VKG Yearbook 2006

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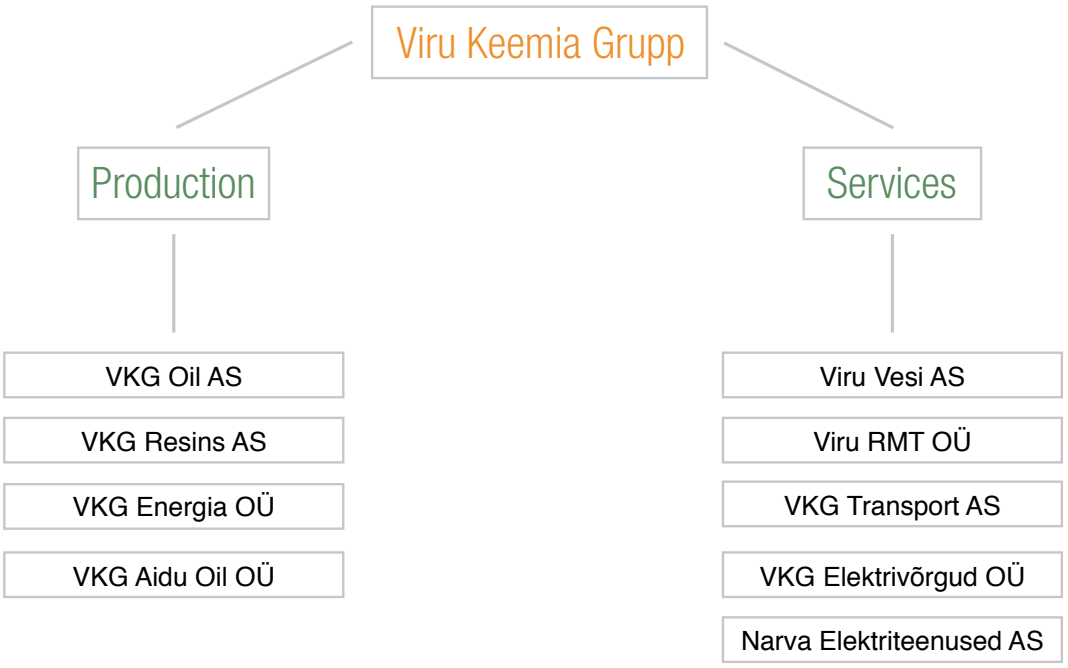
Organizational chart



Brief outline about the Group

The experience of the VKG - a company privately owned by Estonian capital, dates back to the year 1924. Viru Keemia Grupp AS is a holding company for a group of eleven companies. VKG owns all the shares of all of its subsidiaries. A management board with seven members manages the group.

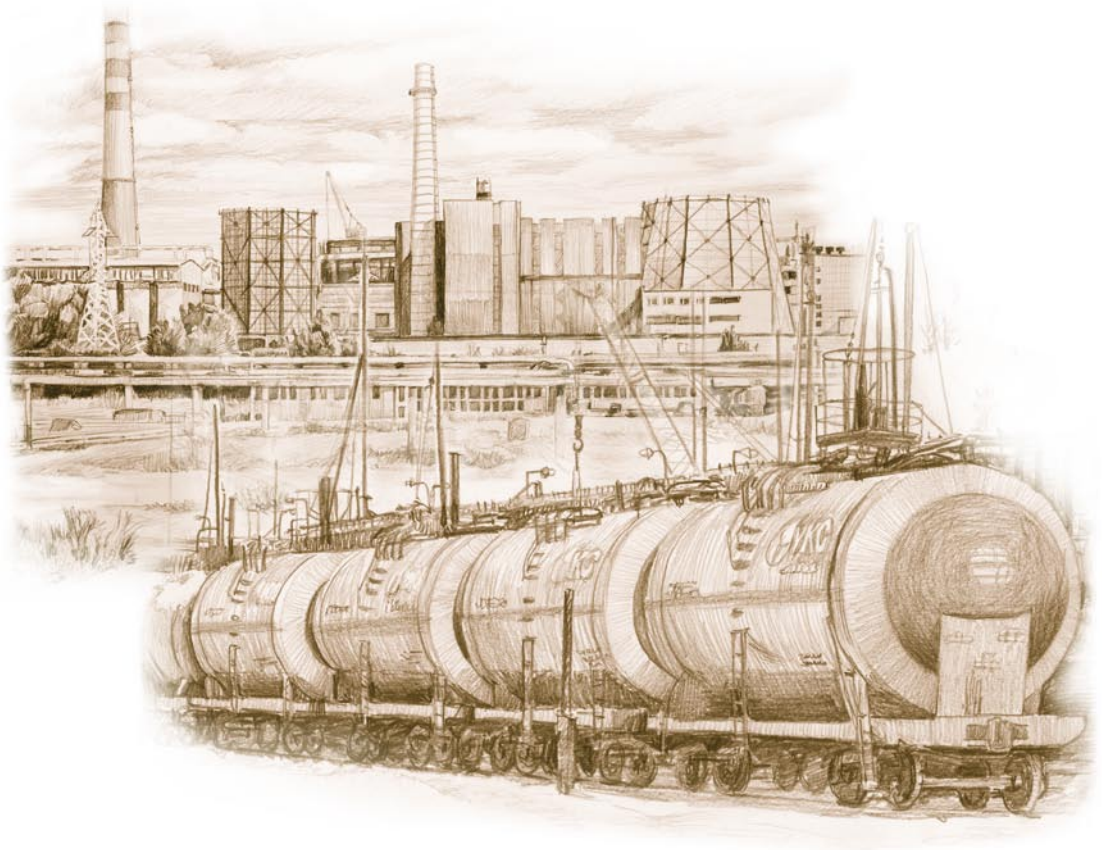
The group main field of activity is processing oil shale. VKG the largest company, VKG Oil AS, processes about 1.7 million tonnes of oil shale per year and produces 200,000 tonnes of crude oil. The main products are fuel oils, oil shale chemicals and natural gas. Another of the group subsidiaries, VKG Resins AS, delivers some additional value to oil shale chemicals. The products of the largest producer of adhesive resins in Estonia are bought mainly by timber industries in the Baltic States, Finland and Russia. More than a thousand rail tankers and open wagons, which belong to the group subsidiary VKG Transport AS, are used to provide railway transportation services in Estonia and abroad to local and international partners. Road tank-lorries suitable for the carriage of chemicals are used for nearer destinations.

Metal, automatic and mechanic work is carried out in VKG subsidiary, Viru RMT OÜ.
The group subsidiary, Narva Elektriteenused AS, designs, builds and repairs overhead lines and cables, substations and relay protection devices.

