



Group annual report

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LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear reader

In 2023, Viru Keemia Grupp (VKG) focused on three key areas – ensuring the availability and reliability of its production assets, developing a safety culture and restructuring the company to both ensure the sustainability of its existing oil production operations and create the best conditions for the realisation of new development projects. Our determined efforts resulted in record oil production and a transparent corporate structure that clearly separates the process of adding value to fossil resources from carbon-neutral industrial production solutions.

VKG's operating environment was broadly similar to that of recent years, with the key factors remaining the same: the war in Ukraine and ambiguity over the prospects for the green transition. The ongoing war has made foreign investors more cautious about Estonia as a neighbour of Russia and has also forced local companies to reassess their expectations for returns on capital. At VKG, we completed the exit from regulated businesses and also decided to sell the subsidiary Viru RMT OÜ, which specialises in electrical work and the construction of metal structures. Following the completion of these transactions, VKG will focus entirely on the manufacturing industry.

The confusion surrounding the green transition has further increased. VKG proposed a legislative process for the Climate Act so that society could agree on the goals, ambitions and principles of climate neutrality. Although certain targets were included in the coalition agreement signed after the 2023 parliamentary elections, the main principles of the act have unfortunately not yet been formulated. It has become very clear that while Estonia participates in EU-wide climate debates, it does not have a clear position on what it wants to achieve and what risks it is willing to take. As a result, in addition to market, technology, currency and other risks, investments in Estonia are now increasingly exposed to high regulatory and government risk.

In 2023, we processed 4.8 million tonnes of oil shale, from which we produced a record 669,000 tonnes of shale oil products and 900 GWh of energy for our customers. The strong production results were due to the stable operation of the Petroter I plant, which had been reconstructed a year earlier, and the closure of coke production. The most significant event of the year in the oil shale business was the opening of the Uus-Kiviõli mine with the construction of an inclined shaft and the start of blasting and mining operations. The main challenge in the coming years will be to ensure that the new mine has sufficient production capacity when the Ojamaa mine is depleted and closed. The Uus-Kiviõli mine will provide us with raw material until 2038 and secure jobs for people in the region.

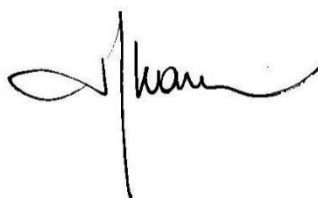
Last year, we completely changed our corporate structure to reflect the changes in market conditions and regulatory trends.

First, we separated all of VKG's new development projects from the production assets and operations of the fossil resource business. It was already clear that it would not be possible to raise debt from EU banks to finance oil shale activities. The legal and factual separation of the new development verticals from the oil shale industry gives the green light for the financing of VKG's bioproduct production, circular economy projects and solar and wind energy projects.

As a result of the sanctions against Russia, trade in oil products in the Baltic Sea region decreased significantly. Higher freight rates due to the decline in shipping traffic had a negative impact on sales margins and we saw a clear need to broaden our customer base and move closer to our customers. At the end of 2023, we transferred the management and financing of all sales activities to our unit in Switzerland and strengthened our sales organisation through local recruitment.

We entered 2024 with a clear organisational structure and an updated strategy. VKG's objective is to develop and operate manufacturing projects. The foundation of our operations is and will remain shale oil production, which we will pursue to meet strong global demand and to fund new development verticals. At the same time, we will continue to develop circular economy and bioproduct production projects. VKG's broader ambition is to contribute to the development of the Estonian manufacturing industry with all its knowledge and experience and the potential of the Ida-Viru region and its people.

Ahti Asmann
Chairman of the Management Board
Viru Keemia Grupp AS



DIRECTORS' REPORT

Viru Keemia Grupp AS (VKG, the group), based at Kohtla-Järve, is the largest privately owned shale oil producer in Estonia, which proudly continues the tradition of adding value to Estonian oil shale that began in 1924. VKG has been a privately held company since 1997, when the state-owned limited company Kiviter was privatised.

We strive for openness, commitment to our activities and continuous development. We believe that every step and every activity should create more value for everyone – our employees, our partners and customers, and the local community.

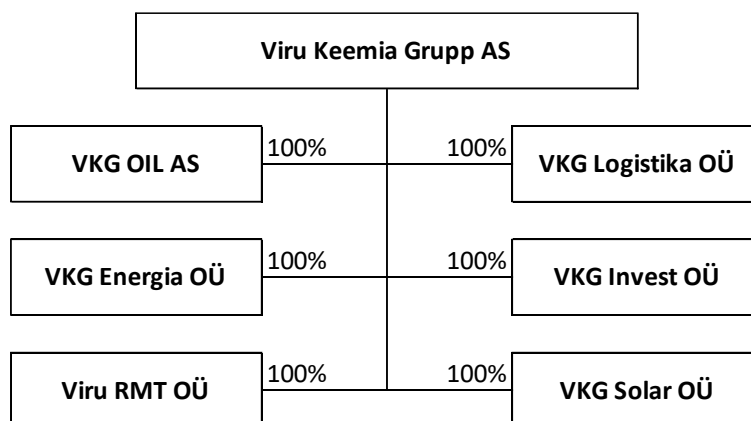
To add maximum value to oil shale, which is the key input to our core business of shale oil production, we are also involved in:

- oil shale mining;
- producing and selling fine chemicals made of oil shale;
- producing and selling heat and electricity;
- designing, building and repairing electrical installations and networks;
- producing, assembling, repairing and maintaining technological equipment.

In 2023, the VKG group continued the restructuring and operational streamlining started in the previous year in order to ensure the company's competitiveness in a changing economic environment. On the production side, safety, availability and reliability remained top priorities.

GROUP STRUCTURE

The VKG group's legal structure as at 31 December 2023 was as follows:



Changes in group structure in 2023:

- The merger of VKG Energiatootmise OÜ and VKG Energia OÜ was completed on 27 March 2023, after which VKG Energia OÜ continued its ordinary business as a direct subsidiary of Viru Keemia Grupp AS.
- In a demerger (division of Viru Keemia Grupp AS) carried out on 14 April 2023, VKG Kaevandused OÜ was separated from Viru Keemia Grupp AS and became a subsidiary of Kirde Varad AS (a related company). Although the original plan for the restructuring was to separate only the mining assets from Viru Keemia Grupp AS, we decided to transfer all mining operations to the business vertical of Kirde Varad AS in order to mitigate certain risks.
- During the year, the functions of Viru RMT OÜ were transferred to other group companies: the lifting equipment unit to VKG Logistika OÜ in April and the automation development unit to Viru Keemia Grupp AS, the automation service staff to VKG Oil AS and the electricians to VKG Energia OÜ in June.
- After the reporting date, on 17 January 2023, Viru RMT OÜ sold all its operations related to the maintenance of electricity networks to Viru Elektrivõrgud OÜ. As a result of a demerger (division) carried out on 8 March 2024, all other assets of Viru RMT OÜ were transferred to the VKG Energia OÜ (a related company) and, on 19 March 2024, Viru RMT OÜ together with its remaining metal structures production unit was sold to ICEstonia OÜ.

IMPACTS OF THE EXTERNAL ENVIRONMENT

As a producer of shale oil, VKG operates in a sector where its performance is strongly influenced by developments in the external environment, particularly in the following three areas:

- **Economic environment** – VKG's core product, shale oil, competes with other fuels in the global commodity market, where the balance between supply and demand depends on the overall economic environment and the decisions of producers with significant market power.
- **Regulatory environment** – Certain political decisions, mainly at the EU level but also in Estonia, may act as a headwind that undermines VKG's competitiveness in the fight for a foothold in the global oil products market.
- **Availability of raw material** – The availability of oil shale, which is VKG's main production input, depends on decisions taken at the national level regarding the design of the oil shale allocation system. In competing with a state-owned company, VKG must actively defend its rights to ensure that the decisions do not favour the state-owned company.

Economic environment

The ongoing war in Ukraine, heightened geopolitical tensions resulting from the armed conflict between Israel and Hamas, rapid inflation and high interest rates were the drivers of global economic trends in 2023. Despite the challenging environment, the global economy held up well and is expected to have grown by 3.1% in 2023, according to the forecast of the International Monetary Fund (IMF). However, global economic growth has been on a slightly downward trend since 2021, remaining below the historical average of 3.8% for the period 2000–2019. While the global economy grew by 6% in 2021 and 3.4% in 2022, the IMF expects future growth to remain similar to 2023. Global growth is forecast at 3.1% for 2024 and 3.2% for 2025. This is due to high interest rates by central banks to fight inflation and weak economic activity. Although the global economy as a whole grew in 2023, the economic situation varied from country to country.

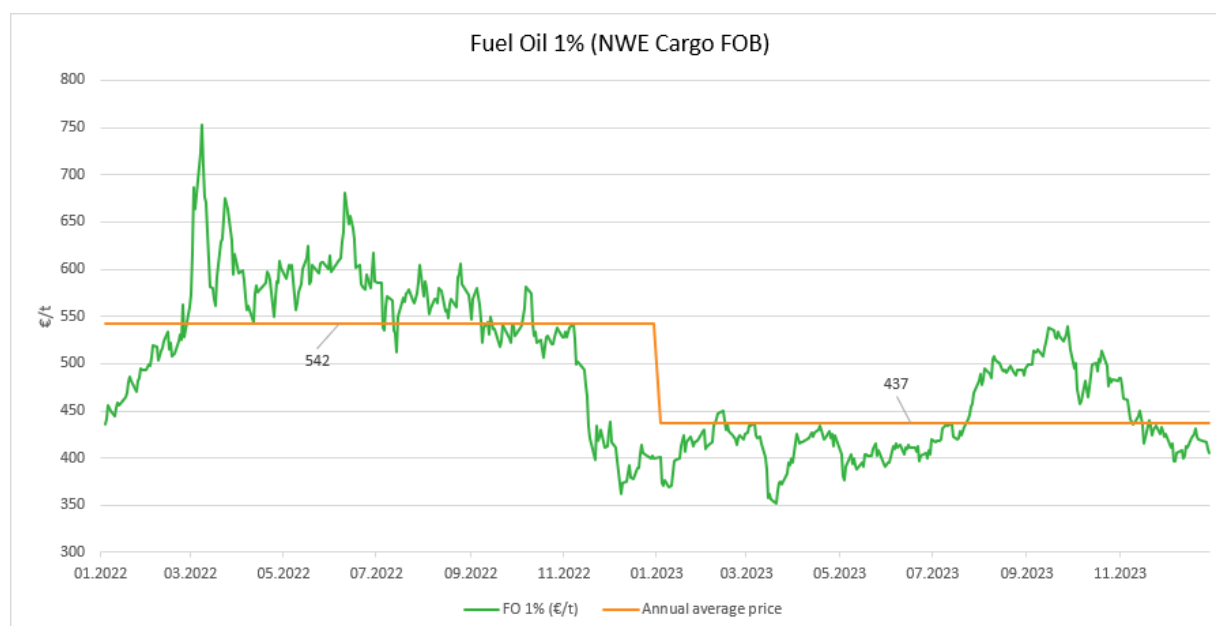
According to Eurostat, the euro area's gross domestic product (GDP) grew by 0.4% last year, well below global economic growth and the 4-5% growth rate in the euro area in recent years. High interest rates have been the main drag on growth in the euro area and globally. Since 2022, both the US Federal Reserve and the European Central Bank have gradually raised their interest rates, which reached record highs in 2023. By the end of the year, the US Federal Reserve's rate was 5.33%, its highest level in 23 years, and the European Central Bank's rate was 4.5%, its highest level since the global financial crisis of 2007–2008. The rate hikes were necessary to combat the rapid inflation caused by the central banks' expansionary monetary policies during the COVID-19 pandemic and the subsequent Russian invasion of Ukraine, which drove up energy and commodity prices.

The economic situation in Estonia is even bleaker. According to Statistics Estonia, Estonia's GDP fell by 3% in 2023 (2022: -1.3%). Estonia has not experienced such a broad-based recession since the bursting of the real estate bubble in 2008. The weak results of the past two years have been driven by rapid price increases, which have left their mark on the competitiveness of the Estonian economy. In addition to rising energy and commodity prices, inflation in Estonia has been fuelled by continued increases in labour costs. While in 2022, for the first time in 12 years, inflation in Estonia (+19.4%) outpaced the increase in the average gross wage (+8.9%), in 2023 the average gross wage (+11.3%) again rose faster than inflation (+9.2%). The economic downturn is expected to continue into 2024, which, according to economic theory, should increase unemployment and slow wage growth. While the central banks are trying to curb inflation through monetary policy, the Estonian government is boosting inflation through tax hikes that took effect at the beginning of 2024, when the VAT rate was raised from 20% to 22% and the excise duty on alcohol and tobacco products was increased by 5%.

VKG's financial results are most affected by developments in the global oil market. Compared to 2022, price fluctuations in 2023 were smaller, but still significant. Declining economic activity and the oil market's adjustment to the sanctions imposed on Russia in 2022 kept oil prices on a downward trend in the first half of the year. In June, Brent crude fell to its lowest level of the year at \$72/bbl. As a result of production cuts by OPEC+ and new geopolitical conflicts in Israel and the Red Sea region, crude oil prices rose to their highest level of the year at \$97/bbl by the end of September. At the end of the year, the ongoing economic recession put crude oil prices back on a downward trend, with Brent crude ending the year at \$77/bbl. The average Brent price in 2023 was \$82/bbl, 17% lower than in 2022.

The reference product for most of the oils produced and sold by VKG is fuel oil with 1% sulphur content. The market for fuel oil is less liquid than that for Brent crude. Thus, supply and demand can cause the prices of fuel oil and Brent crude to move differently. As oil market settlements are in US dollars and VKG incurs costs in euros, the dollar/euro exchange rate is another relevant factor. Accordingly, the group's performance is best reflected in the fuel oil price curve below (see Figure 1).

Figure 1. The price of fuel oil with 1% sulphur content in 2022–2023:



Source: OMJ

The graph shows the movement of the price of fuel oil with 1% sulphur content in 2022 and 2023. It started 2023 at €400/t, trading below the annual average in the first half of the year, but rose in the second half to peak at €539/t at the end of September. Towards the end of the year, the price of fuel oil with 1% sulphur content fell again due to weaker economic activity and closed the year at €405/t. The average fuel oil price in 2023 was €437/t, 19% lower than in 2022. Compared to Brent, the decrease in the average price of fuel oil with 1% sulphur content was slightly larger, mainly due to a weaker dollar/euro exchange rate: 1.08 on average (2022: 1.05).

Regulatory environment

The regulatory environment has a major impact on VKG's operations. A stable environment helps the company plan its business and adapt to various impacts. Rapid regulatory changes and unclear or unexpected messages from government undermine both day-to-day operations and future investments.

The year 2023 was characterised by a highly volatile regulatory environment, mainly due to the parliamentary elections in March. One of the main goals of the new government became the implementation of the green transition in Estonia, often with the mentality that the end justifies the means. An example of this is the Environmental Charges Act, which was amended to increase revenue for the state budget by raising environmental charges without any opportunity for stakeholder input. The suspension of the processing of new oil shale extraction permits was justified by the need to first agree on the content of the Climate Act and then decide whether and how it is possible to extract oil shale in Estonia. These are just a few examples of the complex and turbulent regulatory environment that VKG has to navigate.

The main regulatory changes and initiatives affecting VKG in 2023 were as follows.

Amendment to the Environmental Charges Act – An amendment to the Environmental Charges Act, which will gradually increase the rates of pollution charges until 2027, was adopted as a matter of urgency at the end of 2023 without an impact assessment. As a result, from July 2024 VKG will have to pay higher charges for pollutants discharged into water and air and for the disposal of ash and semi-coke. For VKG, this means an increase in pollution charges to 9 million euros in 2024 (+12% compared to 2023) and 13.5 million euros in 2027 (+70%). Such a sharp increase in the tax burden will weaken VKG's competitiveness in the global oil market.

Climate Act – In September 2023, the Ministry of Climate initiated the drafting of a Climate Act. It is intended to be a framework law to legislate the achievement of climate neutrality by 2050 and to set the necessary milestones for different sectors. VKG proposed the idea of drafting a Climate Act as early as 2021 in order to start a broader discussion about what climate targets are realistic for Estonia and to raise awareness about the impacts, opportunities and threats. This requires a balanced and reasoned societal debate that not only sets targets, but also analyses the feasibility of achieving them, the availability of the necessary technologies, the costs and a broader range of environmental impacts than just CO₂ emissions. Initial discussions showed that the government does not have a clear vision of what it wants to achieve with the Climate Act, other than to set national greenhouse gas emission reduction targets to reach climate neutrality by 2050. VKG is therefore rather sceptical about the process. The act is expected to be finalised in 2024 and come into force in 2025.

Amendment to the Earth's Crust Act – In September, the Ministry of Climate also initiated the amendment of the Earth's Crust Act to suspend the processing of oil shale extraction permits and pending environmental impact assessments until the adoption of the Climate Act. It was important to VKG that the applications for changes to extraction permits and impact assessments that had already reached the final stage of processing, including the changes to VKG's Ojamaa and Uus-Kiviõli extraction permits, should not be suspended but should be processed to completion.

Amendments to the EU regulation on the allocation of free emission allowances – Sectors that are part of the EU Emissions Trading System and are at risk of carbon leakage, including the sector in which VKG operates, are allocated free CO₂ emission allowances. The principles for free allocation were previously agreed until the end of 2025. At the end of 2023, an agreement was reached on the allocation of free allowances until 2030. As a result of the amendments, the amount of free allowances allocated to the company will be reduced, but to a lesser extent than previously proposed by the European Commission. This gives VKG some certainty until 2030. The European Union's plans for the taxation of CO₂ emissions after 2030 are currently unclear, as they largely depend on the outcome of the European Parliament elections in June 2024.

Best available techniques for shale oil production – In 2023, the Ministry of Climate began a review of the best available techniques reference document for shale oil production. The update is expected to be completed in 2024.

Use of special-purpose diesel – As a result of amendments to the Alcohol, Tobacco, Fuel and Electricity Excise Duty Act and the Act on the Fiscal Marking of Liquid Fuel, in 2020 oil shale mines were also granted the right to use special-purpose diesel at the EU minimum excise duty rate. In 2023, the government decided to terminate this right as of 1 May 2024. VKG believes that this is a discriminatory decision, as the excise duty on fuel is intended for the maintenance of public roads. Mining machinery is only used on mine sites, while agricultural machinery, which continues to benefit from this right, occasionally drives on public roads. For VKG, the change means an additional annual tax burden of 1.34 million euros.

