

AS TALLINNA VESI

Consolidated Interim Report for the 4th quarter of 2022

27 January 2023



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Currency	Thousand euros
Start of reporting period	1 January 2022
End of reporting period	31 December 2022
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MANAGEMENT REPORT

Executive Summary

Last year, AS Tallinna Vesi earned €54.6 million in revenue and €8.41 million in profit. Sales increased by 2.4% year on year, mainly due to the growth of stormwater service revenues and the increase in water consumption of capital's hospitality and leisure establishments in the last quarter of the year. At the same time, sales from construction services have decreased year on year. Sales for the fourth quarter totalled €16 million. Last year, we continued to provide high-quality water and wastewater services and carried out a number of large-scale reconstruction projects.

Commercial customers' water consumption increased

Sales from water services provided to commercial customers in the main service area increased by approximately 12% in the 4th quarter compared to a year ago, reaching €4.32 million.

Consumption of water services by commercial customers increased mainly in the leisure sector: hospitality establishments and spas, trade and sports centers, and in the rental services sector and port.

Sales from water services provided to private customers increased by 20.1% in the 4th quarter compared to a year ago, reaching €6.1 million. The higher sales resulted from the adjustment of the price for water services due to the sharp increase in electricity prices.

Tallinna Vesi's gross profit for the 4th quarter of 2022 was €4.52 million. The Company's gross profit for the twelve months fell by 18% due to increasing operational costs. The main impact came from the significant increase of electricity, gas and chemicals prices and increased salary costs. To minimize the impact, we now optimize the amount of chemicals used in treatment processes and consume electricity smarter than before.

The Company's operating profit in the 4th quarter was €2.8 million, which was €0.62 million less compared to the same period last year. The operating profit for the twelve months of 2022 was €11.32 million, showing a decrease of 39.7% compared to the previous year. The decrease in operating profit was driven by both the increased electricity costs and the retaining of the provision for potential third-party claims at third-quarter levels of 2021.

The Company's net profit was €2.36 million in the 4th quarter of 2022, which is €0.85 down from the same period in 2021. The decrease in net profit was affected by changes in operating profit and net financial costs.

Rehabilitation of water networks and the treatment plants

Last year, we significantly increased the level of our investments. Investments increased by €9,75 million compared to 2021. In total, we invested €25.13 million in fixed assets.

We rehabilitated nearly 19 kilometres of water and wastewater pipes. Extensive reconstruction work continued on Vana-Kalamaja Street and on Jõe and Pronksi Street. On Vana-Kalamaja Street, a total of 4 kilometers of pipes are laid and on Jõe and Pronksi Street, 2.2 km of pipes, including a wastewater collector.

In order to ensure the continuity of the services provided by the Company and the sustainability of its processes, we continued with several large projects in the 4th quarter. For example, we have built a new water reservoir in booster pumping station at Õismäe and have started installing UV equipment in various borehole pumping stations. We have also already started the 2023 projects related to the stage II reconstruction works on filters in building B at the Water Treatment Plant and the reconstruction of the plant's 0,4 kV switchyard.

At the Wastewater Treatment Plant, multi-year projects to reconstruct the shaft at the Main Pumping Station and to install new sludge thickeners were completed. At the end of the year, we began replacing the last old wastewater pump at the Main Pumping Station that has served us well since 1978.

On the penultimate day of the year, a contract was signed for the design and construction of a combined heat and power plant on the Wastewater Treatment Plant at Paljassaare by the end of 2023. The cogeneration plant will allow us to start using the biogas generated in the wastewater treatment process to reduce the cost of heat and electricity.

Also, a tender was carried out to find a partner for the reconstruction of digesters, which we intend to start early in 2023.

By today, the negotiations on a new Administrative Contract between the City of Tallinn and AS Tallinna Vesi for the period 01/12/2022-30/11/2032 have been concluded. At the same time, AS Tallinna Vesi applied for its appointment as a water undertaker in the main service area of the public water supply and sewerage system with a term of administrative duty of 10 years, i.e., until 30/11/2032. The Administrative Contract can be found publicly in the document management system of Tallinn City Government and on AS Tallinna Vesi's website.

The preparation of the Tallinn Public Water Supply and Sewerage Development Plan for the next 12 years is also currently under way. The aim of that document is to set a clear direction for the development of the water sector in Tallinn and it will also serve as an input for the preparation of the Development and Investment Plan of AS Tallinna Vesi.

AS Tallinna Vesi is gradually switching to remote water meters. Customers who have a smart water meter installed, will no longer have to report their monthly water meter readings. The first thousand customers already received new smart meters at the end of last year, and the installation will continue this year at an increased pace. The main advantage of smart meters is the speed and accuracy of data transmission, as well as security and reliability. By the end of 2026, all existing water meters in Tallinna Vesi's service area will be replaced with smart meters.

High-quality water and wastewater services

Throughout last year, the Company has continued to provide reliable and high-quality water and wastewater services, as reflected in the excellent level of quality parameters. In the twelve months, the Company took 3,086 water samples, 99.8% of which met all quality requirements in full. Only five samples were found not to comply. The quality of tap water continues to be excellent. This has been ensured by an efficient water treatment process, preventative maintenance of water network and investments in water pumping stations.

We were the first in the region to introduce an innovative new technology for cleaning water pipes using pressure washing with crushed ice. This technology is now widely used in the United States and Japan.

Also, the wastewater treated at the Wastewater Treatment Plant has met all the strict requirements throughout the year. The quality of treated effluent directly affects the marine environment, which is why we monitor the amounts of pollutants in the wastewater received at the treatment plant and in the effluent leaving the treatment plant. Pollutant parameters that are significantly lower than the limits required by law is the proof of the excellent level of treated effluent.

The level of water loss in the water network in the 4th quarter remained at low 15.3%, that is a level similar to last year. As for the whole of the twelve-month period, the level of water loss is somewhat higher than last year because of the snowy and cold winter that made it difficult to detect leaks and access pipes in the 1st quarter. It was also affected by high outdoor temperatures and low soil water levels.



Aleksandr Timofejev

Chairman of the Board

Chief Executive Officer

SUMMARY OF 2022 OPERATIONAL RESULTS FOR THE TWELVE MONTHS AND THE 4th QUARTER OF THE YEAR

In the 4th quarter of 2022, the Company gave nearly 7.2 million m³ of clean water to the water network and treated nearly 10.5 million m³ of wastewater.

