ANNUAL REPORT

Beginning of financial year:	1 January 2022
End of financial year:	31 December 2022

Business name:	AS Eesti Varude Keskus (Estonian Stockpiling Agency)
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MANAGEMENT REPORT 2022

1. The company

The year 2022 was a period of growth for AS Eesti Varude Keskus (Estonian Stockpiling Agency, ESPA) in every respect – the company entered into new lines of activity, expanded the balance sheet and invested in organisational development. The reorganisation and adaptation of AS Eesti Vedelkütusevaru Agentuur (Estonian Oil Stockpiling Agency, OSPA) into a company that manages a comprehensive range of national strategic operating stockpiles and reserves, which began in 2021, continued in 2022. New lines of activity were specified and the principles of creating national stockpiles of an optimal range and quantity in the framework of the mandate given to ESPA were negotiated in cooperation with partners. Advisory councils consisting of market participants representing relevant sectors were set up in the first months of the year.

In addition to maintaining strategic medical and food stockpiles, which the company had been tasked with upon establishment, ESPA was assigned the task of managing the creation, maintenance and release of a natural gas reserve and grain stocks. To ensure the security of supply of natural gas, ESPA was assigned to help create the capacity to receive floating LNG terminals.

Besides creating and managing strategic stocks, ESPA expanded the activities aimed at ensuring the continuity of operations so that strategic stocks could be released regardless of interruptions in electricity, telecommunication or other essential services. To that end, the company renewed stock management contracts, prepared public tenders to purchase services ensuring continuity of operations, and improved its capacity to continue operating during a crisis.

ESPA prepared a management system manual to better organise its operations, and established or updated procedures and guidelines to ensure organisational efficiency and compliance with good corporate governance practices. Quality management is necessary in light of ESPA’s growing team, new lines of activity and diverse work streams to ensure process continuity and control. In 2022, ESPA’s management board increased to three members and the number of staff grew by four.

ESPA's equity more than doubled due to the new lines of activity. The sole shareholder increased ESPA's share capital on four occasions in 2022 and on two more occasions after the reporting date. The increases in share capital were necessary for financing the acquisition of the strategic natural gas reserve and the purchase of infrastructure for floating LNG terminals and an associated port property.

1.1. Owner's expectations

Based on the owner's expectations, ESPA is a company of strategic importance to the state that is responsible for the creation and management of strategic stocks necessary for resolving or preventing an emergency, and ensuring the security of supply, national security and the meeting of the basic needs of the population.

Under the State Assets Act, ESPA is a company with predominantly public purposes. According to the owner's expectations, the Republic of Estonia holds an ownership interest in the company to ensure that strategic operating stocks and reserves are created and maintained in accordance with the Emergency Act and the Liquid Fuel Stocks Act, and that the strategic stocks will be released and the continuity of operations ensured in the event of a supply shortage threatening the functioning of the state.

The owner's expectations include the following strategic objectives:

- Organising the creation, maintenance and replenishment of the strategic operating stocks and reserves of the Republic of Estonia, including the liquid fuel stocks (hereinafter the strategic stocks) in accordance with the Emergency Act and the Liquid Fuel Stocks Act.
- Organising the purchase, sale and storage of strategic stocks.
- Analysing the security of supply and the business continuity of companies in fields relevant to strategic stockpiling.
- Organising the release of strategic stocks in the event of supply difficulties.
- Promoting cooperation between sellers, importers, producers and logistics companies involved in stockpiling as well as relevant international organisations.

1.2. Financial objectives

The Republic of Estonia as the owner expects state-owned companies operating in a free market to be profitable. On evaluating ESPA’s profitability, it is important to note that ESPA's statutory activities are financed in different ways. Under the Emergency Act, the expenses arising from the creation, maintenance and release of national strategic stocks are covered from the state budget or using the funds raised through the sale of the strategic stocks. The Liquid Fuel Stocks Act, on the other hand, provides that purchases of the strategic liquid fuel stocks are financed from the state budget by increasing the share capital of ESPA and using the funds raised through the sale of the strategic stocks. The costs of maintaining strategic liquid fuel stocks are covered with stockpiling fees. ESPA is permitted to collect stockpiling fees only to the extent necessary for covering the costs of maintaining strategic liquid fuel stocks and the excess stockpiling fees cannot be included in retained earnings. Therefore, the owner has not deemed it optimal to set an expected cost of equity for ESPA. When using the funds designed for the replenishment of strategic stocks, the company must operate effectively and maintain the value and ensure the designated use of the strategic stocks.

Subsequent to the reporting date, the sole shareholder has initiated the process of changing both ESPA's financial goals and, more broadly, the owner's expectations to align the company's tasks and objectives with the lines of activity introduced in 2022. The Natural Gas Act and subordinate legislation regulate the creation, management and release of the strategic natural gas reserve. To provide relevant services, the management of LNG infrastructure and organising the reception of floating LNG terminals need to be formalised as the company's new lines of activity

According to the Liquid Fuel Stocks Act, ESPA has the obligation to hedge the fuel price risk associated with the sale and purchase of strategic fuel stocks. ESPA uses cash flow hedging instruments to hedge the exposure of its fuel purchase and sale transactions to variability in prices or foreign exchange rates. The purpose is to fix fuel prices at the time of the transaction and hedge the risk associated with changes in the future price of fuel. In the case of fuel purchases, the risk, without hedging, is that the fuel will have to be purchased at a market price which exceeds the estimated price at the time the procurement contract is signed. Variability in prices puts the performance of the contract for the purchase of strategic fuel stocks at risk because the funds allocated for the purchase of fuel may not be sufficient to complete the transaction. In fuel rotation, the risk, without hedging, is that the fuel will have to be purchased at a market price which exceeds the current price. Variability in prices involves the risk that ESPA will not be able to complete the rotation of the strategic stocks because the funds raised from the sale of fuel may not be sufficient for replacing it.

1.3. ESPA's strategy

ESPA's supervisory board approved the general principles of the company's strategy in 2022. According to those, ESPA's vision is to be the last line of defence for society's security of supply and a leader in business continuity. ESPA's mission is to organise the national security of supply smartly and in cooperation with partners.

The company's values and operating principles are the sustainability of the Republic of Estonia, responsible asset management, meaningful and flexible operation, initiative, and courage to act.

ESPA's directions of strategic development are as follows:

- Ensuring the security of supply needed to respond to crises in ESPA's areas of responsibility, creating and storing strategic stocks and reserves responsibly
- Ensuring the continuity of services provided by ESPA and its partners.
- Existence of clear legislation and regulations for strategic stocks and reserves and the security of supply
- Estonia's population, businesses and institutions value security of supply and contribute to crisis preparedness
- Offering expertise to Estonia's population, businesses and institutions in matters related to strategic stocks and the security of supply
- ESPA is an efficiently operating organisation with an excellent public image that applies the best management practices

1.4. Key financial indicators

	2022	2021
Operating margin % (operating profit / total income x 100)	31.62%	8.56%
Net margin % (net profit / total income x 100)	32.06%	8.73%
Equity ratio % (equity / total assets x 100)	0.97	0.97
Current ratio (current assets / current liabilities)	37.19	28.60
Quick ratio (liquid assets / current liabilities)	2.19	2.44
ROA% (net profit / total average assets x 100)	4.29%	0.58%
ROE% (net profit / average equity x 100)	4.42%	0.59%
Total assets	323,118,872	164,728,608
Equity	314,431,445	158,968,339
Revenue	24,881,966	9,760,596

2. Impact of 2022 on ESPA's activity

Russia's aggression against Ukraine, which was a recurring theme in Estonia, the European Union and globally in 2022, will have a long-term impact on the company's economic activity and development, both directly and through developments in ESPA's areas of operation.

The direct effects for ESPA have been been the introduction of new lines of activity and areas of responsibility as well as balance sheet growth. Russia's aggression against Ukraine has highlighted the need strengthen civil defence alongside military defence capabilities. ESPA has a central role in the management of Estonia's strategic stocks and reserves required to cope with a crisis – the company and its partners have to ensure that people's basic needs for energy, food and healthcare are met in situations where market-based solutions for products or services do not work.