Availability of raw material

VKG estimates the availability of the oil shale resources in both the short and long term, i.e. current and future supply.

Current supply – Based on our total oil production capacity, VKG's annual oil shale requirement is 5.1 million tonnes of commercial oil shale per year. The mining permits issued to VKG Kaevandused allow for the extraction of 3.5 million tonnes of commercial oil shale per year from the Ojamaa mine. If other market participants do not extract the full permitted volume, it is possible to use the 'retrospective mining mechanism' and increase oil shale extraction at Ojamaa to 4.35 million tonnes. This means that in order to purchase the 750 thousand tonnes needed to cover the shortfall (15% of VKG's total oil shale requirement), we will have to reach an agreement with other market participants or, if we fail to do so, we will have to shut down some production facilities due to lack of raw material.

We continued to purchase oil shale from Kiviõli Keemiatööstus in 2023. We have still not been able to reach an agreement with Eesti Energia, Estonia's largest oil shale miner, on a fair selling price for oil shale. As a result, one of our three Kiviter oil plants has been on hold since 2020, awaiting the time when the Uus-Kiviõli mine will be able to supply it with raw material.

Future supply – Based on VKG's mining volumes and an assessment of the resource available at the Ojamaa mine, the Ojamaa mine will be exhausted by 2028. In order to ensure the availability of raw material, VKG started activities to open the Uus-Kiviõli mine as early as 2019, because a smooth transition from one mine to another requires careful planning and strict adherence to existing plans. Although we have agreed with Eesti Energia that VKG can use the extraction volumes allocated to Eesti Energia at Uus-Kiviõli until a new environmental impact assessment has been successfully completed, there is a risk that VKG's supply will be interrupted if extraction volumes are not increased or if Eesti Energia decides to start mining at Uus-Kiviõli at the same time as VKG. In order to mitigate this risk, VKG has been seeking a compromise with Eesti Energia for some time and has also involved the Estonian Competition Authority in discussions, but no solution has yet been found. This risk is critical for VKG and we will continue to look for a solution in 2024, as a private company cannot make an investment of 100 million euros without the assurance that it will be possible to extract a sufficient volume of oil shale from the new mine.

Despite the risk, VKG Kaevandused continued to invest in the opening of the Uus-Kiviõli mine in 2023, as the company has no alternative source of raw material for oil production. The Uus-Kiviõli mine is expected to secure VKG's supply with oil shale until 2038. From an environmental point of view, the Uus-Kiviõli mine is the best possible solution, as the area is close to the oil plants at Kohtla-Järve and allows maximum use of the existing infrastructure. The conveyor system that will be used at Uus-Kiviõli is the most environmentally friendly way of transporting oil shale. The proximity to the Kohtla-Järve production complex will yield energy savings. The oil shale enrichment plant near the Ojamaa mine has sufficient capacity to process the oil shale extracted from the new mining area and will reduce the need for additional surface construction and environmental disturbance.

BUSINESS REVIEW

In 2023, VKG's main priorities were to continue the restructuring of the group and, in the area of production, to improve the energy efficiency of production processes and to ensure the availability of production equipment and the safety of employees.

Given that the 669 thousand tonnes of oil products produced by VKG in 2023 was the group's best ever result, we can be satisfied with the availability of our production assets. At the same time, we see room for improvement, as there were a number of unplanned production interruptions during the year, caused by poor subcontractor work, negligence on the part of our own employees or misjudgements about the durability of equipment. We are also pleased with the progress made in improving the energy efficiency of our production processes. In 2023, the energy consumption of VKG's production operations (i.e. the amount of electricity and natural gas used) per tonne of oil products was 12% lower than in 2022 and 13% lower than in 2021. There is still room for improvement, particularly in energy production. However, we are far from satisfied with our safety performance. Encouraging employees to report all accidents and incidents at work resulted in a 25% increase in the number of accidents with loss of work capacity recorded. Although the majority of the accidents were relatively minor, we will continue to focus on activities that support and promote a strong safety culture.

The key performance indicators reflecting VKG's financial results are summarised in the table below:

Key performance indicator	Unit	6 months 2022	2023
Average price of Brent crude oil	\$/bbl	93	82
Average price of fuel oil (1%)	€/t	512	437
Average price in NPS Estonia price area	€/MWh	247	91
Average price of CO ₂ emission allowances	€/t	79	84
Oil shale output	'000 t	2,089	1,814
Oil shale processing volume	'000 t	2,049	4,795
Output of shale oil products	'000 t	283	669
Electricity production	GWh	185	449
Heat supply	GWh	213	451
Average number of employees working under employment contracts	employee	1,575	1,233
Revenue	€'000	184,747	339,462
Operating profit	€'000	11,943	23,727
Net profit	€'000	4,059	19,325
Total assets	€'000	763,827	705,513
Equity	€'000	218,493	169,110
Equity ratio	%	29%	24%
Net margin	%	2%	6%

When comparing the production figures for 2023 with those of the previous year, it should be noted that 2022 was not a full year in financial accounting terms. In addition, VKG no longer owns the non-current assets used in the production of shale oil products, but leases them from a related company, Kirde Varad AS, under long-term leases. Due to the requirements of IFRS 16, VKG still recognises right-of-use assets related to the leases within its non-current assets. At 31 December 2022, VKG owned the assets related to oil shale mining. However, as at 31 December 2023 these assets had been transferred to Kirde Varad and VKG now purchases the oil shale required for oil production from VKG Kaevandused OÜ, a subsidiary of Kirde Varad, under a long-term contract. This explains the year-on-year decline in total assets and equity. Although market conditions in 2023 were worse than in 2022, both profit and net margin improved. This is because the Petroter I plant was idle for most of the second half of 2022 due to capital repairs, resulting in lower than normal production and sales in 2022.

During the period, the group's core business comprised a chain of three main processes: oil shale mining, production of shale oil products and energy production. In addition, the group includes two companies that provide logistics and repair services, mainly to other group companies.

Oil shale mining – VKG Kaevandused OÜ

In 2023, VKG Kaevandused continued its ordinary business of mining, enriching and transporting oil shale of the agreed quantity and quality to the oil production facilities. Throughout 2023, the company's biggest challenge was to ensure the availability of the conveyor belt between the mine and the oil production facilities. As the 25 kilometres of belt on the 12.5-kilometre conveyor had been in use for over 10 years, the belt joints were beginning to show signs of fatigue. To ensure the reliability of the conveyor, work was stopped several times during the year to repair the most critical joints. This ensured the availability of the conveyor until the arrival of a new belt in December.

Another important project for VKG Kaevandused was the opening of the Uus-Kiviõli mine, which reached a significantly higher intensity in 2023 than in the previous year. Although the project is exposed to the risks associated with Eesti Energia, in the absence of an alternative, VKG has had to proceed with the project in order to ensure the smoothest possible flow of raw material during the transfer of operations from the Ojamaa mine to the Uus-Kiviõli mine. In the first half of the year, the opening of the Uus-Kiviõli mine was also jeopardised by the personal political agenda of the then Minister of Economic Affairs. Following the parliamentary elections in March, the Minister of Economic Affairs was replaced, the rule of law was restored and VKG was able to proceed with its investments.

VKG planned to transfer the mining assets of VKG Kaevandused to Kirde Varad in 2023, as it had done with the oil and energy production assets. However, due to the problems related to extraction permits and the risks associated with the unpredictability of the executive power, VKG decided to simplify the situation and transfer the entire VKG Kaevandused to Kirde Varad. As a result, from 2024 the VKG group's consolidated financial statements no longer include the mining business.

Shale oil production – VKG Oil AS

In 2023, VKG Oil continued its ordinary business of thermal processing of oil shale into oil products, using the Petroter and Kiviter technologies and related equipment. In 2023, VKG Oil processed 4.80 million tonnes of oil shale, 12% more than in 2022. The increase was mainly due to the reconstruction of the Petroter I plant in 2022 and higher availability of production equipment. At the same time, the output of shale oil products grew by 15%, reflecting an increase in the amount of oil extracted from a tonne of oil shale for the third consecutive year. The improvement in 2023 was mainly due to the closure of coke production in the middle of the year and the use of all raw material for the production of oil products.

In the light of soaring energy prices, one of VKG Oil's priorities in 2023 was to improve the energy efficiency of its production operations. As a result of the work done, the amount of energy (electricity and natural gas) used to produce one tonne of oil products decreased by 15%. Improving energy efficiency will remain an ongoing goal in the coming years.

An important development in 2023 was the start of phase 3 of the circulating oil purification project, which is expected to be completed by the end of 2024 and increase production by 3% compared to 2023. The circulating oil purification system, developed by VKG's engineers and technologists, increases the production capacity of the Petroter plants by allowing 20–30% more oil shale to be processed in the same reactor compared to the original design capacity. The system was first tested in 2017 and is now reliable enough to be used to clean the circulating oil of all Petroter plants. As with any new development, there are certain risks, and as the owner of the technology, we have to figure out how to manage them.

Heat, steam and electricity production – VKG Energia OÜ

VKG Energia uses oil shale gas, a by-product of oil production that does not condense into oil, to generate heat, steam and electricity. The heat is supplied to the local district heating network, the steam is sold to production companies operating in the area and excess electricity is sold to the distribution network operator VKG Elektrivõrgud or to the power exchange. In addition, VKG Energia uses oil shale gas in the lime plant, the output of which is used in the company's desulphurisation systems to clean flue gases. Such a production chain ensures that oil shale energy is used as efficiently and sustainably as possible.

In 2023, VKG Energia received 15% more input energy than in 2022 and used it to produce 449 GWh of electricity, 23% more than in the previous year. The strong increase in electricity production was due to an 8% decrease in heat production, mainly as a result of lower purchases from a large customer, but also due to warmer weather. The electricity produced by VKG Energia accounted for 9.1% of the total electricity produced and 5.5% of the total electricity consumed in Estonia in 2023 (2022: 4.2% and 3.8%, respectively).

KEY FINANCIAL INDICATORS

Exports accounted for 62% of the group's total revenue in 2023 (2022: 36%). Although most of the end users of the group's production are outside Estonia, the share of exports was lower than usual in 2023 and especially in 2022. This is because one of the main customers has a permanent establishment and a VAT number in Estonia, so the related sales were reported as domestic.

Revenue contributions of major product groups and service lines:

Product group or service line	6 months 2022	2023
Shale oils	82%	83%
Sale and distribution of heat and electricity	15%	12%
Other products and services	4%	5%

The group's financial performance is described by the following ratios:

Ratio	6 months 2022	2023
Net margin (net profit / revenue)	2.2%	5.2%
Return on assets (ROA) (net profit / average total assets)	0.5%	2.4%
Return on equity (ROE) (net profit / average equity)	1.9%	9.2%

The group's financial position is described by the following ratios:

Ratio	6 months 2022	2023
Debt ratio (liabilities / total assets)	0.71	0.76
Current ratio (current assets / current liabilities)	1.27	0.57

The change in the current ratio is attributable to a change in the group's asset structure: at the end of 2022 current assets included investments in financial assets of 125 million euros, whereas at the end of 2023 such investments amounted to 31 million euros. At the same time, long-term receivables (loans provided) increased from 0.3 million euros to 315 million euros.

In managing the group's financial risks, it is essential to take into account the volatility of the oil market and the trends in the cost price of products. To ensure the group's ability to continue as a going concern in a volatile market environment, we need to maintain higher liquidity buffers than ordinary companies to withstand sharp falls in market prices. As a producer of basic products competing in the global commodity market, we need to keep production costs under control in order to ensure the competitiveness of our production operations even during a downturn in the oil market.

DEVELOPMENT ACTIVITIES

In 2023, VKG's development activities were focused on two projects:

- construction of a bioproduct production complex (BPC) in Lügänuše rural municipality;
- construction of a chemical recycling plant for plastic waste at Kohtla-Järve.

In the development of the BPC project, the main focus was on supporting the designated spatial plan and the strategic environmental assessment process initiated in the Lügänuše rural municipality. On 29 June 2023, the Lügänuše municipal council approved the report on stage 1 of the designated spatial plan and the preselection of a site for the BPC in the village of Aa. The process, which will continue with an environmental impact assessment at the selected site, is expected to culminate in the approval of the designated spatial plan at the end of 2024. Most of the environmental impact analyses and studies (geospatial analysis of the site, botanical inventories and definition of restrictions, study of changes in traffic patterns, study of resource availability and logistics, studies of impacts on air and seawater quality) were completed in 2023. The assessment of the water abstraction concept will be completed in 2024. The designated spatial plan process is on track. The preferred site is partly on state land (160 hectares) and partly on private land (5 hectares), which was acquired by the developer in 2023. Preparations for the design of the BPC have also started, based on preliminary input from technology suppliers. Details of the technical solution have been developed in cooperation with the technology suppliers Andritz and Valmet, and Sweco has prepared a preliminary plan for the location of the BPC on the selected site.

The chemical recycling plant for plastic waste will thermochemically treat plastic waste generated in Estonia to produce pyrolysis oil, which can be reused by petrochemical companies to produce new plastics. In this way, up to 75% of plastic waste could be recycled into new plastics. In 2023, the preferred technology was selected and a conceptual design of the plant was prepared. The first memoranda of understanding were also signed to secure the flow of raw materials and the sale of products, and a preliminary environmental impact assessment for site selection was carried out. All these activities were aimed at initiating the design of the plant.

In addition to these two projects, VKG worked with McKinsey & Co in 2023 to map out all possible development verticals that VKG could use to reduce its environmental footprint and develop a long-term sustainable business strategy. Approximately 60 different business areas were analysed and the 3-4 most promising and compatible with VKG's profile were selected. Going forward, VKG will invest its development potential in these areas, which include both the BPC and plastics pyrolysis.

The development of the two major projects, which will be carried out by VKG Plastic OÜ and VKG Fiber OÜ (companies related to VKG), will continue in 2024. The designated spatial plan for the BPC is expected to be approved by the Lügänuše municipality and the design process can begin. The plastic waste recycling plant project is also expected to reach the design phase. In addition, VKG will continue to analyse other business opportunities.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

VKG's strategy, which is aligned with sustainable development goals, is designed to be resilient under different scenarios. Strategic planning takes into account the risks and opportunities associated with climate change and the uncertainty of the regulatory and investment environment.

The group has undergone organisational restructuring and is now fully focused on the implementation of the strategy and its underlying objectives, including sustainability goals. An integral part of our sustainability strategy is responsible use and effective enrichment of natural resources. We are aware that mineral extraction and production operations have an impact on the surrounding environment. We therefore always strive to do more than is required by law or regulation.

While focusing on VKG's core business of shale oil production, we will continue to develop circular economy, renewable energy and bioproduction projects. The new business verticals support the principles of sustainability and are designed to mitigate and solve a number of challenges related to the green transition.

In September 2015, at the UN General Assembly, the world's countries signed the UN Agenda 2030 for Sustainable Development and its 17 Sustainable Development Goals. VKG has selected eight priority areas on which we focus and to which we consistently contribute. These are: good health and well-being; quality education; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; responsible consumption and production; and climate action. VKG works to achieve these goals through its core business and by supporting and participating in regional projects and initiatives aimed at improving the quality of life and promoting research and education, culture and environmental protection.

Cooperation with stakeholders

VKG has identified the stakeholders whose interests are relevant to our activities and can have a significant impact on the achievement of our strategic objectives. We consider it particularly important to involve and work with the local communities in carrying out our development projects. To keep the community informed, we organise public discussions and informal meetings to address current issues and gather feedback and opinions on specific topics and matters.

The group's main stakeholders are its shareholders, employees, customers, suppliers and partners, government and local authorities, local communities, non-profit associations, non-governmental organisations and professional associations. We have developed a range of formats for engaging with stakeholders, from regular meetings to open days. Engagement with stakeholders is underpinned by the principles of respect for the interests of all parties, constructive collaboration, transparency of information about the group's activities, regular interaction and honouring commitments.

VKG is a good partner for local organisations promoting cultural, sports and education activities in the region. Our main focus is on local youth. Last year, the group supported almost 40 local initiatives and events with around 240,000 euros. For years, we have supported the maternity and paediatric units of the Ida-Viru Central Hospital instead of giving corporate gifts. Twice a year we take part in the Let's Do It campaign and the World Cleanup Day, where our employees, their families and local secondary schools clean up urban areas. The group is a long-standing partner of the Blood Service and four times a year we organise blood donation days at our production complex.

Organisational culture

As a large industrial company, VKG is committed to embedding the principles of responsible business in its organisational structure. Our organisational culture supports the group's values and strategic objectives. We believe that organisational culture is essential to the success and sustainability of the group and helps create a safe and inspiring working environment. We continually invest in a strong organisational culture because it:

- promotes ethical behaviour and integrity in all activities and relationships with employees, partners and other stakeholders;
- fosters cooperation and teamwork by encouraging open communication, knowledge sharing and collective accountability;
- supports employee development and learning by providing training, mentoring and career opportunities;
- creates a positive working environment where employees feel motivated and engaged, encouraging them to contribute and give honest feedback;
- encourages flexibility and enhances adaptability, enabling the company to respond quickly to changing market conditions and customer needs.

VKG's values – openness, commitment, development – are an integral part of our day-to-day business and reflect the interests of both the group and its employees. The values underpin decision-making, shape our reputation and determine the principles of our work.

Reporting

VKG has been reporting on corporate social responsibility and sustainable development since 2008. The sustainable development reports are public documents that are available on the group's website in Estonian, English and Russian. The report for 2022 and 2023 is under preparation and will be published in the third quarter of 2024. The report is prepared in accordance with the sustainability reporting guidelines of the Global Reporting Initiative (GRI), the GRI reporting guidance for the oil and gas sector, and ISO certification materials. The environmental, health and safety data included in the report is presented in accordance with the requirements of these standards.

In addition to the sustainable development report, from 2025 VKG will be required to publish a sustainability report in accordance with the EU Corporate Sustainability Reporting Directive (CSRD). The first sustainability report under the CSRD will be published in 2026. As the drafting of the report will require a considerable amount of work, preparations are already underway.

