AS TALLINNA VESI

Annual Report 2019

Tallinna Vesi

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1. CHAIRMAN'S STATEMENT

Overall, 2019 was an excellent year for Tallinna Vesi. Besides exemplary financial and operational results, the year brought several challenges and changes we had to adapt to, providing a great chance to demonstrate the strength of the Company. Despite those challenges, we continue to deliver excellent performance.

LONG ROAD TO NEW TARIFF

In June 2019, the International Arbitration Tribunal made a decision on the claim of Tallinna Vesi and United Utilities (Tallinn) B.V. against the Republic of Estonia. Unfortunately, the majority of the Arbitration Tribunal decided to dismiss the claim made by Tallinna Vesi and United Utilities Tallinn B.V. The final decision was disappointing, especially given the time elapsed since the hearings back in November 2016.

At the beginning of the 4th quarter, we received important news from the Competition Authority, which stated they had approved the Company's tariff application. This was another significant milestone in the tariff dispute, which in effect brought things to a conclusion, along with the associated legal challenges. The Company has been operating with the newly approved tariffs since December 2019.

Tallinna Vesi will remain focused on providing an excellent service to its customers and will adapt quickly to the new regulation principles.

STRONG FINANCIAL POSITION

Tallinna Vesi´s financial results continued to be excellent in 2019. The following report will describe the results and changes in further detail, but we witnessed positive changes in the revenues, along with an associated increase in EBITDA and net profit.

Tallinna Vesi´s subsidiary Watercom also delivered great results, outperforming the previous year results. The role of non-regulated business Watercom, will become increasingly important in counteracting some of the effect of the new regulatory regime.

In November, Tallinna Vesi repaid its long-term loan in a total amount of €37.5 million to Nordea Bank, and entered into the new loan contract in the amount of €37.5 million with Nordic Investment Bank to finance the ongoing investment program. This successful refinancing resulted in an overall decrease in loan interest risk margins.

CONSISTENTLY GOOD OPERATIONAL PERFORMANCE

Our operational performance was good in 2019. Once again, we managed to achieve further improvements with respect to our individual performance measures, in both water and wastewater treatment, whilst providing a continuous supply of quality services to our customers and end consumers.

The quality of drinking water also remained very high in our service area during 2019. However, we did witness some minor changes in the sampling results. Whereas the quality of drinking

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water leaving the Water Treatment Plant continues to be excellent, the results of samples taken from the customers' taps were slightly lower in comparison with the results of 2018, resulting from the introduction of a new analytical water quality test, with much higher sensitivity. As a consequence of those tests, Tallinna Vesi has made further developments in the water network, and further enhanced the effectiveness of ongoing maintenance regimes to ensure a consistent supply of high-quality drinking water.

We value water as one of the most important natural resources, which must not be wasted. Once again, we were very proud to achieve further reductions in leakage, setting another record for the Company that is comparable with the best performing water companies in Europe. Achieving such a result is not easy, and is directly attributable to the continuous investments made into the network as well as to the effectiveness of our repair and maintenance regimes, especially when emergencies arise.

Environmental awareness is fundamental in everything we do, in ensuring the appropriate management and conservation of our wider catchment area as well as in operating our Wastewater Treatment Plant at Paljassaare. Throughout 2019, the final treated effluent leaving the plant at Paljassaare was fully compliant with all legal requirements. To further ensure the continued effectiveness of our wastewater treatment process, Tallinna Vesi signed a contract in December 2019 for the partial reconstruction of the mechanical treatment equipment at the Wastewater Treatment Plant. The total cost of the project will be €7.6 million, with planned completion in the 4^{th} quarter of 2022.

FURTHER IMPROVED ENVIRONMENTAL AWARENESS

In the annual customer survey, as many as 90% of the end consumers stated that they drink tap water in preference to bottled water. People's environmental awareness has been gradually increasing over the years, and continues to be topical in the wider community and media. Our contribution to improving environmental awareness is significant, and we continue to organise bespoke campaigns, and working closely with kindergartens, schools and the local communities. Tallinna Vesi has also for years partnered with event organisers to provide free drinking water for the participants. These efforts were recognised externally at the Estonian Waterworks Association´s annual event, where Tallinna Vesi received the Award "Water deed of the year".

In order to ensure the reliability of service for our consumers, we made several large targeted investments in the water and wastewater networks during 2019, the best examples of which are the reconstruction of water and wastewater network in Gonsiori and Reidi streets, in the vicinity of Tallinn Airport and in several other locations across the city.

EXCELLENT CUSTOMER SERVICE

As a provider of vital services to over one third of Estonia's population, it is crucial that we maintain very high standards in customer service. Each year, an extensive customer satisfaction survey is carried out by the independent research company Kantar Emor. The results of the survey map the current satisfaction level of both our contractual customers, and end consumers, who pay indirectly via housing associations and landlords. Once again, we are witnessing high levels of customer satisfaction – Tallinna Vesi is valued as a professional partner. We will

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continue to make further improvements in this area, and will adopt new and innovative technology where possible, to enhance and simplify customer interaction.

OUTLOOK FOR 2020

Our most important task is to provide a reliable and secure service to our customers and this is something we will never compromise. During 2020, we will continue to work closely with our various stakeholders and the wider community. Challenging objectives have been set for the year ahead, to ensure we continue to deliver an exceptional service to our water and wastewater customers.

We continue to encourage the growth of the Company's subsidiary Watercom. 2019 was a very successful year in Watercom's history, in terms of external sales and margin performance, something which the subsidiary hopes will continue in the future, as they continue to increase their market share in appropriate external sectors.

Tallinna Vesi is monitoring the ongoing outbreak of the Coronavirus (COVID-19) carefully as it evolves, to understand and mitigate where possible, the potential impact on its employees and the wider business. Based on the current position, there may be an impact on future commercial consumption, and customer's ability to pay bills on time. This situation is changing daily, and there could be other unforeseen business impacts. Tallinna Vesi is taking all necessary steps to protect the welfare of its employees, and ensure a continued service to its customers.

Finally, I would like to thank my colleagues in Tallinna Vesi, Watercom and United Utilities, and all our suppliers and business partners for their continued support and helping the company to deliver such exceptional performance during 2019.

Karl Heino Brookes

Chairman of the Management Board

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2. OUR COMPANY

Tallinna Vesi is the largest water utility in Estonia, providing drinking water and wastewater disposal services to nearly one third of Estonian population. We serve over 23,600 private customers and businesses and over 450,000 end consumers in Tallinn and its surrounding areas: City of Maardu, City of Saue and small town of Harku. As of 31 December 2019, Tallinna Vesi employed 325 people.

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

We have two main treatment plants, Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant. Every day, we treat an average of 67,000 m^3 of water and 130,000 m^3 of wastewater in our plants. Tallinna Vesi also has an accredited water laboratory and an accredited wastewater laboratory.

Tallinna Vesi was privatised in 2001 and based on the Services Agreement signed with the City of Tallinn upon privatisation, the Company is required to fulfil 97 levels of services. The current Services Agreement is effective until 30 November 2025 as per the exclusive right to provide water and wastewater services in Tallinn.

The public water supply system comprises more than 1,180 km of water pipes, 22 water pumping stations and 45 ground water pumping stations with 91 boreholes. The catchment area in Harju and Järva Counties covers around 1,800 km^2. The public sewerage system comprises more than 1,170 km of wastewater network, 513 km of stormwater network and 180 wastewater and stormwater pumping stations across the service area.

Tallinna Vesi Group consists of two companies. Tallinna Vesi is listed on Nasdaq Baltic market. As of 31 December 2019, Tallinna Vesi's shareholders, with a direct holding over 5% were United Utilities (Tallinn) B.V. and the City of Tallinn.

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

Watercom OÜ is wholly owned by Tallinna Vesi and consolidated to the results of the Group (hereinafter referred to as Group). The Group structure has remained unchanged in the past few years.

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Tallinna Vesi
Loome puhta veega parema elu!

OUR MAIN PRODUCTS AND SERVICES

- Collection, treatment and supply of water
- Collection, treatment and disposal of wastewater and stormwater
- Design works
- Owner supervision and project management
- Water and wastewater services
- Laboratory services
- Pipe construction works
- Transportation services and road construction

OUR MISSION AND VISION

We have a responsibility to supply very high-quality drinking water to consumers, ensure service reliability and to collect and treat wastewater and stormwater in an environmentally responsible way.

OUR MISSION

We create a better life with pure water.

OUR VISION

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

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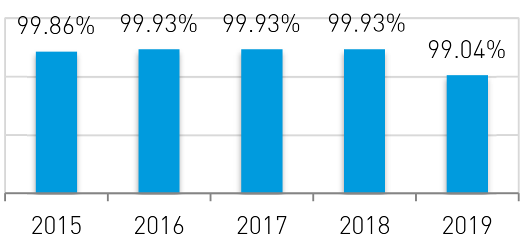
3. OUR PERFORMANCE IN 2019

3.1 Operational highlights in 2019

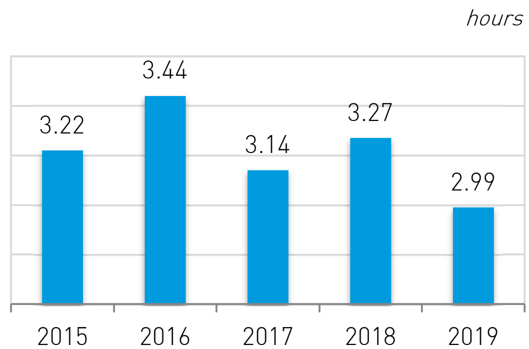
WATER QUALITY

Water quality continues to be high. Professional operating of the treatment plant and professional and efficient oversight of the processes allows us to guarantee consistent and improved water quality. Slight decrease in 2019 was related to the new and more sensitive analysis method implemented.



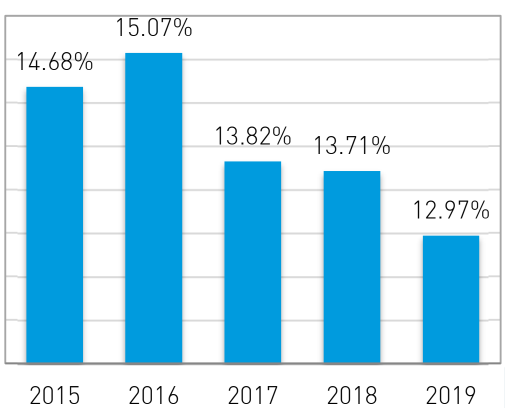
AVERAGE INTERRUPTION TIME PER PROPERTY IN HOURS

Our aim is to provide high-quality drinking water to all our customers and keep the water interruption time as short as possible. Our target is to have no water interruptions lasting longer than 3.5 hours on average. In 2019, we were once again able to decrease the average time of water interruptions.



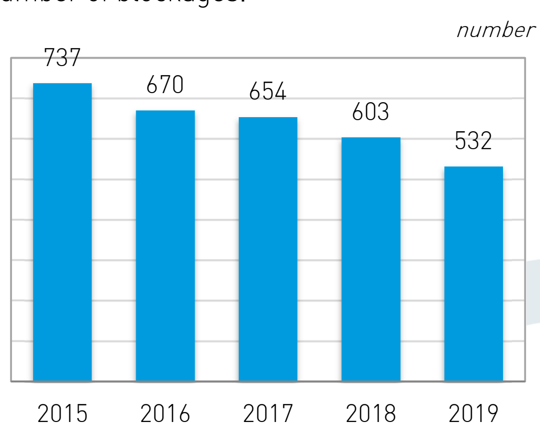
LEAKAGE LEVEL IN WATER NETWORK

Leakage level has been low for several consecutive years, which is the result of continuous monitoring of the state of our network and a good maintenance plan.



NUMBER OF SEWER BLOCKAGES

Proactive jet washing has resulted in a lower number of blockages.



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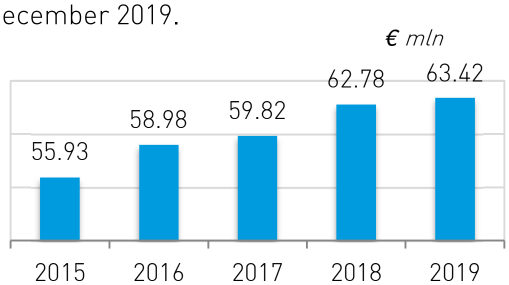
3.2 Financial highlights in 2019

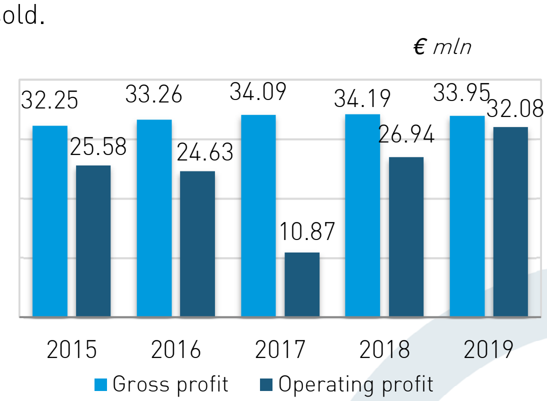
SALES

The sales have increased by 1.0% or €0.64 million. The increase was attributable to higher water services revenues from outside service areas, accompanied by higher sales from stormwater treatment and disposal and fire hydrant services and overpollution charges. Higher revenues were partly balanced by lower sales from water and wastewater services in the main service area due to the new tariff being applied from 1 December 2019.



GROSS AND OPERATING PROFIT

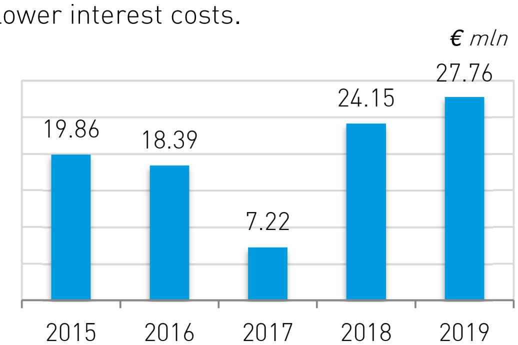
The gross profit decreased by 0.7% or €0.23 million to €33.95 million. The decrease was related to higher electricity, staff and depreciation costs and pollution tax expenses. It was balanced by higher water services revenues and higher profit from construction services, accompanied by lower other costs of goods and services sold.



The operating profit increased by 19.1% or €5.14 million to €32.08 million. The increase was mainly impacted by a positive change in the provision formed for possible third-party claims (more information on the provision related to possible third-party claims can be found in Note 15), which was balanced by the additional legal costs resulting from the ICSID award, which ordered the Company to pay 25% of Estonia's legal costs relating to the arbitration procedure.

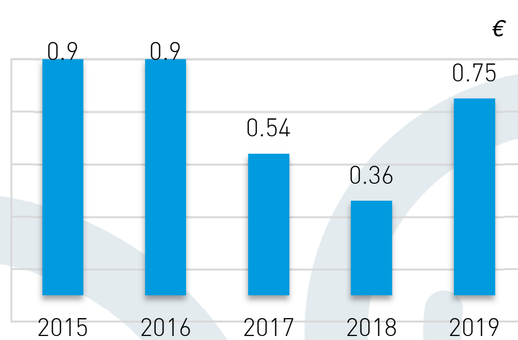
NET PROFIT

The net profit increased by 14.9% or €3.61 million to €27.76 million. In addition to the changes above it was impacted by lower financial expenses mainly in relation to lower interest costs.



TOTAL DIVIDEND PER SHARE PAY-OUT

Total dividends per share pay-out from 2018 net profit was €0.75 per share, which is equal to 62.1% of earnings per share in 2018.



3.3 Highlights of the year

BIGGEST INVESTMENT OF THE DECADE

In order to ensure a consistent reliability of wastewater treatment going forward, Tallinna Vesi signed a contract for a partial reconstruction of the mechanical treatment equipment at the Wastewater Treatment Plant. With a total cost of €7.6 million, it is the biggest recent investment of Tallinna Vesi.

AVAILABLE TAP WATER

To make tap water available in the public space, Tallinna Vesi continued constructing public drinking water fountains across the city.

SUCCESSFUL REFINANCING

In 2019, Tallinna Vesi repaid its long-term loan to Nordea Bank and entered into the new loan contract with Nordic Investment Bank to finance the investment program. This resulted in a decreased average loan interest risk margin for Tallinna Vesi.

RAISING PUBLIC AWARENESS

One of our objectives is to improve our customers' awareness. For this purpose, we welcomed a large number of visitors during the Open House Day events at Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant and participated in several public events.

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WATER DEED OF THE YEAR

Tallinna Vesi achieved the highest recognition in one category in the Estonian Waterworks Association´s annual awards event, winning the first prize in "Water deed of the year" category. The award was given to Tallinna Vesi for consistent work in supporting public community events with free drinking water.

TARIFF APPLICATION

After a long preparation period, Estonian Competition Authority finally approved the new water tariffs in October 2019 on the basis of Tallinna Vesi's application. Tallinna Vesi started applying the new tariffs from 01/12/2019 onwards.

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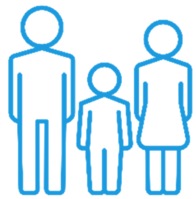
SUPPORT TO THE LOCAL COMMUNITY

During 2019, we also continued to support the wider community and provided support to a number of organisations, good causes and charities, including:



- Years of cooperation with and support to the Estonian Disabled Athlete Sports Association
- Assistance to the Kindergarten Õunake for disabled children
- Support to Ristiku Elementary School for children with learning disabilities
- A donation made to the Anti-bullying Foundation, aimed at making Estonian schools free of bullying
- Engagement with SPIN project to engage youth with sports and healthy lifestyle
- Supply of high-quality drinking water to several community and sports events, including the biggest public event in Estonia – National Song and Dance Festival
- Supporting the Estonian National Opera
- Continued environmental education programmes, in co-operation with educational institutions and kindergartens.

WATERCOM´S CONTINUED SUCCESS

Watercom improved its position in several TOP-lists compiled by the business daily Äripäev. Watercom was high up in the list of successful infrastructure construction companies (8th place) as well as construction companies (25th place).

NEW SELF-SERVICE

In 2019, the self-service portal on Tallinna Vesi´s website was updated, to support the strategic objective of directing more and more customers to convenient and modern self-service channels.

4. STRATEGY

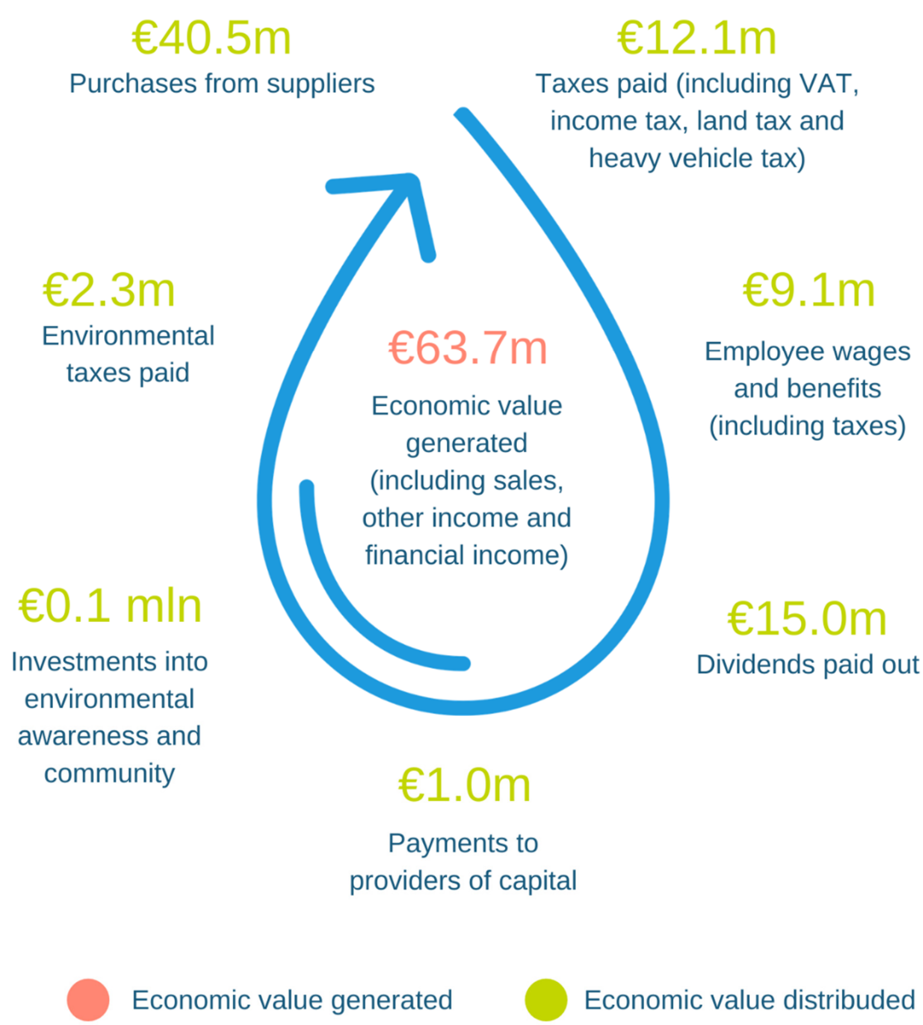
4.1 How we create value

We create a better life with pure water, through commitment. We work tirelessly and passionately to achieve the company's goals and objectives.

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

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

BREAKDOWN OF THE VALUE GENERATED AND DISTRIBUTED BY THE COMPANY



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HOW WE DELIVER VALUE TO DIFFERENT STAKEHOLDERS

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

DELIVERING SOCIAL VALUE

Customers

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

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

Employees

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

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

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

Community

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

DELIVERING ENVIRONMENTAL VALUE

Quality and environment

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

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

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Environmental awareness

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

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

DELIVERING ECONOMIC VALUE

Investors

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

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

Partners

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

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

4.2 Strategic objectives in 2018-2022

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

Operational Excellence	Satisfied Customers and Community	Professional and Committed Employees	Sustainable Financial Performance	Sustainable Growth of Watercom

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OPERATIONAL EXCELLENCE

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

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

To achieve Operational Excellence, we need to:
- Invest into assets in a timely manner
- Adopt sustainable practices and best technologies

SATISFIED CUSTOMERS AND COMMUNITY

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

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

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

To ensure the customers and community are satisfied, we need to:
- Deliver on our promises
- Simplify and reduce the need for interaction

PROFESSIONAL AND COMMITTED EMPLOYEES

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

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

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

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

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

- Create a positive health and safety culture
- Plan succession in a systematic manner
- Develop a motivating working environment

SUSTAINABLE FINANCIAL PERFORMANCE

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

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

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

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

- Maintain a sustainable revenue stream
- Ensure strong capital structure
- Deliver shareholder value

SUSTAINABLE GROWTH – WATERCOM

We keep looking for ways to increase shareholder value by ensuring the growth of Watercom.