The activities of local energy company VKG Energia OÜ are constantly expanding. At the moment the company has two power stations in its possession and owns 40% of the shares of AS Kohtla-Järve Soojus. Water supply and sewage treatment for the region is organised by Viru Vesi AS, which also belongs to the group.

In order to guarantee a secure market for electricity produced by the group, VKG bought in 2006 the power network in the Narva area, which is currently named as VKG Elektrivõrgud OÜ.

VKG is one of the largest employers in the region. More than 1,400 people from Ida-Viru County and the rest of Estonia are employed in the different companies belonging to the group.



Address by the Chairman of the Board

Janek Parkman
Chairman of the board

Viru Keemia Grupp AS mission is to add value to oil shale – the most important mineral resource in Estonia. Oil shale is mined and processed to produce shale oil, chemicals and gas in VKG plants. Shale oil is sold as a fuel for boiler houses and ship bunkering companies. Oil shale chemicals are used in the production of various industrial and consumer goods. VKG uses oil shale gas to produce thermal energy and electric power for its own use and also for other consumers in Ida-Viru County. Such an integrated business model makes VKG one of the most effective energy companies in Estonia. Since all production is based on oil shale, VKG is also unique in the world.

VKG development in 2006

VKG had many rapid developments in 2006. While all sectors of the group showed progress, three fields were outstanding: environmental protection, energy, and oil shale mining. Emphasis on environmental protection turned out to be the most important aspect. Never before in the history VKG have so many environmental projects been completed within one year. Last year a monitoring device for outdoor air, a new furnace for a distillation device and a filtration device for process waters were finished; to mention only the most significant projects. In addition, several new environmental projects were initiated: a new loading area for the storage for semi-coke and the installation of a gas scrubber for the effective extraction of sulphur from shale gasses.

The second significant field of development is energy. It has been clear for a long time that the full energy potential of oil shale has not been used. When the North and South power stations were purchased in 2003 and 2004, it became possible to use gas, the by-product of oil shale processing, in the production thermal and electric energy. VKG power stations provide heat and energy to companies as well as the residents of Järve district in Kohtla-Järve. Since not all the energy created is being used even now, there is a plan to heat the Ahtme district and the town of Jõhvi. For this purpose a shareholding was obtained in AS Kohtla-Järve Soojus. In order to guarantee a secure market for electricity, VKG acquired the power networks in Narva, Narva-Jõesuu and Sillamäe last year.

The third field of development is the mining of oil shale, which probably raised the most interest among the general public in Estonia in 2006. VKG progress depends directly on the oil shale resources development plan sent to the government for approval as well as what kind of restrictions will be put on the exploitation of this resource. For the moment VKG is carrying on with preparations at the Ojamaa mine, which will be completed in 2008. Establishing a new oil plant in Kohtla-Järve is also a definite plan. Other development projects will have to wait until the oil shale development plan has been approved by the Government.

VKG long-term priorities

VKG main priority in the coming years be to improve the effectiveness of the existing business model. Lengthening supply and product chains while increasing production are all examples where significant progress can already be seen in 2007. At the same time this is almost endless work and there are always ways in which things could be done even better.

Projects not so clearly related to energy will also be continued in 2007. However, the main criterion is that each new business should offer synergy to VKG business model, For example, the production of oil shale chemicals is to be developed further downstream. One new field with a great potential is the production of building materials from oil shale ash.

VKG financial overview 2001-2006

Priit Rohumaa
Financial Director

VKG financial overview 2001-2006

The financial situation of the Viru Keemia Group has been continually strengthened through the years.

Growth of profit

Since 2001, VKG has reaped a total profit in the region as 700 million kroons, of which, almost two thirds is from the last two years. The sales income for 2006 was 1.5 billion kroons, and the consolidated profit reached 300 million kroons.
In comparison with 2005, sales income increased by 53% and profit by 140%. Turnover profitability has increased to 21 per cent (14% in 2005). Due to a revaluation of fixed assets conducted at the end of 2004, the increase of profitability is even better characterised by the growth of EBITDA:

- in 2004 154 million kroons
- in 2005 286 million kroons
- in 2006 486 million kroons

The continuous growth of profit has been based both on external factors and the successful economic activity of VKG:

- prices of the world market are continually favourable for the company – in recent years the price of oil has increased by 20 dollars per barrel to a level of 50-60 dollars per barrel.
- prices of the world market are continually favourable for the company – in recent years the price of oil has increased by 20 dollars per barrel to a level of 50-60 dollars per barrel.
- the company has diversified its investments in different fields (road transport, railway tanks, water economy, energy), which makes it possible to minimise the risk of deterioration due to external factors. As a result of these investments, labour productivity, turnover and profit per person have also improved. The continuation of diversification continues with an investment in energy – namely the purchase of network companies in Narva.

Viimased edukad aastad näitavad, et VKG senine investeerimispoliitika ja juhtimisotsused on olnud õiged. Loodud on kõik eeldused eduka majandustegevuse jätkumiseks ka tulevikus.

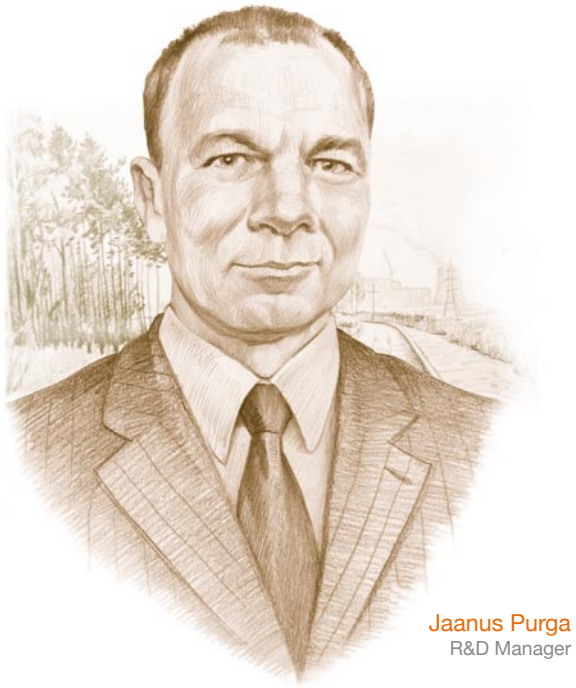
An increase in the balance sheet totals

During the past six years the VKG balance sheet totals have continually increased.
A big leap forward in 2004 was caused by a revaluation of VKG assets, the reason for which was a need to reflect the balance sheet value of the assets so that they would correspond to the actual financial value, and the depreciation calculated from the value would describe more precisely the actual usage of the assets.
Even without taking the revaluation into consideration the growth of the company's balance sheet totals has been rapid. That has been thanks to the decision by the company's owners to plough profits back into investments. Within the past five years VKG has invested almost 1.2 billion kroons into fixed assets. Important directions taken in the past few years have been:

- 2003-2004 – an increase in the company's stock of railway tanks;
- 2005 – an increase in the processing volume of oil shale and environmental activities;
- 2006 – energy, environmental protection

The growth of profit achieved by both, successful business and reasonable investments has made it possible to keep the share of equity capital continually high. Even though a larger amount of external finances have been included for the rapid expansion seen in recent years, the equity capital still forms two thirds of the balance sheet total. This success has increased the reliability of VKG in the opinion of credit establishments and has made it possible to finance new investment projects with loans and leases at a more favourable rate.