Russia's aggression against Ukraine has provided ESPA and its partner organisations with an opportunity to analyse and gain new knowledge about organising the storage and release of strategic stocks. The biggest change in ESPA's work has been the addition of a military scenario and the need to move from the usual stockpiling logic designed to overcome conventional difficulties in supply to a long-term security of supply model. To this end, ESPA's partner ministries and policy makers, including the Ministry of Agriculture, the Ministry of Social Affairs, and the Ministry of Economic Affairs and Communications, are developing operating models in the fields of energy, food, and healthcare that should help cope with long-term and military crises. ESPA participates in the discussions as a partner that can help implement the policies. In addition, ESPA is an active partner in the process of updating the legal framework for crisis preparedness.

Russia's aggression against Ukraine, which has affected the global economy, has also caused major changes in ESPA's supply chains and increased price volatility. For ESPA, this has meant creating strategic stocks in an environment of supply disruptions and high prices. However, the stockpiling of energy carriers and grain could not be postponed because there was a real risk of supply interruptions.

In terms of stock types, the liquid fuel and natural gas markets were hit the hardest in 2022. The termination of supply contracts following Russia's invasion and the sanctions imposed on Russia forced market players sharing a similar value space to find new sources of supply. This saw the Baltic states and Finland transform from a busy transit corridor for refined liquid fuels from Russia into the last link of the supply chain and a region low consumption. This reduced competition in the wholesale market and inflated product prices. For ESPA, the change will mean fewer participants in liquid fuel rotation tenders. On the other hand, the contraction in transit has enabled ESPA to obtain more liquid fuel storage capacity in Estonian fuel terminals, which the company is using to increase the amount of fuel stored in Estonia.

The situation in the global liquid fuel market was extremely strained in 2022, and for the first time ever, Estonia released some of its strategic liquid fuel stocks. Overall, 15,000 tonnes, that is 6% of the strategic stockpile, was sold in the world market as part of a joint effort led by the International Energy Agency (IEA) to reduce the potential global deficit due to the decrease in the availability of Russian oil products. Estonia's contribution to the total amount of fuel released into the market was symbolic, but it confirmed our solidarity with other like-minded countries. Joint and international release of emergency stockpiles has a much greater impact on balancing the global fuel market deficit than independent action by individual states.

In the European Union, 2022 was a new phase in the reorganisation of the natural gas market. Russia's manipulation of natural gas supplies, which started already in late 2021, continued last year and European countries finally understood the dangers of such energy dependence. The desire to stop buying natural gas from Russia to avoid supporting the war and the explosions at the Nord Stream natural gas pipeline increased countries' decisiveness. These circumstances required filling natural gas storage facilities across Europe last summer and autumn. Given the scarcity of alternative supply options, the price of natural gas surged up to 10 times higher than usual. Due to a mild winter season, a significant fall in natural gas consumption and successful filling of storage facilities, the natural gas market has calmed down and the price of natural gas has fallen to normal levels since the reporting date. It is important to note that the supply channels have changed completely – the natural gas market in the Baltic states and Finland is now mainly supplied via floating LNG terminals located in Lithuania and Finland.

The European natural gas market had a direct impact on the operations of ESPA because in spring 2022 the government of Estonia assigned the company the task of setting up a natural gas reserve. In the summer it was impossible to obtain tenders for sufficient volumes of natural gas in the Estonian market. In the autumn and winter, prices in the natural gas market were so high that although offers were received it was not reasonable to accept them and buy natural gas at an exorbitant price. ESPA fulfilled the task after the reporting date, acquiring 1 TWh of natural gas that is stored in an underground storage facility in Latvia.

ESPA's other areas of activity were also affected by Russia's aggression. For the first time, the government instructed ESPA to create strategic grain stocks. This was due to Russia's blockade of grain exports from Ukraine. Although Estonia produces more grain per year than it consumes, Estonian grain is usually sold out and local storage facilities empty by the end of the summer, which means that in the event of a global grain supply crisis, Estonia might not have enough grain for its food producers. The strategic grain stock should mitigate that risk.

Sanctions on Russia have reshaped pharmaceuticals and medical supplies markets and European manufacturers have been unable to adapt their production capacities to demand. This has had an adverse effect on the creation of ESPA's strategic pharmaceuticals and medical supplies stocks. By the reporting date, ESPA had completed the first public tender and started creating the strategic pharmaceuticals stocks.

On the whole, the war in Ukraine that started in 2022 will continue to cause global market transformations for a very long time. The topics of civil protection, strategic stocks and reserves, and security of supply are increasingly on the agenda in Estonia and the rest of the European Union. This means that ESPA needs to adapt to the new situation but it also creates new opportunities for the development of the company.

3. Operations

3.1. Strategic liquid fuel stocks

ESPA's strategic liquid fuel stocks are equivalent to 90 days' consumption volume as required by law. Bringing liquid fuels to Estonia was a priority in 2022. Due to the war in Ukraine, the government instructed ESPA to increase the volume of fuel stored in Estonia. In less than a year, ESPA increased fuel stocks stored in Estonia from 45 days' to 59 days' consumption volume and will continue to increase them in 2023. Fuel stockpiles were reduced in both Finland and Sweden. As 15,000 tonnes of fuel had been sold in the IEA joint action, the amount of liquid fuel stored in Estonian storage facilities was increased through rotation, fuel sales and purchases. Some of the jet fuel previously stored only abroad was also brought to Estonian storage facilities.

ESPA's strategic liquid fuel stocks are insured and the company carries out regular inspections in order to verify the amount of fuel stored.

Strategic fuel stocks have never been released to consumption in Estonia and the security of supply is well ensured thanks to the responsible business practices of local fuel suppliers. In addition to ESPA's strategic stocks, our fuel suppliers routinely store a month's supply of commercial motor gasoline and diesel fuel on average.

3.2. Strategic natural gas reserve

In 2022, the European Union adopted a regulation requiring the member states that do not have the necessary natural gas storage facilities on their territory to store at least the equivalent of 15% of their annual natural gas consumption in terminals located in other member states. In spring 2022, the government assigned ESPA the task of creating a strategic natural gas reserve of up to 1 TWh. ESPA carried out five public procurements in 2022, creating a strategic natural gas reserve of 650 GWh by the end of 2022. Through an additional tender organised after the reporting date, the reserve has been increased to 1 TWh. The natural gas is stored in an underground storage facility in Latvia. The strategic reserve accounts for almost a quarter of Estonia's annual natural gas consumption, which is significantly above the minimum level agreed in the European Union.

3.3. Strategic pharmaceuticals and medical supplies stocks

ESPA manages various strategic pharmaceuticals and medical supplies stocks, which include the stocks of personal protective equipment for hospitals, ambulances and social welfare institutions in an amount equivalent to peak monthly consumption during a major outbreak of an infection. The Ministry of Finance created the stocks in the early months of the COVID-19 crisis and transferred them to ESPA in autumn 2021. Based on the input from the Health Board, ESPA has replenished and renewed the stocks of personal protective equipment, including the delegated stocks of relevant items. The renewal of the strategic stocks of personal protective equipment has continued after the reporting date to ensure that the range and quantities of the stocks meet the task assigned.

In 2022, ESPA started to build strategic pharmaceuticals stocks to increase security of supply and mitigate the risks of possible long-term supply disruptions. The list of pharmaceuticals prepared in cooperation with partner organisations and market participants was approved by the Ministry of Social Affairs last autumn. This allowed ESPA to start procuring pharmaceuticals. The target is to set up the strategic stocks by autumn 2023 at the latest. ESPA will set up the pharmaceuticals stocks based on active pharmaceutical ingredients. They will comprise around 200 of the most essential non-prescription and prescription drugs sold in retail pharmacies (in terms of consumption volume).

Strategic pharmaceuticals stocks are maintained under delegated stockpiling agreements signed with pharmaceuticals wholesalers that have undertaken to create, store and continuously renew additional reserves of pharmaceuticals.