Anti-corruption measures

Fighting corruption has always been a priority for the group. VKG's three main corruption risks and the measures taken to mitigate them are as follows:

- Giving a bribe in the interest of the group – VKG is a responsible and transparent company with a zero tolerance policy towards corruption and bribery.
- Accepting a bribe in the selection of suppliers and business partners – VKG has implemented a procurement policy to prevent procurement manipulation and ensure the selection of the best partner for the group. Compliance with the policy is monitored by the internal control unit, which carries out regular checks.
- Conflicts of interest of key management personnel in representing the interests of the group – VKG has adopted a procedure for the submission of declarations of economic interests which requires key management personnel to disclose their investments in and relationships with non-group companies. Members of the management board may not compete with VKG in any of the group's business lines without the prior written consent of the supervisory board.

The group has set up a confidential hotline (vihi@vkg.ee) that any employee or third party can use to report concerns about any aspect of the group's activities (corporate governance, business ethics, human rights, work arrangement, safety, security, product and service quality, etc.) or any matter of a corrupt nature.

ENVIRONMENTAL ACTIVITIES

Sustainable development is underpinned by the management of environmental impacts. The group has developed a comprehensive and systematic approach to environmental issues, which is in line with the environmental requirements of EU and Estonian legislation as well as the best available techniques (BAT) reference documents. VKG's production units comply with all applicable environmental requirements. Nevertheless, we are constantly looking for ways to optimise our processes and reduce the footprint of our production operations. Our aim is to use the full potential of oil shale efficiently, with the smallest possible footprint and in accordance with the principles of the circular economy.

Environmental focus areas in 2023:

- **Greenhouse gases (GHG)** – In 2023, VKG's direct CO₂ emissions per tonne of oil products were 2.05 tonnes, unchanged from 2022 but 5.2% lower than in 2021. VKG will continue its efforts to reduce direct CO₂ emissions per tonne of oil products produced. Theoretically and technically, it should be possible to capture most of the direct CO₂ emissions associated with VKG's oil production if appropriate capture equipment is installed. This would require additional investment and would significantly increase costs as CO₂ capture is energy intensive. In the coming years, VKG plans to further explore CO₂ capture technologies in order to be ready to invest in carbon capture equipment in 2045 and achieve carbon-neutral oil production by 2050. Hopefully by then the European Union will have found a solution to where and how to store all the captured carbon.

In addition to our efforts to reduce our carbon footprint, in 2023 VKG commissioned external consultants, UAB Vesta Consulting and Nomine Consult OÜ, for the first time to carry out a carbon footprint assessment for scopes 1, 2 and 3 in accordance with the principles of the CSRD. Based on the report on scopes 1 and 2 prepared in the first stage of the assessment, the largest share of the group's emissions are direct GHG emissions resulting from the production processes. To reduce direct emissions, we carry out annual energy and fuel consumption audits and look for the latest and most innovative technologies. Indirect emissions from energy use (scope 2) result from the use of non-renewable electricity. An in-depth analysis of emissions related to the group's use of external products and services and consumers' use of the group's products (scope 3) will be completed in 2024.

- **Best available techniques (BAT) for shale oil production** – Following the finalisation of the results of a new baseline study, the process of updating the BAT reference document, i.e. the conclusions, was started in 2023. This involves reviewing the environmental requirements for shale oil production in Estonia and bringing them into line with the latest technological developments and regulations. As a result, VKG's oil production facilities will be subject to new and/or more stringent environmental requirements, the exact nature of which is expected to be clarified in 2024. Production operations must be brought into line with the new requirements (i.e. the necessary investments must be made) within four years of the entry into force of the updated BAT reference document.
- **Reducing odour nuisances** – We continued to analyse and adjust the operating modes of the group's production facilities in the event of odour nuisance caused by VKG's production operations, either individually or in conjunction with other companies, in order to minimise the intensity and duration of the nuisance. According to data from VKG's continuous monitoring station, the hourly average air quality limit value for hydrogen sulphide (H₂S), a measure of odour intensity, was exceeded on 120 occasions in 2023, 41% less than in 2022, when the wind blew from the direction of VKG Oil's production complex.

To further reduce odour nuisance, a cooperation agreement was signed with Envirosuite Limited (Envirosuite) at the end of 2023. As a result, we are now connected to a software solution that helps us predict pollution levels and make decisions to minimise our environmental impact. Envirosuite is implementing an environmental information platform, Omnis, at VKG that will give us more accurate information about pollution levels in different situations both inside and outside our production complex. This will enable us to optimise our operations and reduce our environmental impact. The platform will be supported by additional monitoring equipment that will help us detect and respond more quickly to increased pollution levels to prevent the effects from spreading beyond our production complex.

- **Oil shale industry's waste storage site** – In 2023, the Lüganuse rural municipality government made a site selection decision for the municipal designated spatial plan for VKG's new industrial waste storage site and approved the report on stage 1 of the strategic environmental assessment (SEA), after which the preparation of a detailed solution for the designated spatial plan and stage 2 of the SEA was started. In parallel, negotiations began with the Ministry of the Environment to resolve the issue of ownership of land adjacent to the waste storage site, which would allow the existing site to be expanded.

- **Bioproduct production complex** – In 2023, a draft decision on the preselection of a site for VKG's bioproduct production complex was prepared and stage 1 of the SEA was completed, resulting in the Lügänuuse rural municipality government adopting a positive decision on the preselection of the site and the report on stage 1 of the SEA. This was followed by analyses of a detailed solution for the designated spatial plan and stage 2 of the SEA.
- **Plastic waste pyrolysis plant** – A preliminary environmental impact assessment was initiated for a plastic waste recycling plant currently in the planning stage, based on preliminary input from technology suppliers. The aim is to identify all environmental impacts and relevant environmental requirements before a potential investment decision is made and environmental permits are applied for.

One of the key environmental activities in 2024 is to contribute to the development of the BAT reference document for shale oil production to prevent the setting of unrealistic environmental requirements for oil production. Other priorities include securing all environmental permits required by group companies and conducting the necessary environmental impact assessments for major changes in production operations. The aim is to ensure that all our companies' activities that have an impact on the environment (including developments of strategic importance, such as the oil shale industry's waste storage site, the bioproduct production complex and the plastic waste pyrolysis plant) comply with applicable environmental regulations. A separate focus area is the installation of new air quality monitoring equipment at VKG's production complex, the implementation of new software for analysing air quality monitoring data, and continuous improvement of work processes to reduce odour nuisance.

EMPLOYEES

VKG's success is based on competent and motivated employees who are committed to their work, loyal to the company and create value together.

At the end of 2023, the group had 1,502 employees: 1,184 men and 353 women. The number of male employees is significantly higher due to a high proportion of jobs involving physical labour and positions that cannot be filled by women. The average age of our employees is 46 years and 874 employees are in the 35–54 age group. In 2023, 177 new employees joined VKG, most of them in the 25–44 age group. 208 employees left VKG. The employee turnover rate was 13%, of which 7% was voluntary.

The average length of service is 10 years, but there are 129 employees with more than 25 years' service, including 21 who have been with us for more than 40 years.

In 2023, there were several changes in group structure, the most important of which was the restructuring of Viru RMT, whose employees were transferred to Viru Keemia Grupp, VKG Oil, VKG Energia and VKG Logistika.

Total number of the group's employees by group companies:

Group company	Headcount as at 31 December 2022	Headcount as at 31 December 2023
Viru Keemia Grupp AS	87	96
VKG Kaevandused OÜ ¹	512	524
VKG Oil AS	641	623
VKG Energia OÜ	96	115
Viru RMT OÜ	107	15
VKG Logistika OÜ	117	129
Total	1,560	1,502

¹ VKG Kaevandused OÜ has not been legally part of the VKG group since 14 April 2023, but as Viru Keemia Grupp AS continues to provide personnel management services to VKG Kaevandused, it is presented as part of the group in this review.

Effective and motivated work is directly reflected in the company's financial performance. When determining the level of remuneration, we take into account the situation in the regional labour market, wages and salaries in the sector, and the employee's responsibilities and qualifications. The wages and salaries paid by the group are above the average for Ida-Viru County, making VKG competitive in the labour market. The group has a transparent performance-based bonus system.

The engagement and loyalty of our employees is demonstrated by the results of a satisfaction survey conducted among all employees, according to which VKG's employee engagement score is 67 points, which is above the Estonian average. The level of engagement reflects our employees' loyalty, confidence in the future and pride in working for VKG. Another important indicator is a high Net Promoter Score.

The rules and principles for employee conduct that must be observed and implemented in the workplace across the group are set out in the *Code of Ethics and Operating Principles*. The ethnic, gender, age and language diversity of our workforce places high demands on equal treatment, inclusion and communication. Uniform rules of conduct, set out in the human resources policy, together with the group's values and code of ethics ensure honest and fair working relationships and employee loyalty.

Personnel development priorities in 2023 included a development programme for middle managers, which was completed by 249 employees, and a development programme for internal trainers, mentors and supervisors to ensure a systematic transfer of professional skills and competences within the company. In 2023, 561 employees participated in internal training.

We invest in the training of future employees and the development of existing staff and offer internships to students. In 2023, VKG Oil continued a training project for future operators of technological equipment. 14 technological equipment operators working at VKG Oil are studying and receiving vocational training under the work placement programme of the Ida-Viru Vocational Education Centre. In addition, a work placement programme was opened for a group of industrial automation specialists. Upon completion of the programme in 2023 and 2024, the participants will be a valuable addition to our skilled workforce. In 2023, 42 students participated in our internship programmes. The largest number of students came from the Ida-Viru Vocational Education Centre.

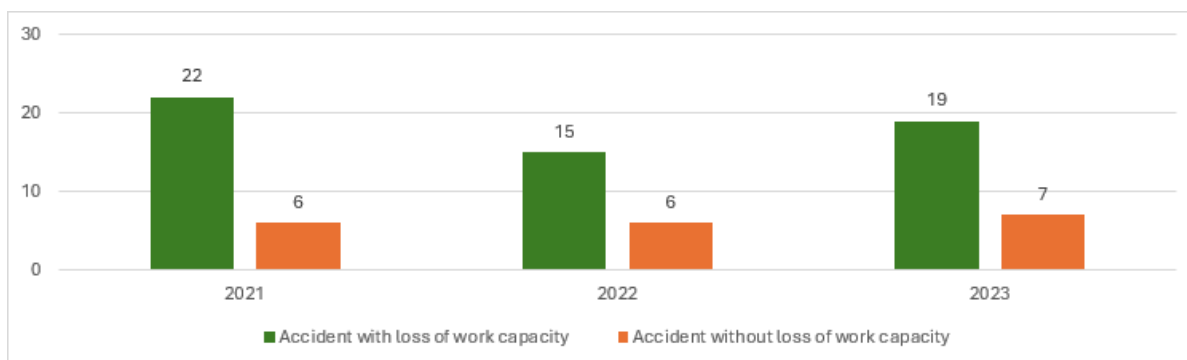
In 2023, the group continued to award scholarships to professional higher education, undergraduate and graduate students through the TalTech Development Fund. During the year, scholarships were awarded to seven students specialising in electrical power engineering and mechatronics, georesources, environmental, energy and chemical technology, and thermal energy engineering at the TalTech School of Engineering. We will continue to award scholarships through the Development Fund in 2024. In order to recognise and motivate the group's employees, a scholarship was established in 2023 for employees of VKG group studying chemical technology or sustainable chemical technologies at TalTech Virumaa College. VKG also continues to support the first-year students of TalTech Virumaa College who have graduated from secondary school with a gold medal with a personal gold scholarship.

WORKING ENVIRONMENT AND SAFETY AT WORK

VKG has always attached great importance to and invested in the development of the working environment and safety at work. This area became a particular priority in 2021, when the goal of a zero-accident workplace was set and the resources needed to achieve it were allocated. However, the years have shown that achieving a safe working environment requires a change in working culture, which takes time.

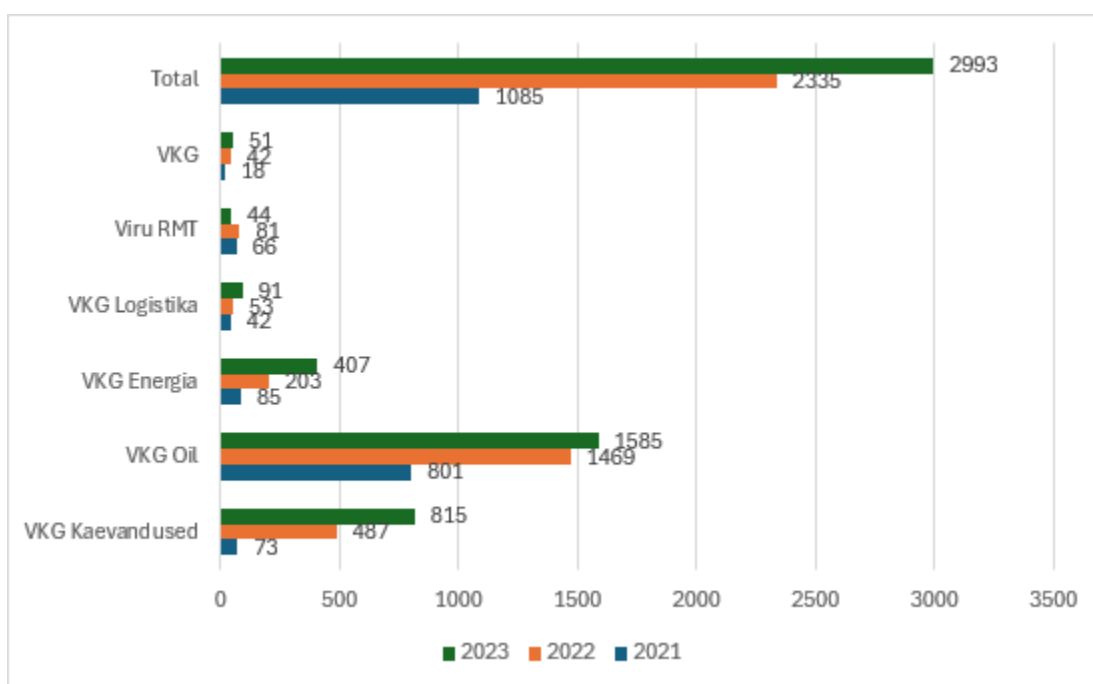
In 2023, we paid particular attention to updating our working environment and safety policies to ensure the maximum protection and well-being of our employees. We took important decisions and approved the common principles of our safety policy, which is driven by a proactive approach based on employee awareness and continuous learning. We recognise that every accident or incident is an opportunity to learn and improve our systems to prevent similar situations from recurring. To improve our response to incidents, we have harmonised our incident investigation guidelines. This ensures that all cases are handled consistently and thoroughly, with a focus on identifying the root cause.

Figure 2. Number of registered accidents at work in 2021–2023:



Despite these efforts, the number of accidents has remained at the same level in recent years (see Figure 2). At the same time, there have been developments that suggest that the number of accidents may decrease in the coming years. VKG has adopted a strategic approach to encourage employees to report all accidents and incidents at work. Our aim is to create a culture where even the smallest injuries and safety violations are reported and investigated (see Figure 3). In 2023, the number of accidents with loss of work capacity increased by more than 25% compared to the previous year. However, in terms of severity, the majority of accidents were relatively minor.

Figure 3. Number of registered hazardous situations (including near-misses) in 2021–2023:



In 2024, we will continue to improve the working environment and safety at work. We will focus on the following objectives:

- improving the quality of incident investigations;
- harmonisation of the principles for working environment inspections;
- raising safety awareness among employees.

SUPERVISORY BOARD AND MANAGEMENT BOARD

The VKG group is managed by a five-member management board, which during the period under review consisted of:

- Ahti Asmann (1973), chairman of the management board
- Jaanis Sepp (1982), vice-chairman of the management board and financial director
- Raivo Attikas (1979), member of the management board and technical director
- Nikolai Petrovitš (1962), member of the management board and member of the management board of VKG Oil AS
- Margus Kottise (1968), member of the management board and member of the management board of VKG Kaevandused OÜ.

The parent company's management board adopts all major decisions required for the operation of the VKG group. There was one change in the composition of the management board during the year: Meelis Eldermann, vice-chairman of the management board and technical director, retired in May and was replaced by Raivo Attikas, a new member of the management board and technical director. After the end of the reporting period, on 16 February 2024, there was another change in the composition of VKG's management board: Margus Kottise was replaced by Ervin Küttis (1975) as a member of the management board.

