

# AS TALLINNA VESI

Consolidated Interim Report for the 2<sup>nd</sup> quarter of 2020

31 July 2020



Currency	Thousand euros
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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## Management report

### Chairman's summary

**The first six months of 2020 were difficult for the whole world and many businesses had to make adjustments to their activities due to the spread of coronavirus. Tallinna Vesi made considerable changes to its day to day operations, to ensure the continued health and welfare of employees and an uninterrupted service to customers. Fortunately, the situation in Estonia stabilized in May, with the state emergency situation ended on 18 May 2020. However, the possible future impact of the disease, remains largely unknown. Throughout these quarters, the operational and financial performance of the Company continued to be very good.**

The Company's sales revenue decreased year-on-year due to the new lower tariffs applied since 1 December 2019 and due to lower consumption of water services in the main service area related to coronavirus outbreak, which also resulted in a lower profit figure. The Group's sales revenues during the 2<sup>nd</sup> quarter of 2020 were €12.09 million, being down by 25.1% or €4.06 million compared to the same period in 2019.

Regardless of the higher consumption levels in our largest private customers group in the second quarter, the sales to private customers decreased by 21.9% to €5.10 million, which was driven mainly by the abovementioned change in tariffs. Higher consumption from private customers was mainly related to coronavirus, especially due to remote workers and people following general government guidelines.

Sales to commercial customers within the service area decreased by 45.1% to €2.95 million, driven mainly by 35% lower consumption of water services and lower tariffs as well. Once again, the consumption was lower due to coronavirus related effects on businesses, especially on office buildings and customers operating in the leisure business, such as hotels, spas, sporting facilities, theatres, cinemas and many other businesses, were mostly closed from mid-March to end of May.

The gross profit in the 2<sup>nd</sup> quarter of 2020 was €4.73 million, showing a decrease of 46.2%. The decrease in gross profit was fully related to lower revenues. The operating profit was €4.59 million, showing a decrease of €2.01 million. In addition to changes in tariffs and consumption, the operating profit was impacted by €1.20 million reduction in the provision formed for the possible third-party claims and lower tariff dispute related legal costs.

The net profit for the 2<sup>nd</sup> quarter of 2020 was €0.15 million, showing a decrease of 94.5%, being additionally accompanied by higher dividend payment related tax cost and lower net financial expenses.

#### High-quality services

The quality of tap water was 100% compliant with the requirements in the 2<sup>nd</sup> quarter as well as the first six months of 2020, which means that all water samples met the strict standards for drinking quality. A total of 1,539 water samples were taken during the first two quarters. This result demonstrates an excellent quality of water in our water network, retained by the consistently efficient management of our water treatment processes and proactive maintenance of the water network.

Also, the service reliability indicators of the Company remained excellent. The average water disruption time was 3 hours and 3 minutes and 94.6% of all interruptions to customers were less than 5 hours. These are great results, and a reflection of our continued efforts to manage the network as effectively as possible, in order to minimise the inconvenience and disruption caused to the citizens of Tallinn.

The level of leakages in our water network remained low during the first six months (13.9%), although being slightly higher than the same period last year, which was an all-time record. In comparison with the first six months of 2019, the number of sewer blockages dropped by a quarter, and the number of sewer collapses was also reduced.

In the first half of 2020, the final treated effluent at Paljassaare Wastewater Treatment Plant was fully compliant with all quality requirements. Tallinna Vesi continues with the reconstruction of the mechanical treatment stage at the wastewater treatment plant.

Besides outstanding operational performance, the Company has continued to deliver high standards of service to its customers. We have set clear and challenging targets, and give promises to our customers, in terms of the speed of our response and problem-solving. No promises have been broken in 2020. The number of customer complaints was also significantly lower than in the same period last year (28 in 2020 compared to 81 in 2019).

We also think it is fundamental to provide our customers with important information, or respond to their questions as quickly as possible. Therefore, we measure the speed of our responses, and have set a target to respond to non-complex written requests within two working days. In 99.2% of all occasions, we managed to notify our customers at least an hour before a water interruption.

Given the safety measures resulting from the emergency situation, we temporarily stopped making tours at our treatment plants and organising water classes for children. We also cancelled the Doors Open Day at our Water Treatment Plant for the same safety reasons. We hope to be able to continue those important activities, targeted to improve environmental awareness among people, after the virus outbreak.

## OPERATIONAL INDICATORS FOR SIX MONTHS OF 2020

Indicator	Unit	2020	2019	2018
Compliance of water quality at the customers' tap	%	100.0	99.5	99.9
Water loss in the water distribution network	%	13.9	12.2	14.1
Average duration of water interruptions per property in hours	h	3.05	2.63	3.28
Number of sewer blockages	No	227	302	295
Number of sewer collapses	No	41	59	50
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Number of customer complaints	No	28	81	69
Number of customer contacts regarding water quality	No	164	172	101
Number of customer contacts regarding water pressure	No	149	154	183
Number of customer contacts regarding blockages and discharge of storm water	No	473	542	516
Responding written customer contacts within at least 2 workdays	%	100.0	100.0	100.0
Number of failed promises cases	No	0	2	2
Notification of unplanned water interruptions at least 1 h before	%	99.2	97.7	94.4

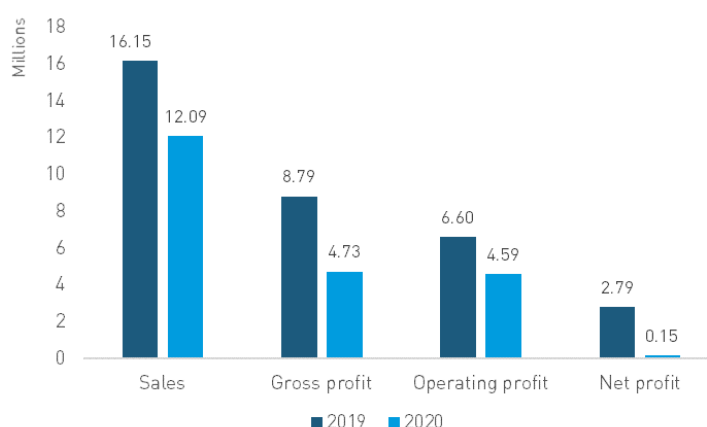


Karl Heino Brookes  
Chairman of the Management Board

## FINANCIAL HIGHLIGHTS OF THE 2<sup>nd</sup> QUARTER OF 2020

**Economic environment** has significantly changed in the world and in Estonia resulting from ongoing coronavirus pandemic. State of emergency was announced in Estonia on 12/03/2020, the quarantine requirements and the introduction of restrictions on gathering and on movement were affecting companies in all sectors. The emergency situation in Estonia was ended on 18/05/2020, after which restrictions that were introduced in Estonia and elsewhere to counter the pandemic were eased step by step and the economy started to recover. Estonian macroeconomic forecast, according to the Bank of Estonia in the middle of June, indicated that the GDP will decrease in Estonia 10% y-o-y in 2020, if the virus fades away and restrictions are not re-imposed. Also, it is estimated that the recovery to the level of before the crisis will take approximately 2 years. It is possible that there will be a second wave of the virus and the danger remains that the performance of the economy will be worse than current macroeconomic forecast. At the time of preparing the report it was not possible to objectively predict the overall impact of the coronavirus pandemic on the Company's revenues and financial results as there are lots of uncertainties in further developments of the pandemic and resulting economic impacts.

**The Group's sales revenues** during the 2<sup>nd</sup> quarter of 2020 were €12.09 million, being down by 25.1% or €4.06 million compared to the same period in 2019.



**The gross profit** in the 2<sup>nd</sup> quarter of 2020 was €4.73 million, showing a decrease of 46.2% or €4.06 million. The decrease in gross profit was fully related to lower revenues as the total cost of goods and services sold stayed at the same level as in comparative period. The revenues were mainly impacted by decrease in water and wastewater revenues from private and commercial customers within the service area, which were mostly affected by new tariffs from 1/12/2019, accompanied by decrease in consumption of commercial customers.

**The operating profit** was €4.59 million, showing a decrease of 30.4% or €2.01 million. In addition to above-mentioned changes in gross profit, the operating profit was impacted by €1.20 million positive change in the provision formed for the possible third-party claims compared to no change in the comparative period of 2019 and lower tariff dispute related legal costs. The operating profit for the 2<sup>nd</sup> quarter of 2020 and 2019 before the impact resulted from the change of provision for the possible third-party claims was €3.39 million and €6.60 million, being lower by 48.7% or €3.21 million year-on-year.

