AS TALLINNA VESI

Annual Report 2020

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Tallinna Vesi

Loome puhta veega parema elu!

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1. CHAIRMAN'S STATEMENT

The challenges of 2020 arrived unexpectedly for Tallinna Vesi, as they did for many other companies worldwide. The outbreak of COVID-19 required the Company to make a number of changes in its working arrangements. We responded quickly to the changing situation and continued to ensure uninterrupted services to customers and safeguard employees, however, our financial performance was impacted compared to the pre-crisis period. Despite this, we managed to achieve a record performance in a number of quality parameters, related to operations and customer service.

NEW WORKING ARRANGEMENTS

In order to ensure the continued supply of uninterrupted services to our customers and the continued safety of staff, we made a number of changes in our working arrangements in spring and in autumn, related to the COVID-19 pandemic. Office staff transferred to working from home, and operational employees at the Company's facilities started working in shifts. Interaction with customers and other parties moved to digital channels where possible. The new working arrangements required considerable changes – creating opportunities for remote work and relevant trainings, providing additional personal protective equipment and seeking logistical solutions. The situation required considerable communications to explain the changes, and support in managing the new situation.

SUSTAINABLE FINANCIAL POSITION

The year 2020 was quite different to previous financial years – we saw a decrease in our sales revenue and net profit compared to the previous year. Financial performance was affected by the reduced tariffs applicable since the end of last year, and decreased commercial consumption driven by the virus restrictions, particularly in the hospitality sector. In response, we reduced costs where possible to counteract the decline. A more detailed overview of the financial indicators is provided within the following pages of the report.

In 2020, we also defined the Company's dividend policy to provide investors with increased future clarity. According to the policy, we aim to distribute 50%-80% of the annual profit as dividends. Dividend payments shall be assessed annually, considering ASTV's earnings, investment needs, liquidity position and long-term financial objectives.

Activities of Tallinna Vesi's subsidiary Watercom were also impacted by the COVID-19 pandemic. Work continued on the contracts and projects secured in the previous year, together with new pipe and road construction tenders that Watercom was awarded in 2020. Despite the drop in revenues, Watercom delivered excellent margins to the group, through increased efficiency and financial focus on in-flight projects.

The role of Tallinna Vesi's subsidiary Watercom as its non-regulated business, is becoming increasingly important in counteracting some of the effects of the regulatory regime applied to water companies, and the changing economic environment.

IMPROVING QUALITY PARAMETERS

A number of quality parameters for our services showed significant improvement in 2020. Once again, we achieved excellent results with respect to the quality of drinking water samples,

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according to the required externally set standards. This is a result of targeted investments into the network and enhanced maintenance regimes, which the Company introduced, following the introduction of a more sensitive water quality test into Estonia.

In order to operate efficiently, and use water resources sparingly, we have made great efforts to reduce leakages in the water network. The all-time low record in leakage rate of 12.42% that the Company achieved in 2020, is a testament to that work. We consider this a success story, because our leakage performance is comparable with the best performing water companies in Europe. The consistent improvement in leakage rates since privatisation, demonstrates appropriate capital investments into the network.

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.

We work hard to limit interruptions in the water network and minimise their duration when they occur. During 2020, the average water disruption time remained stable. The number of sewer blockages and sewer collapses showed a significant improvement compared to 2019.

In 2020, we completed and commenced a number of major network renovation and construction projects. The reconstruction of the mechanical treatment stage at Paljassaare wastewater treatment plant was started, as is one of the largest projects of the past decade. This major project, with a budget of €7.6 million, will continue throughout 2021, with completion expected in the first quarter of 2022. Completion of this project will further enhance the quality and resilience of wastewater treatment process.

We carried out other major renovation projects: reconstruction of the water pipe supplying residents in Lasnamäe and Maardu, part of the water pipe on Järvevana Rd, investment into new technology and telemetry in pumping stations in Pirita-Kose and Northern Tallinn. We also reconstructed a large collector at Kadaka Blvd, which directs wastewater from Saku, Saue, Laagri and parts of the Nõmme District, to the Company's wastewater treatment plant at Paljassaare.

Network renovation reduces the likelihood and impact of interruptions in the wider network. Besides renovation, we consistently maintain our networks, which was facilitated last year by the warmer winter, allowing additional work.

IMPROVED ENVIRONMENTAL AWARENESS

In the annual customer satisfaction survey, 91% of the end consumers stated that they drink tap water. Tallinna Vesi has been consistent in growing people's trust in tap water, and environmental awareness. This was achieved by delivering bespoke campaigns, promoting the knowledge in media and working closely with kindergartens, schools and local communities.

In early 2020, we ran an advertising campaign "Mythbusters" on television, social media and cinemas, with the aim of illustrating in a humorous way, how much work it takes to treat drinking water, and why it is important to prevent garbage from entering the sewers. We also continued to support sports and community events, by delivering free drinking water from our fleet of bespoke tankers.

Unfortunately, we had to postpone our traditional open-door days at the treatment plants, due to COVID-19, but we intend to continue those as and when the virus restrictions are eased. We are

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also in the process of developing audiovisual materials, to raise environmental awareness among children and young people.

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. Besides the high-quality service, we consistently monitor our performance in terms of keeping our promises made to customers, giving swift responses and reducing the likelihood of complaints. We managed to maintain high standards in keeping our promises, and only had one failure in 2020.

Each year, an extensive customer satisfaction survey is carried out among our customers by the independent research company Kantar Emor. The results of the 2020, once again, showed consistently high levels of customer satisfaction with our services. We will continue to make further improvements in this area, and will adopt modern technology where possible, to enhance and simplify customer interaction.

OUTLOOK FOR 2021

According to external forecasts, the impact of the COVID-19 pandemic will gradually start to reverse in 2021 as the vaccine is rolled out. We are therefore optimistic that consumption of our services will also revert back to pre-pandemic volumes in the longer term.

Our most important task is to provide a reliable and secure service to our customers, and we will commence and continue several key projects related to network renovation.

The beginning of 2021 has brought announcements of a contemplated change of owners: a contract has been concluded whereby the City of Tallinn and Utilitas will buy the shareholding of United Utilities in Tallinna Vesi. Once this transaction is complete, the new owners will be more specific about the future visions of the company. However, I am convinced that the provision of excellent water and wastewater services to customers will continue to be a priority for Tallinna Vesi.

The Company's subsidiary Watercom will continue to provide services in appropriate external sectors and continues to seek opportunities to develop existing and new services. We are therefore optimistic that Watercom will continue to grow external sales and profits in the longer term.

Finally, I would like to thank my colleagues in Tallinna Vesi, Watercom and United Utilities, and all our customers, suppliers and business partners for their continued support and understanding that helped the Company to adapt to the changing environment, and make 2020 a successful year despite the coronavirus.

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 services to nearly one third of Estonian population. We serve over 24,600 private customers and businesses and approximately 470,000 end consumers in Tallinn and its surrounding areas: City of Maardu, City of Saue and Harku Small Town. As of 31 December 2020, Tallinna Vesi employed 333 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 66,000 m³ of water and 130,000 m³ 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 mandate is effective until 30 November 2025 as per the exclusive right to provide water and wastewater services in Tallinn.

The public water supply system includes more than 1,200 km of water pipes, 22 water pumping stations and 46 ground water pumping stations with 92 boreholes. The catchment area in Harju and Järva Counties covers around 1,800 km^2. The public sewerage system comprises more than 1,185 km of wastewater network, 507 km of stormwater network and 177 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 2020, 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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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 the responsibility to supply high-quality drinking water to consumers, ensure a reliable service and collect and treat wastewater and stormwater in an environmentally conscious manner.

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.

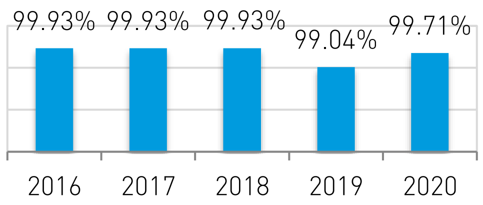
3. OUR PERFORMANCE IN 2020

3.1 Operational highlights in 2020

WATER QUALITY

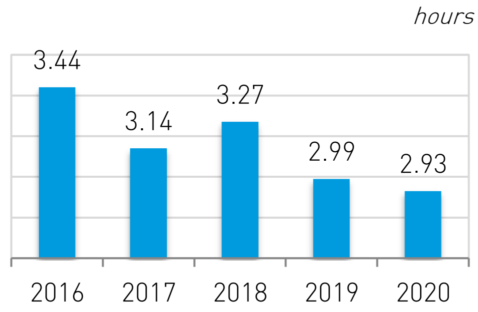
Water quality continues to be high. The water samples taken from customer taps were 99.71% compliant with all quality requirements.

This is a result of further investments into the network and enhanced maintenance regimes, which were introduced following the introduction of a more sensitive water quality test into Estonia in 2019.



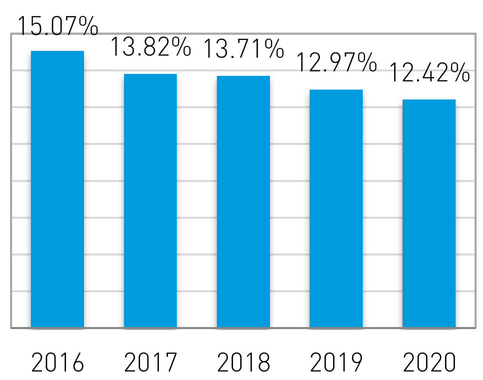
AVERAGE INTERRUPTION PER PROPERTY IN HOURS

We work hard to limit interruptions in the water network and minimise their duration when they occur. During 2020, the average water disruption time remained stable at 2 hours and 56 minutes per property compared to 2 hours and 59 minutes in 2019.



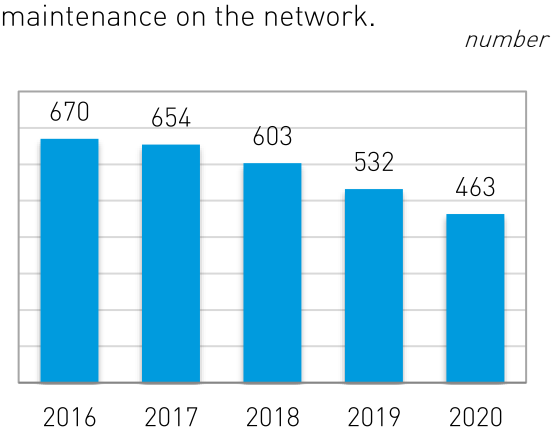
LEAKAGE LEVEL IN WATER NETWORK

In order to operate efficiently and use water resources sparingly, we have made great efforts to reduce leakages in the water network. The all-time low record of 12.42% in leakage rate that the Company achieved in 2020, is a testament to that work.



NUMBER OF SEWER BLOCKAGES

The number of sewer blockages has reduced by 13% compared to the year before. A contributing factor to that was the warmer winter that facilitated additional maintenance on the network.



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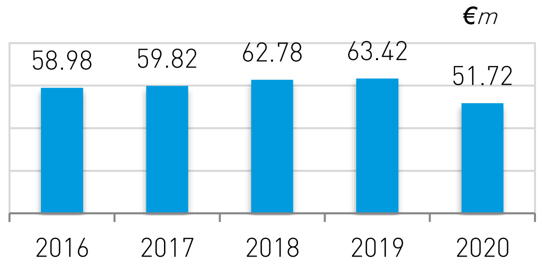
3.2 Financial highlights in 2020

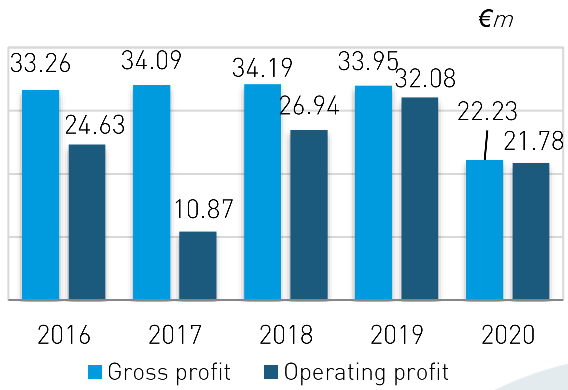
SALES

Sales decreased by 18.5% or €11.71 million compared to 2019, primarily due to the tariff reductions effective from 01/12/2019 and lower commercial consumption because of the COVID-19 pandemic as the hospitality and entertainment sectors were operating with less or no visitors and less people were working in offices.



GROSS AND OPERATING PROFIT

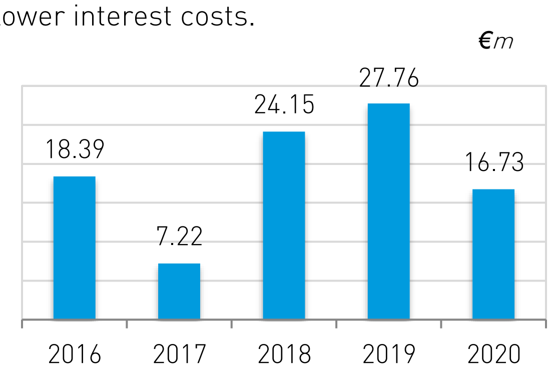
The gross profit decreased by 34.5% or €11.73 million to €22.23 million. The changes reflected higher staff and other purchase costs for goods and services, whilst the costs related to construction services as well as electricity and pollution tax costs were lower. The decrease in gross profit was mainly attributable to the lower sales result.



The operating profit showed a reduction of 32.1% or €10.29 million to €21.78 million. The decrease was mainly a consequence of lower water service revenues from the main service area due to the new tariff effective from 1/12/2019 and lower consumption of businesses as well as change in the provision for possible third-party claims (more information on the provision related to possible third-party claims is in Note 15), accompanied by the additional legal costs resulting from the ICSID award, which ordered the Company to pay 25% of Estonia's legal costs in 2019 relating to the arbitration procedure.

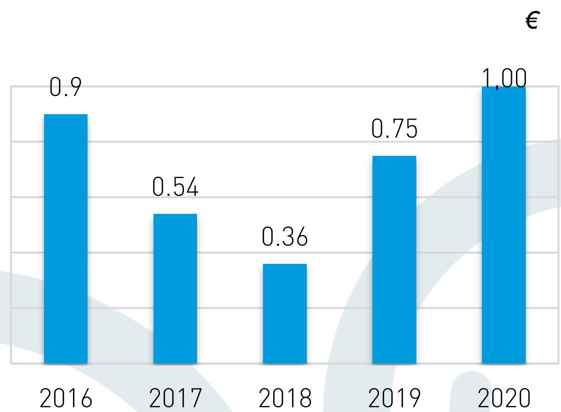
NET PROFIT

The net profit decreased by 39.7% or €11.03 million to €16.73 million. In addition to the changes above it resulted from lower financial expenses mainly in relation to lower interest costs.



TOTAL DIVIDEND PER SHARE PAY-OUT

Total dividends per share pay-out from the 2019 net profit was €1.00 per share, which is equal to the 72.05% payout ratio in 2019.