VKG R&D



Jaanus Purga
R&D Manager

VKG Development

To guarantee the success of a rapidly growing company, the following aspects are necessary: sensible strategic decisions, correct development trends, and well-considered development with adequate finances. VKG is no exception – economic success has enabled the company to invest more in increasing the productivity of existing production processes and in long-term process-orientated research and development.

The world market of liquid fuels revealed many price records in 2006 but at the same time there were also some quite sudden falls in prices. Although even the most pessimistic estimates still forecast that the price of liquid fuels will go up in the long run, this does not guarantee automatic success for the manufacturing of all liquid fuels. Only those who invest sufficiently in development and are able to react to market changes in a fast and flexible manner will prosper.

The expansion of the production of shale oils

The expansion of the production of shale oils in Estonia and beyond is an important VKG priority in the near future. The first step in the expansion of production was to extend five VKG Oil AS oil plants, which were designed in 2004 and built in 2005.

In co-operation with Russian and Finnish engineering companies, in 2006 VKG began the design of a new oil plant in Kohtla-Järve which would work on the basis of solid heat carrier technology. The aforementioned technology is meant to process fine oil shale (and so is different from the Kiviter technology used in VKG Oil AS at the moment). The technology is based on the earlier Galoter technology and was modified with the help of modern engineering solutions and VKG experience in oil shale processing. The new oil production complex with a capacity of 0.8 million tonnes of oil shale per year and a cost of 800 million kroons will be built on the VKG production site in Kohtla-Järve from 2007 to 2008. Oil production is expected to commence at the end of 2008.

The speed and scope of expanding oil production depend on the national development plan on the use of oil shale which is to be approved in 2007 by the Government. If oil shale resources are sufficient, then VKG is planning to expand its production in Estonia and build a new oil plant near the mine in 2009–2011.

While expanding production in Estonia, VKG is also looking into various possibilities for establishing an oil shale industry in oil shale deposits outside of Estonia. In 2005, VKG established a subsidiary in Russia in order to compile a business plan for creating an open cast oil shale mine and setting up an oil shale industry in Leningrad Oblast. The oil shale in the Leningrad deposit is very similar to the oil shale in Estonia.

Valuing oil shale and waste-free production

Valuing oil shale and waste-free production are keywords in the national development plan and in VKG development. Ideally, each tonne mined would yield a maximum profit and produce a minimum of waste and emissions. VKG is con-

vinced that part of the oil shale processed in Estonia can be used so that all the energy and chemical potential held by organic substances as well as the potential of the mineral substances are utilised.

The optimum and economically effective usage of oil shale contains:

- the production of total oil shale crude oil;
- the production of quality liquid fuels out of crude oil;
- the production of chemicals and chemical products;
- the co-production of thermal energy and electricity out of oil shale gas;
- the production of building material on the basis of the mineral component of oil shale.

A greater part of the aforementioned components are already integrated into VKG companies. However, new possibilities are constantly sought in order to improve the quality of existing products, expand the product classification and add products with high added value.

One example of how VKG has realised the potential of oil shale chemicals is in its creating of the technology for producing high purity 2-methylresorcinal, which is used in the cosmetics industry. The first test batches of 2-methylresorcinal were produced and marketed in 2006, using the technology protected with a utility model. An industrial installation was designed which is to be set up and started in 2007.

Since the market of liquid fuels is mostly growing in the sectors of light and high quality fuels, the company is constantly seeking ways in which shale oil could be used in making motor fuels. If a suitable technology is found, then the use of a future refinery for processing all shale oil produced in Estonia would be a very good idea.

In recent years VKG has significantly reduced the environmental impact and quantity of oil shale waste per production tonne. Installation of filtration devices, started at VKG Oil AS in 2006, allows production with out the manufacture of liquid waste.
A filter cake formed after filtration can be used in the building materials industry with oil shale ash and semi-coke.

VKG environmental protection

Rein Rahe
Technical Director

Environment 2006

Within VKG Group a special focus is put onto environmental protection. This is proven by large number of environmental projects which were completed within the last year, as well as environmental investments that reached 100 million kroons in 2006 (compared to 24 million in 2005). VKG relies on an environmental activity schedule that has established the company's tasks between 2005 and 2009, as well as its activities for the completion of those tasks. The purpose of this environmental activity is to ensure the accurate fulfilment of all valid environmental requirements, the constant decrease of the company's environmental footprint and the minimisation of environmental risks due to the company's activities.
The main directions of the company's environmental protection tasks for 2006 included the limitation of air emissions, the decrease of wastage from oil shale reprocessing, and the commencement of construction for a new solid waste storage area. The largest completed project in 2006 was the new distillation furnace for oil shale oils that cost more than 45 million kroons and which, due to a more efficient burning process and a higher 60-metre chimney, creates emissions that are several times lower than previously.

Projects 2006

In November 2006 the first stage of oil shale oil filtration tests was completed. The project's successful implementation into the production process will make it possible to decrease the amount of wastage in the after-treatment of oil shale oils and will avoid the creation of discardable waste. Thanks to equipment which is completely air-tight, emissions into the atmosphere are also avoided. For the monitoring of emissions a special automated air surveillance station was placed on the premises which monitors the quality of air in the company's premises and saves the relevant indicators.

In 2006 construction of a solid waste storage area began for the new oil shale processing system. The storage area which will cover the company's needs over the next fifteen years is due to be completed in 2007.

Even though the European Union directives allow a transitional period for VKG Energia OÜ Northern Thermal Power Station until 2015, the decision was taken not to delay such a large investment. In December 2006 VKG Energia signed a contract for the construction of a sulphur cleaning installation. The plan is that the operation of the sulphur cleaning installation, with cost of approximately 140 million kroons, will commence at the beginning of 2008, and it shall be the first of its kind in Estonia.

In 2007 VKG plans to continue the activities established in the environmental activity schedule. With its environmental activity VKG aims at keeping pace with more increasingly strict environmental requirements, and maintain the ongoing development of the oil shale industry to ensure a minimum impact on the environment.

