

# AS TALLINNA VESI

*Annual Report 2022*

*Tallinna Vesi*



## MANAGEMENT REPORT

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## 1. CHAIRMAN'S STATEMENT

In 2022, AS Tallinna Vesi increased investments in capital assets. Company's financial results were most affected by high inflation and surge in energy prices, leading the Company to increase its price for water services. Our professional and dedicated team ensured a consistently high-quality and reliable vital service for our customers and consumers.

### New Administrative Contract with the City of Tallinn

The Services Agreement, signed with the City of Tallinn upon the privatization of AS Tallinna Vesi, expired at the end of 2022. Also in 2022, the Company delivered all 97 contractual levels of service agreed in that agreement. The new Administrative Contract with the City was entered into for the period of 01/12/2022-30/11/2032. At the same time, AS Tallinna Vesi was appointed as the water undertaker within the main licensed territory of the public water and sewerage system in Tallinn until 30 November 2032. The new Administrative Contract is aimed at ensuring high-quality water services for city residents and entrepreneurs, adherence to the principles of environmental protection, and increased attention to investments in order to ensure the continuous rehabilitation of networks and the sustainability of the company.

### Increasing levels of investment

We aim to grow investments in fixed assets to secure sustainable infrastructure and continuity of the service. In 2022, we invested €25 million in our capital assets, increasing, amongst other things, the volume of reconstructed water pipes and sewers to 19 kilometres.

A number of ongoing projects continued in wastewater treatment process, such as the reconstruction of effluent outlet tower, the civil reconstruction works in the main wastewater pumping station at Paljassaare and the reconstruction of aeration tanks at the Wastewater Treatment Plant. In addition, a new point of reception for sewage sludge from septic trucks was completed and the new raw sludge thickeners were installed. In Water Treatment Plant at Ülemiste, we continued the reconstruction of filters. Reconstruction of Velodroomi pumping station and installation of UV equipment in several pumping stations will help to improve water quality in our water networks.

Investments made by AS Tallinna Vesi allow to provide high-quality drinking water not only today, but also in the future and keep the environment around us pure.

### Going green

In addition to investments in water and wastewater assets, properly maintained water and sewerage network, we have taken action to reduce Company's environmental impact. Today, the electricity energy used at our facilities and in treatment processes is produced from renewable sources.

In 2022, we prepared a Climate Impact Reduction Plan for the Company and set ourselves several ambitious targets. The most ambitious target is to produce at least 50% of all electricity and heat needed within the Company by 2030. The first step was done by signing a contract at the end of last year for the installation of a combined heat and power plant on the Wastewater Treatment Plant at Paljassaare. Both electricity and heat produced from biogas, which is generated in wastewater treatment process during the stabilization of sewage sludge, will be fully used for the own use of

the treatment plant and it will cover up to 70% of the plant's current average annual electricity demand.

This will reduce not only the costs of electricity but also the pressure on the environment and will improve the operational continuity of the plant in case of electricity interruption.

At the end of the year, we started installing remote water meters for our customers, following Company's regular water meter verification program. In five years or by the end of 2026, all existing water meters in Tallinna Vesi's service area will be replaced with smart meters.

Customers who have a smart water meter installed, will no longer have to report their water meter reading. The main advantage of smart meters is the speed and accuracy of data transmission, as well as security and reliability. In addition to consumption data, the smart meter also communicates information about any failures and possible leakages. This in turn helps to save clean water and resources needed for treating water.

### Sustainable financial position

The activities of Tallinna Vesi highly depend on the surrounding environment. In 2022, the Company's financial results were most affected by high inflation rate and surge in energy prices. Since electricity accounts for about 25% of our production costs, the Company had to increase the price for water services to cover its justified costs. The price for water services in Tallinn and Saue increased by 26 cents per cubic meter in average starting from the fourth quarter

Compared to the last year sales revenue increased, but due to the increased costs, the net profit decreased. The biggest impact on costs came from the increase in the market price for electricity, which led to an increase in electricity costs. Increased sales revenue of water services in 2022 was influenced both by the change in the volume of water consumption in hospitality and entertainment sectors and by the price increase on 1<sup>st</sup> of October.

We continued with the established dividend policy also in 2022.

### Quality of water remains high

The quality of drinking water in Tallinn remained stable at a high level. 99.84% of water samples taken from consumers' tap during 2022 were compliant with all requirements. Last year, we took a total of 3,086 water samples from consumer's taps. Only 5 of them were non-compliant. High-quality tap water is ensured with the continuous development and maintenance of the water network.

Treated effluent quality from the Wastewater Treatment Plant at Paljassaare was at a high level in 2022, being again fully compliant with all the set requirements. In order to assess the efficiency of the treatment process and the quality of the treated effluent, the concentration of pollutants in influent and in effluent leaving the plant are constantly monitored. The team at the Wastewater Treatment Plant put in a lot of effort to deliver very high standards of treated effluent. The nitrogen and phosphorus removal rates were over 90%.

### Satisfied customers

In addition to the quality of our product and services, we provide high quality customer service. In 2022, we upgraded our customers self-service platform to make it even more convenient for customers to use. It is essential for us to have regular feedback on the quality of our customer service and the services we provide. In 2022, based on the monthly feedback collected from more

than thousand customers, we received an average rating of 4.2 on a 5-point scale and the percentage of satisfied customers was at 83%. The feedback we collect provides us with a valuable input for improving the customer service quality and the services we provide and for making improvements in our business processes.

### Outlook for 2023

In 2023, we aim at continuing to provide high-quality service to the inhabitants of Tallinn and businesses by keeping the Company's sustainable financial position and increasing investments in our assets. The Company will focus on the reconstruction of pipelines and the opportunities of using renewable energy solutions to develop sustainable infrastructure and ensure continuity of the service.

The investment plan for next years will be based on the Tallinn public water supply and sewerage development plan that is prepared together with the City of Tallinn. The pipeline reconstruction program for it, was prepared in cooperation with the Tallinn Technical University.

This year, we carry on with the installation of remote water meters for our customers. A number of major investment projects are ongoing and about to start in all main production lines of AS Tallinna Vesi.

For Tallinna Vesi's subsidiary Watercom, 2022 was a good year in terms of volume and profit margin of services sold outside the Group. The company successfully launched a new manhole repair service and at the end of the year an ice pigging equipment was delivered, which allows to clean water pipes with ice by applying the most innovative technique currently used in Northern Europe. We are optimistic that the success of our subsidiary will continue in the future, and we believe that Watercom also has the potential to develop both existing and new services.

I would like to thank the entire dedicated team in Tallinna Vesi and Watercom, colleagues from Utilitas and the City of Tallinn, and all our customers, consumers and cooperation partners for their long-term and professional cooperation.



Aleksandr Timofejev

Chairman of the Management Board



## 2. OUR COMPANY

Tallinna Vesi is the largest water utility in Estonia, providing drinking water and wastewater services to nearly one third of Estonia's population. We serve over 24,000 private customers and businesses and approximately 470,000 end consumers in Tallinn and its surrounding areas: City of Maardu, City of Saue, Harku Small Town and Saku Municipality. As of 31 December 2022, Tallinna Vesi employed 345 people.



*Ülemiste Water Treatment Plant*



*Paljassaare Wastewater Treatment Plant*

The Company has two main treatment plants, the Water Treatment Plant at Ülemiste and the Wastewater Treatment Plant at Paljassaare. Every day, we treat an average of 70,200 m<sup>3</sup> of drinking water and 133,000 m<sup>3</sup> of wastewater in our plants. Tallinna Vesi also has an accredited water laboratory and an accredited wastewater laboratory.

Tallinna Vesi was privatised in 2001. Pursuant to the Services Agreement signed with the City of Tallinn upon privatisation, which expired on 30 November 2022, the Company was required to fulfil 97 levels of services until the end of 2022. The new Administrative Agreement, which set out the service quality requirements and the reporting obligation with effect from 01.01.2023, was entered into with the City for the period of 01/12/2022-30/01/2032. Along with the approval of the administrative duty, AS Tallinna Vesi was appointed as the water undertaker within the main licensed territory of the public water and sewerage system in Tallinn until 30 November 2032 (incl.).

The public water supply system includes more than 1,200 km of water pipes, 22 water pumping stations and 46 ground water pumping stations with 93 boreholes. The catchment area in Harju and Järva Counties covers around 1,800 km<sup>2</sup>. The public sewerage system comprises more than 1,187 km of wastewater network, 520 km of stormwater network and 176 wastewater and stormwater pumping stations across the service area.

Tallinna Vesi Group consists of three companies. Tallinna Vesi is listed on Nasdaq Baltic market. As of 31 December 2022, Tallinna Vesi's shareholders, with a direct holding over 5% were OÜ Utilitas and the City of Tallinn.

Tallinna Vesi's subsidiary, Watercom was founded in 2010, aimed at providing services to the Company and to diversify the product range on offer and develop a non-regulated business.

Watercom OÜ is wholly owned by Tallinna Vesi and consolidated to the results of the Group (hereinafter jointly referred to as the Group). The Group structure has not significantly changed in the past few years.



Tallinna Vesi also has a full shareholding in the company ASTV Green Energy OÜ (founded in 2021), which in the longer term intends to supply reusable resources, generated as a result of providing water services, as products in the green energy market.

### OUR MAIN PRODUCTS AND SERVICES



Collection, treatment and supply of water



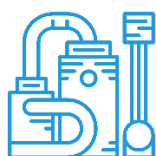
Collection, treatment and disposal of wastewater and stormwater



Design works



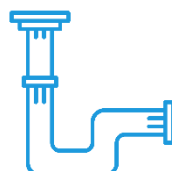
Owner supervision and project management



Water and wastewater services



Laboratory services



Pipe construction works



Transportation services and road construction

### OUR MISSION AND VISION

We have the responsibility to supply high-quality drinking water to consumers, ensure a reliable service and collect and treat wastewater and stormwater in an environmentally conscious manner.

**OUR MISSION**

*We create a better life with pure water*

**OUR VISION**

*Everyone wants to be our customer, employee, and partner, because we are the leading water services company in the Baltics*



### 3. HIGHLIGHTS OF THE 2022

#### ADMINISTRATIVE CONTRACT FOR NEXT TEN YEARS

The Services Agreement, signed with the City of Tallinn upon the privatization of AS Tallinna Vesi, expired at the end of 2022. The new Administrative Contract with the City was entered into for the period of 01/12/2022-30/11/2032. The new Administrative Contract is aimed at ensuring high-quality water services for city residents and entrepreneurs, adherence to the principles of environmental protection, and increased attention to investments in order to ensure the continuous rehabilitation of networks and the sustainability of the Company. The contract also aims to resolve, in cooperation between the City and AS Tallinna Vesi, the historical challenges, such as the problems with unowned pipes and pipes running through chain houses, and to connect all properties that have not joined the public water supply and sewerage system yet within the main licensed territory of AS Tallinna Vesi. The administrative duty was approved and AS Tallinna Vesi was appointed as the water undertaker within the main licensed territory of the public water and sewerage system in Tallinn until 30 November 2032.



#### CONTINUED LARGE INVESTMENTS IN WASTEWATER TREATMENT

In 2022, a number of ongoing projects continued, such as the reconstruction of effluent outlet tower, the civil reconstruction works in the main pumping station at Paljassaare and the reconstruction of aeration tanks. In addition, a new point of reception for sewage sludge from septic trucks was completed and the new raw sludge thickeners were installed.



#### REHABILITATION OF WATER AND SEWERAGE NETWORK

We significantly increased investments in water and sewerage networks in 2022. In 2022, a total of 19 kilometres of pipes were rehabilitated. This is more than in any of the previous year over the past decade. The pipes were rehabilitated on Järvevana Road, Sõle Street, Linnamäe Road, Raba Street, residential driveways in Õismäe, in Astangu area and in many other streets. The rehabilitations made will help to secure a reliable water supply for a large number of Tallinners.

2022 saw the reconstruction of Velodroomi pumping station, the installation of UV equipment in several pumping stations and the reconstruction of pipelines, allowing additional chlorination of water in the water network.



## THINK GREEN, ACT GREEN

We aim to make fresh tap water as conveniently available as possible in urban areas, because preferring tap water to bottled water significantly reduces plastic waste. To this end, we set up 3 new public drinking water taps in 2022 in cooperation with the City of Tallinn. Thus, last summer, a total of 38 public drinking water taps were opened throughout the capital city.

In 2022, we prepared a Climate Impact Reduction Plan for the Company and set ourselves several ambitious targets. We took an important step closer to one of them – to produce at least 50% of all electricity and heat needed within the Company by 2030 at the latest – by signing a contract at the end of the year for the construction of a combined heat and power plant on the Wastewater Treatment Plant at Paljassaare. Both electricity and heat produced from biogas, which is generated in wastewater treatment process during the stabilization of sewage sludge, will be fully used for the own use of the treatment plant and it will cover up to 70% of the plant's current average annual electricity demand.



## SMART WATER METERS

In spring 2022, a contract was awarded to the technology company Telia Eesti AS for the delivery of smart water meters and the transmission of data via Telia's network. The first batch of smart meters were delivered in late autumn, and at the end of the year we started installing the first meters. Smart water meters are installed for all private persons and companies who have entered into a direct contract with Tallinna Vesi. Smart water meters will be installed following Company's regular water meter verification program and each year, new meters will be installed for customers who had their water meters last verified 5 years ago. The entire service area will be covered with smart water meters by the end of 2026.

Customers who have a smart water meter installed, will no longer have to report their water meter reading. The main advantage of smart meters is the speed and accuracy of data transmission, as well as security and reliability. In addition to consumption data, the smart meter also communicates information about any failures and possible leakages. This in turn helps to save clean water and resources needed for treating water.

## SCHOLARSHIPS AND COOPERATION WITH UNIVERSITIES AND TRADE SCHOOLS

We continued cooperation with three Estonian universities and trade schools under which 13 scholarships were awarded to support active students specialized in areas related to the Company's core business.

We also continued with our succession program for apprentices and trainees, which allows us to engage young people in the Company's activities already whilst they are studying and provide them with valuable work experience and development opportunities. Interest in doing traineeships with us has been growing year by year. In 2022, we had 21 young people who did their traineeship at Tallinna Vesi and several of them were employed after the traineeship period.

The scholarship and succession programs help to attract young and energetic new generation of talents to join the Company.



## TALLINNA VESI AT EXPO 2020 IN DUBAI

For more than 170 years, World Expos have provided a platform for countries all over the world to showcase the greatest innovations that have shaped the world we live in today. The exhibitions allow visitors to experience, explore and be inspired by global ideas that may soon change our world.

This time, EXPO 2020 took place in Dubai. On Water Business Forum, held on the World Water Day, the CEO of Tallinna Vesi, Aleksandr Timofejev, and the CEO of Watercom, Reigo Marosov, talked about Tallinna Vesi as a sustainable and socially responsible company, presenting our achievements in creating a modern, efficient and sustainable water business in Tallinn within 30 years. We spoke about our investments in maintenance, assets, operations and the community, as well as in the environment and in our people and unveiled plans that the Company has for the future.



## PURE WATER DAY

At the end of November, our Water Treatment Plant at Ülemiste celebrated its 95 years of operation. To mark this, we organised a conference for our business partners called "Pure Water Day". We had invited guest speakers to share experiences of what has helped them to ensure service continuity during periods of crisis. The speakers openly discussed the current situation and how to find opportunities for cooperation not only within Estonia but also across Europe. The conference was attended by around 300 people, both on site and online, and received a lot of positive feedback.

## CONTRIBUTION TO LOCAL COMMUNITY

Also in 2022, we continued to support the community by providing our support to several organisations and by participating in charity projects and good causes, such as:

- Cooperation agreement with the Estonian Disabled Athlete Sports Association to support the preparation of the Estonian wheelchair curling team for the Olympics. The grant helped the team to cover their training and competition expenses related to taking part in the Paralympic Games. The team finished 10th in a tight competition.
- Support to Ristiku Elementary School for children with learning disabilities in creating four asphalt games. We are grateful for being nominated by Ristiku Elementary School for the 2022 Friend of Education Award, awarded by the Tallinn Education Department.
- Support to water companies in the Chernivtsi region of Ukraine by purchasing repair collars for the repair of pressure pipes for approximately €13,000. In addition, we donated the repair tools needed for the repair and operation of pipelines from our stock. In April, an off-road car equipped with medical supplies was sent to Ukraine.
- Donations to cover operating expenses of SA Kiusamisvaba Kool (Foundation for Antibullying Program) and Eesti Toidupank (Estonian Food Bank).
- Open house days at the Water Treatment Plant at Ülemiste and Wastewater Treatment Plant at Paljassaare. A total of 454 people attended the tours, which were conducted in Estonian and in Russian.
- Tours at the Water Treatment Plant and Wastewater Treatment Plant, attended by a total of 665 people

(mainly students), and discussion groups on water and environment-related topics, conducted with 960 children. In addition, we were present with our educational materials at the family day in Nõmme Snow Park, at the Old Town Days in Tallinn and at the information day for kindergartens, called *I know how to do it*.

- Providing free drinking water at nearly 50 events, including running events and the run around Lake Ülemiste organized by Stamina, IRONMAN Tallinn triathlon, Kalamaja Days, Tallinn Gymnastics Festival, Song and Dance Day in Nõmme, Investment Festival, Parasports Day, charity run Rat Race, information day for kindergartens *I know how to do it* and the sustainable business festival *Impact Day*.
- Hosting President Alar Karis at the Wastewater Treatment Plant at Paljassaare as part of a day of curiosity. The visit was also covered by the Estonian National Broadcasting program *Ringvaade*.
- Showing how drinking water is treated at Ülemiste Water Treatment Plant on Kanal 2 program *Õhtu!*.
- Providing the City of Tallinn with water for the public skating rinks.

## WATERCOM'S CONTINUED SUCCESS

Watercom delivered more sales and profit in 2022 than ever before. For the first time, the biggest contribution to external profit came from the road construction activity. In 2022, the company successfully launched a new manhole repair service and at the end of the year an ice pigging equipment was delivered, which allows to clean water pipes by applying the most innovative technique currently used in Northern Europe.





## 4. STRATEGY

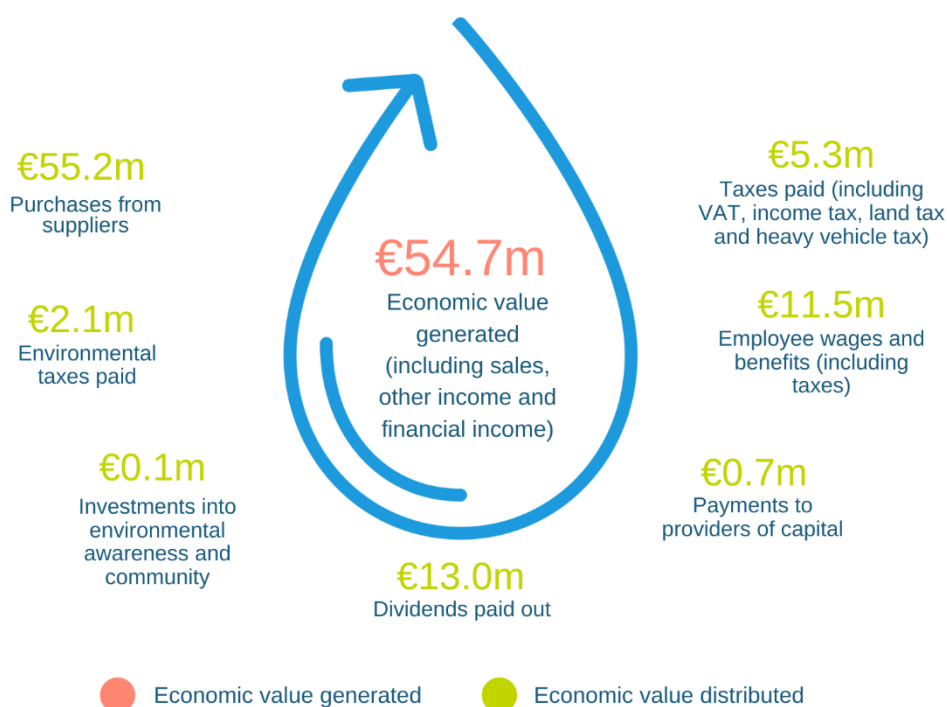
### 4.1 How we create value

We are committed to create a better life with pure water. We work tirelessly and passionately to achieve the Company's goals and objectives.

As a large company, Tallinna Vesi holds an important place in the community and has the responsibility to look out both for the employees, customers, consumers, investors, partners, the state and the environment. A large part of the economic value that the Company creates is re-distributed.

In addition to providing a vital service, Tallinna Vesi gives back to the society through taxes, partnership with other organisations, investments into the infrastructure and dividends.

### BREAKDOWN OF THE VALUE GENERATED AND DISTRIBUTED BY THE COMPANY

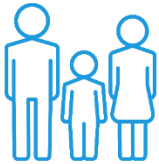


## HOW WE DELIVER VALUE TO DIFFERENT STAKEHOLDERS

Main stakeholders of the Company are the customers, wider local community, employees, investors and partners.

### DELIVERING SOCIAL VALUE

#### Customers



Our key priority is to provide our customers with a high-quality service, which they can rely on continuously, 24/7. We are fully aware of our responsibilities and deliver our promises.

- We anticipate our customers' needs before those become problems.
- We embrace the latest technology to enhance customer communications.
- We deliver our promises.

#### Employees

We value the contribution of our employees and seek to ensure their continued motivation and commitment.

We create a working environment that encourages everyone to innovate and deliver a high-quality service.

- Health and Safety is paramount in everything we do.
- We encourage continuous improvement and share best practice.
- We constantly train and develop our workforce.
- We live by our values: commitment, customer focus, teamwork, creativity, proactivity.

#### Community

We play an active part in local communities and seek to minimise our operational and environmental impact wherever possible.

## DELIVERING ENVIRONMENTAL VALUE



### Quality and environment

We value the natural environment we operate in and therefore use natural resources sparingly and continuously seek new ways for more sustainable operations.

- We continuously seek to improve our service, through improved productivity and by adopting the latest technology.
- We minimise our environmental footprint wherever possible.

### Environmental awareness

We work with local communities to promote environmental thinking and awareness.

- We are good corporate citizens and support local communities.
- We make efforts to raise public's environmental awareness through seminars, field tours and campaigns.
- We support and cooperate with universities and research institutions.



## DELIVERING ECONOMIC VALUE

### Investors



We aim to be transparent and honest through our business activities, giving timely and accurate information to our shareholders. All stakeholders are treated equally, and we are focused on a path of continuous improvement, whilst ensuring continued sustainability.

- We spend and invest wisely.
- We seek opportunities for incremental growth.

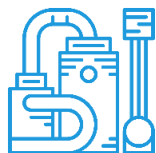
### Partners

We build and develop strategic relationships with partners and suppliers to create additional efficiency and enhance customer service.

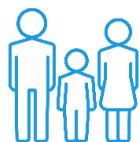
- We treat our partners fairly.
- Our ways of business are transparent and ethical.

## 4.2 Strategic objectives

We have established five strategic objectives, which balance the expectations of our various stakeholders. Fundamental to the successful delivery of our strategic objectives is the need to work closely with all our stakeholders.



Operational  
Excellence



Satisfied  
Customers and  
Community



Professional  
and Committed  
Employees



Sustainable  
Financial  
Performance



Sustainable  
Growth of  
Watercom

## OPERATIONAL EXCELLENCE

The Company's continued priority will be to provide a reliable and high-quality drinking water service to our customers, and to ensure that all our activities, from water catchment to wastewater treatment, are enacted in accordance with strict environmental legislation.

With timely investments, we prevent bigger disruptions to our operational processes that may put our compliance at risk and cause significant reputational damage to the Company. Adoption of new technology and work methods will help us to operate in a more efficient and safer manner.

To achieve Operational Excellence, we need to:

- invest into assets in a timely manner;
- adopt sustainable practices and best technologies.

## SATISFIED CUSTOMERS AND COMMUNITY

Tallinna Vesi provides vital services to the population within its service area. We are responsible for a continuous supply of high-quality drinking water, and a reliable wastewater service.

Great customer service relies on understanding our precise customer needs, anticipating problems and resolving complaints quickly and courteously. We want our customers to have trust in us and confidence in our service.

To keep our customers satisfied, we need to be able to communicate through a diverse range of media platforms.

To ensure the customers and community are satisfied, we need to:

- deliver on our promises;
- simplify and reduce the need for interaction.

## PROFESSIONAL AND COMMITTED EMPLOYEES

Achieving operational excellence is not possible without the continued commitment of our workforce. We consider our people as our greatest asset, and we offer an environment where people with passion and commitment can work together, not only towards the achievement of corporate goals, but also towards personal career goals, supported by training and continuous development of staff.

Ensuring the continued health and safety of employees, and third parties who interface with the Company's activities, is of vital importance. It is central to everything we do, and safety will never be compromised. We ensure a safe working environment, making sure that our facilities and equipment fulfil the relevant safety standards and legislation.

Considering the age profile in the Company it is of critical importance that we establish a systematic approach to succession planning. We believe it is advantageous to build teams with both new and experienced staff, to generate fresh and innovative ideas that are built on a solid base of practical experience.

We encourage our employees to continuously learn and develop themselves. We support the progression of staff internally and provide career development opportunities when possible.

To ensure the commitment and professionalism of our employees, we need to:

- create a positive health and safety culture;
- plan succession in a systematic manner;
- develop a motivating working environment.

## SUSTAINABLE FINANCIAL PERFORMANCE

We are committed to increasing shareholder value – delivering an appropriate rate of return, combining the distribution of dividends, whilst improving the share price.

A sustainable revenue stream with a high collectability rate is essential to providing sufficient cash flows to cover operating costs and finance sustainable investments, whilst ensuring an adequate rate of return to our investors.

A strong capital structure of the Company is essential to support the delivery of shareholder value and provide sufficient financing for investments.

To ensure the sustainability of the Company's financial performance, we need to:

- maintain a sustainable revenue stream;
- ensure strong capital structure;
- deliver shareholder value.

## **SUSTAINABLE GROWTH**

We keep looking for ways to increase shareholder value by ensuring the growth of Watercom and launching the ASTV Green Energy OÜ activity, which in the longer term intends to supply reusable resources, generated as a result of providing water services, as products in the green energy market.

## 5. OPERATIONAL RESULTS OF 2022

### 5.1 Ensuring quality of service

To ensure the best quality of service for our customers, besides legislative requirements, we are contractually required to comply with 97 levels of service. This responsibility stems from the Services Agreement concluded with the City of Tallinn in 2001, which provided for levels of services and reporting obligations that were applied until the end of 2022. Our performance and compliance with the levels of service are reviewed annually by an independent monitoring unit – Supervisory Foundation for Water Companies in Tallinn – to whom we submit annual Levels of Service Reports.

In 2022, the Company delivered all contractual levels of service agreed between the parties to the Services Agreement.

The Service Agreement concluded with the City expired on 30/11/2022 and on 01/12/2022 the new Administrative Contract, which set out the service quality requirements and the reporting obligation with effect from 01/01/2023, was entered into with the City of Tallinn. The Administrative Contract sets out 30 quality requirements concerning drinking water services, wastewater collection, treatment and disposal, and quality requirements for other services, including modelling, customer service, reporting, Company's financial performance and ISO accreditation, as well as those related to extraction of water from public water extraction points and stormwater service.

Besides the levels of service, we are under contractual obligation to comply with the following management systems:

- since 2001, ISO 17025 Quality Management System of Laboratories;
- since 2002, ISO 9001 Quality Management System;
- since 2003, ISO 14001 Environmental Management System.

Our environmental activity and environmental management system are in compliance with the requirements of the international environmental standard ISO 14001 and EU Eco Management and Audit Scheme (EMAS) Regulation. Doing business in an environment-friendly manner and the safety of our employees is fundamental to us, therefore we have voluntarily implemented the following management systems:

- since 2005, EMAS-compliant European Eco-Management and Audit Scheme;
- since 2007, OHSAS 18001 and since 2020, ISO 45001 Occupational Health and Safety Management System.

In recent years, the activity of the Company and its management systems fully complied with all applicable quality, environmental, occupational safety and working environment standards and systems as well as legal requirements. Such compliance is regularly monitored via internal audits and was confirmed via the external audit undertaken by AS Metrosert. A certificate of registration for Eco-Management and Audit Scheme EMAS was issued by the Environment Agency in 2020 for the following three years. According to AS Metrosert, the management

systems have been appropriately developed and improved, and the Company's activity complies with the requirements set forth in the standards.

## UNINTERRUPTED SERVICES

Our role is to ensure the availability of high-quality water services to our customers and community 24 hours a day and 365 days a year. Stringent control over drinking water and consistently high-quality levels in all segments of our products and services are fundamental to ensure the provision of uninterrupted services. Effective water treatment and functioning of the water network as well as prevention of problems through regular maintenance and efficient, prompt and smooth disposal of wastewater and treatment thereof in compliance with strict requirements contribute to the continuous availability of a stable service.

We are committed to notify our customers on time of the planned works that may impact the service. We give an advance notice to all customers affected by a planned interruption 5 days before it takes place. In 2022, we managed to deliver 99.8% of that objective. The cases where the client did not receive timely notification were related to the geoinformation system and IT failure.

To provide a reliable and uninterrupted service, we monitor the average duration of water interruptions. We make continuous efforts to provide uninterrupted services to our customers and minimise the duration of unplanned interruptions. In 2022, we had no unplanned interruptions lasting longer than 12 hours. The interruptions that last long cause more discomfort for customers, thus we strive to keep the interruptions as short as possible whilst repairing water bursts. Average duration of interruptions in 2022 was somewhat shorter than in last year, 3 hours and 10 minutes (3 hours and 18 minutes in 2021).

Interruptions entail unexpected discomfort, which is why we have prepared measures to alleviate the situation for our customers. To minimise the effect of water interruptions on customers, we continued the additional valve installation project also in 2022, including replacing four over 500 mm closing valves on our water mains. Also, if needed, we provide our customers with temporary water tanks. Furthermore, we were able to notify the customers in advance of any unplanned interruptions in 96.9% of the events (2021: 98.7%). In November 2022, particularly, a number of water emergencies occurred causing major leaks where the impact of the emergency was so extensive that prior notification was not possible.

