value</b>						
Equity instruments	-	58	-	58	-	-
Trade and other receivables (Note 12)	15,016	-	-	15,016	***	***
Cash and cash equivalents (Note 13)	11,148	-	-	11,148	***	***
	26,164	58	-	26,222		
<b>Financial liabilities not measured at fair value</b>						
Bank loan (Note 19)**	-	-	45,000	45,000	-	45,000
Trade and other payables (Note 20)*	-	-	3,390	3,390	***	***
	-	-	48,390	48,390		

\* Payables to employees and tax liabilities are not included

\*\* According to the management's estimates the fair value of the loan did not differ from its carrying amount as the bank loan had a floating interest rate and the risk margin at 31 December 2015 met the level of market's risk margin.

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

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

As at 1 January 2015

	Carrying amount				Fair value	
	Loans and receivables	Available-for-sale	Other financial liabilities	Total	Level 2	Level 3
<b>Financial assets not measured at fair value</b>						
Equity instruments	-	58	-	58	-	-
Trade and other receivables <small>(Note 12)</small>	31,800	-	-	31,800	***	***
Cash and cash equivalents <small>(Note 13)</small>	9,641	-	-	9,641	***	***
	41,441	58	-	41,499		
<b>Financial liabilities not measured at fair value</b>						
Bank loan <small>(Note 19)**</small>	-	-	3,000	3,000	-	3,000
Trade and other payables <small>(Note 20)*</small>	-	-	22,916	22,916	***	***
	-	-	25,916	25,916		

\* Payables to employees and tax liabilities are not included

\*\* According to the management's estimates the fair value of the loan did not differ from its carrying amount as the bank loan had a floating interest rate and the risk margin at 1 January 2015 met the level of market's risk margin.

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

## 23.2 MEASUREMENT OF FAIR VALUES

	Valuation technique	Significant unobservable inputs
<b>Financial assets measured at fair value</b>		
Derivative financial instruments - swaps contracts for buying natural gas	The fair value is determined using settlement prices for futures contracts at ICE Endex market at the reporting date	-
<b>Financial liabilities not measured at fair value</b>		
Bank loans and finance lease liabilities	Discounted cash flows: the valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate	Interest rates of borrowings

## 23.3 FINANCIAL RISK MANAGEMENT [In thousands of euros]

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

- credit risk
- liquidity risk
- market risk

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

### (a) Credit risk

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

As at 31 December 2016 the maximum amount exposed to credit risk was as follows.

	31.12.2016	31.12.2015	1.01.2015
Trade and other receivables (Note 12)	19,101	15,016	31,800
Bank accounts (Note 13)	2,969	4,786	692
Cash in transit (Note 13)	1,160	4	5
Short-term deposits (Note 13)	744	6,350	8,933
Derivative financial instruments (Note 16)	359	-	-
<b>Total amount exposed to credit risk</b>	<b>24,333</b>	<b>26,156</b>	<b>41,430</b>

### Trade and other receivables

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

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

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

As at 31 December 2016, the maximum exposure to credit risk by the type of receivable was as follows.

	31.12.2016	31.12.2015	1.01.2015
Accounts receivable for gas and network service, incl.			
large consumers	13,232	10,659	24,042
small consumers	2,664	1,602	2,973
household customers	2,579	2,310	3,364
Accounts receivable for other goods and services	558	335	1,191
Other receivables	68	110	230
<b>Total trade and other receivables (Note 12)</b>	<b>19,101</b>	<b>15,016</b>	<b>31,800</b>

The allowance for doubtful receivables by the type of receivable as at 31 December 2016 was as follows.

	31.12.2016	31.12.2015	1.01.2015
Allowance for doubtful receivables for gas and network service, incl.			
large consumers	(1)	(73)	(80)
small consumers	(7)	(10)	(13)
household customers	(152)	(123)	(127)
Allowance for doubtful receivables for other goods and services	(2)	(974)	(22)
<b>Total allowance for doubtful receivables (Note 12)</b>	<b>(162)</b>	<b>(1,180)</b>	<b>(242)</b>

As at 31 December 2016, the Group's most significant customer accounted for EUR 3,118 thousand of the trade and other receivables (31 December 2015: EUR 3,167 thousand; 1 January 2015: EUR 6,877 thousand).

