ANNUAL REPORT

beginning of financial year:	1 January 2021
end of financial year:	31 December 2021
business name:	AS Eesti Varude Keskus (Estonian Stockpiling Agency)
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MANAGEMENT REPORT 2021

1. Company

2021 was a year of great changes for the company as, pursuant to a decision of the Government of the Republic, the Estonian Oil Stockpiling Agency (AS Eesti Vedelkütusevaru Agentuur or OSPA) became the Estonian Stockpiling Agency (AS Eesti Varude Keskus or ESPA). Preparations for the reorganisation had, however, been ongoing for longer and the corresponding discussions began at the level of the Ministry of Economic Affairs and the Government of the Republic already in 2019. That year, the Ministry of Economic Affairs conducted an analysis as per the State Reform Action Plan in order to extend the OSPA's tasks on the basis of the conclusions of the Civil Protection Conception. In July 2020, the Government of the Republic approved the proposal of the Minister of Economic Affairs and Infrastructure to establish by the middle of 2021 an Estonian Stockpiling Agency (AS Eesti Varude Keskus or ESPA) to be administered by the Ministry of Economic Affairs and Communications for the purposes of ensuring the security of supply of the population.

Based on the analysis, the Minister of Economic Affairs found it practical to establish the ESPA by expanding the tasks of the OSPA which already existed and dealt with stocks. Taking into consideration the conclusions of the analysis, a proposal was made to put the ESPA in charge of the acquisition, storage, quality control, replenishment and distribution of those civil protection stocks which fall within the domains of the Ministry of Social Affairs, Ministry of Rural Affairs and Ministry of Economic Affairs.

The analysis conducted under the directions of the Ministry of Economic Affairs and Communications reached the following conclusions:

- There is a need for the establishment of the ESPA and it is practical to do that by expanding the OSPA. The OSPA's strengths include long-term experience with efficient storage, acquisition, rotation and supervision of liquid fuel stocks as well as with market monitoring.
- It is wise to have the acquisition, storage, quality control, replenishment and distribution of the food stocks, medical stocks, personal protective equipment stocks, staple goods and liquid fuel, whose supply must be ensured for the purposes of civil protection, concentrated at the ESPA.
- In addition to the management of stocks, the ESPA is in charge of the logistics of stock distribution as well as analyses and monitoring of stock sectors' continuity.
- The central policy-making as to the sectoral security of supply, including the determination of the list and quantity of stocks, coordination of vital services, national defence tasks, sectoral legislation and conduct of risk analyses, will remain the duty of the Ministry. Neither will the ESPA take over the obligation of acquiring and stockpiling military resources.

The purpose of the reorganisation was to end the scattering of liability between various ministries and agencies, and to prevent the risk of the belated acquisition of buffer stocks, financing of procurements and appointment of the stock manager, i.e. the risk of it being done only when the population of the state is in an emergency situation.

The Government decided to go ahead with the changes and, as the result of the reform, move the tasks of arranging national fuel, food and medical stocks as well as the strengthening of the continuity of the corresponding sectors from the Ministry of Rural Affairs, Ministry of Economic Affairs and Communication and Ministry of Social Affairs to a single company operating within the domain of the Ministry of Economic Affairs.

Based on the preparatory work, the Government found that it would be the most practical to transform the Estonian Oil Stockpiling Agency, which so far had only dealt with the management of the state's fuel stocks, into the Estonian Stockpiling Agency. The principle that all the shares in the company belong to the state and the holding administrator and entity exercising the state's rights as a shareholder is the Ministry of Economic Affairs and Communications which is represented at the General Meeting of shareholders by the Minister of Economic Affairs and Infrastructure still stands.

Simultaneously with the establishment of the ESPA, the Government approved a four-year basic model of financing from the state budget which is necessary for forming the state's operation stocks.

The Government's decision to have certain tasks of arranging the state's operation stocks and the strengthening of the continuity of the corresponding sectors concentrated at the ESPA took effect on 1 July 2021.

1.1. The Social Role of the Company

The Articles of Association, Document of the Owner's Expectations and special laws and regulations pertaining to the operations of the company stipulate that the Estonian Stockpiling Agency is a strategically important state-owned company which is in charge of compiling and managing the operation stocks necessary for resolving emergency situations or the risk of such situations and for ensuring the state's security of supply, overall national security and the subsistence of the population. The state's security of supply model assigns unique tasks and responsibilities to the company. It is the task of the company to ensure within its area of responsibility that smooth supply of goods and services continues even during the periods of potential supply disruptions that could affect the nation. It is the goal of the company to reach such a level of continuity that, even during times of local short-term supply disruptions or extensive international market impediments, the security of supplying the population would not be disturbed.

The Republic of Estonia has set three main objectives for the Estonian Stockpiling Agency:

- to conduct profitable and effective economic activities within the chosen fields in a manner ensuring the company's development and optimal and stable income for the state;
- to achieve state-set strategic goals as per the laws and regulations and development agendas applicable to the company;
- to lead the way for Estonian economic operators by following the principles of good governance, social responsibility and high business ethics.

The owner has given the Estonian Stockpiling Agency the following tasks:

- compiling and management of state's operation stocks, including liquid fuel stocks, and replenishing them as per the Emergency Act and Liquid Fuel Stocks Act;
- organising the purchase, sales and the storage of the state's operation stocks;
- analysing the security of supply and continuity of businesses within the areas of the state's operation stocks;
- arranging the release of stocks in the event of supply difficulties;
- promoting cooperation between the sellers, importers and producers of state's operation stocks, logistics companies and corresponding international organisations.

The company is aware of the fact that it operates in a field related to transportation fuels and, therefore, it directly affects the health of people and the human environment. The International Energy Agency (Estonia is a member of the organisation and actively participates in its operations) has made cleaner and sustainable energy its mission for the years to come. Member states cooperate in order to develop safe and sustainable future energy. The company is planning to develop its new strategy in line with the emission-free energy policy of the International Energy Agency (IEA).

Estonian Oil Stockpiling Agency (AS Eesti Vedelkütusevaru Agentuur or OSPA)

In April 2021, the OSPA became 16 years old. Until its transformation took effect, the OSPA was a company whose main strategic task was to compile and manage the state's liquid fuel stocks. The Government of the Republic established the OSPA in 2005 under the Liquid Fuel Stocks Act. The requirements of constituting and managing liquid fuel stocks are uniform for the Member States of the European Union and those of the International Energy Agency, and they are based on Council directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products, and on agreements set out in the Energy Programme of the International Energy Agency. In short, all EU Member States and the IEA are obliged to ensure that they have at all times fuel stocks in amounts corresponding to at least their 90 days' total consumption needs.

When the ESPA was established, the strategic objectives and owner-set tasks of the Estonian Oil Stockpiling Agency remained in force as follows:

- to ensure the constitution, management and replenishment of the compulsory liquid fuel stocks of the Republic of Estonia;
- to organise the purchase, sales and storage of liquid fuel stocks;
- to monitor and analyse the situation of supplying the state with liquid fuel;
- to organise the release of liquid fuel stocks in the event of supply difficulties;
- to promote cooperation with fuel sellers and other organisations dealing with the management of states' liquid fuel stocks.

Most of the operating goals and principles set out in the Liquid Fuel Stocks Act remained in force, and the company continues to act as the Central Stockholding Entity prescribed by the above-mentioned directive. A Central Stockholding Entity is an agency or department which can be authorised to acquire, maintain and sell oil stocks, including buffer stocks and specific stocks. The following is specified in the directive:

- each Member State may only have one Central Stockholding Entity;
- the Central Stockholding Entity must act in the interests of the general public;
- the Central Stockholding Entity may not be an economic operator within the meaning of the directive.

1.2. Estonian Stockpiling Agency (AS Eesti Varude Keskus)

Since 1 July 2021 the ESPA also operates, in addition to the Liquid Fuel Stocks Act, on the basis of the Emergency Act which stipulates that the state's operation stocks are established and managed and the release thereof is organised by a state-owned company whose activities as specified in its Articles of Association are aimed at establishing and managing the stocks.

The principles of compiling and managing the state's central operation stocks have been agreed in the documents regarding the company's transformation:

- the stocks must be compiled in due time and include the listed items;
- the stocks must be accessible, verifiable and usable at all times, i.e. they must correspond to the quality requirements;
- the monitoring and accounting system of the stocks must be accurate and reliable;
- when planning for the release of the stocks, potential disruptions to vital services must also be taken into account;
- the stocks must be compiled, managed and replenished effectively ensuring the best cost to revenue ratio;
- the financing model of the stocks must ensure the soundness of the system and be sustainable;
- considering the national importance and expectations in terms of the stocks system, the governance structure of the company must ensure that both public and private operators are involved;
- the legal structure of the stocks system must ensure its stability and reliability.

