

# AS TALLINNA VESI

## Annual Report 2023

*Tallinna Vesi*



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# MANAGEMENT REPORT

## CHAIRMAN'S STATEMENT

2023 has been a year of preparing for the future — investing more than ever as a business in going green, ensuring sustainable infrastructure and continuity of our services. We have also continued to introduce innovative technologies, such as the ice-pig technique for cleaning pipes and the smart water metering. It is important to us that the way we run our operations is sustainable, and having our gold label renewed by the Responsible Business Index demonstrates this once again. We also value the wellbeing of our employees and have joined the Family-Friendly Employer's Development Programme.

In preparing this annual report, we have introduced a set of sustainability reporting principles for the first time and are moving step-by-step towards their wider implementation.

As the largest water company in Estonia, we impact the daily lives of almost one third of Estonian people. We are aware of this and offer a service that meets all standards, taking into account the impact we have on the environment and nature. The tap water we produce meets all the drinking water standards and the quality of the treated effluent even exceeds the standards currently in place. For now, we only use electricity from renewable sources and have set a number of ambitious targets for reducing energy consumption and generating renewable energy ourselves by 2030. Using biogas from the wastewater treatment process, we have started to produce green heat and power. Our wastewater treatment plant treats almost 40% of all domestic wastewater in Estonia, with the utmost care to keep the Baltic Sea clean.

## INVESTING FOR THE FUTURE

In 2023, Tallinna Vesi continued to install smart water meters at a rapid pace. This will free our customers from the obligation to report their water meter readings every month. By 2026, the entire service area will be covered with smart water meters, and more than 40% of customers have already got new smart meters. The new meters provide information on water consumption, giving us a better picture of water use in our service area and allowing us to detect water leaks in customers' pipes as early as possible. This saves the environment and minimizes potential damage to property due to water emergencies.

Compared to the previous year, Tallinna Vesi invested 39 per cent more totalling 35 million euros in fixed assets in 2023.

The investment plan for the coming years is based on the Tallinn Public Water Supply and Sewerage Development Plan 2023–2034 and aims to reduce the environmental impact of water consumption, ensure the continuity of services and sustainable urban development. The investments planned for 2023–2025 will be carried out using loan agreements signed in the spring of 2023 with the Nordic Investment Bank, as well as with AS SEB Pank, Swedbank AS and the Estonian branch of OP Corporate Bank plc.

Current and future investments will continue to ensure high-quality drinking water for Tallinners and help keep the nature clean. Using modern technology and materials will increase the average life of pipes and improve treatment efficiency. This allows us to ensure

the continuity of a vital service at an affordable price and with minimal disruption to people's lives.

## NEW TECHNOLOGIES

In 2023, large-scale investment projects continued at the treatment plants, for example, the upgrade of the high-speed filters at the Ülemiste Water Treatment Plant was completed and the renovation of the clarifiers began. We continue to prepare for implementing two major projects in the coming years. The first is to upgrade and reconstruct ozone production for water treatment, and the second is to convert floating bed clarifiers to flotators. These projects aim to reduce the energy consumed by the treatment plant and to increase its production capacity.

At the Paljassaare Wastewater Treatment Plant, the largest project in 2023 was the reconstruction of the digesters, which is expected to result in Tallinna Vesi producing more biogas from the sewage sludge generated during the wastewater treatment process. The first of the two digesters was completed by the end of the year and is ready for commissioning, while the reconstruction of the second digester will be continued in 2024. While the digesters were being reconstructed, work also progressed on a combined heat and power plant, which will not only generate heat from the biogas, but also provide most of the electricity needed for the wastewater treatment process. The cogeneration plant was completed by the end of the year and will be fully operational in 2024. Work will also continue in 2024 to install a knife gate valve between the suction basins at the wastewater headworks in Paljassaare.

In early 2023, our subsidiary Watercom launched a new water pipe cleaning service using innovative ice-pigging technology. Ice-pigging is many times more efficient, faster and better for the environment than any other method of maintenance that has been used to date. The service has got off to a good start and has attracted interest from a number of companies using the pipe systems as part of their core business.

## PROVEN QUALITY

The consistently high level of quality is proof that Tallinna Vesi provides a reliable and safe water and wastewater service — water samples taken during 2023 confirmed that the tap water meets all the strict quality standards for drinking water to 99.87%.

Clean drinking water is a valuable resource that cannot be taken for granted. There are a lot of people, strategic work and science behind excellent water quality. Clean tap water has been ensured by well-targeted investments, an efficient water treatment process, regular monitoring and continuous preventive maintenance work in the water network.

More than 140 km of water mains were cleaned during the year using the ice-pigging method introduced in early 2023. Ice-pigging is a unique maintenance technology that involves preparing a mass of ice flakes from a solution of water and table salt and pumping this mass through a water pipe.

During 2023, we removed more than 800 tons of debris, 200 tons of grit, 1800 tons of nitrogen and 240 tons of phosphorus from wastewater. The effluent treated at the Paljassaare wastewater treatment plant met all standards in all quarters.

## CONTRIBUTING TO THE COMMUNITY

Tallinna Vesi provided clean drinking water for the 13th Youth Song and Dance Celebration "Holy is the Land" in July 2023, taking more than 100,000 litres of fresh drinking water to rehearsals and performances. In this way, together with the singers, dancers and the audience, we saved the resources it would have taken to produce, transport and dispose of more than 200,000 plastic bottles. In addition to the water tanks, drinking water was provided at the song and dance celebration from drinking water taps installed at the Tallinn Song Field and Kalevi Stadium.

We contributed to Impact Day, a sustainability festival promoting environmental education, and the Investment Festival, as well as community events such as Tallinn Old Town Days, Tallinn Maritime Days, Kalamaja Days, Tallinn Urban Space Festival, Midsummer Day in Põhja-Tallinn, KopliFest and Uue Maa Street Festival. We also helped organize several sporting events, such as the 51st Lake Ülemiste Run and the IRONMAN.

In 2023, we supported the Kindergarten Õunake and the Ristiku Elementary School in Tallinn, the Estonian Disabled Athlete Sports Association, the Agrenska Foundation, the Autism School, the North Estonian Association of the Blind, the Tallinn Crisis Centre for Women and the Food Bank.

We organized open days and guided tours at the Ülemiste Water Treatment Plant and the Paljassaare Wastewater Treatment Plant, and held discussion groups on topics related to water and the environment. In total, more than 2,600 people participated in these initiatives.

## OUTLOOK FOR 2024

On 21 September 2023, we submitted an application to the Competition Authority to change the prices for water services. The application concerns the prices for water services in the main service area in Tallinn and Saue, in the Maardu service area and to other water companies. Subject to approval by the Competition Authority, the new prices will be applied in 2024. The need for water price adjustments is due to justified cost increases and investments to ensure the operation of vital services, reduce the environmental impact of water consumption and maintain a clean environment.

I would like to sincerely thank the whole dedicated team of Tallinna Vesi and Watercom, the members of the Supervisory Council and our customers, consumers and partners for the good co-operation!

**Aleksandr Timofejev**

Chairman of the Board



A handwritten signature in blue ink, consisting of stylized, overlapping loops and lines.

# OUR COMPANY

Tallinna Vesi is the largest water company in Estonia, providing water and wastewater services to almost a third of Estonian population. We serve more than 24,900 private and commercial customers and nearly 470,000 end-consumers in Tallinn and the surrounding municipalities – the towns of Maardu and Saue and the village of Männiku in Saku municipality. The company had 364 employees as at 31 December 2023.



*Ülemiste Water Treatment Plant (left) and Paljassaare Wastewater Treatment Plant (right)*

The company has two treatment plants: Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant. Every day, our plants treat an average of 70,200 m<sup>3</sup> of drinking water and 133,000 m<sup>3</sup> of wastewater. Tallinna Vesi also has an accredited water and waste water laboratories.

The public water supply system includes more than 1,210 km of water pipes, 22 water pumping stations and 49 groundwater pumping stations with a total of 91 borewells. The surface water catchment area covers about 1,800 km<sup>2</sup> in Harju and Järva counties. The public sewerage system consists of more than 1,195 km of wastewater pipes, 518 km of stormwater pipes and 181 wastewater and stormwater pumping stations throughout the service area.

Tallinna Vesi was privatized in 2001. The service agreement concluded with the City of Tallinn at the time of privatisation was valid until 30 November 2022. A new administrative contract has been signed with the city for the period 01/12/2022–30/01/2032. Together with the approval of the administrative duty, AS Tallinna Vesi has been appointed as the water undertaker within the main public water supply and wastewater service area in Tallinn until 30 November 2032 (incl.).

The Tallinna Vesi Group consists of the parent company AS Tallinna Vesi and its subsidiaries Watercom OÜ and ASTV Green Energy OÜ.

Watercom, a subsidiary established in 2010, aims to provide services to the parent company, expand the range of services offered and develop non-regulated services. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and its results are consolidated in the group's results.

Tallinna Vesi also owns a 100% stake in the subsidiary ASTV Green Energy OÜ (established in 2021), which has a longer-term goal to offer reusable resources generated from the provision of water services as products in the green energy market.

The structure of the group has remained largely unchanged in recent years.

The shares of Tallinna Vesi are listed on the Nasdaq Baltic Main List. As of 31 December 2023, the shareholders with a direct shareholding of more than 5% were OÜ Utilitas and the City of Tallinn.

## Management System

To ensure that the company is managed effectively and systematically, we have implemented an integrated management system that complies with the international standards for quality management systems (ISO 9001), environmental management systems (ISO 14001) and occupational health and safety management systems (ISO 45001), as well as the requirements of the EU's Eco-Management and Audit Scheme (EMAS) Regulation. We also have an ISO/IEC 27001:2017 certified information security management system in place since 2023 to more effectively operate and protect our information systems and infrastructure. The scope of all the standards covers the main areas of activity of Tallinna Vesi:

- abstraction and treatment of groundwater and surface water for the production of drinking water,
- supplying drinking water to consumers in Tallinn and the surrounding area,
- collection and treatment of wastewater and stormwater,
- customer service to ensure the intended service.

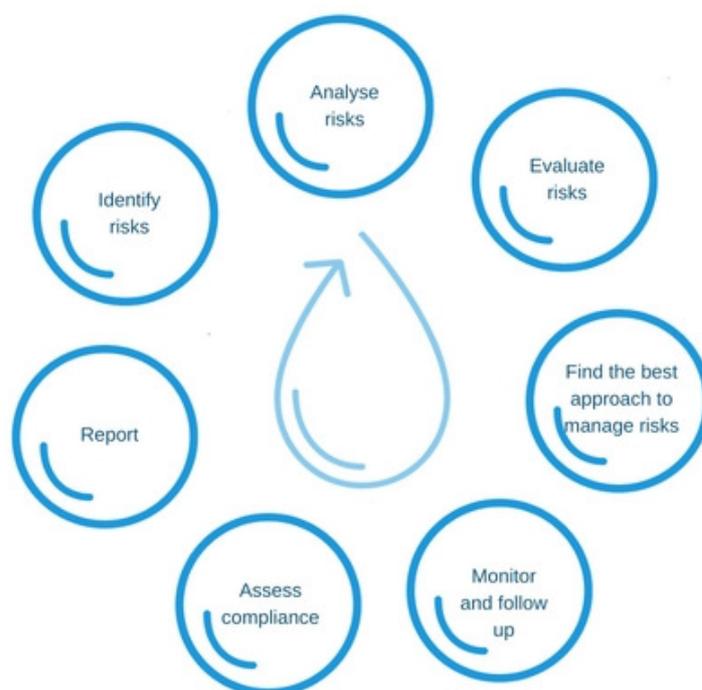
The activities of the subsidiary Watercom are certified according to the quality standards ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 and the scope of standards covers the following areas of activity:

- owner supervision,
- construction of water and wastewater pipes,
- repair and maintenance,
- road construction,
- development of services related to water business.

## Risk Management

Risks and uncertainties of all kinds are an everyday part of running any business. Tallinna Vesi has defined risk as something that could have a material adverse effect on the achievement of the company's targets and objectives. Risks can mean threats, uncertainties or stranded opportunities related to the activities or operations of Tallinn Vesi, either today or in the future.

The aim of the continuous risk management process is to assess, manage and regularly monitor risks that could undermine the achievement of Tallinna Vesi's objectives. A risk owner is assigned to each risk, who, together with the quality manager, carries out regular risk assessments, additionally involving specialists in the respective field. Risks are divided into normal risks and strategic risks. Strategic risk is a business-critical risk that affects the entire company and relates to its governance, long-term strategy, sustainability and objectives, and which, if materialised, could jeopardise the company's performance, the achievement of its objectives and result in significant losses. All other risks that fall below the strategic risk threshold qualify as normal risk.



The identification of risks is based in particular on:

- the requirements set out in legislation,
- the requirements arising from the standards underlying the management systems,
- the company's business plan and annual targets,
- known and documented information about possible adverse events,
- the knowledge and experience of the employees in connection with the possible negative effects on the events,
- information in the media about the area of activity,
- trends and developments in the field of technologies used in the company,
- changes in the supply chain.

The impact of the risk is assessed based on the severity of the consequences across the various impact areas. The severity of the potential consequences of each risk is rated on a 4-point scale, depending on the nature of the risk, either for all or some of the topics listed below:

- Financial loss
- Quality of service
- Health and quality of life of residents
- Health and safety at workplace
- Nature
- Reputation and co-operation with stakeholders
- Data loss, downtime of information systems/ alarm time

In the risk management process, the company's risks are categorised according to their area of impact as follows:

Financial risks	Operational risks	Reputational risks	Legal and Regulatory risks	Health and Safety risks	Environmental risks
Personnel risks	IT risks	Organisational risks	Reporting risks	Sustainability risks	Quality risks

On a quarterly basis, an overview of the significant risks, together with the measures taken to control them and the actions planned for the future, is presented to the Management Board and the Audit Committee.

## Company's Strategic Risks:

### EXTREME WEATHER CONDITIONS AND THE RESULTING INABILITY TO PROVIDE A SERVICE

Extreme rainfall increases the risk of flooding in the lower areas of Tallinn (Ahtri, Tuukri and Endla streets, Pelgulinn and the Song Festival area) due to overloading of the combined sewer system, or the risk that the wastewater treatment plant will not be able to treat all incoming wastewater for a short period of time, which could lead to pollution incidents. Working with the City of Tallinn, the company continues to build separate sewer system to help further minimise these risks.

### BREAKDOWN OF FACILITIES OF STRATEGIC IMPORTANCE

The collapse of a major collector or a major failure at a pumping station could disrupt service to some large areas. Regular inspections and condition assessments of collectors and pumping stations are carried out to control the risk. In addition, we supervise third party construction activities within the protection zone of public sewer collectors.

### BREAKDOWN OR DESTRUCTION OF WASTEWATER TREATMENT TECHNOLOGY OR INFRASTRUCTURE

The destruction of critical wastewater treatment technology or equipment can result in the plant being unable to treat wastewater properly, leading to environmental pollution and further environmental fines. To minimise the risk, systems are regularly assessed, existing systems are monitored, critical links are duplicated and an investment plan is in place to proactively upgrade critical systems.

### MAJOR FAILURE AT WASTEWATER HEADWORKS

The Paljassaare headworks is a crucial facility that collects all the wastewater from the city. If the pumping is disrupted and the wastewater cannot be pumped to the treatment plant, flooding will occur in the city and the wastewater could end up in the environment. To minimise

the risk, the company has in recent years replaced old pumps with new ones, created the power supply from several substations and is planning to build a gravity overflow.

## **DISRUPTION TO THE CONTINUITY OF SERVICES CAUSED BY A MAJOR POWER CUT**

A major power cut in Tallinn and/or Harju county area could lead to a complete shutdown of the wastewater treatment plant, disruption of the company's information systems, flooding and environmental pollution, and, in the worst case, disruption of the drinking water supply in the Tallinn and Saue service areas and neighbouring municipalities. The likelihood of this risk materialising is currently assessed as high due to the possible desynchronisation of the Baltic electricity grid from the Kaliningrad electricity grid and the prolonged repair of the Auvere power plant. To manage the risk, the company has prepared a comprehensive contingency plan, set up a co-generation plant at the wastewater treatment plant and is purchasing generators to ensure the continuity of all its processes.

## **POSSIBLE THIRD-PARTY CLAIMS**

On 12 December 2017, the Supreme Court ruled on Tallinna Vesi's appeal in cassation regarding the tariff dispute with the Estonian Competition Authority. The Court found that the Competition Authority was not bound by the agreement on the prices for the water services contained in the Services Agreement concluded between the company and the City of Tallinn at the time of privatisation, and that in the future, the prices for the water services will be regulated by the Competition Authority.

Pursuant to the law, the prices for the water services established under the Services Agreement were valid until the Competition Authority has established new prices for the water services and the company has implemented them in accordance with the law. The company acted in good faith and in accordance with the law. Therefore, the company does not consider itself liable to customers for any claims related to the correct implementation of the new tariffs approved by the Competition Authority prior to their entry into force.

The Competition Authority approved the tariff application submitted by the company in September 2019 on 18 October 2019. The new prices for the water services applied from 1 December 2019. In the company's main business area, prices fell by an average of 27% for private customers and by an average of 15% for commercial customers.

As of 31 December 2023, the claims brought in the four actions totalled EUR 13.6 million. The Management Board has estimated the potential liability in the event of a legal settlement at EUR 6 million (31 December 2022): EUR 6 million) and has decided to suspend the reduction of the provision for reasons of prudence. As at 31 December 2002, two cases had reached the second instance and the claims brought by the plaintiffs had so far been rejected by all the courts. The company does not consider it likely that new claims will be filed on the same basis, given the general time bar on claims.

The company has always acted lawfully, applying fair tariffs established in accordance with applicable law and in the opinion of the company there is no basis for filing claims, therefore the company does not accept any liability and rejects all the claims in full.



## OUR MAIN PRODUCTS AND SERVICES



Collection, treatment and supply of water -



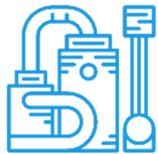
Collection, treatment and disposal of wastewater and stormwater



Design services



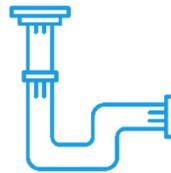
Owner supervision and project management



Water and wastewater services



Laboratory services



Pipe construction



Transportation services and road construction

## OUR MISSION AND VISION

We are committed to providing high quality drinking water, ensuring uninterrupted service, and collecting and treating wastewater and stormwater in a way that is safe for the environment.

### VISION

We create a better life with pure water!

### MISSION

We connect people together to the vital cycle of water.

# HIGHLIGHTS FROM 2023



## LARGE INVESTMENTS IN WATER AND WASTEWATER TREATMENT

In 2023, we reconstructed the first of two biogas-producing digesters at the Paljassaare Wastewater Treatment Plant. A new pump has been installed at the headworks, the reconstruction of the effluent outlet tower at the plant has been completed and the reconstruction of the aeration tanks is continuing.

At the end of the year, a combined heat and power plant was completed at the wastewater treatment plant that converts biogas from the sewage sludge stabilization process into electricity and heat. All the energy generated by the CHP will be used at the wastewater treatment plant and all the company's electric cars will be powered by electricity generated from wastewater. This is an important step for us as we move towards carbon neutrality.

At the Ülemiste Water Treatment Plant, the renovation of the high-speed filters was completed and the upgrading of the clarifiers began. Preparations are also underway for two major projects — the upgrade of ozone production and the

conversion of floating bed clarifiers to flotators.

## CONTINUED REHABILITATION OF WATER AND SEWERAGE NETWORKS

In 2023, we built and reconstructed more than 27 km of water and sewerage networks. The largest works were carried out on Jõe and Pronksi Streets, Vana-Kalamaja Street, E. Vilde and Akadeemia Road, Kuklase and Vaablase Streets, Pärna, Reinvaldi and Kuhlbarsti Streets, Tehnika, Magasini and Punane Streets and on Smuuli Road. Individual supply points have been built for the apartment buildings in the Lasnamäe and Mustamäe areas. The sewers in the Mustamäe district have been rehabilitated using the no-dig methods that are better for the environment. In total, more than 12 km of pipes were reconstructed using no-dig methods in 2023.

To ensure security of supply, in 2023 we built another pressure pipeline for the Teletorni wastewater pumping station and reconstructed the supply pipeline of the Lasnamäe booster pumping station.

All these upgrades will help to increase the security of supply and ensure the smooth operation of water and wastewater services for a large number of Tallinners.

## LOAN AGREEMENTS TO FINANCE INVESTMENTS

In May 2023, Tallinna Vesi signed a syndicated loan agreement with AS SEB Pank, Swedbank AS and the Estonian branch of OP Corporate Bank plc, and in June 2023 a loan agreement with the

Nordic Investment Bank for a total of EUR 131 million. With the loan agreements signed, the company will finance projects planned for the period 2023–2025 at the water and wastewater treatment plant and will invest in the reconstruction and construction of networks, which result from the company's strategy and the objectives of the Tallinn Public Water Supply and Sewerage Development Plan.



### THE GOLD LABEL FOR RESPONSIBLE BUSINESS

In May, we renewed the gold label in the Responsible Business Index we received in 2021. This is a very important recognition for the company as it shows that our work in producing high quality drinking water and collecting and treating wastewater and storm water is done in a sustainable way.



### THINKING GREEN MEANS ACTING GREEN

We aim to make fresh tap water as conveniently available as possible in urban areas. Choosing tap water over bottled water significantly reduces the amount of plastic waste generated. To this end, in 2023, in partnership with the City of Tallinn, we built three new public drinking water taps. Thus, a total of 41 public drinking water taps were opened across the capital in the summer.

### NÕMME WATER SUPPLY CRISIS EXERCISE

In March, we switched the water supply from the groundwater wells in the Nõmme district to drinking water treated at the Ülemiste Water Treatment Plant for 10 hours. The aim of the test was to map out the options for ensuring the water supply to the local residents in the event of a major power cut in the district, which would stop the borehole pumps from supplying water to the area. The test has given us confidence that in a crisis situation it is possible to connect the Nõmme district to the water network supplied by Lake Ülemiste and provide clean drinking water for the residents.



## SMART WATER METERS

In the summer of 2023, we started installing smart water meters for our contractual customers. With smart meters, customers no longer need to report their water meter readings. The advantages of a smart meter include the speed and accuracy of data transmission, as well as security and reliability. In addition, the smart meter indicates faults and possible leaks. By the end of 2023, more than 40% of Tallinna Vesi's customers had a smart meter installed. By the end of 2026, the entire service area will be covered with smart water meters.

## INTERNATIONAL RECOGNITION FOR OUR INFORMATION SECURITY SYSTEMS

In June, Tallinna Vesi was awarded a certificate of compliance with the ISO 27001 standard for information security management systems. The ISO/IEC 27001:2013 certification confirms the reliability of the company, the quality of the operation of the information systems and the security of the data entrusted to us. We will continue to invest in our information systems and training of staff to maintain this level.



## TALLINNA VESI IS A SUPPORTER OF NATIONAL DEFENDERS

In June, we were awarded the title of "Supporter of National Defenders", which is presented once a year by the Minister of Defence, in recognition of companies and organizations that have excelled in supporting national defence.

## CO-OPERATION EXERCISE "SPLASH II"

In September, a co-operation exercise "SPLASH II" was held on and around Lake Ülemiste, during which various authorities and companies practised responding to an aircraft accident with casualties. The exercise simulated the response to an aircraft accident, search and rescue operations, pollution response, as well as the overall management of the crisis. As a vital service provider, we need to keep our crisis preparedness at a high level, and large-scale exercises give us an important indication of our actual preparedness.



## TEAM BUILDING DAY FULL OF SPORTS

In October, Tallinna Vesi and Utilitas held their first co-operation day at the Kalev sports hall. Being both providers of vital services, we wanted to bring the staff of the two companies closer together. The day started with an information breakfast, followed by a team training session and a friendly basketball match. This time, it was Utilitas who won the travelling cup.



## TALLINNA VESI JOINED THE FAMILY-FRIENDLY EMPLOYER'S PROGRAMME

In November, we were selected by the Ministry of Social Affairs to participate in the Family-Friendly Employer's Programme and were awarded the initial label of the programme. This comprehensive programme, which will run for almost two and a half years, will give us the opportunity to refine our organizational culture and activities under the guidance of mentors to make them more family- and employee-friendly.



## CONTRIBUTION TO THE LOCAL COMMUNITY

As in many previous years, in 2023 we supported initiatives related to environmental education and aimed at the local community or people with fewer opportunities.

We contributed to Impact Day, a sustainability festival promoting environmental education, and the Investment Festival, as well as community events such as the 13th Youth Song and Dance Celebration, Tallinn Old Town Days, Tallinn Maritime Days, Kalamaja Days, Tallinn Urban Space Festival, Midsummer Day in Põhja-Tallinn, KopliFest and Uue Maailma Street Festival. We also helped organize several sporting events, such as the 51st Lake Ülemiste Run and the IRONMAN.

In 2023, we supported the Kindergarten Õunake and the Ristiku Elementary School in Tallinn, the Estonian Disabled Athlete Sports Association, the Agrenska Foundation, the Autism School, the North Estonian Association of the Blind, the Tallinn Crisis Centre for Women and the Food Bank.

We organised open days and guided tours at the Ülemiste Water Treatment Plant and the Paljassaare Wastewater Treatment Plant, and held discussion groups on topics related to water and the environment.

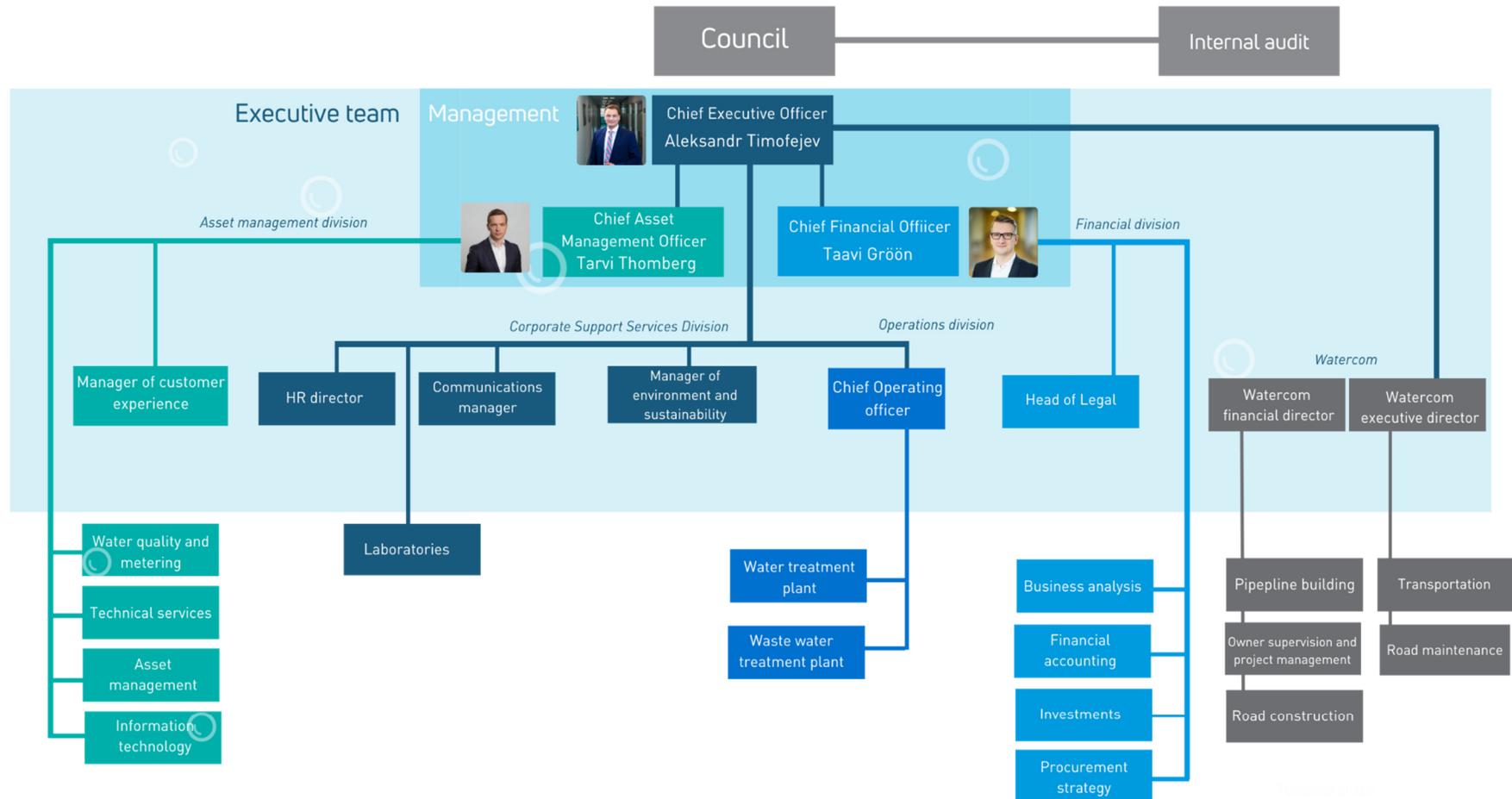


## WATERCOM LAUNCHES ICE-PIGGING SERVICE

Watercom managed to meet the profit target set by the group also in 2023,

despite the difficult situation in the construction market. However, 2023 was the year of ice-pigging. Namely, at the beginning of the year, the company launched a new water pipe cleaning service using innovative ice-pigging technology. Ice-pigging is many times more efficient, faster and better for the environment than any other method of maintenance that has been used to date. The service has got off to a good start and interest in the new technology is high.