Stable high quality and economic sustainability of services is largely dependent on the planning of investments. Both the preventive maintenance and timely investments into the infrastructure are instrumental for the Company to be able to deliver its main duties. The investments made aim to secure sustainable infrastructure and continuity of the service. This has a direct impact on the key performance indicators of the Company such as customer satisfaction, level of leakages, sewer blockages and water bursts etc.

In 2022, investments in our main infrastructure in water treatment amounted to €1,954 thousand (2021: €967 thousand), with the reconstruction of Velodroomi pumping station, the installation of UV equipment in the pumping stations, the reconstruction of post-chlorination pipelines and the reconstruction of filters in the Water Treatment Plant standing out as the largest works. €3,829 thousand was invested in wastewater treatment (2021: €3,882 thousand), including the ongoing projects from 2020, such as the reconstruction of effluent outlet tower, the civil reconstruction

works in the main pumping station at Paljassaare and the reconstruction of aeration tanks. In addition, a new point of reception for sewage sludge from septic trucks was completed and the new raw sludge thickeners were installed. The focus was also on the preparation of the design for several large projects for the upcoming years. We significantly increased investments in water and wastewater networks in 2022. Last year, a total of 19 kilometres of pipes were rehabilitated. This is more than in any of the previous year over the past decade.

The pipes were rehabilitated on Järvevana Road, Sõle Street, Linnamäe Road, Raba Street, residential driveways in Õismäe, in Astangu area and in many other streets. The total level of investments in water and wastewater network was €10,574 thousand (2021: €6,442). The cost of new connection points was €3,154 thousand in 2022 (€3,399 thousand in 2021).

## DRINKING WATER QUALITY

Tallinna Vesi provides water services to nearly one third of Estonia's population. We recognise the significant responsibility that comes with delivering high-quality drinking water to each of our consumers. The quality of drinking water affects the quality of life and health of all our consumers, which makes ensuring the uninterrupted supply of high-quality water at the consumer's taps our highest priority. To secure high-quality drinking water, we perform maintenance on our pipelines, monitor the quality of water leaving the Water Treatment Plant and water pumping stations and take regular samples from the consumer's taps.



The quality of drinking water is subject to strict legal requirements. The quality must comply with Regulation No 61 "Quality and control requirements and analysis methods for drinking water", issued by the Minister of Social Affairs on the basis of the Estonian Water Act and the European Drinking Water Directive 98/83/EC.

In addition to legislative requirements, we have also agreed upon additional quality standards in the Services Agreement concluded with the City of Tallinn. In terms of water quality, we have outperformed those requirements assuring a supply of good-quality drinking water to our customers. The results of all analyses are public and available on the Company website.

Water quality is inspected by following the Drinking Water Monitoring Programme approved by the Health Board. There are approximately 120 sampling points in Tallinn, including kindergartens, schools and other institutions, evenly spread out across the entire service area. The programme specifies the sampling points, sampling frequency and the parameters to be analysed. Samples are taken from raw water (Lake Ülemiste and its catchment area and from ground water), from the treatment process and from consumer's taps.

The quality of drinking water in Tallinn remains high – water samples taken from customers' taps during 2022 were 99.84% compliant with all requirements (2021: 99.61%) In 2022, we took a total of 3,086 samples across the service area (2021: 3,058). The tap water that has a consistently high quality is ensured with the development and maintenance works performed on the water network across the entire service area.

The Company has a separate laboratory unit, which has been accredited by the Estonian Accreditation Centre since 2001. The laboratory unit consists of a water and microbiology

laboratory at the Water Treatment Plant at Ülemiste and a wastewater laboratory at the Wastewater Treatment Plant at Paljassaare. Water analyses are made in our water and microbiology laboratory, which is also one of the largest laboratories in Estonia. The quality of analyses is guaranteed by the attested samplers, accredited quality management system (ISO 17025) and modern equipment, as well as the professional staff who enable us to offer a wide range of services also externally.

Water quality is independently monitored by the Health Board and the Supervisory Foundation for Water Companies in Tallinn. Our laboratories are supervised by the Estonian Accreditation Centre.

Our water and wastewater laboratories conduct approximately 142,000 analyses each year, 2/3 of which are chemical and microbiological analyses of drinking water and 1/3 are chemical analyses of wastewater.

Water	2022	2021	2020	2019	2018
Compliance of water quality at the consumer's taps	99.84%	99.61%	99.71%	99.04%	99.93%
Leakages in the water network	16.02%	15.00%	12.42%	12.97%	13.71%
Average duration of water interruption per property in hours	3 h 10 min	3 h 18 min	2 h 55 min	2 h 59 min	3 h 16 min

## 5.2 Environment

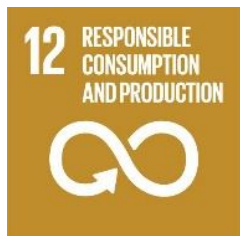
### ENVIRONMENTAL COMPLIANCE

We provide our customers with pure drinking water and collect and treat wastewater which is then safely returned to the environment. We rely directly on natural water resources, which we highly appreciate and care for. Thus, we do our best to employ these resources sustainably and contribute to the well-being of the environment.

We are the most regulated water company in Estonia. To ensure the fulfilment of environmental requirements set for water companies, we are required to comply with legislative acts issued by the European Union (EU) and the Parliament of Estonia as well as by the local governments. At the EU level, this means above all compliance with the Water Framework Directive No 2000/60/EC of the European Parliament and of the Council. At national level, the Company is required to comply, amongst others, with the Water Act, the Public Water Supply and Sewerage Act, the General Part of the Environmental Code Act, the Environmental Liability Act, the Environmental Monitoring Act, the Waste Act, the Chemicals Act, the Atmospheric Air Protection Act and any regulations adopted on the basis thereof. At local level, the Company has to abide by various guidelines and regulations established by the local governments in Tallinn and neighbouring municipalities. Consequently, the environmental impact of our daily activities as a company is well mapped and managed.



We act in accordance with the requirements of the environmental permits issued to us and comply with the precepts issued by the Environmental Board. AS Tallinna Vesi has been granted 7 environmental protection permits, regulating the special use of water, emissions to air and waste management.



In order to keep our core activities operational, we must rely on resources that have an environmental impact. The Company's core activity is highly dependent on the use of electricity. We continue striving for higher efficiency in our electricity consumption. For instance, we are maximizing the use of biogas, which is a product of sludge digestion process, in local heat production. To reduce ambient air pollution, the Company is limiting the amounts of pollutants emitted from Ülemiste and Paljassaare boiler houses, such as nitrogen dioxide, carbon monoxide, volatile organic compounds and greenhouse gas (CO<sub>2</sub>) emissions.

A more detailed overview of our environmental performance is provided in our Environmental Report. The Environmental Report is available for reading on Tallinna Vesi's website. The 2022 Environmental Report 2022 is due to be released in the first half of 2023 and will then be up on the Company website. In 2022, the Company did not have any non-compliances with the requirements of environmental permits.

## CLIMATE IMPACT REDUCTION



Being the largest water company in Estonia, we also use a lot of natural resources. In order for natural resources to be available also for generations to come, we must minimize our impact on the environment. Therefore, we have prepared a Climate Impact Reduction Plan and set ourselves the following goals:

- **The Company is carbon-neutral by 2040** at the latest. To become carbon-neutral, we need carbon capture mechanisms, such as clear and transparent CO<sub>2</sub> offset, or GHG capture technologies. We are closely monitoring the market and technological developments in this area and will meet the ambitious goal at the earliest opportunity.
- **By 2030, we have reduced GHG emissions from Scopes 1 and 2 by at least 50%** compared to 2020. For Scope 3, we apply principles of green procurement and other mitigation measures to emissions that can be influenced by choices made by the Company.
- We only use **electricity from renewable sources** and **have replaced natural gas with heat from renewable sources by 2030**.
- We produce **at least 50% of all electricity and heat needed within the Company by 2030 at the latest**. For this, we use the energy (biogas and heat) contained in wastewater and build solar parks.
- **We have reduced the heat and electricity consumption by at least 10% by 2030**, compared to 2020.

Greenhouse gas emissions will be published in Company's Environmental Report.

## SUSTAINABLE USE OF WATER

To provide a sustainable service, it is crucial to ensure the availability of sufficient quantity and quality of raw water in the lake. To provide drinking water to the citizens of Tallinn, we extract water from its natural environment. Tallinna Vesi supplies customers with drinking water extracted from both surface water resources in Lake Ülemiste and ground water sources. We are determined to use the water sustainably and continue to increase the efficiency of our water usage.



Ground water resources are limited and slowly recovering, and to use water more sustainably we have maintained the percentage of ground water used for drinking water production low. About 10% of consumers use regional ground water and 90% of drinking water is produced from surface water. For this reason, Lake Ülemiste as the main source of drinking water for the residents of Tallinn, is not a water body for public use.

Surface water: 26,603 th m<sup>3</sup> (2021: 25,850 th m<sup>3</sup>)

Ground water: 2,732 th m<sup>3</sup> (2021: 2,954 th m<sup>3</sup>)

Lake Ülemiste has an extensive surface water catchment system, serving also as a source for additional water during dry periods. The surface water catchment covers an area of approximately 1,800 km<sup>2</sup>. In 2022, the Water Treatment Plant produced and pumped into the network an average of 70,200 m<sup>3</sup> of water per day (2021: 68,000 m<sup>3</sup>). This amount has remained fairly stable over the years. The average water consumption per capita is 94,9 (2021: 98.6) litres per day in Tallinn and Saue (Tallinna Vesi's main service area).

As part of our pursuit of a sustainable use of water, our actions are also targeted to reducing leakages in the water network. Higher level of leakages also means higher use of process water and energy for the Company with an effect on both the natural environment and the Company's profitability. Therefore, one of our main objectives is to keep leakages, i.e., losses of pure water in the water network, at minimum. Lowering the level of leakages also diminishes the demand for water extraction as well as the risks of soil erosion. Besides the increased value the lower levels of leakages provide in terms of environmental sustainability, they also reduce our own costs due to smaller losses in treated water.

About 20 years ago the level of leakages exceeded 35%, while in 2022, the level of leakages was 16.02%. (2021: 15.00%). This was mainly caused by a large number of hidden leakages, which took longer to detect, and by exceptional weather conditions during the year. To achieve reducing leakages in the network, we have obtained equipment for faster detection and increased remote monitoring. Detecting and fixing leakages as fast as possible and regular preventive action continue to contribute further to the reduction in leakage levels.

## WATER TREATMENT PROCESS AT ÜLEMISTE WATER TREATMENT PLANT



### RAW WATER

Water from the lake is pumped into the plant.



### MECHANICAL TREATMENT

Screens and microfilters separate garbage, algae and suspended solids from the lake water. Screens also keep fish from getting into the plant.



### CHEMICAL TREATMENT

The applied chemical treatment with ozone and coagulant removes all harmful particles and microorganisms from water. Ozone kills the microorganisms and bacteria that are harmful to human health and improves the quality and taste of water. Ozone finally decomposes into normal oxygen. Coagulant has an effect of creating flocs by attracting particles in water, which allows the flocs to become heavy enough to sink to the bottom of clarifiers and are removed from water.



### FILTRATION

Clarified water is filtered through carbon and sand filters that remove the fine particles. Clogged filters are washed with drinking water.



### ADDING CHLORINE

Residual chlorine ensures the microbiological compliance of water and helps to retain the water quality throughout the water distribution network in the city. In small amounts chlorine is completely harmless to human health.



### TREATED WATER

Drinking water gets pumped from the clean water basins into the water distribution network in the city.

## EFFLUENT QUALITY

Besides a sustainable use of water, we also have an important role in improving the natural and living environment around the Baltic Sea. Therefore, we collect and treat wastewater which is then safely returned to the environment. We treat wastewater collected in Tallinn and its surrounding areas. The treatment process in the Wastewater Treatment Plant at Paljassaare is based on the activated sludge method and it has three treatment stages: mechanical, biological and chemical treatment. Nitrogen removal efficiency has been improved with a biological filter using the activity of denitrification bacteria.



The quality of effluent returned to the sea has a direct impact on the marine environment, and therefore, directly and/or indirectly constitutes an important aspect for all our stakeholders. We are committed to reducing the adverse environmental impact, maintaining high standards and achieving results that can outperform the standards that have been set for treated effluent returned to the Baltic Sea.

In 2022, 46.54 million m<sup>3</sup> of wastewater (2021: 48.2 million m<sup>3</sup>) was treated and returned to the Baltic Sea.

The quality of effluent returned to the sea is established by legal acts and water permits. The concentration of pollutants in wastewater taken into the treatment plant and in the effluent

leaving the plant are monitored to assess the efficiency of the treatment process and the quality of effluent. The wastewater laboratory carries out analyses at different stages of wastewater treatment. Such results provide essential information allowing us to further improve the efficiency of the treatment processes and the quality of effluent.

Compared to regulatory requirements the treatment efficiency of the Wastewater Treatment Plant at Paljassaare outperformed all the parameters in 2022:

	REQUIREMENT	2022	2021
Biological oxygen demand (BOD)	80%	98%	98%
Chemical oxygen demand (COD)	75%	91%	92%
Suspended solids	90%	97%	97%
Total nitrogen (N <sub>tot</sub> )	80%	88%	87%
Total phosphorus (P <sub>tot</sub> )	90%	93%	94%
Oil products	75%	97%	98%



Our work is largely dependent on the weather: for example, the amount of precipitation affects the quality and quantity of water entering the plants, wastewater parameters, as well as the amount of energy and chemicals required in the treatment processes. Therefore, extreme weather conditions pose a great challenge as they may have significant impact on our business. The strongest impact on the activities of the Company and its stakeholders (including employees, community, customers and the public) result from extreme weather events, such as heavy downpours. Heavy downpour and peaking quantities of stormwater may cause flooding and short-term inability of the sewage and stormwater network to take in such large amounts of water. Moreover, it may result in the incapacity of the Wastewater Treatment Plant to take in and/or fully treat such large amounts of wastewater. Under such circumstances and to avoid major damages, we are, from time to time, forced to discharge wastewater into the sea or to open emergency outlets to conduct highly diluted wastewater into the sea.

In 2022, we never needed to open any of the emergency outlets (2021: 7 times).

An effective operation and minimization of the risks are fundamental in keeping such occurrences as rare as possible. Moreover, in cooperation with the local authorities the separate sewerage system continues to be developed further, allowing stormwater to be led straight to the receiving waters and only wastewater conducted to the Wastewater Treatment Plant.

**WASTEWATER TREATMENT PROCESS AT PALJASSAARE WASTEWATER TREATMENT PLANT**

**MAIN PUMPING STATION**

All wastewater collected via tunnel collectors is pumped into the wastewater treatment works using three pressure pipes.


**MECHANICAL TREATMENT**

The screens and grit traps remove garbage and grit from the influent wastewater. Those are followed by the primary sedimentation basins where sedimentation removes suspended solids (raw sludge) from wastewater and grease and oils floating on the surface are also removed there. Raw sludge is passed on to the sludge treatment process.


**BIOLOGICAL AND CHEMICAL TREATMENT**

Biological treatment is carried out by various bacteria (activated sludge) who survive on nutrients contained in wastewater. Biological treatment removes most of nitrogen and part of phosphorus from wastewater. The removal of phosphorus compounds is improved by injecting coagulant which settles dissolved phosphorus compounds. In secondary sedimentation basins, all sediments and activated sludge are removed from wastewater. Some of the sludge is redirected to the treatment process and the rest of it goes to sludge treatment process.


**TREATED EFFLUENT PUMPING STATION**

Treated effluent being a result of a thorough treatment process is then pumped via a deep-sea outlet 3 km away into the Bay of Tallinn.


**SLUDGE TREATMENT**

Raw sludge and activated sludge removed throughout treatment process is fermented in methane tanks. Sludge fermentation produces biogas that is used in the technological process and in heating the plant facilities. Fermented sludge is dewatered and used to produce a nutritious compost soil that can be used for planting green spaces.

Wastewater	2022	2021	2020	2019	2018
Number of sewer blockages	600	524	463	532	603
Number of sewer bursts	71	71	80	103	88
Compliance of effluent leaving Wastewater Treatment Plant	100%	100%	100%	100%	100%

### 5.3 Objectives: Operational performance

**OPERATIONAL OBJECTIVES FOR 2022**

Amount of process water is 150 thousand m <sup>3</sup> lower than in 2021 or 946,000 m <sup>3</sup>	Achieved
Pipeline reconstruction completed according to plan and within budget limits $\geq$ 16 km	Achieved
Own power generation at the WWTP - CHP installed and operational latest by end of Q4 2022	Not achieved
Water quality in the network $\geq$ 99.6% compliant	Achieved

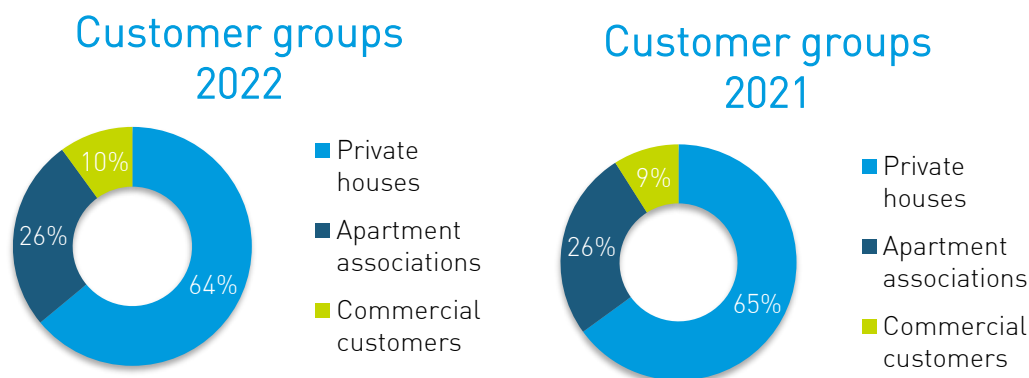
**OPERATIONAL OBJECTIVES FOR 2023**



Water quality compliance in the water network	> 99.6%
Level of emergency water interruptions that last > 5 hours	< 8%
Compliance with service quality requirements as stated in the Administrative Contract	100%
Stormwater investment plan and connection fee methodology have been developed	Yes/No

## 5.4 Our customers

We provide water supply and sewerage services to over 23,900 contractual customers and approximately 470,000 end consumers in Tallinn and surrounding areas. We are responsible for serving almost one third of the Estonian population with reliable and high-quality water supply and sewerage services. Over the years, our customer groups have remained relatively stable.



Good customer service relies on understanding our customers’ needs, acting proactively and giving personalised expert advice. In the event of problems, it is important to provide the customer with practical assistance, keep them informed and deliver on our promises. We want our customers to trust us and have confidence in the services that we provide.

Our development policy focuses on making our customers’ life easier and more convenient. In this regard, we wish to make innovations and automate the current systems, but also support customers who do not use IT tools or mobile phones.

To keep our customers satisfied, we always try to keep abreast of the latest technology and to be available to communicate through a diverse range of media platforms. In 2022 we upgraded our self-service environment to make it even more convenient for customers to use. This year, self-service also became the main channel for reporting water meter readings. However, customers who are not daily Internet users can still report their meter readings by telephone.

We have implemented a unique system of promises for providing a financial compensation to the customer for each promise we fail to deliver on. In 2022, we had two failures, which affected 2

customers (2021: 4 customers). Both failed promises were related to the failure to notify of a planned water supply interruption.

While in 2021 we started installing remote reading water meters as part of the pilot project, then starting from autumn 2022 the installation of remote meters has become a regular planned activity. With smart meters, water metering becomes more accurate and there is no longer need for reporting the water meter readings. Also, remote water meters will allow to proactively notify our customers of any water leaks in their buildings. We plan to cover the entire service area with remote water meters by the end of 2026.

## OUR PROMISES TO CUSTOMERS:

### We deliver high-quality water

We will respond to the issues you may have with water quality and pressure on the following working day at the latest.

### We keep the environment safe

We will clear public sewer blockages within 12 hours at the latest.

### We quickly respond to our customers' requests

We will respond to the questions received via customer information line within 2 and those received by e-mail within 3 working days at the latest.

### We are accurate in billing

If there are doubts about the accuracy of a water meter, we will carry out an extraordinary verification and notify you of the results within 2 working days. Should the bill prove to be inaccurate, we will issue a corrected bill on the next working day at the latest.

### We keep to our agreements

In case of planned interruptions, we ensure the water supply by the promised time, or sooner. In case of unplanned interruptions due to emergency repair works, we will restore the water supply in 12 hours at the latest. If an appointment or a visit has been agreed by our specialist, we will arrive at the agreed time.

The number of customer contacts generally serves as an indicator of the quality of customer service provided by the company - in the case of a service that goes unnoticed by the customer, the need to contact the company is reduced. In 2022, the downward trend in customer contacts related to service quality continued. The high number of customer complaints stems from a change in approach to complaints. In order for all dissatisfied customer contacts to receive more attention, the Company started to register such contacts as complaints.

Customer Service	2022	2021	2020	2019	2018
Number of customer complaints	1 215**	31*	40*	167*	158*
Number of customer contacts regarding water quality	289	317	323	508	258
Number of customer contacts regarding water pressure	221	363	359	478	439



Number of customer contacts regarding blockages and discharge of stormwater	801	948	864	1,047	1,043
% of written contacts answered in accordance to required deadline	97.0%	98.8%	100.0%	100.0%	100.0%
Number of failed promises	2	3	2	141	33
Results of the annual customer satisfaction survey (TRI*M index)	59	61	54	54	53
Notification of unplanned water interruptions at least 1 h before the interruption	96.9%	98.70%	98.9%	96.2%	95.2%

\* In 2018-2021, only the cases in the Company's control were classified as complaints.

\*\* From 2022, all contacts indicating customer dissatisfaction are classified as complaints.

## CUSTOMER SATISFACTION

Systematic and regular feedback from our customers and consumers is instrumental for us. It helps us to get a fair assessment of our activities and to understand our strengths as well as our weaknesses that we should address more in the future. That is why we cooperate with the research company Kantar Emor.

As part of a monthly survey, we ask customers to rate the quality of our customer service. In 2022, based on the feedback collected from a total of 1,059 customers, we received an average rating of 4.2 on a 5-point scale. This compares to an average rating of 4.2 on a 5-point scale based on feedback from 1,117 customers in 2021. The percentage of satisfied customers in 2022 was at 83%.

In addition to overall rating, the monthly surveys provide us a good source of information on critical cases. In 2022, we received 83 comments through these surveys. This provides us with a valuable input for improving the customer service quality and the services we provide and for making improvements in our business processes.

In addition to monthly surveys, we perform an annual satisfaction survey. The main purpose of that survey is to map the changes in the strength of AS Tallinna Vesi's customer relationships as well as the factors shaping it and to obtain feedback on the effectiveness of our operations from our customers and consumers. 638 customers and 418 end consumers responded to the survey in 2022.

Satisfaction is measured using TRI\*M method developed by the research company to characterise the strength of customer relationship and to allow benchmarking with other companies.

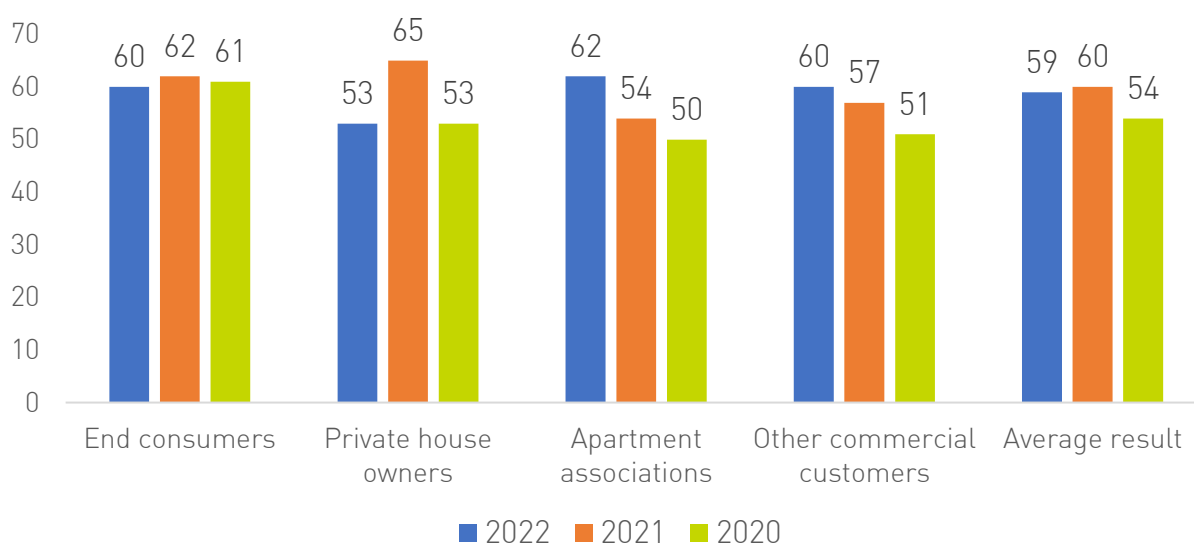
This model focuses on two elements:

- TRI\*M index to measure the strength of customer relationship, which comprises two elements – general satisfaction and the extent to which the company distinguishes from other similar utility companies;
- TRI\*M grid analysis to highlight the strengths and weaknesses of the company.

The analysis revealed that, compared to previous years, Tallinna Vesi's customer relations have become stronger with apartment associations and other commercial customers. Ratings given by private house owners were lower compared to 2021, but this can be explained by a very big leap in 2021. Among other things, it was affected by the comparison with other utility service providers – the price of electricity and gas had increased significantly, while the price for water services remained unchanged. Based on the survey conducted in 2022, the weighted average TRI\*M index was 59, remaining at the same level as last year. Overall customer satisfaction slightly increased to 84% (2021: 83%).

High-quality service and uninterrupted water supply build strong customer relationships. The continuous and unchanging availability of water and clarity of water were highlighted as strengths in all customer segments. Customers drinking tap water also rate water quality higher. Even though the customers' feedback to our services continues to be good, we need to continue making efforts in maintaining and increasing customer satisfaction through further improvements in the quality of services provided and in the quality of customer service itself.

### STRENGTH OF CUSTOMER RELATIONSHIPS IN 2020-2022



## 5.5 Objectives: Customers

### CUSTOMER SERVICE OBJECTIVES FOR 2022

No of repeated customer contacts $\leq$ 850	Achieved
Average customer satisfaction score (based on annual satisfaction survey among extended sample of respondents by Kantar Emor) $>$ 81%	Achieved
Share of customers with remote reading water meters $\geq$ 20%	Not achieved

Level of satisfaction among connecting customers (*based on monthly satisfaction survey by Kantar Emor among persons who have entered into a connection contract*) > 4.2 Not achieved

### CUSTOMER SERVICE OBJECTIVES FOR 2023

Customer relationship strength index ( <i>TRI*M in annual satisfaction survey by Kantar Emor</i> )	≥ 62
Contact-based customer satisfaction level ( <i>survey 2 x a month by Kantar Emor</i> )	> 4.3
Reducing the number of customer complaints	< 1090
Share of customers with smart meters	≥ 40%

## 5.6 Community and public

The community we operate in and people whose lives our work impacts are of vital importance to us. Therefore, we consider it essential to actively engage in and support our community. Our aim is to distribute messages that help to improve the environmental awareness, and to provide environment themed educational study materials and programs for free.

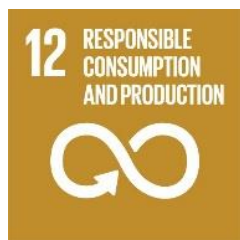
### SPONSORSHIP STRATEGY

Whilst making decisions about sponsorship projects, we keep in mind the following principles:

- **Defined impact area.** Tallinna Vesi's sponsorship focuses on the main service area of the Company – Tallinn and surrounding areas.
- **Projects closely linked to our core activities, i.e.,** providing local communities with water and wastewater services.
- **Involvement of employees.** Tallinna Vesi's employees need to be aware of the Company's sponsorship activities and should be involved in those as much as possible.
- **Systematic approach and consistency.** Tallinna Vesi supports the same areas from year to year to provide continuity and clarity in its approach to sponsorship. The decision-making process is clear to applicants.

Tallinna Vesi mainly supports initiatives that are related to environmental education or local community or people with fewer opportunities.

### ENVIRONMENTAL EDUCATION



Our business is closely related to one of the most important and valuable natural resources – water. We understand the impact we have on the natural environment and try to minimize our environmental footprint. In our sponsorship activities, we dedicate our efforts to educate the community on water-related environmental matters and to improve the environmental awareness of young people.

The number of people in the population who trust to drink tap water has increased dramatically since 2011. In 2022, the overall percentage of tap water drinkers among

private house owners, commercial customers and end-consumers was 89% (2021: 89%). While the percentage among end-users decreased from 89% to 86% compared to the preceding year, it increased for both private house owners and commercial customers, reaching 92% (2021: 90%) and 89% (2021: 86%) respectively. In 2022, the Company organized a conference “Pure Water Day”, this time specifically aimed at commercial customers, to raise awareness of water quality among this customer segment, as well as to highlight the impact of the volatile economic situation and acute security issues on the vital service provider.

Tallinna Vesi produces and distributes educational materials for kindergartens and schools. Each year, our employees devote their time to hold water seminars in schools and kindergartens.

In 2022, we were again able to organize tours and discussion groups. A total of 665 people attended the tours at the Water Treatment Plant and Wastewater Treatment Plant, and discussion groups were conducted with 960 children. In addition, we were present with our educational materials at the family day in Nõmme Snow Park, at the Old Town Days in Tallinn and at the information day for kindergartens, called *I know how to do it*, and spoke about protecting water and the environment at the *Impact Day*, the largest sustainable business festival in the Baltics. The annual open house days at the treatment plants have already become a tradition. On the open house days, we explain the visitors how the plants work and talk about how everyone can become more eco-friendly when consuming our services. A total of 454 people attended the open house days in 2022. Tallinna Vesi is also helping the event organisers to encourage their visitors to drink tap water by providing organizers with various posters and materials to spread the message and the water tanks with fresh drinking water.

