

ANNUAL REPORT

beginning of the financial year: 01 January 2020
end of the financial year: 31/12/2020

business name: AS Eesti Vedelkütusevaru Agentuur

registry code: 11124171

street name, building number: Pärnu mnt 102b
city: Tallinn
county: Harju County
postal code: 11312

tel.: +372 6600900

fax: +372 6600904

e-mail address: info@ospa.ee

Web: www.ospa.ee

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MANAGEMENT REPORT 2020

1. Market overview

1.1. International fuel market

In previous yearbooks, 2018 was called unpredictable and 2019 was devastating for the oil sector. Today, we know that this was just a preview for the year 2020 that will remain in the history of oil and stock markets as a real survival test. Forecasts for 2018 predicted an increase in the oil price up to 100 US dollars. In reality, the price growth stuck at "only" 85 US dollars and in the last quarter, the market experienced a fast decrease by 40%. In 2019, crude oil prices oscillated in the 55-75 dollar range. Market developments were directed by tensions starting from Brexit to Middle East attacks and OPEC cartel agreements. Despite all the political commotion, the market demand grew constantly and the supply was characterised by keen international competition. At the beginning of 2020, the crude oil price was at the 60 US dollar level and analysts predicted a moderate rise in demand, but within a few months, the whole picture changed.

Starting from February, the oil market was led by the COVID-pandemic and the OPEC policy. The first alert was received when COVID-19 caused large-scale economic lockdowns in China and thereafter in other parts of Asia, due to which the demand in the world's biggest energy-consuming area collapsed. World market prices of fuels decreased very quickly by around 50%. The market experienced another shock in March when Saudi Arabia, due to failed negotiations between OPEC and Russia, informed of its return to free price competition after the production restrictions applied since 2015. Even before the summit of the OPEC+ countries, it was expected that the negative impact of the COVID-19 pandemic would be considered and a reduction in production to 1.5 million barrels a day agreed. OPEC member countries had achieved a preliminary agreement, but during the negotiations with the Russian representatives, their unwillingness to support the proposals became evident. As the negotiations failed, OPEC countries, led by Saudi Arabia, decided to set the production free. In their statements, they promised to take over the market, and the oil supply prices were reduced by USD 6-8 per barrel. The analyses conducted in March showed that the coefficient of the decrease in demand due to the pandemic and the OPEC activity showed that an unprecedented oversupply of 3+3 million barrels a day in oil products occurred during a period of two weeks. The extreme developments in spring culminated on 20 April when an unprecedented event occurred – the US crude oil WTI one-month futures price declined to negative. The European Brent index dropped to the 25 USD/barrel level and both the petrol and diesel price quotations decreased by more than 50% within a few months. The market shock caused massive stress on sector companies. As a result of ground-breaking events, oil industry assets had lost a big part of their value at the beginning of the year, and a wave of bankruptcies was forecast.

After the setbacks, the crude oil price per barrel stabilised at 40 dollars in the second half-year. Surprisingly, US president Donald Trump saved the world fuel market by bringing Saudi Arabians and Russians back to negotiations and cutting of production. In the third quarter, the demand improved, but still remained under the level in the previous year. The growth was mainly supported by the recovery of the Chinese economy. The economic situation in other countries was weaker and the demand in energy products decreased by approx. 5% on average. Today, we know that the global oil consumption decreased in 2020 by approx. 9 million barrels per day in total, year-on-year.

The first two months of 2021 have shown a change and the oil prices are increasing again. By the end of February, price quotations have increased by more than 20% compared to the balance sheet date and achieved the 2019 year-end level.

1.2. Estonian fuel market

As in the rest of the world, the actual market situation in Estonia did not meet any forecast. The level of excisable fuel released into consumption decreased in the first quarter 2020 by approx. 50% year-on-year. The underconsumption of excisable goods in January and February was foreseeable. Stricter requirements due to the amendments made to the Atmospheric Air Protection Act caused a large-scale release into the consumption of non-biodiesel and petrol, i.e. declaration from excise storages to commercial storages. High stock levels in turn meant that, at the beginning of 2020, the goods amount released into consumption from excise storage were considerably lower than usual.

In the first half of March, the volumes of fuel sales showed signs of recovering, but at the end of the month, markets were hit by COVID-19-related restrictions. In March and April, the transport fuel consumption was low. In May, the use of petrol and diesel recovered, but the crisis in jet-fuel sector lasted until the end of the year. The rise in diesel sales volumes can be related to the decrease in the excise rate by 25% from 493 to 372 euros per 1,000 litres as of 1 May. According to the excised goods database, approx. 260,000 cubic metres of petrol and 748,000 cubic metres of diesel fuels were released for consumption in 2020. Compared to what happened in the world, the fuel amount sold to Estonian end-consumers was much more stable. According to the fuel handling database of the Estonian Tax and Customs Board, more than 276,000 cubic metres of petrol and more than 854,000 cubic metres of diesel fuels were sold to retail and wholesale customers in 2020.

2. Company

In 2020, AS Eesti Vedelkütusevaru Agentuur (Estonian Oil Stockpiling Agency - OSPA) celebrated its 15th birthday. As an establisher and holder of the compulsory liquid fuel stock of Estonia, it is a strategically important company for the Republic of Estonia. OSPA was established by the Government of the Republic of Estonia based on the Liquid Fuel Stocks Act. All shares of the company belong to the state and the holding administrator and entity exercising its rights as a shareholder is the Ministry of Economic Affairs and Communications, which is represented by the Minister of Economic Affairs and Infrastructure at the general meeting of shareholders. In establishing and maintaining the liquid fuel stocks, OSPA adheres to the requirements prescribed by the EU Council Directive for maintaining minimum stocks of crude oil and/or oil products 2009/119/EC and the Liquid Fuel Stocks Act, implementing the legislation established by law and the requirements established in the agreement of the energy programme of the International Energy Agency.

3. Strategic aims and basis of the economic activities of the Estonian Oil Stockpiling Agency

OSPA is a company with mainly public objectives whose owner has assigned the following tasks:

- establishing and maintaining the mandatory liquid fuel stocks of Republic of Estonia, and organising the replenishment of the stocks pursuant to the Liquid Fuel Stocks Act,
- organising the purchase, sale and storage of the liquid fuel stocks,
- supplying liquid fuel to the state and analysing the situation in the event of difficulties in supply of liquid fuel,
- organising the release of liquid fuel stocks in the event of difficulties in the supply of liquid fuel,
- developing cooperation with fuel market participants and liquid fuel stock organisations of other countries.