VKG's supervisory board consists of four members – Kristjan Piilmann (1990), Margus Kangro (1974), Ants Laos (1943) and Elar Sarapuu (1964). Following the death of Toomas Tamme, a long-standing chairman of the supervisory board in October 2023, the number of supervisory board members decreased to four.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of euros)	Note	31 December 2023	31 December 2022
Cash and cash equivalents	2	7,039	65,746
Investments in financial assets	3	31,307	125,414
Trade receivables	4	22,482	49,291
Other receivables	4, 28	17,285	3,767
Prepayments	4	169	573
Emission allowances	5	44,216	54,679
Inventories	6	25,171	38,065
Total current assets		147,669	337,535
Long-term receivables	4	314,716	376
Property, plant and equipment	7	241,355	410,393
Intangible assets	8	1,773	15,523
Total non-current assets		557,844	426,292
Total assets		705,513	763,827
Borrowings	9	122,945	118,431
Advances received		63	245
Trade payables	28	19,457	10,467
Taxes payable	24	4,880	12,004
Accrued expenses	10, 30	36,582	43,775
Government grants	11	44,234	54,696
Provisions	12	31,588	26,852
Deferred income		73	7
Total current liabilities		259,822	266,478
Borrowings	9	149,591	268,843
Government grants	11	0	18
Provisions	12	0	4,933
Deferred income		59	62
Other liabilities	30	126,931	3,900
Deferred tax liability	24	1,619	1,099
Total non-current liabilities		278,200	278,855
Total liabilities		538,022	545,333
Share capital	14	6,209	6,209
Reserves	15	1,157	1,268
Retained earnings		160,125	211,017
Equity attributable to owners of the parent		167,491	218,494
Total equity		167,491	218,494
Total liabilities and equity		705,513	763,827

CONSOLIDATED INCOME STATEMENT

(In thousands of euros)	Note	2023	5 December – 31 December 2022
Revenue	16	339,518	184,747
Cost of sales	17	-404,092	-200,414
Gross loss		-64,574	-15,667
Marketing and distribution expenses	18	-4,894	-2,380
Administrative expenses	19	-14,722	-7,371
Other income	20	109,604	42,495
Other expenses	21	-1,687	-5,133
Operating profit		23,727	11,944
Finance income	22	9,599	393
Finance costs	22	-14,001	-7,179
Profit before tax		19,325	5,158
Income tax expense	24	-1,619	-1,099
Profit for the year		17,706	4,059

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of euros)	Note	2023	5 December – 31 December 2022
Profit for the year		17,706	4,059
<u>Adjustments for:</u>			
Depreciation, amortisation and impairment losses		126,289	66,141
Change in fair value of financial instruments		-160	-13
Recognition and adjustment of provisions	12	4,760	9,959
Accrued finance income and costs	22	4,521	6,751
Loss on disposal of non-current assets		25	141
Recognition and reversal of inventory write-downs	6	2,780	3,134
Recognition of deferred connection charges as income		-3	-2
Other adjustments	24	-520	1,099
Total adjustments		137,690	87,208
Change in inventories		-10,614	-3,048
Change in operating receivables and prepayments		12,652	18,647
Change in operating payables and advances received		-1,413	-8,354
Net cash from operating activities		156,021	98,512
Cash flows from investing activities			
Purchase and improvement of property, plant and equipment		-17,923	-17,354
Purchase of intangible assets		-212	-176
Purchase (-) and sale (+) of other investments	3	94,426	-125,401
Proceeds from sale of non-current assets		28,751	731
Loans provided	4	-309,816	0
Repayments of loans provided		6,413	6,793
Interest received		1,652	379
Net cash used in investing activities		-196,709	-135,028
Cash flows from financing activities			
Loans received	9	562	31,100
Cash inflow through demerger		0	7,319
Cash inflow for depositing liquid funds		117,700	36,000
Payments of lease principal	25	-118,612	-58,409
Interest paid on loans		-469	0
Interest paid on lease liabilities	25	-10,601	-6,801
Corporate income tax paid		-1,099	0
Dividends paid		-5,500	0
Net cash used in/from financing activities		-18,019	9,209
Net cash flow		-58,707	-27,307
Cash and cash equivalents at beginning of year		65,746	93,053
Decrease in cash and cash equivalents		-58,707	-27,307
Cash and cash equivalents at end of year		7,039	65,746

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands of euros)	Equity attributable to owners of the parent				Total equity attributable to owners of the parent	Total equity
	Share capital	Statutory capital reserve	Revaluation reserve	Retained earnings		
As at 5 December 2022	6,209	0	678	207,548	214,435	214,435
Profit for the year	0	0	0	4,059	4,059	4,059
Total comprehensive income for the year	0	0	0	4,059	4,059	4,059
Changes in reserves (note 15)	0	621	-31	-590	0	0
As at 31 December 2022	6,209	621	647	211,017	218,494	218,494
Profit for the year	0	0	0	17,706	17,706	17,706
Total comprehensive income for the year	0	0	0	17,706	17,706	17,706
Changes in reserves (note 15)	0	0	-111	111	0	0
Dividend distribution (note 14)	0	0	0	-5,500	-5,500	-5,500
Other changes recognised directly in equity ¹	0	0	0	-63,209	-63,209	-63,209
As at 31 December 2023	6,209	621	536	160,125	167,491	167,491

¹ Other changes recognised directly in equity are related to a demerger (division) in which VKG Kaevandused OÜ demerged (was separated) from the group. The demerger (division) entry was made in the Commercial Register on 6 June 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Viru Keemia Grupp AS and its subsidiaries (collectively referred to as VKG or the group) form the largest chemical group in Estonia. The group's core business is the production and distribution of oil shale-based chemicals. In addition, group companies are involved in domestic freight transport and the production of adhesives and resins.

The group had 1,586 employees in 2023 (on average) (2022: 1,595), including 114 at the parent company (2022: 105).

The address of the registered office of Viru Keemia Grupp AS is Järveküla tee 14, Kohtla-Järve, Estonia. The group operates mainly in Estonia. The shares in Viru Keemia Grupp AS are not listed on the stock exchange.

Note 1. Material accounting policies

Basis of preparation

Viru Keemia Grupp AS (registration number 16627014) was established as a result of the demerger (division) of the former Viru Keemia Grupp AS (registration number 10490531, current business name Kirde Varad AS, the demerged company/the company that was divided) on 5 December 2022. The demerger was carried out by way of a spin-off (separation), whereby the demerged company transferred part of its assets (including the shares in the subsidiaries VKG Oil AS, VKG Kaevandused OÜ, VKG Invest OÜ, Viru RMT OÜ and VKG Logistika OÜ) and liabilities to Viru Keemia Grupp AS, the company established in the demerger. As a result, the comparative period began on 5 December 2022 (date of the opening balances) and ended on 31 December 2022.

VKG Kaevandused OÜ demerged from Viru Keemia Grupp AS (division by separation) as at 31 May 2023. In these consolidated financial statements, transactions with VKG Kaevandused OÜ are reported as transactions with an external party from 1 June 2023.

The consolidated financial statements of Viru Keemia Grupp AS have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRS EU).

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

The management board of Viru Keemia Grupp AS authorised the consolidated financial statements for issue on 1 July 2024. According to the Estonian Commercial Code, the annual report prepared by the management board and approved by the supervisory board must also be approved by the annual general meeting. The consolidated financial statements are part of the annual report to be approved by the shareholders and serve as a basis for the resolution on the allocation of profit. Shareholders have the right not to approve the annual report prepared by the management board and approved by the supervisory board and to demand that a new annual report be prepared.

The consolidated financial statements are presented in thousands of euros unless otherwise stated.

Changes in accounting policies and presentation of information

The group prepares its financial statements in accordance with the principles of consistency and comparability, which means that the same accounting and presentation policies are applied.

Accounting policies and presentation of information are changed only when this is required by new or revised IFRS EU or their interpretations or when a new policy or presentation practice provides a more faithful representation of the group's financial position, financial performance and cash flows.

When an accounting policy is changed, the comparative prior period information presented is adjusted as if the new accounting policy had always been applied. On changing accounting policies, the group takes into account the specific transitional provisions, if any, of IFRS EU.

When the presentation of information in the primary financial statements is changed, the comparative prior period figures presented are adjusted so that they would be in compliance with the changes made to the presentation of information in the reporting period. The effect of a change in an accounting estimate is recognised in the period of the change and any future periods affected.

Impact of new IFRS standards and new amendments to and interpretations of IFRS standards on the financial statements

The group adopted the following amendments:

- Amendments to IAS 1 *Presentation of Financial Statements*
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to IAS 12 *Income Taxes*

The adoption of these amendments did not have a material effect on the group's financial statements.

Standards, interpretations and amendments to published standards not yet effective

The following new and amended standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. The group has not early adopted any of these new and amended standards and does not expect that they will have a material impact on its consolidated financial statements when become effective.

Amendments to IAS 1 Presentation of Financial Statements

Effective for annual periods beginning on or after 1 January 2024; to be applied retrospectively. Early application is permitted.

The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful:

- *Classification of Liabilities as Current or Non-Current*
- *Non-current Liabilities with Covenants*

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments issued in 2020 have removed the requirement for a right to be unconditional and instead require that a right to defer settlement must exist at the reporting date and have substance (the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early).

The amendments issued in 2022 further clarify that when the right to defer settlement is subject to a company complying with conditions (covenants) specified in a loan arrangement, only covenants with which the company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. However, the amendments require companies to disclose information about these future covenants to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date. The amendments also clarify how a company classifies a liability that can be settled in its own shares (e.g. convertible debt).

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures

Effective for annual periods beginning on or after 1 January 2024. Disclosure of comparative information for any reporting periods presented before, and information as at the beginning of, the annual reporting period in which the entity first applies those amendments is not required.

The amendments introduce additional disclosure requirements for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk. The amendments apply to supplier finance arrangements (also referred to as supply chain finance, payables finance or reverse factoring arrangements) that have all of the following characteristics:

- a finance provider (also referred to as the factor) pays the amounts a company (the buyer) owes its suppliers;

- the company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid;
- the company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

However, the amendments do not apply to arrangements for financing receivables or inventory.

Amendments to IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2024; to be applied retrospectively. Early application is permitted.

The amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following:

- on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction;
- after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

These amendments do not change the accounting for leases other than those arising in a sale and leaseback transaction.

Other changes

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a material impact on the group's financial statements.

Functional and presentation currency

The group's presentation currency is the euro. The numerical information in the consolidated financial statements is presented in thousands of euros unless indicated otherwise.

Consolidation

The consolidated financial statements comprise the financial statements of Viru Keemia Grupp AS and its subsidiaries, combined line by line. The financial statements of subsidiaries are included in the consolidated financial statements from the date the group gains control to the date the group loses control. The parent company, which presents consolidated financial statements, consolidates all subsidiaries, both domestic and foreign.

A subsidiary is an entity controlled by the parent. The group controls an investee if it has exposure, or rights, to variable returns from its involvement with the investee and it has the ability to use its power over the investee to affect the amounts of those returns and there is a link between the power and the returns. On assessing the existence of control, the investor has to consider potential voting rights that are currently exercisable.

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined line by line so that the consolidated financial statements present the group's financial information as that of a single economic entity.

Subsidiaries prepare their financial statements using the same accounting policies as the parent. All intragroup transactions, balances and any unrealised profits and losses resulting from intragroup transactions are eliminated in full in preparing consolidated financial statements. Unrealised losses are not eliminated if they indicate impairment.

Non-controlling interests, which represent this portion of the profits or losses and net assets of subsidiaries that is not attributable to the parent company, are presented separately in the consolidated income statement and the consolidated statement of financial position (within equity).

Acquisitions of subsidiaries are accounted for using the acquisition method.

Under the acquisition method, the cost of a business combination is allocated by recognising the assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date. Any excess of the cost of a business combination over the net fair value of the assets, liabilities and contingent liabilities acquired is recognised as goodwill. If the net fair value of the assets, liabilities and contingent liabilities acquired exceeds the cost of a business combination, the difference is recognised as income in the period in which it arises (within other income).

The assets and liabilities of foreign operations are translated using the exchange rates at the reporting date and the income and expenses of foreign operations are translated using the weighted average exchange rates for the period. Exchange differences are presented in the foreign currency translation reserve in equity.

Investments in subsidiaries and associates in the parent's financial statements

In the parent's separate statement of financial position (presented in note 32) investments in subsidiaries and associates are accounted for using the equity method, whereby an investment is recognised initially at cost, being the fair value of the consideration given for it on acquisition. Thereafter the investment is adjusted for the change in the investor's share of the investee's equity and any impairment losses. An investment is assessed for impairment whenever an event or a change in circumstances indicates that the carrying amount of the investment may exceed its recoverable amount. If there is indication of possible impairment, the recoverable amount of the asset is estimated. When the estimated recoverable amount of an investment is smaller than its carrying amount, the investment is written down to its recoverable amount (the higher of fair value less costs to sell and value in use). An impairment loss is recognised in finance costs in the period in which it is identified.

Dividends distributed by subsidiaries are recognised as finance income in the period in which the parent company's right to receive payment is established.

Financial assets and liabilities

I. Financial assets – Recognition and initial measurement

Trade receivables are recognised at their origination. All other financial assets and liabilities are recognised when the group becomes party to the contractual provisions of the instrument.

At initial recognition, the group measures a financial asset or financial liability at its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Trade receivables that do not contain a significant financing component are measured at initial recognition at the transaction price.

II. Classification and subsequent measurement

After initial recognition, the group measures a financial asset at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

Financial assets are not reclassified subsequent to initial recognition unless the group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset is measured at amortised cost if both of the following conditions are met:

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

The group classifies cash and cash equivalents, trade receivables, loans provided, and other receivables as financial assets measured at amortised cost.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and it has not been designated as a financial asset at fair value through profit or loss:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that have not been classified as financial assets measured at amortised cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss.

At initial recognition, the group may designate a financial asset that meets the conditions for financial assets measured at amortised cost or fair value through other comprehensive income as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets – subsequent measurement and gains and losses

Financial assets measured at amortised cost	Assets designated to this category are measured at amortised cost using the effective interest method. In determining amortised cost, impairment losses are deducted from the carrying amount. Interest income, foreign exchange gains and losses and impairment losses on the assets are recognised in profit or loss. A gain or loss arising on derecognition is recognised in profit or loss.
Financial assets measured at fair value through profit or loss	Assets designated to this category are measured at fair value. Gains and losses as well as interest and dividend income on the assets are recognised in profit or loss. For policies related to derivative financial instruments subject to hedge accounting requirements, see the section <i>Derivative financial instruments and hedge accounting</i> .

Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified as subsequently measured at amortised cost or fair value through profit or loss. A financial liability is classified as measured at fair value through profit or loss when it is held for trading, is a derivative, or designated as such upon initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and any gain or loss on them as well as any interest expense is recognised in profit or loss.

Other financial liabilities are measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses on them are recognised in profit or loss. Gains and losses arising on derecognition are recognised in profit or loss.

III. Derecognition

Financial assets

The group derecognises a financial asset when, and only when, its contractual rights to the cash flows from the financial asset expire or when the group transfers the financial asset and the transfer qualifies for derecognition. The group transfers the contractual rights to receive the cash flows of a financial asset in a transaction by which it transfers all the risks and rewards of ownership of the financial asset or by which it does not transfer the risks and rewards of ownership of the financial asset but loses (does not retain) control of the financial asset.

If the group transfers a financial asset recognised in its financial statements but retains all, or substantially all, the risks and rewards of ownership of the financial asset, the asset is not derecognised.

Financial liabilities

The group removes a financial liability from its statement of financial position when, and only when, it is extinguished. That is, when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is derecognised when its terms are substantially modified so that its cash flows become significantly different from the originally agreed ones. In that case the group recognises a new financial liability based on the modified terms and measures it at fair value.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting

A financial asset and a financial liability are offset and the net amount is presented in the group's statement of financial position when, and only when, the group currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

IV. Impairment of financial assets

The group recognises a loss allowance for expected credit losses on a financial asset measured at amortised cost.

The group measures the loss allowance for a financial asset at an amount equal to lifetime expected credit losses except for financial assets whose loss allowance is measured at an amount equal to 12-month expected credit losses such as:

- other receivables;
- cash and cash equivalents whose credit risk has not increased significantly since initial recognition.

The group accounts for expected credit losses on all trade receivables using the simplified approach provided in IFRS 9 that allows recognising the loss allowance at an amount equal to lifetime expected credit losses.

The group always recognises the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are calculated using a provision matrix, which is based on the group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions and, where appropriate, the time value of money. Expected credit losses are a probability-weighted estimate of credit losses. A credit loss is a difference between the cash flows that are due to the group in accordance with the contract and the cash flows that the group expects to receive, discounted at the financial asset's effective interest rate.

At each reporting date, the group assesses whether a financial asset measured at amortised cost might be credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor,
- a breach of contract (such as a default or past due event),
- the group, for reasons relating to the debtor's financial difficulty, has granted the debtor concessions in restructuring the amount due that it would otherwise not have considered,
- it is becoming probable that the debtor will encounter financial difficulty.

The carrying amount of a financial asset measured at amortised cost is reduced by the amount of its loss allowance.

Inventories

When inventories are recognised initially, they are measured at cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. Production overheads are allocated to the costs of conversion of work in progress and finished goods based on the normal capacity of the production facilities.

Finished goods, semi-finished goods and work in progress are recognised at their cost of conversion. The cost of conversion includes direct and indirect costs of production incurred in bringing the inventories to their present location and condition.

After initial recognition, inventories are measured at the lower of cost and net realisable value. Materials and work in progress are written down when the estimated cost of the finished products in which they will be incorporated is expected to exceed the net realisable value of those products. Expenses from the write-down of inventories to net realisable value are recognised in the cost of sales.

Surpluses and shortages detected during inventory counts are recognised in other income and other expenses, respectively.

Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible items, including spare parts of significant value and uninstalled equipment which belong to the group or are held under leases, are used in the production or supply of goods or services, for rental to others, or for administrative purposes (including for security, safety and environmental reasons) and are expected to be used for more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

An item of property, plant and equipment is initially measured at its cost, being the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire the asset at the time of its acquisition or construction.

The cost of an item of property, plant and equipment comprises:

- a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as: labour costs arising directly from the construction or acquisition of the item, the costs of planning and designing the item, the costs of site preparation, initial delivery and handling costs, notary's fees, stamp duties, depreciation of other assets used in the production of the item, installation and assembly costs, the costs of materials consumed and tools used in constructing the item, and the costs of testing whether the item is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to the intended location and condition (e.g. during testing).
- c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the group incurred when the item was acquired or built.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for separately and assigned depreciation rates that correspond to their useful lives. The total cost of an asset is allocated to its parts based on their significance.

Assets under construction comprise expenditure incurred in connection with self-constructed assets. If an asset takes a substantial period of time to get ready for its intended use and is financed with a loan (or other debt instrument), borrowing costs that are directly attributable to the construction or production of the asset (including interest calculated using the effective interest method) are capitalised and recognised as part of the cost of that asset. Capitalisation of borrowing costs commences when the expenditures for the asset are incurred (i.e. the loan has been taken) and the group undertakes activities that are necessary to prepare the asset for its intended use. Capitalisation of borrowing costs ceases when the asset is substantially complete and the group has accepted the asset as ready for its intended use. The cost of a self-constructed asset is determined on the same basis as the cost of a purchased asset. An asset under construction is recognised as an item of property, plant and equipment on the basis of a certificate of acceptance, which outlines the useful life of the asset.

Administration and other general overhead costs are not included in the cost of items of property, plant and equipment.

The cost of an item of property, plant and equipment acquired with a government grant is determined by applying the policies outlined in the section *Government grants*.

Depreciation

When an item of property, plant and equipment is recognised, it is assigned a useful life, which serves as a basis for determining its depreciation rate. Exceptions include assets with an unlimited useful life (land, works of art that have permanent value, books, etc.), which are not depreciated. Depreciation of an asset begins when it is available for use (in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation of an asset ceases when it is fully depreciated or derecognised. If a fully depreciated asset is still in use, it is carried in the consolidated statement of financial position at nil value until it is permanently withdrawn from use.