**The net profit** for the 2<sup>nd</sup> quarter of 2020 was €0.15 million, showing a decrease of 94.5% or €2.64 million. The net profit was mainly impacted by above-mentioned changes in the operating profit, accompanied by higher dividend payment related tax cost and lower net financial expenses. The changes in the financial expenses were influenced by positive change in the fair value of swap contracts compared to negative change in 2019 comparative period and by lower interest expense. The net loss for the 2<sup>nd</sup> quarter of 2020 without the impact resulted from the change of the fair value of swap contracts and the change of provision for the possible third-party claims was €1.14 million compared to €2.81 million net profit in 2019, being lower by 140.5% or €3.95 million year-on-year.

## MAIN FINANCIAL INDICATORS

€ million, except key ratios	2 <sup>nd</sup> quarter			Change 2020/ 2019	6 months			Change 2020/ 2019
	2020	2019	2018		2020	2019	2018	
Sales	12.09	16.15	15.98	-25.1%	25.27	30.81	30.06	-18.0%
Gross profit	4.73	8.79	8.90	-46.2%	10.79	17.05	17.22	-36.7%
Gross profit margin %	39.16	54.44	55.68	-28.1%	42.70	55.34	57.29	-22.8%
Operating profit before depreciation and amortisation	6.14	8.07	8.96	-23.9%	13.32	16.46	17.18	-19.1%
Operating profit before depreciation and amortisation margin %	50.76	49.96	56.04	1.6%	52.70	53.43	57.15	-1.4%
Operating profit	4.59	6.60	7.54	-30.4%	10.26	13.49	14.34	-24.0%
Operating profit - main business	4.32	6.40	7.35	-32.6%	9.94	13.18	14.09	-24.6%
Operating profit margin %	37.99	40.88	47.18	-7.1%	40.61	43.79	47.70	-7.3%
Profit before taxes	4.51	6.34	7.27	-28.9%	10.06	13.02	13.80	-22.7%
Profit before taxes margin %	37.29	39.23	45.47	-4.9%	39.82	42.25	45.91	-5.8%
Net profit	0.15	2.79	5.47	-94.5%	5.71	9.48	12.00	-39.8%
Net profit margin %	1.27	17.29	34.20	-92.7%	22.59	30.75	39.92	-26.5%
ROA %	0.06	1.09	2.32	-94.6%	2.22	3.78	5.16	-41.2%
Debt to total capital employed %	59.63	61.32	61.64	-2.8%	59.63	61.32	61.64	-2.8%
ROE %	0.14	2.70	5.97	-94.9%	5.27	9.48	13.60	-44.4%
Current ratio	3.23	3.90	5.00	-17.2%	3.23	3.90	5.00	-17.2%
Quick ratio	3.18	3.87	4.96	-17.8%	3.18	3.87	4.96	-17.8%
Investments into fixed assets	4.27	2.70	2.21	58.2%	7.85	6.11	3.07	28.6%
Payout ratio %	na	72.05	62.11		na	72.05	62.11	

*Gross profit margin – Gross profit / Net sales*

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

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

*Operating profit margin – Operating profit / Net sales*

*Net profit margin – Net profit / Net sales*

*ROA – Net profit / Average Total assets for the period*

*Debt to Total capital employed – Total liabilities / Total capital employed*

*ROE – Net profit / Average Total equity for the period*

*Current ratio – Current assets / Current liabilities*

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

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

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

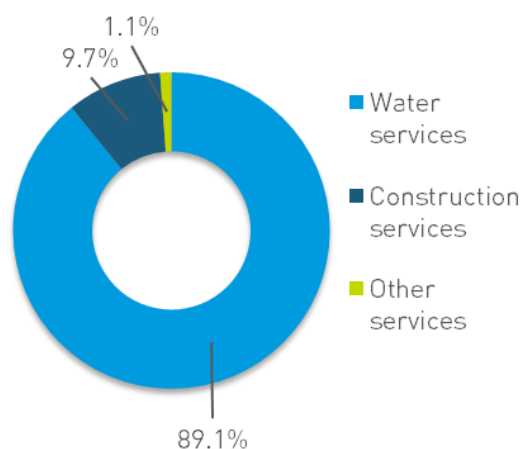
## FINANCIAL RESULTS FOR THE 2<sup>nd</sup> QUARTER OF 2020

### Statement of comprehensive income

#### SALES

As on 18/10/2019 the Competition Authority approved the tariffs of the Company and new tariffs were applicable starting from 1/12/2019, the changes in the 2<sup>nd</sup> quarter of 2020 from main activities revenues, i.e. from sales of water and wastewater services, were driven by lower tariffs from main service area, accompanied by changes in consumption by related to coronavirus outbreak and two months of state of emergency in Estonia starting from 2<sup>nd</sup> half of March 2020. According to Estonia's macroeconomic forecast, we expect in a short-term a decrease in our water services consumption also in next quarters. In the long-term future, the Company does not expect significant changes in the consumption as there has been incremental increase in consumption in the past.

#### Group's total sales



In the 2<sup>nd</sup> quarter of 2020, the **Group's total sales** were €12.09 million, showing a decrease by 25.1% or €4.06 million year-on-year. 89.1% of sales comprise of water services within and outside of the service area, 9.7% from construction services and 1.1% from other services. The construction services sales are more seasonal, and the Company continues to seek possibilities to keep and to grow these services revenues.

€ thousand	2 <sup>nd</sup> quarter			Variance 2020/2019	
	2020	2019	2018	€	%
Water supply service	2,055	3,595	3,547	-1,540	-42.8%
Wastewater disposal service	3,047	2,936	2,880	111	3.8%
<b>Total from private customers</b>	<b>5,102</b>	<b>6,531</b>	<b>6,427</b>	<b>-1,429</b>	<b>-21.9%</b>
Water supply service	1,450	3,011	3,083	-1,561	-51.8%
Wastewater disposal service	1,500	2,364	2,442	-864	-36.5%
<b>Total from commercial customers</b>	<b>2,950</b>	<b>5,375</b>	<b>5,525</b>	<b>-2,425</b>	<b>-45.1%</b>
Water supply service	402	431	370	-29	-6.7%
Wastewater disposal service	778	770	733	8	1.0%
Storm water disposal service	52	63	78	-11	-17.5%
<b>Total from outside service area customers</b>	<b>1,232</b>	<b>1,264</b>	<b>1,181</b>	<b>-32</b>	<b>-2.5%</b>
Storm water treatment and disposal and fire hydrants service	1,241	1,017	881	224	22.0%
Overpollution charges and discharging	251	365	245	-114	-31.2%
<b>Total from water services</b>	<b>10,776</b>	<b>14,552</b>	<b>14,259</b>	<b>-3,776</b>	<b>-25.9%</b>
Construction services	1,176	1,445	1,565	-269	-18.6%
Other services	137	152	155	-15	-9.9%
<b>TOTAL REVENUE</b>	<b>12,089</b>	<b>16,149</b>	<b>15,979</b>	<b>-4,060</b>	<b>-25.1%</b>

**Sales from water services** were €10.78 million, showing a 25.9% or €3.78 million decrease compared to the 2<sup>nd</sup> quarter of 2019, resulting from the changes in the tariff and sales volumes as described below:

- There has been a decrease in **private customers'** sales of 21.9% to €5.10 million, driven mainly by on average 27% lower tariffs from 1/12/2019. The decrease from tariff was partly balanced by higher customer consumption volumes from apartment blocks, which is our biggest private customer group, and private houses segment. The total impact from change of tariffs was -€1.85 million and from consumption +€0.42 million. Higher consumption from private customers was mainly related to coronavirus outbreak as approximately 1/3 of Estonian are in home offices starting from mid of March until middle of May.
- Sales to **commercial customers** within the service area decreased by 45.1% to €2.95 million, driven mainly by on average 35% lower consumption of water services in all customer segments and also on average 15% lower tariffs from 1/12/2019. The decrease from lower consumption was mainly impacted by business services and office buildings and leisure segments, accompanied by industries and other commercial customer segment. The total impact from consumption was -€1.92 million and from change of tariffs -€0.50 million. The commercial customer sales were also impacted by coronavirus as hotels, spas, sporting facilities, theatres, cinemas were closed and office buildings were almost empty from mid of March until the end of May.
- Sales to **customers outside the main service area** decreased by 2.5% to €1.23 million. It was also impacted by change of tariffs from 1/12/2019, balanced partly by an increase in water and stormwater services consumption. The total impact from change of tariffs was -€0.09 million and from consumption +€0.06 million.
- Sales from the **operation and maintenance of the main service area storm water and fire hydrant system** amounted to €1.24 million, showing an increase of 22.0% or €0.22 million compared to the same period in 2019, driven mainly by 15% higher storm water volumes, accompanied by higher hydrant services revenues and costs per stormwater m<sup>3</sup>.



- **Overpollution charges and discharging** revenues received have decreased by 31.2% to €0.03 million.