# Company Structure

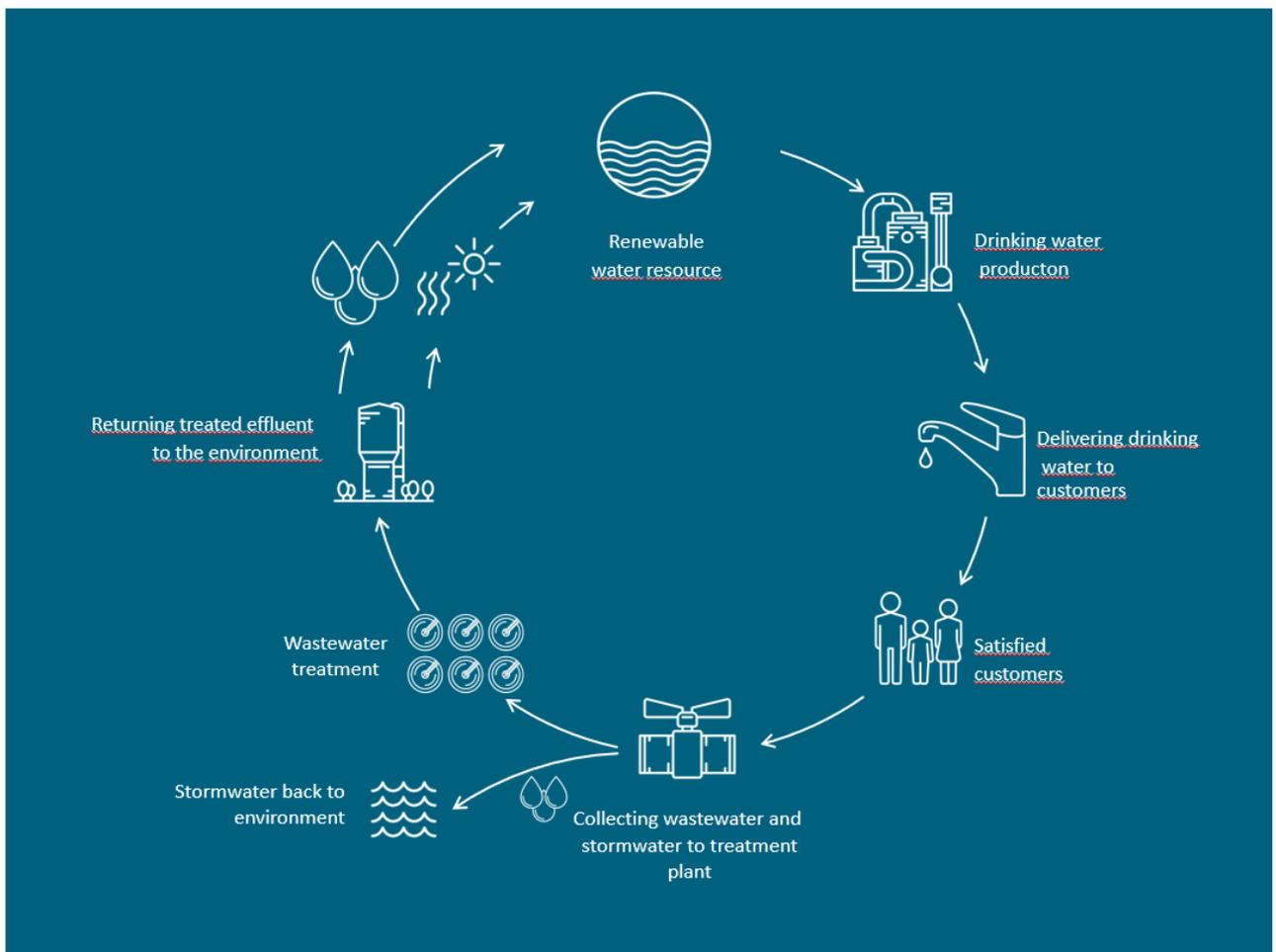


# STRATEGY

## HOW WE CREATE VALUE

We are committed to creating a better life with pure water. We work tirelessly and passionately to achieve the targets and objectives we set for ourselves. As a large company, Tallinna Vesi holds an important role in the community. We must stand up for our employees, customers, consumers, investors, partners, the country and the environment.

Through our business, we are part of the natural water cycle — providing our customers with clean water that they can use with confidence, knowing that the same water will be returned to nature in a way that is safe for the environment. This holistic view underpins our strategic objectives.



## Strategic Objectives

Tallinna Vesi's operating environment is shaped by several elements of sustainability, including environmental considerations, social factors, regulatory requirements and market dynamics. The company navigates these elements to provide reliable, safe and sustainable water and wastewater services that are vital to residents and businesses.

Tallinna Vesi must ensure the sustainable management of water resources, taking into account factors such as water availability, climate change, and protecting the environment. This includes implementing efficient water treatment processes and promoting green practices among water users. As the largest water company in Estonia, we impact the daily lives of almost one third of Estonian people and we provide a vital service. We are aware of this and offer a service that meets all standards. We take into account the impact we have on the environment and nature, and the importance of continuity in the services we provide.

Climate change is causing average temperatures to rise, leading to unexpected and abrupt weather changes. Prolonged droughts affect the availability of water resources, while periodic downpours pose drainage challenges and increase the demand for stormwater solutions.

Continuity risks from external factors have increased (geopolitical, cybersecurity, etc.).

We have set five strategic objectives that reflect the interests of our stakeholders:

- Sustainable urban development
- Reducing environmental impact
- Ensuring continuity
- Affordable prices
- Employee satisfaction and strong shareholder relations

### SUSTAINABLE URBAN DEVELOPMENT

We enable the sustainable urban development by providing high-quality water services, pioneering modern stormwater solutions and developing green urban space. We connect our customers to the vital water infrastructure and deliver excellent customer experiences using smart solutions and digital service channels.

### REDUCING ENVIRONMENTAL IMPACT

We reduce the environmental impact of our customers to ensure that a clean Baltic Sea is maintained and that surface water is used as a sustainable resource. We promote the circular economy, use renewable energy generated from our own operations and adopt the advanced technologies.

## ENSURING CONTINUITY

We ensure the continuity of vital water services by maintaining our assets in a reliable condition, building resilience to climate change and risks, and implementing robust cyber security measures.

## AFFORDABLE PRICES

We strive to maintain affordable prices for our customers by continuously improving our efficiency through modern technologies, digitalization and automation. We invest wisely and in partnership with local authorities and other infrastructure owners.

## EMPLOYEE SATISFACTION AND STRONG SHAREHOLDER RELATIONS

We value employee satisfaction and strong shareholder relationships. We invest in our people by promoting a safe and fair working environment and supporting continuity through a well-designed succession programme. We work together to grow company's value and meet the expectations of our shareholders.

Targets 2023	Key performance indicator	Target 2023	Target 2028
Sustainable urban development	Quality of drinking water	100%	100%
	Number of flooded locations (vs. in 9 months of 2023)	0	-25%
	Excellent customer experience (TRI*M Index score)	> 62	> 65
Reducing environmental impact	Compliance with environmental permit requirements	100%	100%
	Quality of treated effluent	99.9%	100%
	Scope 1 and 2 emissions (vs. 2020)	-46%	-48%
Ensuring continuity	Water loss rate lower than EU average	< 10%	< 10%
	Number of water bursts (vs. last 3 yrs ('20-'22) average)	0%	-10%

Affordable prices	Number of sewer blockages (vs. last 3 yrs ('20-'22) average)	0%	-10%
	Water costs as % of household income <sup>1</sup>		
Employee satisfaction and strong shareholder relations	Number of workplace accidents	0	0
	Voluntary staff turnover	< 7%	< 7%
	Dividend policy, net profit distributed	50–80%	50–80%

## Stakeholder Expectations

Stakeholder	Expectation	Relation to strategy
Customers	<ul style="list-style-type: none"> <li>Ensure that the quality of the drinking water at the property's supply point meets current standards.</li> <li>Ensure that the public sewerage system at the property's supply point meets current requirements.</li> <li>Sell water supply and/or wastewater disposal services to the customer in accordance with the prices established by law.</li> <li>Have a main water meter, owned by the water company, installed at the customer's water metering unit and ensure that this water meter is properly maintained and verified.</li> <li>It is important for the customer to have a high-quality, uninterrupted service at a reasonable price. If the service fails, ensure that it is restored promptly. Smooth and efficient customer service. Accurate and timely billing and easy communication with the company. Understandable requirements in terms of conditions. We monitor that all of the above expectations are met through a variety of metrics.</li> </ul>	Sustainable urban development Affordable prices Ensuring continuity
Company staff	For employees, it is important that the company is sustainable, pays a competitive salary and does so on time, and offers sufficient development and training opportunities as well as challenges. It is also important for employees to be informed in a suitable way and to be	Employee satisfaction and strong relationships with shareholders

<sup>1</sup> Depends on the prices for the water service to be approved by the Competition Authority. At the prices applied in 2023, water costs were approximately 0.5% of the average net household income and will remain at the same level if the price application submitted to the Competition Authority is approved.

	<p>engaged in various company processes, such as identifying competency requirements and training needs.</p>	
<p>Shareholders</p>	<p>It is important for the company's shareholders that the company continues to operate successfully and efficiently, thereby increasing the value of their investment (share price) and ensuring a steady flow of dividends. For this, it is important that the company is transparent and accessible in its investor relations. Reporting must be timely and the information provided must be balanced.</p>	<p>Employee satisfaction and strong shareholder relations</p>
<p>Authorities</p>	<p><b>Expectations of the City of Tallinn and other local authorities</b></p> <ul style="list-style-type: none"> <li>• Contractual service quality requirements must be met, and the city's residents must be provided with a high-quality service that meets service level and regulatory requirements.</li> <li>• Water and sewerage systems must be developed in line with other developments in the city.</li> <li>• Reports must be submitted in a timely manner.</li> </ul> <p><b>Expectations of the Health Board and environmental supervision agencies:</b></p> <ul style="list-style-type: none"> <li>• It is necessary to ensure that the company's activities, including raw water abstractions, drinking water quality and treated effluent parameters, meet established requirements.</li> <li>• Public health and the environment must be protected.</li> <li>• Drinking water must be of high quality and meet all standards.</li> <li>• Treated effluent must comply with regulations and pollution incidents are not allowed.</li> </ul> <p><b>Expectations of the occupational health and safety supervision authority:</b></p> <ul style="list-style-type: none"> <li>• It is necessary to ensure that all of the company's activities comply with the requirements of the law on health and safety at work and labour relations in the working environment.</li> <li>• It is necessary to ensure that employees and contractual partners are informed of the risks in the working environment.</li> </ul>	<p>Ensuring continuity Affordable prices Reducing environmental impact</p>

<p>Expectations of the general public and the population</p>	<p>The general public and the population want the company, as a vital service provider, to also pay attention to sustainability, the environment, public health and the weaker populations of society. Informing the public and guided tours of the company's treatment plants are considered important.</p>	<p>Reducing environmental impact</p>
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# FINANCIAL RESULTS FOR 2023

## Economic Environment

Given that Tallinna Vesi only operates in Estonia, the company is mainly dependent on the trends in Estonian economy.

According to the Eesti Pank (Bank of Estonia) Estonian Economy and Monetary Policy review, 2023 proved harder than expected for the Estonian economy, and the recession lasted longer than predicted.

The recession has proved deeper than expected, and this has largely been a consequence of the fall in exports. Estonian gross domestic product (GDP) was 3.9% smaller than a year earlier in the third quarter, and 1.2% smaller than in the second quarter when adjusted for seasonal and calendar factors. The decline in the economy in the third quarter was driven by the drop in exports among demand factors, while domestic demand softened the overall fall on the back of unexpectedly large investment. Domestic demand was supported by unexpectedly large investments. Although private consumption was down, it was down by markedly less than exports.

The largest part of the drop in GDP in the third quarter came from sectors directly involved in exporting such as manufacturing and transport and storage, which is in line with the change in GDP demand factors. Value added declined at the same time for the highly productive sector of business services and for information and communications, which has led the growth in the economy over the past decade. Value added increased in retail, and also in areas connected to the public sector.

The recent fall in industrial output cannot be attributed to the war between Russia and Ukraine, as it reflects a more general decline in demand in target countries and a loss of competitiveness. Industrial output fell in summer 2022 mainly because inputs originating from Russia disappeared, after which the level of industrial production remained relatively stable. Forecasts written before autumn 2022 expected growth in the economy to recover once the impact of changes to supply chains passed out from the yearly reference base. Unfortunately though, the contraction in the industrial sector continued in spring 2023 and deepened even further in the third quarter.

Employment fell and unemployment rose from the first quarter of 2023 onwards. The fall in employment was quite small given the length and scale of the recession, and the labour market continued to perform better than was earlier forecast. Labour markets in many countries have remained strong during the current economic difficulties. That employment has reacted relatively little to the recession is confirmed by both the Estonian labour force survey and data from various registers. The estimates from the survey indicate that employment started to fall in the second quarter of 2023, but registry data show that the trend turned a little earlier, during summer 2022. The register of employees shows that the number of employment relationships in September 2023 was 2.2%, or about 17,000, below the peak it reached last year. Data from the Tax and Customs Board show that the number of people receiving a wage under an employment contract was 0.6% or about 3200 lower in September 2023 than at its peak in August 2022.

Consumer prices were still rising relatively fast in the first half of 2023, but the overall price level did not essentially change in the second half of the year and consumer prices fluctuated mainly because of seasonal factors. Inflation over the year still rose to 4.9% in October because of the compensation for energy prices that was introduced in October 2022. It then came back down to close to 4% in November

Changes in the consumer price and construction price indices have a direct impact on Tallinna Vesi's operating costs and investments. According to Statistics Estonia, the construction price index increased by 17.8% in 2023 compared to the 2022 average (2022: 16.1%).

## MAIN FINANCIAL INDICATORS OF AS TALLINNA VESI

Main financial indicators	PERFORMANCE				
€ million, except key ratios and share data	2023	2022	2021	2020	2019
Sales	61.14	54.56	53.29	51.72	63.42
Gross profit	24.07	16.90	20.58	22.23	33.95
Operating profit before depreciation and amortisation (EBITDA)	25.40	18.14	25.30	28.07	38.18
Operating profit	17.35	11.32	18.78	21.78	32.07
Operating profit – main business	15.99	10.33	17.52	21.32	31.19
Profit before taxes	14.21	10.65	18.40	21.34	31.30
Net profit	12.84	8.41	16.17	16.73	27.76
Gross profit margin %	39.36	30.97	38.61	42.98	53.53
EBITDA margin %	41.55	33.24	47.47	54.27	60.21
Operating profit margin %	28.38	20.75	35.24	42.12	50.57
Profit before taxes margin %	23.23	19.51	34.52	41.27	49.36
Net profit margin %	21.01	15.41	30.33	32.35	43.77
ROA %	4.80	3.30	6.32	6.45	10.83
Debt to total assets %	58.47	56.26	54.94	56.09	56.05
ROE %	11.27	7.43	14.20	14.69	25.43
Current ratio	1.30	1.24	2.83	3.85	5.48
Number of full-time equivalent employees, at the end of the year	351	333	333	332	314
Share price, at the end of the year	10.60	12.54	14.48	13.25	11.70
Share capital	12.00	12.00	12.00	12.00	12.00
Earnings per share	0.64	0.42	0.81	0.84	1.39
Dividend per share	n/a*	0.33	0.65	0.65	1.00

Cash balance, at the end of the year	14.74	12.65	36.56	44.51	64.78
Investments to fixed assets	34.93	25.13	15.38	19.42	19.42

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 2023 have not been declared at the time of issuing the report.

## Statement of Comprehensive Income

### SALES

During the twelve months of 2023, the group's total sales were €61.14 million, showing an increase of 12.1% or €6.58 million year-on-year. Sales from water services for twelve months of 2023 were €55.62 million, increasing by 13.8% or €6.73 million year-on-year. 91.0% of the sales comprise of sales of water services within and outside of the main service area, 7.8% of construction services and 1.2% of other services.

€ thousand	12 months			Variance 2023/2022	
	2023	2022	2021	€	%
Water supply service	9 861	8 380	8 097	1 481	17.7%
Wastewater disposal service	14 508	12 406	12 000	2 102	16.9%
<b>Total from private customers</b>	<b>24 369</b>	<b>20 786</b>	<b>20 097</b>	<b>3 583</b>	<b>17.2%</b>
Water supply service	8 514	8 260	7 115	254	3.1%
Wastewater disposal service	9 087	8 480	7 299	607	7.2%
<b>Total from commercial customers</b>	<b>17 601</b>	<b>16 740</b>	<b>14 414</b>	<b>861</b>	<b>5.1%</b>
Water supply service	1 670	1 599	1 631	71	4.4%
Wastewater disposal service	4 236	3 525	3 422	711	20.2%
Storm water disposal service	260	193	256	67	34.7%
<b>Total from outside service area customers</b>	<b>6 166</b>	<b>5 317</b>	<b>5 309</b>	<b>849</b>	<b>16.0%</b>
Storm water collection and treatment and fire hydrants service	6 011	4 643	4 011	1 368	29.5%
Excessive pollution fees and sewer discharge service	1 477	1 403	1 225	73	5.2%
<b>Total from water services</b>	<b>55 624</b>	<b>48 889</b>	<b>45 055</b>	<b>6 734</b>	<b>13.8%</b>
Construction services	4 775	4 809	7 328	-34	-0.7%
Other services	742	860	911	-118	-13.7%
<b>TOTAL REVENUE</b>	<b>61 141</b>	<b>54 558</b>	<b>53 294</b>	<b>6 583</b>	<b>12.1%</b>

During the twelve months of 2023 there has been an increase in sales to private customers within the main service area by 17.2% to €24.37 million, resulting mainly from tariff increase effective from 1 October 2022. The water tariffs increased on average by 23% for private customers and 4% for commercial customers. The difference in price increase by customer group was due to the

gradual price equalization between private and commercial customers, a requirement of the Public Water Supply and Sewerage Act.

Sales to commercial customers within the main service area has increased by 5.1% to €17.60 million. The increase is related to the tariff change, whereas the consumption has decreased by 1.3% compared to 2022.

Sales to customers outside the main service area increased by 16.0% to €6.16 million, being mainly impacted by the increase in the wastewater disposal service revenues.

Sales from the operation and maintenance of the fire hydrants and the stormwater system within the main service area in the twelve months of 2023 amounted to €6.01 million, showing an increase of 29.5% or €1.37 million year-on-year. The change has been brought about by change of services pricing model in 2023, with additional impact from increase in cost levels and changes in the amount of precipitation.

Sales from construction services were €4.77 million, decreasing by 0.7% or €0.03 million year-on-year. The decrease in sales resulted from the lower number of road and pipe construction projects.

## COST OF GOODS AND SERVICES SOLD AND GROSS AND OPERATING PROFITS

€ thousand	12 months			Variance 2023/2022	
	2023	2022	2021	€	%
Water abstraction charges	-1 271	-1 288	-1 281	17	-1.3%
Chemicals	-2 742	-2 238	-1 822	-504	22.5%
Electricity	-6 408	-9 234	-4 612	2 826	-30.6%
Pollution tax	-1 005	-823	-894	-182	22.1%
<b>Total direct production costs</b>	<b>-11 426</b>	<b>-13 583</b>	<b>-8 609</b>	<b>2 157</b>	<b>15.9%</b>
Staff costs	-9 684	-8 229	-7 243	-1 455	17.7%
Depreciation and amortisation	-7 002	-5 930	-5 725	-1 072	18.1%
Construction services	-3 481	-3 784	-5 988	303	-8.0%
Other costs of goods/services sold	-5 480	-6 134	-5 150	654	-10.7%
Other costs of goods/services sold total	-25 647	-24 077	-24 106	-1 570	6.5%
<b>Total cost of goods/services sold</b>	<b>-37 074</b>	<b>-37 660</b>	<b>-32 715</b>	<b>586</b>	<b>1.6%</b>

During the twelve months of 2023, the cost of goods and services sold amounted to €37.07 million, decreasing by 1.6% or €0.58 million compared to the equivalent period in 2022. Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €11.43 million, being on a lower level by €2.16 million compared to the equivalent period in 2022.

Costs of chemicals increased by 22.5% to €2.74 million, driven mainly by on average 32.1% higher price of coagulant, accompanied by the increase in the amount of polymer used in wastewater treatment process, each worth €0.08 million and €0.15 million accordingly. Expenses were further increased by 39.2% higher price of chlorine and 22.3% higher price of coagulant used in water treatment process, worth €0.02 and €0.14 million accordingly.

Costs of electricity decreased by 30.6% or €2.82 million, resulting in costs worth of €6.41 million due to on average 33.5% lower electricity price.

Other costs of goods/services sold (staff costs, depreciation, construction and asphaltting services costs and other costs) amounted to €25.65 million, having increased by 6.5%. The increase in other costs of goods/services sold were mainly driven by 17.7% or €1.45 million increase in staff cost and 18.1% or €1.07 million increase in depreciation expenses related to the large-scale investments made in 2023.

The group's gross profit for the twelve months of 2023 was €24.07 million, showing an increase of 42.4% or €7.17 million compared to the comparative period in 2022. The group's operating profit for the twelve months of 2023 recovered to €17.35 million, being 53.3% or €6.03 million higher than in the same period in 2022, being mainly impacted by the stabilizing of electricity price and the tariff change in October 2022.

## FINANCIAL EXPENSES

The group's net financial income and expenses have resulted in a net expense of €3.14 million, compared to net expense of €0.67 million in the twelve months of 2022. The increase was mainly impacted by higher loan balance and higher interest cost on loans.

In May 2023, AS Tallinna Vesi and AS SEB Pank, together with Swedbank AS and the Estonian branch of OP Corporate Bank plc, signed a syndicated loan agreement for a total amount of €91 million. Within this loan contract, the group refinanced OP Corporate Bank loan in the amount of €37.5 million.

In June 2023, a loan agreement between AS Tallinna Vesi and Nordic Investment Bank was concluded in the amount of €40 million. From this sum, the amount of €8 million was withdrawn in June and €12 million in December 2023.

As at the end of the 4th quarter of 2023, the whole loan amount of €96.82 million was bearing a floating interest rate.

## PROFIT BEFORE TAXES AND NET PROFIT

The group's profit before taxes for the twelve months of 2023 was €14.21 million, being 33.4% or €3.56 million higher than for the same period in 2022. The group's net profit for the twelve months of 2023 was €12.84 million, being 52.8% or €4.44 million higher than for the equivalent period in 2022, impacted by the €0.92 million lower income tax expense due to the smaller dividend payment.

## Statement of Financial Position

In the 12 months of 2023, the group invested into fixed assets €34.93 million. As of 31/12/2023, non-current tangible assets amounted to €256.11 million, the majority of which in the amount of €206.04 million were pipelines (31/12/2022: €186.7 million). Total non-current assets amounted to €257.40 million (31/12/2022: €230.55 million).

Compared to the year end of 2022, the trade receivables, accrued income and prepaid expenses have been at the same level, €8.61 million. The collectability rate continues to be high at 99.73%, compared to December 2022 when the collectability rate was 99.85%.

Current liabilities have increased by €0.29 million to €18.78 million compared to the end of 2022, mainly due to liabilities related to investments.

Deferred income from connection fees has increased by €5.50 million compared to the end of 2022, reaching €44.65 million.

Provision for possible third-party claims is of the same size as at the end of December 2022, i.e. €6.02 million. More detailed information about the provision is presented in Note 13.

The group's outstanding loans amount to €96.82 million (31/12/2022: €80.45 million). Changes in loan structure are described in the ["Financial expenses"](#) section.

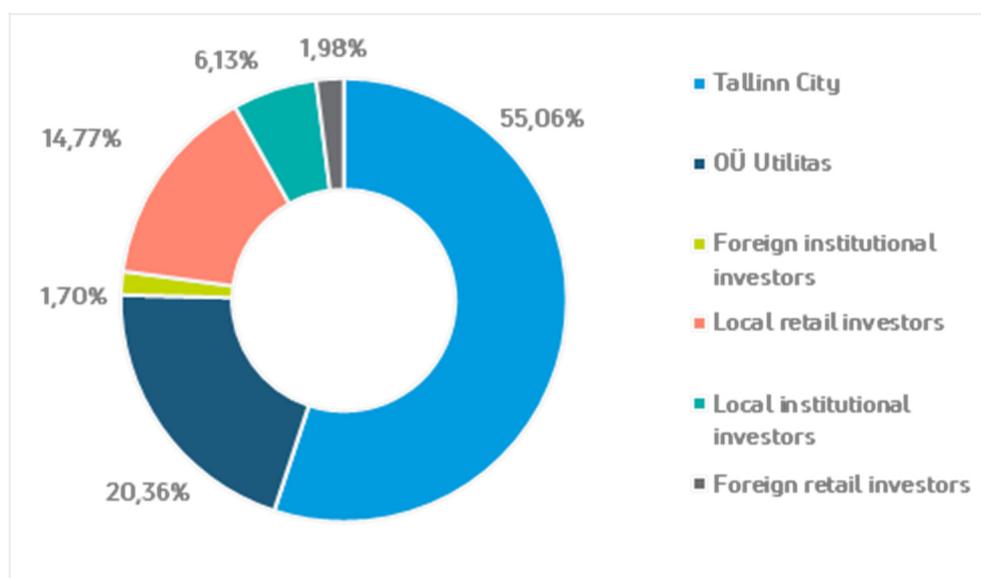
The previous NIB loan is being repaid in 11 equal semi-annual payments. The weighted average loan interest as of 31/12/2023 is 5.0%.

The group has total debt to assets level of 58.47%, which falls in the range of 54–65%, reflecting the group's equity profile. At the same time in 2022, the total debt to assets ratio was 56.26%.

## 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 2023



## DISTRIBUTION OF SHARE CAPITAL BY SIZE OF SHARE OWNERSHIP AS OF 31 DECEMBER 2023

	Number of shareholders 2023 (2022)	Shareholders % 2023 (2022)	Number of shares 2023 (2022)	% of share capital 2023 (2022)
1 – 100	8 521 (7 939)	69.8% (69.7%)	244 401 (230 584)	1.2% (1.2%)
101 – 200	1 357 (1 205)	11.1% (10.6%)	204 080 (182 018)	1.0% (0.9%)
201 – 300	582 (539)	4.8% (4.7%)	149 473 (139 150)	0.7% (0.7%)
301 – 500	570 (535)	4.7% (4.7%)	233 222 (217 390)	1.2% (1.1%)
501 – 1000	548 (530)	4.5% (4.7%)	408 499 (394 792)	2.0% (2.0%)
1001 – 5000	502 (513)	4.1% (4.5%)	1 092 638 (1 113 130)	5.5% (5.6%)
5001 – 10 000	71 (76)	0.6% (0.7%)	517 099 (556 824)	2.6% (2.8%)
10 001 – 50 000	44 (44)	0.4% (0.4%)	914 271 (955 252)	4.6% (4.8%)
50 000 +	9 (9)	0.1% (0.1%)	16 236 317 (16 210 860)	81.2% (81.1%)
<b>TOTAL 2023</b>	<b>12 204</b>	<b>100.0%</b>	<b>20 000 000</b>	<b>100.0%</b>
<b>TOTAL 2022</b>	<b>11 390</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 Stock Exchanges 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 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.

