AS TALLINNA VESI

Consolidated Interim Report for the 1st quarter of 2018

27th April 2018

Currency	Thousand euros
Start of reporting period	1 January 2018
End of reporting period	31 March 2018
Address	Ädala St. 10, Tallinn, Estonia
Chairman of the Management Board	Karl Heino Brookes
Commercial register number	10 257 326
Telephone	+372 62 62 200
Telefax	+372 62 62 300
E-mail	tvesi@tvesi.ee
Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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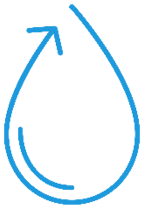
Chairman´s summary

The performance of AS Tallinna Vesi in the 1st quarter of 2018 once again reflects improvements in several operational, as well as financial indicators, compared to previous years. Consistently high standards were achieved regarding the parameters reflecting the quality of both drinking water and treated effluent, as well as customer service.

Financial performance



The Group’s total sales during the 1st quarter of 2018 increased by 2.1% to 14.08 million, as we witnessed an increase in sales in all our main water supply and waste water disposal related services. Sales to private customers increased by 1.3% and sales to corporate customers by 1.6%. Group’s net profit was EUR 6.53 million, showing an increase of 2.7% year-on-year.

Excellent operational results

The quality of drinking water remained excellent in the 1st quarter of 2018. Water samples taken from customers’ taps were 99.87% compliant with all requirements. We are also delighted to see a reduction in the number of customer contacts regarding water quality year on year.

We work tirelessly to provide our customers and end users with a stable and uninterrupted service. We are pleased to see that the average water disruption time to individual properties, has further reduced from 3 hours 1 minute to 2 hours 52 minutes. The issues with the sewerage network have also reduced, and the number of sewer blockages dropped to 156 during the first three months.

Water losses showed a slight increase in the first three months of 2018, compared to the previous year, 15.19% v 13.73%. This is still an excellent result, with the slight decline in performance resulting from the longer winter, which made leakage detection difficult under the continuous blanket of snow.

In the 1st quarter of 2018, the treated effluent at Paljassaare Wastewater Treatment Plant was compliant with all stipulated quality requirements.

Tariff application

Shortly before the end of the year, the Estonian Supreme Court made a decision on the tariff dispute between Tallinna Vesi and Estonian Competition Authority. The price of water and wastewater service, is now subject to approval by the Competition Authority using their methodology. On 28th of February, AS Tallinna Vesi submitted its application for the approval of the new water tariffs to Competition Authority. The tariffs calculated in the Company’s tariff application, are close to the currently applicable water tariffs, which have remained unchanged since 2010.

This is the first tariff application for Tallinna Vesi, which has been submitted based on the Competition Authority’s recommendatory methodology. Consequently, there are several key points in the tariff application that have required further discussions with the Competition Authority, who has reviewed the initial application and suggested several additions for it to meet all of the requirements. Therefore, it is still unclear, when the new tariffs will be approved.

Tallinna Vesi still awaiting the final verdict from the International Arbitration, on whether the investor’s interests have been adversely affected, and whether this should be compensated.