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3.3 Highlights of the year

INVESTMENT OF THE PAST DECADE

In 2020, we commenced the reconstruction of the mechanical treatment stage at Paljassaare Wastewater Treatment Plant. With a total cost of €7.6 million, it is the largest investment of the past decade for Tallinna Vesi. We are renovating the very first part of the wastewater treatment plant, i.e. the treatment stage, which removes larger debris, sand and grease from the wastewater. This major project is ahead of schedule and will continue throughout 2021.

LARGE PROJECTS ON WATER AND SEWER NETWORK

In 2020, we renovated 4.7 kilometres of water pipes and 3.8 kilometres of sewers and worked on several major projects. In order to enhance the reliability of water supply service, the largest work took place in the area of Punane Street in Lasnamäe, where we reconstructed the water main supplying more than 100,000 inhabitants in Tallinn and Maardu.

We renovated part of the water main on Järvevana Road, thus improving the security of water supply in the Mustamäe and Õismäe districts of Tallinn. We upgraded the pumping stations in Pirita-Kose and Northern Tallinn with new technology and telemetry.

During 2020, we also reconstructed a large collector at Kadaka Blvd, which directs wastewater from Saku, Saue, Laagri and approximately half of the properties in Nõmme district to Paljassaare Wastewater Treatment Plant.

The reconstruction project was essential to ensure continued and uninterrupted service in these areas in the future. A temporary pressure line was built as a bridge over the road to keep the traffic going during the works, which was the longest overground pumping line ever to have been constructed in the Baltic States.

AVAILABILITY OF SAFE TAP WATER

In order to make tap water more accessible also in public urban space, we maintain 8 public drinking water taps in Tallinn. In 2020, we started collaboration with the Port of Tallinn and installed stickers emphasizing the reliability of tap water at five drinking water fountains in the Port's D-terminal.

RAISING ENVIRONMENTAL AWARENESS

In early 2020, we ran an advertising campaign "Mythbusters" on television, in social media and cinemas, aimed at illustrating in a humorous way how much work it takes to treat drinking water and why it is important to prevent garbage from entering the sewers.

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SUPPORT TO THE LOCAL COMMUNITY

During 2020, 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;
- A donation to the Estonian Association of Parents of Children with Cancer, helping to provide the support services for families struggling with a serious illness;
- A donation to the Tallinn Centre for Children at Risk which, thanks to the support, is able to enhance the development activities for the recovery and future coping of children without parental care;
- Engagement with SPIN project which aims to develop and strengthen young people's social and self-management skills, and to provide young people with development opportunities and enjoyment through sports;
- We continued to support sports and community events by providing free drinking water. We were present at, for example, Stamina running and walking events, family day of Association of Large Families in Harjumaa NGO, summer youth festivals organized by the Tallinn Sports and Youth Department, the Investment Festival and many other events.

WATERCOM´S CONTINUED SUCCESS

In 2020, Tallinna Vesi's subsidiary Watercom acquired new equipment to further improve its performance efficiency. In May, a new custom-built Scania jet-wash vehicle was put into operation to effectively clean sewers, manholes and pumping stations. In addition, new excavators were introduced to help carry out excavations efficiently in the event of water emergencies or construction.

In 2020, Watercom launched a new service - pipe disinfection.

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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, the state and the 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.

BREAKDOWN OF THE VALUE GENERATED AND DISTRIBUTED BY THE COMPANY

HOW WE DELIVER VALUE TO DIFFERENT STAKEHOLDERS

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

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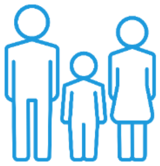
DELIVERING SOCIAL VALUE

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.

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.

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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.

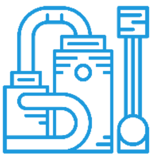
Partners

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

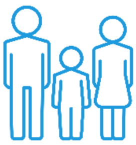
- We treat our partners fairly.
- Our ways of business are transparent and ethical.

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.



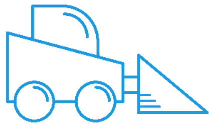
Operational Excellence



Satisfied Customers and Community

Professional and Committed Employees

Sustainable Financial Performance



Sustainable Growth of Watercom

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 2020

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 2020, the Company delivered all contractual levels of service.

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. Environment Agency issued the certificate of registration for Eco-Management and Audit Scheme EMAS to the Company for the following three years.

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 2020, the Company delivered all contractual 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. We managed to deliver that objective 100% in 2020.

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 2020 was to keep 87% 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 – 91% of interruptions lasted less than five hours. Average duration of interruptions in 2020 was 2 hours and 56 minutes (2 hours and 59 minutes in 2019).

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 98.9% of the events (2019: 96.2%).

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 2020, the investments in our main water treatment infrastructure amounted to €1,430 thousand (€1,548 thousand in 2019), amongst which the largest projects were the reconstruction of pipes inside the Building A at the Water Treatment Plant and the pumping station on Kolde Blvd. €7,436 thousand was invested in wastewater treatment (€603 thousand in 2019), including the reconstruction of mechanical treatment facilities and the effluent outlet tower, and the replacement of a pump in the main pumping station at Paljassaare. Key investments in water and wastewater networks were the reconstruction of pipes on Kadaka Blvd, Punane Str and Järvevana Rd. The total level of investments in water and wastewater network was €5,353 thousand (€5,142 thousand in 2019). The cost of new connection points was €3,862 thousand in 2020 (€8,031 thousand in 2019).

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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 customer 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 customer 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 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 2020, we took a total of 3,099 samples across the service area (2019: 3,006). In 2019, the water samples taken from customer's taps were 99.04% compliant with all quality requirements, in 2020 this same parameter reached 99.71%. This is a result of further investments into the network and enhanced maintenance regimes, which were introduced following the introduction of a more sensitive water quality test into Estonia.

During recent years 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 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	2020	2019	2018	2017	2016
Compliance of water quality at the consumers' taps	99.71%	99.04%	99.93%	99.93%	99.93%
Leakages in the water network	12.42%	12.97%	13.71%	13.82%	15.07%
Average duration of water interruptions per property in hours	2.93	2.99	3.27	3.14	3.44

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 environmental requirements set for water companies, we are required to comply with legislative acts issued by the European Union (EU) and the Parliament of Estonia as well as by the local governments. At the 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 Environmental Liability Act, the Environmental Monitoring 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 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;
- 1 waste permits;
- 1 ambient air pollution permits.

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 $C0_2$ 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 2020 environmental report is due to be released in the first half of 2021 and will then be up on the Company website. In 2020, the Company did not have any non-compliances with the requirements of environmental permits.

SUSTAINABLE USE OF WATER

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: 25,241 th. m^3 (2019: 25,000 th. m^3)
Ground water: 2,734 th. m^3 (2019: 2,680 th. m^3)

Lake Ülemiste has an extensive surface water catchment system, serving also as a source for additional water during dry periods. In 2020, the Water Treatment Plant produced an average of 66,400 m^3 of water per day (2019: 65,733 m^3). That quantity has been relatively stable over the years. We saw a slight increase in average water consumption per capita to 98.2 litres per day in Tallinn and Saue (Tallinna Vesi's main service area) in 2020 as a result of more customers working from home.

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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 20 years ago the level of leakages exceeded 35%, while in 2020, the level of leakages was 12.42% (2019: 12.97%). This is the all-time low record in the Company 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.

14 LIFE BELOW WATER

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 2020, 52.5 million m^3 of wastewater (2019: 49.7 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 2020:

	REQUIREMENT	2020	2019
Biological oxygen demand (BOD)	80%	98%	97%
Chemical oxygen demand (COD)	75%	88%	91%
Suspended solids	90%	98%	97%
Total nitrogen (N_{tot})	80%	86%	85%
Total phosphorus (P_{tot})	80%	92%	92%
Oil products	75%	90%	85%

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

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incapacity of the Wastewater Treatment Plant to take in and/or fully treat such large amounts of 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 2020, we were compelled to open the emergency outlets in the main pumping station 6 times (2019: 3 times), all for a short period of time, in order to avoid major damages. A total of 234,124 m^3 (2019: 80,135 m^3) of wastewater diluted by stormwater (dilution at least ¼) was discharged into the sea during those events.

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.

13 CLIMATE ACTION

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 2020, Tallinna Vesi commenced the reconstruction of the mechanical treatment stage at Paljassaare wastewater treatment plant – one of largest projects of the past decade for the Company. This major project is currently ahead of schedule and will continue throughout 2021, with completion expected in early 2022. Completion of this project will further enhance the quality and resilience of the wastewater treatment process.

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	2020	2019	2018	2017	2016
Number of sewer blockages	463	532	603	654	670
Number of sewer bursts	80	103	88	135	107
Compliance of effluent leaving Wastewater Treatment Plant	100%	100%	100%	100%	100%

5.3 Objectives: operational performance

OPERATIONAL OBJECTIVES OF 2020	
No cases of non-compliance with levels of service agreed in the Services Agreement (0)	Achieved
Leakage level in the water network ≤13.75%	Achieved
Cases of non-compliance with water permit requirements (0)	Achieved
≥ 87% of water interruptions last ≤ 5 hours	Achieved

OPERATIONAL OBJECTIVES OF 2021	
Implementation of wastewater treatment investments (key projects: mechanical treatment, pump replacement, reconstruction of the main pumping shaft) on time and without pollution incidents	0 pollution incidents; key projects completed on time
Leakage level in the water network	≤13.00%
Cases of non-compliance with water permit requirements	0
Water quality in the water network	≥99,6%

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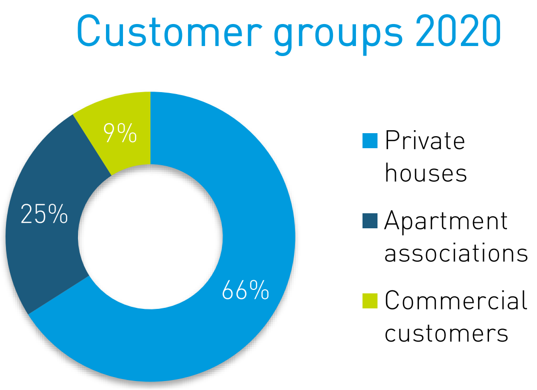
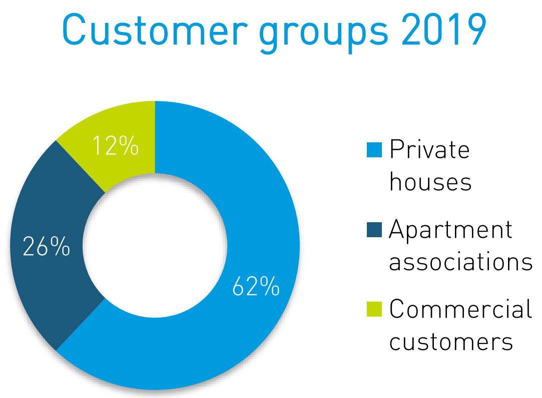
5.4 Our customers

We provide water supply and sewerage services to over 24, 600 contractual customers and approximately 470,000 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.





Good customer service relies on understanding our customers' needs, anticipating problems and giving expert advice. It is also important to resolve complaints quickly and skilfully and to be an advisory partner to the customers in any situation. 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.

We have implemented a unique system of promises that provides for an automatic payment of compensation to a customer for each promise we fail to deliver. In 2020, we only had one failure, which affected 2 customers (2019: 141 customers). We were unable to clear a sewer blockage quickly enough due to a malfunction of the emergency line. We analysed the case thoroughly, made improvements to the procedure and also paid the compensation to the customers.

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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.

The number of customer contacts generally serves as an indicator of the quality of customer service provided by a company - in the case of a service that goes unnoticed by the customer, the need to contact the company is reduced. The approximately 25% reduction in customer inquiries concerning the most common issues, i.e. water quality, pressure and sewer blockages, in 2020 is a positive trend.

Customer Service	2020	2019	2018	2017	2016
Number of customer complaints*	40**/ (181*)	167*	158*	36	45
Number of customer contacts regarding water quality	323	508	258	219	166
Number of customer contacts regarding water pressure	359	478	439	298	339
Number of customer contacts regarding blockages and discharge of stormwater	864	1,047	1,043	1,111	1,190
% of written contacts answered in accordance to required deadline***	100.0%	100.0%	100.0%	99.9%	99.5%
Number of failed promises	2	141	33	5	4
Results of the annual customer satisfaction survey (TRI*M index)****	54	54	53	90	94
Number of contacts per customer	1.0	0.8	1.0	1.1	1.3

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Notification of unplanned water interruptions at least 1 h before the interruption	98.9%	96.2%	95.2%	98.2%	98.8%

**Until 2018, this figure included only the customer complaints received in writing and from customers in Tallinn. The number for 2018 includes the complaints received both in writing and by phone and from all our current service area.*
*** From 2020, only the cases in the Company's control are classified as complaints. Numbers with * are based on the same methodology.*
**** 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.*

CUSTOMER SATISFACTION

Systematic and regular feedback from our customers and consumers is instrumental for us. It helps us to get a fair assessment of our activities and to understand our strengths, as well as our weaknesses, which we should address more in the future.

The main purpose of the survey was to map the changes in the strength of AS Tallinna Vesi's customer relationships as well as the factors shaping it and obtaining feedback on the effectiveness of our operations from our customers and consumers. 923 customers and 486 end consumers responded to the survey.

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, two elements – general satisfaction and the extent to which a company distinguishes from the other similar utility companies;

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

The analysis revealed that compared to previous years, end-consumer ratings to Tallinna Vesi have increased, but ratings from commercial customers have somewhat decreased. The average customer relationship strength index for the various segments has remained stable and continues to show a very strong level. Therefore, the assessments of the quality and service level of Tallinna Vesi's service in the overall view of the customer groups have remained uniformly high over the years. Overall satisfaction with the services of Tallinna Vesi in all customer groups remains at a high level in the range of 98-109 points, and in various segments 78-85% of the respondents are satisfied with the services.

The end-consumer segment shows an upward trend in ratings. Residential customers stand out with the highest overall satisfaction. Compared to the previous year, the ratings to problem

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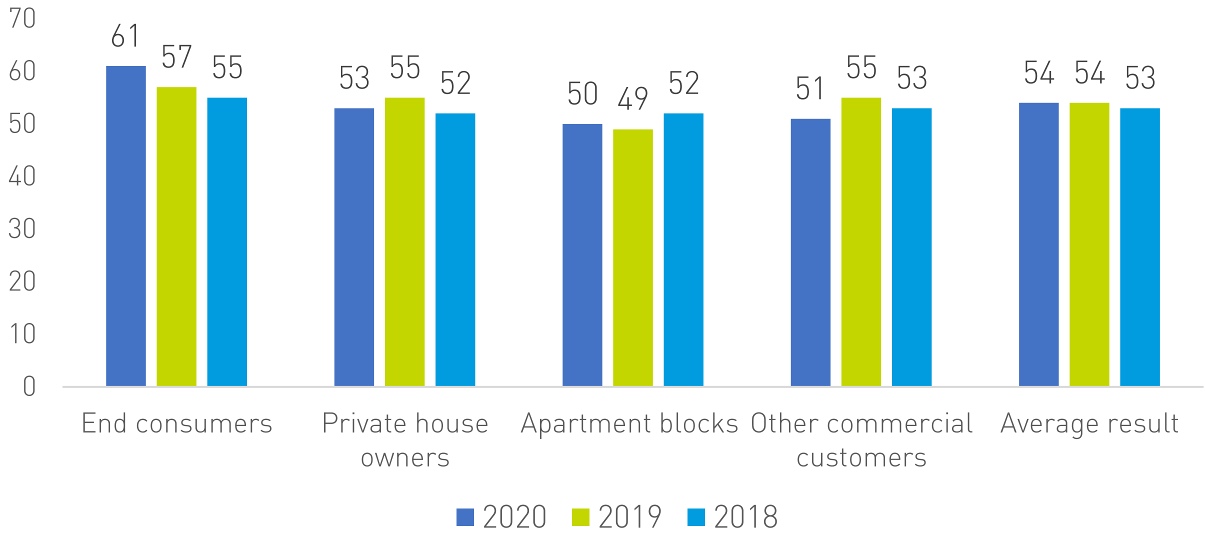
handling increased. Among commercial customers, we saw a slight decrease in satisfaction with the handling of problems, including mostly among representatives of apartment associations.