The operating model of the ESPA is to a substantial part based on working parties established for the purposes of resolving matters regarding the quantities, lists, logistics, analysis and monitoring of the stocks, and those working parties include state and business representatives as well as sectoral experts. The primary objective was to establish four bodies providing advice in the fuel, food, health care and continuity as well as logistics sectors which correspond to the areas of responsibility of the ESPA.

1.3. Owner's Expectations

The Document of Owner's Expectations states that the Estonian Stockpiling Agency is a strategically important state-owned company which is in charge of compiling and managing operation stocks necessary for overcoming emergency situations or the risk of such situations and for ensuring the state's security of supply, overall national security and the subsistence of the population.

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- to conduct profitable and effective economic activities within the chosen fields in a manner ensuring the company's development and optimal and stable income for the state;
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- analysing the security of supply and continuity of businesses within the areas of the state's operation stocks;
- arranging the release of stocks in the event of supply difficulties;
- promoting cooperation between the sellers, importers and producers of the state's operation stocks, logistics companies and corresponding international organisations.

1.4. Financial Objectives

The state as the owner expects state-owned companies operating on the free market to be profitable. When evaluating the profitability of the ESPA, the manner of financing various fields of operation set out by law must be taken into account. Pursuant to the Emergency Act, the expenses of establishing, managing and releasing the state's operation stocks are covered from the state budget funds or funds received from the sale of the stocks. An exception is the Liquid Fuel Stocks Act stipulating that purchases of stocks are to be covered from the state budget by increasing the share capital of the ESPA and by using funds raised by the sale of stocks applies. The costs of managing the stocks are covered out of the stockpiling fees. Since the ESPA is permitted to collect stockpiling fees only to the extent necessary for covering the cost of managing the liquid fuel stocks and stockpiling fees received in excess may not be included in retained earnings, the administrator of the shareholding has not deemed it optimal to set an expected equity price for the OSPA or ESPA. The expenses of establishing, managing and releasing the state's central operation stocks under the Emergency Act are covered from the state budget funds or funds received from the sale of the stocks acquired earlier. When using the funds meant for the purchase of the state's operation stocks, the company must operate effectively and also ensure the preservation of the value and purposeful use of the state's operation stocks.

1.6 Financial Hedging

The Liquid Fuel Stocks Act stipulates that when stocks are being rotated and their place of storage changed, stocks must be sold at the market price provided that the fuel price risk related to the sale and reconstitution of stocks has been hedged. In order to do that the company uses cash flow hedge instruments whose objective is to fixate fuel prices and mitigate the risks of fuel price fluctuation. Hedging contracts are concluded to the extent that corresponds with the quantities of liquid fuel stocks in rotation.

1.7 Key Financial Indicators

The main financial ratios of the company	2021	2020
Operating margin % (operating profit/total income*100)	8.56%	-6.35%
Equity ratio % (equity/total assets*100)	96.50%	99.61%
ROA% (net profit / total average assets*100)	0.58%	-0.71%
ROE% (net profit / average equity*100)	0.59%	-0.72%

2. Operating Environment in 2021

2.1. International Fuel Market

The company's operations and financial performance is still mainly affected by the global and local fuel markets and their changes. In our previous reports, we used the word "unpredictable" for the year of 2018, 2019 was devastating to the oil sector and, in 2020, COVID-19 dictated the economy's demand, supply and investment decisions. Markets were volatile in these years and the prices moved within an extensive range.

2021 was a year of anxious growth and imbalances.

In economic terms, the post-COVID-19 V-shaped recovery that began in the third quarter of 2020 continued, demand grew rapidly, but the supply failed to do so at the same pace, and the prices of fuel saw a sharp rise. At the end of the year, concerns started to emerge about the general decrease in stock reserves and about the deficit of certain articles of goods. For instance, the consumption of diesel fuel rose in the fourth quarter of 2021 to its historical highs, and oil stocks in the ARA region fell to the lowest level of the past 14 years. The markets were hit by a sharp rise in the natural gas price. Therefore, the European refineries had difficulties in meeting the demand. The refineries use natural gas to remove sulphur, however, since the process became excessively expensive at the end of 2021, cuts were made to the production of diesel fuel. As the global price level of diesel fuel is dictated by the European market, the deficit here reflected in the prices all over the world causing some rearrangements in the supply chains.

The reports of the International Energy Agency showed that, by the end of the year, the demand for crude oil and petroleum products surpassed the pre-pandemic level and was moving closer to its all-time high. Since the supply side could not keep up with the demand growth, all the preconditions for a volatile and likely growing oil price trend were met. In the fourth quarter of 2021, the IEA reported that the global demand "defied expectations" by increasing by 1.1 million barrels per day to 99 million barrels per day. As to stocks, the IEA stated that the stock reserves of the OECD member states have fallen to their lowest levels in the last seven years. Ever decreasing stocks pointed to a greater global demand and smaller supply than expected on the markets.

Estonian Fuel Market

By the end of the second quarter of 2021, the fuel market had recovered from the low point of the beginning of the year. The domestic consumption of fuel remained by 4-5% below the level of previous years, discounting the pandemic year of 2020; however, in April and May, the indicators started to move up at a significant pace. This was especially true in the sector of transportation fuels thanks to the gradual easing of the COVID-19 restrictions and to the recovery of economic activities and travelling. Compared to the first quarter, the growth of total consumption in the second quarter exceeded 15%. The quantity of fuel consumed in the six months stands close to 590,000 cubic metres. The growth in relative terms was the greatest with regard to jet fuel as it is affected by both the very low reference base of the beginning of the year as well as by the recovery of air travel. The sale of petrol also recovered from the depression and reached its normal summer months' level in May. The consumption of diesel fuel remained stably good over the months.

The third quarter of the year, however, saw a sharp increase in the consumption of petrol and diesel fuel. Strong consumption continued in the fourth quarter as well and the volumes then were similar to the recovery period of the second quarter. Record highs in the fourth quarter were reached by jet fuel as the volume of transit cargo flights increased robustly. The total amount of fuel consumed in the second half of the year stands close to 700,000 cubic metres.

In conclusion, it can be said the Estonian fuel market was rather quiet at the beginning of the year; however, the second half of the year was characterised by a significant rise in the fuel sale volumes. Throughout the year, the market was cautious as new waves of the COVID-19 virus could have caused new economic stagnation periods and fuel market falls. Since those risks did not materialise, the performance during the year as a whole turned out to be stronger than expected and the consumption of fuel was very good.

3. Effect of Market Changes

3.1 Effect on the Quantity of Liquid Fuel Stocks

As reported by Statistics Estonia, the 2020 data show that compulsory quantity of liquid fuel stocks fell from 248,000 tonnes the year before to 241,000 tonnes (www.stat.ee *KE0230*). According to the Liquid Fuel Stocks Act, the company is responsible for ensuring that the quantity of stock is at the required level at all times. The abovementioned directive establishes two methods for the calculation of the stockholding obligation depending on the export and import ratio of the state. According to the directive, the stocks must be maintained at all times at a level corresponding to at least 90 days' average daily net imports or 61 days' average daily domestic consumption of energy products as compared to the previous year, depending on which of these is greater. Contrary to the provisions of the directive, the Liquid Fuel Stocks Act requires us to observe that the stockholding obligation is complied with based on the 90 days' average net imports of oil products principle even if the export of domestically produced shale oil is on the decline. The domestic consumption of energy products taken into account when calculating the stockholding obligation in Estonia was 976,000 tonnes. On 31 December 2021, the ESPA had in its ownership or under its control a total of 254,000 tonnes of liquid fuel stocks. The share of stocks stored in Estonia in 2021 was 49% which covers the fuel needs of the Estonian economy for 45 days. Based on the low market demand of heavy fuel oil, the ESPA has stopped storing it.

The company has a statutory obligation to ensure that the volume of stocks is brought into compliance with the indicators of fuel consumption of the previous calendar year by the 1 July.

3.2 Effect on the Value of Liquid Fuel Stocks

The market tensions of 2021 were reflected in the prices. By the end of the year, the crude oil price reached the highest level of seven years exceeding in October in daily terms USD 85 per barrel and growing in monthly average terms from USD 55 to 75 per barrel. Since there was a strong consensus on the market that the balance between the supply and demand of oil would tighten even more, it was reasonable to believe that the Brent futures price would reach the level of USD 100 during the second half of the year.

The price increase has substantially raised the book value of the ESPA's liquid fuel stocks. When, at the end of 2020, the theoretical market value of the liquid fuel stocks on the company's balance sheet exceeded 87 million euros, taking into account the Platts quotations, then in December 2021 the same indicator rose to 147 million euros. The hypothetical value of the liquid fuel stocks has thus risen by 1.7 times within a year.