OPERATIONAL INDICATORS FOR THREE MONTHS OF 2018

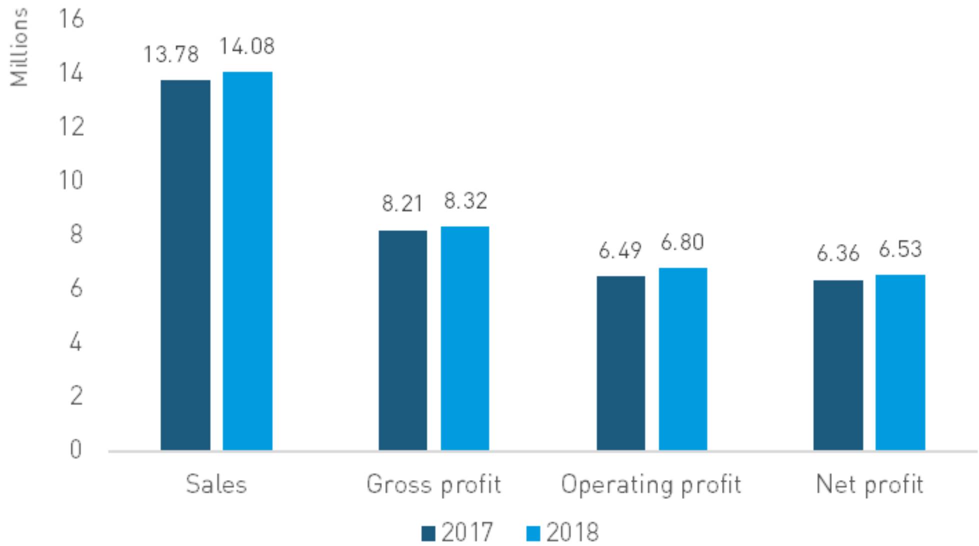
Indicator	Unit	2018	2017	2016
Compliance of water quality at the customers' tap	%	99.9	100.0	100.0
Water loss in the water distribution network	%	15.2	13.7	17.5
Average duration of water interruptions per property in hours	h	2.86	3.02	3.49
Number of sewer blockages	No	156	195	188
Number of sewer bursts	No	25	39	26
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Number of written complaints	No	21	9	11
Number of customer contacts regarding water quality	No	14	24	13
Number of customer contacts regarding water pressure	No	37	38	58
Number of customer contacts regarding blockages and discharge of storm water	No	250	269	300
Responding written customer contacts within at least 2 work days	%	100.0	99.9	98.1
Number of failed promises	No	3	3	0
Notification of unplanned water interruptions at least 1 h before the interruption	%	96.7	100.0	96.5

Karl Heino Brookes

Chairman of the Management Board

FINANCIAL HIGHLIGHTS FOR THE 1st QUARTER 2018

The Group's sales revenues during the 1st quarter of 2018 were EUR 14.08 million, being up by 2.1% or EUR 0.30 million compared to the same period in 2017.



The gross profit in the 1st quarter of 2018 was EUR 8.32 million, showing an increase of 1.4% or EUR 0.11 million. Increase in gross profit was mainly related to higher water, wastewater and storm water revenues, accompanied by lower electricity costs and depreciation. It was balanced by higher staff and chemicals costs.

The operating profit was EUR 6.80 million, showing an increase of 4.8% or EUR 0.31 million. In addition to the above-mentioned changes in gross profit, the operating profit was mainly impacted by lower tariff dispute related costs in the 1st quarter of 2018.

The net profit for the 1st quarter of 2018 was EUR 6.53 million, showing an increase by 2.7% or EUR 0.17 million. The net profit was mainly impacted by above mentioned changes in the operating profit, and by higher financial expenses. The changes in the financial expenses were mostly influenced by the lower positive change in the fair value of swap contracts in the 1st quarter of 2018 compared to the positive change in the same quarter of 2017. The net profit for the 1st quarter of 2018 and 2017 without the impact resulted from the change of the fair value of swap contracts was EUR 6.45 million and EUR 6.11 million respectively, being higher by 5.6% or EUR 0.34 million year-on-year.

MAIN FINANCIAL INDICATORS

EUR million, except key ratios	1st quarter 2018	2017	2016	Change 2018/2017
Sales	14.08	13.78	14.37	2.1%
Gross profit	8.32	8.21	8.34	1.4%
Gross profit margin %	59.10	59.56	58.02	-0.8%
Operating profit	6.80	6.49	6.63	4.8%
Operating profit - main business	6.73	6.48	6.55	3.9%
Operating profit margin %	48.29	47.07	46.15	2.6%
Profit before taxes	6.53	6.36	5.64	2.7%
Profit before taxes margin %	46.42	46.16	39.23	0.6%
Net profit	6.53	6.36	5.64	2.7%
Net profit margin %	46.42	46.16	39.23	0.6%
ROA %	2.83	2.94	2.65	-4.0%
Debt to total capital employed %	60.56	56.19	56.15	7.8%
ROE %	7.33	6.87	6.14	6.8%
Current ratio	6.98	5.46	5.79	27.8%

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Net profit margin – Net profit / Net sales