According to the answers, the price-quality ratio of water services has improved, which is a positive change in all segments.

For 2021, we have set a target that on average more than 81% of customers answer the question about their general satisfaction that they are either completely satisfied or mostly satisfied with the services of Tallinna Vesi (2020: 80.6%).

SATISFACTION OF OUR CUSTOMERS AND END CONSUMERS IN 2018-2020



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, taste and cleanliness of pipes also serve as the prioritised indicators that matter to our end consumers. Tap water is used as drinking water, either directly from the tap or after filtration by 91% of respondents (2019: 90%). As in previous years, the messages „Drink tap water", "Tap water is drinking water", etc. related to tap water have been noticed in all segments, and over the years, it has also led to changes in consumers' daily habits.

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 quality of services provided and in the quality of customer service itself.

In 2020, our work was also affected by changes due to restrictions related to the coronavirus, when operations could be arranged in the most flexible way on digital channels. The changed situation affected more those customers who had previously been used to visiting our customer service front office in matters related to contracts and settlements. This increased the number of repeat contacts and our customers had to get used to the changed circumstances. The Company sees problem handling and proactive communications to customers as our primary areas for further improvement.

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We continue to issue our electronic customer information newsletter 3-4 times a year, in which we address matters that interest customers based on their regular feedback. We will also continue to develop digital communication and information channels for our customers. We are constantly improving the self-service environment to increase the share of customers who use electronic channels. In 2021, several IT developments will be completed, which will further enhance the reliability and convenience of the self-service environment.

In addition to the annual customer satisfaction surveys, it is essential for us to have regular feedback on our service quality. Therefore, we ask our customers to rate our work on a monthly basis, and in 2020 we achieved an overall rating of 4.1 points on a 5-point scale system.

5.5 Objectives: customers

CUSTOMER SERVICE OBJECTIVES IN 2020	
≤950 repeated customer contacts	Achieved
Average general customer satisfaction (annual) ≥80%	Achieved
≥77% of meter readings submitted via self-service channels	Not achieved
Cases of promises failed (5 promises to customers) ≤5	Achieved
CUSTOMER SERVICE OBJECTIVES IN 2021	
No of repeated customer contacts	≤900
Average general customer satisfaction (annual)	>81%
≥77% of meter readings, submitted via self-service channels	≥ 77%
No of customer complaints	≤50

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.** Tallinna Vesi´s sponsorship focuses on the main service area of the Company – Tallinn and surrounding areas.
- **Projects closely linked to our main activities, i.e.** providing local communities with water and wastewater services.
- **Involvement of employees.** Tallinna Vesi´s employees need to be aware of the Company´s sponsorship activities and should be involved in those as much as possible.

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- **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.

Tallinna Vesi mainly supports initiatives that are related to environmental education or local community or people with fewer opportunities.

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 approximately ten years ago in 2011, only 48% of people trusted to drink tap water, the number of people drinking tap water had grown to 91% by the end of 2020 (2019: 90%).

In early 2020, we ran an advertising campaign "Mythbusters" on television, social media and cinemas, with the aim of illustrating in a humorous way how much work it takes to treat drinking water and why it is important to prevent garbage from entering the sewers.

Tallinna Vesi produces and distributes educational materials for kindergartens and schools. Normally, each year our employees devote their time to hold water seminars in schools and kindergartens.

Due to the COVID-19 restrictions we were unable to carry out as many initiatives promoting environmental awareness as we intended to in 2020. By mid-March, we had managed to hold one tour at the water treatment plant, have 240 children attending our water seminars, and were present with educational materials in the New World Street Festival. We will continue our wide range of activities to promote environmental awareness as soon as it becomes possible again. We will also be developing digital educational videos aimed at promoting environmental awareness among children and young people.

Tallinna Vesi is 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. In 2020, we continued to support sports and community events by providing free drinking water on site. We were present at, for example, Stamina running and walking events, family day of Association of Large Families in Harjumaa NGO, summer youth festivals organized by the Tallinn Sports and Youth Department, the Investment Festival and many other events.

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 improve the availability of tap water in public space. We have carefully chosen a few projects and

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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.

During 2020, 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;
- A donation to the Estonian Association of Parents of Children with Cancer, helping to provide support services for families struggling with a serious illness;
- A donation to the Tallinn Centre for Children at Risk which, thanks to the support, is able to enhance the development activities for the recovery and future coping of children without parental care;
- Engagement with SPIN project which aims to develop and strengthen young people's social and self-management skills and to provide young people with development opportunities and enjoyment through sports.

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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 policies followed in the management of the Company are available on the Company website.

At the end of last year, a total of 333 people were working in Tallinna Vesi and its subsidiary Watercom (2019: 325), 95.8% of them worked full-time and 4.2% part-time (2019: 96.6% and 3.4% 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, MS Teams meetings, 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 56 years (2019: 55.2 years). The average number of years in the Company is 10.4 years (2019: 10.3 years). Our voluntary employee turnover decreased notably in 2020 and reached 5.7% (2019: 9.3%). All the employees voluntarily leaving the Company are asked to give feedback on their 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 12.3% (2019: 16.8%).

Although the number of our staff has been relatively stable in the last few years, the average age is quite high at 45 years also in 2020 (2019: 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		31-50 years		>50 years	
	2020	2019	2020	2019	2020	2019
Management Board	0	0	2	2	1	1
Executive Team*	0	0	8	8	1	1
Management Team	0	1	28	24	4	4
All staff	54	57	159	152	120	116

* *Includes the Management Board*

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Groups of staff by gender	Total number		Women		Men		Women/Men	
	2020	2019	2020	2019	2020	2019	2020	2019
Management Board	3	3	1	1	2	2	33%/67%	33%/67%
Executive Team*	9	9	4	5	5	4	44%/56%	56%/44%
Management Team	32	29	14	13	18	16	44%/56%	45%/55%
All staff	333	325	92	89	241	236	28%/72%	27%/73%

**Includes the Management Board*

Considering variations within the team, it is essential to follow equality principles both 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. 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 2020, 80% (2019: 80%) of the total PRP was dependent on the fulfilment of corporate objectives and. 20% (2019:20%) 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. Every year since 2009, in cooperation with Kantar Emor, we have conducted an extensive employee satisfaction survey to collect honest feedback from our employees. The employee survey reveals the ratings on our approach to employee management and the working conditions provided. In 2020, we decided to start having the Kantar Emor satisfaction survey every second year, and in the years between, we will measure the employee satisfaction with a shorter Pulse survey.

In 2020, 88% (2019: 96%) of our employees participated in the survey, which shows that our employees understand the importance of their feedback. In the Pulse survey, we used the composite employee satisfaction index for the first time instead of the previous TRI * M index.

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In measuring the composite satisfaction index, the Company´s goal was 3.8 on a 5-point scale and the result was 4.06.

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.

2020 was a challenge for all of us due to the COVID-19, including recruiting new staff. Compared to previous years, the number of candidates applying for various positions increased, but the number of suitable candidates decreased. Therefore, the recruitment process was often challenging due to the difficulties in finding suitable candidates. There were also competitions that attracted fewer candidates than in previous years.

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. We inspire our staff to develop and rotate between different teams. In 2020, internal succession happened in 7 occasions (2019:19), which is a 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.

In 2020, the majority of trainings concerned occupational safety - work environment and health, safety at various works, first aid and fire safety. Various management trainings and professional trainings for specialists were also important for the Company. The average number of training days in 2020 was 1.48 days per employee (2019: 2.8 days, 2018: 1.9 days). The trainings were certainly affected by the global situation, as due to the COVID-19 pandemic, the trainings moved online and the Company had to adapt to the new situation as well. One of the major occupational safety trainings was the chlorine hazards and safety training provided to the Water Treatment Plant employees in 2020. The fire work certificates of many employees were renewed (both in the form of contact training and online training). The newly selected Company's working environment specialists were also trained in the form of e-learning, and all employees exposed to hazardous chemicals and biocides in their work underwent an online training in chemical safety. We also tried to continue with the Estonian and Russian language courses started in 2019, but unfortunately these were suspended by COVID-19. In 2020, we also started a program of short seminars aimed at the development of managers, where the first topic was creating and maintaining team spirit in remote working conditions.

Additionally, 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. For new employees we offer the possibility to participate in the leadership development program and use either a coach or a mentor if needed. Despite working remotely, internal trainings also took place in 2020 (25% internal vs. 75% external), although to a lesser extent than before, our own Health

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and Safety Team diligently trained employees on various safety requirements. When organizing training days and planning training opportunities, decisions are made on the basis of the training needs of the employees, not on the basis of their gender or age.

In 2020, we continued with our succession program for apprentices and trainees.

This program allows 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 this program we have employed 6 new young specialists and skilled workers.

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. 3 employees retired during 2020 (2019: 6).

The year was difficult due to the spread of the coronavirus. In order to be able to offer our service uninterrupted, we performed various supportive activities to maintain the health of our employees. One of the most important has been the reorganisation of work, which for people meant a transition to remote working for office staff and led to the changed ways of communication and working arrangements. Regarding remote working, the Company has put in place the remote work rules and the associated risks were assessed. In terms of skilled workers, some workers started working in shifts to stay healthy and ensure the service to our customers. In addition, we provided transportation for travelling to work and back home, reorganised catering and provided personal protective equipment. In order to involve employees, meetings were held in MS Teams, an overview of the Company's activities was given by video, and web trainings were organised. We reminded the staff of the importance of healthy habits and offered more flexibility in using Stebby.

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

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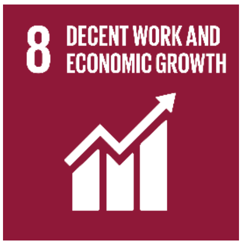

their health or lives during work. Occupational health and safety is also crucial considering Tallinna Vesi's employer brand – we strive to be a valued employer, who provides a working environment where people are happy to come to in the morning, knowing that they have everything they need to have a 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 10 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 ISO 45001:2018. In 2020, the Health and Safety Team carried out 427 safety audits in total (2019: 449). Compliance of emergency and construction sites (at least 96% compliant sites) has also been set as the Company's overall objective. In 2020, 98.08% (2019: 97.12%) of the Company's audited sites met the safety requirements. In connection with the ongoing COVID-19 crisis, the Management decided in early November to suspend general internal working environment checks. Internal working environment checks could only be performed by members of the Health and Safety Team.

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 objectives. In 2020, the accident frequency rate was 0 (2019: 0.36).

TOTAL NUMBER OF WORK ACCIDENTS

In 2020, there were no work accidents registered (2019:5). 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 2020, 79 (2019: 219) of such observations were made by the staff. Based on the

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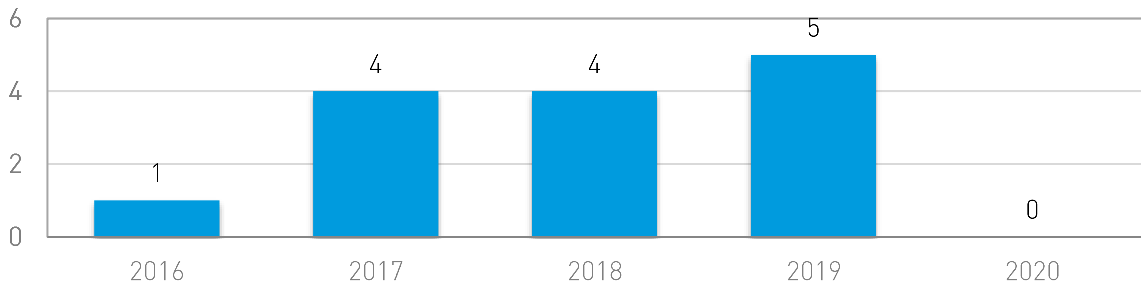
information received from the employees we aim to make the improvements in order to prevent any possible accidents in the future.

The number of observations received in 2020 was significantly lower than before, as a large number of staff was working from home due to the spread of coronavirus.



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 2020 amongst others was as follows:

- training and in-service training on first aid,
- fire safety training for the staff,
- hot works training,
- various trainings on safe handling of chemicals,
- various electrical safety trainings, various trainings for working environment representatives, trainings for construction site coordinators,
- evacuation drills,
- training on disinfection of water pipes, personal hygiene and safety measures.

In 2020, 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

EMPLOYEE RELATED OBJECTIVES OF 2020	
Work accidents frequency rate (excluding unavoidable accidents) ≤0,2	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	Not achieved
Employee commitment (according to annual employee satisfaction survey) ≥72	N/A* Pulse survey index 4.1
EMPOLOYEE RELATED OBJECTIVES OF 2021	
Work accident frequency rate	≤ 0.2
Compliance at Tallinna Vesi´s and Watercom´s sites according to safety audits	≥ 96.5%
Number of safety observations (positive or negative) or near misses	≥ 200**
Employee commitment (based on the employee survey every second year)	≥ 72

* In 2020, a survey was conducted based on the new Pulse methodology and the Company achieved an overall satisfaction index of 4.1 points. In the future, a more thorough survey based on TRI*M methodology will take place every second year, and shorter Pulse surveys in the intervening years. Such an approach makes it possible to obtain optimal and consistently up-to-date information, as well as implement the resulting action plan more efficiently.

**to be reviewed in Q1, 2021.

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6. FINANCIAL RESULTS OF 2020

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 2020 was due to pandemic much lower than expected, reaching 3.9%. It was mostly driven by the domestic demand and rapid decrease in export. The real GDP decrease is expected to be 3% in 2020 (-5.5% real growth). The decrease is related to the pandemic due to which certain services are not rendered and consumed, also investments in general have reduced. For the period 2021-2023 the economic growth is expected to be around 3.3% per annum.

Forecast for economic growth in 2019-2023 (%)

	2019	2020	2021	2022	2023	2024
1. GDP real growth	5.0	-5.5	4.5	3.5	3.0	2.3
2. GDP nominal growth	8.4	-5.6	6.4	6.0	5.8	4.6
2a. GDP in current prices (€bln)	28.1	26.5	28.2	29.9	31.7	33.1

**Source: Ministry of Finance 2020 summer forecast*

The inflation stopped in 2020 at 2.3%. Due to the impact of the COVID-19 crisis, the CPI started falling in April 2020 by -1% monthly. The returning growth in the number of COVID-19 cases in August resulted in a low CPI in the 3rd and 4th quarter, adding up for the 2020 CPI to decrease by 0.4%. The CPI is expected to increase at the beginning of 2021 and be around 1.4% by the year end.