As at 31 December 2016, the ageing of accounts receivable that were not impaired was as follows.

	31.12.2016	31.12.2015	1.01.2015
Accounts receivable not yet due	18,273	13,242	30,946
Accounts receivable due but not classified as doubtful			
1-30 days past due	647	1,587	509
31-90 days past due	81	68	94
91-180 days past due	32	7	20
more than 181 days past due	-	2	1
Total accounts receivable due but not classified as doubtful	760	1,664	624
<b>Total accounts receivable not classified as doubtful</b>	<b>19,033</b>	<b>14,906</b>	<b>31,570</b>

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

	31.12.2016	31.12.2015	1.01.2015
Receivables from new clients (client relationship shorter than 6 months)	544	172	236
Receivables from existing clients (client relationship longer than 6 months)	17,729	13,070	30,710
<b>Total accounts receivable</b>	<b>18,273</b>	<b>13,242</b>	<b>30,946</b>

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

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

	2016	2015
Allowance for doubtful receivables at the beginning of the period	(1,180)	(242)
Classified as doubtful and collected during the accounting period (Note 9)	45	(974)
Classified as irrecoverable	973	36
<b>Allowance for doubtful receivables at the end of the period (Note 12)</b>	<b>(162)</b>	<b>(1,180)</b>

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

### Bank accounts and short-term deposits

	31.12.2016	31.12.2015	1.01.2015
At banks with Moody's credit rating of Aa3	3,707	11,126	21
At banks with Moody's credit rating of A1	6	-	9,584
At banks with Moody's credit rating of A2	-	10	-
At banks with Moody's credit rating of A3	-	-	20
<b>Total bank accounts and short-term deposits in banks (Note 13)</b>	<b>3,713</b>	<b>11,136</b>	<b>9,625</b>

### (b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses and risking damage to the Group's reputation. Long-term liquidity risk is the risk that the Group does not have 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

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

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

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

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

31 December 2016

	Carrying amount	Contractual cash flows				
		Total	3 months or less	4-6 months	7-12 months	1-5 years
Bank loan (Note 19)	1,500	1,507	-	1,507	-	-
Overdraft (Note 19)	1,162	1,162	-	-	-	1,162
Finance lease liabilities (Note 19)	1,170	1,216	30	31	61	1,094
Trade and other payables (Note 20)*	18,922	18,922	18,190	732	-	-
<b>Total</b>	<b>22,754</b>	<b>22,807</b>	<b>18,220</b>	<b>2,270</b>	<b>61</b>	<b>2,256</b>

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

31 December 2015

	Carrying amount	Contractual cash flows		
		Total	1 year or less	1-5 years
Bank loan (Note 19)	45,000	45,037	45,037	-
Trade and other payables (Note 20)*	7,309	7,309	7,309	-
<b>Total</b>	<b>52,309</b>	<b>52,346</b>	<b>52,346</b>	<b>-</b>

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

1 January 2015

	Carrying amount	Contractual cash flows		
		Total	1 year or less	1-5 years
Bank loan (Note 19)	3,000	3,001	3,001	-
Trade and other payables (Note 20)*	30,180	30,180	30,180	-
<b>Total</b>	<b>33,180</b>	<b>33,181</b>	<b>33,181</b>	<b>-</b>

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



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

### (c) Market risk

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

#### Price risk of commodities

The Group's major price risks of commodities arise from the fixed-price gas sales contracts and the take-or-pay provision in the natural gas purchase contract. The Group uses derivatives - swap contracts for buying natural gas - to manage price risks. The swap contracts have been entered into for the purchase of a fixed volume of natural gas at each hour and their price is denominated in euros. The fair value changes of the transactions are recognised in profit or loss. As at 31 December 2016 the Group had concluded swap contracts for buying natural gas for the year 2017 in the volume of 168,500 MWh (31 December 2015 and 1 January 2015: 0 MWh). The basis for determining the fair value of the transactions are the quotes at ICE Endex market (Note 16). Additional information about the take-or-pay provision in the natural gas purchase contract is disclosed in Note 26.

