Annual Report 2022

Aristidis I, 06.05.2022

eesti gaas

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Annual Report 2022

BUSINESS NAME
AS Eesti Gaas

COMMERCIAL REGISTRY CODE
10178905

ADDRESS
Sadama 7, Tallinn 10111

PHONE
+372 6 303 003

E-MAIL
info@gaas.ee

PRINCIPAL ACTIVITY
sale of natural gas

BEGINNING OF THE FINANCIAL YEAR
1 January 2022

END OF THE FINANCIAL YEAR
31 December 2022

Management Report

Diamond Gas Crystal, 10.06.2022

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Statement of the Chairman of the Management Board

Eesti Gaas has grown into the largest privately owned energy company in the Baltic and Finnish region. Four years ago, we took our first steps in Finland, Latvia, and Lithuania. Back then, the aim was to double our sales volumes and reach 10 TWh per year. To date, the goal has been largely achieved, more than 70 per cent of our sales volume comes from export markets, and it is time to set the next target. The ambition of the Eesti Gaas Group for the next three or four years is to double the volumes again and reach sales of 20 TWh per year. We want to enter new markets and have already started operations in Poland.

Vigorous expansion to foreign markets and the turnaround to LNG have opened up new opportunities and brought us success. Eesti Gaas has played a central role in driving the LNG transition in the Baltic and Finnish gas market. New supply routes and suppliers have been established, and a full transition to Western-origin gas has been made. Despite the turbulent times, the gas companies and the entire market have coped well and ensured supplies to the customers – gas now comes from the west and on tankers. For this year, Eesti Gaas has agreements with the Klaipeda terminal in Lithuania and the Inkoo terminal in Finland to receive ten LNG cargoes until autumn. Last year, we procured five shiploads of gas from Norway and the United States through Klaipeda.

Eesti Gaas has played a central role in driving the LNG turnaround on the Baltic-Finnish gas market.

Our security of supply situation is very good and the price of gas has dropped and is stabilising. The warmer weather and lower gas demand have helped, as well as the flexibility of business consumers in replacing and combining energy sources. If favourable circumstances coincide, the gas market price could remain below 60 €/MWh for longer, perhaps until next spring. Although this is still not as low as we would like, it is still a much more reasonable level than in 2022.

Margus Kaasik

CHAIRMAN OF THE MANAGEMENT BOARD

Statement of the Chairman of the Management Board

Not only has the price of gas gone down, but signs also point to natural gas returning to the competition. Several large industrial companies that used alternative fuels in the meantime are returning to gas. Gas remains a convenient and reasonable source of energy for households as well. Gas has an important role to play in the energy portfolio of Estonia and the green transition, because it is the most natural ally of renewable energy – clean, flexible, and readily available. In addition, gas supports future technologies, including the development of hydrogen and hydrogen-based synthetic fuels.

Gas has an important part to play in Estonia's energy portfolio and in the green transition.

The new energy formula for modern Estonia will consist of wind power and gas. We live at a latitude where combustion is unavoidable. If we must burn a fuel, then the one with a smaller environmental impact is preferable. In this regard, gas has no competition: it is the cleanest and quietest fuel to combust. What is even more important in practical terms is that the use of gas is flexible and of high efficiency. The load can be quickly increased, and losses are minimal. Therefore, gas is the most community-friendly solution that can be of decisive importance in energy projects.

In the short term, gas will replace the departing shale oil from the market, and in the long run, it will support green energy. Gas ensures Estonia's energy diversity and reduces risks. The European Union also regards gas as an ally to renewables and a transitional fuel. With gas, we can make a balanced green transition that would preserve the vitality and competitiveness of our economy and industry.

The Estonian energy formula of the new era will consist of wind supported by gas.

Vigorous expansion into foreign markets and the LNG revolution have opened up new opportunities and brought us success.

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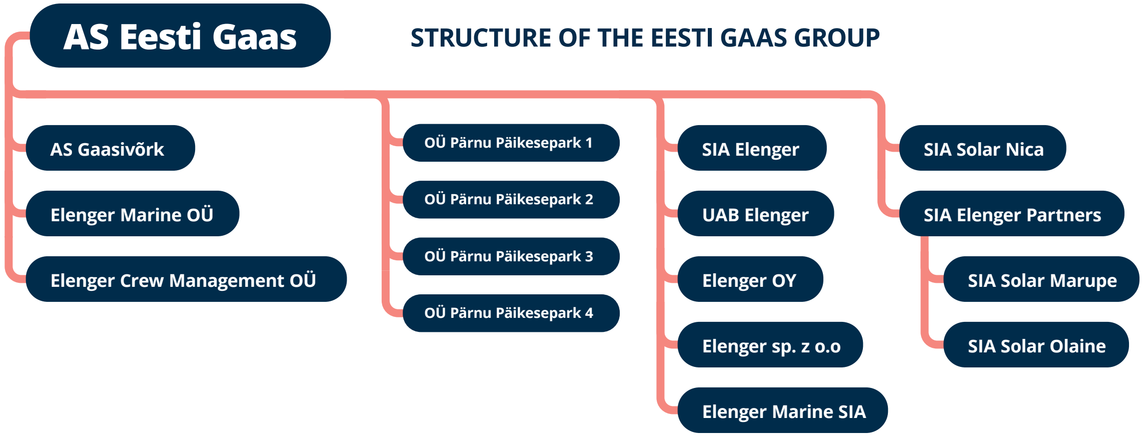
About the Company

AS Eesti Gaas is one of the largest and most experienced energy companies in Estonia. The company's core product and competence area is natural gas, which is offered to customers as traditional pipeline gas, as compressed natural gas (CNG) and locally produced biomethane for engine fuel, and as liquefied natural gas (LNG) for off-grid properties. AS Gaasivõrk, a subsidiary of Eesti Gaas, is the largest natural gas distribution network company in Estonia. Eesti Gaas also runs the largest network of CNG stations in Estonia and is the only company in the Baltic countries with a regular LNG bunkering service capability. The sale of electricity continues to be a growing business area. The company is actively developing a renewable energy portfolio in the field of solar energy and biomethane.

The Eesti Gaas Group includes the wholly-owned subsidiaries AS Gaasivõrk, OÜ Elenger Marine, and OÜ Elenger Crew Management, operating in Estonia, and SIA Elenger Marine, operating in Latvia. Eesti Gaas has an 80% stake in four companies engaged in the production of solar energy, which are co-owned by OÜ Paikre, a municipal company in Pärnu. Eesti Gaas operates in Latvia under the name of SIA Elenger, in Lithuania under the name of UAB Elenger, and in Finland under the name of OY Elenger, offering energy solutions to business customers. In 2022, the group established a subsidiary, Sp. Z o.o. Elenger, in Poland to start selling natural gas there. Eesti Gaas has launched preparations for solar energy production in Latvia through the subsidiaries SIA Solar Nica (100%), SIA Elenger Partners (80% holding), SIA Solar Marupe (80% indirect holding), and SIA Solar Olaine (80% indirect holding). AS Eesti Gaas is a private company, the sole owner of which is AS Infortar.



> **We are the only company in the Baltic countries with a regular LNG bunkering service capability.**

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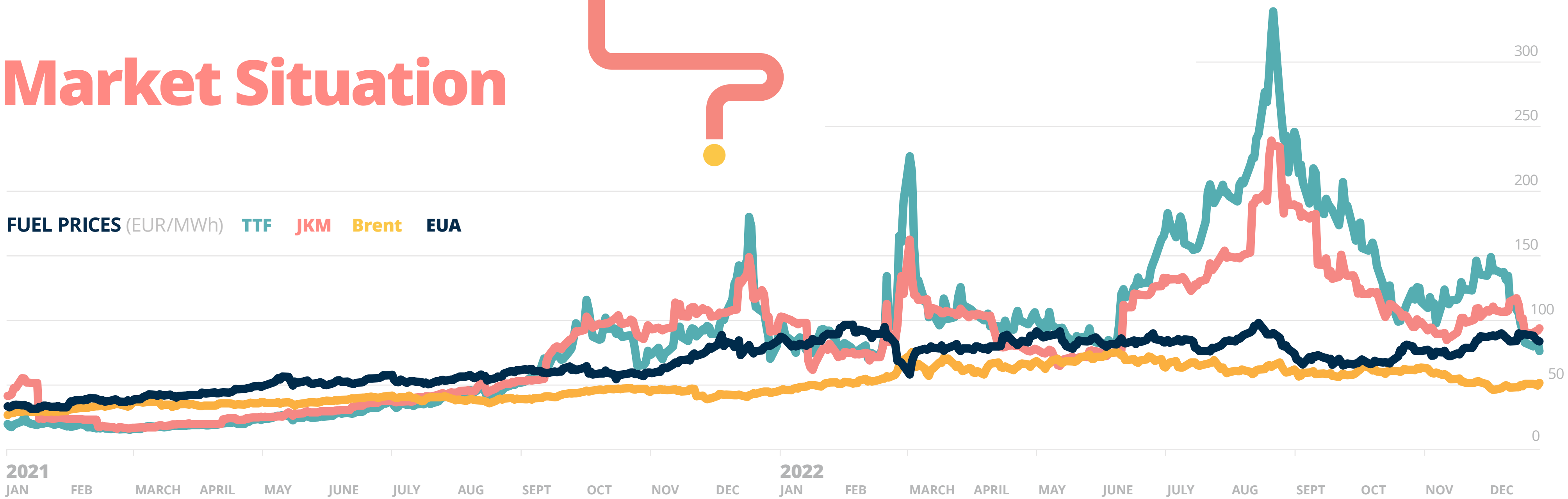
Market Situation



Gas market

2022 was one of the most volatile years in the energy markets. The war in Ukraine caused supply disruptions of several raw materials, but primarily of natural gas. Previously, Russia provided approximately 40% of the gas consumed in Europe. However, when the full-scale war broke out, the continuation of the deliveries which had already shrunk in the year before became doubtful. Gradually, it became clear that the Nord Stream 2 pipeline would not be launched, the flow to Poland was halted in May, and the flow of Nord Stream 1 was closed by the end of August. The flows to Finland and the Baltics also stopped gradually over the year.

Europe was forced to quickly switch the supply to LNG and did so very successfully. The high price in Europe attracted record volumes of LNG to the region. In combination with the lower consumption due to the high prices and the warm weather, a record high storage level was achieved by the winter, which ensured security of supply and allowed to lower prices in autumn. It would have been possible to accept even more LNG, had the regasification units at the European ports and storage capacities not restricted it.

Driven by high gas prices and political will, the construction of new LNG terminals began quickly. The first LNG terminal in Germany was ready by the end of the year, as was the Inkoo terminal in Finland. Together with the Klaipeda terminal in Lithuania, the two are capable of covering the entire gas consumption of the Baltic states and Finland. In addition to the transition from Russian gas to LNG, the security of supply in our region is further enhanced by the pipeline between Lithuania and Poland, launched in May, which connects the Baltic states to Western Europe and enables to obtain gas from that direction too, if necessary.

The European gas price TTF index, which is used in the majority of the gas trade in the Baltic states, was approximately at the level of 130 €/MWh on average in 2022, i.e. more than three times higher compared to the year before, while the daily peak reached 342 €/MWh. Paradoxically, however, the prices were even negative in some hours in Western Europe due to the constant inflow to the LNG terminals, and as the storages were completely full before winter, there was, at some point, even the readiness to pay extra for the gas to be taken in and consumed.

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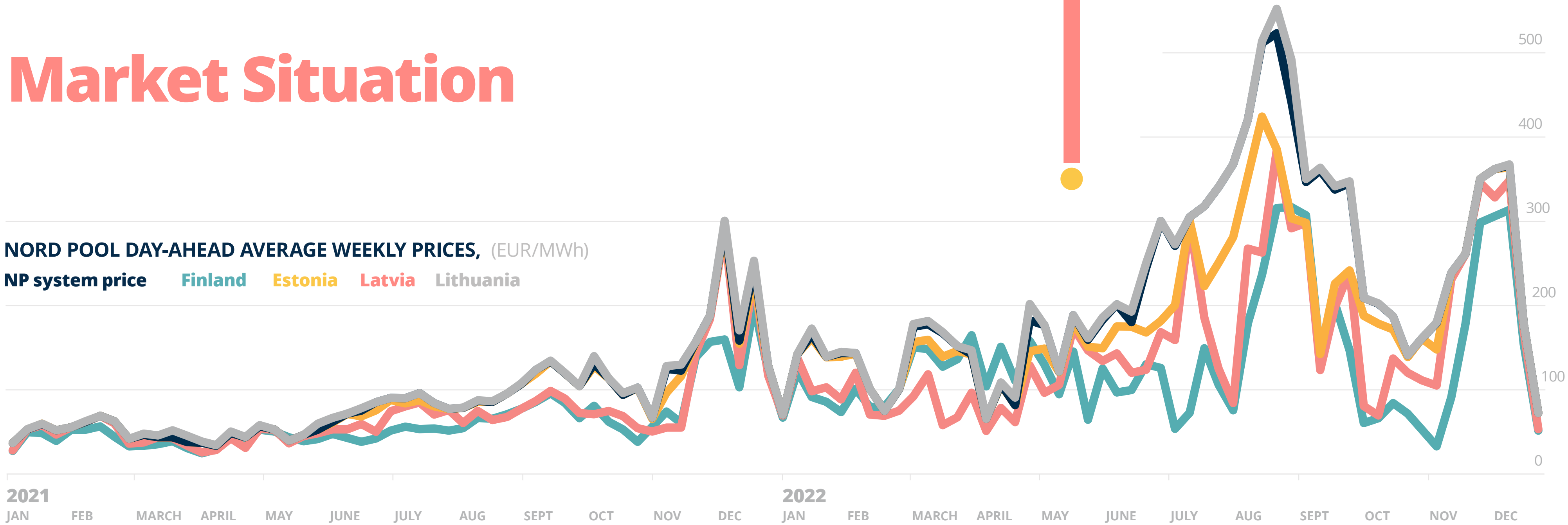
Market Situation



Electricity market

In 2022, the average price on the NordPool electricity exchange in the Estonian region was 192.82 €/MWh, 122% higher than in 2021. On 17 August, the price peaked at 4,000 €/MWh, which is also the highest possible price pursuant to the rules of the NordPool exchange. The peak was caused by a situation in one hour when the entire production did not cover the entire consumption in the day-ahead forecast.