Sales of **construction services** were €1.18 million, decreasing by 18.6% or €0.27 million year-on-year. The decrease was mainly related to lower pipe construction services revenues, accompanied by higher road construction revenues. The change is partly impacted by coronavirus due to delay in new developments in Tallinn, whilst some big projects won by the Company in 2019 in Tallinn and other parts of Estonia continued also in the 2<sup>nd</sup> quarter.

## **COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT**

The **cost of goods and services sold** amounted to €7.35 million in the 2<sup>nd</sup> quarter of 2020, being at the same level compared to the equivalent period in 2019. The changes were influenced by higher staff and other purchase costs for goods and services, whilst construction services related costs and chemicals costs were lower.

€ thousand	2 <sup>nd</sup> quarter			Variance 2020/2019	
	2020	2019	2018	€	%
Water abstraction charges	-300	-303	-303	3	1.0%
Chemicals	-385	-429	-346	44	10.3%
Electricity	-805	-817	-698	12	1.5%
Pollution tax	-221	-226	-233	5	2.2%
<b>Total direct production costs</b>	<b>-1,711</b>	<b>-1,775</b>	<b>-1,580</b>	<b>64</b>	<b>3.6%</b>
Staff costs	-1,862	-1,704	-1,631	-158	-9.3%
Depreciation and amortisation	-1,356	-1,297	-1,268	-59	-4.5%
Construction services	-949	-1,237	-1,359	288	23.3%
Other costs of goods/services sold	-1,477	-1,345	-1,244	-132	-9.8%
<b>Other costs of goods/services sold total</b>	<b>-5,644</b>	<b>-5,583</b>	<b>-5,502</b>	<b>-61</b>	<b>-1.1%</b>
<b>Total cost of goods/services sold</b>	<b>-7,355</b>	<b>-7,358</b>	<b>-7,082</b>	<b>3</b>	<b>0.0%</b>

**Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €1.71 million, showing a 3.6% or €0.06 million decrease compared to the equivalent period in 2019. Changes in direct production costs came from a combination of changes in prices and in treated volumes, that affected the cost of goods sold together with the following additional factors:

- **Chemicals** costs decreased by 10.3% to €0.38 million, driven mainly by on average 33% lower price of methanol, accompanied by lower usage of polymers and coagulant in wastewater treatment to remove sludge and Phosphorus, worth +€0.04 million, +€0.02 million and +€0.01 million respectively. Lower costs from wastewater treatment were partly balanced by higher usage of coagulant in water treatment process, worth -€0.03 million.
- **Electricity** costs decreased by 1.5% to €0.81 million, driven mainly by lower usage of electricity in wastewater treatment process and in surface water area, balanced by higher consumption in water pumping stations, worth +€0.02 million, +€0.01 million and -€0.01 million respectively.

**Other costs of goods sold** (staff costs, depreciation, construction services related costs and other costs of goods sold) amounted to €5.64 million, having increased by 1.1% or €0.06 million. The increase came from higher staff and depreciation costs, accompanied by higher other costs of goods and services sold costs and balanced partly by lower construction services related costs by following reasons:

- **Staff costs** increased by 9.3% to €1.86 million. It was driven by higher number of staff (FTE 9 employees more than in the 2<sup>nd</sup> quarter of 2019) and change of salaries from the beginning of the year for all employees by CPI.
- **Depreciation** costs increased by 4.5% to €1.36 million, being mainly impacted by higher accelerated depreciation costs and reviewed useful lifetime of some technological facilities related to reconstruction of wastewater mechanical treatment.
- **Construction services costs** decreased by 23.3% to €0.95 million, mainly due to lower construction services revenues mentioned earlier.
- **Other costs of goods/services sold** increased by 9.8% to €1.48 million, mainly because of higher sludge disposal costs, accompanied by higher surveys costs related to catchment area water quality and usage of external laboratory services, worth -€0.05 million, -€0.03 million and -€0.01 million respectively.

As a result of all above the **Group's gross profit** for the 2<sup>nd</sup> quarter of 2020 was €4.73 million, showing a decrease of 46.2% or €4.06 million, compared to the gross profit of €8.79 million for the comparative period of 2019.

## **ADMINISTRATIVE AND MARKETING EXPENSES, OTHER INCOME AND EXPENSES**

**Administrative and marketing expenses** amounted to €1.32 million, having decreased by 37.7% or €0.80 million. The lower costs were mainly related to €0.80 million lower tariff dispute related legal costs resulting from the ICSID award in June 2019 according to which the Company was liable to pay for 25% of Estonian legal costs related to this matter, accompanied by €0.03 million lower IT costs and were balanced by €0.05 million higher salary costs by change of salaries from the beginning of the year for all employees by CPI.

**Other income and expenses** amounted to net income of €1.18 million, compared to net expense of €0.07 million in comparative period. The change was mostly impacted by €1.2 million positive change in provision for third party claims compared to no change in 2019, accompanied by lower estimated losses from receivables. The third-party provision takes into account 30 months (in 2019 year end 3 years or 36 months) of possible difference in the prices between the tariffs approved by the City of Tallinn in 2010 and the best understanding of CA methodology. Still, the Company does not consider itself liable to customers for any claims related to the tariffs applied until the new tariffs were approved by the CA. See additional information in Note 6 to the abbreviated accounts.

## **OPERATING PROFIT**

As a result of the factors listed above the Group's **operating profit** for the 2<sup>nd</sup> quarter of 2020 amounted to €4.59 million, being 30.4% or €2.01 million lower than in the corresponding period of 2019. The Group's operating profit from main business was €4.32 million, being 32.6% or €2.09 million lower compared to 2019. Eliminating the effect of the change of provision for the possible third-party claims the operating profit for the 2<sup>nd</sup> quarter of 2020 and 2019 would have been €3.39 million and €6.60 million, being lower by 48.7% or €3.21 million year-on-year.

## **FINANCIAL EXPENSES**

**The Group's net financial income and expenses** have resulted a net expense of €0.08 million, compared to net expense of €0.27 million in the 2<sup>nd</sup> quarter of 2019. The decrease was impacted by positive change in the fair value of the swap contracts compared to negative change in comparative period, accompanied by lower year-on-year interest costs, worth €0.11 million and €0.07 million respectively. Lower interest costs were related to lower interest margin of 2019 NIB loan agreement.

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 will end in November 2020, €52,05 million are with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, amounting to €0.07 million. Effective interest rate of loans (incl. swap interests) in the 2<sup>nd</sup> quarter of 2020 was 0.78%, amounting to interest costs of €0.18 million, compared to the effective interest rate of 1.05% and the interest costs of €0.25 million in the 2<sup>nd</sup> quarter of 2019.

## PROFIT BEFORE TAXES AND NET PROFIT

The Group's **profit before taxes** for the 2<sup>nd</sup> quarter of 2020 was €4.51 million, being 28.9% or €1.83 million lower than for the comparative period of 2019. The Group's **net profit** for the 2<sup>nd</sup> quarter of 2020 was €0.15 million, being 94.5% or €2.64 million lower than for the comparative period of 2019. The decrease in net profit was mainly impacted by changes in operating profit, accompanied by higher income tax on dividends and balanced slightly by lower net financial expenses mentioned above, worth -€2.01 million, -€0.81 million and +€0.18 million respectively. Eliminating the effects of the change of the fair value of swap contracts and the change of provision for the possible third-party claims, the Group's net loss for the 2<sup>nd</sup> quarter of 2020 would have been €1.14 million compared to net profit of €2.81 million in 2019, showing a decrease of 140.5% or €2.83 million year-on-year.

## FINANCIAL RESULTS FOR THE SIX MONTHS OF 2020

### Statement of comprehensive income

#### SALES

During the six months of 2020 the **Group's total sales** were €25.27 million, showing a decrease by 18.0% or €5.54 million year-on-year. **Sales from water services** for six months of 2020 were 22.76 million, decreasing by 20.3% or €5.80 million year-on-year. 90.1% of sales comprise of sales of water services within and outside of the service area, 8.7% from construction services and 1.2% from other services.