3.4. Strategic food stocks

In late 2021, the Ministry of Rural Affairs transferred the task of creating and managing the state's strategic food stocks to ESPA. Creating strategic stocks of ready-to-eat foods started already in the early 2000s and they are maintained on the assumption that the amount of calories in the stockpiled food should be sufficient to meet the nutritional needs of the largest possible number of people in various crises.

Strategic stocks of ready-to-eat foods are based on delegated stockpiling agreements ESPA has signed with Estonian companies that have accepted the obligation to store agreed quantities of food and beverages at all times and to keep them fresh. In 2022, ESPA more than doubled the volume of strategic ready-to-eat foods stocks. The expanded product range allows for a more flexible response in various crises.

The war in Ukraine caused a surge in the world market price of grain and the threat of a global food crisis increased. The government decided to secure the supply of grain to the Estonian food industry in the event of a crisis. In autumn 2022, ESPA organised a public tender for the creation of a grain reserve and starting from January 2023, after a gap of a little less than 20 years, Estonia once again has strategic grain stocks. There is grain for human consumption in an amount equivalent to two months' domestic grain consumption. The reserve of wheat for human consumption has been created in the form of delegated stocks – ESPA reimburses the partners for the costs of storing the grain but does not purchase the grain they store.

Estonia's food self-sufficiency is generally good. Our production facilities, wholesale warehouses and retail stores have inventories of the most commonly consumed food groups in quantities equivalent to several months' normal consumption. The volume of grain for human consumption grown in Estonia exceeds domestic consumption several times.

3.5. Continuity of operations and logistics

The availability of reserves depends on the availability of the services provided by companies and the reliability of the supply chains. ESPA is responsible for monitoring and improving business continuity in the relevant sectors in cooperation with major producers, warehouse operators, service providers, logistics companies and other partners. The storage and delegated stockpiling agreements ESPA signs with partners impose business continuity requirements according to which the partners must ensure the release of strategic stocks and reserves even when their main services are interrupted. In addition, ESPA has developed a concept for managing the logistics of strategic stocks and organised a public tender for finding a logistics partner after the reporting date. In order to ensure the uninterrupted release of strategic stocks, ESPA prepared in 2022 and organised after the reporting date a tender for the purchase of generators. The company has also improved the availability of liquid fuel in emergency situations.

In order to ensure the security of natural gas supply in Estonia, the government entrusted ESPA with the task of contributing to the development of LNG reception capacity in Estonia. In spring 2022, as part of a joint initiative between Estonia and Finland, the natural gas transmission system operator Elering AS and privately owned Pakrineeme Sadama OÜ launched the construction of the natural gas and port infrastructure necessary for the reception of LNG in Paldiski. The floating terminal was relocated to Finland, but ESPA was to fulfil the government's promise to purchase the mooring quay built for the reception of a floating terminal in Pakrineeme from private operators if the operators so wished. Negotiations took place in the second half of 2022. The purchase and sale of the quay, the associated infrastructure and the port property as well as the necessary analyses took place after the reporting date.

EVENTS AFTER THE REPORTING PERIOD

In January 2023, ESPA signed an agreement to purchase 350 GWh of natural gas.

In January, ESPA successfully concluded a tender for the purchase of 350 GWh of natural gas and thus fulfilled the task assigned by the government to create a strategic natural gas reserve of 1 TWh for Estonia. In order to finance the procurement, the government decided on 5 January 2023 to increase the share capital of ESPA by 30 million euros. The average acquisition price of the 1 TWh natural gas reserve was 157 euros per MWh. The reserve created by ESPA will only be released in the event of supply difficulties and with the approval of the government. In accordance with the Natural Gas Act and the Emergency Act, ESPA will sell the natural gas only in an emergency and at the acquisition price.

In March 2023, ESPA fulfilled the task of acquiring an LNG loading quay in Paldiski, which was assigned by the government in November 2022.

Following the reporting date, the sole shareholder of ESPA increased the company's share capital by 38 million euros to finance the purchase of an LNG loading quay in Paldiski as well as associated infrastructure and port property. From the point of view of the sole shareholder, the purpose the transaction is to create the capacity to deliver and receive LNG in Estonia, and thus improve the security of the supply of natural gas and reduce dependence on other countries.

On 10 March 2023, ESPA and Pakrineeme Sadama OÜ signed an agreement on the purchase and sale of the Pakrineeme port property. The total value of the transaction, excluding VAT, was 31.5 million euros, including 30 million for the quay and 1.5 million for the port property. ESPA has to organise the operation of the port in conformity with international standards and, depending on the market situation, generate income from port services.

CORPORATE GOVERNANCE REPORT

The Estonian Stockpiling Agency has undertaken to observe the principles of good corporate governance in the management of the company and to describe the application of the principles in its corporate governance report, which is part of the annual report. The corporate governance report is available on the company's website at www.espa.ee/en in the section 'Annual reports'.

In applying the principles of good corporate governance, ESPA observes the requirements of the State Assets Act, the Corporate Governance Recommendations promulgated by the Estonian Financial Supervision and Resolution Authority (CGR) and, due to nature of the company's tasks, also the principles set out in the Liquid Fuel Stocks Act, the Natural Gas Act, and the Emergency Act.

ESPA has set up an audit committee and uses the services of an internal auditor in order to ensure proper risk management and internal control. Due to the organisation of work, the company has not considered reasonable to create the position of in-house internal auditor.

The task of the audit committee, set up to address matters concerning supervision and oversight of the company, is to advise the supervisory board in matters related to risk management, internal control and financial reporting. The management board has prepared the internal rules and regulations, established the procedures and created the reporting system required for proper risk management and internal control.

The company is managed somewhat differently than described in the CGR. The provisions of the CGR, which ESPA does not comply with, mainly concern the procedure for holding the company's general meetings and the special features of the appointment of the supervisory board members that arise from the Liquid Fuel Stocks Act.

The Estonian Stockpiling Agency (ESPA) has developed, documented, and implemented a management system that complies with the requirements of ISO 9001:2015.

1. Governance

The company's sole shareholder is the state that is represented at the general meeting by the Minister of Economic Affairs and Infrastructure. This means that the exercise of issuers' rights as described in the CGR is ensured, in all material respects, and the rules for equal treatment of shareholders, which are designed for companies with a larger number of shareholders, are not applicable.

Companies under the administration of the Ministry of Economic Affairs and Communications are managed using the rules of procedure for general meetings established for companies in which the state is the majority shareholder. The requirements set out in the rules of procedure supplement the principles of governance of state-owned companies set out in the State Assets Act. For example, the rules of procedure regulate:

- the powers of the general meeting
- the procedures for chairing, conducting and attending general meetings
- the requirements to the calling, agenda, minute-taking and draft decisions of general meetings
- the procedure for making, drafting, and disclosing the decisions of general meetings.

The general meetings has the power to amend the articles of association, increase and reduce the share capital, elect and remove the supervisory board members, elect the auditors, commission special audits, approve the annual reports and the allocation of profits, and decide the merger, division, transformation and/or dissolution of the company.

2. Supervisory board

The supervisory board supervises the operation and management of the company as well as the activities of the management board. The supervisory board acts independently and in the best interests of the shareholder, and participates in the adoption of significant decisions related to the operation of the company.

Under the articles of association, the company has up to six supervisory board members who are elected for a three-year term. Half of them represent the state and half of them represent companies. The Minister of Economic Affairs and Infrastructure, who represents the sole shareholder at general meetings, appoints and removes the members of the supervisory board. The chair of the supervisory board is elected from among the members representing the state. Consistent with section 14 of the Liquid Fuel Stocks Act, at least one member of the supervisory board must be elected from among the candidates proposed by the organisation representing fuel suppliers.