#### Currency risk

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

#### Interest rate risk

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

Sensitivity analysis is used to assess the interest rate risk. As at 31 December 2016 the borrowings with fixed interest rate accounted for 31% and the borrowings with floating interest rate 69% of the total amount of borrowings (31 December 2015 and 1 January 2015 all the borrowings had floating interest rate).

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

	31.12.2016	31.12.2015	1.01.2015
<b>Fixed-rate instruments</b>			
Financial liabilities	1,170	-	-
<b>Variable-rate instruments</b>			
Financial liabilities	2,662	45,000	3,000
<b>Total</b>	<b>3,832</b>	<b>45,000</b>	<b>3,000</b>

#### Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

#### Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change in interest rates as at 31 December 2016, 31 December 2015 and 1 January 2015 would have immaterial effect on profit or loss.

## 24. LIST OF SUBSIDIARIES

The Group had the following subsidiaries as at 31 December 2016.

Name of the subsidiary	Country of incorporation	Nature of business	Proportion of ordinary shares held by the Group		
			31.12.2016	31.12.2015	1.01.2015
AS Gaasivõrgud	Estonia	Sale of distribution services through natural gas distribution network	100.0%	100.0%	100.0%
AS EG Ehitus	Estonia	Construction of gas, water and sewage pipelines	100.0%	100.0%	100.0%

## 25. OPERATING LEASES *(In thousands of euros)*

### (a) Leases as lessor

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

During 2016, the property rentals of EUR 121 thousand (2015: EUR 128 thousand) were included in revenue.

### (b) Leases as lessee

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

#### Lease expenses recognised in profit or loss

	2016	2015
Means of transport	58	56
Machinery and equipment	37	38
Buildings	2	3
Other	19	261
<b>Total</b>	<b>116</b>	<b>358</b>

## 26. COMMITMENTS AND CONTINGENCIES

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

As at 31 December 2016, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 584 thousand (31 December 2015: EUR 10 thousand, 1 January 2015: EUR 25 thousand).

### (b) Binding future obligations arising from the finance lease contract

The Group has concluded finance lease contracts for leasing LNG semi-trailers. In 2017 the unpaid amount of the cost of semi-trailers will be financed using finance lease (Note 14).

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

The natural gas purchase contract concluded by the Group contains a take-or-pay provision according to which the Group has an obligation for purchasing an agreed amount of natural gas until year 2018. This provision may cause the loss to the Group if the purchase price of such volume of natural gas will be higher than the selling price of the same volume of natural gas. Based on management's estimates losses are not probable and no provision has been set up in the statement of financial position as at 31 December 2016. As at 31 December 2015 a provision for onerous contract had been set up in the amount of EUR 2,985 thousand (Note 22).

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

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

## 27. RELATED PARTIES (In thousands of euros)

### (a) Parent and ultimate controlling party

The sole shareholder of AS Eesti Gaas as at 31 December 2016 was Trilini Energy OÜ. The ultimate controlling party of the Group at 31 December 2016 was AS Infortar.

As at 31 December 2015 and 1 January 2015 the parent company and the ultimate controlling party was Fortum Heat and Gas OY.

### (b) Key management personnel compensation

	2016	2015
Short-term employee benefits	880	975
Post-employment benefits (Note 22)	83	28
Social taxes	318	331
<b>Total</b>	<b>1,281</b>	<b>1,334</b>

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

Short-term employee benefits of the Group's key management personnel include salaries, vacation pay, benefits and compensations. Information about the provision that has been set up for post-employment benefits for the members of the Management Board is disclosed in Note 22.

The expenses related to setting up the provision for post-employment benefits for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board. The total amount of gross liabilities without the influence of cut-off as at 31 December 2016 was EUR 681 thousand (with social tax) (31 December 2015: EUR 504 thousand, 1 January 2015: EUR 643 thousand).