4. Activities

4.1. Management of Fuel Stocks

In 2021, the company continued the rotation of fuel. The rotation involved four different storage facilities and the total volume of goods replenished within the year exceeded 30,000 tonnes. Since the market situation was volatile and the quality of stocks, the company did not sell any of the stocks in 2021. Due to the expiry of a storage contract, the company organised a sales procurement at the end of the year, which was completed in the first quarter of the new year. The company had no plans to organise procurements for the purpose of acquiring additional fuel because the stock reserves were adequate and exceeded the legally compulsory levels.

4.2. Insurance of Fuel Stocks

In 2021, our cooperation with Marsh Kindlustusmaakler AS continued. We are obliged to ensure that all the liquid fuel stocks are insured. In 2020 and 2021, stocks were insured with the PZU Lietuvos Draudimas AB Estonia. All the company's liquid fuel stocks are insured based on the world market fuel prices.

4.3. Inspection of Fuel Stocks

The company organises inspections on a regular basis in order to ensure the preservation of the liquid fuel stocks. The aim of inspecting the liquid fuel stocks is to verify the quantity and quality of the stocks. According to the internal procedures, stocks are inspected at each storage facility at least twice every calendar year. Since all the liquid fuel stocks of the OSPA are meant for long-term storage, the quality and ageing process of liquid fuel stocks is monitored using special software called ProQuality which enables the making of timely decisions regarding rotation or sales of deposited stocks. In 2021, we continued the inspection of fuel stocks in cooperation with the Estonian Environmental Research Centre and Amspec Estonia OÜ.

4.4. Management of Personal Protective Equipment Stocks

In October, the ESPA took over the state's central operation stocks of personal protective equipment as proposed by the Ministry of Finance and decided by the Government of the Republic. The taking over and recognising of the stocks took place in the form of a non-monetary contribution to the company's share capital. The Management Board arranged for the evaluation of the fair value of the personal protective equipment stocks based on the stock-taking reports made by the Ministry of Finance as the previous owner of the state assets and on the assessment of the net realisable value of the personal protective equipment. The ordinary value of the assets taken over as a non-monetary contribution was assessed to be 2.654 million euros. This means that the ESPA obtained additional assets in the form of personal protective equipment now belonging to the company. In order to store the equipment, the ESPA procured a warehouse keeper under whose custody the equipment is maintained.

4.5. Management of Contracts Regarding Food Stocks

In October, the ESPA took over the food stocks contracts signed by the Ministry of Rural Affairs with economic operators. These are contracts concerning delegated stocks, i.e. the stocks are kept at the producers' and wholesalers' warehouses and the ESPA has a pre-emptive right.

4.6. Arrangement of Business Continuity and Logistics

Since the availability of stocks depends on the daily availability of the services provided by economic operators and on the strength of supply chains, it is the task of the ESPA to monitor and strengthen the sectoral continuity in cooperation with vital producers, warehouse keepers, service providers, logistics companies and other partners. A RITA supply security survey is under way analysing the supply chains of staple goods, food, personal protective equipment and water. As the result of a procurement conducted by the ESPA two petrol stations in Rapla and Kuressaare were equipped with an autonomous emergency generator power. When conducting stock procurements, the ESPA prefers partners that are ready to issue goods even when support services have been interrupted.

4.7. Auditor

By the decision of the holding administrator, KPMG Baltics OÜ was appointed the auditor of the company's Annual Report 2021.

5. Objectives for 2022

The Supervisory Board of the OSPA has set for the Management Board the following objectives for 2022.

General objectives of the organisation:

- to manage the company's assets in a cost-effective manner;
- to develop a new strategy and stock compiling action plans for the company and to have them approved by the Supervisory Board;
- to engage advisory bodies;
- to insert stock management data into a common information system;
- to prepare uniform messages to be communicated by and a communication strategy for the ESPA;
- to organise supervision over all the state's operation stocks.

Obligations related to liquid fuel stocks:

- to maintain and replenish liquid fuel stocks as per the provisions of the Liquid Fuel Stocks Act;
- to ensure regular receipt of liquid fuel stockpiling fee;
- to increase the volume of fuel stocks stored in Estonia;
- to analyse the effect of bringing additional liquid fuel stocks to Estonia on the stockpiling fee;
- to conduct a crisis exercise in the liquid fuel sector;

- to organise the ACOMES' Annual Conference;
- to organise the management of the Standing Group of Emergency Questions (SEQ) and the Standing Group of the Oil Market (SOM) of the International Energy Agency.

Obligations related to medical stocks:

- to achieve the prescribed list and quantity of personal protective equipment stocks;
- to develop a system for the rotation of the personal protective equipment;
- to prepare an action plan for the compiling and management of operation stocks of medicines;
- to establish a stock of medicines as per the 2022 action plan.

Obligations related to food stocks:

- to renew contracts of delegated food stocks;
- to increase the volume of food stocks maintained with current partners;
- to prepare a national food stocks action plan;
- to replenish food stocks as per the 2022 action plan for the stocks.

Objectives related to business continuity and logistics:

- to conduct procurements of mobile generators and sign service contracts for their management;
- to develop solutions for supplying the priority consumers of fuel with fuel in emergency situations;
- to prepare a logistics plan for releasing stocks;
- to sign agreements for logistics services for the purpose of releasing the state's operation stocks.

5.1. Subsequent Events

The company treats the situation created by the military conflict, growing geopolitical tensions and sanctions and their potential effects as non-adjusting events occurring after the reporting date. Potential financial implications will be reported in the company's Financial Statements of 2022.

The current situation is uncertain and rapidly changing and, therefore, the management is unable, at the time of approving these Financial Statements, to provide additional quantitative assessments as to its potential effect on the company.

On the basis of the analyses conducted during the making of the Statements and of the current situation, the management is of the opinion that the economic changes caused by the war will not have a substantially negative financial effect on the company, and the company is still active. Furthermore, the company's role in ensuring the better continuity of the state along with new tasks being financed from the state budget in 2022 is growing. The company has no assets or essential partners in countries sanctioned.

A detailed description of events occurring after the reporting date is given in Note 18.

6. Management

6.1. Supervisory Board

The reorganisation of the company also brought about changes in the composition of the company's Supervisory Board. During the first half of the year, the company's Supervisory Board included four members, half of whom were representatives of the Government and half those of the sellers of fuel specified in the Liquid Fuel Stocks Act. The Supervisory Board was chaired by Kristi Talving, Deputy Secretary General of the Ministry of Economic Affairs and Communications; other members were Priit Laaniste, Andres Linnas and Rauno Raudsepp. On 29 August 2021, the Minister of Economic Affairs as the representative of the owner removed the members from office as their term of office had terminated. Kristi Talving, Viola Murd, Indrek Sirp, Jaan Lepp, Raul Puusepp and Mart Raamat were elected to the new Supervisory Board with a term of office of three years. The members of the Supervisory Board again elected Kristi Talving the chairman of the Board.

In 2021, the Supervisory Board of the company held seven meetings in total. Remuneration in the amount of 23,600 euros was paid to the members of the Supervisory Board in 2021.

6.2. Management Board

The Management Board of the company comprises two members. Remuneration in the amount of 136,200 euros was paid to the members of the Management Board in 2021.

CORPORATE GOVERNANCE REPORT 2021

The Estonian Oil Stockpiling Agency (AS Eesti Vedelkütusevaru Agentuur or OSPA) and its successor the Estonian Stockpiling Agency (AS Eesti Varude Keskus or ESPA) have undertaken to apply the Principles of Corporate Governance when managing the company and to describe how these principles are followed in the Corporate Governance Report forming part of the Annual Report. The Corporate Governance Report of the company is published on its website at www.espa.ee under "Annual Report".

In complying with the Principles of Corporate Governance, we adhere to the State Assets Act (hereinafter referred to as "SAA"), guidelines of the Principles of Corporate Governance (hereinafter referred to as "PCG") and, due to the specific tasks of the company, the general principles established in the EU Directive 2009/119/EC and the Liquid Fuel Stocks Act (hereinafter referred to as "LFSA").

In order to ensure the proper functioning of the risk management and internal control of the company, an Audit Committee has been formed and the services of an internal auditor are used. Due to the working arrangements at the company it has not been deemed necessary to create a position of an in-house internal auditor.

The task of the Audit Committee which was set up to tackle the questions regarding the company's supervisory powers is to advise the Supervisory Board on risk management, internal control and financial reporting. The Management Board has prepared the necessary internal rules and regulations and set up a respective reporting system in order to ensure risk management and internal control.

The company is managed somewhat differently when compared to the advisory guidelines provided by the PCG. The PCG guidelines, which we have chosen not to follow, mainly concern the conduct of general meetings and differences arising from the LFSA with regard to the appointment of Supervisory Board members.

1. Governance

The ESPA is a company fully owned by the state which is represented at the General Meeting by the Minister of Economic Affairs and Infrastructure. This ensures that the rights of the issuers prescribed in the PCG report have been guaranteed and the rules that should be applied to the governance of companies with a large shareholder base are not applicable.