ROA – Net profit / Average Total assets for the period

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

ROE – Net profit / Average Total equity for the period

Current ratio – Current assets / Current liabilities

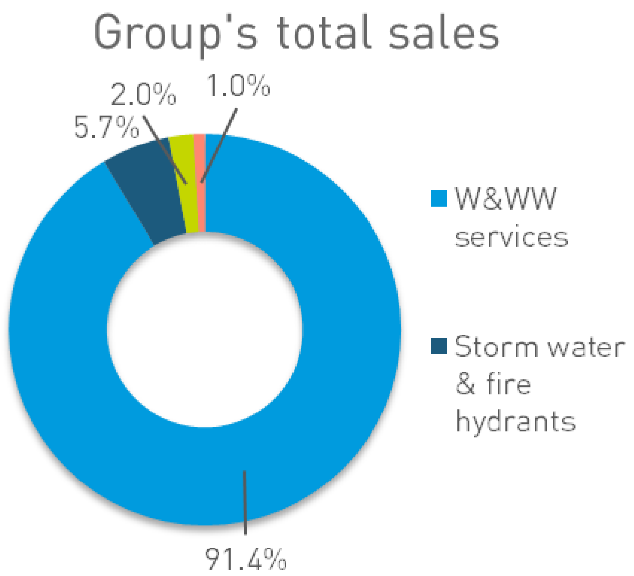
Main business – water and wastewater activities, excl. connections profit and government grants, construction, design and asphalting services, doubtful debt

FINANCIAL RESULTS FOR THE 1st QUARTER 2018

Statement of comprehensive income

SALES

As in the 1st quarter of 2018 the Company's tariffs were frozen at the 2010 tariff level, the changes in the main activities revenues, i.e. from sales of water and wastewater services, are fully driven by consumption with no considerable seasonality in the main business. In the future, the Company does not expect significant changes in the consumption. There has been incremental increase in consumption in the past and that is expected to continue.



At the end of 2017, the Supreme Court made a negative decision as regards to the Company's cassation as a result of which, the Company's tariffs will be regulated under the Competition Authority's methodology. On 28th February 2018 Company submitted its tariff application for Tallinn and Saue area to the Competition Authority. The tariffs applied for are similar to the water and waste water tariffs currently charged in the area. The Competition Authority had reviewed the tariff application and asked additional information, in order to the application to meet set requirements. The Company needs to submit the amended tariff application by 2nd May 2018. Competition Authority has up to 90 days to review the application starting from receiving the application, which meets all the requirements. The new tariffs that will be approved and applied in the area will be known after the full process is completed and Competition Authority has approved new tariffs.

In the 1st quarter of 2018 the **Group's total sales** were EUR 14.08 million, showing an increase by 2.1% or EUR 0.30 million year-on-year. 91.4% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.7% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 2.0% from construction and asphalting services and 1.0% from other works and services. The construction and asphalting services sales are more seasonal and the Company continues to seek possibilities to keep and to grow these services revenues.

	1st quarter			Variance 2018/2017	
EUR thousand	**2018**	**2017**	**2016**	**EUR**	**%**
Private clients, incl:	**6,428**	**6,347**	**6,338**	**81**	**1.3%**
Water supply service	3,532	3,489	3,485	43	1.2%
Waste water disposal service	2,896	2,858	2,853	38	1.3%
Corporate clients, incl:	**5,142**	**5,063**	**4,883**	**79**	**1.6%**
Water supply service	2,784	2,771	2,673	13	0.5%
Waste water disposal service	2,358	2,292	2,210	66	2.9%
Outside service area clients, incl:	**1,112**	**1,108**	**1,130**	**4**	**0.4%**
Water supply service	334	329	308	5	1.5%
Waste water disposal service	688	683	670	5	0.7%
Storm water disposal service	90	96	152	-6	-6.3%
Over pollution fee	**182**	**210**	**171**	**-28**	**-13.3%**
Total water supply and waste water disposal service	**12,864**	**12,728**	**12,522**	**136**	**1.1%**
Storm water treatment and disposal service and fire hydrants service	796	741	945	55	7.4%
Construction service, design and asphalting	283	181	761	102	56.4%
Other works and services	134	131	141	3	2.3%
SALES REVENUES TOTAL	**14,077**	**13,781**	**14,369**	**296**	**2.1%**

Sales from water and wastewater services were EUR 12.86 million, showing a 1.1% or EUR 0.14 million increase compared to the 1st quarter of 2017, resulting from the changes in sales volumes as described below:

- There has been an increase in **private customers'** revenues of 1.3% to EUR 6.43 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group. There was a slight decrease in an individual houses segment consumption.
- Sales to **corporate customers** within the service area increased by 1.6% to EUR 5.14 million. Increase was related to an increase in the sales of industrial and other commercial customer segments. At the same time the consumption of leisure sector customers decreased.
- Sales to **customers outside the main service area** increased by 0.4% to EUR 1.11 million. It was mainly impacted by a small increase in the sales of water supply and waste water disposal services, balanced by decrease in the sales of storm water disposal service.
- **Over pollution fees** received have decreased by 13.3% to EUR 0.18 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system amounted to EUR 0.80 million, showing an increase of 7.4% or EUR 0.05 million in the 1st quarter of 2018 compared to the same period in 2017, driven mainly by 14.5% higher storm water volumes.