### (c) Other related party transactions

	Transaction values		Balance outstanding		
	2016	2015	31.12.2016	31.12.2015	1.01.2015
<b>Sale of goods and services</b>					
Transactions with owners	18	890	-	-	41
Transactions with entities under the control of owners	37	-	5	-	34
<b>Purchase of goods and services</b>					
Transactions with owners	20,148	120,636	-	794	21,362
Transactions with entities under the control of owners	31	-	23	-	1,237

As at 1 January 2015 the balances outstanding include the receivables from and payables to AS EG Võrguteenus, since AS EG Võrguteenus was under the control of the owners of AS Eesti Gaas. On 2 January 2015 AS EG Võrguteenus left from the control of the owners of Eesti Gaas.

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

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

### STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
Revenue	102,543	114,848
Other operating income	402	57
Raw materials and consumables used	(86,818)	(103,141)
Payroll expenses	(3,561)	(3,263)
Depreciation and amortisation	(4,072)	(3,841)
Other operating expenses	(1,772)	(1,888)
<b>Operating profit</b>	<b>6,722</b>	<b>2,772</b>
Financial income	2	48
Financial expenses	(117)	(62)
<b>Net financial expense</b>	<b>(115)</b>	<b>(14)</b>
<b>Profit before tax</b>	<b>6,607</b>	<b>2,758</b>
Corporate income tax expense	-	(1,240)
<b>Profit for the year</b>	<b>6,607</b>	<b>1,518</b>
<b>Total comprehensive income for the year</b>	<b>6,607</b>	<b>1,518</b>

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

### STATEMENT OF FINANCIAL POSITION

	31.12.2016	31.12.2015
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	69,963	68,672
Intangible assets	1,794	1,345
Investment property	1,061	1,100
Available-for-sale financial assets	-	58
Investments in subsidiaries	2,564	2,564
<b>Total non-current assets</b>	<b>75,382</b>	<b>73,739</b>
<b>Current assets</b>		
Inventories	3,117	28,134
Derivative financial instruments	359	-
Trade and other receivables	19,695	15,921
Prepayments	17	10
Cash and cash equivalents	3,731	10,176
<b>Total current assets</b>	<b>26,919</b>	<b>54,241</b>
<b>Total assets</b>	<b>102,301</b>	<b>127,980</b>

	31.12.2016	31.12.2015
<b>Equity</b>		
Share capital	9 919	9 919
Share premium	4,857	4,857
Statutory capital reserve	992	992
Retained earnings	51,313	44,706
<b>Total equity</b>	<b>67,081</b>	<b>60,474</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	1,060	-
Provisions	453	426
Deferred income	10,934	11,008
<b>Total non-current liabilities</b>	<b>12,447</b>	<b>11,434</b>
<b>Current liabilities</b>		
Borrowings	2,772	45,000
Trade and other payables	19,659	7,823
Prepayments	160	234
Provisions	182	3,015
<b>Total current liabilities</b>	<b>22,773</b>	<b>56,072</b>
<b>Total liabilities</b>	<b>35,220</b>	<b>67,506</b>
<b>Total liabilities and equity</b>	<b>102,301</b>	<b>127,980</b>

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

### CASH FLOW STATEMENT

	2016	2015
<b>Cash flows from operating activities</b>		
Profit before tax	6,607	2,758
<b>Adjustments</b>		
Depreciation of property, plant and equipment	3,609	3,477
Amortisation of intangible assets	463	364
Income from connection fees	(737)	(726)
Recognition and adjustment of provisions	(2,775)	2,888
Loss from write-down of inventories	-	1,400
Gain on sale of property, plant and equipment and intangible assets	(20)	(33)
Loss from write-off of property, plant and equipment and intangible assets	7	2
Unsettled gain on derivatives	(359)	-
Loss from other investments	58	-
Interest expense	59	62
Interest income	(2)	(48)
Adjusted net profit	6,910	10,144
<b>Net change in current assets relating to operating activities</b>		
Change in trade receivables	(4,053)	15,809
Change in inventories	25,017	(29,534)
Net change in current assets relating to other operating activities	234	(1,017)
Total net change in current assets relating to operating activities	21,198	(14,742)