Electricity prices depend on other fuels and the increase in the prices of gas also increased the prices of electricity. The prices were especially high in the summer period, when the natural gas deliveries from Russia were gradually declining and the gas prices jumped up. Continuing issues with the Finnish Olkiluoto 3 nuclear power plant, which has still not been launched properly and consistently, did not help, either.

The extreme prices also caused unusually high differences between price regions. The average price difference between Estonia and Finland was almost 39 €/MWh in 2022 compared to the level of 14 €/MWh in the year before, as the generally cheaper renewable energy from Scandinavia could not cover the demand of further regions due to the limited transmission capacity. The price of the Latvian region was 34 €/MWh higher compared to Estonia, on average, compared to the price difference of a few euros in the previous years. This was caused by the extensive maintenance works of the grid on the border between Estonia and Latvia and the larger share of the electricity generated from the more expensive natural gas in Latvia and Lithuania.

The company is actively developing its renewable energy portfolio in the field of solar energy and biomethane.

In 2022, renewable energy formed 34% of the energy produced in Estonia, which is somewhat less than the 41% of the year before.

Overview of Business Activities

Natural gas

Eesti Gaas is one of the leading sellers of natural gas in the Baltic states and Finland and, in addition, launched sales operations in Poland in 2022. In foreign markets, Eesti Gaas operates under the Elenger brand. Consolidated revenue from natural gas sales increased by 196% year on year to 890.2 million euros in 2022 (including revenue from derivatives). Natural gas sales at least doubled in all target markets due to the record high levels of the TTF European gas index price. The sales of gas were, in turn, impacted negatively by a decrease in the consumption of natural gas in the Baltic States and Finland by an estimated total of 40%. Consumption primarily decreased due to the high price of natural gas, as well as the warmer-than-average weather in the first quarter of the year and the fears of a potential gas deficit, which arose from the restructuring of delivery chains. The security of supply risk did not realise, however, as Eesti Gaas and other gas companies completed a full transition to the western delivery chains within a few months. Last year, Eesti Gaas obtained five LNG cargoes for our clients through the Klaipeda LNG terminal.

Consolidated revenue from natural gas sales increased by 196% year on year to 890.2 million euros in 2022.

Electricity

Eesti Gaas sells electricity in Estonia and Latvia. The majority of the electricity sold to customers is bought from the NordPool power exchange. A portion of the electricity sold is generated by the Group's solar power plants located in Estonia or purchased from other electricity producers on long-term contracts. The consolidated revenue of Eesti Gaas from the sale of electricity was 67.0 million euros, a 320% increase compared to 2021. The number of both household and corporate customers increased. The relatively high average electricity prices also contributed to the growth in revenue.

The consolidated revenue of Eesti Gaas from the sale of electricity was 67.0 million euros, a 320% increase compared to 2021.

Compressed natural gas

Eesti Gaas owns and operates the largest network of CNG filling stations in Estonia, where compressed gas is sold as engine fuel for vehicles. CNG is produced from both natural gas and biomethane. Eesti Gaas built no new CNG filling stations in 2022, but the filling stations in Rakvere and Narva were expanded. As at the end of the year, Eesti Gaas had a total of eleven CNG filling stations – four in Tallinn, two in Pärnu, and one in Tartu, Narva, Jõhvi, Rakvere, and Viljandi. The consolidated revenue of Eesti Gaas from the sale of CNG was 8.5 million euros, a 104% increase compared to 2021. Since the beginning of 2019, a trading system for biomethane certificates has been in place in Estonia, which enables Eesti Gaas to earn additional income from CNG and make additional investments in the introduction of environmentally friendly biomethane in transport. In total, environmentally friendly biomethane produced in Estonia accounted for 79.9% of all compressed gas sales.

Overview of Business Activities

Distribution service

AS Gaasivõrk is the largest natural gas distribution network company in Estonia, operating 1,537 km of distribution pipelines. Pursuant to the Natural Gas Act, AS Gaasivõrk ensures the functioning and technical maintenance of the distribution network in its network area by ensuring a high-quality network connection and secure gas supply to consumers connected to the distribution network, and by providing natural gas distribution services at approximately 44,000 consumption points.

The total consolidated sales revenue from the network service in 2022 was 24.3 million euros, a decrease of 20% compared to 2021. The economic activity of AS Gaasivõrk was significantly influenced by a decrease in gas consumption. As the process of coordinating the price of the network service with the regulator is time-consuming, AS Gaasivõrk could not get the allowed revenue and the company was unprofitable in the reporting year. Pursuant to clause 37 (3) 4) of the Natural Gas Act, the Competition Authority approved 0.07597 €/m3 as the price of the network service of AS Gaasivõrk in November 2022. The price applies to the clients of AS Gaasivõrk since 3 January 2023.

In 2022, AS Gaasivõrk invested 2.1 million euros in the reconstruction and renovation of the distribution network (2021: 2.5 million euros). A total of 0.8 million euros (2021: 2.6 million euros) were invested to connect additional consumers to the natural gas pipeline. In 2023, planned investments in the reconstruction and renovation of the distribution network will increase, while investments in connecting new consumers to the gas network will decrease due to the significant decrease in the consumption of gas and the declining trend.

In 2022, AS Gaasivõrk invested 2.1 million euros in the reconstruction and renovation of the distribution network.

Liquefied natural gas

Eesti Gaas sells and delivers liquefied natural gas (LNG) both by road and by sea. The sales revenue of LNG in 2022 was 5.7 million euros, an increase of 48% compared to 2021. The significant increase in the gas prices in Europe since the beginning of 2022 put out the LNG bunkering market, which was the principal activity of the company in previous years. To cope with the market situation, the decision was made to temporarily charter out the LNG bunkering vessel Optimus.

Optimus, the region's first LNG bunker vessel, is capable of bunkering vessels both on the high sea and in ports.

The company also operates nine LNG semi-trailers, which were used to provide LNG transportation services between terminals and different industrial consumers. When the gas prices in the market stabilise, the company intends to restore its LNG bunkering operations in the Baltic Sea area with semi-trailers as well as the bunkering vessel.

Overview of Business Activities

Construction

AS EG Ehitus, a subsidiary of AS Eesti Gaas, continued with the construction and maintenance of natural gas and district heating pipelines and facilities, electricity solutions, and biogas plants as its principal activity. In 2022, the operations of the company were affected most by soaring energy and material prices, longer supply chains, and the poorer availability of raw materials. Given the sharp rise in input prices, the objects to be built needed to be carefully selected and risks actively mitigated. The sales revenue of AS EG Ehitus in 9 months of 2022 was 10.3 million euros. In the comparable period in the year before, the sales revenue was 15.1 million euros. The consolidated sales revenue of construction services was 4.4 million euros in the period from January to September in 2022. On 3 October 2022, the Group concluded a sales contract for the sale of a 100% holding in AS EG Ehitus to OÜ INF Engineering. The price of the transaction was 4.8 million euros and the transaction earned a loss of 116 thousand euros for the Group. On 1 November 2022, the Group concluded a sales contract for the sale of a 100% holding in OÜ HG Prosolution to AS EG Ehitus. The price of the transaction was 32 thousand euros and the transaction earned a profit of 16 thousand euros for the Group.

In 2022, the operations of the company were affected most by soaring energy and material prices, longer supply chains, and the poorer availability of raw materials.

On 3 October 2022, the Group concluded a sales contract for the sale of a 100% holding in AS EG Ehitus to OÜ INF Engineering.

Energy production

The consolidated sales revenue of Eesti Gaas from the production of electricity and heat was 1.1 million euros. There are four solar power plants with a total capacity of 4 MW in Pärnu, in addition to a combined heat and power plant in Tallinn. Eesti Gaas has built more than fourteen individual solar power plants of up to 50 kW across Estonia under the Oma Päike trademark. This is a renewable energy solution which allows the consumer to consume locally generated solar energy without having to invest in solar panels.

The consolidated sales revenue of Eesti Gaas from the production of electricity and heat was 1.1 million euros.

Profitability

In 2022, the consolidated net profit of AS Eesti Gaas was 95.2 million euros (2021: 25.9 million euros). The Group's net profit increased by 69.3 million euros.

The Group's net profit increased by 69.3 million euros.

In 2022, earnings before interest, taxes, depreciation, and amortisation (EBITDA) was 113.5 million euros, which is 206.7% higher than the year before. Excluding one-off effects, EBITDA increased by 211.6% compared to 2021.

AS Eesti Gaas paid 10.8 million euros of dividends in the reporting period. The Group intends to pay 10 million euros of dividends in 2023.

PROFITABILITY (in thousands of euros)

	2022	2021	Change (%)
Revenue	1,012,557	380,853	165.9%
Net profit	95,217	25,884	267.9%
EBITDA	113,514	37,018	206.7%
Extraordinary profit/loss:			
Profit/loss on sale of property, plant, and equipment	80	617	(87.1)%
Comparable EBITDA	113,434	36,401	211.6%

Investments

In 2022, Eesti Gaas invested 5.6 million euros in tangible and intangible fixed assets, which is 20% less than in the previous period. In total, 2.3 million euros was invested in the gas distribution network and 0.8 million euros in expanding the current compressed gas filling stations. A total of 1.1 million euros was invested in IT development, mainly in energy retail systems.

In 2022, Eesti Gaas invested 5.6 million euros in tangible and intangible fixed assets.

In 2023, further investments will be made in the gas distribution network and in the generation of solar energy.

Financing

High energy prices and high volatility in 2022 significantly increased the need of the Group for working capital. Short-term working capital loans and overdrafts from banks and from the owner are used to finance working capital. The balance of current liabilities at the end of the year was 207.0 million euros.

Short-term working capital loans and overdrafts from banks and from the owner are used to finance working capital.

The balance of the owner's overdraft was 12.0 million euros at the end of the year. Long-term investment loans were serviced according to contractual repayment schedules.

Macroeconomic Development and the Impact thereof

Primarily due to the full-scale war which broke out in Ukraine, 2022 was the year of halting economic growth, rapid inflation, and an energy crisis. The Estonian GDP dropped by 1.3 per cent in 2022. In December 2022, the prices in Estonia grew by 17.6% compared to the level of the year before and the annual average price increase reached 19.4%. The inflation in the euro area amounted to 9.2 per cent by the end of the year. The recovery of the demand after the COVID pandemic in the beginning of 2022, the rapidly increased CO_2 quota prices, and the interruption in the import of natural gas from Russia to Europe due to the war resulted in record-high energy prices in Estonia, as well as in the entire economic space of the European Union. On the other hand, towards the end of 2022, the prices of oil and gas started to drop due to the weakening growth prospects of the global economy and the impact of the warmer-than-average winter in Europe, reaching the pre-war level by the end of the year (*).

The Estonian GDP dropped by 1.3 per cent in 2022.

The price increase is estimated to continue at a slower pace and remain slightly under ten per cent in Estonia in 2023 (9.3), exceeding the average increase in wages and thereby reducing the purchasing power of the consumers. The fast increase in the base interest rates of the European Central Bank also has a negative impact on the profitability and growth prospects of businesses. Based on the inflation prospects which were revised upwards significantly, the European Central Bank increased the base interest rates by 50 basis points in December 2022 (**).

The rapid increase in prices with the increase in interest rates has led to the subsiding of the global economic activity.

The impact of the COVID restrictions and the global delivery problems have receded, but the rapid increase in prices with the increase in interest rates has led to the subsiding of the global economic activity. According to Eesti Pank, the Estonian economic growth will remain at the level of 0.4% in 2023, primarily due to the increasing expenses of the government sector and the budget deficit. Registered unemployment will probably increase to 8.5 per cent over 2023, and the change in real wages will be –0.7 per cent. On the other hand, the number of employed people in Estonia will likely increase (due to the entry of the Ukrainian war refugees to the Estonian labour market).

Conclusively, the general decline in purchasing power and higher uncertainty will restrict the demand and the growth prospects of businesses in 2023 (***).