In the twelve months and the 4th quarter of the year, the quality of tap water was excellent, meeting 99.8% of all quality requirements. This means that only 5 water samples were not in line with the strict standards set for the quality of water. 3,086 water samples were taken in the twelve months of 2022. High-quality tap water has been ensured by an effective water treatment process, ongoing preventative maintenance of the water network and investments in water pumping stations made in recent years, creating a secondary chlorination option in various areas of the City. The latter allows disinfecting tap water at various points across the City, ensuring the availability of a high-quality drinking water in any location.

One of our goals is to notify our customers about water interruptions well in advance. In the 4th quarter of 2022, we notified our customers at least 1 hour before an unplanned water interruption in 90.4% of cases. Throughout the year, we notified almost all customers (96.9%) affected by an interruption at least an hour in advance. For customers who had a water interruption in the 4th quarter, the interruption lasted an average of 3 hours and 3 minutes, which is less than in the same period last year. As for the whole of the twelve-month period, the average duration of the water interruption, similarly to the quarterly result, was shorter. To reduce the inconvenience caused by water disruption, we keep installing additional closing elements in the water network.

The level of water loss in the water network remained low in the 4th quarter of the year, at a level similar to the same period last year (15.3%). As for the twelve months of 2022, the level of water loss is almost the same as last year (16.0%). This was affected by the higher water loss early in the year, caused by the snowy and cold winter that made it difficult to detect leaks and access pipes.

In addition to providing high-quality domestic water service, one of our most important tasks is to ensure the reliability and sustainability of the wastewater service. We continuously assess the efficiency of the wastewater treatment process and the quality of the wastewater by monitoring the amounts of pollutants in the wastewater received at the treatment plant and in the effluent leaving the treatment plant. During both the twelve months and the 4th quarter of 2022, the treated effluent from the Wastewater Treatment Plant at Paljassaare met all the established requirements. Pollutant parameters that were significantly lower than the limits required by law is the proof of the excellent level of treated effluent. The levels of main pollutant parameters phosphorus and nitrogen were 0.38 mg/l (limit 0.5 mg/l) and 4.6 mg/l (limit 10.0 mg/l) respectively.

We want to provide our customers and consumers with a reliable service, part of which is the availability of important information about the service and the speed at which their questions are answered. In the 4th quarter of 2022, we responded to written contacts within 2 days in 92.4% of cases, which is somewhat less than in the same period a year ago.

In early 2022, we started to implement a new definition of complaints, according to which any notification received from a customer about a failure in the quality of the service delivered is treated as a complaint. It aims to further improve the quality of service and to prevent complaints more effectively. According to the new methodology, we received a total of 343 customer complaints in the 4th quarter of 2022. By the definition of complaints implemented back in 2021, the number of complaints would have been 10, which is somewhat more than in 2021. In the 4th quarter of 2022, we did not fail to keep any of the promises to our customers.

By the end of the year, we had installed nearly 1,000 remote water meters for our customers, the goal is to complete the installation work by 2026.

By the end of the 4th quarter of 2022, we had rehabilitated 19 kilometers of pipes. In order to ensure reliable water and wastewater services to our customers and consumers, we started and continued extensive reconstruction work on Vana-Kalamaja Street and on Jõe and Pronksi Street. On Vana-Kalamaja Street, a total of 4 kilometers of pipes are laid and on Jõe and Pronksi Street, 2.2 km of pipes, including a 1000 mm wastewater collector.

We focused on finalizing ongoing investments and preparing investments for next year. We have built a new water reservoir in booster pumping station at Õismäe and have started installing UV equipment in various borehole pumping stations. Also, we have already started the 2023 projects related to the stage II reconstruction works on filters in building B at the Water Treatment Plant, the preparations of the design for several projects and the reconstruction of the plant's 0,4 kV switchyard. At the Wastewater Treatment Plant, multi-year projects to reconstruct the shaft at the Main Pumping Station and to install new sludge thickeners were completed. At the end of the year, we began replacing the very last old wastewater pump at the Main Pumping Station. On the penultimate day of the year, a contract was signed for the design and construction of a combined heat and power plant on the Wastewater Treatment Plant at Paljassaare by the end of 2023. Also, a public tender was carried out to find a partner for the reconstruction of digesters, which we intend to start early in 2023.

OPERATIONAL PERFORMANCE DURING THE TWELVE MONTHS AND 4th QUARTER OF 2022

Indicator	Unit	12 months of 2022	12 months of 2021	Q4 2022	Q4 2021
Drinking water					
Compliance of water quality at the customer's tap	%	99.8%	99.6%	99.5%	98.8%
Water loss in the water distribution network	%	16.02%	15%	15.34%	16.26%
Average duration of water interruption per property	h	3.16	3.31	3.03	3.54
Wastewater					
Number of sewer blockages	no	600	524	160	127
Number of sewer collapses	no	71	71	16	21
Compliance of treated effluent with environmental requirements	%	100%	100%	100%	100%
Customer service					
Number of customer complaints	no	1215 (*51)	*31	343 (*10)	8
Number of customer contacts regarding water quality	no	289	317	76	79
Number of customer contacts regarding water pressure	no	221	363	61	101
Number of customer contacts regarding blockages and leading off stormwater	no	801	948	212	215
Responding to written customer contacts within at least 2 working days	%	97.6%	98.8%	92.4%	98.5%
Number of failed promises	no	2	3	0	0
Notification of unplanned water interruptions at least 1 h before the interruption	%	96.9%	98.7%	90.4%	99.2%

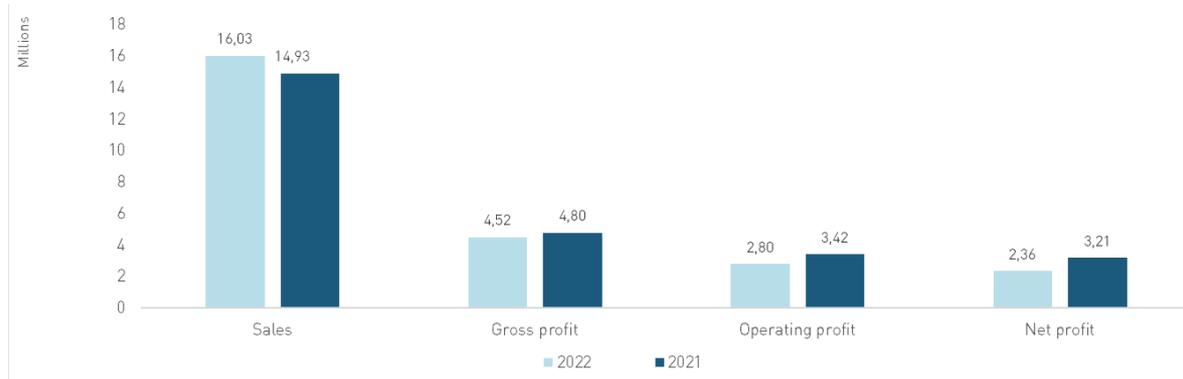
* From the first quarter of 2022, we introduced a new methodology for defining customer complaints. The number marked with an asterisk indicates the number of complaints by the old definition.