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 2019 by 0.4% (2019: 1.9%). The strongest impact on the index came from 0.1% increase in salaries, accompanied by 1.5% increase in the construction machinery prices and 0.5% increase in construction material prices.

Tallinna Vesi is also dependent on the labour market. Labour market was strongly impacted by the crisis, the fall was slightly eased by the Government's salary compensation system. The unemployment remained around 7.6% according to the Summer Macroeconomic Prognosis of Ministry of Finance of Estonia. Highest unemployment increase occurred in the hospitality sector, also in the construction and commercial sectors. Although the pandemic has raised the unemployment, the skilled staff is still rather difficult to find. Regardless of the COVID-19 crisis, the nominal growth in salaries during the first three quarters of 2020 was around 3% (Statistics Estonia) and in 2021 it is expected to be minor 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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Loome puhta veega parema elu!

MAIN FINANCIAL INDICATORS OF TALLINNA VESI

Main financial indicators € million, except key ratios and share data	PERFORMANCE 2020	2019	2018	2017	2016
Sales	51.72	63.42	62.78	59.82	58.98
Gross profit	22.23	33.95	34.19	34.09	33.26
Operating profit before depreciation and amortisation (EBITDA)	28.07	38.18	32.73	17.04	31.03
Operating profit	21.78	32.08	26.94	10.87	24.63
Operating profit - main business	21.32	31.19	26.22	10.25	24.46
Profit before taxes	21.34	31.30	25.95	9.92	22.89
Net profit	16.73	27.76	24.15	7.22	18.39
Gross profit margin %	42.98	53.53	54.45	56.99	56.39
EBITDA margin %	54.27	60.21	52.13	28.49	52.61
Operating profit margin %	42.12	50.57	42.91	18.16	41.75
Profit before taxes margin %	41.27	49.36	41.33	16.59	38.81
Net profit margin %	32.35	43.77	38.47	12.07	31.18
ROA %	6.45	10.83	10.10	3.27	8.70
Debt to total assets %	56.09	56.05	58.85	62.43	58.15
ROE %	14.69	25.43	25.61	8.24	20.62
Current ratio	3.85	5.48	5.36	5.51	3.91
Number of full-time equivalent employees, at the end of the year	332	314	296	300	301
Share price, at the end of the year	13.25	11.70	9.60	10.20	13.80
Share capital	12.00	12.00	12.00	12.00	12.00
Earnings per share	0.84	1.39	1.21	0.36	0.92
Dividend per share	n/a*	n/a*	0.75	0.36	0.54
Cash balance, at the end of the year	44.51	64.78	61.77	44.97	33.99
Investments to fixed assets	19.42	16.09	10.40	9.47	14.95

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 2020 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 2020 quarterly reports. Consequently, the changes in the main activity's revenues, i.e. from sales of water and wastewater services, were driven by lower tariffs and changes in the consumption of water services due to the coronavirus outbreak, which raised the consumption in private sector and reduced it in commercial sector. Private customers tariffs in the main service area reduced on average around 27% and commercial tariffs 15%. According to Estonia's macroeconomic forecast, we expect a short-term decrease in our water services consumption also in the first half of 2021. In the long-term, the Company does not expect significant changes in the water services consumption.

In 2020, the Group's total sales were €51.72 million, showing a decrease by 18.5% or €11.71 million year-on-year. 88.6% of the total sales came from the sale of water services to within and outside the service area, 10.1% from construction services and 1.3% from other services. The sale of construction services is more seasonal and the Group continues to seek possibilities to maintain and grow the revenues of these services.

	for the year ended 31 December			Variance 2020/2019	
€ thousand	2020	2019	2018	€	%
Water supply service	8,106	13,781	14,179	-5,675	-41.2%
Wastewater disposal service	12,048	11,719	11,586	329	2.8%
Total from private customers	20,154	25,500	25,765	-5,346	-21.0%
Water supply service	7,209	11,482	11,733	-4,273	-37.2%
Wastewater disposal service	7,417	9,317	9,513	-1,900	-20.4%
Total from commercial customers	14,626	20,799	21,246	-6,173	-29.7%
Water supply service	1,593	1,622	1,465	-29	-1.8%
Wastewater disposal service	3,298	3,193	2,893	105	3.3%
Stormwater disposal service	291	426	322	-135	-31.7%
Total from outside service area customers	5,182	5,241	4,680	-60	-1.1%
Stormwater treatment and disposal and fire hydrants service	4,588	4,002	3,562	586	14.6%
Overpollution charges and discharging	1,250	1,324	960	-74	-5.6%
Total from water services	45,800	56,866	56,213	-11,066	-19.5%
Construction services	5,222	5,960	5,950	-738	-12.4%
Other services	695	597	617	98	16.4%
TOTAL REVENUE	51,717	63,423	62,780	-11,706	-18.5%

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Sales from water services were €45.80 million, showing a 19.5% or €11.07 million decrease compared to the twelve months of 2019, and resulted from the changes in the tariffs and sales volumes as described below:

- There has been a decrease in sales to private customers by 21.0% to €20.15 million, mainly related to the 27% lower water tariffs from 1/12/2019, accompanied by 5.2% increase in consumption, worth -€6.67 million and +€1.33 million respectively. Higher sales in domestic customer consumption came mainly from apartment blocks, which is also our biggest private customer group, and were accompanied by individual houses.
- Sales to commercial customers within the service area has decreased by 29.7% to €14.63 million. The decrease is related to the 15% lower water tariffs from 1/12/2019, accompanied by 18.5% decrease in consumption, worth -€2.31 million and -€3.86 million respectively. Lower sales in commercial customers is related to decrease in the sales of all commercial customer segments. The commercial customer sales were impacted by pandemic as hotels and spas and entertainment facilities were operating with lower number of visitors and less people were working in offices.
- Sales to customers outside the main service area decreased by 1.1% to €5.18 million, being impacted by a decrease in the sales of water and stormwater services and water supply services and were partly offset by higher wastewater service revenues, being also mainly impacted by changes in tariffs, balanced by higher water and stormwater volumes.
- Sales from the operation and maintenance of the main service area stormwater and fire hydrants system in the twelve months of 2020 amounted to €4.58 million, showing an increase of 14.6% or €0.58 million year-on-year, driven mainly by averagely 10% higher stormwater volumes, offset by lower cost per m3.
- Overpollution charges and discharging revenues have decreased by 5.6% to €1.25 million.

COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

Cost of goods and services sold were €29.49 million, increasing by 0.1% or €0.02 million compared to the equivalent period in 2019.

	for the year ended 31 December			Variance 2020/2019	
€ thousand	2020	2019	2018	€	%
Water abstraction charges	-1,237	-1,219	-1,187	-18	-1.5%
Chemicals	-1,567	-1,664	-1,744	97	5.8%
Electricity	-3,256	-3,566	-2,849	310	8.7%
Pollution tax	-989	-1,089	-963	100	9.2%
Total direct production costs	-7,049	-7,538	-6,743	489	6.5%
Staff costs	-7,247	-6,602	-6,283	-645	-9.8%
Depreciation and amortisation	-5,521	-5,420	-5,177	-101	-1.9%
Construction services	-4,256	-5,096	-5,204	840	16.5%
Other costs of goods sold	-5,418	-4,814	-5,187	-604	-12.5%
Total other costs of goods/services sold	-22,442	-21,932	-21,851	-510	-2.3%
Total cost of goods/services sold	-29,491	-29,470	-28,594	-21	-0.1%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €7.05 million, showing a 6.5% or €0.49 million decrease compared to the

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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 1.5% to €1.24 million, driven mainly by higher water volumes abstracted to water treatment process.
- Chemicals costs decreased by 5.8% to €1.57 million, driven mainly by on average 28% lower price of methanol, accompanied by lower usage of methanol and polymer in wastewater treatment to remove Nitrogen and Phosphorus, worth €0.13 million and €0.03 million respectively. Lower wastewater treatment costs were partly balanced by higher usage of coagulant in water treatment process, worth -€0.07 million.
- Expenses on electricity dropped by 8.7% or €0.31 million resulting in costs worth €3.25 million mainly due to 9.2% lower price and lower usage of electricity at the wastewater treatment plant.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to €22.44 million, having increased by 2.3% or €0.51 million. The increase in other costs of goods sold were mainly driven by 12.5% higher other costs of goods and services sold which amounted to €5.42 million and 9.8% higher staff costs amounting to €7.25 million. In addition, it was accompanied by 16.5% lower costs relating to construction services amounting to €4.25 million.

Consequently, the Group's gross profit for the twelve months of 2020 was €22.23 million, showing a decrease of 34.5% or €11.73 million compared to the comparative period of 2019.

ADMINISTRATIVE AND MARKETING EXPENSES. OTHER INCOME AND EXPENSES

Administrative and marketing expenses were €5.01 million, showing a decrease by 17.6% or €1.07 million, being mainly impacted by lower 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 2020 amounted to a net income of €4.57 million compared to net income of €4.20 million in 2019. The change was mainly impacted by higher connection fees compared to 2019 in the amount of €0.54 and €0.39 respectively accompanied with positive change in the amount of €4.81 million in the expense for provision formed for possible third-party claims in 2019 compared to slightly lower positive change in 2019 in the amount of €4.63 million, if those are to be recognised by the court. This estimate marks the maximum difference between revenues calculated with tariffs established based on the Services Agreement and the tariffs based on the Company's estimation, with the reservation to a possible fluctuation. According to the law, the tariffs established based on the Services Agreement were in force until the Competition Authority approved the new tariffs, and the Company implemented these tariffs in line with the law. The Company has acted in good faith and in reliance on the applicable legal acts. Thus, the Company does not consider itself liable to the customers for any claims related to the tariffs it had applied until the new tariffs approved by the Competition Authority were duly implemented. Additional information is provided in Note 15 to the consolidated financial statements.

OPERATING PROFIT

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As a result of the factors listed above, the Group's operating profit for 2020 amounted to €21.78 million, being 32.1% or €10.29 million lower than in the corresponding period of 2019, mainly influenced by lower revenues in main service area that is affected by lower tariffs starting from 01/12/2019 and decrease in consumption of commercial customers.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted in a net expense of €0.44 million, compared to net expense of €0.77 million in the twelve 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 €0.48 million and €0.18 million respectively.

The standalone swap agreements were signed to mitigate the long-term floating interest risk. The interest swap agreements were signed for €37.5 million and ended in November 2020, €50.22 million are with floating interest rate. By the end of 2020, the whole loan amount of €87.72 million is bearing an effective interest rate (incl. swap interests) of 0.76% resulting in interest costs of €0.67. In 2019, the effective interest rate was 1.02%, resulting in interest costs of €0.95 million.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for 2020 were €21.34 million, being 31.8% or €9.96 million lower than for the relevant period of 2019. The Group's net profit for the twelve months of 2020 was €16.73 million, being 39.7% or €11.03 million lower than for the equivalent period of 2019. Eliminating the effects of the change in the derivatives fair value and the change in the provision for the possible third-party claims, the Group's net profit for the twelve months of 2020 would have been €11.70 million, showing a decrease by 49.1% or €11.28 million year-on-year.

6.3 Statement of financial position

The cash balance of the Group remains strong being €44.51 million, which is 17.4% of the total assets (31/12/2019: €64.78 million, forming 24.6% of the total assets).

In 2020, the Group invested €19.42 million. As of 31/12/2020, non-current tangible assets amounted to €201.07 million and total non-current assets amounted to €203.43 million (31/12/2019: €189.63 million and €190.34 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 €0.22 million to €7.02 million. Decrease mainly derives from lower trade receivables related to water and construction services and lower accrued income, by €0.44 million and €0.06 million respectively. The collectability rate continues to be high at 99.55% level, as of December 2019 the collectability rate was 99.73%.

Current liabilities have increased by €0.31million to €13.55 million compared to the year end of 2019.

Deferred income from connection fees has grown compared to the end of 2019 by €3.49 million to €34.56 million.

Provision for possible third-party claims has decreased compared to the end of 2019 by €4.81 million to €9.63 million by changes mentioned in the section of the 4th quarter Other income and expenses results. More detailed information about the provision is presented in Note15 to the financial statements.

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The Group's loan balance has decreased, being €87.72 million. In May 2019, the Company started to return the old NIB loan with 11 equal semi-annual payments. The weighted average loan interest risk margin is 0.66%.

Deferred Tax Liability is recorded according to International Financial Reporting Standards (IFRS) Interpretation Committee agenda decision in June 2020, according to which deferred tax shall be recognized for all taxable differences associated with investments in subsidiaries unless it is probable that the profits will not be distributed in the foreseeable future (IAS 12.39-40). AS Tallinna Vesi has assessed the impact of the IFRS Interpretation Committee agenda decision and has reached a conclusion of the amount not being material, therefore no correction into previous reporting periods is made and the total impact of deferred tax amount is recognized in financial statements for the year 2020.

The Group has a total debt to assets level of 56.09%, in range of 55%-65%, reflecting the Group's equity profile. In the comparative period of 2019, the total debt to assets ratio was 56.05%.

6.4 Cash flow

As of 31/12/2020, the cash position of the Group is strong. At the end of December 2020, the cash balance of the Group stood at €44.51 million, which was 17.4% of the total assets (31/12/2019: €64.78 million, forming 24.6% of the total assets).

The biggest contribution to the cash flows comes from the main operating activities. During the twelve months of 2020, the Group generated €22.62 million of cash flows from operating activities, a decrease of €11.40 million compared to the corresponding period in 2019. Underlying operating profit continues to be the main contributor to operating cash flows.

In the twelve months of 2020, the result of net cash flows from investing activities was a cash outflow of €13.62 million, an increase of €6.25 million compared to the cash outflow of €7.37 million in the twelve months of 2019. This is made up as follows:

- The cash outflows from investments in fixed assets have increased by €5.24 million compared to 2019, amounting to €15.68 million.
- The compensations received for pipe construction were €1.99 million, showing a decrease of €1.01 million compared to the same period of 2019.

In the twelve months of 2020, the cash outflow from financing activities amounted to €29.26 million, increasing by €5.62 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 -€0.34 million respectively.