The management of companies in which the state has a majority holding interest and which are governed by the Ministry of Economic Affairs and Communications is based on the Rules of Procedure of General Meetings. The requirements established in the Rules of Procedure of General Meetings supplement the principles for the governance of state-owned companies established in the State Assets Act. The Rules of Procedure set out, *inter alia*, the following:

- the powers of the General Meeting;
- the procedure for chairing and conducting General Meetings and for participating in General Meetings;
- requirements concerning the calling, agenda, taking the minutes and preparing draft decisions of General Meetings;
- the procedure for making, drafting and disclosing the decisions of General Meetings.

The powers of General Meetings include the amendment of the Articles of Association, increase and reduction of the share capital, election and removal of Supervisory Board members, election of auditors, commissioning of special audits, approval of Annual Reports and distribution of profit as well as deciding on the merger, division, transformation and/or dissolution of the company.

2. Supervisory Board

The Supervisory Board supervises the activities and management of the company and the operations of the Management Board. The Supervisory Board acts independently and in the best interests of the shareholder and participates in making decisions on the significant activities of the company.

Before the company's reorganisation its Articles of Association prescribed a Supervisory Board composed of up to six members, half of whom were representatives of the Government and half those of the sellers of fuel as established in the LFSA. The new Articles of Association stipulate that at least one member of the Supervisory Board will be elected from the candidates proposed by the organisation representing fuel sellers.

Supervisory Board members are appointed and removed by the Minister of Economic Affairs and Infrastructure. The chairman of the Supervisory Board is elected from the members representing the Government. Differences regarding the establishment of the Supervisory Board of the company are provided in section 14 of the Liquid Fuel Stocks Act. Pursuant to the Articles of Association, a person prohibited from operating within the same field as the company may not be elected a member of the Supervisory Board.

In 2021, the term of office of Supervisory Board members Kristi Talving, Priit Laaniste, Andres Linnas and Rauno Raudsepp expired. On 29 August 2021, the Minister of Economic Affairs as the representative of the owner appointed new Supervisory Board members for a period of three years:

- Kristi Talving - Ministry of Economic Affairs and Communications, Deputy Secretary General for Business and Consumer Environment;
- Viola Murd - Ministry of the Interior, Under-secretary for Rescue, Emergency Services and Crisis Management;
- Indrek Sirp - Government Office, Coordination Director of National Security and Defence;
- Jaan Lepp - businessman, logistics expert;
- Raul Puusepp - Tallinna Kaubamaja Grupp AS, Chairman of the Management Board;
- Mart Raamat - Estonian Oil Association (Eesti Õliühing MTÜ), Chief Executive Officer.

The members of the Supervisory Board elected Kristi Talving the chairman of the Board.

Pursuant to the SAA, the remuneration of the Supervisory Board members of the OSPA amounted to 250 euros per month and that of the chairman to 500 euros per month. After the transformation of the company the General Meeting decided to pay the Chairman of the Supervisory Board 1,000 euros per month and to regular members 500 euros per month. The Supervisory Board members may be paid an additional fee for participating in the activities of any of the bodies of the Supervisory Board. Such bodies are the Audit Committee of two members of whom one is a member of the Supervisory Board, and the Procurement Evaluation Committee consisting of three members of whom one is also a member of the Supervisory Board. As per the Articles of Association of the company, the Supervisory Board members also serve as chairmen of the corresponding committees earning an additional remuneration of 50% of the amount paid to regular Supervisory Board members. In 2021, the remuneration paid to the Supervisory Board members amounted to 23,622 euros in total.

In accordance with the LFSA, the Supervisory Board of the company is obliged to establish an Audit Committee. In 2021 no changes were made to the Audit Committee and it comprised the following two members:

- Priit Laaniste, Chairman of the Audit Committee;
- Rein Vaks, Member of the Audit Committee, Ministry of Economic Affairs and Communications

3. Management Board

The company has a Management Board of two members: Chairman of the Management Board Priit Enok and a regular Management Board Member Priit Ploompuu. The Management Board makes day-to-day management decisions independently without any intervention by the owner or the Supervisory Board. The Management Board makes day-to-day management decisions based on the best interests of the company leaving aside the personal and/or controlling shareholder's interests. The Management Board makes decisions based on the best interest of the sole shareholder and is obliged to ensure the sustainable development of the company in accordance with the functions of the company and the objectives and strategies set by the General Meeting and Supervisory Board.

The Management Board's operations which are beyond the daily economic activities of the company must be approved by the Supervisory Board. The Management Board must ensure that the Supervisory Board is constantly informed of the economic situation of the company and essential matters related to its economic activities.

The Chairman of the Supervisory Board has signed contracts of services with Management Board members establishing their duties and powers as well as the principles of the payment of remuneration and benefits to the Management Board. The amounts of additional remuneration and severance pay due and payable to the Management Board members are established in section 86 of the SAA. Pursuant to the law, the total additional remuneration paid to a Management Board member may not exceed four months' remuneration of the Management Board member. Management Board members may be paid a severance pay equivalent to their three months' remuneration only if and when they are removed from office on the initiative of the Supervisory Board before the expiry of their term of office. In 2021, the remuneration paid to the Management Board members amounted to a total of 136,227 euros.

The Articles of Association of the company stipulates that the following people cannot serve as Management Board members: a shareholder or a member of the managing body of a legal entity which is engaged in the sale or storage of goods included in the list of the state's operation stocks, or a person who is prohibited to act as a management board member or to be engaged in any business by a court decision, or a person who is prohibited to operate in the same field as the company or who is prohibited from being a member of a management board under the law or by a court decision.

For the purposes of the Anti-corruption Act, a Management Board member of the OSPA is deemed an official who is obliged to adhere to certain restrictions on activities as well as to certain procedural restrictions.

4. Disclosure of Information and Reporting

The company regularly discloses information about its management, working principles, composition of liquid fuel stocks, organisation of the state's operation stocks, relevant regulations as well as open and recently ended procurements on its website. The website also includes the company's Articles of Association, annual reports, information concerning stockpiling fees and contract forms both in Estonian and English. Information about procurements is also made available to the market participants through direct mailing.

The company arranges its reporting in accordance with the provisions of the State Assets Act, Liquid Fuel Stocks Act, EU Council directive on minimum stocks and the Articles of Association of the company. Due to the specific nature of the company's operations, the Management Board keeps detailed and constantly updated records on the composition of deposited liquid fuel stocks and presents the required reports to the Ministry of Economic Affairs and Communications and Statistics Estonia. Based on the reports, Statistics Estonia submits summary information on the composition and quantity of liquid fuel stocks to the European Commission. The company also submits an annual report to the European Commission listing the measures taken in order to ensure the availability and inspection of liquid fuel stocks.

For the purpose of preventing a conflict of interests, access to information about the ESPA's procurements is restricted. Under the procedure established by the Supervisory Board, the Management Board members of the company may disclose information and documents concerning tenders placed within the framework of the company's pending or finished procurements only to those Supervisory Board members who do not represent the fuel sellers. As required by the ministerial order entitled "Principles of Arrangement of Procurements for Establishment and Storage of Liquid Fuel Stocks, and General Conditions of Contracts Regarding Liquid Fuel Stocks", the company has formed a Procurement Evaluation Committee which may not include any Supervisory Board members of the company representing fuel sellers.

5. Financial Reports and Audits

Within four months of the end of a financial year, i.e. by 30 April every year, at the latest, the company is obliged to submit an audited annual report which is approved by the Supervisory Board. The Management Board is responsible for the preparation of financial statements, the Auditor and Supervisory Board for auditing the report. If deemed necessary, the auditor will participate in the presentation of the annual report to the Supervisory Board.

By the decision of the holding administrator, KPMG Baltics OÜ was appointed as the auditor of the company's Annual Report 2021. The Supervisory Board has approved the appointment of the auditor and the terms and conditions of the contract for auditing services, including the amount of the fee as well as the scope of the service.