## LOCAL COMMUNITY

Tallinna Vesi supports the community initiatives by providing water tanks at the events. In 2022, we continued to support sports and community events by providing free drinking water on site. We were present at nearly 50 events, including running events and the run around Lake Ülemiste organized by Stamina, IRONMAN Tallinn triathlon, Kalamaja Days, Tallinn Gymnastics Festival, Song and Dance Day in Nõmme, Investment Festival, Parasports Day, charity run Rat Race, information day for kindergartens *I know how to do it* and the sustainable business festival *Impact Day*.

Along with the City of Tallinn, we also set up public water taps both indoors and outdoors to improve the availability of tap water in public space. In 2022, 3 new water taps were added to the city along the bike and walking tracks and health trails. Thus, last summer, a total of 38 public drinking water taps were opened throughout the capital city.

We have carefully chosen a few projects and organisations to donate to and we encourage active participation among our employees by allowing our teams to take a day off to attend charity initiatives. In 2022, our employees took part in the World Cleanup Day.

During 2022, we also continued to support the wider community by providing support to several organisations and by participating in charity projects and good causes, such as:

- Years of cooperation with the Estonian Disabled Athlete Sports Association. In 2022, our grant helped the Estonian wheelchair curling team to cover their training and competition

expenses related to taking part in the Paralympic Games. The team finished 10th in a tight competition.

- Support to Ristiku Elementary School for children with learning disabilities. This year, we supported the school creating four asphalt games. We are grateful for being nominated by Ristiku Elementary School for the 2022 Friend of Education Award, awarded by the Tallinn Education Department.
- Support to water companies in the Chernivtsi region of Ukraine by purchasing repair collars for the repair of pressure pipes for approximately €13,000. In addition, we donated the repair tools needed for the repair and operation of pipelines from our stock. In April, an off-road car equipped with medical supplies was sent to Ukraine.
- Donations to cover operating expenses of SA Kiusamisvaba Kool (Foundation for Antibullying Program) and Eesti Toidupank (Estonian Food Bank).
- Open house days at the Water Treatment Plant at Ülemiste and Wastewater Treatment Plant at Paljassaare. A total of 454 people attended the tours, which were conducted in Estonian and in Russian.
- Tours at the Water Treatment Plant and Wastewater Treatment Plant, attended by a total of 665 people (mainly students), and discussion groups on water and environment-related topics, conducted with 960 children. In addition, we were present with our educational materials at the family day in Nõmme Snow Park, at the Old Town Days in Tallinn and at the information day for kindergartens I know how to do it.
- Hosting President Alar Karis at the Wastewater Treatment Plant at Paljassaare as part of the day of curiosity. The visit was also covered by the Estonian National Broadcasting program *Ringvaade*.
- Showing how drinking water is treated at Ülemiste Water Treatment Plant on Kanal2 program *Õhtu!*
- Providing the City of Tallinn with water for the public skating rinks.
- As part of the "Pure Water Day" conference organized to celebrate the 95th year of operation of the Water Treatment Plant at Ülemiste, we hosted a special event to recognise all those who have contributed to the drinking water treatment in Tallinn over the years.
- In 2022, we organized four different visits to our sites for members of the Estonian Association of Water Supply and Sewerage Engineers. We gave talks to TalTech students three times, and we took the students to our various sites as many times. In October, we hosted the participants of International No-Dig Conference and Exhibition 2022 in Helsinki at Ülemiste. In November, we organized an engineering conference in cooperation with the Helsinki Region Environmental Services (HSY). And in December, Marti Vaksmann, our Head of Engineering Services, made a presentation at the annual conference of the Institute of Water, professional body dedicated to supporting the careers of people in the UK water sector.

## 5.7 Employees

Tallinna Vesi's mission is to create better life with pure water. Each member of our staff follows our mission whilst carrying out their daily tasks. To successfully deliver our mission we create a supportive and stimulating working environment and provide good working conditions. We highly value our people and aim to be a company that people want to join and where current employees

want to work. As a socially responsible company, we value and develop our employees by providing them with new challenges, whilst also implementing a systematic approach to succession planning.

At the end of 2022, a total of 345 people worked in Tallinna Vesi and its subsidiary Watercom (2021: 331). 97% of them worked full-time and 2.9% part-time (2021: 96.7% and 3.3% respectively). Most of the jobs were located in Tallinn.

We believe that the involvement of staff in the various activities of the Company is essential to enable them to support the Company in its pursuits. Feedback from employees helps the Company make important decisions and helps employees understand the rationale behind these decisions and the need for changes resulting from the decisions. Our staff can vary to a large degree in age and nationality, and they do work of a very different nature. This requires us to be resourceful and flexible in our communication with the staff in order to involve, engage and listen to them. To this end, we use several ways and channels of communication, such as regular staff meetings with the Management, information boards, MS Teams meetings, intranet, newsletters, team events and internal quarterly newsletters.

Our employees are loyal to the Company. The person with the longest service has been with the Company for 58 years (2021: 57 years). The average length of service in the Company is 10.3 years (2021: 10.7 years). Our voluntary employee turnover dropped to 7.6% in 2022 (2021: 10.2%). All employees voluntarily leaving the Company are asked to give feedback on their reasons for leaving. Increased mobility of people, linked for example to a change of residence or to starting studies, as well as the possibility of developing oneself in another field or better salary offers are among the most frequently mentioned reasons. The total employee turnover increased to 23.7% (2021: 17.7%). The increase in total turnover was partly due to planned resignations, e.g., 7 employees retired.

In previous years we have calculated the employee turnover indicators, including the trainees and apprentices. This year we are also looking at turnover without trainees and apprentices to see the trend without them (in the case of trainees, the prerequisite is that the traineeship period lasts for a certain time and after the traineeship period, the studies are continued). In this case, the voluntary employee turnover was 7.7% (2021: 10.0%) and the total turnover 18.7% (2021: 17.7%).

130 employees (38%) in the Group are over 50 years of age (2021: 125/38%) and 48 employees (14%) are aged up to 30 years (2021: 49/15%). The average age of employees – 46 years – has remained unchanged compared to the previous year (2021: 46 years). We focus on employment as well as on succession planning.

The age profile within the Group is as follows:

Groups of staff by age	<30 years		31-50 years		>50 years	
	2022	2021	2022	2021	2022	2021
Management Board	0	0	3	3	0	0
Executive Team*	0	1	7	10	2	0
Management Team	0	1	23	25	5	4
<b>All staff</b>	<b>48</b>	<b>49</b>	<b>167</b>	<b>157</b>	<b>130</b>	<b>125</b>



*\*Includes the Management Board*

Groups of staff by gender	Total number		Women		Men		Women/Men	
	2022	2021	2022	2021	2022	2021	2022	2021
Management Board	3	3	0	1	3	2	0%/100%	33%/67%
Executive Team*	9	11	3	5	6	6	33%/67%	45%/55%
Management Team	28	30	12	13	16	17	43%/57%	43%/57%
<b>All staff</b>	<b>345</b>	<b>331</b>	<b>97</b>	<b>92</b>	<b>248</b>	<b>239</b>	<b>28%/72%</b>	<b>28%/72%</b>

*\*Includes the Management Board*

Considering variations within the team, it is essential to follow equality principles both in selecting and managing people, which translates into providing, when feasible, equal opportunities to everyone. It is important for us to ensure that no one is discriminated against due to their age, gender, religion, cultural or ethnic origin, disability, sexual orientation, marital status, or any other circumstances. To ensure equal treatment, we have signed a collective agreement with the Trade Union of Water Supply and Sewerage Staff. Even though less than 10% of our staff are members of the trade union, the contractual obligations and benefits agreed upon in the agreement extend to all our employees.

The members of staff have the opportunity to receive annual performance related pay (PRP). In 2022, we renewed the PRP system, simplifying and updating the existing principles. A prerequisite for the PRP payment is the delivery of a balanced combination of individual and company objectives, set for a given year. The company objectives, related to corporate KPI targets, are agreed annually. In 2022, 60% (2021: 80%) of the total PRP was dependent on the delivery of company objectives and 40% (2021: 20%) of the PRP was dependent on the delivery of individual objectives of each employee.

We also renewed the remuneration principles, which provide a transparent and clear remuneration system and help to increase the motivation of employees. In 2022, our managers participated in job evaluation process and the Company took part in the salary market survey conducted by Fontes to compare the salaries of our employees with those of employees in similar positions. The results provide us with a good input for making the remuneration decisions.

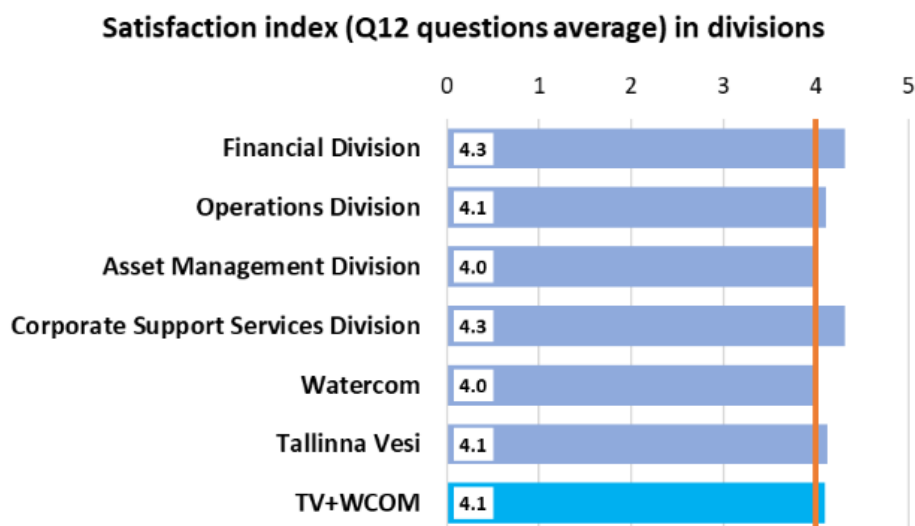
## COMMITMENT WITHIN THE TEAM

Two-way interaction is of paramount importance in the teamwork and therefore, feedback from employees plays an important role in the company culture. In 2021, we conducted an extensive employee satisfaction survey in cooperation with Kantar Emor. This year, a brief pulse survey was carried out in the fourth quarter of 2022. The aim of the survey is to improve working



conditions and to identify concerns and expectations for the company based on employee feedback. The study was conducted by Psience OÜ.

In 2022, 90% (2021: 91%) of our employees participated in the survey, which shows that our employees understand the importance of the feedback they provide. The employer's overall satisfaction index was at 4.1 (2021: 4.0) and the recommendation index eNPS was at +15 (2021: +6).



## TALENT MANAGEMENT AND SUCCESSION PLANNING

Considering the age structure in the Company, it is critical to focus attention on succession planning. To continue developing and improving performance, we need to maintain the company-specific knowledge but also bring new and fresh energy to the Company. We strive to create a diverse team, containing both recent graduates with fresh ideas and people of a more mature age with extensive experience. The performance of the Company depends on the skills and professionalism of the staff.

In 2022, Tallinna Vesi continued with the Scholarship Program for Students launched in autumn 2021. Through this program, we want to keep motivating students with good results. At the same time, this will give us a chance to promote water sector and attract specialists with fresh expertise to join the Company. In 2022, we continued to work with three trade schools and three universities. In spring 2022, 8 students applied for scholarships, and we awarded 5 scholarships. In autumn 2022, we received 5 (2021: 20) applications from universities and 21 (2021: 13) applications from trade schools. We awarded 4 scholarships to universities and 4 scholarships to trade schools.



In 2022, we launched a Scholarship Programme for Employees of Tallinna Vesi to recognize and motivate the employees within the Company who invest in their development by studying at trade schools or universities and thereby creating added value for both the Company and society. This year, we had 3 candidates from the Company, all pursuing a master's degree. The Company gave out 2 scholarships.

In 2022, we continued with our succession program for apprentices and trainees, which allows us to engage young people in the Company's activities already whilst they are studying and provide them with valuable work experience and development opportunities. In 2022, we had 21 young people who did their traineeship at our Company and 3 of them were employed after the traineeship period. We are proud to say that the interest in doing traineeships with us has been increasing compared to last year when we had 8 trainees.

Also, each year every unit identifies, based on their annual performance interviews, their high potential employees (talents) and various development activities are provided for them throughout the year. Talent management is aimed at motivating, engaging and retaining employees to incentivise them to perform even better. We also map the succession of managers every year in order to have an overview and to develop a strong succession within the Company – in 2022, 5 specialists moved to the position of a manager.

Another part of the succession planning is applying the Good Retirement Practice, the aim of which is to plan retirements ahead, as much as possible, to ensure the transfer of know-how from more experienced staff to young members and to thank retirees for their commitment. In the positions which require significant company-specific knowledge and skills, an employee who is about to retire and a young specialist work alongside each other for 2-6 months. By providing such transfer of knowledge and experience to a learning employee, we value the experience of a retiring employee and contribute to the professionalism of a new employee. The Company also pays retirees a company benefit depending on the length of their service. 10 employees retired during 2022 (2021: 3).

In 2022, we first recognised the employees of our Company, who had continued their education while working and graduated from a trade school or university that same year. In August, we held a thank-you event for the graduates. In 2022, 6 employees completed their studies, and the highest number of graduates were from Tallinn University of Technology, but we also had graduates from Tallinn University of Technology and the University of Tartu. There were those among the graduates who had acquired a master's degree, a bachelor's degree, as well as applied higher education.



## SELECTION AND RECRUITMENT OF STAFF

The effects of the COVID-19 pandemic were still felt in the first half of 2022, people were wary of changing jobs and recruiting new staff to the team was a major challenge. We make sure when drawing up job advertisements that the requirements for the candidate are reasonable and realistic, with a view to encouraging candidates to apply. We assess the suitability of a candidate for a specific position but also consider the suitable vacancies across the Company that could be proposed to them.

Rising prices for energy, food and services have led to higher salary expectations. This is likely to have also led to an upward trend in the number of applications in the second half of the year when people were more prone to change their jobs. However, it is difficult to find people with engineering and technical expertise as well as skilled workers for different positions on the labour market at a time when the salary expectations are higher, and to retain those employees if the values of an employee do not match those of the company. We have conducted targeted search and approached potential candidates through contacts published on job portals to find potential candidates. For a few times this year, we have also outsourced recruiting services to conduct targeted search to fill key positions within the Company.

The number of published competitions aimed at finding new employees on the labour market was higher than in the previous year – in 2022, we carried out a total of 79 recruitment projects (2021: 50 projects). The increased need for recruitment is a sign of focusing on strengthening the organizational culture and brand image, including recruitment marketing, in order to retain existing staff and attract new employees to join the Company.

Even though all our vacancies are public, we always circulate the job offers internally as well on the Intranet and digital screens. We fully support the development of employees and offer career opportunities within the Company. We inspire our staff to develop and rotate between various teams, and a number of vacancies were namely filled with in-house applicants. In 2022, a successor was found within the Company for 27 positions (2021: 26), 5 specialists became managers.

From 20 June 2022, the Company is using Talendipank, an application for recruiting new employees. Decision was made to use the recruitment software because Talendipank reduces the time spent on the recruitment project, considerably simplifies the recruitment process, offers various tools for evaluating candidates and allows to produce the recruitment statistics. One of the recruitment software functionalities, called asynchronous video interviews, has allowed us to introduce a new step in the recruitment process, making preselection easier in recruitment projects involving a large number of applications.

## EMPLOYEE DEVELOPMENT

In 2022, the largest number of trainings were on occupational safety – topics such as work environment and health, safety in various jobs, first aid and fire safety. Also, the management and self-development trainings proved popular. Focus was also put on improving the quality of customer service. The average number of training days in 2022 was 2.39 days per employee (2021: 2.28 days). Training activity was still affected by the global situation, which clearly showed that online trainings have come to stay – 30% of all training was done online.

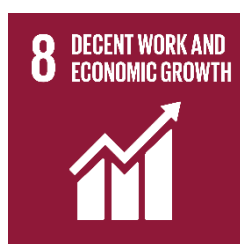
In 2022, we continued to develop our managers by providing them with trainings on remuneration and salary negotiations, as well as providing training and development programs for specialists who had freshly become managers. Starting from 2022, we offer our employees the opportunity to take IT courses in Skillaby e-learning environment and learn how to use various MS Office programs by following simple tutorial videos in Estonian.

In 2022, the traditional training day for managers, called the Autumn School for Managers, focused on finalizing the management principles of the Company. This grew out of one of the workshops on management culture held during the Autumn School training day back in 2021.

The discussion of the plans for professional development always constitutes a part of the annual performance review, conducted at the beginning of each calendar year with all employees (100%). Specialists and managers have also interim reviews conducted in July-August. Performance reviews serve as an input to identify training needs.

Training days are organized, and training opportunities are planned based on the training needs of employees. Information on the training needs is collected through managers from all units. The trainings are divided into three categories: company-wide trainings, unit-specific trainings, and individual trainings. Based on the input received, a training plan is prepared which is shared with all staff.

### 5.8 Occupational health and safety



Occupational safety is an inseparable part of our business, being central to everything we do - no work assignment is worth getting injured for. Safe and good working environment is a key focus for us as an employer in ensuring that our employees are cared for and do not risk their health or lives during work. In addition to the Working Environment Council of 8 members, the Company also has 8 working environment representatives elected by different units. Our Head of Occupational Health and Safety

organises regular meetings with the working environment representatives to discuss all issues relating to the working environment in the Company. All actions along with the responsible persons, deadlines and targeted outcomes are entered into one table, which is available for all staff to read, and the delivery of those actions is constantly monitored. Overview of the issues raised by the representatives is also presented in the Working Environment Council meetings.

Our Company's working environment performance is compliant with the requirements of both national legislation and international occupational health and safety management system standard ISO 45001:2018.

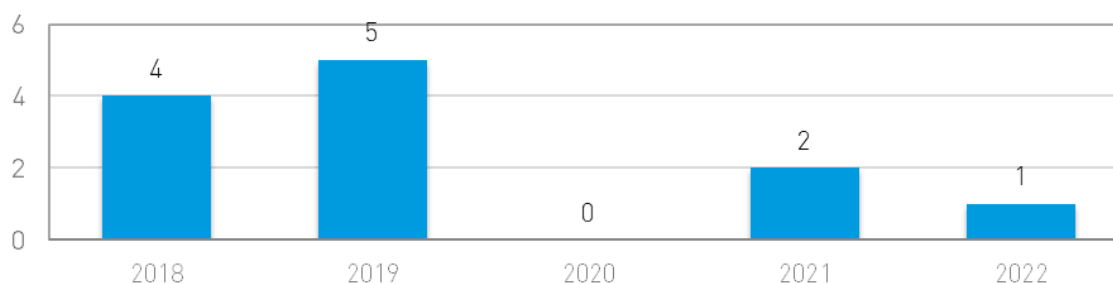
In 2022, the Health and Safety Team carried out 471 safety audits in total (2021: 469). Compliance with safety requirements on emergency and construction sites has also been set as the Company's overall objective. In 2022, 93.5% (2021: 98.72%) of the Company's audited sites met the safety requirements.

Furthermore, the Working Environment Council members and managers carry out additional safety audits on work sites and in operations units. Negative findings are dealt with by agreeing upon improvement actions and checking the delivery of those later. The actions can include an extra training course, guidance, purchase of safer tools/equipment or an additional sign.

To ensure the safety of our own employees, it is important that our subcontractors and cooperation partners also maintain high standards in occupational safety. Therefore, we also check the compliance with safety requirements of our cooperation partners and subcontractors on a regular basis.

### TOTAL NUMBER OF WORK ACCIDENTS

In 2022, 1 accident (2021: 2) took place, which caused inability to work for more than 3 workdays. We are continuously encouraging our staff including our managers to report safety related observations to prevent work accidents and pay attention to obtaining information on dangerous occurrences, safety observations and near misses from our staff. In 2022, we logged total of 288 such observations reported by our staff and managers. Based on the information received from the employees we aim to make improvements to prevent any possible accidents in the future.



The safety of people working at Tallinna Vesi is the Company's priority. More than half of our employees work in offices where adverse effects are mainly related to limited physical activity and working behind a computer. For other members of the staff, work often involves increased risks, such as working in confined spaces, exposure to chemicals, working with specialised equipment, in deep manholes, collectors, etc. We continuously and consistently analyse the risks in the working environment and make improvements to the work environment, taking into account the suggestions received from our employees regarding the modernisation of workplaces.

Employees' safety awareness is the key aspect in creating and maintaining safe working environment and we continue contributing to the safety of our Company's working environment. Involvement of our staff in various working environment-related initiatives and activities is fundamental in improving the safety awareness. We organise informative meetings to give the staff an opportunity to share information. We improve the staff's awareness of safety issues also through discussions and various printed materials and safety videos. Systematic engagement of

employees has resulted in considerably increased attention towards one's working environment, which is where the occupational safety starts in the first place.

We carry out working environment trainings on a regular basis. The list of trainings in 2022 included, amongst others, the following:

- Training and in-service training in first aid
- Training in fire safety for the staff
- Training in electrical safety
- Training in working in confined spaces

To raise overall health awareness, we organise health months once a year, inviting interesting guest speakers and introducing new ways to maintain and improve one's health. To maintain health, we have created opportunities for employees to work out in the Company's sports halls and gyms. We also allow people to take an extra week off during the winter months and support team sports. Starting from 2022, we offer our employees a health insurance provided by Confido, allowing to compensate for services purchased from private medical institutions and public hospitals. The service was used by more than 70% of the employees.

All the initiatives above as well as several other actions help us to make our working environment safer and more comfortable for our employees.



## 5.9 Objectives: Employees

### EMPLOYEE RELATED OBJECTIVES FOR 2022

Number of work accidents 0	Not achieved
Compliance at Tallinna Vesi's and Watercom's sites according to safety audits $\geq 97\%$	Not achieved
Employee commitment ( <i>based on annual employee satisfaction survey</i> ) $> 3.9$	Achieved
Attractive employer ( <i>based on employer reputation survey by Kantar Emor</i> ). Ranked among top 25	Achieved

### EMPLOYEE RELATED OBJECTIVES FOR 2023

Number of work accidents	0
Employee commitment ( <i>TRI*M index based on employee satisfaction survey</i> )	$\geq 69$
Level of management quality ( <i>based on employee satisfaction survey</i> )	$\geq 5$
Cooperation between units ( <i>based on employee satisfaction survey</i> )	$\geq 4.7$
Compliance at Tallinna Vesi's and Watercom's sites according to safety audits ( <i>using the TOM methodology</i> )	$\geq 90\%$

## 6. FINANCIAL RESULTS OF 2022

### 6.1 Economic environment

Given that Tallinna Vesi operates only in Estonia, our activities are mainly dependent on the trends in Estonian economy.

According to the Bank of Estonia economic review for 2022, the Estonian economy has entered a technical recession as GDP has declined for two consecutive quarters in quarterly terms. Estonian GDP was 2.4% lower in the third quarter than it was in the third quarter of 2021 and adjusted seasonally and for the number of working days it was 1.8% down on the previous quarter. This means that GDP dropped quite sharply for the second consecutive quarter in quarterly terms, and the last quarter on quarter growth in the economy was seen in the fourth quarter of 2021.

Despite the economy contracting, there were no substantial shocks to the labour market in the second half of 2022. Data from both the labour force survey and the Tax and Customs Board show that employment remained about the same in the third quarter as it had been in the second. Yearly growth remaining fast at 3% reflected the increase in employment in early 2022

Unemployment was down to 5.6% in the data for the third quarter of 2022, but seasonally adjusted it was a little higher. Registered unemployment has risen faster throughout 2022 than the labour force survey finds, as refugees from the war in Ukraine have been able to register as unemployed. There were about 6,300 refugees registered with Töötukassa at the start of December, which was about 12.6% of all the registered unemployed.

The rise in the average wage was slower in the third quarter at 8.1% despite very high inflation. Data from the Tax and Customs Board show that the growth in the average wage income paid out was about two percentage points higher than that in the third quarter. Wage growth has accelerated in the general government over the year, having noticeably lagged private-sector wage growth in 2021. The cooler economic climate, major uncertainty about the future, and an increase in the labour supply will together present an obstacle to high consumer price inflation being passed on into wages. Wages are often reviewed at Estonian companies once a year, and the decisions tend to be taken at the start of the year.

Inflation has remained high and broadly based, though it has come down a little since August. The increase in the cost of the consumer basket over the year reached 21.3% in November. The consistent cause of inflation has been high energy prices. The supply of some manufactured goods and tourism services has not kept up with demand, and this has also lifted inflation.

Changes in CPI and construction price index have direct impact on both operating and capital expenditures of Tallinna Vesi. According to the Statistics Estonia, average construction price index increased in 2022 compared to 2021 by 16.1% (2021: 8.3%). The strongest impact on the index came from construction material prices by 20.4% and construction machinery prices by 15.0%. Increase in salaries was 8.3%.

## MAIN FINANCIAL INDICATORS OF TALLINNA VESI

Main financial indicators € million, except key ratios and share data	PERFORMANCE				
	2022	2021	2020	2019	2018
Sales	54.56	53.29	51.72	63.42	62.78
Gross profit	16.90	20.58	22.23	33.95	34.19
Operating profit before depreciation and amortisation (EBITDA)	18.14	25.30	28.07	38.18	32.73
Operating profit	11.32	18.78	21.78	32.07	26.94
Operating profit - main business	10.33	17.52	21.32	31.19	26.22
Profit before taxes	10.65	18.40	21.34	31.30	25.95
Net profit	8.41	16.17	16.73	27.76	24.15
Gross profit margin %	30.97	38.61	42.98	53.53	54.45
EBITDA margin %	33.24	47.47	54.27	60.21	52.13
Operating profit margin %	20.75	35.24	42.12	50.57	42.91
Profit before taxes margin %	19.51	34.52	41.27	49.36	41.34
Net profit margin %	15.41	30.33	32.35	43.77	38.47
ROA %	3.30	6.32	6.45	10.83	10.10
Debt to total assets %	56.26	54.94	56.09	56.05	58.85
ROE %	7.43	14.20	14.69	25.43	25.61
Current ratio	1.24	2.83	3.85	5.48	5.36
Number of full-time equivalent employees, at the end of the year	333	333	332	314	296
Share price, at the end of the year	12.54	14.48	13.25	11.70	9.60
Share capital	12.00	12.00	12.00	12.00	12.00
Earnings per share	0.42	0.81	0.84	1.39	1.21
Dividend per share	n/a*	0.65	0.65	1.00	0.75
Cash balance, at the end of the year	12.65	36.56	44.51	64.78	61.77
Investments to fixed assets	25.13	15.38	19.42	16.09	10.40

*EBITDA: Operating profit + depreciation and amortisation*

*Gross profit margin: Gross profit / Sales*

*EBITDA margin: EBITDA / Sales*

*Operating profit margin: Operating profit / Sales*

*Profit before taxes margin: Profit before taxes / Sales*

*Net profit margin: Net profit / Sales*

*ROA: Net profit / Average Total assets for the period*

*Debt to Total capital employed: Total liabilities / Total capital employed*

*ROE: Net profit / Average Total equity for the period*

*Current ratio: Current assets / Current liabilities*

*Main business: water services related activities, excl. connections profit and government grants, construction services, doubtful debt*

*\*Dividends for 2022 have not been declared at the time of issuing the report.*

## 6.2 Statement of comprehensive income

### SALES

In 2022 the Group's total sales were €54.56 million, showing an increase of 2.4% or €1.26 million year-on-year. Sales from water services for twelve months of 2022 were 48.89 million, increasing by 8.5% or €3.83 million year-on-year. 89.6% of sales comprise of sales of water services within and outside of the service area, 8.8% from construction services and 1.6% from other services.

€ thousand	for the year ended 31 December			Variance 2022/2021	
	2022	2021	2020	€	%
Water supply service	8,380	8,097	8,106	283	3.5%
Wastewater disposal service	12,406	12,000	12,048	406	3.4%
<b>Total from private customers</b>	<b>20,786</b>	<b>20,097</b>	<b>20,154</b>	<b>689</b>	<b>3.4%</b>
Water supply service	8,260	7,115	7,209	1,145	16.1%
Wastewater disposal service	8,480	7,299	7,417	1,181	16.2%
<b>Total from commercial customers</b>	<b>16,740</b>	<b>14,414</b>	<b>14,626</b>	<b>2,326</b>	<b>16.1%</b>
Water supply service	1,599	1,631	1,593	-32	-2.0%
Wastewater disposal service	3,525	3,422	3,298	103	3.0%
Stormwater disposal service	193	256	291	-63	-24.6%
<b>Total from outside service area customers</b>	<b>5,317</b>	<b>5,309</b>	<b>5,181</b>	<b>8</b>	<b>0.2%</b>
Stormwater treatment and disposal and fire hydrants service	4,643	4,010	4,588	633	15.8%
Overpollution charges and discharging	1,403	1,225	1,250	178	14.5%
<b>Total from water services</b>	<b>48,889</b>	<b>45,055</b>	<b>45,800</b>	<b>3,835</b>	<b>8.5%</b>
Construction services	4,809	7,328	5,222	-2,519	-34.4%
Other services	860	911	695	-51	-5.6%
<b>TOTAL REVENUE</b>	<b>54,558</b>	<b>53,294</b>	<b>51,717</b>	<b>1,264</b>	<b>2.4%</b>

During 2022 there has been an increase in sales to private customers by 3.4% to €20.78 million that is related to the averagely 23% increase in tariffs starting from 1st of October 2022.

The sales to commercial customers within the service area has increased by 16.1% to €16.74 million. The increase compared to 2021 is related to the increase in tariffs averagely 4% in the 4th quarter of 2022 and increase in consumption compared to 2021.