OSPA is a unique entity whose activity objectives and principles have been directly laid down by a separate act: the Liquid Fuel Stocks Act.

The directive for minimum stocks has provided the following explanatory definition: Central Stockholding Entity is a body or department that may be given the authority to purchase, maintain or sell oil stocks including emergency stocks and special stocks. The directive has specified that:

- Each member state may only have one central entity
- A central entity must act in the general public interest
- A central entity may not be an economic operator within the meaning of the directive

In organising its work, OSPA strives for the efficiency goals set by its owner. The Liquid Fuel Stocks Act has established the principles of the management of OSPA, the bases of the revenue and cost planning and restrictions on the distribution of profits earned from stockpiling fees. According to the "Share management report" of the Government of the Republic, the Ministry of Economic Affairs and Communications has established that a dividend payment is not expected from OSPA. Regarding profitability, one must keep in mind the financing arrangements of OSPA, by which the fuel stocks acquired by the entity are covered from the state budget by increasing the holding or share capital of the stock administrator and by the means acquired from the sale of stocks. Stock administration costs are covered by the stockpiling fees paid by fuel companies. Therefore, OSPA must keep separate records of the stockpiling fees collected and income earned or allocated for the purchase of stocks. Taking into consideration that, pursuant to law, the stockpiling fee received within a year and not spent for the management of liquid fuel stock cannot be reported in retained earnings, the share manager considers it not reasonable to set a price for expected equity. When using the funds meant for fuel purchase, OSPA must abide by the obligation to pursue profitability and also ensure the value of state stocks. Upon rotating the liquid fuel stocks, OSPA must abide by the market situation in order to ensure the best effectiveness, including the differences in the present and future prices. Excess stocks must be used, preferring the most effective management solutions and including the possibilities for effective rotation and the sale of delegated stocks.

4. Quantity of liquid fuel stocks

According to the Liquid Fuel Stocks Act, OSPA is responsible for ensuring that the amount of stock is at the required level at all times. The directive establishes two methods for the calculation of the stockholding obligation depending on the export and import ratio of the state. According to the regulation, 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 inland consumption of energy products, depending on which of these is greater. Contrary to the provisions of the directive, LFSA sets out that OSPA is obligated to observe that the stockholding obligation is complied with on the basis of 90 days' worth of average net imports of oil products also in the event of a decline in the export of domestically produced shale oil.

Pursuant to the statistics submitted by the Statistical Office (www.stat.ee KE0230) on the inland consumption of liquid fuel in 2019 (more than 1 million tonnes), the mandatory 90-day quantity of the stocks in 2020 was 250,100 tonnes. On 31 December 2020, the liquid fuel amount in the ownership or under the control of OSPA was 254,400 tonnes in total, i.e. almost the same year-on-year. In 2020, the portion of stocks stored in Estonia was 49%. In other words, with its stocks stored in Estonia, OSPA can satisfy a 45-day domestic demand. In 2020, we stored fuel stocks in nine places in Estonia, two places in Finland and six places in Sweden. Contracts for depositing the stocks have been concluded with 15 companies. For the fulfilment of the obligation of storing heavy fuel oil, a delegated stocks agreement has been concluded. Based on the low market demand of heavy fuel oil, its storage amount is modest.

5. Activity

5.1 Management of stocks

In 2020, OSPA continued the rotation of fuel. At the beginning of the year, a large-scale diesel fuel rotation at the Paldiski terminal was completed, and smaller-scale operations in two Estonian and one Finnish terminals started. In total, we replenished approx. 20,000 tonnes of diesel fuel during the year. The rotation of the Hamina terminal was completed in January 2021. Due to the changeable market situation, the verified quality of stocks, and the duration of stockpiling agreements, OSPA did not sell any stocks in 2020. In addition, OSPA did not plan the acquisition of fuels as the stocks were at an adequate level and the domestic consumption showed a serious decrease in the spring. Due to our intention of implementing changes in the storage of jet-fuel stocks, we used an opportunity to conclude a six-month agreement for the delegation, i.e. the ticket sale of the jet-fuel stock being stored in Sweden. The contract with Energy Nord OÜ for delegating heavy fuel oil stock (ticket buy) continued in 2020.

5.2 Receipts of stockpiling fee

We collect a stockpiling fee from fuel companies to cover the costs relating to the management of stocks, the receipt of which depends on the volumes of fuel subject to excise duty released into consumption. For the calculation of stockpiling fee in the 2020 budget, the following fuel consumption forecast served as basis: petrol 310,000 m³, diesel fuel 798,000 m³, jet-fuel 85,000 m³. As described in the market overview, the actual demand turned out to be considerably lower. In evaluating the stockpiling fee receipts, the special conditions in 2020 have to be considered. The results of the first months of the year were influenced by an increase of 2.5 times in commercial stocks of companies in December 2019, and the correspondingly increased receipts of stockpiling fees in December. The release of fuels in consumption sharply increased in December, which was due to the amendments of the Atmospheric Air Protection Act that was enforced at the turn of the year. More stringent bio requirements caused a massive increase in release in the consumption of diesel fuel and petrol as a result of which, the stockpiling fee was received in excess of 5%. Thus, the stockpiling fee reserve was considerably bigger than expected, and the receipts in the 2020 budget were planned with a deficit of 395,000 euros which were to be covered by a reduction of the stockpiling fee reserve.

During the first four months in 2020, the amounts of fuel released into consumption were extraordinarily low, and the receipt of stockpiling fee decreased by twofold. It was a coeffect of two processes: in January and February, the "prepaid" fuel reached petrol stations, in March and April, the market was hit by the economic downfall due to the COVID-19 crisis. In the summer, the consumption stabilised and even increased due to the excise tax reduction for diesel. The indicators of the last quarter of the year have decreased again due to the impacts of the second wave of the COVID-19 crisis. OSPA estimated the stockpiling fee receipts in an amount of 4,230 thousand euros for 2020. The actual receipts of stockpiling fee amounted to 3,780 thousand euros. Thus, the annual shortage of stockpiling fee was 11%.

Table 2. Receipts of stockpiling fee 2020

	Budget, EUR		Receipts of stockpiling fee, EUR				Difference
	2020	Q1	Q2	Q3	Q4	Total	
Stockpiling fee in total	4,230,000	515,700	981,900	1,204,800	1,077,000	3,779,550	-11%

5.3 Insurance of stocks

In 2020, our cooperation with Marsh Kindlustusmaakler AS continued. OSPA is obligated to ensure that all the liquid fuel stocks are insured. In 2020, stocks were insured by the PZU Lietuvos Draudimas AB Estonia. All liquid fuel stocks of OSPA are insured based on world market fuel prices.