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5. OPERATIONAL RESULTS OF 2019

5.1 Ensuring quality of our services

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

In 2019, the company had one minor non-compliance related to wastewater disposal, but in many instances we still continued to outperform all contractual levels of service. For example, one requirement is to have the level of leakages below 26%, whereas the actual level achieved by the Company in 2019 was 12.97% (2018: 13.71%). Also, water quality remained high, being 99.04% (2018: 99.93%) against the contractual target of 95%.

Besides the 97 levels of service, the Services Agreement requires us to comply with the following management systems:

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

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

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

In recent years, the activity of the Company and its management systems fully complied with all applicable quality, environmental, occupational safety and working environment standards and systems as well as legal requirements. Such compliance is regularly monitored via internal audits and was confirmed via the external audit undertaken by AS Metrosert.

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

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UNINTERRUPTED SERVICES

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

Our target each year is to fulfil all the 97 service levels as set out in the Services Agreement. In 2019, the Company had one failure regarding the levels of service. We are committed to notify our customers on time of the planned works that may impact the service. We give an advance notice to all customers affected by a planned interruption 5 days before it takes place. In 2019, we managed to deliver that objective almost 100%, however, in one case the notice, which had been sent to the customers, was incorrect about the time of interruption.

Among the 97 levels of service there is also one concerning the duration of unplanned interruptions. Therefore, we make continuous efforts to provide uninterrupted services to our customers and minimise the duration of unplanned interruptions. Last year we had no unplanned interruptions lasting longer than 12 hours. One of the targets we set for 2019 was to keep 86% of unplanned interruptions to water supply under five hours. The interruptions that last long cause more discomfort for customers, thus we strive to keep the interruptions as short as possible whilst repairing water bursts. We managed to meet that target – 88% of the interruptions lasted less than five hours. Average duration of interruptions in 2019 was 2 hours and 59 minutes (3 hours and 16 minutes in 2018).

Interruptions entail unexpected discomfort, which is why we have prepared measures to alleviate the situation for our customers. In case of interruptions, we employ the measures to mitigate the inconveniences resulting from an interruption to the service. For instance, if needed, we provide our customers with temporary water tanks. Furthermore, we were able to notify the customers in advance of any unplanned interruptions in 96.2% of the events (2018: 95.2%).

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

In 2019, the investments in our main water treatment infrastructure amounted to €1,548 thousand (€1,861 thousand in 2018), amongst which the largest projects were the reconstruction of clarifiers and a reservoir. €603 thousand was invested in wastewater treatment (€350 thousand in 2018), including the reconstruction of Härjapea pumping station. Key investments in water supply and wastewater networks were the reconstruction of the networks on Gonsiori, Reidi tee, Lennujaama tee, Pae, Saturni, Rannamõisa tee, Valdeku, Nurme and Merimetsa streets. The total level of investments in water and wastewater network was €5,142 thousand (€5,008 thousand in 2018). The cost of new connection points was €8,031 thousand in 2019 (€2,771 thousand in 2018).

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DRINKING WATER QUALITY

Tallinna Vesi provides water service to nearly one third of Estonian population. We recognise the significant responsibility we have to bring high-quality drinking water to each of our consumers. The quality of drinking water affects the quality of life and health of all our consumers including partners and investors, which makes ensuring the stable supply of high-quality water at the customers' taps our highest priority. To achieve our water quality objective, we carry out the flushing programme, monitor the quality of water leaving the Water Treatment Plant and take regular samples from the customers' taps.

The quality of drinking water is subject to strict legal requirements. The quality must comply with Regulation No 61 "Quality and control requirements and analysis methods for drinking water", issued by the Minister of Social Affairs on the basis of the Estonian Water Act and the European Drinking Water Directive 93/83/EC. The regulation was renewed in September 2019 and among other changes, the limit values of residual chlorine were increased to further safeguard the quality of water.

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

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

The quality of drinking water in Tallinn remains very good. In 2019, we took a total of 3,006 samples across the service area (2018: 2,977). The quality of drinking water taken from the customers' taps was 99.04% (2018: 99.93%) compliant with the requirements, which was somewhat lower in comparison with the result of last year. Whereas the quality of drinking water leaving the Water Treatment Plant continues to be excellent, the slight drop in the water quality at customers' taps is attributable to the changed analytical methods used by laboratory. The new analytical method is significantly more sensitive, which provides the water company with much more accurate information than before.

As a result of those tests, Tallinna Vesi has made further developments in the water network and improved the effectiveness of maintenance system in order to ensure consistent supply of high-quality drinking water.

We have a separate laboratory unit, which has been accredited by the Estonian Accreditation Centre since 2001. The laboratory unit consists of a water and microbiology laboratory at Ülemiste Water Treatment Plant and a wastewater laboratory at Paljassaare Wastewater

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Treatment Plant. Water analyses are made in our water and microbiology laboratory, which is also one of the largest laboratories in Estonia. The quality of analyses is guaranteed by the attested samplers, accredited quality management system (ISO 17025) and modern equipment, as well as the professional staff who enable us to offer a wide range of services also externally. Water quality is independently monitored by the Northern Services of the Health Board and the Supervisory Foundation for Water Companies in Tallinn. Our laboratories are supervised by the Estonian Accreditation Centre.

Our accredited water laboratory and our accredited wastewater laboratory conduct approximately 150,000 analyses per annum, out of which about 2/3 are chemical and microbiological analyses of drinking water and 1/3 is chemical analyses of wastewater.

Water	2019	2018	2017	2016	2015
Compliance of water quality at the consumers' taps	99.04%	99.93%	99.93%	99.93%	99.86%
Leakages in the water network	12.97%	13.71%	13.82%	15.07%	14.68%
Average duration of water interruptions per property in hours	2.99	3.27	3.14	3.44	3.22

5.2 Environment

ENVIRONMENTAL COMPLIANCE

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

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

We act in accordance with the requirements of the environmental permits issued to us and comply with the precepts issued by the Environmental Board. The following environmental permits have been issued to Tallinna Vesi:

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- 4 permits for the special use of water;
- 2 waste permits;
- 2 ambient air pollution permits.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

In order to keep our main activities operational, we must rely on resources that have an environmental impact. The Company's core activity is highly dependent on the use of electricity. We continue striving for higher efficiency in our electricity consumption. For instance, we are maximizing the use of biogas, which is a product of sludge digestion process, in local heat production. To reduce ambient air pollution, the Company is limiting the amount of pollutants emitted from Ülemiste and Paljassaare boiler houses, such as nitrogen dioxide, carbon monoxide, volatile organic compounds and CO_2 greenhouse gas emissions.

A more detailed overview of our environmental performance is provided in our environmental report. The environmental report is available for reading on Tallinna Vesi's website. The 2019 environmental report is due to be released in the first half of 2020 and will then be up on the Company's website. In 2019, the Company did identify one non-compliance against the water permit requirements due to an incident, where a small amount of wastewater was spilled into the environment during maintenance work in a pumping station. To compensate for the damages caused to the environment, the Company paid the pollution tax on the basis of the volume and pollutant concentration in the wastewater spilled. Besides that, a review of the company procedures regulating the maintenance of pumping stations followed in order to prevent similar occurrences in the future.

SUSTAINABLE USE OF WATER

6 CLEAN WATER AND SANITATION

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

Ground water is a limited and slowly renewable natural resource, which is the reason why we have gradually been reducing the share of ground water in water treatment, thus serving the purpose of sustainable use of water. About 10% of consumers use regional ground water and 90% of drinking water is produced from surface water, with Lake Ülemiste as the main source for the residents of Tallinn, leading it to be declared a non-public water body.

Surface water: 25,000 th. m^3 (2018: 24,306 th. m^3)
Ground water: 2,680 th. m^3 (2018: 2,656 th. m^3)

Lake Ülemiste has an extensive surface water catchment system, serving also as a source for additional water during dry periods. In 2019, the Water Treatment Plant produced an average of 65,733 m^3 of water per day (2018: 63,300 m^3). That quantity has been relatively stable over the years. Average water consumption per capita in Tallinn has also been relatively stable over the years, at around 90-95 litres per day.

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

About ten years ago the level of leakages exceeded 32%, while in 2019, the level of leakages was 12.97% (2018: 13.71%). This is the best result in the Company's history. The reduction in the level of leakages has been facilitated by our consistent efforts to use the water resource sustainably and with lower losses. To achieve this result, we have acquired new equipment for faster detection and enhanced remote inspection. Detecting and fixing leakages as fast as possible and regular preventive action continue to contribute further to the reduction in leakages levels.

WATER TREATMENT PROCESS AT ÜLEMISTE WATER TREATMENT PLANT

RAW WATER
Water from the lake is pumped into the plant.

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

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

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

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

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

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EFFLUENT QUALITY

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

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

In 2019, 49.7 million m^3 of wastewater (2018: 43.9 million m^3) was treated and discharged into the Baltic Sea.

The quality of effluent discharged into the sea is established by legal acts and water permits. The concentration of pollutants in wastewater taken into the treatment plant and in the effluent leaving the plant are monitored in order to assess the efficiency of the treatment process and the quality of effluent. The wastewater laboratory carries out analyses at different wastewater treatment stages. Such results provide essential information allowing us to further improve the efficiency of the treatment processes and the quality of effluent.

Compared to regulatory requirements the treatment efficiency of Paljassaare Wastewater Treatment Plant outperformed all parameters in 2019:

	REQUIREMENT	2019	2018
Biological oxygen demand (BOD)	80%	97%	98%
Chemical oxygen demand (COD)	75%	91%	92%
Suspended solids	90%	97%	98%
Total nitrogen (N_{tot})	80%	85%	86%
Total phosphorus (P_{tot})	80%	92%	93%
Oil products	75%	85%	82%

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

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sewage. Under such circumstances and to avoid major damages, we are, from time to time, forced to discharge sewage into the sea or to open emergency outlets to conduct highly diluted wastewater into the sea.

During heavy showers in 2019, we were compelled to open the emergency outlets in the main pumping station 3 times (2018: 2 times), all for a short period of time, in order to avoid major damages. A total of 80,135 m^3 (2018: 154,673 m^3) of wastewater diluted by stormwater (dilution at least ¼) was discharged into the sea during those events.

13 CLIMATE ACTION

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

A series of investments have been planned over the next years that will provide additional security and minimise the risk of any future pollution incidents. In 2019, the Company signed a contract for the partial reconstruction of the mechanical treatment process stage at the Wastewater Treatment Plant in Paljassaare. The reconstruction mainly focuses on increasing the reliability of the mechanical treatment stage within the wastewater treatment process. The planned timeline for completion of the project is Q4 2022.

WASTEWATER TREATMENT PROCESS AT PALJASSAARE WASTEWATER TREATMENT PLANT

MAIN PUMPING STATION

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

MECHANICAL TREATMENT

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

BIOLOGICAL AND CHEMICAL TREATMENT

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

TREATED EFFLUENT PUMPING STATION

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

SLUDGE TREATMENT

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

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Wastewater	2019	2018	2017	2016	2015
Number of sewer blockages	532	603	654	670	737
Number of sewer bursts	103	88	135	107	127
Compliance of effluent leaving Wastewater Treatment Plant	100%	100%	100%	100%	100%

5.3 Objectives: operational performance

OPERATIONAL OBJECTIVES OF 2019	
No cases of non-compliance with levels of service agreed in the Services Agreement	Not achieved
Leakage level in the water network is less than 14%	Achieved
100% compliance with water permit requirements	Not achieved
≥ 86% of water interruptions last ≤ 5 hours	Achieved
≥ 95% of sludge is recycled at the budgeted level	Achieved
OPERATIONAL OBJECTIVES OF 2020	
Cases of non-compliance with levels of service agreed in the Services Agreement	0
Leakage level in the water network	≤13.75%
Cases of non-compliance with water permit requirements	0
% of unplanned water interruptions that last ≤ 5 hours	≥87%

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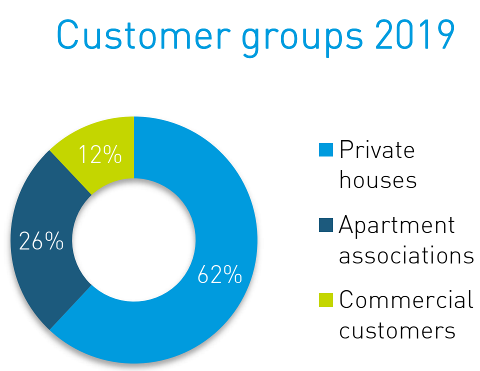
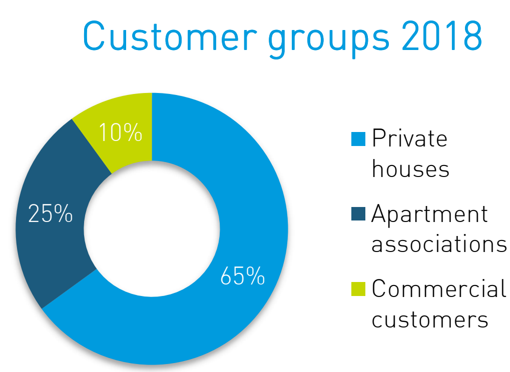
5.4 Our customers

We provide water supply and sewerage services to over 23,000 contractual customers and approximately 450,000 end consumers in Tallinn and surrounding areas. We are responsible for serving almost one third of the Estonian population with reliable and high-quality water supply and sewerage services. Over the years, the proportions of our customer groups have remained relatively stable.





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

Our responsible customer service is primarily represented in three activities: proactive communication, consistent monitoring of complaints and issues and specific promises related to ensuring the availability of service and providing information.

2019 saw slight changes made to the doses of chlorine being added to drinking water, which have led to a somewhat higher number of customer contacts related to the water quality. At the same time, the number of customer requests concerning water pressure and sewer blockages has remained almost the same as previous year. Also, customer complaints stayed stable – variance compared to the years 2015-2017 is attributable to the change made to the methodology of categorising complaints. We managed to respond to all customer contacts in accordance with the standards established in the Company.

We have implemented a unique system of promises, which means that if we fail to keep our promises, we automatically pay compensation to our customers. In 2019, we failed to keep our promises in 141 cases [2018: 33]. Those cases were related to 7 individual events. In five of those cases, the contractor was unable to restore the water supply at the time promised, in one case our employee was late for a customer appointment, and in another case the customers were given a wrong date in the advance notice about a water interruption. We analysed each of the cases in detail and paid compensation to the customers.

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Tallinna Vesi
Loome puhta veega parema elu!

OUR PROMISES TO CUSTOMERS:

We deliver high-quality water

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

We keep the environment safe

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

We quickly respond to our customers' requests

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

We are accurate in billing

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

We keep to our agreements

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

Customer Service	2019	2018	2017	2016	2015
Number of customer complaints*	167**	158	36	45	67
Number of customer contacts regarding water quality	508	258	219	166	115
Number of customer contacts regarding water pressure	478	439	298	339	337
Number of customer contacts regarding blockages and discharge of stormwater	1,047	1,043	1,111	1,190	1,061
% of written contacts answered in accordance to required deadline***	100.0%	100.0%	99.9%	99.5%	99.2%
Number of failed promises	141	33	5	4	9
Results of the annual customer satisfaction survey (TRI*M index)****	54	53	90	94	94
Number of contacts per customer	0.8	1.0	1.1	1.3	1.3
Notification of unplanned water interruptions at least 1 h before the interruption	96.2%	95.2%	98.2%	98.8%	98.7%

**Until 2018, this figure included only the customer complaints received in writing. The number for 2018 as well as for 2019 includes the complaints received both in writing and by phone.*
*** In 2014-2017 only complaints from customers in Tallinn were counted. From 2018 all complaints are included.*
**** In 2013-2016 the numbers reflect the indicator „Responding to written customer contacts within 2 working days“.*
***** From 2018, the methodology for calculating TRI*M index is different. Due to this, the results are not comparable to previous years.*

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CUSTOMER SATISFACTION

Systematic and regular feedback from our customers and consumers is instrumental for us to have their honest opinion on our activities and to recognise our strengths as well as weaknesses, which we should address more in the future.

Addressing customer satisfaction is also important to our partners, investors, community and public sector. Good results in customer satisfaction improve the reputation and reliability of the Company. Each year, an independent market research company Kantar Emor carries out a survey among our customers and end consumers. The survey interviewed 2,363 customers (2018: 1,313 customers) and end consumers, for the purpose of mapping any changes in the strength of our customer relationships as well as the factors shaping it and obtaining feedback on the effectiveness of our operations.

Satisfaction is measured using TRI*M method developed by the research company to characterise the strength of customer relationships and to allow benchmarking with other companies. This model focuses on two elements:

• TRI*M index measures the strength of customer relationships and comprises, since 2018, two elements – general satisfaction and the extent to which a company distinguishes from the other utility companies;

• TRI*M grid analysis to highlight the strengths and weaknesses of a company.

In 2018, several significant changes were made to the survey methodology. However, setting aside the likely impact of changes in the methodology, we can say that the customer relationships continue to be excellent, and the ratings given to the quality and level of service provided by Tallinna Vesi have remained high throughout the years.

Another major change made in 2018 in the methodology used for the calculation of TRI*M index. When in previous years, the strength of customer relationship had been measured by considering four components, Tallinna Vesi, following the trends of the survey market, transferred to the model comprising two components. Compared to the formerly used model focusing on the usefulness/necessity of services/products and recommendation, the new model places more emphasis on the extent to which the company distinguishes from other similar companies.

The survey carried out using the new model revealed that the overall customer satisfaction remained very high (more than 100 index points across all customer segments) and slightly less than half of the respondents (40-49% in various customer segments) said that Tallinna Vesi was better at carrying out its tasks than the other utility service providers. 47-54% of the respondents felt that the company was as good as the other utility companies. Regardless of the small number of negative ratings given to Tallinna Vesi in this regard, this question has clearly had an adverse effect on the calculation of TRI*M index due to the large number of respondents who remained neutral. In terms of overall satisfaction, our target for 2020 is that an average of at least 80% of customers would be fully or mostly satisfied with the services provided by Tallinna Vesi (2018: 79.66%).

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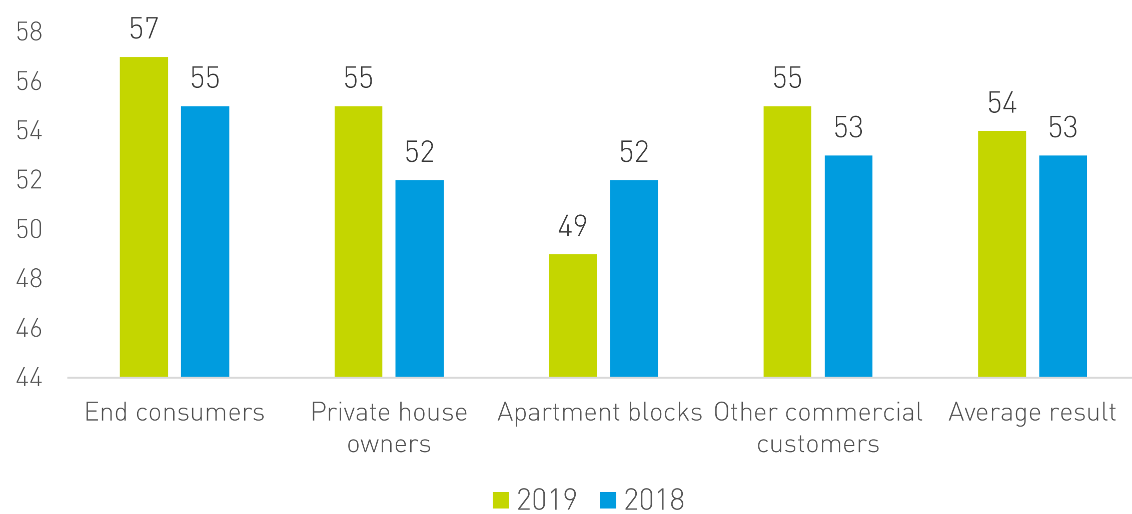
Because of the changes in the methodology used for the calculation of TRI*M index and the questions underlying those calculations, a comparison between the results is only possible from 2018 onwards. We are glad to see an improvement of our ratings in almost all customer groups in comparison with the previous year. Slightly lower ratings have been given only by apartment blocks. The overall average result is one point higher than the figure achieved for 2018.

SATISFACTION OF OUR CUSTOMERS AND END CONSUMERS IN 2018-2019



High quality service and a guaranteed water supply lay the basis of a strong customer relationship. Ratings given to the quality of service are generally very high, especially by those, who drink tap water. The quality of water along with its clarity and cleanliness of pipes also serve as the prioritised indicators that matter to our end consumers. The message „Drink tap water" has been well noticed by all segments and has also brought about a change in the daily habits of consumers over the years. We are pleased to see that 90% of end consumers (86% in 2018) trust to drink tap water either by drinking it from the tap or after filtration.

Even though the customers' feedback to our services continues to be good, we need to continue making efforts in maintaining and increasing customer satisfaction through further improvements in the services provided and in the quality of customer service itself.

Problem-solving continues to be our focus. Although the total number of problems has grown year-on-year, which shows in a higher number of phone calls and e-mails received by customer service, our customers' ratings on our problem-solving remained at the level comparable to the last years.

We issue a quarterly digital customer newsletter to keep our customers informed about the matters that interest them based on their regular feedback. One of our 2019 priorities was to make further developments in our self-service platform and in November we launched our new self-service.

Improvements are sought in terms of solutions offered, promptness of actions and quality of service - keeping promises, keeping customers informed about the course of actions. In terms of commercial customers and private house owners, the focus of attention should go to the speed of fixing leakages and stable water pressure.

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In addition to the annual customer satisfaction surveys, it is essential for us to have regular feedback on our service quality and ask our customers to rate our work on a monthly basis. We have set ourselves a target to achieve at least 4.2 points on a 5-point scale as a total annual average. We did not manage to deliver our annual average target of 4.2 points by scoring 4.08 points in 2019 (2018: 4.12). The total number of customer complaints in 2019 was 167 (2018: 158).