Sales to customers outside the main service area increased by 0.2% to €5.32 million, being impacted by an increase in the wastewater disposal service revenues.

Sales from the operation and maintenance of the main service area storm water and fire hydrants system in 2022 amounted to €4.64 million, showing an increase of 14.5% or €0.17 million year-on-year.

Sales of construction services were €4.81 million, decreasing by 34.4% or €2.52 million year-on-year. The decrease was mainly related to lower pipe construction revenues won from the market

accompanied by lower volume of work in first nine months in the road construction due to postponed procurements from public sector due to uncertainty in the markets.

## COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

€ thousand	for the year ended 31 December			Variance 2022/2021	
	2022	2021	2020	€	%
Water abstraction charges	-1,288	-1,281	-1,237	-7	-0.5%
Chemicals	-2,238	-1,822	-1,567	-416	-22.8%
Electricity	-9,234	-4,612	-3,256	-4,622	-100.2%
Pollution tax	-823	-894	-990	71	7.9%
<b>Total direct production costs</b>	<b>-13,583</b>	<b>-8,609</b>	<b>-7,049</b>	<b>-4,974</b>	<b>-57.8%</b>
Staff costs	-8,229	-7,243	-7,247	-986	-13.6%
Depreciation and amortisation	-5,930	-5,725	-5,521	-205	-3.6%
Construction services	-3,802	-5,988	-4,256	2,186	36.8%
Other costs of goods sold	-6,116	-5,150	-5,418	-966	-19.1%
<b>Total other costs of goods/services sold</b>	<b>-24,077</b>	<b>-24,106</b>	<b>-22,442</b>	<b>29</b>	<b>0.1%</b>
<b>Total cost of goods/services sold</b>	<b>-37,660</b>	<b>-32,715</b>	<b>-29,491</b>	<b>-4,945</b>	<b>-15.1%</b>

In 2022 the cost of goods and services sold amounted to €37.66 million, increasing by 15.1% or €4.95 million compared to the equivalent period in 2021. Total direct production costs (water abstraction charges, chemicals, electricity, and pollution tax expenses) amounted to €13.58 million, showing a 57.8% or €4.97 million increase compared to the equivalent period in 2021. Changes in direct production costs came from a combination of changes in prices and in treated volumes that affected the cost of goods sold together with the following additional factors:

- Chemicals costs increased by 22.8% to €2.24 million, driven mainly by on average 23.0% of higher price of methanol, accompanied by 119.6% higher usage of polymer used in wastewater treatment, worth -€0.16 million and -€0.21 million accordingly. Higher costs from wastewater treatment were partly balanced by 43.6% lower usage of aerotech, worth +€0.04 million.
- Expenses for Electricity increased by 100.2% or €4.62 million resulting in costs worth of €9.23 million due to averagely 61.6% higher electricity price.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to €24.07 million, being on the same level compared to 2021. The changes in other costs of goods sold were mainly driven by 36.8% or €2.20 million lower expenses related to construction services and 13.6% higher staff costs.

The Group's gross profit for the 2022 was €16.90 million, showing a decrease of 17.9% or €3.68 million compared to the comparative period of 2021.

## OTHER INCOME AND EXPENSES

Other income and expenses in 2022 amounted to a net loss of €0.48 million compared to net income of €3.10 million in 2021. The change was mainly impacted by freezing the reversing of provision in Q4 2021, that was formed for possible third-party claims in 2019.

## OPERATING PROFIT

As a result of the factors listed above, the The Group's operating profit for 2022 amounted to €11.32 million, being 39.7% or €7.46 million lower than in the corresponding period of 2021, being mainly impacted by higher electricity and chemicals cost and change of provision for the possible third-party claims that was frozen in Q4 2021. Eliminating the effect of the change of provision for the possible third-party claims the operating profit for 2021 would have been €15.17 million, that is 25.4% higher compared to same period 2022.

## FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of €0.67 million, compared to net expense of €0.38 million in the twelve months of 2021. The increase was impacted by slightly higher interest expense on loans at the end of a year and negative interest on bank accounts in the beginning of a year.

## PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for the 2022 was €10.65 million, being 42.1% or €7.75 million lower than for the relevant period of 2021. The Group's net profit for 2022 were €8.41 million, being 48.0% or €7.76 million lower than for the equivalent period of 2021. Eliminating the effects of the change of provision for the possible third-party claims the Group's net profit for the 2021, the net profit for 2021 would have been €12.56 million, showing a decrease for 2022 by 33.0% or €4.15 million year-on-year.

## 6.3 Statement of financial position

In 2022 the Group invested into fixed assets €25.13 million. As of 31/12/2022, non-current tangible assets amounted to €229.87 million, the majority of which in the amount of €186.7 million was an investment in pipes (31/12/21 €167.61 million). Total non-current assets amounted to €230.55 million (31/12/2021: €212.27 million).

Compared to the year-end of 2021 the trade receivables, accrued income and prepaid expenses have shown a slight increase in the amount of €2.35 million to €8.99 million. An increase mainly derives by €2.04 million higher receivables from water and construction services. The collectability rate continues to be high at 99.85% compared to December 2021 when the collectability rate was the same.

Current liabilities have increased by €3.00 million to €18.49 million compared to the end of 2021, mainly deriving from investments related increase in prepayments of new connections.

Deferred income from connection fees has increased compared to the end of 2021 by €1.91 million to €39.15 million.



Provision for possible third-party claims is at the same level compared to the end of 2021 on €6.02 million. More detailed information about the provision is presented in Note 13 to the financial statements.

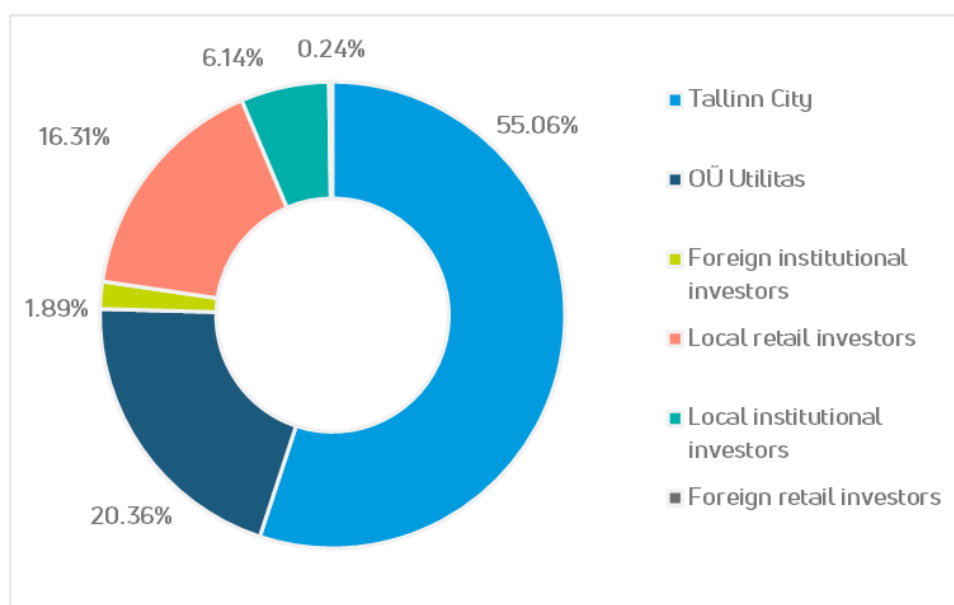
The Group's loan balance of €80.45 million has decreased by €3.63 million in 2022. One NIB loan is being returned in equal semi-annual payments. The weighted average loan interest risk margin as of 31.12.2022 is 3.0%.

The Group has total debt to assets level of 56.26%, in range of 54%-65%, reflecting the Group's equity profile. In the comparative period of 2021, the total debt to assets ratio was at the same range, being 54.94%.

## 6.4 Investors

We aim to be transparent and honest through our business activities, giving timely and accurate information to our shareholders. We treat all our shareholders equally and are dedicated to efficiency while ensuring the sustainability of the Company.

### Shareholders by type as of 31 December 2022



### Distribution of share capital by size of share ownership as of 31 December 2022

	Shareholders 2022 (2021)	Shareholders % 2022 (2021)	No. of shares 2022 (2021)	% of share capital 2022 (2021)
1 - 100	7,939 (7,014)	69.7% (67.7%)	230,584 (208,319)	1.2% (1.0%)
101 - 200	1,205 (1,110)	10.6% (10.7%)	182,018 (168,865)	0.9% (0.8%)
201 - 300	539 (536)	4.7% (5.2%)	139,150 (138,128)	0.7% (0.7%)
301 - 500	535 (524)	4.7% (5.1%)	217,390 (215,143)	1.1% (1.1%)
501 - 1,000	530 (533)	4.7% (5.1%)	394,792 (399,199)	2.0% (2.0%)
1,001 - 5,000	513 (508)	4.5% (4.9%)	1,113,130 (1,100,532)	5.6% (5.5%)
5,001 - 10,000	76 (80)	0.7% (0.8%)	556,824 (591,102)	2.8% (3.0%)

10,001 - 50,000	44 (45)	0.4% (0.4%)	955,252 (911,055)	4.8% (4.6%)
50,000 +	9 (10)	0.1% (0.1%)	16,210,860 (16,267,657)	81.1% (81.3%)
<b>TOTAL 2022</b>	<b>11,390</b>	<b>100.0%</b>	<b>20,000,000</b>	<b>100.0%</b>
<b>TOTAL 2021</b>	<b>10,360</b>	<b>100.0%</b>	<b>20,000,000</b>	<b>100.0%</b>

## Investor communication

Tallinna Vesi is a listed company and its shares have been listed on Nasdaq Baltic market since 1 June 2005. A company's market value is a good indication of the overall value of the company and the investors' perceptions of its business prospects. Market value is affected not only by factors controlled by the Company, but also by those which cannot be controlled. Profitability and cost effectiveness are major influences on market value and can be controlled by the Management Board of the Company.

Continuing and transparent communication is one of the main factors in maintaining excellent investor relations. Therefore, we continue to regularly communicate our targets, strategy and performance to the investors as well as to all other stakeholders. Each quarter, we introduce the Company's quarterly financial results to the investors and take part in discussions on the webinars. Additionally, we hold regular meetings between key institutional shareholders and potential investors and the Company's Management Board. All shareholders are welcome to ask questions from the members of the Management Board and the Supervisory Council (hereinafter referred to as the Supervisory Board) directly at the Annual General Meeting of Shareholders and at all times using e-mail or telephone.

We have worked hard on our investor relations programme since the listing of Tallinna Vesi on the Tallinn Stock Exchange and will continue to do so in the following years. To maintain the transparency of our Management Board's activities to shareholders, we have reported on Corporate Governance Recommendations on a regular basis since 2006.

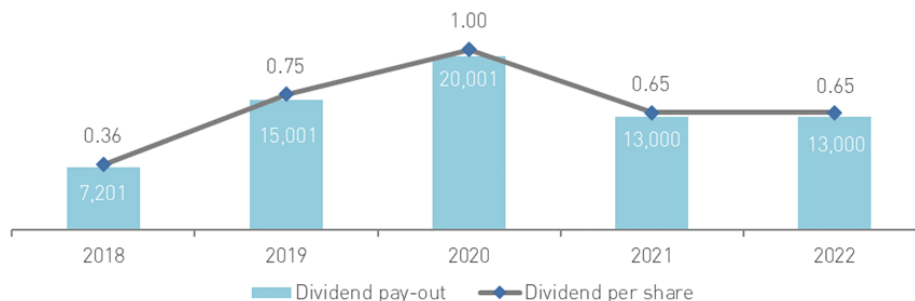
Our contribution to maintaining excellent investor relations has also been recognised externally.

## DIVIDENDS

Dividend allocation to the shareholders is recorded as a liability in the financial statement of the Company at the time when the profit allocation and dividend payment is confirmed by the Annual General Meeting of shareholders.

Every year the Supervisory Board evaluates the proposal of the dividends to be paid out to the shareholders and approves it to be presented to the Annual General Meeting of shareholders for voting, considering all circumstances. In the Annual General Meeting held on 03/06/2022, the Supervisory Board proposed to pay out €0.65 per share from the 2021 profits. The pay-out is equal to 80% of earnings per share in 2021. The proposal was approved by the Annual General Meeting and the dividend pay-out was made on 29/06/2022.

Dividend pay-outs in the last five years have been as follows:



ASTV aims to distribute 50-80% of the annual profit as dividends. Dividend payments shall be assessed annually considering ASTV's earnings, investment needs, liquidity position and long-term financial objectives.

## SHARE PERFORMANCE

AS Tallinna Vesi is listed on Nasdaq Baltic Main List with trading code TVEAT and ISIN EE3100026436.

As of 31/12/2022, AS Tallinna Vesi's shareholders, with a direct holding over 5%, were:

- City of Tallinn (55.06%)
- OÜ Utilitas (20.36%)

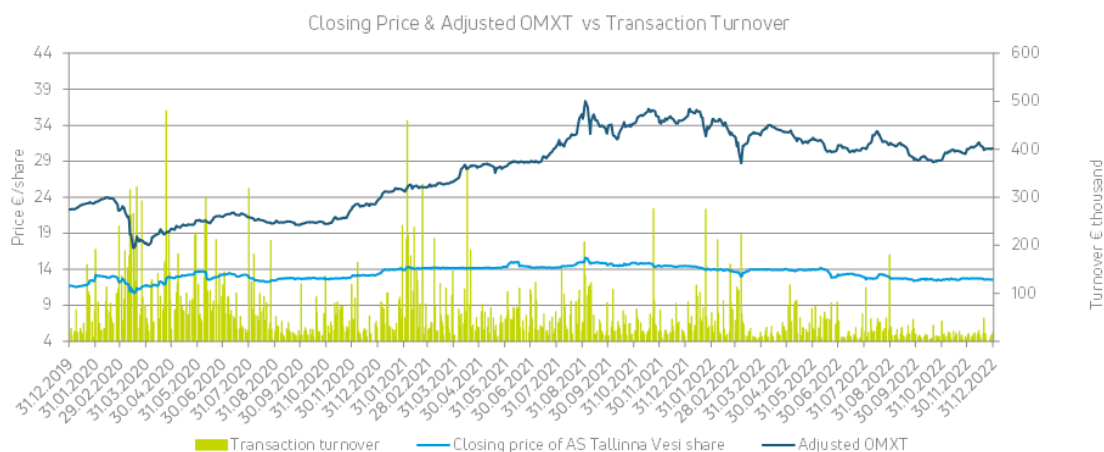
During the twelve months of 2022, the local retail investors have induced their shareholdings by 0,45%, local institutional investors have reduced their shareholdings by 0,23%, foreign institutional investors and foreign retail investors have decreased their shareholdings by 0.10% and 0.12% respectively.

As of 31/12/2022, the closing price of AS Tallinna Vesi share was €12.54, which is 13.40% lower (2021: +9.28%) compared to the closing price of €14.48 at the end of the previous year. During the 2022, the OMX Tallinn index dropped by 11.71% (2021: +48.92%).

In twelve months of 2022, 20,167 deals were concluded with the Company's shares (2021: 22,333 deals) during which 542 thousand shares or 2.7% of all shares changed owners (2021: 947 million shares or 4.7%).

The turnover of transactions amounted to €7.30 million, being €6.29 million lower than in the comparative period of 2021.

## CLOSING PRICE AND ADJUSTED OMXT VS TRANSACTIONS TURNOVER



### SHARE PRICE STATISTICS

€	2022	2021	2020	2019	2018
Share price, open	14.48	13.25	11.70	9.60	10.20
Share price, at the end of the year	12.54	14.48	13.25	11.70	9.60
Share price, lowest	12.36	13.50	10.70	9.54	9.54
Share price, highest	14.42	15.60	13.70	11.95	11.35
Share price, average	13.31	14.39	12.64	10.98	10.39
Traded volume, thousand	542	947	1,403	595	765
Turnover, € million	7.30	13.59	17.49	6.48	7.95
Capitalisation, € million	251	290	265	234	192
Earnings per share	0.42	0.81	0.84	1.39	1.21
Dividend per share	n/a*	0.65	0.65	1.00	0.75
Dividend / net profit	n/a*	80%	78%	72%	62%
P/E	29.86	17.88	15.77	8.42	7.93
P/BV	2.3	2.5	2.4	2.0	1.9

*P/E = share price at the end of the year / earnings per share*

*P/BV = share price at the end of the year / book value per share*

*Capitalization = share price at the end of the year \* No of shares*  
*In 2005 the listing price was €9.25*

*\*Dividends for 2022 have not been declared at the time of issuance of the report*

### 6.5 Activities of the subsidiary Watercom OÜ

Watercom was established by Tallinna Vesi in 2010.

Watercom provides the following services:

- Pipe and road construction services
- Disinfection and design of pipes
- Services related to road maintenance
- Project management and owner supervision
- Jet washing and transportation

Watercom's activity is certified to ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2015 quality standards.

## WATERCOM'S MAIN OBJECTIVES AND DEVELOPMENT TRENDS IN THE NEXT YEAR

2022 was an active and successful year for Watercom. Watercom delivered more sales and profit than ever before, and the challenging target set for external profit was achieved despite the fact that procurements from public sector were postponed in the first half of the year due to uncertainty in the markets. External profit has always been one of the main objectives of Watercom and we hope to maintain the same pace in 2023. In 2022, the biggest contribution to external profit came from the road construction activity, with Watercom winning several tenders organized by the City of Tallinn. For the first time, contribution from the Road Construction department to the Company's external profit outperformed the contribution from the Pipe Construction department. In 2022, the company successfully launched a new manhole repair service and at the end of the year an ice pigging equipment was delivered, which allows to clean water pipes by applying the most innovative technique currently used in Northern Europe. This is the largest investment Watercom has made to date.

Outlook for 2023 remains positive with expectations to find new opportunities to achieve higher external sales and profit figures. The company continues to launch a new ice pigging service for pipeline cleaning and to seek various opportunities for further growth outside the Group by developing and launching new services.

## PIPE AND ROAD CONSTRUCTION

The main activity of Watercom in 2022 was the construction of water and wastewater networks for developers, water companies and private individuals. As in previous years, the focus was on feasible construction projects and procurements in Tallinn and elsewhere in Estonia. External road construction market became active in the second half of 2022 despite a shock in the market related to exceptional increase in prices of various materials due to war in Ukraine, which caused postponing or cancelling several public procurements in the first half of the year.

2022 was a reasonably good year in the construction sector despite the war. Watercom was able to win several procurements for both services from the external market and performed several external works, mainly in Harju and Rapla counties. Construction market is extremely competitive and therefore, efficient cost management is crucial in achieving sustainable profitability. In 2022, maintaining the construction margin was very tough but still achieved thanks to ongoing controls to manage costs more efficiently, despite the rapid changes in the resources market and in prices which is expected to continue in 2023 for different reasons.

## OTHER SERVICES

During 2022, Watercom carried out several supervision contracts for various real estate developers in Tallinn and surrounding municipalities. In 2023, Watercom will continue to seek additional possibilities to retain the sales from supervision services by participating in various procurements and developing good relationships with developers.

Jet washing and transportation services are mostly provided within the Group but are also available to external customers. Proactive jet washing program has helped to keep much better control on the number of sewer blockages.

Launching of new services internally and externally as well as seeking new opportunities continue.

## 6.6 Objectives: Financial performance

### FINANCIAL OBJECTIVES FOR 2022

Watercom's external profit $\geq$ €0.8 million	Achieved
Stretch compared to budgeted EBITDA, excl. COVID-19 impacts and extraordinary costs $\geq$ €0.0 million	Achieved

### FINANCIAL OBJECTIVES FOR 2023

Watercom's external profit	$\geq$ €0.9 million
Stretch compared to budgeted EBITDA	$\geq$ €0.0 million

## 7. CORPORATE GOVERNANCE

### 7.1 Corporate Governance Report

Corporate governance is a system of principles for the control and management of a company. These principles are regulated by law, by the Articles of Association and by the internal rules of a company. As of 1 January 2006, the companies listed on the Nasdaq Tallinn Stock Exchange have been encouraged to follow the Corporate Governance Recommendations issued by the Financial Supervision Authority. Tallinna Vesi is committed to following those recommendations and has acted accordingly throughout 2022. This report covers the principles applied as of 31 December 2022.

Tallinna Vesi is committed to high standards of corporate governance, for which the Management Board and the Supervisory Board are accountable to the shareholders. The corporate governance model and operational structure are designed to ensure that all employees work towards the common objectives of the Company. Good corporate governance, transparency, sustainability, internal controls and risk management are fundamental components to build and maintain the trust and credibility of all stakeholders of the Company and are also key elements to a successful business. Tallinna Vesi considers it crucial to be transparent in its methods of operation through its corporate disclosures and relations with stakeholders. Tallinna Vesi has received recognition for the best investor relations by Nasdaq Baltic on several occasions.

Since 2010, Tallinna Vesi has been a member of the Baltic Institute of Corporate Governance, which promotes the best practices of corporate governance in the region.

### Investor Relations and Disclosure of Information

Corporate Governance Recommendations statements are available on Tallinna Vesi's website <https://www.tallinnavesi.ee>. The Corporate Governance Recommendations Report is an integral part of the Annual Report of Tallinna Vesi, which is prepared at the end of each financial year.



Annual reports are made public on the Nasdaq Tallinn Stock Exchange and are also available on the Company's website.

Tallinna Vesi discloses the following year's financial calendar on the Nasdaq Tallinn Stock Exchange as well as on Tallinna Vesi's website prior to the end of each calendar year. Such information includes the release dates of quarterly as well as annual financial information and the date of Annual General Meeting (AGM) of Shareholders.

Additionally, prior to the AGM, Tallinna Vesi discloses the following information on its website:

- AGM notice;
- background information about the agenda, including the Annual Report to be approved, the Supervisory Board's report and the Auditor's report;
- information about the Supervisory Board member(s) to be elected and the auditor candidate;
- the total number of voting rights;
- procedure for adding items to the agenda and presenting draft resolutions;
- procedure for inquiring about the Company's activities from the Management Board;
- the list of identification documents required for attending the General Meeting, including the form for power of attorney.

Decisions of the General Meetings and Management Board presentations are being published shortly after the meeting via Nasdaq Tallinn Stock Exchange. Finalised and certified minutes of the General Meetings are published within seven days following the date of the General Meeting. All documents and information published via Nasdaq Tallinn Stock Exchange are available on Tallinna Vesi's website.

Tallinna Vesi holds regular discussions with its major shareholders and potential investors. To this end, the Company holds General Meetings for shareholders, not less than once a year, to keep shareholders informed and to provide them with an opportunity to question directly the Management Board and the Supervisory Board. The Management Board also meets both existing and potential investors outside of the General Meetings including but not limited to meetings on site, roadshows, by being present in conferences, through webinars and investor calls.

Tallinna Vesi organises quarterly investor webinars, using the Nasdaq webinar service. Webinar is a virtual conference, in which the Company representatives provide information about the Company and its performance. Webinar allows interactive communication and the possibility to ask questions and receive answers directly from the Management Board members of the Company. The webinar information is announced via the Nasdaq Tallinn Stock Exchange and is open to all interested parties. All webinar recordings and presentations are disclosed on the Nasdaq Tallinn Stock Exchange and Tallinna Vesi's website.

### General Meeting of Shareholders

Tallinna Vesi is a public limited company, the management bodies of which are the General Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting of Shareholders is Tallinna Vesi's highest management body.

In accordance with the Commercial Code and Corporate Governance Recommendations, Tallinna Vesi convenes both Annual General Meetings (AGM) and Extraordinary General Meetings

(EGM) by notifying all of its shareholders via Nasdaq Tallinn Stock Exchange and by publishing information on its website and in one national daily newspaper at least 3 weeks in advance. Information related to General Meetings is disclosed in Estonian and English on the Company's website and in Stock Exchange announcements. The announcement in the daily newspaper is published only in Estonian.

The agendas of AGMs and EGMs of Tallinna Vesi are pre-approved by the Supervisory Board, who also put forward proposals that require attention and are subject to voting at the General Meeting. General Meeting's agenda items, Supervisory Board's proposals along with relevant comments about the agenda items, procedural instructions for participating in a General Meeting and procedure for proposing additional items to the agenda are disclosed along with the General Meeting notice.

Specific rights for adding agenda items granted to shareholders, whose shareholding represents at least 1/20 of the share capital, are described in the General Meeting notice, as well as on Tallinna Vesi's website. Voting rights are explained to the shareholders in the AGM notice on the Company's website as well as at the beginning of each General Meeting.

On 3 June 2022, Tallinna Vesi held the Annual General Meeting (AGM) of its shareholders to approve the 2021 Annual Report, distribution of profit, amend the Articles of Association, and to approve the remuneration principles for the Management Board of the Company. The Management Board made a presentation on the overall performance of the Company. No questions regarding the items in the 2022 AGM agenda were asked, nor were any additional agenda items proposed in 2022.

The Chairman of an AGM is an independent person. In 2022, the AGM was chaired by Mr Risto Agur, who introduced the procedure for conducting the General Meeting, including the procedure for inquiring about Tallinna Vesi's activities from the Management Board.

All members of the Management Board participated in the 2022 AGM.

In 2022, AGM Tallinna Vesi allowed its shareholders, who did not want to appear in person due to the exceptional situation related to COVID-19, to vote in the General Meetings using electronic means. For electronic voting, a shareholder had to fill out the voting ballot and sign it digitally (using ID-card, digi-ID or Mobiil-ID) and e-mail the digitally signed ballot to Tallinna Vesi before the AGM's day. The shareholders, who voted using electronic means, were deemed as having participated in the General Meeting and their votes represented by shares were counted in the quorum of the General Meeting. Electronic voting is allowed under the Articles of Association of the Company.

No shareholders have shares granting them the right for specific control. Tallinna Vesi is unaware of any shareholders having concluded any voting agreements.

The Article of Association of Tallinna Vesi valid from 18/10/2021 refer to only one type of shares (A share). Tallinna Vesi has 20 million shares, every share gives one vote.

## Supervisory Board

The Supervisory Board plans the activities of Tallinna Vesi, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of Tallinna Vesi, the Supervisory Board consists of nine members each with a term of three years. In 2022, five regular Supervisory Board meetings were held. The Supervisory Board pre-approved the 2021 Annual Report and reviewed the dividend proposal, both of which were then presented to the Annual General Meeting for approval, and reviewed Tallinna Vesi's budget for 2023. Additionally, in its meetings, the Supervisory Board reviewed major risks that the Company faced, regulatory and legal issues, matters regarding operations, finances, reporting, investments, human resources, customer service as well as customer and employee satisfaction, health and safety, COVID-19 situation for the Company and other operational and business matters.

The following points are usually brought up at every Supervisory Board meeting:

- minutes of the previous meeting;
- information on issues dealt with by the Supervisory Board's committees, as appropriate;
- the Management Board report covering the following areas: operational, legal and regulatory, financial, communication, human resources, health, safety and quality, non-regulated business;
- major projects and issues;
- financing decisions and policies;
- decisions on special cases.

As of 31/12/2022, Tallinna Vesi's Supervisory Board consisted of the following members:



**Priit Koit (OÜ Utilitas)**  
 Chairman of the Supervisory Board  
 until 12/04/2024



**Robert Kitt (OÜ Utilitas)**  
 Supervisory Board Member  
 until 01/04/2024



**Niall Patrick Mills (OÜ Utilitas)**  
 Supervisory Board Member  
 until 12/04/2024



**Andrei Korobeinik (City of Tallinn)**  
 Supervisory Board Member  
 until 25/04/2024



**Silver Tamm (City of Tallinn)**  
 Supervisory Board Member  
 until 13/01/2025



**Mart Mägi (City of Tallinn)**  
 Supervisory Board Member  
 until 01/04/2024



**Priit Lello (City of Tallinn)**  
 Supervisory Board Member  
 until 15/11/2024



**Priit Rohumaa (independent)**  
 Supervisory Board Member  
 until 03/06/2024



**Allar Jõks (independent)**  
 Supervisory Board Member  
 until 03/06/2024

Tallinna Vesi has not made any transactions outside ordinary course of business and price list with members of the Supervisory Board nor their related parties.

The Supervisory Board has formed three committees to advise the Supervisory Board on audit, on nomination and remuneration and on corporate governance matters as described below.

### Audit Committee and Internal Audit

The Audit Committee is the subcommittee to the Supervisory Board, which provides an oversight of the financial reporting process, the audit process, the systems of internal controls, review of risk management and assessment and compliance with the laws and regulations. The Audit Committee follows the Auditors Activities Act and the guidelines issued by the Financial Supervision Authority regarding the composition and working processes of an Audit Committee.

The main responsibilities of the Audit Committee are:

- to review quarterly and annual financial statements, including reporting to the Supervisory Board on significant issues considered by the Audit Committee in relation to the financial statements and how those issues were addressed;
- to monitor and analyse the effectiveness of risk management systems and internal controls;
- to review the annual report and the scope, processes and results of the annual audit and to report to the Supervisory Board on the effectiveness of the audit process;
- to monitor and analyse the independence and objectivity of external auditors and the legality of their activity regarding Tallinna Vesi and how the objectivity has been safeguarded;
- to annually evaluate the work of external auditors and report to the Supervisory Board about the results of such evaluation;
- to make recommendations to the Supervisory Board for the appointment or reappointment of external auditors and to be responsible for the tender for external auditor service and agree on the fees paid to the auditor;
- to monitor the independence of the internal auditor;
- to review the scope effectiveness of the internal audit function, including reviewing and approving the annual audit plan.

At the time of compilation of this report, the Audit Committee consisted of the following members of the Supervisory Board:



Robert Kitt  
Chairman of the Audit Committee



Mart Mägi  
Member of the Audit Committee



Allar Jõks  
Member of the Audit Committee

At each Supervisory Board meeting, an internal audit report is presented to the Supervisory Board. In 2017-2021, the internal audit services were bought from Ernst & Young Baltics AS. On 23/05/2022, a new internal auditor joined the financial division of Tallinna Vesi. The internal auditor of Tallinna Vesi reports directly to the Audit Committee.