5.4 Auditor

By the decision of the holding administrator, the auditor of annual reports 2018-2020 is KPMG Baltics OÜ.

5.5 Inspection of stocks

OSPA organises inspections on a regular basis in order to ensure the maintenance of the liquid fuel stocks. The aim of inspecting the liquid fuel stocks is to inspect the quantity and quality of the stocks. According to the internal procedures, stocks are inspected at each storage place at least twice every calendar year. Since all the liquid fuel stocks of OSPA are created for long-term storage, the quality and ageing process of liquid fuel stocks is monitored using the special programme ProQuality, according to which timely decisions are made on the rotation or sales of the deposited stocks. Despite the travel restrictions in Europe, OSPA stock inspections were carried out on a regular basis in Finland and Sweden. In 2020, cooperation with the Estonian Environmental Research Centre and Amspec Estonia OÜ in inspection of stocks continued.

5.6 Preparations for the creation of Estonian Stock Centre

In 2019, the Ministry of Economic Affairs and Communications carried out an analysis for extending the tasks of OSPA based on the conclusions of the civil protection conception, whereby the tasks of ensuring stocks of food and necessities, OTC and prescription drugs as well as organisation of stocking and distribution were transferred from ministries to OSPA.

In 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 Stock Centre (AS Eesti Varude Keskus) in the domain of the Ministry of Economic Affairs and Communications aimed at ensuring the security of supply of the population. According to the proposal of the Minister of Economic Affairs, AS Eesti Varude Keskus will be established through extending the tasks of OSPA. Based on the analysis, a proposal has been prepared, according to which the procurement, storage, quality inspection, replenishment and distribution of civil protection related stocks (e.g. PPE, drugs, medical accessories, food and necessities, liquid fuel) will be transferred to AS Eesti Varude Keskus. In addition to the management of stocks, the company would be responsible for stock logistics as well as analyses on the continuity of companies in the relevant industries and market analyses.

In order to implement the government decision, the Ministry of Economic Affairs has to prepare amendments in the Emergency Act and other legislation which will probably be approved and implemented during the first half-year of 2021. According to the plan, the owner intends to assign the following tasks to the AS Eesti Varude Keskus:

- establishing and maintaining the operation stocks of Republic of Estonia and organising the replenishment of the stocks pursuant to the Emergency Act;
- establishing and maintaining the liquid fuel stocks of Republic of Estonia and organising the replenishment of the stocks pursuant to the Liquid Fuel Stocks Act;
- organising the purchase, sales and the storage of the state's operation stock;
- analysing the situation of supply and supply difficulties situation in the areas of the state's operation areas;
- organising the release stocks in the event of difficulties in the supply of state's operation stock;
- developing cooperation between the sellers, importers, manufacturers of the state's operation stock, liquid fuel stock organisations and the state's stock organisations in other countries.

More specific decisions on the extension of the responsibilities of OSPA will be made in the second half of 2021.

On 11 March 2021, the government decided to adopt the amendments of the Emergency Act, by which a basis was created for the establishment of the Estonian Stock Centre. The draft legislation amending the Emergency Act was sent to the parliament. According to the plan, the Estonian Stock Centre will be established in July 2021, and its tasks will comprise establishing, maintaining, inspecting, replenishing and managing the logistics of the fuel stock and other operation stock of the state, e.g. food, drugs and PPE.

6. Objectives for 2021

The supervisory board of OSPA has set for the management board the following objectives for 2021

General objectives of the organisation

- The assets of the company are managed in a profitable and effective way.
- A new strategy for the company has been established and approved by the supervisory board.
- A new visual identity of the company has been developed.
- A team has been recruited for the fulfilment of tasks assigned to the Estonian Stock Centre.

Objectives related to the responsibilities of OSPA

- The liquid fuel stock is maintained and replenished according to the provisions of the Liquid Fuel Stocks Act.
- Regular receipts of the stockpiling fee are ensured.
- A crisis training in the liquid fuel area has been carried out according to the new requirements.
- The ACOMES annual conference has been organised.

Objectives related to putting into operation of the stock centre (*a precondition for this is the establishment of AS Eesti Varude Keskus through extending the responsibilities of OSPA by its owner*)

- Expert groups for each area have been established.
- Activity plans for ensuring autonomous electricity supply, and establishing food supply, PPE, OTC and prescription drugs, and medical accessories have been developed.
- Procurements for additional supplies or replenishment and for ensuring the autonomous electricity supply have been prepared.
- Today, the stocks established by the state for civil protection as well as delegated stock agreements have been taken over, audited and renewed.
- A business analysis for the establishment of a stock information system has been carried out, and the structure and technical solution of data storage selected.

7. Management

7.1 Supervisory board

The supervisory board of OSPA comprises four appointed members, half of whom are representatives of the government and half are representatives of the sellers of fuel specified in the Liquid Fuel Stocks Act. Since September 2020, the chairwoman of the OSPA supervisory board is Kristi Talving, deputy secretary general of the Ministry of Economic Affairs and Communications. Jako Reinaste who chaired the OSPA supervisory board since 2012 was removed by a resolution of the general meeting. In 2020, the supervisory board of OSPA held 7 meetings in total. Remuneration in the amount of 14,900 euros was paid to the members of the supervisory board in 2020.

7.2 Management board

The management board of OSPA comprises two members. In March 2020, the supervisory board decided to renew the contracts of management board members by two years. Remuneration in the amount of 129,000 euros was paid to the members of the management board in 2020.

CORPORATE GOVERNANCE REPORT 2020

AS Eesti Vedelkütusevaru Agentuur (Estonian Oil Stockpiling Agency, abbreviation OSPA) has undertaken the obligation to apply the Principles of Corporate Governance in the management of the company and describe the adherence to these principles in the Corporate Governance Report in the annual report. The Corporate Governance Report of OSPA has been published at www.ospa.ee under the subsection "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 OSPA, the general principles established in EU Directive 2009/119/EÜ 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 OSPA, an audit committee has been formed and the services of an internal auditor is used. Due to the working arrangements at OSPA the creation of an internal auditor position has not been deemed necessary.

In the OSPA 2020 work plan, initially an IT audit was supposed to be carried out, but the supervisory board decided that due to the likely extension of OSPA responsibilities under the AS Eesti Varude Keskus, an IT audit is not practical at the moment.

The task of the audit committee set up to tackle the questions regarding OSPA's supervisory is to advise the supervisory board in 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.