	2016	2015
<b>Net change in liabilities relating to operating activities</b>		
Use of provisions	(31)	(3,031)
Change in trade payables	10,535	(20,287)
Net change in liabilities related to other operating activities	1,003	(1,994)
Total net change in liabilities relating to operating activities	11,507	(25,312)
Interest received	2	47
Corporate income tax paid	-	(1,240)
<b>Net cash flows from operating activities</b>	<b>39,617</b>	<b>(31,103)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and intangible assets	(4,481)	(5,303)
Proceeds from connection fees	663	606
Proceeds from sale of property, plant and equipment	153	35
Loans granted to subsidiary	(62)	(572)
Repayments of loans granted to subsidiary	100	2,034
Contribution to the share capital of subsidiary	-	(1,500)
<b>Net cash used in investing activities</b>	<b>(3,627)</b>	<b>(4,700)</b>
<b>Cash flows from financing activities</b>		
Bank loans received	4,500	71,500
Change in overdraft	1,162	-
Repayments of bank loans	(48,000)	(29,500)
Payment of finance lease liabilities	(27)	-
Interest and loan fees paid	(70)	(51)
Dividends paid	-	(4,960)
<b>Total cash generated from financing activities</b>	<b>(42,435)</b>	<b>36,989</b>
<b>Net cash flows</b>	<b>(6,445)</b>	<b>1,186</b>
Cash and cash equivalents at beginning of period	10,176	8,990
Cash and cash equivalents at end of period	3,731	10,176
<b>Net increase/decrease in cash and cash equivalents</b>	<b>(6,445)</b>	<b>1,186</b>

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

### STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Equity as at 31 December 2014	9,919	4,857	992	48,148	63,916
Carrying amount of holdings under control				(1,064)	(1,064)
Value of holdings under control using equity method				1,824	1,824
Adjusted unconsolidated equity as at 31 December 2014 <small>(Note 17)</small>				48,908	64,676
Profit for the year	-	-	-	1,518	1,518
Total comprehensive income for the year	-	-	-	1,518	1,518
Dividends paid <small>(Note 17)</small>	-	-	-	(4,960)	(4,960)
Total contributions by and distributions to owners of the company, recognised directly in equity	-	-	-	(4,960)	(4,960)
Total transactions with owners of the company, recognised directly in equity	-	-	-	(4,960)	(4,960)
Equity as at 31 December 2015	9,919	4,857	992	44,706	60,474
Carrying amount of holdings under control				(2,564)	(2,564)
Value of holdings under control using equity method				2,291	2,291
Adjusted unconsolidated equity as at 31 December 2015 <small>(Note 17)</small>				44,433	60,201
Profit for the year	-	-	-	6,607	6,607
Total comprehensive income for the year	-	-	-	6,607	6,607
Equity as at 31 December 2016	9,919	4,857	992	51,313	67,081
Carrying amount of holdings under control				(2,564)	(2,564)
Value of holdings under control using equity method				3,111	3,111
Adjusted unconsolidated equity as at 31 December 2016 <small>(Note 17)</small>				51,860	67,628