FINANCIAL RESULTS OF THE 4th QUARTER OF 2022

The latest **economic forecast** from Eesti Pank finds that consumption will be reduced by high inflation and that the profitability of companies will decline. The economy is expected to grow a little in the new year, mainly because of increased spending by the state. Inflation will continue to fall and will probably be a little below 10% in 2023.

Reduced purchasing power and shrunken savings point to a fall in consumption volumes at the end of 2022 and in the first half of 2023, and so corporate profitability will also take a hit. The economy shrinks in volume by 0.5% in 2022 but it will grow in 2023 by 0.4%, mainly because government spending will increase. Growth may be expected to increase to 3-4% in 2024-2025, but the war in Ukraine means that there is greater uncertainty than usual around the outlook for economic growth and for inflation.

The high inflation and geopolitical tensions have immediate results on the company's net profit, which has decreased by 26.5% in the 4th quarter of 2022 compared to 2021 although the total revenue has increased by 7.3%, whereas the revenues from water services have increased by 13.1% compared to the same period of 2021, driven by price adjustment effective from October 1st 2022.



Main financial indicators

€ million, except key ratios	4th quarter			Change 2022/ 2021	12 months			Change 2022/ 2021
	2022	2021	2020		2022	2021	2020	
Sales	16.03	14.93	13.17	7.3%	54.56	53.29	51.72	2.4%
Gross profit	4.52	4.80	5.64	-5.9%	16.90	20.58	22.23	-17.9%
Gross profit margin %	28.21	32.17	42.78	-12.3%	30.97	38.61	42.97	-19.8%
Operating profit before depreciation and amortisation	4.65	5.10	7.41	-8.9%	18.14	25.30	28.07	-28.3%
Operating profit before depreciation and amortisation margin %	29.00	34.17	56.23	-15.1%	33.24	47.47	54.27	-30.0%
Operating profit	2.80	3.42	5.76	-18.2%	11.32	18.78	21.78	-39.7%
Operating profit - main business	2.50	2.91	5.51	-13.9%	10.31	17.52	20.88	-41.2%
Operating profit margin %	17.45	22.89	43.71	-23.8%	20.75	35.23	42.12	-41.1%
Profit before taxes	2.44	3.31	5.64	-26.3%	10.65	18.40	21.34	-42.1%
Profit before taxes margin %	15.24	22.19	42.85	-31.3%	19.52	34.52	41.27	-43.5%
Net profit	2.36	3.21	5.39	-26.5%	8.41	16.17	16.73	-48.0%
Net profit margin %	14.71	21.47	40.91	-31.5%	15.41	30.33	32.35	-49.2%
ROA %	0.94	1.26	2.12	-25.6%	3.30	6.32	6.45	-47.8%
Debt to total capital employed %	56.26	54.94	56.09	2.4%	56.26	54.94	56.09	2.4%
ROE %	2.15	2.82	4.92	-23.8%	7.43	14.20	14.69	-47.7%
Current ratio	1.24	2.83	3.85	-56.2%	1.24	2.83	3.85	-56.2%
Quick ratio	1.17	2.79	3.80	-58.1%	1.17	2.79	3.80	-58.1%
Investments into fixed assets	9.47	5.43	5.65	74.5%	25.13	15.38	19.42	63.4%
Payout ratio %	-	80.42	77.70	0.0%	-	80.42	77.70	0.0%

Gross profit margin – Gross profit / Net sales

Operating profit before depreciation and amortisation – Operating profit + depreciation and amortisation

Operating profit before depreciation and amortisation margin – Operating profit before depreciation and amortisation / Net sales

Operating profit margin – Operating profit / Net sales

Net profit margin – Net profit / Net 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

Quick ratio – (Current assets – Stocks) / Current liabilities

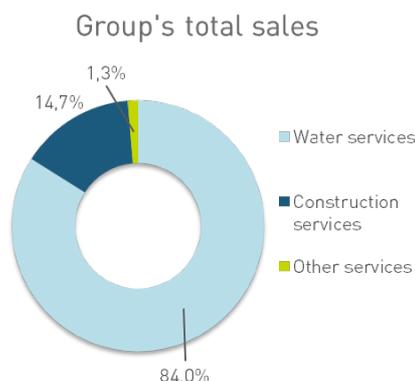
Payout ratio - Total Dividends per annum/ Total Net Income per annum

Main business – water services related activities, excl. connections profit and government grants, construction services, doubtful receivables

Statement of comprehensive income

SALES

The revenues from the main activities, i.e., sales of water and wastewater services, in the 4th quarter of 2022 were impacted by higher rate and also consumption increase in commercial sector. Given Estonia's macroeconomic forecast, we don't expect an increase in the consumption of our water services in next year. In the long run, we do not expect significant changes in the use of water services.



In the 4th quarter of 2022, the **Group's total sales** were €16.03 million, showing an increase of 7.3% or €1.09 million year-on-year. 84.0% of sales comprise of water services within and outside the service area, 14.7% from construction services and 1.3% from other services.