5.5 Objectives: customers

CUSTOMER SERVICE OBJECTIVES IN 2019	
≤1,142 repeated customer contacts	Achieved
Monthly customer satisfaction index (Kantar Emor 5-point scale) ≥4.2	Not achieved
≥75% of water meter readings are submitted via self-service channels	Not achieved
≥90% of people drink tap water	Achieved
CUSTOMER SERVICE OBJECTIVES IN 2020	
Number of repeated customer contacts	≤950
Average general customer satisfaction (annual)	≥80%
% of meter readings, submitted via self-service channels	≥77%
Cases of promises failed (5 promises to customers)	≤5

5.6 Community and public

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

SPONSORSHIP STRATEGY

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

- **Defined impact area.** Due to Tallinna Vesi´s service area, the focus of sponsorship activities is Tallinn.
- **Projects closely linked to our main activities, i.e.** providing Tallinners with water supply and wastewater services.
- **Involvement of employees.** Tallinna Vesi´s employees need to be aware of the company´s sponsorship activities and should be actively involved in those.
- **Systematic approach and consistency.** Tallinna Vesi supports the same areas from year to year to provide continuity and clarity in its approach to sponsorship. The decision-making process is clear to applicants.

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Tallinna Vesi mainly supports initiatives that are related to environmental education or local community.

ENVIRONMENTAL EDUCATION

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

While only few years ago in 2011, 48% of people trusted to drink tap water, the number of people drinking tap water had grown to 90% by the end of 2019 (2018: 86%).

Tallinna Vesi produces and distributes educational materials for kindergartens and schools. All educational materials are made available both in Estonian and Russian. Each year our employees devote their time to hold water seminars in schools and kindergartens. Tallinna Vesi intends to continue doing so on a regular basis - 969 children participated in such group conversations in 2019 (2018: 1,243).

We are also helping the event organisers encourage the use of tap water as drinking water by providing them with various posters and materials to spread the message.

Each year, Tallinna Vesi holds open house events in the Water Treatment Plant and Wastewater Treatment Plant to allow the public to visit our main operational sites and learn about our Company. In 2019, hundreds of visitors used the opportunity to visit the plants during those events.

Besides the public open house events, 57 guided tours were held in our treatment plants in 2019 (2018: 81).

At least twice a year, Tallinna Vesi participates in public community events to educate the public on water-related matters and improve the image of the company. In 2019 we participated in Estonia Theatre Fair as well as in the family event Snow Day in Nõmme Snow Park.

Tallinna Vesi also facilitates and supports the run Ülemiste Järvejooks annually, opening the territory up for the public.

LOCAL COMMUNITY

Tallinna Vesi supports the community initiatives by providing water tanks at the events. Along with the City of Tallinn, we also set up public water taps both indoors and outdoors to make tap water more readily available in public space. We have carefully chosen a few projects and organisations to donate to and we encourage active participation among our employees by allowing our teams to take a day off to attend charity initiatives. In 2019, Tallinna Vesi also became a sponsor to the Estonian National Opera to support the culture.

Providing people with pure water is one of our main activities. Besides ensuring the availability of drinking water through the public network, we sponsor events with water tanks to make water available at public events. We mainly provide water tanks to public sports and community events as well as children´s and youth events.

Each year, together with City of Tallinn or other partners, Tallinna Vesi opens at least one new public water tap either outdoors or indoors (for example in public areas, such as museums, port, airport, shopping centre etc.). In 2019 we opened new public water taps in Löwenruh park and Danish King´s Garden in the old town.

Tallinna Vesi supports a few organisations that need help in providing better opportunities for the people with special needs to improve their involvement in all aspects of life. For example, we make yearly donations to the Estonian Disabled Athlete Sports Association, SPIN program and the Kindergarten Õunake.

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5.7 Employees

Tallinna Vesi's mission is to create a better life with pure water. Each member of our staff follows this mission whilst carrying out their daily tasks. The top priority is to provide our customers with the service that meets high quality standards. To enable our staff to successfully deliver our mission we create a supportive working environment and provide good working conditions. We value our people highly and aim to be a valued employer. Tallinna Vesi is a socially responsible company, appreciating the employees and developing them by offering new challenges, whilst also implementing a systematic approach to succession planning. The HR policies followed in the management of the Company are available on the Company's website.

At the end of last year, a total of 325 people were working in Tallinna Vesi and its subsidiary Watercom (2018: 310) under employment contracts for unspecified term, 96.6% of them worked full-time and 3.4% part-time (2018: 97% and 3% respectively). Majority of the employees were placed in Tallinn.

In order to engage our employees, we involve them in the decision-making process. 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 in order to involve, engage and listen to them. This is done using several opportunities and channels of communication, such as regular staff meetings with the management, information boards, intranet, informative letters, team events and internal quarterly newsletters.

Our employees are loyal to the Company. The person with the longest service has been with the Company for 55.2 years (2018: 55.4 years) and the average number of years in the Company is 10.3 years (2018: 11.0 years). Our voluntary employee turnover increased notably in 2019 and reached 9.3% (2018: 6.9%). All the employees voluntarily leaving the company are asked to give feedback on the reasons for leaving. Increased mobility of people i.e. change of residence or commencing studies, is one frequently mentioned reason. The total employee turnover was 16.8% (2018: 21.3%).

Although the number of our staff has been relatively stable in the last few years, the average age is quite high at 45 years (2018: 45 years). Therefore, we need to focus on employment as well as on succession planning. The age profile within the Group is as follows:

Groups of staff by age	<30 years		30-50 years		>50 years	
	2018	2019	2018	2019	2018	2019
Management Board	0	0	3	2	0	1
Executive Team*	0	0	7	8	1	1
Management Team	0	1	25	24	4	4
All staff	48	57	148	152	114	116

* *Includes the Management Board*

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Groups of staff by gender	Total number		Women		Men		Women/Men	
	2018	2019	2018	2019	2018	2019	2018	2019
Management Board	3	3	1	1	2	2	33%/67%	33%/67%
Executive Team*	8	9	4	5	4	4	50%/50%	56%/44%
Management Team	29	29	14	13	15	16	48%/52%	45%/55%
All staff	310	325	92	89	218	236	30%/70%	27%/73%

**Includes the Management Board*

More diversity is added to the team by the members of our staff for whom Estonian is not their language of communication. We organise Estonian classes at the Company's expense to make the staff, whose mother tongue is not Estonian, feel also as part of our unified team. At the same time, we provide most of the important information in Russian as well.

Considering variations within the team, it is essential to follow equality principles both in selecting and managing people. This translates into providing, when feasible, equal opportunities to everyone. 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. To ensure equal treatment, we have signed a collective agreement with the Trade Union of Water Supply and Sewerage Staff. Even though less than 10% of our staff belong to the trade union, the contractual obligations and benefits agreed upon in the agreement extend to all our employees.

Almost all members of staff have the opportunity to receive annual performance related pay (PRP), which is based on very clear and transparent principles as well as the delivery of a balanced combination of personal and company objectives, which are set annually. Every year the corporate KPI targets are agreed, and in 2019, 80% (2018: 60%) of the total PRP was dependent on the fulfilment of corporate objectives (see the Delivery of 2019 Objectives). 20% of the PRP was dependent on the personal objectives of each employee.

COMMITMENT IN THE TEAM

Two-way interaction is of paramount importance in the teamwork and therefore, feedback from the employees plays an important role in the company culture. In order to receive honest feedback from our people, an employee commitment survey is carried out annually. The employee survey provides an evaluation on our approach to employee management and the working conditions provided. In 2019, 96% (2018: 92%) of our employees participated in the survey. We believe this is a sign that our employees understand the importance of their feedback.

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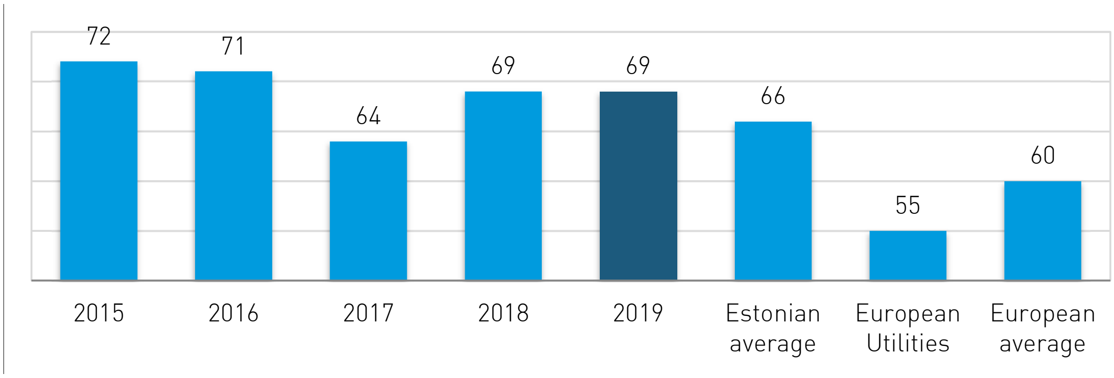
The results of the survey showed the employee commitment in the Company in 2019 to be slightly higher than the Estonian and European average. In comparison with the previous year's survey, the commitment index remained at the same level.

COMMITMENT OF OUR STAFF IN 2015–2019 IN COMPARISON WITH ESTONIAN AND EUROPEAN AVERAGE BY KANTAR EMOR (TRI*M INDEX)



DEVELOPMENT OF STAFF AND SUCCESSION PLANNING

Considering the age structure in the Company, it is critical for us to have a systematic approach and action plan for succession planning. To continue developing and improving our results, we need to maintain the company-specific knowledge but also bring new and fresh energy to the Company. We believe that the teams, containing both recently graduated and more experienced people of advanced age, make the strongest teams of all. The performance of the Company depends on the skills and professionalism of the staff.

Even though all our vacancies are public, we always circulate the job offers internally as well. We support the development of staff internally, provide career opportunities within the Company and inspire our staff to develop and rotate between different teams. In 2019, internal succession happened in 19 occasions (2018:15), which is a very good result. The discussion of the plans for professional development always constitutes a part of the annual performance interviews, which are held at the beginning of each calendar year with all employees (100%). Interim reviews are performed with specialists and managers also in July-August. We encourage our employees to continuously learn and develop themselves and we try to find development opportunities, which serve the interests of both the employees and the Company.

The majority of trainings concern the following areas: occupational safety, leadership, technical skills trainings, language and computer trainings. In 2019, we set a goal of one 8-hour training day per each employee and thus reached the number of 2.8 8-hour training days per employee (2018: 1.9 8-hour training days per employee). All employees took part in a 2-hour workplace safety training "Take 5". In 2019, listening to Nordic Business Forum was made available to all employees when we held a public viewing of the event in our office. Genders are not distinguished whilst monitoring the training days and providing training opportunities, as the trainings are arranged considering the training needs of all our employees. In 2019, the number of internal trainings was a bit higher than that of external trainings (777 vs 537). The employees carried out trainings about customer service, occupational safety and the Company processes.

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We provide trainings and support to our managers to be able to effectively manage their teams. We have developed and established the Good Leadership Standard, which serves as the basis for leadership development in the Company. For new managers we offer the possibility to participate in the leadership development program and use either a coach or a mentor if needed.

In 2019, we continued with our succession-related programs, such as apprentice and summer trainee programs and internal young specialist program. Those programs allow us to engage young people in the Company's activities already whilst they are studying. We provide them with valuable work experience and development opportunities in the largest water company in Estonia. Through those programs we have employed 23 new young specialists and skilled workers. Many of them have already succeeded in their positions and have moved forward to the managerial positions.

Every department has identified their high potential employees (talents) and different development activities are provided for them throughout the year (based on their annual performance interviews). Talent management is aimed at motivating, engaging and retaining employees to incentivise them to perform even better.

The Company has clear salary procedures and principles, which provide transparent and systematic approach in payment systems and increase the motivation of employees.

We also continue to employ the Good Retirement Practice, which means that all retirements are planned ahead to ensure the transfer of know-how from the more experienced staff to the young members and to thank the retirees for their commitment. In the positions, which require significant company-specific knowledge and skills, the employee who is about to retire and young specialist work alongside each other for 2-6 months. By providing such transfer of knowledge and experience to the learning employee, we value the experience of the retiring employee and contribute to the professionalism of the new employee. The Company also pays retirees a company benefit depending on the duration of employment. 6 employees retired during 2019 (2018: 15).

5.8 Occupational health and safety

Occupational safety is an inseparable part of our business, being central to everything we do. We believe that no work assignment is worth getting injured for. Safe and good working environment is a key focus for us as an employer in ensuring that our employees are cared for and do not risk their health or lives during work. Occupational health and safety is also crucial considering Tallinna Vesi's employer brand – we strive to be a valued employer, who provides a working environment where people are happy to come to in the morning, knowing that they have everything they need to have a safe and nice day at work. Occupational health and safety is a constantly evolving area, which does not allow the employers to become too comfortable – there are always further improvements to consider.

In addition to the Working Environment Council of 10 members, the Company also has 11 working environment representatives elected by different units. Our Quality, Health & Safety Manager organises regular meetings with the working environment representatives to discuss all issues relating to the working environment in the Company. All actions along with the responsible persons, deadlines and targeted outcomes are entered into one table, which is available for all staff to read, and the delivery of those actions is constantly monitored. Overview of the issues raised by the representatives is also presented in the Working Environment Council meetings. Our target is for the working environment representatives and Working Environment Council members to have greater role and impact than before.

Our Company's working environment performance is compliant with the requirements of both national legislation and international occupational health and safety management system standard OHSAS 18001. Working environment management system is based on the assessment of risks and execution of activities aimed at preventing or reducing dangerous situations. Members of the Health and Safety Team make internal working environment checks at workplaces on a daily basis. In 2019, the Health and Safety Team carried out 449 safety audits in total (2018: 425). Compliance of emergency and construction sites (at least 95% compliant sites) has also been set as the Company's overall objective. In 2019, 97.12% (2018: 98.12%) of the Company's audited sites met the safety requirements.

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

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

One of the main indicators for assessing our occupational health and safety performance is the accident frequency rate (AFR), which demonstrates how many work accidents with major injuries or with >3 days lost have there been per 100,000 working hours. AFR has been monitored in the Company since 2015 and it has also been one of the Company's objectives. In 2019, the accident frequency rate was 0.36 (2018: 0.37). Two work accidents with lost work time of over 3 days occurred in 2019.

The first lost time work accident in 2019 occurred when an employee lost balance, slipped and sustained an injury to his elbow. In order to avoid similar accidents in the future, a mobile platform is now used for such work and the staff wear anti-slip working boots. The other work accident occurred while unloading a tipper lorry. The employee sustained a chest injury. The work organisation was changed to prevent re-occurrence of such incidents. Since 2018, the accidents, the causes of which are not related to the Company or its staff, are excluded from the AFR calculation.

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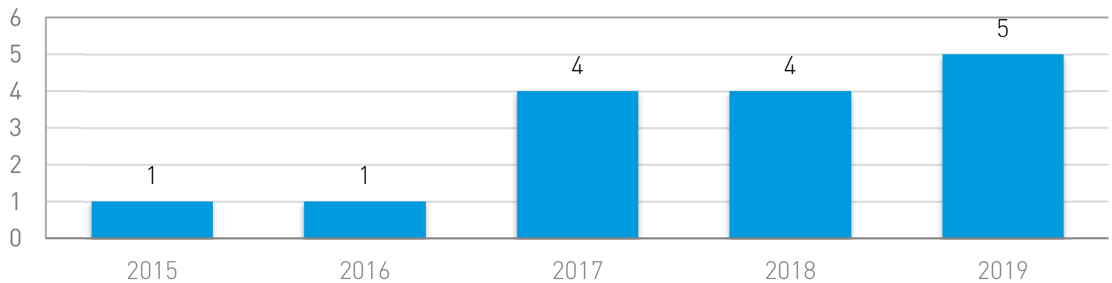
TOTAL NUMBER OF WORK ACCIDENTS

In 2019, 5 work accidents in total were registered in the Company (2018: 4), incl. 3 minor accidents with no lost time. However, going forward we intend to be more effective in preventing such minor work accidents and will pay particular attention to obtaining information on dangerous occurrences, safety observations and near misses from our staff. In 2019, 219 (2018: 206) of such observations were made by the staff. Based on the information received from the employees we aim to make the improvements in order to prevent any possible accidents in the future.



To reduce any potential risks, we continue contributing to the safety of our company's working environment. Employees' safety awareness is definitely the key aspect in creating and maintaining safe working environment. Involvement of our staff in various working environment-related initiatives and activities is fundamental in improving the safety awareness. We organise informative meetings to give the staff an opportunity to share information. We try to improve the staff's awareness of safety issues also through discussions and different printed materials and safety videos. Systematic engagement of employees has resulted in considerably increased attention towards one's working environment, which is where the occupational safety starts in the first place.

We carry out working environment trainings on a regular basis. The list of topics addressed in 2019 amongst others was as follows:

- training and in-service training on first aid,
- fire safety training for the staff,
- hot works training,
- various safety trainings whilst working with chemicals,
- various electrical safety trainings,
- training on temporary traffic rearrangements and other traffic safety trainings,
- evacuation drills,
- training on disinfection of water pipes, personal hygiene and safety measures.

In 2019, we carried out also other activities to improve safety and working environment.

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

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5.9 Objectives: employees

EMPOLOYEE RELATED OBJECTIVES OF 2019	
Work accidents frequency rate (excluding unavoidable accidents) ≤0,2	Not achieved
Compliance at Tallinna Vesi´s and Watercom´s sites according to safety audits ≥95%	Achieved
Number of safety observations (positive or negative) or near misses ≥ 200	Achieved
Minimum number of training days per employee ≥1	Not achieved
Employee commitment (according to annual employee satisfaction survey) ≥72	Not achieved
EMPOLOYEE RELATED OBJECTIVES OF 2020	
Work accident frequency rate	≤0.2
Compliance at Tallinna Vesi´s and Watercom´s sites according to safety audits	≥96%
Number of safety observations (positive or negative) or near misses	≥200
Employee commitment (based on annual employee survey)	≥72

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6. FINANCIAL RESULTS OF 2019

6.1 Economic environment

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

According to the Ministry of Finance's forecast, Estonia's Gross Domestic Production (GDP) growth in the first half of 2019 was higher than expected, reaching 4.2%. It was mostly driven by the domestic demand and supported by export. The real GDP is expected to be 3.3% in 2019 (6.8% real growth). The slowdown of the increase is mostly related to the slowdown in manufacturing industry, especially in energy and construction sectors. For the period 2020-2023 the economic growth is expected to be around 2.4% per annum.

Forecast for economic growth in 2019-2023 (%)

	2018	2019	2020	2021	2022	2023
1. GDP real growth	4.8	3.3	2.2	2.6	2.5	2.3
2. GDP nominal growth	9.5	6.8	5.1	5.2	5.0	4.6
2a. GDP in current prices (€ bln)	26.0	27.8	29.2	30.7	32.3	33.7

**Source: Ministry of Finance 2019 summer forecast*

In 2018, CPI stayed at the same level as in 2017 and showed a decreasing trend in 2019. The CPI year-on-year change in 2019 (December 2018 vs December 2019) was 1.8%, being lower than 3.4% in 2018. The yearly average change of CPI was 2.3% and 3.4% in 2019 and 2018 respectively. The CPI is expected to have a slowdown also in 2020, to be around 1.7%.

Changes in CPI and construction price index have direct impact on both operating and capital expenditures of Tallinna Vesi. According to the Statistics Estonia, average construction price index increased compared to 2018 by 1.9% (2018: 1.7%). The strongest impact on the index came from 4.3% increase in salaries, accompanied by 2.0% increase in the construction machinery prices and 0.7% increase in construction material prices.

Tallinna Vesi is also dependent on the labour market. Labour market continues to be intense and pressure for salary growth for skilled employees remains. Employment growth in the first half of 2019 was 1.0% and the unemployment remained around 5% according to the Summer Macroeconomic Prognosis of Ministry of Finance of Estonia. The employment growth shows a slowdown resulting from a slowdown in overall economic environment. It is relatively difficult to find skilled staff. The average change in salaries has been quite high over the last couple of years. The nominal growth in salaries during the first three quarters of 2019 was around 8% (Statistics Estonia) and in 2020 is expected to be around 6% in Estonia, which has an impact on Tallinna Vesi's profitability. Changes in the average salaries affect both the operating and capital expenditures.

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Tallinna Vesi
Loome puhta veega parema elu!

MAIN FINANCIAL INDICATORS OF TALLINNA VESI

Main financial indicators € million, except key ratios and share data	PERFORMANCE 2019	2018	2017	2016	2015
Sales	63.42	62.78	59.82	58.98	55.93
Gross profit	33.95	34.19	34.09	33.26	32.25
Operating profit before depreciation and amortisation (EBITDA)	38.18	32.73	17.04	31.03	31.77
Operating profit	32.08	26.94	10.87	24.63	25.58
Operating profit - main business	31.19	26.22	10.25	24.46	25.26
Profit before taxes	31.30	25.95	9.92	22.89	24.36
Net profit	27.76	24.15	7.22	18.39	19.86
Gross profit margin %	53.53	54.45	56.99	56.39	57.66
EBITDA margin %	60.21	52.13	28.49	52.61	56.80
Operating profit margin %	50.57	42.91	18.16	41.75	45.73
Profit before taxes margin %	49.36	41.33	16.59	38.81	43.55
Net profit margin %	43.77	38.47	12.07	31.18	35.51
ROA %	10.83	10.10	3.27	8.70	9.58
Debt to total assets %	56.05	58.85	62.43	58.15	57.43
ROE %	25.43	25.61	8.24	20.62	22.55
Current ratio	5.48	5.36	5.51	3.91	5.40
Number of full-time equivalent employees, at the end of the year	314	296	300	301	311
Share price, at the end of the year	11.70	9.60	10.20	13.80	13.80
Share capital	12.00	12.00	12.00	12.00	12.00
Earnings per share	1.39	1.21	0.36	0.92	0.99
Dividend per share	n/a*	0.75	0.36	0.54	0.90
Cash balance, at the end of the year	64.78	61.77	44.97	33.99	37.82
Investments to fixed assets	16.09	10.40	9.47	14.95	11.30

EBITDA: Operating profit + depreciation and amortisation
Gross profit margin: Gross profit / Sales
EBITDA margin: EBITDA / Sales
Operating profit margin: Operating profit / Sales
Profit before taxes margin: Profit before taxes / Sales
Net profit margin: Net profit / Sales
ROA: Net profit /Average Total assets for the period
Debt to Total capital employed: Total liabilities / Total capital employed
ROE: Net profit / Average Total equity for the period
Current ratio: Current assets / Current liabilities
Main business: water services related activities, excl. connections profit and government grants, construction services, doubtful debt
**Dividends for 2019 have not been declared at the time of issuing the report.*

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6.2 Statement of comprehensive income

SALES

Tallinna Vesi's tariffs were frozen at 2010 level until 1 December 2019 as on 18 October 2019 the Competition Authority approved the tariffs of Tallinna Vesi. Additional information about the tariff is provided in Note 15 to the consolidated financial statements and in 2019 quarter reports. Consequently, the changes in the main activity's revenues, i.e. from sales of water and wastewater services, were driven by higher consumption of customers within and outside the main services areas with no considerable seasonality in the main operation, balanced by lower tariffs of water and wastewater services in the main service area from 1 December 2019. Private customers tariffs in the main service area decreased on average around 27% and commercial tariffs 15%. There have been incremental increases in consumption in the past and those are expected to continue also going forward as no dramatic increases or decreases are expected in the future either.