€ thousand	6 months			Variance 2020/2019	
	2020	2019	2018	€	%
Water supply service	4,075	7,161	7,079	-3,086	-43.1%
Wastewater disposal service	6,053	5,860	5,776	193	3.3%
<b>Total from private customers</b>	<b>10,128</b>	<b>13,021</b>	<b>12,855</b>	<b>-2,893</b>	<b>-22.2%</b>
Water supply service	3,475	5,745	5,867	-2,270	-39.5%
Wastewater disposal service	3,624	4,631	4,800	-1,007	-21.7%
<b>Total from commercial customers</b>	<b>7,099</b>	<b>10,376</b>	<b>10,667</b>	<b>-3,277</b>	<b>-31.6%</b>
Water supply service	782	816	704	-34	-4.2%
Wastewater disposal service	1,635	1,585	1,421	50	3.2%
Storm water disposal service	159	210	168	-51	-24.3%
<b>Total from outside service area customers</b>	<b>2,576</b>	<b>2,611</b>	<b>2,293</b>	<b>-35</b>	<b>-1.3%</b>
Storm water treatment and disposal and fire hydrants service	2,427	1,961	1,677	466	23.8%
Overpollution charges and discharging	533	594	457	-61	-10.3%
<b>Total from water services</b>	<b>22,763</b>	<b>28,563</b>	<b>27,949</b>	<b>-5,800</b>	<b>-20.3%</b>
Construction services	2,205	1,995	1,840	210	10.5%
Other services	301	255	267	46	18.0%
<b>TOTAL REVENUE</b>	<b>25,269</b>	<b>30,813</b>	<b>30,056</b>	<b>-5,544</b>	<b>-18.0%</b>

During the six months of 2020 there has been a decrease in **sales to private customers** by 22.2% to €10.13 million and to **commercial customers** within the service area by 31.6% to €7.10 million. The decrease in main service area sales is mainly related to the change of water services tariffs from 1/12/2019, accompanied by changes in consumption, worth €4.88 million and €1.29 million

respectively. Higher sales in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group, and were accompanied by individual houses, worth in total +€0.80 million. Lower sales in commercial customers is related to decrease in the sales of all commercial customer segments by reasons mentioned the in 2<sup>nd</sup> quarter results, worth in total -€2.07 million. Sales to **customers outside the main service area** decreased by 1.3% to €2.58 million, being impacted by a decrease in the sales of water and storm water services and were partly balanced by higher wastewater service revenues, being also mainly impacted by changes of tariffs, balanced by higher water and stormwater volumes. **Sales from the operation and maintenance of the main service area storm water and fire hydrants system** in the six months of 2020 amounted to €2.43 million, showing an increase of 23.8% or €0.47 million year-on-year, driven mainly by 29.8% higher storm water volumes, balanced partly by lower cost per m<sup>3</sup>. **Overpollution charges and discharging** revenues received have decreased by 10.3% to €0.53 million.

Sales of **construction services** were €2.20 million, increasing by 10.5% or €0.21 million year-on-year. The increase was mainly related to higher pipe construction service revenues in the 1<sup>st</sup> quarter of 2020 as the Company continued some big projects in Tallinn and other parts of Estonia, won in 2019, and had a setback in increasing revenues in the 2<sup>nd</sup> quarter of 2020 because of reasons mentioned in the 2<sup>nd</sup> quarter results.

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

€ thousand	6 months			Variance 2020/2019	
	2020	2019	2018	€	%
Water abstraction charges	-611	-594	-594	-17	-2.9%
Chemicals	-764	-834	-781	70	8.4%
Electricity	-1,775	-1,821	-1,457	46	2.5%
Pollution tax	-584	-594	-511	10	1.7%
<b>Total direct production costs</b>	<b>-3,734</b>	<b>-3,843</b>	<b>-3,343</b>	<b>109</b>	<b>2.8%</b>
Staff costs	-3,665	-3,349	-3,224	-316	-9.4%
Depreciation and amortisation	-2,675	-2,638	-2,551	-37	-1.4%
Construction services	-1,800	-1,674	-1,594	-126	-7.5%
Other costs of goods/services sold	-2,604	-2,258	-2,127	-346	-15.3%
<b>Other costs of goods/services sold total</b>	<b>-10,744</b>	<b>-9,919</b>	<b>-9,496</b>	<b>-825</b>	<b>-8.3%</b>
<b>Total cost of goods/services sold</b>	<b>-14,478</b>	<b>-13,762</b>	<b>-12,839</b>	<b>-716</b>	<b>-5.2%</b>

During the six months of 2020 **the cost of goods and services sold** amounted to €14.48 million, increasing by 5.2% or €0.72 million compared to the equivalent period in 2019. **Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €3.73 million, showing a 2.8% or €0.11 million decrease compared to the equivalent period in 2019. Changes in direct production costs came from a combination of changes in prices and in treated volumes that affected the cost of goods sold together with the following additional factors:

- **Water abstraction charges** increased by 2.9% to €0.61 million, driven mainly by 3.0% higher abstracted water volumes to water treatment process.
- **Chemicals** costs decreased by 8.4% to €0.76 million, driven mainly by on average 34% lower price of methanol, accompanied by lower usage of methanol and coagulant in wastewater treatment to remove Nitrogen and Phosphorus, worth +€0.08 million, +€0.03 million and +€0.03 million respectively. Lower costs from wastewater treatment were partly balanced by higher usage of coagulant in water treatment process, worth -€0.05 million.
- **Electricity** costs decreased by 2.5% to €1.78 million, driven mainly by on average 5% lower average price of electricity, worth +€0.10 million. Lower costs from prices were partly balanced by 14% higher wastewater volumes in wastewater main pumping station, accompanied by higher consumption of electricity in water treatment process and pumping stations, worth -€0.03 million and -€0.02 million in total respectively.

**Other costs of goods sold** (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to €10.74 million, having increased by 8.3% or €0.83 million. The increase in other costs of goods sold were mainly driven by 15.3% higher other costs of goods and services sold which amounted to €2.60 million and 9.4% higher staff costs amounting to €3.67 million by the same reasons mentioned in the 2<sup>nd</sup> quarter results. It was also accompanied 7.5% higher construction services related costs amounting to €1.80 million, driven by higher construction revenues and project specific changes.

The **Group's gross profit** for the six months of 2020 was €10.79 million, showing a decrease of 36.7% or €6.26 million compared to the comparative period of 2019. The **Group's operating profit** for the six months of 2020 amounted to €10.26 million, being 24.0% or €3.23 million lower than in the corresponding period of 2019, being mainly impacted by lower water services revenues from main service area because of new tariff valid from 1/12/2019 and lower commercial customer consumption, change of provision for the possible third-party claims mentioned in the 2<sup>nd</sup> quarter results and lower tariff dispute related legal costs resulting from the ICSID award in June 2019 according to which the Company was liable to pay for 25% of Estonian legal costs related to this matter. Eliminating the effect of the change of provision for the possible third-party claims the operating profit for 2020 and 2019 would have been €7.86 million and €13.49 million, being lower by 41.8% or €5.64 million year-on-year.

## FINANCIAL EXPENSES

The **Group's net financial income and expenses** have resulted a net expense of €0.20 million, compared to net expense of €0.47 million in the six months of 2019. The decrease was impacted by lower interest costs and higher positive change in the fair value of the swap contracts year-on-year, worth €0.13 million and €0.13 million respectively.

## PROFIT BEFORE TAXES AND NET PROFIT

The **Group's profit before taxes** for the six months of 2020 were €10.06 million, being 22.7% or €2.96 million lower than for the relevant period of 2019. The **Group's net profit** for the six months of 2020 were €5.71 million, being 39.8% or €3.77 million lower than for the equivalent period of 2019. Eliminating the effects of the change of the derivatives fair value and the change of provision for the possible third-party claims the Group's net profit for the six months of 2020 would have been €3.15 million, showing a decrease by 66.7% or €6.31 million year-on-year.

## Statement of financial position

In the six months of 2020 the **Group invested into fixed assets** €7.85 million. As of 30/06/2020, non-current tangible assets amounted to €194.47 million and total non-current assets amounted to €195.10 million (30/06/2019: €183.03 million and €183.67 million respectively).

Compared to the year end of 2019 the **trade receivables, accrued income and prepaid expenses** have shown a decrease in the amount of €1.16 million to €6.08 million. Decrease mainly derives from lower water and construction services related trade receivables, balanced partly by higher accrued income, by -€1.25 million, -€0.48 million and +€0.59 million respectively. The collectability rate continues to be high at 99.75% level, which is at the same level as of June 2019.

**Current liabilities** have increased by €4.01 million to €17.25 million compared to the year end of 2019, mainly deriving from €4.30 million dividend tax related liability.

**Deferred income from connection fees** has grown compared to the end of 2019 by €1.79 million to €32.86 million.

**Provision for possible third-party claims** has decreased compared to the end of 2019 by €2.41 million to €12.04 million by changes mentioned in the section of 2<sup>nd</sup> quarter Other income and expenses results. Additionally, more detailed information about the provision is in Note 6 to the financial statements.

The Group's **loan balance** has decreased slightly, being €89.55 million. In May 2019 the Company started to pay back old NIB loan with 11 equal semi-annual repayments. The weighted average loan interest risk margin is 0.66%.

The Group has a **Total debt to assets** level of 59.63%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2019, the total debt to assets ratio was 61.32%.