VKG Oil AS

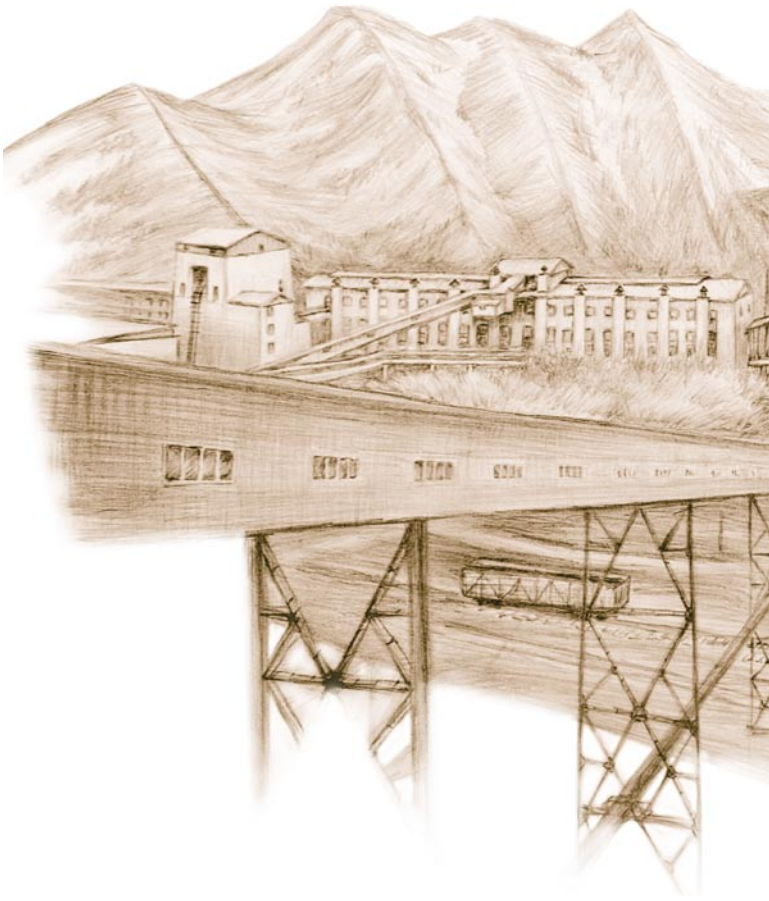
VKG Oil AS is the largest subsidiary of the VKG group. Its main field of activity is the thermal processing of oil shale and the production of oil fuels, oil shale chemicals and gas.

The by-products of processing oil shale are: oil fractions, electrode coke and bitumen. Total shale phenols are separated from phenol water. Distilled gas is used in the production of electricity and thermal energy in the group subsidiary, VKG Energia OÜ. The main products of VKG Oil AS are bunker oils, which are characterised by low viscosity and a pouring point below -25ºC, and VKG Extra Light, VKG Light, and VKG Sweet, which is used in ship fuels. Due to low sulphur content, VKG Oil environmentally friendly products are, first and foremost, demanded in Western Europe where environmental requirements are becoming stricter. Boiler houses in Northern Europe are the main consumers of fuel oils VKG C and VKG D because the fuel oils produced by VKG Oil do not need to be pre-heated even in very cold winters due to their low pouring points. The company also produces wood impregnation oils used to protect wooden constructions. The Electrode coke produced by VKG Oil has found increasing demands in niche anode markets due to its low sulphur content and other positive properties for metallurgy. In 2003 the production of alkylresorcinals Rezol, Honeyol and Cresolics began. Alkylresorcinals are the by-products of the distillation of oil shale phenols. These chemicals are widely used for producing different resins by the manufacturers of adhesives all over the world.

The company invests into R&D related to environment and product development. Yearly investments in environmental protection are in the region of tens of millions of kroons (in 2006 – 72 million kroons, in 2007 – 52 million kroons). The company has ISO 9001 and ISO 14001 certificates for environmental and quality management systems. As of December 2006 the company has an OHSAS 18001 certificate for an occupational health and safety management system.

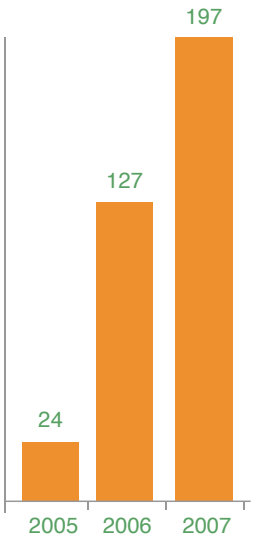
The company's aims for 2007 are: to continue environmental activities, including the reduction of the environmental impact, replacing outdated devices, rebuilding and reconstructing, automating and mechanising technological processes, and improving employees' working conditions. In product development the priority is still to develop products of a higher quality and therefore of more value. This includes the production of shale oils, oil shale phenols and coke. At the same time other problematic areas characteristic of heavy industry are also addressed, for example, reducing losses, increasing automation and improving working conditions.

Almost 400 people are employed in the oldest and largest oil shale company in Estonia, established in 1924.



VKG Resins AS

VKG environmental investments (mln.kroons)



VKG Resins AS is the largest manufacturer of adhesive resins in the Baltic States. Its products are used in industry, construction and households. The main products are urea formaldehyde resins (UF) and phenol formaldehyde resin (PF), which are used in making chipboard, veneer, insulation, and plywood.

In its product development, the company uses the unique qualities of alkylresorcinals obtained from shale oil. Alkylresorcinal resins are used as modifiers in the rubber industry to improve physical and mechanical properties. VKG Resins produces epoxy resins, which are used for making the well-known glue EPO-2, on the basis of both alkylresorcinal as well as a petroleum product bisphenol A. The various epoxy resins produced are used in construction as a base for paint, varnish, and flooring. Construction hydro insulator and primer ESMOL and shale oil paint LIGNO-EKSTRA for impregnating wood materials are also produced by VKG Resins.

In March 2001 VKG Resins AS received the ISO 9001 certificate for quality management system and in March 2004 the ISO 14001 certificate for environmental management system. In 2006, the company received the OHSAS 18001 certificate for occupational health and safety management system. The three systems were integrated together officially starting from December 2006.

In order to significantly expand the potential market of products, R&D is an ongoing process with the main focus on extending the use of phenols in industrial production. Plans for 2007 include the unveiling of a new industrial resin.