In 2019, the Group's total sales were €63.42 million, showing an increase by 1.0% or €0.64 million year-on-year. 89.7% of the total sales came from the sale of water services to within and outside the service area, 9.4% from construction services and 0.9% from other services. The sale of construction services is more seasonal and the Group continues to seek possibilities to keep and grow these services revenues.

	for the year ended 31 December			Variance 2019/2018	
€ thousand	2019	2018	2017	€	%
Water supply service	13,781	14,179	13,872	-398	-2.8%
Wastewater disposal service	11,719	11,586	11,353	133	1.1%
Total from private customers	25,500	25,765	25,225	-265	-1.0%
Water supply service	11,482	11,733	11,210	-251	-2.1%
Wastewater disposal service	9,317	9,513	9,197	-196	-2.1%
Total from commercial customers	20,799	21,246	20,407	-447	-2.1%
Water supply service	1,622	1,465	1,346	157	10.7%
Wastewater disposal service	3,193	2,893	2,833	300	10.4%
Stormwater disposal service	426	322	499	104	32.3%
Total from outside service area customers	5,241	4,680	4,678	561	12.0%
Stormwater treatment and disposal and fire hydrants service	4,002	3,562	3,668	440	12.4%
Overpollution charges and discharging	1,324	960	1,042	364	37.9%
Total from water services	56,866	56,213	55,020	653	1.2%
Construction services	5,960	5,950	4,219	10	0.2%
Other services	597	617	576	-20	-3.2%
TOTAL REVENUE	63,423	62,780	59,815	643	1.0%

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Sales from water services were €56.87 million, showing a 1.2% or €0.65 million increase compared to the twelve months of 2018, and resulted from the changes in the tariffs and sales volumes as described below:

- There has been a decrease in revenues from private customers by 1.0% to €25.50 million. The decrease from lower water services tariffs was balanced by higher private customer consumption volumes, worth -€0.61 million and +€0.34 million respectively. Higher consumption is attributable to the biggest residential customer group - apartment blocks, balanced by decrease in consumption of individual houses.
- Sales to commercial customers within the service area have decreased by 2.1% to €20.80 million. The decrease from lower water services tariffs was accompanied by lower commercial customer consumption volumes, worth -€0.25 million and -€0.19 million respectively. The change in consumption is attributable to lower consumption of different customers in industrial and other commercial customer segments, balanced partly by higher consumption in leisure segment.
- Sales to customers outside the main service area have increased by 12.0% to €5.24 million, driven by an increase in the sales of all water services from different outside areas with biggest impact from Maardu, Rae, Kiili and Jõelähtme areas.
- Sales from the operation and maintenance of the stormwater and fire-hydrant system in the main service area have increased by 12.4% to €4.00 million, driven by 26.4% higher treated storm volumes, balanced by lower cost per m^3.
- Over-pollution charges and discharging revenues received have increased by 37.9% to €1.32 million.

COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

Cost of goods and services sold were €29.47 million in the twelve months of 2019, showing a 3.1% or €0.88 million increase year-on-year. The increase in electricity, staff and depreciation costs was accompanied by higher pollution tax expenses. Higher costs were partly balanced by lower other costs of goods and services sold.

	for the year ended 31 December			Variance 2019/2018	
€ thousand	2019	2018	2017	€	%
Water abstraction charges	-1,219	-1,187	-1,168	-32	-2.7%
Chemicals	-1,664	-1,744	-1,501	80	4.6%
Electricity	-3,566	-2,849	-3,193	-717	-25.2%
Pollution tax	-1,089	-963	-1,100	-126	-13.1%
Total direct production costs	-7,538	-6,743	-6,962	-795	-11.8%
Staff costs	-6,602	-6,283	-5,784	-319	-5.1%
Depreciation and amortisation	-5,420	-5,177	-5,577	-243	-4.7%
Construction services	-5,096	-5,204	-3,584	108	2.1%
Other costs of goods sold	-4,814	-5,187	-3,818	373	7.2%
Total other costs of goods/services sold	-21,932	-21,851	-18,763	-81	-0.4%

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Total cost of goods/services sold	-29,470	-28,594	-25,725	-876	-3.1%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were €7.54 million, showing an increase by 11.8% or €0.80 million year-on-year. Changes in direct production costs were attributable to a combination of changes in prices and treated volumes that affected the cost of goods sold along with the following additional factors:

- Water abstraction charges increased by 2.7% to €1.22 million, driven mainly by 2.9% higher abstracted water volumes into water treatment process.
- Chemicals costs decreased by 4.6% to €1.66 million, driven mainly by on average 25.1% lower price of methanol, balanced by higher prices of different other chemicals, worth +€0.14 million and -€0.08 million respectively.
- Electricity costs increased by 25.2% to €3.57 million, driven by on average 25.6% higher electricity prices (including networks fees), worth €0.70 million.
- Pollution tax expense increased by 13.1% to €1.09 million, driven mainly by 12.9% higher treated sewage volumes, worth €0.13 million.

Other costs of goods sold (staff costs, depreciation, construction services costs and other costs of goods sold) amounted to €21.93 million, having increased slightly by 0.4% or €0.08 million compared to the same period in 2018. Increase in staff costs of 5.1% or €0.32 million was related to higher number of staff in 2019 and change in salaries from the beginning of 2019 for all employees based on CPI, balanced by reviewed bonus reserve as at the end of 2019. Increase in depreciation costs of 4.7% or €0.24 million was related to change of recognising the leases according to accounting standard IFRS 16 Leases, mentioned in note 2 to the consolidated financial statements and higher accelerated depreciation need year-on-year. Construction services related costs decreased by 2.1% or €0.11 million, driven mainly by project specific changes and as more work was done with own resources. Other cost of goods sold were lower by 7.2% or €0.37 million due to lower asset maintenance costs, balanced by higher sludge disposal costs.

Consequently, the Group's gross profit for 2019 was €33.95 million, showing a decrease by 0.7% or €0.23 million compared to the gross profit of €34.19 million in 2018.

ADMINISTRATIVE AND MARKETING EXPENSES. OTHER INCOME AND EXPENSES

Administrative and marketing expenses were €6.08 million, showing an increase by 12.3% or €0.67 million, being mainly impacted by additional legal costs resulting from the ICSID award according to which Tallinna Vesi was liable to pay for 25% of Estonian legal costs related to this matter.

Other income and expenses in 2019 amounted to net income of €4.20 million compared to net the expense of €1.84 million in 2018. The change was mainly impacted by positive change in the amount of €4.63 million in the expense for provision formed for possible third-party claims in 2019 compared to negative change in 2018 in the amount of €1.55 million, if those are to be recognised by the court. This estimate marks the maximum difference of three years in between the tariffs approved by the City of Tallinn in 2010 and the tariffs calculated according to the principles of methodology of tariffs approved on 18 October 2019 by the Competition Authority with the reservation to the possible fluctuation. Still, the Company does not consider itself liable to customers for any claims related to the tariffs, which were applied before the new tariffs approved by the Competition Authority became effective on 01.12.2019. The frozen tariffs were

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the tariffs which have been approved by an administrative act from City of Tallinn. Additional information is provided in Note 15 to the consolidated financial statements.

OPERATING PROFIT

As a result of the factors listed above, the Group's operating profit for 2019 amounted to €32.08 million, showing an increase by 19.1% or €5.14 million year-on-year. The Group's operating profit from the main business was €31.19 million, showing an increase by 18.9% or €4.97 million compared to the same period in 2018.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of €0.77 million, compared to net expense of €0.99 million in 2018. The decrease was mainly impacted by €0.42 million lower interest costs, balanced by €0.22 million lower positive change in the fair value of the swap contracts.

The standalone swap agreements have been signed to mitigate the long-term floating interest risk. The interest swap agreements are signed for €37.5 million and €53.9 million are with floating interest rate. At the end of 2019, the estimated fair value of the swap contracts is negative, amounting to €0.22 million (at the end of 2018: €0.38 million). Effective interest rate of loans (incl. swap interests) in 2019 was 1.02%, resulting in interest costs of €0.95 million, compared to the effective interest rate of 1.42% and the interest costs of €1.37 million in 2018.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for 2019 was €31.30 million, showing an increase by 20.6% or €5.35 million compared to the relevant period in 2018. The Group's net profit for 2019 was €27.76 million, showing an increase by 14.9% or €3.61 million year-on-year. Eliminating the effects of the change of derivatives fair value and change of provision for the possible third-party claims, the net profit for 2019 and 2018 would have been €22.98 million and €25.32 million respectively.

6.3 Statement of financial position

The cash balance of the Group remains strong being €64.78 million at the end of 2019 (at the end of 2018: €61.77), forming 24.6% of the total assets (2018: 24.7%).

In 2019, the Group invested €16.09 million into fixed assets (in 2018: €10.40 million). As of 31 December 2019, non-current tangible assets amounted to €189.63 million and total non-current assets amounted to €190.34 million (31 December 2018: €179.19 million and €179.85 million respectively).

Due to the changes in IFRS (International Financial reporting Standard), starting from 1 January 2019 leases are no longer classified either operating or finance leases and instead, the Group started to recognise all leases with a term of more than 12 months, unless the underlying asset is of low value, as Right-of-use assets and corresponding liabilities as liabilities. Consequently, the non-current assets and liabilities increased by €0.70 million on 1 January 2019. See more in Note 3 to the consolidated financial statements.

Compared to the year end of 2018 the trade receivables, accrued income and prepayments have shown a decrease in the amount of €0.39 million to €7.24 million. The collection rate of receivables has remained the same level, being 99.7% in both comparative years.

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Current liabilities have increased by €0.21 million to €13.24 million compared to the year end of 2018. The increase mainly derives from higher investments and construction activities related trade payables, accompanied by higher current liabilities from the right-of-use assets mentioned above.

Deferred income from connection fees has grown compared to the end of 2018 by €8.32 million to €31.07 million.

Provision for possible third-party claims has decreased compared to the end of 2018 by €4.63 million to €14.44 million by changes mentioned in 'Administrative and marketing expenses. Other income and expenses' results. More detailed information about the provision is in Note 15 to the consolidated financial statements.

The Group's loan balance has decreased, being €91.36 million, as Tallinna Vesi has started to pay back Nordic Investment Bank loan in May 2019. In November 2019 Tallinna Vesi repaid its long-term loan to Nordea Bank (in the amount of €37.5 million) and entered into new loan contract with Nordic Investment Bank (at the same amount). The new loan maturity date is 28 November 2024. As a result of the new loan the average loan interest risk margin decreased from 0.79% to 0.66%.

The Group's Total debt to assets level is at 56.1% as expected, in the range of 55%-65%, reflecting the Group's equity profile. In 2018 the total debt to assets ratio was 58.9%.

6.4 Cash flow

As of 31 December 2019, the cash position of the Group was strong. At the end of December 2019 the cash balance of the Group stood at €64.78 million, which was 24.6% of the total assets (31 December 2018: €61.77 million, forming 24.7% of the total assets).

The biggest contribution to the cash flow comes from the main operations. During 2019 the Group generated €34.02 million of cash flows from operating activities, a decrease of €0.27 million compared to the corresponding period in 2018. Underlying operating profit continues to be the main contributor to operating cash flows.

In 2019, the result of net cash flows from investing activities was a cash outflow of €7.37 million, an increase of €0.53 million compared to the cash outflow of €6.84 million in 2018. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by €0.30 million compared to 2018, amounting to €10.44 million.
- The compensations received for pipe construction were €3.01 million, showing a decrease of €0.71 million compared to the same period of 2018.

In 2019 cash outflow from financing activities amounted to €23.64 million, increasing by €12.99 million compared to the same period in 2018. The change was mainly related to higher dividend and related tax payment and paying the first two instalments of NIB loan, balanced by lower interest payments, -€9.54 million, -€3.64 million and +€0.34 million respectively.

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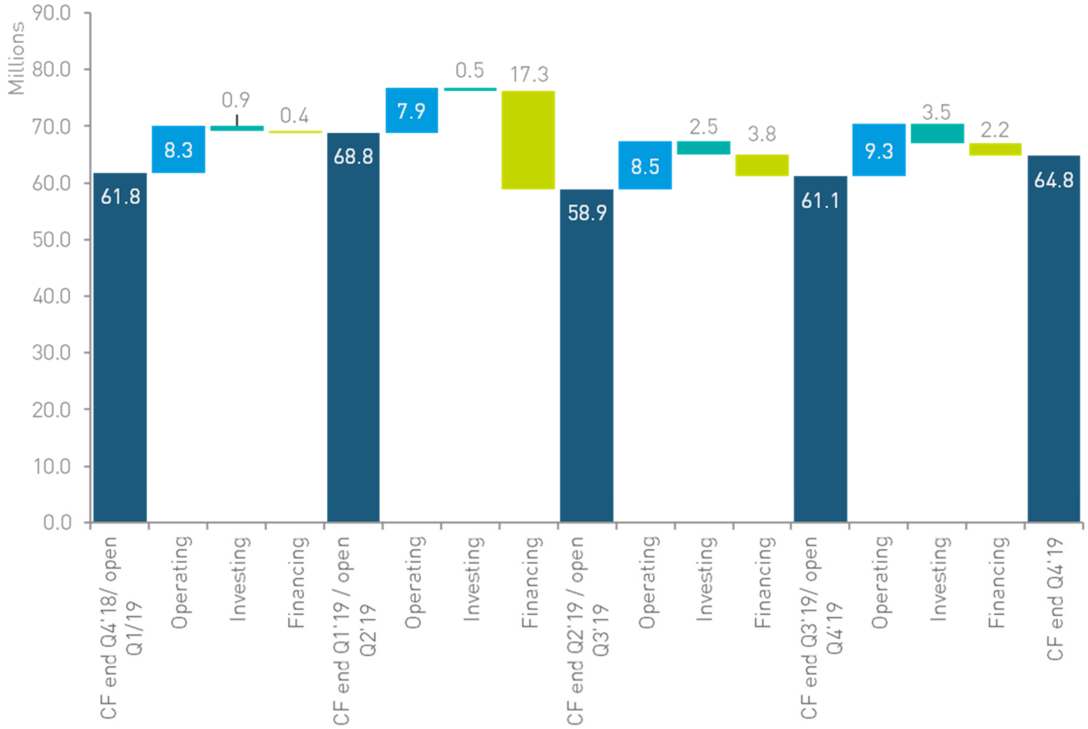
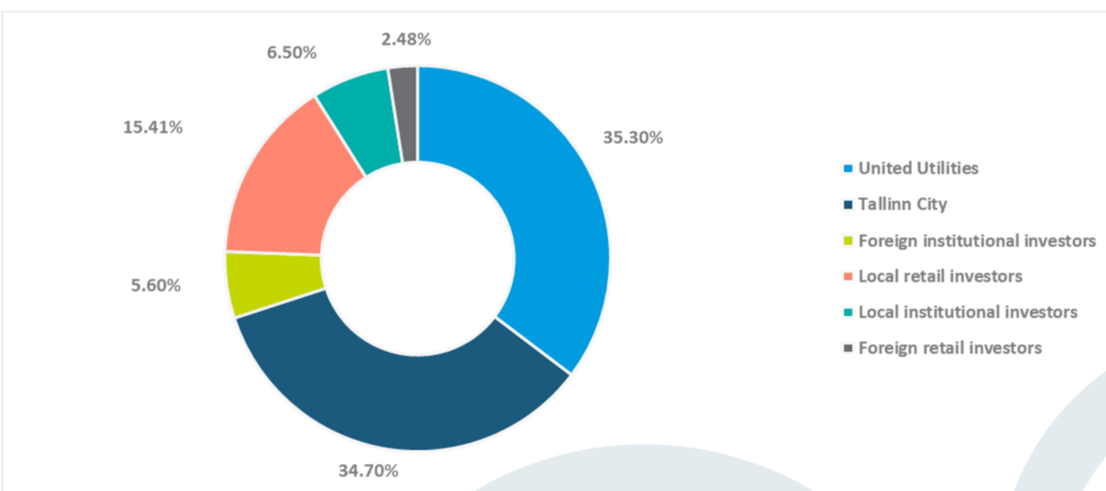


6.5 Investors

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

Shareholders by type as of 31 December 2019



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Distribution of share capital by size of share ownership as of 31 December 2019

	Share-holders 2019 (2018)	Shareholders % 2019 (2018)	No. of shares 2019 (2018)	% of share capital 2019 (2018)
1 - 100	2,334 (2,023)	42.5% (39.5%)	112,845 (100,223)	0.6% (0.5%)
101 - 200	925 (874)	16.8% (17.1%)	144,317 (136,592)	0.7% (0.7%)
201 – 300	480 (470)	8.7% (9.2%)	124,541 (122,247)	0.6% (0.6%)
301 - 500	497 (509)	9.0% (9.9%)	206,321 (210,894)	1.0% (1.1%)
501 - 1,000	539 (522)	9.8% (10.2%)	405,505 (390,460)	2.0% (2.0%)
1,001 - 5,000	558 (562)	10.2% (11.0%)	1,205,173 (1,212,610)	6.0% (6.1%)
5,001 - 10,000	82 (84)	1.5% (1.6%)	598,039 (609,663)	3.0% (3.0%)
10,001 - 50,000	59 (63)	1.1% (1.2%)	1,167,807 (1,220,804)	5.8% (6.1%)
50,000 +	19 (18)	0.3% (0.4%)	16,035,452 (15,996,507)	80.2% (80.0%)
TOTAL 2019	5,493	100.0%	20,000,000	100.0%
TOTAL 2018	5,125	100.0%	20,000,000	100.0%

Investor communication

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

Given the Supreme Court's decision as regards to the tariff dispute with the Estonian Competition Authority, the Company's tariffs shall be regulated by the Competition Authority's methodology. From January until the end of November 2019, Tallinna Vesi continued operating with frozen tariffs approved in 2010 by the City of Tallinn. Competition Authority approved the new water tariffs on 18 October 2019 and Tallinna Vesi started applying the new tariffs from 1 December 2019 onwards. The prices of water and wastewater services decreased on average by 27% for private customers and by 15% for commercial customers. However, good control over revenues, in conjunction with the growing population of Tallinn and its surrounding municipalities, allowed us to unveil slightly increased revenue stream in 2019. In addition, similarly to 2018, attention was paid to the growth of non-regulated revenues, i.e. construction revenues.

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

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We have worked hard on our investor relations programme since the listing of Tallinna Vesi on the Tallinn Stock Exchange and will continue to do so in the following years. In order to further improve the transparency of our Management Board's activities to shareholders, we applied and have reported good corporate governance recommendations on a regular basis since 2006.

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

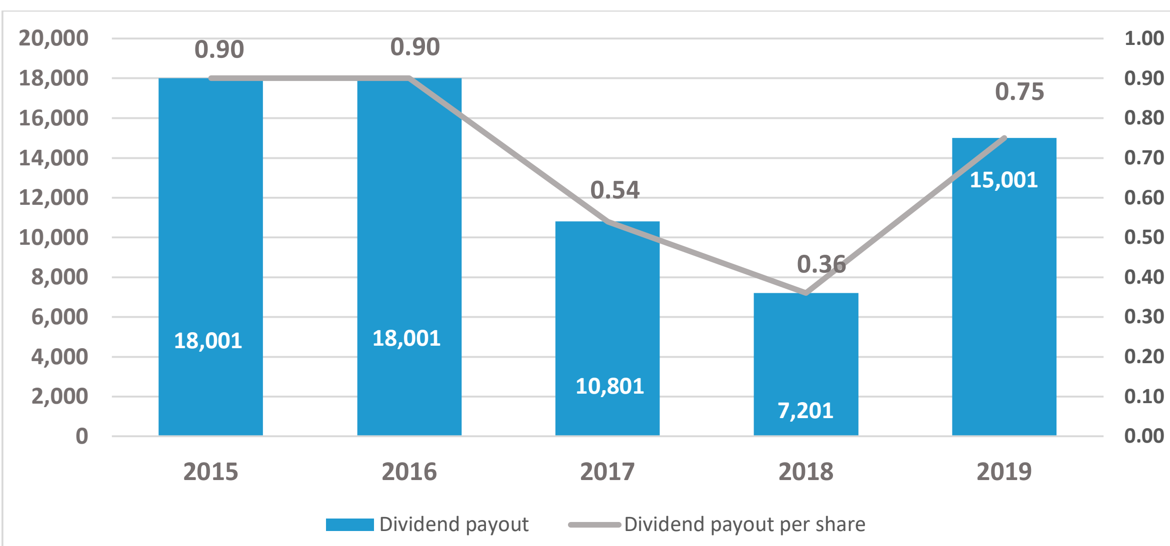
DIVIDENDS

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

Up until 2017, according to the dividend policy, which is also published on Tallinna Vesi's website, Tallinna Vesi maintained the dividends to shareholders in real terms, i.e. dividend amounts increased in line with inflation each year. In 2017, Tallinna Vesi reduced the dividend pay-out from 2016 dividends to 60%, as the outcome of the local and international dispute was unclear. In 2018, 100% of the 2017 net profit was paid out as dividends. The net profit was lower than normal in 2017 due to the provision formed for possible third party-claims as described in the Note 15 to the consolidated financial statements.

In the Annual General Meeting of shareholders held on 30 May 2019, €0.75 dividends per share and the total dividend pay-out from the profit of 2018 net income in the amount of €15.0 million was approved, which forms 62.1% from earnings per share in 2018. The dividend policy and dividends will be reviewed in 2020.

Dividends were paid out on 25 June 2019. Dividend pay-outs in the last five years have been as follows:



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SHARE PERFORMANCE

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

As of 31 December 2019, Tallinna Vesi shareholders, with a direct holding over 5%, were United Utilities (Tallinn) B.V. (35.3%) and City of Tallinn (34.7%).