Neither the appointed external financial auditor nor any member of the external audit team can provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2022, external auditors did not provide any services to the Group outside the scope of the annual audit for financial accounts, except for external assurance provided on GRI Standard reporting referred to in GRI index for the period ended 31 December 2021. In 2022, the sustainability report will be also given an external assurance.

Pursuant to the Articles of Association of Tallinna Vesi, an external auditor, whose responsibility is to conduct the annual audit, is elected by the General Meeting of Shareholders. Tallinna Vesi chooses its external auditors through a procurement process, ensuring the best match of service



quality and the price offered for the services. Qualification criteria are strict in order to get the best service in the market. The selected auditors are approved by the Audit Committee and the Supervisory Board before being voted by the General Meeting of Shareholders. The procurement for auditing the years ending on 31 December 2021 and 31 December 2022 was carried out in 2021. AS PricewaterhouseCoopers will conduct the audit of the financial year 2022. In 2022, the Group paid €36 thousand for the annual financial audits against the relevant invoices issued (€28,1 thousand in 2021). Starting from May 2022 the internal audit services is no longer outsourced but on-site internal auditor is hired. In 2021 internal audit services against the relevant invoices issued was €45,2 thousand. According to the Good Corporate Governance principles of Tallinna Vesi, the lead auditor needs to be re-appointed at least every 5 years. The Company has also followed the Financial Supervision Authority guidelines dated 1 November 2013 "Rotation of the auditors of certain subjects of financial supervision by the state", which sets forth the requirement to rotate the lead auditor every 5 years. The lead auditor is currently Janno Hermanson.

Based on the report by the Audit Committee, the Supervisory Board evaluates the quality of the work of external auditors annually in the course of the approval of the Annual Accounts and discloses the summary of such evaluation in the AGM notice. The external auditors are present at the AGM and participate where necessary.

### Nomination and Remuneration Committee

In 2022, the Nomination and Remuneration Committee continued to advise the Supervisory Board on management remuneration issues and Management Board nominations.

At the time of compilation of this report, the Nomination and Remuneration Committee consisted of the following members of the Supervisory Board:



Priit Koit  
 Chairman of the Nomination and  
 Remuneration Committee



Priit Lello  
 Member of the Nomination and  
 Remuneration Committee



Priit Rohumaa  
 Member of the Nomination  
 and Remuneration Committee

The Supervisory Board approves the remuneration principles of the issuer's Management Board and appoints the Nomination and Remuneration Committee. The Nomination and Remuneration Committee recommends the remuneration principles for Tallinna Vesi and exercises due supervision to ensure that the principles approved by the Supervisory Board and the requirements of the Securities Market Act are being followed.

The Nomination and Remuneration Committee ensures that the remuneration principles proposed are based on the short-term and long-term objectives of Tallinna Vesi, taking into account the financial performance of Tallinna Vesi and the legitimate interests of investors. The



Nomination and Remuneration Committee also ensures that the proportion of remuneration for the principal job and performance related pay (PRP) are in accordance with the duties of the Management Board member and that the remuneration for the principal job forms a sufficient part of the total remuneration. According to the existing PRP principles, members of the Management Board are entitled to a maximum PRP of 25% of their annual gross salary. The PRP to be paid out for 2022 depends on the annual financial and operational performance of the Company, 80% of the PRP is related to Group objectives and 20% of PRP is related to specific individual objectives. If the annual results are worse than expected, a decision may be taken not to pay out any PRP.

The Nomination and Remuneration Committee ensures also that the selection of the Management Board member is appropriate, and that the candidate proposed to the Supervisory Board has a required background, education and experience.

### Corporate Governance Committee

In 2022, the Corporate Governance Committee continued to advise the Supervisory Board on the improvement of corporate governance of Tallinna Vesi for the benefit of its Supervisory Board and shareholders.

As of 31/12/2022, the Corporate Governance Committee consisted of the following members:



**Allar Jöks**  
 Chairman of the Corporate  
 Governance Committee



**Robert Kitt**  
 Member of the Corporate  
 Governance Committee



**Aleksandr Timofejev**  
 Member of the Corporate  
 Governance Committee

### Management Board

The Management Board is a management body that represents and manages the day-to-day business of Tallinna Vesi in accordance with the law and the Articles of Association of Tallinna Vesi. The Management Board is obliged to act in the most cost-efficient manner. The Management Board may be composed of two to three members, in line with the Articles of Association effective as at the day of compilation of this report and is elected for a term of 5 years. The Management Board always prepares management reports for the Supervisory Board meetings and such reports are distributed to the Supervisory Board members 10 (ten) days in advance of the meeting, as required by the Supervisory Board. The Management Board also reports ad hoc to the Supervisory Board outside of meetings, when considered necessary, and if so requested by the Chairman of the Supervisory Board.

Both Management Board and Supervisory Board Members are deemed to be insiders who are aware of Tallinna Vesi's insider rules and, along with their related persons, are listed in the Group's insider list.

On 18/03/2022, the Management Board Member and Chief Financial Officer (CFO) Ms Kristi Ojakäär was recalled by the resolution of the Supervisory Board. From 23 May 2022, Mr Taavi Gröön was elected as a member of the Management Board, who also performs the duties of the Chief Financial Officer (CFO) in the Company. From 23 May 2022, the members of the Management Board are as follows:



**Aleksandr Timofejev**  
 Chief Executive Officer  
 Chairman of the Board  
 Member of the Management Board  
 until 30/10/2026



**Taavi Gröön**  
 Chief Finance Officer  
 Member of the Management Board  
 until 23/05/2027



**Tarvi Thomberg**  
 Chief Asset Management Officer  
 Member of the Management Board  
 until 08/11/2026

The Supervisory Board of Tallinna Vesi has appointed all Management Board members.

The responsibilities of all Management Board members are specified below.

The duties of the Chairman of the Management Board, Mr Aleksandr Timofejev, are to, inter alia, fulfil the everyday obligations of the Chief Executive Officer (CEO) of Tallinna Vesi, leading and representing Tallinna Vesi, ensuring its compliance with contracts and the law, organizing the activities of the Management Board and coordinating the preparation of strategies and ensuring the implementation thereof.

The duties of the member of the Management Board, Mr Taavi Gröön are to, inter alia, fulfil the everyday obligations of the Chief Financial Officer (CFO) of Tallinna Vesi, managing and being responsible for the accounting and financial activities of Tallinna Vesi and the planning and delivery of long-term investments.

The duties of the member of the Management Board, Mr Tarvi Thomberg, are to, inter alia, fulfil the everyday obligations of the Chief Asset Management Officer (CAMO) of Tallinna Vesi, managing and being responsible for the everyday operations of Tallinna Vesi's underground water and sewerage networks, water metering, customer services and administrative operations, as well as the planning and delivery of investments into the assets of Tallinna Vesi.

Tallinna Vesi has signed service contracts with all members of the Management Board. Tallinna Vesi has not made any transactions with the members of the Management Board nor with any of their related parties outside the main services.

According to the Articles of Association of Tallinna Vesi, the Chairman of the Management Board has the sole representation right of Tallinna Vesi; other Management Board members can represent Tallinna Vesi only with one other Management Board member. In order to make daily decisions, the Management Board has approved the framework of principles, according to which certain Management Team members are authorized to conclude transactions of low value.

The Management Board of Tallinna Vesi also acts on behalf of Tallinna Vesi as the sole shareholder of Watercom.

## **EQUAL OPPORTUNITIES AND DIVERSITY IN SELECTING MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS**

In selecting members to the Management and Supervisory Boards, Tallinna Vesi is committed to the principles of equality being adhered to. Nobody is discriminated against because of their age, gender, religion, ethnic origin or other characteristics. In selecting Management Board and Supervisory Board members, their experience in the business or area of expertise, education and background are considered as the most important criteria, in order to provide an effective and balanced Board. The allocation between men and women in the Management Board is outlined in the Management Report.

## **CONFORMITY WITH NASDAQ TALLINN STOCK EXCHANGE CORPORATE GOVERNANCE RECOMMENDATIONS**

As of 1 January 2006, the companies whose shares have been admitted for trading on the regulated market operating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or non-compliance with the Corporate Governance Recommendations. If the issuer fails to comply with the Corporate Governance Recommendations, it shall explain the reasons for its non-compliance in the report.

## **DECLARATION OF CONFORMITY BY TALLINNA VESI**

In 2022, Tallinna Vesi complied with a vast majority of the Corporate Governance Recommendations. However, Tallinna Vesi did not comply with certain recommendations, which are listed below along with the reasons for such non-compliance:

"2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member, as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure."

Tallinna Vesi discloses the overall Management Board remuneration in Note 23 to the consolidated financial statements and in Remuneration report included to current Annual Report.

“3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.”

Pursuant to the Articles of Association of Tallinna Vesi, the Supervisory Board consists of nine members. Under the Shareholders Agreement, OÜ Utilitas (hereinafter Utilitas) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that, Utilitas shall have three seats, the City of Tallinn shall have four seats (both have the right to directly nominate two Supervisory Board members and the rest shall be proposed to the General Meeting of Shareholders) and two seats shall be reserved for independent members to be elected to the Supervisory Board as permitted by the Tallinn Stock Exchange on listing in June 2005.

## INFORMATION DISCLOSURE

“2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in a company belonging to same group as the Issuer.”

The Management Board Members of Tallinna Vesi are not in the Management Boards or act as a Chairman of Supervisory Board of other Issuers.

“2.3.2. The Supervisory Board shall approve the transactions which are significant to the Issuer and concluded between the Issuer and a member of its Management Board or another person connected/close to them and shall determine the terms of such transactions.”

The Supervisory Board approves the remuneration principles of the Management Board. In 2022, the transactions between Tallinna Vesi and any members of the Management Board or any persons or companies related to them were carried out by the arm’s length principle and are disclosed in Note 23 to the consolidated financial statements.

“3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately, basic and additional payment (incl. compensation for termination of contract and other payable benefits).”

The Supervisory Board member’s fee was determined by the General Meeting in 2005, at the time of the listing of the Company’s shares on the Tallinn Stock Exchange. The remuneration of Supervisory Board members was set at €6,396 per year per person and has remained unchanged. The fee is subject to deduction and payment of applicable taxes and is payable on a monthly basis. The Supervisory Board members were not paid any additional benefits in 2022.

“3.2.6. If a member of the Supervisory Board has attended less than half of the meetings of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.”

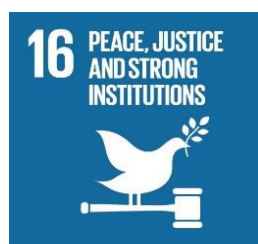
In 2022, five Supervisory Board meetings were held as follows: 27 January 2022, 31 March 2022, 28 April 2022, 28 July 2022 and 27 October 2022.

“3.3.2. A Supervisory Board member candidate shall inform other members of the Supervisory Board about the existence of a conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him.”

All Supervisory Board members are aware of this requirement and at minimum once a year, Tallinna Vesi requests all Supervisory Board members to update the record of their business interests. No business transactions outside of the main business took place between Tallinna Vesi and either any Supervisory Board member or any persons or companies related to them in 2022. Water and sewerage services were sold to the Supervisory Board members at a price those were sold to all the other customers.

The Management Report consisting of chapters “Chairman's statement”, “Our company”, “Highlights of the 2022”, “Strategy”, “Operational results of 2022”, “Financial results of 2022” and “Corporate governance”, is an integral part of the annual report of Tallinna Vesi for the financial year ended 31 December 2022. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of Tallinna Vesi.

## BUSINESS ETHICS



As a listed company, it is one of Tallinna Vesi's priorities to ensure that its activities and the conduct of its directors, officers, employees or any third parties acting on its behalf observe the highest standards of integrity. Tallinna Vesi is committed to be a reliable partner to all stakeholders in its activities and is committed to contributing to reliable business climate. Tallinna Vesi does not tolerate corruption in any shape or form. In order to prevent corruption Tallinna Vesi has worked out several procedures and rules which require all directors, officers, employees and everyone acting on behalf of the Company to act with high integrity. It is important that our activities at all levels are transparent, in accordance with the legal requirements and high business ethics. We introduce those principles to our employees and carry out a risk assessment about possible corruption and fraud at least once a year.

Tallinna Vesi has established its Code of Conduct and introduced the Whistleblowing Policy outlining the procedure for raising concerns and reporting incidents that are in conflict with the law, ethical standards or Tallinna Vesi's Code of Conduct.

The Code of Conduct sets forth the standards of business behaviour and ethics for all managers and employees of Tallinna Vesi. It lays the foundation for Tallinna Vesi's business operations, environmental issues, human rights and relations with the Company's personnel and stakeholders. The Code of Conduct has been introduced to each manager and employee of the Group, regardless of their term of employment. Trainings have been carried out to ensure that people are familiar with the Code of Conduct principles and act accordingly. The Executive Team members of Tallinna Vesi have also participated in fraud and data protection related trainings.

Furthermore, within its sphere of influence, Tallinna Vesi encourages its contractors and other partners to adhere to similar high ethical principles as set forth in the Code of Conduct, which is

the foundation of all business relationships. Tallinna Vesi is not planning any specific trainings for the partners in that regard but encourages them to acquaint themselves with the Company's policies. All related policies are publicly available on the Company's website.

Any situation involving a potential violation of the Code of Conduct must be reported as soon as possible.

The employees, partners and third parties of Tallinna Vesi have the opportunity to use various channels to raise concerns or report incidents of unethical behaviour. All such reports will be analysed by an independent third party. The system of reporting and processing the information ensures that the confidentiality and anonymity of the reporting party are retained if so requested. The incidents can be reported over the internet, by e-mail, using the hotline or by direct communication.

Tallinna Vesi did not identify any proven corruption or fraud incidents during 2022.

## PARTNERS

We strive to do more than we are expected by legislative and contractual requirements. To serve that purpose, we focus on dialogue and cooperation, both within our team and with partners. Changes in applicable legislation are constantly monitored and communicated to the managers, whom those changes concern. On the other hand, we also value preventive cooperation and actively participate in the development and amending of legal acts primarily via Estonian Waterworks Association. We also cooperate with several quality-conscious companies that have high environmental awareness to promote doing business in an ethical and responsible way.

### Cooperation with suppliers

Considering the nature of our activity as a water company, our supply chain includes other service providers and partners, who help us to guarantee the performance of our core activities and availability of services to the customers.

Unlike many other industries, our supply chain is relatively simple, because the Company produces and sells the service without having any external links within its supply chain and there have been no significant changes in the chain. Still, the Company itself is often an integral link in our customers' supply chain and therefore, it is very important that our service meets high quality standards. For this short but vital supply chain to work without any interruptions, we need our suppliers to be reliable. For this purpose, in several links of critical importance in the chain we have alternative suppliers in place, whom we can turn to should something happen to our main contract partner. We find our suppliers mostly through tenders or public procurements, which gives us the opportunity to set the criteria that we expect our suppliers to meet. We consider the environmental safety as well as the safety of our suppliers' employees very important.

Our cooperation partners can be divided into three larger groups: suppliers of goods, services and construction works.



Our suppliers are mostly based in Estonia, but we also carry out international tenders. We choose high-quality products and invest in the rehabilitation of systems in order to ensure effective and sustainable operational activity. We outsource various support services so that our focus can remain on the core activity. For instance, we are outsourcing advertising, cleaning and security services and many other specific services.

We mainly sign long-term framework agreements to retain our suppliers and to ensure good and reliable cooperation. We have, at any time, approximately 1,000 suppliers in our database with whom we have worked together at least once during the year.

Looking for new suppliers as well as monitoring and improving our cooperation with the current partners are equally important to us. We consistently and systematically assess our cooperation with suppliers, which allows us to have a two-way interaction with our current partners, create a reliable base of suppliers and employ suppliers' competencies in order to create additional value for the Company. Besides assessing the activity of suppliers, we also ask for feedback on our own activity in order to further develop our relations and cooperation with the suppliers and become a better partner.

## OUR PRINCIPLES AND MEMBERSHIP IN ORGANISATIONS

We deem it important to be involved and express our opinion on the issues that are relevant in society, and to contribute to the development of areas related to our activity and drafting of legal acts. To these purposes, we have joined and become a founder member of various associations. We are a founder member of Estonian Association of Environmental Management and Corporate Social Responsibility Forum in Estonia, a collective member of Association for Quality, a member of Estonian Waterworks Association, a member of Taxpayers Association, a member of Baltic Institute of Corporate Governance, and other organisations.

We are responsible for providing consumers with a reliable supply of drinking water and for treating wastewater and stormwater, by using safe and environment-friendly technologies. To us it is key to bear this fact in mind, while acting consistently and systematically in making our management decisions and performing our daily business activities. Therefore, our management practices need to consider the impact we have on our surrounding environment and the expectations of various stakeholders. Our Management Board has approved the following policies and guiding principles that set the overall framework for acting in various areas.

The following policies are available at least in Estonian and English on our website:

- Environmental Policy
- Quality Policy
- Health and Safety Policy
- Human Resource Policy
- Principles of Responsible Business

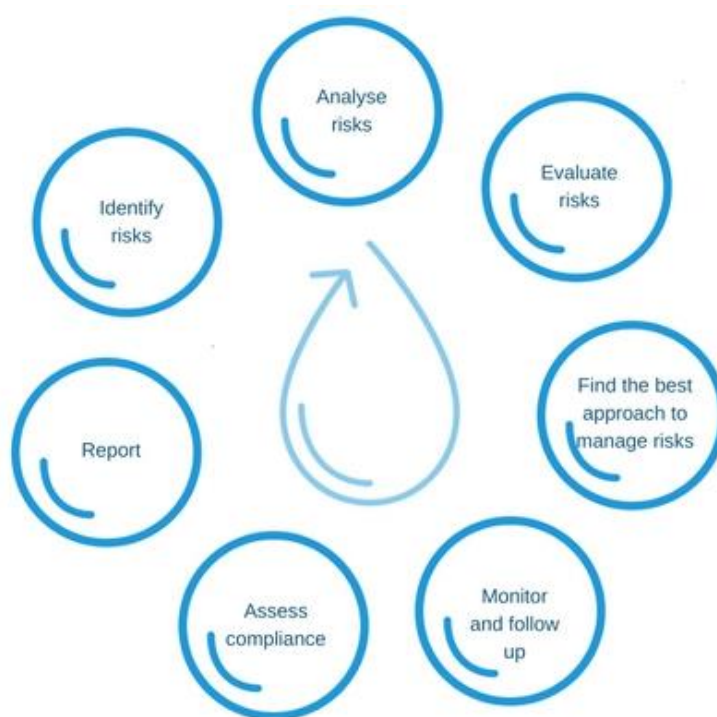
## 7.2 Risk management process

### RISKS AND UNCERTAINTIES

In everyday operations any company is a subject to a variety of risks and uncertainties. Tallinna Vesi has defined a risk being anything that could have a material adverse effect on the

achievement of Tallinna Vesi's goals and objectives. Risks can be threats, uncertainties or lost opportunities relating to Tallinna Vesi's current or future operations or activities.

Risk management is a central part of any organisation's strategic management. As a precautionary approach, we constantly assess and monitor our operational and financial risks. Although risks cannot be entirely avoided, we have worked out an effective system to manage risks. The objective of our risk management process is to understand, assess and control the risks and uncertainties, to increase probability of success and minimise the probability of failure as well as the uncertainty of achieving the Company's overall objectives. Tallinna Vesi has defined the roles and responsibilities as well as the components of the risk management process, which is also in line with the Emergency Act.



Risk management process is something that is integrated and embedded in Tallinna Vesi's organisational culture and processes and supports the achievement of the Company's strategic objectives. Risk management process involves the strategic objectives along with efficient processes allowing the delivery thereof as well as the structures and recourses necessary for the achievement of goals and objectives.

## CONTINUOUS MONITORING

The objective of the continuous risk management process is that all major risks, which may harm the achievement of Tallinna Vesi's objectives, are regularly assessed, managed, and monitored. The Management Board ensures that awareness of risks is established among the employees and risks are considered in a daily decision-making process. Risk reporting is integrated into the Company's planning process and risks are reviewed regularly and extended across the organisation.

The Audit Committee and the Supervisory Board receive and review, on a regular basis, the overview of the significant risks along with details of the current controls and any further actions that are planned, and potential financial impact when possible.

Tallinna Vesi has classified the risks into the following categories:



## MAJOR RISK AREAS

### APPLICABLE LAWS AND REGULATIONS AND CHANGES IN LAWS AND REGULATIONS

The Company's operations are subject to extensive regulation (price regulations, environmental, health and safety regulations). Non-compliance with applicable laws and regulations might result in additional operational expenditures and extra workload. The Company consistently monitors the changes in laws and the development of draft laws, in order to plan its activities on time, as in many cases changes in the laws may require large investments and/or significantly increase operating costs. Currently, the Parliament is proceeding with the draft of the Public Water Supply and Sewerage Act, as well as the draft Act on Amendments to the Water Act and the draft Act on Amendments to the Act on the General Part of the Environmental Code and Other Acts.

### POSSIBLE THIRD-PARTY CLAIMS

On 12 December 2017, the Supreme Court made a decision on Tallinna Vesi's appeal in cassation with regard to the tariff dispute with the Estonian Competition Authority. The Court stated that the Competition Authority was not bound by the agreement on the water tariffs contained in the Services Agreement, which had been executed upon privatisation between the Company and the City of Tallinn. On 4 December 2018, the Competition Authority decided not to approve the tariff application the Company had submitted. On 22 October 2019, the Competition Authority approved the tariff application submitted by the Company, and the new tariffs, which were on average 20% lower than previous tariffs, became effective on 1 December 2019. The Company does not consider itself liable towards the consumers, because it has been acting on a legal basis and has not broken the law. As of 31 December 2022, four separate court proceedings have been initiated with claims totalling €13,6 million (added a request for a penalty for late payment in the amount of €5,4 million filed within one application). The Company does not admit any liability and fully rejects them.

The potential liability for third-party claims is described in the Note 13 to the consolidated financial statements.

### FINANCIAL MARKET CONDITIONS AND INTEREST RATES

Changes in interest rates and EURIBOR might have an adverse impact on the Company's cash flows and results of operations. Information on financial risk management is presented in Note 4 to the consolidated financial statements.

## THREAT OF CYBERCRIME AND/OR TERRORISM

Our resources, assets and infrastructure are exposed to various threats (malicious or accidental), cyber-attacks or terrorism that might cause disruption to the operations or Company's other main processes and the leak or misuse of confidential information. Regular reviews of the system security are carried out in order to identify risks and weaknesses and to take corrective measures when justified.

For more efficient operation and protection of the information systems and infrastructure, the ISO/IEC 27001:2017 Information Security Management System was implemented in 2022.

## HEALTH AND SAFETY

Serious risks related to occupational safety are usually associated with excavation, construction, and maintenance work. Depending on the circumstances, the Group could be fined for breaches of statutory obligations, be held liable to third parties, and sustain reputational damage. The Group has worked out a full set of procedures and activities, which minimise the possibility of incidents in relation to health and safety.

## INABILITY TO TREAT INCOMING WASTEWATER OR FLOODING IN COMBINED SEWER NETWORK

Extreme rainfalls increase the risk of flooding in the lower areas of Tallinn (Tuukri, Ahtri, and Endla Street, Pelgulinn and Song Festival area) due to flooding in combined sewer network, or the risk of the Wastewater Treatment Plant being unable to treat all incoming wastewater for a short period of time, which in turn might result in pollution incidents. In recent years, the risk has been lower because additional investments have been made to increase the efficiency of the mechanical treatment stage. Also, co-operation with the City of Tallinn continues to build separate sewer networks to further minimize these risks.

## DETERIORATION OF RAW WATER QUALITY

The main source of drinking water is Lake Ülemiste and there are periods when the raw water quality is lower than expected. Poorer raw water quality places high pressure on the treatment process. Besides the continued monitoring and adjustment of treatment process accordingly, some improvements are planned to maximize the possible use of alternative resources.

## LEAK OF SENSITIVE, INSIDER OR PERSONAL INFORMATION

Tallinna Vesi is a listed company and although keeping confidential information protected and managing it in a responsible way is very important to any company, it is even more important for a listed company. The Company has mapped all the information it gathers, which qualifies as personal information under the GDPR, and has also defined insider information. There are several controls in place to manage sensitive information technologically, furthermore, the employees are regularly trained (ending with examination) in order to make sure that the information is properly handled and managed.

## DRINKING WATER QUALITY IN THE NETWORK

Although the overall quality of drinking water in the water network has remained at a high level in 2022 and there have been no major changes in the quality compared to previous years, there are still short periods of time during the year (mainly in summer) when few non-compliances in

water network are detected, caused mainly by Coliform bacteria. In 2022, non-compliances were detected in August, September, and November.

In addition to the risk of microbiological contamination, there is a risk of non-compliance due to exceeding the concentration of various chemical compounds in the drinking water, which may result from excessive chlorination of water at the Water Treatment Plant or in the water network, or the older corroded pipes, including old lead pipes still in use in the Old Town and in Põhja-Tallinn area.

Continuous monitoring of the quality of drinking water in the water network is carried out and measures are implemented to improve the condition of the pipelines and to ensure the compliance with the drinking water quality standards.

### ACT OF WAR OR TERRORISM

Since the start of active warfare in Ukraine on the 24 February 2022, the Company has been continuously monitoring the situation, assessing the risks, and working out contingency plans for threats that may arise from the further escalation of the conflict.

Despite the tensions, the likelihood of an attack against Estonia has not increased during the year. The overall risk of an act of war or terrorism is assessed as very low now, but the impact on Company's core activity is considered very high and consequences, if such an event was to occur, can be catastrophic.

### FAST-PACED AND PERSISTENT INCREASE OF VARIABLE COSTS

As a result of the overall global economic situation and continuous and rapid increase in variable costs, the risk of strong negative effects on the Company's cash flows has emerged in 2022. The increase in variable costs cannot be adequately reflected in the pricing of products and services due to the regulated pricing methodology.

As a control measure, the Company can apply to the Competition Authority for an increase in the price for water services, using shortened procedures. In August 2022, the Competition Authority granted AS Tallinna Vesi's application to increase the price for water services by an average of 26 cents per cubic meter. The new price was applied to the customers in the service area of Tallinn and Saue and to water companies located in the surrounding municipalities as of 1 October 2022.

### EXTENSIVE INTERRUPTION IN ELECTRICITY SUPPLY

An extensive interruption in the electricity supply in Tallinn and/or Harju County area may lead to a risk of a complete stoppage of operations at the Wastewater Treatment Plant, interruption in the work of Company's information systems, the floodings and environmental pollution, and in the worst case, a disruption of the drinking water supply in the service area of Tallinn and Saue and in the surrounding municipalities.

The the risk materializing is currently assessed as probable due to the possible desynchronisation of the Kaliningrad power grid from the Baltic power grid and the prolonged repair of the Auvere power plant. Risk management strategy consists of a comprehensive contingency plan and obtaining generators to ensure the continuity of all processes during crisis.

## 8. MANAGEMENT CONFIRMATION

The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements of AS Tallinna Vesi (the Company) and its subsidiaries OÜ Watercom and OÜ ASTV Green Energy (together the Group) for the financial year ended 31 December 2022 on pages 73-112.




To the best of Management's knowledge, the consolidated financial statements as at 31 December 2022, prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union, provide a true and fair view of the Company's assets, liabilities, financial position, profits and cash flows.

The Management Report provides a true and fair view of the trends and results of the Company's operating activities and its financial position and includes a description of the main risks and concerns.

The significant transactions with related parties are disclosed in the consolidated financial statements.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 15 March 2023 have been considered in preparing the financial statements.

The Management Board considers AS Tallinna Vesi and its subsidiaries to be going concern entities.