Financial Statements

Balance Sheet

(in euros)

	31/12/2021	31/12/2020	Note
Assets			
Current assets			
Cash	13,490,827	7,543,105	2
Receivables and prepayments	559,292	451,850	3
Inventories	150,678,489	147,996,376	4
Total current assets	**164,728,608**	**155,991,331**	
Total assets	**164,728,608**	**155,991,331**	
Liabilities and equity			
Liabilities			
Current liabilities			
Payables and prepayments	609,839	608,006	7
Targeted financing	5,150,430	0	9
Total current liabilities	**5,760,269**	**608,006**	
Total liabilities	**5,760,269**	**608,006**	
Equity			
Share capital at nominal value	135,505,053	132,851,000	10
Statutory reserve	1,391,944	1,391,944	
Other reserves	17,320,278	18,340,371	
Retained earnings (loss)	3,820,103	3,920,103	
Annual profit (loss)	930,961	-1,120,093	
Total equity	**158,968,339**	**155,383,325**	
Total liabilities and equity	**164,728,608**	**155,991,331**	

Income Statement
(in euros)

	2021	2020	Note
Sales revenue	9,760,596	15,919,896	11
Other operating income	899,959	1,175	12
Goods, raw materials and services	-4,846,446	-12,087,798	
Miscellaneous operating expenses	-4,584,974	-4,612,660	13
Labour expenses	-314,124	-229,418	14
Other operating expenses	-2,201	-2,275	
Operating profit (loss)	**912,810**	**-1,011,080**	
Interest income	9,453	3,809	
Interest expenses	-8	0	
Other financial income and expenses	8,706	-12,822	15
Profit (loss) before income tax	**930,961**	**-1,020,093**	
Income tax	0	-100,000	16
Annual profit (loss)	**930,961**	**-1,120,093**	

Statement of Cash Flows

(in euros)

	2021	2020	Note
Cash flows from operating activities			
Operating profit (loss)	912,810	-1,011,080	
Adjustments			
Other adjustments	-899,570	0	9
Total adjustments	**-899,570**	**0**	9
Changes in receivables and prepayments related to operating activities	-107,210	3,851,308	3
Changes in inventories	-28,060	1,123,859	4
Changes in liabilities and prepayments related to operating activities	1,832	-640,536	7
Inflows from targeted financing	6,050,000	0	9
Total cash flows from operating activities	**5,929,802**	**3,323,551**	
Cash flows from investing activities			
Interest received	9,222	3,310	
Total cash flows from investing activities	**9,222**	**3,310**	
Cash flows from financing activities			
Inflows from targeted financing	-8	0	
Dividends paid	0	-400,000	16
Corporate income tax paid	0	-100,000	16
Other cash flow from financing activities	0	-64	15
Total cash flows from financing activities	**-8**	**-500,064**	
Total cash flows	**5,939,016**	**2,826,797**	
Cash and cash equivalents at beginning of period	7,543,105	4,729,066	
Change in cash and cash equivalents	**5,939,016**	**2,826,797**	2
Effect of exchange rate changes on cash and cash equivalents	8,706	-12,758	15
Cash and cash equivalents at end of period	13,490,827	7,543,105	2

Statement of Changes in Equity
(in euros)

					Total
	Share capital at nominal value	Statutory reserve	Other reserves	Retained earnings (loss)	
31/12/2019	132,851,000	1,307,771	18,094,285	4,650,362	156,903,418
Annual profit (loss)	0	0	0	-1,120,093	-1,120,093
Dividends declared	0	0	0	-400,000	-400,000
Changes in reserves	0	84,173	246,086	-330,259	0
31/12/2020	132,851,000	1,391,944	18,340,371	2,800,010	155,383,325
Annual profit (loss)	0	0	0	930,961	930,961
Issued capital	2,654,053	0	0	0	2,654,053
Changes in reserves	0	0	-1,020,093	1,020,093	0
31/12/2021	135,505,053	1,391,944	17,320,278	4,751,064	158,968,339

Detailed information on share capital is provided in Note 10 and on dividends in Notes 8 and 16.

Other reserves comprise an excess stockpiling fee reserve, a liquid fuel stocks rotation reserve and a cash flow hedge reserve.

The excess stockpiling fee reserve is used to cover future operating expenses. This obligation is prescribed by subsection 10(4) of the Liquid Fuel Stocks Act, which states that if the total amount of the stockpiling fee paid within a calendar year exceeds the actual costs of managing the stocks in that calendar year, the amount received in excess of the costs is taken into account at the next setting of the rate of the stockpiling fee. This means that the excess stockpiling fee cannot be reported in retained earnings which is why it is reported under other reserves as an excess stockpiling fee reserve.

The opening balance as of 31/12/2020 was 2,001,447 euros. Upon approval of the Financial Statements 2020, the excess stockpiling fee reserve was revalued. The reserve was decreased by 861,967 euros. The closing balance as of 31/12/2021 was 1,139,480 euros.

The liquid fuel stocks rotation reserve was established in order to cover any possible future losses arising from the rotation of stocks. The reserve was formed in 2011 as a result of liquid fuel stocks rotation out of the difference between the selling cost and weighted average cost of obsolete stocks.

The opening balance as of 31/12/2020 was 16,338,924 euros. When approving the Financial Statements 2020, the liquid fuel stocks rotation reserve was revalued. It was decreased by 158,126 euros. The closing balance as of 31/12/2021 was 16,180,798 euros.

The effective portion of the change in the fair value of derivative instruments is reflected in the cash flow hedge reserve. The reserve was formed in 2012 when cash flow hedging instruments were put to use.

As of 31/12/2020 and 31/12/2021 no new cash flow hedge reserves were formed.

Notes to Financial Statements

Note 1 Accounting Policies

General Information

The Financial Statements 2021 of Estonian Stockpiling Agency (hereinafter referred to as the “company”) have been prepared in conformity with the accounting principles generally accepted in Estonia. The accounting principles generally accepted in Estonia are based on internationally recognised accounting and reporting principles which are aimed at the general public and whose basic requirements are established in the Accounting Act and are supplemented by the guidelines approved by a regulation of the Minister of Finance. The Estonian Stockpiling Agency as a state-owned company also follows the requirements set out in the General Rules for State Accountancy when preparing its Financial Statements.

The Financial Statements have been prepared using the cost principle, except for the cases described otherwise in the accounting policies below.

The Financial Statements are presented in euros.

Cash and Cash Equivalents

Cash equivalents comprise short-term investments with high liquidity which can be converted into a known amount of cash and in the case of which there is no significant risk of changing market value, including cash in bank accounts and fixed-term cancellable deposits with a term of up to 12 months.

Foreign Currency Transactions and Financial Assets and Liabilities Denominated in Foreign Currency

Transactions denominated in foreign currency are recorded based on the foreign exchange rates of the European Central Bank officially applicable on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into euros on the balance sheet date based on the foreign exchange rates of the European Central Bank applicable on the same date.

Exchange rate profits and losses made as a result of such translation are recognised in the accounting period’s Income Statement, and the foreign exchange rate profits and losses related to suppliers’ and purchasers’ accounts are recognised in the operating income and expenses; other differences arising from foreign exchange rates are recognised under financial income and expenses.

Receivables and Prepayments

All receivables (e.g. trade receivables, accrued income and other current receivables), except receivables acquired for resale and derivative instruments, are generally reported on the Balance Sheet at amortised cost.

The amortised cost of current receivables is generally equal to their nominal value (less possible write-downs) and therefore they are reported on the Balance Sheet in the amount that will probably be collected (reported on an invoice, contract or other source document).

When assessing the probability of collecting receivables, the solvency of debtors is analysed. Circumstances known by the balance sheet date and also circumstances which become evident after the balance sheet date and may affect the collection of receivables, are taken into account when assessing the probability of collecting receivables.

If a receivable has been recorded as doubtful and entered into operating expenses, but later on it becomes evident that its receipt is completely unrealistic, the receivable will be deemed as irrecoverable and is written off the Balance Sheet. No additional expenses are created at that moment. A receivable is irrecoverable if the company does not have any possibility of collecting it (e.g. if the debtor is declared bankrupt and the bankruptcy estate does not comprise enough assets to cover the claim).

If previous assessments of doubtful or irrecoverable receivables later change, they must then be reported in the Income Statement of the period when the reassessment was made and previous periods shall not be adjusted retroactively. Collection of doubtful or irrecoverable receivables is recognised by reducing the expenses of the period when the receivable is collected.

Inventories

The company’s inventories comprise the liquid fuel stocks and personal protective equipment stocks acquired in the course of the company’s operations specified in its Articles of Association.

Stocks means goods that are necessary for resolving an emergency or combating a risk thereof and for ensuring the state’s security of supply, national security and subsistence to the population and that are in the ownership of the stock manager or the acquisition or use of which has been ensured by contracts entered into by the stock manager beforehand.

Liquid fuel stocks:

Pursuant to the Liquid Fuel Stocks Act, the company may stockpile the following energy products: petrol, jet fuel and diesel fuel. Since the company puts the liquid fuel stocks to use only in the events prescribed by the law (mainly in the event of supply difficulties), and taking into account the sales price limitations imposed on the company, we abide by the presumption that the lowest net realisable value of the inventories of the company is not the market price of liquid fuel indicated on the Balance Sheet at the date thereof. Pursuant to internal procedures of the company, inventories are initially recorded at cost which is determined by using the weighted average method of the corresponding fuel type. In order to compare the book value and the hypothetical market price of the liquid fuel stocks of the company, a calculation procedure has been presented in Note 19.

The cost of liquid fuel stocks comprises the purchase expense of the stocks and other costs necessary for bringing the inventories into their present location and condition. Purchase expenses of the stocks include, in addition to the purchase price, the customs duty related to purchasing, other non-refundable taxes and the transportation costs directly related to purchasing.