Items of property, plant and equipment are depreciated using the straight-line method. Depreciation is calculated once a month. In the month of recognition, depreciation commences on the day following the day of recognition. Depreciation is discontinued on the day following the day on which the asset is withdrawn from use. Depreciation of an asset does not cease when it becomes idle or is temporarily retired from active use.

Useful lives of property, plant and equipment are reviewed at least at each financial year-end.

Asset classes are assigned the following annual depreciation rates and useful lives:

Land	0%	Not depreciated
Buildings	2–10%	10–50 years
Structures (civil engineering assets)	2–10%	10–50 years
Plant and equipment	7–34%	3–14 years
Vehicles	10–50%	2–10 years
Other items of property, plant and equipment	10–25%	4–10 years

Subsequent costs

Repair and maintenance costs and the costs of day-to-day servicing of an item of property, plant and equipment that are incurred to restore or maintain the item's originally assessed condition or useful life are recognised as an expense as incurred.

Parts of some items of property, plant and equipment require replacement after regular intervals. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement. Under the recognition principle, the group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of a part that is replaced is derecognised in accordance with the derecognition policies.

When a major part of an item of property, plant and equipment is replaced, the cost of the new part is added to the carrying amount of the item when it meets the definition of property, plant and equipment and the recognition criteria. The replaced part is written off the statement of financial position even if it was previously not accounted for separately. If the original cost of the replaced part cannot be determined, the group estimates the cost and deducts estimated depreciation from it.

Costs of building mine roadways (roadway construction costs)

On designing the accounting policy, management relied on analogy with IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. During the production phase of an oil shale mine, the group builds mine roadways which provide better access to oil shale and can generally be used until the end of the useful life of the mine.

The group differentiates between two types of benefit resulting from roadway construction:

- benefit resulting from improved access to oil shale; and
- benefit realised on the sale of oil shale.

To the extent that the benefit from roadway construction is realised in the form of inventory produced, the group accounts for roadway construction costs in accordance with the principles of IAS 2 *Inventories*. To the extent the benefit is improved access to the oil shale body, the group recognises roadway construction costs as a non-current asset (an item of property, plant and equipment) provided that the following conditions are met:

- it is probable that the future economic benefit, i.e. improved access to the oil shale body, associated with roadway construction will flow to the group;
- the group can identify the component of the oil shale body for which access has been improved; and
- the costs relating to the roadway construction activity associated with that component can be measured reliably.

A roadway construction activity asset is accounted for as an enhancement of existing property, plant and equipment. The cost of a roadway construction activity asset is measured by comparing the cost of inventory produced in the course of roadway construction with the cost of inventory produced in the course of ordinary production operations. Roadway construction costs which are recognised as a non-current asset are depreciated over the period during which the group expects to use the improved access to the oil shale body.

Subsequent measurement and use of the revaluation model

Subsequent to recognition, an item of property, plant and equipment is measured using the cost model or the revaluation model depending on the asset class to which the item belongs.

Under the revaluation model, after recognition as an asset an item of property, plant and equipment is carried at the revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. The model is applied to each class of property, plant and equipment in its entirety. The following asset classes are measured using the revaluation model:

- buildings;
- structures (civil engineering assets);
- vehicles (means of transport);
- other plant and equipment.

The frequency of revaluations depends on changes in fair value. When the fair value of an asset differs materially from its carrying amount, a revaluation is required.

When changes in fair value are immaterial, it may be necessary to revalue the item only every three to five years.

Depending on circumstances, the group measures the fair value of its property, plant and equipment using one or several of the following three widely used valuation techniques:

- market approach – a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or groups of assets and liabilities (e.g. a business);
- income approach – a valuation technique that converts the future cash flows of an asset, a liability or a group of assets and liabilities to a single discounted amount;
- cost approach – a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset, adjusted where necessary for physical deterioration and functional and economic obsolescence.

The group selects the valuation technique that is the most appropriate under the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The objective of using a valuation technique on carrying out a revaluation of property, plant and equipment is to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions.

Fair value measurements are categorised into three levels based on the inputs to valuation techniques that were used to measure fair value:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

When the inputs used to measure fair value are categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in the same level as the lowest level input that is significant to the entire measurement. Due to limited availability of observable inputs, the group's fair value measurements carried out on the revaluation of property, plant and equipment are generally categorised to level 3.

As a rule, the fair value of buildings is measured by licensed real estate appraisers.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is deducted from the cost of the asset.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and is accumulated in equity within the revaluation reserve. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of the asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity within the revaluation reserve.

The revaluation reserve is amortised to retained earnings during the useful life of the underlying asset.

When an item of property, plant and equipment is permanently withdrawn from use or disposed of, the revaluation reserve included in equity in respect of that item is transferred to retained earnings.

Changes in the revaluation reserve are described in note 15.

The following classes of property, plant and equipment are measured using the cost model:

- land;
- other items of property, plant and equipment;
- assets under construction.

Impairment

When there is any indication that the carrying amount of an item of property, plant and equipment or an intangible asset may exceed its recoverable amount, an impairment test is performed and the asset is written down if necessary.

The recoverable amount of an asset or its cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Value in use is determined by discounting the estimated future cash flows expected to be derived from the asset using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets are grouped into the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets (cash-generating units). For impairment testing, the goodwill acquired in a business combination is allocated to those cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. An impairment loss is recognised immediately in profit or loss. An impairment loss for a cash-generating unit (group of units) is recognised by first reducing the carrying amount of any goodwill allocated to the unit (group of units) and then by reducing the carrying amount of other assets of the unit (group of units) pro rata.

Impairment losses are recognised within the cost of sales, marketing and distribution expenses or administrative expenses.

If there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased, the carrying amount of the item of property, plant and equipment or intangible asset is adjusted (the former impairment loss is reversed). On reversing an impairment loss, the increased carrying amount of an asset may not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss by reducing expenses from impairment losses.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised when the item becomes permanently unfit for use, when it is sold or otherwise disposed of, when it is leased out under a finance lease, when its loss is detected during a physical inspection, or when no future economic benefits are expected from its use or disposal.

A loss arising on the derecognition of an item of property, plant and equipment is recognised in profit or loss within other expenses when the item is derecognised.

Intangible assets

Intangible assets are assets without physical substance that the group expects to use for more than one year.

An intangible asset that is acquired from a third party is initially recognised at cost, which comprises its purchase price and any directly attributable costs of acquisition. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any impairment losses.

Subsequent accounting for an intangible asset depends on whether its useful life is finite or indefinite.

An intangible asset with a finite useful life is carried at cost less any accumulated amortisation and any impairment losses. Such assets are amortised using the straight-line method over their estimated useful lives.

Intangible assets are assigned the following annual amortisation rates and useful lives:

Licenses	10-20%	5-10 years
Patents	5-20%	5-20 years

An intangible asset with a finite useful life is written down to its recoverable amount (the higher of its fair value less costs to sell and value in use) when the latter is less than its carrying amount. An asset is tested for impairment whenever there is any indication that its recoverable amount may have decreased below its carrying amount.

At the end of each reporting period the group assesses whether there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased. If any such indication exists, the group estimates the recoverable amount of the asset and, if necessary, reverses the previously recognised impairment loss. A reversal of an impairment loss is recognised in the period of reversal by reducing expenses from impairment losses.

Intangible assets with an indefinite useful life (including goodwill) are not amortised but are tested for impairment at the end of each reporting period.

Development expenditure is expenditure incurred in the application of research findings for the development of new products or services. Development expenditure is capitalised if the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the group intends to complete the intangible asset and use or sell it; the group is able to use or sell the intangible asset; it is possible to estimate the future economic benefits from the intangible asset; the group has adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and the expenditure attributable to the intangible asset during its development can be measured reliably.

Expenditures incurred in connection with the establishment of a new economic entity, expenditures on research undertaken to gain new scientific or technical knowledge and expenditures incurred in connection with staff training activities are not capitalised.

CO₂ emission allowances

The year 2021 was the first year of phase 4 of the EU Emissions Trading System (ETS), which lasts until 2030 and has been split into two five-year allocation periods. The changes that have taken place in the system result from Directive 2009/29/EC of the European Parliament and of the Council amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading system of the Community.

The quantity of emission allowances allocated to Estonian installations under Article 10a (heating and industrial installations) of Directive 2003/87/EC for the period 2021–2025, set out by individual installations, is available on the website of the Estonian Environmental Board:

<https://keskkonnaamet.ee/keskkonnakasutus-keskkonnatasu/ohk-ja-kliima/kasvuhoonegaasid>

Under the allocation plan approved by the European Commission, the group was allocated free CO₂ emission allowances of 4,442 thousand tonnes, of which 1,096 thousand tonnes was allocated for 2023 (2022: 1,204 thousand tonnes).

Emission allowances are accounted for using the gross method. Free emission allowances acquired through a government grant are recognised as both a current asset measured at the market value of the allowances as at the date of allocation and as a liability (deferred income from government grants) of the same amount.

Emission allowances not used at the end of the reporting period are measured in the statement of financial position at their acquisition cost. When emission allowances are written down to market value, the write-down expense is recognised in other expenses.

The assets are charged to the cost of sales and the government grant liability (deferred income from government grants) is transferred to other income on a monthly basis, based on the use of the allowances and the market price of the allowances at the end of the month.

When actual emissions exceed allocated emission allowances, the obligation to purchase additional allowances is recognised as a provision measured at the market value of the allowances as at the reporting date.

When emission allowances that have been received free of charge are sold, relevant income is recognised at sales price in other income.

Purchased CO₂ emission allowances are recognised as current assets. When the allowances are used, they are recognised as an expense and the provision for purchasing emission allowances is reduced.

The allocation, recognition as an expense, write-down and reversal of the write-down of CO₂ emission allowances allocated free of charge and associated changes in the government grant liability constitute non-cash transactions that are not reported in the statement of cash flows.

Cash flows from the purchase and sale of CO₂ emission allowances are reported in cash flows from operating activities.

Employee benefits

Employee benefits comprise wages, salaries and social security contributions, short-term compensated absences such as paid annual leave and similar temporary suspensions of the employment contract where the absences occur within 12 months after the end of the period in which the employees render the related service and the compensation for the absences is due to be settled within 12 months after the end of the period in which the employees rendered the related service. When an employee has rendered service to the group during the reporting period, the group recognises the amount of the employee benefits expected to be paid in exchange for that service as a liability (accrued expense) after deducting any amount already paid.

Provisions and contingent liabilities

The group makes provisions for liabilities of uncertain timing or amount. The amount and timing of provisions is determined on the basis of estimates made by management or relevant experts.

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable (over 50%) that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where a provision is expected to be utilised within more than one year after the reporting date, the provision is reported at its discounted present value. The discount rate is based on the market interest rates for similar liabilities.

The group makes provisions for onerous contracts. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. A provision is recognised in an amount equal to the loss expected to result from fulfilling the contract (i.e. estimated contract revenue less estimated contract fulfilment costs).

A contingent liability is a possible obligation whose probability of realisation is less than 50% or whose amount cannot be measured reliably. Contingent liabilities are disclosed in the notes to the consolidated financial statements.

Leases

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control and use an identified asset for a period of time in exchange for consideration. In assessing whether a contract conveys the right to control and use an identified asset, the group applies the definition of a lease as set out in IFRS 16.

The group as a lessee

When entering into or modifying a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of their stand-alone price.

The group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability. The amount of the initial measurement of the lease liability is adjusted for any advance lease payments, any direct costs incurred and any restoration costs to be incurred (in dismantling the asset and restoring the site or the asset). Any lease incentives received are deducted from this amount.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the expiry of the lease term unless the ownership of the underlying asset transfers to the group at the end of the lease term or the carrying amount of the right-of-use assets indicates that the group plans to exercise the purchase option. In that case, the underlying asset is depreciated over its entire estimated useful life, which is determined using the same approach that is used for similar items of property, plant and equipment that are owned. Right-of-use assets are also adjusted for impairment losses, if any. In addition, right-of-use assets are adjusted to reflect certain remeasurements of the lease liabilities.

The lease liability is initially measured at the present value of the lease payments not paid by the commencement date of the lease. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The group generally applies the incremental borrowing rate as the discount rate.

The incremental borrowing rate is determined by reference to different sources of financing. The inputs received are adjusted to reflect the terms of the lease and the type of underlying asset, to find the incremental borrowing rate appropriate for the asset.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payment);
- penalties for terminating the lease (if termination is reasonably certain);
- the exercise price of a purchase option (if the lessee is reasonably certain to exercise the option);
- amounts expected to be payable by the lessee under residual value guarantees;
- lease payments that depend on an index or rate.

The lease liability is measured at amortised cost. It is remeasured if there is a change in future lease payments reflecting a change in the index or rate used to determine the payments, if the amounts expected to be payable under a residual value guarantee are reassessed or if the group changes its assessment of whether it intends to exercise the option to purchase the underlying asset or the option to extend or terminate the lease. The lease liability is also remeasured to reflect changes in fixed payments (including in-substance fixed payments).

If the lease liability is remeasured due to the above reasons, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The effect of the change in the lease liability is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

The group as a lessor

When entering into a contract that contains a lease component or modifying a lease, the group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

For contracts under which the group is the lessor, the group determines at the commencement date whether the lease is an operating lease or a finance lease.

The group assesses in each case whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If yes, the lease is a finance lease. If not, the lease is an operating lease. As part of this assessment, the group also considers certain other indicators (e.g. whether the lease term is for the major part of the economic life of the underlying asset).

If the contract contains both lease and non-lease components, the group applies the accounting policies of IFRS 15 to allocate the consideration in the contract to the components.

The group applies the derecognition and impairment requirements of IFRS 9 to the lessor's net investment in the lease. The group regularly reviews the estimated unguaranteed residual values used in computing the lessor's gross investment in the lease.

For operating leases, the group recognises lease payments as income in profit or loss on a straight-line basis over the lease term.

Revenue

Performance obligations and revenue accounting policies

Revenue is measured based on the consideration agreed in the contract signed with the customer. The group recognises revenue when (or as) it satisfies the performance obligation by transferring the goods or service to the customer.

The table below provides information about the nature and timing of performance obligations arising from contracts with customers and related revenue accounting policies.

Product/ service	Nature and timing of the satisfaction of the performance obligation	Revenue accounting policies
Sale of shale oil products produced by the group	The group produces shale oil-based oil, coke and phenol products. Customers obtain control of the products when the goods have been transferred to them. Invoices are generated and revenue is recognised at that point. No discounts are granted on goods sold. Customers cannot return the products unless the group has sold goods whose parameters differ from the agreed ones.	Revenue from the sale of shale oil products produced by the group is recognised at the point in time when the goods are transferred to the customer, i.e. at the time when the sales transaction with the customer is completed.
Sale of purchased shale oil products	Customers obtain control of the products when the goods have been transferred to them. Invoices are generated and revenue is recognised at that point. No discounts are granted on goods sold and customers cannot return the products.	Revenue from the sale of shale oil products is recognised at the point in time when the goods are transferred to the customer, i.e. at the time when the sales transaction with the customer is completed.
Sale of electricity	The group sells electricity products (electrical, active and reactive energy). Customers obtain control of an electricity product when the good has been transferred to them. Customers are billed on a monthly basis. No discounts are granted and the products cannot be returned.	Revenue from the sale of electricity is recognised at the point in time when the good is transferred to the customer, i.e. at the time when the sales transaction with the customer is completed.

Sale of district heating and steam	The group sells heat energy. The carrier of heat energy is steam. Customers obtain control of the heat energy when the good has been transferred to them. Customers are billed on a monthly basis. No discounts are granted and the energy cannot be returned.	Revenue from the sale of steam is recognised at the point in time when the good is transferred to the customer, i.e. at the time when the sales transaction with the customer is completed.
Logistics services	The group provides two kinds of logistics services: rail and road transport. The services are short-term by nature and generally delivered within the same calendar month. Consideration received depends on the volume of services provided. Customers are billed on a monthly basis.	Revenue is recognised over the time during which the service is provided. The group has the right to receive consideration in the amount that corresponds directly to the value to the customer of the performance obligations satisfied by the group during the calendar month. Hence, as a practical expedient, the group recognises revenue in the amount for which it has the right to issue an invoice.
Transmission and distribution of natural gas	Customers obtain control of natural gas when the good has been transferred to them. Customers are billed on a monthly basis. No discounts are granted and the good cannot be returned.	Revenue from the transmission and distribution of natural gas is recognised at the point in time when the good is transferred to the customer, i.e. at the time when the sales transaction with the customer is completed.

Taxation of income

Deferred tax is recognised in respect of temporary differences between the carrying amounts and tax bases of assets and liabilities (the tax base is the amount attributed to an asset or liability for tax purposes).

Under Estonian laws, corporate profit for the year is not subject to income tax. The obligation to pay corporate income tax arises upon the distribution of profit and it is recognised as an expense (in profit or loss for the period) when the dividend is declared. Because of the nature of the taxation system, companies registered in Estonia do not have deferred tax assets or liabilities, except for possible deferred tax items related to investments in subsidiaries, associates, joint ventures and branches.

The group's deferred tax liability arises in respect of investments in companies domiciled in countries where profit for the financial year is taxable. The group's deferred tax liability also arises in respect of investments in Estonian subsidiaries, associates, joint ventures and branches except to the extent that the group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the differences will not reverse in the foreseeable future. Examples of the reversal of taxable temporary differences include the distribution of a dividend, disposal of an investment and other transactions.

As the group controls the dividend policy of its subsidiaries, it is able to control the timing of the reversal of the temporary differences related to relevant investments. If the parent has decided not to distribute a subsidiary's profit in the foreseeable future, it does not recognise a deferred tax liability. If the parent estimates that a dividend will be distributed in the foreseeable future, a deferred tax liability is recognised to the extent of the expected dividend distribution, provided that there are sufficient funds and equity at the reporting date from which profit can be distributed in the foreseeable future.

The group measures deferred tax liabilities using the tax rates that are expected to apply to the taxable temporary differences in the period in which the temporary differences are expected to reverse, based on the tax rates that have been enacted by the reporting date.

In Estonia, the corporate income tax rate is 20% (the amount of tax payable is calculated as 20/80 of the net distribution). From 2019, regular dividend distributions can be taxed at a lower, 14% tax rate (the amount of tax payable is calculated as 14/86 of the net distribution). The lower tax rate can be applied every calendar year to an amount of dividend and other profit distributions that does not exceed the past three years' average amount of dividend and other profit distributions and distributions of equity on which tax has been paid.