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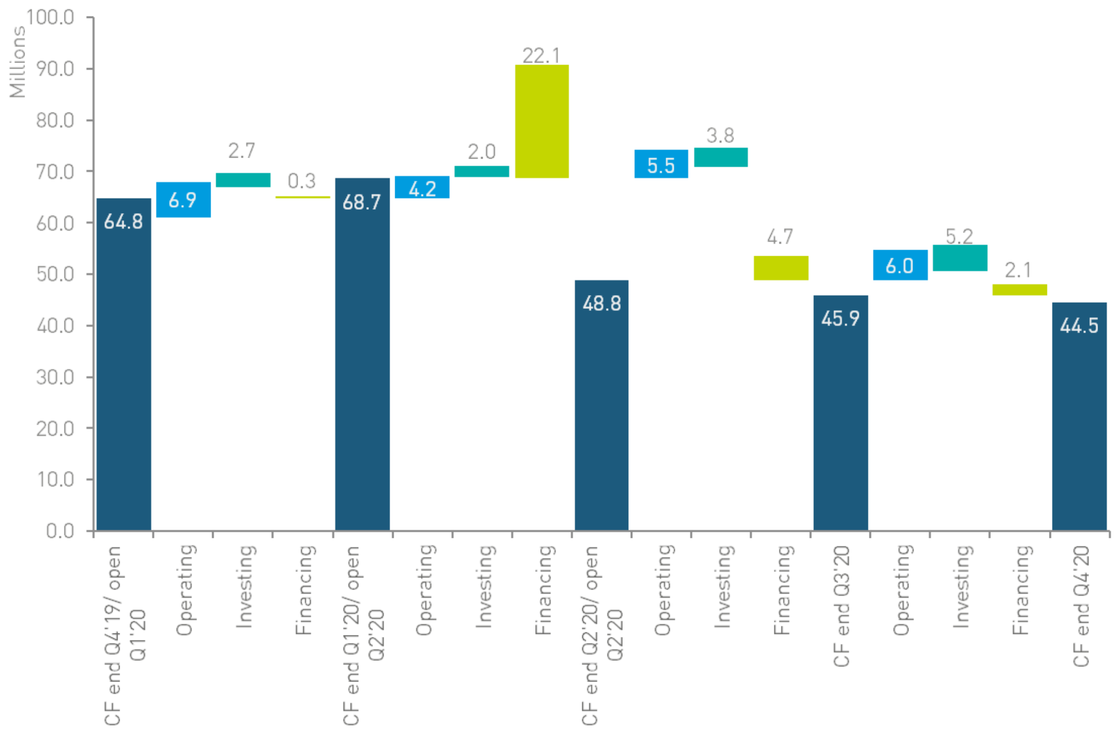
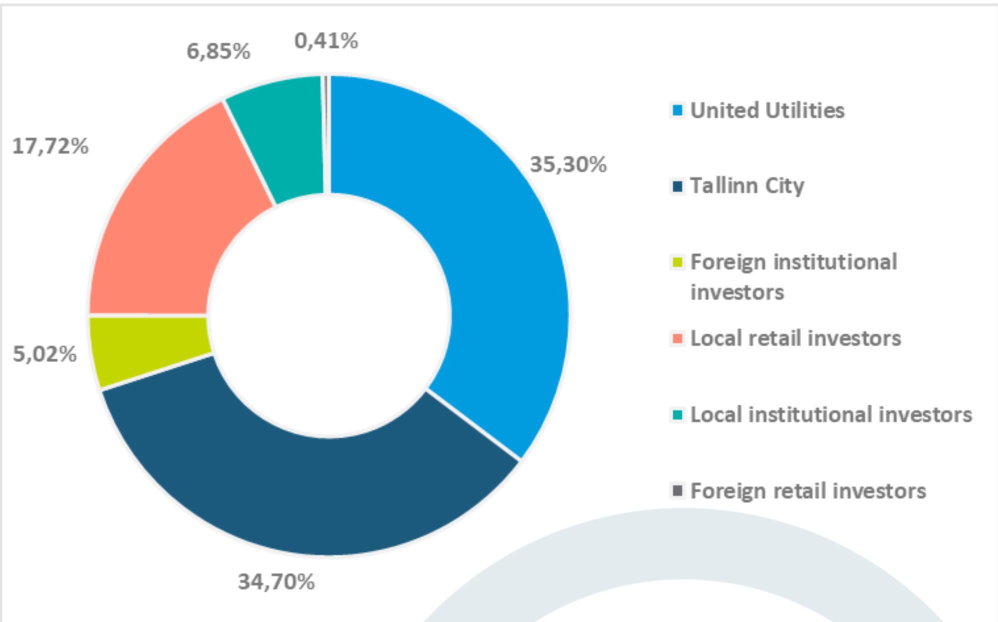


6.5 Investors

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 2020



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Distribution of share capital by size of share ownership as of 31 December 2020

	Share-holders 2020 (2019)	Shareholders % 2020 (2019)	No. of shares 2020 (2019)	% of share capital 2020 (2019)
1 - 100	**4,842** (2,334)	**58.2%** (42.5%)	**174,694** (112,845)	**0.9%** (0.6%)
101 – 200	**1,092** (925)	**13.1%** (16.8%)	**167,914** (144,317)	**0.8%** (0.7%)
201 – 300	**532** (480)	**6.4%** (8.7%)	**137,315** (124,541)	**0.7%** (0.6%)
301 - 500	**562** (497)	**6.8%** (9.0%)	**232,736** (206,321)	**1.2%** (1.0%)
501 - 1,000	**568** (539)	**6.8%** (9.8%)	**431,077** (405,505)	**2.2%** (2.0%)
1,001 - 5,000	**571** (558)	**6.9%** (10.2%)	**1,252,070** (1,205,173)	**6.3%** (6.0%)
5,001 - 10,000	**77** (82)	**0.9%** (1.5%)	**571,095** (598,039)	**2.9%** (3.0%)
10,001 - 50,000	**57** (59)	**0.7%** (1.1%)	**1,125,283** (1,167,807)	**5.6%** (5.8%)
50,000 +	**19** (19)	**0.2%** (0.3%)	**15,907,816** (16,035,452)	**79.5%** (80.2%)
TOTAL 2020	8,320	100.0%	20,000,000	100.0%
TOTAL 2019	5,493	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 new water and wastewater service tariffs approved by the Estonian Competition Authority on 18 October 2019, which were applied by Tallinna Vesi from 1 December 2019 onwards, the prices decreased on average by 27% for private customers and by 15% for commercial customers. The change in tariffs had the biggest impact on our decreased revenue stream in 2020, accompanied by impact from the COVID-19 pandemic-related increase in private customer and outside area consumption and decreased commercial customers consumption. In addition, similarly to 2019, attention was paid to the growth of non-regulated revenues, i.e. construction revenues, but the pandemic also had a negative impact on this revenue stream.

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 the 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.

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

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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.

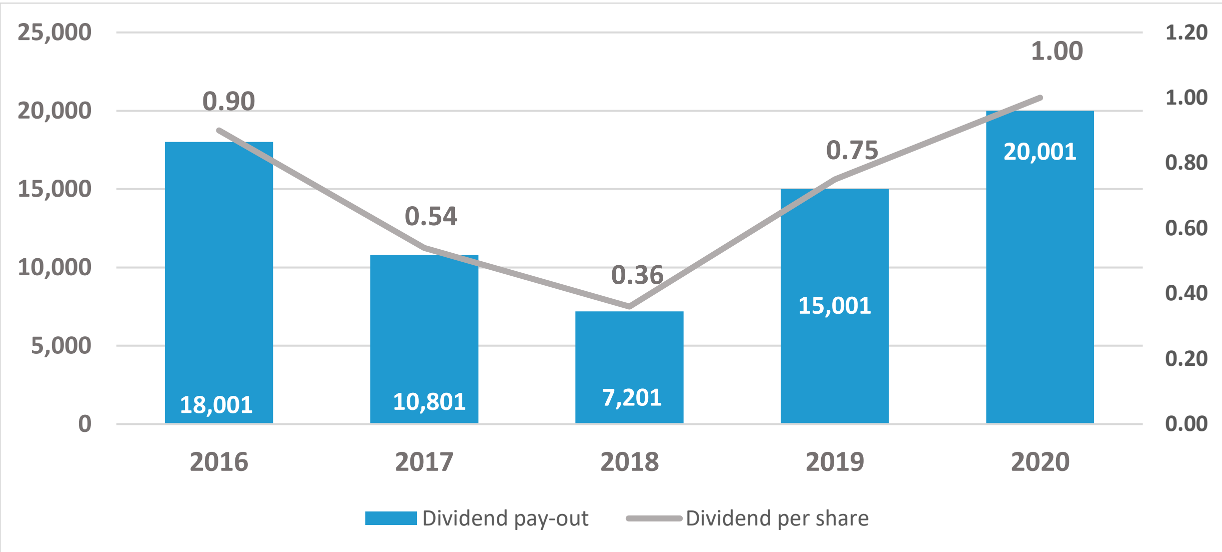
DIVIDENDS

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.

In 2020, Tallinna Vesi' Supervisory Council approved a new divided policy, which is also published on Tallinna Vesi's website and states that Tallinna Vesi aims to distribute 50%-80% of the annual profit as dividends. Dividend payments shall be assessed annually considering ASTV's earnings, investment needs, liquidity position and long-term financial objectives.

In the Annual General Meeting of shareholders held on 28 May 2020, €1.00 dividends per share and the total dividend pay-out from the profit of 2019 net income in the amount of €20.0 million was approved, which forms 72.0% from earnings per share in 2019.

Dividends were paid out on 26 June 2020. 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 2020, Tallinna Vesi shareholders, with a direct holding over 5%, were United Utilities (Tallinn) B.V. (35.3%) and City of Tallinn (34.7%).

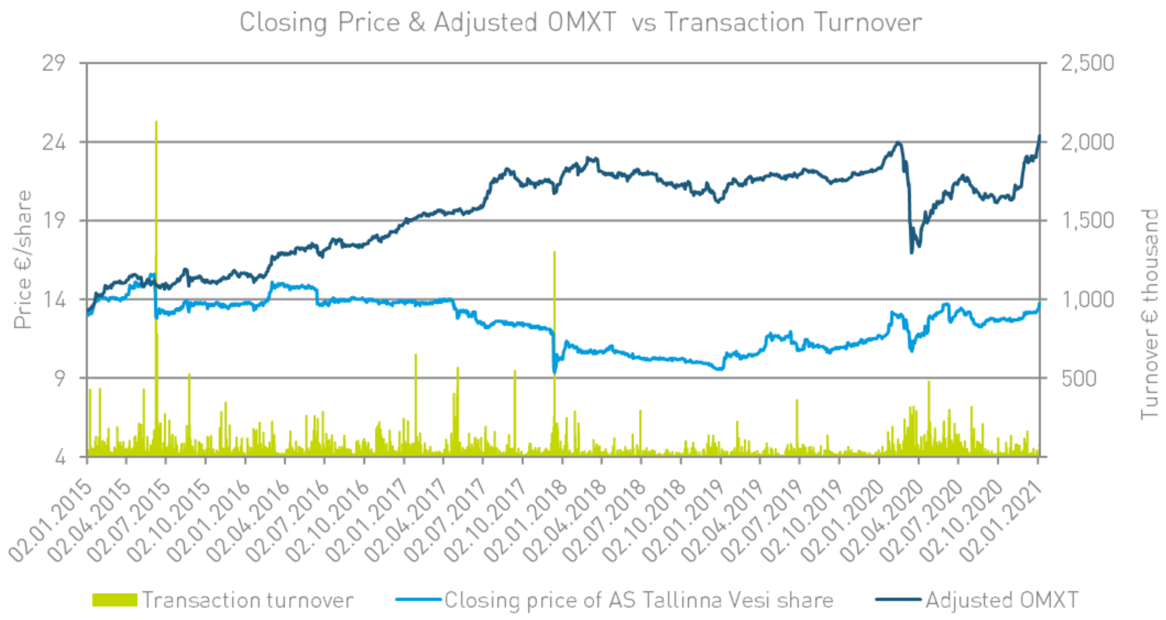
The shareholder structure has been relatively stable throughout 2020 compared to the end of 2019. At the end of 2020, the pension funds owned 0.69% of the total shares compared to 0.97% at the end of 2019.

As of 31 December 2020, the closing price of Tallinna Vesi's share was €13.25, which is 13.25% higher than at the beginning of the year €11.70 (in 2019: the price increased by 21.88% compared to the opening price in 2019 of €9.6). During 2020 the OMX Tallinn index increased less than Tallinna Vesi share, increasing by 5.00% (2019: increase by 10.05%).

22,812 deals with the Tallinna Vesi's shares were concluded in 2020 (2019: 3,996 deals), during which 1,403 thousand shares or 7.0% of total shares changed their owners (2019: 595 thousand or 3.0%).

The turnover of the transactions was €11.01 million higher than in 2019, amounting to €17.49 million (2019: €6.48 million).

CLOSING PRICE AND ADJUSTED OMXT VS TRANSACTIONS TURNOVER



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SHARE PRICE STATISTICS

€	2020	2019	2018	2017	2016
Share price, open	11.70	9.60	10.20	13.70	13.80
Share price, at the end of the year	13.25	11.70	9.60	10.20	13.80
Share price, low	10.70	9.54	9.54	8.52	13.30
Share price, high	13.70	11.95	11.35	14.00	15.10
Share price, average	12.64	10.98	10.39	12.81	14.12
Traded volume, thousand	1,403	595	765	1,346	1,048
Turnover, € million	17.49	6.48	7.95	16.48	14.71
Capitalisation, € million	265	234	192	204	276
Earnings per share	0.84	1.39	1.21	0.36	0.92
Dividend per share	n/a*	1.00	0.75	0.36	0.54
Dividend / net profit	n/a*	72%	62%	100%	58%
P/E	15.77	8.42	7.93	28.33	15.00
P/BV	2.4	2.0	1.9	2.4	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 2020 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

2020 was an active and successful year for Watercom despite the pandemic affecting the overall economic climate. The challenging target set for external profit was not achieved, however, the growth is expected to be sustained also in 2021. In 2020, Watercom could not deliver more external revenue, but was able to grow external profit higher than ever before. This has always been one of the main objectives of Watercom and we hope to maintain the same pace in 2021.

In 2020, Watercom successfully launched a new pipe disinfection service for internal and external customers. Also, Watercom made the largest investment after establishing the company by purchasing a new jet-wash vehicle and 4 new excavators in Transportation department, to further enhance efficiency and grow revenues.

Outlook for 2021 remains positive with expectations to find new opportunities to achieve the highest ever external sales and profit figures despite the current economic situation. Watercom will continue monitoring various possibilities of further development and launching new services to grow externally.

PIPE AND ROAD CONSTRUCTION

In 2020, 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. Watercom was able to win several procurements from the external market.

2020 was a reasonably good year in the construction sector despite the pandemic – an increase in financing provided by the European Union Cohesion Fund and state funds was offset by setback in real estate development in Tallinn and nearby areas as the start of some projects were postponed. Construction market is still extremely competitive and therefore, efficient cost

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management is crucial in achieving sustainable profitability. In 2020, the construction margin was raised through the improved controls to manage costs more efficiently. Although the construction market was active in 2020, it is still unclear how the pandemic affects the real estate market and especially the financial situation of developers as we have noticed a decreasing trend in demand after the start of pandemic in the 2nd quarter of 2020. With some of the developers and main contractors unfreezing their postponed projects we expect the pressure to ease a little bit in 2021, however, we expect the construction market to normalise in 2022.

External road construction market was more active in 2020, and Watercom won procurements and carried out several external works in Tallinn and surrounding municipalities.

OTHER SERVICES

During 2020, Watercom carried out several supervision contracts for the tender on public water supply and sewerage system in Türisalu and Vändra it had won from the market in 2019. Watercom is also concentrating on smaller external supervision projects in Tallinn and surrounding municipalities. In 2021, 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 sewer blockages. In 2020, Watercom invested to new machinery to provide services more efficiently and grow jet washing and transportation revenues.