Based on the special requirement arising from the General Rules for State Accountancy, the non-refundable value-added tax and levy accompanying the acquisition of inventories shall be recognised in expenses and the fuel excise duty accompanying the acquisition of inventories is capitalised in the cost of inventories.

According to the definition of inventories provided in Guideline No. 4 “Inventories” of the Estonian Accounting Standards Board, inventories are assets which are held or produced for sale in the ordinary course of business or are consumed in the production process or upon rendering services.

According to subsection 1(2) of the LFSA, liquid fuel stocks means certain quantities of energy products which are at the disposal or under the control of the Government and which are constituted by using Estonia’s membership in international organisations and by means of reliable and transparent mechanisms based on the solidarity of the Member States of the European Union in order to ensure a high level of security of supply in the Republic of Estonia, to maintain national security, to perform the obligations assumed under international agreements and to guarantee subsistence to the population.

In conformity with the definition provided, liquid fuel stocks are not held for the purpose of the ordinary course of business.

According to the LFSA, the release of the stocks may only be ordered by the Government of the Republic in the event of supply difficulties. A difficulty in supply means a significant and sharp decrease in the supply of energy products to the Member States of the European Union or those of the International Energy Agency.

When they are being rotated, stocks may be sold at the market price, provided that the fuel price risk related to the sale and reconstitution of stocks has been hedged.

The company is entitled to sell liquid fuel stocks to reduce their quantity where that quantity exceeds the mandatory quantity of stocks by more than five per cent. However, according to subsection 17(2) of the LFSA, stocks may be sold only at the market price, but not at a lower price than the average weighted acquisition cost of that energy product. A sale at a price lower than the average weighted acquisition cost is only permitted if authorised by the minister responsible for the area.

When reducing the quantity of liquid fuel stocks, regard must be had to the need to comply with the stockholding obligation for the following years also on the basis of 90 days’ worth of average net imports, provided that no export of the domestically produced energy products takes place.

Personal protective equipment stocks

Personal protective equipment stocks are accounted for using the FIFO method since the stocks have various shelf lives. That is why the stocks are put to use or sold in the order of the expiry of their shelf lives.

As per the Emergency Act, the stocks are sold, when they are replenished or reduced, at the market price, unless the stocks are reduced due to their release.

Property, Plant and Equipment and Intangible Assets

Assets that have a useful life of over one year are reported as property, plant and equipment (PP&E). Assets with a useful life of over one year but cost less than 5,000 euros are recorded as low-value items (inventories) until put to use at which point they are fully expensed.

PP&E are initially recorded at cost comprising the purchase price and the expenses directly related to their acquisition. Thereafter PP&E are reported on the Balance Sheet at cost less accumulated depreciation and possible write-downs due to impairment.

If a PP&E item consists of separable components having different useful lives, these components are registered as separate asset items in the accounts and separate depreciation rates are assigned to them based on their useful lives.

The depreciation of PP&E is calculated based on the straight-line method. The depreciation rates are determined for each PP&E asset item individually depending on its useful life.

The depreciation of an asset is ended when the asset’s final value, i.e. the amount that the company would receive upon disposing the asset today, if the asset were as old and in the same condition as it will presumably be at the end of its useful life, exceeds its book value.

The depreciation methods, rates and final values are reviewed at least at the end of each financial year, and if and when the new estimates differ from the previous ones, the changes are presented as the changes of accounting assessments, i.e. prospectively.

Recognising a PP&E asset is terminated at the disposal of the asset or when the company presumes to gain no more economic benefits from the use or sale of the asset. Gains and losses arising from the termination of the recognition of a PP&E asset is recognised in the Income Statement of the period when the recognition was ended under “Other operating income” or “Other operating expenses”.

Minimal cost of recognition as PP&E 5,000

Leases

The lease transactions where all material risks and rewards related to the ownership of the assets are transferred to the lessee are recorded as finance leases. Other leases are recorded as operating leases.

In the event of an operating lease, the leased asset is recognised on the Balance Sheet by the lessor. Operating lease payments made are recognised as an expense on a straight-line basis over the lease term.

Financial Liabilities

Financial liabilities are initially recognised at cost, i.e. at the fair value of the consideration received for them.

Thereafter the financial liabilities are reported at their adjusted cost.

Financial liabilities and derivative instruments purchased for resale are recognised at their fair value, and changes of the fair value are recognised in the Income Statement.

Interest expenses related to financial liabilities for the period are recognised on an accrual basis under “Financial income and expenses” in the Income Statement.

A financial liability is no longer recognised when it has been settled, cancelled or it has expired.

Provisions and Contingent Liabilities

A provision is recognised on the Balance Sheet if the company has a legal or constructive obligation as a result of events that occurred before the balance sheet date, the settlement of the obligation is probable and the amount of the obligation can be measured reliably.

Covenants, warranties and other obligations that may turn into liabilities in the future under certain conditions, but whose materialisation is less probable than non-materialisation according to the evaluation of the management, have been disclosed as contingent liabilities in the notes to the Financial Statements.

Targeted Financing

The company has been granted both operating subsidies as well as targeted financing for the purpose of covering its operating expenses.

Subsidies show funds received (subsidies received) for which no actual goods or services are provided, and funds granted (subsidies granted or brokered) for which no actual goods or services are received.

Subsidies are reported in accordance with the principles set out in the General Rules for State Accountancy.

- Subsidies are divided into the following types:
- targeted financing - subsidies received and granted for a project-based purpose which is determined along with indicators for monitoring the achievement thereof, time schedule and budget, and in the case of which the subsidiser requests that the recipient of the subsidy provide a detailed report on the use of the funds and repay everything that is left over of the funds granted;
- operating subsidies - subsidies granted and received based on the recipient’s operations set out in its Articles of Association and objectives prescribed by its development documentation.

Operating subsidies are recognised as revenue upon receipt of the funds.

Targeted financing is recognised as revenue in the period in which the corresponding operating expenses are incurred unless the conditions for the targeted financing essentially require repayment or include the risk of non-receipt of the funds. If there is an essential risk of repayment or non-receipt of the funds, the targeted financing is recognised as revenue at the moment such risk is eliminated.

Targeted financing is first recognised on the Balance Sheet upon the receipt of the funds or on the date the receivables, liabilities, income and expenses accompanying the targeted financing are recognised.

If the targeted financing is received, but no expenses have been covered out of the corresponding funds, the funds received are recognised as prepayment. If the expenses related to the receipt of the targeted financing have been incurred and there is no essential risk of non-receipt of the funds, but they have not yet been received, the targeted financing is recognised under expenses and receivables.

Statutory Reserve

Pursuant to the Commercial Code of the Republic of Estonia and the company’s Articles of Association, the company must each year transfer at least 5% of its net profit to the statutory reserve until the reserve amounts at least to 10% of the share capital. The statutory reserve may not be distributed as dividends, but it may be used to cover loss, if loss cannot be covered from available equity. The statutory reserve may also be used to increase the share capital.

Revenue

The company's revenue consists of stockpiling fees paid for the management of liquid fuel stocks. The stockpiling fees are paid by fuel excise duty payers. In case there is no excise duty payer, the payers are those who release the fuel into consumption or those who supply jet fuel, aviation petrol or spirit type jet fuel for air craft refuelling in Estonia. Payment of stockpiling fee is made to the bank account of the stockholder without a prior request for payment no later than by the fifteenth date of each month in an amount corresponding to the volume released for consumption by the payer of stockpiling fee during the previous calendar month and to the current stockpiling fee rate.

Revenue is recognised at the fair value of the consideration received or receivable.

Revenue from the sale of services is recognised upon the rendering of the service.

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

Interest income is recognised on an accrual basis.

Operating subsidies received are recognised as revenue upon receipt of the funds.

Expenses

Expenses are reported in the same period as the related revenue. Expenses which will probably provide economic gains in the coming periods are recorded as assets when they occur and as expenses in the period(s) when they generate revenue (e.g. funds spent on PP&E). Expenses which provide revenue in the reporting period or will not provide any economic gains are reported as expenses when they occur.

The line "Goods, raw materials and services" in the Income Statement includes the expense of selling liquid fuel stocks for the purpose of stock rotation.

Taxation

Corporate income tax due on dividends is recorded as liability and as income tax expense in the Income Statement in the period when the dividends are declared regardless of the period for which the dividends are declared or when the actual payment is made. Dividends paid from retained earnings are taxed at the rate of 20/80 on net dividends disbursed. Since 2019, a lower tax rate of 14% (14/86 on net payments) is applicable on regularly paid dividends.

The maximum possible income tax liability that may accompany the payment of dividends is provided in the Notes to the Financial Statements.

Related Parties

The following are deemed parties related to the company:
- members of the company's executive and senior management and their family members (at least the spouse, partner and child);
- foundations, non-profit associations and business entities which are under the dominant or material influence of the persons listed above either individually or jointly with family members.