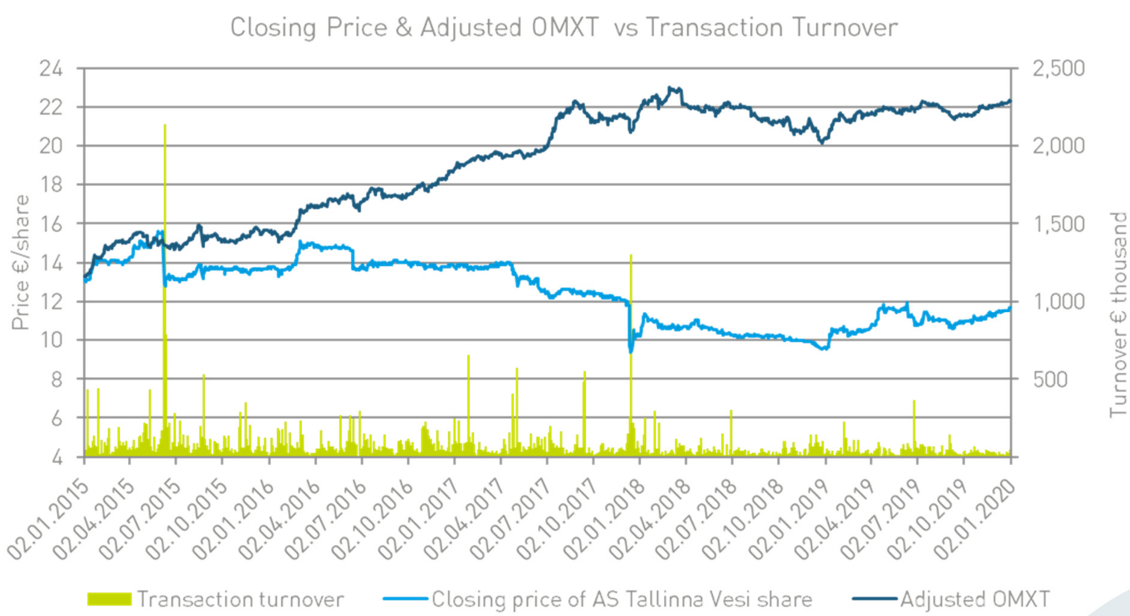
The shareholder structure has been relatively stable throughout 2019 compared to the end of 2018. At the end of 2019, the pension funds owned 0.97% of the total shares compared to 1.33% at the end of 2018.

As of 31 December 2019, the closing price of Tallinna Vesi's share was €11.70, which is 21.88% higher than at the beginning of the year €9.60 (in 2018: the price decreased by 5.88% compared to the opening price in 2018 of €10.20). During 2019 the OMX Tallinn index increased less than Tallinna Vesi share, increasing by 10.05% (2018: decrease by 6.38%).

3,996 deals with the Tallinna Vesi's shares were concluded in 2019 (2018: 3,983 deals), during which 595 thousand shares or 3.0% of total shares changed their owners (2018: 765 thousand or 3.8%).

The turnover of the transactions was €1.47 million lower than in 2018, amounting to €6.48 million (2018: €7.95 million).

CLOSING PRICE AND ADJUSTED OMXT VS TRANSACTIONS TURNOVER



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SHARE PRICE STATISTICS

€	2019	2018	2017	2016	2015
Share price, open	9.60	10.20	13.70	13.80	13.10
Share price, at the end of the year	11.70	9.60	10.20	13.80	13.80
Share price, low	9.54	9.54	8.52	13.30	12.80
Share price, high	11.95	11.35	14.00	15.10	15.60
Share price, average	10.98	10.39	12.81	14.12	13.88
Traded volume, thousand	595	765	1,346	1,048	1,581
Turnover, € million	6.48	7.95	16.48	14.71	21.74
Capitalisation, € million	234	192	204	276	276
Earnings per share	1.39	1.21	0.36	0.92	0.99
Dividend per share	n/a*	0.75	0.36	0.54	0.90
Dividend / net profit	n/a*	62%	100%	58%	91%
P/E	8.42	7.93	28.33	15.00	13.94
P/BV	2.0	1.9	2.4	3.1	3.1

P/E = share price at the end of the year / earnings per share
P/BV = share price at the end of the year / book value per share
*Capitalization = share price at the end of the year * No of shares*
In 2005 the listing price was €9.25
**Dividends for 2019 have not been declared at the time of issuance of the report.*

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6.6 Activities of the subsidiary Watercom OÜ

Watercom was established by Tallinna Vesi in 2010.

Watercom provides the following services:

- Construction services and design of pipes;
- Services related to road maintenance;
- Project management and owner's supervision;
- Jet washing and transportation.

Watercom is certified by the following standards: ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2015.

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

2019 was a very successful year for Watercom. The targets set for revenues and profit were achieved and this growth is expected to be sustained in 2020. In 2019, Watercom continued to deliver more external revenue and profit than ever before. This has always been one of the main objectives of Watercom and we hope to maintain the same pace in 2020.

We are especially proud that the biggest Estonian business newspaper Äripäev has compiled a competitive list of all the companies involved in utility construction based on 2018 results, and Watercom achieved the overall 8th place, up from the 10th achieved in the previous year. A total of over 95 companies were listed in the top.

The companies were ranked based on six indicators: 2018 sales; sales increase compared to 2017; 2018 operating profit; profit increase compared to 2017; cost-efficiency and return on assets in 2018. The companies were ranked in each category and the points from each of the six lists were summed up.

Outlook for 2020 remains positive with expectations to achieve the highest ever external sales and profit figures. Watercom will continue monitoring different possibilities of further external growth.

PIPE AND ROAD CONSTRUCTION

In 2019, the construction of water and wastewater networks for developers, companies and individuals was Watercom's main activity. Construction of pipes is carried out under the trademark Veemees. Similar to previous years, the focus was on feasible construction projects and procurements in Tallinn and elsewhere in Estonia.

2019 was a reasonably good year in the construction sector – an increase in financing provided by the European Union Cohesion Fund and state funds was accompanied by growth in real estate development in Tallinn and nearby areas. Construction market is still extremely competitive and therefore, efficient cost management is crucial in achieving sustainable

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profitability. In 2019, the construction margin was raised through the improved controls to manage costs more efficiently. Although the real estate market was active in 2019, we have noticed a decreasing trend in demand over the 2nd half of 2019. There have been less price inquiries from developers and main contractors. No high growth is expected in real estate development in 2020, as the demand for new apartments and retail space shows cooling signs.

External road construction market was more active in 2019 and Watercom won from procurements and carried out several external works for the City of Tallinn.

OTHER SERVICES

During 2019, Watercom managed to win several supervision contracts for the tender on public water supply and sewerage system in Türisalu and Vändra. Watercom is also concentrating on smaller external supervision projects in Tallinn and surrounding municipalities. In 2020, Watercom will continue to seek additional possibilities to retain and increase the sales of supervision services by participating in various procurements.

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

6.7 Objectives: financial performance

FINANCIAL OBJECTIVES OF 2019	
Watercom's external revenues ≥€7.40 million	Achieved
Watercom's external profit ≥€0.53 million	Achieved
Savings made on direct production cost and fixed operating cost compared to 2019 budget ≥2%	Achieved
FINANCIAL OBJECTIVES OF 2020	
Watercom's external profit	≥€0.67 million
Savings compared to 2020 budget	≥€0.25 million

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7. CORPORATE GOVERNANCE

7.1 Corporate Governance Report

Corporate governance is a system of principles for the control and management of a company. These principles are regulated by law, by the Articles of Association and by the internal rules of a company. As of 1 January 2006, the companies listed on the Nasdaq Tallinn Stock Exchange have been encouraged to follow the Corporate Governance Recommendations issued by the Financial Supervision Authority. Tallinna Vesi is committed to following those recommendations and has acted accordingly throughout 2019. This report covers the principles applicable as of 31 December 2019, which have been approved by the Financial Supervision Authority.

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

Since 2010, Tallinna Vesi has been a member of the Baltic Institute of Corporate Governance, which promotes the best practices of corporate governance in the region. All members of the Management Board of Tallinna Vesi have successfully completed the Executive Program of Professional Board Members provided by the Baltic Institute of Corporate Governance. The Company's former Chief Financial Officer Riina Käi (Board Member until 31 December 2019) also served as a Board Member of the Baltic Institute of Corporate Governance since 2016 to support promoting good corporate governance principles in the Baltics.

Investor Relations and Disclosure of Information

Corporate Governance Recommendations statements are available on Tallinna Vesi's website https://www.tallinnavesi.ee. The Corporate Governance Recommendations Report is an integral part of the Annual Report of Tallinna Vesi, which is prepared at the end of each financial year. Annual reports are made public on the Nasdaq Tallinn Stock Exchange and are also available on the Company's website.

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

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

- AGM notice;

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

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

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

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

General Meeting of Shareholders

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

In accordance with the Commercial Code and Corporate Governance Recommendations, Tallinna Vesi convenes both Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) by notifying all of its shareholders via Nasdaq Tallinn Stock Exchange and by publishing information on its website and in one national daily newspaper at least 3 weeks in advance. Information related to General Meetings is disclosed in Estonian and English on the Company's website and in Stock Exchange announcements. The announcement in the daily newspaper is published only in Estonian.

The agendas of AGMs and EGMs of Tallinna Vesi are pre-approved by the Supervisory Board, who also put forward proposals that require attention and are subject to voting at the General Meeting. General Meeting's agenda items, Supervisory Board's proposals along with relevant

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comments about the agenda items, procedural instructions for participating in a General Meeting and procedure for proposing additional items to the agenda are disclosed along with the General Meeting notice.

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

On 30 May 2019, Tallinna Vesi held the Annual General Meeting (AGM) of its shareholders to approve the 2018 Annual Report, distribution of profit and to extend the authorities of two Supervisory Board members. The Management Board made a presentation on the overall performance of the Company, highlighting the improvements in the occupational environment and safety area as well as in the financial and operational performance. No questions regarding the items in the 2019 AGM agenda were asked, nor were any additional agenda items proposed in 2019.

The Chairman of an AGM is an independent person. In 2019, the AGM was chaired by Mr. Urmas Volens, who introduced the procedure for conducting the General Meeting, including the procedure for inquiring about Tallinna Vesi's activities from the Management Board.

All members of the Management Board, the Chairman of the Supervisory Board and the signing auditor participated in the 2019 AGM. When a Supervisory Board member or a lead auditor stands for election at the General Meeting, the candidate for the respective position usually participates in the Meeting. Therefore, the Supervisory Board member candidate Mr. Priit Rohumaa participated in the 2019 AGM, whereas, Mr. Allar Jõks was unfortunately unable to participate due to his other responsibilities. The meeting was also attended by Mr Simon Gardiner and Mr Priit Lello. The certified auditor Eva Jansen-Diener was present at the 2019 AGM.

Tallinna Vesi does not allow its shareholders to participate in the General Meetings via electronic communication tools, as it has proven too complicated and expensive to establish reliable solutions to identify the shareholders, especially those who are overseas residents. However, should sufficiently secure and reliable means become available, it is allowed under the Articles of Association of the Company.

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

As per the Articles of Association of Tallinna Vesi, Tallinna Vesi has issued one registered preferred share with a nominal value of €60 (B share). The B share grants the holder the right to participate in General Meetings, in the distribution of profits and disposal of assets remaining upon dissolution of Tallinna Vesi and other rights provided by law and by the Articles of Association of Tallinna Vesi. The B share grants the holder preferential right to receive a dividend to an agreed sum of €600. The B share grants the shareholder 1 (one) vote at the General Meeting (restricted right to vote) when deciding on amendments to the Articles of Association of Tallinna Vesi, on increasing or reducing the share capital of Tallinna Vesi, on issuing convertible bonds, on acquisition of treasury shares by Tallinna Vesi, upon deciding on a merger, division, transformation and/or dissolution of Tallinna Vesi and upon deciding issues related to the

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activities of Tallinna Vesi that have not been placed under the exclusive competence of the General Meeting by the law. The Company has 20 million A shares, every A share gives one vote.

Supervisory Board

The Supervisory Board plans the activities of Tallinna Vesi, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of Tallinna Vesi, the Supervisory Board consists of nine members each with a term of two years. In 2019, five regular and no extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2018 Annual Report and reviewed the dividend proposal, both of which were then presented to the Annual General Meeting for approval, and reviewed Tallinna Vesi's budget for 2019. Additionally, in its meetings, the Supervisory Board reviewed major risks that the Company faced, regulatory and legal issues, matters regarding operations, finances, reporting, investments, human resources, customer service as well as customer and employee satisfaction, health and safety, market development for non-regulated businesses and other operational and business matters.

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

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

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At the time of compiling this report, Tallinna Vesi's Supervisory Board consisted of the following members:

Simon Roger Gardiner
(United Utilities (Tallinn) B.V.)
Chairman of the Supervisory Board
until 3/06/2020

Martin Padley
(United Utilities (Tallinn) B.V.)
Supervisory Board Member
until 02/11/2020

Keith Haslett
(United Utilities (Tallinn) B.V.)
Supervisory Board Member
until 23/01/2022

Brendan Francis Murphy
(United Utilities (Tallinn) B.V.)
Supervisory Board Member
until 29/10/2021

Katrin Kendra
(Tallinn City)
Supervisory Board Member
until 31/05/2020

Toivo Tootsen
(Tallinn City)
Supervisory Board Member
until 7/04/2021

Priit Lello
(Tallinn City)
Supervisory Board Member
until 15/11/2021

Priit Rohumaa
(independent)
Supervisory Board Member
until 2/06/2021

Allar Jõks
(independent)
Supervisory Board Member
until 2/06/2021

Tallinna Vesi has not made any transactions with members of the Supervisory Board nor their related parties.

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

Audit Committee and Internal Audit

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

The main responsibilities of the Audit Committee are:

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

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

Brendan Francis Murphy
Chairman of the Audit Committee

Simon Roger Gardiner
Member of the Audit Committee

Allar Jõks
Member of the Audit Committee

Each Supervisory Board meeting, an internal audit report is presented to the Supervisory Board. In 2017-2019, the internal audit services were bought from Ernst & Young Baltics AS. The internal auditor of Tallinna Vesi reports directly to the Audit Committee.

Neither the appointed external financial auditor nor any member of the external audit team can provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2019, the external auditor did not provide any services to the Group outside the scope of the annual audit for financial accounts, except for external assurance provided on GRI Standard reporting referred to in GRI index for the period ended 31 December 2019. In 2019, the corporate social responsibility and sustainability reports will also be externally audited.

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

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quality and the price offered for the services. Qualification criteria are strict in order to get the best service in the market. The selected auditors are approved by the Audit Committee and the Supervisory Board before being voted by the General Meeting of Shareholders. The procurement for auditing the year ending 31 December 2018 and the year 2019 was carried out in spring 2018. The company has the right to extend the contract twice for two-year periods i.e. for the periods 2020-2021 and 2022-2023. The remuneration of the external auditor is regulated in the contract signed between the external auditor and the Management Board. In 2019, the Group paid €17.7 thousand for the annual financial audits against the relevant invoices issued (€25.7 thousand in 2018) and €29.0 thousand for internal audit services against the relevant invoices issued (€36.6 thousand in 2018). According to the Good Corporate Governance principles of Tallinna Vesi, the lead auditor needs to be re-appointed at least every 5 years. The Company has also followed the Financial Supervision Authority guidelines dated 1 November 2013 "Rotation of the auditors of certain subjects of financial supervision by the state", which sets forth the requirement to rotate the lead auditor every 5 years. The lead auditor is currently Tiit Raimla.

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

Nomination and Remuneration Committee

In 2019, the Nomination and Remuneration Committee continued to advise the Supervisory Board on management remuneration issues and Management Board nominations.

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

Martin Padley
Chairman of the Nomination and Remuneration Committee

Simon Roger Gardiner
Member of the Nomination and Remuneration Committee

Priit Rohumaa
Member of the Nomination and Remuneration Committee

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

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

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Nomination and Remuneration Committee also ensures that the proportion of remuneration for the principal job and performance related pay (PRP) are in accordance with the duties of the Management Board Member and that the remuneration for the principal job forms a sufficient part of the total remuneration. According to the existing PRP principles, members of the Management Board are entitled to a maximum PRP of 25% of their annual gross salary. The PRP to be paid out for 2019 depends on the annual financial and operational performance of the Company, 80% of the PRP is related to Group objectives and 20% of PRP is related to individual specific objectives. If the annual results are worse than expected, a decision may be taken not to pay out any PRP.

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

Corporate Governance Committee

In 2019, the Corporate Governance Committee continued to advise the Supervisory Board on the improvement of corporate governance of Tallinna Vesi for the benefit of its Supervisory Board and shareholders.

At the time of compilation of this report, the Corporate Governance Committee consisted of the following members:

Allar Jõks
Chairman of the Corporate Governance Committee

Karl Heino Boorkes
Member of the Corporate Governance Committee

Simon Roger Gardiner
Member of the Corporate Governance Committee

Management Board

The Management Board is a management body that represents and manages the day-to-day business of Tallinna Vesi in accordance with the law and the Articles of Association of Tallinna Vesi. The Management Board is obliged to act in the most economically efficient manner. The Management Board may be composed of two to five members, in line with the Articles of Association, and is elected for a term of 3 years. The Management Board always prepares management reports for the Supervisory Board meetings and such reports are distributed to the Supervisory Board members 1 (one) week in advance of the meeting, as required by the Commercial Code. The Management Board also reports ad hoc to the Supervisory Board outside of meetings, when considered necessary, and if so requested by the Chairman of the Supervisory Board.

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

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insider list. From 2 June 2014 until 31 December 2019 the Management Board of Tallinna Vesi consisted of three members.

The members were as follows:

Karl Heino Brookes
Chairman of the Management Board
Member of the Management Board
until 21/03/2020

Riina Käi
Chief Financial Officer
Member of the Management Board
until 31/12/2019

Aleksandr Timofejev
Chief Operations Officer
Member of the Management Board
until 29/10/2021

Due to the Chief Financial Officer Riina Käi leaving the Company as of 31 December 2019, Kristi Ojakäär was appointed as a Member of the Management Board and Chief Financial Officer as of 1 January 2020.

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

The responsibilities of all Management Board members are specified below.

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

The duties of the member of the Management Board, Mr. Aleksandr Timofejev, are to, inter alia, fulfil the everyday obligations of the Chief Operations Officer (COO) of Tallinna Vesi by managing and being responsible for the operations of the treatment facilities, and the management of Tallinna Vesi's water and sewerage networks' everyday operations, as well as being responsible for relations established with external partners.

The duties of the member of the Management Board, Ms. Riina Käi, until 31 December 2019 were to, inter alia, fulfil the everyday obligations of the Chief Financial Officer (CFO) of Tallinna Vesi by managing and being responsible for the accounting and financial activities of Tallinna Vesi and the planning and delivery of long-term investments. As of 1 January 2020, Kristi Ojakäär is responsible for the CFO areas of responsibility.

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

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

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

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

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

CONFORMITY WITH NASDAQ TALLINN STOCK EXCHANGE CORPORATE GOVERNANCE RECOMMENDATIONS

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

DECLARATION OF CONFORMITY BY TALLINNA VESI

In 2019, Tallinna Vesi complied with the vast majority of the Corporate Governance Recommendations. However, Tallinna Vesi did not comply with certain recommendations, which are listed below along with the reasons for such non-compliance:

"2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall, above all, take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer and the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector. "

The arrangements undertaken, in connection with the privatisation of Tallinna Vesi in 2001, provided that, in return for certain fees, United Utilities International Ltd. would provide Tallinna Vesi with

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technical and asset management services and make its personnel available to Tallinna Vesi in connection with its operation and management. The working hours, rates of compensation, and all other matters relating to the employment of the individual directly employed by United Utilities International Ltd. are to be determined solely by United Utilities International Ltd., the Supervisory Board does not discuss or regularly review the principles of remuneration of the relevant Management Board member.

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

Tallinna Vesi discloses the overall Management Board remuneration in Note 25 to the consolidated financial statements, but considers that individual remuneration is private information and that additional disclosure would bring no benefit to the shareholders.

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

Pursuant to the Articles of Association of Tallinna Vesi, the Supervisory Board consists of nine members. Under the Shareholders Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that, UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be reserved for independent members to be elected to the Supervisory Board as permitted by the Tallinn Stock Exchange on listing in June 2005.

INFORMATION DISCLOSURE

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

The Management Board Members of Tallinna Vesi are not in the Management Boards and Supervisory Boards of other Issuers.

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

The Supervisory Board approves the remuneration principles of the Management Board. In 2019, the transactions between Tallinna Vesi and any members of the Management Board or any persons or companies related to them were carried out by the arm's length principle and are disclosed in Note 25 to the consolidated financial statements.

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

The Supervisory Board member’s fee was determined by the General Meeting in 2005, at the time of the listing of the Company’s shares on the Tallinn Stock Exchange. The remuneration of Supervisory Board members was set at €6,391 per year per person and has remained unchanged. The fee has been paid to five members out of nine. The Supervisory Board member’s fee is not paid to the members representing UUTBV. The fee is subject to deduction and payment of applicable taxes and is payable on a monthly basis. The Supervisory Board members were not paid any additional benefits in 2019.

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

In 2019, five Supervisory Board meetings were held as follows: 24 January 2019, 28 March 2019, 25 April 2019, 31 July 2019 and 31 October 2019.

The 24 January 2019 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra.

The 28 March 2019 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra.

The 25 April 2019 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra.

The 31 July 2019 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra.

The 31 October 2019 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra.

Considering the above, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra attended 100% of the meetings. Mr Priit Rohumaa attended 80% of the meetings as he was unable to attend one meeting due to his other responsibilities, but he familiarised himself with all the materials for the meeting.

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

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All Supervisory Board members are aware of this requirement and at minimum once a year, Tallinna Vesi requests all Supervisory Board members to update the record of their business interests. No business transactions outside of the main business took place between Tallinna Vesi and either any Supervisory Board member or any persons or companies related to them in 2019. Water and wastewater services were sold to the Supervisory Board members at a price those were sold to all the other customers.

The Management Report consisting of chapters "Chairman's statement", "Our company", "Our performance in 2019", "Strategy", "Operational results of 2019", "Financial results of 2019" and "Corporate governance", is an integral part of the annual report of Tallinna Vesi for the financial year ended 31 December 2019. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of Tallinna Vesi.

BUSINESS ETHICS

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

In 2017, Tallinna Vesi reviewed its Code of Conduct and introduced the whistleblowing policy outlining the procedure for raising concerns and reporting incidents that are in conflict with the law, ethical standards or Tallinna Vesi's Code of Conduct.

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

Furthermore, within its sphere of influence, Tallinna Vesi encourages its contractors and other partners to adhere to similar high ethical principles as set forth in the Code of Conduct, which is the foundation of all business relationships, both new and those already in existence. Tallinna Vesi is not planning any specific trainings for the partners in that regard, but encourages them to acquaint themselves with the Company's policies. All related policies are publicly available on the Company´s website.

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

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

Tallinna Vesi did not identify any proven corruption or fraud incidents during 2019.

PARTNERS

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

Cooperation with suppliers

Tallinna Vesi is a service provider. Considering the nature of our activity as a water company, our supply chain includes other service providers and partners, who help us to guarantee the performance of our main operations and availability of services to the customers.