Sales of construction, design and asphalting services were EUR 0.28 million, increasing by 56.4% or EUR 0.10 million year-on-year. The increase was related to higher pipe construction services revenues during the 1st quarter of 2018.

COST OF GOODS/ SERVICES SOLD AND GROSS PROFIT

The cost of goods sold amounted to EUR 5.78 million in the 1st quarter of 2018, increasing by 3.3% or EUR 0.18 million compared to the equivalent period in 2017. The increase was mainly influenced by increase in construction and asphalting services related costs, chemicals and staff costs, balanced by decrease in electricity and depreciation expenses.

	1st quarter			Variance 2018/2017	
EUR thousand	**2018**	**2017**	**2016**	**EUR**	**%**
Water abstraction charges	-291	-296	-291	5	1.7%
Chemicals	-435	-333	-342	-102	-30.6%
Electricity	-759	-854	-810	95	11.1%
Pollution tax	-277	-292	-336	15	5.1%
Total direct production costs	**-1,762**	**-1,775**	**-1,779**	**13**	**0.7%**
Staff costs	-1,593	-1,421	-1,418	-172	-12.1%
Depreciation and amortization	-1,283	-1,351	-1,431	68	5.0%
Construction service, design and asphalting	-241	-138	-675	-103	-74.6%
Other costs of goods/services sold	-878	-888	-729	10	1.1%
Other costs of goods/services sold total	**-3,995**	**-3,798**	**-4,253**	**-197**	**-5.2%**
Total cost of goods/services sold	**-5,757**	**-5,573**	**-6,032**	**-184**	**-3.3%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to EUR 1.76 million, showing a slight 0.7% or EUR 0.01 million decrease compared to the equivalent period in 2017. 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** decreased by 1.7% to EUR 0.29 million, driven mainly by overall 1.0% decrease in subtracted water volumes.
- **Chemicals** costs increased by 30.6% to EUR 0.44 million, driven by higher usage of methanol and coagulant to remove pollutants and 8.8% higher methanol price in the waste water treatment process, worth respectively EUR 0.05 million, EUR 0.02 million and EUR 0.02 million. Higher chemicals costs in wastewater treatment process were accompanied by higher dosage of coagulant in water treatment process due to poor raw water quality, worth EUR 0.01 million.
- **Electricity costs** decreased by 11.1% to EUR 0.76 million, driven by on average 13.7% lower electricity prices (including networks fees), worth EUR 0.12 million. Lower costs from prices were partly balanced by increase in treated waste water volumes, worth EUR 0.03 million.
- **Pollution tax expense** decreased by 5.1% to EUR 0.28 million, mainly due to lower pollution load of pollutants, balanced by 4.0% increase in treated waste water volumes, worth respectively EUR +0.03 million and EUR -0.01 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 3.99 million, having increased by 5.2% or EUR 0.20 million. The increase came mostly from staff and costs related to construction and asphalting services, balanced by decrease in depreciation costs. Staff costs increase by 12.1% to EUR 1.59 million was related to change of salaries from the beginning of the year for all employees based on CPI increase and higher workload during winter time, accompanied by redundancy payments related to structural changes made in the 1st quarter 2018 to increase efficiency in Company's processes. Increase in construction and asphalting services costs by 74.6% to EUR 0.24 million was related to an increase in construction and asphalting services revenues mentioned earlier and project specific changes. Decrease in depreciation by 5.0% to EUR 1.28 million was mainly related to lower cost of machinery and equipment depreciation year-on-year.

As a result of all above the **Group's gross profit** for the 1st quarter of 2018 was EUR 8.32 million, showing an increase of 1.4% or EUR 0.11 million, compared to the gross profit of EUR 8.21 million for the comparative period of 2017.

ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses amounted to EUR 1.49 million, having decreased by 10.6% or EUR 0.18 million. The decrease was mainly related to lower tariff dispute related costs.

