



Independent auditor's report

To the Shareholders of AKTSIASELTS TALLINNA VESI

Report on the audit of the consolidated financial statements

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 subsidiary (together – "the Group") as at 31 December 2020, 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 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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.

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 Company and 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 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 § 59¹ of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2020 are disclosed in the Corporate Governance report.

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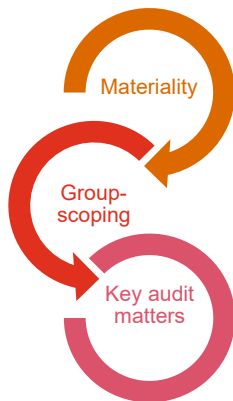
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Our audit approach

Overview



Overall group audit materiality is EUR 1,050 thousand, which represents approximately 5% of profit before tax.

The audit team performed full scope audit procedures for both Group entities.

- Provision relating to the potential consequences of tariff dispute with the Estonian Competition Authority
- Estimates involved in capitalisation of capital expenditures and determining their useful lives

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

Materiality

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

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

Overall Group audit materiality EUR 1,050 thousand

How we determined it Approximately 5% of profit before tax

Rationale for the materiality benchmark applied 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 4 “Critical accounting estimates” and 15 “Provision for possible third-party claims” for further details).</i></p> <p>The Group was involved in a 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 could arise.</p> <p>As at 31 December 2020, the provision has been recognised in respect of potential claims from the customers in the amount of EUR 9.6 million (31 December 2019: EUR 14.4 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 24 months (31 December 2019: 36 months).</p> <p>As of 31 December 2020, one claim in the amount of EUR 1.1 million has been filed.</p> <p>We have considered the assessment of this provision to be a key audit matter given the potential magnitude and uncertainty in estimating the timing and amount of possible outflow of economic benefits.</p>	<p>We have discussed the status of potential third-party claims with the Group management and the Audit Committee. We have read the minutes of meetings of the Management and Supervisory Board where claims were discussed. We also obtained confirmations from the Group’s internal and external legal counsels in order to compare their expert opinions to management’s position on the provision.</p> <p>We discussed with the management the inputs and assumptions used to estimate the amount of potential outflows of economic benefits as a basis of provision.</p> <p>We read the disclosures regarding the dispute and resulting provision.</p>
<p><i>Estimates involved in capitalisation of capital expenditures and determining their useful lives (refer to Note 2 “Accounting policies”, Note 4 “Critical accounting estimates” and Note 9 “Property, plant and equipment” for further details).</i></p> <p>In 2020, the Group capitalised additions to property, plant and equipment (PPE), mainly related to the construction of water and wastewater network and new customer</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 internal purchase order that had been properly approved by the responsible individuals with such authority.</p>

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pipeline connections, in the amount of EUR 19.3 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 judgment.

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 resource to audit due to its magnitude, it is considered to be a key audit matter.

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

We evaluated whether the useful lives determined and applied by the management were in line with historical experience and the market practice.

We checked whether the depreciation of PPE items was 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.

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 of two entities: AKTSIASELTS TALLINNA VESI and its subsidiary Watercom OÜ, both located in Estonia. The group audit team performed full scope audit procedures on the financial statements of both entities. We also audited the consolidation process to obtain evidence that there were no material misstatements of the consolidated financial information.

Other information

The Management Board is responsible for the other information. The other information comprises the Management report, Principles of Sustainability Reporting and Annex 1:GRI Index (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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.

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.
- 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.

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- 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

Appointment and period of our audit engagement

We were first appointed as auditors of AKTSIASELTS TALLINNA VESI, as a public interest entity, on 23 April 2008 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 13 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.

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A handwritten signature in blue ink, appearing to read 'Eva Jansen-Diener', is written over a light blue circular stamp.

Eva Jansen-Diener
Certified auditor in charge, auditor's certificate no.501

15 March 2021
Tallinn, Estonia

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Independent Limited Assurance Report on the Sustainability Information

To the Shareholders of AKTSIASELTS TALLINNA VESI

Introduction

We have been engaged by the Management Board of AKTSIASELTS TALLINNA VESI and its subsidiary (together the Group) to provide limited assurance on the selected Sustainability Information described below and included on pages 4-72 and 124-131 in the Consolidated Annual and Sustainability Report of AKTSIASELTS TALLINNA VESI and its subsidiary (together the “Group”) for the year ended 31 December 2020.

Selected Sustainability Information

We assessed the quantitative and qualitative information disclosed in the GRI Index on pages 124-131 and the information on pages 4-72 as referred from the GRI Index (hereinafter the “Sustainability Information”), in the Consolidated Annual and Sustainability Report of the Group for the year ended 31 December 2020. The Sustainability Information has been prepared using the Global Reporting Initiative Standards (hereinafter “GRI Standards”) as described on pages 121-123 in the Consolidated Annual and Sustainability Report of the Group.

Reporting Criteria

We assessed the Sustainability Information using the GRI Standards. We believe that these reporting criteria are appropriate given the purpose of our limited assurance engagement.

Responsibilities of the Management Board

The Management Board of the Group is responsible for:

- designing, implementing and maintaining internal systems, processes and controls over information relevant to the preparation of the Sustainability Information that is free from material misstatement, whether due to fraud or error;
- establishing objective reporting criteria for preparing the Sustainability Information;
- measuring the Group’s performance based on the reporting criteria; and
- the accuracy and completeness of the information presented within the Sustainability Information.

Our Responsibilities

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Sustainability Information is not stated, in all material respects, in accordance with the reporting criteria.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 “Assurance engagements other than audits or reviews of historical financial information”. This standard requires that we comply with ethical requirements to plan and perform the assurance engagement to obtain limited assurance on the Sustainability Information.

This report, including our conclusions, has been prepared solely for management of the Group to assist management in reporting on the Group’s sustainability performance and activities. Our limited assurance report has been prepared in accordance with the terms of our engagement. We permit this report to be disclosed in the Consolidated Annual and Sustainability Report of the Group for the year ended 31 December 2020, to enable management to show that as part of their governance responsibilities they have obtained an independent limited assurance report in connection with the Sustainability Information. We do not accept or assume responsibility to anyone other than management of the Group for our work or this report.

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Our Independence and Quality Control

We are independent of the Company and 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.

Our firm applies International Standard on Quality Control ISQC 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Work Done

Our procedures included:

- enquiries of the Group's management;
- interviews of personnel responsible for sustainability reporting and data collection;
- analysis of the relevant policies and basic reporting principles and gaining an understanding of the design of the key structures, systems, processes and controls for managing, recording and reporting the Sustainability Information;
- limited substantive testing of the Sustainability Information on a selective basis to verify that data had been appropriately measured, recorded, collated and reported; and
- reviewing the Sustainability Information for compliance of the disclosures with the requirements of GRI Standards.

Limited assurance gives less in confidence than reasonable assurance, as a limited assurance engagement is substantially less in scope in relation to both the assessment of risks of material misstatement and the procedures performed in response to the assessed risks.

Reporting and Measurement Methodologies

There are no globally recognised and established practices for evaluating and measuring the Sustainability Information. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The reporting criteria used as a basis of the Group's sustainability reporting should therefore be read in conjunction with the Sustainability Information.

Limited Assurance Conclusion

Based on our work described in this report nothing has come to our attention that causes us to believe that the Sustainability Information for the year ended 31 December 2020 has not been prepared, in all material respects, in accordance with the Core requirements of GRI Standards.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Eva Jansen-Diener', is written over a light blue circular stamp.

Eva Jansen-Diener
Certified auditor in charge, auditor's certificate no.501

15 March 2021

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