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

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

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

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Our subsidiary Watercom also ensures that all construction works are completed properly and on time, by outsourcing some of the works if it is needed and economically justified. We sign long-term contracts to retain our suppliers and to ensure good and reliable cooperation. We have, at any time, approximately 1,000 suppliers in our database with whom we have been in cooperation at least once a year.

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

OUR PRINCIPLES AND MEMBERSHIP IN ORGANISATIONS

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

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

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

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

7.2 Risk management process

RISKS AND UNCERTAINTIES

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

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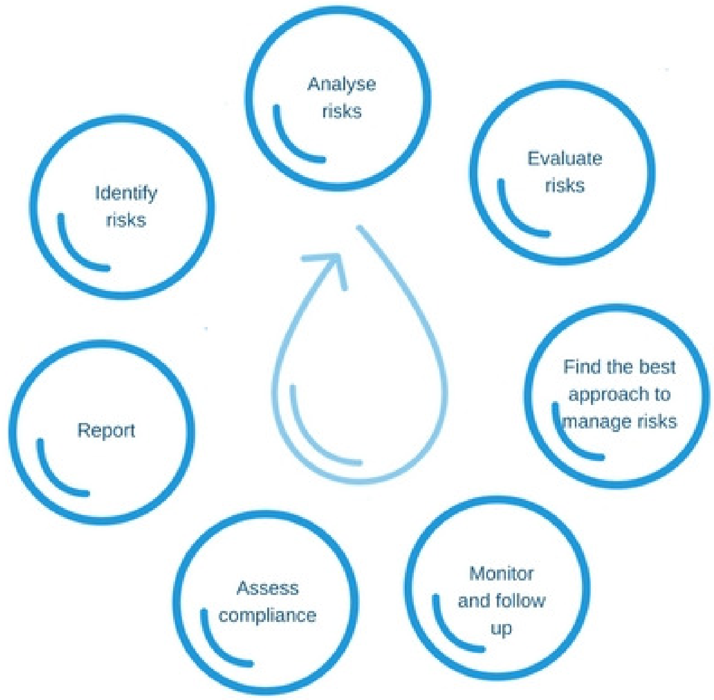
Tallinna Vesi goals and objectives. Risks can be threats, uncertainties or lost opportunities relating to Tallinna Vesi's current or future operations or activities.

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



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

CONTINUOUS MONITORING

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

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

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Tallinna Vesi has divided the risks into the following categories:

- Financial risks
- Operational risks
- Reputational risks
- Legal and Regulatory risks
- Health and Safety risks
- Environmental risks
- Personell risks
- IT risks
- Organisational risks
- Reporting risks
- Going concern risks

MAJOR RISK AREAS

EFFECTIVE LAWS AND REGULATIONS AND CHANGES IN LAWS AND REGULATIONS

The Company's operations are subject to extensive regulation (price regulations, environmental, health and safety). Non-compliance with the existing laws and regulations might result in additional operational expenditures and extra workload. The Company consistently monitors the changes in laws and the development of draft laws, in order to plan its activities on time, as in many cases changes in the laws may require extensive capital investments and/or rise the operating costs significantly. Currently the review of Public Water Supply and Sewerage Act is ongoing.

POSSIBLE THIRD-PARTY CLAIMS

On 12 December 2017, the Supreme Court made a decision on Tallinna Vesi's appeal in cassation with regard to the tariff dispute with the Estonian Competition Authority. The Court stated that the Competition Authority was not bound by the agreement on the water tariffs contained in the Services Agreement, which had been executed upon privatisation between the Company and the City of Tallinn. On 4 December 2018, the Competition Authority decided not to approve the tariff application the Company had submitted. On 22 October 2019, the Competition Authority approved the tariff application submitted by the Company, and the new tariffs, which were on average 20% lower than previous tariffs, became effective on 1 December 2019. The Company does not consider itself liable towards the consumers, because it has been acting on a legal basis and has not broken the law. As of the completion of the report, the Company had not received any substantiated claims from third parties.

The potential liability for third-party claims is described in the Note 15 to the consolidated financial statements.

DISEASE OUTBREAKS

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects to the Company.

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FINANCIAL MARKET CONDITIONS AND INTEREST RATES

Changes in interest rates and EURIBOR might have an adverse impact on the Company's cash flows and results of operations. Information on financial risk management is presented in Note 5 to the consolidated financial statements.

THREAT OF CYBERCRIME AND/OR TERRORISM

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

HEALTH AND SAFETY

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

INABILITY TO TREAT INCOMING WASTEWATER

In case of very heavy rainfall, there is a risk that the Wastewater Treatment Plant has difficulties to treat all incoming wastewater for a short period of time, which might result in pollution incidents. During last years, the risk has been lower, still additional capital investments are planned to further minimise the risk.

DETERIORATION OF RAW WATER QUALITY

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

LEAK OF SENSITIVE, INSIDER OR PERSONAL INFORMATION

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

DRINKING WATER QUALITY

In 2019, a new water quality testing method Colilert-18 was taken into use. This method is more sensitive than the membrane method used before, and in some instances it may detect coliform bacteria, where it previously could not. The Company has been in very close communication with the Health Board and has also taken other measures in order to fully comply with all requirements. There has been no change in the drinking water quality compared to the previous years.

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8. MANAGEMENT CONFIRMATION

The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements of AS Tallinna Vesi (Company) and its subsidiary Watercom OÜ (together referred to as the Group) for the financial year ended 31 December 2019 on pages 74-119.

The financial statements have been prepared according to International Financial Reporting Standards as adopted by the European Union, and give a fair presentation of the financial position, results of operations and cash flows of the Group.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Group's assets and liabilities as of 31 December 2019, and of income and expenses during the financial year. These estimates are based on current information about the Group and consider all plans and risks as of 31 December 2019. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 25 March 2020 have been considered in preparing the financial statements.

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

Name	Position	Signature	Date
Karl Heino Brookes	Chairman of the Management Board		25 March 2020
Aleksandr Timofejev	Member of the Management Board		25 March 2020
Kristi Ojakäär	Member of the Management Board		25 March 2020

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9. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand		as of 31 December	
ASSETS	Note	2019	2018
CURRENT ASSETS			
Cash and cash equivalents	6	64,775	61,769
Trade receivables, accrued income and prepaid expenses	7	7,239	7,631
Inventories		504	498
TOTAL CURRENT ASSETS		72,518	69,898
NON-CURRENT ASSETS			
Property, plant and equipment	9	189,627	179,185
Intangible assets	10	710	665
TOTAL NON-CURRENT ASSETS		190,337	179,850
TOTAL ASSETS		262,855	249,748
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term lease liabilities	11	352	191
Current portion of long-term bank loans	11	3,631	3,632
Trade and other payables	12	6,718	6,047
Derivatives	8	221	207
Prepayments	14	2,323	2,955
TOTAL CURRENT LIABILITIES		13,245	13,032
NON-CURRENT LIABILITIES			
Deferred income from connection fees		31,070	22,745
Leases	11	964	624
Bank loans	11	87,592	91,295
Derivatives	8	0	173
Provision for possible third-party claims	15	14,442	19,068
Other payables		18	46
TOTAL NON-CURRENT LIABILITIES		134,086	133,951
TOTAL LIABILITIES		147,331	146,983
EQUITY			
Share capital	16	12,000	12,000
Share premium		24,734	24,734
Statutory legal reserve		1,278	1,278
Retained earnings		77,512	64,753
TOTAL EQUITY		115,524	102,765
TOTAL LIABILITIES AND EQUITY		262,855	249,748

Notes to the financial statements on pages 78 to 119 form an integral part of the financial statements.

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10. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		for the year ended 31 December	
€ thousand	Note	2019	2018
Revenue	17	63,423	62,780
Costs of goods and services sold	19	-29,470	-28,594
GROSS PROFIT		33,953	34,186
Marketing expenses	19	-390	-386
General administration expenses	19	-5,689	-5,025
Other income (+)/ expenses (-)	20	4,201	-1,836
OPERATING PROFIT		32,075	26,939
Financial income	21	38	21
Financial expenses	21	-809	-1,010
PROFIT BEFORE TAXES		31,304	25,950
Income tax on dividends	22	-3,544	-1,800
NET PROFIT FOR THE PERIOD		27,760	24,150
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		27,760	24,150
Attributable profit to:			
Equity holders of A shares		27,759	24,149
B share holder		0.60	0.60
Earnings per A share (in euros)	23	1.39	1.21
Earnings per B share (in euros)	23	600	600

Notes to the financial statements on pages 78 to 119 form an integral part of the financial statements.

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11. CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	Note	for the year ended 31 December 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		32,075	26,939
Adjustment for depreciation/amortisation	9,10,19,20	6,109	5,790
Adjustment for revenues from connection fees	20	-389	-295
Other non-cash adjustments	15,20	-4,624	1,526
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		138	-115
Change in current assets involved in operating activities		391	54
Change in liabilities involved in operating activities		318	393
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		34,018	34,292
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-10,441	-10,736
Compensations received for construction of pipelines, incl connection fees		3,010	3,716
Proceeds from sale of property, plant and equipment, and intangible assets		24	160
Interest received		36	17
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-7,371	-6,843
CASH FLOWS USED IN FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl swap interests		-1,056	-1,394
Lease payments		-404	-258
Received loans	11	37,500	0
Repayment of loans	11	-41,136	0
Dividends paid	22	-14,965	-7,201
Withheld income tax paid on dividends	22	-36	0
Income tax on dividends	22	-3,544	-1,800
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-23,641	-10,653
CHANGE IN CASH AND CASH EQUIVALENTS		3,006	16,796
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6	61,769	44,973
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	64,775	61,769

Notes to the financial statements on pages 78 to 119 form an integral part of the financial statements.

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12. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2017	12,000	24,734	1,278	47,804	85,816
Dividends (Note 22)	0	0	0	- 7,201	-7,201
Comprehensive income for the period (Note 23)	0	0	0	24,150	24,150
as of 31 December 2018	12,000	24,734	1,278	64,753	102,765
Dividends (Note 22)	0	0	0	- 15,001	-15,001
Comprehensive income for the period (Note 23)	0	0	0	27,760	27,760
as of 31 December 2019	12,000	24,734	1,278	77,512	115,524

Notes to the financial statements on pages 78 to 119 form an integral part of the financial statements.

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13. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

NOTE 1. GENERAL INFORMATION

AS Tallinna Vesi is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 450,000 people in Tallinn and in several neighbouring municipalities of Tallinn. The Current Services Agreement is effective until 30 November 2025 as per the exclusive right to provide water and wastewater services in Tallinn.

Shareholders of AS Tallinna Vesi having a significant influence are United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Nasdaq Baltic, in which AS Tallinna Vesi was listed on 1 June 2005.

Watercom OÜ (Subsidiary) was founded at 2010 by the Company and its main areas of activity are services related to water business and owner supervision and construction services. The Company and the Subsidiary together form a group (Group).

Contacts:

Name	AS Tallinna Vesi	Watercom OÜ
Commercial register number	10257326	11944939
VAT identification number	EE100060979	EE101374619
Address	Ädala 10, 10614 Tallinn	Ädala 10, 10614 Tallinn
Telephone	62 62 200	62 62 620
Fax	62 62 300	62 62 300
E-mail	tvesi@tvesi.ee	watercom@watercom.eu

NOTE 2. ACCOUNTING POLICIES

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

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

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

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue at 25 March 2020. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of AS Tallinna Vesi and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

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

Adoption of New or Revised Standards and Interpretations

The Group has applied the following standard for the first time for their annual reporting period beginning on 1 January 2019:

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group assessed the impact of the new standard on its financial statements, please see note 3.

There are no other new or revised standards or interpretations that are effective for the first time for financial year beginning on 1 January 2019 that have a material impact to the Group.

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Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2020 or later periods and which the Group has not early adopted:

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Group is currently assessing the impact of the new standards on its financial statements.

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

Changes in presentation

The Group has changed the presentation of cash flows statement by reclassifying the revaluation of the provision described in note 15 from the line 'Change in liabilities involved in operating activities' to the line 'Other non-cash adjustments'. In the cash flow statement of 2018, €1,546 thousand have been reclassified. This reclassification has no impact on the total cash flows from operating activities.

Principles of consolidation and subsidiaries

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

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

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

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Foreign currency

Functional and presentation currency

Consolidated financial statements for the year ended 31 December 2019 have been presented in euros.

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

Foreign currency transactions and balances

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

Current and non-current distinction of assets and liabilities

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

Cash and cash equivalents

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

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

Financial assets

Classification

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

Recognition and derecognition

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

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

Measurement

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

Debt instruments

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

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

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in the statement of comprehensive income on the row 'Other income (+)/expenses(-)'. Impairment losses are also presented on the row 'Other income (+)/expenses(-)'. As at 31 December 2019 and 2018 all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

Impairment

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

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

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

Inventories

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

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

Non-current assets held for sale

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

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

Property, plant and equipment, and intangible assets

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

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

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

Acquired licenses

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

Other intangible assets

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

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

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individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

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

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

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

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

Applicable depreciation/amortisation rates:

- buildings 1.25-2.0% per annum;
- facilities 1.0-8.33% per annum;
- machinery and equipment 3.33-50% per annum;
- instruments and other equipment etc. 10-20% per annum;
- acquired licenses and other intangible assets 10-33% per annum.

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

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

Impairment of assets

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

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

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

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

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

If based on the results of the assessment it appears that the recoverable amount of an asset or the cash-generating unit has increased, the earlier impairment is reversed up to the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recorded in the statement of comprehensive income of the period as a decrease in impairment loss.

Financial liabilities

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

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

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

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

Derivatives

With regard to derivatives, the Group uses interest rate swap contracts, in order to mitigate risks related to fluctuations in interest rates. Such derivatives are initially recognised at their fair value at the date of entering into the contract and are subsequently carried at fair value with changes recognised in profit or loss. If fair value is positive, the derivative is recognised as an asset, if negative, as a liability. Derivatives are classified as a current asset or liability if expected to be settled within 12 months; otherwise, they are classified as non-current.

Gains and losses attributable to changes in the fair value of derivatives are recognised in the statement of comprehensive income of the reporting period. Gains and losses from the disposal of derivatives are also recognised in the statement of comprehensive income.

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Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise.

Income tax on dividends in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. In 2019, the rate was 20/80 on the amount of the dividends payable (2018: 20/80). Moreover, from 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average taxed dividend payment during the three preceding years. When calculating the average dividend payment of three preceding years, 2018 is will be the first year to be taken into account.

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

Employee benefits

Employee short-term benefits

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

Termination benefits

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

Provisions and contingent liabilities

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

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The provisions include provision for the possible third-party claims (Note 15) and the guarantee the Group has given to the construction services provided by the Group itself, which is necessary to meet the warranty obligation for services sold by the reporting date. The amount of provision for construction services guarantees is recognised in the statement of financial position as a current and non-current liability, depending on the length of the guarantee period and possible time of its realisation. Guarantee provisions have been recognised based on of the best estimates of the Group's Management Board and the actual costs of these transactions can differ from the provided estimates.

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

Share capital

Shares are recorded within the equity capital. Pursuant to the Group's Articles of Association, the Group has two classes of shares: the A Shares, with a nominal value of €0.60 each and a single preference share B share, with a nominal value of €60.

Statutory reserve capital

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

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

Leases

Accounting principles until 31 December 2018 – the Group as the lessee

A lease is an agreement whereby the lesser conveys to the lessee in return for a payment or series payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the statement of comprehensive income. The finance lease liability is recognised either within short or long-term borrowing in the statement of financial position.

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Payments made under operating leases are charged to the statement of comprehensive income over the lease term on a linear basis.

Accounting principles from 1 January 2019 – the Group as the lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Initial measurement

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

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

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

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with the average interest margin of the industry adjusted with

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the credit risk of the Group;
- makes adjustments specific to the lease, e.g. lease term, country, currency and security.

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

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

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

Subsequent measurement

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

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

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

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

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

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

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

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

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

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

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

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

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

Financing component

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

Earnings per share

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

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Segment reporting

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

NOTE 3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

IFRS 16 Leases

On 1 January 2019 the Group applied IFRS 16 Leases prospectively, using the simplified transition approach as permitted by the standard. Therefore, the comparatives for the 2018 reporting period have not been restated and the information about the comparatives for the 2018 reporting period are presented under the previous standard IAS 17 Leases.

On initial application the group recognised right-of-use asset in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at the date of initial application, i.e. 1 January 2019. On initial application, the Group applied the weighted average lessee's incremental borrowing rate of 1,077% to the lease liabilities. The right-of-use assets were measured at the amount of the lease liability on adoption.

Practical expedients on initial application

As a practical expedient, the Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 Leases and Interpretation IFRIC 4 Determining whether an Arrangement contains a Lease.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard for leases previously classified as operating leases:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- for a contract that contains a lease component and one or more additional non-lease components, the non-lease components have not been separated from lease components, and instead account for each lease component and any associated non-lease components as a single lease component by class of underlying asset;
- recognise the operating lease commitments of the long-term lease arrangements of vehicles, with maturity less than 12 months, in the same way as other lease assets of the same class in accordance with the principles of IFRS 16. Other short-term leases are recognised on a straight-line basis.

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For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying IFRS 16 from the date of initial application.

Measurement of lease liabilities on initial application

Lease liabilities that are recognised in the statement of financial position on initial application, are presented below:

€ thousand	
Future minimum lease payments in relation to non-cancellable operating leases as at 31 December 2018	737
Discounted using the lessee's incremental borrowing rate of 1,077% at the date of initial application	720
Add: finance lease liabilities recognised as at 31 December 2018	816
(Less): short-term leases not recognised as a liability	-15
(Less): low-value leases not recognised as a liability	-3
Lease liability recognised in the statement of financial position as at 1 January 2019	**1,518**

Measurement of right-of-use assets on initial application

On initial application, the Group has measured the associated right-of-use asset at the amount equal to the lease liability.

Adjustments recognised

The Group has recognised in the statement of financial position the following adjustments as at 1 January 2019:

€ thousand	
Property, plant and equipment – decrease	-849
Right-of-use assets – increase	1,551
Borrowings – decrease	-816
Lease liabilities – increase	1,518
The net impact on retained earnings on 1 January 2019	**0**

Consequently, the liabilities and assets of the Group increased by €702 thousand on 1 January 2019.

As a result of adopting new accounting principles, the Group's EBITDA has increased by €205 thousand for 2019, as lease payments are recognised as depreciation of the right-of-use assets and as interest on the lease liabilities that are excluded from EBITDA. The Group's operating profit has increased by €7 thousand and net profit has decreased by €3 thousand for 2019. According to the previous standard IAS 17, lease payments were fully included in Cost of Goods/Services Sold or Marketing or Administrative expenses. Operating cash flows have increased and financing cash flows have

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decreased by €205 thousand, as repayments of the lease liabilities are classified as cash flows from financing activities.

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating as a result of the adoption of IFRS 16.

Additional information about the Group's leasing activities is disclosed in note 24.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES

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

- Management has made an estimate with regards to possible third-party claims based on the maximum difference between revenues calculated with the tariffs established by the City of Tallinn in 2010 and the tariffs calculated according to the principles of methodology of tariffs approved on 18 October 2019 by the Competition Authority with the reservation to the possible fluctuation. The Company has acted in good faith and in reliance on promises by the previous regulator. Therefore, the Company does not consider itself liable to the customers for any claims related to the tariffs, which were applied before the new tariffs approved by the Competition Authority became effective on 1/12/2019.

  The potential undiscounted payments by the Company in the future, if potential claims from customers were recognised by the courts, would amount to €36.1 million (€47.7 million as of 31 December 2018). This estimate marks the maximum difference of three years in between the tariffs approved by the City of Tallinn in 2010 and the tariffs based on the Company's estimation regarding past three years with the reservation to the possible fluctuation. The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be €14.4 million (€19.1 million as of 31 December 2018). The potential undiscounted payments maximum total amount and estimated provision amount for possible third-party claims decreased resulting from methodology for approved tariffs on 18 October 2019. The Company will monitor the situation and thus may adjust the relevant provision on a rolling basis. See also Note 15.

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the note 2 in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in notes 9 and 10.

  As of 31 December 2019 Group owns property, plant and equipment, and intangible assets with a net book value of €190 million (31 December 2018: €180 million) and annual depreciation was €6.1 million (2018: €5.8 million). If the depreciation/amortisation rates decreased/increased by 5%, the depreciation/ amortisation expense would increase/decrease by €305 thousand respectively (2018: €290 thousand).

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NOTE 5. FINANCIAL RISK MANAGEMENT

FINANCIAL RISK FACTORS

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

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

Market risk

Foreign exchange risk

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

Majority of Group's purchases are made in euros. The proportion of purchases in other currencies in 2019 was 0.2% (2018: 0.6%). Because of the small proportion of transactions in foreign currencies the Group has not taken any special activities to reduce this risk.

On 31 December 2019 the Group's bank accounts balances (including deposits) totalled €64,775 thousand (31 December 2018: €61,769 thousand) from which no sums were in foreign currencies (31 December 2018: no foreign currencies). There were no other significant exposures to foreign currencies arising from Group's other financial assets and financial liabilities.

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

Price risk

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

Cash flow interest rate risk and fair value interest rate risk

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

Borrowings issued at variable interest rates (Note 11) expose the Group to cash flow interest rate risk. In order to mitigate the cash flow interest rate risk, the Group concludes floating-to-fixed interest rate swap contracts (Note 8). The Group's interest rate risk arises from long-term borrowings and, with EURIBOR being below zero, from the ineffectiveness of swap contracts as hedging instruments.

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At the end of reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	31 December 2019		31 December 2018	
	Effective interest rate	Balance € thousand	Effective interest rate	Balance € thousand
Long-term borrowings	0.542%	91,221	0.811%	94,926
Interest rate swaps (notional principal amount)	0.3%	37,500	0.3%	45,000
Net exposure to cash flow interest rate risk in case Euribor>0		53,721		49,926
Net exposure to cash flow interest rate risk in case Euribor<0		37,500		45,000

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

	Impact on profit	
€ thousand	2019	2018
Interest rates- Increase by 50 basis points*	-37	139
Interest rates- Decrease by 50 basis points*	-195	-273

* *Holding all other variables constant*

Overnight and fixed term deposits have fixed interest rate and therefore expose the Group to fair value interest rate risk. As all these instruments are carried at amortised cost, the change in market interest rates would not have an effect on the financial statements of the Group.

Credit risk

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

According to the Group's risk management policies the Group's short-term resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in credit institutions. For cash in banks and short-term depositing counterparties with at least a long-term Baa1 rating (by Moody's) is used. As of 31 December 2019, 100% of Group's cash in banks and short-term deposits were deposited with counterparties with higher rating than A3 (31 December 2018: 100% higher than A3).