In organising the management of OSPA, there are some differences with regard to the advisory guidelines provided by PCG. The PCG guidelines, which are not followed, concern mainly the conduct of general meetings and differences arising from LFSA with regard to the appointment of supervisory board members.

1. Management

OSPA is a company fully owned by the state which is represented at the general meeting by the Minister of Economic Affairs and Infrastructure. Thus, the performance of the rights of the issuers prescribed in the PCG report has been guaranteed and the rules that should be applied in case of the management of companies with a large shareholder base are not applicable.

The organisation of meetings of companies, in which the state has a majority holding interest and which are governed by the Ministry of Economic Affairs and Communications, are based on certain rules of procedure. The requirements established in the rules of procedure of the general meetings supplement the principles for the management of state companies established in the State Assets Act. Among others, the rules of procedure establish the:

- Jurisdiction of the general meeting.
- Procedure for managing, conducting the general meetings and for participating in the general meetings.
- Requirements concerning calling the general meeting, the agenda, taking the minutes and drafts of the general meeting.
- Procedure for making decisions, drafting and disclosure of the decisions.

The sphere of competence of the owner of the company comprises the amendment of the statutes, increase and reduction of the share capital, election and removal of supervisory board members, election of auditors, appointing of special audits, approval of the annual report and distribution of profit as well as deciding on the merger, division, reorganisation and/or dissolution of the company.

2. Supervisory board

The supervisory board performs supervision over the activities and management and the performance of the management board of OSPA. 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.

According to the statutes, the supervisory board is composed of four members, half of whom are representatives of the government and half are representatives of the sellers of fuel as established in the LFSA. Supervisory board members are appointed and removed by the Minister of Economic Affairs and Infrastructure. The chairman of the supervisory board is selected from among the members who were not nominated by the sellers of fuel. Principles for the establishment of the supervisory board of OSPA have been regulated by Section 14 of the Liquid Fuel Stocks Act. A person who is prohibited to operate in the area of activity related to liquid fuel cannot be a member of the supervisory board.

In 2020, the term of office of Jako Reinaste, previous chairman of the supervisory board expired, and Kristi Talving, deputy secretary general was appointed to the supervisory board and elected as its new chairwoman. By the resolution of the general meeting, the term of office of all the supervisory board members is the end of August 2021. The supervisory board members of OSPA are:

- Kristi Talving, Chairwoman of the Supervisory Board, Ministry of Economic Affairs and Communications
- Priit Laaniste, Ministry of the Interior
- Andres Linnas, Olerex AS
- Rauno Raudsepp, Tartu Terminal AS

The involvement of the sellers of fuel in the activity of the supervisory board is considered to be a specification for the management of OSPA with regard to both the State Assets Act and the Principles of Corporate Governance. This specification was established due to the need to involve the fuel companies participating in the economic activities in the establishment and administration of the fuel reserve, who shall thereby be connected to exercising supervision over the administrative costs of liquid fuel stocks as well as the assurance of the performance of the crisis management system.

In case of supervisory board members who are the sellers of fuel, there may arise a conflict with regard to the independency requirement specified in the Principles of Corporate Governance report because there is a possibility that the related fuel company is also the contractual partner in the contracts of the purchase, sale or deposit of fuel concluded with OSPA. The mentioned transactions are reported under "Transactions with related parties" in the annual report. In the event of difficulties in the supply of liquid fuel, OSPA is obligated to make its stocks available on the market. In a crisis situation, OSPA is obligated to make a sales offer and enter into a contract of sale of fuel with companies prescribed by law, including the companies whose representatives may be the supervisory board members of OSPA.

In order to avoid the conflict of interests concerning the supervisory board members who represent the sellers of fuel, OSPA has established restrictions on access to information regarding procurements. The management board members of OSPA may, pursuant to a resolution of the supervisory board of OSPA, disclose information and documents concerning tenders submitted for the Company's pending or finished procurements only to the supervisory board members who do not represent the sellers of fuel. According to the Regulation of the Minister "The principles of the arrangement of the tenders for the establishment and storage of the liquid fuel stocks and the general conditions of contracts involved with the liquid fuel stocks", the procurement evaluation committee may not include OSPA's supervisory board members who represent the sellers of fuel in the supervisory board.

By decision of holding administrator and pursuant to the State Assets Act the remuneration of the supervisory board member of OSPA is 250 euros per month and the remuneration for the chairman of the supervisory board is 500 euros per month. In addition to the remuneration of the supervisory board member, an additional remuneration shall be paid for participation in the activities of the bodies of the supervisory board. The bodies of the supervisory board of OSPA are the audit committee consisting of two members, which included one member of the supervisory board of OSPA, and the procurement evaluation committee consisting of three members, which included one member of the supervisory board of OSPA. In accordance with the statutes, the supervisory board members are also the chairmen of the committees. The remuneration of the chairman of a committee shall be 50% of the remuneration of the supervisory board member. In 2020, the remuneration paid for the supervisory board members totalled 14,919 euros.

In accordance with LFAA, the supervisory board of OSPA is obligated to form an audit committee. In 2020, the audit committee comprised 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 management board of OSPA comprises two members, consisting of Priit Enok as the chairman of the management board and Priit Ploompuu as member of the management board. In 2020, the contracts of both management board members ended. The supervisory board decided to renew the contracts of the members of the management board by two years until 2022. The management board of OSPA makes day-to-day management decisions independently without the intervention of the owner and 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 obligated to ensure the sustainable development of the company in accordance with the functions of the company, objectives and strategy set by the general meeting and the supervisory board.

For procedures that are beyond the daily economic activities of OSPA, the approval of the supervisory board is required. The management board shall ensure that the supervisory board is constantly informed of the economic situation of the company and the main circumstances related to the economic activities.

The chairman of the supervisory board has concluded contracts of services with the members of the management board. The contracts of services establish the duties and powers of the management board member as well as the procedure for remuneration and payment of benefits to the management board. The contracts have been reviewed and approved by the supervisory board. The amounts of additional remuneration and severance pay for the management board members are established in Section 86 of the SAA. Pursuant to law, the total additional remuneration paid to the management board member of OSPA may not exceed 4 months' remuneration of the management board member. The members of the management board may be paid severance pay equivalent to their 3 months' remuneration only in the event of their removal on the initiative of the supervisory board before the expiry of the term of their authority. In 2020, the remuneration calculated for the members of the management board totalled 129,225 euros.

Pursuant to the articles of association of OSPA, the following persons cannot be members of the management board: a shareholder or a member of the managing body of a legal person that is engaged in the sale or storage of liquid fuel, or a person who is prohibited to act as a management board member or to be engaged in business by a court decision, or a person who is prohibited to act in the same area of activity as OSPA or who is prohibited from being a member of the management board under law or a court decision.