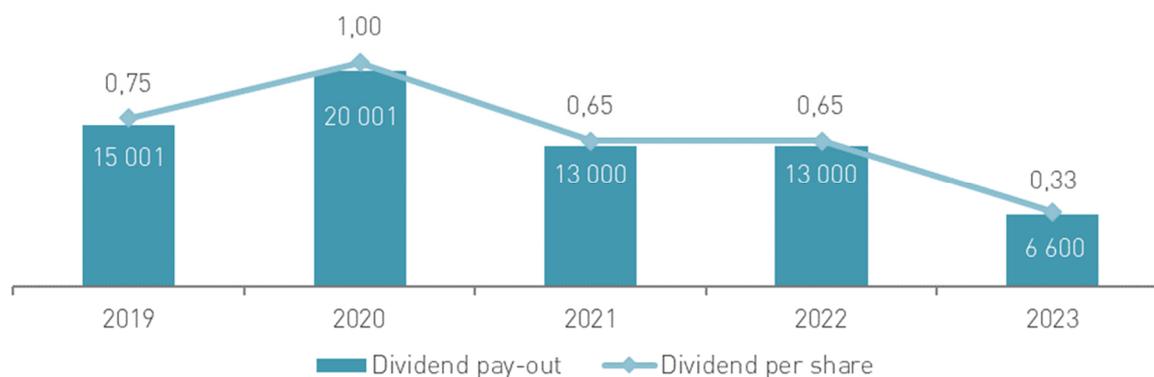
## Dividends

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 Council evaluates, taking into account all the circumstances, the proposal for the dividend to be paid to shareholders and approves it to be presented for a vote by the Annual General Meeting of Shareholders.

In the Annual General Meeting of Shareholders held on 01/06/2023, the Supervisory Council proposed to pay out €0.33 per share from the 2022 profits. The pay-out is equal to 78% of earnings in 2022. The proposal was approved by the Annual General Meeting and the dividend pay-out was made on 28/06/2023.

In the last five years, dividends have been paid as follows:



Tallinna Vesi aims to distribute 50–80% of the annual profit as dividends. Dividend payments are assessed annually considering the company’s earnings, investment needs, liquidity position and long-term financial targets.

### SHARE PERFORMANCE

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

As of 31/12/2023, Tallinna Vesi’s shareholders, with a direct holding over 5%, were:

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

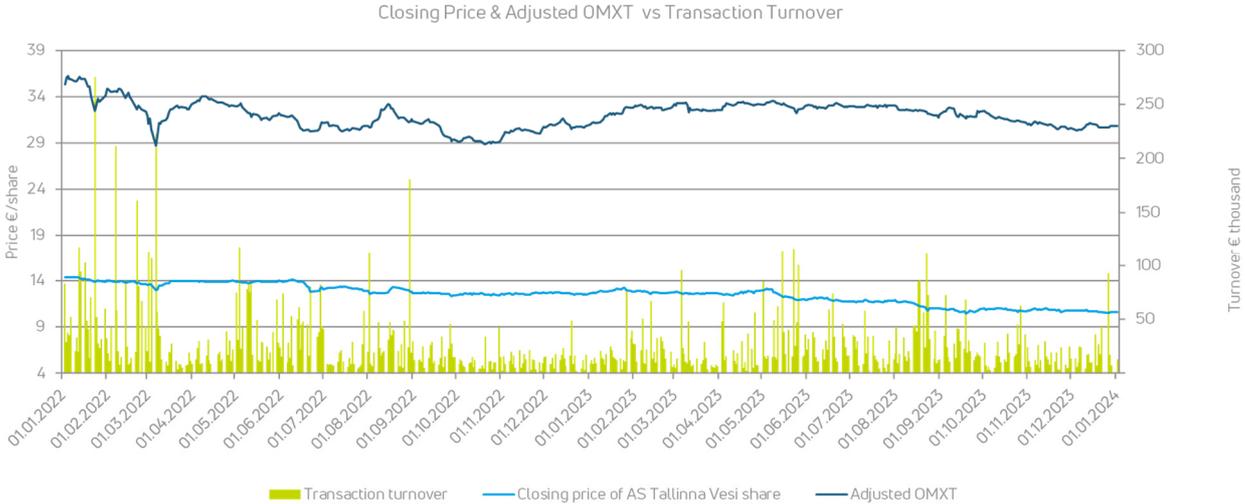
During the 12 months of 2023, the local retail investors and institutional investors have decreased their shareholdings by 1.54% and 0.01% respectively, while the share of foreign institutional investors has decreased by 0.19% and the share of foreign retail investors has increased by 1.74%.

As of 31/12/2023, the closing price of Tallinna Vesi’s share was €10.60, which is 15.74% lower compared to the price of €12.58 at the beginning of the year (2022: -13.40%). OMX Tallinn index remained stable at +0.1% (2022: -11.71%).

During 2023, 19,918 transactions were made with the company’s shares (2022: 20,167 transactions), during which 504 thousand shares or 2.5% of all shares changed hands (2022: 542 thousand shares or 2.7%).

The turnover of transactions in 12 months of 2023 amounted to €5.9 million, being €1.40 million lower than in the comparative period in 2022.

CLOSING PRICE AND ADJUSTED OMXT VS TRANSACTIONS TURNOVER



## SHARE PRICE STATISTICS

€	2023	2022	2021	2020	2019
Share price, open	12.58	14.48	13.25	11.70	9.60
Share price, at the end of the year	10.60	12.54	14.48	13.25	11.70
Share price, lowest	10.45	12.36	13.50	10.70	9.54
Share price, highest	13.28	14.42	15.60	13.70	11.95
Share price, average	11.81	13.31	14.39	12.64	10.98
Traded volume, thousand	504	542	947	1.403	595
Turnover, € million	5.90	7.30	13.59	17.49	6.48
Capitalisation, € million	212	251	290	265	234
Earnings per share	0.71	0.42	0.81	0.84	1.39
Dividend per share	n/a*	0.33	0.65	0.65	1.00
Dividend / net profit	n/a*	78%	80%	78%	72%
P/E	14.93	29.86	17.88	15.77	8.42
P/BV	1.8	2.3	2.5	2.4	2.0

*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 2023 have not been declared at the time of issuance of the report*

## Activities of the Subsidiary Watercom OÜ

Watercom has been established by AS Tallinna Vesi in 2010.

Watercom provides the following services:

- pipe construction and design,
- services related to road maintenance,
- pipe maintenance,
- project management and owner supervision,
- transportation services.

Watercom's operations are certified to ISO 9001, ISO 14001 and ISO 45001 quality standards.

### WATERCOM'S MAIN OBJECTIVES AND DEVELOPMENT DIRECTIONS FOR 2024

2023 was an active and successful year for Watercom. As a stand-alone business, the company delivered more sales and profit than ever before. Watercom is working to continue at a similar pace in 2024, although the situation in the construction market is complicated due to the lack of procurements and price enquiries. The greatest contribution to the achievement of the targets came from the pipe construction activity. At the beginning of 2023, the company successfully launched a new water pipeline maintenance service using the ice-pigging method, which is the most innovative and efficient of those used in this area.

The outlook for 2024 remains positive with the expectations of finding new opportunities to achieve higher external sales and profits. The company continues to explore various opportunities for further growth through the development and launch of new services.

### PIPE AND ROAD CONSTRUCTION

Watercom's main line of activity in 2023 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. The external road construction market was affected by the cancellation of procurements for several inner-block projects in Tallinn and the increased volume of contracts in the municipalities around Tallinn.

The year 2023 was rather difficult for the construction sector, as active development in the region has come to a halt and the investment in road construction is significantly down. Watercom managed to win several contracts for both services from the external market, mainly in Harju county, in spite of fierce competition. It was difficult to maintain the profit margin on construction activities in 2023, but thanks to continued effective cost management, the targets set were achieved.

## OTHER SERVICES

The year 2023 presented constant challenges for the provision of supervision services by Watercom, as the volume of service provided outside the group fell significantly due to the suspension of development activities. Nevertheless, Watercom will continue to actively participate in procurement tenders in 2024 in order to maintain its sales from supervision services.

Pipe maintenance and transportation services are mainly provided within the group, but are also available to external customers. A proactive jet washing program has helped to keep the number of sewer blockages under much better control. At the beginning of the year, the company launched a new water pipe cleaning service using innovative ice-pigging method.

The development of new services within and outside the group will continue in 2024.

## Targets: Financial Performance

FINANCIAL TARGETS FOR 2023	
Watercom's external profit (EBITDA) $\geq$ €0.9 million	Achieved
Budgeted EBITDA	Achieved
FINANCIAL FOR TARGETS 2024	
Watercom's external profit (EBITDA)	$\geq$ Budgeted value
Budgeted EBITDA	$\geq$ Budgeted value

# SUSTAINABILITY STATEMENT

*Tallinna Vesi*



# SUSTAINABILITY STATEMENT

## GENERAL INFORMATION

The scope of consolidation for the sustainability statement of Tallinna Vesi is the same as for the financial report. The assessment of material impacts, risks and opportunities, as well as the policies and related actions, targets and metrics, extend to the full value chain of our company. Where the policies, measures, targets or data disclosed under the metrics cover only a specific part of the value chain, this is stated separately in each sub-topic of the statement. The company's strategy, which also includes sustainability matters, is described in more detail in the section "[Strategy](#)".

In order to ensure that all sustainability matters are effectively covered, we have allocated responsibilities within the company according to the competences and job functions of the area managers:

Person responsible	Link to sustainability topics
Audit Committee	A sub-committee to the Supervisory Council overseeing financial reporting, audit processes, internal control systems, risk management and -assessment, and compliance with the laws and regulations, including sustainability requirements
Internal Auditor	Ensures independent and objective internal control of the company's activities and is the contact point for reporting misconduct
Chairman of the Management Board	Ensures the management of the business from a sustainability perspective
Chief Asset Management Officer	Ensures the reconstruction, maintenance and repair of assets necessary for the provision of services
Chief Financial Officer	Responsible for timely payment of taxes and invoices and servicing of loans
Chief Operating Officer	Responsible for the production of clean drinking water and the treatment of wastewater
Human Resources Manager	Responsible for employee satisfaction, succession planning and training
Customer Experience Manager	Responsible for customer satisfaction, customer contracts and providing customer information
Water Quality Manager	Responsible for water quality at the point of use, water leak repairs and the installation of water meters

Head of Communications and Marketing	Responsible for internal and external communication, marketing and sponsorship
Environmental and Sustainability Manager	Responsible for safety at work, environmental compliance and sustainability reporting
Head of Legal	Responsible for the compliance of the company's operations with applicable legislation, monitors legislative initiatives affecting the company's operations and provides legal advice and training
Procurement Manager	Responsible for conducting lawful and ethical procurement processes

## Assessment of Material Impacts, Risks and Opportunities

In 2023, Tallinna Vesi renewed its materiality assessment of sustainability topics. For the first time, the materiality assessment was carried out based on the principle of double materiality, i.e. the impact materiality of sustainability topics was taken into account as well as the financial materiality. The assessment was carried out across the value chain, taking into account all business lines of the group.

The materiality of sustainability topics was assessed in co-operation with external sustainability experts. The materiality assessment process took into account the European Sustainability Reporting Standards and the Implementation Guidance for the Materiality Assessment prepared by the European Financial Reporting Advisory Group (EFRAG).<sup>2</sup>

The material topics were analyzed in three stages:

1. Understanding the context of sustainability in Tallinna Vesi
2. Initial mapping of impacts, risks and opportunities
3. Performing a materiality assessment of sustainability topics

Using the input from the first two stages, an initial mapping exercise of the material topics was carried out, based on the sustainability matters to be included in the materiality assessment, as outlined in the Sustainability Reporting Standard ESRS 1.<sup>3</sup> As a result of the initial mapping, topics, sub-topics and sub-sub-topic that are not relevant for Tallinna Vesi from a business model, strategy and stakeholder perspective were excluded. Sub-topics were also added that are not covered by the structure of the sustainability reporting, but which are relevant to Tallinn Vesi's business model and strategy.

<sup>2</sup> Due to the timeframe of the materiality assessment, the August 2023 version of the EFRAG guidelines was used as a basis.

<sup>3</sup> ESRS 1, AR 16 "Sustainability matters to be included in the materiality assessment".

The mapping exercise took into account existing environmental impact assessments, stakeholder engagement actions and stakeholder feedback (including employee satisfaction and salary surveys and customer feedback surveys).

For the third stage, a methodology for materiality assessment was developed based on the Double Materiality Conceptual Guidelines for Standard-setting, prepared by EFRAG in 2022,<sup>4</sup> and the group's existing risk assessment methodology.

## Impact Materiality Assessment

### STAKEHOLDER ENGAGEMENT AND IMPACT ASSESSMENTS

The assessments were based on the results of existing stakeholder engagement actions (including employee satisfaction and salary surveys and customer feedback surveys) and previously prepared company- and sector-specific impact assessments. The materiality assessments were validated with the members of the sustainability steering group (Management Board and Executive Team) of Tallinna Vesi. As part of the 2023 materiality assessment process, the annual customer questionnaire was updated, which will help to further validate the parameters assessed this year.

In assessing the materiality of environmental topics, the ex-ante assessment of the company's environmental impacts and the assessment of environmental matters and impacts made within the framework of ISO 14001 were used. National forecasts on the state of various environmental topics (e.g. surface and groundwater status, changes in extreme weather events, etc.) were also taken into account. In addition, the assessments were validated with experts from Tallinna Vesi and external experts on environmental impact.

### PARAMETERS

The impact materiality was assessed by taking into account the severity and likelihood of the impact.

Three parameters were taken into account to assess the severity of the impact:

- **Scale:** How grave the negative impact is or how beneficial the positive impact is for the environment or stakeholders?
- **Scope:** How widespread the positive or negative impacts are?
- **Irremediable character:** Whether and to what extent the negative impacts could be remediated, i.e. restoring the environment or affected stakeholders to their prior state?

For actual or potential positive impacts, the irremediable character was not taken into account.

The parameters were evaluated on a 4-point scale:

- Informative
- Relevant

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<sup>4</sup> EFRAG Working Paper: <https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.6%20-%20WP%20on%20draft%20ESRG%201.pdf>.

- Significantly important
- Critically important

Based on the Sustainability Reporting Standard ESRS 1, the likelihood of impacts was not considered for impacts on human rights.<sup>5</sup> In that case, the impact materiality was determined by the severity of the impact.

For the other impacts, the likelihood of impact was assessed in the short-, medium- and long-term. The likelihood assessment took into account the link between the business model and the impact. It was also assessed to what extent the cause of the impact is under the control of the company and what are the existing mitigation actions. The assumption was made that the control of impacts and the associated adequate mitigation actions will help to reduce the likelihood of impacts.

## Financial Materiality Assessment

### RISKS

To determine the financial materiality of sustainability topics, the risks arising from impacts and resource dependency were analyzed. Both aspects were evaluated on a 4-point scale:

- Low risk
- Medium risk
- Serious risk
- High risk

The assessment of the risks arising from impacts was based on Tallinna Vesi's existing risk assessment process, which aims to assess, manage and regularly monitor risks that could undermine the achievement of the company's objectives. The risk process is described in the section "[Risk management](#)".

Risks arising from the resource dependency were assessed for the first time in 2023. The assessment was based on the scale included in the Guidance for the Materiality Assessment prepared by EFRA in 2022. The assessment was carried out with the involvement of key staff members and risk owners from various areas of the company.

### OPPORTUNITIES

The mapping of opportunities is done as part of the process of budgeting the capital expenditures and operating expenses and the setting of performance targets at unit level. The mapping of opportunities will take into account:

- external and internal topics that are relevant to the strategic objectives and annual targets and that have an impact on the achievement of the desired results of the quality management system;
- requirements related to stakeholders' needs and expectations.

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<sup>5</sup> ESRS 1, 3.4. "Impact materiality".

The monitoring of the activities to be implemented will depend on the nature of the project:

- for the activities planned in the operating expenses budget, as part of the monthly budget control;
- for the activities planned as an investment, as part of the monthly checks carried out by the project steering committee;
- the evaluation of the activities planned at unit level is carried out in the units where the activities are implemented.

## Results of the Impact Materiality and Financial Materiality Assessment

The figure below shows the summary results of the materiality analysis. The figure also outlines the material topics directly related to the key business directions set out in the group's strategy. As an outcome of the management workshop, the topics were grouped into three categories, based on the impact materiality and financial materiality of the topics and their link to the key business directions set out in the group's business strategy:

- A. Topics of the greatest impact materiality and financial materiality directly related to Tallinna Vesi's core business and the directions of its business strategy
- B. Topics of material impact that relate to strategic business directions and underpin the success of the core business
- C. Topics to be monitored, but not of strategic importance

More detailed explanations of the material topics and the corresponding sub-topics are outlined under each topic standard.

## INTEGRATION OF SUSTAINABILITY-RELATED PERFORMANCE IN INCENTIVE SCHEMES

As a regulated water company and the largest employer in the water sector, we offer our employees stability, competitive pay, continuous development and the opportunity to build a long-term career. Most employees are eligible for an annual performance-related pay subject to reaching company's financial threshold and company targets and meeting one's individual targets.

Performance-related pay for the management and the staff is made up of two parts: meeting company targets and meeting individual targets. A percentage of a staff member's annual basic salary is determined in accordance with the level of responsibility of the position and is used as the basis for calculating his or her performance-related pay.

The company's targets are set taking into account the aspects related to employees, customers, operations, environment and finances. Sustainability-related performance is linked to the targets related to the level of employee commitment and management quality, as well as targets related to projects for reducing electricity consumption.



# ENVIRONMENTAL INFORMATION

We are the largest water company in Estonia and impact the daily lives of almost one third of Estonian people. We are aware of this and offer a service that meets all standards. We have an impact on the quality of life of the people who live in Tallinn and its neighbouring municipalities, as well as all those living around the Baltic Sea. Therefore, we consider the impact that we have on the environment and nature, and the interaction with our stakeholders' interests.

As Tallinna Vesi is directly dependent on natural resources, the environment is one of our key focus areas. To ensure that nature is preserved and that natural resources continue to be available for future generations, we are carrying out targeted actions to reduce the negative impacts of our operations.

Our environmental performance complies with the requirements of the international environmental management standard ISO 14001 (including our subsidiary Watercom) and the EC Regulation 1221/2009 EMAS (Eco Management and Audit Scheme) and its amendments by Commission Regulations (EU) 2017/1505 and (EU) 2018/2026. The environmental management system is part of our management system. It is based on the identification of environmental risks, environmental matters and the resulting environmental impacts, and the setting of environmental objectives and targets to improve environmental performance.

## FINANCIAL MEANS FOR MANAGING ENVIRONMENTAL TOPICS

In the second quarter of 2023, AS Tallinna Vesi signed loan agreements with Nordic Investment Bank, AS SEB Pank, Swedbank AS and the Estonian branch of OP Corporate Bank plc. The loan agreements signed facilitate the financing of the investments the company has planned for 2023–2025. The total planned investment in 2024 is up to €62 million. In 2023, the company's investments reached up to nearly €35 million. The company has increased its investments in recent years to future-proof the assets needed to ensure the continuity of the vital water service. Tallinna Vesi's investments are based on the company's needs and are in line with the objectives set out in Tallinn Public Water Supply and Sewerage Development Plan. The investments focus on the company's core business and, in addition to ensuring the continuity of the service, aim to reduce the environmental impact of water consumption and allow sustainable urban development.

Each year Tallinna Vesi has committed to provide the lender with the following impact indicators for the year before:

- Amount of wastewater treated (m<sup>3</sup>) (see sub-section "[Wastewater treatment](#)")
- Amount of drinking water supplied to the consumers (m<sup>3</sup>) (2023: 22,280,245<sup>m3</sup>)
- Greenhouse gas emissions in carbon dioxide equivalents (t/y) (see sub-section "[GHG reporting principles](#)")
- Power and heat generated from renewable energy sources (MWh/GWh) (see sub-section "[Energy consumption overview](#)")
- Water loss rate (%) (see sub-section "[Water leaks](#)")
- Length of networks built using no-dig methods (km) (2023: 12.5 km)
- Capacity of renewable energy plant(s) built or reconstructed (MW) (see sub-section "[Energy consumption overview](#)")

- Consumption of natural gas (m<sup>3</sup>) (2023: 401,698)

## Climate Change

The materiality assessment (see the assessment methodology in the section "[Impact materiality assessment](#)") identified material impacts as well risks for Tallinna Vesi that are related to climate change.

Tallinna Vesi has a **positive impact on climate change adaptation**, since through its operations the company continuously improves and enhances its existing infrastructure to increase the resilience of the urban environment to extreme weather conditions caused by climate change.

There is also a **strategic risk** associated with climate change adaptation. For example, the amount and quality of water received at the treatment plant (wastewater characteristics) and the amount of electricity and chemicals needed for the treatment processes depend on the amount of precipitation. Extreme downpours are accompanied by sudden increase in rainfall causing flooding and a short-term inability of sewerage and stormwater systems to accommodate all water. In addition, the treatment plant may not have enough capacity to receive and/or fully treat such a large volume of wastewater at a time.

The changes in climate are also affecting Lake Ülemiste and the quality of raw water, leading to challenges in the production of drinking water, both in terms of increasing the use of resources and making it increasingly complex to control the treatment process. For example, phytoplankton abundance has been steadily increasing in recent years, influenced by changes in plankton species composition as well as extreme weather conditions seen in the past few years. Climate change is therefore a major challenge for us, as it can have a significant impact on our processes and performance.

The operations of Tallinna Vesi, in particular those using biological processes, emit greenhouse gases that have a **negative impact on climate change mitigation**. At the same time, the company has a potential **positive impact** on climate change mitigation through the reduction of energy use in the value chain, by following the associated Climate Impact Reduction Plan and thereby meeting the technical screening criteria established in the Taxonomy Regulation.

Due to the need to transition to a climate-neutral economy, the climate change mitigation objective also entails **risks**, including potential risks related to regulatory expectations and possible criticism of the company's operations. The materiality assessment identified that in the medium- and long-term, insufficient action on climate change mitigation and energy use reduction could lead to criticism from professionals and negatively affect the company's relations concerning co-operation with key stakeholders, including financiers.

A more detailed climate risk assessment will be carried out in 2024.

## Guiding Principles

Based on the analysis of the material impacts, risks and opportunities, we have found that we need to focus our action on three material topics — climate change adaptation, climate change mitigation and energy use. Climate change mitigation and energy use will be guided by the principle of using resources, including energy and water, sustainably. We are constantly looking for new ways to make our processes greener and more efficient.

Our Climate Impact Reduction Plan is as much about climate change adaptation as it is about climate change mitigation. It builds on the company's guiding principles on environment using assets sustainably, making its processes more efficient and greener, and preventing and reducing the release of pollutants to the environment.

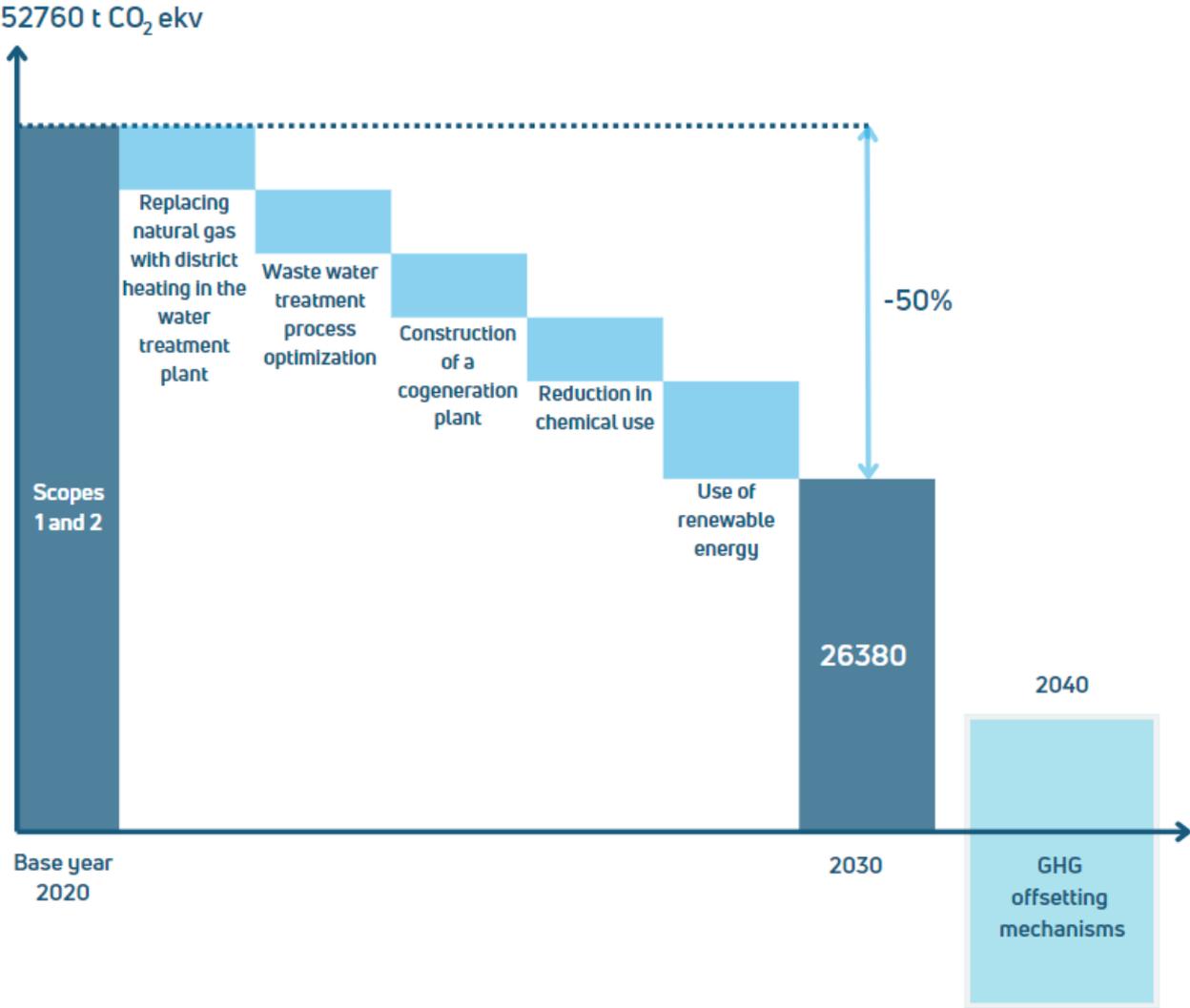
The policy covers the organization's own activities. All employees of the organization, including the Management Board, are responsible for the implementation of the policy.

## CLIMATE IMPACT REDUCTION PLAN

In order to continue our core business, we inevitably use resources that affect the environment. In order to reduce its climate impacts, Tallinna Vesi has prepared a transition plan (not including a climate risk assessment) called Climate Impact Reduction Plan, in which we have set ourselves ambitious targets to reduce our carbon footprint. The Climate Impact Reduction Plan can be found on the company's website under the [Corporate Social Responsibility > Carbon Footprint](#) section.

To assess progress, we have started measuring our carbon footprint, which we do annually from 2022, using 2020 as a base year. Tallinn Vesi's carbon footprint has been calculated following the internationally recognized and most widely used GHG Protocol Corporate Accounting and Reporting Standard. The standard covers the accounting and reporting of emissions of seven greenhouse gases (GHGs) — carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>).

The largest sources of GHG emissions have been electricity use and wastewater treatment processes. Therefore, we have set ourselves a primary target of reducing emissions from sources controlled by Tallinna Vesi (Scope 1) and indirect sources (Scope 2) by 50% already by 2030. Due to our processes, GHG emissions from wastewater treatment cannot be permanently reduced to zero, so GHG offsetting solutions need to be found. For Scopes 1 and 2, the company's target is in line with the goal of keeping global warming below 1.5 degrees. The figure shows the plan of how we intend to reach the target. The detailed actions covered by the plan are described in the company's Climate Impact Reduction Plan.



By 2040, we aim to achieve climate neutrality in all Scopes. The Climate Impact Reduction Plan has been approved by the Management Board, thereby committing to allocate the necessary resources to implement the plan. Reducing Scopes 1 and 2 GHG emissions by 50% is also set as one of the company’s strategic objectives.