Remuneration and material benefits calculated for the executive and senior management are disclosed in the Financial Statements. As to other transactions with related parties, those which do not comply with the law or general requirements of the company's internal documents or with arm's length principles are disclosed in the Financial Statements pursuant to the General Rules for State Accountancy.

Subsequent Events

The Financial Statements reflect all the significant events affecting the evaluation of assets and liabilities, which have become evident between the balance sheet date, i.e. 31 December 2021, and the date on which the Financial Statements were authorised for issue but are related to the reporting or prior periods.

Post-balance sheet events which have not been taken into account when evaluating the assets and liabilities but have a material impact on the results of the next financial year, are disclosed in the Notes to the Financial Statements.

Derivatives and hedging

Derivatives are initially recorded at their fair value as of the date of concluding a derivative contract. Thereafter they are revalued at each balance sheet date to their fair value at that particular moment. The method for recognising gains or losses arising from such revaluation depends on whether the derivative instrument has been specified as a hedge instrument (incl. currency and fuel price SWAP transactions) and if so, then also on the nature of the hedged item.

If the company uses special rules for hedge accounting, then at the conclusion of a transaction the company will document the hedging objectives and strategies, the type of hedging relation, the description of the risk hedged, the hedged item and the hedging instrument. Furthermore, the company will document adherence to the requirement of hedging efficiency and potential sources of inefficiency.

The full fair value of hedge instruments is classified as a non-current asset or liability if the remaining useful life of the hedged item is longer than 12 months, and as a current asset or liability if the remaining useful life of the hedged item is less than 12 months.

Cash flow hedging

Since 2012 the company uses cash flow hedge instruments whose objective is to fixate fuel prices and mitigate the risks of fuel price fluctuation.

The effective portion of changes in the fair value of derivative instruments classified and qualified as cash flow hedges are recorded under equity. Gains or losses related to the ineffective portion are recorded in the Income Statement at the time of the evaluation.

Hedging contracts are concluded to the extent corresponding to the quantities of liquid fuel stocks in rotation.

Amounts arising from the covering of disposal price are considered as part of the purchase amount (inventories) or sales amount (revenue) regardless of whether these were contracts concluded to hedge the price fluctuation or of how many contracts there were.

If a hedge instrument no longer meets the criteria for hedge accounting, the cumulative gain or loss in equity shall remain in equity and will be reflected in the Income Statement upon the final materialisation of the forecast event. However, if the forecast transaction is no longer expected to occur, any gain or loss in equity on the hedging instrument is recognised in the Income Statement as financial income or expense.

Derivative instruments not designated as hedging instruments are recorded at their fair value through the Income Statement. Gains and losses arising from changes in the fair value of such derivative instruments are recognised in the Income Statement as financial income or expense.

Evaluation of hedging efficiency

The Management Board assesses the efficiency of a hedging instrument with open position by comparing changes in the fair values of the hedging instrument and the underlying asset.

If the extent of the hedging instrument is in conformity with the quantity of the item being sold or acquired and if the pricing period as well as the underlying assets for pricing correspond, the anticipated hedging will be deemed efficient.

Hedging efficiency is assessed at the following moments:

- at the conclusion of a hedging transaction;
- on the balance sheet date;
- on the date of materialisation of the hedging transaction.

Note 2 Cash and Cash Equivalents

(in euros)

	31/12/2021	**31/12/2020**
Bank accounts	13,490,827	7,543,105
Total cash and cash equivalents	**13,490,827**	**7,543,105**

Note 3 Receivables and Prepayments

(in euros)

	31/12/2021	Due within 12 months
Trade receivables	550,578	550,578
Accounts receivable	550,578	550,578
Other receivables	1,081	1,081
Interest receivables	729	729
Accrued income	352	352
Prepayments	7,633	7,633
Deferred expenses	7,409	7,409
Other prepayments made	224	224
Total receivables and prepayments	**559,292**	**559,292**
	31/12/2020	**Due within 12 months**
Trade receivables	437,393	437,393
Accounts receivable	437,393	437,393
Other receivables	500	500
Interest receivables	498	498
Accrued income	2	2
Prepayments	13,957	13,957
Deferred expenses	13,955	13,955
Other prepayments made	2	2
Total receivables and prepayments	**451,850**	**451,850**

Note 4 Inventories

(in euros)

	31/12/2021	31/12/2020	Note
Liquid fuel stocks	148,024,436	147,996,376	
Personal protective equipment stocks	2,654,053	0	10
Total inventories	**150,678,489**	**147,996,376**	

Personal protective equipment stocks were established in 2021 using the stocks transferred by the Ministry of the Economic Affairs and Communication by way of a non-monetary contribution to the company's equity.

Food stocks have been established via delegated contracts granting the company a pre-emptive right.

A further overview of the stocks can be found in Note 19.

Note 5 Tax Prepayments and Liabilities
(in euros)

	31/12/2021	31/12/2020
	Tax liabilities	**Tax liabilities**
Value-added tax	51,335	30,138
Personal income tax	5,237	3,051
Income tax on fringe benefits	81	140
Social tax	8,870	5,220
Mandatory funded pension	380	308
Unemployment insurance premiums	306	139
Total tax prepayments and liabilities	**66,209**	**38,996**

Note 6 Operating Lease
(in euros)

Accounting entity as lessee

	2021	2020	Note
Operating lease expense	14,253	14,029	13

As of 31/12/2021 the company has a lease of premises. The lease was extended in 2019 by 5 years with the contract term ending on 28/02/2024; after that date it will become a contract of indefinite duration unless the company expresses a desire to terminate the contract. During the fixed-term period of the lease both the lessor and the lessee have limited rights for premature termination thereof. In the event of the premature termination of the lease, the injured party may demand compensation for damages sustained.

Note 7 Payables and Prepayments
(in euros)

	31/12/2021	Due within 12 months	Note
Trade payables	481,099	481,099	
Employee payables	62,141	62,141	
Tax payables	66,209	66,209	5
Other payables	378	378	
Prepayments received	12	12	
Other prepayments received	12	12	
Total payables and prepayments	**609,839**	**609,839**	
	31/12/2020	**Due within 12 months**	**Note**
Trade payables	529,391	529,391	
Employee payables	37,664	37,664	
Tax payables	38,996	38,996	5
Other payables	1,955	1,955	
Total payables and prepayments	**608,006**	**608,006**	

Note 8 Contingent Liabilities and aAssets

(in euros)

	31/12/2021	31/12/2020
Contingent liabilities		
Distributable dividends	3,810,154	2,249,310
Income tax liability on distributable dividends	940,910	550,700
Cost of delegated fuel stocks	0	282,301
Total contingent liabilities	**4,751,064**	**3,082,311**

In 2020, dividends were paid in an amount of 400,000 euros, which means that distributable dividends in an amount of 133,333 euros are taxable at the rate of 14/86. The rest of distributable dividends amounting to 3,676,820 euros will be taxed at the rate of 20/80.

Retained earnings of the company as of 31/12/2021 amount to 4,751,064 (2020: 2,800,010) euros. The maximum income tax liability that would arise if all of the retained earnings as of the reporting date were distributed as dividends amounts to 940,910 euros (2020: 550,700) euros. Therefore, 3,810,154 (2020: 2,249,310) euros can be disbursed as dividends.

The calculation of the maximum potential income tax liability is based on the prerequisite that the distributable net dividends and the accompanying income tax expense in total cannot exceed the amount of profit distributable as of 31/12/2021.

In 2021, the company stopped storing the delegated stocks of heavy fuel oil after the corresponding amendment was made to the Liquid Fuel Stocks Act.

Note 9 Targeted Financing

(in euros)

	31/12/2020		Received	Repaid	Recorded in Income Statement	Recorded as assets at cost	31/12/2021		Note
	Receivables	Liabilities					Receivables	Liabilities	
Targeted financing for operating expenses									
Ministry of Economic Affairs and Communications - Targeted financing for the establishment and management of operation stocks	0	0	5,200,000	0	49,570	0	0	5,150,430	12
Ministry of Economic Affairs and Communications - Operating subsidies	0	0	850,000	0	850,000	0	0	0	12
Total targeted financing for operating expenses	0	0	6,050,000	0	899,570	0	0	5,150,430	12
Total targeted financing	0	0	6,050,000	0	899,570	0	0	5,150,430	12

The Statement of Cash Flows shows the total of operating subsidies and targeted financing received in the reporting period under "Inflows from targeted financing".

Note 10 Share Capital
(in euros)

	31/12/2021	31/12/2020
Share capital	135,505,053	132,851,000
Number of shares (pcs)	1,355,050	1,328,510
Nominal value of shares	100	100

As of 31/12/2021, the company's share capital amounted to 135,505,053 euros, whereas the company's minimum share capital is 50,000,000 (fifty million) euros and the maximum share capital without changing the Articles of Association can amount to 200,000,000 (two hundred million) euros.