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

## 29. EXPLANATION OF TRANSITION TO IFRSs AND COMPARATIVE INFORMATION (In thousands of euros)

### Reconciliations of equity reported under previous GAAP to the equity under IFRSs

	Share capital (Note 17)	Share premium	Statutory reserve capital (Note 17)	Other reserves	Retained earnings from the revaluation of natural gas pipelines	Retained earnings (Note 17)	Total
Equity as at 1 January 2015 under previous GAAP	9,919	4,857	992	58	10,404	38,512	64,742
<b>Adjustments arising from the changes in accounting policies</b>							
recognition of connection fees as deferred income	-	-	-	-	-	(10,366)	(10,366)
the increase of the net book value of property, plant and equipment by the previously deducted connection fees	-	-	-	-	-	10,300	10,300
transfer of revaluation reserve of natural gas pipelines to the retained earnings	-	-	-	-	(10,404)	10,404	-
transfer of other reserve to the retained earnings	-	-	-	(58)	-	58	-
<b>Total</b>	-	-	-	(58)	(10,404)	10,396	(66)
Equity as at 1 January 2015 under IFRSs	9,919	4,857	992	-	-	48,908	64,676
Equity as at 31 December 2015 under previous GAAP	9,919	4,857	992	58	9,607	34,150	59,583
<b>Adjustments arising from the changes in accounting policies</b>							
recognition of connection fees as deferred income	-	-	-	-	-	(9,682)	(9,682)
the increase of the net book value of property, plant and equipment by the previously deducted connection fees	-	-	-	-	-	10,300	10,300
transfer of revaluation reserve of natural gas pipelines to the retained earnings	-	-	-	-	(9,607)	9,607	-
transfer of other reserve to the retained earnings	-	-	-	(58)	-	58	-
<b>Total</b>	-	-	-	(58)	(9,607)	10,283	618
Equity as at 31 December 2015 under IFRSs	9,919	4,857	992	-	-	44,433	60,201



## 29. EXPLANATION OF TRANSITION TO IFRSs AND COMPARATIVE INFORMATION, CONTINUED (In thousands of euros)

### Reconciliations of profit for the year reported under previous GAAP to the profit for the year under IFRSs

	Profit for the year 2015
Profit for the year 2015 under previous GAAP	(199)
Adjustments arising from the changes in accounting policies	
deferred income from connection fees	726
other adjustments related to the connection fees	(42)
Total	684
Profit for the year 2015 under IFRSs	485

In connection with the transition to IFRSs the accounting policy of recognising connection fees was changed. According to the new policy, the connection fees are recognised as deferred income and are amortised over the estimated average useful lives of assets acquired for the connections. According to the previous accounting policy the cost of property, plant and equipment was reduced by the amount of connection fees. Due to the change in accounting policy the retained earnings were reduced and the unamortised balance of the connection fees was recognised as deferred income.

In the transition to IFRSs the revalued cost of natural gas pipelines in year 2004 was used as a deemed cost of the natural gas pipelines as the revaluation could be considered broadly comparable to the fair value of the assets. The equity reserves arising from the revaluations were transferred to the retained earnings at the date of transition to IFRSs.

## 30. SIGNIFICANT ACCOUNTING POLICIES

### 30.1 BASIS OF CONSOLIDATION

#### (a) Subsidiaries

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

#### (b) Transactions eliminated on consolidation

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

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

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

### 30.2 FOREIGN CURRENCY

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

### 30.3 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of business. Revenue is shown net of value-added tax and discounts after the elimination of intra-group transactions. Revenue is recognised only when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group, all significant risks and rewards incidental to ownership have been transferred from the seller to the buyer, and the additional criteria presented below have been met.

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

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

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

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

#### (b) Recognition of connection fees

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

### (c) Construction contracts

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

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

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

## 30.4 EMPLOYEE BENEFITS

### (a) Short-term employee benefits

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

### (b) Termination benefits

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

### (c) Other employee benefits

Provisions have been set up to cover the benefits payable under termination of the service contracts with the members of the Management Board and benefits arising from other agreements with former employees. The expenses related to setting up the provision for post-employment payments for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board (Note 22).

## 30.5 FINANCE INCOME AND FINANCE COSTS

### The Group's finance income and finance costs include:

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

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

## 30.6 INCOME TAX

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

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

## 30.7 INVENTORIES

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

## 30.8 PROPERTY, PLANT AND EQUIPMENT

### (a) Recognition and measurement

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

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

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

### (b) Subsequent expenditure

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

### (c) Depreciation

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

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

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

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

## 30.9 INTANGIBLE ASSETS

### (a) Recognition and measurement

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

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

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

Amortisation 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, and is generally recognised in profit or loss.

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

## 30.10 INVESTMENT PROPERTY

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

## 30.11 CONSTRUCTION CONTRACTS IN PROGRESS

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

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

## 30.12 FINANCIAL INSTRUMENTS

The Group classifies its non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

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

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

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

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

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

Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Available-for-sale financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, shall be measured at cost.