Name	Position	Signature	Date
Aleksandr Timofejev	Chief Executive Officer, Chairman of the Management Board		15 March 2023
Taavi Gröön	Chief Financial Officer, Member of the Management Board		15 March 2023
Tarvi Thomberg	Chief Asset Management Officer, Member of the Management Board		15 March 2023



## 9. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand		as of 31 December	
ASSETS	Note	2022	2021
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	12,650	36,559
Trade receivables, accrued income and prepaid expenses	6	8,989	6,637
Inventories		1,197	702
<b>TOTAL CURRENT ASSETS</b>		<b>22,836</b>	<b>43,898</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	229,869	211,546
Intangible assets	8	688	729
<b>TOTAL NON-CURRENT ASSETS</b>		<b>230,557</b>	<b>212,275</b>
<b>TOTAL ASSETS</b>		<b>253,393</b>	<b>256,173</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Leases	9	883	421
Bank loans	9	3,630	3,630
Trade and other payables	10	10,225	7,835
Prepayments	12	3,749	3,604
<b>TOTAL CURRENT LIABILITIES</b>		<b>18,487</b>	<b>15,490</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income from connection fees		39,150	37,241
Leases	9	1,607	1,236
Bank loans	9	76,708	80,336
Provision for possible third-party claims	13	6,018	6,018
Deferred tax liability		496	372
Other payables		101	60
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>124,080</b>	<b>125,263</b>
<b>TOTAL LIABILITIES</b>		<b>142,567</b>	<b>140,753</b>
<b>EQUITY</b>			
Share capital	14	12,000	12,000
Share premium		24,734	24,734
Statutory legal reserve		1,278	1,278
Retained earnings		72,814	77,408
<b>TOTAL EQUITY</b>		<b>110,826</b>	<b>115,420</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>253,393</b>	<b>256,173</b>

## 10. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

€ thousand	Note	2022	2021
Revenue	15	54,558	53,294
Costs of goods and services sold	17	-37,660	-32,715
<b>GROSS PROFIT</b>		<b>16,898</b>	<b>20,579</b>
Marketing expenses	17	-703	-462
General administration expenses	17	-4,399	-4,438
Other income (+)/ expenses (-)	18	-476	3,099
<b>OPERATING PROFIT</b>		<b>11,320</b>	<b>18,778</b>
Financial income	19	8	8
Financial expenses	19	-682	-387
<b>PROFIT BEFORE TAXES</b>		<b>10,646</b>	<b>18,399</b>
Income tax	20	-2,240	-2,234
<b>NET PROFIT FOR THE PERIOD</b>		<b>8,406</b>	<b>16,165</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>8,406</b>	<b>16,165</b>
Attributable profit to:			
Equity holders of A shares		8,406	16,165
Earnings per A share (in euros)	21	0.42	0.81

## 11. CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

€ thousand	Note	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit		11,320	18,778
Adjustment for depreciation/amortisation	7,8,17,18	6,817	6,520
Adjustment for revenues from connection fees	18	-544	-510
Other non-cash adjustments	13,18	0	-3,610
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		-32	-29
Change in current assets involved in operating activities		-2,841	380
Change in liabilities involved in operating activities		309	938
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>15,029</b>	<b>22,467</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment, and intangible assets		-20,701	-13,734
Compensations received for construction of pipelines, incl connection fees		1,593	2,892
Proceeds from sale of property, plant and equipment, and intangible assets		53	29
Interest received		9	11
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-19,046</b>	<b>-10,802</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Interest paid and loan financing costs		-616	-460
Lease payments	9	-524	-408
Repayment of loans	9	-3,636	-3,636
Dividends paid	20	-12,835	-12,842
Withheld income tax paid on dividends	20	-165	-158
Income tax on dividends	20	-2,116	-2,116
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-19,892</b>	<b>-19,620</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-23,909</b>	<b>-7,955</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	5	<b>36,559</b>	<b>44,514</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	5	<b>12,650</b>	<b>36,559</b>

## 12. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2020</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>74,243</b>	<b>112,255</b>
Dividends (Note 20)	0	0	0	- 13,000	-13,000
Comprehensive income for the period (Note 21)	0	0	0	16,165	16,165
<b>as of 31 December 2021</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>77,408</b>	<b>115,420</b>
Dividends (Note 20)	0	0	0	-13,000	-13,000
Comprehensive income for the period (Note 21)	0	0	0	8,406	8,406
<b>as of 31 December 2022</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>72,814</b>	<b>110,826</b>

## 13. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

### NOTE 1. GENERAL INFORMATION

AS Tallinna Vesi is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 500,000 people in Tallinn and in several neighbouring municipalities of Tallinn. The Current Services Agreement is effective until 30 November 2032 as per the exclusive right to provide water and wastewater services in Tallinn.

Shareholders of AS Tallinna Vesi having a significant influence are the City of Tallinn with 55.05% and OÜ Utilitas with 20.3%, and the remaining shares are free floating on the Nasdaq Baltic, in which AS Tallinna Vesi was listed on 1 June 2005.

Watercom OÜ (Subsidiary) was founded in 2010 by the Company and its main areas of activity are services related to water business and owner supervision and construction services.

ASTV Green Energy OÜ (Subsidiary) is a company acquired by the Company in 2021, the main activity of which is gas production. It is a young company and had no active economic activity yet.

The Company and the Subsidiaries together form a group (Group).

#### Contacts:

Name	AS Tallinna Vesi	Watercom OÜ	ASTV Green Energy OÜ
Commercial register number	10257326	11944939	16101654
VAT identification number	EE100060979	EE101374619	-
Address	Ädala 10, 10614 Tallinn	Ädala 10, 10614 Tallinn	Ädala 10, 10614 Tallinn
Telephone	+372 62 62 200	+372 62 62 620	+372 62 62 200
Fax	+372 62 62 300	+372 62 62 300	+372 62 62 300
E-mail	<a href="mailto:tvesi@tvesi.ee">tvesi@tvesi.ee</a>	<a href="mailto:watercom@watercom.eu">watercom@watercom.eu</a>	<a href="mailto:greenenergy@tvesi.ee">greenenergy@tvesi.ee</a>

## NOTE 2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements (hereinafter referred to as the financial statements) are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) (hereinafter IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the accounting policy for derivatives, measured at fair value through profit and loss, as disclosed in the accounting policies below.

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue on 15 March 2023. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of AS Tallinna Vesi and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Adoption of New or Revised Standards and Interpretations

There have been no new or revised standards or interpretations that have material impact and which the Group has applied for the first time for their annual reporting period beginning on 1 January 2022.

**Classification of liabilities as current or non-current – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2023). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or



an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

### Principles of consolidation and subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

In the consolidated financial statements, the financial statements of the subsidiaries are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Parent Company and its subsidiaries use uniform accounting policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investment in subsidiaries is carried at cost (less any impairment losses) in the unconsolidated primary financial statements of the Company.

### Foreign currency

#### Functional and presentation currency

Consolidated financial statements for the year ended 31 December 2022 have been presented in euros.

The financial statements have been presented in thousands of euros, unless stated otherwise.

#### Foreign currency transactions and balances

All other currencies except for the functional currency (the functional currency of the Parent Company and subsidiaries located in Estonia is Euro) constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency (monetary receivables and loans) have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the reporting date. Foreign exchange gains and losses are recognised in the statement of comprehensive income as income or expenses of that period.

#### Current and non-current distinction of assets and liabilities

Assets and liabilities are classified in the statement of financial position as current or non-current. Assets expected to be recovered or in the next financial year or during the normal operating cycle of the Group are considered as current. Liabilities whose due date is in the next 12 months or that is expected to be settled in the next financial year or during the normal

operating cycle of the Group are considered as current. All other assets and liabilities are classified as non-current.

### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and the cash flow statement comprise of cash on hand, cash in bank accounts and short-term, risk free, highly liquid bank deposits with original maturities of three months or less.

Cash flows from operating activities are reported using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash flows from investing and financing activities are reported using the direct method.

### Financial assets

#### Classification

The Group's financial assets have been classified in the amortised cost measurement category. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

#### Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. (Transaction costs of financial assets carried at FVPL are expensed in profit or loss.)

#### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

All Group's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in the statement of comprehensive income on the row 'Other income (+)/expenses (-)'. Impairment losses are also presented on the row 'Other income (+)/expenses (-)'. As at 31 December 2022 and 2021 all the Group's financial assets were classified in this category.

### Equity instruments

The Group has no investments in equity instruments.

### Impairment

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

### Inventories

Inventories are initially recorded at cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and discounts.

The FIFO method has been used to determine the cost of inventories. Inventories are carried in the statement of financial position at the lower of the cost and net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

### Non-current assets held for sale

Non-current assets held for sale are the property, plant and equipment items that are most probably sold within next 12 months and for which the management has begun sales activity and the assets are offered for sale for a reasonable price compared to their fair value.

Non-current assets held for sale are classified in the statement of financial position as current assets and depreciation ended at the moment of reclassification. Non-current assets held for sale are carried in the statement of financial position at the lower of at book value or fair value less costs to sell.

### Property, plant and equipment, and intangible assets

Property, plant and equipment are tangible assets used in operating activities of the Group with an expected useful life of over one year. Property, plant and equipment are carried in the statement of financial position at historical cost less accumulated depreciation and any impairment losses.

Intangible assets are recognised in the statement of financial position only if the following conditions are met:

- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

### Acquired licences

Acquired computer software that is not an integral part of the related hardware is recognised as an intangible asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the statement of comprehensive income. Costs of computer software shall be depreciated over the estimated useful lifetime, the duration of which is up to 10 years.

### Other intangible assets

Expenses for acquiring patents, trademarks, licences and certificates are capitalized if it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a straightline basis over the estimated useful lifetime, the duration of which does not exceed 10 years.

The cost of purchased property, plant and equipment and intangible assets comprises the purchase price, transportation costs, installation, and other direct expenses (incl. internal labour costs) related to the acquisition or implementation. Labour costs are capitalised with employee's hourly index applied to working hours which are needed for taking the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Hourly rate is calculated individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Group and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced item of property, plant and equipment is derecognised. Costs related to ongoing maintenance and repairs are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset.

Applicable depreciation/amortisation rates per annum:

- buildings 1.25-2.0%;
- facilities 1.0-8.33%;

- machinery and equipment 3.33-50%;
- acquired licenses and other intangible assets 10-33%.

In exceptional circumstances rates may differ from the above ranges if it is evident that the estimated useful life of the asset varies materially from the ranges of rates assigned to the respective category.

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate it is treated as a change in the accounting estimate and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes. Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount. To determine profits and losses from the sale of property, plant and equipment the book value of the sold assets is subtracted from the proceeds. The respective profits and losses are reported in the line 'Other income (+) /expenses (-)'.

### Impairment of assets

Assets that are subject to depreciation/amortisation and property, plant and equipment with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable value of intangible assets in progress is tested annually, by comparing their recoverable amount with the carrying amount.

Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount of the assets is the higher of the:

- fair value less costs to sell; and
- value in use.

In case it is not possible to determine the fair value of assets less costs to sell, the asset's value in use is considered to be its recoverable value. The value in use is calculated as the present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or a group of assets (cash-generating unit). For the purposes of assessing impairment, the Group is considered as a single cash-generating unit as it is the lowest level for which there are separately identifiable cash flows. The impairment loss is immediately recognised in the statement of comprehensive income. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

If based on the results of the assessment it appears that the recoverable amount of an asset or the cash-generating unit has increased, the earlier impairment is reversed up to the amount that would for the asset in prior years. The reversal of impairment loss is recorded in the statement of comprehensive income of the period as a decrease in impairment loss.

### Financial liabilities

Financial liabilities have the following measurement categories: (a) recognised at fair value through profit or loss (derivatives), (b) recognised at amortised cost.

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long-term financial liabilities and derivatives. Financial liabilities (except derivatives) are initially recognised at fair value net of transaction cost. Subsequently financial liabilities are carried at the amortised cost.

Amortised cost of short-term financial liabilities is usually equal to their nominal value, thus they are carried on statement of financial position at the amount payable. For calculating the amortised cost of long-term financial liabilities, these are initially recognized at fair value of amount received (less transaction costs), interest expense is calculated from the liability using the effective interest method subsequently.

Liabilities are classified as current liabilities, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date.

### Income tax on dividends in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. In 2022, the rate was 20/80 on the amount of the dividends payable (in 2021: 20/80). Moreover, from 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average taxed dividend payment during the three preceding years. When calculating the average dividend payment of three preceding years, 2019 is the first year to be taken into account.

The contingent tax liability that would occur if all distributable retained earnings were paid out as dividends is not recognized in the statement of financial position. The income tax due on dividend distribution is recorded as a liability and as a tax expense in the statement of comprehensive income during the same period as the dividend is declared regardless of the actual payment date or the period for which dividends are declared. Income tax liability is due on the 10<sup>th</sup> date of the month following the dividend payment.

### Deferred Income Tax

Deferred income tax liability arises for the Group from subsidiaries in Estonia. As there is no fixed policy relating to dividend payments from subsidiaries, the Group has decided to measure the deferred tax liability on potential dividends to the extent of accumulated profits of subsidiaries at the reporting date. The Group measures deferred income tax liability using the tax rates valid on the reporting date.

### Employee benefits

#### Employee short-term benefits

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable within 12 months after the end of the period during which the employee worked. Social security tax payments include contribution to state pension funds. The Group has no legal or constructive obligation to make pension or similar payments beyond social security tax.



### Termination benefits

Termination benefits are benefits which are payable after the Group decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily or when the employee and employer have an agreement, in exchange for the benefits outlined. The Group recognises termination benefits as liabilities and expenses only when the Group is obliged to offer termination benefits in order to encourage voluntary leaving.

### Provisions and contingent liabilities

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

The provisions include provision for the possible third-party claims (Note 13) and the guarantee the Group has given to the construction services provided by the Group itself, which is necessary to meet the warranty obligation for services sold by the reporting date. The amount of provision for construction services guarantees is recognised in the statement of financial position as a current and non-current liability, depending on the length of the guarantee period and possible time of its realisation. Guarantee provisions have been recognised based on of the best estimates of the Group's Management Board and the actual costs of these transactions can differ from the provided estimates.

Commitments and other possible and existing liabilities, the realization of which is unlikely, or the amount of accompanying costs cannot be assessed with sufficient reliability, but which can become liabilities on certain terms in the future, are disclosed as contingent liabilities in the notes to the financial statements. See also note 11.

### Share capital

Shares are recorded within the equity capital. Pursuant to the Group's Articles of Association, the Group has one class of shares: the A Shares, with a nominal value of €0.60 each.

### Statutory reserve capital

Pursuant to the requirements of the Commercial Code the statutory reserve capital is set up comprising of the allocations from net profits. The annual allocation must be at least 5% of the net profit of the accounting year until the reserve capital is equal to 10% of paid-up share capital. As the Group's reserve capital has reached the required level, the reserve capital is no longer increased from net profit.

At the decision of the General Meeting of the Shareholders the reserve capital can be used for the covering of loss in case it is not possible to cover it from the Group's available shareholders' equity, also for increasing the Group's share capital. The reserve capital cannot be distributed to the shareholders.

## Leases

### Accounting principles – the Group as the lessee

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 the use of an identified asset for a period of time in exchange for consideration.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. A lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

#### *Initial measurement*

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability. At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are recorded within the line 'Property, plant and equipment' in the statement of financial position.

At the commencement date, the lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing

was received;

- uses a build-up approach that starts with the average interest margin of the industry adjusted with the credit risk of the Group;
- makes adjustments specific to the lease, e.g., lease term, country, currency and security.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as EURIBOR) or payments that vary to reflect changes in market rental rates;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

A contract may contain a lease component and one or more additional non-lease components. As a practical expedient, the Group has elected, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

#### *Subsequent measurement*

After the commencement date, a lessee measures the right-of-use asset applying a cost model. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, a lessee shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and

variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, there may be need to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

- there is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
- there is a change in the assessment of an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

- there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

A lessee shall account for a lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group has elected not to apply the requirements of IFRS 16 to short-term leases (except for long-term lease arrangements of vehicles with maturity less than 12 months) and leases for which the underlying asset is of low value. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of real estate.

## Revenue from contracts with customers

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a service to a customer.

The Group provides water, wastewater, stormwater, fire hydrants and other associated services under fixed-price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered based on the units delivered.

When connecting to the water services network, the customers must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The management has concluded that the connection fees do not represent a separate performance obligation from providing the ongoing water service, and thus the revenue from connection fees is deferred and recognised as Other income over the estimated average useful lives of assets providing the service, being 75 years. Connection fees received from customers are carried in the statement of financial position as 'Deferred revenue from connection fees' within non-current liabilities.

Revenue from construction services is recognised over time based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The constructed assets have generally no alternative use for the Group due to contractual restrictions. Enforceable right to payment arises during the construction before legal title has passed to the customer.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the statement of profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

The contract asset and contract liability arising from the same contract are presented net in the financial statements.

If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

## Financing component

The Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

### Earnings per share

Earnings per share are calculated by dividing the net profit of the accounting year with the weighted average number of issued shares of the period. The Group has no instruments that would have a diluting effect on the earnings per share.

### Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the Management Board of the Group to assess its performance and for which discrete financial information is available. Reportable segments are identified and segment information is reported on the same principle as the Group's structural units are grouped for internal accounting and reporting purposes.

## NOTE 3. CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of material misstatements to the carrying amounts of assets and liabilities within the next financial year are addressed below:

- Management has developed estimates on the expected credit losses of trade receivables based on the best available information about past events, current conditions and forecasts of macroeconomic conditions. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2022, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of Estonia in which it sells its goods and services to be the most relevant factors and has accordingly adjusted the historical loss rates based on expected changes in these factors. As at 31 December 2022, Management of the Group has assessed the expected credit loss related to macroeconomic conditions to be €161 thousand. Estimated credit loss is being revised according to further developments.
- Management has made an estimate with regards to possible third-party claims based on the maximum difference between revenues calculated with tariffs established based on the Services Agreement and the tariffs based on the Company's estimation, with the reservation to the possible fluctuation. According to the law, the tariffs established based on the Services Agreement were in force until the Competition Authority approved the new tariffs and the Company implemented these tariffs in line with the law. The Company has acted in good faith and in reliance to the applicable legal acts. Thus, the Company does not consider itself liable to the customers for any claims related to the tariffs applied until the new tariffs approved by the Competition Authority were duly implemented.



As of 31 December 2022, claims totalling €13.6 million have been filed within four applications (added a request for a penalty for late payment in the amount of €5,4 million filed within one application). The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be €6 million (as of 31 December 2021: €6 million) and has suspended the reduction of the provision pursuant to the principle of conservatism. The Company has always acted legitimately by applying fair tariffs imposed in accordance with the law in force, and the Company believes there are no grounds for submitting the claims. Therefore, the Company does not admit any liability and fully rejects it. See also Note 13.

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the note 2 in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in notes 7 and 8.

As of 31 December 2022, Group owns property, plant and equipment, and intangible assets with a net book value of €230 million (31 December 2021: €212 million) and annual depreciation was €6.8 million (2021 €6.5 million). If the depreciation/amortisation rates decreased/increased by 5%, the depreciation/ amortisation expense would increase/decrease by €340 thousand respectively (2021: €325 thousand).

## NOTE 4. FINANCIAL RISK MANAGEMENT

### FINANCIAL RISK FACTORS

In its business activities the Group is exposed to different financial risks: market risk (including currency risk, price risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's financial risks are managed under the control and supervision of the Management Board by the financial department. Financial department identifies, evaluates and manages financial risks in co-operation with the Group's operating units.

#### Market risk

#### Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group's foreign exchange risk is related to purchases done and amounts owned in foreign currencies.

Majority of Group's purchases are made in euros. The proportion of purchases in other currencies in 2022 was 0.0% (2021: 0.0%). Because of the small proportion of transactions in foreign currencies the Group has not taken any special activities to reduce this risk.

On 31 December 2022 the Group's bank accounts balances (including deposits) totalled €12,650 thousand (31 December 2021: €36,559 thousand) from which no sums were in foreign currencies

(31 December 2021: no foreign currencies). There were no other significant exposures to foreign currencies arising from Group's other financial assets and financial liabilities.

Due to the above the Group considers its currency risk level to be low.

### Price risk

The Group has no price risk regarding financial instruments because it has no investments into equity instruments.

### Cash flow interest rate risk and fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate in the future due to changes in market interest rates. Cash flows interest rate risk is the risk that financial expenses arising from financial liabilities with floating interest rate will increase when interest rates on the market change.

Borrowings issued at variable interest rates (Note 9) expose the Group to cash flow interest rate risk. In order to mitigate the cash flow interest rate risk, the Group has historically concluded floating-to-fixed interest rate swap contracts.

The Group's interest rate risk arises from long-term borrowings and, with EURIBOR being below zero most of the 2022, from the ineffectiveness of swap contracts as hedging instruments.

At the end of reporting period, the Group had the following variable rate borrowings:

	31 December 2022		31 December 2021	
	Effective interest rate	Balance € thousand	Effective interest rate	Balance € thousand
Long-term borrowings	2.68%	80,455	0.40%	84,091
Net exposure to cash flow interest rate risk in case Euribor > 0		42,955		46,591
Net exposure to cash flow interest rate risk in case Euribor < 0		37,500		37,500

The Group's profit is sensitive to higher/lower borrowings and interest rate swaps interest expenses as a result of changes in interest rate.

€ thousand	2022	Impact on profit 2021
Interest rates- Increase by 50 basis points*	-223	-191
Interest rates- Decrease by 50 basis points*	88	42

\*Holding all other variables constant

As all instruments are carried at amortised cost, the change in market interest rates would not have an effect on the financial statements of the Group.

## Credit risk

Credit risk expresses potential loss that can arise if counterparty fails to fulfil its contractual obligations. Cash in bank accounts and deposits, financial assets at fair value through profit and loss, trade and other receivables are exposed to credit risk.

According to the Group's risk management policies the Group's short-term resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in credit institutions. For cash in banks and short-term depositing counterparties with at least a long-term Baa1 rating (by Moody's) is used. As of 31 December 2022 and 2021, the Group did not have any fixed-term deposits

The Group is also monitoring European Banking Authority's recommendations regarding banks' recapitalization needs and fixed term deposits are opened only in banks with no capitalization shortfall.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2019, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of Estonia in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis described above, the loss allowance as at 31 December 2022:

not due	0.18%
1 to 30 days over due date	62.08%
31 to 60 days over due date	88.31%
61 to 90 days over due date	100%
91 to 180 days over due date	100%
181 to 360 days over due date	100%
over 360 days over due date	100%

Also cash and cash equivalents are subject to the impairment requirements of IFRS 9, no impairment loss as of 31 December 2022 was identified.

Sales of Group's products and services is done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers' payment discipline is consistently observed. In the case of overdue debt, the customers are contacted by billing group. As of the end of December 2022 there was 1 customer (31 December 2021: 1 customer) with receivable (Note 6) exceeding 5% of total trade receivables. The receivable has been paid before the date of completion of these financial statements.

## Financial assets

€ thousand

Balance	Overdue		Impairment
	Not due	Up to 60 days	

### as of 31 December 2022

Cash and cash equivalents (Note 5)	12,650	12,650	0	0	0
Trade receivables (Note 6)	8,394	7,454	464	476	-549
Commercial customers	4,964	4,144	414	406	-440
Private customers	3,430	3,310	51	69	-110
<b>Total</b>	<b>21,044</b>	<b>20,104</b>	<b>464</b>	<b>476</b>	<b>-549</b>

### as of 31 December 2021

Cash and cash equivalents (Note 5)	36,559	36,559	0	0	0
Trade receivables (Note 6)	6,341	5,766	95	480	-536
Commercial customers	3,466	2,980	62	423	-459
Private customers	2,875	2,785	33	57	-78
<b>Total</b>	<b>42,900</b>	<b>42,325</b>	<b>95</b>	<b>480</b>	<b>-536</b>

The Group's maximum credit risk is equal to the carrying amount of the financial assets and is considered to be low.

### Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations due to insufficient cash funds or inflows. This risk realizes when the Group does not have enough funds to serve its loans, to fulfil its working capital needs, to invest and/or to make declared dividend payments.

Financial liabilities in terms of payment* € thousand	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
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### as of 31 December 2022

Trade and other payables (Note 10)	6,358	6,358	-	-	-	5,628
Bank loans	0	0	3,636	51,818	25,000	80,455
Leases	118	236	575	1,776	-	2,705
<b>Total</b>	<b>6,476</b>	<b>6,594</b>	<b>4,211</b>	<b>53,594</b>	<b>25,000</b>	<b>88,788</b>

### as of 31 December 2021

Trade and other payables (Note 10)	4,129	107	4	0	0	4,239
Bank loans	0	0	3,636	55,455	25,000	84,091
Finance leases	37	72	323	1,423	0	1,855
<b>Total</b>	<b>4,166</b>	<b>179</b>	<b>3,963</b>	<b>56,878</b>	<b>25,000</b>	<b>90,185</b>

\*All amounts above are undiscounted

In liquidity risk management the Group has taken a prudent view, maintaining sufficient cash balance and short-term deposits to be able to fulfil its financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Group.

## Capital management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern, to be in accordance with Business Plan's capital structure approved by Supervisory Board and the long-term borrowing contracts that limit the Group's equity ratio to a minimum of 35% of the total assets.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (Note 9; including 'current and non-current borrowings' as shown in the consolidated Statement of financial position) less cash and cash equivalents (Note 5). Total capital is calculated as 'equity' as shown in the consolidated Statement of financial position plus net debt.

€ thousand	as of 31 December	
	2022	2021
Borrowings	82,828	85,623
Cash	-12,650	-36,559
<b>Net debt</b>	<b>70,178</b>	<b>49,064</b>
<b>Equity</b>	<b>110,826</b>	<b>115,420</b>
<b>Total capital</b>	<b>181,004</b>	<b>164,484</b>
Net debt to total capital ratio	38.7%	29.8%
Total assets	253,393	256,173
Proportion of equity from total assets	43.7%	45.1%

## Fair value estimation

Fair values of cash and cash equivalents, trade receivable, other long-term receivables, short-term borrowings and trade payable do not vary significantly from their carrying amount because their realization will take place within 12 months or these were recognised close to the reporting date.

To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards.

**Level 1:** The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. As of 31 December 2022 and 2021, the Group did not have any financial instruments of level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As of 31 December 2022, all Group's long-term borrowings had floating interest rates. The fair values of long-term borrowings are based on discounted cash flows using the borrowing rate of 2.67% (2021: 0.45%) and are within level 3 of the fair value hierarchy. As of 31 December 2022, the fair value of the Group's long-term borrowings was €4,481 thousand lower than their carrying amount (31 December 2021: €775 thousand lower). See also note 22.

## NOTE 5. CASH AND CASH EQUIVALENTS

€ thousand	as of 31 December	
	2022	2021
Cash and bank accounts (Note 4)	12,650	36,559
<b>Total cash and cash equivalents</b>	<b>12,650</b>	<b>36,559</b>

## NOTE 6. TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES

€ thousand	as of 31 December	
	2022	2021
Accounts receivable	8,394	6,341
Allowance for doubtful receivables	-549	-536
<b>Total trade receivables</b>	<b>7,845</b>	<b>5,805</b>
<b>Allowance for doubtful receivables at the beginning of the period</b>	<b>-536</b>	<b>-471</b>
Proceeds from doubtful receivables during the period	0	23
Allowance for doubtful receivables recognised during the period	-13	-88
<b>Allowance for doubtful receivables at the end of the period</b>	<b>-549</b>	<b>-536</b>

Impairment losses recognised during the period are reported in profit or loss as 'Other income (+)/expenses (-)'. For further information on ageing of receivables (including overdue receivables), please see note 4.

€ thousand	as of 31 December	
	2022	2021
Other accrued income	802	523
Prepaid expenses	342	309
<b>Total accrued income and prepaid expenses</b>	<b>1,144</b>	<b>832</b>

**Total trade receivables, accrued income and prepaid expenses** 8,989 6,637

The Company's current assets (incl. trade receivables, accruals and inventory) in the amount of € 8,380 thousand (31 December 2021: € 6,058 thousand) have been pledged as a security for the bank loans (Note 9), as a part of commercial pledge.



## NOTE 7. PROPERTY, PLANT AND EQUIPMENT

€ thousand	Land and buildings	Facilities	Machinery and equipment	Construction in progress	Right-of-use assets	Right-of-use assets in progress	Total property, plant and equipment
<b>as of 31 December 2020</b>							
Acquisition cost	26,875	239,412	49,029	8,799	2,793	0	326,908
Accumulated depreciation	-7,677	-76,843	-38,558	0	-1,028	0	-124,106
<b>Net book value</b>	<b>19,198</b>	<b>162,569</b>	<b>10,471</b>	<b>8,799</b>	<b>1,765</b>	<b>0</b>	<b>202,802</b>
<b>Transactions in the period 1 January 2021 - 31 December 2021</b>							
Acquisition in book value	0	0	0	14,782	0	289	15,071
Write off and sale of property, plant and equipment in residual value	0	0	0	0	-16	0	-16
Reclassification	158	8,846	2,252	-11,529	289	-289	0
Depreciation	-291	-3,800	-1,852	0	-368	0	-6,311
<b>as of 31 December 2021</b>							
Acquisition cost	27,033	247,613	50,819	12,052	2,950	0	340,467
Accumulated depreciation	-7,968	-79,998	-39,675	0	-1,280	0	-128,921
<b>Net book value</b>	<b>19,065</b>	<b>162,615</b>	<b>11,144</b>	<b>12,052</b>	<b>1,670</b>	<b>0</b>	<b>211,546</b>
<b>Transactions in the period 1 January 2022 - 31 December 2022</b>							
Acquisition in book value	0	0	0	24,361	0	560	24,921
Write off and sale of property, plant and equipment in residual value	0	0	-21	0	-6	0	-27
Reclassification	584	22,973	6,705	-30,262	560	-560	0
Depreciation	-293	-3,889	-1,962	0	-427	0	-6,571
<b>as of 31 December 2022</b>							
Acquisition cost	27,618	269,144	54,526	6,151	3,433	0	360,872
Accumulated depreciation	-8,262	-82,445	-38,660	0	-1,636	0	-131,003
<b>Net book value</b> (Note 3)	<b>19,356</b>	<b>186,699</b>	<b>15,866</b>	<b>6,151</b>	<b>1,797</b>	<b>0</b>	<b>229,869</b>

Property, plant and equipment are written off if the condition of the asset does not enable further usage for production purposes. In comparison with the previous annual report, the Group has made a change in presenting information in the Note 'Property, plant and equipment'. The column 'Other equipment', which stood as a separate column, is now included in the column 'Machinery and equipment'. By nature, the right-of-use assets comply with the asset class of machinery and equipment.

The Group's non-current assets in the book value amount of €16,838 thousand (31 December 2021: €11,084 thousand) have been pledged as a security for the bank loans (Note 9), as a part of

commercial pledge. A mortgage for the Group's non-current assets (land, buildings and facilities) in the book value amount of €35,063 thousand (31 December 2021: €29,133 thousand) serves as a security to the bank loans (Note 9).

During the year, the Group has capitalised borrowing costs amounting to €38 thousand (2021: €32 thousand) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 0.85% (2021: 0.40%) (Note 22).

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities amounted to € 6,463 thousand (2021: €3,073 thousand). The commitments include among others the construction of combined heat and power plant in wastewater treatment facilities area, cost €2,394 thousand.

## NOTE 8. INTANGIBLE ASSETS

€ thousand	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
<b>as of 31 December 2020</b>			
Acquisition cost	4,582	30	4,612
Accumulated amortisation	-3,983	0	-3,983
<b>Net book value</b>	<b>599</b>	<b>30</b>	<b>629</b>
<b>Transactions in the period 01 January 2021 - 31 December 2021</b>			
Acquisition in book value	0	309	309
Reclassification	250	-250	0
Amortisation	-209	0	-209
<b>as of 31 December 2021</b>			
Acquisition cost	4,831	89	4,920
Accumulated amortisation	-4,191	0	-4,191
<b>Net book value</b>	<b>640</b>	<b>89</b>	<b>729</b>
<b>Transactions in the period 01 January 2022 - 31 December 2022</b>			
Acquisition in book value	0	205	205
Reclassification	203	-203	0
Amortisation	-246	0	-246
<b>as of 31 December 2022</b>			
Acquisition cost	5,023	91	5,114
Accumulated amortisation	-4,426	0	-4,426
<b>Net book value</b> (Note 3)	<b>597</b>	<b>91</b>	<b>688</b>

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities amounted to € 492 thousand (2021: 0), commitment to an update of an enterprise resource planning software.