6.7 Objectives: financial performance

FINANCIAL OBJECTIVES OF 2020	
Watercom's external profit ≥€0.67 million	Not achieved
Savings compared to 2019 budget ≥€0.25 million	Achieved

FINANCIAL OBJECTIVES OF 2021	
Watercom's external profit	≥€0.6 million
Stretch compared to budgeted EBITDA, excl. Covid-19 impacts and extraordinary costs	≥€0.5 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 2020.This report covers the principles applied as of 31 December 2020.

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.

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;
- 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;

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- 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 the 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 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

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Tallinna Vesi's website. Voting rights are explained to the shareholders in the AGM notice on the Company's website as well as at the beginning of each General Meeting.

On 28 May 2020, Tallinna Vesi held the Annual General Meeting (AGM) of its shareholders to approve the 2019 Annual Report, distribution of profit, to extend the authorities of three Supervisory Board members and elect an auditor. 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 2020 AGM agenda were asked, nor were any additional agenda items proposed in 2020.

The Chairman of an AGM is an independent person. In 2020, 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 participated in the 2020 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 with exception to extraordinary times like in 2020. Therefore, in order to avoid any unnecessary health risks to the shareholders, the Company's employees, the Management Board as well as to the Supervisory Board members, the Supervisory Board member candidates as well as a representative of the audit firm did not participate in the 2020 AGM.

In 2020, AGM Tallinna Vesi allowed its shareholders, who did not want to appear in person due to COVID-19 extraordinary situation, to vote in the General Meetings using electronic means. For electronic voting, a shareholder had to fill out the voting ballot and sign it digitally (using ID-card, digi-ID or Mobiil-ID) and e-mail the digitally signed ballot to Tallinna Vesi before the AGM day. The shareholders, who voted using electronic means, were deemed as having participated in the General Meeting and their votes represented by shares were counted in the quorum of the General Meeting. Electronic voting 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 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.

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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 2020, five regular and one extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2019 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 2020. 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, COVID-19 situation for the Company 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 4/06/2022

Martin Padley
(United Utilities (Tallinn) B.V.)
Supervisory Board Member
until 03/11/2022

Thomas Wright Lissett
(United Utilities (Tallinn) B.V.)
Supervisory Board Member
until 01/09/2022

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

Katrin Kendra
(Tallinn City)
Supervisory Board Member
until 01/06/2022

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 2017-2020, 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 2020, 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 2020, 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 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

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Supervisory Board before being voted by the General Meeting of Shareholders. The procurement for auditing the year ending 31 December 2021 will be carried out in 2021. In 2020, the Group paid €23.8 thousand for the annual financial audits against the relevant invoices issued (€17.7 thousand in 2019) and €39.0 thousand for internal audit services against the relevant invoices issued (€29.0 thousand in 2019). 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 Eva Jansen-Diener.

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 2020, 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 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

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Management Board are entitled to a maximum PRP of 25% of their annual gross salary. The PRP to be paid out for 2020 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 specific individual 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 2020, 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 Brookes
Member of the Corporate Governance Committee

Simon Roger Gardiner
Member of the 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 insider list. Tallinna Vesi has had three Management Board members from 2 June 2014.

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From 1 January 2020, the members are as follows:

Karl Heino Brookes
Chairman of the Management Board
Member of the Management Board
until 21/03/2023

Kristi Ojakäär
Chief Financial Officer
Member of the Management Board
until 01/01/2023

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

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. Kristi Ojakäär are 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.

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.

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.

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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 2020, 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 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.

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"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 2020, 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.

"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

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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 2020.

"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 2020, six Supervisory Board meetings were held as follows: 30 January 2020, 26 March 2020, 23 April 2020, 30 July 2020, 29 October 2020 and 9 December 2020.

The 30 January 2020 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Toivo Tootsen, Priit Lello and Mrs Katrin Kendra.

The 26 March 2020 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Allar Jõks and Priit Lello.

The 23 April 2020 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 30 July 2020 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Priit Rohumaa, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra.

The 29 October 2020 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Thomas Lissett, Toivo Tootsen, Priit Lello and Mrs Katrin Kendra.

The 9 December 2020 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Thomas Lissett, Toivo Tootsen, Allar Jõks, Priit Lello and Mrs Katrin Kendra.

Considering the above, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett (until 30 August 2020), Thomas Lissett (from 1 September 2020) and Priit Lello attended 100% of the meetings. Mr Allar Jõks attended 60% of the meetings as he was unable to attend two meetings due to his other responsibilities. Mr Toivo Tootsen attended 80% of the meetings as he was unable to attend one meeting due to his other responsibilities. Ms Katrin Kendra attended 80% of the meetings as he was unable to attend one meeting due to his other responsibilities. All of them familiarised themselves with all the materials for the meetings they were unable to attend.

"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 2020. 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 2020", "Strategy", "Operational results of 2020", "Financial results of 2020" and "Corporate governance", is an integral part of the annual report of Tallinna Vesi for the financial year ended 31 December 2020. 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 2020.

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

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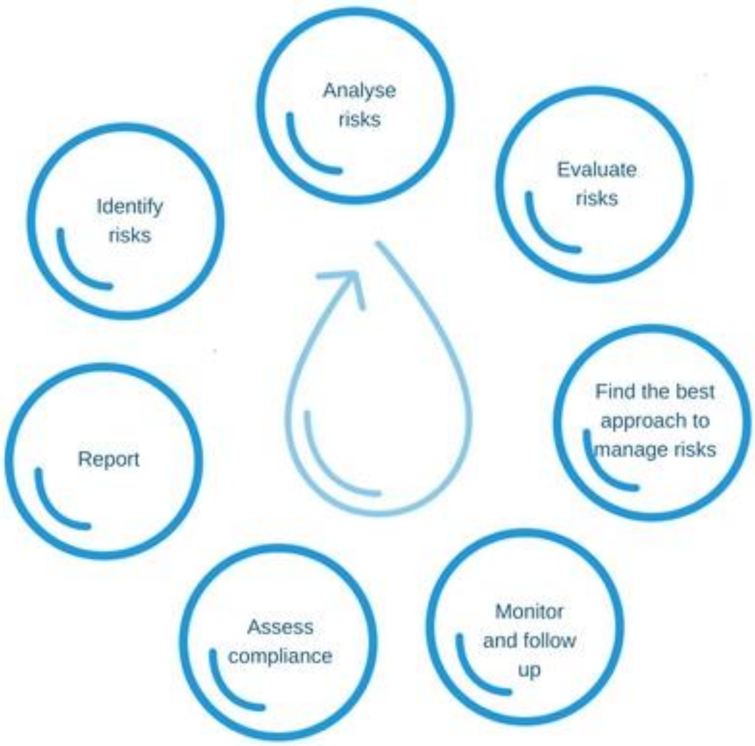
Risk management is a central part of any organisation's strategic management. As a precautionary approach, we constantly assess and monitor our operational and financial risks. Although risks cannot be entirely avoided, we have worked out an effective system to manage risks. The objective of our risk 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.

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

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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 31 December 2020, claims totalling €1.1 million have been filed within one application. The Company does not admit any liability and fully rejects it.

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

DISEASE OUTBREAKS

Late in 2019, China was the first to report the cases of the novel coronavirus COVID-19. In 2020, the virus evolved to a pandemic and its negative impact gained momentum. Among other factors, the pandemic has also had a negative effect on the Group's revenues in 2020, due to an increase in the consumption of water and wastewater services by the private sector and decrease in the consumption by the commercial sector, along with a reduction in construction revenues.

The Group has assessed and calculated the impact of the pandemic on the results for 2020 where reasonable, please see note 2.

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

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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. Additional capital investments into mechanical treatment are in progress 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 implemented. 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 2020 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 2020, 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 2020. 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 15 March 2021 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		15 March 2021
Aleksandr Timofejev	Member of the Management Board		15 March 2021
Kristi Ojakäär	Member of the Management Board		15 March 2021

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Tallinna Vesi
Loome puhta veega parema elu!

9. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand		as of 31 December	
ASSETS	Note	2020	2019
CURRENT ASSETS			
Cash and cash equivalents	6	44,514	64,775
Trade receivables, accrued income and prepaid expenses	7	7,019	7,239
Inventories		701	504
TOTAL CURRENT ASSETS		52,234	72,518
NON-CURRENT ASSETS			
Property, plant and equipment	9	202,802	189,627
Intangible assets	10	629	710
TOTAL NON-CURRENT ASSETS		203,431	190,337
TOTAL ASSETS		255,665	262,855
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term lease liabilities	11	393	352
Current portion of long-term bank loans	11	3,630	3,631
Trade and other payables	12	7,085	6,718
Derivatives	8	0	221
Prepayments	14	2,445	2,323
TOTAL CURRENT LIABILITIES		13,553	13,245
NON-CURRENT LIABILITIES			
Deferred income from connection fees		34,564	31,070
Leases	11	1,400	964
Bank loans	11	83,978	87,592
Provision for possible third-party claims	15	9,628	14,442
Deferred tax liability		255	0
Other payables		32	18
TOTAL NON-CURRENT LIABILITIES		129,857	134,086
TOTAL LIABILITIES		143,410	147,331
EQUITY			
Share capital	16	12,000	12,000
Share premium		24,734	24,734
Statutory legal reserve		1,278	1,278
Retained earnings		74,243	77,512
TOTAL EQUITY		112,255	115,524
TOTAL LIABILITIES AND EQUITY		255,665	262,855

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	2020	2019
Revenue	17	51,717	63,423
Costs of goods and services sold	19	-29,491	-29,470
GROSS PROFIT		22,226	33,953
Marketing expenses	19	-433	-390
General administration expenses	19	-4,576	-5,689
Other income (+)/ expenses (-)	20	4,567	4,201
OPERATING PROFIT		21,784	32,075
Financial income	21	31	38
Financial expenses	21	-473	-809
PROFIT BEFORE TAXES		21,342	31,304
Income tax	22	-4,610	-3,544
NET PROFIT FOR THE PERIOD		16,732	27,760
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		16,732	27,760
Attributable profit to:			
Equity holders of A shares		16,731	27,759
B share holder		0.60	0.60
Earnings per A share (in euros)	23	0.84	1.39
Earnings per B share (in euros)	23	600	600

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11. CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	Note	for the year ended 31 December 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		21,784	32,075
Adjustment for depreciation/amortisation	9,10,19,20	6,283	6,109
Adjustment for revenues from connection fees	20	-542	-389
Other non-cash adjustments	15,20	-4,814	-4,624
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		-14	138
Change in current assets involved in operating activities		140	391
Change in liabilities involved in operating activities		-215	318
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		22,622	34,018
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-15,682	-10,441
Compensations received for construction of pipelines, incl connection fees		1,998	3,010
Proceeds from sale of property, plant and equipment, and intangible assets		32	24
Interest received		35	36
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-13,617	-7,371
CASH FLOWS USED IN FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl swap interests		-719	-1,056
Lease payments		-555	-404
Received loans	11	0	37,500
Repayment of loans	11	-3,636	-41,136
Dividends paid	22	-19,888	-14,965
Withheld income tax paid on dividends	22	-113	-36
Income tax on dividends	22	-4,355	-3,544
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-29,266	-23,641
CHANGE IN CASH AND CASH EQUIVALENTS		-20,261	3,006
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6	64,775	61,769
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	44,514	64,775

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 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
Dividends (Note 22)	0	0	0	- 20,001	-20,001
Comprehensive income for the period (Note 23)	0	0	0	16,732	16,732
as of 31 December 2020	12,000	24,734	1,278	74,243	112,255

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 470,000 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 in 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	+372 62 62 200	+372 62 62 620
Fax	+372 62 62 300	+372 62 62 300
E-mail	tvesi@tvesi.ee	watercom@watercom.eu

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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 2021. 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 new or revised standards or interpretations for the first time for their annual reporting period beginning on 1 January 2020.

IAS 12, Income Taxes

According to the paragraphs 52A and 57A of IAS 12 (International Accounting Standard 12), no current or deferred tax liability shall be recognised until a liability to pay dividends is recognised. The Group has been applying such accounting principle consistently to all undistributed profits regardless of whether such profits arose in the parent or in a subsidiary.

In June 2020, IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in the paragraphs 52A and 57A of the Standard IAS 12 only applies to undistributed profits accumulated in a parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in the paragraphs 39-40 of the Standard IAS 12 should be followed in respect of undistributed profits in subsidiaries, explaining that the deferred tax shall be recognized for all taxable differences associated with investments in subsidiaries unless it is probable that the profits will not be distributed in the foreseeable future (IAS 12.39-40). The Group has assessed the impact of the IFRS Interpretation

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Committee agenda decision and recognized deferred tax liability in respect of full retained earnings in subsidiary in the amount of €255 thousand euros. Considering the amount not being material in the context of these financial statements, therefore no correction into previous reporting periods is made and the third financial statement is not presented, the total impact of deferred tax amount is recognized in financial statements for the year 2020. Please see for more information in note 22.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). 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.

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.

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 2020 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 reporting 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

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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.

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 2020 and 2019 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.

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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.

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 licences

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

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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 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 (-)'.

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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.

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 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.

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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.

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 2020, the rate was 20/80 on the amount of the dividends payable (2019: 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 10^{th} date of the month following the dividend payment.

Deferred Income Tax

Deferred income tax liability arises for the Group from subsidiaries in Estonia. As there is no fixed policy relating to dividend payments from subsidiaries, the Group has decided to measure the deferred tax liability on potential dividends to the extent of accumulated profits of subsidiaries at the reporting date. The Group measures deferred income tax liability using the tax rates valid on the reporting date.

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

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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.

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.

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Leases

Accounting principles – 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

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was received;
- uses a build-up approach that starts with the average interest margin of the industry adjusted with 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

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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.

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.

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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.

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

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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.

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. EFFECTS OF COVID-19

Late in 2019, China was the first to report the cases of the novel coronavirus COVID-19. In 2020, the virus evolved to a pandemic and its negative impact gained momentum. Among other factors, the pandemic has also had a negative effect on the Group's revenues in 2020, due to an increase in the consumption of water and wastewater services by the private sector and decrease in the consumption by the commercial sector, along with a reduction in construction revenues. According to external forecasts, the impact of the pandemic will gradually start to reverse. We are therefore optimistic that consumption will also revert back to pre-pandemic volumes in the longer term.

The Group has assessed and calculated the impact of the pandemic on the results for 2020 where reasonable:

- The revenues have decreased in total of €2.53 million due to lower consumption in commercial sector and therefore higher consumption in private sector.
- Specific expenses incurred to make pandemic-related changes in the workflow and working environment and to ensure the safety of the employees amounted to €88 thousand.
- Covid-19 impact on Trade Receivables credit losses is evaluated to €60 thousand.

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

  The potential undiscounted payments by the Company in the future, if potential claims from customers were recognised by the courts, would amount to €24.1 million (as of 31 December 2019: €36.1 million). This estimate marks the maximum difference in between the tariffs approved based on the Services Agreement and the tariffs based on the Company's estimation, with the reservation to the possible fluctuation, regarding past 24 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 €9.6 million (as of 31 December 2019: €14.4 million). As of 31 December 2020, claims totalling €1.1 million have been filed within one application. The Company does not admit any liability and fully rejects it. 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 2020, Group owns property, plant and equipment, and intangible assets with a net book value of €203 million (31 December 2019: €190 million) and annual depreciation was €6.3 million (2019: €6.1 million). If the depreciation/amortisation rates decreased/increased by 5%, the depreciation/ amortisation expense would increase/decrease by €315 thousand respectively (2019: €305 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 2020 was 0.0% (2019: 0.2%). 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 2020 the Group's bank accounts balances (including deposits) totalled €44,514 thousand (31 December 2019: €64,775 thousand) from which no sums were in foreign currencies (31 December 2019: 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 concluded floating-to-fixed interest rate swap contracts (Note 8). The Group's interest rate risk arises from long-term

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borrowings and, with EURIBOR being below zero, from the ineffectiveness of swap contracts as hedging instruments.