€ thousand	4th quarter			Difference 2022/2021	
	2022	2021	2020	€	%
Water supply service	2,445	2,026	2,061	419	20.7%
Wastewater disposal service	3,603	3,010	3,066	593	19.7%
Total from private customers	6,048	5,035	5,127	1,013	20.1%
Water supply service	2,083	1,901	1,882	181	9.5%
Wastewater disposal service	2,236	1,970	1,932	266	13.5%
Total from commercial customers	4,319	3,871	3,814	448	11.6%
Water supply service	427	414	414	13	3.1%
Wastewater disposal service	937	903	840	34	3.8%
Storm water disposal service	35	77	74	-42	-54.5%
Total from outside service area customers	1,399	1,394	1,328	6	0.4%
Storm water treatment and disposal and fire hydrants service	1,285	1,257	1,016	28	2.2%
Overpollution charges and discharging	403	340	367	63	18.5%
Total from water services	13,454	11,897	11,652	1,556	13.1%
Construction services	2,360	2,759	1,309	-399	-14.5%
Other services	211	275	211	-64	-23.3%
TOTAL REVENUE	16,025	14,931	13,172	1,094	7.3%

Sales from water services were €13.45 million, showing a 13.1% or €1.56 million increase compared to the 4th quarter of 2021, resulting mainly from tariff increase starting from 1st of October 2022. The water tariffs were increased averagely 23% for private customers and 4% for commercial customers. The difference in price increase by customer group was a result of gradual price harmonization between private and commercial customers, a requirement of Public Water Supply and Sewerage Act.

There has been an increase of 20.1% or €1.01 million to €6.05 million in the sales to **private customers**, driven mainly by higher water tariffs effective from 1st of October 2022.

Sales to **commercial customers** within the service area increased by 11.6% to €4.32 million driven also by higher water tariffs since 1st of October 2022. The impact from consumption and tariff change on revenues from commercial customers was +€0.45 million.

Sales from the **operation and maintenance of the stormwater and fire hydrant system in the main service area** amounted to €1.28 million, showing an increase of 2.2% or €0.03 million compared to the same period in 2021.

Sales of **construction services** were €2.36 million, decreasing by 14.5% or €0.40 million year-on-year. The decrease was mainly related to lower pipe construction revenues due to lower volume of contracts won from market.

COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

The **cost of goods and services sold** amounted to €11.50 million in the 4th quarter of 2022, being higher by €1.37 million compared to the equivalent period in 2021. The changes were influenced by higher costs of electricity and staff costs, balanced by lower costs related to construction services.

€ thousand	4th quarter			Difference 2022/2021	
	2022	2021	2020	€	%
Water abstraction charges	-321	-327	-318	6	1.8%
Chemicals	-646	-506	-414	-141	-27.9%
Electricity	-2,672	-1,802	-754	-869	-48.2%
Pollution tax	-153	-297	-198	144	48.5%
Total direct production costs	-3,792	-2,932	-1,684	-860	-29.3%
Staff costs	-2,189	-1,918	-1,933	-271	-14.1%
Depreciation and amortisation	-1,616	-1,482	-1,457	-134	-9.0%
Construction services	-1,945	-2,234	-1,068	289	12.9%
Other costs of goods/services sold	-1,961	-1,561	-1,395	-400	-25.6%
Other costs of goods/services sold total	-7,711	-7,195	-5,853	-516	-7.2%
Total cost of goods/services sold	-11,503	-10,127	-7,537	-1,376	-13.6%

Total direct production costs (water abstraction charges, chemicals, electricity, and pollution tax expenses) amounted to €3.79 million, showing a 29.3% or €0.86 million increase compared to the equivalent period in 2021. Changes in direct production costs came from a combination of changes in prices and in treated volumes as follows:

- **Chemicals** costs increased by 27.9% to €0.65 million, driven mainly by higher usage and higher price of methanol and polymers used in wastewater treatment process. The effect of price increase and higher dosage is worth €0.08 and €0.05 million accordingly. The chemicals price increase is mainly deriving from the geopolitical situation in Eastern Europe.
- **Electricity** costs increased by 48.2% to €2.67 million, driven by averagely 61.6% higher electricity price. Compared to same period in 2021, the electricity expense in wastewater treatment process

was higher by 62.0% and 56.6% higher in the water treatment plant, worth €0.37 million and €0.23 million respectively.

Other costs of goods sold (staff costs, depreciation, construction services related costs and other costs of goods sold) amounted to €7.71 million, having increased by 7.2% or €0.52 million. The increase was mainly influenced by staff costs and other services cost, worth -€0.27 million and -€0.40 million accordingly.

As a result of all above, the **Group's gross profit** for the 4th quarter of 2022 was €4.52 million, showing a decrease of 5.9% or €0.28 million, compared to the gross profit of €4.80 million for the comparative period of 2021.

ADMINISTRATIVE AND MARKETING EXPENSES, OTHER INCOME AND EXPENSES

Administrative and marketing expenses increased by 17.0% or €0.20 million amounting to €1.37 million, compared to 4th quarter of 2021, related to higher salary costs and higher marketing expense.

Other income and expenses amounted to net loss of €0.35 million, compared to net loss of €0.21 million in comparative period.

OPERATING PROFIT

As a result of the factors listed above the Group's **operating profit** for the 4th quarter of 2022 amounted to €2.80 million, being 18.2% or €0.62 million lower than in the corresponding period of 2021.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted in a net expense of €0.35 million, compared to 241.0% lower expense in the 4th quarter of 2021. The numbers derived from increased interest costs due change of Euribor of loan agreements.

As of the 4th quarter of 2022, the whole loan amount of €80.45 million was bearing a floating interest rate. The effective interest rate of loans in the 4th quarter of 2022 was 1.64%, amounting to the interest costs of €0.36 million, compared to the effective interest rate of 0.36% and the interest costs of €0.09 million in the 4th quarter of 2021.

NET PROFIT

The Group's **net profit** for the 4th quarter of 2022 was €2.36 million, being €0.85 million lower than for the comparative period of 2021. The decrease in net profit was impacted by changes in operating profit.