### (b) Non-derivative financial liabilities – Measurement

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

### (c) Derivative financial instruments

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

## 30.13 CASH AND CASH EQUIVALENTS

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

## 30.14 SHARE CAPITAL

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

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

## 30.15 IMPAIRMENT

### (a) Non-derivative financial assets

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

#### Objective evidence that financial assets are impaired includes:

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

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

Financial assets measured at amortised cost	<p>The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified.</p> <p>An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss. Accounts receivable are usually written down in full, if the client has not paid the invoice issued for the product or service within 180 days from the due date and an agreement on the repayment or rescheduling of debts has not been concluded in writing, or if an action has been filed to court against the client, or declared bankrupt or liquidated. When a receivable is classified as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement against other operating expenses.</p>
Available-for-sale financial assets	<p>Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.</p>

### (b) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

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

## 30.16 PROVISIONS

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

Warranties	A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.
Onerous contracts	A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.
Employee related provisions	If the Group has the obligation to pay post-employment benefits to their former employees, a provision is set up to cover these costs. The provision is based on the terms of the obligation and the estimated number of people eligible for the compensation. The expenses related to setting up the provision for post-employment benefits for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board.

## 30.17 LEASES

### (a) Leased assets

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

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

### (b) Lease payments

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

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

## 30.18 OPERATING PROFIT

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

## 30.19 FAIR VALUE MEASUREMENT

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

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

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

## 30.20 CONTINGENCIES

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

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

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2016 and have not been applied in preparing these financial statements:

### IFRS 9 Financial Instruments (2014)

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

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

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

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

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

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

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

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

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

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

### IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

Although the Group has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.



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

### IFRS 16 Leases

Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. This pronouncement is not yet endorsed by the EU.

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

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

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

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

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

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

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

## 32. SUBSEQUENT EVENTS

On 17 November 2016 a merger agreement was concluded between AS Eesti Gaas and Trilini Energy OÜ (sole shareholder of AS Eesti Gaas), as a result of which Trilini Energy OÜ (company being acquired) merged with AS Eesti Gaas and was deemed to be dissolved. The merger was completed in March 2017. The merger will have a material effect on the Group's capital structure.

# Signatures of the management board to the annual report for financial year 2016

The Annual Report of Eesti Gaas Group for the financial year ended on 31 December 2016 consists of the management report, the consolidated financial statements, the auditor's 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

Sergey Zagrebaylov



## Profit Allocation Proposal

The retained earnings of Eesti Gaas Group as at 31 December 2016 were 51,860,533.30 euros, of which the net profit for the year 2016 amounted to 7,427,778.62 euros.

The Management Board proposes under section 332 of the Commercial Code of Estonia to transfer the net profit for the year 2016 of Eesti Gaas Group to the retained earnings.

## EMTAK

### THE DIVISION OF SALES REVENUE OF PARENT COMPANY BY ACTIVITIES, 1 JANUARY 2016 – 31 DECEMBER 2016 (In thousands of euros)

Activity	Sales revenue
Trade of gas through mains (35231)	92,728
Renting and operational leasing of other machinery, equipment and tangible assets not classified elsewhere (77399)	5,695
Retail sale of automotive fuel incl. activities of fuelling stations (47301)	1,936
Trade of electricity (35141)	536
Rental and operating of own or leased real estate (68201)	436
Other services	1,212
<b>Total</b>	<b>102,543</b>

#### New area of activity adding in 2017

wholesale of automotive fuel (46712)



# Independent Auditors' Report

**To the Shareholders of Eesti Gaas AS**

## Opinion

We have audited the consolidated financial statements of Eesti Gaas AS (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements, as set out on pages 13 to 55, present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and of consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Basis for Opinion

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



## Other Information

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

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

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

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

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

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

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



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

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

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

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



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

Tallinn, 27 March 2017

A handwritten signature in blue ink, appearing to read 'Andris Jegers', written over a light blue horizontal line.

**Andris Jegers**

Certified Public Accountant, Licence No 171

**KPMG Baltics OÜ**

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