## Cash flow

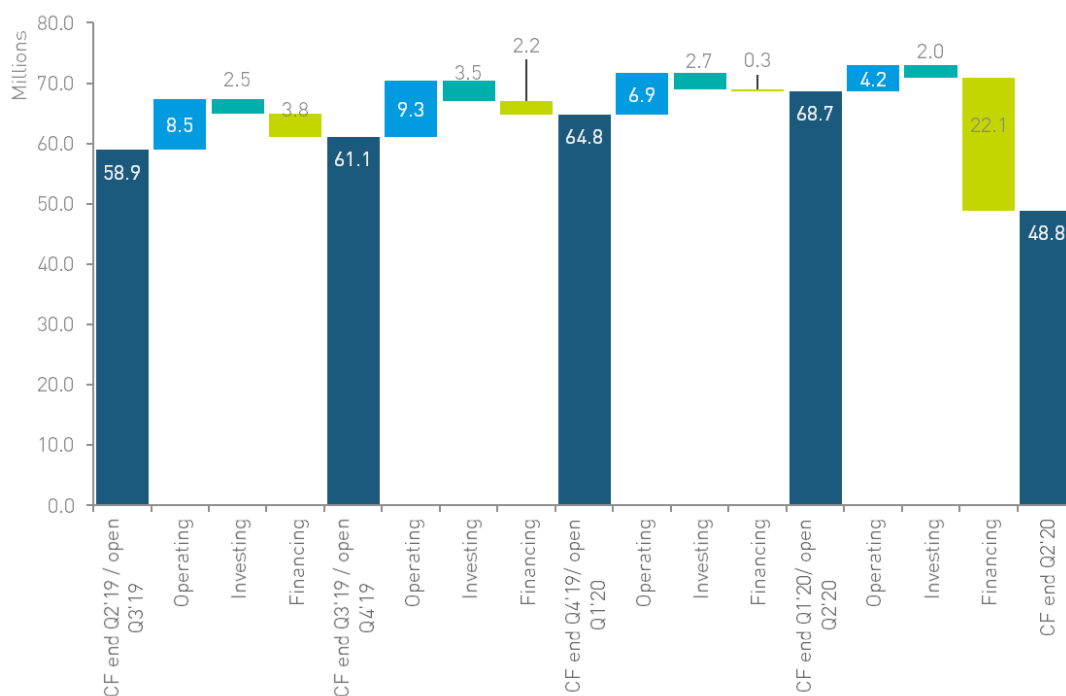
As of 30/06/2020, the cash position of the Group is strong. At the end of June 2020, the cash balance of the Group stood at €48.83 million, which is 19.5% of the total assets (30/06/2019: €58.89 million, forming 23.4% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the six months of 2020, the Group generated €11.13 million of **cash flows from operating activities**, a decrease of €5.06 million compared to the corresponding period in 2019. Underlying operating profit continues to be the main contributor to operating cash flows.

In the six months of 2020 the result of **net cash flows from investing activities** was a cash outflow of €4.67 million, an increase of €3.27 million compared to the cash outflow of €1.40 million in the six months of 2019. This is made up as follows:

- The cash outflows from investments in fixed assets have increased by €2.36 million compared to 2019 amounting to €5.45 million.
- The compensations received for the construction of pipelines were €0.72 million, showing a decrease of €0.95 million compared to the same period of 2019.

In the six months of 2020 **cash outflow from financing activities** amounted to €22.41 million, increasing by €4.75 million compared to the same period in 2019. The change was mainly related to higher dividend payment, balanced partly by lower interest payments, by +€4.92 million and -€0.14 million respectively.



## EMPLOYEES

We believe it is important to treat our employees equally, involve them in the decision-making process and to inform them regularly. We consider the involvement of our staff in the decision-making process instrumental for them to understand and be able to support the Company in its pursuits. Our staff can vary to a large degree in age, nationality, nature of work and in many other aspects. This requires us to be resourceful and flexible in our communication with the staff 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 a quarterly internal newsletter. Estonian is not a communication language for quite a number of our staff. Therefore, we organize Estonian classes at the Company's expense to make the staff, whose mother tongue is not Estonian, also feel as part of our unified team. At the same time, we provide the majority of important information also in Russian.

We have described our human resource policies. We follow equality principles in selecting and managing people, which 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.

At the end of the 2<sup>nd</sup> quarter of 2020, the total number of employees was 333 compared to 321 at the end of the same period in 2019. The full time equivalent (FTE) was respectively 320 in 2020 compared to the 308 in 2019. Average number of employees during the six months was 328 in 2020 and 317 in 2019 respectively.

By gender, employee allocation was as follows:

Group	As of 30/06/2020			As of 30/06/2019		
	Women	Men	Total	Women	Men	Total
Management Team	91	242	333	94	227	321
Executive Team	14	18	32	13	14	27
Management Board	5	5	10	3	4	7
Supervisory Board	1	2	3	1	2	3
	1	8	9	1	8	9

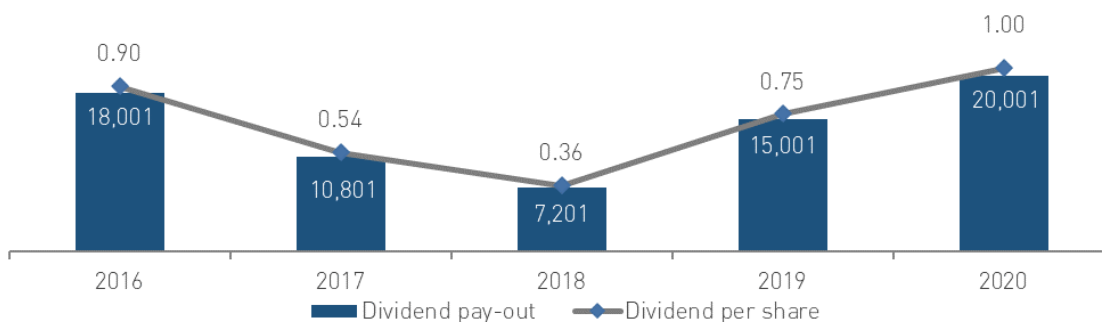
The total salary costs were €2.55 million for the 2<sup>nd</sup> quarter of 2020, including €0.06 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could be up to €0.09 million should the Council want to replace the current Management Board members.

## DIVIDENDS

Dividend allocation to the shareholders is recorded as a liability in the financial statement of the Company at the time when the profit allocation and dividend payment is confirmed by the annual general meeting of shareholders.

Every year the Supervisory Council evaluates the proposal of the dividends to be paid out to the shareholders and approves it to be presented to the voting to the Annual General Meeting of shareholders, considering all circumstances. In the Annual General Meeting held on 28/05/2020, the Supervisory Board proposed to pay out €1.00 per A-share and €600 per B-share, which is equal to 72.0% of earnings per share in 2019. The proposal was approved by Annual General Meeting and the dividend pay-out was made on 26/06/2020.

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



## SHARE PERFORMANCE

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

As of 30/06/2020, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

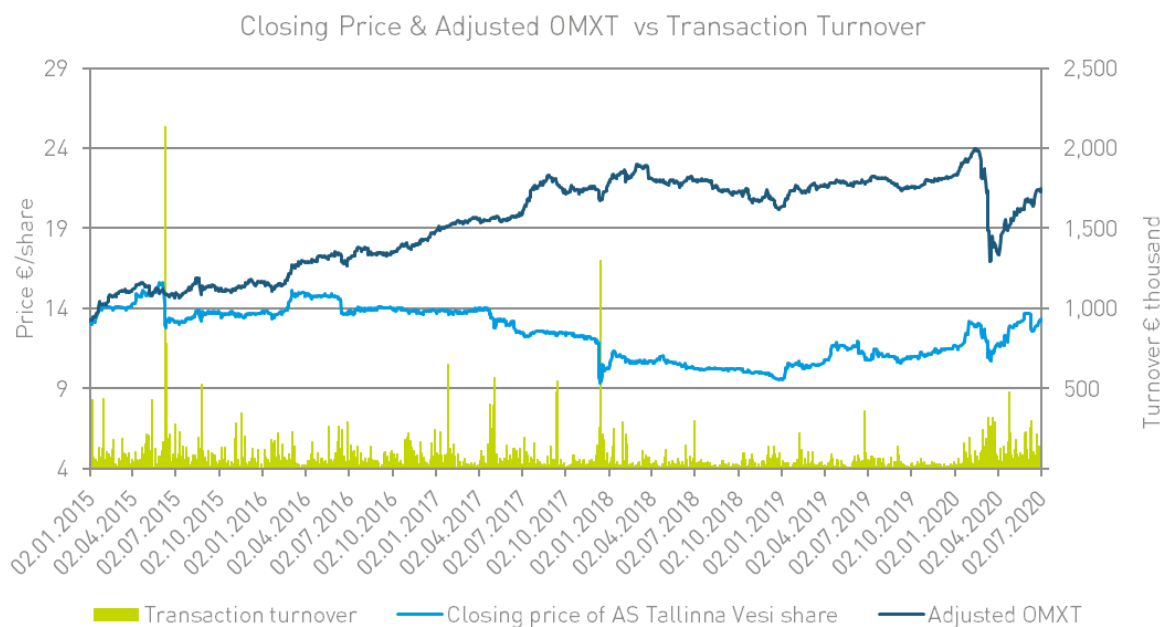
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the six months of 2020 the shareholder structure has been relatively stable compared to the end of 2019. At the end of the 2<sup>nd</sup> quarter of 2020, the pension funds shareholding has slightly decreased, being 0.79% of the total shares compared to 0.97% at the end of 2019.