FINANCIAL RESULTS FOR THE TWELVE MONTHS OF 2022

SALES

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

€ thousand	12 months			Variance 2022/2021	
	2022	2021	2020	€	%
Water supply service	8,380	8,097	8,106	283	3.5%
Wastewater disposal service	12,406	12,000	12,048	406	3.4%
Total from private customers	20,786	20,097	20,154	689	3.4%
Water supply service	8,260	7,115	7,209	1,145	16.1%
Wastewater disposal service	8,480	7,299	7,417	1,181	16.2%
Total from commercial customers	16,740	14,414	14,626	2,326	16.1%
Water supply service	1,599	1,631	1,593	-32	-2.0%
Wastewater disposal service	3,525	3,422	3,298	103	3.0%
Storm water disposal service	193	256	291	-63	-24.6%
Total from outside service area customers	5,317	5,309	5,181	8	0.2%
Storm water treatment and disposal and fire hydrants service	4,643	4,010	4,588	632	15.8%
Overpollution charges and discharging	1,403	1,225	1,250	178	14.5%
Total from water services	48,889	45,055	45,800	3,835	8.5%
Construction services	4,809	7,328	5,222	-2,519	-34.4%
Other services	860	911	695	-51	-5.6%
TOTAL REVENUE	54,558	53,294	51,717	1,264	2.4%

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

The **sales to commercial customers** within the service area has increased by 16.1% to €16.74 million. The increase compared to 12 months of 2021 is related to the increase in tariffs averagely 4% in the 4th quarter of 2022 and increase in consumption compared to 2021.

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

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

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

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

COST OF GOODS AND SERVICES SOLD AND GROSS AND OPERATING PROFITS

€ thousand	12 months			Variance 2022/2021	
	2022	2021	2020	€	%
Water abstraction charges	-1,288	-1,281	-1,237	-7	-0.5%
Chemicals	-2,238	-1,822	-1,567	-416	-22.8%
Electricity	-9,234	-4,612	-3,256	-4,622	-100.2%
Pollution tax	-823	-894	-990	71	7.9%
Total direct production costs	-13,583	-8,609	-7,049	-4,974	-57.8%
Staff costs	-8,229	-7,243	-7,247	-986	-13.6%
Depreciation and amortisation	-5,930	-5,725	-5,521	-205	-3.6%
Construction services	-3,802	-5,988	-4,256	2,204	36.8%
Other costs of goods/services sold	-6,116	-5,150	-5,418	-984	-19.1%
Other costs of goods/services sold total	-24,077	-24,106	-22,442	29	0.1%
Total cost of goods/services sold	-37,660	-32,715	-29,491	-4,945	-15.1%

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

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

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

The **Group's gross profit** for the twelve months of 2022 was €16.90 million, showing a decrease of 17.9% or €3.68 million compared to the comparative period of 2021. The **Group's operating profit** for the twelve months of 2022 amounted to €11.32 million, being 39.7% or €7.46 million lower than in the corresponding period of 2021, being mainly impacted by higher electricity and chemicals cost and change of provision for the possible third-party claims that was frozen in Q4 2021. Eliminating the effect of the change of provision for the possible third-party claims the operating profit for 2021 would have been €15.17 million, that is 25.4% higher compared to same period 2022.

FINANCIAL EXPENSES

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

PROFIT BEFORE TAXES AND NET PROFIT

The **Group's profit before taxes** for the twelve months of 2022 was €10.65 million, being 42.1% or €7.75 million lower than for the relevant period of 2021. The **Group's net profit** for the twelve months of 2022 were €8.41 million, being 48.0% or €7.76 million lower than for the equivalent period of 2021. Eliminating the effects of the change of provision for the possible third-party claims the Group's net profit for the twelve months of 2021, the net profit for 2021 would have been €11.7 million, showing a decrease for 2022 by 33.0% or €4.15 million year-on-year.

Statement of financial position

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

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

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

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

Provision for possible third-party claims is at the same level compared to the end of 2021 on €6.02 million. More detailed information about the provision is presented in Note 6 to the financial statements.

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

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

EMPLOYEES

We believe it is important to treat our employees equally, involve them in the decision-making process and to inform them regularly. We consider the involvement of our staff in the decision-making process instrumental for them to understand and be able to support the Company in its pursuits. Our staff can vary to a large degree in age, nationality, nature of work and in many other aspects. This requires us to be resourceful and flexible in our communication with the staff to involve, engage and listen to them. This is done using several means and channels of communication, such as regular staff meetings with the management, bulletin boards, intranet, informative letters, team events and a quarterly internal newsletter. Estonian is not the communication language for quite a number of our staff, therefore we provide the majority of important information also in Russian. Multiple locations have digital screens that are constantly broadcasting the latest information in two languages about what takes place in our company.

As a socially responsible company, we value and develop our employees, by offering them new challenges, whilst also implementing succession planning activities.

In 2022, Tallinna Vesi continued with the Scholarship Program for Students launched in autumn 2021. Through this program, we want to keep motivating students with good results. At the same time, this will give us a chance to promote water sector and attract specialists with fresh expertise to join the Company. In 2022, we continued to work with three trade schools and three universities. In 2022, we launched a Scholarship Program for Employees of Tallinna Vesi to recognize and motivate the employees within the Company who invest in their development by studying at trade schools or universities and thereby creating added value for both the Company and society.

We have described our human resource policies. We follow equality principles in selecting and managing people, which translates into providing, when feasible, everyone with equal opportunities. Understanding and appreciating the diversity of our staff, we ensure, that everyone is treated fairly and equally, and they have access to the same opportunities as is reasonable and practicable. We aim to ensure, that no employees are discriminated against due to, but not exclusive to age, gender, religion, cultural or ethnic origin, disability, sexual orientation or marital status.

We have almost fully returned to normal working arrangements. At the same time, we continue to allow office staff to work remotely. It is important for us to protect the health of our staff, so we offer additional opportunities for vaccination, both against COVID-19 virus and against influenza, tick encephalitis, tetanus, and hepatitis, in accordance with a risk analysis prepared by the company.

We consider it important to develop our staff, which is why we have organised a wide range of training courses for skilled workers, specialists and managers (for example, training on work involving an open flame, training on safe working in confined spaces, training for new managers, etc.).

At the end of the 4th quarter of 2022, the total number of employees was 345 compared to 331 at the end of the same period in 2021. The full time equivalent (FTE) was 333 and 313 respectively. Average number of employees during the twelve months was 342 in 2022 and 333 in 2021 respectively.