Longer-term actions to implement the Climate Impact Reduction Plan can be found in the plan. The plan is reviewed as appropriate, but at least every five years, both in terms of the ambition set and the scope of the GHG assessment, refining and updating the necessary actions, if necessary. The list of actions needed to achieve the targets is not exhaustive and will evolve over time as new technologies develop and we find ways to improve and enhance our processes to reduce climate impacts. Therefore, the total cost of the plan has not been estimated.

The financial means to implement the Climate Impact Reduction Plan by action will be allocated as operating costs for the development of plants and networks.

*Translation of the company’s consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Tallinn Stock Exchange and digitally signed (Link: <https://nasdaqbaltic.com/statistics/en/instrument/EE3100026436/reports>).*

## CLIMATE CHANGE ADAPTION

Climate change also has an impact on the services we provide. Of all the climate changes, we are most affected by long droughts and intense downpours.

The company produces 90% of its drinking water from surface water, which is why we are highly dependent on the availability of surface water resources. An extensive surface water catchment system, with canals and reservoirs, has been built to ensure sufficient supply of raw water for drinking water production. With reservoirs, we mitigate a significant risk for ourselves and ensure that we have the water we need, even during prolonged droughts. In addition, we urge our customers to use water responsibly and sparingly, especially during dry periods.

On the other hand, climate change brings along more intense rainfall, causing flooding where stormwater cannot run off the streets quickly enough. Most of the stormwater is discharged to the wastewater treatment plant, which has limited capacity. In order to reduce flooding in the city and need to open emergency overflows at the wastewater treatment plant, a plan for the development of a separate stormwater system has been prepared in co-operation with the City of Tallinn, under which we are gradually extending the stormwater system.

In the short term, we have the skills and the information that allow us to predict the downpours, prepare accordingly and respond effectively. In the longer term, we work with the local authorities to prevent flooding caused by downpours by building and extending a separate sewerage system, which will allow stormwater to be discharged directly to the receiving waters and take only wastewater to the treatment plant.

## Targets and Actions

We have set our targets stemming from the wish to contribute to the achievement of the goals set out in Estonia's national development plans (e.g. Estonia's General Principles of Climate Policy until 2050 and the National Energy and Climate Plan), as well as those set at the EU level (e.g. the EU Green Deal) and global agreements (e.g. the Paris Agreement on Climate Change). The targets are set, involving the company's department managers, who take part in formulating the targets that are based on the strategy and agreeing on the target levels. External stakeholders have not been involved. The reason for setting climate targets also stems from regulatory requirements and the expectations of stakeholders, including financiers and owners.

At Tallinna Vesi, the company's targets (including environmental and climate targets) are directly linked to the pay scheme. The annual performance-related pay for all employees, as well as for the members of the Management Board, depends not only on individual targets but also on the achievement of the company's annual targets.

## ENERGY USE

Most of the electricity we consume is used to run our core business, i.e. water and wastewater treatment plants and network pumping stations. Although we have made significant investments

over the years to reduce our energy consumption, electricity consumption is still inevitably and directly linked to running our core business. This, in turn, is affected by changes in consumption and service areas, and certainly also by natural conditions.

### TARGETS:

- We only use electricity from renewable sources and have replaced natural gas with heat from renewable sources by 2030.
- We generate at least 50% of all power and heat 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.

We have set these targets voluntarily, but we can certainly expect additional obligations in the future, especially with regard to wastewater treatment plant emissions. We can foresee this because the Urban Wastewater Treatment Directive is currently being revised at EU level.

### ENERGY CONSUMPTION OVERVIEW

Under energy consumption in the table below, we have included the consumption of electricity, heat and fuels from both fossil and renewable sources. Consumption of fossil energy includes the consumption of electricity and heat from fossil sources as well as fuel from crude oil and petroleum products. In the office building at Ädala Street, we use district heating from natural gas. At the water treatment plant, we generate heat in our own boiler house, from natural gas that we purchase. In 2024, the buildings of the water treatment plant will be connected to the district heating network, distributing heat from renewable fuels.

Since 2021, we have been buying electricity from renewable sources with guarantees of origin to cover our electricity needs, resulting in a reduction in fossil energy consumption and an increase in the consumption of purchased electricity from renewable sources. The biogas generated as a by-product of the stabilization of the sewage sludge taken out from the wastewater treatment process is used to generate heat energy, which then is used for heating buildings as well as to provide the heat energy needed for the technological process. Heat from biogas is included in the consumption of self-generated non-fuel renewable energy.

Since 2020, we have managed to reduce our energy consumption by 4.3%. The share of renewable sources in total energy consumption has increased from 23% to 87% compared to 2020.

Energy consumption and mix	2023	2022	2021
Fuel consumption from coal and coal products (MWh)	0	0	0
Petrol fuel consumption, MWh	396	458	379
Diesel fuel consumption, MWh	2,963	3,062	2,948
Total fuel consumption from crude oil and petroleum products (MWh)	3,359	3,520	3,327
Fuel consumption from natural gas (MWh)	0	0	0
Fuel consumption from other fossil sources (MWh)	0	0	0
Consumption of purchased electricity from fossil sources (MWh)	0	0	41,338
Consumption of purchased/generated heat from fossil sources (MWh)	4,584	4,637	3,994
Consumption of purchased/generated or acquired electricity and heat from fossil sources (MWh)	4,584	4,637	45,332
Total fossil energy consumption (MWh)	7,943	8,157	48,659
Share of fossil sources in total energy consumption (%)	13	14	77
Consumption from nuclear sources (MWh)	0	0	0
Share of nuclear energy in total energy consumption (%)	0	0	0
Consumption of fuel from renewable sources (incl. biomass) (MWh)	0	0	0
Consumption of purchased or acquired electricity, steam and cooling from renewable sources (MWh)	42,034	40,304	0
The consumption of self-generated non-fuel renewable energy (biogas) (MWh)	11,082	11,688	14,223
Total renewable energy consumption (MWh)	53,116	51,992	14,233
Share of renewable sources in total energy consumption (%)	87	86	23
Total energy consumption (MWh)	61,059	60,149	62,882

In 2023, we moved closer to achieving our targets through a series of actions. For example, to increase the share of self-generated energy, a combined heat and power (CHP) plant was built at the wastewater treatment plant. The power and heat generated from biogas, a by-product of the sewage sludge stabilization in the wastewater treatment process, will be used entirely by the wastewater treatment plant itself, and this can cover up to 70% of the wastewater treatment plant's current average annual electricity demand. The CHP plant can generate up to 2,248 kW of heat and 2,134 kW of electricity. The first tests at the CHP plant were run at the end of 2023. Detailed data on the extent to which we can replace grid electricity with self-generated energy will be available in 2024, once the tests are completed and the CHP plant is fully operational. Along with the reduction in electricity costs, the CHP plant will increase the operational reliability of the treatment plant in case of possible power cuts.

### ELECTRICITY CONSUMPTION IN 2021–2023, MWH

Business unit	2023	2022	2021
Water Treatment	10,895	10,787	11,181
Wastewater Treatment	23,055	21,635	21,865
Network pumping stations, incl. Maardu	7,622	7,159	7,602
Other	889	721	716
<b>TOTAL</b>	<b>42,461</b>	<b>40,302</b>	<b>41,363</b>

### HEAT CONSUMPTION IN 2021–2023, MWH

Business unit	2023	2022	2021
Water Treatment	3,202	3,125	3,206
Wastewater Treatment	10,765	11,776	12,092
incl. heat from biogas	10,655	11,688	11,991
Office at Ädala Str	1,272	1,334	1,398
<b>TOTAL</b>	<b>15,239</b>	<b>16,325</b>	<b>16,696</b>

In the longer term, the plan is to further increase our power generation capacity by installing solar panels. A solar farm with a capacity of around 1.5–1.7 MW will be installed at the wastewater treatment plant as early as 2024. In addition, actions are planned to reduce energy consumption. Since the aeration of the biological treatment is the most energy intensive of all the operations at the wastewater treatment plant, the plan is to replace the air blowers in the biological treatment stage with new ones, which will be more efficient in terms of energy consumption and help to reduce our energy use. The company is also planning a real-time optimization of the wastewater treatment process. For this, a market research has been carried out and a tender is being

prepared to find a suitable partner. Real-time optimization will help to control the treatment process more efficiently, thereby reducing the amount of energy and chemicals used. It is estimated that optimization could reduce greenhouse gas emissions by up to 10%.

## GREENHOUSE GAS EMISSIONS

Climate targets focus primarily on the processes with the most significant impact in the company, where GHG emissions are high and where the company has the greatest potential to reduce them most directly and to the greatest extent.

- **The company is climate-neutral by 2040** at the latest. In order to achieve neutrality, we need not only GHG emission reductions but also offsetting solutions, such as clear and transparent emission offset or GHG removal technologies. We are closely monitoring the market and technological developments in this area and will meet this ambitious target at the earliest opportunity.
- **By 2030, we have reduced Scopes 1 and 2 GHG emissions by at least 50%** compared to 2020. For Scope 3, we apply green procurement principles and other mitigation measures to the GHG emissions that the company can most significantly influence through its choices.

Since the Climate Impact Reduction Plan was prepared back in 2022, it made sense to set the first targets no earlier than 2030. We assess the effectiveness of the planned actions in reducing total GHG emissions annually and adjust the actions and the approach taken if necessary.

We have set a target of achieving climate neutrality across all Scopes by 2040. We have taken on a bold challenge in setting the climate targets, because in order to fully achieve the long-term goals, we need additional measures and solutions beyond the planned actions, including innovative technologies, which we need to seek in co-operation with education and research institutions. For example, the N<sub>2</sub>O emitted during the wastewater treatment process has a global warming potential 298 times higher than CO<sub>2</sub>, but it is inevitably generated during the biological nitrogen removal process in all wastewater treatment plants applying biological treatment. Achieving climate neutrality in the face of increasing pollution pressures will therefore certainly require the use of innovative technologies.

We do not foresee any significant changes in drinking water and wastewater volumes at this stage, but we do foresee an increase in Scope 3 GHG emissions associated with the pipe construction, as the pipeline construction is planned to increase in the coming years.

A large part of achieving the GHG emission reduction targets will come from reducing energy consumption and generating renewable energy within the company, replacing energy bought from the grid. Given the high carbon intensity of Estonian electricity grid, creating additional renewable energy capacity will help reduce the need for energy from non-renewable sources.

**2024 TARGET:** Scopes 1 and 2 GHG emissions reduced compared to the year before (by ≥ 300 t).

## GHG REPORTING PRINCIPLES

In calculating our climate impact, we have followed the industry's most widely used and recognized GHG Protocol Corporate Accounting and Reporting Standard. The scope of the carbon footprint assessment of Tallinn Vesi included GHG emissions from drinking water and wastewater treatment and the head office in 2020 and 2022. Under the GHG Protocol, emissions are categorized into three areas (Scopes 1, 2, 3). Direct emissions from sources and activities that are owned or controlled by the organization itself are counted in Scope 1. Indirect GHG emissions from energy (electricity and heat) purchased and consumed by an organization and produced by another organization are counted in Scope 2. Other indirect emissions from the organization's activities, products and services (except for purchased electricity, heat and cooling, i.e. emissions in Scope 2), but for which the organization accounting its footprint does not own or control the sources of the GHG, are included in Scope 3.

In its GHG reporting, Tallinna Vesi has defined the boundaries of its organization according to the principle of operational control – that is, we take into account all GHG emissions from sources or activities over which the company has control. Greenhouse gas emissions from the activities of Watercom, a subsidiary of Tallinna Vesi, are included in the calculations to the extent of emissions related to services purchased from Watercom. In the future, we are considering the possibility of calculating the total GHG emissions generated by Watercom as a result of its operations.

Scope 3 is divided into 15 categories (8 upstream and 7 downstream). To date, Tallinna Vesi has calculated the GHG emissions from its upstream value chain categories in Scope 3. For these categories, Tallinna Vesi has the greatest potential to reduce GHG emissions. In our Scope 3 calculations, we have chosen to focus only on the most significant GHG emissions for now. In the carbon footprint calculation, we have taken into account the GHG emissions from our upstream value chain categories in Scope 3, excluding capital goods and leased assets. The emissions from the purchase of capital goods are small compared to the company's other activities and have therefore been excluded from our calculations. Emissions from assets (e.g. vehicles) leased by the company are already taken into account in Scopes 1 and 2.

Accurate estimation of the carbon footprint impacts from downstream value chain categories in Scope 3 can be difficult, and it is not possible to calculate emissions accurately using generalizations. In 2024, we plan to carry out materiality assessment for the downstream value chain categories in Scope 3 to assess the gross GHG emissions from the most significant categories there.

Wherever possible and appropriate, we use the specific emission factors given in the carbon footprint calculator prepared by the Ministry of Climate. We have also used information provided directly by manufacturers and suppliers (e.g. chemicals, materials) where this has been available to us. For the calculation of N<sub>2</sub>O and CH<sub>4</sub> emissions from wastewater treatment, we have referred to data from the Viikinmäki Wastewater Treatment Plant in Finland. For the calculation of GHG emissions from wastewater discharges, we have used the specific emission factors developed by the Intergovernmental Panel on Climate Change (IPCC). The company's largest GHG emissions come from the mechanical and chemical-biological treatment of wastewater and from the composting of sewage sludge.

Tallinna Vesi has not developed or participated in the development of any projects related to carbon removal from the atmosphere, nor has it purchased carbon credits from a third party to offset the company's GHG emissions.

	Retrospective				Milestones and target years			
	Base year 2020	2022	2023	% 2023/2022	2025	2030	2050	Annual target (%) / Base year
<b>Scope 1 GHG emissions</b>								
Gross Scope 1 GHG emissions (tCO <sub>2</sub> eq) *	29,996	28,116	28,894	+2.8	N/A	- 50%	-100%	N/A
Percentage of Gross Scope 1 GHG emissions from regulated emission trading schemes (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Scope 2 GHG emissions</b>								
Gross location-based Scope 2 GHG emissions (tCO <sub>2</sub> eq)	19,817	24,907	25,291*	+1.5	N/A	N/A	N/A	N/A
Gross market-based Scope 2 GHG emissions (tCO <sub>2</sub> eq)	22,763	173	130	-25	N/A	- 50%	-100%	N/A
<b>Significant Scope 3 GHG emissions</b>								
Total Gross Scope 3 GHG emissions (tCO <sub>2</sub> eq)	8,459	9,130	8,670	-5.0	N/A	N/A	N/A	N/A
1. Purchased goods and services	5,636	5,923	5,087	-14.1	N/A	N/A	N/A	N/A
2. Capital goods (fixed assets)	14	42	26	-6.7	N/A	N/A	N/A	N/A
3. Fuel and energy-related activities (not included in Scope 1 or Scope 2).	1,920	2,232	2,778	+24.5	N/A	N/A	N/A	N/A
4. Upstream transportation and distribution	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5. Waste generated in operations	650	686	535	-22.0	N/A	N/A	N/A	N/A
6. Business travelling	4	13	12	-7.7	N/A	N/A	N/A	N/A

7. Employee commuting	233	233	233	0	N/A	N/A	N/A	N/A
8. Upstream leased assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9. Downstream transportation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10. Processing of sold products	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
11. Use of sold products	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
12. End-of-life treatment of sold products	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
13. Downstream leased assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
14. Franchises	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
15. Investments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total GHG emissions</b>								
Total GHG emissions (location-based) (tCO <sub>2</sub> eq)	58,272	62,153	62,855	+1.3	100%			
Total GHG emissions (market-based) (tCO <sub>2</sub> eq)	61,217	37,419	37,694	+0.7				

\*Calculated using CO<sub>2</sub> from total electricity consumption in Estonia in 2022 (601.7 g CO<sub>2</sub>/kWh).

GHG intensity based on net revenue	2022	2023	% 2023/2022
Total GHG emissions (location-based) per net revenue (tCO <sub>2</sub> eq/ monetary unit)	0.0011	0.0010	-9
Total GHG emissions (market-based) per net revenue (tCO <sub>2</sub> eq/ monetary unit)	0.0007	0.0006	-9

## Pollution

The materiality assessment (see the assessment methodology in the section [“Impact materiality assessment”](#)) identified impacts as well as risks and opportunities for Tallinna Vesi that are related to pollution.

**Pollution of water and pollution of soil:** Potential negative impacts related to pollution of water and pollution of soil result from discharges of wastewater and sewage sludge, if existing processes fail to remove pollutants from the discharged wastewater or sewage sludge.

Wastewater discharged from Tallinn and its surroundings is treated at the Paljassaare Wastewater Treatment Plant. Wastewater treatment is one of the most important activities for pollution prevention and is one of the two core functions that the water company has — to ensure that wastewater gets treated and is returned safely to the environment. The quality of treated effluent discharged to the Baltic Sea has a direct impact on the marine environment and is therefore directly and/or indirectly an important aspect for all our stakeholders. We are committed to minimizing negative environmental impacts, maintaining high quality and achieving results that exceed the quality standards for treated effluent discharged to the Baltic Sea.

There are a number of risks that threaten the objective of discharging only properly treated wastewater, i.e. effluent that meets the limit values:

- In the event of heavy downpours, when more water arrives at the treatment plant than it can treat, we are forced to use an emergency outlet and discharge water that has been diluted with stormwater (four parts stormwater to one part wastewater) but not treated.
- There is also a risk of a blockage in the sewerage system, which could lead to wastewater finding its way into, for example, a separate stormwater network, soil or a ditch or river, causing environmental pollution.
- The fact that we have a large number of customers who discharge their wastewater and/or stormwater to the combined sewer system poses a significant risk. Therefore, for one reason or another, the pipes may have been incorrectly connected and the wastewater discharged into a separate stormwater system, resulting in the wastewater being released to the environment via a stormwater outlet.
- In addition, the operation of sewerage networks and wastewater pumping stations carries the risk of a pump or pipeline breakdown that could result in untreated wastewater being discharged to the environment.

The materiality assessment identified that **potential water and soil pollution from substances of concern, substances of very high concern and microplastics** is dependent on the quality of the wastewater collected, i.e. the concentration of those pollutants, and the treatment process has not been designed to remove these pollutants. Thus, the impact of Tallinna Vesi is significantly linked to external factors.

The potential impacts of water and soil pollution also entail potential risks for Tallinna Vesi, which have been rated as strategic risks. In particular, these risks and the financial implications are linked to higher pollution charges and other costs associated with eliminating the impacts.

Risks and potential financial costs are also associated with the new proposed requirements for the removal of micropollutants and microplastics and the need to invest in new wastewater treatment technology. At EU level, the Urban Wastewater Treatment Directive is currently being revised. With the adoption of the new standards, a fourth treatment stage is potentially expected to be required for the treatment plant, which could lead to additional investment needs for the company.

**Pollution of air:** The materiality assessment identified that pollution of air is a sub-topic with only an informative impact, mainly related to pollutants emitted from Watercom's core business operations (e.g. dust). There are no material risks or opportunities associated with pollution of air.

Tallinna Vesi does not operate in areas of high water stress. Environmental risks, their impacts and opportunities are assessed annually by a working group of managers from various departments. The working group maps the risks that, if realized, would have a negative impact on the environment.

## Guiding Principles

When it comes to topics related to pollution of water and soil, we are guided by the principle of "We save and value the nature in which we operate. We constantly strive to reduce and prevent pollution to make the environment around us cleaner."

All employees of the organization, including the Management Board, are responsible for the implementation of the policy. We also expect our partners and contractors to act green and avoid pollution.

## ACTIONS AND TARGETS

In preventing and reducing pollution, **our overall target is to comply with the limits established in the environmental permits we hold.** This means that the target covers the operations of the company to the extent that they are regulated by environmental permits. We consider it of the utmost importance that all our emissions to air and water are in line with the conditions set out in the environmental permits issued to us. That is why compliance with the requirements of the environmental permit has remained an important target for the company from year to year. We monitor and measure compliance with the conditions set out in the environmental permits, including the pollution limits. The target is considered to have been met if the company has complied with all the requirements of its permits during the calendar year.

More detailed information on the content and background of environmental permits, including the environmental impact assessments that preceded the setting of the limit values (if any), can be

found in the national database KOTKAS<sup>6</sup> by entering the environmental permit identification number in the search field. Stakeholders have not been involved in setting these targets.

### APPLICABLE ENVIRONMENTAL PERMITS REGULATING THE ACTIVITIES OF TALLINNA VESI

Permit for the special use of water no	Valid until	Description of the authorized activities
L.W/331954	31/12/2030	<p><b>Public water supply and wastewater service area in the town of Saue</b></p> <p>Groundwater abstraction from four borewells with a volume of over 5 m<sup>3</sup> per day. Wastewater collection and discharge to the Paljassaare Wastewater Treatment Plant operated by AS Tallinna Vesi.</p>
KL-506050	unlimited validity	<p><b>Main public water supply and wastewater service area in Tallinn, Tallinn surface water catchment system facilities in Harju and Järva counties.</b></p> <p>Regulates the surface water resources in the surface water bodies of the Ülemiste-Pirita-Jägala surface water system, surface water abstractions from Lake Ülemiste, groundwater abstractions from the Ordovician-Cambrian, Cambrian-Vendi and Quaternary aquifers using the borewells of the Tallinn public water supply system, discharge of biologically treated effluent into Tallinn Bay, using a deep-sea outlet, and discharge of mechanically treated stormwater to the sea, the Mustjõe stream and Pääsküla bog.</p>
KL-519983	15/09/2024	<p><b>Fish pass on Vaskjala dam</b></p> <p>Placing of solids in the water body to allow reconstruction of the fish pass.</p>
L.W/328349	unlimited validity	<p><b>Public water supply and wastewater service area in the town of Maardu</b></p> <p>Abstraction of drinking water and water for industrial use from the Cambrian-Vendi aquifer to supply water to the town of Maardu, and Kallavere and Muuga areas. As of November 2012, the wastewater of all those connected to the public sewerage system in Kallavere and Muuga is discharged to the public sewerage system of Tallinn.</p>
L.W/333205	19/08/2024	<p><b>Building of an alternative water intake on Lake Ülemiste</b></p> <p>Drowning of solids into Lake Ülemiste to ensure the possibility to</p>

<sup>6</sup> [https://kotkas.envir.ee/permits/public\\_index](https://kotkas.envir.ee/permits/public_index)

take water mainly from the waters of the surface water catchment system, if necessary.

Integrated permit KKL-509326	unlimited validity	<b>Paljassaare Wastewater Treatment Plant</b> Regulates discharges from the wastewater treatment plant, discharges of biologically treated wastewater to Tallinn Bay, using a deep-sea outlet.
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For all pollutants released to the environment, the company pays a pollution charge. Information on the pollution charges paid can be found in Note 17 to the financial statements.

### CONSTRUCTION OF A SEPARATE SEWERAGE SYSTEM

Wastewater is discharged to the treatment plant via a combined sewerage system, which carries both stormwater and wastewater. Some areas we operate also have a separate stormwater network with stormwater outlets. However, most of the stormwater is still discharged to the combined sewerage system and ends up at the Paljassaare Wastewater Treatment Plant. Downpours accompanied by sudden increase in rainfall can cause flooding and a short-term inability of sewerage and stormwater systems to accommodate all water. In addition, the treatment plant may not have enough capacity to receive and/or fully treat such a large volume of wastewater at a time, resulting in a need to open the emergency outlets and discharge highly diluted wastewater to the sea to avoid any major damage. To prevent such situations, we continue to work with the city to develop a separate stormwater system. In 2023, we built 0.9 km of separate stormwater system.

In addition to the construction of pipelines, we also started to work out green stormwater solutions suitable for the urban environment in co-operation with the City of Tallinn. For example, in 2023, we worked on a project to divert some of the stormwater collected from the streets to an artificial wetland in Tondi Park, with a clearing area and cascade, using a regulated water intake to prevent flooding and improve the quality of water discharged to the Baltic Sea. Increasing the residence time of the water will reduce the amounts of suspended solids and hence the levels of macronutrients and other pollutants in the stormwater before it is discharged to the outlet. The plan is to install on-line monitoring systems to measure a range of water quality parameters at the inlet and outlet of the wetland (retention pond), allowing to evaluate its efficiency.

### PREVENTING EMERGENCIES

Wastewater and stormwater are pumped through pipelines and by means of pumps. Emergencies can occur both in pipelines and pumping stations, causing accidental release of wastewater to the environment. In order to prevent emergencies at the pumping stations, a SCADA remote control system is in place that continuously monitors the operation of pumps. If communication with the pumping station is lost, the pump continues to work in the final mode until the company works to restore the communication. Unfortunately, a situation occurred in 2023 when the communication disruption was not immediately responded to, and later response revealed that the pumping

station's emergency mode had not been activated, so the pumps stopped, the water level got high, and the wastewater found its way to the Pääsküla River through the well. We immediately informed the relevant authorities and started investigating the circumstances to prevent such incidents from happening again.

**2024 TARGET:** We operate in full compliance with environmental permits.

## PREVENTING BLOCKAGES

The condition of the sewage network is also characterized by the number of blockages. Blockages are mainly caused by the build-up of sediments in the pipes or by consumers improperly using the sewerage system. Since the pipelines are designed for higher flows, the reduced water consumption today leads to a reduction in the flow rate and velocity of water and increase the risk of blockages. The overall number of blockages is also affected by the continuous expansion of the operated sewerage network. A number of preventive actions, such as preventive jet washing, have helped to keep the number of blockages in the pipes low. Jet washing is carried out by creating a high velocity flow in the pipeline, which pushes all the accumulated sediments to the nearest collection well. The sediments are then collected in a jet wash tanker and transported to the Paljassaare Wastewater Treatment Plant.

**2024 TARGET:** We reduce the number of sewer blockages compared to the year before (< 533).

## RENOVATING SEWERAGE PIPES

In addition to all that, efficient wastewater collection is supported by the renovation of problematic sections of the sewerage network that is done every year. The sewer renovations are carried out in accordance with the Tallinn Public Water Supply and Sewerage Development Plan. In 2023, we reconstructed and built 12.4 kilometres of sewerage pipes.

## WASTEWATER TREATMENT

The wastewater treatment plant at Paljassaare is designed to treat domestic wastewater by removing primarily nutrients such as nitrogen and phosphorus. The treatment method used is the activated sludge process, and the whole treatment process consists of three stages: mechanical, biological and chemical treatment. Nitrogen removal efficiency is further improved with a biological filter using denitrifying bacteria action. Under the integrated permit, quality limits have been established for the treated effluent that is discharged back to the environment through the treatment plant's deep-sea outlet.

In the longer term, it is expected that effluent regulations will be amended, which may lead to the need for an additional treatment stage and monitoring of additional pollutants. For example, the environmental permits do not currently limit microplastics and pharmaceutical residues, since the measurement and reduction of their levels is still at the research stage and not regulated by law. Tallinna Vesi does not generate or use microplastics or pharmaceuticals, but due to the specific nature of our business, we are involved in their release to the environment. We do not

collect data on the amount of microplastics in wastewater, and our knowledge is currently limited to research. However, we have been involved in studies,<sup>7</sup> which found that while wastewater treatment plants are a significant route for microplastics to enter the marine environment, they also act as a significant barrier, trapping, according to several studies, 70–99% of the microplastics entering the plant. Most of this is likely to be retained in sewage sludge. Once more knowledge about microplastics is available and expectations for wastewater treatment plants become clear, we can start to plan the steps necessary for both measurement and response.

As regards pharmaceutical residues, European Union is likely to introduce regulations targeting wastewater treatment plants in the future, which is why we have already started monitoring the most frequently detected pharmaceutical residues in wastewater and effluent in 2023.

Wastewater treatment is a continuous process, but the wastewater received at the plant varies in terms of pollutant concentrations, water volumes and temperatures, so skillful control and operation of the process is crucial to achieving a high level of performance. In 2022, our operations met all the requirements set out in our environmental permits. In 2023, on the other hand, there was one pollution incident, which we considered as a non-compliance and which is described in more detail in the sub-section "[Preventing emergencies](#)".

We continuously assess the efficiency of the wastewater treatment process and the quality of the treated effluent by daily monitoring the amounts of pollutants in the wastewater received at the treatment plant and in the effluent leaving the plant. To this end, samples are taken with an automatic sampler and analyzed by an accredited laboratory using appropriate methods. The results of the analyses provide essential input for process control and also serve as the basis for calculating pollution charges.