Within the meaning of the Anti-corruption Act, the status of the management board member of OSPA is equal to the status of an official, who is obligated to adhere to restrictions on activities and procedural restrictions and to declare its economic interests.

4. Disclosure of information and reporting

On its website, OSPA regularly discloses information about the management of the entity, working principles, composition of liquid fuel stocks, relevant regulations as well as open and recently ended procurements. The website also discloses the statutes of the entity, annual reports, information concerning stockpiling fees and contract forms in Estonian as well as English. Information about procurements is also made available to the market participants through direct mailing.

In organising the reporting, OSPA adheres to the provisions of State Assets Act, Liquid Fuel Stocks Act, European Commission directive on minimum stocks and the statutes of the company. Due to the specifications of the activity of OSPA, 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 Finance and Communications and the Statistical Office. Statistical Office submits summary information based on the OSPA report on the composition and inventory of liquid fuel stocks to the European Commission. OSPA submits annually a report to the European Commission, which lists the measures to ensure the availability and control of liquid fuel stocks.

5. Financial reporting and auditing

OSPA is obligated to submit an audited and approved annual report within four months after the end of a financial year, i.e. by 10 April every year. The management board is responsible for the preparation of the financial statements, the auditor and supervisory board are responsible for auditing the report. If necessary, then 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 has been elected as the auditor of the annual reports 2018-2020. Election of the auditor and terms of the contract for auditing services, including the amount of the fee as well as the scope and schedule of auditing, have been approved by the supervisory board.

The Financial Statements

Statement of Financial Position

(in euros)

	31/12/2020	31/12/2019	Note
Assets			
Current assets			
Cash and cash equivalents	7,543,105	4,729,066	2
Receivables and prepayments	451,850	4,302,660	3
Inventories	147,996,376	149,120,235	4
Total current assets	155,991,331	158,151,961	
Total assets	155,991,331	158,151,961	
Liabilities and equity			
Liabilities			
Current liabilities			
Payables and prepayments	608,006	1,248,543	7
Total current liabilities	608,006	1,248,543	
Total liabilities	608,006	1,248,543	
Equity			
Issued capital	132,851,000	132,851,000	9
Statutory reserve capital	1,391,944	1,307,771	
Other reserves	18,340,371	18,094,285	
Retained earnings (loss)	3,920,103	2,966,895	
Annual period profit (loss)	-1,120,093	1,683,467	
Total equity	155,383,325	156,903,418	
Total liabilities and equity	155,991,331	158,151,961	

Income Statement

(in euros)

	2020	2019	Note
Sales revenue	15,919,896	9,049,303	10
Other operating income	1,175	20,543	11
Goods, raw materials and services	-12,087,798	-2,683,879	
Miscellaneous operating expenses	-4,612,660	-4,504,382	12
Labour expense	-229,418	-217,438	13
Other operating expense	-2,275	-121	
Operating profit (loss)	-1,011,080	1,664,026	
Interest income	3,809	8,023	
Other financial income and expenses	-12,822	11,418	14
Profit (loss) before income tax	-1,020,093	1,683,467	
Income tax	-100,000	0	15
Annual period profit (loss)	-1,120,093	1,683,467	

Statement of Cash Flows

(in euros)

	2020	2019	Note
Cash flows from operating activities			
Operating profit (loss)	-1,011,080	1,664,026	
Changes in receivables and prepayments related to operating activities	3,851,308	-3,829,153	
Changes in inventories	1,123,859	-8,967,158	4
Changes in liabilities and prepayments related to operating activities	-640,536	-5,709,727	7
Other cash flows from operating activities	0	1,314	
Total cash flows from operating activities	3,323,551	-16,840,698	
Cash flows from investing activities			
Interest received	3,310	8,296	
Total cash flows from investing activities	3,310	8,296	
Cash flows from financing activities			
Dividends paid	-400,000	0	15
Corporate income tax paid	-100,000	0	15
Other cash flow from financing activities	-64	-86	
Total cash flows from financing activities	-500,064	-86	
Total cash flows	2,826,797	-16,832,488	
Cash and cash equivalents at beginning of period	4,729,066	21,551,364	
Change in cash and cash equivalents	2,826,797	-16,832,488	
Effect of exchange rate changes on cash and cash equivalents	-12,758	10,190	
Cash and cash equivalents at end of period	7,543,105	4,729,066	2

Statement of Changes in Equity

(in euros)

	Issued capital	Statutory reserve capital	Other reserves	Retained earnings (loss)	Total
31/12/2018	132,851,000	1,266,708	17,314,083	3,788,160	155,219,951
Annual period profit (loss)	0	0	0	1,683,467	1,683,467
Changes in reserves	0	41,063	780,202	-821,265	0
31/12/2019	132,851,000	1,307,771	18,094,285	4,650,362	156,903,418
Annual period 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

More detailed information on share capital is provided in Note 9 and on dividends in Notes 8 and 15.

Pursuant to the Commercial Code of the Republic of Estonia and the company's statutes, the company must transfer annually at least 5% of the net profit to the statutory reserve capital, until the reserve capital forms at least 10% of the share capital. Statutory reserve capital must not be distributed as dividends, but it may be used to cover the loss, if the losses cannot be covered from the available equity. Moreover, the statutory reserve capital may be used to increase the share capital.

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

The stockpiling fee in excess is used to cover the 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 stockpiling fee paid within a calendar year exceeds the actual costs incurred upon holding of the stocks of that calendar year, the amount received in excess shall be taken account of on the next occasion of establishment of the rate of the stockpiling fee. Pursuant to the mentioned obligation, the excess stockpiling fee cannot be reported in retained earnings and, therefore, it is reported under other reserves as reserve for excess stockpiling fees.

The opening balance as of 31/12/2019 was 1,755,361 euros. At the approval of the annual report 2019, the reserve for the stockpiling fee in excess was revalued.

The reserve was increased by 246,086 euros. The closing balance as of 31/12/2020 was 2,001,447 euros.

Reserve for liquid fuel stocks rotation was formed 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 31/12/2019 was 16,338,924 euros. At the approval of the annual report 2019 the reserve for liquid fuel stocks rotation was not revalued.

The closing balance as of 31/12/2020 was 16,338,924 euros.

The effective portion of the change in 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 taken into use.

As at 31/12/2019 and 31/12/2020 no new cash flow hedge reserves were formed.