By gender, employee allocation was as follows:

Group	As of 31/12/2022			As of 31/12/2021		
	Women	Men	Women	Men	Women	Men
Group	97	248	345	92	239	331
Management Team	12	16	28	13	17	30
Executive Team	3	6	9	5	6	11
Management Board	0	3	3	1	2	3
Supervisory Board	0	9	9	1	8	9

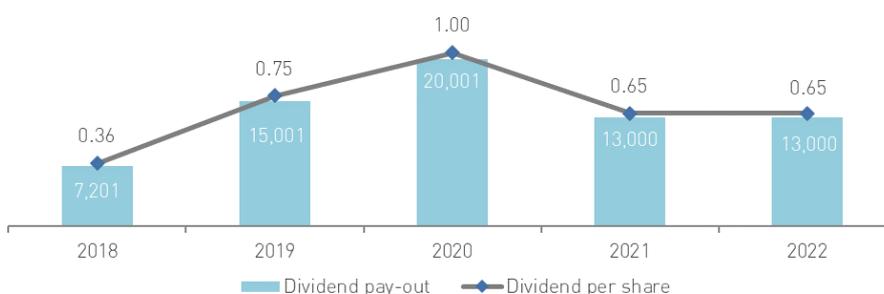
The total salary costs were €2.98 million for the 4th quarter of 2022, including €0.009 million paid to the Management Board and Supervisory Council members (excluding social taxes). The contingent liability in case the Council should want to replace the current Management Board members is €0.15 million.

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

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



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

SHARE PERFORMANCE

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

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

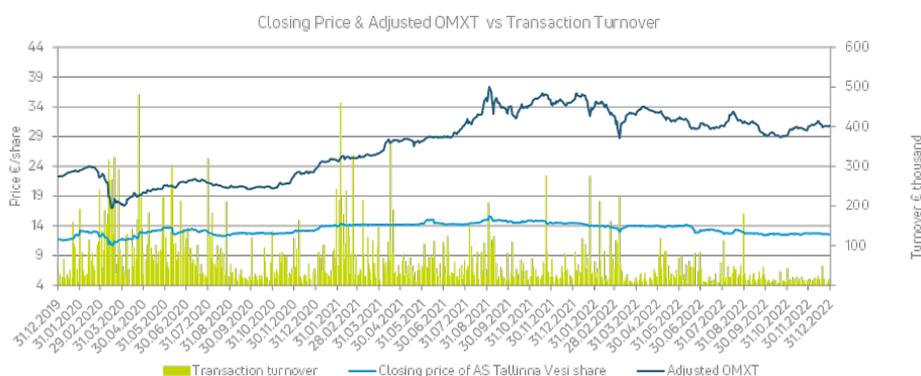
- City of Tallinn (55.06%)
- OÜ Utilitas (20.36%)

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

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

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

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



CORPORATE STRUCTURE

As of 31/12/2022, the Group consisted of 3 companies. The subsidiaries OÜ ASTV Green Energy and Watercom OÜ are wholly owned by AS Tallinna Vesi and consolidated into the results of the Company.

CORPORATE GOVERNANCE

SUPERVISORY COUNCIL

Supervisory Council organises and arranges the management of the Company and supervises the activities of the Management Board. According to the Articles of Association the Supervisory Council members of AS Tallinna Vesi are elected or appointed for three years.

Supervisory Council has established twelve committees to advise Supervisory Council on audit, remuneration and corporate governance matters.

Further information about the Supervisory Council and committees is available in the note 15 to the financial statements as well as on the Company's website:

[About us > Management board > Supervisory council](#)

[About us > Audit committee](#)

[About us > Principles of governance > Corporate governance report](#)

MANAGEMENT BOARD

Management Board is a governing body, which represents and manages AS Tallinna Vesi in its daily operations in accordance with the legal requirements as well as Articles of Association. The Management Board is required to act economically in the most efficient way taking into consideration the interest of the Company and its shareholders and to ensure the sustainable development of the Company in accordance with the set objectives and strategy.

To ensure that the Company's interests are met in the best way possible, the Management Board and Supervisory Council are collaborating extensively. Management Board and Supervisory Council hold a meeting together at least once a quarter. In those meetings the Management Board informs the Supervisory Council about all significant issues in Company's business operations, the meetings discuss delivery of the Company's short and long-term goals as well as the risks that may impact the delivery. Management Board prepares a management report for every Supervisory Council meeting and submits it in advance with sufficient time for the Supervisory Council to study it.

According to the Articles of Association the Management Board consists of 2 or 3 members, who are elected for 5 years.

As of 31/12/2022, there are 3 members in the Management Board of AS Tallinna Vesi: Aleksandr Timofejev (with the powers of a Chairman of the Board until 30/10/2026), Tarvi Thomberg (with the powers of a Management Board Member until 08/11/2026) and Taavi Gröön (with the powers of a Management Board Member until 23/05/2027).

Further information on the members of the Management Board is available on the Company's website: [About us > Management board](#)

Additional information:

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Tarvi Thomberg
Member of the Management Board
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Taavi Gröön
Member of the Management Board
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MANAGEMENT CONFIRMATION

The Management Board has prepared the consolidated interim accounts of AS Tallinna Vesi (the Company) and its subsidiaries OÜ Watercom and OÜ ASTV Green Energy (together the Group) in the form of consolidated condensed financial statements for the 12 months period of financial year 2022 ended 31 December 2022. The interim accounts have not been reviewed by the auditors.

To the best of Management's knowledge, the condensed set of financial statements as at 31 December 2022, 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 and have occurred until the completion of the consolidated financial statements on 27 January 2023 have been considered in preparing the financial statements.

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

Aleksandr Timofejev
Member of the Management Board
Chief Executive Officer

Taavi Gröön
Member of the Management Board
Chief Financial Officer

Tarvi Thomberg
Member of the Management Board
Chief Asset Management Officer

27 January 2023

Introduction and photos of the Management Board members are published at company's web page <https://tallinnavesi.ee/en/ettevotte/management-board/>.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand			as of 31 December
ASSETS	Note	2022	2021
CURRENT ASSETS			
Cash and cash equivalents	3	12,650	36,559
Trade receivables, accrued income and prepaid expenses		8,989	6,637
Inventories		1,197	702
TOTAL CURRENT ASSETS		22,836	43,898
NON-CURRENT ASSETS			
Property, plant, and equipment	4	229,869	211,546
Intangible assets	5	688	729
TOTAL NON-CURRENT ASSETS		230,557	212,275
TOTAL ASSETS		253,393	256,173
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term lease liabilities		883	421
Current portion of long-term loans		3,630	3,630
Trade and other payables		10,225	7,835
Prepayments		3,749	3,604
TOTAL CURRENT LIABILITIES		18,487	15,490
NON-CURRENT LIABILITIES			
Deferred income from connection fees		39,150	37,241
Leases		1,607	1,236
Loans		76,708	80,336
Provision for possible third-party claims	6	6,018	6,018
Deferred tax liability		496	372
Other payables		101	60
TOTAL NON-CURRENT LIABILITIES		124,080	125,263
TOTAL LIABILITIES		142,567	140,753
EQUITY			
Share capital		12,000	12,000
Share premium		24,734	24,734
Statutory legal reserve		1,278	1,278
Retained earnings		72,814	77,408
TOTAL EQUITY		110,826	115,420
TOTAL LIABILITIES AND EQUITY		253,393	256,173