### AVERAGE POLLUTION CONCENTRATIONS IN TREATED EFFLUENT LEAVING THE PLANT IN 2021–2023, COMPARED TO STATUTORY MAXIMUM LIMITS

	2023	2022	2021	Permitted limit value
Biochemical oxygen demand (BOD <sub>7</sub> ), mg/l	3.5	3.3	3.5	15
Chemical oxygen demand (COD), mg/l	33.6	39	32	125
Suspended solids, mg/l	9	7	6	15
Total Phosphorus (P <sub>Total</sub> ), mg/l	0.35	0.38	0.35	0.5

<sup>7</sup> Sources and pathways of microplastic in the Estonian coastal sea, potential impact to pelagic and benthic organisms. Tallinn University of Technology 2020.

Total nitrogen (N <sub>Total</sub> ), mg/l	5.7	5.4	5.2	10
Oil products, mg/l	0.02	0.01	0	1
Nickel (Ni), µg/l	3.8	3.3	4.1	34
Copper (Cu), µg/l	2.3	6.4	5.3	15
Zinc (Zn), µg/l	30,4	29.7	23.1	50
Lead (Pb), µg/l	0.11	0.13	0.14	15
Chromium (Cr), µg/l	0.71	0.55	0.63	50

In 2023, a total of 53.1 million m<sup>3</sup> of wastewater was treated at the Paljassaare Wastewater Treatment Plant.

**2024 TARGET:** We operate in full compliance with environmental permits.

## MONITORING THE SEWERAGE NETWORK

In order to ensure a stable pollution load of wastewater received at the Paljassaare Wastewater Treatment Plant, we carry out regular monitoring of wastewater received from sites in Tallinn and its surrounding areas and check the compliance of wastewater pollution parameters with the statutory requirements. In 2023, we took a total of 1,013 wastewater samples (2022: 1,065) to determine the pollution load from sites and 332 stormwater and other monitoring samples (2022: 388).

To mitigate pollution risks, we regularly take wastewater samples from customers with higher consumption and/or higher pollution potential due to the nature of their activity. Constant monitoring of wastewater in the sewerage network helps to keep the combined sewerage system functioning. Based on the results of the analyses of these samples, we assess whether the wastewater meets the limits for wastewater discharged to the sewerage system, does not harm the functioning of the sewerage system and can be treated at the treatment plant. In the case of elevated pollution levels, the customer will be charged for pollution exceeding the limits following the polluter pays principle. These controls also have a disciplinary effect, helping customers to better control the quality of their wastewater.

For example, wastewater with high levels of polar hydrocarbons (fats) often causes blockages in the sewerage system, which can result in wastewater ending up in the environment. The monitoring of wastewater discharged by customers also aims to ensure that the plant receives wastewater that we can treat to the required standards, and that the treated effluent discharged to the Baltic Sea meets all the requirements.

## STORMWATER MONITORING AND MICROBIOLOGICAL ANALYSES

Monitoring of stormwater discharged to the environment is carried out in accordance with the conditions and frequency established in the environmental permit, on average quarterly. In addition to monitoring compliance with the pollution limits established in the environmental

permit, since 2020 we have also carried out microbiological studies to further improve the detection of illegal sewage connections built on the stormwater network and thereby reduce the amounts of pollutants ending up in the receiving waters. Monitoring of stormwater outlets and customer connections allows us to identify incorrect connections that are discharging wastewater to the separate stormwater system. When a connection is detected that has been built incorrectly, we always arrange for it to be reconnected to the sewerage network immediately. Wastewater discharges to separate stormwater systems for a variety of reasons are more common than one might think. Therefore, at the end of 2023, in co-operation with TalTech, we launched a project aimed at developing a modern stormwater quality monitoring system in the company, which would enable the online detection of pollution, the fast identification of the causes of pollution and their prompt elimination.

### AVERAGE POLLUTANT CONCENTRATIONS FROM LARGER STORMWATER OUTLETS IN 2021–2023, MG/L

Pollutant	2023	2022	2021	Permitted limit value
BOD <sub>7</sub>	2.1	2.5	3.5	15
COD	19.0	18.3	23.5	125
Oil products	0.04	0.1	0.1	5
N <sub>Total</sub>	3.7	3.5	3.4	45
P <sub>Total</sub>	0.2	0.2	0.3	1
pH	7.8	7.9	7.9	6-9
Suspended solids	9.2	10.5	14.8	40

### PREVENTING CHEMICAL ACCIDENTS

Process optimization in wastewater treatment is crucial to achieve sustainable energy and chemical use and treatment efficiency. The amounts of the chemicals and energy used in the wastewater treatment process depend on the pollution characteristics of the wastewater received at the plant, which in turn are affected by, for example, weather conditions. The higher the pollutant concentrations in the wastewater received at the plant, and the lower the pollution limits for the treated effluent established by law, the more chemicals are used in the wastewater treatment process. The chemicals we use in wastewater treatment:

- Methanol: Methanol is used in the wastewater treatment plant to support the nitrogen removal carried out by the denitrifying bacteria involved in the biological treatment process. Due to the extreme explosion hazard of methanol, Tallinna Vesi is classified as a dangerous enterprise.

- Coagulants and polymers: Coagulants and polymers are used in the wastewater treatment process in large quantities. Coagulants are used for the chemical treatment of wastewater to remove phosphorus. Polymers are used to modify the properties of sewage sludge to accelerate the release of water from the sludge.
- Antifoaming agent: Antifoaming agent is used to control and reduce foaming in digesters.

The use of chemicals inevitably involves the risk of chemical accidents, which we try to mitigate through our actions to prevent pollution. For example, at the wastewater treatment plant, level sensors have been installed in the methanol-, coagulant- and polymer tanks to detect leaks. The sensor readings are monitored by process managers and the process is regularly inspected by the operational staff. As methanol is the most hazardous chemical used in wastewater treatment, the methanol plant also has sensors that measure methanol levels in the air to detect possible leaks. Methanol is stored in double-wall tanks, the amount of solution between the inner and outer wall is measurable, and any drop in that amount also indicates a leak in the tank. Methanol deliveries are always planned ahead, supplied by reliable partners who are required to meet certain safety standards and adhere to safety regulations. A representative of the plant is always present at the unloading of methanol.

We also need chemicals at the Ülemiste Water Treatment Plant to produce high-quality drinking water. We use the following chemicals in water treatment:

- Chlorine: Chlorine is an effective disinfectant with a long-lasting effect. Chlorine has a strong oxidizing effect and is highly toxic to aquatic micro-organisms. Due to the storage and use of chlorine, Tallinna Vesi is classified as a category B enterprise with a major hazard.
- Ozone: Ozone is a good and fast oxidant, which helps to effectively break down organics and micro-organisms in raw water and improve the colour of the water.
- Coagulants and polymers: Coagulants and polymers are chemicals used in the treatment process in large quantities as aqueous solutions.
- Sodium hypochlorite (NaOCl): NaOCl is an effective chemical with a long-lasting effect, used mainly during the summer period for additional disinfection of drinking water in water pumping stations.

We have a number of safeguard mechanisms in place to prevent accidents (especially chlorine-related accidents) and control hazards at the water treatment plant. We organize regular trainings and carry out exercises for our staff and work closely with the Rescue Board to be ready to act quickly in the event of a major accident. The chlorine storage points are equipped with duplicated sensors, which immediately report the slightest leakage to the control centre where a process manager is on around the clock and activate the neutralization systems in case of danger. Also, other chemicals used in the treatment plant are under strict control. For example, the ozone generation room is equipped with sensors to check for possible leaks and the generator is remotely switched off if concentrations of ozone in the air increase.

In 2023, we used a total of 6,111 tonnes of various chemicals in water and wastewater treatment, without any chemical accidents that could have harmed human health or the nature.

## SLUDGE TREATMENT AND SEWAGE SLUDGE

Sewage sludge is a valuable source of nutrients, and its use in fields and as green cover is permitted under specified conditions. Sludge is an inevitable by-product of the treatment process and accounts for the majority of all waste generated in the company. Therefore, we do not want to landfill the sludge, but treat it to recover the nutrients accumulated in the sludge. To do this, the sludge is first digested in an anaerobic environment (digesters), then mixed with milled peat and digested aerobically in windrows. It is important that the composted sewage sludge leaving the plant is safe for use and complies with Regulation No 29 of the Minister of the Environment. We therefore take regular samples (analyzing them for dry matter, organic matter, N<sub>Total</sub>, P<sub>Total</sub>, helminth eggs, *Escherichia coli*, cadmium, chromium, copper, nickel, lead, zinc and mercury) to assess its suitability for use. In 2023, 37,888 tonnes of stabilized and composted sewage sludge were handed out to those interested. The handed-out sludge complied with the conditions of both the applicable regulation and the integrated environmental permit no KKL-509326 issued to the company.

## PREVENTING POLLUTION IN CONSTRUCTION WORKS

We also organize tenders to find contractors to reconstruct and develop our infrastructure. In the construction tender conditions, we have stipulated, among other things, that causing any environmental pollution or damage to the environment on the site is prohibited.

As of the last quarter of 2023, we have also introduced the possibility to impose penalties for environmental infringements to increase the effectiveness of the tender conditions. Although there has been no need to impose penalties so far, the existence of such possibility draws attention to the importance we attach to the environmental matters on our construction sites.

## POLLUTION OF AIR

Emissions to air that occur in the water- and wastewater treatment plants, resulting from our operations, are also related to pollution. Our operations only have a small impact on air pollution, which is why we have not set strategic targets in this area. However, we do monitor (and report) our emissions of air pollutants as required by environmental permits.

The company has been issued an environmental permit which, among other things, sets limit values for the pollution sources at the Ülemiste Water Treatment Plant. The limit values and calculated emissions to air are shown in the table below:

### POLLUTION OF AMBIENT AIR FROM POLLUTION SOURCES AT WATER TREATMENT PLANT IN 2021–2023, T

Pollutant	Permitted limit value	2023	2022	2021
Nitrogen dioxide	1.954	0.698	0.894	0.855
Carbon dioxide	1.846	0.624	0.812	0.801
Volatile organic compounds	0.125	0.042	0.056	0.054
Carbon dioxide	1688	737.87	736.34	736.28
Sulphur dioxide*	0	0.004	0	0
Total particulate matter	0.004	0.004	0.003	0.002

\* Sulphur dioxide emissions to ambient air remained below the threshold.

From the second half of 2020, the pollution sources at the Paljassaare Wastewater Treatment Plant are subject to an integrated environmental permit no KKL-509326, which regulates emissions to air from combustion units, grit traps, primary clarifiers, aeration tanks, secondary clarifiers, and sludge and composting fields. All emissions to air are calculated. However, in 2024, we plan to install exhaust gas sensors at the wastewater treatment plant and start online measuring of N<sub>2</sub>O and CH<sub>4</sub> emissions from the process to provide more accurate data.

### POLLUTION OF AMBIENT AIR FROM POLLUTION SOURCES AT WASTEWATER TREATMENT PLANT IN 2021–2023, T

Pollutant	Permitted limit value	2023	2022	2021
Nitrogen dioxide	4.49	3.6	3.95	4.02
Carbon dioxide	3.15	2.52	2.76	2.82
Volatile organic compounds	14.50	14.35	14.41	14.45
Carbon dioxide*	5,789.49	4,710	5,167	5,262
Hydrogen sulphide	3.82	3.7	3.7	3.7
Ammonia	79.34	78.5	79.3	79.3
Sulphur dioxide	11.98	10.0	10.9	11.2
Total particulate matter	4.35	3.9	3.8	4

*\* The amount of CO<sub>2</sub> from the combustion of biogas is not included in the organization's GHG inventory because it is a biogenic emission. However, biogenic CO<sub>2</sub> emissions are reported here separately from the GHG inventory.*

## Water and Marine Resources

Under water and marine resources, there are two material sub-sub-topics for Tallinna Vesi: water consumption and water withdrawals (abstractions). The impacts, risks and opportunities related to water discharges are reported under sub-topic of pollution of water and pollution of soil and are reported in accordance with the European Sustainability Reporting Standard ESRS E2 "Pollution" (see section "[Pollution](#)").

**Water consumption:** Tallinna Vesi has a potential positive impact on water consumption across the value chain due its consistent work fixing the water leaks, which contributes to reducing overall water consumption.

**Water abstractions:** Tallinna Vesi's core business directly depends on the large quantity abstractions of water, so water abstractions and the resulting potential impact on water depletion is one of the material topics.

Neither water consumption nor water abstractions pose any significant risks in terms of resource availability, and the materiality assessment took into account that these sub-topics could only lead to criticism from individual partners, which would not have a significant impact on the co-operation in the short, medium or long term.

## Guiding Principles

The availability and quality of raw water in Lake Ülemiste is a vital prerequisite for ensuring a sustainable service. At Tallinna Vesi, water is in constant circulation both in the treatment process and in the networks, and is not permanently stored. The water needed to supply drinking water to the residents of Tallinn is drawn from its natural environment. Tallinna Vesi supplies its customers with drinking water from surface and groundwater sources, but does not operate in areas at water risk. We believe it is important to use water resources sparingly and to continually improve water efficiency.

**Guiding principle:** We use resources, including energy and water, sustainably in all our operations. We are constantly looking for new ways to make our processes greener and more efficient.

All employees in the organization, including management, are responsible for implementing the policy in their own work.

## Targets and Actions

Water abstractions are influenced not only by process control, but also by the consumption habits of the population, the water loss rate and our own water consumption needs, which is why we strive to contribute to reducing water consumption both directly, through our own operations, and by raising awareness among water users.

## WATER ABSTRACTIONS AND WATER USE

Almost 90% of our consumers in Tallinn and the town of Maardu get their drinking water from surface water. Although Lake Ülemiste is the main source of drinking water for the people of Tallinn, the natural catchment area of the lake itself is small. In order to increase volume of water and to meet the needs of the city of Tallinn, a water catchment system has been established, consisting of hydraulic units built on rivers, water reservoirs and canals connecting them. Our water catchment system covers mainly the Harju sub-basin and the catchments of the Soodla, Jägala and Pirita rivers, with a total area of about 1,800 km<sup>2</sup>. The most important water reservoir is Lake Ülemiste with a volume of 15.8 million m<sup>3</sup>. The supplementary water resources that are used to replenish the waters of Lake Ülemiste and mitigate the risk of running out of water in the lake are collected to Paunküla reservoir upstream of the Pirita River (9.9 mln m<sup>3</sup>) and Soodla reservoir formed on the Soodla River (7.4 mln m<sup>3</sup>). We can also use these water resources to improve the poor water quality of Lake Ülemiste, if necessary. The amount of water available in Tallinn surface water catchment system depends primarily on the annual amount of precipitation.

A constant overview of flows allows us to use water resources in the most efficient way. To ensure optimal and accurate regulation of water resources, we have installed water metering stations at all hydro units, which allow us to measure both the flows into canals and the minimum environmental flows remaining in rivers. We take measurements regularly, in accordance with the requirements of the environmental permit. The sanitary protection area includes Lake Ülemiste, the water intake structures, the shoreline protection structures and the area surrounding the lake, which must be preserved in its natural state.

The water quality of surface water sources is monitored in accordance with a program established in the environmental protection permit. To ensure compliance, we analyze raw water quality indicators at the inlet to our treatment system once a day. Once a week, we check the levels of nitrogen and phosphorus compounds and total organic carbon. In addition, a detailed raw water analysis is carried out once a month in accordance with the drinking water source monitoring program. Based on the results of the analysis, we assess changes and processes in the catchment area and decide on the need to replenish the lake.

**2024 TARGET:** We operate in full compliance with environmental permits.

### SURFACE WATER USE FROM LAKE ÜLEMISTE AND COMPLIANCE WITH THE PERMIT FOR THE SPECIAL USE WATER NO KL-506050 IN 2021–2023, MLN M<sup>3</sup>

	2023	2022	2021
Surface water use from Lake Ülemiste	26.34	26.60	25.85
Maximum amount permitted	47.6 million m <sup>3</sup> /y		

Nearly 10% of our consumers get their drinking water from the Cambrian-Vendi and Ordovician-Cambrian aquifers. Within our service area, we supply groundwater to the town of Saue and to the districts of Nõmme, Laagri, Merivälja, Pirita and Tiskre in Tallinn. Total groundwater abstractions

in 2023 amounted to 2,654,114 m<sup>3</sup> (2022: 2,732,375 m<sup>3</sup>). We use significantly less groundwater than we are permitted to under the environmental permit — this approach ensures the sustainability of groundwater resources. Most of the drinking water is produced from surface water.

### GROUNDWATER USE IN 2021–2023, COMPARED TO THE MAXIMUM AMOUNTS PERMITTED IN THE PERMITS FOR THE SPECIAL USE OF WATER, THOUSAND M<sup>3</sup>

Water permit no	Max amount permitted	2023	2022	2021
Tallinn (permit no KL-506050)	7749.80	2294.7	2367.5	2603.6
Saue (permit no L.VV/331954)	445	359.3	364.4	350.0
Harku (permit no L.VV/328381)	40	0	0	0.4
Maardu (permit L.VV/328349)	720	1.8	0.2	0.1

### REDUCING OWN CONSUMPTION

We are also looking for ways to reduce water consumption in our processes. For example, in 2024, we will launch a project that will allow us to reuse the water used for backwashing the filters at the water treatment plant. This will save us an estimated 250,000 to 350,000 m<sup>3</sup> of treated water. At the wastewater treatment plant, we plan to reduce the amount of water used for our own consumption in 2024 by starting to use technical water for washing the screens.

**2024 TARGET:** We reduce our own water consumption by using technical water to wash the screens at the wastewater treatment plant and by reusing the filter backwash water at the water treatment plant.

### OWN WATER CONSUMPTION IN 2021–2023, THOUSAND M<sup>3</sup>

	2023	2022	2021
Water used for own consumption	2,636	2,318	2,400

### WATER LEAKS

One of our key objectives is to continuously reduce water losses in the distribution network. To reduce the number of leaks, we monitor water loss in the network on a daily basis and fix the leaks as quickly as possible. Our specialists are equipped with special leak detection equipment which, combined with network zoning and remote reading systems, allows water leaks to be detected very quickly.

**2024 TARGET:** We keep the water loss rate in the network below 14%.

WATER LOSS RATES IN 2021–2023, %

	2023	2022	2021
Water loss rate	12.94	16.02	15.10

## ACTIVITIES COVERED BY THE EU TAXONOMY

AS Tallinna Vesi Group falls under the scope of the EU Corporate Sustainability Reporting Directive and has to report data covered by the EU Taxonomy for the first time in its 2025 annual report. The group started preparing for reporting in 2023 by analyzing the scope to which the group's activities are Taxonomy-eligible and mapping the criteria for activities that are Taxonomy-aligned. This will serve as a basis for collecting the data needed for the assessment in 2024 and for making the necessary adjustments to the financial accounting systems for the calculation of the performance indicators.

Despite the fact that the group has no obligation to report data covered by the EU Taxonomy for the current reporting year, the group has decided to voluntarily disclose the descriptions of its Taxonomy-aligned activities. The general principles of reporting under the EU Taxonomy and the Taxonomy-eligible activities of the group, excluding the performance indicators related to the activities covered, are described below.

The group will carry out an analysis of the criteria for Taxonomy-aligned activities during 2024 and plans to disclose the results of the analysis (including performance indicators) in its 2024 annual report.

### GENERAL PRINCIPLES

EU Taxonomy is a classification system that aims to help scale up private investments in environmentally sustainable economic activities that are necessary to reach the objectives of the European Green Deal. The Taxonomy Regulation (EU) 2020/852, adopted in 2020, sets out clear requirements and technical screening criteria for economic activities that can make a contribution to meeting the environmental objectives of the European Union. The Taxonomy Regulation does not apply to all sectors of the economy, but focuses on activities with the greatest environmental impact, including those related to the provision of water supply and sewerage services. Article 9 of the Taxonomy Regulation sets out six environmental objectives:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control;
- the protection and restoration of biodiversity and ecosystems.

Under the Taxonomy Regulation, reporting undertakings must disclose the proportion of Taxonomy-eligible and Taxonomy-aligned economic activities in their turnover, capital expenditure and operating expenditure in the form of a table prescribed by the regulation.

The ratio in the Taxonomy indicates the extent to which the group's turnover, capital expenditure and operating expenditure are related to the economic activities described in the Taxonomy regulations, without taking into account whether the given economic activity meets the evaluation criteria established in the Taxonomy.

In order to be Taxonomy-aligned, an economic activity must comply with the science-based evaluation criteria set out in Delegated Regulation (EU) 2021/2139 adopted under the Taxonomy Regulation, namely the activity-based technical screening criteria and the "Does Not Significantly Harm" criteria. The "Does Not Significantly Harm" principle requires that economic activities must not hinder the achievement of other environmental objectives and the Delegated Regulation also sets out evaluation criteria for this. In addition, the group must conduct its economic activities in accordance with minimum social safeguards. In order to meet minimum social safeguards, economic activities must comply with international guiding principles on business and human rights. If the group's economic activity does not meet even one of the above criteria, it cannot be considered Taxonomy-aligned.

The group will disclose the performance indicators for both Taxonomy-aligned and Taxonomy-eligible, but not Taxonomy-aligned activities for the first time in its 2024 annual report.

## DESCRIPTIONS OF THE GROUP'S ECONOMIC ACTIVITIES COVERED BY THE TAXONOMY

In mapping the activities covered by the Taxonomy Regulation, the group has used the NACE activity codes and the description of the activities as outlined in Regulations (EU) 2021/2139 and (EU) 2023/2486.

In 2023, the group's activities covered by the Taxonomy Regulation are:

### WATER SUPPLY (WTR 2.1)

The group's core business is water treatment and -supply in the city of Tallinn and in towns of Maardu and Saue.

*In addition, the following activities are included in Regulation (EU) 2021/2139 as sub-activities related to this activity: construction, extension and operation of water collection, treatment and supply systems (CCM 5.1/CCA 5.1) and renewal of water collection, treatment and supply systems (CCM 5.2/CCA 5.2).*

### URBAN WASTE WATER TREATMENT (WTR 2.2)

The group's core business is the collection, discharge and treatment of wastewater and stormwater in the city of Tallinn and towns of Maardu and Saue. The company operates one wastewater treatment plant.

*In addition, the following activities are included in Regulation (EU) 2021/2139 as sub-activities related to this activity: construction, extension and operation of wastewater collection and treatment (CCM 5.3/CCA 5.3), renewal of wastewater collection and treatment (CCM 5.4/CCA 5.4), anaerobic digestion of sewage sludge (CCM 5.6/CCA 5.6).*

### COGENERATION OF HEAT/COOL AND POWER FROM BIOENERGY (CCM 4.20/CCA 4.20)

The power and heat generated from biogas, a by-product of the stabilization of sewage sludge at the Tallinn Wastewater Treatment Plant, is used entirely by the treatment plant itself.

# SOCIAL INFORMATION

## Own Workforce

The overall wellbeing of its employees and safety at work is important to Tallinna Vesi, which is why the fifth key business direction set out in the company's strategy is clearly focused on ensuring the wellbeing of employees. The strategy states that Tallinna Vesi values employee satisfaction, invests in its people, promotes a safe and fair working environment and supports succession planning to ensure continuity. The company offers an environment where motivated and committed employees can work towards both company-wide and individual career goals. One of the focuses of the strategy's key direction related to employees is improving management quality and developing leadership skills.

The materiality assessment (see the assessment methodology in the section "[Impact materiality assessment](#)") identified material impacts, as well as risks and opportunities for Tallinna Vesi that are related to own workforce.

**The health and safety of its employees** is a priority for Tallinna Vesi. More than half of the staff work in offices, where the adverse effects of the working environment are mainly linked to a lack of physical activity and working at a computer. For other staff, the work often involves an increased risk, for example from working in confined spaces, exposure to chemicals, working with specialized equipment or in deep manholes, collectors, etc. Potential negative impacts on workers' health and safety at work may occur due to the level of risk in the sector. The nature of the work may also have a negative impact on workers' mental health.

Ensuring **secure employment and adequate wages** are also strategically important topics. As a large company, Tallinna Vesi can offer stable employment to a significant number of people, thus having a positive impact on the well-being of employees. Ensuring fair wages is important for Tallinna Vesi.

**Employee engagement** helps to shape the working environment and working conditions in a way that makes a number of aspects of working life (including a pay level, safety at work, work-life balance, etc.) more rewarding for employees. The potential positive impact of engagement is reflected in significant changes made to enhance the well-being of employees based on the feedback and suggestions received from them.

**Working time and reconciling work and family life** are important topics, with potential negative impacts arising from unsocial working hours, possible overtime or increased workloads affecting the work-life balance of the employee.

**Development of its employees** is important for Tallinna Vesi. Employee development programmes and training help to support the development of employees on their career paths.

Tallinna Vesi employs people of different ages and nationalities, performing very different types on work. It gives the company the opportunity to benefit from diverse experience and knowledge.

Ensuring diversity through the engagement of staff with different profiles has a potential positive impact. Gender balance is important at Management Board and Supervisory Council level.

The interests and views of stakeholders, including employees, are outlined in the section ["Stakeholder Expectations"](#).

## Guiding Principles

Tallinna Vesi's human resources policy minimizes the above risks and impacts through its action plan. Responsibility for the implementation of the human resources policy lies with the organization's HR Manager and, at the highest management level, with the Management Board. As a socially responsible company that values its employees and is committed to continuous development, we believe and invest in having committed and competent people working in our team. The human resources policy sets out the following important guiding principles:

- **Safety at work.** We firmly believe that no job is worth getting injured. That is why we are committed to ensuring a safe working environment and providing employees with work equipment that meets requirements and needs, and value and promote healthy lifestyles in the company. The guiding principles on the work environment can be found on the company's [website](#).
- **Engagement.** We believe it is important that our employees are engaged in the company's activities and are aware of the important issues, which is why we ensure a flow of relevant and up-to-date information. Although there are no written policies for all processes, we engage a number of stakeholders both inside and outside the company.
- **Employee development and succession planning.** We encourage development within the teams. That is why we give committed and talented employees opportunities to achieve professional fulfillment and make careers within the company. We also encourage continuous learning and development by providing employees with training opportunities tailored to their needs and the needs of the business. We believe it is important to ensure sustainable succession planning for our team. Therefore, we have launched a scholarship programme in three vocational schools and three universities since 2021.
- **We value and recognize.** We recognize the good results and commitment, going beyond one's daily responsibilities and exceeding the expectations, and believe that a committed and competent employee is the greatest asset to any company. We also value and recognize the long-term contribution of our employees to the company.

One of the six core rules of the Tallinna Vesi's Code of Conduct concerns the safeguarding of human rights and labour rights.

We respect the human rights of every individual and do not discriminate against people on the basis of race, colour, religion, sex, age, social status, family origin, physical or mental disability or sexual orientation, or otherwise violate human rights. Discrimination of any kind is unacceptable

and we firmly support human rights in everything we do. The company does not employ forced labour or child labour. Tallinna Vesi respects and supports human rights and labour rights, observing the principle of equal treatment and considering important to promote and maintain equal opportunities and equal treatment in the workplace and in employment. Every individual is respected and treated fairly and equally, regardless of their gender, religion, age or other similar factors.