As of 30/06/2020, the closing price of AS Tallinna Vesi share was €13.20, which is 13.30% (2019: +2.83%) higher compared to the closing price of €11.65 at the beginning of the quarter. During the 2<sup>nd</sup> quarter the OMX Tallinn index increased by 20.37% (2019: +1.30%).

In six months of 2020, 12,087 deals with the Company's shares were concluded (2019: 2,047 deals) during which 961 thousand shares or 4.8% of total shares exchanged their owners (2019: 336 thousand shares or 1.7%).

The turnover of the transactions was €8.21 million higher than in 2019 comparative period, amounting to €11.84 million.



## CORPORATE STRUCTURE

As of 30/06/2020, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

## CORPORATE GOVERNANCE

### SUPERVISORY COUNCIL

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members, who are appointed for two years. There were following changes in the Supervisory Council members in the 2<sup>nd</sup> quarter of 2020: Mrs Katrin Kendra's, Mr Simon Roger Gardiner's and Mr Martin Padley's terms as a Supervisory Council members were extended (until 31/05/2022, 3/06/2022 and 2/11/2022 respectively).



Supervisory Council has formed three committees to advise Supervisory Council on audit, remuneration and corporate governance matters.

More information about the Supervisory Council and committees can be found in the note 15 to the financial statements as well as from the Company's webpage:

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

[About us > Audit committee](#)

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

## MANAGEMENT BOARD

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

To ensure that the Company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. Meetings of Management Board and Supervisory Council members are held at least once a quarter. In those meetings the Management Board informs the Supervisory Council about all significant issues in Company's business operations, the fulfilment of the Company's short and long-term goals are discussed and the risks impacting them. For every meeting of the Management Board prepares report and submits the report in advance with the sufficient time for the Supervisory Council to study it.

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

Starting from 1/01/2020, there are 3 members in the Management Board of AS Tallinna Vesi: Karl Heino Brookes (Chairman of the Board, with the powers of the Management Board Member until 21/03/2023), Aleksandr Timofejev (with the powers of the Management Board Member until 29/10/2021) and Kristi Ojakäär (with the powers of the Management Board Member until 1/01/2023).

Additional information on the members of the Management Board can be found from the Company's website:

[About us > Management board](#)

### Additional information:

Karl Heino Brookes

Chairman of the Management Board

+372 62 62 200

[karl.brookes@tvesi.ee](mailto:karl.brookes@tvesi.ee)

## MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 6 months period of financial year 2020 ended on 30 June 2020. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended on 30 June 2020 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a fair presentation of the assets, liabilities, financial position and result of the operations and the cash flows of the Group.

The interim report gives a fair presentation of the main events that occurred during the 6 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

The significant transactions with related parties are disclosed in the interim accounts.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 31 July 2020 have been considered in preparing the financial statements.

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

**Karl Heino Brookes**

Chairman of the Management Board  
Chief Executive Officer

**Aleksandr Timofejev**

Member of the Management Board  
Chief Operating Officer

**Kristi Ojakäär**

Member of the Management Board  
Chief Financial Officer



31 July 2020

Introduction and photos of the Management Board members are published at company's web page.

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand		as of 30 June		as of 31 December
ASSETS	Note	2020	2019	2019
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	3	48,826	58,895	64,775
Trade receivables, accrued income and prepaid expenses		6,081	8,278	7,239
Inventories		742	526	504
<b>TOTAL CURRENT ASSETS</b>		<b>55,649</b>	<b>67,699</b>	<b>72,518</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	4	194,467	183,028	189,627
Intangible assets	5	629	645	710
<b>TOTAL NON-CURRENT ASSETS</b>		<b>195,096</b>	<b>183,673</b>	<b>190,337</b>
<b>TOTAL ASSETS</b>		<b>250,745</b>	<b>251,372</b>	<b>262,855</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term lease liabilities		493	388	352
Current portion of long-term loans		3,630	3,632	3,631
Trade and other payables		10,828	10,124	6,718
Derivatives		70	247	221
Prepayments		2,233	2,961	2,323
<b>TOTAL CURRENT LIABILITIES</b>		<b>17,254</b>	<b>17,352</b>	<b>13,245</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred income from connection fees		32,865	27,017	31,070
Leases		1,552	1,048	964
Loans		85,785	89,486	87,592
Derivatives		0	115	0
Provision for possible third party claims	6	12,035	19,068	14,442
Other payables		23	45	18
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>132,260</b>	<b>136,779</b>	<b>134,086</b>
<b>TOTAL LIABILITIES</b>		<b>149,514</b>	<b>154,131</b>	<b>147,331</b>
<b>EQUITY</b>				
Share capital		12,000	12,000	12,000
Share premium		24,734	24,734	24,734
Statutory legal reserve		1,278	1,278	1,278
Retained earnings		63,219	59,229	77,512
<b>TOTAL EQUITY</b>		<b>101,231</b>	<b>97,241</b>	<b>115,524</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>250,745</b>	<b>251,372</b>	<b>262,855</b>

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ thousand		Quarter 2		6 months		for the year ended
	Note	2020	2019	2020	2019	31 December
						2019
Revenue	7	12,089	16,149	25,269	30,813	63,423
Cost of goods and services sold	9	-7,355	-7,358	-14,478	-13,762	-29,470
<b>GROSS PROFIT</b>		<b>4,734</b>	<b>8,791</b>	<b>10,791</b>	<b>17,051</b>	<b>33,953</b>
Marketing expenses	9	-109	-96	-226	-208	-390
General administration expenses	9	-1,213	-2,026	-2,508	-3,288	-5,689
Other income (+)/expenses (-)	10	1,180	-67	2,205	-61	4,201
<b>OPERATING PROFIT</b>		<b>4,592</b>	<b>6,602</b>	<b>10,262</b>	<b>13,494</b>	<b>32,075</b>
Financial income	11	12	10	24	18	38
Financial expenses	11	-96	-276	-223	-491	-809
<b>PROFIT BEFORE TAXES</b>		<b>4,508</b>	<b>6,336</b>	<b>10,063</b>	<b>13,021</b>	<b>31,304</b>
Income tax on dividends	12	-4,355	-3,544	-4,355	-3,544	-3,544
<b>NET PROFIT FOR THE PERIOD</b>		<b>153</b>	<b>2,792</b>	<b>5,708</b>	<b>9,477</b>	<b>27,760</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>153</b>	<b>2,792</b>	<b>5,708</b>	<b>9,477</b>	<b>27,760</b>
Attributable profit to:						
Equity holders of A-shares		152	2,791	5,707	9,476	27,759
B-share holder		0.60	0.60	0.60	0.60	0.60
Earnings per A share (in euros)	13	0.01	0.14	0.29	0.47	1.39
Earnings per B share (in euros)	13	600	600	600	600	600

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

## CONSOLIDATED CASH FLOWS STATEMENT

€ thousand		6 months		for the year ended
	Note	2020	2019	31 December
				2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating profit		10,262	13,494	32,075
Adjustment for depreciation/amortisation	4,5,9,10	3,054	2,969	6,109
Adjustment for revenues from connection fees	10	-225	-179	-389
Other non-cash adjustments	6	-2,407	0	-4,624
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		-11	-5	138
Change in current assets involved in operating activities		938	-663	391
Change in liabilities involved in operating activities		-481	570	318
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>11,130</b>	<b>16,186</b>	<b>34,018</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment, and intangible assets		-5,450	-3,093	-10,441
Compensations received for construction of pipelines, incl connection fees		718	1,668	3,010
Proceeds from sale of property, plant and equipment, and intangible assets		28	7	24
Interest received		30	15	36
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-4,674</b>	<b>-1,403</b>	<b>-7,371</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
Interest paid and loan financing costs, incl swap interests		-367	-509	-1,056
Lease payments		-259	-209	-404
Received loans		0	0	37,500
Repayment of loans		-1,818	-1,818	-41,136
Dividends paid	12	-19,888	-14,965	-14,965
Withheld income tax paid on dividends	12	0	0	-36
Income tax paid on dividends		-73	-156	-3,544
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-22,405</b>	<b>-17,657</b>	<b>-23,641</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-15,949</b>	<b>-2,874</b>	<b>3,006</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>3</b>	<b>64,775</b>	<b>61,769</b>	<b>61,769</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>3</b>	<b>48,826</b>	<b>58,895</b>	<b>64,775</b>