In 2022, the Minister of Economic Affairs and Infrastructure that represents the owner decided to make the following changes to the company's supervisory board:

- to remove Kristi Talving from the supervisory board as of 1 June 2022
- to elect Timo Tatar as the chair of the supervisory board for a term of three years
- to remove Indrek Sirp from the supervisory board as of 26 July 2022
- to elect Erkki Tori as a member of the supervisory board for a term of three years.

Following the changes, the composition of the company's supervisory board is as follows:

- Timo Tatar – Deputy Secretary General for Energy and Mineral Resources at the Ministry of Economic Affairs and Communications,
- Erkki Tori – Director for National Security and Defence Coordination Unit at the Government Office
- Viola Murd – Undersecretary for Rescue, Emergency Services and Crisis Management at the Ministry of the Interior
- Jaan Lepp – entrepreneur, logistics expert
- Raul Puusepp – Chairman of the Management Board of Tallinna Kaubamaja Grupp AS
- Mart Raamat – Chief Executive Officer of the Estonian Oil Association,

The general meeting has decided that the remuneration of the chair of the supervisory board is 1,000 euros per month and the remuneration of a supervisory board member is 500 euros per month. The supervisory board members may receive additional remuneration for their participation in the activities of bodies set up by the supervisory board, such as the audit committee and the procurement evaluation committee. In 2022, the total remuneration of the members of the supervisory board amounted to 40,595 euros.

In accordance with the articles of association, the supervisory board sets up the company's audit committee. In 2022, the supervisory board decided that the audit committee should have three members and appointed Jaan Lepp to the committee as a representative of the supervisory board. Thus, the composition of the audit committee is as follows:

- Priit Laaniste – Chair of the Audit Committee
- Rein Vaks – Head of the Energy Market Department at the Ministry of Economic Affairs and Communications
- Jaan Lepp – Member of the Supervisory Board of the Estonian Stockpiling Agency,

3. Management board

The company has a three-member management board consisting of the chairman Ando Leppiman and the management board members Priit Enok and Priit Ploompuu.

The company's articles of association state that the following people cannot serve on the company's management board: shareholders or members of the governing bodies of legal entities engaged in the sale or storage of the groups of goods that are on the national strategic stocks list; people who have been prohibited from serving on management boards or engaging in any kind of business by the court; and people who are prohibited from operating in the same field as the company or from serving on management boards under the law or a decision made by the court.

For the purposes of the Anti-Corruption Act, the status of ESPA's management board members is equal to that of officials who are obliged to adhere to certain restrictions on their activities and to certain procedural restrictions. At the meeting held on 14 December 2022, the supervisory board decided to propose to the general meeting that, in accordance with points 13 and 15 of section 13 (1) of the Anti-Corruption Act, ESPA's management board members should be required to submit declarations of economic interests starting from 2023.

In early 2022, the supervisory board decided to hold a competition for the position of the chair of the management board due to the expiry of Priit Enok's term of office. The supervisory board decided to offer Ando Leppiman the position of the chair and to ask Priit Enok to continue working as a management board member. The supervisory board signed a five-year contract with Ando Leppiman and a four-year contract with Priit Enok. The commencement date of both service contracts was 9 May 2022. Following the competition, the supervisory board also decided to make an offer to Priit Ploompuu to continue working as a management board member. The supervisory board concluded a four-year contract with Priit Ploompuu, effective from 11 May 2022. The contracts outline the responsibilities and powers of the management board members as well as the principles underlying their remuneration and benefits. The limits of the additional remuneration and severance pay of the management board members are set out in section 86 of the State Assets Act. According to the law, the total amount of additional remuneration paid to a management board member may not exceed the management board member's four months' remuneration. The management board members may be paid severance pay equivalent to their three months' remuneration only when they are removed from office on the initiative of the supervisory board before the expiry of their term of office. In 2022, the total remuneration of the management board members amounted to 230,473 euros.

The management board makes day-to-day management decisions independently without any interference from the owner or the supervisory board. The management board makes management decisions in the best interests of the company, disregarding any personal interests and/or the interests of any controlling party. The management board is required to ensure the sustainable development of the company in accordance with the company's responsibilities as well as the objectives and strategies formulated by the general meeting and the supervisory board. The supervisory board must approve the operations of the management board that go beyond the scope of the company's ordinary economic activities. The management board must ensure that it keeps the supervisory board continuously informed of the company's financial position and all essential matters related to its economic activities.

4. Disclosure of information and reporting

The company regularly discloses on its website information about its management, operating principles, the organisation of the national strategic liquid fuel stocks, natural gas reserve, and operating stocks and reserves, relevant regulations, and procurements. The company's articles of association, annual reports, quarterly reports, information concerning stockpiling fees and contract forms in Estonian and English are also available on the website. Information about procurements is additionally made available to the market participants by direct mail.

The company arranges its reporting in accordance with the provisions of the State Assets Act, the Liquid Fuel Stocks Act, the Natural Gas Act, the Emergency Act, the Public Information Act, the EU Council directive on the minimum stock of crude oil and/or petroleum products, and the articles of association of ESPA. Due to the specific nature of the company's operations, the management board keeps detailed and constantly updated records on the composition of the acquired and stored strategic stocks and submits the required reports to the Ministry of Economic Affairs and Communications. ESPA also sends reports on the strategic liquid fuel stocks to Statistics Estonia. Based on the reports, Statistics Estonia submits summary information about the composition and quantity of the strategic liquid fuel stocks to the European Commission.

The company submits an annual report to the European Commission, disclosing the measures taken to ensure the availability and control of the strategic liquid fuel stocks.

Under the Emergency Act, the company is required to submit information about the composition, quantity, expiry dates, locations, and owners of the strategic stocks under its control to the Ministry of Economic Affairs and Communications twice a year.

5. Financial reporting and auditing

The company has to submit an annual report, which has been audited and approved by the supervisory board, within four months after the end of a financial year, that is by 30 April every year, at the latest. The preparation of financial statements is the responsibility of the management report. Checking the annual report is the responsibility of the auditor and the supervisory board. If necessary, the auditor attends the presentation of the annual report to the supervisory board.

In 2022, the company organised a public competition for the appointment of an auditor of the annual financial statements and management reports for FY 2022, 2023, and 2024. Based on the decision of the general meeting, the company concluded a contract for the provision of audit services with KPMG Baltics OÜ. The supervisory board and the audit committee approved the terms and conditions of the contract for audit services, including the fee and the scope of the service.

Annual financial statements

Balance sheet

(In euros)

As at 31 December	2022	2021	Note
Assets			
Current assets			
Cash and cash equivalents	18,307,604	13,490,827	2
Receivables and prepayments	747,335	559,292	3
Inventories	304,007,277	150,678,489	4
Total current assets	**323,062,216**	**164,728,608**	
Non-current assets			
Property, plant and equipment	56,656	0	6
Total non-current assets	**56,656**	**0**	
Total assets	**323,118,872**	**164,728,608**	
Liabilities and equity			
Liabilities			
Current liabilities			
Payables and advances received	5,154,567	609,839	5, 8
Government grants	3,532,860	5,150,430	10
Total current liabilities	**8,687,427**	**5,760,269**	
Total liabilities	**8,687,427**	**5,760,269**	
Equity			
Share capital at par value	220,991,600	135,505,053	11
Unregistered share capital	34,870,500	0	11
Share premium	24,642,953	0	11
Statutory capital reserve	1,438,492	1,391,944	
Other reserves	17,501,178	17,320,278	
Retained earnings (prior periods)	4,523,616	3,820,103	
Profit for the period	10,463,106	930,961	
Total equity	**314,431,445**	**158,968,339**	
Total liabilities and equity	**323,118,872**	**164,728,608**	

Income statement
(In euros)

	2022	2021	Note
Revenue	24,881,966	9,760,596	12
Other income	7,741,058	899,959	13
Cost of goods, materials and services	-15,920,150	-4,846,446	
Other operating expenses	-5,587,031	-4,584,974	14
Personnel expenses	-698,826	-314,124	15
Other expenses	-97,375	-2,201	16
Operating profit	**10,319,642**	**912,810**	
Interest income	25,323	9,453	
Interest expense	-9	-8	
Other finance income and costs	118,150	8,706	17
Profit before income tax	**10,463,106**	**930,961**	
Profit for the period	**10,463,106**	**930,961**	