OPERATING PROFIT

As a result of the factors listed above the Group's **operating profit** for the 1st quarter of 2018 amounted to EUR 6.80 million, being 4.8% or EUR 0.31 million higher than in the corresponding period of 2017. The Group's operating profit from main business was EUR 6.73 million, being 3.9% or EUR 0.25 million higher compared to 2017.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.26 million, compared to net expense of EUR 0.13 million in the 1st quarter of 2017. The increase was mainly impacted by a lower positive change in the fair value of the swap contracts year-on-year and lower interest costs, worth respectively EUR -0.17 million and EUR +0.03 million.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk. The interest swap agreements are signed for EUR 75 million and EUR 20 million are still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, amounting to EUR 0.67 million. Effective interest rate of loans (incl. swap interests) in the 1st quarter of 2018 was 1.46%, amounting to interest costs of EUR 0.35 million, compared to the effective interest rate of 1.60% and the interest costs of EUR 0.38 million in the 1st quarter of 2017.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's **profit before taxes** and **net profit** for the 1st quarter of 2018 were EUR 6.53 million, being 2.7% or EUR 0.17 million higher than for the 1st quarter of 2017. Eliminating the effects of the change of the fair value of swap contracts the Group's net profit for the 1st quarter of 2018 and 2017 would have been EUR 6.45 million and EUR 6.11 million respectively, showing an increase of 5.6% or EUR 0.34 million year-on-year.

STATEMENT OF FINANCIAL POSITION

In the three months of 2018 **the Group invested into fixed assets** EUR 0.85 million. As of 31.03.2018, non-current tangible assets amounted to EUR 173.90 million and total non-current assets amounted to EUR 174.70 million (31.03.2017: EUR 171.88 million and EUR 172.70 million respectively).

Compared to the year end of 2017 **the trade receivables, accrued income and prepaid expenses** have shown a decrease in the amount of EUR 1.03 million to EUR 6.68 million. Decrease mainly derives from lower trade receivables by EUR 1.24 million, being mainly impacted by construction activities. The collectability rate continues to be high at 99.8% level.

Current liabilities have decreased by EUR 1.14 million to EUR 8.51 million compared to the year end of 2017. Decrease mainly derives from decrease in trade and other payables by EUR 1.19 million, being related to lower payables related to pipe construction services and investments.

Deferred income from connection fees has grown compared to the end of 2017 by EUR 0.43 million to EUR 20.06 million.

Provision for possible third party claims has not changed compared to the end of 2017. At the end of 2017, the Company formed a provision of EUR 17.52 million for possible third-party claims as a result of the Supreme Court Decision from 12th December 2017. More detailed information about the provision is in Note 5 to the financial statements.

The Group's **loan balance** has remained stable at EUR 95 million. The weighted average interest risk margin for the total loan facility is 0.79%. At the end of September 2017, the Company refinanced its long-term loan in the amount of EUR 37.5 million.

The Group has a **Total debt to assets** level of 60.6%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2017 the total debt to assets ratio was 56.2%.