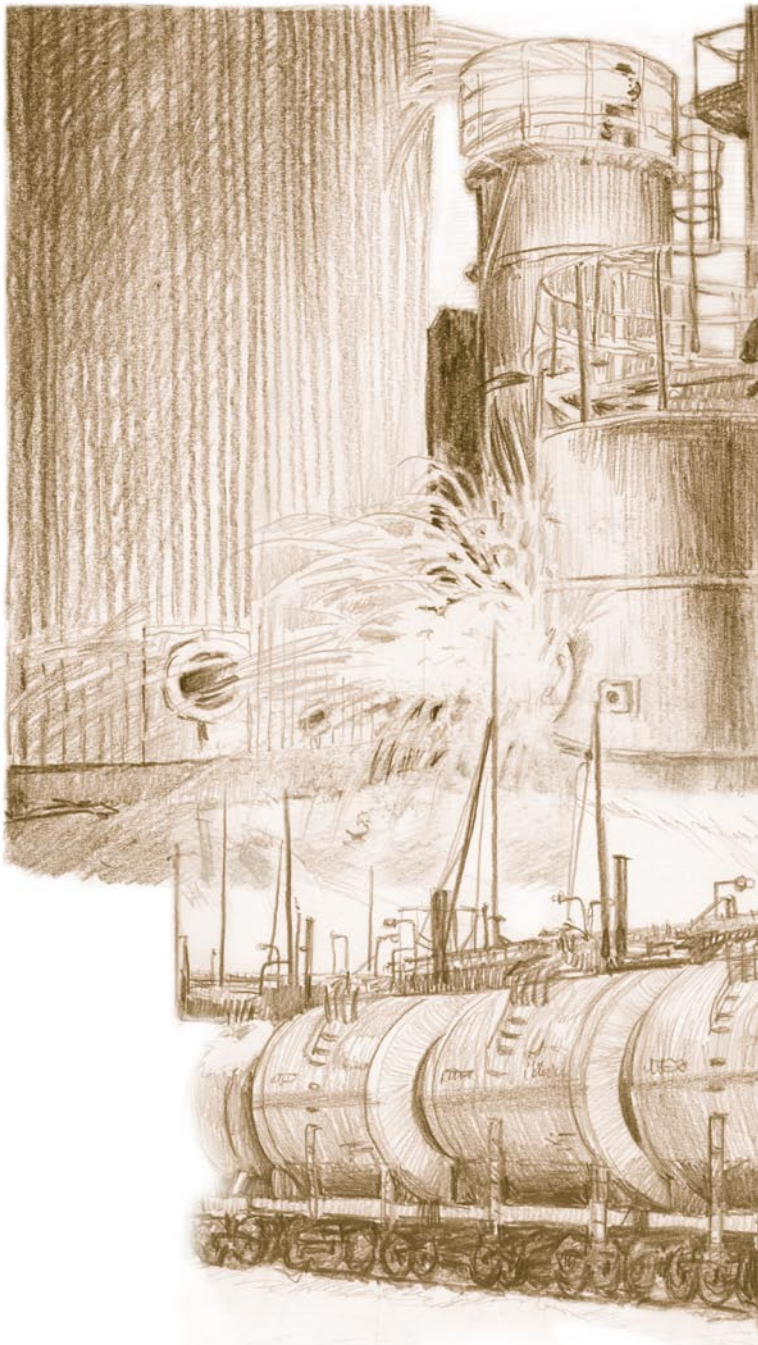
Viru RMT OÜ

VKG independent subsidiary, Viru RMT OÜ, was established in 2001. The predecessor of Viru RMT was a specialised organisation set up in the former oil shale chemistry plant. It reconstructed and built devices for companies belonging to the energy field in Estonia.

The company's activities are: the maintenance and repair of technological devices, the production of metal products, detail and construction, assembly services, and the construction and repair work for heat and gas networks. As of 2003, the company began to supply the building of water and sewage networks, including the design, assembly, and maintenance of systems with automatic control mode and relevant software development. Viru RMT OÜ is among the very few Estonian companies that services cranes with a lifting capacity of up to 140 tonnes and a lifting height of up to 80 metres. The company's clients include Viru Keemia Grupp AS, Nitrofert AS, Velsicol Eesti AS and other companies inside and outside the group.

In 2006 the company started insulation work, painting work on industrial equipment, and the testing and repair of gas-fuelled cutting equipment. In the same year several new devices were purchased which enabled the reduction of the amount of services bought in from outside the group. At the beginning of 2006 Viru RMT received an ISO 9001 certificate for environmental and quality management systems.

In 2007 the company is planning to provide painting services for cars and devices. At the same time Viru RMT is going to continue developing the production of industrial tanks, metal constructions and steel appliances.



VKG Transport AS

VKG Transport AS is a subsidiary of VKG which was founded in 1999. It is one of the largest transport companies in Estonia, providing international road and rail transport logistics services. The company has about 1 200 rail tanks for the transport of oil products and chemicals. The company also provides the following services: the carriage of hazardous substances, renting and cleaning of rail vehicles, railway maintenance, and freight forwarding. Most of the company rail stock is working in Russia and its neighbouring countries. Large forwarding agents in Russia are among the company partners.

VKG Transport AS constantly extends its scope by offering optimised journey routes and freight options. In addition to rail tanks, VKG Transport also uses truck-lorries for the carriage of chemicals on all European roads. All truck/lorries and employees comply with the conditions for the carriage of hazardous loads. In 2006, the company introduced ISO 9001 and ISO 14001 quality and environmental management systems and has received the respective certificates.

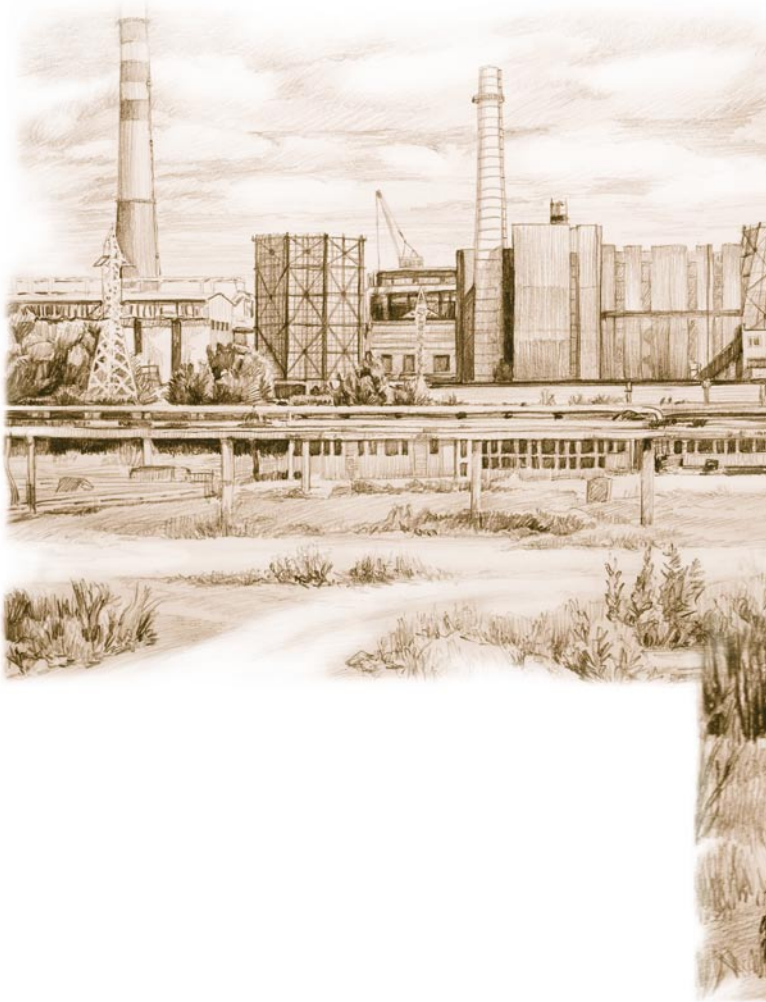
Due to the growing number of clients, the company is planning to extend the vehicle fleet and continue increasing turnover in 2007. Another plan is to continue what was started in 2006 – expand the number and quality of services provided on the international level.