Statement of cash flows

(In euros)

	2022	2021	Note
Cash flows from operating activities			
Operating profit	10,319,642	912,810	
Adjustments for			
Other adjustments	-7,667,570	-899,570	10
Total adjustments	**-7,667,570**	**-899,570**	
Change in receivables and prepayments	-175,889	-107,210	3
Change in inventories	-153,328,788	-28,060	4
Change in payables and advances received	4,544,728	1,832	8
Proceeds from government grants	6,050,000	6,050,000	10
Net cash used in/from operating activities	**-140,257,877**	**5,929,802**	
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment and intangible assets	-56,656	0	6
Interest received	13,169	9,222	
Net cash used in/from investing activities	**-43,487**	**9,222**	
Cash flows from financing activities			
Interest paid	-9	-8	
Proceeds from issue of shares	145,000,000	0	11
Other cash outflow from financing activities	-228,260	0	17
Net cash from/used in financing activities	**144,771,731**	**-8**	
Net cash flow	**4,470,367**	**5,939,016**	
Cash and cash equivalents at beginning of period	13,490,827	7,543,105	
Increase in cash and cash equivalents	**4,470,367**	**5,939,016**	
Effect of movements in foreign exchange rates	346,410	8,706	17
Cash and cash equivalents at end of period	18,307,604	13,490,827	2

Statement of changes in equity

(In euros)

							Total
	Share capital at par value	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	
As at 31 December 2020	132,851,000	0	0	1,391,944	18,340,371	2,800,010	155,383,325
Profit for the period	0	0	0	0	0	930,961	930,961
Issue of share capital	2,654,053	0	0	0	0	0	2,654,053
Changes in reserves	0	0	0	0	-1,020,093	1,020,093	0
As at 31 December 2021	135,505,053	0	0	1,391,944	17,320,278	4,751,064	158,968,339
Profit for the period	0	0	0	0	0	10,463,106	10,463,106
Issue of share capital	85,486,547	34,870,500	24,642,953	0	0	0	145,000,000
Changes in reserves	0	0	0	46,548	180,900	-227,448	0
As at 31 December 2022	220,991,600	34,870,500	24,642,953	1,438,492	17,501,178	14,986,722	314,431,445

Further information on share capital is provided in note 11 and on dividends in note 9.

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 operating expenses in subsequent periods. The 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 during 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. The excess stockpiling fee cannot be included in retained earnings, which is why it is reported within other reserves as an excess stockpiling fee reserve.
The opening balance as at 31 December 2021 was 1,139,480 euros. On the approval of the financial statements for 2021, the excess stockpiling fee reserve was reviewed and increased by 227,759 euros. The closing balance as at 31 December 2022 was 1,367,239 euros.

The liquid fuel stocks rotation reserve has been recognised to cover possible future losses from the rotation of stocks. The reserve was set up in 2011 using the difference that resulted from liquid fuel stock rotation between the selling cost and weighted average cost of older stocks. The opening balance as at 31 December 2021 was 16,180,798 euros. On the approval of the financial statements for 2021, the liquid fuel stocks rotation reserve was reviewed and reduced by 46,859 euros. The closing balance as at 31 December 2022 was 16,133,939 euros.

Notes to the annual financial statements

Note 1 Accounting policies

General information

The financial statements 2022 of AS Eesti Varude Keskus (Estonian Stockpiling Agency or the company) have been prepared in accordance with the Estonian Financial Reporting Standard. The Estonian Financial Reporting Standard is a set of requirements for general purpose financial statements, which is based on internationally recognised accounting and reporting principles. The main requirements of the Estonian Financial Reporting Standard are set out in the Estonian Accounting Act and further guidance is provided in the guidelines approved by relevant regulations issued by the Minister of Finance. In preparing its financial statements, the Estonian Stockpiling Agency as a state-owned company also follows the requirements of the Public Sector Financial Accounting and Reporting Guidelines.

The financial statements have been prepared on the historical cost basis, unless described otherwise in these accounting policies.

The financial statements are presented in euros.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term highly liquid investments which are readily convertible into known amounts of cash and not subject to a significant risk of changes in market value, including cash in current accounts and cancellable term deposits with maturities of up to 12 months.

Foreign currency transactions and financial assets and liabilities denominated in foreign currency

Transactions denominated in a foreign currency are recorded by applying the foreign exchange rates of the European Central Bank of the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in a foreign currency are translated into euros using the foreign exchange rates of the European Central Bank at that date.

Exchange gains and losses arising on translation are recognised in the income statement of the period. Exchange gains and losses on transactions with customers and suppliers are recognised in other income and other expenses, respectively, and other exchange differences are recognised in finance income and costs.

Receivables and prepayments

All receivables (e.g. trade receivables, accrued income and other current receivables), except receivables acquired for resale and derivative instruments, are usually measured at amortised cost.

The amortised cost of current receivables is generally equal to their nominal value (less any impairment losses). Therefore, current receivables are measured in amounts that are expected to be collectible (e.g. in the amount recorded in an invoice, contract or other source document).

The collectibility of a receivable is assessed by analysing the debtor’s solvency. Receivables are measured by taking into account the circumstances that were known at the reporting date as well as the circumstances affecting the collectibility of receivables that became known after the reporting date but before the financial statements were authorised for issue.

When it appears that the collection of a receivable which has been considered doubtful (impaired) and charged to operating expenses is impracticable, the receivable is classified as uncollectible and written off the balance sheet. This does not cause any additional expenses. A receivable is considered to be uncollectible when the company does not have any means to collect it (e.g. if the debtor has been declared bankrupt and the assets of bankrupt’s estate are not sufficient to cover the receivable).

When a previous assessment regarding the doubtful or uncollectible nature of a receivable subsequently changes, the change is recognised in the income statement of the period in which the estimate changes and earlier periods are not retrospectively adjusted. The collection of doubtful or uncollectible receivables is recognised by reducing the expenses of the period in which the receivable is collected.

Inventories

The company’s inventories comprise the stockpiles, including liquid fuel stocks, strategic gas reserves and personal protective equipment stocks, acquired in the course of the company’s statutory activities.

A stockpile comprises the goods required to resolve or prevent emergency situations and to ensure the state’s security of supply, national security, and the meeting of the basic needs of the population. The goods may be owned by the company or their acquisition or use may be ensured by previously signed contracts.

All inventories are initially recognised at cost, which comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

The costs of purchase of inventories comprise the purchase price, customs duties and other non-refundable taxes, and transport and handling costs directly attributable to the acquisition of the inventories. Consistent with the Public Sector Financial Accounting and Reporting Guidelines, the non-refundable value added tax and levies associated with the acquisition of inventories are recognised as an expenses while the fuel excise duty associated with the acquisition of inventories is capitalised as part of the cost of the inventories.

Liquid fuel stocks

Consistent with the Liquid Fuel Stocks Act, the company may create the stocks of the following energy products: motor gasoline, jet fuel and diesel fuel.

According to subsection 1(2) of the Liquid Fuel Stocks Act, liquid fuel stocks are specified quantities of energy products at the disposal or under the control of the state, created to ensure a high level of security of supply, to maintain national security, to perform the obligations assumed under international agreements and to guarantee the meeting of the basic needs of the population in the country using reliable and transparent solidarity-based mechanisms of international organisations and the EU member states.

According to the Liquid Fuel Stocks Act, the release of the stocks may only be ordered by the government of Estonia in the event of difficulties in supply. 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 the International Energy Agency.

When stocks are rotated, they may be sold at the market price and on condition that the price risk of the sale and re-acquisition of the stocks has been hedged.

The company may sell liquid fuel stocks to reduce their quantity when the existing quantity exceeds the mandatory quantity by more than 5%. However, according to subsection 17(2) of the Liquid Fuel Stocks Act, stocks may only be sold at the market price and the market price may not be lower than the average weighted acquisition cost of the relevant energy product. A sale at a price below 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, the company must make sure that it complies with the stockholding obligation for the following years also on the basis of 90 days’ average net imports, provided that there is no export of domestically produced energy products.