## CHANNELS FOR EMPLOYEE ENGAGEMENT AND REMEDYING NEGATIVE IMPACTS

### CHANNELS FOR EMPLOYEE ENGAGEMENT

Channel for engagement	Description, examples	Regularity	Feedback collection
<b>Organization-wide satisfaction survey</b>	We carry out a satisfaction survey among employees to find out what is going well in the company and which areas need more attention. We highly value the opinions and thoughts of our employees and their feedback and evaluation of their working life.	Yearly	We create action plans both at the company level and in units based on the feedback we received
<b>Executive Team meetings</b>	Exchange of information between employees and management	Monthly	Immediate feedback in meetings and through satisfaction surveys
<b>Meetings in departments</b>	Immediate interaction between the department manager and members	Usually weekly or monthly, depending on a department	Immediate ongoing feedback in meetings and through satisfaction surveys
<b>Interaction with the line manager</b>	The importance of the line manager's role is reinforced by the company's good practice of having regular one-on-one meetings between the managers and their direct reports	Weekly, fortnightly or monthly	Interaction with the line manager provides a good opportunity to assess performance on an ongoing basis, give feedback and also target new activities
<b>Presentation of annual targets</b>	At the beginning of each new calendar year, the management agrees on the	At the beginning of each year, also a review of the status	At the meeting, staff can ask clarifying questions about the

	company's targets, which are written down on the annual scorecard. These targets are made public and presented to all staff at a meeting at the beginning of the year. Update on the state of progress towards the annual targets is displayed on digital screens at company sites.	of previous year's targets is provided in January of the following calendar year. The state of progress towards the current year's targets is reported monthly.	targets and their achievement. Throughout the year, employees have the opportunity to check the state of progress towards the annual targets.
<b>Organization-wide communication channels</b>	Monthly newsletter, organization-wide emails, intranet, digital screens, website, social media channels	As appropriate	We currently receive immediate feedback and periodic feedback surveys are organized
<b>Various events, training</b>	There are several events and training sessions for staff throughout the year, incl. summer days, a Christmas gala, an information day, a team building day with Utilitas, webinars, professional training sessions.	As appropriate	We send feedback questionnaires to employees, collect feedback by talking to employees and listen to their opinions

There are many ways for employees to voice their concerns and observations:

- It is a common practice for staff to address concerns or observations to their line manager, the Human Resources Department or the office assistant, depending on the nature of the observation.
- Mailboxes have been set up in the treatment plants and the office at Ädala Street to allow staff to send their observations, anonymously if they so wish.
- Few observations get sent via the intranet, in which case the Human Resources Department responds and ensures that the notifications are dealt with promptly.
- For several decades there has been an acting trade union who can also be contacted with questions and concerns.
- A report form on the company's website also allows employees to report, anonymously if they so wish, incidents that they believe are not in line with good business practice or generally accepted moral standards. We deal with situations on a case-by-case basis, and we also remedy the situations by taking an individual approach.

The process following receipt of a concern or observation may vary depending on the particular observation, but all notifications are first dealt with by HR staff, involving the Management Board if necessary. The existing process has worked well and, as the observations tend to be few and isolated, no more systematic process has yet been set up nor has the effectiveness of individual measures been assessed. The company's approach to providing channels is based on the principle

that a channel can be considered effective if the concerns raised through it get resolved within a reasonable time.

All of the channels listed are created by the organization’s staff and are accessible to all employees. The multiplicity of channels stems from the desire to create a way of communicating information to all employees, regardless of their physical location.

## ACTION LINES AND TARGETS

Tallinna Vesi has established clear lines of action linked to the implementation of the company’s strategy.

- Developing an organizational and management culture. Developing leadership skills plays a central role in shaping an organization.

## MANAGEMENT QUALITY TARGET

Target	Target from the beginning of the year	Result at the end of 2023
Level of management quality (according to employee satisfaction survey), on a 6-point scale	≥ 5 points	≥ 5.1 points

Feedback from employees helps to make important decisions, and employee engagement helps employees to understand the reasons behind decisions and the necessity of changes related to decisions. The specific **channels for engagement** for collecting feedback are outlined above. We also engage employees in the actual activities of organization development. For example, in February 2023, all employees had an opportunity to have a say in the reformulation of Tallinna Vesi’s values. In addition, we invite employees to get involved in building the company’s image (e.g. by presenting the company at trade fairs) and in charitable initiatives (e.g. by participating in campaigns inviting to move that raise funds for a range of beneficiaries).

**Strengthen the employee value proposition. We must offer an attractive and competitive compensation package.**

In order to enable **fair wages**, we participate in the annual salary survey conducted by Fontes and also monitor the salary information published by Statistics Estonia, which is used to adjust our employees’ wages every year.

To raise general health awareness, we organize **a health month** once a year, where we invite interesting guest speakers and introduce new ways to keep and improve one’s health. To help keep our employees healthy, we have created **opportunities for them to exercise** in company’s own sports facilities 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 **Confido health insurance**,

which allow compensation through the employer for the services of private medical institutions and public hospitals.

To help combine work and family life, we give all parents of children in grades 1 to 4 a day off for the first day of school in September, as well as paid days off on the occasion of a marriage, a funeral or the birth of a child.

To support employee development, we draw up a training plan every year, using feedback collected from the performance reviews with the staff. This plan is then used to organize a range of training sessions throughout the year. Training is also provided outside the training plan. We have scholarship in place for employees who study at vocational schools or universities alongside their work. In addition, each department maps its high-potential employees (talents), who are offered a range of activities throughout the year, as agreed upon during their annual performance review.

### TRAINING METRICS

Metric	2023	2022	2021
Number of participants in training	357	224	n/a
...male	241	143	n/a
...female	116	81	n/a
...managers	72	65	n/a
...specialists	177	109	n/a
...skilled workers	108	50	n/a
Number of staff participating in regular performance review	N/A	N/A	N/A
...male	N/A	N/A	N/A
...female	N/A	N/A	N/A
Percentage of total workforce participating in training	99%	65%	
Average number of training days per employee	4.2	2.39	2.28

### WORK-LIFE BALANCE AND REMUNERATION METRICS

Metric	2023	2022	2021
Number of staff entitled to parental leave, including gender	N/A	N/A	N/A

breakdown, as a percentage of total workforce

...male	N/A	N/A	N/A
...as a percentage of the workforce	N/A	N/A	N/A
...female	N/A	N/A	N/A
...as a percentage of the workforce	N/A	N/A	N/A
Number of staff on parental leave, including gender breakdown, as a percentage of total workforce	8	7	12
...male	2	0	1
...as a percentage of the workforce	0.5%	0.0%	0.3%
...female	6	7	11
...as a percentage of the workforce	1.6%	2.0%	3.3%
Gender pay gap, including by job category or other segments	N/A	N/A	N/A
Annual total remuneration ratio of the highest-paid employee to the median annual total remuneration for all employees (excluding the highest-paid employee)	N/A	N/A	N/A

- Succession planning. Succession planning ensures a smooth transfer of key positions and responsibilities. We give committed and talented people opportunities to achieve professional fulfillment within the company.

In the autumn of 2021, we started a scholarship program for our own employees and this program is ongoing. In 2023, we hosted 23 trainees (13 female and 10 male), three of whom joined the company after their traineeship.

- Tallinna Vesi gives high priority to employee satisfaction through a variety of means.

Based on the results of the employee satisfaction survey, action plans are drawn up and initiatives are implemented to address problems and improve employee well-being.

**Recognition** helps to keep employees satisfied with their job. As part of employee recognition, we have introduced the celebration of work anniversaries. Also, at the company’s annual Christmas gala, the best employees of the year get recognized in several categories, and the award is accompanied by a monetary reward. In addition, through the company’s intranet, all employees can recognize and thank their colleagues, who will receive a thank you card and a chocolate bar from the company.

### EMPLOYEE SATISFACTION METRICS

Target	Target from the beginning of the year	Result at the end of 2023
Level of employee commitment (TRI*M index based on the employee satisfaction survey)	≥ 69 points	69 points
Co-operation between departments (according to the employee satisfaction survey), on a 6-point scale	≥ 4.7 points	4.3 points

Tallinna Vesi has not developed specific measures to ensure diversity and gender equality. This topic is covered by Tallinna Vesi’s Code of Conduct, which states that the company is committed to observing the principle of equal treatment and considers it important to promote and maintain equal opportunities and equal treatment in the workplace and in employment. Every individual is respected and treated fairly and equally, regardless of their gender, religion, age or other similar factors.

### WORKFORCE DIVERSITY METRICS

Metric	2023	2022	2021
Gender breakdown of the Executive Team	11	9	11
...male	6	6	6
...percentage of male	55%	67%	55%
...female	5	3	5
...percentage of female	45%	33%	45%
Age breakdown of employees	362	345	331
...under 30 years old	46	48	49
... percentage	13%	14%	15%
...31-50 years old	187	167	157

...percentage	52%	48%	47%
...over 50 years old	129	130	125
...percentage	36%	38%	38%
Number of employees with disability	5	4	3
...male	3	2	1
...female	2	2	2

### WORK-RELATED INCIDENTS, COMPLAINTS AND SEVERE HUMAN RIGHT IMPACTS

Metric	2023	2022	2021	Target
Total number of incidents of discrimination, incl. harassment	0	0	0	0

- Safety is an important aspect of our day-to-day operations. We put the safety of our employees first, fostering a safe working environment and safe working practices. A positive workplace safety culture is highlighted in our strategic objectives and we are committed to reducing the rate of workplace accidents to zero.

### WORKPLACE SAFETY TARGETS

Target	Target from the beginning of the year	Result at the end of 2023
Number of work-related accidents	0	1
TR Indicator on the sites of Tallinna Vesi and Watercom	≥ 90%	95.57%

Workplace safety is inseparable and integral part of our business and central to everything we do. No job is worth getting injured. As an employer, a safe and pleasant working environment helps us to ensure that our employees are safe and do not risk their health or life while doing their job. Our working environment activities comply with national legislation and the requirements of the ISO 45001:2018, international ISO standard for Occupational Health and Safety Management Systems. Compliance on construction and reconstruction sites is also one of the company's annual targets.

The workplace safety in the company is managed by the Occupational Health and Safety Department, which includes an Occupational Safety Manager and an Occupational Safety

Specialist. In addition, the company has a 10-member Work Environment Council and 18 Work Environment Representatives elected from various units. Safety at workplace is also checked by members of the Work Environment Council and managers who carry out inspections both on the sites and in the production units. In the case of negative findings, improvement actions are agreed, which may include additional training, instruction, purchase of safety-enhancing equipment or putting up signs. Compliance with the agreed actions is monitored.

In 2023, a total of 579 safety inspections were carried out, of which 440 were on sites and 139 at workplaces. In 2023, there was one work-related accident that resulted in a worker having to remain on sick leave for more than 3 working days. In order to prevent accidents at work, we continuously encourage our employees, including managers, to report safety observations and we pay attention to collecting information on hazards, safety observations and "near-misses" from our employees. In 2023, 574 observations were received from managers who carried out inspections using TR Indicator method and 30 observations from workers directly to the Occupational Health and Safety Department. Based on the information received, we carry out improvement actions to prevent potential accidents in the future.

Employee awareness and **regular safety inspections** are a key to creating and maintaining a safe working environment. We regularly conduct **training on the working environment**. Among others, courses and further training for first-aiders, fire safety training for staff, electrical safety training, training on safe working in confined spaces, training on lifting operations, road safety training and chemical safety training were provided in 2023.

## HEALTH AND SAFETY METRICS

Metric	2023	2022	2021	Target
Percentage of employees covered by health and safety management system	100%	100%	100%	100%
Number of work-related fatalities	0	0	0	0
Number of recordable work-related accidents	1	1	2	0
Rate of recordable work-related accidents	N/A	N/A	N/A	
Number of cases of recordable work-related ill health	0	0	0	0
Number of working days lost to work-related accidents or similar incidents involving the company's employees	15	30	51	0

## EMPLOYEE-RELATED METRICS

Metric	2023	2022	2021
<b>Number of employees by head count or full time equivalent (FTE)</b>	<b>362</b>	<b>345</b>	<b>331</b>
...male	256	248	239
...female	106	97	92
...under 30 years old	46	48	49
...31-50 years old	187	167	157
...over 50 years old	129	130	125
<b>Number of full-time employees (FTE)</b>	<b>349.35</b>	<b>333.325</b>	<b>313.05</b>
Number of employees leaving during the year	71	81	59
Voluntary staff turnover rate	7.9%	7.7%	10%
Total employee turnover without trainees	15%	18.7%	16.9%
Employee turnover rate (total turnover, incl. trainees)	19.8%	23.7%	17.7%
Percentage of employees covered by collective bargaining agreements	100%	100%	100%

## Workers In the Value Chain

Safety is an important aspect of our day-to-day operations. We put the safety of our employees, customers and partners first. We foster a safe working environment and safe working practices, and we expect the same from our partners.

In the case of workers in the value chain, we focus only on contractors working on construction and reconstruction sites directly related to Tallinna Vesi or its subsidiary Watercom. They can be most directly influenced by additional contractual requirements and on-site safety inspections.

With the construction sector being one of the sectors with the highest risk of workplace accidents, the highest impact is related to those workers in the value chain who carry out construction and reconstruction works for our contractors. According to the work environment survey for 2022 prepared by the Labour Inspectorate of Estonia, construction is the third activity with the highest number of recordable work-related accidents, after trade and the metal industry. Because we provide a vital service, construction work is often urgent. There are situations where works need to be done working at night or on a busy street, which increases the likelihood of getting into accident. The construction sector is also characterized by a high number of non-native and migrant workers, which makes this group more vulnerable to negative impacts.

In the value chain, the highest risks for us are related to accidents at construction works contracted by Tallinna Vesi and Watercom. Major work-related accidents cause damage to reputation and adversely affect co-operation. To minimize these risks, we place great emphasis on compliance with safety requirements at work.

The materiality assessment identified a material sub-topic for Tallinna Vesi, **working conditions of the workers in the value chain**, that relates to impacts, risks and opportunities related to workers in the value chain.

Potential negative impacts may arise from inadequate working conditions (e.g. working hours, adequate wages, employee engagement, etc.) for the tasks assigned to the workers in the value chain and the lack of actions to mitigate these potential impacts. Negative impacts may be accompanied by negative media attention or criticism from an expert or a partner, which may cause some reputational damage.

## Guiding Principles

Workplace safety is an integral part of what we do. This is at the heart of everything we do, and we will not compromise on it. We want to ensure a safe environment for our customers, employees and co-operation partners by fostering a safe working culture. The company has established a health and safety policy (available on the website under the [About us > Principles of Governance > Health and safety policy](#) section) and a Code of Conduct (available on the website under the [Business ethics](#) section), which we apply to all our contractual co-operation partners. In order to ensure that our co-operation partner behaves ethically, we apply additional control measures in the procurement process, which are described in the section ["Governance information"](#).

## CHANNELS FOR EMPLOYEE ENGAGEMENT AND REMEDYING NEGATIVE IMPACTS

In the case of co-operation partners, we engage primarily with **company representatives or project managers**. As a rule, engagement starts with a project kick-off meeting, where we explain our policies and our requirements concerning safety, environment and quality. Depending on the duration or complexity of the project, regular meetings can be scheduled.

In addition, **information days for construction partners** are held every year. The aim of these meetings and information days is to explain our company's safety principles and requirements to our partners, so that co-operation projects run smoothly and everyone has a clear understanding of the requirements.

We have developed a number of measures to minimize negative impacts on our construction sites:

- We carry out safety inspections on the contractor's site. We carry out inspections at all construction works contracted by Tallinna Vesi and Watercom to make sure that contractors provide their employees with appropriate personal protective equipment and safe working practices.
- All our co-operation partners or their workers can give feedback or criticism, anonymously if they so wish, through the report form on the company's website, which can be found under the [Business ethics](#) section. This information is passed directly to the internal auditor, who is a separate person outside the company's management and communicates directly with the company's Supervisory Council. The website also provides contact details for the Chairman of the Audit Committee, formed under the Supervisory Council, for the cases where the nature of the report is such as to require the intervention of a higher governance body.

## Targets and Metrics

To ensure that contractors comply with the requirements for safety at workplace set out in the general terms and conditions of their contract, our site managers and Occupational Health and Safety Department staff carry out safety inspections using the TR Indicator method. The TR Indicator (known in Scandinavia as *TR -mittari*, in Estonia as *TOM*) is a method for assessing the level of safety at workplace by using detailed checklists. These lists cover a number of safety aspects, such as the safety of working practices, the use of protective equipment and the marking of danger zones. The TR Indicator method focuses on collecting and analyzing data over a longer period of time. It helps to monitor safety trends and identify potential risk areas, allowing continuous safety improvement.

## WORKPLACE SAFETY TARGET

Target	Target from the beginning of the year	Result at the end of 2023
TR Indicator on construction sites of contractors	At least 90%	95.6%

## NUMBER OF SAFETY INSPECTIONS RELATED TO WORKERS IN THE VALUE CHAIN

Metric	2023	2022	2021
Number of inspections using TR Indicator method	112	n/a	n/a

- As safety at work is a matter of utmost importance to us, every year we organize information days for our co-operation partners to explain our requirements and to stimulate discussion on how to create an even better working environment. In 2023, 50 people from 23 companies attended the information day on 16/06/2023 and 31 people from 8 companies attended the information day on 10/10/2023.
- During the reporting year, we revised and significantly supplemented the general terms and conditions of our construction contracts with regard to safety at workplaces. All construction and reconstruction contracts are annexed with a list of mandatory safety requirements. If the contractor fails to comply with the requirements for safety at workplace, we have the right to suspend the work and charge a penalty. Sanctions are intended to motivate contractors to take the safety of their workers seriously. To do this, the contractors must draw up a safety plan for each of their sites. This is an important document that assesses the various risks to safety at workplace and the actions to be taken to mitigate them. Work may not commence until the plan has been approved by both the contracting authority and the contractor.

## Affected Communities

It is strategically important for Tallinna Vesi to enable sustainable urban development by developing green urban space.

The materiality assessment identified that a material impact for Tallinna Vesi is its contribution to the community. Tallinna Vesi mainly has a positive impact on the community by establishing public drinking water taps where you can fill up your drinking water bottle or quench your pet's thirst for free, in partnership with the City of Tallinn. The company also offers free water tanks for large events. Tallinna Vesi is supporting the community by raising environmental awareness through visiting schools and kindergartens, businesses and community events to talk about the environment.

## Guiding Principles

We care about the people whose lives are affected by what we do. Therefore, we support our community and take an active part in community activities that are directly or indirectly related to our core business. We believe it is important to raise environmental awareness by providing opportunities to replace bottled water with tap water.

### CHANNELS FOR EMPLOYEE ENGAGEMENT AND REMEDYING NEGATIVE IMPACTS

Members of the community can address their concerns and questions directly to the company through the official channels of communication (by post, telephone, e-mail). All correspondence and calls are registered and responded to in the same way as the correspondence with the company's contractual customers. Community members are also welcome to share information and thoughts through the company's website or social media accounts ([Facebook](#), [Instagram](#), [LinkedIn](#)).

Any member of the community can give feedback or criticism, anonymously if they so wish:

- This can be done by filling in the report form on the company's website, which can be found under the [Business ethics](#) section. The information entered through the form is passed directly to the internal auditor, who is a separate person outside the company's management and engages directly with the company's Supervisory Council.
- The website also provides contact details for the Chairman of the Audit Committee, formed under the Supervisory Council, for the cases where the nature of the report is such as to require the intervention of a higher governance body.

Since most of what Tallinna Vesi does is highly regulated by environmental permits and legislation, any community member can also report potential problems or concerns directly to the Environment Board, the Health Board or the local authority, who in turn perform supervision over the company's activities.

## Targets and Metrics

Tallinna Vesi has developed a sponsorship strategy to support the community. Sponsorship activities are carried out following the principles of that strategy:

- **Scope of impact.** Tallinna Vesi's sponsorship focuses on activities in the company's main service area in Tallinn and its surroundings.

Metric	Result at the end of 2023
Number of public water taps	41
Number of water tank rentals	21

Clean drinking water is essential for life and should be easily and affordably accessible to all. Therefore, in partnership with the City of Tallinn, we have built a number of drinking water taps across Tallinn, both indoor and outdoor, since 2021. In 2023, 3 new water taps were installed along cycle and footpaths and health trails. Thus, a total of 41 public drinking water taps were opened across the capital in the summer of 2023.

- **Link to the core business.** We contribute to projects that are closely linked to our core business of providing water and wastewater services.

### NUMBER OF PARTICIPANTS IN GUIDED TOURS AND EDUCATIONAL DISCUSSION GROUPS

Target	Target from the beginning of the year	Result at the end of 2023
Number of people attending green initiatives organized by Tallinna Vesi	1,500	2,667

Raising the environmental awareness of the community is of great importance to us. This will ensure the sustainable use of natural resources and also help consumers to save costs, for example by replacing bottled water with tap water. In order to increase the environmental awareness among the community, Tallinna Vesi offers free educational materials on environmental issues on its website and conducts discussion groups on water-related topics in schools and kindergartens and in businesses. Tallinna Vesi supports sports and community events. In addition, the company organizes tours and open days at its treatment plants to bring awareness of environment issues to community members. We have set a target of at least 1,500 people per year attending our discussion groups and guided tours.

- **Systematic approach and consistency.** Tallinna Vesi consistently supports the same areas and projects in order to create consistency and clarity in its sponsorship principles. The decision-making process is reasoned and transparent for candidates.

Tallinna Vesi mainly supports initiatives related to environmental education and aimed at the local community or people with less opportunities. In 2023, Tallinna Vesi contributed to Impact Day, a

sustainability festival promoting environmental education, and the Investment Festival, as well as community events such as the 13th Youth Song and Dance Celebration, Tallinn Old Town Days, Tallinn Maritime Days, Kalamaja Days, Tallinn Urban Space Festival, Midsummer Day in Põhja-Tallinn, KopliFest and Uue Maailma Street Festival. We also helped organize several sporting events, such as the 51st Lake Ülemiste Run and the IRONMAN. In 2023, we supported the following organizations: Kindergarten Õunake and Ristiku Elementary School in Tallinn, Estonian Disabled Athlete Sports Association, Agrenska Foundation, Autism School, North Estonian Association of the Blind, Tallinn Crisis Centre for Women and Food Bank.

## Consumers and End-users

We provide water and wastewater services to more than 24,900 contractual customers and around 470,000 end-consumers in Tallinn and its surroundings. Hence, we are responsible for ensuring that more than a third of Estonia's population has access to reliable, high-quality water and wastewater services.

The key business directions set out in Tallinna Vesi's strategy are strongly linked to the provision of high-quality water and wastewater services to customers. Tallinna Vesi's strategy outlines the following key business directions for customers and end-consumers:

- We enable sustainable urban development by delivering high-quality water services, pioneering modern stormwater solutions and developing green urban space. We connect our customers to the vital water infrastructure and deliver excellent customer experiences using smart solutions and digital service channels.
- We keep prices affordable for our customers by continuously improving our efficiency through modern technologies, digitalization and automation.

The materiality assessment identified material sub-topics for Tallinna Vesi that relate to impacts, risks and opportunities related to customers and end-consumers.

The safety and quality of drinking water, the availability of the service and the price for the service are important in ensuring water and wastewater services. For Tallinna Vesi, ensuring the availability and quality of its main service is of the greatest impact materiality and financial materiality, since it is most directly linked to the company's core business. By ensuring continuous access to a vital service, i.e. drinking water supply, Tallinna Vesi has a positive impact on the interests of customers and end-consumers. Potential negative impacts on the health of the customer could come from the deterioration in the quality of drinking water, an overall reduction in availability and an increase in the price for the service.

The materiality assessment identified that the exchange of information is linked to the potential negative impact of the failure to reach the customers and end-consumers in a timely manner with information related to the availability or disruption of the service provided by Tallinna Vesi, which is crucial for customer and end-consumer satisfaction.

Tallinna Vesi is in possession of a significant amount of customer data, and this concerns all customers and end-consumers, as a breach of privacy can have a negative impact. Compliance

with the Data Protection Act provides legal safeguards to prevent violations of international human rights law. However, in the case of data leakage, the potential negative impact can be significant.

In the case of negative impacts, reputational risks may arise, for example through local negative media attention, which may cause some reputational damage. Some criticism from the authorities may be involved. The interests and views of stakeholders, including customers and end-consumers, are outlined in the section "[Stakeholder expectations](#)".

## Guiding Principles

The role of Tallinna Vesi is to provide customers with a service they can rely on 24 hours a day, 365 days a year. We know our responsibility and we are not afraid to make promises to deliver this service and to take responsibility for delivering them.

Good customer service means understanding the customer's needs, being proactive and providing professional and personalized advice. In case of problems, it is important to provide clients with practical help, to keep them informed and to keep promises. We want our customers to trust us and the service that we provide.

Customer and end-consumer relations are within the area of the responsibility of the Customer Experience Manager (in the management) and the Chief Asset Management Officer (in the Management Board).

In 2023, we recruited a Key Account Manager, who works with 56 key customers and is responsible for managing the customer relationship with and enquiries from these customers. This allows us to provide a more personalized and high-quality service to our key customers.

In 2023, we also created a new position of Service Quality Manager, whose role is to analyze the root causes of enquiries, in particular complaints, in co-operation with area representatives. Where necessary, the Service Quality Manager will contact customers to clarify the reasons for dissatisfaction and ask for direct feedback. As a result of the analysis, agreements will be reached to improve work organization and systems.

Water and wastewater services are provided in strict compliance with the legislation governing water business and the service quality requirements agreed in the administrative contract signed with the local authority. In order to ensure the correct performance of customer contracts, data is collected and stored in accordance with the privacy policy, approved by the Management Board of Tallinna Vesi and Watercom on 25/05/2018, which is available to everyone and can be found on the company's website under the [Privacy policy](#) section.

In the Administrative Contract, Tallinna Vesi and the City of Tallinn agreed on the promises and deadlines to be given to customers, which can be found in full on the company's website under the [Customers > Promises to our customers](#) section:

- We promise a high-quality drinking water around the clock
- We promise to look after the environment by clearing sewage blockages as quickly as possible

- We promise to make sure our customers always have water and notify them in good time about possible interruptions
- We promise to be accurate in billing and maintaining of water meters
- We promise to respond quickly to customer enquiries and be thorough in resolving complaints

## CHANNELS FOR CUSTOMER AND END-CONSUMER ENGAGEMENT AND REMEDYING NEGATIVE IMPACTS

### CHANNELS FOR CUSTOMER AND END-CONSUMER ENGAGEMENT

Channel for engagement	Description, examples	Regularity	Feedback collection
Contact-based feedback surveys	We ask for feedback on the quality of the handling of the enquiry. Every month, we ask an average of 900 customers for feedback and around 10% of them respond to the survey.	Monthly	If the client provides feedback that they were not satisfied with the way their enquiry was resolved or were rather satisfied (scores 1–3), we will analyze the background of each feedback in depth and draw conclusions to avoid recurrence of similar reasons and find ways to improve the results.
Customer satisfaction survey	The main aim is to highlight changes in the overall strength of customer relationships and to assess the annual performance in all areas relevant to the customer relationship. The survey is carried out among the following target groups: Customers in the Tallinn region – 500 respondents in total: 250 private house owners, 100 apartment associations, 150 other commercial customers. End-consumers in Tallinn – 400	Yearly	Once the survey results are received, we analyze the changes in the ratings, review all open-ended responses and decide on the necessary follow-up actions to influence further results in a positive direction. In the annual survey, we ask, among other things, for feedback on satisfaction with service and notification channels and quality of service.

	<p>respondents. Breakdown of respondents between city districts follows the actual proportions of districts. Clients in the Maardu and Muuga area – 100 interviews in total.</p>		
External information channels	<p>We send quarterly newsletters to private customers to inform them about important developments and changes in Tallinna Vesi and to share information that would help reduce the need for customers to contact the company.</p>	Quarterly	
	<p>We send letters to customers informing them of any upcoming changes (e.g. to the price for water services) by e-mail or post, depending on the customer's preference. Possible channels include emails, SMS notifications, quarterly newsletters, press releases and news on the company's website.</p>	As appropriate	

All the complaints and suggestions we receive are handled thoroughly respecting the deadlines set out on the website under the [Customers > Promises to our customers](#) section, or more quickly where possible. For handling complaints, Tallinna Vesi has developed a set of principles and guidelines concerning working procedures:

- We analyze complaints with a view to identifying the root causes, to avoid recurrence of similar reasons and find ways to improve the results.
- In addition to complaints, we analyze and address customer and end-consumer feedback from our annual customer satisfaction surveys and monthly contact-based surveys.

Tallinna Vesi has established a Whistleblowing Policy allowing to report incidents or suspicions of misconduct against the law, ethical business practices or Tallinna Vesi's Code of Conduct. For this, a report can be sent through the report form on the website under the [Business ethics](#) section, anonymously if wished so for.

## Action Lines and Targets

### SERVICE AVAILABILITY AND QUALITY

Strict control of the quality of drinking water is essential to ensure uninterrupted service, as it affects the quality of life and health of all consumers. To ensure the quality of drinking water, we carry out maintenance of the networks, monitor the quality of the water leaving the treatment plant and the water pumping stations, and take regular samples from the consumer's tap. **Water quality monitoring** is carried out in accordance with drinking water monitoring programs approved by the Health Board. In Tallinn, we have around 120 sampling points, including kindergartens, schools and other institutions, evenly spread across the service area. All analytical results are public and can be found in the Health Board's information system. In addition, the results of the analysis of the drinking water leaving the treatment plant are available on the company's website.