Notes to the Financial Statements

Note 1 Accounting policies

General information

The financial statements 2020 of AS Eesti Vedelkütusevaru Agentuur (hereinafter referred to as the "company") have been prepared in conformity with the generally accepted accounting principles of Estonia. The Estonian generally accepted accounting principles are based on internationally recognised accounting and reporting principles and aimed at the general public, the basic requirements of which are established in the Accounting Act and are supplemented by the guidelines approved by a regulation of the Minister of Finance, and public sector financial accounting and reporting guidelines.

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

All known significant circumstances effecting the evaluation of assets and liabilities which were disclosed between the balance sheet date and the date of preparation of the annual report, but which are related to transactions occurred during this financial year or previous periods, have been accounted for and presented in the financial statements.

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

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, fixed-term cancellable deposits with a term of up to 12 months and units of interest market fund.

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

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

Exchange rate profits and losses made as a result of revaluation are recognised in the accounting period's income statement, whereby 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. receivables from customers, accrued income and other current receivables), except receivables acquired for resale, are reported at amortised cost in the balance sheet.

The amortised cost of current receivables is generally equal to their nominal value (less possible write-downs), whereby they are reported in the balance sheet in the amount that will probably be received (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, which 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 the collectability becomes unrealistic, then the receivable is deemed as irrecoverable and is written off from the balance sheet. No additional expenses are created. A receivable is irrecoverable if the company does not have any possibility of collecting it (e.g. if the debtor is 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 as a decrease of expenses of the period, when the receivable is collected.

Inventories

The company reports the liquid fuel stocks as inventories acquired during the ordinary business activity of the company. Pursuant to the Liquid Fuel Stocks Act OSPA can constitute the following energy products as inventories: petrol, jet fuel, diesel fuel and heavy fuel oil. Since the realisation of the liquid fuel stocks of the company can only occur in cases listed in legislation, mainly in case of supply difficulties, and taking into account the sales price limitations imposed on OSPA, we abide by the presumption that the lowest net realisable value of the inventories of OSPA is not the market price of liquid fuel on the balance sheet date. 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 17.

Acquisition cost 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 ASBG 4 "Inventories" of the 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 § 1(2) of LFSA, liquid fuel stocks means the quantities of energy products which are mandated by this Act, 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 LFSA, the stocks may be released only with a directive of the Government of the Republic in case of a difficulty in supply. A difficulty in supply means a significant and sharp decrease in the supply of energy products to the European Union or its Member State, or member states 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.

OSPA is entitled to sell stocks to reduce their quantity where that quantity exceeds the mandatory quantity of stocks by more than five per cent. According to § 17(2) of 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. Where the market price is lower than the average weighted acquisition cost of the energy product, such a sale is only allowed if authorised by the minister responsible for the area.

When reducing the quantity of 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.

Weighted average purchase price is used for determining the acquisition cost of stocks.

Property, plant and equipment and intangible assets

Assets that have a useful life of over 1 year are reported as property, plant and equipment (PP&E). Assets with a useful life of over 1 year but acquisition cost less than 5,000 euros are recorded as low-value items (inventories) until taken into use and are fully expensed when the asset is taken into use.

Property, plant and equipment are initially recorded at their acquisition cost, comprising the purchase price and the expenses directly related to the acquisition. Subsequently the property, plant and equipment are presented in the balance sheet at acquisition cost, less accumulated depreciation and possible write-downs due to impairment loss.

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 determined based on their useful lives.

The depreciation of property, plant and equipment 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, which is the amount that the company would receive upon disposing the asset today, in case the asset was 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 when the new estimates differ from the previous ones, the changes are presented as the changes of accounting assessments, i.e. prospectively.

Recognizing 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. The profits and losses arising due to the end of the recognition of a PP&E asset is recognized in the income statement of the period when the recognition was ended, on the line "other operating income" or "other operating expenses".

Minimal acquisition cost 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 case of an operating lease, the leased asset is recognised in 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 their acquisition cost, which is the fair value of the consideration received for them. Subsequently the financial liabilities are recognised at their adjusted cost.

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

The interest expense related to financial liabilities is recognised on an accrual basis as the period's expenses on the line "financial income and expenses" of the income statement. Recognising a financial liability is ended when it has been paid, cancelled or has expired.

Provisions and contingent liabilities

A provision is recognised in the balance sheet if the company has a present 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.

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

Revenue

The company's revenue consists of liquid fuel stockpiling fees. 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 aircrafts 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 day 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 rate for stockpiling fee.

Revenue is measured at the fair value of the remuneration received or receivable. Revenue from 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.

Expenses

Expenses are reported in the same period as the related revenue. Expenses which will probably provide economic gains in the next periods are recorded as assets when they occur and expenses when the income is received from them (e.g. expenses made for PP&E assets). Expenses which provide revenue in the financial 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 from the sale of stocks arising upon the liquid fuel stocks rotation.

Taxation

The corporate income tax arising from the payment of dividends is recorded as liability and income tax expense in the income statement in the same period when the dividends are announced, regardless of the period when the dividends are announced or when the actual payment is made. Dividends paid from retained earnings are subject to the tax rate 20/80 on net dividends paid. Starting from 2019, a lower tax rate of 14% is applicable on regularly paid dividends (14/86 on net payments). The maximum possible income tax liability that may accompany the payment of dividends is provided in the notes to the financial statements.

Related parties

Related parties of the company are deemed to be:

- members of the company's management and supervisory board and their family members (at least 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 important benefits calculated to the management and supervisory board are reported in the financial statements. Other transactions with related parties which do not comply with law or the general requirements of internal documents or market conditions are reported in the financial statements pursuant to public sector financial accounting and reporting guidelines.

Derivatives and risk management

Derivatives are initially recorded at their fair value as of the date of concluding a derivative contract. Subsequently the derivatives are revalued at each balance sheet date to fair value at that particular moment. The method for recognising profits or losses arising from 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 shall document the relation between hedge instruments and hedged items, hedging objectives and strategies for conducting various hedging transactions. In addition, the company shall document upon the conclusion of a transaction, on the balance sheet date and upon the realisation of the transaction whether the derivatives used in hedging transactions are efficient.

The full fair value of the hedge instruments is classified as a non-current asset or liability, if the remaining life of a hedged item is longer than 12 months, and as a current asset or liability, if the remaining life of a 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 fair value of derivative instruments classified and qualified as cash flow hedges are recorded in equity. The gains or losses related to the ineffective portion are immediately reflected in the income statement.

Hedging contracts are concluded in the scope that corresponds with the quantities of liquid fuel stocks in rotation.