The maximum income tax liability that could arise on a dividend distribution is disclosed in note 29.

Foreign currency transactions

A transaction in a foreign currency is translated into euros using the exchange rate of the European Central Bank quoted at the date of the transaction. At the end of the reporting period, monetary assets and liabilities denominated in a foreign currency are translated into euros using the closing exchange rate. Non-monetary assets and liabilities denominated in a foreign currency that are measured in terms of historical cost are translated into euros using the exchange rate at the date of the transaction.

Exchange gains and losses arising on translation are recognised in profit or loss in the period in which they arise. Exchange gains and losses on translating items related to transactions with customers and suppliers are recognised in other income and expenses, respectively, and other exchange gains and losses are recognised in finance income and costs, respectively.

Government grants

The group accounts for government grants related to assets and government grants related to income using the gross method. Government grants related to income are recognised in accordance with the matching principle (by matching revenue with the costs incurred). A government grant is recognised when the group accepts and intends to comply with the conditions attaching to the grant, the amount of the grant can be measured reliably and there is reasonable assurance that the grant will be received. The amount received as a grant is recognised in profit or loss as income.

Assets acquired with government grants related to assets are recognised in the consolidated statement of financial position at cost, similarly to other items of property, plant and equipment. The grant received to acquire an asset is presented in the consolidated statement of financial position as a liability, which is transferred to income on a systematic basis over the useful life of the asset.

An asset acquired with a non-monetary government grant is recognised in the consolidated statement of financial position at its fair value. The arising liability is taken to income over the remaining useful life of the asset.

Statement of cash flows

The consolidated statement of cash flows is prepared using the indirect method, whereby the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of gains and losses associated with investing or financing activities, transactions of a non-cash nature and changes during the period in current assets and current liabilities related to operating activities.

Cash flows from investing and financing activities are reported by disclosing gross cash receipts and gross cash payments. Non-cash transactions are excluded.

Cash and cash equivalents comprise cash on hand, current accounts and short-term (with a maturity of up to three months) highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value such as term deposits with a maturity of up to three months and units in money market funds.

Statutory capital reserve

Under the Estonian Commercial Code and the articles of association of the parent company, every year the parent has to transfer at least 5% of its net profit to the capital reserve (legal reserve) until the reserve amounts to 10% of share capital. The statutory capital reserve may not be distributed as dividends, but may be used to cover losses if these cannot be covered by unrestricted (available) equity. The capital reserve may also be used to increase share capital.

Events after the reporting period

The consolidated financial statements reflect all significant events affecting the valuation of assets and liabilities that occurred between the reporting date and the date on which the financial statements were authorised for issue but are related to the reporting or prior periods.

Subsequent events that are indicative of conditions that arose after the reporting date but will have a material effect on the results of the next financial year are disclosed in the notes to the consolidated financial statements.

Use of accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS EU requires management to make accounting estimates, use assumptions and exercise judgement in the selection and application of accounting policies.

Management's estimates, assumptions and judgements are reviewed on an ongoing basis and they are based on historical experience and various other factors including forecasts of future events that are believed to be reasonable under the circumstances. Although the estimates are based on management's best knowledge and judgement, actual outcomes may differ from those estimates. Revisions to management's estimates are recognised in the period in which the estimate is revised in profit or loss.

Estimates and judgements made in the selection and application of accounting policies which have the most significant effect on the consolidated financial statements

Estimation of the net realisable value of inventories (note 6)

According to the group's accounting policies, inventories are measured at the lower of cost and net realisable value. This means that management has to estimate the value of inventories whenever there is any indication that the value of inventories may have decreased below cost. In such cases inventories are written down to their net realisable value, being the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

In 2023, the group performed an inventory write-down: finished goods were written down by 2,780 thousand euros (2022: 3,134 thousand euros). The write-down was recognised in the cost of sales.

Estimation of the useful lives of property, plant and equipment and intangible assets (notes 7 and 8)

An area where management has to use significant and complex judgements and estimates that have a material effect on the consolidated financial statements is the estimation of the useful lives of items of property, plant and equipment and intangible assets. Management estimates the useful lives of buildings, structures (civil engineering assets), plant and equipment, assets under construction and investments made in connection with mining licences, taking into account sales volumes, sales terms, historical experience, and future prospects.

Experience shows that sometimes the utilisation periods of assets somewhat exceed their estimated useful lives. The carrying amounts and depreciation and amortisation of the assets are disclosed in notes 7 and 8. If annual depreciation and amortisation rates changed by 10%, annual depreciation and amortisation expense would change by around 39 thousand euros.

Note 2. Cash and cash equivalents

(In thousands of euros)	31 December 2023	31 December 2022
Current accounts	7,039	17,120
Term deposits	0	48,626
Total cash and cash equivalents	7,039	65,746

Note 3. Investments in financial assets**Receivables:**

(In thousands of euros)	31 December 2023	31 December 2022
Financial assets (note 28)	31,307	125,414
<i>Of which short-term financial assets¹</i>	<i>31,307</i>	<i>125,414</i>
Total investments in financial assets	31,307	125,414

¹ Quoted interest-bearing instruments with an average interest rate of 4% and maturities of up to one year.

Note 4. Receivables and prepayments

(In thousands of euros)	31 December 2023	31 December 2022
Trade receivables	22,484	49,306
Loss allowance	-2	-15
Total trade receivables	22,482	49,291
Prepaid and recoverable taxes (note 24)	1,073	971
Loans provided ¹	322,720	376
Interest receivable	7,559	0
Security deposits	329	0
Miscellaneous receivables	320	2,796
Total other receivables	332,001	4,143
<i>Of which current portion</i>	<i>17,285</i>	<i>3,767</i>
<i>Of which non-current portion</i>	<i>314,716</i>	<i>376</i>
Prepayments	169	573
Total prepayments	169	573
Total receivables and prepayments	354,652	54,007

Trade receivables are reported net of their loss allowance.

Movements in the loss allowance during the period:

(In thousands of euros)	2023	2022
Opening balance	-15	-24
Recovery of items classified as doubtful	0	-1
Items written off as uncollectible	13	10
Closing balance	-2	-15

Receivables have been measured and expected credit losses have been assessed in accordance with the requirements of IFRS 9. See note 28 for further information about the measurement of receivables.

¹ Loans provided have interest rates in the range of 1.8+EURIBOR–8% and maturity dates in the period 2024–2028 (note 26).

Note 5. Emission allowances

(In thousands of euros)	CO ₂ emission allowances
As at 31 December 2022	54,679
<i>Of which free allocation</i>	54,679
Allocation of free CO ₂ emission allowances (note 11)	105,535
Recognised in expenses (note 17)	-107,255
Write-down	-8,742
As at 31 December 2023	44,216

Note 6. Inventories

(In thousands of euros)	31 December 2023	31 December 2022
Finished goods	14,015	7,325
Raw materials and consumables	7,241	14,021
Work in progress	3,915	16,719
Goods purchased for sale	0	0
Total inventories	25,171	38,065

Finished goods were written down by 2,780 thousand euros (2022: 3,134 thousand euros) during the reporting period.

Note 7. Property, plant and equipment

(In thousands of euros)	Land	Buildings and structures	Plant and equipment	Other items	Assets under construction and pre-payments ²	Total
As at 5 December 2022 (demerger)¹	2,059	143,718	317,451	1,069	17,783	482,080
Additions ¹	425	311	1,330	15	16,793	18,874
Reclassifications	0	1,935	823	0	-2,758	0
Disposals	1	-515	-231	-12	-24,346	-25,103
Depreciation for the year ²	-141	-18,467	-46,726	-124	0	-65,458
Carrying amount as at 31 December 2022	2,344	126,982	272,647	948	7,472	410,393
Demerger ⁴	-1,091	-34,035	-13,805	-95	-5,123	-54,149
Additions ¹	254	2,002	3,849	50	16,280	22,435
Reclassifications	0	2,540	143	0	-2,683	0
Disposals	0	0	-443	-7	-11,366	-11,816
Depreciation for the year ³	-332	-34,163	-90,766	-247	0	-125,508
Carrying amount as at 31 December 2023	1,175	63,326	171,625	649	4,580	241,355
As at 31 December 2022						
Cost	2,667	171,842	391,378	2,403	7,472	575,762
Accumulated depreciation	-323	-44,860	-118,731	-1,455	0	-165,369
As at 31 December 2023						
Cost	1,829	132,337	361,897	2,024	4,580	502,667
Accumulated depreciation	-654	-69,011	-190,272	-1,375	0	-261,312

¹ The opening balance recognised after the demerger (division) includes right-of-use assets of 348,461 thousand euros resulting from previously signed leases.

² Assets under construction

At the end of the reporting period, assets under construction amounted to 4,580 thousand euros (2022: 7,472 thousand euros).

The group's binding commitments for the acquisition of property, plant and equipment in subsequent periods totalled 8,031 thousand euros at 31 December 2023 (31 December 2022: 5,755 thousand euros).

All borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset under construction. No borrowing costs were capitalised in the reporting period or the comparative period.

Other costs capitalised during the period consisted of labour costs of 803 thousand euros (2022: 887 thousand euros) and depreciation expense of 139 thousand euros (2022: 152 thousand euros).

Non-cash transactions

Additions to the group's property, plant and equipment and payments for property, plant and equipment that are reported in the statement of cash flows differ by 4,512 thousand euros (2022: 1,494 thousand euros), which is attributable to non-cash transactions. The change in operating payables in the statement of cash flows has been adjusted for non-cash transactions (including acquisitions through leases and reclassifications between asset classes). The change in operating payables has also been adjusted for amounts payable to suppliers of items of property, plant and equipment at the end of the reporting period. Payables to suppliers of items of property, plant and equipment totalled 105 thousand euros at 31 December 2023 (31 December 2022: 1,658 thousand euros).

Other information

³ Notes 17–19 reflect the allocation of depreciation to different income statement line items. The total amount of depreciation and amortisation expense presented in those notes differs from depreciation for the year presented in note 7 by 139 thousand euros (2022: 694 thousand euros). The difference is attributable to the capitalisation of depreciation expense as part of the cost of items of property, plant and equipment and inventories and the amortisation of intangible assets.

Fully depreciated items

The cost of fully depreciated items of property, plant and equipment that were still in use at 31 December 2023 was 1,386 thousand euros (31 December 2022: 11,314 thousand euros).

⁴ As a result of a demerger, from 31 May 2023 VKG Kaevandused OÜ is no longer part of the group.

Changes in the fair values of items of property, plant and equipment categorised into level 3 of the fair value hierarchy

(In thousands of euros)

Business line	Oil shale processing				Other activities				Total
Asset subclass	Buildings	Structures (civil engineering assets)	Vehicles	Other plant and equipment	Buildings	Structures (civil engineering assets)	Vehicles	Other plant and equipment	
Asset class	Buildings and structures		Plant and equipment		Buildings and structures		Plant and equipment		Total
Fair value as at 31 December 2022	3,362	30,405	382	13,563	821	79	1,089	1,393	51,094
Gains and losses for the period									
Depreciation (in profit or loss)	-235	-2,269	-85	-1,971	-56	-13	-435	-92	-5,156
Additions, disposals and other movements									
Demerger ¹	-3,127	-30,694	-376	-12,870	0	0	0	0	-47,067
Additions	0	18	167	1,149	10	0	54	10	1,408
Reclassifications	0	2,540	0	133	0	0	3	-1	2,675
Disposals	0	0	0	-4	0	0	-31	-4	-39
Fair value as at 31 December 2023	0	0	88	0	775	66	680	1,306	2,915

¹ As a result of a demerger, from 31 May 2023 VKG Kaevandused OÜ is no longer part of the group.

(In thousands of euros)

Business line	Oil shale processing				Other activities				Total
Asset subclass	Buildings	Structures (civil engineering assets)	Vehicles	Other plant and equipment	Buildings	Structures (civil engineering assets)	Vehicles	Other plant and equipment	
Asset class	Buildings and structures		Plant and equipment		Buildings and structures		Plant and equipment		Total
Fair value as at 5 December 2022	3,643	30,966	369	14,383	824	429	1,099	1,490	53,203
Gains and losses for the period									
Depreciation (in profit or loss)	-281	-2,536	-84	-2,316	-29	-14	-185	-96	-5,541
Additions, disposals and other movements									
Additions	0	40	88	726	26	28	177	76	1,161
Reclassifications	0	1,935	9	769	0	0	-2	0	2,711
Disposals	0	0	0	1	0	-364	0	-77	-440
Fair value as at 31 December 2022	3,362	30,405	382	13,563	821	79	1,089	1,393	51,094

Measurement of fair value

The group's management measured the fair values of the items of property, plant and equipment of all group entities involved in significant business lines as at the end of the reporting period and concluded that at most entities the carrying amounts of the assets did not differ materially from their fair values and, accordingly, there was no need to carry out a revaluation of the assets in 2023.

The fair values of items of property, plant and equipment were measured using actual budgets prepared by the group's management and assuming that transactions between group entities are conducted on the same terms as transactions between independent parties. The fair values of the items of property, plant and equipment of entities involved in oil shale processing depend greatly on the projections of the curve of future global liquid fuel prices. Future sales prices of liquid fuels are projected based on the forecasts of reliable independent sources and management's estimates.

If the group measured all of its property, plant and equipment using the cost model, the carrying amounts would be as follows:

(In thousands of euros)	Land	Buildings and structures	Plant and equipment	Other items	Assets under construction and prepayments	Total
As at 31 December 2023	1,175	62,798	171,617	650	4,580	240,820
As at 31 December 2022	2,344	126,392	272,591	948	7,472	409,747

The following tables provide information about the valuation techniques applied in measuring the fair values of items of property, plant and equipment, the key unobservable inputs used and the inter-relationship between the key unobservable inputs and fair value measurement:

Determination of the fair value of the property, plant and equipment of the group companies involved in oil shale processing: VKG Kaevandused OÜ as at 31 December 2022¹

Valuation technique	Key unobservable inputs	Effects of changes in key unobservable inputs on fair value
Discounted cash flow method: the technique measures the present value of the expected future cash flows of the assets, taking into account possible developments in the global sales prices of liquid fuels, the probability of those developments, production modes optimal for the prices and other factors. The expected net cash flows thus derived are discounted by applying as the discount rate the expected risk-weighted rates of return, which take into account the risk-free rate of return, the country risk of Estonia, the risk profiles of the sector and the company, and the expected debt to equity ratio in the sector.	1) The future cash flows of the mining entity VKG Kaevandused were calculated based on the budget for 2023 and the knowledge of the future prices of contracts in force at 31 December 2022. 2) The future cash flows of VKG's oil and energy production operations were also calculated based on the budget for 2023, but instead of the budgeted oil price management used four different future oil price scenarios, which were assigned weights based on management's assessment of their probability. 3) The discount rate applied for VKG Kaevandused was 9.7%.	The mining operations of VKG Kaevandused give rise to substantial fixed costs, which is why a decrease in production volumes has a strong impact on the fair value of the entity's property, plant and equipment. The fair value of the assets is also sensitive to the discount rate. A rise in the discount rate and a decrease in production volume would have a negative impact on fair value and would result in the recognition of additional impairment losses.

¹ Should events in the next financial year differ significantly from the assumptions applied in measuring fair value, the assumptions may have to be changed and the fair values adjusted.

In connection with the demerger of VKG Kaevandused OÜ from the group, fair values were not measured in this way in 2023.

Determination of the fair value of buildings, structures, vehicles (except wagons) and other plant and equipment (except assets used in the provision of electricity distribution service) of group companies engaged in other business activities as at 31 December 2023

Valuation technique	Key unobservable inputs	Effects of changes in key unobservable inputs on fair value
Depreciated replacement cost method: This method assumes that from the perspective of a market participant seller the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence.	Since the assets are of a specialised nature, the group did not use uniform inputs to measure the fair values of all asset classes. The cost of a new asset of equal utility at the date of valuation. Each individual asset has its own specific cost. Adjustment based on the asset's actual wear and tear, which is asset-specific, taking into account the time the asset has been in use and its remaining useful life.	The fair value of an asset would increase (decrease) if: - the cost of a new asset of equal utility increased (decreased); - adjustment for deterioration and obsolescence decreased (increased).

Determination of the fair value of vehicles of group companies engaged in other business activities as at 31 December 2023

Valuation technique	Key unobservable inputs	Effects of changes in key unobservable inputs on fair value
Market approach: This approach is based on prices and other relevant information derived from transactions conducted in the market with identical or similar assets or from information available on identical or similar assets that are for sale.	Ask prices for identical or similar assets taking into account that these differ from the actual transaction prices in the aftermarket by 25–35%.	The fair value of the assets would increase (decrease) if, in order to determine the aftermarket price, the ask prices were lowered by a smaller (larger) percentage.

Note 8. Intangible assets

(In thousands of euros)	Mining licence ¹	Other ²	Total
As at 5 December 2022	14,135	2,046	16,181
Additions	66	110	176
Amortisation for the year	-668	-166	-834
Carrying amount as at 31 December 2022	13,533	1,990	15,523
Demerger ³	-13,000	-69	-13,069
Additions	23	218	241
Amortisation for the year	-556	-364	-920
Sales	0	-2	-2
Carrying amount as at 31 December 2023	-1	1,774	1,773

As at 5 December 2022

Cost	23,516	3,155	26,671
Accumulated amortisation and impairment losses	-9,983	-1,165	-11,148

As at 31 December 2022

Cost	23,449	3,045	26,494
Accumulated amortisation and impairment losses	-9,314	-999	-10,313

As at 31 December 2023

Cost	10,539	3,302	13,841
Accumulated amortisation and impairment losses	-10,539	-1,529	-12,068

¹ The group holds a licence (permit) to mine oil shale at the Sompä mine under an agreement on the exchange of mining licences (licence registration number KMIN-066, valid until 31 December 2024).

The licence allows mining a specific quantity of oil shale during the term of the licence. Amortisation of the licence began in July 2012 and will end in 2028.

The group has made an investment aimed at gaining opportunities to extract oil shale in the mining areas and the exploration field of the oil shale mine. The subject matter of the agreement includes applications for licences to mine mineral resources in different mining areas of the oil shale mine, an application for an exploration licence and the documents required for processing the applications.