VKG Energia OÜ

VKG Energia OÜ is a subsidiary of VKG which is active in the field of energy. The company assets include two power stations. VKG Energia Northern Power Station has been producing energy since 1948, while VKG Energia Southern Power Station was established in 1978. Investments into the stations made in recent years have turned the company into an energy producer and distributor of high potential. In the Northern Station, oil shale with oil shale gas (so-called generator gas) is used, in the Southern Station generator gas, and to a small amount, natural gas, are mainly used for the production of thermal power. The total installed power output of the power stations is over 700 MW for thermal power and 47 MW for electric power. All industrial companies in the neighbourhood use the thermal power produced in the form of steam – including the subsidiary companies of the Viru Keemia Group and producer of mineral fertilizers, Nitrofert AS, and the producer of benzoic acid, Velsicol Eesti AS. The yearly consumption of steam is over 380 GWh. The inhabitants of the town of Kohtla-Järve and the Kohtla Rural Municipality consume the heat from the heating water through the district heating network at an approximate rate of 100 GWh per year. The sales volume of electricity produced by VKG Energia reaches 70 GWh per year, and the largest consumer is the oil production complex of VKG Oil.

In 2006 a large-scale investment programme in the Northern Power Station was continued. The boilers that used to burn oil shale were reconstructed so that they can now also burn generator gas. Work will be continued to make it possible to bind part of the sulphur compounds contained in the generator gas which are already in the boiler during the joint burning of generator gas and oil shale to decrease emissions into the atmosphere. For the complete prevention of SO2 emission into the outer atmosphere, VKG Energia started the construction of a sulphur cleaning installation in 2006, which is the first of its kind in Estonia.

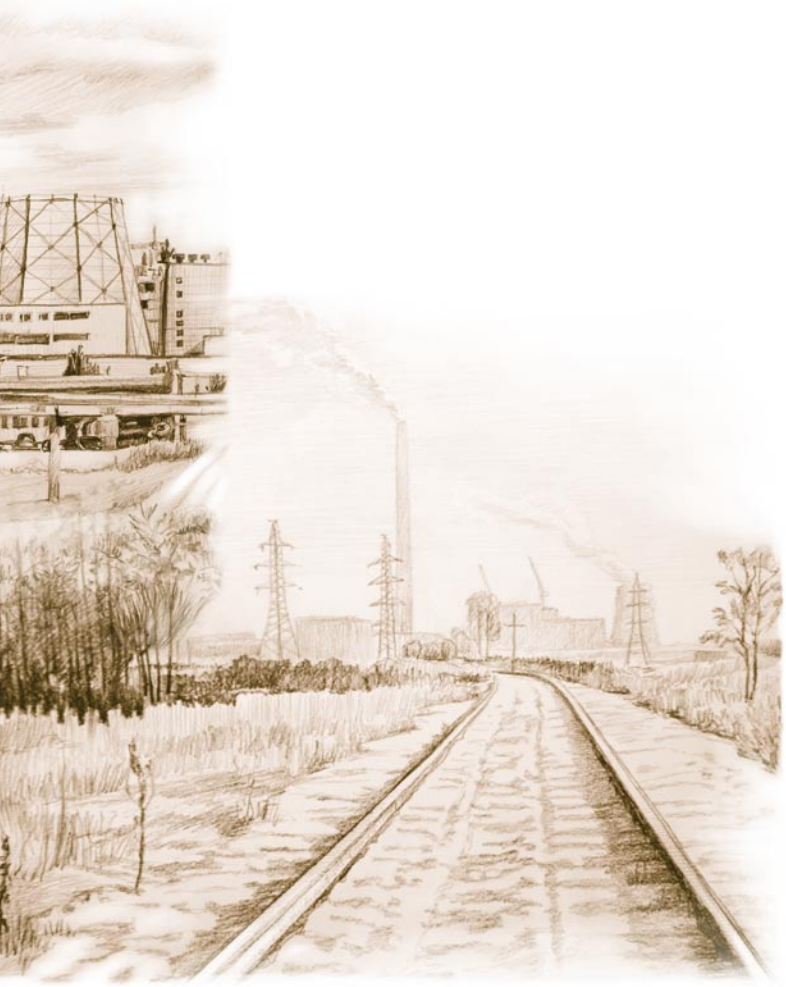
Another important event in 2006 was the purchase of a 41% share in Kohtla – Järve Soojus AS. Kohtla-Järve Soojus AS supplies the inhabitants of Jõhvi and Ahtme with 308.8 GWh of thermal power per year through its district heating network. As the Ahtme Power Station which belongs to Kohtla-Järve Soojus AS will be closed down in 2009, VKG Energia OÜ is preparing to supply heat to the consumers of Jõhvi and Ahtme from the Northern Power Station.



Viru Vesi AS

Viru Vesi AS is a subsidiary of Viru Keemia Grupp. Its main activities are water supply and sewage services, the supply of groundwater, lake and circulation water, the maintenance of water supplies and sewerage facilities and communications, and the transfer and secondary treatment of wastewater.

Industrial water, sewage and effluent is collected and industrial wastewater is de-oiled. Viru Vesi AS maintains 201 km of water networks, 164 km of sewage systems, twelve sewage pump rooms, eleven water pump rooms, 54 groundwater wells, two circulation water stations and two water treatment plants. The yearly sewage volume is about 3.2 million cubic metres, the volume of drinking water and non-potable water is about 7.5 million cubic metres and the volume of circulation water is about 15.9 million cubic metres. The company has an ISO 9001 certificate for a quality management system and an ISO 14001 certificate for the environment management system.