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

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2019, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates

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are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of Estonia in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis described above, the loss allowance as at 31 December 2019:

not due	0.01%;
61 to 90 days over due date	10%;
91 to 180 days over due date	30%;
181 to 360 days over due date	70%;
over 360 days over due date	100%.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2019.

Sales of Group's products and services is done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers' payment discipline is consistently observed. In the case of overdue debt, the customers are contacted by billing group. As of the end of December 2019 there were 2 customers (31 December 2018: 1 customer) with receivable (Note 7) exceeding 5% of total trade receivables. The receivable has been paid before the date of completion of these financial statements.

Financial assets € thousand	Balance	Not due	Overdue Up to 60 days	More than 60 days	Impairment
as of 31 December 2019					
Cash and cash equivalents (Note 6)	64,775	64,775	0	0	0
Trade receivables (Note 7)	6,820	6,665	118	465	-428
Commercial customers	3,933	3,852	66	415	-400
Private customers	2,887	2,813	52	50	-28
Accrued income	7	7	0	0	0
Total	**71,602**	**71,447**	**118**	**465**	**-428**
as of 31 December 2018					
Cash and cash equivalents (Note 6)	61,769	61,769	0	0	0
Trade receivables (Note 7)	7,168	7,005	119	494	-450
Commercial customers	3,594	3,513	67	440	-428
Private customers	3,574	3,491	52	54	-24
Accrued income	4	4	0	0	0
Total	**68,941**	**68,778**	**119**	**494**	**-450**

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

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Liquidity risk

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

Financial liabilities in terms of payment* € thousand	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
as of 31 December 2019						
Trade and other payables (Note 12)	3,149	168	31	0	0	3,348
Derivatives (Note 8)	221	0	0	0	0	221
Bank loans	0	102	3,979	52,997	36,251	93,329
Leases	34	65	265	1,028	0	1,392
Total	**3,404**	**335**	**4,275**	**54,025**	**36,251**	**98,290**
as of 31 December 2018						
Trade and other payables (Note 12)	2,636	147	0	31	0	2,814
Derivatives (Note 8)	207	0	0	173	0	380
Bank loans	28	106	4,178	90,815	1,827	96,954
Finance leases	20	32	149	659	0	860
Total	**2,891**	**285**	**4,327**	**91,678**	**1,827**	**101,008**

**All amounts above are undiscounted*

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

Capital management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (Note 11; including 'current and non-current borrowings' as shown in the consolidated Statement of financial position) less cash and cash equivalents (Note 6). Total capital is calculated as 'equity' as shown in the consolidated Statement of financial position plus net debt.

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€ thousand	as of 31 December 2019	2018
Borrowings	92,539	95,742
Cash	-64,775	-61,769
Net debt	27,764	33,973
Equity	115,524	102,765
Total capital	143,288	136,738
Net debt to total capital ratio	19,4%	24.9%
Total assets	262,855	249,748
Proportion of equity from total assets	43,9%	41.1%

Fair value estimation

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

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

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. As of 31 December 2019 and 2018, the Group did not have any financial instruments of level 1.

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

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

As of 31 December 2019 all Group's long-term borrowings had floating interest rates. The fair values of long-term borrowings are based on discounted cash flows using the borrowing rate of 1.02% (2018: 1.37%) and are within level 3 of the fair value hierarchy. As of 31 December 2019, the fair value of the Group's long-term borrowings was €2,787 thousand lower than their carrying amount (31 December 2018: €1,590 thousand lower).

The financial instruments carried at fair value (interest rate swap contracts, Note 8) are included in level 2. The fair value of interest rate swap contracts is calculated as the present value of estimated future cash flows based on observable yield curves.

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NOTE 6. CASH AND CASH EQUIVALENTS

€ thousand	2019	as of 31 December 2018
Cash and bank accounts	43,175	46,769
Short-term deposits	21,600	15,000
Total cash and cash equivalents	64,775	61,769

NOTE 7. TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES

€ thousand	2019	as of 31 December 2018
Accounts receivable	7,248	7,618
Allowance for doubtful receivables	-428	-450
Total trade receivables	6,820	7,168
Allowance for doubtful receivables at the beginning of the period	-450	-420
Proceeds from doubtful receivables during the period	37	27
Allowance for doubtful receivables recognised during the period	-15	-57
Allowance for doubtful receivables at the end of the period	-428	-450

Impairment losses recognised during the period are reported in profit or loss as 'Other income (+)/expenses (-)'. For further information on ageing of receivables (including overdue receivables), please see note 5.

€ thousand	2019	as of 31 December 2018
Accrued interest	7	4
Other accrued income	107	132
Prepaid expenses	304	327
Total accrued income and prepaid expenses	418	463
Total trade receivables, accrued income and prepaid expenses	7,238	7,631

The Company's current assets (incl. trade receivables, accruals and inventory) in the amount of € 6,595 thousand (31 December 2018: € 7,097 thousand) have been pledged as a security for the bank loans (Note 11), as a part of commercial pledge.

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NOTE 8. DERIVATIVES

€ thousand	2019	as of 31 December 2018
Current liabilities		
Interest rate swap contracts	221	207
Non-current liabilities		
Interest rate swap contracts	0	173

€ thousand	2019	as of 31 December 2018
Contracts start date	June 2015	May 2015 – June 2015
Contracts maturity date	November 2020	May 2019 – November 2020
Contracts notional amount	37,500	45,000

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NOTE 9. 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 2017							
Acquisition cost	26,415	207,666	49,436	2,416	0	0	285,933
Accumulated depreciation	-6,829	-68,243	-36,410	0	0	0	-111,482
Net book value	19,586	139,423	13,026	2,416	0	0	174,451
Transactions in the period 1 January 2018 - 31 December 2018							
Acquisition in book value	0	0	0	10,317	0	0	10,317
Write off and sale of property, plant and equipment in residual value	-13	-2	-29	0	0	0	-44
Reclassification	102	7,792	1,665	-9,534	0	0	25
Depreciation	-289	-3,147	-2,128	0	0	0	-5,564
as of 31 December 2018							
Acquisition cost	26,500	215,059	49,933	3,199	0	0	294,691
Accumulated depreciation	-7,114	-70,993	-37,399	0	0	0	-115,506
Net book value	19,386	144,066	12,534	3,199	0	0	179,185
Transactions in the period 1 January 2019 - 31 December 2019							
Reclassification 01.01.2019 (IFRS 16)	0	0	-823	-26	1,525	26	702
Acquisition in book value	0	0	0	15,606	0	237	15,843
Write off and sale of property, plant and equipment in residual value	-7	-130	-20	0	-37	0	-194
Reclassification	245	14,829	1,245	-16,323	262	-262	-4
Depreciation	-321	-3,342	-1,870	0	-372	0	-5,905
as of 31 December 2019							
Acquisition cost	26,688	229,228	48,552	2,456	2,493	1	309,418
Accumulated depreciation	-7,385	-73,805	-37,486	0	-1,115	0	-119,791
Net book value	19,303	155,423	11,066	2,456	1,378	1	189,627

Property, plant and equipment are written off if the condition of the asset does not enable further usage for production purposes. In comparison with the previous annual report, the Group has made a change in presenting information in the Note 'Property, plant and equipment'. The column 'Other equipment',

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which stood as a separate column, is now included in the column 'Machinery and equipment'. By nature the right-of-use assets comply with the asset class of machinery and equipment.

The Group's non-current assets in the book value amount of €11,393 thousand (31 December 2018: €11,909 thousand) have been pledged as a security for the bank loans (Note 11), as a part of commercial pledge. A mortgage for the Group's non-current assets (land, buildings and facilities) in the book value amount of €30,016 thousand (31 December 2018: €30,052 thousand) serves as a security to the bank loans (Note 11).

During the year, the Group has capitalised borrowing costs amounting to €21 thousand (2018: €23 thousand) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 0.75% (2018: 0.79%).

NOTE 10. INTANGIBLE ASSETS

€ thousand	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2017			
Acquisition cost	5,247	390	5,637
Accumulated amortisation	-4,826	0	-4,826
Net book value	421	390	811
Transactions in the period 01 January 2018 - 31 December 2018			
Acquisition in book value	0	80	80
Reclassification	420	-420	0
Amortisation	-226	0	-226
as of 31 December 2018			
Acquisition cost	4,206	50	4,256
Accumulated amortisation	-3,591	0	-3,591
Net book value	615	50	665
Transactions in the period 01 January 2019 - 31 December 2019			
Acquisition in book value	0	249	249
Reclassification	288	-288	0
Amortisation	-204	0	-204
as of 31 December 2019			
Acquisition cost	4,463	11	4,474
Accumulated amortisation	-3,764	0	-3,764
Net book value	699	11	710

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NOTE 11. BORROWINGS

€ thousand		as of 31 December
Current liabilities	**2019**	**2018**
Current portion of long-term leases	352	191
Current portion of long-term loans	3,631	3,632
Non-current liabilities		
Leases	964	624
Loans	87,592	91,295

Liabilities at 31 December 2019

€ thousand	Balance	Effective interest rate
Lease liabilities	1,316	0.89%-1,86%
Bank loans at floating interest rate (based on 6-month Euribor)	91,221	0.30%-1.02%

Liabilities at 31 December 2018

€ thousand	Balance	Effective interest rate
Lease liabilities	815	0.85%-2.3%
Bank loans at floating interest rate (based on 6-month Euribor)	94,927	0.57%-1%

The Group's loan agreements, valid as of 31 December 2019, mature as follows. One loan agreement in the amount of €37.5 million will be repaid in September 2022 (31 December 2018: September 2022). The second loan agreement in the amount of €20 million continues to be repaid in eleven equal semi-annual repayments from May 2019 to May 2024 (31 December 2018: May 2019 to May 2024). The third loan agreement in the amount of €37.5 million will be repaid in 21 equal semi-annual repayments from November 2024 to November 2034.

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Net debt reconciliation

Net debt	as of 31 December	
€ thousand	2019	2018
Cash and cash equivalents	64,775	61,769
Borrowings (2018 includes finance lease liabilities)	-91,223	-95,743
Lease liabilities	-1,316	0
Total net debt	**-27,764**	**-33,974**
Cash and cash equivalents	64,775	61,769
Gross debt - variable interest rates	-92,539	-95,743
Total net debt	**-27,764**	**-33,974**

	Liabilities from financing activities			Other assets	
€ thousand	Borrowings	Leases	Subtotal	Cash and cash equivalents	Total
Net debt as at 1 January 2018	**-94,908**	**-921**	**-95,829**	**44,973**	**-50,856**
Cash flows	0	258	258	16,796	17,054
Acquisitions – finance leases	0	-153	-153	0	-153
Other changes	-19	0	-19	0	-19
Net debt as at 31 December 2018	**-94,927**	**-816**	**-95,743**	**61,769**	**-33,974**
Recognised on adoption of IFRS 16 (Note 3)	0	-702	-702	0	-702
Net debt as at 1 January 2019	**-94,927**	**-1,518**	**-96,445**	**61,769**	**-34,676**
Cash flows	3,636	404	4,040	3,006	7,046
Acquisitions – leases	0	-239	-239	0	-239
Other changes	68	37	105	0	105
Net debt as at 31 December 2019	**-91,223**	**-1,316**	**-92,539**	**64,775**	**-27,764**

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

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Collateral of loans and pledged assets € thousand		Collateral at book value as of 31 December	
Type of collateral	Specification and location of collateral	2019	2018
Commercial pledge	Movables of the Company (Note 7, 9)	17,988	19,007
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	30,016	30,052

NOTE 12. TRADE AND OTHER PAYABLES

€ thousand	for the year ended 31 December 2019	2018
Trade payables - operating expenditures	2,287	2,152
Trade payables - capital expenditures	768	391
Payables to related parties (Note 25)	184	179
Payables to employees	1,261	1,267
Interest payable	78	78
Other accrued expenses	109	61
Warranty reserve	70	69
Taxes payable incl:		
Income tax	196	175
VAT	697	715
Water abstraction charges	314	294
Pollution taxes	302	249
Social security tax	394	363
Other	57	54
Total trade and other payables	6,717	6,047

NOTE 13. OTHER CONTINGENT LIABILITIES

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

The Group's distributable retained earnings as at 31 December 2019 amounted to €77,512 thousand (2018: €64,753 thousand). Consequently, if retained earnings were fully distributed as dividends and the lower tax rate that may be applicable from 2019 to dividend payments was applied, the maximum possible tax liability which would be €18,733 thousand (2018: €15,979 thousand). See also note 2.

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NOTE 14. PREPAYMENTS

as of 31 December		
€ thousand	2019	2018
Prepayments for water and sewerage services	132	115
Prepayments for fixed assets	4	0
Prepayments for connection fee	2,187	2,840
Total prepayments	2,323	2,955

NOTE 15. PROVISION FOR POSSIBLE THIRD-PARTY CLAIMS

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

According to the law the tariffs established by the City of Tallinn are in force until the Competition Authority approves the new tariffs and the Company has implemented these tariffs in line with the law. The Company has acted in good faith and in reliance on promises by the previous regulator. Thus, the Company does not consider itself liable to the customers for any claims related to the tariffs, which were applied before the new tariffs approved by the Competition Authority became effective on 01.12.2019.

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

The potential undiscounted payments by the Company, if customer claims are to be recognised by the courts in full and all customers submit their claims, amounts to €36.1 million (31 December 2018: €47.7 million). This estimate marks the maximum difference of three years in between the tariffs approved by the City of Tallinn in 2010 and the tariffs calculated according to the principles of methodology of tariffs approved on 18 October 2019 by the Competition Authority with the reservation to the possible fluctuation. The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be €14.4 million (€19.1 million as of 31 December 2018). The potential undiscounted payments maximum total amount and estimated provision amount for possible third-party claims decreased resulting from methodology for approved tariffs on 18 October 2019. As of 31 December 2019, no substantiated claims have been submitted. The Company will monitor the situation and thus may adjust the relevant provision on the rolling basis.

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NOTE 16. SHARE CAPITAL

As at 31 December 2019 the nominal value of the share capital was €12,000,060 (twelve million and sixty euros), composed of 20,000,000 (twenty million) A shares with the nominal value of €0.60 (sixty eurocents) per share and 1 (one) preferred B share with a nominal value of €60 (sixty euros).

The B share has been issued with the right of veto to the shareholder when voting on the following issues: amending the Articles of Association, increase and decrease of share capital, issuance of convertible bonds, acquisition of own (treasury) shares, deciding on the merger, division, transformation and/or dissolution of AS Tallinna Vesi and deciding other issues related to the activities of the AS Tallinna Vesi that have not been placed in the sole competence of the General Meeting by law that either the Management Board or the Supervisory Board have put to the vote of the General Meeting. In 2019 and 2018, the B share granted the holder the preferential right to receive a dividend in an agreed amount of €600 (six hundred euros).

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

As of 31 December 2019 and 2018 United Utilities (Tallinn) B.V. owned 7,060,870 (35.3%) A shares, the City of Tallinn owned 6,939,130 (34.7%) A shares and 1 (one) B share, with 6,000,000 shares in free float. Other direct shareholders each owned less than 5% of the shares as of 31 December 2019 and 2018.

As of 31 December 2019 from all Supervisory Board and Management Board members Riina Käi owned 100 shares (2018: Riina Käi 100 shares). Dividends declared and paid are disclosed in note 22.

Contingent income tax on the dividend payments from retained earnings is described in note 13.

NOTE 17. SEGMENT REPORTING

According to the principles of the standard IFRS 8 Operating Segments, an entity shall report separately information about an operating segment if either its reported revenue, profit or loss, or assets account for 10 per cent or more of the particular combined measure of all operating segments. From 2019 quarter 4 the revenue of construction services is more than 10% of the combined revenue of all operating segments of the Group. Thus, the Group shall report information about this operating segment separately.

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.

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

€ thousand	Water services	Construction services	Other services	Inter-segment transactions	Total segments
1 January 2019 - 31 December 2019					
External revenue	56,866	5,960	597	0	63,423
Inter-segment revenue	1	2,740	3,399	-6,140	0
Total segment revenue	56,867	8,700	3,996	-6,140	63,423
Segment's gross profit	32,982	329	1,253	-611	33,953
Unallocated expenses:					
Marketing and Administrative expenses					-6,079
Other income/expenses					4,201
Operating profit					32,075
1 January 2018 - 31 December 2018					
External revenue	56,213	5,950	617	0	62,780
Inter-segment revenue	0	1,736	3,630	-5,366	0
Total segment revenue	56,213	7,686	4,247	-5,366	62,780
Segment's gross profit	33,089	349	1,444	-696	34,186
Unallocated expenses:					
Marketing and Administrative expenses					-5,411
Other income/expenses					-1,836
Operating profit					26,939

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Revenue by activities

€ thousand	for the year ended 31 December 2019	2018
Water services		
Water supply service	13,781	14,179
Wastewater disposal service	11,719	11,586
Total from private customers	25,500	25,765
Water supply service	11,482	11,733
Wastewater disposal service	9,317	9,513
Total from commercial customers	20,799	21,246
Water supply service	1,622	1,465
Wastewater disposal service	3,193	2,893
Stormwater disposal service	426	322
Total from outside service area customers	5,241	4,680
Stormwater treatment and disposal service and fire hydrants service	4,002	3,562
Overpollution charges and discharging	1,324	960
Total from water services	56,866	56,213
Construction services	5,960	5,950
Other services	597	617
Total revenue	63,423	62,780

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

NOTE 18. STAFF COSTS

€ thousand	for the year ended 31 December 2019	2018
Salaries and wages (Note 19)	-6,762	-6,479
Social security and unemployment insurance taxation (Note 19)	-2,286	-2,190
Total staff costs	-9,048	-8,669
The average number of employees	321	316

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NOTE 19. COST OF GOODS AND SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

€ thousand	for the year ended 31 December 2019	2018
Cost of goods and services sold		
Water abstraction charges	-1,219	-1,187
Chemicals	-1,664	-1,744
Electricity	-3,566	-2,849
Pollution tax	-1,089	-963
Staff costs (Note 18)	-6,602	-6,283
Depreciation and amortisation	-5,420	-5,177
Construction service	-5,096	-5,204
Other costs of goods and services sold	-4,814	-5,187
Total cost of goods and services sold	**-29,470**	**-28,594**
Marketing expenses		
Staff costs (Note 18)	-318	-321
Depreciation and amortisation	0	-1
Other marketing expenses	-72	-64
Total marketing expenses	**-390**	**-386**
Administrative expenses		
Staff costs (Note 18)	-2,128	-2,065
Depreciation and amortisation	-335	-342
Other general administration expenses	-3,226	-2,618
Total administrative expenses	**-5,689**	**-5,025**

NOTE 20. OTHER INCOME/EXPENSES

€ thousand	for the year ended 31 December 2019	2018
Connection fees	389	295
Depreciation of single connections	-354	-270
Doubtful receivables expenses (-)/expense reduction (+)	20	-30
Provision for possible third party claims (Note 15)	4,626	-1,546
Other income (+)/expenses (-)	-480	-285
Total other income/expenses	**4,201**	**-1,836**

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NOTE 21. FINANCIAL INCOME AND EXPENSES

	for the year ended 31 December	
€ thousand	2019	2018
Interest income	38	21
Interest expense, loan and lease	-714	-752
Interest expense, swap	-230	-614
Increase (+)/decrease (-) of fair value of swap	159	376
Other financial income (+)/expenses (-)	-24	-20
Total financial income/expenses	-771	-989

NOTE 22. DIVIDENDS

	for the year ended 31 December	
€ thousand	2019	2018
Dividends declared during the period	15,001	7,201
Dividends paid during the period	14,965	7,201
Withheld income tax on dividends	36	0
Income tax on dividends paid	-3,544	-1,800
Dividends declared per shares:		
Dividends per A share (in euros)	0.75	0.36
Dividends per B share (in euros)	600	600

Dividend income tax rate in 2019 is 20/80, but for dividend payments in the amount of up to the average 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, 2018 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. Income tax rates in 2018 were 20/80.

NOTE 23. EARNINGS PER SHARE

	for the year ended 31 December	
	2019	2018
Net profit minus B share preferred dividend rights (€ thousand)	27,759	24,149
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20,000,000	20,000,000
Earnings per A share (in euros)	1.39	1.21
Earnings per B share (in euros)	600	600

Diluted earnings per share for the periods ended 31 December 2019 and 2018 are equal to earnings per share figures stated above.

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NOTE 24. LEASES

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

€ thousand	for the year ended 31 December 2019
Interest expense on lease liabilities	19
Expense relating to short-term leases	15
Expense relating to leases of low-value assets	1

The total cash outflow for leases in 2019 was €438 thousand.

For information about depreciation charge for right-of-use assets, additions to right-of-use assets and the carrying amount of right-of-use assets, please see note 9. The maturity analysis of lease liabilities is disclosed in note 5.

As at 31 December 2019 the Group had entered into the lease agreements, which take effect in 2020, in the total amount of €825 thousand.

The lease agreements, in which the Group is a lessor, are all leases of property. All these are operating leases. The underlying currency of all lease contracts is euro. The Group's consolidated income from operating lease in 2019 was €73 thousand. The Group considers the income from leasing and the assets held for leasing in proportion of all assets insignificant. Therefore, the Group has decided not to make any adjustments to the accounting for assets held as lessor under operating as a result of the adoption of IFRS 16.

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NOTE 25. RELATED PARTIES

Transactions with related parties are considered to be transactions with members of the Group's Supervisory Board and Management Board, their relatives and the companies in which they have control or significant influence and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

Shareholders having the significant influence

Balances recorded in on the statement of financial position of the Group		as of 31 December
€ thousand	2019	2018
Accounts receivable	531	221
Trade and other payables (Note 12)	184	179

Transactions	for the year ended 31 December	
€ thousand	2019	2018
Revenue (Note 17)	4,002	3,562
Purchase of administrative and consulting services	991	1,009

Fees to the Group's Management and Supervisory Board members	for the year ended 31 December	
€ thousand (excluding social tax)	2019	2018
Management Board members	213	192
Supervisory Board members	32	32

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

The potential salary liability would be up to €90 thousand (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

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

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 16. Paid-up dividends are described in note 22.

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NOTE 26. SUBSIDIARIES

Subsidiary	Location	Activity	Holding (%) as of 31 December 2019	2018
Watercom OÜ	Tallinn, Estonia	Provision of construction and other services related to water business	100	100

AS Tallinna Vesi registered Watercom OÜ on 25 May 2010.