Management reassesses the amortisation rate annually and if mining occurs more quickly than expected, the amortisation rate is increased consistent with the extracted quantities.

² The cost includes capitalised labour costs of 26 thousand euros for 2023.

³ As a result of a demerger, from 31 May 2023 VKG Kaevandused OÜ is no longer part of the group.

Note 9. Borrowings

(In thousands of euros)	Current portion	Non-current portion	Total liability	Effective interest rate	Maturity date
Short-term loans	1	0	1		
Long-term loans (note 28)	0	31,661	31,661	3.5%	2032
Lease liabilities (note 28)	122,944	117,930	240,874	1.5–5.96%	2024–2029
Total borrowings as at 31 December 2023	122,945	149,591	272,536		
<i>Of which repayable:</i>					
Not later than 1 year	122,945	0	122,945		
Later than 1 and not later than 5 years	0	149,591	149,591		

(In thousands of euros)	Current portion	Non-current portion	Total liability	Effective interest rate	Maturity date
Long-term loans (note 28)	0	31,100	31,100	3.5%	2032
Lease liabilities (note 28)	118,431	237,743	356,174	1.5–3.5%	2023–2028
Total borrowings as at 31 December 2022	118,431	268,843	387,274		
<i>Of which repayable:</i>					
Not later than 1 year	118,431	0	118,431		
Later than 1 and not later than 5 years	0	268,843	268,843		

Note 10. Accrued expenses

(In thousands of euros)	31 December 2023	31 December 2022
Payables to employees	6,077	7,406
Interest payable	3,213	328
Demand deposits ¹	26,900	36,038
Other accrued expenses	393	3
Total accrued expenses	36,583	43,775

¹ The demand deposits are denominated in euros. The deposits have been made for a term of 48 months at an annual interest rate of 3%. The interest expense on the deposits is disclosed in note 22. Balances and transactions with related parties are disclosed in note 26.

Note 11. Government grants

(In thousands of euros)	Allocated CO ₂ emission allowances	Grants related to assets	Total
As at 31 December 2022	54,678	36	54,714
<i>Of which current portion</i>	<i>54,678</i>	<i>18</i>	<i>54,696</i>
<i>Of which non-current portion</i>	<i>0</i>	<i>18</i>	<i>18</i>
Allocation of free CO ₂ emission allowances	105,535	0	105,535
Recognised as revenue (notes 5, 17, 20)	-107,255	-18	-107,273
Write-down	-8,742	0	-8,742
Carrying amount as at 31 December 2023	44,216	18	44,234
<i>Of which current portion</i>	<i>44,216</i>	<i>18</i>	<i>44,234</i>

(In thousands of euros)	Allocated CO ₂ emission allowances	Grants related to assets	Total
As at 5 December 2022 (demerger)	102,887	45	102,932
<i>Of which current portion</i>	<i>102,887</i>	<i>9</i>	<i>102,896</i>
<i>Of which non-current portion</i>	<i>0</i>	<i>36</i>	<i>36</i>
Allocation of free CO ₂ emission allowances	3,262	0	3,262
Recognised as revenue (notes 5 and 17)	-51,471	0	-51,471
Depreciation of assets acquired with government grants (note 20)	0	-9	-9
Carrying amount as at 31 December 2022	54,678	36	54,714
<i>Of which current portion</i>	<i>54,679</i>	<i>18</i>	<i>54,696</i>
<i>Of which non-current portion</i>	<i>0</i>	<i>18</i>	<i>18</i>

¹ At the reporting date, the balance of the government grant liability recognised on the recognition of CO₂ emission allowances allocated to the group free of charge under the national allocation plan amounted to 31,564 thousand euros (31 December 2022: 26,828 thousand euros).

The government grant liability is amortised to income in proportion to the use of the allocated free CO₂ emission allowances. CO₂ emission allowances allocated free of charge, which are recognised as current assets, are recognised in the cost of sales and income from government grants is recognised in other income in the same amount. Therefore, the use of CO₂ emission allowances allocated to the group free of charge has no impact on profit or loss for the period.

² In accordance with an agreement on the replacement of pollution charges signed with the Ministry of the Environment, the obligation to pay pollution charges has been replaced with the obligation to finance environmental measures (construction of desulphurisation systems) that should reduce sulphur dioxide emissions from boilers 5 and 6 of the Põhja combined heat and power plant by 15% per year. The amounts received in support of the acquisition of the assets are recognised as liabilities in the statement of financial position and taken to income over the estimated useful lives of the assets acquired.

Note 12. Provisions

(In thousands of euros)	Mine closure provision ¹	Provision for shortfall in CO ₂ emission allowances	Other	Total
As at 31 December 2022	4,933	26,828	24	31,785
<i>Of which current portion</i>	<i>0</i>	<i>26,828</i>	<i>24</i>	<i>26,852</i>
<i>Of which non-current portion</i>	<i>4,933</i>	<i>0</i>	<i>0</i>	<i>4,933</i>
Recognition	0	13,110	0	13,110
Use	0	0	-1	-1
Discounting	41	0	0	41
Derecognition	0	-8,373	0	-8,373
Demerger ²	-4,974	0	0	-4,974
As at 31 December 2023	0	31,564	24	31,588
<i>Of which current portion</i>	<i>0</i>	<i>31,564</i>	<i>24</i>	<i>31,588</i>

¹ The mine closure provision has been recognised for the closure of the Ojamaa mine in the period 2027–2029. The discount rate of the provision is 2% per year.

² As a result of a demerger, from 31 May 2023 VKG Kaevandused OÜ is no longer part of the group.

Note 13. Deferred income

(In thousands of euros)	31 December 2023	31 December 2022
Deferred income:		
Current portion	73	7
Non-current portion	59	62
Total deferred income	132	69

The fees charged for connecting to the power and district heating networks are recognised as revenue over the periods in which the energy service is expected to be provided via the connection point. The charges recognised as revenue in 2023 totalled 3 thousand euros (2022: 2 thousand euros).

Note 14. Share capital

(In thousands of euros)	31 December 2023	31 December 2022
Share capital	6,209	6,209

At the year-end, share capital consisted of 9,715,000 shares without par value. The rounded proportionate par value of one share is 0.64 euros.

The shares in Viru Keemia Grupp AS are not listed on a stock exchange.

In the reporting period, the group paid a dividend of 5,500 thousand euros.

Information on the group's retained earnings and contingent income tax liability is disclosed in note 29.

From 19 January 2023, TARS International GmbH is the shareholder of the group.

Note 15. Reserves

(In thousands of euros)	31 December 2023	31 December 2022
Revaluation reserve ¹	536	647
Statutory capital reserve ²	621	621
Total reserves	1,157	1,268

¹ The group measures most items of property, plant and equipment using the revaluation model whereby, after initial recognition, assets are measured at their revalued amounts.

When assets are revalued, changes in their carrying amounts are recognised through other comprehensive income in the revaluation reserve. The revaluation reserve is reduced on the depreciation, write-down and disposal of revalued items of property, plant and equipment. Further information about the accounting policy is provided in note 1.

In 2023, 98 thousand euros of the revaluation reserve was transferred to retained earnings (2022: 31 thousand euros).

The revaluation reserve may not be distributed as dividends.

Revaluation reserve as at 5 December 2022*	678
Transfer to retained earnings	-31
Revaluation reserve as at 31 December 2022	647
Transfer to retained earnings	-98
Demerger ³	-13
Revaluation reserve as at 31 December 2023	536

² In accordance with the Estonian Commercial Code and the parent company's articles of association, every year the parent has to transfer at least 5% of its net profit to the capital reserve until the reserve amounts to 10% of share capital. The capital reserve may not be distributed as dividends but may be used to cover losses if losses cannot be covered with unrestricted equity. The capital reserve may also be used to increase share capital.

³ As a result of a demerger, from 31 May 2023 VKG Kaevandused OÜ is no longer part of the group.

Note 16. Revenue

(In thousands of euros)

Revenue by geographical area	2023	5 December- 31 December 2022
European Union, excluding Estonia	15,902	5,218
Estonia	128,975	118,655
Other countries	194,641	60,874
Total revenue	339,518	184,747

Timing of revenue recognition

Goods transferred to customers at a point in time		
Sale of shale oil produced by the group	282,001	150,837
Sale of electricity	25,126	21,001
Sale of district heating and steam	15,550	6,351
Sale of other products and materials	3,507	2,373
Total revenue recognised at a point in time	326,183	180,561
Goods and services transferred to customers over time		
Logistics services	3,631	337
Construction of electricity and telecommunications networks	0	1,290
Connection to electricity and district heating networks	3	2
Other services	9,700	2,557
Total revenue recognised over time	13,334	4,186
Total revenue from contracts with customers	339,518	184,747

Balances from contracts with customers

The following table reflects assets and liabilities from contracts with customers:

(In thousands of euros)	2023	2022
Contract assets	26	3
Contract liabilities	63	66
Total	89	69

The contract assets primarily relate to the group's rights to consideration for construction work completed but not billed by the reporting date. A contract asset is transferred to receivables when the group issues an invoice to the customer.

The contract liabilities relate to the consideration received for connecting customers to the electricity and district heating networks, which is recognised as revenue over the expected terms of the contracts with the customers. At 31 December 2023, the unsatisfied portion of performance obligations related to the connection charges amounted to 63 thousand euros (31 December 2022: 70 thousand euros). The group's management estimates that the transaction price allocated to the unsatisfied performance obligations related to the connection service will be transferred to revenue in the next 18 years.

In 2023, connection charges of 3 thousand euros were transferred from contract liabilities to revenue (2022: 2 thousand euros).

Information about trade receivables is disclosed in note 4.

Note 17. Cost of sales

(In thousands of euros)	2023	5 December- 31 December 2022
Depreciation, amortisation and impairment losses (note 7)	-125,168	-65,791
Personnel expenses (note 23)	-36,689	-22,493
Raw materials, consumables and goods used	-106,326	-37,893
Services purchased	-15,658	-6,102
Pollution charges	-14,208	-15,241
Recognition of CO ₂ emission allowances as an expense (note 5)	-107,255	-41,572
Cost of recognising a provision for CO ₂ emission allowances (note 12)	-4,736	-9,899
Inventory write-down (note 6)	-2,780	-3,134
Change in inventories of finished goods and work in progress	8,772	1,758
Other costs	-44	-47
Total cost of sales	-404,092	-200,414

Note 18. Marketing and distribution expenses

(In thousands of euros)	2023	5 December- 31 December 2022
Services purchased	-4,380	-1,991
Personnel expenses (note 23)	-407	-211
Depreciation and amortisation	0	-2
Raw materials, consumables and goods used	-55	-24
Other expenses	-52	-152
Total marketing and distribution expenses	-4,894	-2,380

Note 19. Administrative expenses

(In thousands of euros)	2023	5 December- 31 December 2022
Personnel expenses (note 23)	-7,753	-3,471
Services purchased	-5,211	-2,600
Depreciation and amortisation (note 7)	-1,121	-347
Raw materials, consumables and goods used	-351	-666
Other expenses	-286	-287
Total administrative expenses	-14,722	-7,371

Note 20. Other income

(In thousands of euros)	2023	5 December- 31 December 2022
Allocation of CO ₂ emission allowances free of charge (note 11)	107,255	41,572
Government grants related to assets (note 11)	18	9
Late payment interest and penalties	51	16
Miscellaneous income	2,280	898
Total other income	109,604	42,495

Note 21. Other expenses

(In thousands of euros)	2023	5 December- 31 December 2022
Loss on disposal of non-current assets	-22	-3,427
Foreign exchange loss	-1,144	-1,575
Write-off of inventories	-36	-63
Miscellaneous expenses	-485	-68
Total other expenses	-1,687	-5,133

Note 22. Finance income and costs**Finance income**

(In thousands of euros)	2023	5 December- 31 December 2022
Interest income (note 26)	9,439	380
Change in fair value of financial instruments	160	13
Total finance income	9,599	393

Finance costs

(In thousands of euros)	2023	5 December- 31 December 2022
Interest expense (note 26)	-3,217	-329
Unwinding of the discount on non-current provisions (note 12)	-41	-49
Interest expense on lease liabilities	-10,743	-6,801
Total finance costs	-14,001	-7,179

Note 23. Personnel expenses

(In thousands of euros)	2023	5 December- 31 December 2022
Employee remuneration	-34,319	-20,331
<i>Of which remuneration of the management board</i>	-1,876	-871
<i>Of which remuneration of the supervisory board</i>	-108	-54
Social security charges	-11,108	-6,575
Unemployment insurance contributions	-252	-158
Total personnel expenses	-45,679	-27,064

The group's average number of employees in 2023 was 1,283 (2022: 1,595), including 114 employees of the parent, Viru Keemia Grupp AS (2022: 105 employees).

During the period, there were 1,233 employees working under employment contracts, 15 members of the management board, 5 members of the supervisory board and 30 people working under contracts for services (2022: 1,554 employees, 13 members of the management board, 5 members of the supervisory board, and 23 people working under contracts for services).

Personnel expenses are allocated to different income statement line items as set out in notes 7, 8, 17, 18 and 19. The difference for 2023 of 829 thousand euros (2022: 887 thousand euros) results from the capitalisation of personnel expenses incurred in the production of self-constructed assets (notes 7 and 8).

Note 24. Taxes

(In thousands of euros)	2023		2022	
	Receivable	Payable	Receivable	Payable
Balance on the prepayment account (note 4)	1,069	0	0	0
Value added tax (note 4)	0	0	971	782
Personal income tax	0	774	0	1,362
Social security tax	4	1,398	0	2,394
Corporate income tax	0	15	0	27
Unemployment insurance contributions	0	90	0	162
Funded pension contributions	0	29	0	43
Mining rights fees	0	0	0	4,338
Excise duties	0	240	0	498
Environmental charges	0	2,334	0	2,399
Deferred tax liability	0	1,619	0	1,099
Total	1,073	6,499	971	13,104

Income tax expense on dividends:

(In thousands of euros)	2023	2022
Tax rates for dividend distributions:		
20% (calculated as 20/80 of the net distribution)	583	0
14% (calculated as 14/86 of the net distribution)	516	0
Deferred tax expense	-1,619	-1,099
Total income tax expense on dividends	-520	-1,099

Note 25. Leases

The group as a lessee

The group leases various assets, including items of production equipment and machinery.

The group has also entered into leases for which the underlying asset is of low value (the asset, when new, has a value of less than 5 thousand euros). The group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets. The group has also elected not to recognise right-of-use assets and lease liabilities for short-term leases (leases with a term of less than 12 months).

Right-of-use assets

(In thousands of euros)	Land and buildings	Plant and equipment	Other assets	Total
As at 31 December 2022 (demerger)	93,121	256,220	503	349,844
Depreciation for the year	-31,923	-88,182	-170	-120,275
Additions	2,227	2,276	11	4,514
Derecognition	-210	-764	0	-974
Balance as at 31 December 2023	63,215	169,550	344	233,109

Amounts recognised in the income statement

(In thousands of euros)	2023	2022
All leases under IFRS 16		
Interest expense on lease liabilities	-10,746	-6,801
Expenses on short-term leases	-411	-275
Expenses on leases of low-value assets	-862	-563
Total expenses	-12,019	-7,639

Amounts recognised in the statement of cash flows

(In thousands of euros)	2023	2022
Total cash outflows related to leases	-129,213	-65,210
Of which principal payments	-118,612	-58,409
Of which interest payments	-10,601	-6,801

The group as a lessor

Finance leases

The group has not leased out any assets to third parties.

Note 26. Related party disclosures

For the purposes of these consolidated financial statements, parties are related if one controls the other or can exert significant influence on the other's operating decisions. Related parties include:

- other companies belonging to the same group; and
- members of the group's management and supervisory boards and shareholders with a significant ownership interest unless those persons cannot exert significant influence on the group's operating decisions.

In addition, related parties include close family members of the above persons and companies related to them.

(In thousands of euros)	2023	2022
Transactions with members of the management and supervisory boards and owners		
Purchase of services (remuneration provided under management board members' service contracts)	1,875	871
Purchase of services (remuneration provided to members of the supervisory board)	108	54
Transactions with companies and persons related to owners of the group		
Purchases of goods and services	64,272	96
Lease expenses (note 25)	117,825	57,131
Sales of goods and services	36,862	46,133
Loans provided	295,616	0
Repayments of loans provided	3,505	0
Interest expense (note 22)	11,450	6,801
Interest income (note 22)	8,021	47
Other related parties		
Lease expenses	4	11
Receivables from related parties		
Companies related to owners of the group	327,510	21,784
Liabilities to related parties		
Liabilities to a company under the control of the owners of the group	170,426	0
Lease liabilities to a company under the control of the owners of the group	238,215	353,313
Liabilities to members of the management board, owners and parties related to owners	107	47

Note 27. Investments in subsidiaries

Subsidiary	Domicile	Core business	Ownership interest as at 31 December 2023	Ownership interest as at 31 December 2022
VKG Oil AS	Estonia	Production of oil shale chemicals	100%	100%
VKG Logistika OÜ	Estonia	Transport, maintenance and repair services	100%	100%
Viru RMT OÜ	Estonia	Production of metal structures	100%	100%
VKG Kaevandused OÜ ¹	Estonia	Oil shale mining and processing	0%	100%
VKG Invest OÜ	Estonia	Development	100%	100%
VKG Energia OÜ	Estonia	Production and sale of heat and electricity	100%	100%
VKG Solar OÜ	Estonia	Other electricity production (incl. from biomass)	100%	100%
VKG Energiatootmise OÜ ²	Estonia	Other electricity production (incl. from biomass)	0%	100%

¹ As a result of a demerger, from 31 May 2023 VKG Kaevandused OÜ is no longer part of the group.

² On 27 March 2023, VKG Energiatootmise OÜ merged with VKG Energia OÜ.

