



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 subsidiaries (together – the "Group") as at 31 December 2021, 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 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- 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 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 the period from 1 January 2021 to 31 December 2021 are disclosed in the management report.

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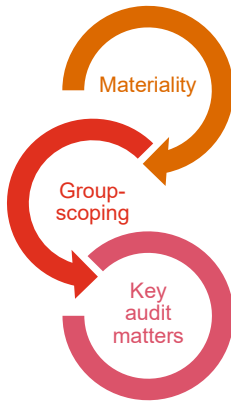
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Our audit approach

Overview



- Overall group audit materiality is EUR 920 thousand, which represents approximately 5% of profit before tax.
- The audit team performed a full audit of the Group's parent company AKTSIASELTS TALLINNA VESI and its subsidiary Watercom OÜ. At the Group level we also audited the consolidation process to obtain evidence that there were no material misstatements of the consolidated financial information.
- Provision relating to the potential consequences of tariff dispute with the Estonian Competition Authority.
- Estimates involved in capitalisation of capital expenditures and determining their useful lives.

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

Materiality

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

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

Overall Group audit materiality EUR 920 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 14 “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 have been issued and could arise.</p> <p>As at 31 December 2021, the provision has been recognised in respect of potential claims from the customers in the amount of EUR 6 million (31 December 2020: EUR 9.6 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 2020: 24 months).</p> <p>As of 31 December 2021, claims in the amount of EUR 8.5 million have been filed within three applications. One application also includes claim of interest in amount of EUR 3.2 million.</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 third-party claims and potential claims with the Group management and the Audit Committee. We have read the minutes of meetings of the Management and Supervisory Board where claims were discussed. We also obtained confirmations from the Group’s internal and external legal counsels in order to compare their expert opinions to management’s position on the provision.</p> <p>We discussed with the management the inputs and assumptions used to estimate the amount of potential outflows of economic benefits as a basis of provision.</p> <p>We 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 8 “Property, plant and equipment” for further details).</i></p> <p>In 2021, the Group capitalised additions to property, plant and equipment (PPE), mainly</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</p>

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related to the construction of water and wastewater network and new customer pipeline connections, in the amount of EUR 15.1 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.

with such authority.

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

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

We checked whether the depreciation of PPE items 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 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.

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, Principles of Sustainability Reporting and Annex 1:GRI Index (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. 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.

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In accordance with the Securities Market Act 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 135³ of the Securities Market Act.

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 financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act;
- the Remuneration Report has been prepared in accordance with Article 135³ of the Securities Market Act.

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.

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.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 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 2021 (the "Presentation of the Consolidated Financial Statements").

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Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the “ESEF Regulation”). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and the Supervisory Board

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 non-compliance with the requirements of the ESEF Regulation.

Members of the Supervisory Board are responsible for overseeing the financial reporting process, which should also be understood as the preparation of 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 3000 (R) - ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’ (ISAE 3000(R)). 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 3000(R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control 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.

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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;
- 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.

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 14 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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/digitally signed/

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

/digitally signed/

Peep Kivistik
Auditor's certificate no.732

15 March 2022
Tallinn, Estonia

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Independent Limited Assurance Report

To the Management Board of AKTSIASELTS TALLINNA VESI:

Introduction

We have been engaged by the Management Board of AKTSIASELTS TALLINNA VESI to provide limited assurance on the selected information described below and included in the Annual Report of AKTSIASELTS TALLINNA VESI (the “Company”) for the year ended 31 December 2021 (the “Annual Report”). The Annual Report represents information related to the Company and its subsidiaries (together the “Group”).

Selected Information

We assessed the quantitative and qualitative information, that is disclosed in the Annual report and referred to or included in the GRI Index (the “Selected Information”). The Selected Information has been prepared in accordance with GRI Sustainability Reporting Standards (Core option) (the “GRI Standards”) published by the Global Reporting Initiative (GRI).

The scope of our limited assurance procedures was limited to the Selected Information for the year ended 31 December 2021. We have not performed any procedures with respect to earlier periods or any other items (including the company-specific indicators, which are described without GRI codes in the GRI Index) included in the Annual Report and, therefore, do not express any conclusion thereon.

Reporting Criteria

We assessed the Selected Information using relevant criteria, including reporting principles and requirements, in the GRI Standards (the “Reporting Criteria”). We believe that the Reporting Criteria are appropriate given the purpose of our limited assurance engagement.

Responsibilities of the Management Board of the Group

The Management Board of the Group is responsible for:

- designing, implementing and maintaining internal control relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing internal methodology and guidelines for preparing and reporting the Selected Information in accordance with the Reporting Criteria;
- preparing, measuring and reporting of the Selected Information in accordance with the Reporting Criteria; and
- the accuracy, completeness and presentation of the Selected Information.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Company’s Management Board.

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This report, including our conclusion, has been prepared solely for the Management Board of the Company in accordance with the agreement between us, to assist the Management Board in reporting on the Group's sustainability performance and activities. We permit this report to be disclosed in the Annual Report, which will be published on the Company's website¹, to assist the Management Board in responding to their governance responsibilities by obtaining an independent limited assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management Board of the Company for our work or this report except where the respective terms are expressly agreed in writing and our prior consent in writing is obtained.

Professional standards applied and level of assurance

We performed the limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance engagements other than audits or reviews of historical financial information" issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of the Group's management, including the Sustainability Reporting (SR) team and those with responsibility for SR management and group reporting;
- conducted interviews of personnel responsible for the preparation of the Annual Report and collection of underlying data;
- performed analysis of the relevant internal methodology and guidelines, gaining an understanding and evaluating the design of the key structures, systems, processes and controls for managing, recording, preparing and reporting the Selected Information;
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- reviewed the Selected Information for compliance of the disclosures with the relevant requirements of the Reporting Criteria.

¹ The maintenance and integrity of the Company's website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company's website.

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Reporting and measurement methodologies

Under the GRI Standards there is a range of different, but acceptable measurement and reporting techniques. The techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Selected Information should therefore be read in conjunction with the methodology used by Management Board as described in the Annual Report, and for which the Group is solely responsible.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2021 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

AS PricewaterhouseCoopers

/signed digitally/

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

15 March 2022

/signed digitally/

Peep Kivistik
Auditor's certificate no. 732

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