* Ministry of Finance. Press release of 1 March 2023. Press release of Statistics Estonia of 1 March 2023. ** Website of Eesti Pank. Forecast. 20 December 2022 *** Website of the Bank of Estonia. MONETARY POLICY AND ECONOMY 2022/4

Impact of the Seasonality of Business

To the extent that seasonality and weather changes affect the demand for products and services, seasonality has an impact on the financial results of Eesti Gaas. The result of the business operations of Eesti Gaas is seasonally dependent on the weather, as market demand for natural gas and electricity is higher in the first and fourth quarters of the year, i.e. during the winter heating period, and lower in the second and third quarters, when the weather is warmer. In addition, the production of renewable energy in solar plants and construction has a seasonal, albeit small, effect compared to other business volumes. The sales of CNG and LNG are less susceptible to seasonality, as the end user is the transport sector, which operates in a stable manner throughout the year.

Market demand for natural gas and electricity is higher in the first and fourth quarters of the year.

Social Impact

The most important social impact is the relationship between the Eesti Gaas Group as the employer and the employees of the companies in the group, which is based on mutual trust, fairness, and dedication. The HR principles of the group rely on the following: a caring attitude towards its employees; appreciation for its people and mutual respect; a high work culture; purposeful, reliable, and loyal professional relationships; equal treatment; and good social behaviour. When recruiting employees, we look at a candidate's diligence, intelligence, reliability, professional training, and openness to technological development. We contribute to the personal development of our employees – by providing additional professional training, we support the acquisition of new knowledge. Our salary policies are based on the inherent responsibility of a position, work results, competence, and the efficiency of the employee. When developing the working environment for our employees, we are guided by the principle of wanting our employees to enjoy working here.

We value long-term employment relationships and a healthy work-life balance, and fully support parents. We guarantee excellent opportunities for our employees for taking care of and supporting health and improving fitness levels.

Risk Management Policy

The main goal of the Group's risk management policy is to ensure the stability of the Group's equity and to ensure the long-term development of the business in the desired direction. We define risks as possible unexpected changes in the business environment, the energy market, and the internal processes of the company, which adversely affect the financial results of the company. The main risks in the activities of the companies of the Group, which are managed by the Management Board, are:

Strategic market risk, which manifests primarily in a possible erroneous long-term strategic decision about the future prospects of a business area.

The Group manages the strategic risk by preparing prudent business plans and the necessary analyses when expanding into new markets and business areas

Continuous assessment and management of financial risks (credit, liquidity, interest rate, and market).

The purpose of financial risk management is to maintain a balance between continued and flexible financing through the use of bank overdrafts, bank loans, and other financial instruments. In order to manage the cash flows of the Group as efficiently as possible, cash pooling account systems have been established in various banks.

Credit risk is the risk that the Group will incur a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's trade receivables and contractual assets. The maximum amount exposed to credit risk is the carrying amount of financial assets and contractual assets.

Liquidity risk reflects the potential that the Group's ability to meet its obligations on time will decrease as the Group's financial position changes. The Group keeps the liquidity risk under control by maintaining sufficient reserves, banking instruments, and loan facilities, constantly monitoring cash flow projections and actual balances, and balancing the conditions for the terms of financial assets and liabilities.

The purpose of financial risk management is to maintain a balance between continued and flexible financing.

Interest risk arises from the changes of interest rates in the money markets, as a result of which the financing expenses of the Group may increase in the future. The majority of the loans of the Group are short-term loans and the majority of the interest rates are not fixed, but are indexed to Euribor. The upper management is monitoring the interest rate policies of central banks and different banks are used for funding the working capital to diffuse the refinancing risk. Group account systems have been opened in different banks to optimise the interest expenditure.

The Group manages the strategic risk by preparing prudent business plans and the necessary analyses when expanding into new markets and business areas.

In managing market risks, we constantly analyse the strategic goals described in the business plans and the market changes that affect them, as well as other critical success factors. This allows us to anticipate and, if necessary, mitigate possible market fluctuations. This gives us the opportunity to make better use of market changes as opportunities and to mitigate market risks. AS Eesti Gaas mainly trades in natural gas, compressed gas, liquefied natural gas, and electricity. The main market price risk

Risk Management Policy

is that projected cash flows may differ from expectations due to changes in the market price of different types of energy. This affects the Company's costs and/or revenues and financial performance. The Company uses derivatives, such as swap agreements for the purchase and sale of natural gas as well as the physical storage of natural gas in a storage facility, to mitigate the price risk. The goal of mitigating market price risks is to reduce the volatility of cash flows and to harmonise price bases for income and expenses, and to improve forecasting and the stability of financial results.

The operations of the Group may be adversely affected by information system failures, computer viruses, or cyber attacks.

The business of the Group depends significantly on the efficient, stable, and uninterrupted operation of its information technology (IT), management information, and communication systems. Errors or significant disruptions in the operation of the Group's information technology systems may impede the operations of the Group. In addition, the IT systems of the Group may be subject to computer viruses or cyber attacks, which may also cause disruptions or delays in the operations of the Group. The IT solutions and systems of Eesti Gaas have been created centrally throughout the Group, and IT systems are protected against external attacks mainly through a comprehensive solution agreement with an external partner. The Group trains its employees to increase their IT skills and raise cyber awareness.

Continuous and correct compliance with environmental, business, and regulatory requirements.

We observe the regulations and requirements related to the field in our business and contribute to the development of legislation through professional associations. We are continuously looking for new opportunities for making investment decisions and promoting business activities that are more in line with the climate objectives resulting from the green transition policies and the growing expectations of the public.

The Company uses derivatives, such as swap agreements for the purchase and sale of natural gas as well as the physical storage of natural gas in a storage facility, to mitigate the price risk.

Covering asset risks with insurance contracts.

The management of the asset risks of the Group through insurance contracts is based on the objective of ensuring compensation to the extent of the damage that may occur to the assets and thereby ensuring that the Group remains a going concern.

The Group trains its employees to increase their IT skills and raise cyber awareness.

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Financial Ratios

KEY FINANCIAL RATIOS OF THE GROUP:

	2022	2021	2020
Net margin	9.4%	6.8%	9.7%
Current ratio	1.57	1.15	1.34
ROA	15.7%	6.8%	9.0%
ROE	40.4%	45.9%	56.0%
Equity ratio	43.7%	22.5%	30.9%
Net debt/EBITDA	1.6	4.2	4.0
EBITDA margin	11.2%	9.7%	15.1%

KEY FINANCIAL RATIOS OF THE PARENT COMPANY:

	2022	2021	2020
Net margin	9.8%	6.8%	12.8%
Current ratio	1.77	1.19	1.39
ROA	18.4%	9.0%	16.6%
ROE	42.4%	53.9%	87.9%
Equity ratio	46.2%	22.3%	32.0%
Net debt/EBITDA	1.4	3.8	2.8
EBITDA margin	10.47%	8.0%	15.1%

UNDERLYING FORMULAS:

Net margin = net profit / revenue
Current ratio (times) = current assets / current liabilities
ROA (return on assets) = net profit or loss / total assets
ROE (return on equity) = net profit or loss / total equity
Equity ratio = (equity + allocated shareholder loan) / total equity and liabilities
Net debt = borrowings – cash and cash equivalents
EBITDA = operating profit + depreciation
EBITDA margin = EBITDA / revenue

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Consolidated Financial Statements

Arctic Princess, 30.06.2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(In thousands of euros)

	2022	2021	Note
Revenue	1,012,557	380,853	*6*
Other operating income	819	1,421	*7*
Change in inventories of finished goods and work-in-progress	(2)	(2)	
Work performed by the Group and capitalised	2,750	3,700	
Raw materials and consumables used	(885,407)	(331,875)	*8*
Payroll expenses	(12,495)	(13,565)	*9*
Depreciation and amortisation	(8,708)	(7,753)	*15, 16, 26*
Impairment loss on receivables	(25)	(26)	*24*
Other operating expenses	(4,682)	(3,489)	*10*
OPERATING PROFIT	**104,807**	**29,264**	
Finance income	25	87	*11*
Finance costs	(6,914)	(3,466)	*11*
NET FINANCE COSTS	**(6,889)**	**(3,379)**	***11***
PROFIT BEFORE TAX	**97,918**	**25,885**	
Corporate income tax expense	(2,701)	(1)	
PROFIT FOR THE YEAR	**95,217**	**25,884**	
Profit attributable to:			
Owners of the Company	95,044	25,834	
Non-controlling interests	173	50	*25*
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Cash flow hedges – change in hedging reserve	94,772	(1,059)	*18*
Foreign operations - foreign currency translation differences	3	-	
OTHER COMPREHENSIVE INCOME	**94,772**	**(1,059)**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**189,992**	**24,825**	
Profit attributable to:			
Owners of the Company	189,819	24,775	
Non-controlling interests	173	50	*25*

The notes on pages 24-53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (In thousands of euros)

	31.12.2022	31.12.2021	Note
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	81,055	83,351	*15*
Intangible assets	5,393	5,353	*16*
Investment property	693	-	
Right-of-use assets	10,059	13,249	*26*
Derivative financial assets	12,865	9,683	*17, 24*
Trade and other receivables	-	34	*6, 13, 24*
TOTAL NON-CURRENT ASSETS	**110,065**	**111,670**	
CURRENT ASSETS			
Inventories	72,751	66,642	*12*
Contract assets	-	101	*6*
Derivative financial assets	71,109	15,588	*17, 24*
Trade and other receivables	226,071	113,525	*6, 13, 24*
Prepayments for natural gas	8,811	20,482	
Other prepayments	328	537	
Cash and cash equivalents	116,842	51,329	*14, 24*
	495,912	**268,204**	
Assets held for sale	-	119	
TOTAL CURRENT ASSETS	**495,912**	**268,323**	
TOTAL ASSETS	**605,977**	**379,993**	

	31.12.2022	31.12.2021	Note
EQUITY			
Share capital	9,919	9,919	*18*
Statutory capital reserve	992	992	*18*
Hedging reserve	82,307	(12,465)	*17, 18*
Unrealised currency translation differences	3	-	
Retained earnings	142,137	57,893	*18*
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**235,358**	**56,339**	
Non-controlling interests	**246**	**73**	*25*
TOTAL EQUITY	**235,604**	**56,412**	
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	39,484	75,380	*20, 24*
Provisions	614	1,135	*23*
Contract liabilities	13,023	13,211	*6*
Deferred income	350	381	*22*
Other liabilities	174	-	*21*
TOTAL NON-CURRENT LIABILITIES	**53,645**	**90,107**	
CURRENT LIABILITIES			
Borrowings	257,091	132,127	*20, 24*
Trade and other payables	48,642	68,966	*21*
Derivative financial liabilities	1,667	31,834	*17, 24*
Prepayments	268	197	
Provisions	31	216	*23*
Contract liabilities	9,029	134	*6*
TOTAL CURRENT LIABILITIES	**316,728**	**233,474**	
TOTAL LIABILITIES	**370,373**	**323,581**	
TOTAL EQUITY AND LIABILITIES	**605,977**	**379,993**	

The notes on pages 24-53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands of euros)

	2022	2021	Note
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FOR THE YEAR	**95,217**	**25,884**	
ADJUSTMENTS			
Depreciation of property, plant and equipment and right-of-use assets	7,723	6,253	*15, 26*
Amortisation of intangible assets	985	1,500	*16*
Income from connection fees	(811)	(785)	*6*
Amortisation of government grants received for purchasing of non-current assets	(31)	(31)	*7, 22*
Recognition and adjustment of provisions	40	108	*23*
Gain/loss on sale of non-current assets	(98)	(691)	*7, 10*
Loss from write-off of non-current assets	11	74	*10*
Unsettled gain/loss on derivative financial instruments	5,901	(5,455)	
Net finance costs	6,889	3,379	*11*
Corporate income tax expense	2,701	-	
ADJUSTED PROFIT FOR THE YEAR	**118,527**	**30,236**	
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES			
Change in trade receivables	(7,238)	(68,881)	*13*
Change in inventories	(7,700)	(25,890)	*12*
Change in prepayments for natural gas	11,671	(10,581)	
Net change in other current assets relating to operating activities	(106,834)	(5,522)	
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**(110,101)**	**(110,874)**	
NET CHANGE IN CURRENT LIABILITIES RELATING TO OPERATING ACTIVITIES			
Use of provisions	(469)	(62)	*23*
Change in trade payables	(8,082)	20,830	*21*
Net change in other liabilities relating to operating activities	(4,838)	31,267	
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**(13,389)**	**52,035**	
NET CASH USED IN OPERATIONS	**(4,963)**	**(28,603)**	
Interest received	9	125	
Corporate income tax paid	(2)	-	
NET CASH USED IN OPERATING ACTIVITIES	**(4,956)**	**(28,478)**	

	2022	2021	Note
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	(5,650)	(6,896)	
Proceeds from connection fees	623	1,291	*6*
Acquisition of subsidiary	(170)	-	
Proceeds from sale of subsidiaries	3,139	-	*29*
Proceeds from sale of non-current assets	221	867	
NET CASH USED IN INVESTING ACTIVITIES	**(1,837)**	**(4,738)**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans received	167,350	144,500	*20*
Repayments of bank loans	(81,290)	(69,365)	*20*
Change in bank overdraft	(6,524)	6,573	*20*
Change in overdraft from shareholder	12,019	(4,223)	*20, 28*
Payment of lease liabilities	(1,885)	(921)	*20*
Dividends paid	(10,800)	-	*18*
Repayments of other loans	(3)	-	
Interest and loan fees paid	(6,561)	(3,395)	
NET CASH FROM FINANCING ACTIVITIES	**72,306**	**73,169**	
NET CASH FLOWS	**65,513**	**39,953**	
Cash and cash equivalents at the beginning of the period	51,329	11,376	*14*
Cash and cash equivalents at the end of the period	116,842	51,329	*14*
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**65,513**	**39,953**	

The notes on pages 24-53 are an integral part of these consolidated financial statements.