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2018</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>64,753</b>	<b>102,765</b>
Dividends	0	0	0	-15,001	-15,001
Comprehensive income for the period	0	0	0	27,760	27,760
<b>as of 31 December 2019</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>77,512</b>	<b>115,524</b>
<b>as of 31 December 2018</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>64,753</b>	<b>102,765</b>
Dividends	0	0	0	-15,001	-15,001
Comprehensive income for the period	0	0	0	9,477	9,477
<b>as of 30 June 2019</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>59,229</b>	<b>97,241</b>
<b>as of 31 December 2019</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>77,512</b>	<b>115,524</b>
Dividends	0	0	0	-20,001	-20,001
Comprehensive income for the period	0	0	0	5,708	5,708
<b>as of 30 June 2020</b>	<b>12,000</b>	<b>24,734</b>	<b>1,278</b>	<b>63,219</b>	<b>101,231</b>

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

## NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

### NOTE 1. ACCOUNTING PRINCIPLES

The condensed consolidated interim financial statements of the Group have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed interim financial statements do not contain all the information presented in the annual financial statements and should be read in conjunction with the Group's latest published annual financial statements as at and for the year ended 31 December 2019. Selected notes are included in interim financial statements to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

### NOTE 2. CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of material misstatements to the carrying amounts of assets and liabilities were the same as described in the last annual financial statements as at and for the year ended 31 December 2019, except for estimates addressed below:

- Management has developed estimates on the expected credit losses of trade receivables based on the best available information about past events, current conditions and forecasts of macroeconomic conditions related to Covid-19 outbreak. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 30 June 2020, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of Estonia in which it sells its goods and services to be the most relevant factors, and has accordingly adjusted the historical loss rates based on expected changes in these factors. As at 30 June 2020, Management of the Group has assessed the expected credit loss related to Covid-19 outbreak to be €78 thousand. Estimated credit loss as at 30 June 2020 is provisional and to be revised as events unfold and further information becomes available on the level of disruption created by the Covid-19 outbreak in the longer term.
- 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 December 2019.

The potential undiscounted payments by the Company in the future, if potential claims from customers were recognised by the courts, would amount to €30.1 million (as of 31 December 2019: €36.1 million). This estimate marks the maximum difference in between the tariffs approved by the City of Tallinn in 2010 and the tariffs based on the Company's estimation, with the reservation to the possible fluctuation, regarding past 30 months (as of 31 December 2019: 36 months), being the approximate remaining unexpired term of potential claims. The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be €12.0 million (as of 31 December 2019: €14.4 million). As of 30 June 2020, no substantiated claims have been submitted. The Company will monitor the situation and thus adjusts the relevant provision on a rolling basis.

### NOTE 3. CASH AND CASH EQUIVALENTS

€ thousand	as of 30 June		as of
	2020	2019	31 December 2019
Cash in hand and in bank	32,926	43,895	43,175
Short-term deposits	15,900	15,000	21,600
<b>Total cash and cash equivalents</b>	<b>48,826</b>	<b>58,895</b>	<b>64,775</b>

### NOTE 4. PROPERTY, PLANT AND EQUIPMENT

€ thousand	Land and buildings	Facilities	Machinery and equipment	Construction in progress	Right-of-use assets	Right-of-use assets in progress	Total property, plant and equipment
<b>as of 31 December 2018</b>							
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
<b>Net book value</b>	<b>19,386</b>	<b>144,066</b>	<b>12,534</b>	<b>3,199</b>	<b>0</b>	<b>0</b>	<b>179,185</b>
<b>Transactions in the period 1 January 2019 - 31 December 2019</b>							
Reclassification on 1 January 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
<b>as of 31 December 2019</b>							
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
<b>Net book value</b>	<b>19,303</b>	<b>155,423</b>	<b>11,066</b>	<b>2,456</b>	<b>1,378</b>	<b>1</b>	<b>189,627</b>
<b>Transactions in the period 1 January 2020 - 30 June 2020</b>							
Acquisition in book value	0	0	0	6,922	0	900	7,822
Write off and sale of property, plant and equipment in residual value	0	0	0	0	-17	0	-17
Reclassification	57	2,852	462	-3,112	619	-901	-23
Depreciation	-146	-1,683	-1,042	0	-71	0	-2,942
<b>as of 30 June 2020</b>							
Acquisition cost	26,746	231,984	49,002	6,266	2,797	0	316,795
Accumulated depreciation	-7,532	-75,392	-38,516	0	-888	0	-122,328
<b>Net book value</b>	<b>19,214</b>	<b>156,592</b>	<b>10,486</b>	<b>6,266</b>	<b>1,909</b>	<b>0</b>	<b>194,467</b>

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

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



## NOTE 5. INTANGIBLE ASSETS

€ thousand	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
<b>as of 31 December 2018</b>			
Acquisition cost	4,206	50	4,256
Accumulated depreciation	-3,591	0	-3,591
<b>Net book value</b>	<b>615</b>	<b>50</b>	<b>665</b>
<b>Transactions in the period 1 January 2019 - 31 December 2019</b>			
Acquisition in book value	0	249	249
Reclassification	288	-288	0
Depreciation	-204	0	-204
<b>as of 31 December 2019</b>			
Acquisition cost	4,463	11	4,474
Accumulated depreciation	-3,764	0	-3,764
<b>Net book value</b>	<b>699</b>	<b>11</b>	<b>710</b>
<b>Transactions in the period 1 January 2020 - 30 June 2020</b>			
Acquisition in book value	0	31	31
Reclassification	3	-3	0
Depreciation	-112	0	-112
<b>as of 30 June 2020</b>			
Acquisition cost	4,466	39	4,505
Accumulated depreciation	-3,876	0	-3,876
<b>Net book value</b>	<b>590</b>	<b>39</b>	<b>629</b>

## NOTE 6. PROVISION FOR POSSIBLE THIRD PARTY CLAIMS

On 12 December 2017, the Supreme Court made a decision on AS Tallinna Vesi's cassation in the tariff dispute with the Estonian Competition Authority. The court stated that the Competition Authority is not bound by the agreement on the water tariffs contained in the Services Agreement, which was executed upon 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 applied until the new tariffs approved by the Competition Authority are duly implemented.

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

The potential undiscounted payments by the Company in the future, if potential claims from customers were recognised by the courts, would amount to €30.1 million (as of 31 December 2019: €36.1 million). This estimate marks the maximum difference in between the tariffs approved by the City of Tallinn in 2010 and the tariffs based on the Company's estimation, with the reservation to the possible fluctuation, regarding past 30 months (as of 31 December 2019: 36 months), being the approximate remaining unexpired term of potential claims.

The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be €12.0 million (as of 31 December 2019: €14.4 million). As of 30 June 2020, no substantiated claims have been submitted. The Company will monitor the situation and thus adjusts the relevant provision on a rolling basis.

## NOTE 7. SEGMENT REPORTING

The Group has defined the business segments based on the reports used regularly by the chief operating decision maker for the purposes of making strategic decisions. The chief operating decision maker monitors the Group's operations by activities. Three segments are distinguished: water services, construction and other services.

**Water services:** water supply, storm and wastewater disposal and treatment, fire hydrants service, overpollution charges and discharging.

**Construction services:** construction services provided by Watercom OÜ. Construction services have been identified as a reportable segment because its revenues are more than 10% of the combined revenues of all segments.

**Other services:** road maintenance, jet wash and transportation services, project management and owner's supervision and other activities. Other activities are of less importance to the Group's financial results and none of them constitutes a separate segment for reporting purposes.

The Group's 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	Const- ruction services	Other services	Inter- segment transactions	Total segments
<b>1 January 2020 - 30 June 2020</b>					
External revenue	22,763	2,205	301	0	25,269
Inter-segment revenue	1	1,568	1,695	-3,264	0
<b>Total segment revenue</b>	<b>22,764</b>	<b>3,773</b>	<b>1,996</b>	<b>-3,264</b>	<b>25,269</b>
<b>Segment's gross profit</b>	<b>10,316</b>	<b>194</b>	<b>559</b>	<b>-278</b>	<b>10,791</b>
<b>Unallocated expenses:</b>					
Marketing and Administrative expenses					-2,734
Other income/expenses					2,205
<b>Operating profit</b>					<b>10,262</b>
<b>1 January 2019 - 30 June 2019</b>					
	Water services	Const- ruction services	Other services	Inter- segment transactions	Total segments
External revenue	28,563	1,995	255	0	30,813
Inter-segment revenue	0	717	1,672	-2,389	0
<b>Total segment revenue</b>	<b>28,563</b>	<b>2,712</b>	<b>1,927</b>	<b>-2,389</b>	<b>30,813</b>
<b>Segment's gross profit</b>	<b>16,735</b>	<b>68</b>	<b>472</b>	<b>-224</b>	<b>17,051</b>
<b>Unallocated expenses:</b>					
Marketing and Administrative expenses					-3,496
Other income/expenses					-61
<b>Operating profit</b>					<b>13,494</b>