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

In view of the above and the company’s responsibility to create and manage the liquid fuel stocks of the Republic of Estonia and to organise their replenishment in accordance with the Emergency Act and the Liquid Fuel Stocks Act, the company does not measure liquid fuel stocks as at the reporting date at the lower of cost and net realisable value based on the market prices of liquid fuels at the reporting date. Inventories are measured and recognised as expenses based on the weighted average cost formula.

Personal protective equipment stocks

Personal protective equipment stocks are accounted for using the FIFO formula because the stocks have different expiry dates. Therefore, the stocks are used or sold in the order of their expiry dates. After initial recognition, personal protective equipment stocks are measured in the balance sheet at the lower of cost and net realisable value.

In accordance with the Emergency Act, when the stocks are replenished or reduced, they are sold at their market price, unless the reduction results from release.

Strategic gas reserve

One of the company’s responsibilities is to create and manage the strategic gas reserve of the Republic of Estonia and to organise its replenishment in accordance with the Emergency Act. Therefore, as is the case with liquid fuel stocks, the strategic gas reserve is not held for sale in the ordinary course of business and it is not measured at the reporting date at the lower of cost and net realisable value based on the market price.

In accordance with the Emergency Act, when the reserve is replenished or reduced, it is sold at the market price, unless the reduction results from release.

Property, plant and equipment and intangible assets

Tangible assets that have a useful life of over one year are recognised as items of property, plant and equipment. Assets that have a useful life of over one year but cost less than 10,000 euros are recognised as items of immaterial value (inventories) until they are implemented at which point they are recognised as an expense in full.

At initial recognition, items of property, plant and equipment are measured at cost, which comprises their purchase price and any directly attributable costs of acquisition. Thereafter, items of property, plant and equipment are measured at cost less any accumulated depreciation and any impairment losses.

If an item of property, plant and equipment consists of separately identifiable components that have different useful lives, the components are recognised as separate assets and assigned depreciation rates that correspond to their useful lives.

Items of property, plant and equipment are depreciated using the straight-line method. Each item of property, plant and equipment is assigned a depreciation rate based on its useful life.

Depreciation of an asset ceases when the asset's residual value, i.e. the amount that would be currently obtained from the disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life, exceeds its carrying amount.

Depreciation methods, depreciation rates and residual values are reviewed at least at the end of each financial year, and if new estimates differ from the previous ones, the changes are accounted for as changes in accounting estimates, i.e. prospectively.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses arising from the derecognition of items of property, plant and equipment are recognised in the income statement in the period in which the item is derecognised within other income and other expenses, respectively.

Expenditures on the improvement, repair and maintenance of assets held under operating leases that are not covered by the leases, are recognised as acquisitions of property, plant and equipment, provided they meet the definition of property, plant and equipment. As the lessor is not a public sector entity, the lessee depreciates the underlying item of property, plant and equipment to expenses over the shorter of the lease term and the estimated useful life of the item.

Threshold for recognising assets as items of property, plant and equipment 10,000 euros

Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. An operating lease is a lease other than a finance lease.

In the case of an operating lease, the leased asset is recognised in the balance sheet of the lessor. Operating lease payments made are recognised as an expense on a straight-line basis over the lease term.

Financial liabilities

At initial recognition, financial liabilities are measured at cost, being the fair value of the consideration received for them. After initial recognition, financial liabilities are measured at their amortised cost.

Financial liabilities and derivative instruments acquired for resale are recognised at their fair value and the changes of their fair value are recognised in the income statement.

Interest expenses on financial liabilities are recognised on an accrual basis within finance income and costs in the income statement.

A financial liability is removed from the balance sheet when it is discharged or cancelled or expires.

Provisions and contingent liabilities

A provision is a liability that is recognised when the company has a present legal or constructive obligation as a result of a past obligating event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be measured reliably.

Promises, guarantees and other obligations that may transform into liabilities in certain circumstances, but whose realisation is less probable than non-realisation according to management's estimates, are disclosed as contingent liabilities in the notes to the financial statements.

Government grants

The company has received both operational funding grants (operational funding) as well as grants related to income (i.e. grants for covering operating expenses).

Grants comprise resources received (grants received) through non-exchange transactions, i.e. without directly giving goods or services in exchange, and resources transferred (grants provided or passed on as an intermediary) through non-exchange transactions, i.e. without directly receiving goods or services in exchange.

Grants are accounted for in accordance with the principles set out in the Public Sector Financial Accounting and Reporting Guidelines.

Grants are classified into:

- government grants (hereafter 'grants) – grants received and provided on a project basis for particular purposes that have a specified goal along with milestones for monitoring the achievement of the goal, a timeframe, and a monetary budget and where the provider of the grant (the donor) requires from the recipient (the beneficiary) detailed reporting on the use of funds received and any surplus funds have to be returned to the provider of the grant
- operational funding grants (hereafter 'operational funding') – funding received and provided based on the functions and tasks set out in the statutes and the goals outlined in the development documents of the recipient.

Operational funding is recognised as income when the cash has been received.

A grant is recognised as income in the period in which the operating expenses the grant is intended to compensate are incurred unless the conditions of the grant involve the risk that the grant may be reclaimed or may not be received. If there is a substantive risk that a grant may be reclaimed or may not be received, the grant is recognised as income when the risk no longer exists.

A grant is recognised in the balance sheet initially when cash has been received or on the date when the receivables, liabilities, income and expenses associated with the grant are recognised.

When a grant has been received but the costs it is intended to compensate have not yet been incurred, the grant received is recognised as deferred income (a liability). When the costs related to a grant have been incurred and there is no substantive risk that the grant will not be received but the grant has not yet been received, the grant is recognised as income and a receivable.

Statutory capital reserve (legal reserve)

In accordance with the Commercial Code of the Republic of Estonia and the company's articles of association, the company has to transfer at least 5% of its net profit to the statutory capital reserve on an annual basis until the reserve amounts at least to 10% of share capital. The statutory capital reserve may not be distributed as dividends, but it may be used to cover losses, if the losses cannot be covered with unrestricted equity. The statutory capital reserve may also be used to increase share capital.

Revenue

The company's revenue consists of stockpiling fees paid for the management of liquid fuel stocks.
Stockpiling fees are paid by fuel excise duty payers or, in the absence of the latter, the persons that release the fuel into consumption or supply jet fuel, aviation petrol or spirit type jet fuel to aircraft refuelling in Estonia. The stockpiling fee is paid to the bank account of the stockholder without a prior request for payment no later than by the 15th day of each month in an amount corresponding to the volume released into consumption on behalf of the importer 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 when the service has been rendered.

Revenue from the sale of goods is recognised when all significant risks and rewards incidental to ownership of the goods have been transferred from the seller to the buyer, the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will be received and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is recognised on an accrual basis.

Expenses

Expenses are recognised in the same period as the related income. Expenditures which will probably participate in the generation of economic benefits in future periods are recognised as assets when they are incurred and charged to expenses in the period(s) in which they generate economic benefits (e.g. expenditures on property, plant and equipment). Expenditures which participate in the generation of economic benefits in the reporting period or which do not generate economic benefits are recognised as an expense as incurred.
Line item 'Cost of goods, materials and services' in the income statement comprises the costs related to the sale liquid fuel stocks for the purpose of stock rotation.

Taxation

Corporate income tax payable on the distribution of dividends is recognised as a liability and income tax expense in the period in which the dividend is declared regardless of the period for which the dividend is declared or the period in which the dividend is paid out. Dividends distributed from retained earnings are taxed at the rate of 20% (the amount of tax payable is calculated as 20/80 oof the net distribution). Since 2019, the tax rate for regularly paid dividends has been 14% (the amount of tax payable is calculated as 14/86 of the net distribution).

The maximum possible income tax liability that may arise on the distribution of dividends is disclosed in the notes to the financial statements.