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

	31 December 2020		31 December 2019	
	Effective interest rate	Balance € thousand	Effective interest rate	Balance € thousand
Long-term borrowings	0.453%	87,727	0.542%	91,221
Interest rate swaps (notional principal amount)	-	0	0.3%	37,500
Net exposure to cash flow interest rate risk in case Euribor>0		50,227		53,721
Net exposure to cash flow interest rate risk in case Euribor<0		37,500		37,500

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

	Impact on profit	
€ thousand	2020	2019
Interest rates- Increase by 50 basis points*	-46	-37
Interest rates- Decrease by 50 basis points*	-141	-195

* *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 2020, 100% of Group's cash in banks and short-term deposits were deposited with counterparties with rating of A3 (31 December 2019: 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.

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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 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 2020:

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 2020.

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 2020 there was 1 customer (31 December 2019: 2 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			Overdue		
€ thousand	Balance	Not due	Up to 60 days	More than 60 days	Impairment
as of 31 December 2020					
Cash and cash equivalents (Note 6)	44,514	44,514	0	0	0
Trade receivables (Note 7)	6,848	5,905	518	896	-471
Commercial customers	3,965	3,090	488	815	-428
Private customers	2,883	2,815	30	81	-43
Accrued income	3	3	0	0	0
Total	**51,365**	**50,422**	**518**	**896**	**-471**
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**

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

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 2020						
Trade and other payables (Note 12)	2,321	1,185	0	213	0	3,719
Derivatives (Note 8)	0	0	0	0	0	0
Bank loans	0	0	3,636	55,520	28,571	87,727
Leases	35	76	294	1,409	0	1,814
Total	**2,356**	**1,261**	**3,930**	**57,142**	**28,571**	**93,260**
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
Finance leases	34	65	265	1,028	0	1,392
Total	**3,404**	**335**	**4,275**	**54,025**	**36,251**	**98,290**

**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 2020	2019
Borrowings	89,402	92,539
Cash	-44,514	-64,775
Net debt	44,888	27,764
Equity	112,256	115,524
Total capital	157,144	143,288
Net debt to total capital ratio	28,5%	19,4%
Total assets	255,665	262,855
Proportion of equity from total assets	43,9%	43,9%

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 reporting 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 2020 and 2019, 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 2020 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% (2019: 1.02%) and are within level 3 of the fair value hierarchy. As of 31 December 2020, the fair value of the Group's long-term borrowings was €2,994 thousand lower than their carrying amount (31 December 2019: €2,787 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	as of 31 December 2020	2019
Cash and bank accounts	20,514	43,175
Short-term deposits	24,000	21,600
Total cash and cash equivalents	44,514	64,775

NOTE 7. TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES

€ thousand	as of 31 December 2020	2019
Accounts receivable	6,848	7,248
Allowance for doubtful receivables	-471	-428
Total trade receivables	6,377	6,820
Allowance for doubtful receivables at the beginning of the period	-428	-450
Proceeds from doubtful receivables during the period	22	37
Allowance for doubtful receivables recognised during the period	-65	-15
Allowance for doubtful receivables at the end of the period	-471	-428

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	as of 31 December 2020	2019
Accrued interest	3	7
Other accrued income	368	107
Prepaid expenses	271	304
Total accrued income and prepaid expenses	642	418
Total trade receivables, accrued income and prepaid expenses	7,019	7,238

The Company's current assets (incl. trade receivables, accruals and inventory) in the amount of € 7,240 thousand (31 December 2019: € 6,595 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	as of 31 December 2020	2019
Current liabilities		
Interest rate swap contracts	0	221

Contracts start date	June 2015
Contracts maturity date	November 2020
Contracts notional amount	37,500

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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 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
Transactions in the period 1 January 2020 - 31 December 2020							
Acquisition in book value	0	0	0	18,336	0	951	19,287
Write off and sale of property, plant and equipment in residual value	0	0	0	0	-23	0	-23
Reclassification	191	10,682	1,418	-11,993	629	-952	-25
Depreciation	-296	-3,536	-2,013	0	-219	0	-6,064
as of 31 December 2020							
Acquisition cost	26,875	239,412	49,029	8,799	2,793	0	326,908
Accumulated depreciation	-7,677	-76,843	-38,558	0	-1,028	0	-124,106
Net book value	19,198	162,569	10,471	8,799	1,765	0	202,802

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', which stood as a separate column, is now included in the column 'Machinery and

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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 €10,585 thousand (31 December 2019: €11,393 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 €29,730 thousand (31 December 2019: €30,016 thousand) serves as a security to the bank loans (Note 11).

During the year, the Group has capitalised borrowing costs amounting to €23 thousand (2019: €21 thousand) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 0.45% (2019: 0.75%).

NOTE 10. INTANGIBLE ASSETS

€ thousand	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
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
Transactions in the period 01 January 2020 - 31 December 2020			
Acquisition in book value	0	138	138
Reclassification	119	-119	0
Amortisation	-219	0	-219
as of 31 December 2020			
Acquisition cost	4,582	30	4,612
Accumulated amortisation	-3,983	0	-3,983
Net book value	599	30	629

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NOTE 11. BORROWINGS

€ thousand	as of 31 December	
Current liabilities	2020	2019
Current portion of long-term leases	393	352
Current portion of long-term loans	3,630	3,631
Non-current liabilities		
Leases	1,400	964
Loans	83,978	87,592

Liabilities at 31 December 2020 € thousand	Balance	Effective interest rate
Lease liabilities	1,793	1.08%-1,77%
Bank loans at floating interest rate (based on 6-month Euribor)	87,608	0.11%-0.95%

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)	91,223	0.30%-1.02%

The Group's loan agreements, valid as of 31 December 2020, mature as follows. One loan agreement in the amount of €37.5 million will be repaid in September 2022 (31 December 2019: 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 2019: 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 € thousand	as of 31 December 2020	2019
Cash and cash equivalents	44,514	64,775
Borrowings	-87,608	-91,223
Lease liabilities	-1,793	-1,316
Total net debt	-44,888	-27,764
Cash and cash equivalents	44,514	64,775
Gross debt - variable interest rates	-89,401	-92,539
Total net debt	-44,888	-27,764

	Liabilities from financing activities			Other assets	
€ thousand	Borrowings	Leases	Subtotal	Cash and cash equivalents	Total
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
Net debt as at 1 January 2020	-91,223	-1,316	-92,539	64,775	-27,764
Cash flows	3,636	555	4,191	-20,261	-16,070
Acquisitions – leases	0	-1,037	-1,037	0	-1,037
Other changes	-22	5	-17	0	-17
Net debt as at 31 December 2020	-87,609	-1,793	-89,402	44,514	-44,888

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.

Collateral of loans and pledged assets € thousand		Collateral at book value as of 31 December	
Type of collateral	Specification and location of collateral	2020	2019
Commercial pledge	Movables of the Company (Note 7, 9)	17,825	17,988
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	29,730	30,016

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NOTE 12. TRADE AND OTHER PAYABLES

€ thousand	for the year ended 31 December 2020	2019
Trade payables - operating expenditures	1,666	2,287
Trade payables - capital expenditures	1,502	768
Payables to related parties (Note 25)	185	184
Payables to employees	1,521	1,261
Interest payable	66	78
Other accrued expenses	114	110
Warranty reserve	213	70
Taxes payable incl:		
Income tax	206	196
VAT	634	697
Water abstraction charges	318	314
Pollution taxes	202	302
Social security tax	402	394
Other	56	58
Total trade and other payables	7,085	6,718

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 2020 amounted to €74,243 thousand (as at 31 December 2019: €77,512 thousand). Consequently, if retained earnings were fully distributed as dividends and the lower tax rate that may be applicable from 2020 to dividend payments was applied, the maximum possible tax liability which would be €17,334 thousand (2019: €18,733 thousand). See also note 2.

NOTE 14. PREPAYMENTS

€ thousand	as of 31 December 2020	2019
Prepayments for water and sewerage services	91	132
Prepayments for fixed assets	0	4
Prepayments for connection fee	2,354	2,187
Total prepayments	2,445	2,323

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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 of the company. From now on, the tariffs will be regulated by the Competition Authority in line with the methodology.

According to the law the tariffs established based on the Services Agreement were in force until the Competition Authority approved the new tariffs and the Company implemented these tariffs in line with the law. The Company has acted in good faith and in reliance to the applicable legal acts. Thus the Company does not consider itself liable to the customers for any claims related to the tariffs applied until the new tariffs approved by the Competition Authority were duly implemented.

On 18 October 2019, the Competition Authority approved the tariffs that the Company had applied for in September of that year. The new tariffs for water services came into force on 1 December 2019. In the Company's main service area the private customer tariffs 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 €24.1 million (as of 31 December 2019: €36.1 million). This estimate marks the maximum difference in between the tariffs approved based on the Services Agreement and the tariffs based on the Company's estimation, with the reservation to the possible fluctuation, regarding past 24 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 €9.6 million (as of 31 December 2019: €14.4 million). As of 31 December 2020, claims totalling €1.1 million have been filed within one application. By the date of preparation of annual report, a claim in amount of €384 thousand has been filed (note 27). The Company does not admit any liability and fully rejects these claims.

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NOTE 16. SHARE CAPITAL

As at 31 December 2020 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 2020 and 2019, 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 2020 and 2019 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 2020 and 2019.

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

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.

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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
1 January 2020 - 31 December 2020					
External revenue	45,800	5,222	695	0	51,717
Inter-segment revenue	1	3,481	3,421	-6,903	0
Total segment revenue	45,801	8,703	4,116	-6,903	51,717
Segment's gross profit	19,614	409	2,768	-565	22,226
Unallocated expenses:					
Marketing and Administrative expenses					-5,009
Other income/expenses					4,567
Operating profit					21,784
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

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Revenue by activities

€ thousand	for the year ended 31 December 2020	2019
Water services		
Water supply service	8,106	13,781
Wastewater disposal service	12,048	11,719
Total from private customers	20,154	25,500
Water supply service	7,209	11,482
Wastewater disposal service	7,417	9,317
Total from commercial customers	14,626	20,799
Water supply service	1,593	1,622
Wastewater disposal service	3,298	3,193
Stormwater disposal service	291	426
Total from outside service area customers	5,182	5,241
Stormwater treatment and disposal service and fire hydrants service	4,588	4,002
Overpollution charges and discharging	1,250	1,324
Total from water services	45,800	56,866
Construction services	5,222	5,960
Other services	695	597
Total revenue	51,717	63,423

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

NOTE 18. STAFF COSTS

€ thousand	for the year ended 31 December 2020	2019
Salaries and wages (Note 19)	-7,417	-6,762
Social security and unemployment insurance taxation (Note 19)	-2,509	-2,286
Total staff costs	-9,926	-9,048
The average number of employees	332	321

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

€ thousand	for the year ended 31 December 2020	2019
Cost of goods and services sold		
Water abstraction charges	-1,237	-1,219
Chemicals	-1,567	-1,664
Electricity	-3,256	-3,566
Pollution tax	-989	-1,089
Staff costs (Note 18)	-7,247	-6,602
Depreciation and amortisation	-5,521	-5,420
Construction service	-4,256	-5,096
Other costs of goods and services sold	-5,418	-4,814
Total cost of goods and services sold	**-29,491**	**-29,470**
Marketing expenses		
Staff costs (Note 18)	-370	-318
Other marketing expenses	-63	-72
Total marketing expenses	**-433**	**-390**
Administrative expenses		
Staff costs (Note 18)	-2,309	-2,128
Depreciation and amortisation	-333	-335
Other general administration expenses	-1,934	-3,226
Total administrative expenses	**-4,576**	**-5,689**

NOTE 20. OTHER INCOME/EXPENSES

€ thousand	for the year ended 31 December 2020	2019
Connection fees	542	389
Depreciation of single connections	-429	-354
Doubtful receivables expenses (-)/expense reduction (+)	-64	20
Provision for possible third party claims (Note 15)	4,814	4,626
Other income (+)/expenses (-)	-296	-480
Total other income/expenses	**4,567**	**4,201**

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NOTE 21. FINANCIAL INCOME AND EXPENSES

€ thousand	for the year ended 31 December 2020	2019
Interest income	31	38
Interest expense, loan and lease	-487	-714
Interest expense, swap	-185	-230
Increase (+)/decrease (-) of fair value of swap	221	159
Other financial income (+)/expenses (-)	-22	-24
Total financial income/expenses	-442	-771

NOTE 22. DIVIDENDS AND INCOME TAX

€ thousand	for the year ended 31 December 2020	2019
Dividends declared during the period	20,001	15,001
Dividends paid during the period	19,888	14,965
Withheld income tax on dividends	113	36
Income tax on dividends paid	-4,355	-3,544

Dividends declared per shares:		
Dividends per A share (in euros)	1.00	0.75
Dividends per B share (in euros)	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.

Deferred income tax expense and liability for 2020 is €255 thousand and is calculated based on total distributable profits of the subsidiary as of 31/12/2020.

NOTE 23. EARNINGS PER SHARE

	for the year ended 31 December 2020	2019
Net profit minus B share preferred dividend rights (€ thousand)	16,731	27,759
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)	0.84	1.39
Earnings per B share (in euros)	600	600

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

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.

	for the year ended 31 December	
€ thousand	2020	2019
Interest expense on lease liabilities	24	19
Expense relating to short-term leases	10	15
Expense relating to leases of low-value assets	1	1

The total cash outflow for leases in 2020 was €589 thousand (2019: €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 2020 the Group had entered into the lease agreements, which take effect in 2021, in the total amount of €926 thousand (2019: €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 2020 was €140 thousand (2019: €73 thousand). The Group considers the income from leasing and the assets held for leasing in proportion of all assets insignificant.

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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	2020	2019
Accounts receivable	1,390	531
Trade and other payables (Note 12)	185	184

Transactions	for the year ended 31 December	
€ thousand	2020	2019
Revenue (Note 17)	4,588	4,002
Purchase of administrative and consulting services	736	991

Fees to the Group's Management and Supervisory Board members	for the year ended 31 December	
€ thousand (excluding social tax)	2020	2019
Management Board members	213	213
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 notes 16 and 27. Paid-up dividends are described in note 22.

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NOTE 26. SUBSIDIARIES

Subsidiary	Location	Activity	Holding (%) as of 31 December 2020	2019
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

New subsidiary

On 28 January 2021, AS Tallinna Vesi acquired a full shareholding in the company with the business name ASTV Green Energy OÜ in the Republic of Estonia. The main business activity of the company is initially gas production. The company is a start-up and no active economic activity has been conducted.

In the longer term, the new private limited company intends to supply reusable resources, generated as a result of providing water services, as products in the green energy market. Entry to the biomethane production market is one opportunity for the future, but the analysis includes a wider range of opportunities.