As part of our efforts towards sustainable water use, we are focusing on reducing the number of leaks in the water network. Large water emergencies can also cause changes in water quality. To ensure the quality of our drinking water, we use chlorine, which some consumers may also find unpleasant to smell or taste.

To prevent bursting of pipes, we **continuously monitor the system**, carry out **preventive maintenance** and **reconstruct our networks**. In order to ensure that the pipes are replaced in time, we have developed a model in co-operation with TalTech that takes into account various characteristics (e.g. age and material of the pipe, number of problems in a particular section, road reconstruction plans, etc.).

There is also **a backup generator and a standby fuel tank** at the water treatment plant to mitigate risks. The wastewater treatment plant is equipped with a combined heat and power plant and mobile power generators are used for the pumping stations. Regionally important pumping stations are equipped with two- or three-directional power supply to increase security of supply. As we cannot cover the energy needs of all our pumping stations with the existing mobile generators, we have mapped 27 key sites where stationary generators will be installed by 2025 at the latest. Both treatment plants will also have solar power plants – wastewater treatment plant in 2024 and water treatment plant in 2025.

**The installation of smart water meters** has a significant positive impact on the customers. The company will replace the water meters of all customers in its service area with smart meters by 2026 at the latest. With smart meters, customers no longer need to report their water meter readings and this also ensures more accurate billing. In addition to consumption data, the smart meter provides information on faults and misuse of water, allowing the water company to monitor its water network more effectively and detect water leaks in both its own and its customers' pipes, which in turn helps to save clean water and the resources needed to treat it.

In order to ensure that consumers have continuous access to service, including during crises, we have prepared **crisis plans** based on our risk assessments. In our crisis plans, we have thought through possible crisis scenarios and have identified concrete actions and resources to address the crisis or minimize its impact.

### EXCHANGE OF INFORMATION

We have developed a service standard for communicating with customers and end-consumers, and a set of guidelines concerning working procedures for resolving enquiries, which allow us to create a consistent approach to customer service. We are constantly developing the skills of our contact centre staff so that we can resolve as many enquiries as possible at the first contact with customer.

In 2024, we want to **improve** the way customers can interact and update their contact details through **self-service**. Also, we plan to start displaying more information on water consumption in the self-service for customers with a smart water meter.

### DATA PROTECTION

We collect customer data only to the extent necessary for the performance of our contracts with customers and process it in a way that prevents unauthorized use. Tallinna Vesi does not profile its customers and does not process their personal data automatically. When transferring customer data to third parties to ensure the performance of contracts, we disclose these companies as authorized processors of customer data on our website. Company's website also contains the contact details of our Data Protection Specialist, who can be contacted for any data protection related issues.

### CUSTOMER-RELATED METRICS

Metric	2023	2022	2021	Target for 2023
Number of customer complaints	1,070	1,215**	31*	≤ 1,090
Number of customer contacts regarding water quality issues	263	289	317	308
Number of customer contacts regarding water pressure	235	221	363	335
Number of customer contacts regarding	806	801	948	814

blockages and leading off stormwater				
Rate of written contacts responded within a required deadline	97.9%	97.3%	99.9%	100%
Number of failed promises	2	2	3	3
Results of the customer satisfaction survey (TRI*M Index)	51	59	60	≥ 62
Notification of an unplanned water interruption at least 1 hour before the interruption	99.9%	97.6%	98.9%	n/a

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

\*\* From 2022 onwards, all enquiries referring to customer dissatisfaction are classified as complaints.

# GOVERNANCE INFORMATION

The materiality assessment (see the assessment methodology in the section "[Impact materiality assessment](#)") identified the following material subtopics related to impacts as well as risks and opportunities for Tallinna Vesi that are related to governance:

- business conduct,
- relationships with suppliers.

Under the topic of business conduct, we analyze the impacts, risks and opportunities identified in the company's materiality assessment that are related to corporate culture, whistleblower protection, political engagement and anti-corruption.

In terms of impacts, an assessment was made of whether the company's business conduct could give rise to social and environmental impacts. The potential negative impact was found to be minimal and the topic of business conduct is more important from a risk mitigation perspective.

Under supply chain management, an assessment was made of what could be the social and environmental effects of insufficient supply chain management. Possible negative impacts can occur if sustainability-related conditions imposed on supply chain partners are insufficient to prevent impacts or if partners do not comply with contractual terms. There risks that come with the impact are medium and are associated with a short-term reputational damage. The sub-topic does not have any long-term impact on Tallinna Vesi's relations concerning co-operation.

The specific impacts, risks and opportunities related to workers in the value chain were assessed in the section "[Workers in the value chain](#)".

## Guiding Principles

### BUSINESS CONDUCT

In matters relating to business ethics, the company's Management Board has approved a Code of Conduct on 17/05/2017, which can be found on the Company's website under the [Business ethics](#) section. These are guidelines, undertaken voluntarily, some of which are also covered by national legislation, the UN Guiding Principles on Business and Human Rights, the UN Convention Against Corruption and the OECD Due Diligence Guidance for Responsible Business Conduct. Following the transposition of the EU directive on the protection of whistleblowers into Estonian law in 2024, the company plans to significantly update its Code of Conduct.

### RELATIONSHIPS WITH SUPPLIERS

The reliability of our suppliers is crucial to ensure that the supply chain, which is vital in our lives, functions without interruption. To this end, the company has alternative suppliers at several critical links who can be called upon should something happen to the main contract partner. Tallinna Vesi is a contracting entity operating in a network sector within the meaning of the Public

Procurement Act and is subject to the thresholds and conditions set for the network sector in the Public Procurement Act when purchasing supplies, services and works.

Tallinna Vesi expects its suppliers and co-operation partners also comply with the company's Code of Conduct, and communicates this expectation, along with making the Code of Conduct available to its suppliers and partners, at the time when the contract is signed. As a contracting entity operating in a network sector, Tallinna Vesi's major purchases and contracts must be procured in accordance with public procurement rules and through the public procurement register, which ensures greater transparency for both the parties involved in the procurement and the procurement process.

To manage the sustainability-related impact of our supply chain, we believe it is important to prioritize green procurement and the safety of the workers in our supply chain.

## Targets and Actions

### BUSINESS CONDUCT

The content of the Code of Conduct is regularly explained within the company, including through annual trainings on this topic. All the employees and managers of Tallinna Vesi are obliged to avoid conflicts of interest between their personal and the company's objectives. For example, all persons involved in the procurement process must immediately inform the company's Management Board or the head of the company's procurement or legal department of any potential conflict of interest, and, once a year, they must also declare the number of persons associated with them and confirm that there is no conflict of interest.

Any situation involving a breach of the Code of Conduct must be reported promptly through the channels and/or to the persons specified in the Whistleblowing Policy (the procedure has been approved by the Management Board of Tallinna Vesi on 17/05/2017 and can be found on the company's website in the [Business ethics](#) section). The company will respond immediately to breaches of the requirements set out in the Code of Conduct by imposing disciplinary sanctions where appropriate, by terminating employment contracts or contracts for services on an exceptional basis and by initiating formal proceedings if wrongdoing is found. In 2023, no reports of misconduct were filed.

The prevention of litigation and the number of supervisory proceedings initiated by the authorities were set as individual targets for 2023 for the members of the Management Board and the Head of Legal.

**TARGET:** The company aims to keep the number of cases of misconduct to a minimum by implementing detailed monitoring measures and raising awareness among its employees, suppliers and co-operation partners through appropriate training. The company is also planning to update its Whistleblowing Policy following the transposition of the EU directive on the protection of whistleblowers into Estonian law.

## POLITICAL INFLUENCE AND LOBBYING ACTIVITIES

Lobbying activities related to legislative initiatives of importance for water business is only carried out in co-operation with the Estonian Waterworks Association. Contacts with all the political parties represented in the councils of local authorities who have concluded an administrative contract for the provision of public water supply and sewerage services with Tallinna Vesi, take place on an equal basis, i.e. the company presents the background information necessary for the processing of drafts related to the company to all interest groups at the same time and to the same extent. Tallinna Vesi has not made any direct or indirect financial or in-kind political contributions.

## RELATIONSHIPS WITH SUPPLIERS

Due to the nature of Tallinna Vesi's business as a water company, the company's production chain includes other service providers and co-operation partners who help us to ensure that our core business functions properly and that the service we provide is available to our customers.

It is equally important for us to find new suppliers and to improve co-operation with existing partners. We consistently and systematically evaluate our co-operation with suppliers, which allows for two-way communication with existing co-operation partners, builds a trusted supplier base and allows to harness the expertise that suppliers offer to add value to the business. In addition to evaluating our suppliers' performance, we also ask for feedback on our own performance, so that we can further develop our relationships and co-operation with suppliers and become a better partner ourselves. The process of mutual evaluation of business relations between Tallinna Vesi and its suppliers is divided into two steps: Tallinna Vesi's rating given to the activities of its partners and the partners' rating of Tallinna Vesi's activities. The selection of the partners to be evaluated is done based on cost and the goods, services or works provided by the partner in a critical aspect.

In 2023, staff from the various units of Tallinna Vesi evaluated a total of 98 suppliers, ratings were given in six categories on a five-point scale.

No	Category	Average rating
1.	Reliability – meeting contract deadlines and conditions	4.13
2.	Correctness of the administration – efficiency of the contact person's work, correctness of prepared documentation	4.02
3.	Quality – absence of errors, availability and correctness of the required documentation	4.15

4.	Willingness to co-operate, proactiveness – availability of a contact person, willingness to solve problems, effective and operative action. Contractor making suggestions for a better organization/flow of the work (construction). Ability to anticipate obstacles that may arise.	4.21
5.	Safety at workplace – compliance with workplace safety requirements, occurrence of accidents at work and cases of non-compliance with workplace safety requirements, availability of safety cards	4.66
6.	Environmental protection – occurrence of environmental non-compliances, and environmental safety and - friendliness	4.83

The results of the evaluation show that the ratings given by Tallinna Vesi's to its partners' performance are good:

- there are delays of less than 7 calendar days in the completion of the work, or of up to 3 calendar days in other deadlines set by the contract (or by the construction meeting minutes);
- there are minor errors in the preparation of documents and/or coordination of work, which are corrected quickly without disrupting the contracting authority's operations or processes;
- any deficiencies detected at the delivery and acceptance of the supplies, services or works do not affect the contracting authority's operations or main processes and have been remedied within a specified term;
- the supplier's contact person responds within two working days and possible delay in solutions does not cause problems for the contracting authority;
- the contracting authority's comments on compliance have been received, accepted and actions corrected.

The companies selected in the sample of suppliers rated the organizational culture of Tallinna Vesi in eight categories. Out of the 98 suppliers selected in the sample, 43 companies provided their rating. Ratings were given in eight categories on a six-point scale.

No	Category	Average rating
1.	The importance of the partner	5.1
2.	Is Tallinna Vesi showing interest in long-term co-operation?	5.1
3.	Does Tallinna Vesi ask for suggestions and, if possible, take them into account?	4.8

4.	Does Tallinna Vesi take your needs into account and is it willing to negotiate the terms of the contract to find a mutually satisfactory outcome?	4.8
5.	Is Tallinna Vesi actively looking for new opportunities, promoting and implementing new ways of working and being open to innovative ideas?	4.8
6.	Are the structure and processes of Tallinna Vesi efficient and easier to work with than with those of other partners?	4.7
7.	Is the staff of Tallinna Vesi open and interested in finding solutions that best serve the strategic business needs of both companies?	5.0
8.	Is Tallinna Vesi addressing issues and problems thoroughly?	5.0

In 2023, Tallinna Vesi carried out 78 procurements above the public procurement threshold. Of the contracts awarded as a result of procurement, 61% were for works, 33% for supplies and 6% for services (total value of contracts awarded: €20 million, €11 million and €2 million respectively, including framework contracts). Each procurement received 2.9 tenders on average. In addition, Tallinna Vesi carried out more than 64 procurements below the threshold for the network sector established in the Public Procurement Act.

In 11 of the procurements carried out in 2023, we implemented green measures to reduce the environmental impact of the works and prevent pollution.

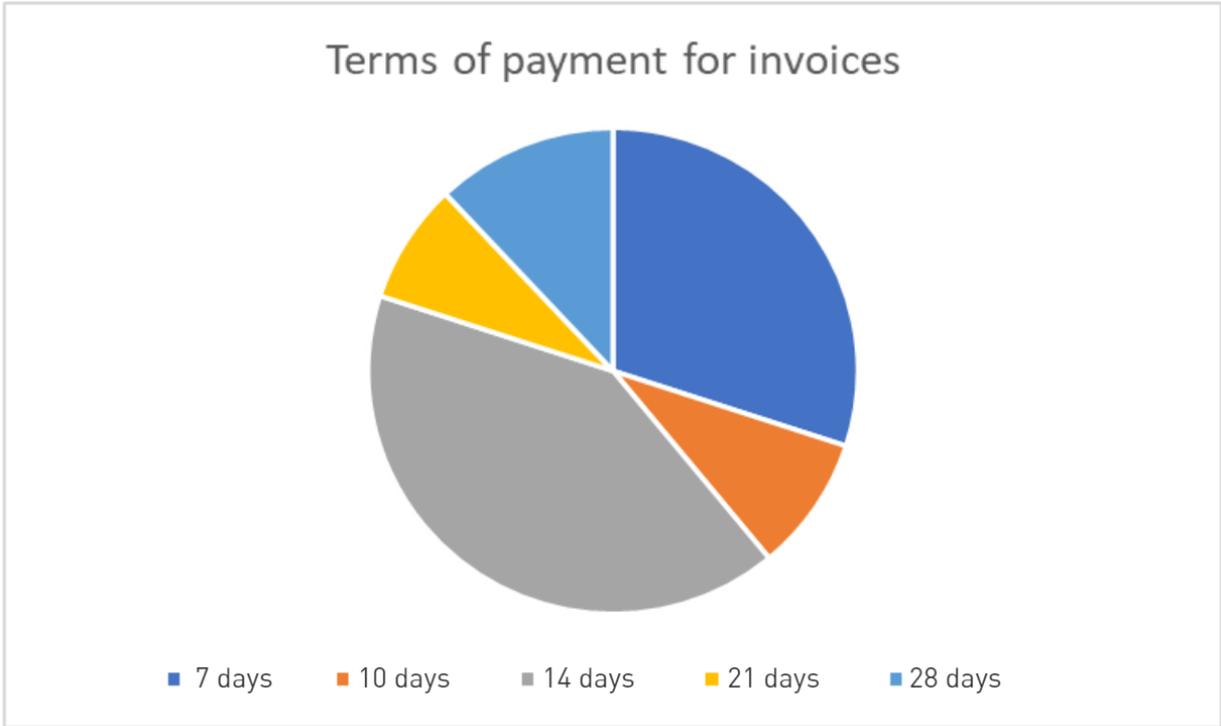
**TARGET:** In 2024, we plan to increase the number of green procurements and introduce standard clause on business conduct in our procurements, in line with the company's policies. When preparing procurement, we map out the options for green solutions and include green criteria in the technical specifications and in the conformity, evaluation and award criteria, and contract conditions. Whenever possible, we use a life-cycle costing approach to evaluate tenders.

The group has internal procedures that set terms of payment depending on the amount to be paid, and invoices are paid according to the deadlines agreed in the contract.

Indicator	2023	2022	Target (if any)
Average time* to pay an invoice, in number of days	16	16	The invoices are paid according to the terms of payment agreed in the contract.
Invoices up to €1000	14 days	14 days	
Invoices up to €1,001 – 14,999	21 days	21 days	
Invoices over €15,000	28 days	28 days	
Payments aligned with standard terms, %	99%	99%	

Number of legal proceedings currently outstanding for late payments	0	0
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\*Time taken to pay an invoice from the date when the term of payment starts to be calculated.



## CORPORATE GOVERNANCE

### 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 2023. This report covers the principles applied as of 31 December 2023.

Tallinna Vesi is committed to high standards of corporate governance, for which the Management Board and the Supervisory Council 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 Stock Exchanges 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 in the [About us > Principles of governance > Corporate Governance Report](#) section. 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 Council report and the auditor's report;
- information about the Supervisory Council 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 Council. 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 organizes 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 Council 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 Council, who also put forward proposals that require attention and are subject to voting at the General Meeting. General Meeting's agenda items, Supervisory Council'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 1 June 2023, Tallinna Vesi held the Annual General Meeting (AGM) of its shareholders to approve the 2022 Annual Report, distribution of profit, recall Mr Allar Jõks from the Supervisory Council and elect Ms Gerli Kivisoo as a new Supervisory Council member, and to appoint AS PricewaterhouseCoopers as the auditor the company for the financial years of 2023 and 2024. The Management Board made a presentation on the overall performance of the company. No questions regarding the items in the 2023 AGM agenda were asked, nor were any additional agenda items proposed in 2023.

The Chairman of an AGM is an independent person. In 2023, 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.

In 2023, all members of the Management Board of AS Tallinna Vesi participated in the AGM.

In 2023, AGM Tallinna Vesi allowed its shareholders who did not want to appear in person 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 Articles of Association of Tallinna Vesi valid from 18 October 2021 refer to only one type of shares (A share). Tallinna Vesi has 20 million shares, every share gives one (1) vote.

## SUPERVISORY COUNCIL

The Supervisory Council 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 Council consists of nine members, each with a term of three years. In 2023, five regular Supervisory Council meetings were held. The Supervisory Council pre-approved the 2022 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 2024. Additionally, in its meetings, the Supervisory Council reviewed major risks affecting the company, regulatory and legal issues, matters regarding operations, finances, reporting, investments, human resources, customer service as well as customer and employee satisfaction, health and safety issues, and other operational and business matters.

The agenda of the Supervisory Council meeting usually includes the following items:

- minutes of the previous meeting;
- information on issues dealt with by the Supervisory Council committees, as appropriate;
- the Management Board's report covering the following areas: operations, regulations and laws, financial issues, communication, human resources, health and safety and issues related to quality, non-regulated business;
- major projects and issues;
- financing decisions and policies;
- ad hoc decisions.

As of 31 December 2023, the Supervisory Council of AS Tallinna Vesi consisted of the following members:



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



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



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



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



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



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



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



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



**Gerli Kivisoo**  
Supervisory Council Member  
until 01/07/2026

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

The Supervisory Council has formed three committees, the Audit Committee, the Nomination and Remuneration Committee, and the Corporate Governance Committee, to advise the Supervisory Council on audit, on nomination and remuneration and on corporate governance matters as described below. By decision of the Supervisory Council dated 26/10/2023, the functions of the Corporate Governance Committee have been transferred to the Audit Committee with effect from 1 January 2024, and the Supervisory Council continues with two committees.

## AUDIT COMMITTEE

The Audit Committee is the subcommittee to the Supervisory Council, 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 Council 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 Council 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 Council about the results of such evaluation;
- to make recommendations to the Supervisory Council 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 Council:



**Robert Kitt**  
Chairman of the Audit Committee



**Mart Mägi**  
Member of the Audit Committee



**Gerli Kivisoo**  
Member of the Audit Committee

At each Supervisory Council meeting, an internal audit report is presented to the Supervisory Council. 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 2023, external auditors did not provide any services to the group outside the scope of the annual audit for financial accounts.

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 Council before being voted by the General Meeting of Shareholders. For the audit of the periods ending 31 December 2021 and 31 December 2022, a tender was carried out in 2021, which resulted in the award of a contract for the provision of external audit services to AS PricewaterhouseCoopers. Under the terms of the contract, the external auditor's contract could be extended for two years. The Management Board made a proposal to this effect to the AGM on 01/06/2023, and the shareholders approved AS PricewaterhouseCoopers as the external auditor of the company also for the auditing years 2023 and 2024. In 2023, the amount of audit expense for consolidated audit report was €48 thousand euros, €5 thousand euros was expensed for the auditing of subsidiary's report and €1 thousand euros for other services. 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 Council 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 2023, the Nomination and Remuneration Committee continued to advise the Supervisory Council 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 Council:



**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 Council approves the remuneration principles of the company'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 Council 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 2023 depends on the annual financial and operational performance of the company, 80% of the PRP is related to group targets and 20% of PRP is related to specific individual targets. 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 Council has a required background, education and experience.

## CORPORATE GOVERNANCE COMMITTEE

In 2023, the Corporate Governance Committee continued to advise the Supervisory Council on the improvement of corporate governance of Tallinna Vesi for the benefit of its Supervisory Council and shareholders.

By resolution of the Supervisory Council dated 26/10/2023, the functions of the Corporate Governance Committee were transferred to the Audit Committee with effect from 01/01/2024 and the activities of the Corporate Governance Committee as a separate body were discontinued.

As of 31 December 2023, the Corporate Governance Committee consisted of the following members:



**Gerli Kivisoo**  
Chairman of the Corporate  
Governance Committee



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



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

## JUHATUS

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 five (5) years. The Management Board always prepares management reports for the Supervisory Council meetings and such reports are distributed to the Supervisory Council members ten (10) days in advance of the meeting, as required by the Supervisory Council. The Management Board also reports ad hoc to the Supervisory Council outside of meetings, when considered necessary, and if so requested by the Chairman of the Supervisory Council.

Both Management Board and Supervisory Council 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.

In 2023, there were no changes in the composition of the company's Management Board, which continued to work with the following members:



**Aleksandr Timofejev**

Chief Executive Officer,  
Chairman of the Board  
Member of the Management Board  
until 30/10/2026



**Taavi Gröön**

Chief Financial 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 Council of AS 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 of Tallinna Vesi, 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 of Tallinna Vesi, 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 of Tallinna Vesi, 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 to 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 AS Tallinna Vesi as the sole shareholder of Watercom.

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

In selecting members to the Management Board and the Supervisory Council, 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 Council members, their experience in the business or area of expertise, education and background are considered to be 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. The share of male and female members on the Board is stated 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 2023, Tallinna Vesi complied with the 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 and in Remuneration report included to this 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 Council 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 Council 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 Council 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 Council 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 members of the Management Board of AS 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 Council 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 24 to this report.

“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 Council 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 Council 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 Council members were not paid any additional benefits in 2023.

“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 2023, five Supervisory Council meetings were held as follows: 27 January 2023, 30 March 2023, 27 April 2023, 27 July 2023 and 26 October 2023. Niall Patrick Mills was the only Board member absent from more than half of Board meetings (three out of five).

“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 Council members are aware of this requirement and at minimum once a year, Tallinna Vesi requests all Supervisory Council 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 Council member or any persons or companies related to them in 2023. Water and wastewater services were sold to the Supervisory Council members at a price those were sold to all the other customers.

The sections “Management Report”, “Sustainability Statement”, “Consolidated Financial Statements” and “Remuneration Report” form an integral part of the Annual Report of Tallinna Vesi for the financial year ended 31 December 2023. The Management Report gives a true and fair view of the development and results of the company’s business, the main risks and uncertainties.

## 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 both 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 2023.

### CO-OPERATION PARTNERS

We strive to do more than we are expected by legislative and contractual requirements. To serve that purpose, we focus on dialogue and co-operation, 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 co-operation and actively participate in the development and amending of legal acts primarily via Estonian Waterworks Association. We also co-operate with several quality-conscious companies that have high environmental awareness to promote doing business in an ethical and responsible way.

### CO-OPERATION 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 main operations 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 co-operation 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 renovation of systems in order to ensure effective and sustainable operational activity. We outsource various support services so that our focus can remain on the main activity. For instance, we are outsourcing advertising, cleaning and security services and many other specific services.

Mainly sign long-term framework agreements to retain our suppliers and to ensure good and reliable co-operation. We have, at any time, approximately 1,000 suppliers in our database with whom we have been in co-operation at least once a year.

Looking for new suppliers as well as monitoring and improving our co-operation with the current partners are equally important to us. We consistently and systematically assess our co-operation 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 co-operation with the suppliers, aiming to be a better partner.

## OUR PRINCIPLES AND MEMBERSHIP IN ORGANIZATIONS

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

# CONSOLIDATED FINANCIAL STATEMENTS

## MANAGEMENT CONFIRMATION

The Management Board of Tallinna Vesi has prepared the consolidated interim accounts of AS Tallinna Vesi (the company) and its subsidiaries OÜ Watercom and OÜ ASTV Green Energy (hereinafter jointly referred to as the group) in the form of consolidated financial statements for the 12 months period of financial year ended 31 December 2023 on pages 113–150.

To the best of Management’s knowledge, the consolidated financial statements as at 31 December 2023, prepared in accordance with applicable International Financial Reporting Standards, provide a true and fair view of the company’s assets, liabilities, financial position, profits and cash flows.

The interim 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 interim accounts.

Any subsequent events that materially affect the valuation of assets and liabilities of the group and have occurred up to the completion of the financial statements on 15 March 2024 have been considered in preparing the financial statements.

The Management Board of Tallinna Vesi 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 2024
Taavi Gröön	Chief Financial Officer, Member of the Management Board		5 March 2024
Tarvi Thomberg	Chief Asset Management Officer, Member of the Management Board		15 March 2024

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand		as of 31 December	
ASSETS	Note	2023	2022
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	14,736	12,650
Trade receivables, accrued income, and prepaid expenses	6	8,608	8,989
Inventories		1,137	1,197
<b>TOTAL CURRENT ASSETS</b>		<b>24,481</b>	<b>22,836</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant, and equipment	7	256,108	229,869
Intangible assets	8	1,293	688
<b>TOTAL NON-CURRENT ASSETS</b>		<b>257,401</b>	<b>230,557</b>
<b>TOTAL ASSETS</b>		<b>281,882</b>	<b>253,393</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Leases	9	697	883
Bank loans	9	3,594	3,630
Trade and other payables	10	10,886	10,225
Prepayments	12	3,604	3,749
<b>TOTAL CURRENT LIABILITIES</b>		<b>18,781</b>	<b>18,487</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income from connection fees		44,653	39,150
Leases	9	1,892	1,607
Bank loans	9	92,835	76,708
Provision for possible third-party claims	13	6,018	6,018
Deferred tax liability		505	496
Other payables		128	101
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>146,031</b>	<b>124,080</b>
<b>TOTAL LIABILITIES</b>		<b>164,812</b>	<b>142,567</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		79,058	72,814
<b>TOTAL EQUITY</b>		<b>117,070</b>	<b>110,826</b>

TOTAL LIABILITIES AND EQUITY		281,882	253,393
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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

€ thousand	Note	2023	2022
Revenue	15	61,141	54,558
Costs of goods and services sold	17	-37,074	-37,660
<b>GROSS PROFIT</b>		<b>24,067</b>	<b>16,898</b>
Marketing expenses	17	-818	-703
General administration expenses	17	-5,278	-4,399
Other income (+)/ expenses (-)	18	-621	-476
<b>OPERATING PROFIT</b>		<b>17,350</b>	<b>11,320</b>
Financial income	19	119	8
Financial expenses	19	-3,263	-682
<b>PROFIT BEFORE TAXES</b>		<b>14,206</b>	<b>10,646</b>
Income tax	20	-1,362	-2,240
<b>NET PROFIT FOR THE PERIOD</b>		<b>12,844</b>	<b>8,406</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>12,844</b>	<b>8,406</b>
Attributable profit to:			
Equity holders of A shares		12,844	8,406
Earnings per A share (in euros)	21	0.64	0.42

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

€ thousand	Note	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit		17,350	11,320
Adjustment for depreciation/amortisation	7,8,17,18	8,055	6,817
Adjustment for revenues from connection fees	18	-604	-544
Other non-cash adjustments	13,18	-16	0
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		-34	-32
Change in current assets involved in operating activities		430	-2,841
Change in liabilities involved in operating activities		-667	309
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>24,514</b>	<b>15,029</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment, and intangible assets		-28,885	-20,701
Compensations received for construction of pipelines, incl. connection fees		2,535	1,593
Proceeds from sale of property, plant and equipment, and intangible assets		37	53
Interest received		119	9
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-26,914</b>	<b>-19,046</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Interest paid and loan financing costs		-3,413	-616
Lease payments	9	-1,233	-524
Received loans	9	57,500	0
Repayment of loans	9	-41,136	-3,636
Dividends paid	20	-6,515	-12,835
Withheld income tax paid on dividends	20	-85	-165
Income tax on dividends	20	-1,352	-2,116
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>3,766</b>	<b>-19,892</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>2,086</b>	<b>-23,909</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>5</b>	<b>12,650</b>	<b>36,559</b>

CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	14,736	12,650
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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<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>
Dividends (Note 20)	0	0	0	-6,600	-6,600
Comprehensive income for the period (Note 21)	0	0	0	12,844	12,844
<b>as of 31 December 2023</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>79,058</b>	<b>117,070</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

## NOTE 1. General information

AS Tallinna Vesi (Company) is the largest water utility in Estonia providing water and wastewater services to nearly 470,000 people in Tallinn and in several neighbouring municipalities of Tallinn. The current Administrative Contract is effective until 30 November 2032 as per the exclusive right for the provision of water and wastewater services in Tallinn.