Related parties

The company's related parties are:

- members of the company's executive and higher management and their family members (incl. at least the spouse, the domestic partner and a child);
- foundations, non-profit associations and companies under the control or significant influence of the above persons, incl. the persons individually and together with their family members.

The remuneration and material benefits provided to the executive and higher management are disclosed in the financial statements. Consistent with the Public Sector Financial Accounting and Reporting Guidelines, information about other transactions with related parties is disclosed only if the transactions did not comply with the law, or the company's internal rules and regulations, or market terms.

Events after the reporting period

The financial statements reflect all significant events affecting the measurement of assets and liabilities, which became evident between the reporting date, i.e. 31 December 2022, and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

Subsequent events which have not been taken into account in measuring assets and liabilities but which will have a material impact on the results of the next financial year, are disclosed in the notes to the financial statements.

Derivatives and hedge accounting

Derivative instruments are recognised initially at their fair value at the date the derivative contract is entered into. Thereafter they are remeasured at each reporting date to their fair value at that date. The method for recognising the gains and losses arising from changes in value depends on whether the derivative instrument has been designated as a hedging instrument (incl. currency, and fuel and gas price swaps) and if so, then also on the nature of the hedged item.

When the company applies hedge accounting, then on the conclusion of the transaction the company documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the nature of the risk being hedged, the hedging instrument, the hedged item and how it will assess hedge effectiveness, including its analysis of the potential sources of hedge ineffectiveness.

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

Cash flow hedges

The company has been using cash flow hedging instruments to fix the prices of the stocks acquired (fuel and gas) and to hedge the exposure to variability in prices since 2012.

The effective portion of changes in the fair value of derivative instruments classified and qualifying as cash flow hedges is recognised in equity. Gains or losses related to the ineffective portion are recognised in the income statement at the date of the assessment.

Hedging contracts are concluded to the extent of the quantities of liquid fuel stocks in rotation or gas reserves to be acquired.

Amounts arising from the covering of a realised price are included in the purchase amount (inventories) or sales amount (income) regardless of whether the contracts were concluded to hedge the variability in prices or of how many contracts there were.

When a hedging instrument no longer meets the criteria for hedge accounting, the gain or loss that has been accumulated in equity will remain in equity and will be recognised in the income statement when the forecast event occurs. However, if the forecast transaction is no longer expected to occur, any gain or loss on the hedging instrument that has been accumulated in equity is immediately recognised in the income statement within finance income or costs.

Derivative instruments not designated as hedging instruments are measured at fair value through profit or loss. Gains and losses arising from changes in the fair value of such derivative instruments are recognised in the income statement within finance income and costs, respectively.

Assessment of hedge effectiveness

The management board assesses the effectiveness of a hedging instrument with an open position by comparing changes in the fair values of the hedging instrument and the hedged item.

If the amount of the hedging instrument and the amount of the item sold or acquired as well as their maturities and underlying assets match or are closely aligned, the forecast hedging transaction is considered to be effective.

Hedge effectiveness is assessed at the following points in time:
- on the conclusion of a hedging transaction;
- at the reporting date;
- at the date of realisation of the hedging transaction.

Note 2 Cash and cash equivalents

(In euros)

As at 31 December	2022	2021
Current accounts	18,307,604	13,490,827
Total cash and cash equivalents	**18,307,604**	**13,490,827**

In 2022, the company joined the cash pooling facility (group account) of the Republic of Estonia by incorporating its account at SEB Pank AS in the cash pooling facility.

Note 3 Receivables and prepayments

(In euros)

	31 Dec 2022	12 months	Note
Trade receivables	570,182	570,182	
Receivables from customers	570,221	570,221	
Allowance for doubtful receivables	-39	-39	14
Other receivables	12,884	12,884	
Interest receivable	12,884	12,884	
Prepayments	93,745	93,745	
Prepaid expenses	93,743	93,743	
Other prepayments	2	2	
Security deposits	70,524	70,524	
Total receivables and prepayments	**747,335**	**747,335**	

	31 Dec 2021	12 months	Note
Trade receivables	550,578	550,578	
Receivables from customers	550,578	550,578	
Other receivables	1,081	1,081	
Interest receivable	729	729	
Accrued income	352	352	
Prepayments	7,633	7,633	
Prepaid expenses	7,409	7,409	
Other prepayments	224	224	
Total receivables and prepayments	**559,292**	**559,292**	

Security deposits resulted from the following transactions conducted in 2022:

1. The company paid the transmission system operator (Elering AS) a security deposit of 30,000 euros as a permanent guarantee under a gas balancing agreement. Entry into a balancing agreement is a prerequisite for the supply of gas through the relevant points of the transmission system operator.
2. The company paid the transmission system operator (Elering AS) a security deposit of 30,000 euros under a network contract. Entry into a network contract is a prerequisite for using gas transmission services.
3. The company paid a security deposit of 10,524 euros, i.e. the amount corresponding to three months’ lease payments, under a lease contract on business premises.

Note 4 Inventories
(In euros)

As at 31 December	2022	2021
Liquid fuel	167,745,378	148,024,436
Personal protective equipment	2,654,053	2,654,053
Natural gas	133,607,846	0
Total inventories	**304,007,277**	**150,678,489**

Personal protective equipment stocks were created in 2021 using the stocks transferred by the Ministry of Economic Affairs and Communications by way of a non-monetary contribution to the company’s equity. The company is implementing the delegated stocks model for the stocks of surgical masks, protective overalls and nitrile gloves. Under the delegated stocks model, the stocks are maintained and replenished by contractual partners. The changeover to delegated stocks takes place as the purchased stocks expire.

In spring 2022, the government of Estonia assigned the company the task of creating a strategic natural gas reserve of up to 1 TWh. In the same year, five procurements were carried out and by the end of 2022 the company had created a natural gas reserve of 650 GWh.

Delegated stocks

Delegated stocks are stockpiles created under storage agreements, which are not recognised in the company’s balance sheet.

Ready-to-eat foods stocks have been created under delegated stockpiling agreements, which grant the company the pre-emptive right to acquire the stocks.

In December 2022 the company signed a storage agreement for delegated grain stockpiles, which took effect on 1 January 2023.

The creation of delegated medical stockpiles will begin in January 2023.

Note 5 Prepaid taxes and taxes payable
(In euros)

As at 31 December	2022	2021
	Payable	Payable
Value added tax	22,703	51,335
Personal income tax	9,700	5,237
Income tax on fringe benefits	272	81
Social security tax	16,829	8,870
Statutory funded pension contributions	711	380
Unemployment insurance contributions	630	306
Total	**50,845**	**66,209**

Taxes payable are disclosed in note 8.

Note 6 Property, plant and equipment
(In euros)

	Projects in progress	Total
As at 31 December 2021		
Cost	0	0
Accumulated depreciation	0	0
Carrying amount	0	0
Additions	56,656	56,656
Purchase and construction of new buildings, improvements	56,656	56,656
As at 31 December 2022		
Cost	56,656	56,656
Accumulated depreciation	0	0
Carrying amount	56,656	56,656

Projects in progress include the costs of the improvement, renovation and repair of leased premises which will be reclassified to buildings when the company has taken possession of the premises.

Note 7 Operating leases
(In euros)

Reporting entity as a lessee

	2022	2021	Note
Operating lease expenses	16,414	14,253	14
Operating lease rentals payable in subsequent periods under non-cancellable contracts			
As at 31 December	**2022**	**2021**	**Note**
Not later than 12 months	40,270	14,565	
Later than 1 year and not later than 5 years	170,535	17,118	

At 31 December 2022, the company had two operating leases: a lease of business premises (to be terminated early in January 2023) and a lease signed in 2022 on new office premises where the company will move in January 2023.

The lease which will be terminated in 2023 was extended in 2019 for 5 years until 28 February 2024. During the life of the fixed-term lease both the lessor and the lessee had limited rights to terminating the lease early. In the event of early termination, the injured party could demand compensation for damages sustained.