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ thousand	Note	Quarter 4		for the year ended 31 December	
		2022	2021	2022	2021
Revenue	7	16,025	14,931	54,558	53,294
Cost of goods and services sold	9	-11,503	-10,127	-37,660	-32,715
GROSS PROFIT		4,522	4,804	16,898	20,579
Marketing expenses	9	-169	-130	-703	-462
General administration expenses	9	-1,208	-1,047	-4,399	-4,438
Other income (+)/ expenses (-)	10	-347	-209	-476	3,099
OPERATING PROFIT		2,798	3,418	11,320	18,778
Financial income	11	5	1	8	8
Financial expenses	11	-363	-104	-682	-387
PROFIT BEFORE TAXES		2,440	3,315	10,646	18,399
Income tax	12	-85	-108	-2,240	-2,234
NET PROFIT FOR THE PERIOD		2,355	3,207	8,406	16,165
COMPREHENSIVE INCOME FOR THE PERIOD		2,355	3,207	8,406	16,165
Attributable profit to:					
Equity holders of A-shares		2,355	3,207	8,406	16,165
Earnings per A share (in euros)	13	0,12	0,16	0,42	0,81

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year
ended 31
December
2021

€ thousand

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		11,320	18,778
Adjustment for depreciation/amortisation	4,5,9,10	6,817	6,520
Adjustment for revenues from connection fees	10	-544	-510
Other non-cash adjustments	6	0	-3,610
Profit (-) / loss (+) from sale of property, plant and equipment, and intangible assets		-32	-29
Change in current assets involved in operating activities		-2,841	380
Change in liabilities involved in operating activities		309	938
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		15,029	22,467
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant, and equipment, and intangible assets		-20,701	-13,734
Compensations received for construction of pipelines, incl. connection fees		1,593	2,892
Proceeds from sale of property, plant and equipment, and intangible assets		53	29
Interest received		9	11
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-19,046	-10,802
CASH FLOWS USED IN FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl. swap interests		-616	-460
Lease payments		-524	-408
Repayment of loans		-3,636	-3,636
Dividends paid	12	-12,835	-12,842
Withheld income tax paid on dividends	12	-165	-158
Income tax paid on dividends	12	-2,116	-2,116
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-19,892	-19,620
CHANGE IN CASH AND CASH EQUIVALENTS		-23,909	-7,955
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3	36,559	44,514

**CASH AND CASH EQUIVALENTS AT
THE END
OF THE PERIOD**

3

12,650

36,559

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING PRINCIPLES

The condensed consolidated interim financial statements of the Group have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed interim financial statements do not contain all the information presented in the annual financial statements and should be read in conjunction with the Group's latest published annual financial statements as at and for the year ended 31 December 2021. Selected notes are included in interim financial statements to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

NOTE 2. 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 were the same as described in the last annual financial statements as at and for the year ended 31 December 2021, except for estimates addressed below:

- Management has developed estimates on the expected credit losses of trade receivables based on the best available information about past events, current conditions and forecasts of macroeconomic conditions. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2022, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of Estonia in which it sells its goods and services to be the most relevant factors and has accordingly adjusted the historical loss rates based on expected changes in these factors. As at 31 December 2022, Management of the Group has assessed the expected credit loss related to macroeconomic conditions to be €161 thousand. Estimated credit loss is being revised according to further developments.

- Management has made an estimate with regards to possible third-party claims based on the maximum difference between revenues calculated with tariffs established based on the Services Agreement and the tariffs based on the Company's estimation, with the reservation to the possible fluctuation. According to the law, the tariffs established based on the Services Agreement were in force until the Competition Authority approved the new tariffs and the Company implemented these tariffs in line with the law. The Company has acted in good faith and in reliance to the applicable legal acts. Thus, the Company does not consider itself liable to the customers for any claims related to the tariffs applied until the new tariffs approved by the Competition Authority were duly implemented.

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

NOTE 3. CASH AND CASH EQUIVALENTS

€ thousand	as of 31 December	
	2022	2021
Cash in hand and in bank	12,650	36,559
Total cash and cash equivalents	12,650	36,559

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

€ thousand	Land and buildings	Facilities	Machinery and equipment	Construction in progress	Right-of-use assets	Right-of-use assets in progress	Total property, plant and equipment
as of 31 December 2020							
Acquisition cost	26,875	239,412	49,029	8,799	2,793	0	326,908
Accumulated depreciation	-7,677	-76,843	-38,558	0	-1,028	0	-124,106
Net book value	19,198	162,569	10,471	8,799	1,765	0	202,802
Transactions in the period 1 January 2021 - 31 December 2021							
Acquisition in book value	0	0	0	14,782	0	289	15,071
Write off and sale of property, plant, and equipment in residual value	0	0	0	0	-16	0	-16
Reclassification	158	8,846	2,252	-11,529	289	-289	0
Depreciation	-291	-3,800	-1,852	0	-368	0	-6,311
as of 31 December 2021							
Acquisition cost	27,033	247,613	50,819	12,052	2,950	0	340,467
Accumulated depreciation	-7,968	-79,998	-39,675	0	-1,280	0	-128,921
Net book value	19,065	162,615	11,144	12,052	1,670	0	211,546

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 30 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
Net book value	19,356	186,699	15,866	6,151	1,797	0	229,869

Property, plant and equipment and intangible assets are written off, if the conditions of the asset do not enable its further usage for production purposes.