CASH FLOW

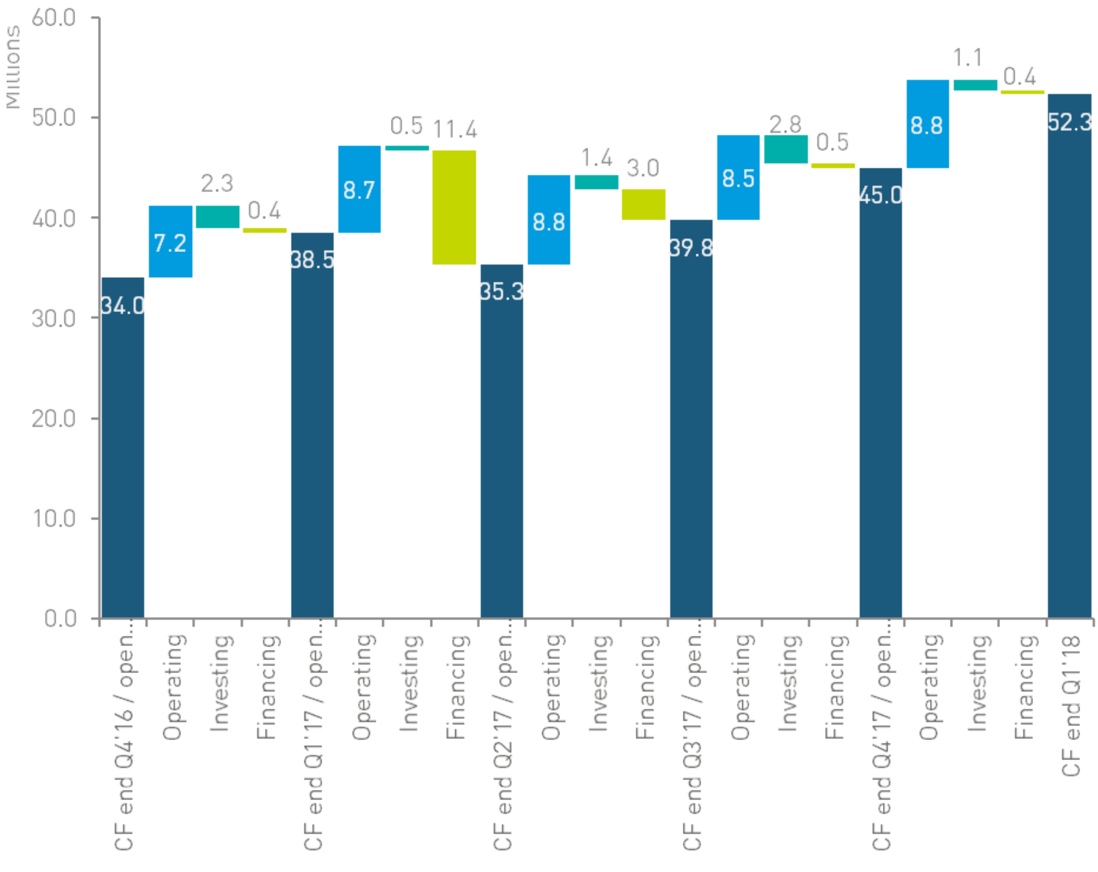
As of 31.03.2018, the cash position of the Group is strong. At the end of March 2018, the cash balance of the Group stood at EUR 52.31 million, which is 22.3% of the total assets (31.03.2017: EUR 38.51 million, forming 17.6% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the three months of 2018, the Group generated EUR 8.80 million of **cash flows from operating activities**, an increase of EUR 1.59 million compared to the corresponding period in 2017. Underlying operating profit continues to be the main contributor to operating cash flows.

In the three months of 2018 the result of **net cash flows from investing activities** was a cash outflow of EUR 1.05 million, a decrease of EUR 1.22 million compared to the cash outflow of EUR 2.27 million in the three months of 2017. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by EUR 1.51 million compared to 2017 amounting to EUR 1.66 million.
- The compensations received for the construction of pipelines were EUR 0.59 million, showing a decrease of EUR 0.30 million compared to the same period of 2017.

In the three months of 2018 **cash outflow from financing activities** amounted to EUR 0.42 million, being at the same level compared to the same period in 2017.



EMPLOYEES

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

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

At the end of the 1st quarter of 2018, the total number of employees was 315 compared to 312 at the end of the 1st quarter of 2017. The full time equivalent (FTE) was respectively 301 in 2018 compared to the 303 in 2017. Average number of employees (FTE) during the three months was respectively 299 in 2018 and 301 in 2018.

By gender, employee allocation was as follows:

	As of 31.03.2018			As of 31.03.2017		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Group	**96**	**219**	**315**	**87**	**225**	**312**
Management Team	14	13	27	12	13	25
Executive Team	4	4	8	4	4	8
Management Board	1	2	3	1	2	3
Supervisory Board	0	9	9	0	9	9

The total salary costs were EUR 2.25 million for the 1st quarter of 2018, including EUR 0.08 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could rise up to EUR 0.09 million should the Council want to replace the current Management Board members.