Changes in ownership

On 3 February 2021, the City of Tallinn and United Utilities (Tallinn) B.V. informed AS Tallinna Vesi that the City of Tallinn, United Utilities (Tallinn) B.V., United Utilities PLC and Osaühing Utilitas are entering into a share sale and purchase agreement whereby United Utilities (Tallinn) B.V. sells in total 7,060,870 A-shares in AS Tallinna Vesi to the City of Tallinn and Osaühing Utilitas in equal parts at a price of 14.20 euros per share (the "Transaction"). As a result of the Transaction, the City of Tallinn will hold 10,469,565 A-shares in AS Tallinna Vesi and 1 B-share (representing 52.35% of the share capital of AS Tallinna Vesi) and Osaühing Utilitas will hold 3,530,435 A-shares in AS Tallinna Vesi (representing 17.65% of the share capital of AS Tallinna Vesi).

At the session of 11/02/2021, Tallinn City Council approved the decision to acquire the shares in AS Tallinna Vesi, and thereafter the decision to undertake a mandatory tender offer in respect of shares held by the shareholders of AS Tallinna Vesi. Competition Authority decided on 09/03/2021 to grant the City of Tallinn and Osaühing Utilitas the permission to exercise joint dominant influence over AS Tallinna Vesi. The estimated completion of the transaction shall take place on 31 March 2021.

Following the completion of the transaction and the necessary approvals from the Financial Supervision Authority, the City of Tallinn and Osaühing Utilitas will jointly undertake a mandatory tender offer in respect of shares held by minority shareholders of AS Tallinna Vesi. Terms of the tender offer shall be announced once approved by the Financial Supervision Authority.

According to the Management Board of AS Tallinna Vesi the conclusion of the share sale and purchase agreement does not have a material impact on the business activities nor the economic results of the Company as the Company will continue carrying out its usual business activities and the share sale and purchase agreement does not bring about the changes to the provision of its services.

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The Management Board of AS Tallinna Vesi introduces to the shareholders the draft resolutions for adoption without convening a meeting in accordance with § 299[1] of the Commercial Code.

The proposals of the Management Board, as approved by the Supervisory Council, for the resolutions to be adopted on 1 April 2021 are as follows:

To recall Mr Simon Roger Gardiner from the Supervisory Council of the Company. The term of Mr Simon Roger Gardiner shall expire on 31 March 2021.
To recall Mr Martin Padley from the Supervisory Council of the Company. The term of Mr Martin Padley shall expire on 31 March 2021.
To elect Mr Mart Mägi as a member of the Supervisory Council of the Company from 1 April 2021 for the term set out in the Articles of Association of the Company.
To elect Mr Robert Kitt as a member of the Supervisory Council of the Company from 1 April 2021 for the term set out in the Articles of Association of the Company.

To amend the Articles of Association of the Company and approve the new wording of the Articles of Association as presented to the shareholders. The new wording of the Articles of Association is available on AS Tallinna Vesi's website "Investor->Adoption of Shareholders' Resolutions->[...]-> Draft for the Articles of Association".

To give consent to the Company for the acquisition of one B share with the nominal value of 60 (sixty) euros from the City of Tallinn and to pay the City of Tallinn 60 (sixty) euros for the B share. The acquisition shall be completed by 1 May 2021 at the latest.

Third-party claim

After the reporting date, the Company has received a claim with the value of €384 thousand within one application relating to the tariffs, which had been applied until the new tariffs approved by the Competition Authority were duly implemented. The Company does not admit any liability and fully rejects it. See Note 15.

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 2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	42,878	63,711
Trade receivables, accrued income and prepaid expenses	6,195	6,047
Receivables from parent company	316	0
Receivables from subsidiary	49	46
Inventories	680	502
TOTAL CURRENT ASSETS	50,118	70,306
NON-CURRENT ASSETS		
Investment in subsidiary	527	527
Property, plant and equipment	208,060	195,071
Intangible assets	597	708
TOTAL NON-CURRENT ASSETS	209,184	196,306
TOTAL ASSETS	259,302	266,612
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current portion of long-term lease liabilities	169	189
Current portion of long-term bank loans	3,630	3,630
Trade and other payables	5,676	4,932
Derivatives	0	221
Payables to subsidiary	1,092	1,052
Prepayments	2,443	2,321
TOTAL CURRENT LIABILITIES	13,010	12,345
NON-CURRENT LIABILITIES		
Deferred income from connection fees	34,564	31,070
Leases	301	415
Bank loans	83,978	87,592
Provision for possible third party claims	9,628	14,442
Other payables	14	0
TOTAL NON-CURRENT LIABILITIES	128,485	133,519
TOTAL LIABILITIES	141,495	145,866
EQUITY		
Share capital	12,000	12,000
Share premium	24,734	24,734
Statutory legal reserve	1,278	1,278
Retained earnings	79,795	82,735
TOTAL EQUITY	117,807	120,748
TOTAL LIABILITIES AND EQUITY	259,302	266,612

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STATEMENT OF COMPREHENSIVE INCOME

	for the year ended 31 December	
€ thousand	2020	2019
Revenue	46,300	57,288
Cost of goods and services sold	-24,788	-23,955
GROSS PROFIT	21,512	33,333
Marketing expenses	-433	-391
General administration expenses	-4,345	-5,450
Other income (+)/expenses (-)	4,585	4,263
OPERATING PROFIT	21,319	31,755
Financial income	30	38
Financial expenses	-5	-98
PROFIT BEFORE TAXES	21,344	31,695
Income tax on dividends	-4,282	-3,388
NET PROFIT FOR THE PERIOD	17,062	28,307
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	17,062	28,307
Attributable profit to:		
Equity holders of A shares	17,061	28,306
B share holder	0.60	0.60
Earnings per A share (in euros)	0,85	1,42
Earnings per B share (in euros)	600	600

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STATEMENT OF CASH FLOWS

€ thousand	for the year ended 31 December	
CASH FLOWS FROM OPERATING ACTIVITIES	2020	2019
Operating profit	21,319	31,755
Adjustment for depreciation/amortisation	6,109	5,972
Adjustment for revenue from connection fees	-542	-389
Other non-cash adjustments	-4,814	-4,624
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets	0	137
Change in current assets involved in operating activities	-527	506
Change in liabilities involved in operating activities	20	328
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	21,565	33,685
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, and intangible assets	-16,059	-10,995
Compensations received for construction of pipelines	1,998	3,010
Proceeds from sale of property, plant and equipment, and intangible assets	0	25
Interest received	35	36
TOTAL CASH USED IN INVESTING ACTIVITIES	-14,026	-7,924
CASH FLOWS USED IN FINANCING ACTIVITIES		
Interest paid and loan financing costs, incl swap interests	-736	-1,045
Lease payments	-167	-209
Received loans	0	37,500
Repayment of loans	-3,636	-41,136
Dividends received	450	700
Dividends paid	-19,888	-14,965
Withheld income tax paid on dividends	-113	-36
Income tax on dividends	-4,282	-3,388
TOTAL CASH USED IN FINANCING ACTIVITIES	-28,372	-22,579
CHANGE IN CASH AND CASH EQUIVALENTS	-20,833	3,182
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	63,711	60,529
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	42,878	63,711

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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 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
as of 31 December 2019	12,000	24,734	1,278	82,734	120,746
Dividends	0	0	0	-20,001	-20,001
Comprehensive income for the period	0	0	0	17,062	17,062
as of 31 December 2020	12,000	24,734	1,278	79,795	117,807
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 2020	12,000	24,734	1,278	79,795	117,280

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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 15 March 2021. 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 25 March 2021 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 2019 Report, no significant changes have been made and the indicators introduced in 2019, 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];

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• Socioeconomic compliance [Tallinna Vesi: Ensuring quality of our services]

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 2020 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. 7-8*
	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. 113*
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	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	
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	102-40 List of stakeholder groups	*p. 13 How we create value to different stakeholders*
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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. 121-123 Principles of sustainability reporting*
	102-49 Changes in reporting	*p. 121-123 Principles of sustainability reporting*
	102-50 Reporting period	*01/01/2020-31/12/2020*
	102-51 Date of most recent report	*27 March 2020*
	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: €52.0m* *Purchases from suppliers €44.5m* *Environmental taxes €2.2m* *Investments into environmental awareness and community €0.1m* *Taxes paid €9.4m* *Employee wages and benefits (incl taxes) €10.0m* *Dividends paid out €20.0m* *Payments to providers of capital €0.7m* *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: €1,430 thousand* *Wastewater treatment: €7,436 thousand* *Networks total: €5,353 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 2020, 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: 25,241 th m^3* *Ground water: 2,734 th m^3* *p. 22-23 Sustainable use of water*
not applicable	Water loss in the water networks i.e. leakages (%)	*12.42%* *p. 22-23 Sustainable use of water*
Material topic: Effluents and Waste [ASTV: Effluent quality]		

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13 CLIMATE ACTION	SD **Goal 13:** Take urgent action to combat climate change and its impacts	
14 LIFE BELOW WATER	**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: 52.5 mil m^3* *Diluted wastewater: 234,124 m^3* *Treatment efficiency:* *Biological oxygen demand (BOD) 98%,* *Chemical oxygen demand (COD) 88%,* *Suspended solids 98%,* *N_{tot} 86%,* *P_{tot} 92%,* *Oil products 90%* *p. 24-25 Effluent quality*
not applicable	Using the emergency outlet	*6 times* *p. 24-25 Effluent quality*
Material topic: Environmental Compliance		
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. 21-22 Environmental Compliance*
	103-2 The management approach and its components	*p. 21-22 Environmental Compliance*

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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 2020, the Company identified 0 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 5.7%*** ***Total turnover 12.3%*** *p. 34-37 Employees*
not applicable	Employee commitment (TRI*M index), part of GRI 102-44	***In 2020 the company used Pulse survey instead of TRI * M index. The Company´s result was 4.06.*** *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 0.0*** ***Total number of accidents: 0*** *p. 37-40 Occupational health and safety*
not applicable	Safety audits	***In 2020, total of 427 safety audits were held.*** ***98.08% 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	***1.48 (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		
	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 Community and public*
	103-2 The management approach and its components	*p. 31-33 Community and public*
	103-3 Evaluation of the management approach	*p. 31-33 Community and public*
not applicable	Community members who drink tap water (%)	*p. 32 Environmental education* ***(91%)***
	Number of children participated in water and environment related classes	*p. 32 Environmental education* ***(240 children)***
	Number of excursions held in WTP and WWTP (excl. open doors day)	*p. 32 Environmental education* ***(1)***
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. 27-31 Our customers*
	103-2 The management approach and its components	*p. 27-31 Our customers*
	103-3 Evaluation of the management approach	*p. 27-31 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	*2 incidents of non-compliance with voluntary codes (our promises to customers)* *p. 27 Our customers*
not applicable	Written customer complaints	*Total number of complaints: 181* *p. 28 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: 4.1* *p. 29-30 Customer satisfaction*
not applicable	Provision of information about unplanned water interruptions to the service (% of all unplanned interruptions)	*Information provided in 98.9% of the occasions* *p. 29 Our customers*
Material topic: Socioeconomic compliance [Ensuring quality of our services]		
	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. 18-21 Ensuring quality of services*
	103-2 The management approach and its components	*p. 18-21 Ensuring quality of services*
	103-3 Evaluation of the management approach	*p. 18-21 Ensuring quality of services*
GRI 419: Socioeconomic compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	*In 2020 the organization has not identified any non-compliance with laws and/or regulations.* *p. 18-21 Ensuring quality of services*
not applicable	Water quality (% of samples taken from customers taps, which meet all drinking water quality requirements)	*99.71%* *p. 20-21 Drinking water quality*
not applicable	Non-compliances with the Services Agreement (incl. interruptions to service lasting longer than 12 hours)	*0 non-compliance* *p. 19 Uninterrupted services*
not applicable	Average duration of an interruption	*On average the water interruption lasted 2.93 hours (2 hours and 56 minutes)* *p. 19 Uninterrupted services*

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Independent auditor's report

To the Shareholders of AKTSIASELTS TALLINNA VESI

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AKTSIASELTS TALLINNA VESI ("the Company") and its subsidiary (together – "the Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 15 March 2021.

What we have audited
The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2020 are disclosed in the Corporate Governance report.

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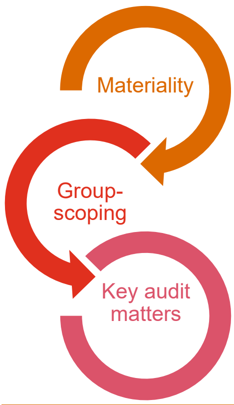
Our audit approach

Overview



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

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

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

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

Materiality

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

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

Overall Group audit materiality	EUR 1,050 thousand
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by shareholders in evaluating the performance of the Group.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
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 2020, the provision has been recognised in respect of potential claims from the customers in the amount of EUR 9.6 million (31 December 2019: EUR 14.4 million), calculated by management as approximately 40% of the maximum difference between the tariffs approved by the service contract and the tariffs based on Company's estimation, regarding past 24 months (31 December 2019: 36 months). As of 31 December 2020, one claim in the amount of EUR 1.1 million has been filed. 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 Committee. We have read the minutes of meetings of the Management and Supervisory Board where claims were discussed. We also obtained confirmations from the Group's internal and external legal counsels in order to compare their expert opinions to management's position on the provision. 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 2020, the Group capitalised additions to property, plant and equipment (PPE), mainly related to the construction of water and wastewater network and new customer	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.

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pipeline connections, in the amount of EUR 19.3 million.

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

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

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

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

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

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

How we tailored our Group audit scope

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

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

Other information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AKTSIASELTS TALLINNA VESI, as a public interest entity, on 23 April 2008 for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AKTSIASELTS TALLINNA VESI, as a public interest entity, of 13 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AKTSIASELTS TALLINNA VESI can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

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

15 March 2021
Tallinn, Estonia

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Independent Limited Assurance Report on the Sustainability Information

To the Shareholders of AKTSIASELTS TALLINNA VESI

Introduction

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

Selected Sustainability Information

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

Reporting Criteria

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

Responsibilities of the Management Board

The Management Board of the Group is responsible for:

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

Our Responsibilities

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Sustainability Information is not stated, in all material respects, in accordance with the reporting criteria.
We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance engagements other than audits or reviews of historical financial information". This standard requires that we comply with ethical requirements to plan and perform the assurance engagement to obtain limited assurance on the Sustainability Information.
This report, including our conclusions, has been prepared solely for management of the Group to assist management in reporting on the Group's sustainability performance and activities. Our limited assurance report has been prepared in accordance with the terms of our engagement. We permit this report to be disclosed in the Consolidated Annual and Sustainability Report of the Group for the year ended 31 December 2020, to enable management to show that as part of their governance responsibilities they have obtained an independent limited assurance report in connection with the Sustainability Information. We do not accept or assume responsibility to anyone other than management of the Group for our work or this report.

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Translation note:

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.

Our Independence and Quality Control

We are independent of the Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Work Done

Our procedures included:

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

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

Reporting and Measurement Methodologies

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

Limited Assurance Conclusion

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

AS PricewaterhouseCoopers

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

15 March 2021

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