## NOTE 9. BORROWINGS

€ thousand	as of 31 December	
	2022	2021
<b>Current liabilities</b>		
Current portion of long-term leases	883	421
Current portion of long-term loans	3,630	3,630
<b>Non-current liabilities</b>		
Leases	1,607	1,236
Loans	76,708	80,336

### Liabilities at 31 December 2022

€ thousand	Balance	Effective interest rate
Lease liabilities	2,490	0.7%-3.83%
Bank loans at floating interest rate (based on 3 and 6-month Euribor)	80,338	2.15%-3.02%

### Liabilities at 31 December 2021

€ thousand	Balance	Effective interest rate
Lease liabilities	1,657	1.11%-1,86%
Bank loans at floating interest rate (based on 6-month Euribor)	83,966	0.07%-0.95%

The Group's loan agreements, valid as of 31 December 2022, mature as follows. One loan agreement in the amount of €37.5 million, with the maturity date in September 2024, will be refinanced for new investments. The second loan agreement in the amount of €20 million continues to be repaid in eleven equal semi-annual repayments from May 2019 to May 2024. The third loan agreement in the amount of €37.5 million will be repaid in 21 equal semi-annual repayments from November 2024 to November 2034.

### Net debt reconciliation

Net debt	as of 31 December	
€ thousand	2022	2021
Cash and cash equivalents	12,650	36,559
Borrowings	-80,338	-83,966
Lease liabilities	-2,490	-1,657
<b>Total net debt</b>	<b>-70,178</b>	<b>-49,064</b>
Cash and cash equivalents	12,650	36,559
Gross debt - variable interest rates	-82,828	-85,623
<b>Total net debt</b>	<b>-70,178</b>	<b>-49,064</b>

€ thousand	Liabilities from financing activities			Other assets	Total
	Borrowings	Leases	Subtotal	Cash and cash equivalents	

<b>Net debt as at 1 January 2021</b>	<b>-87,609</b>	<b>-1,793</b>	<b>-89,402</b>	<b>44,514</b>	<b>-44,888</b>
Cash flows	3,636	408	4,044	-7,955	-3,911
Acquisitions - leases	0	-288	-288	0	-288
Other changes	7	16	23	0	23
<b>Net debt as at 31 December 2021</b>	<b>-83,966</b>	<b>-1,657</b>	<b>-85,623</b>	<b>36,559</b>	<b>-49,064</b>
Cash flows	3,636	525	4,161	-23,909	-19,748
Acquisitions - leases	0	-1,294	-1,294	0	-1,294
Other changes	-8	-64	-72	0	-72
<b>Net debt as at 31 December 2022</b>	<b>-80,338</b>	<b>-2,490</b>	<b>-82,828</b>	<b>12,650</b>	<b>-70,178</b>

Other changes include non-cash movements, including loan financing costs that are recognised as financial cost over the entire loan period and early termination of lease agreements. See also note 3 and 4.

Collateral of loans and pledged assets		Collateral at book value as of 31 December	
€ thousand		2022	2021
Type of collateral	Specification and location of collateral		
Commercial pledge	Movables of the Company (Note 6, 7)	25,218	17,142
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 7)	35,063	29,133

## NOTE 10. TRADE AND OTHER PAYABLES

€ thousand	for the year ended 31 December	
	2022	2021
Trade payables - operating expenditures	3,566	2,876
Trade payables - capital expenditures	3,468	2,007
Payables to related parties (Note 23)	61	24
Payables to employees	1,522	1,360
Interest payable	128	48
Other accrued expenses	71	67
Warranty reserve	76	36
Taxes payable incl:		
Income tax	265	215
VAT	20	105
Water abstraction charges	321	327
Pollution taxes	156	300
Social security tax	502	415
Other	69	55
<b>Total trade and other payables</b>	<b>10,225</b>	<b>7,835</b>

## NOTE 11. OTHER CONTINGENT LIABILITIES

Tax authority have got the right to review to the Group's tax accounting within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

The Group's distributable retained earnings as at 31 December 2022 amounted to €72,814 thousand (31 December 2021: €77,408 thousand). Consequently, if retained earnings were fully distributed as dividends and the lower tax rate that may be applicable from 2019 to dividend payments was applied, the maximum possible tax liability which would be €15,334 thousand (2021: €18,327 thousand). See also note 2.

## NOTE 12. PREPAYMENTS

	as of 31 December	
€ thousand	2022	2021
Prepayments for water and sewerage services	156	739
Prepayments for connection fee	3,593	2,865
<b>Total prepayments</b>	<b>3,749</b>	<b>3,604</b>

## NOTE 13. PROVISION FOR POSSIBLE THIRD-PARTY CLAIMS

On 12 December 2017, the Supreme Court made a decision on AS Tallinna Vesi's cassation in the tariff dispute with the Estonian Competition Authority. The court stated that the Competition Authority is not bound by the agreement on the water tariffs contained in the Services Agreement, which was executed upon privatisation of the company. From now on, the tariffs will be regulated by the Competition Authority in line with the methodology.

According to the law the tariffs established based on the Services Agreement were in force until the Competition Authority approved the new tariffs and the Company implemented these tariffs in line with the law. The Company has acted in good faith and in reliance to the applicable legal acts. Thus, the Company does not consider itself liable to the customers for any claims related to the tariffs applied until the new tariffs approved by the Competition Authority were duly implemented.

On 18 October 2019 the Competition Authority approved the tariffs that the Company had applied for in September of that year. The new tariffs for water services came into force on 1 December 2019. In the Company's main service area, the private customer tariffs reduced by 27% and commercial customer tariffs dropped by 15%, on average.

As of 31 December 2022, claims totalling €13.6 million have been filed within four applications (Added a request for a penalty for late payment in the amount of €5,4 million filed within one application). The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be €6 million (as of 31 December 2021: €6 million) and has suspended the reduction of the provision pursuant to the principle of conservatism. The Company has always acted legitimately by applying fair tariffs imposed in accordance with the law in force,

and the Company believes there are no grounds for submitting the claims. Therefore, the Company does not admit any liability and fully rejects it. See also note 3 and 18.

## NOTE 14. SHARE CAPITAL

As of 31 December 2022, the nominal value of the share capital was €12,000,000 (twelve million euros), composed of 20,000,000 (twenty million) shares with the nominal value of €0.60 (sixty eurocents) per share. Each share grants its holder 1 (one) vote at the General Meeting of the Shareholders of the Company and the right to participate in the General Meetings of the Shareholders of the Company and in the distribution of profits and in the distribution of the remaining assets upon dissolution of the Company, as well as any other rights set forth in the law and in the articles of association of the Company.

The General Meeting of the Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. The Management Board does not have any respective authorities.

As of 31 December 2022, OÜ Utilitas owned 4,072,352 (20.3%) shares and the City of Tallinn owned 11,011,482 (55.05%) shares, with 4,916,166 shares in free float. Other direct shareholders each owned less than 5% of the shares as of 31 December 2022.

As of 31 December 2022, and 2021, the members of the Supervisory Board and the Management Board did not own any shares in the company (note 23).

Dividends declared and paid are disclosed in note 20.

Contingent income tax on the dividend payments from retained earnings is described in note 10.

## NOTE 15. SEGMENT REPORTING

According to the principles of the standard IFRS 8 Operating Segments, an entity shall report separately information about an operating segment if either its reported revenue, profit or loss, or assets account for 10 per cent or more of the particular combined measure of all operating segments.

The Group has defined the business segments based on the reports used regularly by the chief operating decision maker for the purposes of making strategic decisions. The chief operating decision maker monitors the Group's operations by activities. Three segments are distinguished: water services, construction and other services.

**Water services:** water supply, storm and wastewater disposal and treatment, fire hydrants service, overpollution charges and discharging.

**Construction services:** construction services provided by Watercom OÜ. Construction services have been identified as a reportable segment because its revenues are more than 10% of the combined revenues of all segments.

**Other services:** road maintenance, jet wash and transportation services, project management and owner supervision and other activities. Other activities are of less importance to the Group's financial results and none of them constitutes a separate segment for reporting purposes.



The Group's chief operating decision maker assesses the performance of each operating segment on the basis of its revenue (external and inter-segment revenue) and gross profit. The inter-segment transactions are carried out on market terms.

€ thousand	Water services	Construction services	Other services	Inter-segment transactions	Total segments
<b>1 January 2022 - 31 December 2022</b>					
External revenue	48,890	4,809	860	0	54,558
Inter-segment revenue	2	3,508	4,594	-8,105	0
<b>Total segment revenue</b>	<b>48,892</b>	<b>8,317</b>	<b>5,454</b>	<b>-8,105</b>	<b>54,558</b>
<b>Segment's gross profit</b>	<b>15,353</b>	<b>901</b>	<b>1,526</b>	<b>-882</b>	<b>16,898</b>
<b>Unallocated expenses:</b>					
Marketing and Administrative expenses					-5,102
Other income/expenses					-476
<b>Operating profit</b>					<b>11,320</b>
<b>1 January 2021 - 31 December 2021</b>					
External revenue	45,056	7,327	911	0	53,294
Inter-segment revenue	2	1,672	3,633	-5,307	0
<b>Total segment revenue</b>	<b>45,058</b>	<b>8,999</b>	<b>4,544</b>	<b>-5,307</b>	<b>53,294</b>
<b>Segment's gross profit</b>	<b>18,945</b>	<b>626</b>	<b>1,570</b>	<b>-562</b>	<b>20,579</b>
<b>Unallocated expenses:</b>					
Marketing and Administrative expenses					-4,900
Other income/expenses					3,099
<b>Operating profit</b>					<b>18,778</b>

## Revenue by activities

for the year ended 31 December

€ thousand	2022	2021
<b>Water services</b>		
Water supply service	8,380	8,097
Wastewater disposal service	12,406	12,000
<b>Total from private customers</b>	<b>20,786</b>	<b>20,097</b>
Water supply service	8,260	7,115
Wastewater disposal service	8,480	7,299
<b>Total from commercial customers</b>	<b>16,740</b>	<b>14,414</b>
Water supply service	1,599	1,631
Wastewater disposal service	3,525	3,422
Stormwater disposal service	193	256

Total from outside service area customers	5,317	5,309
Stormwater treatment and disposal service and fire hydrants service (Note 23)	4,643	4,010
Overpollution charges and discharging	1,403	1,225
<b>Total from water services</b>	<b>48,889</b>	<b>45,055</b>
Construction services	4,809	7,328
Other services	860	911
<b>Total staff costs</b>	<b>54,558</b>	<b>53,294</b>

100% of the Group's revenue was generated within the Republic of Estonia.

## NOTE 16. STAFF COSTS

	for the year ended 31 December	
€ thousand	2022	2021
Salaries and wages (Note 17)	-8,499	-7,381
Social security and unemployment insurance taxation (Note 17)	-2,873	-2,496
<b>Total staff costs</b>	<b>-11,372</b>	<b>-9,877</b>
The average number of employees	342	333

## NOTE 17. COST OF GOODS AND SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

	for the year ended 31 December	
€ thousand	2022	2021
<b>Cost of goods and services sold</b>		
Water abstraction charges	-1,288	-1,281
Chemicals	-2,238	-1,822
Electricity	-9,234	-4,612
Pollution tax	-823	-894
Staff costs (Note 16)	-8,229	-7,243
Depreciation and amortisation (Note 7 and 8)	-5,930	-5,725
Construction service	-3,802	-5,988
Other costs of goods and services sold	-6,116	-5,150
<b>Total cost of goods and services sold</b>	<b>-37,660</b>	<b>-32,715</b>
<b>Marketing expenses</b>		
Staff costs (Note 16)	-625	-398
Depreciation and amortisation (Note 7 and 8)	-5	0
Other marketing expenses	-73	-64
<b>Total marketing expenses</b>	<b>-703</b>	<b>-462</b>
<b>Administrative expenses</b>		

Staff costs (Note 16)	-2,518	-2,236
Depreciation and amortisation (Note 7 and 8)	-375	-320
Other general administration expenses	-1,506	-1,882
<b>Total administrative expenses</b>	<b>-4,399</b>	<b>-4,438</b>

## NOTE 18. OTHER INCOME/EXPENSES

for the year ended 31 December

€ thousand	2022	2021
Connection fees	544	510
Depreciation of single connections (Note 7 and 8)	-507	-475
Doubtful receivables expenses (-)/expense reduction (+)	-15	-84
Provision for possible third party claims (Note 13)	0	3,610
Other income (+)/expenses (-)	-498	-462
<b>Total other income/expenses</b>	<b>-476</b>	<b>3,099</b>

## NOTE 19. FINANCIAL INCOME AND EXPENSES

for the year ended 31 December

€ thousand	2022	2021
Interest income	8	8
Interest expense, loan	-650	-360
Other financial income (+)/expenses (-)	-32	-27
<b>Total financial income/expenses</b>	<b>-674</b>	<b>-379</b>

## NOTE 20. DIVIDENDS AND INCOME TAX

for the year ended 31 December

€ thousand	2022	2021
Dividends declared during the period	13,000	13,000
Dividends paid during the period	12,835	12,842
Withheld income tax on dividends	165	158
Income tax on dividends paid	2,116	2,116

Dividends declared per shares:

Dividends per share (in euros)	0.65	0.65
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Dividend income tax rate in 2022 was 20/80 (2021: 20/80), but for dividend payments in the amount of up to the average taxed dividend payment during the three preceding years, the income tax rate 14/86 is applied. When calculating the average dividend payment of the three preceding years, 2019 is the first year to be taken into account. In addition, for dividends payable to natural persons, income tax at a rate of 7% is withheld on dividends taxed with a lower income tax rate.

Deferred income tax expense and liability for 2022 is €123 thousand and is calculated based on total distributable profits of the subsidiary as of 31 December 2022, (2021: €372 thousand).

## NOTE 21. EARNINGS PER SHARE

	for the year ended 31 December	
	2022	2021
Net profit (€ thousand)	8,406	16,165
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20,000,000	20,000,000
Earnings per share (in euros)	0.42	0.81

Diluted earnings per share for the periods ended 31 December 2022 and 2021 are equal to earnings per share figures stated above.

## NOTE 22. LEASES

The lease agreements, in which the Group is a lessee, are leases of vehicles, property and IT equipment. The underlying currency of all lease contracts is euro. Leased assets have not been sublet.

€ thousand	for the year ended 31 December	
	2022	2021
Interest expense on lease liabilities	70	23
Expense relating to short-term leases	6	6
Expense relating to leases of low-value assets	1	1

The total cash outflow for leases in 2022 was €524 thousand (in 2021: €437 thousand).

For information about depreciation charge for right-of-use assets, additions to right-of-use assets and the carrying amount of right-of-use assets, please see note 7. The maturity analysis of lease liabilities is disclosed in note 4.

As of 31 December 2022, the Group had entered into the lease agreements, which take effect in 2023, in the total amount of €1,207 thousand (as at 2021: €1,061 thousand).

The lease agreements, in which the Group is a lessor, are all leases of property. All these are operating leases. The underlying currency of all lease contracts is euro. The Group's consolidated income from operating lease in 2022 was €133 thousand (in 2021: €149 thousand). The Group considers the income from leasing and the assets held for leasing in proportion of all assets insignificant.

## NOTE 23. RELATED PARTIES

Transactions with related parties are considered as transactions with members of the Group's Supervisory Board and Management Board, their relatives and the companies in which they have control or significant influence and transactions with shareholder having the significant influence.

Note: During 1 January – 31 March 2021 the related party was United Utilities (Tallinn) B.V. that was replaced by Utilitas OÜ starting on 1 April 2021. The amounts in transactions are recorded accordingly.

Dividend payments are indicated in the Statement of Changes in Equity.

### Shareholders having the significant influence

Balances recorded in on the statement of financial position of the Group € thousand	as of 31 December	
	2022	2021
Accounts receivable	1,309	129
Prepayments for services	0	575
Trade and other payables (Note 10)	61	24

Transactions € thousand	for the year ended 31 December	
	2022	2021
Revenue (Note 15)	5,791	4,855
Purchase of thermal energy	126	37
Purchase of legal service	54	0
Purchase of administrative and consulting services	0	583

Fees to the Group's Management and Supervisory Board members € thousand (excluding social tax)	for the year ended 31 December	
	2022	2021
Management Board members	313	220
Supervisory Board members	38	37

The Group's Management Board and Supervisory Board members are considered as key management personnel who have received only the contractual salary payments as disclosed above. In addition to this one Board Member has received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees. Such compensations are recorded as purchase of administrative and consulting services.

The potential salary liability would be up to €157 thousand (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

The Group's Management Board or Supervisory Board members do not have more than 5% shareholding in any of the companies having important business or cooperation relations with the Group.

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in notes 14 and 25. Paid-up dividends are described in note 20.

## NOTE 24. SUBSIDIARIES

Subsidiary	Location	Activity	Holding [%] as of 31 December	
			2022	2021
Watercom OÜ	Tallinn, Estonia	Provision of construction and other services related to water business	100	100
ASTV Green Energy OÜ	Tallinn, Estonia	Gas production	100	100

AS Tallinna Vesi registered Watercom OÜ on 25 May 2010.

AS Tallinna Vesi acquired ASTV Green Energy OÜ on 28 January 2021. The company is dormant, no difference between acquisition price and assets acquired exists.

## NOTE 25. SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY OF THE GROUP

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

### The separate reports on the Parent Company

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

## STATEMENT OF FINANCIAL POSITION

€ thousand	as of 31 December	
ASSETS	2022	2021
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	11,060	34,907
Trade receivables, accrued income and prepaid expenses	5,945	5,203
Receivables from parent company	1,297	127
Receivables from subsidiary	62	52
Inventories	1,075	676
<b>TOTAL CURRENT ASSETS</b>	<b>19,439</b>	<b>40,965</b>
<b>NON-CURRENT ASSETS</b>		
Investment in subsidiary	527	527



Property, plant and equipment	235,607	217,448
Intangible assets	597	639
<b>TOTAL NON-CURRENT ASSETS</b>	<b>236,731</b>	<b>218,614</b>
<b>TOTAL ASSETS</b>	<b>256,170</b>	<b>259,579</b>

## LIABILITIES AND EQUITY

### CURRENT LIABILITIES

Leases	233	182
Bank loans	3,630	3,630
Trade and other payables	8,583	6,333
Payables to parent company	25	24
Payables to subsidiary	1,187	990
Prepayments	3,727	3,558
<b>TOTAL CURRENT LIABILITIES</b>	<b>17,385</b>	<b>14,717</b>

### NON-CURRENT LIABILITIES

Deferred income from connection fees	39,150	37,241
Leases	307	320
Bank loans	76,708	80,336
Provision for possible third party claims	6,018	6,018
Other payables	17	17
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>122,200</b>	<b>123,932</b>
<b>TOTAL LIABILITIES</b>	<b>139,585</b>	<b>138,649</b>

### EQUITY

Share capital	12,000	12,000
Share premium	24,734	24,734
Statutory legal reserve	1,278	1,278
Retained earnings	78,573	82,918
<b>TOTAL EQUITY</b>	<b>116,585</b>	<b>120,930</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>256,170</b>	<b>259,579</b>

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

€ thousand	2022	2021
Revenue	49,505	45,676
Cost of goods and services sold	-33,537	-26,206
<b>GROSS PROFIT</b>	<b>15,968</b>	<b>19,470</b>
Marketing expenses	-703	-462
General administration expenses	-4,151	-4,262
Other income (+)/expenses (-)	-408	3,157
<b>OPERATING PROFIT</b>	<b>10,706</b>	<b>17,903</b>
Financial income	559	580
Financial expenses	-589	-341

<b>PROFIT BEFORE TAXES</b>	<b>10,676</b>	<b>18,142</b>
Income tax on dividends	-2,021	-2,019
<b>NET PROFIT FOR THE PERIOD</b>	<b>8,655</b>	<b>16,123</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>8,655</b>	<b>16,123</b>
Attributable profit to:		
Equity holders of A shares	8,655	16,123
Earnings per A share (in euros)	0,43	0,81

## STATEMENT OF CASH FLOWS




€ thousand	for the year ended 31 December	
CASH FLOWS FROM OPERATING ACTIVITIES	2022	2021
Operating profit	10,706	17,903
Adjustment for depreciation/amortisation	6,650	6,343
Adjustment for revenue from connection fees	-544	-510
Other non-cash adjustments	0	-3,610
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets	21	-21
Change in current assets involved in operating activities	-2,313	1,236
Change in liabilities involved in operating activities	339	714
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>14,859</b>	<b>22,055</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment, and intangible assets	-21,395	-14,259
Compensations received for construction of pipelines	1,601	2,878
Proceeds from sale of property, plant and equipment, and intangible assets	41	23
Interest received	8	11
<b>TOTAL CASH USED IN INVESTING ACTIVITIES</b>	<b>-19,745</b>	<b>-11,347</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Interest paid and loan financing costs	-568	-403
Lease payments	-224	-222
Repayment of loans	-3,636	-3,636
Dividends received	583	600
Dividends paid	-12,835	-12,841
Withheld income tax paid on dividends	-65	-158
Income tax on dividends	-2,116	-2,019
<b>TOTAL CASH USED IN FINANCING ACTIVITIES</b>	<b>-18,961</b>	<b>-18,679</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-23,847</b>	<b>-7,971</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>34,907</b>	<b>42,878</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>11,060</b>	<b>34,907</b>

## STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2020</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>79,795</b>	<b>117,807</b>
Dividends	0	0	0	-13,000	-13,000
Comprehensive income for the period	0	0	0	16,123	16,123
<b>as of 31 December 2021</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>82,918</b>	<b>120,930</b>
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
<b>Adjusted unconsolidated equity as of 31 December 2021</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>82,918</b>	<b>120,403</b>
Dividends	0	0	0	-13,000	-13,000
Comprehensive income for the period	0	0	0	8,655	8,655
<b>as of 31 December 2022</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>78,573</b>	<b>116,585</b>
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
<b>Adjusted unconsolidated equity as of 31 December 2022</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>78,573</b>	<b>116,058</b>

## 14. CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 15 March 2023. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report, the financial statements and the independent auditors' report, and has on 15 March 2023 in its minuted decision approved the annual report for presentation on the Shareholders' General Meeting.

Name	Position	Signature
Aleksandr Timofejev	Chairman of the Management Board	
Tarvi Thomberg	Member of the Management Board	
Taavi Gröön	Member of the Management Board	

## 15. REMUNERATION REPORT

### Introduction

The remuneration statement of AS Tallinna Vesi (hereinafter ASTV or the Company), covering the calculated fees to the Management Board members of ASTV in 2018-2022, has been prepared in accordance with the requirements set out in § 135<sup>3</sup> of the Securities Market Act and in the light of ASTV's Remuneration Policy, prepared in accordance with the requirements of § 135<sup>2</sup> of the Securities Market Act.

The Remuneration Policy for the Management Board members of AS Tallinna Vesi has been prepared in 2021 and approved by Supervisory Board in January 2022. The general principles of remuneration are based on ASTV's long-term objectives, taking account of the Company's economic performance and the legitimate interests of investors and creditors, as well as the duties of a particular member of the Management Board, his/her performance in the position, the performance of the entire Management Board, as well as ASTV's future prospects and the general situation in the labour market with regard to the remuneration of managers. The Remuneration Policy aims to help implement the Company's strategy and ensure the sustainability of its long-term interests.

Prior to the approval of the Remuneration Policy at the meeting of the Supervisory Board in January 2022, the remuneration of the Management Board was based on § 314 (1) of the Commercial Code, stipulating that the amount of remuneration payable to a member of the management board and the procedure for payment shall be determined by a resolution of the supervisory board.

Pursuant to subsection (2) of the same section, upon determining the remuneration procedure of a management board member and the amount of fees and other benefits, and upon entry into a contract with a management board member, the supervisory board must ensure that the total amount of the payments to be made by ASTV to the management board member reasonably complies with the duties of the management board member and the economic situation of ASTV.

Pursuant to subsection 314 (3) of the CC, if the economic situation of ASTV significantly deteriorates and further payment to a management board member of the fees established for or agreed upon with the member, or further allowing of other benefits to the member would be extremely unfair to ASTV, ASTV may require the decrease of the fees and other benefits. If decrease of fees or other benefits is required, the management board member has the right to extraordinary cancellation of the contract entered into with him or her upon one month's advance notice of cancellation.

A three-member Nomination and Remuneration Committee has been established within the Supervisory Board to ensure that the Remuneration Policy proposed is based on the short- and long-term objectives of AS Tallinna Vesi, taking account of the financial performance of AS Tallinna Vesi and the legitimate interests of investors.

Pursuant to the procedure for supervisory board committees, the Remuneration and Nomination Committee (hereinafter the Committee) makes a proposal to the supervisory board for determining the remuneration and other financial advantages of management board members, considering that ASTV remunerates management board members in a fair and



responsible manner, taking into account the criteria set out in the Remuneration Principles. The Committee reviews the grounds of remuneration of the management board at least once a year.

The Nomination and Remuneration Committee shall ensure that the proportion of the fixed salary and the performance-related pay (PRP) are in accordance with the duties of a Management Board member and that the fixed salary represents a sufficiently high proportion of the total remuneration.

### The bases and principles of remuneration

The general remuneration principles proceed from the long-term goals of ASTV, considering thereby the performance results of ASTV and the legitimate interests of investors and creditors as well as the duties of a particular management board member, his or her activities at the position, the activities of the management board as a whole, as well as the future plans of ASTV and the labour and salary market conditions of executives on the labour market.

### The bases and principles for establishing the remuneration of a Management Board member

- The share of the basic salary in the remuneration reasonably complies with the duties of the management board member.
- The basic salary forms a sufficiently large share of the total remuneration, which makes it possible not to determine or pay the performance pay, as appropriate.
- The basic salary is such that motivates a management board member to act in the best interests of ASTV and as a result of which the management board member refrains from acting in his or her own interests or in the interests of third persons.
- The basic salary of a management board member is determined taking into consideration the previous work experience of the management board member as well as the remuneration of chief executives of a similar position and liability on the labour market.
- The basic salary of a management board member is determined in the contract of the management board member, and it is paid monthly.
- The input to amending the basic salary is the situation on the labour and salary market. After the resolution of the supervisory board adopted on the proposal of the Committee, the basic salary may be adjusted according to the situation on the labour and salary market within a calendar year as of the agreed date.
- If the circumstances set out in the introduction of the Remuneration Principles exist, the salary of a management board member is reduced on the basis of a resolution of the supervisory board adopted on the proposal of the Committee. The resolution must be substantiated.

### The bases and principles for establishing the performance pay of a Management Board member

- The share of the performance pay reasonably complies with the duties of the management board member.
- The maximum amount of the performance pay forms 25% of the annual gross basic salary of the management board member.
- The performance pay is such that motivates a management board member to act in the best interests of ASTV and as a result of which the management board refrains from acting in his or her own interests or in the interests of third persons.

- Performance pay is paid on the basis of the results of the calendar year preceding its payment and as an incentive pay of the next calendar year, except if the performance pay is paid to a resigning management board member. The payment is made after the results of the financial year have been approved, as a rule in the middle of March.
- The performance pay of a management board member is calculated being guided:
  - to the extent of 80% by the financial and production results of the year preceding the payment of the performance pay, the goals established to the management board member by the supervisory board of ASTV and the achievement thereof;
  - to the extent of 20% by the achievement of personal goals of the management board member.

Respective goals are reviewed in January and approved by the Committee.

Payment of the performance pay is decided by the Committee. The payment is made in March. If the results specified in this clause do not achieve the goals established, the Committee may decide not to pay the performance pay to a management board member.

### Grounds and principles of determining benefits and other advantages related to work of management board member

- Company car
- Severance pay:
  - The amount of the severance pay of a management board member is his or her basic salary of six months if the management board member is removed for reasons independent of him or her or if the management board member wants to resign due to a breach of the contract by ASTV who has not eliminated the breach within reasonable time after receiving a corresponding notice.
  - No severance pay is paid if a management board member is removed due to his or her breach of the contract, incl. he or she has either caused damage or loss to ASTV, is no longer trustworthy or is punished pursuant to criminal procedure.
  - The amount of the severance pay of a management board member is his or her basic salary of three months if he or she is removed due to his or her state of health, where he or she has been unable to perform his or her duties for three months or more.
  - Upon expiry of the contract of a management board member, the amount subject to payment is the performance pay specified in section of "The bases and principles for establishing the performance pay of a Management Board member" of the Remuneration Principles. The rules applicable are those set out in the section stated before. The performance pay of a resigning management board member is calculated in proportion to the time during which he or she worked in the last calendar year.

### The bases and principles for remuneration of a Management Board member with shares, share options or other similar rights

The Company shall not offer any remuneration with shares, share options or other similar rights (e.g., long-term bonus schemes, etc.) to a Management Board member.

#### The calculated fees in 2022:

Manager	Position	Date of appointment	Fixed salary '000 EUR	Performance pay '000 EUR	Total '000 EUR	Share of fixed salary in total remuneration %	Share of performance pay in total remuneration %
Aleksandr Timofejev	Chairman of the Management Board, Chief Executive Officer	09 September 2007	107	18	125	85%	14,5%
Tarvi Thomberg	Member of the Management Board, Chief Asset Management Officer	08 November 2021	90	2	92	97%	3%
Taavi Gröön	Member of the Management Board, Chief Financial Officer	23 May 2022	55	0	55	100%	0%
Kristi Ojakäär	Member of the Management Board, Chief Financial Officer	01 January 2020	24	17	41	58%	42%

Reporting Year	2018	2019	2020	2021	2022
Change in A. Timofejev's remuneration	+5.3%	+6.7%	+9.5%	+1.8%	+9.9%
Change in T. Thomberg's remuneration	-	-	-	-	+595.5%
Change in T. Gröön's remuneration	-	-	-	-	-
Change in K. Ojakäär's remuneration	-	-	-	+24.0%	-61.3%
Change in Riina Käi's remuneration	+6.2%	+14.3%	-85.6%	-	-
Change in full time employees' average salary	+6,2%	+5,3%	+3,5%	+4,3%	+7,8%
Change in the Company's outcome (Net profit)	+240.3%	+15.5%	-39.7%	-5.5%	-46.3%

## Application of performance criteria and compatibility with the company's long-term objectives

The fixed salary and the PRP to the Members of the Management board are in line with the Company's Remuneration Policy described above and no exceptions to remuneration have been made.