Note 28. Main financial risks

A. Financial instruments by class and category

Class of financial instruments	Category of financial instruments	Note	Carrying amount (In thousands of euros)	
			31 December 2023	31 December 2022
Cash and cash equivalents	Financial assets measured at amortised cost	2	7,039	65,746
Derivative financial instruments	Financial assets measured at fair value through profit or loss	3	31,307	125,414
Trade receivables	Financial assets measured at amortised cost	4	22,482	49,291
Other receivables	Financial assets measured at amortised cost	4	332,001	4,143
Loan liabilities	Financial liabilities measured at amortised cost	9	31,661	31,100
Lease liabilities	Financial liabilities measured at amortised cost	9	240,874	356,174
Trade payables	Financial liabilities measured at amortised cost		19,457	10,468
Other liabilities	Financial liabilities measured at amortised cost		9,682	7,737
Demand deposits	Financial liabilities measured at amortised cost		153,831	36,038

B. Fair value

All of the group's financial assets and financial liabilities are either recognised in the consolidated statement of financial position or disclosed as contingent items in the notes to the consolidated financial statements. The carrying amounts of all financial assets and financial liabilities recognised in the statement of financial position are reasonable approximations of their fair values and therefore their fair value has not been disclosed.

According to management's assessment, the fair values of the group's loan and finance lease liabilities are equal to their carrying amounts because according to management's estimates their contractual interest rates correspond to relevant market interest rates.

C. Financial risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is an inherent part of any business activity.

Depending on the counterparties and the nature of the receivables, the group's credit risk can be divided into three categories as shown in the table below:

Credit risk (In thousands of euros)	31 December 2023	31 December 2022
Cash and cash equivalents	7,039	65,746
Trade receivables	22,482	49,291
Other receivables	17,285	3,767
Investments in financial assets	31,307	125,414
Maximum credit risk exposure	78,113	244,218

Cash and cash equivalents – At 31 December 2023, the group's cash and cash equivalents totalled 7,039 thousand euros (2022: 65,746 thousand euros). Cash and cash equivalents are held at financial institutions whose ratings range from Aa2 to Ba1 according to Moody's. The credit risk of cash and cash equivalents was estimated based on the 12-month expected credit loss model and the estimation reflects the short maturities of the risk positions. Based on the credit ratings of the financial institutions where the assets are held, the group believes that the credit risk of its cash and cash equivalents is low.

Trade receivables – The carrying amounts of financial assets and contract assets reflect the group's maximum credit risk exposure.

The allowance for expected credit losses (loss allowance) recognised for financial assets and contract assets as at the end of the reporting period was as follows.

(In thousands of euros)	31 December 2023	31 December 2022
Allowance for expected credit losses on trade receivables and contract assets	-2	-15
Total	-2	-15

The group manages its credit risk by carefully monitoring the payment behaviour and analysing the financial position of its business partners and involving third party guarantors where necessary. In the event of one-off transactions and new customers, goods and services are sold on a prepayment basis or against a guarantee or a letter of credit.

Past due receivables are dealt with on a daily basis. Customers with settlement delays are sent reminders and cautions. The group has rules for instituting collection proceedings through the court of law. Conclusion of special agreements is at the discretion of the management board.

Credit risk of receivables and contract assets by geographical area as at the end of the period:

(In thousands of euros)	31 December 2023	31 December 2022
European Union, excluding Estonia	42	66
Estonia	21,016	48,637
Other countries	1,424	588
Total	22,482	49,291

The carrying amount of receivables due from the group's most important customer at 31 December 2023 was 6,064 thousand euros (2022: 8,763 thousand euros).

The group accounts for expected credit losses on all trade receivables using the simplified approach provided in IFRS 9 that allows recognising the loss allowance at an amount equal to lifetime expected credit losses.

The group always recognises the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. The expected credit losses on trade receivables are calculated using a provision matrix, which is based on the group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions and, where appropriate, the time value of money.

Ageing of trade receivables (In thousands of euros)	31 December 2023	31 December 2022
Trade receivables not past due	14,882	43,584
1-30 days past due	7,582	5,268
31-90 days past due	6	381
Over 91 days past due	12	58
Total trade receivables	22,482	49,291

Interest rate risk

At 31 December 2023, the group's interest-bearing liabilities amounted to 272,536 thousand euros (2022: 387,274 thousand euros) and accounted for 39% (2022: 51%) of total assets. Most of this amount is made up of payment obligations under long-term leases accounted for in accordance with IFRS 16 which are not influenced by the movements in interest rates in the financial markets. Future liabilities have been calculated using an interest rate of 3.5%. Lease liabilities have floating interest rates of 1.5–5.96% and are exposed to interest rate risk, but their proportion is insignificant.

Liquidity risk

Liquidity risk is the risk that the group will not have sufficient liquid funds to cover its expenses and investments. Liquidity risk is mitigated with various financial instruments such as loans, working capital management, creation of reserves, hedging transactions, etc. At the year-end, the group's current ratio (current assets/current liabilities) was 0.57 (2022: 1.26). The group's cash and cash equivalents as at the end of the reporting period totalled 7,039 thousand euros (2022: 65,746 thousand euros). Although the group's liquidity indicators have decreased, management does not see it as a problem as most of the current liabilities are to related parties.

The following liquidity analysis provides an overview of the group's short-term and long-term liabilities by their maturities. All amounts represent undiscounted cash flows from contractual payments. The interest rates of the borrowings included in the analysis are in the range of 1.5–5.96% (2022: 1.5–3.5%).

Liabilities by maturities as at 31 December 2023

(In thousands of euros)	Not later than 6 months	Later than 6 months but not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total undiscounted amount	Carrying amount
Loan liabilities	1,105	1,111	1,108	39,423	42,747	31,661
Lease liabilities	64,707	64,941	120,393	0	250,041	240,875
Trade payables	19,457	0	0	0	19,457	19,457
Accrued expenses	9,682	0	0	0	9,682	9,682
Other liabilities	0	26,900	126,931	0	153,831	153,831
Total	94,951	92,952	248,432	39,423	475,758	455,506

Liabilities by maturities as at 31 December 2022

(In thousands of euros)	Not later than 6 months	Later than 6 months but not later than 1 year	Later than 1 year but not later than 5 years	Later than 5 years	Total undiscounted amount	Carrying amount
Loan liabilities	0	1,089	4,354	35,454	40,897	31,100
Lease liabilities	64,588	64,381	245,970	433	375,372	356,174
Trade payables	10,468	0	0	0	10,468	10,467
Accrued expenses	43,775	0	0	0	43,775	43,775
Total	118,831	65,470	250,324	35,887	470,512	441,516

The primary objective of the group's capital management is to ensure an optimal capital (net debt and equity) structure, which would support the group's profitable operation and the interests of shareholders. At the end of 2023, the net debt to capital ratio was 61% (2022: 60%), which is moderately high.

(In thousands of euros)	31 December 2023	31 December 2022
Interest-bearing borrowings (note 9)	272,537	387,274
Less: cash and cash equivalents (note 2)	7,039	65,746
Net debt	265,498	321,528
Equity	167,491	218,493
Total capital (net debt plus equity)	432,989	540,020
Net debt to capital ratio	61%	60%

Market risks

The risk of changes in the world market prices of oil and oil products is an inherent part of the group's business operations. Under the majority of shale oil sales contracts entered into by the group, the sales price of the product depends directly on the prices quoted for oil products on relevant commodity exchanges. Other shale oil prices (sales in the domestic market) are indirectly influenced by the world market prices. The world market prices of oil also influence the group's expenses through the prices of fuels, oils and natural gas that are used in production. This impact, however, is marginal compared to the impact on revenue.

The group monitors the risk continuously and analyses the sensitivity of its forecast profit to changes in the world market prices of oil and oil products. A one-dollar change in the annual average price of Brent crude oil would influence VKG's profit by around 2.5 million euros.

To a lesser extent, the group's profitability is also affected by the market price of electricity, the indicator of which is the Nord Pool spot price in Estonia (NPS Estonia). A change in the annual average price for NPS Estonia by 1 euro per megawatt-hour affects VKG's profitability by approximately 100 thousand euros.

Currency risk

In 2023, 75% (2022: 71%) of the group's sales were denominated in US dollars. All of those transactions were related to the sale of oil. Since 99% of the group's expenses are incurred in euros, the weakening of the US dollar constitutes a high risk for the group.

The group's currency risk exposures (in thousands of euros):

Financial assets	EUR	USD	Other	31 December 2023
Cash and cash equivalents (note 2)	6,654	385	0	7,039
Trade receivables	14,780	7,702	0	22,482
Total	21,434	8,087	0	29,521
Financial liabilities	EUR	USD	Other	31 December 2023
Borrowings (note 9)	272,536	0	0	272,536
<i>Of which non-current</i>	<i>149,591</i>	<i>0</i>	<i>0</i>	<i>149,591</i>
Trade payables	19,451	4	2	19,457
Total	291,987	4	2	291,993
Net exposure	-270,553	8,083	-2	-262,472

Carbon risk

As a result of EU climate policy, carbon risk is the most critical risk to the group's sustainability. All the risks described above are related to market developments, which can be estimated and mitigated in one way or another, but carbon taxation risk is more of a political risk and depends on whether or not EU policy supports local manufacturing companies. While the EU's priority in recent years has been to reduce Europe's greenhouse gas emissions, the EU is now beginning to understand that this will reduce the competitiveness of local manufacturing companies.

The production of shale oil products is one of the activities whose competitiveness is directly undermined by the EU climate policy. The group's total CO₂ emission in 2023 was 1,305 thousand tonnes (2022: 470 thousand tonnes), which was covered by the emission allowances allocated to the group free of charge in previous years. If the group had had to cover its total CO₂ emission with allowances purchased from the market at an average price of 80 euros per tonne, this would have resulted in an additional expense of 104 million euros. The group recognised provisions of 13,110 thousand euros (2022: 9,899 thousand euros) to cover the costs related to its CO₂ emissions.

Note 29. Contingent liabilities

The group's retained earnings as at the end of the reporting period amounted to 160,125 thousand euros (2022: 211,017 thousand euros). The maximum income tax liability that could arise if all of the retained earnings as at the reporting date were distributed as dividends (without applying the lower tax rate) amounts to 32,025 thousand euros (2022: 52,754 thousand euros) and the amount that could be distributed as the net dividend is 128,100 thousand euros (2022: 158,263 thousand euros).

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the income tax expense reported in the income statement for 2023 (without applying the lower tax rate) may not exceed total retained earnings as at the end of the reporting period and income tax already paid by the subsidiaries.

Note 30. Demand deposits

(In thousands of euros)	31 December 2023	31 December 2022
Demand deposits	153,831	36,040
Of which current (notes 10 and 26)	26,900	36,040
Of which non-current (note 26)	126,931	0

¹ The demand deposits are denominated in euros. The deposits have been made for a term of 48 months at an annual interest rate of 3%. The interest expense on the deposits is disclosed in note 22. Balances and transactions with related parties are disclosed in note 26.

Note 31. Events after the reporting period

The following significant events have occurred between the end of the reporting period on 31 December 2023 and the date these financial statements are authorised for issue:

- On 19 March 2024, Viru RMT OÜ was sold.
- On 15 March 2024, the shareholders were paid a dividend of 8,000 thousand euros in total for 2023.
- On 29 April 2024, VKG Logistika OÜ purchased the shares in PTRTR Tehnoloogia OÜ.

Note 32. Parent company's financial information

Disclosure of the primary financial statements of the group's parent company is required by the Estonian Accounting Act.

Parent company's statement of financial position

(In thousands of euros)	31 December 2023	31 December 2022
ASSETS		
Cash and cash equivalents	1,825	1,738
Trade receivables	1,762	1,009
Loans provided	6,600	12,600
Other receivables	8,845	13,259
Prepayments	18	124
Total current assets	19,050	28,730
Investments in subsidiaries (note 27)	118,285	179,627
Loans provided	10,913	16,514
Other long-term receivables	21,651	0
Property, plant and equipment	2,493	643
Intangible assets	1,665	1,754
Total non-current assets	155,007	198,538
Total assets	174,057	227,268
LIABILITIES		
Borrowings	536	99
Trade payables	575	651
Taxes payable	1,083	336
Accrued expenses	1,034	790
Total current liabilities	3,228	1,876
Borrowings	1,680	236
Other liabilities	0	3,900
Total non-current liabilities	1,680	4,136
Total liabilities	4,908	6,012
EQUITY		
Share capital	6,209	6,209
Statutory capital reserve	621	621
Revaluation reserves of subsidiaries accounted for under the equity method	536	647
Retained earnings	161,783	213,779
Equity attributable to owners of the parent	169,149	221,256
Total equity	169,149	221,256
Total liabilities and equity	174,057	227,268

Parent company's income statement

(In thousands of euros)	2023	2022
Revenue	14,935	5,507
Cost of sales	-560	-296
Gross profit	14,375	5,211
Administrative expenses	-11,708	-5,575
Other income	1,699	118
Other expenses	-550	-880
Operating profit/loss	3,816	-1,126
Share of profit of subsidiaries accounted for under the equity method	11,479	4,361
Finance income	1,666	778
Finance costs	-147	-2
Profit before tax	16,814	4,011
Income tax expense	0	0
Profit for the year	16,814	4,011

Parent company's statement of cash flows

(In thousands of euros)	2023	2022
Cash flows from operating activities		
Profit for the year	16,814	4,011
Adjustments for:		
<i>Depreciation, amortisation and impairment losses</i>	<i>911</i>	<i>191</i>
<i>Accrued finance income and costs</i>	<i>-1,519</i>	<i>-775</i>
Total adjustments	-608	-584
Share of profit of subsidiaries accounted for under the equity method	-11,479	-4,361
Change in operating receivables and prepayments	226	-197
Change in operating payables and advances received	951	721
Net cash from/used in operating activities	5,904	-410
Cash flows from investing activities		
Purchase of property, plant and equipment	-334	-16
Purchase of intangible assets	-174	-92
Proceeds from sale of non-current assets	9	0
Purchase of other investments	-17,000	-11,094
Investments made in subsidiaries and associates	0	-3
Loans provided	-1,005	-6,500
Repayments of loans provided	12,605	13,093
Interest received, intragroup	632	613
Interest received, external	66	61
Dividends received	5,500	0
Net cash from/used in investing activities	299	-3,938
Cash flows from financing activities		
Credit card loan	1	0
Payments of lease principal	-495	-41
Interest paid on lease liabilities	-122	-2
Cash outflow through the demerger	0	-12,135
Dividends paid	-5,500	0
Net cash used in financing activities	-6,116	-12,178
Net cash flow	87	-16,526
Cash and cash equivalents at beginning of year	1,738	18,264
Increase/decrease in cash and cash equivalents	87	-16,526
Cash and cash equivalents at end of year	1,825	1,738

Parent company's statement of changes in equity

(In thousands of euros)	Share capital	Statutory capital reserve	Revaluation reserves of subsidiaries	Retained earnings	Total
As at 5 December 2022 (demerger)	6,209	0	678	210,358	217,245
Profit for the year	0	0	0	4,011	4,011
Total comprehensive income for the year	0	0	0	4,011	4,011
Changes in reserves	0	621	-31	-590	0
As at 31 December 2022	6,209	621	647	213,779	221,256
Profit for the year	0	0	0	16,814	16,814
Total comprehensive income for the year	0	0	0	16,814	16,814
Changes in reserves	0	0	-111	111	0
Dividends paid	0	0	0	-5,500	-5,500
Other changes in equity	0	0	0	-63,421	-63,421
As at 31 December 2023	6,209	621	536	161,783	169,149

Further information about share capital and reserves is disclosed in notes 14 and 15.

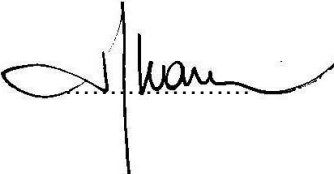
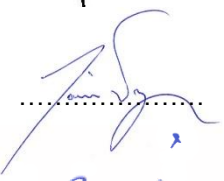
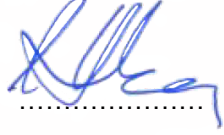
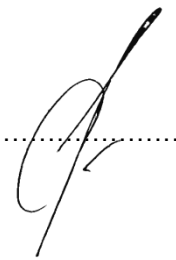
Parent company's adjusted unconsolidated equity as at 31 December 2023

(In thousands of euros)	31 December 2023	31 December 2022
Parent company's unconsolidated equity	169,149	221,256
Less: carrying amount of investments in subsidiaries in parent company's separate statement of financial position	118,285	179,627
Plus: value of investments in subsidiaries under the equity method	118,285	179,627
Equity attributable to owners of the parent	169,149	221,256
Total adjusted unconsolidated equity	169,149	221,256

SIGNATURES TO ANNUAL REPORT 2023

The management board of Viru Keemia Grupp AS has prepared the directors' report and the consolidated financial statements for 2023.

Management board

Ahti Asmann	Chairman of the Management Board		1 July 2024
Jaanis Sepp	Member of the Management Board		1 July 2024
Raivo Attikas	Member of the Management Board		1 July 2024
Ervin Küttis	Member of the Management Board		1 July 2024
Nikolai Petrovitš	Member of the Management Board		1 July 2024

INDEPENDENT AUDITORS' REPORT

PROPOSAL FOR THE ALLOCATION OF PROFIT

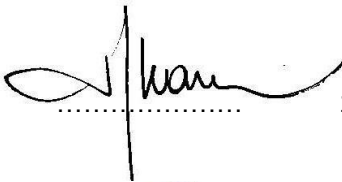
The management board proposes that the general meeting of Viru Keemia Grupp AS allocate retained earnings as follows:

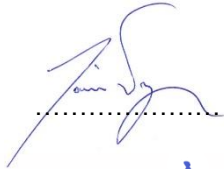
Total retained earnings as at 31 December 2023: 160,125 thousand euros

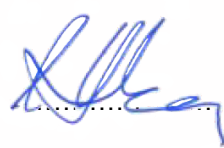
The management board proposes that the general meeting make the following allocations:

Dividend distribution: 8,000 thousand euros

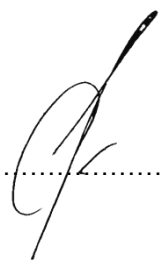
Retained earnings after allocations: 152,125 thousand euros

Ahti Asmann	Chairman of the Management Board		1 July 2024
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Jaanis Sepp	Member of the Management Board		1 July 2024
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Raivo Attikas	Member of the Management Board		1 July 2024
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Ervin Küttis	Member of the Management Board		1 July 2024
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Nikolai Petrovitš	Member of the Management Board		1 July 2024
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PARENT COMPANY'S REVENUE ACCORDING TO EMTAK

(In thousands of euros)

Activity	EMTAK code	2023
Activities of head offices	70101	14,935
Total		14,935