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

	Attributable to owners of the Company							
	Share capital (Note 18)	Statutory capital reserve (Note 18)	Hedge reserve (Note 18)	Unrealised currency translation differences	Retained earnings (Note 18)	Total	Non-con-trolling interests (Note 25)	Total equity
EQUITY AS AT 31 DECEMBER 2020	**9,919**	**992**	**(11,406)**	**-**	**32,059**	**31,564**	**23**	**31,587**
COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	-	25,834	25,834	50	25,884
Other comprehensive income	-	-	(1,059)	-	-	(1,059)	-	(1,059)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**(1,059)**	**-**	**25,834**	**24,775**	**50**	**24,825**
EQUITY AS AT 31 DECEMBER 2021	**9,919**	**992**	**(12,465)**	**-**	**57,893**	**56,339**	**73**	**56,412**
COMPREHENSIVE INCOME FOR THE YEAR								
Profit for the year	-	-	-	-	95,044	95,044	173	95,217
Other comprehensive income	-	-	94,772	3	-	94,775	-	94,775
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**94,772**	**3**	**95,044**	**189,819**	**173**	**189,992**
Dividends paid	-	-	-	-	(10,800)	(10,800)	-	(10,800)
EQUITY AS AT 31 DECEMBER 2022	**9,919**	**992**	**82,307**	**3**	**142,137**	**235,358**	**246**	**235,604**

The notes on pages 24-53 are an integral part of these consolidated financial statements.

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Notes to the Consolidated Financial Statements

Arctic Aurora, 22.11.2022

1. REPORTING ENTITY

AS Eesti Gaas is a Company domiciled in Estonia. The Company's registered office is at Sadama 7, Tallinn 10111, Estonia. The consolidated financial statements of Eesti Gaas group for the year ended 31 December 2022 comprise AS Eesti Gaas and its subsidiaries (together referred to as the 'Group').

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

2. BASIS OF ACCOUNTING

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

The consolidated financial statements were authorised for issue by the Management Board on 5 April 2023. Under the Commercial code of Estonia, the annual report must first be approved by the Supervisory Board of the parent and ultimately by the general meeting of Shareholders.

Details of the Group's accounting policies are included in Note 32.

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

A Judgements

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

NOTE 6

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

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

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

B Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

NOTE 15

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

NOTE 16

the estimate of the useful life of intangible assets;

NOTES 23 AND 27

recognition of contingencies and provisions for possible losses in the future.

4. MEASUREMENT OF FAIR VALUES

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

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

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

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

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

5. CHANGES IN ACCOUNTING POLICIES AND ADJUSTMENT OF COMPARATIVE FIGURES

Standards, interpretations and amendments to published standards that became effective on 1 January 2022

The new standards that are effective from 1 January 2022 do not have a material effect on the Group's financial statements.

ADJUSTMENT OF COMPARATIVE FIGURES

The Group has reclassified the receivables and payables for realised derivative financial instruments and as a result made changes in the following items of the consolidated statement of financial position:

In thousands of euros	31.12.2021 As previously reported	31.12.2021 As restated	Adjustments
CURRENT ASSETS			
Derivative financial assets	16,047	15,588	(459)
Trade and other receivables	113,066	113,525	459
CURRENT LIABILITIES			
Derivative financial liabilities	46,151	31,834	(14,317)
Trade and other payables	54,649	68,966	14,317

6. REVENUE

The Group's accounting policies relating to revenue from contracts with customers and the overview about the nature and satisfaction of performance obligations are provided in Note 32.3.

A Revenue streams

In thousands of euros	2022	2021
REVENUE FROM CONTRACTS WITH CUSTOMERS	**989,303**	**453,170**
OTHER REVENUE		
Property rentals (Note 26)	97	11
Other rentals	2,678	-
Hedging gains/losses (Note 18)	20,479	(72,328)
TOTAL REVENUE	**1,012,557**	**380,853**

B Disaggregation of revenue from contracts with customers

In thousands of euros	2022	2021
PRIMARY GEOGRAPHICAL MARKETS		
Estonia	455,066	207,190
Finland	301,200	152,718
Lithuania	131,651	64,498
Latvia	100,676	28,658
Other	710	106
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**989,303**	**453,170**
MAJOR PRODUCTS/SERVICE LINES		
Sales of natural gas	869,752	373,286
Sales of electricity	67,034	15,943
Sales of gas network service	24,353	30,614
Sales of compressed natural gas (CNG)	8,522	4,169
Sales of liquefied natural gas (LNG)	5,747	11,149
Sales of construction and repair services	4,448	11,829
Sales of gas appliances and other goods	1,138	809
Connection fees	811	785
Sales of other services	7,498	4,586
TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS	**989,303**	**453,170**

C Contract balances

In thousands of euros	31.12.2022	31.12.2021
Receivables, which are included in 'trade and other receivables' (Note 13)	112,639	106,187
Contract assets (Note 24.3)	-	101
Current contract liabilities	(9,029)	(134)
Non-current contract liabilities (connection fees)	(13,023)	(13,211)

The majority of the current contract liabilities relate to the advance consideration received from customers under natural gas sales contracts.

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6. REVENUE, CONTINUED

The amounts of EUR 101 thousand (2021: EUR 312 thousand) recognised in contract assets and EUR 134 thousand (2021: EUR 279 thousand) recognised in current contract liabilities at the beginning of the period have been recognised as revenue in the reporting period. The amount of connection fees received and recognised as revenue in the reporting period was as follows.

CONNECTION FEES

In thousands of euros	2022	2021
DEFERRED CONNECTION FEES AT THE BEGINNING OF THE PERIOD	**13,211**	**12,705**
Connection fees received	623	1,291
Connection fees recognised as income	(811)	(785)
DEFERRED CONNECTION FEES AT THE END OF THE PERIOD	**13,023**	**13,211**

The amortisation period of connection fees is up to 33 years (2021: 33 years).

7. OTHER OPERATING INCOME

In thousands of euros	2022	2021
Fines and interest on arrears received	398	112
Compensation received	250	93
Gain on sale of non-current assets	105	700
Amortisation of government grants received for purchasing of non-current assets (Note 22)	31	31
Gain from derivatives	-	449
Other operating income	35	36
TOTAL OTHER OPERATING INCOME	**819**	**1,421**

In the comparable period, the majority of the gain on sale of non-current assets comprised of the gain on sale of the former office building property.

8. RAW MATERIALS AND CONSUMABLES USED

In thousands of euros	2022	2021
Natural gas sold	798,436	283,922
Other goods sold	61,540	15,454
Gas network service	13,208	17,343
Subcontracting works	2,813	4,703
Construction materials	2,626	5,597
Carriage services	708	1,158
Other goods, materials and services	6,076	3,698
TOTAL RAW MATERIALS AND CONSUMABLES USED	**885,407**	**331,875**

9. PAYROLL EXPENSES

In thousands of euros	2022	2021
Average number of employees and members of the Management Board of the Group	208	239
Wages, salaries, bonuses, vacation pay, other payments and benefits	9,211	9,955
Fringe benefits	264	192
Payroll taxes	3,002	3,326
Recognition/revaluation of employee related provisions (Note 23)	18	92
TOTAL CALCULATED PAYROLL EXPENSES	**12,495**	**13,565**

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

ADDITIONAL INFORMATION ABOUT THE NUMBER OF EMPLOYEES OF THE PARENT

	2022	2021
the average number of the members of the Supervisory Board	6	6
the average number of the members of the Management Board	3	4
the average number of employees	61	63
the average number of persons provi-ding service under service contracts	3	1

10. OTHER OPERATING EXPENSES

In thousands of euros	2022	2021
IT services	1,707	1,599
Administrative costs of buildings	451	277
Bank transaction fees	351	61
Taxes and fees	320	122
Legal and other consulting services, audit	299	127
Office supplies and services	208	214
Travel and training expenses	155	92
Advertising expenses	129	134
Membership fees, sponsorship and donations	64	53
Loss from sale and write-off of non-current assets	18	83
Other operating expenses	980	727
TOTAL OTHER OPERATING EXPENSES	**4,682**	**3,489**

11. NET FINANCE COSTS

In thousands of euros	2022	2021
FINANCE INCOME		
Interest income	9	87
TOTAL INTEREST INCOME	**9**	**87**
Gain on disposal of subsidiary (Note 29)	16	-
TOTAL FINANCE INCOME	**25**	**87**
FINANCE COSTS		
INTEREST EXPENSE		
Interest expense on borrowings	(6,789)	(3,462)
incl. interest expense on lease liabilities (Note 26)	(322)	(175)
Interest expense on provisions (Note 23)	(4)	(4)
TOTAL INTEREST EXPENSE	**(6,793)**	**(3,466)**
Loss on disposal of subsidiary (Note 29)	(116)	-
Other finance costs	(5)	-
TOTAL FINANCE COSTS	**(6,914)**	**(3,466)**
NET FINANCE COSTS	**(6,889)**	**(3,379)**

12. INVENTORIES

In thousands of euros	31.12.2022	31.12.2021
Natural gas inventory in storage	72,697	65,679
Other goods and materials	55	739
Finished goods	-	9
Prepayments for other goods	-	215
TOTAL INVENTORIES	**72,752**	**66,642**

In the reporting period, materials and goods were written down in the amount of EUR 29 thousand (2021: EUR 6 thousand).

13. TRADE AND OTHER RECEIVABLES

In thousands of euros	31.12.2022	31.12.2021
TRADE RECEIVABLES		
ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS		
Accounts receivable (Note 24)	112,814	106,397
incl. accounts receivable from related parties (Note 28)	1,109	1,250
Allowance for doubtful receivables	(175)	(210)
TOTAL ACCOUNTS RECEIVABLE FROM CONTRACTS WITH CUSTOMERS (Note 6)	**112,639**	**106,187**
OTHER ACCOUNTS RECEIVABLE		
Accounts receivable (Note 24)	103	33
Allowance for doubtful receivables	-	(27)
TOTAL OTHER ACCOUNTS RECEIVABLE	**103**	**6**
TOTAL TRADE RECEIVABLES	**112,742**	**106,193**
Receivables for realised derivative financial instruments	108,917	459
Accrued income	391	-
Other receivables	4,021	6,893
Costs to fulfil contracts	-	14
TOTAL TRADE AND OTHER RECEIVABLES (Note 24)	**226,071**	**113,559**
INCL. CURRENT	**226,071**	**113,525**
NON-CURRENT	**-**	**34**

Receivables and prepayments for services and goods are not secured.

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

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

As at 31 December 2022 and 2021, the majority of accounts receivable from related parties comprised of receivables for pipeline gas, liquefied natural gas (LNG) and electricity sold. The other receivables as at 31 December 2022 comprised of the receivable in the amount of EUR 2,713 thousand (31 December 2021: EUR 4,785 thousand) for energy price compensations from Keskkonnainvesteeringute Keskus (Environmental Investment Centre) in Estonia and AB Energijos skirstymo operatorius in Lithuania. According to the governmental support measures, the invoices issued to consumers by energy sellers are reduced by compensation amounts.

14. CASH AND CASH EQUIVALENTS

In thousands of euros	31.12.2022	31.12.2021
Bank accounts	116,482	51,329
Cash in transit	360	-
TOTAL CASH AND CASH EQUIVALENTS (Note 24)	**116,842**	**51,329**

15. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land and buildings	Facilities	Machinery and equipment	Other	Construction in progress and prepayments	Total
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2020						
Cost	2,903	116,348	20,109	418	994	140,772
Accumulated depreciation	(1,209)	(44,618)	(12,550)	(125)	-	(58,502)
CARRYING AMOUNT	**1,694**	**71,730**	**7,559**	**293**	**994**	**82,270**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2021						
Additions	17	-	703	5	5,664	6,389
Depreciation	(64)	(3,595)	(1,416)	(48)	-	(5,123)
Disposals and write-offs	(99)	(35)	(42)	-	(9)	(185)
Transfers from construction in progress and prepayments	644	3,866	711	4	(5,225)	-
Other reclassifications	-	-	(11)	11	-	-
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2021	**498**	**236**	**(55)**	**(28)**	**430**	**1,081**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2021						
Cost	3,133	120,102	19,793	445	1,424	144,897
Accumulated depreciation	(941)	(48,136)	(12,289)	(180)	-	(61,546)
CARRYING AMOUNT	**2,192**	**71,966**	**7,504**	**265**	**1,424**	**83,351**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022						
Additions	319	2	457	15	3,737	4,530
Acquisitions through business combinations	107	-	-	-	142	249
Depreciation	(58)	(3,688)	(1,473)	(44)	-	(5,263)
Disposals and write-offs	-	(31)	(23)	(1)	(8)	(63)
Disposal of subsidiaries (Note 29)	(444)	-	(584)	(35)	(3)	(1,066)
Transfers from construction in progress and prepayments	4	3,373	412	-	(3,789)	-
Reclassified to investment property	(693)	-	-	-	-	(693)
Reclassified from right-of-use assets	-	-	10	-	-	10
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022	**(765)**	**(344)**	**(1,201)**	**(65)**	**79**	**(2,296)**
PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2022						
Cost	2,141	123,391	16,551	328	1,503	143,914
Accumulated depreciation	(714)	(51,769)	(10,248)	(128)	-	(62,859)
CARRYING AMOUNT	**1,427**	**71,622**	**6,303**	**200**	**1,503**	**81,055**

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 526 thousand (2021: EUR 512 thousand).