The PRP payment to the Management Board members for 2021 was based on meeting the Company's objectives, such as earnings before depreciation and amortisation (EBIDTA), water quality in the water network, customer satisfaction, employee satisfaction. The PRP paid to a Management Board member for 2021 also depended on meeting the individual objectives set for a Management Board member by the Supervisory Board of the Company.

Each member of the Management Board has his/her own area of responsibility, based on which the individual objectives are set. The individual objectives set are both financial and non-financial, supporting the Company's long-term objectives and helping to ensure the results are being achieved. The financial objectives are set in line with the specific performance indicators of the Company. These indicators give shareholders a true and comprehensive view of the Company's position and development and provide an input to investment decisions.

## 16. PRINCIPLES OF SUSTAINABILITY REPORTING

Our Sustainability and social responsibility report has been prepared according to the Sustainability Reporting Standard of Global Reporting Initiative (GRI Standards). The GRI Standard provides for a choice between “core” and “comprehensive” levels depending on the level of details of the report. Considering the Company’s size and scope of operations in a global context, the most suitable of these two options is “core”, which includes data about the Company’s profile, stakeholders and principles, management approach and key performance indicators.

The Company continues to measure the impacts and performance of material topics through several various indicators. Compared to the 2021 Report, no significant changes have been made and the indicators introduced in 2021, are still used in the report. No major changes have occurred among the activities, impacts, practices or focuses of the Company compared to the previous report.

As in previous years, for some defined material topics disclosures provided by GRI Standard were insufficient to describe the performance of the Company. Thus, in addition to the GRI disclosures, few Company-specific indicators have been introduced in this report. In GRI Index those indicators are described without GRI codes.

### Process for defining report content

In defining the report content, the principles of stakeholder inclusiveness, sustainability context, materiality and completeness were followed. In order to define the report content and identify material topics, several working groups, involving management team members, discussed the environmental, economic and social topics concerning the Company and to frame the topics, which are material for the Company in terms of sustainability and potential impact on stakeholders. This was done by keeping in mind the company values and objectives as well as external impacts stemming from legislation, market situation and natural environment. Feedback from small investors was also taken into consideration in defining the report content.

The materiality of the identified topics was assessed from the point of view of both the Company and its stakeholders, considering the information received from stakeholders, feedback from Company’s employees and customers and direct communication with shareholders and partners. Having assessed the materiality, all identified subjects were aligned by the GRI Standard.

### The identified material topics are as follows:

- Economic performance
- Indirect economic impacts
- Anti-corruption
- Water [Tallinna Vesi: Sustainable use of water]
- Effluents and Waste [Tallinna Vesi: Effluent quality]
- Environmental compliance
- Employment
- Occupational health and safety
- Training and education [Tallinna Vesi: Development of staff and succession planning]
- Local communities
- Marketing and labelling [Tallinna Vesi: Responsible customer service]
- Socioeconomic compliance [Tallinna Vesi: Ensuring quality of service]

The impacts that make topics material are present both within the organisation as well as outside the Company, which is why all material topics simultaneously affect either directly or indirectly both the organisation and its stakeholders. The impacts and the management approach are described in more detail under the description of each topic. The effectiveness of the management approach is assessed against the Company's strategic and annual objectives. Moreover, we receive feedback through the employee and customer surveys, which also reflect the opinion on our management approach.

The report seeks to provide an overview of AS Tallinna Vesi's and Watercom's activities and performance in 2022 from the perspective of sustainable development in economic, environmental and social areas. In order to place our activities in a wider context of sustainability, we will continue to link our activities to the [2030 Agenda for Sustainable Development](#) and its 17 Sustainable Development Goals (SDG). AS Tallinna Vesi contributes to the achievement of the following SDGs:



To better illustrate how our activities contribute to the achievement of many of the SDGs, which are considered relevant in Estonia, we have related the relevant SDGs to our defined material topics. Each of the material topic in this report, which is accompanied by a SDG label, supports the accomplishment of the particular SDG. All the SDGs and their more specific targets can be found on a website [www.un.org/sustainabledevelopment](http://www.un.org/sustainabledevelopment).

### Stakeholder engagement

Our activity affects a large number of people. Our aim is to be a trusted partner to our customers, investors, employees and representatives of the community, therefore our management practices take into account the impact that we have on surrounding living environment and the association with the different stakeholder interests.

We understand the impact of our business on the surrounding natural habitat and therefore deem it important, that our activities engage with the interests of different stakeholders. Keeping in mind our development perspectives, we have mapped our stakeholders, who are most impacted by our activity and decisions. Our stakeholders' satisfaction is important for us and therefore it is essential to hold frequent contact and dialogue with them. The main stakeholders, whom we receive feedback from through surveys, direct communication and involvement, are our employees, customers, cooperation partners, shareholders and investors, but also local governments and community. Their feedback has had a strong impact on the contents of this report and our material topics, as well as serves as a basis for setting the objectives of the Company.

The Company gathers regular feedback from its customers through satisfaction surveys. Those surveys give us valuable input and knowledge about our customers' needs. We participate in community events to gather more useful information about these matters.

With investors, face-to-face investor presentations are regularly being held. The company organises quarterly investor webinars to introduce our results and offer the investors a platform to ask their questions.



Internally, we gather feedback from our employees on a regular basis. This feedback is then used to make actual changes in the processes to further increase employee satisfaction.

We strive to be a reliable partner to our stakeholders; therefore, we regularly disclose information on our activity, financial and operational performance and financial position. It is instrumental for us to provide timely, reliable and clear information about our activities both pro-actively and when needed. Due to the strong impact of our activity on both the people and environment, responsible communication is fundamental to our stakeholders and ourselves. Given that our stakeholders have different expectations, it is vital to address all necessary aspects and balance those expectations. Reliable and transparent communication plays an important role in shaping the Company's reputation.

### Cooperation with local municipalities and government

We aim at being good partners with national and municipality government institutions. We hold regular meetings with the City of Tallinn to discuss the problems and topics on the agenda to further improve the service provided to our customers and consumers in our main service area, seeking the most optimal solutions together. Furthermore, we intend to actively participate in the development of areas related to our activity as well as in the drafting of respective legislation. Our specialists and experts in their profession are always willing and prepared to consult and assist with sharing area-specific knowledge.

### OPERATIONAL SITES OF TALLINNA VESI



Head office, customer service, support services and Watercom

Ädala 10, Tallinn



Water Treatment Plant at Ülemiste, Water and Microbiological Laboratory

Järvevana tee 3, Tallinn



Wastewater Treatment Plant at Paljassaare, Composting Fields and Wastewater Laboratory

Paljassaare põik 14, Tallinn







## Annex 1: GRI Index

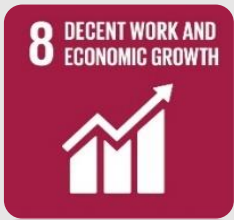
Standard	Disclosure	Page number(s)
<b>GENERAL DISCLOSURES</b>		
<b>GRI 102: General Disclosures 2016</b>	<b>Organisational profile</b>	
	102-1 Name of the organisation	<i>AS Tallinna Vesi</i>
	102-2 Activities, brands, products, and services	<i>p. 7-8</i>
	102-3 Location of headquarters	<i>p. 117</i>
	102-4 Location of operations	<i>p. 7</i>
	102-5 Ownership and legal form	<i>p. 7</i>
	102-6 Markets served	<i>p. 7</i>
	102-7 Scale of the organization	<i>p. 7</i>
	102-8 Information on employees and other workers	<i>p. 33-39 Employees</i>
	102-9 Supply chain	<i>p. 63 Cooperation with suppliers</i>
	102-10 Significant changes to the organization and its supply chain	<i>p. 7, p. 66, p. 103</i>
	102-11 Precautionary Principle or approach	<i>p. 64-68 Risk management process</i>
	102-12 External initiatives	<i>p. 31-33 Community and public p. 64 Our principles and membership in organisations</i>
	102-13 Membership of associations	<i>p. 64 Our principles and membership in organisations</i>
	<b>Strategy</b>	
102-14 Statement from senior decision-maker	<i>p. 4-6 Chairman's statement</i>	
<b>Ethics and integrity</b>		
102-16 Values, principles, standards, and norms of behaviour	<i>p. 14-15 How we deliver value to different stakeholders p. 64 Our principles and membership in organisations</i>	
<b>Governance</b>		
102-18 Governance structure	<i>p. 58-60 Management Board</i>	
<b>Stakeholder engagement</b>		
102-40 List of stakeholder groups	<i>p. 13 How we create value to different stakeholders</i>	
102-41 Collective bargaining agreements	<i>p. 35</i>	

102-42 Identifying and selecting stakeholders	<i>p. 116-117 Stakeholder engagement</i>
102-43 Approach to stakeholder engagement	<i>p. 116-117 Stakeholder engagement No separate stakeholder engagement was undertaken specifically as part of the report preparation process; however, the interests of different stakeholders were gathered throughout the year from different meetings and surveys.</i>
102-44 Key topics and concerns raised	<i>p. 115-117 Principles of sustainability reporting Read more on p. 18-41 Operational Results</i>
<b>Reporting practice</b>	
102-45 Entities included in the consolidated financial statements	<i>p. 7</i>
102-46 Defining report content and topic Boundaries	<i>p. 115-116 Process for defining report content</i>
102-47 List of material topics	<i>p.115-116 Process for defining report content</i>
102-48 Restatements of information	<i>p. 115-117 Principles of sustainability reporting</i>
102-49 Changes in reporting	<i>p. 115-117 Principles of sustainability reporting</i>
102-50 Reporting period	<i>01/01/2022-31/12/2022</i>
102-51 Date of most recent report	<i>15 March 2022</i>
102-52 Reporting cycle	<i>Annual reporting. We issue the report according to the GRI guideline annually since 2012. All reports are available on the website of Tallinna Vesi.</i>
102-53 Contact point for questions regarding the report	<i>tvesi@tvesi.ee</i>
102-54 Claims of reporting in accordance with the GRI Standards	<i>This report follows the Standard of the international Global Reporting Initiative (GRI) and is reported according to standards in accordance – core option.</i>
102-55 GRI content index	<i>Appendix 1</i>


	102-56 External assurance	<p><i>See INDEPENDENT AUDITORS' LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT. External assurance to the report has been provided by PricewaterhouseCoopers in accordance with International Standard on Assurance Engagement ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The Auditing Company has performed a limited assurance engagement.</i></p>
<b>MATERIAL TOPICS</b>		
<b>Material topic: Economic performance</b>		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 13-17 Strategy</i>
	103-2 The management approach and its components	<i>p. 13-17 Strategy</i>
	103-3 Evaluation of the management approach	<i>p. 13-17 Strategy</i>
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	<p><i>Economic value generated: €54.7 million</i>  <i>Purchases from suppliers €55.2 million</i>  <i>Environmental taxes €2.1 million</i>  <i>Investments into environmental awareness and community €0.1 million</i>  <i>Taxes paid €5.3 million</i>  <i>Employee wages and benefits (incl. taxes) €11.5 million</i>  <i>Dividends paid out €13.0 million</i>  <i>Payments to providers of capital €0.7 million</i>  <i>p. 13 Breakdown of the value generated and distributed by the company</i></p>
<b>Material topic: Indirect economic impacts</b>		
	103-1 Explanation of the material topic and its boundaries	<p><i>p. 13-17 Strategy</i>  <i>p. 19-20 Uninterrupted services</i></p>

GRI 103: Management Approach 2016	103-2 The management approach and its components	<i>p. 13-17 Strategy</i> <i>p. 19-20 Uninterrupted services</i>
	103-3 Evaluation of the management approach	<i>p. 13-17 Strategy</i> <i>p. 19-20 Uninterrupted services</i>
GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	<b>Water treatment: €1,954 thousand</b> <b>Wastewater treatment: €3,829 thousand</b> <b>Networks total: €10,574 thousand</b> <i>Read more on p. 19-20 Uninterrupted services</i>
<b>Material topic: Anti-corruption</b>		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 13-17 Strategy</i> <i>p. 62-64 Business ethics</i>
	103-2 The management approach and its components	<i>p. 13-17 Strategy</i> <i>p. 62-64 Business ethics</i>
	103-3 Evaluation of the management approach	<i>p. 13-17 Strategy</i> <i>p. 62-63 Business ethics</i>
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	<i>In 2022, AS Tallinna Vesi did not identify any proven corruption or fraud incidents.</i> <i>p. 62-63 Business ethics</i>
<b>Material topic: Water [ASTV: Sustainable use of water]</b>		
	<b>SD Goal 6:</b> Ensure access to water and sanitation for all and sustainable management of water resources	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 22-24 Sustainable use of water</i>
	103-2 The management approach and its components	<i>p. 22-24 Sustainable use of water</i>
	103-3 Evaluation of the management approach	<i>p. 22-24 Sustainable use of water</i>
GRI 303: Water 2016	303-1 Water withdrawal by source	<b>Surface water: 26,603 th m<sup>3</sup></b> <b>Ground water: 2,732 th m<sup>3</sup></b> <i>p. 23-24 Sustainable use of water</i>
<i>not applicable</i>	Water loss in the water networks, i.e., leakages (%)	<b>16.02%</b> <i>p. 22-24 Sustainable use of water</i>
<b>Material topic: Effluents and Waste [ASTV: Effluent quality]</b>		


	SD Goal 13: Take urgent action to combat climate change and its impacts	
	SD Goal 14: Conserve and sustainably use the oceans, seas and marine resources	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 24-26 Effluent quality</i>
	103-2 The management approach and its components	<i>p. 24-26 Effluent quality</i>
	103-3 Evaluation of the management approach	<i>p. 24-26 Effluent quality</i>
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	<i>Destination: Baltic Sea Treated wastewater: 46,54 million m<sup>3</sup> Diluted wastewater: 0 m<sup>3</sup> Treatment efficiency: Biological oxygen demand (BOD) 98%, Chemical oxygen demand (COD) 91%, Suspended solids 97%, N<sub>tot</sub> 88%, P<sub>tot</sub> 93%, Oil products 97% <i>p. 24-26 Effluent quality</i></i>
<i>not applicable</i>	Using the emergency outlet	<i>0 times <i>p. 24-26 Effluent quality</i></i>
<b>Material topic: Environmental Compliance</b>		
	SD Goal 12: Ensure sustainable consumption and production patterns	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 21-22 Environmental Compliance</i>
	103-2 The management approach and its components	<i>p. 21-22 Environmental Compliance</i>

	103-3 Evaluation of the management approach	<i>p. 21-22 Environmental Compliance</i>
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	<i>In 2022, the Company identified 0 non-compliances with environmental laws or regulations. p. 21-22 Environmental Compliance</i>
<b>Material topic: Employment</b>		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 33-39 Employees</i>
	103-2 The management approach and its components	<i>p. 33-39 Employees</i>
	103-3 Evaluation of the management approach	<i>p. 33-39 Employees</i>
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	<i>Voluntary turnover 7.6% Total turnover 23.7% p. 33-39 Employees</i>
<i>not applicable</i>	Employee commitment (overall satisfaction index*), part of GRI 102-44 * From 2022 onwards, a comprehensive survey (metric: TRI*M index) is conducted every two years, alternating with a short pulse survey (metric: overall satisfaction index).	<i>Employee commitment (overall satisfaction index) 4.1 p. 35-36 Commitment within the team</i>
<b>Material topic: Occupational health and safety</b>		
	SD Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 39-40 Occupational health and safety</i>
	103-2 The management approach and its components	<i>p. 39-40 Occupational health and safety</i>
	103-3 Evaluation of the management approach	<i>p. 39-40 Occupational health and safety</i>
GRI 403: Occupational health and safety 2016	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	<i>Total number of accidents: 1 p. 39-40 Occupational health and safety</i>



<i>not applicable</i>	Safety audits	<i>In 2022, total of 471 safety audits were held. 93.5% of audited sites met all the safety requirements. p. 39-40 Occupational health and safety</i>
<b>Material topic: Training and education [ASTV: Development of staff and succession planning]</b>		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 36-37 Talent management and succession planning p. 38-39 Employee development</i>
	103-2 The management approach and its components	<i>p. 36-37 Talent management and succession planning p. 38-39 Employee development</i>
	103-3 Evaluation of the management approach	<i>p. 36-37 Talent management and succession planning p. 38-39 Employee development</i>
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	<i><b>2.39 (8-hour) training days</b> p. 38-39 Employee development</i>
	404-2 Programs for upgrading employee skills and transition assistance programs	<i>p. 36-37 Talent management and succession planning p. 38-39 Employee development</i>
	404-3 Percentage of employees receiving regular performance and career development reviews	<i><b>100%</b> p. 38-39 Employee development</i>
<b>Material topic: Local communities</b>		
	<b>SD Goal 12: Ensure sustainable consumption and production patterns</b>	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 31-33 Community and public</i>
	103-2 The management approach and its components	<i>p. 31-33 Community and public</i>
	103-3 Evaluation of the management approach	<i>p. 31-33 Community and public</i>
<i>not applicable</i>	Community members who drink tap water (%)	<i>p. 31-32 Environmental education <b>(89%)</b></i>
	Number of children participated in water and environment related classes	<i>p. 31-32 Environmental education <b>(960 children)</b></i>



	Number of visitors on excursions held in WTP and WWTP (excl. open house day)	<i>p. 31-32 Environmental education (665 visitors)</i>
<b>Material topic: Marketing and labelling [ASTV: Responsible customer service]</b>		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 27-31 Our customers</i>
	103-2 The management approach and its components	<i>p. 27-31 Our customers</i>
	103-3 Evaluation of the management approach	<i>p. 27-31 Our customers</i>
GRI 417: Marketing and labelling 2016	417-2 Incidents of non-compliance concerning product and service information and labelling	<b><i>2 incidents of non-compliance with voluntary codes (our promises to customers)</i></b> <i>p. 27-31 Our customers</i>
<i>not applicable</i>	Written customer complaints	<b><i>Total number of complaints: 1,215</i></b> <i>p. 27-31 Our customers</i>
<i>not applicable</i>	Customer satisfaction TRI*M index and customer monthly feedback results (5-point scale), part of GRI 102-44	<b><i>TRI*M: 61</i></b> <b><i>Monthly feedback result: 4.2</i></b> <i>p. 29-30 Customer satisfaction</i>
<i>not applicable</i>	Provision of information about unplanned water interruptions to the service (% of all unplanned interruptions)	<b><i>Information provided in 96.9% of the occasions</i></b> <i>p. 27-31 Our customers</i>
<b>Material topic: Socioeconomic compliance [Ensuring quality of services]</b>		
	SD Goal 3: Ensure healthy lives and promote well-being for all at all ages	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	<i>p. 18-21 Ensuring quality of services</i>
	103-2 The management approach and its components	<i>p. 18-21 Ensuring quality of services</i>
	103-3 Evaluation of the management approach	<i>p. 18-21 Ensuring quality of services</i>
GRI 419: Socioeconomic compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	<b><i>In 2022, the Company has not identified any non-compliance with laws and/or regulations.</i></b> <i>p. 18-21 Ensuring quality of services</i>

<i>not applicable</i>	Water quality (% of samples taken from customers taps, which meet all drinking water quality requirements)	<b>99.84%</b> <i>p. 20-21 Drinking water quality</i>
<i>not applicable</i>	Non-compliances with the Services Agreement (incl. interruptions to service lasting longer than 12 hours)	<b>0 non-compliance</b> <i>p. 19-20 Uninterrupted services</i>
<i>not applicable</i>	Average duration of an interruption	<b>On average the water interruption lasted 3.16 hours (3 hours and 10 minutes)</b> <i>p. 19-20 Uninterrupted services</i>



## Independent auditor's report

To the Shareholders of AKTSIASELTS TALLINNA VESI

### Report on the audit of the consolidated financial statements

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#### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AKTSIASELTS TALLINNA VESI (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 15 March 2023.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59<sup>1</sup> of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Company in the period from 1 January 2022 to 31 December 2022 are disclosed in the management report.

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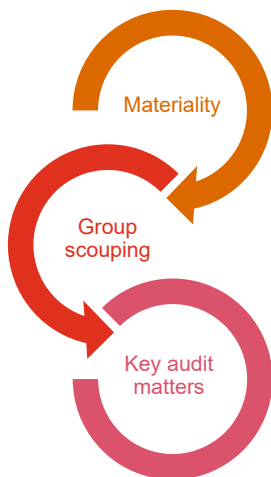
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## Our audit approach

### Overview



- Overall Group audit materiality is EUR 1,076 thousand, which represents 5% of the average profit before tax of the past five years.
- The audit team performed a full audit of the Group's parent company AKTSIASELTS TALLINNA VESI and its subsidiary Watercom OÜ. At the Group level we also audited the consolidation process to obtain evidence that there were no material misstatements of the consolidated financial information.
- Provision relating to the potential consequences of tariff dispute with the Estonian Competition Authority.
- Estimates involved in capitalisation of capital expenditures and determining their useful lives.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

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<b>Overall Group audit materiality</b>	EUR 1,076 thousand
<b>How we determined it</b>	Approximately 5% of the average profit before tax of the past five years
<b>Rationale for the materiality benchmark applied</b>	As profit before tax of the Group has been significantly volatile for the last years, we have calculated materiality based on average profit before tax of the past five years. We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by shareholders in evaluating the performance of the Group.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision relating to the potential consequences of the legal dispute with the Estonian Competition Authority (refer to Notes 3 “Critical accounting estimates” and 13 “Provision for possible third-party claims” for further details).</i></p> <p>The Group was involved in the lawsuit with the Estonian Competition Authority over the tariffs of water and sewage services. As a result of the outcome of the lawsuit, potential third-party compensation claims have been issued and could arise.</p> <p>As at 31 December 2022, the provision has been recognised in respect of potential claims from the customers in the amount of EUR 6 million (31 December 2021: EUR 6 million), calculated by management as approximately 40% of the maximum difference between the tariffs approved by the service contract and the tariffs based on Company’s estimation, regarding past 12 months (31 December 2021: 12 months).</p>	<p>We have discussed the status of third-party claims and potential claims with the Group management and the Audit Committee. We have read the minutes of meetings of the Management and Supervisory Board where claims were discussed. We also obtained confirmations from the Group’s internal and external legal counsels in order to compare their expert opinions to management’s position on the provision.</p> <p>We discussed with the management the inputs and assumptions used to estimate the amount of potential outflows of economic benefits as a basis of provision.</p> <p>We checked the disclosures regarding the dispute and resulting provision.</p>

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As of 31 December 2022, claims in the amount of EUR 13.6 million have been filed within four applications. One application also includes a claim of interest in amount of EUR 5.4 million.

We have considered assessment of this provision to be a key audit matter given the potential magnitude and uncertainty in the timing and amount of possible outflow of economic benefits.

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*Estimates involved in capitalisation of capital expenditures, and determining their useful lives (refer to Note 2 “Accounting policies”, Note 3 “Critical accounting estimates” and Note 7 “Property, plant and equipment” for further details).*

In 2022, the Group capitalised additions to Property, Plant and Equipment (PPE), mainly related to the construction of water and wastewater network and new customer pipeline connections, in the amount of EUR 24,9 million.

Expenditures are capitalised, if they create new or enhance the existing assets, and expensed, if they relate to repair or maintenance of the assets. Classification of the expenditures involves judgement.

The useful lives of PPE items are based on management’s estimates regarding the period during which the asset or its significant components will be used. The estimates are based on historical experience and market practice and take into consideration the physical condition of the assets.

Capital expenditure is not considered to be an area of significant risk for our audit but as it requires considerable time and resources to audit due to its magnitude, it is considered to be a key audit matter.

We assessed whether the Group’s accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS.

We obtained a listing of capital expenditures incurred during the year and, on a sample basis, checked whether the projects were undertaken based on an internal purchase order that had been properly approved by the responsible individuals with such authority.

We inspected a sample of contracts and underlying invoices to determine whether the classification between capital and operating expenditure was appropriate.

We evaluated whether the useful lives determined and applied by the management were in line with historical experience and the market practice.

We checked whether the depreciation of PPE items commenced timely, by comparing the date of the reclassification from construction in progress to finished projects, with the date of the act of completion of the work.

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## How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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The Group comprises of three entities: AKTSIASELTS TALLINNA VESI and its subsidiaries Watercom OÜ and ASTV Green Energy OÜ all located in Estonia. The group audit team performed full scope audit procedures on the financial statements of AKTSIASELTS TALLINNA VESI and Watercom OÜ. We also audited the consolidation process to obtain evidence that there were no material misstatements of the consolidated financial information.

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### Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises Management report, the Remuneration Report, Principles of Sustainability Reporting and Annex 1: GRI Index (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

In accordance with the Securities Market Act of the Republic of Estonia with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135<sup>3</sup> (3) of the Securities Market Act of the Republic of Estonia.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements;
- the Management report has been prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia; and
- the Remuneration Report has been prepared in accordance with Article 135<sup>3</sup> (3) of the Securities Market Act of the Republic of Estonia.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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### Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to

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enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on other legal and regulatory requirements**

### **Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")**

We have been engaged based our agreement by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of AKTSIASELTS TALLINNA VESI for the year ended 31 December 2022 (the "Presentation of the Consolidated Financial Statements").

#### **Description of a subject matter and applicable criteria**

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

#### **Responsibility of the Management Board and those charged with governance**

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

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This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

### **Our responsibility**

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (Estonia) 3000 (revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information" (ISAE (EE) 3000 (revised)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE (EE) 3000 (revised) will always detect the existing material misstatement (significant non-compliance with the requirements).

### **Quality control requirements**

We apply the provisions of the International Standard on Quality Management (Estonia) 1 (revised) and accordingly maintain a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

### **Summary of the work performed**

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;

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- evaluating the appropriateness of the Group's use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
  - evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.
- We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

## Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

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## Appointment and period of our audit engagement

We were first appointed as auditors of AKTSIASELTS TALLINNA VESI, as a public interest entity, for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AKTSIASELTS TALLINNA VESI, as a public interest entity, of 15 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AKTSIASELTS TALLINNA VESI can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

/digitally signed/

Janno Hermanson  
Certified auditor in charge, auditor's certificate no. 570

15 March 2023  
Tallinn, Estonia

/digitally signed/

Peep Kivistik  
Auditor's certificate no. 732

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## Independent Limited Assurance Report

To the Management Board of AKTSIASELTS TALLINNA VESI:

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### Introduction

We have been engaged by the Management Board of AKTSIASELTS TALLINNA VESI to provide limited assurance on the selected information described below and included in the Annual Report of AKTSIASELTS TALLINNA VESI (the “Company”) for the year ended 31 December 2022 (the “Annual Report”). The Annual Report represents information related to the Company and its subsidiaries (together the “Group”).

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### Selected Information

We assessed the quantitative and qualitative information, that is disclosed in the Annual report and referred to or included in the GRI Index (the “Selected Information”). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (Core option) (the “GRI Standards”) published by the Global Reporting Initiative (GRI).

The scope of our limited assurance procedures was limited to the Selected Information for the year ended 31 December 2022. We have not performed any procedures with respect to earlier periods or any other items (including the company-specific indicators, which are described without GRI codes in the GRI Index) included in the Annual Report and, therefore, do not express any conclusion thereon.

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### Reporting Criteria

We assessed the Selected Information using relevant criteria, including reporting principles and requirements, in the GRI Standards (the “Reporting Criteria”). We believe that the Reporting Criteria are appropriate given the purpose of our limited assurance engagement.

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### Responsibilities of the Management Board of the Group

The Management Board of the Group is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing internal methodology and guidelines for preparing and reporting the Selected Information in accordance with the Reporting Criteria;
- preparing, measuring and reporting of the Selected Information in accordance with the Reporting Criteria; and
- the accuracy, completeness and presentation of the Selected Information.

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### Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Company’s Management Board.

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This report, including our conclusion, has been prepared solely for the Management Board of the Company in accordance with the agreement between us, to assist the Management Board in reporting on the Group's sustainability performance and activities. We permit this report to be disclosed in the Annual Report, which will be published on the Company's website<sup>1</sup>, to assist the Management Board in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management Board of the Company for our work or this report except where the respective terms are expressly agreed in writing and our prior consent in writing is obtained.

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## Professional standards applied and level of assurance

We performed the limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance engagements other than audits or reviews of historical financial information" issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

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## Our independence and quality control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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## Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of the Group's management, including the Sustainability Reporting (SR) team and those with responsibility for SR management and group reporting;
- conducted interviews of personnel responsible for the preparation of the Annual Report and collection of underlying data;
- performed analysis of the relevant internal methodology and guidelines, gaining an understanding and evaluating the design of the key structures, systems, processes and controls for managing, recording, preparing and reporting the Selected Information;
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- reviewed the Selected Information for compliance of the disclosures with the relevant requirements of the Reporting Criteria.

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<sup>1</sup> The maintenance and integrity of the Company's website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company's website.

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## Reporting and measurement methodologies

Under the GRI Standards there is a range of different, but acceptable measurement and reporting techniques. The techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by Management Board as described in the Annual Report, and for which the Group is solely responsible.

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## Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2022 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

AS PricewaterhouseCoopers

/signed digitally/

Janno Hermanson  
Certified auditor in charge, auditor's certificate no. 570

15 March 2023

/signed digitally/

Peep Kivistik  
Auditor's certificate no. 732

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