NOTE 27. SUBSEQUENT EVENTS

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and evolving, we do not consider it practicable to provide a quantitative financial estimate of the potential impact of this outbreak on AS Tallinna Vesi. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

NOTE 28. SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY OF THE GROUP

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

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

The separate reports on the Parent Company

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

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STATEMENT OF FINANCIAL POSITION

€ thousand	as of 31 December	
ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	63,711	60,529
Trade receivables, accrued income and prepaid expenses	6,047	6,537
Receivables from subsidiary	46	65
Inventories	502	495
TOTAL CURRENT ASSETS	70,306	67,626
NON-CURRENT ASSETS		
Investment in subsidiary	527	527
Property, plant and equipment	195,071	184,188
Intangible assets	708	662
TOTAL NON-CURRENT ASSETS	196,306	185,377
TOTAL ASSETS	266,612	253,003
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current portion of long-term lease liabilities	189	40
Current portion of long-term bank loans	3,630	3,632
Trade and other payables	4,933	4,569
Derivatives	221	207
Payables to subsidiary	1,052	735
Prepayments	2,321	2,953
TOTAL CURRENT LIABILITIES	12,346	12,136
NON-CURRENT LIABILITIES		
Deferred income from connection fees	31,070	22,745
Leases	415	116
Bank loans	87,592	91,294
Derivatives	0	173
Provision for possible third party claims	14,442	19,068
Other payables	0	31
TOTAL NON-CURRENT LIABILITIES	133,519	133,427
TOTAL LIABILITIES	145,866	145,563
EQUITY		
Share capital	12,000	12,000
Share premium	24,734	24,734
Statutory legal reserve	1,278	1,278
Retained earnings	82,735	69,428
TOTAL EQUITY	120,747	107,440
TOTAL LIABILITIES AND EQUITY	266,612	253,003

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Initials I.S. Date 26.03.2020

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STATEMENT OF COMPREHENSIVE INCOME

	for the year ended 31 December	
€ thousand	2019	2018
Revenue	57,288	56,632
Cost of goods and services sold	-23,955	-23,190
GROSS PROFIT	33,333	33,442
Marketing expenses	-391	-386
General administration expenses	-5,450	-4,801
Other income (+)/expenses (-)	4,263	-1,782
OPERATING PROFIT	31,755	26,473
Financial income	38	21
Financial expenses	-98	-349
PROFIT BEFORE TAXES	31,695	26,145
Income tax on dividends	-3,388	-1,638
NET PROFIT FOR THE PERIOD	28,307	24,507
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	28,307	24,507
Attributable profit to:		
Equity holders of A shares	28,306	24,506
B share holder	0.60	0.60
Earnings per A share (in euros)	1,42	1,23
Earnings per B share (in euros)	600	600

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STATEMENT OF CASH FLOWS

€ thousand	for the year ended 31 December 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	31,755	26,473
Adjustment for depreciation/amortisation	5,972	5,689
Adjustment for revenue from connection fees	-389	-295
Other non-cash adjustments	-4,624	1,526
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets	137	-112
Change in current assets involved in operating activities	506	324
Change in liabilities involved in operating activities	328	262
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	33,685	33,867
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, and intangible assets	-10,995	-11,386
Compensations received for construction of pipelines	3,010	3,716
Proceeds from sale of property, plant and equipment, and intangible assets	25	159
Interest received	36	17
TOTAL CASH USED IN INVESTING ACTIVITIES	-7,924	-7,494
CASH FLOWS USED IN FINANCING ACTIVITIES		
Interest paid and loan financing costs, incl swap interests	-1,045	-1,383
Lease payments	-209	-98
Received loans	37,500	0
Repayment of loans	-41,136	0
Dividends received	700	650
Dividends paid	-14,965	-7,201
Withheld income tax paid on dividends	-36	0
Income tax on dividends	-3,388	-1,638
TOTAL CASH USED IN FINANCING ACTIVITIES	-22,579	-9,670
CHANGE IN CASH AND CASH EQUIVALENTS	3,182	16,703
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	60,529	43,826
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	63,711	60,529

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STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2017	12,000	24,734	1,278	52,122	90,134
Dividends	0	0	0	-7,201	-7,201
Comprehensive income for the period	0	0	0	24,507	24,507
as of 31 December 2018	12,000	24,734	1,278	69,428	107,440
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
Adjusted unconsolidated equity as of 31 December 2018	12,000	24,734	1,278	69,428	106,913
as of 31 December 2018	12,000	24,734	1,278	69,428	107,440
Dividends	0	0	0	-15,001	-15,001
Comprehensive income for the period	0	0	0	28,307	28,307
as of 31 December 2019	12,000	24,734	1,278	82,734	120,746
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
Adjusted unconsolidated equity as of 31 December 2019	12,000	24,734	1,278	82,734	120,219

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14. CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 25 March 2020. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report, the financial statements and the independent auditors' report, and has on 26 March 2020 in its minuted decision approved the annual report for presentation on the Shareholders' General Meeting.

Name	Position	Signature
Karl Heino Brookes	Chairman of the Management Board	
Aleksandr Timofejev	Member of the Management Board	
Kristi Ojakäär	Member of the Management Board	

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15. PRINCIPLES OF SUSTAINABILITY REPORTING

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

The Company continues to measure the impacts and performance of material topics through several various indicators. Compared to the 2018 Report, no significant changes have been made and the indicators introduced in 2018, are still used in the report. No major changes have occurred among the activities, impacts, practices or focuses of the Company compared to the previous report.

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

Process for defining report content

In defining the report content, the principles of stakeholder inclusiveness, sustainability context, materiality and completeness were followed. In order to define the report content and identify material topics, several working groups, involving management team members, were set up in 2017 to discuss the environmental, economic and social topics concerning the Company and to frame the topics, which are material for the Company in terms of sustainability and potential impact on stakeholders. This was done by keeping in mind the company values and objectives as well as external impacts stemming from legislation, market situation and natural environment. Feedback from small investors was also taken into consideration in defining the report content.

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

The identified material topics are as follows:

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

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

The report seeks to provide an overview of AS Tallinna Vesi's and Watercom's activities and performance in 2019 from the perspective of sustainable development in economic, environmental and social areas. In order to place our activities in a more wider context of sustainability, we will continue to link our activities to the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDG). AS Tallinna Vesi contributes to the achievement of the following SDGs:

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

Stakeholder engagement

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

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

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

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

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

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

Cooperation with local municipalities and government

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

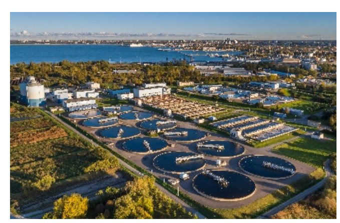
OPERATIONAL SITES OF TALLINNA VESI

Head office, customer service, support services and Watercom

Ädala 10, Tallinn

Ülemiste Water Treatment Plant, Water and Microbiological Laboratory

Järvevana tee 3, Tallinn



Paljassaare Wastewater Treatment Plant, Composting Fields and Wastewater Laboratory

Paljassaare põik 14, Tallinn

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Annex 1: GRI Index

Standard	Disclosure	Page number(s)
GENERAL DISCLOSURES		
GRI 102: General Disclosures 2016	**Organisational profile**	
	102-1 Name of the organisation	*AS Tallinna Vesi*
	102-2 Activities, brands, products, and services	*p. 7*
	102-3 Location of headquarters	*p. 123*
	102-4 Location of operations	*p. 7*
	102-5 Ownership and legal form	*p. 7*
	102-6 Markets served	*p. 7*
	102-7 Scale of the organization	*p. 7, p. 10*
	102-8 Information on employees and other workers	*p. 34-37 Employees*
	102-9 Supply chain	*p. 68-69 Cooperation with suppliers*
	102-10 Significant changes to the organization and its supply chain	*p. 7, p. 71, p. 114*
	102-11 Precautionary Principle or approach	*p. 70-72 Risk management process*
	102-12 External initiatives	*p. 31-33 Community and public* *p. 69 Our principles and membership in organisations*
	102-13 Membership of associations	*p. 69 Our principles and membership in organisations*
	Strategy	
	102-14 Statement from senior decision-maker	*p. 4-6 Chairman's statement*
	Ethics and integrity	
	102-16 Values, principles, standards, and norms of behaviour	*p. 14-15 How we deliver value to different stakeholders* *p. 69 Our principles and membership in organisations*
	Governance	
	102-18 Governance structure	*p. 62-64 Management Board*
	Stakeholder engagement	
	102-40 List of stakeholder groups	*p. 14 How we create value to different stakeholders*
	102-41 Collective bargaining agreements	*p. 35*

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	102-42 Identifying and selecting stakeholders	*p. 122-123 Stakeholder engagement*
	102-43 Approach to stakeholder engagement	*p. 122-123 Stakeholder engagement* *No separate stakeholder engagement was undertaken specifically as part of the report preparation process, however the interests of different stakeholders were gathered throughout the year from different meetings and surveys.*
	102-44 Key topics and concerns raised	*p. 121-123 Principles of sustainability reporting* *Read more on p. 18-40 Operational Results*
	Reporting practice	
	102-45 Entities included in the consolidated financial statements	*p. 7*
	102-46 Defining report content and topic Boundaries	*p. 121 -122 Process for defining report content*
	102-47 List of material topics	*p.121-122 Process for defining report content*
	102-48 Restatements of information	*p. 121-122 Principles of sustainability reporting*
	102-49 Changes in reporting	*p. 121-122 s Principles of sustainability reporting*
	102-50 Reporting period	*01.01.2019-31.12.2019*
	102-51 Date of most recent report	*12 March 2019*
	102-52 Reporting cycle	*Annual reporting. We issue the report according to the GRI guideline annually since 2012. All reports are available on the website of Tallinna Vesi.*
	102-53 Contact point for questions regarding the report	*tvesi@tvesi.ee*
	102-54 Claims of reporting in accordance with the GRI Standards	*This report follows the Standard of the international Global Reporting Initiative (GRI) and is reported according to standard's in accordance – core option.*
	102-55 GRI content index	*Appendix 1*

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	102-56 External assurance	*See INDEPENDENT AUDITORS' LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT.* *External assurance to the report has been provided by PricewaterhouseCoopers in accordance with International Standard on Assurance Engagement ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The Auditing Company has performed a limited assurance engagement.*
MATERIAL TOPICS		
Material topic: Economic performance		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 13-17 Strategy*
	103-2 The management approach and its components	*p. 13-17 Strategy*
	103-3 Evaluation of the management approach	*p. 13-17 Strategy*
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	*Economic value generated: 63.7 mln €* *Purchases from suppliers 40.5 ml €* *Environmental taxes 2.3 mln €* *Investments into environmental awareness and community 0.1 mln €* *Taxes paid 12.1 mln €* *Employee wages and benefits (incl taxes) 9.1 mln €* *Dividends paid out 15.0 mln €* *Payments to providers of capital 1.0 mln €* *p. 13 Breakdown of the value generated and distributed by the company*
Material topic: Indirect economic impacts		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 13-17 Strategy* *p. 19 Uninterrupted services*
	103-2 The management approach and its components	*p. 13-17 Strategy* *p. 19 Uninterrupted services*
	103-3 Evaluation of the management approach	*p. 13-17 Strategy* *p. 19 Uninterrupted services*

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GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	*Water treatment: €1,548 thousand* *Wastewater treatment: €603 thousand* *Networks total: €5,142 thousand* *Read more on p. 19 Uninterrupted services*
Material topic: Anti-corruption		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 13-17 Strategy* *p. 67-68 Business ethics*
	103-2 The management approach and its components	*p. 13-17 Strategy* *p. 67-68 Business ethics*
	103-3 Evaluation of the management approach	*p. 13-17 Strategy* *p. 67-68 Business ethics*
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	*In 2019, AS Tallinna Vesi did not identify any proven corruption or fraud incidents.* *p. 67-68 Business ethics*
Material topic: Water [ASTV: Sustainable use of water]		
6 CLEAN WATER AND SANITATION	SD Goal 6: Ensure access to water and sanitation for all and sustainable management of water resources	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 22-23 Sustainable use of water*
	103-2 The management approach and its components	*p. 22-23 Sustainable use of water*
	103-3 Evaluation of the management approach	*p. 22-23 Sustainable use of water*
GRI 303: Water 2016	303-1 Water withdrawal by source	*Surface water: 25,000 th m^3* *Ground water: 2,680 th m^3* *p. 22-23 Sustainable use of water*
not applicable	Water loss in the water networks i.e. leakages (%)	*12.97%* *p. 22-23 Sustainable use of water*
Material topic: Effluents and Waste [ASTV: Effluent quality]		

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	SD Goal 13: Take urgent action to combat climate change and its impacts	
	SD Goal 14: Conserve and sustainably use the oceans, seas and marine resources	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 24-25 Effluent quality*
	103-2 The management approach and its components	*p. 24-25 Effluent quality*
	103-3 Evaluation of the management approach	*p. 24-25 Effluent quality*
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	*Destination: Baltic Sea* *Treated wastewater: 49.7 mil m^3* *Diluted wastewater: 80,135m^3* *Treatment efficiency:* *Biological oxygen demand (BOD) 97%,* *Chemical oxygen demand (COD) 91%,* *Suspended solids 97%,* *N_{tot} 85%,* *P_{tot} 92%,* *Oil products 85%* *p. 24-25 Effluent quality*
not applicable	Using the emergency outlet	*3 times* *p. 24-25 Effluent quality*
Material topic: Environmental Compliance		
	SD Goal 12: Ensure sustainable consumption and production patterns	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 21-22 Environmental Compliance*
	103-2 The management approach and its components	*p. 21-22 Environmental Compliance*

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pwc Initials I.S. Date 26.03.2020

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	103-3 Evaluation of the management approach	*p. 21-22 Environmental Compliance*
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	*In 2018, the Company identified 1 non-compliance with environmental laws or regulations.* *p. 21-22 Environmental Compliance*
Material topic: Employment		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 34-37 Employees*
	103-2 The management approach and its components	*p. 34-37 Employees*
	103-3 Evaluation of the management approach	*p. 34-37 Employees*
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	*Voluntary turnover 9.3%* *Total turnover 16.8%* *p. 34-37 Employees*
not applicable	Employee commitment (TRI*M index), part of GRI 102-44	*69* *p. 35-36 Commitment in the team*
Material topic: Occupational health and safety		
8 DECENT WORK AND ECONOMIC GROWTH	SD **Goal 8:** Promote inclusive and sustainable economic growth, employment and decent work for all	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 37-40 Occupational health and safety*
	103-2 The management approach and its components	*p. 37-40 Occupational health and safety*
	103-3 Evaluation of the management approach	*p. 37-40 Occupational health and safety*
GRI 403: Occupational health and safety 2016	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	*AFR 0.36 (incl. 2 work accidents with more than 3 days lost)* *Total number of accidents: 5* *p. 37-40 Occupational health and safety*
not applicable	Safety audits	*In 2019, total of 449 safety audits were held.* *97.12% of audited sites met all the safety requirements.* *p. 37-40 Occupational health and safety*
Material topic: Training and education [ASTV: Development of staff and succession planning]		

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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 36-37 Development of staff and succession planning*
	103-2 The management approach and its components	*p. 36-37 Development of staff and succession planning*
	103-3 Evaluation of the management approach	*p. 36-37 Development of staff and succession planning*
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	***2.78 (8-hour) training days*** *p. 36-37 Development of staff and succession planning*
	404-2 Programs for upgrading employee skills and transition assistance programs	*p. 36-37 Development of staff and succession planning*
	404-3 Percentage of employees receiving regular performance and career development reviews	***100%*** *p. 36-37 Development of staff and succession planning*
Material topic: Local communities		
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	SD Goal 12: Ensure sustainable consumption and production patterns	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 31-33 Our main sponsorship areas and activities*
	103-2 The management approach and its components	*p. 31-33 Our main sponsorship areas and activities*
	103-3 Evaluation of the management approach	*p. 31-33 Our main sponsorship areas and activities*
not applicable	Community members who drink tap water (%)	*p. 32 Environmental education* ***(90%)***
	Number of children participated in water and environment related classes	*p. 32 Environmental education* ***(969 children)***
	Number of excursions held in WTP and WWTP (excl. open doors day)	*p. 32 Environmental education* ***(57)***
Material topic: Marketing and labelling [ASTV: Responsible customer service]		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 31-33 Our customers*
	103-2 The management approach and its components	*p. 31-33 Our customers*
	103-3 Evaluation of the management approach	*p. 31-33 Our customers*

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GRI 417: Marketing and labelling 2016	417-2 Incidents of non-compliance concerning product and service information and labelling	*141 incidents of non-compliance with voluntary codes (our promises to customers)* *p. 27 Our customers*
not applicable	Written customer complaints	*Total number of complaints: 167* *p. 27-31 Our customers*
not applicable	Customer satisfaction TRI*M index and customer monthly feedback results (5 point scale), part of GRI 102-44	*TRI*M: 54* *Monthly feedback result: 4.08* *p. 29 Customer satisfaction*
not applicable	Provision of information about unplanned water interruptions to the service (% of all unplanned interruptions)	*Information provided in 96.2% of the occasions* *p. 28 Our customers*
Material topic: Socioeconomic compliance [Ensuring quality of our services]		
3 GOOD HEALTH AND WELL-BEING	SD Goal 3: Ensure healthy lives and promote well-being for all at all ages	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	*p. 18-23 Ensuring quality of services*
	103-2 The management approach and its components	*p. 18-23 Ensuring quality of services*
	103-3 Evaluation of the management approach	*p. 18-23 Ensuring quality of services*
GRI 419: Socioeconomic compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	*In 2019 the organization has not identified any non-compliance with laws and/or regulations.* *p. 18-23 Ensuring quality of services*
not applicable	Water quality (% of samples taken from customers taps, which meet all drinking water quality requirements)	*99.04%* *p. 20-21 Drinking water quality*
not applicable	Non-compliances with the Services Agreement (incl. interruptions to service lasting longer than 12 hours)	*1 non-compliance* *p. 19 Uninterrupted services*
not applicable	Average duration of an interruption	*On average the water interruption lasted 2.99 hours (2 hours and 59 minutes)* *p. 19 Uninterrupted services*

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Independent auditor's report

To the Shareholders of AS Tallinna Vesi

(Translation of the Estonian original)*

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 AS Tallinna Vesi ("the Company") and its subsidiary (together – "the Group") as at 31 December 2019, and its consolidated financial performance and its 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 26 March 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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.

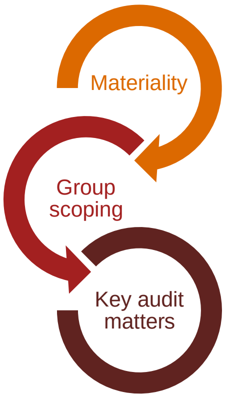
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^{1} of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2019 are disclosed in the Corporate Governance report.

Our audit approach

Overview



Overall group audit materiality is EUR 1,560 thousand, which represents 5% of profit before tax.

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

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

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

Materiality

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

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

Overall Group audit materiality	EUR 1,560 thousand
How we determined it	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.

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
Provision relating to the potential consequences of the legal dispute with the Estonian Competition Authority (refer to Notes 4 "Critical accounting estimates" and 15 "Provision for possible third-party claims" for further details). The Group was involved in a lawsuit with the Estonian Competition Authority over the tariffs of water and sewage services. As a result of the outcome of the lawsuit, potential third-party compensation claims could arise. As at 31 December 2019, the provision has been recognised in respect of potential claims from the customers in the amount of EUR 14.4 million, representing 40% of the maximum amount that could be payable in case all customers would claim for a compensation for past three years and all such claims would be recognised by the courts. 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.	We have discussed the status of potential third-party claims with the Group management and the Audit Commitee. We have read the minutes of meetings of the Management and Supervisory Board where developments in the legal proceedings 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. 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. We read the disclosures regarding the dispute and resulting provision.

Estimates involved in capitalisation of capital expenditures and determining their useful lives (refer to Note 2 "Accounting policies", Note 4 "Critical accounting estimates" and Note 9 "Property, plant and equipment" for further details).

In 2019, the Group capitalised additions to property, plant and equipment (PPE), mainly related to the construction of water and wastewater network and new customer pipeline connections, in the amount of EUR 15.8 million.

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

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

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

We assessed whether the Group's accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS.

We obtained a listing of capital expenditures incurred during the year and, on a sample basis, checked whether the projects were undertaken based on internal purchase order that had been properly approved by the responsible individuals with such authority.

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

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

We checked whether the depreciation of PPE items was commenced timely, by comparing the date of the reclassification from construction in progress to finished projects, with the date of the act of completion of the work.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS Tallinna Vesi, as a public interest entity, on 23 April 2008 for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AS Tallinna Vesi, as a public interest entity, of 12 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 AS Tallinna Vesi can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Eva Jansen-Diener
Auditor's certificate no.501

26 March 2020

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Independent Limited Assurance Report on the Sustainability Information

To the Shareholders of AS Tallinna Vesi

(Translation of the Estonian original)*

Introduction

We have been engaged by the Management Board of AS Tallinna Vesi and its subsidiary (together the Group) to provide limited assurance on the selected Sustainability Information described below and included on pages 4-72 and 124-131 in the Consolidated Annual and Sustainability Report of AS Tallinna Vesi and its subsidiary (together the "Group") for the year ended 31 December 2019.

Selected Sustainability Information

We assessed the quantitative and qualitative information disclosed in the GRI Index on pages 124-131 and the information on pages 4-72 as referred from the GRI Index (hereinafter the "Sustainability Information"), in the Consolidated Annual and Sustainability Report of the Group for the year ended 31 December 2019. The Sustainability Information has been prepared using the Global Reporting Initiative Standards (hereinafter "GRI Standards") as described on pages 121-123 in the Consolidated Annual and Sustainability Report of the Group.

Reporting Criteria

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

Responsibilities of the Management Board

The Management Board of the Group is responsible for:

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

Our Responsibilities

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

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

This report, including our conclusions, has been prepared solely for management of the Group to assist management in reporting on the Group's sustainability performance and activities. Our limited assurance report has been prepared in accordance with the terms of our engagement. We permit this report to be disclosed in the Consolidated Annual and Sustainability Report of the Group for the year ended 31 December 2018, to enable management to show that as part of their governance responsibilities they have obtained an independent limited assurance report in connection with the Sustainability Information. We do not accept or assume responsibility to anyone other than management of the Group for our work or this report.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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

Work Done

Our procedures included:

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

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

Reporting and Measurement Methodologies

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

Limited Assurance Conclusion

Based on our work described in this report nothing has come to our attention that causes us to believe that the Sustainability Information for the year ended 31 December 2019 has not been prepared, in all material respects, in accordance with the Core requirements of GRI Standards.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor’s certificate no.287

Eva Jansen-Diener
Auditor’s certificate no.501

26 March 2020

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*