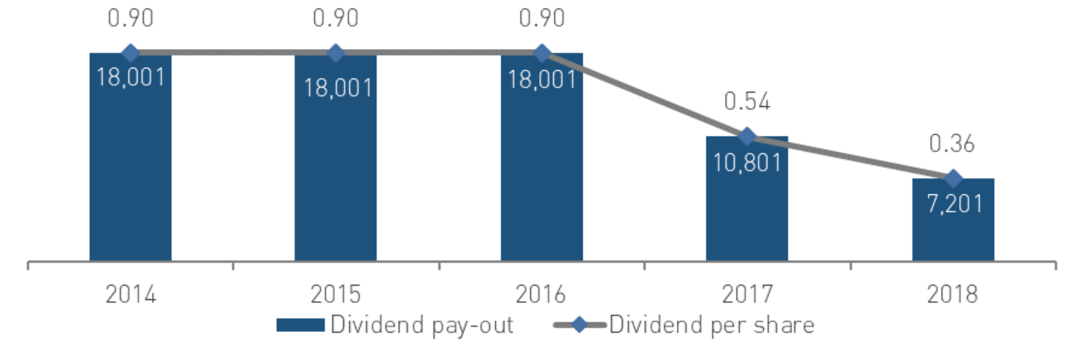
DIVIDENDS

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

The Company's dividend policy up to 2017 was related to keeping the dividends in real term i.e. dividends amounts have been increased in line with inflation. Every year the Supervisory Council evaluates the proposal of the dividends to be paid out to the shareholders and approves it to be presented to the voting to the Annual General Meeting of shareholders, considering all circumstances. The Supervisory Council decided in its meeting held on 26th April 2018 to make a proposal to Annual General Meeting to pay out EUR 0.36 per A share and 600 EUR per B share from the 2017 profits. The pay-out is equal to earnings per share in 2017.

The Annual General Meeting of shareholders will be held on 31st May 2018.

Dividends will be paid out in June 2018. Dividend pay-outs in last five years have been as follows:



SHARE PERFORMANCE

AS Tallinna Vesi is listed on NASDAQ OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31.03.2018, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

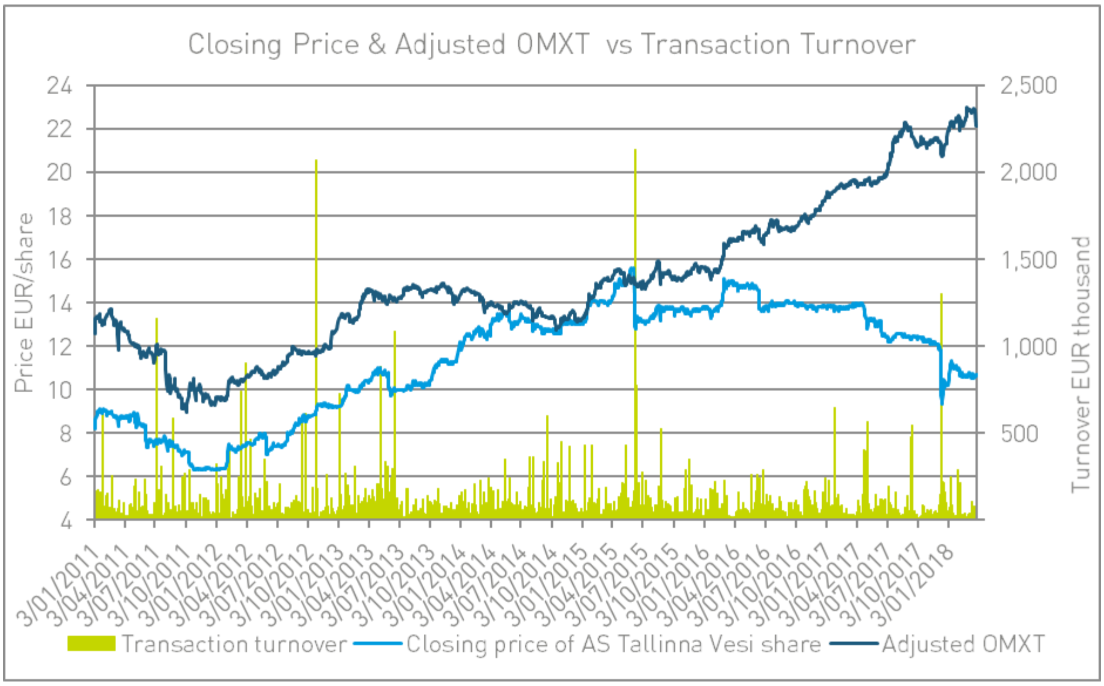
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the three months of 2018 the shareholder structure has been relatively stable compared to the end of 2017. At the end of 1st quarter 2018 the pension funds shareholding has decreased slightly, being 1.37% of the total shares compared to 1.43% at the end of 2017.