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

If the mitigation of 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 recognition of the forecast transaction. 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 fair value through the income statement. Profits and losses arising from changes in fair value of such derivative instruments are reflected in the income statement as financial income or expense.

Evaluation of the efficiency of risk management

The management board shall assess the efficiency of a hedging instrument with open position by comparing changes in fair value of a hedging instrument and an underlying asset.

If the hedging instrument has been concluded in the extent that 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 are in one-to-one correspondence, the hedging efficiency is 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 disposal of the hedging transaction

Note 2 Cash and cash equivalents

(in euros)

	31/12/2020	31/12/2019
Bank accounts	7,543,105	4,729,066
Total cash and cash equivalents	7,543,105	4,729,066

Note 3 Receivables and prepayments

(in euros)

	31/12/2020	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 paid prepayments	2	2
Total receivables and prepayments	451,850	451,850
	31/12/2019	Within 12 months
Trade receivables	4,285,866	4,285,866
Accounts receivable	4,285,866	4,285,866
Prepayments	16,794	16,794
Deferred expenses	16,792	16,792
Other paid prepayments	2	2
Total receivables and prepayments	4,302,660	4,302,660

Note 4 Inventories

(in euros)

	31/12/2020	31/12/2019
Liquid fuel stocks	147,996,376	149,120,235
Total inventories	147,996,376	149,120,235

An additional overview of stocks can be found in Note 18

Note 5 Tax prepayments and liabilities

(in euros)

	31/12/2020	31/12/2019
	Tax liabilities	Tax liabilities
Value-added tax	30,138	355,520
Personal income tax	3,051	2,426
Income tax on fringe benefits	140	8
Social tax	5,220	4,163
Mandatory funded pension	308	236
Unemployment insurance premiums	139	65
Total tax prepayments and liabilities	38,996	362,418

Note 6 Operating lease

(in euros)

Accounting entity as the lessee

	2020	2019	Note
Operating lease expense	14,029	16,289	12

As at 31/12/2020 the Company has a contract for the lease of premises. The lease contract was extended in 2019 by 5 years with contract term ending on 28/02/2024; after that date it will become a contract of indefinite duration unless the Company expresses their wish to terminate the contract. During the term of the fixed-term contract both the lessor and the lessee have limited rights for premature termination of the contract. In case of the premature termination of the contract the damaged party may demand compensation for damages incurred.

Note 7 Payables and prepayments

(in euros)

	31/12/2020	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	
	31/12/2019	Within 12 months	Note
Trade payables	855,230	855,230	
Employee payables	29,695	29,695	
Tax payables	362,418	362,418	5
Other payables	1,200	1,200	
Total payables and prepayments	1,248,543	1,248,543	

Note 8 Contingent liabilities and assets

(in euros)

	31/12/2020	31/12/2019
Contingent liabilities		
Distributable dividends	2,249,310	3,720,290
Income tax liability on distributable dividends	550,700	930,072
Cost of delegated stocks	282,301	407,727
Total contingent liabilities	3,082,311	5,058,089

In 2020, dividends were paid in an amount of 400,000 euros, which means that possible dividends in an amount of 133,333 euros can be taxed with an income tax rate of 14/86. The rest of possible dividends in an amount of 2,115,977 euros can be taxed with a tax rate of 20/80. Additional information is provided in Note 15.

Contingent liabilities comprise liquid fuel stocks stored based on contracts for delegated stocks. According to contracts concluded, OSPA may redeem the stocks in the event of possible difficulties in the supply of liquid fuel. An overview of stocks stored under contracts for delegated stocks is provided in Note 18.

Note 9 Share capital

(in euros)

	31/12/2020	31/12/2019
Share capital	132,851,000	132,851,000
Number of shares (pcs)	1,328,510	1,328,510
Nominal value of shares	100	100

As of 31/12/2020, the company's share capital amounted to 132,851,000 euros, whereas the company's minimum share capital is 50,000,000 (fifty million) euros and the maximum share capital without changing the statutes can amount to 200,000,000 (two hundred million) euros.

The owner of AS Eesti Vedelkütusevaru Agentuur is the Republic of Estonia and the shares are administered by the Ministry of Economic Affairs and Communications.

Note 10 Net sales

(in euros)

	2020	2019
Net sales by geographical location		
Net sales in European Union		
Estonia	15,812,255	9,049,303
Sweden	107,641	0
Total net sales in European Union	15,919,896	9,049,303
Total net sales	15,919,896	9,049,303
Net sales by operating activities		
Liquid fuel stockpiling fees	3,779,458	4,967,907
Sale of fuels	12,140,438	4,081,396
Total net sales	15,919,896	9,049,303

Note 11 Other operating income

(in euros)

	2020	2019
Profit from exchange rate differences	1,175	20,543
Total operating income	1,175	20,543

Note 12 Miscellaneous operating expenses

(in euros)

	2020	2019	Note
Leases	14,029	16,289	6
Energy	1,034	1,277	
Electricity	765	974	
Heating	269	303	
Miscellaneous office expenses	11,375	5,875	
Travel expense	2,682	15,824	
Training expense	397	1,297	
State and local taxes	2,259	2,216	
Fuel stockpiling, analysis, control and pumping expense	4,492,103	4,376,537	
Fuel insurance expense	39,822	38,007	
Other	48,959	47,060	
Total miscellaneous operating expense	4,612,660	4,504,382	

Note 13 Labour expense

(in euros)

	2020	2019
Wage and salary expense	172,359	163,370
Social security taxes	57,059	54,068
Total labour expense	229,418	217,438
Average number of employees in full-time equivalent units	3	3
Average number of employees by types of employment:		
Persons employed under an employment contract	1	1
Members of the legal person's managing or supervisory body	2	2

Note 14 Other financial income and expenses

(in euros)

	2020	2019
Profit (loss) from exchange rate differences	-12,758	10,190
Profit from derivatives	0	1,314
Other financial expenses	-64	-86
Total other financial income and expense	-12,822	11,418

Note 15 Income tax

(in euros)

Components of income tax	2020		2019	
	Taxable amount	Income tax	Taxable amount	Income tax
Dividends declared	400,000	100,000	0	0
Estonia	400,000	100,000	0	0
Total	400,000	100,000	0	0

Potential income tax liability of the company.

In 2020, dividends were paid in an amount of 400,000 euros, which means that possible dividends in an amount of 133,333 euros can be taxed with an income tax rate of 14/86. The rest of possible dividends in an amount of 2,115,977 euros can be taxed with a tax rate of 20/80 (Note 8).