16. INTANGIBLE ASSETS

In thousands of euros	Computer software	Customer contracts	Total
INTANGIBLE ASSETS AS AT 31 DECEMBER 2020			
Cost	8,396	6,300	14,696
Accumulated amortisation	(5,989)	(2,503)	(8,492)
CARRYING AMOUNT	**2,407**	**3,797**	**6,204**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2021			
Purchases	662	-	662
Amortisation charge	(976)	(524)	(1,500)
Write-offs	(13)	-	(13)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2021	**(327)**	**(524)**	**(851)**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2021			
Cost	9,144	6,300	15,444
Accumulated amortisation	(7,064)	(3,027)	(10,091)
CARRYING AMOUNT	**2,080**	**3,273**	**5,353**
MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022			
Purchases	1,072	-	1,072
Amortisation charge	(596)	(389)	(985)
Write-offs	(7)	-	(7)
Disposal of subsidiaries (Note 29)	(40)	-	(40)
TOTAL MOVEMENTS, 1 JANUARY - 31 DECEMBER 2022	**429**	**(389)**	**40**
INTANGIBLE ASSETS AS AT 31 DECEMBER 2022			
Cost	9,831	6,300	16,131
Accumulated amortisation	(7,322)	(3,416)	(10,738)
CARRYING AMOUNT	**2,509**	**2,884**	**5,393**

ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

The estimated useful lives of items of intangible assets are based on management's estimate of the period during which the asset will be used. The actual useful lives may be longer or shorter than the estimates. If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 99 thousand (2021: EUR 150 thousand).

17. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2022		31.12.2021	
In thousands of euros	Assets	Liabilities	Assets	Liabilities
NON-CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	12,865	-	9,584	-
incl. derivative financial instruments for which hedge accounting is applied	12,865	-	9,584	-
incl. swap contracts to hedge the price risk of gas sales at a fixed price	12,865	-	9,584	-
Swap contracts for buying and selling electricity	-	-	99	-
incl. derivative financial instruments for which hedge accounting is applied	-	-	99	-
CURRENT DERIVATIVE FINANCIAL INSTRUMENTS				
Swap contracts for buying and selling natural gas	70,526	(473)	14,180	(31,834)
incl. derivative financial instruments for which hedge accounting is applied	70,526	(473)	14,180	(31,834)
incl. swap contracts to hedge the price risk of gas sales at a fixed price	17,448	-	19,997	5,029
incl. swap contracts to hedge the price risk of gas sales at a floating price	77,965	315	(5,817)	(36,863)
incl. swap contracts to hedge the price risk of gas purchases for storage	(24,887)	(788)	-	-
Swap contracts for buying and selling electricity	583	(1,194)	1,408	-
incl. derivative financial instruments for which hedge accounting is applied	583	(1,194)	1,408	-
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS (Note 24)	**83,974**	**(1,667)**	**25,271**	**(31,834)**

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

18. CAPITAL AND RESERVES

A Share capital

As at 31 December 2022, AS Eesti Gaas had 27,728,408 shares without nominal value (31 December 2021: 27,728,408 shares without nominal value). Each share grants one vote at the general meeting of shareholders.

INFORMATION ABOUT SHAREHOLDERS AS AT 31 DECEMBER 2022.

	31.12.2022		31.12.2021	
Shareholder	Number of shares	Interest	Number of shares	Interest
AS Infortar	27,728,408	100.0%	27,728,408	100.0%

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

B Statutory capital reserve

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

As at 31 December 2022, the Group's statutory capital reserve totalled EUR 992 thousand (31 December 2021: EUR 992 thousand). As at 31 December 2022 the Group has no obligation to make any additional transfers to the statutory capital reserve.

C Hedging reserve

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

In thousands of euros	2022	2021
HEDGING RESERVE AT THE BEGINNING OF THE PERIOD	**(12,465)**	**(11,406)**
Cash flow hedges – effective portion of changes in fair value	127,570	(47,849)
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	31,671	61,497
incl. from swap contracts to hedge the price risk of gas sales at a floating price	121,440	(112,835)
incl. from swap contracts to hedge the price risk of gas purchases for storage	(27,736)	1,179
incl. from swap contracts for buying and selling electricity	2,195	2,310
Gain(-) / loss(+) reclassified to line "Revenue" of the statement of profit or loss and OCI (Note 6)	(20,479)	72,328
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	(25,886)	(4,046)
incl. from swap contracts to hedge the price risk of gas sales at a floating price	5,407	76,374
Gain(-) / loss(+) reclassified to line "Raw materials and consumables used" of the statement of profit or loss and OCI	(14,380)	(24,303)
incl. from swap contracts to hedge the price risk of gas sales at a fixed price	(10,067)	(23,426)
incl. from swap contracts for buying and selling electricity	(4,313)	(877)
Gain(-) / loss(+) transferred to line "Inventories" of the statement of financial position	2,061	(1,235)
incl. from swap contracts to hedge the price risk of gas purchases for storage	2,061	(1,235)
HEDGING RESERVE AT THE END OF THE PERIOD	**82,307**	**(12,465)**

D Profit distribution

According to the Income Tax Act, companies are taxed in Estonia on the distribution of dividends. On distribution of profits to shareholders, dividends that amount to up to three preceding years' average dividend distribution are subject to income tax of 14/86 of the net amount. The remaining dividends are subject to a tax rate of 20/80 of the net amount.

Dividends distributed by a company are exempt, if these are paid out of dividends received from other companies in which the company has at least 10% interest.

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

In thousands of euros	31.12.2022	31.12.2021
Retained earnings (Note 30)	142,137	57,893
Distributable shareholders' equity	142,137	57,893
Corporate income tax payable on the distribution of the entire unrestricted equity	28,211	11,579
Net dividends available for distribution	113,926	46,314

In 2022 Eesti Gaas paid dividends of EUR 10,800 thousand (dividend per share 0,39 euros). In the comparable period dividends were not paid.

19. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors capital using a ratio of equity and shareholder loans to total assets. The Group's policy is to maintain the sustainable ratio.

The Group's equity to total assets ratio as at 31 December 2022 was as follows.

In thousands of euros	31.12.2022	31.12.2021
Equity	235,604	56,412
Subordinated shareholder loan and overdraft (Note 20)	41,019	29,000
Total assets	605,977	379,993
EQUITY TO TOTAL ASSETS RATIO	**46%**	**22%**

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20. BORROWINGS

BORROWINGS AT AMORTISED COST

In thousands of euros	31.12.2022	31.12.2021
LONG-TERM BORROWINGS		
Bank loans	2,220	35,252
Subordinated shareholder loan (Note 19)	29,000	29,000
Lease liabilities	8,264	11,128
TOTAL LONG-TERM BORROWINGS	**39,484**	**75,380**
SHORT-TERM BORROWINGS		
Short-term bank loans	206,927	118,500
Bank overdraft	49	6,573
Overdraft from a shareholder (Note 19 and 28)	12,019	-
Current portion of long-term bank loans	35,810	5,130
Current portion of lease liabilities	2,286	1,924
TOTAL SHORT-TERM BORROWINGS	**257,091**	**132,127**
TOTAL BORROWINGS	**296,575**	**207,507**

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

TERMS AND REPAYMENT SCHEDULE OF BORROWINGS

In thousands of euros	Maturity date	Nominal value 31.12.2022	Nominal value 31.12.2021
Bank loans	2022-2027	244,965	158,905
Subordinated shareholder loan (Note 19)	2024	29,000	29,000
Bank overdraft	2023	49	6,573
Shareholder overdraft (Note 19)	-	12,019	-
Lease liabilities	2022-2047	10,550	13,052
incl. lease liabilities to related parties (Note 28)		8,802	10,134
TOTAL BORROWINGS		**296,583**	**207,530**

All the bank loans have floating interest rates. As at 31 December 2022, the interest rates of bank loans were between 2.08% and 4.50% (31 December 2021: 1.35% and 2.85%) and the interest rates of subordinated shareholder loan and overdraft were between 3.5% and 4.0% (31 December 2021: 2.5% and 4.0%). As at 31 December 2022, the interest rates of lease contracts were between 1.29% and 4.101% (31 December 2021: 1.18% and 3.3%).

In 2022 the working capital loans in the amount of EUR 77.9 million were repaid (2021: EUR 66 million) and new working capital loans in the amount of EUR 166.4 million (2021: EUR 144.5 million) were received.

As at 31 December 2022 and 31 December 2021, the bank loans were secured by a commercial pledge registered on the assets of AS Gaasivõrk, by a mortgage registered on six properties belonging to AS Eesti Gaas, by commercial pledges registered on the assets of OÜ Pärnu Päikesepark 1-4 and a mortgage registered on a legal share of the right of superficies. The carrying amount of financial assets pledged as collateral is immaterial.

MOVEMENTS OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

In thousands of euros	Overdrafts used for cash management purposes	Loans	Lease liabilities
BALANCE AT 1 JANUARY 2022	**6,573**	**187,882**	**13,052**
CHANGES FROM FINANCING CASH FLOWS			
Bank loans received	-	167,350	-
Repayments of bank loans	-	(81,290)	-
Payment of lease liabilities	-	-	(1,885)
TOTAL CHANGES FROM FINANCING CASH FLOWS	**-**	**86,060**	**(1,885)**
OTHER CHANGES			
Changes in overdrafts	5,495	-	-
New leases	-	-	421
Reassessment of the lease liability	-	-	7
Derecognition of right-of-use assets	-	-	(84)
Disposal of subsidiaries (Note 29)	-	-	(961)
Amortisation of borrowing costs	-	15	-
TOTAL OTHER CHANGES	**5,495**	**15**	**(617)**
BALANCE AT 31 DECEMBER 2022 (Note 24.3)	**12,068**	**273,957**	**10,550**

21. TRADE AND OTHER PAYABLES

In thousands of euros	31.12.2022	31.12.2021
Trade payables	17,197	25,989
incl. payables to related parties (Note 28)	1,930	634
Tax liabilities	28,643	23,630
Payables for realised derivative financial instruments	-	14,317
Payables to employees	763	3,484
Accrued interest	297	78
incl. payables to related parties (Note 28)	16	13
Other payables	1,916	1,468
TOTAL TRADE AND OTHER PAYABLES (Note 24)	**48,816**	**68,966**
INCL. CURRENT	**48,642**	**68,966**
NON-CURRENT	**174**	**-**

22. DEFERRED INCOME

GOVERNMENT GRANTS

In thousands of euros	2022	2021
DEFERRED INCOME FROM GRANTS AT THE BEGINNING OF THE PERIOD	**381**	**412**
Amortisation of government grants received (Note 7)	(31)	(31)
DEFERRED INCOME FROM GRANTS AT THE END OF THE PERIOD	**350**	**381**

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

23. PROVISIONS

In thousands of euros	Post-employment benefits for the members of the Management Board (Note 9)	Pensions (Note 9)	Warranties, fines, and other contractual obligations	Total
BALANCE AT 1 JANUARY 2022	**900**	**229**	**222**	**1,351**
Provisions made and restated during the year	25	(7)	22	40
Unwind of discount (Note 11)	-	4	-	4
Provisions used during the year	(362)	(31)	(76)	(469)
Disposal of subsidiaries (Note 29)	(113)	-	(168)	(281)
BALANCE AT 31 DECEMBER 2022	**450**	**195**	**-**	**645**
incl. current	-	31	-	31
non-current	450	164	-	614
BALANCE AT 1 JANUARY 2021	**809**	**256**	**236**	**1,301**
Provisions made and restated during the year	91	1	16	108
Unwind of discount (Note 11)	-	4	-	4
Provisions used during the year	-	(32)	(30)	(62)
BALANCE AT 31 DECEMBER 2021	**900**	**229**	**222**	**1,351**
incl. current	-	31	185	216
non-current	900	198	37	1,135

A Post-employment benefits for the members of the Management Board

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

B Pensions

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

C Warranties, fines and other contractual obligations

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

24. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

24.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES

In thousands of euros	Fair value – hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value	
					Level 2	Level 3
AS AT 31 DECEMBER 2022						
FINANCIAL ASSETS MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	83,974	-	-	**83,974**	83,974	-
	83,974	**-**	**-**	**83,974**		
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Trade and other receivables (Note 13)	-	226,071	-	**226,071**	***	***
Cash and cash equivalents (Note 14)	-	116,842	-	**116,842**	***	***
	-	**342,913**	**-**	**342,913**		
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	(1,667)	-	-	**(1,667)**	(1,667)	-
	(1,667)	**-**	**-**	**(1,667)**		
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE						
Overdrafts and loans (Note 20)**	-	-	(286,025)	**(286,025)**	-	(285,163)
Lease liabilities (Note 20)	-	-	(10,550)	**(10,550)**	-	(10,550)
Trade and other payables (Note 21)*	-	-	(19,410)	**(19,410)**	***	***
	-	**-**	**(315,985)**	**(315,985)**		