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2020 ENDED 30 JUNE 2020

### Revenue by activities

€ thousand	Quarter 2		6 months		for the year ended
	2020	2019	2020	2019	31 December 2019
<b>Water services</b>					
Water supply service	2,055	3,595	4,075	7,161	13,781
Wastewater disposal service	3,047	2,936	6,053	5,860	11,719
<b>Total from private customers</b>	<b>5,102</b>	<b>6,531</b>	<b>10,128</b>	<b>13,021</b>	<b>25,500</b>
Water supply service	1,450	3,011	3,475	5,745	11,482
Wastewater disposal service	1,500	2,364	3,624	4,631	9,317
<b>Total from corporate customers</b>	<b>2,950</b>	<b>5,375</b>	<b>7,099</b>	<b>10,376</b>	<b>20,799</b>
Water supply service	402	431	782	816	1,622
Wastewater disposal service	778	770	1,635	1,585	3,193
Storm water disposal service	52	63	159	210	426
<b>Total from outside service area customers</b>	<b>1,232</b>	<b>1,264</b>	<b>2,576</b>	<b>2,611</b>	<b>5,241</b>
Storm water treatment and disposal service and fire hydrants service	1,241	1,017	2,427	1,961	4,002
Overpollution charges and discharging	251	365	533	594	1,324
<b>Total from water services</b>	<b>10,776</b>	<b>14,552</b>	<b>22,763</b>	<b>28,563</b>	<b>56,866</b>
<b>Construction services</b>	<b>1,176</b>	<b>1,445</b>	<b>2,205</b>	<b>1,995</b>	<b>5,960</b>
<b>Other services</b>	<b>137</b>	<b>152</b>	<b>301</b>	<b>255</b>	<b>597</b>
<b>Total revenue</b>	<b>12,089</b>	<b>16,149</b>	<b>25,269</b>	<b>30,813</b>	<b>63,423</b>

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

### NOTE 8. STAFF COSTS

€ thousand	Quarter 2		6 months		for the year ended
	2020	2019	2020	2019	31 December 2019
Salaries and wages	-1,908	-1,741	-3,775	-3,443	-6,762
Social security and unemployment insurance t	-645	-589	-1,276	-1,164	-2,286
<b>Staff costs total</b>	<b>-2,553</b>	<b>-2,330</b>	<b>-5,051</b>	<b>-4,607</b>	<b>-9,048</b>
<b>Average number of employees during the reporting period</b>	<b>329</b>	<b>320</b>	<b>328</b>	<b>317</b>	<b>321</b>

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

€ thousand	Quarter 2		6 months		for the year ended
	2020	2019	2020	2019	31 December 2019
<b>Cost of goods and services sold</b>					
Water abstraction charges	-300	-303	-611	-594	-1,219
Chemicals	-385	-429	-764	-834	-1,664
Electricity	-805	-817	-1,775	-1,821	-3,566
Pollution tax	-221	-226	-584	-594	-1,089
Staff costs	-1,862	-1,704	-3,665	-3,349	-6,602
Depreciation and amortization	-1,356	-1,297	-2,675	-2,638	-5,420
Construction services	-949	-1,237	-1,800	-1,674	-5,096
Other costs	-1,477	-1,345	-2,604	-2,258	-4,814
<b>Total cost of goods and services sold</b>	<b>-7,355</b>	<b>-7,358</b>	<b>-14,478</b>	<b>-13,762</b>	<b>-29,470</b>
<b>Marketing expenses</b>					
Staff costs	-97	-81	-188	-168	-318
Other marketing expenses	-12	-15	-38	-40	-72
<b>Total marketing expenses</b>	<b>-109</b>	<b>-96</b>	<b>-226</b>	<b>-208</b>	<b>-390</b>
<b>Administrative expenses</b>					
Staff costs	-594	-545	-1,198	-1,090	-2,128
Depreciation and amortization	-83	-83	-170	-165	-335
Other general administration expenses	-536	-1,398	-1,140	-2,033	-3,226
<b>Total administrative expenses</b>	<b>-1,213</b>	<b>-2,026</b>	<b>-2,508</b>	<b>-3,288</b>	<b>-5,689</b>

## NOTE 10. OTHER INCOME/EXPENSES

€ thousand	Quarter 2		6 months		for the year ended
	2020	2019	2020	2019	31 December 2019
Connection fees	114	93	225	179	389
Depreciation of single connections	-106	-86	-209	-166	-354
Doubtful receivables expenses (-)/ expense reduction (+)	50	-10	-82	-7	20
Provision for possible third party claims (Note 6)	1,204	0	2,407	0	4,626
Other income (+)/expenses (-)	-82	-64	-136	-67	-480
<b>Total other income / expenses</b>	<b>1,180</b>	<b>-67</b>	<b>2,205</b>	<b>-61</b>	<b>4,201</b>

## NOTE 11. FINANCIAL INCOME AND EXPENSES

€ thousand	Quarter 2		6 months		for the year ended
	2020	2019	2020	2019	31 December 2019
Interest income	12	10	24	18	38
Interest expense, loan	-124	-190	-247	-378	-714
Interest expense, swap	-54	-59	-116	-121	-230
Increase (+)/decrease (-) of fair value of swap	88	-22	151	18	159
Other financial income (+)/expenses (-)	-6	-5	-11	-10	-24
<b>Total financial income / expenses</b>	<b>-84</b>	<b>-266</b>	<b>-199</b>	<b>-473</b>	<b>-771</b>

## NOTE 12. DIVIDENDS

€ thousand	Quarter 2		6 months		for the year ended
	2020	2019	2020	2019	31 December 2019
Dividends declared during the period	20,001	15,001	20,001	15,001	15,001
Dividends paid during the period	19,888	14,965	19,888	14,965	14,965
Withheld income tax on dividends	113	36	113	36	36
Income tax on dividends paid	4,355	3,544	4,355	3,544	3,544
Dividends declared per shares:					
Dividends per A-share (in euros)	1.00	0.75	1.00	0.75	0.75
Dividends per B-share (in euros)	600	600	600	600	600

Dividend income tax rate in 2020 is 20/80 (in 2019: 20/80), but for dividend payments in the amount of up to the average taxed dividend payment during the three preceding years, the income tax rate 14/86 is applied. When calculating the average dividend payment of the three preceding years, 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.

## NOTE 13. EARNINGS PER SHARE

€ thousand	Quarter 2		6 months		for the year ended
	2020	2019	2020	2019	31 December 2019
Net profit minus B-share preferred dividend rights	152	2,791	5,707	9,476	27,759
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Earnings per A share (in euros)	0.01	0.14	0.29	0.47	1.39
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 June 2020 and 2019 and 31 December 2019 was equal to earnings per share figures stated above.

## NOTE 14. RELATED PARTIES

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

### Shareholders having the significant influence

#### Balances recorded on the statement of financial position of the Group

€ thousand	as of 30 June		as of 31 December	
	2020	2019	2019	
Accounts receivable	6	336	531	
Trade and other payables	186	179	184	

Transactions € thousand	Quarter 2		6 months		for the year ended 31 December
	2020	2019	2020	2019	2019
Revenue	1,241	1,017	2,427	1,961	4,002
services	257	249	526	492	991

#### Fees to the Group's Management and Supervisory Board members

€ thousand (excluding social tax)	Quarter 2		6 months		for the year ended 31 December
	2020	2019	2020	2019	2019
Fees for Management Board	50	40	124	116	213
Supervisory Board fees	8	8	16	16	32

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

The Group's Management Board members are elected for 3 (three) years and Supervisory Board members for 2 (two) years. Stock exchange announcement is published about the change in Management and Supervisory Board.

The potential salary liability would be up to €88 thousand (excluding social tax) if the Supervisory Board would replace all Management Board members.

#### Company shares belonging to the Management Board and Supervisory Board members

As of 30 June 2020, the members of the Supervisory Council and the Management Board did not own any shares in the company (as of 30 June and 31 December 2019: Riina Käi owned 100 shares).

## NOTE 15. LIST OF SUPERVISORY BOARD MEMBERS

Simon Roger Gardiner	Chairman of the Supervisory Board
Keith Haslett	Member of the Supervisory Board
Martin Benjamin Padley	Member of the Supervisory Board
Brendan Francis Murphy	Member of the Supervisory Board
Priit Rohumaa	Member of the Supervisory Board
Katrin Kendra	Member of the Supervisory Board
Toivo Tootsen	Member of the Supervisory Board
Allar Jõks	Member of the Supervisory Board
Priit Lello	Member of the Supervisory Board

Introduction of Supervisory Board members is published at company's web page.  
<https://tallinnavesi.ee/en/ettevõtte/management-board/supervisory-council/>