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

NOTE 5. INTANGIBLE ASSETS

€ thousand	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2020			
Acquisition cost	4,582	30	4,612
Accumulated depreciation	-3,983	0	-3,983
Net book value	599	30	629
Transactions in the period 1 January 2021 - 31 December 2021			
Acquisition in book value	0	309	309
Reclassification	250	-250	0
Depreciation	-209	0	-209
as of 31 December 2021			
Acquisition cost	4,831	89	4,920
Accumulated depreciation	-4,191	0	-4,191
Net book value	640	89	729
Transactions in the period 1 January 2022 - 31 December 2022			
Acquisition in book value	0	205	205
Reclassification	203	-203	0
Depreciation	-246	0	-246
as of 31 December 2022			
Acquisition cost	5,023	91	5,114
Accumulated depreciation	-4,426	0	-4,426
Net book value	597	91	688

NOTE 6. 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 privatization of the company. From then on, the tariffs are 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 decreased by 27% and commercial customer tariffs dropped by 15%, on average.

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

NOTE 7. 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's 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 Management Board 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.

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

Revenue by activities

€ thousand	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
Water services				
Water supply service	2,445	2,025	8,380	8,097
Wastewater disposal service	3,603	3,010	12,406	12,000
Total from private customers	6,048	5,035	20,786	20,097
Water supply service	2,083	1,901	8,260	7,115
Wastewater disposal service	2,236	1,970	8,480	7,299
Total from corporate customers	4,319	3,871	16,740	14,414
Water supply service	427	414	1,599	1,631
Wastewater disposal service	937	903	3,525	3,422
Storm water disposal service	35	77	193	256
Total from outside service area customers	1,399	1,394	5,317	5,309
Storm water treatment and disposal service and fire hydrants service	1,285	1,257	4,643	4,010
Over pollution charges and discharging	403	340	1,403	1,225
Total from water services	13,454	11,897	48,889	45,055
Construction services	2,360	2,759	4,809	7,328
Other services	211	275	860	911
Total revenue	16,025	14,931	54,558	53,294

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

NOTE 8. STAFF COSTS

€ thousand	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
Salaries and wages	-2,230	-1,931	-8,499	-7,381
Social security and unemployment insurance tax	-754	-653	-2,873	-2,496
Staff costs total	-2,984	-2,584	-11,372	-9,877
Average number of employees during reporting period	346	334	342	333

NOTE 9. COST OF GOODS AND SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

€ thousand	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
Cost of goods and services sold				
Water abstraction charges	-321	-327	-1,288	-1,281
Chemicals	-646	-506	-2,238	-1,822
Electricity	-2,672	-1,802	-9,234	-4,612
Pollution tax	-153	-297	-823	-894
Staff costs	-2,189	-1,918	-8,229	-7,243
Depreciation and amortization	-1,616	-1,482	-5,930	-5,725
Construction services	-1,945	-2,234	-3,802	-5,988
Other costs	-1,961	-1,561	-6,116	-5,150
Total cost of goods and services sold	-11,503	-10,127	-37,660	-32,715
Marketing expenses				
Staff costs	-150	-112	-625	-398
Depreciation and amortization	-1	0	-5	0
Other marketing expenses	-18	-18	-73	-64
Total marketing expenses	-169	-130	-703	-462
Administrative expenses				
Staff costs	-645	-554	-2,518	-2,236
Depreciation and amortization	-106	-81	-375	-320
Other general administration expenses	-457	-412	-1,506	-1,882
Total administrative expenses	-1,208	-1,047	-4,399	-4,438

NOTE 10. OTHER INCOME/EXPENSES

€ thousand	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
Connection fees	138	131	544	510
Depreciation of single connections	-128	-121	-507	-475
Doubtful receivables expenses (-) / expense reduction (+)	-119	-14	-15	-84
Provision for possible third-party claims (Note 6)	0	0	0	3,610
Other income (+)/expenses (-)	-238	-205	-498	-462
Total other income / expenses	-347	-209	-476	3,099

NOTE 11. FINANCIAL INCOME AND EXPENSES

€ thousand	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
Interest income	5	1	8	8
Interest expense, loan	-357	-96	-650	-360
Other financial income (+)/expenses (-)	-6	-9	-32	-27
Total financial income / expenses	-358	-104	-674	-379

NOTE 12. DIVIDENDS

€ thousand	for the year ended 31 December	
	2022	2021
Dividends declared during the period	13,000	13,000
Dividends paid during the period	12,835	12,842
Withheld income tax on dividends	165	158
Income tax on dividends paid	2,116	2,116
Dividends declared per shares:		
Dividends per A-share (in euros)	0.65	0.65

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

NOTE 13. EARNINGS PER SHARE

€ thousand	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
Net profit minus B-share preferred dividend rights	2,359	3,207	8,410	16,165
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20,000,000	20,000,000	20,000,000	20,000,000
Earnings per A share (in euros)	0,12	0,16	0,42	0,81

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

NOTE 14. RELATED PARTIES

Transactions with related parties are considered to be transactions with members of the 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

Balances recorded on the statement of financial position of the Group

€ thousand	2022	as of 31 December 2021
Accounts receivable	1,309	129
Prepayments for services	0	575
Trade and other payables	61	24

Transactions	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
€ thousand				
Revenue	1,593	1,607	5,791	4,855
Purchase of thermal energy	41	32	126	37
Purchase of legal service	54	0	54	0
Purchase of administrative and consulting services	0	0	0	583

Fees to the Group's Management and Supervisory Board members

€ thousand (excluding social tax)	Quarter 4		for the year ended 31 December	
	2022	2021	2022	2021
Fees for Management Board	72	47	313	220
Supervisory Board fees	9	9	38	37

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

The Group's Management Board members are elected for 5 (five) years and Supervisory Board members for 3 (three) years. Stock exchange announcement is published about the change in Management and Supervisory Board.

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

Company shares belonging to the Management Board and Supervisory Board members

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

NOTE 15. LIST OF SUPERVISORY BOARD MEMBERS

Priit Koit	Chairman of the Supervisory Council
Priit Lello	Vice Chairman of the Supervisory Council
Allar Jõks	Member of the Supervisory Council
Robert Kitt	Member of the Supervisory Council
Andrei Korobeinik	Member of the Supervisory Council
Mart Mägi	Member of the Supervisory Council
Niall Patrick Mills	Member of the Supervisory Council
Priit Rohumaa	Member of the Supervisory Council
Silver Tamm	Member of the Supervisory Council

Introduction of Supervisory Board members is published at company's web page

<https://tallinnavesi.ee/en/ettevote/management-board/supervisory-council/>.