* Payables to employees and tax liabilities are not included

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

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24.1 ACCOUNTING CLASSIFICATION AND FAIR VALUES, CONTINUED

In thousands of euros	Fair value – hedging instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair value	
					Level 2	Level 3
AS AT 31 DECEMBER 2021						
FINANCIAL ASSETS MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	25,271	-	-	**25,271**	25,271	-
	25,271	**-**	**-**	**25,271**		
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE						
Trade and other receivables (Note 13)	-	113,559	-	**113,559**	***	***
Cash and cash equivalents (Note 14)	-	51,329	-	**51,329**	***	***
	-	**164,888**	**-**	**164,888**		
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE						
Derivative financial instruments - swaps for buying and selling natural gas and electricity (Note 17)	(31,834)	-	-	**(31,834)**	(31,834)	-
	(31,834)	**-**	**-**	**(31,834)**		
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE						
Overdrafts and loans (Note 20)**	-	-	(194,455)	**(194,455)**	-	(195,274)
Lease liabilities (Note 20)	-	-	(13,052)	**(13,052)**	-	(13,052)
Trade and other payables (Note 21)*	-	-	(41,852)	**(41,852)**	***	***
	-	**-**	**(249,359)**	**(249,359)**		

* Payables to employees and tax liabilities are not included

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

24.2 MEASUREMENT OF FAIR VALUES

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

24.3 FINANCIAL RISK MANAGEMENT

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

- credit risk
- liquidity risk
- market risk

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

A Credit risk

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

AS AT 31 DECEMBER 2022, THE MAXIMUM AMOUNT EXPOSED TO CREDIT RISK WAS AS FOLLOWS.

In thousands of euros	31.12.2022	31.12.2021
Derivative financial instruments (Note 17)	83,974	25,271
Trade and other receivables (Note 13)	226,071	113,559
Bank accounts (Note 14)	116,482	51,329
Cash in transit (Note 14)	360	-
Contract assets (Note 6)	-	101
TOTAL AMOUNT EXPOSED TO CREDIT RISK	**426,887**	**190,260**

TRADE AND OTHER RECEIVABLES

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

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

AS AT 31 DECEMBER 2022, THE MAXIMUM EXPOSURE TO CREDIT RISK BY THE TYPE OF RECEIVABLE WAS AS FOLLOWS.

In thousands of euros	31.12.2022	31.12.2021
Trade receivables for gas and network service, incl.		
commercial consumers	84,769	87,965
household customers	7,395	6,336
Trade receivables for other goods and services	20,578	11,892
Other receivables	113,329	7,366
TOTAL TRADE AND OTHER RECEIVABLES (Note 13)	**226,071**	**113,559**

THE ALLOWANCE FOR DOUBTFUL RECEIVABLES BY THE TYPE OF RECEIVABLE AS AT 31 DECEMBER 2022 WAS AS FOLLOWS.

In thousands of euros	31.12.2022	31.12.2021
Allowance for doubtful receivables for gas and network service, incl.		
commercial consumers	(122)	(180)
household customers	(19)	(18)
Allowance for doubtful receivables for other goods and services	(34)	(39)
TOTAL ALLOWANCE FOR DOUBTFUL RECEIVABLES (Note 13)	**(175)**	**(237)**

As at 31 December 2022, the Group's most significant customer accounted for EUR 20,009 thousand (31 December 2021: EUR 18,925 thousand) of trade receivables and the Group's most significant transaction party of realised derivative financial instrument EUR 83,771 thousand (31 December 2021: EUR 398 thousand).

AN ANALYSIS OF THE CREDIT QUALITY OF ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2022 WAS AS FOLLOWS.

In thousands of euros	31.12.2022	31.12.2021
Receivables from new customers (client relationship shorter than 6 months)	8,152	4,877
Receivables from existing customers (client relationship longer than 6 months)	102,101	95,056
TOTAL ACCOUNTS RECEIVABLE NOT YET DUE	**110,253**	**99,933**

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

EXPECTED CREDIT LOSS ASSESSMENT FOR ACCOUNTS RECEIVABLE

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

As at 31 December 2022, the Group had not observed any deterioration in customers' payment behavior.

In thousands of euros	Weighted average loss rate	Gross carrying amount	Impairment loss allowance
31 DECEMBER 2022			
Accounts receivable not yet due	0.02%	110,253	17
1-30 days past due	0.14%	1,859	3
31-179 days past due	2.83%	639	18
More than 180 days past due	82.93%	166	137
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**112,917**	**175**
31. DETSEMBER 2021			
Accounts receivable not yet due	0.04%	99,933	41
1-30 days past due	0.07%	6,158	4
31-179 days past due	1.42%	114	2
More than 180 days past due	84.74%	225	190
TOTAL ACCOUNTS RECEIVABLE (Note 13)		**106,430**	**237**

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

In thousands of euros	2022	2021
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE BEGINNING OF THE PERIOD	**(237)**	**(309)**
Classified as doubtful and collected during the accounting period	(25)	(26)
Classified as irrecoverable	87	98
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE END OF THE PERIOD (Note 13)	**(175)**	**(237)**

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

BANK ACCOUNTS AND SHORT-TERM DEPOSITS

In thousands of euros	31.12.2022	31.12.2021
At banks with Moody's credit rating of Aa3	115,440	49,659
At banks with Moody's credit rating of A3	414	302
At banks with Moody's credit rating of Baa1	628	1,368
TOTAL BANK ACCOUNTS AND SHORT-TERM DEPOSITS AT BANKS (Note 14)	**116,482**	**51,329**

B Liquidity risk

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

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

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

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

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

In thousands of euros	Carrying amount	Contractual cash flows				
		Total	6 months or less	7-12 months	1-5 years	More than 5 years
31 DECEMBER 2022						
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bank loans (Note 20)	244,957	(249,906)	(212,574)	(34,404)	(2,928)	-
Subordinated shareholder loan (Note 20)	29,000	(31,030)	(580)	(580)	(29,870)	-
Bank overdraft (Note 20)	49	(49)	(49)	-	-	-
Overdraft from a shareholder (Note 20)	12,019	(12,032)	(12,032)	-	-	-
Lease liabilities (Note 20)	10,550	(11,403)	(1,285)	(1,264)	(7,841)	(1,013)
Trade and other payables (Note 21)	48,816	(48,816)	(48,642)	-	(174)	-
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**345,391**	**(353,236)**	**(275,162)**	**(36,248)**	**(40,813)**	**(1,013)**
DERIVATIVE FINANCIAL LIABILITIES						
Outflow	1,667	(2,011)	(1,347)	(664)	-	-
Inflow	-	344	344	-	-	-
TOTAL DERIVATIVE FINANCIAL LIABILITIES (Note 17)	**1,667**	**(1,667)**	**(1,003)**	**(664)**	**-**	**-**
31 DECEMBER 2021						
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bank loans (Note 20)	158,882	160,413	120,865	3,810	35,738	-
Subordinated shareholder loan (Note 20)	29,000	32,190	580	580	31,030	-
Bank overdraft (Note 20)	6,573	6,593	6,593	-	-	-
Lease liabilities (Note 20)	13,052	14,352	833	1,456	10,725	1,338
Trade and other payables (Note 21)	54,649	54,649	54,649	-	-	-
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	**262,156**	**268,197**	**183,520**	**5,846**	**77,493**	**1,338**
DERIVATIVE FINANCIAL LIABILITIES						
Outflow	31,834	(35,502)	(35,502)	-	-	-
Inflow	-	3,668	636	3,032	-	-
TOTAL DERIVATIVE FINANCIAL LIABILITIES (Note 17)	**31,834**	**(31,834)**	**(34,866)**	**3,032**	**-**	**-**

The interest payments on variable interest rate loans, overdraft and lease liabilities in the tables above reflect existing interest rates at the reporting date and these amounts may change as market interest rate change.

The Group's major finance agreements contain covenants. In case of breach of covenant it is possible to remedy the violation within the agreed period.

C Market risk

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

PRICE RISK OF COMMODITIES

The Group's major price risks of commodities arise from fixed-price gas sales contracts, floating price gas sales and floating-price electricity purchase contracts. The Group uses derivatives - swap contracts for buying and selling natural gas and electricity - to manage price risks. The swap contracts have been entered into for the purchase or sale of a fixed volume of natural gas or electricity at each hour and their price is denominated in euros. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. A hedging relationship meets the hedge effectiveness requirements if there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes and the hedge ratio is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item. The Group's goal is to apply a hedge ratio approximately 1:1 or 100%. The possible sources for ineffectiveness may be the differences in the quantities, underlying commodities and prices. The fair value changes of the other transactions are recognised in profit or loss. As at 31 December 2022, the Group had concluded swap contracts for buying and selling natural gas for the years 2023 - 2027 in the volume of 873,095 MWh (31 December 2021: 90,640 MWh for the years 2022 - 2025) and swap contracts for buying and selling electricity for the year 2023 in the volume of 4,380 MWh (31 December 2021: 52,041 MWh for the years 2022 - 2023). The basis for determining the fair value of the transactions are the quotes at ICE Endex market and Nord Pool (Note 17).

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

NOMINAL AMOUNTS, QUANTITIES AND AVERAGE CONTRACT PRICES OF CASH FLOW DERIVATIVE FINANCIAL INSTRUMENTS PER MWH

In thousands of euros	1-6 months	7-12 months	More than 1 year	Total
31 DECEMBER 2022				
Nominal amount of swap contracts to hedge the price risk of gas sales at a fixed price	8,971	8,476	12,865	**30,312**
Nominal amount of swap contracts to hedge the price risk of gas sales at a floating price	78,280	-	-	**78,280**
Nominal amount of swap contracts to hedge the price risk of gas purchases for storage	(25,674)	-	-	**(25,674)**
TOTAL NOMINAL AMOUNT OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (Note 17)	**61,577**	**8,476**	**12,865**	**82,918**
Nominal amount of swap contracts for buying electricity	284	299	-	**583**
Nominal amount of swap contracts for selling electricity	(530)	(664)	-	**(1,194)**
TOTAL NOMINAL AMOUNT OF SWAP CONTRACTS FOR BUYING AND SELLING ELECTRICITY (Note 17)	**(246)**	**(365)**	**-**	**(611)**
Quantity of swap contracts to hedge the price risk of gas sales at a fixed price (MWh)	538,230	303,906	369,132	**1,211,268**
Quantity of swap contracts to hedge the price risk of gas sales at a floating price (MWh)	(1,041,979)	-	-	**(1,041,979)**
Quantity of swap contracts to hedge the price risk of gas purchases for storage (MWh)	703,806	-	-	**703,806**
TOTAL QUANTITY OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (MWH)	**200,057**	**303,906**	**369,132**	**873,095**
Quantity of swap contracts for buying electricity (MWh)	28,229	28,711	-	**56,940**
Quantity of swap contracts for selling electricity (MWh)	(26,058)	(26,502)	-	**(52,560)**
TOTAL QUANTITY OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (MWH)	**2,171**	**2,209**	**-**	**4,380**
Average price of swap contracts to hedge the price risk of gas sales at a fixed price (€/MWh)	77	54	33	
Average price of swap contracts to hedge the price risk of gas sales at a floating price (€/MWh)	151	-	-	
Average price of swap contracts to hedge the price risk of gas purchases for storage (€/MWh)	141	-	-	
Average price of swap contracts for buying electricity (€/MWh)	17	17	-	
Average price of swap contracts for selling electricity (€/MWh)	152	152	-	

In thousands of euros	1-6 months	7-12 months	More than 1 year	Total
31 DECEMBER 2021				
Nominal amount of swap contracts to hedge the price risk of gas sales at a fixed price	12,565	12,461	9,584	**34,610**
Nominal amount of swap contracts to hedge the price risk of gas sales at a floating price	(42,680)	-	-	**(42,680)**
TOTAL NOMINAL AMOUNT OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (Note 17)	**(30,115)**	**12,461**	**9,584**	**(8,070)**
Nominal amount of swap contracts for buying electricity (Note 17)	1,269	139	99	**1,507**
Quantity of swap contracts to hedge the price risk of gas sales at a fixed price (MWh)	336,261	418,348	698,279	**1,452,888**
Quantity of swap contracts to hedge the price risk of gas sales at a floating price (MWh)	(1,362,248)	-	-	**(1,362,248)**
TOTAL QUANTITY OF SWAP CONTRACTS FOR BUYING AND SELLING NATURAL GAS (MWH)	**(1,025,987)**	**418,348**	**698,279**	**90,640**
Quantity of swap contracts for buying electricity (MWh)	27,396	20,265	4,380	**52,041**
Average price of swap contracts to hedge the price risk of gas sales at a fixed price (€/MWh)	34	34	23	
Average price of swap contracts to hedge the price risk of gas sales at a floating price (€/MWh)	56	-	-	
Average price of swap contracts for buying electricity (€/MWh)	97	99	59	

Swap contracts for buying electricity contain EPADs (electricity price area differentials) and as a result the average price shown does not reflect the entire fixed price.