The shareholders with significant influence in AS Tallinna Vesi are the City of Tallinn with 55.05% and OÜ Utilitas with 20.3%. The remaining shares are in free float on the Nasdaq Baltic Stock Exchanges, where the shares of AS Tallinna Vesi have been listed since 1 June 2005.

Watercom OÜ (Subsidiary) is a company established in 2010 by the parent company, whose 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 parent company in 2021, whose main activity is gas production. It is a dormant company and there has been no active economic activity.

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, except for derivatives, which have been carried at fair value through profit or loss as described in the accounting policies.

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue on 15 March 2024. 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 2023.

There are no 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 2023 have been presented in euros.

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

### 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 within 12 months of the end of the next financial year or during the normal operating cycle of the Group are considered as current. Liabilities that are after the reporting date is in the next financial year or are likely to be settled in the next financial year or during the normal operating cycle of the Group are classified as current liabilities. 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 2023 and 2022 all the Group's financial assets were classified in this category.

### 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 transport and other direct costs associated with the acquisition, net of allowances and discounts.

The FIFO method has been used to determine the cost of inventories. Inventories are valued in the statement of financial position at the lower of cost or net realisable value. Net realisable value is the selling price 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 to be 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 be 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 2023, the rate was 20/80 on the amount of the dividends payable (in 2022: 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, 2020 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.

## 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.

#### 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.

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.

### 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 2023, 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 2023, Management of the Group has assessed the expected credit loss related to macroeconomic conditions to be €162 thousand.
- 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 2023, 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 2022: €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 2023, Group owns property, plant and equipment, and intangible assets with a net book value of €256 million (31 December 2022: €230 million) and annual depreciation was €7.7 million (2022 €6.8 million). If the depreciation/amortisation rates decreased/increased by 5%, the depreciation/amortisation expense would increase/decrease by €385 thousand respectively (2022: €340 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 2023 was 0.0% (2022: 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 2023 the Group's bank accounts balances (including deposits) totalled €14,736 thousand (31 December 2022: €12,650 thousand) from which no sums were in foreign currencies (31 December 2022: 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. The board assesses the scope of the interest rate risk and possible mitigation measures on a quarterly basis and, based on the assessments, decides the need to enter into SWAP agreements.

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

	31 December 2023		31 December 2022	
	Effective interest rate	Balance € thousand	Effective interest rate	Balance € thousand
Long-term borrowings	4.45%	96,818	2.68%	80,455
Net exposure to cash flow interest rate risk in case Euribor > 0		96,818		42,955
Net exposure to cash flow interest rate risk in case Euribor < 0		0		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	Impact on profit	
	2022	2021
Interest rates- Increase by 50 basis points*	-345	-223
Interest rates- Decrease by 50 basis points*	345	88

\* 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 2023 and 2022, the Group had fixed-term deposits in amount of 5 million euros (31 December 2022: 0 euros).

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 2023, 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 2023:

not due	0.18%
1 to 30 days over due date	62.08%
31 to 60 days over due date	92.61%
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 2023 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 2023 there were 3 customers (31 December 2022: 1 customer) with receivable (Note 6) exceeding 5% of total trade receivables. All the receivables are paid before the date of completion of these financial statements.

Financial assets € thousand	Overdue				Impairment
	Balance	Not due	Up to 60 days	More than 60 days	
<b>as of 31 December 2023</b>					
Cash and cash equivalents (Note 5)	14,736	14,736	0	0	0
Trade receivables (Note 6)	8,155	7,501	152	502	-473
Commercial customers	4,589	4,068	116	405	-345
Private customers	3,566	3,433	37	97	-128
<b>Total</b>	<b>22,891</b>	<b>22,237</b>	<b>152</b>	<b>502</b>	<b>-473</b>

**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>

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.

<b>Financial liabilities in terms of payment*</b> € thousand	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>as of 31 December 2023</b>						
Trade and other payables (Note 10)	6,668	0	0	0	0	6,668
Bank loans	0	0	3,604	51,786	41,429	96,818
Leases	60	119	518	1892	60	119
<b>Total</b>	<b>6,728</b>	<b>119</b>	<b>4,122</b>	<b>53,678</b>	<b>41,489</b>	<b>103,605</b>
<b>as of 31 December 2022</b>						
Trade and other payables (Note 10)	6,358	0	0	0	0	6,358
Bank loans	0	0	3,636	51,818	25,000	80,455
Finance leases	118	236	575	1,776	0	2,705
<b>Total</b>	<b>6,476</b>	<b>236</b>	<b>4,211</b>	<b>53,594</b>	<b>25,000</b>	<b>89,518</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	
	2023	2022
Borrowings	99,018	82,828
Cash	-14,736	-12,650
<b>Net debt</b>	<b>84,282</b>	<b>70,178</b>
<b>Equity</b>	<b>117,070</b>	<b>110,826</b>
<b>Total capital</b>	<b>201,352</b>	<b>181,004</b>
Net debt to total capital ratio	41.8%	38.7%
Total assets	281,882	253,393
Proportion of equity from total assets	41.5%	43.7%

## 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 2023 and 2022, 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 2023, 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 4.45% (2022: 2.67%) and are within level 3 of the fair value hierarchy. As of 31 December 2023, the fair value of the Group's long-term borrowings was €1,224 thousand higher than their carrying amount (31 December 2022: €481 thousand lower). See also Note 22.



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>

**Transactions in the period 1 January 2022 - 31 December 2022**

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

**as of 31 December 2022**

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>	<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>

**Transactions in the period 1 January 2023 - 31 December 2023**

Acquisition in book value	0	0	0	32,885	0	1,099	33,984
Write off and sale of property, plant and equipment in residual value	0	-2	-40	0	-6	0	-48
Reclassification	505	23,733	5,043	-30,011	1,850	-1,099	21
Depreciation	-319	-4,387	-2,465	0	-548	0	-7,719

**as of 31 December 2023**

Acquisition cost	28,121	292,134	57,446	9,025	4,743	0	391,469
Accumulated depreciation	-8,579	-86,091	-39,041	0	-1,650	0	-135,361
<b>Net book value</b> (Note 3)	<b>19,542</b>	<b>206,043</b>	<b>18,405</b>	<b>9,025</b>	<b>3,093</b>	<b>0</b>	<b>256,108</b>

By nature, the right-of-use assets comply with the asset class of machinery and equipment.

As of 31 December 2022, The Group's non-current assets in the book value amount of €16,838 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 served as a security to the bank loans (Note 9).

As of 31 December 2023, The Group's assets are not pledged or carry mortgage due to signing new loan contracts and changes made to existing loan contracts.

During the year, the Group has capitalised borrowing costs amounting to €442 thousand (2022: €38 thousand) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.00% (2022: 0.85%) (Note 22).

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities amounted to €2,437 thousand (2022: €6,463 thousand). The

commitments include the construction of combined heat and power plant in wastewater treatment facilities area, cost €2,437 thousand. See also Note 11.

## NOTE 8. Intangible assets

€ thousand	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
<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>	<b>597</b>	<b>91</b>	<b>688</b>
<b>Transactions in the period 01 January 2023 - 31 December 2023</b>			
Acquisition in book value	0	942	942
Reclassification	519	-519	0
Amortisation	-336	0	-336
<b>as of 31 December 2023</b>			
Acquisition cost	5,400	514	5,914
Accumulated amortisation	-4,621	0	-4,621
<b>Net book value (Note 3)</b>	<b>779</b>	<b>514</b>	<b>1,293</b>

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities amounted to €456 thousand (2022: €492 thousand), commitment to an update of an enterprise resource planning software. See also Note 11.

## NOTE 9. Borrowings

€ thousand	as of 31 December	
Current liabilities	2023	2022
Current portion of long-term leases	697	883
Current portion of long-term loans	3,594	3,630
<b>Non-current liabilities</b>		
Leases	1,892	1,607
Loans	92,835	76,708

Liabilities at 31 December 2023		
€ thousand	Balance	Effective interest rate
Lease liabilities	2,589	1.7%–6.88%
Bank loans at floating interest rate (based on 6-month Euribor)	96,429	4.6%–5.0%

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 6-month Euribor)	80,338	2.15%–3.02%

The Group's loan agreements, valid as of 31 December 2023, mature as follows. One loan agreement in the amount of €37.5 million, with the maturity date in September 2024, was refinanced in 2023, with new maturity date in May 2028. 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, one final instalment left. 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. In June 2023, new loan agreement has been signed in amount of €40 million of which €20 million was taken into use in 2023. The loans are not pledged. The breakdown of loans in terms of payment is described in Note 4.

### Net debt reconciliation

Net debt	as of 31 December	
€ thousand	2023	2022
Cash and cash equivalents	14,736	12,650
Borrowings	-96,429	-80,338
Lease liabilities	-2,589	-2,490
<b>Total net debt</b>	<b>-84,282</b>	<b>-70,178</b>
Cash and cash equivalents	14,736	12,650
Gross debt - variable interest rates	-99,018	-82,828

Total net debt -84,282 -70,178

€ thousand	Liabilities from financing activities			Other assets	Total
	Borrowings	Leases	Subtotal	Cash and cash equivalents	
<b>Net debt as at 1 January 2022</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>
Cash flows	-16,364	1,233	-15,131	2,086	-13,045
Acquisitions – leases	0	-1,332	-1,332	0	-1,332
Other changes	273	0	273	0	273
<b>Net debt as at 31 December 2023</b>	<b>-96,429</b>	<b>-2,589</b>	<b>-99,018</b>	<b>14,736</b>	<b>84,282</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 Notes 3 and 4.

## NOTE 10. Trade and other payables

€ thousand	for the year ended 31 December	
	2023	2022
Trade payables – operating expenditures	2,281	3,566
Trade payables – capital expenditures	4,367	3,468
Payables to related parties (Note 23)	20	61
Payables to employees	1,917	1,522
Interest payable	414	128
Other accrued expenses	89	71
Warranty reserve	76	76
Taxes payable incl.:		
Income tax	319	265
VAT	78	20
Water abstraction charges	317	321
Pollution taxes	324	156
Social security tax	600	502
Other	84	69
<b>Total trade and other payables</b>	<b>10,886</b>	<b>10,225</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 2023 amounted to €79,058 thousand (31 December 2022: €72,814 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 €19,267 thousand (2022: €17,397 thousand). See also Note 2.

The Group has concluded contracts as future liabilities for acquiring tangible and intangible assets, for more details please see Notes 7 and 8.

## NOTE 12. Prepayments

	as of 31 December	
€ thousand	2023	2022
Prepayments for water and sewerage services	228	156
Prepayments for connection fee	3,375	3,593
<b>Total prepayments</b>	<b>3,603</b>	<b>3,749</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 2023, claims totalling €13.6 million have been filed against the company 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 2022: €6 million). The courts have dismissed the claims against AS Tallinna Vesi in the ongoing disputes, but there is still no final judgment in any of the litigations. Due to the fact that the disputes are still pending, AS Tallinna Vesi has not changed its provision for claims as of 31/12/2023.

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 2023, 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 2023, OÜ Utilitas owned 4,072,352 (20.36%) shares and the City of Tallinn owned 11,011,482 (55.06%) shares, with 4,916,166 shares in free float. Other direct shareholders each owned less than 5% of the shares as of 31 December 2023.

As of 31 December 2023, the members of Management Board Aleksandr Timofejev, Taavi Gröön and Tarvi Thomberg owned the shares of AS Tallinna Vesi, 200, 200 and 400 shares accordingly. Members of Supervisory Board did not own any shares as of 31 December 2023.

As of 31 December 2022, the members of Supervisory Board and 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

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 2023 – 31 December 2023</b>					
External revenue	55,624	4,775	742	0	61,141
Inter-segment revenue	0	5,693	5,311	-11,004	0
<b>Total segment revenue</b>	<b>55,624</b>	<b>10,468</b>	<b>6,053</b>	<b>-11,004</b>	<b>61,141</b>
<b>Segment's gross profit</b>	<b>22,184</b>	<b>1,104</b>	<b>1,722</b>	<b>-943</b>	<b>24,067</b>
<b>Unallocated expenses:</b>					
Marketing and Administrative expenses					-6,096
Other income/expenses					-621
<b>Operating profit</b>					<b>17,350</b>
<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>

## Revenue by activities

	for the year ended 31 December	
€ thousand	2023	2022
<b>Water services</b>		
Water supply service	9,861	8,380
Wastewater disposal service	14,508	12,406
<b>Total from private customers</b>	<b>24,369</b>	<b>20,786</b>
Water supply service	8,514	8,260
Wastewater disposal service	9,087	8,480
<b>Total from commercial customers</b>	<b>17,601</b>	<b>16,740</b>
Water supply service	1,670	1,599
Wastewater disposal service	4,236	3,525
Stormwater disposal service	260	193
<b>Total from outside service area customers</b>	<b>6,166</b>	<b>5,317</b>
Stormwater treatment and disposal service and fire hydrants service (Note 23)	6,011	4,643
Overpollution charges and discharging	1,477	1,403
<b>Total from water services</b>	<b>55,624</b>	<b>48,889</b>
<b>Construction services</b>	<b>4,775</b>	<b>4,809</b>
<b>Other services</b>	<b>742</b>	<b>860</b>
<b>Total staff costs</b>	<b>61,141</b>	<b>54,558</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	2023	2022
Salaries and wages (Note 17)	-10,445	-8,499
Social security and unemployment insurance taxation (Note 17)	-3,057	-2,873
<b>Total staff costs</b>	<b>-13,502</b>	<b>-11,372</b>
<b>The average number of employees</b>	<b>359</b>	<b>342</b>

## NOTE 17. Cost of goods and services sold, marketing and administrative expenses

	for the year ended 31 December	
€ thousand	2023	2022
<b>Cost of goods and services sold</b>		
Water abstraction charges	-1,271	-1,288
Chemicals	-2,742	-2,238

Electricity	-6,408	-9,234
Pollution tax	-1,005	-823
Staff costs (Note 16)	-9,684	-8,229
Depreciation and amortisation (Note 7 and 8)	-7,002	-5,930
Construction service	-3,481	-3,802
Other costs of goods and services sold	-5,480	-6,116
<b>Total cost of goods and services sold</b>	<b>-37,074</b>	<b>-37,660</b>

#### Marketing expenses

Staff costs (Note 16)	-740	-625
Depreciation and amortisation (Note 7 and 8)	-3	-5
Other marketing expenses	-75	-73
<b>Total marketing expenses</b>	<b>-818</b>	<b>-703</b>

#### Administrative expenses

Staff costs (Note 16)	-3,078	-2,518
Depreciation and amortisation (Note 7 and 8)	-486	-375
Other general administration expenses	-1,714	-1,506
<b>Total administrative expenses</b>	<b>-5,278</b>	<b>-4,399</b>

## NOTE 18. Other income/expenses

for the year ended 31 December

€ thousand	2023	2022
Connection fees	604	544
Depreciation of single connections (Note 7 and 8)	-564	-507
Doubtful receivables expenses (-)/expense reduction (+)	70	-15
Other income (+)/expenses (-)	-731	-498
<b>Total other income/expenses</b>	<b>-621</b>	<b>-476</b>

## NOTE 19. Financial income and expenses

for the year ended 31 December

€ thousand	2023	2022
Interest income	119	8
Interest expense, loan	-3,197	-650
Other financial income (+)/expenses (-)	-66	-32
<b>Total financial income/expenses</b>	<b>-3,144</b>	<b>-674</b>

## NOTE 20. Dividends

for the year ended 31 December

€ thousand	2023	2022
Dividends declared during the period	6,600	13,000
Dividends paid during the period	6,515	12,835
Withheld income tax on dividends	85	165
Income tax on dividends paid	1,352	2,116
Dividends declared per shares:		
Dividends per share (in euros)	0.33	0.65

Dividend income tax rate in 2023 was 20/80 (2022: 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, 2020 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 2023 is €287 thousand and is calculated based on total distributable profits of the subsidiary as of 31 December 2023, (2022: €123 thousand).

## NOTE 21. Earnings per share

	for the year ended 31 December	
	2023	2022
Net profit (€ thousand)	12,844	8,406
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)	0.64	0.42

Diluted earnings per share for the periods ended 31 December 2023 and 2022 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.

In 2023, lease payments amounted to €1,232 thousand (in 2022: €524 thousand). Interest expenses from lease agreements amounted to €80 thousand (in 2022: €70 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 2023, the Group had entered into the lease agreements, which take effect in 2024, in the total amount of €1,345 thousand (as at 2022: €1,207 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 2023 was €112 thousand (in 2022: €133 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.

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

### Shareholders having the significant influence

<b>Balances recorded in on the statement of financial position of the Group</b>	<b>as of 31 December</b>	
<b>€ thousand</b>	<b>2023</b>	<b>2022</b>
Accounts receivable	1,005	1,309
Trade and other payables (Note 10)	20	61

<b>Transactions</b>	<b>for the year ended 31 December</b>	
<b>€ thousand</b>	<b>2023</b>	<b>2022</b>
Revenue (Note 15)	7,437	5,791
Purchase of thermal energy	113	126
Purchase of legal service	28	54

<b>Fees to the Group's Management and Supervisory Board members</b>	<b>for the year ended 31 December</b>	
<b>€ thousand (excluding social tax)</b>	<b>2023</b>	<b>2022</b>
Management Board members	343	313
Supervisory Board members	38	38

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.

The potential salary liability would be up to €171 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 2023	December 2022
Watercom OÜ	Tallinn, Estonia	Provision of construction and other services related to water business	100	100
ASTV Green Energy OÜ 100	Tallinn, Estonia	Gas production		100

## 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	2023	2022
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	12,978	11,060
Trade receivables, accrued income and prepaid expenses	6,826	5,945
Receivables from parent company	1,002	1,297
Receivables from subsidiary	54	62
Inventories	1,059	1,075
<b>TOTAL CURRENT ASSETS</b>	<b>21,919</b>	<b>19,439</b>
<b>NON-CURRENT ASSETS</b>		
Investment in subsidiary	527	527
Property, plant and equipment	262,481	235,607
Intangible assets	779	597
<b>TOTAL NON-CURRENT ASSETS</b>	<b>263,787</b>	<b>236,731</b>
<b>TOTAL ASSETS</b>	<b>285,706</b>	<b>256,170</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Leases	160	233
Bank loans	3,594	3,630
Trade and other payables	9,301	8,583
Payables to parent company	20	25
Payables to subsidiary	1,637	1,187
Prepayments	3,553	3,727
<b>TOTAL CURRENT LIABILITIES</b>	<b>18,265</b>	<b>17,385</b>
<b>NON-CURRENT LIABILITIES</b>		
Deferred income from connection fees	44,653	39,150
Leases	363	307
Bank loans	92,835	76,708
Provision for possible third party claims	6,018	6,018
Other payables	23	17
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>143,892</b>	<b>122,200</b>
<b>TOTAL LIABILITIES</b>	<b>162,157</b>	<b>139,585</b>
<b>EQUITY</b>		
Share capital	12,000	12,000
Share premium	24,734	24,734
Statutory legal reserve	1,278	1,278
Retained earnings	85,537	78,573
<b>TOTAL EQUITY</b>	<b>123,549</b>	<b>116,585</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>285,706</b>	<b>256,170</b>

## STATEMENT OF COMPREHENSIVE INCOME

	for the year ended 31 December	
€ thousand	2023	2022
Revenue	56,214	49,505
Cost of goods and services sold	-33,500	-33,537
<b>GROSS PROFIT</b>	<b>22,714</b>	<b>15,968</b>
Marketing expenses	-818	-703
General administration expenses	-4,977	-4,151
Other income (+)/expenses (-)	-483	408
<b>OPERATING PROFIT</b>	<b>16,436</b>	<b>10,706</b>
Financial income	1,335	559
Financial expenses	-3,133	-589
<b>PROFIT BEFORE TAXES</b>	<b>14,638</b>	<b>10,676</b>
Income tax on dividends	-1,074	-2,021
<b>NET PROFIT FOR THE PERIOD</b>	<b>13,564</b>	<b>8,655</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>13,564</b>	<b>8,655</b>
Attributable profit to:		
Equity holders of A shares	13,564	8,655
Earnings per A share (in euros)	0,68	0,43

## STATEMENT OF CASH FLOWS

€ thousand	for the year ended 31 December	
CASH FLOWS FROM OPERATING ACTIVITIES	2023	2022
Operating profit	16,436	10,706
Adjustment for depreciation/amortisation	7,756	6,650
Adjustment for revenue from connection fees	-604	-544
Other non-cash adjustments	-76	0
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets	-33	21
Change in current assets involved in operating activities	-561	-2,313
Change in liabilities involved in operating activities	365	339
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>23,283</b>	<b>14,589</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment, and intangible assets	-30,469	-21,395
Compensations received for construction of pipelines	2,522	1,601
Proceeds from sale of property, plant and equipment, and intangible assets	35	41
Interest received	101	8
<b>TOTAL CASH USED IN INVESTING ACTIVITIES</b>	<b>-27,811</b>	<b>-19,745</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Interest paid and loan financing costs	-3,283	-568
Lease payments	-261	-224
Repayment of loans	-41,136	-3,636
Loans received	57,500	0
Dividends received	1,300	583
Dividends paid	-6,515	-12,835
Withheld income tax paid on dividends	-85	-165
Income tax on dividends	-1,074	-2,116
<b>TOTAL CASH USED IN FINANCING ACTIVITIES</b>	<b>6,446</b>	<b>-18,961</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1,918</b>	<b>-23,847</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>11,060</b>	<b>34,907</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>12,978</b>	<b>11,060</b>

## STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<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>
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>
Dividends	0	0	0	-6 600	-6 600
Comprehensive income for the period	0	0	0	13 564	13 564
<b>as of 31 December 2023</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>85,537</b>	<b>123,549</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 2023</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>85,537</b>	<b>123,022</b>

# REMUNERATION REPORT

## INTRODUCTION

The remuneration statement of AS Tallinna Vesi (hereinafter Tallinna Vesi or the company), covering the calculated fees to the members of the Management Board of Tallinna Vesi in 2019–2023, 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 the company's remuneration policy, prepared in accordance with the requirements of § 135<sup>2</sup> of the Securities Market Act.

The Remuneration Policy for the members of the Management Board of AS Tallinna Vesi has been prepared in 2021 and approved by the Supervisory Council of AS Tallinna Vesi in January 2022. The general principles of remuneration are based on the long-term objectives of Tallinna Vesi, 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 or her performance in the position, the performance of the entire Management Board, as well as the future prospects of Tallinna Vesi and the overall situation in the labour market with regard to the remuneration of executives. 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 Council 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 Council.

Pursuant to subsection (2) of the same § 314, 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 Council must ensure that the total amount of the payments to be made by Tallinna Vesi to the Management Board member reasonably complies with the duties of the Management Board member and the economic situation of company.

Pursuant to subsection 314 (3) of the Commercial Code, if the economic situation of Tallinna Vesi 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 Tallinna Vesi, the company may require the decrease of the fees and other benefits. If decrease of fees or other benefits is demanded, the member of the Management Board may exercise the right to extraordinary cancellation of a 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 Council to ensure that the remuneration policy proposed is based on the short- and long-term objectives of Tallinna Vesi, taking account of the financial performance of the company and the legitimate interests of investors.

Pursuant to the procedure for Supervisory Council committees, the Remuneration and Nomination Committee (hereinafter the committee) makes a proposal to the Supervisory Council for determining the remuneration and other financial advantages of Management Board members, considering that Tallinna Vesi 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 principles of remuneration are based on the long-term objectives of Tallinna Vesi, 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 or her performance in the position, the performance of the entire Management Board, as well as the future prospects of Tallinna Vesi and the overall situation in the labour market with regard to the remuneration of executives.

### 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 Tallinna Vesi 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 Council 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 Council 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 Tallinna Vesi 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 Council of AS Tallinna Vesi 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.

### GROUNDINGS 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 Tallinna Vesi 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 Tallinna Vesi, 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 2023:

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	09/09/2007	113	16	129	87%	12.6%
Tarvi Thomberg	Member of the Management Board, Chief Asset Management Officer	08/11/2021	96	14	110	92%	8%
Taavi Gröön	Member of the Management Board, Chief Financial Officer	23/05/2022	96	8	104	87%	13%

Reporting year	2023	2022	2021	2020	2019
Change in A. Timofejev's remuneration	+3.3%	+9.9%	+1.8%	+9.5%	+6.7%
Change in T. Thomberg's remuneration	+12.8%	+595.5%	-	-	-
Change in T. Gröön's remuneration	+99.9%	-	-	-	-
Change in K. Ojakäär's remuneration	-	-61.3%	+24.0%	-	-
Change in R. Kää's remuneration	-	-	-	-85.6%	+14.3%
Change in full time employees' average salary	+12.5%	+7.8%	+4.3%	+3.5%	+5.3%
Change in the company's outcome (net profit)	+56.7%	-46.3%	-5.5%	-39.7%	+15.5%

The percentage of change in the remuneration expresses the change in the total cost per financial year.

## 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 2023 was based on meeting the company's targets for 2022, 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 2023 also depended on meeting the individual targets for 2022 set for a Management Board member by the Supervisory Council of the company.

Each member of the Management Board has his or her own area of responsibility, based on which the individual targets are set. The individual targets 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 targets 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.

## CONFIRMATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY COUNCIL

The Management Board of AS Tallinna Vesi has prepared the management report and the financial statements of AS Tallinna Vesi on 15 March 2024. The Supervisory Council of AS Tallinna Vesi has reviewed the annual report, consisting of the management report, the financial statements, the sustainability statement, the remuneration report and the independent auditors' report, presented by the Management Board, and has approved the annual report on 15 March 2024 by its minuted decision for submission to the General Meeting of Shareholders.

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



## 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 2023, 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 2024.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- 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 services that we have provided to the Company in the period from 1 January 2023 to 31 December 2023 are disclosed in the management report.

AS PricewaterhouseCoopers  
Tatari 1, 10116 Tallinn, Estonia; License No. 6; Registry code: 10142876  
T: +372 614 1800, [www.pwc.ee](http://www.pwc.ee)

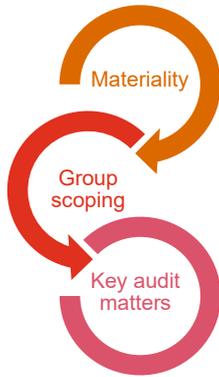
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## Our audit approach

### Overview



- Overall Group audit materiality is EUR 959 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 legal 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.

**Overall Group audit materiality** EUR 959 thousand

**How we determined it** 5% of the average profit before tax of the past five years

**Rationale for the materiality benchmark applied** 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.

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## 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 2023, the provision has been recognised in respect of potential claims from the customers in the amount of EUR 6 million (31 December 2022: 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 2022: 12 months).</p> <p>As of 31 December 2023, claims in the amount of EUR 13.6 million have been filed against the Group within four applications. One application also includes a claim of interest in the amount of EUR 5.4 million.</p> <p>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.</p>	<p>We have discussed the status of third-party claims and potential claims with the Group management. 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>
<p><i>Estimates involved in the 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).</i></p> <p>In 2023, the Group capitalised additions to Property, Plant and Equipment (PPE), mainly related to the construction of water and</p>	<p>We assessed whether the Group’s accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS.</p> <p>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</p>

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wastewater network and new customer pipeline connections, in the amount of EUR 34 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.

been properly approved by the responsible individuals with such authority.

We inspected a sample of underlying source documents to determine whether the classification between capital and operating expenditure was appropriate.

We evaluated whether the useful lives of PPE determined by the management were in accordance with the ranges of depreciation rates presented in the Group's accounting policies according to the classes of PPE.

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.

The Group comprises 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 the management report, the Remuneration report and Sustainability Report (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.

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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 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 judgment 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.

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- 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.

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 2023 (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.

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## **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.

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 noncompliance 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 management requirements and professional ethics**

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 16 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

Janno Hermanson  
Certified auditor in charge, auditor's certificate no. 570

Peep Kivistik  
Auditor's certificate no. 732

15 March 2024  
Tallinn, Estonia

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