Retained earnings of the company as of 31/12/2020 amount to 2,800,010 (2019: 4,650,362) 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 550,700 euros (2019: 930,072) euros. Therefore, 2,249,310 (2019: 3,720,290) euros can be paid out 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 distributable profit amount as of 31/12/2020.

Note 16 Related parties

(in euros)

Remuneration and other significant benefits calculated for members of management and highest supervisory body		
	2020	2019
Remuneration	144,144	140,765

Pursuant to amendments to the public sector financial accounting and reporting guidelines, the financial statements must disclose, in addition to remuneration and other significant benefits calculated to the executive and senior management, also information on transactions with related parties with regard only to these transactions which are not in compliance with legislation or general requirements of the Company's internal documentation or not on market terms, pursuant to the amendments of the General Rules for State Accounting (§491) that entered into force on 24/11/2014. There were no such transactions to be disclosed in 2020 and 2019.

In 2020 remuneration for the members of the management and supervisory board amounted to 129,225 (2019: 124,918) euros and 14,919 (2019: 15,847) euros can be paid out as dividends.

The contracts of services of the management board members establish a requirement to pay termination payment amounting to the three month remuneration of the board member in case if the management board member is removed from the post prematurely at the initiative of the supervisory board.

OSPA 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 representatives of both the state and the association of the sellers of fuel must be present in the Company's supervisory board. The involvement of the sellers of fuel in the activity of the supervisory board is considered to be specificity of the management of OSPA. In case of supervisory board members who are the sellers of fuel, there may arise a possibility that the related fuel company is also the contractual partner in the contracts of purchase, sale or deposit of fuel concluded with OSPA. Additionally, in the event of difficulties in supply of liquid fuel, OSPA is obligated to supply fuel from the state liquid fuel stocks to the fuel companies, including the companies whose representatives may be the supervisory board members of OSPA.

More detailed description of the administrative procedure concerning the related parties is provided in the section "The Corporate Governance Report" of this report.

Note 17 Subsequent events

Oil market developments in 2021

The beginning of the year was turbulent, causing tensions between oil producing countries in OPEC+, production suspension in February in Texas, and a missile attack against the Saudi Arabic oil infrastructure in March.

According to the reports of the International Energy Agency (IEA), the global oil supply showed certain growth due to the increased production volumes in countries. Global oil and fuel stocks decreased within a half of the year, but they remained big enough to stay at an average five year level. As such developments did not meet the expectations of Saudi Arabia, considerable pressure was applied in February and March to cut production. More than by local crises, prices were affected by the OPEC decision of 4th March which, against expectations, did not implement production mitigations, and caused increase in crude oil prices. IEA assumes a total decrease in supply of up to 2% for the 1st quarter year-on-year. In the 2nd quarter, the situation should stabilise. These developments have increased the crude oil prices to the highest level in several years. Future prices may stay high, reflecting the favourable economic perspectives and an assumed continuation of the cutting policy in OPEC+ countries. Although these developments are favourable for oil producers, risks are taken carefully due to the fragile market balance. The increase in prices during the first weeks in March has raised the Brent quotes to a level of 70 dollars per barrel.

Increase in price has had a positive effect to the value of OSPA stocks. When, at the end of the year, the theoretical market value of liquid fuel in the OSPA balance sheet was 87.3 million euros, then based on the Platts price quotations in March 2021, the same calculation shows an increase to a level of 120 million euros. The value of stocks has increased by 28% within two months.

Domestic fuel consumption

The level of excisable fuel released into consumption meets the forecast. The stockpiling fee receipts in January and February exceed the OSPA budget by 1.4%. The volumes of diesel fuel released to free circulation exceed the forecast by 8%, and the amounts of petrol, jet-fuel, and heavy fuel oil remain under the expected volumes. According to the fuel handling database of the Estonian tax and Customs Board, the sales volumes of petrol and diesel fuel in January and March are lower than the 2020 average. In both consumption based databases, the 2021 indicators for February exceeded the ones in January.

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

Preparations for the creation of Estonian Stock Centre

On 11 March 2021, the government decided to adopt the amendments of the Emergency Act, by which a basis was created for the establishment of the Estonian Stock Centre. According to the draft legislation, AS Eesti Varude Keskus will be established through extending the tasks of OSPA. The draft legislation amending the Emergency Act was sent to the parliament. According to the plan, the Estonian Stock Centre will be established in July 2021, and its tasks will comprise establishing, maintaining, inspecting, replenishing, and managing the logistics of the fuel stock and other operation stock of the state, e.g. food, drugs and PPE. The operating expenses of the Estonian Stock Centre as well as the costs for establishing, management, and implementation of new stock types will be covered from the state budget.

As before, the costs of managing and replenishment of liquid fuel stocks will be covered by liquid fuel companies as set out in the Liquid Fuel Stocks Act.

For the preparation of its future tasks, OSPA will within the first half-year 2021 prepare amendments in the statutes, submit a new company strategy to the supervisory board, start establishing of expert groups in each area, and hire more employees.

Note 18 Additional Note to "Note 4 Inventories"**Liquid fuel stocks in the balance sheet of OSPA as of 31/12/2020.**

Fuel	Quantity, tons	Location
Petrol	45,541.445	Estonia
Petrol	10,027.190	Sweden
Petrol	7,120.153	Finland
Diesel	78,096.520	Estonia
Diesel	71,280.620	Sweden
Diesel	31,922.598	Finland
Jet fuel	9,946.517	Sweden

Fuel	Amount tonnes	Average acquisition price EUR/t	Carried at cost EUR
Petrol	62,688.788	566.75	35,528,821.09
Diesel	181,299.738	581.72	105,465,937.97
Jet fuel	9,946.517	703.93	7,001,616.93
IN TOTAL:	253,935.043		147,996,376.00

As of 31/12/2020, the liquid fuel stock shown in the balance sheet amounted to 253,935 tonnes with a total acquisition price of 147,996,376 euros.

The theoretical market value, considering the average Platts price quotations in December 2020, amounted to 87,337,886 euros as of the balance sheet date.

OSPA's delegated liquid fuel stocks as of 31/12/2020

Fuel	Amount tonnes	Market price <i>USD/t</i>	Premium USD/t	Cost EUR
Heavy fuel oil	960	328.85	32	282,300.90

As at the balance sheet date, delegated stocks amounted to a total of 960 tonnes with the market value of 282,300.90 euros, which have been recorded as contingent liabilities in the financial statements (Note 8). Market value was calculated based on the Platts average heavy fuel oil prices in December 2020.

Exchange rate used was the EUR/USD exchange rate of the European Central Bank as at 31/12/2020.