In 2021, the share capital was increased by 2,654,053 euros by way of a non-monetary contribution. The non-monetary contribution was the stock of personal protective equipment (Note 4).

The owner of the Estonian Oil Stockpiling Agency is the Republic of Estonia and the shares are administered by the Ministry of Economic Affairs and Communications.

Note 11 Net Sales
(in euros)

	2021	2020
Net sales by geographical location		
Net sales in European Union		
Estonia	9,760,596	15,812,255
Sweden	0	107,641
Total net sales in European Union	**9,760,596**	**15,919,896**
Total net sales	**9,760,596**	**15,919,896**
Net sales by operating activities		
Liquid fuel stockpiling fees	4,960,842	3,779,458
Sale of fuels	4,799,587	12,140,438
Sale of other goods and services	167	0
Total net sales	**9,760,596**	**15,919,896**

Note 12 Other Operating Income
(in euros)

	2021	2020	Note
Income from targeted financing	899,570	0	9
Profit from exchange rate differences	308	1,175	
Fines, penalties and benefits	81	0	
Total operating income	**899,959**	**1,175**	

Income from targeted financing includes operating subsidies in the amount of 850,000 euros and targeted financing received and recorded as revenue in the amount of 49,570 euros.

Note 13 Miscellaneous Operating Expenses
(in euros)

	2021	2020	Note
Leases	14,253	14,029	6
Energy	**1,862**	**1,034**	
Electricity	1,444	765	
Heating	418	269	
Miscellaneous office expenses	20,847	11,375	
Travel expense	265	2,682	
Training expense	249	397	
State and local taxes	2,733	2,259	
Fuel stockpiling, analysis, control and pumping expense	4,374,549	4,492,103	
Fuel insurance expense	45,334	39,822	
Operation stocks storing and management expense	49,570	0	
Other	75,312	48,959	
Total miscellaneous operating expense	**4,584,974**	**4,612,660**	

Note 14 Labour Expense
(in euros)

	2021	2020
Wage and salary expense	235,813	172,359
Social taxes	78,311	57,059
Total labour expense	**314,124**	**229,418**
Average number of employees in full-time equivalent units	4	3
Average number of employees by types of employment:		
Persons employed under an employment contract	2	1
Members of entity’s managing or supervisory bodies	2	2

Note 15 Other Financial Income and Expenses
(in euros)

	2021	2020
Profit (loss) from exchange rate changes	8,706	-12,758
Other financial expenses	0	-64
Total other financial income and expense	**8,706**	**-12,822**

Note 16 Income Tax
(in euros)

Components of income tax	2021		2020	
	Taxable amount	Income tax	Taxable amount	Income tax
Dividends declared	0	0	400,000	100,000
Estonia	0	0	400,000	100,000
Total	0	0	400,000	100,000

Note 17 Related Parties
(in euros)

Remuneration and other material benefits calculated for executive and senior management		
	2021	**2020**
Remuneration	159,890	144,144

Pursuant to the amendments to the General Rules for State Accountancy (section 491) that entered into force on 24/11/2014, the Financial Statements must, in addition to remuneration and other material benefits calculated for the executive and senior management, disclose information on transactions with related parties, which are not in compliance with the law or general requirements set out in the company's internal documentation or with arm's length principles. There were no such transactions to be disclosed in 2021 and 2020.

In 2021, remuneration paid to the members of the Management and Supervisory Boards amounted to 136,228 (2020: 129,225) euros and 23,622 (2020: 14,919) euros respectively.

The contracts of services of the Management Board members provide for a severance pay amounting to three months' remuneration of the board member if the member is removed from office prematurely at the initiative of the Supervisory Board.

The company is a fully state-owned entity which is represented at the General Meeting by the Minister of Economic Affairs and Infrastructure. The main principles for the formation of the Supervisory Board have been prescribed in section 14 of the LFSA which establishes that the company's Supervisory Board must include the representatives of both the state and the association of the sellers of fuel. The fact that fuel sellers are involved in the activities of the Supervisory Board is considered a specificity of the management of the company.

In the case of Supervisory Board Members who are fuel sellers, there may arise a situation where the corresponding fuel seller has also signed a contract of purchase, sale or deposit of fuel with the company. Furthermore, in the event of difficulties in the supply of liquid fuel, the company must make the stocks available to fuel sellers, incl. those whose representatives may serve as the company's Supervisory Board members.

A more detailed description of the administrative procedures concerning related parties is provided in the Corporate Governance Report above.

Note 18 Subsequent Events

Sale of stocks

On 31 March 2022, an agreement for the storage of 3,500 tonnes of diesel fuel signed with AS NCC&PO will expire. Considering this, the company organised, in December 2021, a procurement for the sale of the diesel fuel being stored. In order to hedge the risk of falling prices, the company signed a derivative agreement with Eesti Energia AS Energiakaubandus on

31 December 2021. The fuel sold was released in February and March 2022 and all settlements have been made by the reporting date.

Russian aggression in Ukraine

On 24 February 2022, the acts of war which Russia started in Ukraine escalated significantly affecting the owner's expectations of the Estonian Stockpiling Agency and increased the public interest in the company's activities.

The pace of moving towards ESPA's objectives set for 2022 has been increased in all the areas of the company's activities and types of stock; in the first quarter, among other things, the percentage of liquid fuel stocks stored in Estonia started to grow, the volume of food stocks maintained under delegated stocks agreements multiplied and medical stocks as a new type of stock was established following the same principles.

The Government of the Republic and ministries have been discussing putting the ESPA in charge of establishing new types of stocks; however, the corresponding binding decisions had not been made by the reporting date. The potentially greatest economic effect on the ESPA would be brought about by the Government's plan to establish a strategic stock of 1 TWh of natural gas which is planned to be financed from a supplementary budget of 2022.

On 15 March 2022, as proposed by the International Energy Agency (IEA), the Government of the Republic decided for the first time to release a portion of the liquid fuel stocks managed by the ESPA. Voluntary and coordinated Russian oil embargo has resulted in a deficit on the global liquid fuel market and caused a sharp rise in oil prices in the first quarter of the year.

The IEA has proposed that the member states release 60 million barrels of their strategic fuel stocks; that is four per cent of the total of 1.5 billion barrels of oil stocks of the states belonging to the IEA. The United States of America have promised to release half of the quantity and the rest of the countries the other half. Pursuant to the distribution plan, Estonia is responsible for 36,000 barrels, i.e. about 5,000 tonnes of oil products. This makes 2% of the ESPA's recognised fuel stocks and corresponds to less than two days' fuel needs based on the consumption in 2021. Pursuant to the law, it is the Government of the Republic that decides on the release of the liquid fuel stocks. The Government has decided the following:

(1) Based on the resolution of the International Energy Agency, to release 5,000 tonnes of diesel fuel stored as state's liquid fuel stocks in order to guarantee supplies on the liquid fuel market.

(2) The anticipated duration of use of the stock is four months.

(3) The stock manager is permitted to sell the fuel, including making a sale proposal on the international fuel market.

(4) The stock manager is required to replenish the released liquid fuel stock as soon as possible.

Considering the global fuel prices as of the reporting date, the release of stock is not anticipated to cause a loss. In order to prevent a situation where countries start to rapidly replenish their released stocks and thus create additional demand on the already tight market, the IEA recommended that the stocks be replenished no sooner than in September and October of this year. The European future diesel fuel transactions in autumn 2022 can be guaranteed price collars at a value higher than the average acquisition price of the corresponding type of fuel stocks of the ESPA.

The global fuel price hikes have significantly increased the realisable value of the liquid fuel stocks of the ESPA. When, at the end of the year, the theoretical market value of the ESPA's recognised liquid fuel was a little over 150 million euros, then based on the Platts price quotations in March 2022, the same calculation shows an increase to a level of 260 million euros. The hypothetical value of the liquid fuel stock has thus risen by about twofold in three months.

It is estimated that, in 2022, the oil market will remain largely uncertain and, depending on the Russian aggression in Ukraine, both the supply of crude oil to the refineries of the European and Baltic Sea regions as well as the supply of finished fuel to final consumers may be disrupted. In order to reduce the effect of potential supply disruptions, the IEA in cooperation with the European Commission is ready to actively interfere and release liquid fuel stocks of countries to keep the market stable.

The indicators of releasing excise fuel for consumption were more volatile than usual in the first quarter of 2022. In February, the volumes of diesel fuel released for free circulation remained below the predicted levels, whereas in March they exceeded the period's average to a significant extent. The ESPA keeps on actively monitoring the market situation in terms of supplying Estonia with liquid fuel by regularly gathering information on the fuel companies' stock reserves of petrol, diesel and jet fuel.

As the stockpiling fee receipts are as planned, the domestic consumption indicators have not considerably affected the activities of the ESPA.