Viru Vesi AS operates over a large area from Kurtna-Vasavere lakes to the municipality of Sonda, and stretches from Ida-Viru County to the town of Loksa in Harju County. About 55,000 residents live in the company's 380-hectare service area. The largest towns are Kohtla-Järve, Jõhvi and Loksa. The biggest industrial clients are AS Kohtla-Järve Soojus, AS Nitrofert, AS Velsicol Eesti, Silbet AS, as well as the subsidiaries of Viru Keemia Grupp AS.

In 2006 the company won a bid which guarantees the right to service the Kohtla-Järve region until September 2009. In the same year a water economy project for eleven municipalities from Lääne and Rapla counties was prepared. It is entitled: "Matsalu alamvesikonna vee- ja kanalisatsioonirajatiste eelprojekti ning riigihanke pakkumiskutse dokumentide koostamine," (The compilation of documents for the conceptual design of water and sewage facilities in Matsalu sub-basin and tender documents for public procurement). "A water economy project for eleven municipalities in Ida-Viru County," is also in progress. It is for the reconstruction of the existing water supply and sewage systems and to find out about the potential for building new systems. In addition to being involved in issues of water economy in its own service area, the aim of both projects is to give advice to water companies in other local government areas and counties.

Next year the company will focus on maintaining existing clients, expanding the client base, developing client relations, and guaranteeing the effective operation of water economy in the long run.

VKG Elektrivõrgud OÜ

VKG Elektrivõrgud OÜ is the second largest power distribution company in Estonia after Eesti Energia Jaotusvõrk (Distribution Network). In May 2006, Narva Elektrivõrk AS, which is well-known for its long-established traditions, work experience and highly qualified experts, became a subsidiary of VKG.

VKG Elektrivõrgud OÜ mainly transmits and distributes electricity and provides operational management services for company power systems. In addition, the company also provides the service of designing, building, repairing, using, checking and maintaining electrical installations. The company's service area is in Ida-Viru County, including the towns of Narva, Narva-Jõesuu and Sillamäe, the rural municipality of Vaivara and the district of Viivikonna in the town of Kohtla-Järve. The mission of the company is to be the most effective power distribution company in Estonia. Client service, quality, and environment-friendliness are prioritised.

The most important achievement in the last three years is the fact that the company has found alternative power suppliers in addition to Eesti Energia, which has helped to provide electricity to clients at lower prices. The company is the best one in Estonia at avoiding power losses and network failures. Another significant accomplishment is establishing an ISO 9001 quality management system in 2004. According to several national and international surveys, VKG Elektrivõrgud OÜ has been credited as being one of the best employers in the country. Hewitt Associates stated this in a document entitled: "Best Employers – Best Results," which summarises a survey carried out all over Europe in 2004. According to this document, the company was the tenth best employer in Europe. In 2005 a competition was held in Estonia to find the most employee-friendly company and VKG Elektrivõrgud OÜ took third place in the category of family-friendliness.

The main priorities of 2007 include reducing power losses and finding new ways to buy electricity at cheaper prices. Special attention is to be paid to decreasing commercial losses. The work on developing the network will continue in order to guarantee that all those wishing to join the network will have the necessary capacity.

Narva Elektriteenused AS

Narva Elektriteenused AS became part of VKG as of July 2006. The company provides services (especially in the field of constructing power networks) to power network operating companies and network owners in Ida-Viru County and the rest of Estonia. Narva Elektriteenused AS is well-known for its long experience in this kind of work, a well-established working style, and for possessing qualified specialists. Professionalism, competence, accuracy of work and high quality in all areas are the main characteristics of the company.

VKG Elektrivõrgud OÜ (previously known as AS Narva Elektrivõrk) and VKG Energia OÜ are among the company strategic clients. The biggest clients include AS Sillamäe Sadam, AS Sillamäe SEJ, AS Sillamäe Oil Terminal, and companies which are located on the building site belonging to the Port of Sillamäe and in the Sillamäe free zone where Narva Elektriteenused AS is the main contractor in building outside power networks. The company is also a subcontractor for regional building projects.

Narva Elektriteenused AS is developing constantly and it strengthens its market position each year. The company has increased its turnover more than fourfold within the past 2.5 years, extending its service area from Ida-Viru County to the rest of Estonia. Since its first year in existence the company has been a member of the Estonian Association of Electrical Enterprises. In 2005 Narva Elektriteenused AS became the main contractor for building outside power networks in the Port of Sillamäe free economic zone. The greatest achievement of 2006 is receiving the certificate for and establishing the quality management system ISO 9001.

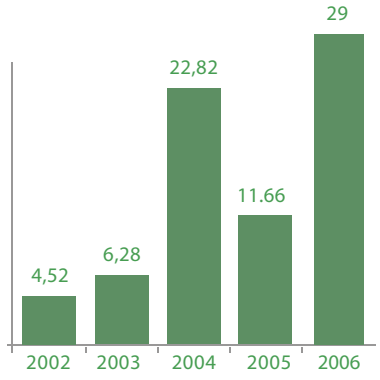
In 2007 the company is aiming at expanding its services and strengthening its market position. Due to rapid developments in recent years and expanding into other parts of Estonia, the company is planning to find a new name which will reflect its current market position more accurately and also support the company's activities. The company also wishes to increase turnover and profit in 2007.

VKG financial statements

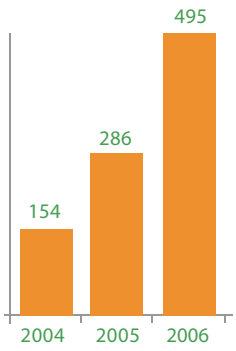
Income Statement (thousand kroons)

	2001	2002	2003	2004	2005	2006
Net sales	584 152	574 589	592 235	713 819	980 939	1509 000
Targeted financing		504	305	1 618	1 493	0
Cost of goods sold	474 235	464 902	458 904	514 851	614 392	997 000
Gross profit	109 917	110 192	133 635	200 586	368 040	512 000
Marketing expenses	10 736	16 402	12 896	32 001	28 894	34 800
Administrative and general expenses	49 140	55 623	55 112	60 196	135 501	162 800
Other operating revenue	32 293	70 958	12 062	2 793	6 296	14 400
Other operating charges	65 892	25 083	6 216	7 280	22 452	21 000
Operating profit	16 442	84 042	71 473	103 902	187 489	307 800
Financial income and expenses	-7 136	-3 592	-12 797	18 367	-52 549	-6 500
Profit before taxation	9 305	80 450	58 677	122 269	134 940	301 300
Income tax expense				1 300	1 200	2 300
Net profit for the financial year	9 305	80 450	58 677	120 969	133 740	299 000