24.3 FINANCIAL RISK MANAGEMENT, CONTINUED

CURRENCY RISK

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

INTEREST RATE RISK

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

A sensitivity analysis is used to assess the interest rate risk. As at 31 December 2022, borrowings with a fixed interest rate accounted for 13% and borrowings with a floating interest rate 87% of the total amount of borrowings (31 December 2021: 31% of borrowings had a fixed interest rate and 69% of borrowings had a floating interest rate).

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

In thousands of euros	31.12.2022	31.12.2021
FIXED-RATE INSTRUMENTS		
Fixed-rate instruments	38,581	65,090
VARIABLE-RATE INSTRUMENTS		
Financial liabilities	258,002	142,440
TOTAL (Note 20)	**296,583**	**207,530**

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 possible change of 100 basis points in interest rates of variable-rate instruments would have increased (decreased) profit or loss as at 31 December 2022 by the amounts shown below.

	Profit or loss	
In thousands of euros	100 bp increase	100 bp decrease
31 DECEMBER 2022		
Variable-rate instruments	(1,849)	1,849
31 DECEMBER 2021		
Variable-rate instruments	(1,076)	1,076

EQUITY SENSITIVITY ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS

A possible change of 10% in settlement prices that are used as a basis of calculation the value of derivative financial instruments would have increased (decreased) equity as at 31 December 2022 by the amounts shown below.

	Equity	
In thousands of euros	10% increase in settlement prices	10% decrease in settlement prices
31 DECEMBER 2022		
Derivative financial instruments	8,662	(8,662)
31 DECEMBER 2021		
Derivative financial instruments	(3,679)	3,679

D Offsetting of financial assets and liabilities

Group's agreements of derivative financial instruments allow off-setting, which means that in the statement of financial position the financial assets or liabilities are recognised in net amounts.

In thousands of euros	Gross amounts of financial instru-ments	Off-setting	Net amounts of financial instruments in the state-ment of financial position
31 DECEMBER 2022			
FINANCIAL ASSETS			
Derivative financial instruments (Note 17)	126,806	(42,832)	**83,974**
FINANCIAL LIABILITIES			
Derivative financial instruments (Note 17)	(44,499)	42,832	**(1,667)**
31 DECEMBER 2021			
FINANCIAL ASSETS			
Derivative financial instruments (Note 17)	92,932	(67,661)	**25,271**
FINANCIAL LIABILITIES			
Derivative financial instruments (Note 17)	(99,495)	67,661	**(31,834)**

25. LIST OF SUBSIDIARIES

THE GROUP HAD THE FOLLOWING SUBSIDIARIES AS AT 31 DECEMBER 2022.

Name of the subsidiary	Country of incorpora-tion	Nature of business	Proportion of ordinary shares held by the Group (%)	
			31.12.2022	31.12.2021
AS Gaasivõrk	Estonia	Sale of distribution services through natural gas distribution network	100.0	100.0
AS EG Ehitus	Estonia	Construction and engineering of the pipelines and boiler plants and repair work	-	100.0
Elenger Crew Management OÜ	Estonia	Vessel crew management	100.0	100.0
HG ProSolution OÜ	Estonia	Professional design and project management	-	100.0
Elenger Marine OÜ	Estonia	Sale of natural gas	100.0	100.0
OÜ Pärnu Päikesepark 1	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 2	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 3	Estonia	Production of electricity	80.0	80.0
OÜ Pärnu Päikesepark 4	Estonia	Production of electricity	80.0	80.0
SIA Elenger	Latvia	Sale of natural gas and electricity	100.0	100.0
SIA Elenger Marine	Latvia	Sea freight water transport	100.0	100.0
SIA Solar Nica	Latvia	Production of electricity	100.0	-
SIA Elenger Partners	Latvia	Activities of holding companies	80.0	-
SIA Solar Marupe	Latvia	Production of electricity	80.0	-
SIA Solar Olaine	Latvia	Production of electricity	80.0	-
UAB Elenger	Lithuania	Sale of natural gas and electricity	100.0	100.0
Elenger OY	Finland	Sale of natural gas	100.0	100.0
Elenger Sp. z.o.o.	Poland	Sale of natural gas	100.0	100.0

FINANCIAL INFORMATION RELATING TO GROUP'S MATERIAL SUBSIDIARIES THAT HAVE NCI

OÜ PÄRNU PÄIKESEPARK 1-4

In thousands of euros	31.12.2022	31.12.2021
NCI percentage (%)	20	20
Assets	4,313	3,496
Liabilities	3,083	3,130
Net assets	1,230	366
NET ASSETS ATTRIBUTABLE TO NCI	**246**	**73**

In thousands of euros	2022	2021
Revenue	1,195	579
Profit for the year	864	260
PROFIT ALLOCATED TO NCI	**173**	**50**

26. LEASES

A Leases as a lessee

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

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

In thousands of euros	Land and buildings	Machinery and equipment	Total
BALANCE AT 1 JANUARY 2022	**2,301**	**10,948**	**13,249**
Additions to right-of-use assets	-	423	423
Reassessment of the lease liability	7	-	7
Depreciation charge	(289)	(2,171)	(2,460)
Derecognition of right-of-use assets	-	(82)	(82)
Disposal of subsidiaries (Note 29)	-	(1,068)	(1,068)
Reclassfied to property, plant and equiment	-	(10)	(10)
BALANCE AT 31 DECEMBER 2022	**2,019**	**8,040**	**10,059**

In the comparative period the Group concluded LNG bunker vessel charter agreement that is recognised as a right-of-use asset in the "Machinery and equipment" group.

In thousands of euros	Land and buildings	Machinery and equipment	Total
BALANCE AT 1 JANUARY 2021	**2,522**	**2,697**	**5,219**
Additions to right-of-use assets	116	9,154	9,270
Reassessment of the lease liability	(67)	-	(67)
Depreciation charge	(270)	(860)	(1,130)
Derecognition of right-of-use assets	-	(43)	(43)
BALANCE AT 31 DECEMBER 2021	**2,301**	**10,948**	**13,249**

AMOUNTS RECOGNISED IN PROFIT OR LOSS UNDER IFRS 16

In thousands of euros	2022	2021
Interest expense on lease liabilities (Note 11)	322	175
Expenses relating to short-term leases	490	516

AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

In thousands of euros	2022	2021
Total cash outflow for leases	2,697	1,612

EXTENSION OPTIONS

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

B Leases as a lessor

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

During 2022, the property rentals of EUR 97 thousand (2021: EUR 11 thousand) were included in revenue (Note 6).

27. COMMITMENTS AND CONTINGENCIES

A Capital commitments arising from construction contracts

As at 31 December 2022, the Group had contractual liabilities relating to the acquisition of non-current assets totalling EUR 147 thousand (31 December 2021: EUR 16 thousand).

B Commitments arising from the Natural Gas Act

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

28. RELATED PARTIES

A Parent and ultimate controlling party

As at 31 December 2022 and 31 December 2021 the parent of AS Eesti Gaas and the ultimate controlling party of the Group was AS Infortar.

B Key management personnel compensation

In thousands of euros	2022	2021
Short-term employee benefits	2,952	1,755
Social taxes	229	533
TOTAL	**3,181**	**2,288**

* calculated compensations that have become collectible by the key management

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28. RELATED PARTIES, CONTINUED

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

The expenses related to setting up the provision for post-employment benefits for the members of the Management Board are recognised in profit or loss during the estimated service period of the members of the Management Board. The total amount of gross liabilities without the influence of cut-off as at 31 December 2022 was EUR 483 thousand (with social tax) (31 December 2021: EUR 918 thousand).

C Other related party transactions

	Transaction values		Balance outstanding	
In thousands of euros	2022	2021	31.12.2022	31.12.2021
SALE OF GOODS AND SERVICES				
Transactions with owners and with entities under the control of owners (Note 13)	2,886	630	307	171
Transactions with entities under significant influence of owners (Note 13)	8,203	17,872	802	1,079
PURCHASE OF GOODS AND SERVICES				
Transactions with owners and with entities under the control of owners (Note 21)	3,661	533	1,162	8
Transactions with entities under significant influence of owners (Note 21)	6,798	3,209	768	626
OTHER				
Subordinated shareholder loan (Note 20)	-	-	29,000	29,000
Change in overdraft from shareholder (Note 20)	12,019	(4,223)	12,019	-
Sale of subsidiaries to the entities under the control of owners (Note 29)	4,843	-	-	-
Interest expense on borrowings (excluding lease liabilities) from shareholder (Note 21)	1,448	1,382	16	13
Lease liabilities to owners (Note 20)			8,802	10,134

29. DISPOSAL OF SUBSIDIARIES

A Disposal of subsidiary AS EG Ehitus

On 3 October 2022 the Group entered into a sales contract for the sale of the 100% shareholding in AS EG Ehitus to OÜ INF Engineering.

NET ASSETS OF THE SUBSIDIARY DISPOSED

In thousands of euros	03.10.2022
Cash and cash equivalents	1,690
Trade and other receivables	1,747
Contract assets	914
Prepayments	39
Inventories	1,590
Assets held for sale	47
Property, plant and equiment (Note 15)	1,059
Intangible assets (Note 16)	40
Right-of-use assets (Note 26)	1,056
Borrowings (Note 20)	(949)
Trade and other payables	(1,534)
Provisions (Note 23)	(281)
Contract liabilities	(491)
TOTAL NET ASSETS OF THE SUBSIDIARY DISPOSED	**4,927**

Sales price (Note 28)	4,811
Loss on sale (Note 11)	116

CASH INFLOWS IN TRANSACTION

Proceeds of sale	4,811
Cash of subsidiary in bank accounts	(1,690)
TOTAL CASH INFLOWS IN TRANSACTION	**3,121**

B Disposal of subsidiary HG Prosolution OÜ

On 1 November 2022 the Group entered into a sales contract for the sale of the 100% shareholding in HG Prosolution OÜ to AS EG Ehitus.

NET ASSETS OF THE SUBSIDIARY DISPOSED

In thousands of euros	01.11.2022
Cash and cash equivalents	14
Contract assets	34
Prepayments	14
Property, plant and equiment (Note 15)	7
Right-of-use assets (Note 26)	12
Borrowings (Note 20)	(12)
Trade and other payables	(52)
Contract liabilities	(1)
TOTAL NET ASSETS OF THE SUBSIDIARY DISPOSED	**16**

Sales price (Note 28)	32
Gain on sale (Note 11)	16

CASH INFLOWS IN TRANSACTION

Proceeds of sale	32
Cash of subsidiary in bank accounts	(14)
TOTAL CASH INFLOWS IN TRANSACTION	**18**

30. FINANCIAL INFORMATION ON THE PARENT

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of euros	2022	2021
Revenue	950,729	346,343
Other operating income	2,050	1,263
Work performed by the Group and capitalised	2	-
Raw materials and consumables used	(836,402)	(312,994)
Payroll expenses	(5,636)	(5,364)
Depreciation and amortisation	(1,621)	(2,057)
Other operating expenses	(11,194)	(3,098)
OPERATING PROFIT	**97,928**	**24,093**
Finance income	2,966	270
Finance costs	(5,055)	(2,173)
NET FINANCE COSTS	**(2,089)**	**(1,903)**
PROFIT BEFORE TAX	**95,839**	**22,190**
Corporate income tax expense	(2,700)	-
PROFIT FOR THE YEAR	**93,139**	**22,190**
OTHER COMPREHENSIVE INCOME		
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Cash flow hedges – change in hedging reserve	94,772	(968)
OTHER COMPREHENSIVE INCOME	**94,772**	**(968)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**187,911**	**21,222**

STATEMENT OF FINANCIAL POSITION

In thousands of euros	31.12.2022	31.12.2021
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	8,549	8,193
Intangible assets	2,477	2,019
Investment property	1,172	1,230
Right-of-use assets	1,776	2,112
Derivative financial assets	12,866	9,683
Investments in subsidiaries	3,183	3,515
Other receivables	-	711
TOTAL NON-CURRENT ASSETS	**30,023**	**27,463**
CURRENT ASSETS		
Inventories	72,672	40,302
Derivative financial assets	71,109	15,636
Trade and other receivables	211,005	116,141
Prepayments for natural gas	8,719	20,482
Other prepayments	157	353
Cash and cash equivalents	113,035	42,601
	476,697	**235,515**
Assets held for sale	98	73
TOTAL CURRENT ASSETS	**476,795**	**235,588**
TOTAL ASSETS	**506,818**	**263,051**