The lease signed in 2022 has a term of 5 years from the date of transfer of possession of the leased premises (January 2023). The lease renews automatically for one year at a time when neither party has informed the other party 6 months before the renewal of the lease of the intent not to renew the lease. At the same time, the parties have the right to cancel the lease when 3 years have passed since the transfer of the possession of the leased premises, by notifying the other party at least 6 months in advance. The lease payments are indexed to the Consumer Price Index (CPI) and adjusted once a year based on the increase in CPI but not less than by 3% per year.

Note 8 Payables and advances received

(In euros)

	31 Dec 2022	12 months	Note
Trade payables	4,989,230	4,989,230	
Payables to employees	111,116	111,116	
Taxes payable	50,845	50,845	5
Other payables	3,364	3,364	
Advances received	12	12	
Other advances received	12	12	
Total payables and advances received	**5,154,567**	**5,154,567**	
	31 Dec 2021	**12 months**	**Note**
Trade payables	481,099	481,099	
Payables to employees	62,141	62,141	
Taxes payable	66,209	66,209	5
Other payables	378	378	
Advances received	12	12	
Other advances received	12	12	
Total payables and advances received	**609,839**	**609,839**	

Note 9 Contingent assets and liabilities

(In euros)

As at 31 December	2022	2021
Contingent liabilities		
Maximum possible dividend distribution	11,998,680	3,810,154
Income tax liability on maximum possible dividend	2,988,042	940,910
Total contingent liabilities	**14,986,722**	**4,751,064**

In 2020, the company paid a dividend of 400,000 euros, which means that distributable dividends of 133,333 euros are taxable at the rate of 14%. The rest of distributable dividends of 11,865,347 euros are taxable at 20%.

The company's retained earnings as at 31 December 2022 amount to 14,986,722 euros (2021: 4,751,064 euros). The maximum income tax liability that would arise if all of the retained earnings as at the reporting date were distributed as dividends amounts to 2,988,042 euros (2021: 940,910 euros). Thus, 11,998,860 euros (2021: 3,810,154 euros) could be distributed as dividends.

The maximum possible income tax liability has been calculated on the assumption that the total amount of distributable net dividends and the income tax expense arising on the dividend distribution cannot exceed the retained earnings as at 31 December 2022.

Note 10 Government grants

(In euros)

	31 Dec 2020		Received	Repaid	Recognised in the income statement	Recognised as assets at cost	31 Dec 2021		Note
	Receivables	Liabilities					Receivables	Liabilities	
Government grants related to income									
Ministry of Economic Affairs and Communications - Grants for the creation and management of strategic operating stocks and reserves	0	0	5,200,000	0	49,570	0	0	5,150,430	13
Ministry of Economic Affairs and Communications - Operational funding	0	0	850,000	0	850,000	0	0	0	13
Total government grants related to income	0	0	6,050,000	0	899,570	0	0	5,150,430	13
Total government grants	0	0	6,050,000	0	899,570	0	0	5,150,430	13

	31 Dec 2021		Received	Repaid	Recognised in the income statement	Recognised as assets at cost	31 Dec 2022		Note
	Receivables	Liabilities					Receivables	Liabilities	
Government grants related to income									
Ministry of Economic Affairs and Communications - Grants for the creation and management of strategic operating stocks and reserves	0	5,150,430	5,200,000	0	6,817,570	0	0	3,582,860	13
Ministry of Economic Affairs and Communications - Operational funding	0	0	850,000	0	850,000	0	0	0	13
Total government grants related to income	0	5,150,430	6,050,000	0	7,667,570	0	0	3,582,860	13
Total government grants	0	5,150,430	6,050,000	0	7,667,570	0	0	3,582,860	13

In the statement of cash flows, operational funding and grants received in the reporting period are reported in the total amount within proceeds from government grants and the amounts recognised in the income statement are reported within other adjustments.

Note 11 Share capital

(In euros)

As at 31 December	2022	2021
Share capital	220,991,600	135,505,053
Number of shares	2,209,916	1,355,050
Par value of a share	100	100

As at 31 December 2022, the company’s share capital amounted to 220,991,600 euros.

In addition, the company has unregistered share capital of 34,870,500 euros. An application for the registration of an increase of share capital was submitted on 30 December 2022 and the registration took place on 5 January 2023.

In 2022, the company's articles of association were amended as follows: the minimum share capital remained at 50,000,000 (fifty million) euros, but the maximum share capital was increased from 200,000,000 (two hundred million) euros to 400,000,000 (four hundred million) euros.

In 2022, the Ministry of Economic Affairs and Communications made monetary contributions of 145,000,000 euros in total for the company's shares, including 120,357,047 euros for the par value of the shares and 24,642,953 euros as share premium.

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 12 Revenue

(In euros)

	2022	2021
Revenue by geographical area		
Sales to countries of the European Union		
Estonia	15,735,359	9,760,596
Finland	9,146,607	0
Total sales to countries of the European Union	**24,881,966**	**9,760,596**
Total revenue	**24,881,966**	**9,760,596**
Revenue by activity		
Liquid fuel stockpiling fees	5,172,045	4,960,842
Sales of fuel	19,687,737	4,799,587
Sales of other goods and services	22,184	167
Total revenue	**24,881,966**	**9,760,596**

Note 13 Other income

(In euros)

	2022	2021	Note
Income from government grants	7,667,570	899,570	10
Foreign exchange gain	73,488	308	
Penalty payments, late payment interest and compensation	0	81	
Total other income	**7,741,058**	**899,959**	

Income from government grants comprises operational funding received of 850,000 euros (2021: 850,000 euros) and grants recognised as income of 6,817,570 euros (2021: 49,570 euros).

Note 14 Other operating expenses

(In euros)

	2022	2021	Note
Lease and rental expenses	16,414	14,253	7
Energy expenses	**3,350**	**1,862**	
Electricity	2,697	1,444	
Heat energy	653	418	
Other office expenses	35,517	20,847	
Business travel expenses	16,021	265	
Training expenses	6,213	249	
State and local taxes	7,074	2,733	
Expenses from doubtful (impaired) receivables	39	0	3
Fuel stockpiling, analysis, testing and pumping expenses	4,682,763	4,374,549	
Fuel insurance expenses	140,582	45,334	
Operating stocks storage and management expenses	551,966	49,570	
Other	127,092	75,312	
Total other operating expenses	**5,587,031**	**4,584,974**	

Note 15 Personnel expenses

(In euros)

	2022	2021
Salary expenses	523,904	235,813
Social security charges	174,922	78,311
Total personnel expenses	**698,826**	**314,124**
Average number of staff converted to full-time equivalent	9	4
Average number of staff by type of employment relationship:		
People working under employment contracts	6	2
Members of legal person’s management or control bodies	3	2

Note 16 Other expenses

(In euros)

	2022	2021
Foreign exchange loss	97,375	2,201
Total other expenses	**97,375**	**2,201**

Note 17 Other finance income and costs

(In euros)

	2022	2021
Foreign exchange gain	346,410	8,706
Other finance costs – loss from swap transactions	-228,260	0
Total other finance income and costs	**118,150**	**8,706**

Note 18 Related party disclosures

(In euros)

Remuneration and other significant benefits provided to the executive and higher management		
	2022	**2021**
Remuneration	271,068	159,890

Consistent with the Public Sector Financial Accounting and Reporting Guidelines, reporting entities have to disclose in the financial statements the remuneration and significant benefits provided to the executive and higher management, and information about other transactions with related parties has to be disclosed only if the transactions did not comply with the law, or the company's internal rules and regulations, or market terms, as provided in the amendments to the General Rules for State Accounting which took effect on 24 November 2014 (section 49^1). There were no such transactions in 2022 and 2021.

In 2022, remuneration paid to the members of the management and supervisory boards amounted to 230,473 euros (2021: 136,228 euros) and 40,595 euros (2021: 23,622 euros), respectively.

The service contracts of management board members provide for severance compensation extending to three months' remuneration of the board member if the member is removed from office early at the initiative of the supervisory board.

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