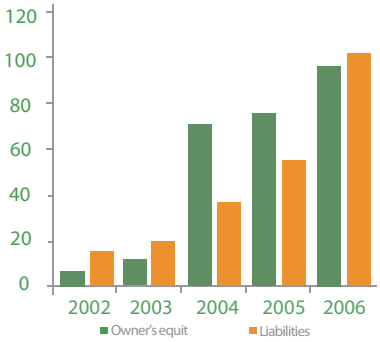
VKG Investments in Total Fixed assets 2002-2006 (mln euros)



VKG 2004 – 2006 EBIDTA (mln kroons)



VKG Liabilities and owner's equit 2002 – 2006 (mln euros)



Consolidated balance (thousand kroons)

	2001	2002	2003	2004	2005	2006
ASSETS						
Cash and accounts	11 399	12 127	13 421	11 866	82 071	52 280
Derivative instruments				5 323		
Shares and other securities				4	4	
Customers receivables	24 504	32 595	50 366	56 851	100 862	161 240
Various claims and accrued incomes	2 065	2 899	28 811	13 343	9 784	26 940
Prepayments	6 708	4 713	9 508	701	813	2 070
Total stock	32 817	27 663	35 962	29 195	53 317	111 020
Total current assets	77 493	79 997	138 068	117 283	246 846	353 550
Long-term financial investments		32 799	52 946	71 909	552	36 440
Tangible assets	91 863	129 502	154 059	1,190,404	1,356,959	1,885,110
Intangible assets						500
Enterprise value					15,153	90,750
Total fixed assets	91 863	162 301	207 005	1,262,313	1,372,664	2,012,800
TOTAL ASSETS	169 356	242 298	345 073	1,379,596	1,619,510	2,366,350
LIABILITIES AND OWNER'S EQUITY						
Debt obligations	17 749	21 717	36 132	83,948	106,857	205,790
Customers prepayments	2 609	2 078	892	534	929	1,960
Debts to suppliers	40 421	41 914	43 437	49,122	103,878	162,670
Tax liabilities	9 118	7 606	8 851	11,250	15,558	17,970
Accrued expenses	9 384	11 915	12 838	13,552	43,122	20,720
Short-term allocations			1 340	2,546	200	6,690
Incomes for future periods				257	257	14,910
Total short-term liabilities	79 281	85 229	103 490	161,209	270,801	430,710
Loans, bonds and capital lease	63 785	46 482	72 319	163,576	214,538	485,650
Incomes for future periods from targeted financing				772	515	0
Long-term liabilities	63 785	46 482	72 319	164,348	215,053	485,650
Total liabilities	143 066	131 711	175 810	325,557	485,854	916,360
Share capital	400	400	400	400	400	108,000
Legal reserve	829	3 429	3 028	719,850	765,508	675,240
Undivided profit	25 061	106 758	165 836	333,789	412,748	711,750
Company-owned shares (deduction)					-45,000	-45,000
Total equity capital	26 290	110 587	169 264	1,054,039	1,133,656	1,449,990
TOTAL LIABILITIES AND OWNER'S EQUITY	169 356	242 298	345 073	1,379,596	1,619,510	2,366,350

The group from a human perspective

As the largest employer in the region, VKG takes care for the maintenance of long-established traditions belonging to the town of Kohtla-Järve and the oil shale industry.

In 2006, the **Chemist's Day** was celebrated for the sixth time. As per tradition, a party appropriate for an oil shale town was organised for the workers of the oil shale industry and their families on the last Saturday in May. The Chemist's Day entertains the whole town and several thousand people participate.

In cooperation with the town authorities VKG organised a **party for company veterans** which is already in its third year. According to VKG traditions, there is a party twice a year – on the 8th of March and on the first week of October in the Kohtla-Järve community cultural centre. Each time a festive concert programme and a champagne reception is organised for the veterans. About five hundred veterans take part in the event.

Every year in August VKG organises a **start of school party.** First-graders and their parents spend the entire day at a water park and each child gets a school bag from the group with everything he or she will need at school. At Christmas there is a **Christmas gathering** with Santa Claus, a play and presents for the employees' children. About 500 children participate in the gathering, which has already become a tradition.

The group is also characterised by a **well-established labour union movement**. The labour union mediates between the employees and the management and helps to organise traditional events. There is a Chemists' Labour Union in Kohtla-Järve, and a Power Network Labour Union for local companies in Narva, which protects the rights of the employees in VKG Elektrivõrgud OÜ and Narva Elektriteenused AS.

In order to secure the better exchange of information, a bilingual **newsletter called Viru Keemik** is published once a month. Its circulation is 1,200–1,500 copies. In November 2006 the 50th issue of Viru Keemik was published.


VIRU KEEMIK
VKG SISELEHT
1. SEPTEMBER 2006 Nr 4 (40)
VKG kooliesmikute pidu

First and foremost, VKG sponsors environmental protection projects, but it also backs education and sport.

In 2003 VKG established **a scholarship for the students of Tallinn Technical University.** Two scholarships to the amount of 15,000 kroons are awarded each year.

In the academic year 2005/2006 VKG began working in cooperation with the **Virumaa College of Tallinn Technical University,** which is situated in Kohtla-Järve, in order to motivate the most successful students in professional higher education. VKG is planning to invest 275,000 kroons in scholarships from 2005 to 2008.

On 21 September 2006 VKG and Tallinn Technical University signed a “Memorandum of Understanding”, which determines **VKG involvement in establishing a Paul Kogerman scholarship** for PhD students. As of the academic year 2007/2008 Viru Keemia Grupp AS, along with other chemical companies in the region, will award one scholarship for a PhD student.

The main beneficiary of VKG sports sponsorship is the Estonian Wrestling Federation. VKG **was the main sponsor of the Estonian Wrestling Federation** from 2005 to 2006 and supported the Federation with 400,000 kroons. Among other things, this sum was also used to cover the travelling expenses of the present world champion in Greco-Roman wrestling, Heiki Nabi.

VKG sponsors the publishing of materials which introduce the **history of oil shale production**. In 2003 Vello Kattai’ book, “Põlevkivi – õlikivi,” was published, and in 2004 Ivar Rooks’ book of memories, “Esimesest Eesti Põlevkivitööstusest Kiviterini,” (From the first Oil Shale Production till Kiviter) was also released.

In VKG there is an art gallery which presents the history of the company. The exhibitions are both at the VKG headquarters and on the group home page under the title: “Oil processing in art”.

Many of the group companies have received **national and international recognition.** VKG Oil AS has received an award from Enterprise Estonia in the category of Entrepreneurship Award almost every year. VKG Elektrivõrgud has been among the best employers in Estonia and Europe several times.

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