In thousands of euros	31.12.2022	31.12.2021
EQUITY		
Share capital	9,919	9,919
Statutory capital reserve	992	992
Hedging reserve	82,307	(12,465)
Retained earnings	126,343	44,004
TOTAL EQUITY	**219,561**	**42,450**
LIABILITIES		
NON-CURRENT LIABILITIES		
Borrowings	16,405	20,118
Derivative financial liabilities	38	2
Provisions	474	812
Deferred income	349	381
TOTAL NON-CURRENT LIABILITIES	**17,266**	**21,313**
CURRENT LIABILITIES		
Borrowings	232,568	126,503
Trade and other payables	25,524	40,611
Derivative financial liabilities	3,822	31,947
Prepayments	253	183
Provisions	31	31
Contract liabilities	7,793	13
TOTAL CURRENT LIABILITIES	**269,991**	**199,288**
TOTAL LIABILITIES	**287,257**	**220,601**
TOTAL LIABILITIES AND EQUITY	**506,818**	**263,051**

30. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

CASH FLOW STATEMENT

In thousands of euros	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT FOR THE YEAR	**93,139**	**22,190**
ADJUSTMENTS		
Depreciation of property, plant and equipment, right-of-use assets and investment property	1,045	1,102
Amortisation of intangible assets	576	955
Amortisation of government grants received for purchasing of non-current assets	(32)	(32)
Recognition and adjustment of provisions	8	76
Gain on sale of non-current assets	(87)	(647)
Loss from write-off of non-current assets	13	19
Unsettled gain/loss on derivative financial instruments	7,648	(5,389)
Net finance costs	2,089	1,903
Interest income	2,700	-
ADJUSTED PROFIT FOR THE YEAR	**107,099**	**20,177**
NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES		
Change in trade receivables	(11,622)	(25,069)
Change in inventories	(32,468)	(282)
Change in prepayments for natural gas	11,763	(10,581)
Net change in current assets relating to other operating activities	(88,263)	(57,093)
TOTAL NET CHANGE IN CURRENT ASSETS RELATING TO OPERATING ACTIVITIES	**(120,590)**	**(93,025)**
NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES		
Use of provisions	(350)	(31)
Change in trade payables	(5,286)	15,663
Net change in liabilities relating to other operating activities	(4,413)	14,813
TOTAL NET CHANGE IN LIABILITIES RELATING TO OPERATING ACTIVITIES	**(10,049)**	**30,445**
Net cash used in operations	**(23,540)**	**(42,403)**
Interest received	312	250
NET CASH USED IN OPERATING ACTIVITIES	**(23,228)**	**(42,153)**

In thousands of euros	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2,271)	(2,245)
Proceeds from sale of non-current assets	344	825
Acquisition of subsidiaries	(169)	-
Proceeds from sale of subsidiaries	4,847	-
Change in overdraft to subsidiaries	5,135	2,920
Loans granted	(94)	-
Repayments of loans	894	-
Contributions to the equity of subsidiary	(1,871)	(46)
NET CASH FROM INVESTING ACTIVITIES	**6,815**	**1,454**
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in overdraft from shareholder	12,019	(4,223)
Bank loans received	166,350	144,500
Repayments of bank loans	(79,068)	(67,143)
Change in bank overdraft	(6,524)	6,572
Change in overdraft from subsidiaries	9,871	(137)
Payment of lease liabilities	(268)	(352)
Dividends paid	(10,800)	-
Interest and loan fees paid	(4,733)	(2,144)
NET CASH FROM FINANCING ACTIVITIES	**86,847**	**77,073**
NET CASH FLOWS	**70,434**	**36,374**
Cash and cash equivalents at the beginning of the period	42,601	6,227
Cash and cash equivalents at the end of the period	113,035	42,601
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**70,434**	**36,374**

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30. FINANCIAL INFORMATION ON THE PARENT, CONTINUED

STATEMENT OF CHANGES IN EQUITY

In thousands of euros Parent	Share capital	Share premium	Statutory capital reserve	Hedging reserve	Unrealised currency translation differences	Retained earnings	Total
EQUITY AS AT 31 DECEMBER 2020	**9,919**	**-**	**992**	**(11,497)**	**-**	**21,814**	**21,228**
Carrying amount of holdings under control				-	-	(2,720)	(2,720)
Value of holdings under control using the equity method				91	-	6,957	7,048
Effect of the merger with sole shareholder (Note 31)				-	-	6,008	6,008
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2020 (Note 18)				**(11,406)**	**-**	**32,059**	**31,564**
Profit for the year	-	-	-	-	-	22,190	22,190
Other comprehensive income	-	-	-	(968)	-	-	(968)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**(968)**	**-**	**22,190**	**21,222**
EQUITY AS AT 31 DECEMBER 2021	**9,919**	**-**	**992**	**(12,465)**	**-**	**44,004**	**42,450**
Carrying amount of holdings under control				-	-	(3,515)	(3,515)
Value of holdings under control using the equity method				-	-	12,008	12,008
Effect of the merger with sole shareholder (Note 31)				-	-	5,396	5,396
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2021 (Note 18)				**(12,465)**	**-**	**57,893**	**56,339**
Profit for the year	-	-	-	-	-	93,139	93,139
Other comprehensive income	-	-	-	94,772	-	-	94,772
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**94,772**	**-**	**93,139**	**187,911**
Dividends paid	-	-	-	-	-	(10,800)	(10,800)
EQUITY AS AT 31 DECEMBER 2022	**9,919**	**-**	**992**	**82,307**	**-**	**126,343**	**219,561**
Carrying amount of holdings under control				-	-	(3,183)	(3,183)
Value of holdings under control using the equity method				-	3	14,057	14,060
Effect of the merger with sole shareholder (Note 31)				-	-	4,920	4,920
ADJUSTED UNCONSOLIDATED EQUITY AS AT 31 DECEMBER 2022 (Note 18)				**82,307**	**3**	**142,137**	**235,358**

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

31. MERGER WITH SOLE SHAREHOLDER

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

As a result of the merger the difference between the fair value and carrying amount of the gas distribution network assets and intangible asset (customer contracts) recognised in the consolidated statement of financial position of Trilini Energy OÜ during the acquisition of controlling interest in AS Eesti Gaas, were recognised in the consolidated statement of financial position of Eesti Gaas Group. The estimated useful life of the price difference of the gas distribution network assets value is 30 years, the value of customer contracts is amortised using the declining balance method at the rate of 12% per year (2021: 14% per year). As at 31 December 2022, the carrying amount of the price difference of the gas distribution network assets and customer contracts was EUR 4,920 thousand (31 December 2021: EUR 5,396 thousand) (Note 30).

32. SIGNIFICANT ACCOUNTING POLICIES

32.1 BASIS OF CONSOLIDATION

A Subsidiaries

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

B Transactions eliminated on consolidation

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

C Loss of control over subsidiary

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

32.2 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.

32.3 REVENUE RECOGNITION

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

A Sale of natural gas, electricity and network services

Revenue is recognised based on the quantities found according to the meter readings or the agreed quantities. The quantities underlying the sale of natural gas and electricity are obtained from the data exchange platform of the system operator. The quantities on which the sale of natural gas network services are based, are measured by the network operator by collecting the meter readings or by forecasting them or as an exception by concluding quantity agreement acts. In case of material effect, additionally estimates are made of the potential impact of readings either not reported, reported late or incorrectly reported by the end of the reporting period, resulting in a more precise recognition of actual consumption.

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

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

B Recognition of connection fees

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

C Construction contracts

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

D Revenue recognition on the sale of goods

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

32.4 EMPLOYEE BENEFITS

A Short-term employee benefits

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

B Termination benefits

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

C Other employee benefits

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

32.5 FINANCE INCOME AND FINANCE COSTS

THE GROUP'S FINANCE INCOME AND FINANCE COSTS INCLUDE:

- interest income;
- interest expense.

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

32.6 INCOME TAX

A Income tax in Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, entertainment expenses, non-business related disbursements and adjustments of the transfer price. On distribution of profits to shareholders, dividends that amounts to up to three preceding years' average dividend distribution are subject to income tax of 14/86 of the net amount. The remaining dividends are subject to a tax rate of 20/80 of the net amount. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which the dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The income tax liability is due on the 10th day of the month following the payment of dividends.

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

B Income tax in foreign countries

Deferred income tax is recognised in foreign subsidiaries on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets and liabilities are recognised under the liability method. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. As at 31 December 2022 and 31 December 2021, the Group had neither any deferred income tax assets nor deferred income tax liabilities.

32.7 INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs necessary to make the sale. The cost of inventories is based on the weighted average principle. The cost of inventories does not include borrowing costs. The cost of other goods and materials consists of the purchase price, expenditure on transportation and other costs directly related to the purchase.

32.8 PROPERTY, PLANT AND EQUIPMENT

A Recognition and measurement

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

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

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

B Subsequent expenditure

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

C Depreciation

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

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

	Useful lives in years
buildings	33
gas pipelines	50
other buildings and constructions	10-50
computers and office equipment	3
vehicles	4-20
other machinery and equipment	3-30
inventory	2-10

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

32.9 INTANGIBLE ASSETS

A Recognition and measurement

INTANGIBLE ASSETS ARE RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION ONLY IF THE FOLLOWING CONDITIONS ARE MET:

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

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

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

B Subsequent expenditure

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

C Amortisation

The value of customer contracts is amortised using the declining balance method at the rate of 12% (2021: 14% per year) and the asset's recoverable amount is tested for impairment at each reporting date. During the test, the cash flow from customer contracts is discounted at a risk-free rate of return. Estimated quantities, margins and costs of customer contracts are used in the calculation of cash flow. Amortisation of other intangible assets is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives. The amortisation expense is recognised in profit or loss.

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

32.10 INVESTMENT PROPERTY

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

32.11 ASSETS HELD FOR SALE

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

32.12 FINANCIAL INSTRUMENTS

A Classification and subsequent measurement of financial assets

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

As at 31 December 2022 and 31 December 2021 the Group classified all its non-derivative financial assets as measured at amortised cost. The accounting policy for derivatives, designated as hedging instruments, is disclosed in subsection (d).

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

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

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

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

B Classification and subsequent measurement of financial liabilities

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

As at 31 December 2022 and 31 December 2021 the Group classified all its non-derivative financial liabilities as measured at amortised cost. The accounting policy for derivatives, designated as hedging instruments, is disclosed in subsection (d).

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

32.12 FINANCIAL INSTRUMENTS, CONTINUED

C Derecognition and offsetting

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Factoring without a recourse is recognised as a sale of receivables and receivables are considered paid at the moment when the money has been received from the bank.

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

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

D Derivative financial instruments

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

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

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

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

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

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

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

32.13 CASH AND CASH EQUIVALENTS

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

32.14 SHARE CAPITAL

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

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

32.15 IMPAIRMENT

A Non-derivative financial assets

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

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

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

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

B Non-financial assets

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

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

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

32.16 PROVISIONS

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

WARRANTIES

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

EMPLOYEE RELATED PROVISIONS

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

32.17 LEASES

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

A Group as a lessee

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

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

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

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

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

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

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

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

B Group as a lessor

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

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

32.18 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.

32.19 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.

32.20 CONTINGENCIES

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

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

The following new and amended standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements. The new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to IAS 1 Presentation of Financial Statements;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements;
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- Amendments to IAS 12 Income Taxes;
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current — Deferral of Effective Date;
- Amendments to IFRS 16 Lease Liability in a Sale and Leaseback.

Signatures of the Management Board to the Annual Report for the Financial Year 2022

The annual report of Eesti Gaas Group for the financial year ended on 31 December 2022 consists of the management report, the consolidated financial statements, the independent auditors' report and the profit allocation proposal. The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal.

CHAIRMAN OF THE MANAGEMENT BOARD

MARGUS KAASIK

/signed digitally/

MEMBER OF THE MANAGEMENT BOARD

RAUL KOTOV

/signed digitally/

MEMBER OF THE MANAGEMENT BOARD

DĀVIS SKULTE

/signed digitally/

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117, Estonia

+372 6268 700
www.kpmg.ee

Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of AS Eesti Gaas

Opinion

We have audited the consolidated financial statements of AS Eesti Gaas (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the 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. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements.

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 and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

/signed digitally/

Andris Jegers

Certified Public Accountant, Licence No 171

/signed digitally/

Kelli Kukk

Certified Public Accountant, Licence No 731

Tallinn, 5 April 2023

KPMG Baltics OÜ
Licence No 17

KPMG Baltics OÜ

Narva mnt 5
Tallinn 10117
Estonia

+372 626 8700
www.kpmg.ee

This version of our auditors' report is a copy from the original, which was digitally signed in e-Business Register. All possible care has been taken to ensure that the copy is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original version of our report takes precedence over this copy.

Profit Allocation Proposal

The retained earnings of Eesti Gaas Group as at 31 December 2022 were 142,136,272.22 euros, of which the net profit for the year 2022 amounted to 95,044,050.59 euros.

The Management Board proposes under section 332 of the Commercial Code of Estonia to allocate the retained earnings of Eesti Gaas Group as at 31 December 2022 as follows:

1.

to pay EUR 10,000,000.00 as dividends to the shareholder;

2.

not to distribute the remaining retained earnings of EUR 132,136,272.22.

Revenue of the Parent by Activities

1 JANUARY - 31 DECEMBER 2022 (In thousands of euros)

Activity	Sales revenue
Trade of gas through mains (35231)	883,138
Trade of electricity (35141)	48,416
Retail sale of automotive fuel incl. activities of fuelling stations (47301)	8,603
Wholesale of automotive fuel (46712)	1,565
Other goods and services	9,007
TOTAL	**950,729**

eesti gaas