As of 31.03.2018, the closing price of AS Tallinna Vesi share was EUR 10.70, which is 4.9% (2017: +1.4%) higher compared to the closing price of EUR 10.20 at the beginning of the quarter. During the 1st quarter the OMX Tallinn index increased by 2.2% (2017: 4.3%).

In the three months of 2018, 1,325 deals with the Company's shares were concluded (2017: 1,784 deals) during which 260 thousand shares or 1.3% of total shares exchanged their owners (2017: 246 thousand shares or 1.2%).

The turnover of the transactions was EUR 581 thousand lower than in 2017, amounting to EUR 2.81 million.



CORPORATE STRUCTURE

As of 31.03.2018, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

CORPORATE GOVERNANCE

SUPERVISORY COUNCIL

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members, who are appointed for two years. Changes in the Supervisory Council members in the 1st quarter of 2018 were as follows: Mr Steven Fraser term as a Supervisory Council member expired on 21st January 2018 and a new Supervisory Council member Mr Keith Haslett was nominated (term valid until 22.01.2020).

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

More information about the Supervisory Council and committees can be found in the note 14 to the financial statements as well as from the Company's webpage:

About us > Management board > Supervisory council

About us > Audit committee

About us > Principles of governance > Corporate governance report

MANAGEMENT BOARD

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

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

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

Starting from 2nd of June 2014 there are 3 members of the Management Board of AS Tallinna Vesi: Karl Heino Brookes (Chairman of the Board, with the powers of the Management Board Member until 21st March 2020), Aleksandr Timofejev (with the powers of the Management Board Member until 29th October 2018) and Riina Käi (with the powers of the Management Board Member until 29th October 2018).

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

About us > Management board

LEGAL CLAIM FOR BREACH OF INTERNATIONAL TREATY

In May 2014, the Supervisory Council of the Company gave notice of potential international arbitration proceedings against the Republic of Estonia for breaching the undertakings it is required to abide by in the bilateral investment treaty.

In October 2014 AS Tallinna Vesi and its shareholder United Utilities (Tallinn) B.V have commenced international arbitration proceedings against the Republic of Estonia for breach of the Agreement on the Encouragement and Reciprocal Protection of Investments between the Kingdom of The Netherlands and the Republic of Estonia.

The claim was filed as three years of intensive negotiation to try and reach an amicable settlement that has not happened.

The hearings of international arbitration took place in Paris in November 2016 and the decision is expected in 1st half of 2018.

Additional details related with the claim can be found via the following links:

https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=609264&messageId=754811

https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=627851&messageId=779161

DISCLOSURE OF RELEVANT PAPERS AND PERSPECTIVES

The Company will keep the investment community informed of all relevant developments of the tariff dispute. AS Tallinna Vesi has published all relevant materials on its website (https://tallinnavesi.ee/en/investor/stock-announcements/) and to the Tallinn Stock Exchange.

Additional information:

Karl Heino Brookes

Chairman of the Management Board

+372 62 62 200

karl.brookes@tvesi.ee

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 3 months period of financial year 2018 ended 31 March 2018. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 2018 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a fair presentation of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim report gives a fair presentation of the main events that occurred during the 3 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 9 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 26 April 2018 have been considered in preparing the financial statements.

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

Karl Heino Brookes
Chairman of the Management Board
Chief Executive Officer

Aleksandr Timofejev
Member of the Management Board
Chief Operating Officer

Riina Käi
Member of the Management Board
Chief Financial Officer

26 April 2018

Introduction and photos of the Management Board members are published at company's web page.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Management-Board

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

		as of 31 March		as of 31 December
ASSETS	Note	2018	2017	2017
CURRENT ASSETS				
Cash and cash equivalents	2	52 306	38 514	44 973
Trade receivables, accrued income and prepaid expenses		6 685	6 911	7 716
Inventories		436	456	457
TOTAL CURRENT ASSETS		59 427	45 881	53 146
NON-CURRENT ASSETS				
Property, plant and equipment	3	173 902	171 881	174 451
Intangible assets	4	797	819	811
TOTAL NON-CURRENT ASSETS		174 699	172 700	175 262
TOTAL ASSETS		234 126	218 581	228 408
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		345	245	264
Trade and other payables		5 011	5 129	6 200
Derivatives		452	612	578
Prepayments		2 702	2 423	2 609
TOTAL CURRENT LIABILITIES		8 510	8 409	9 651
NON-CURRENT LIABILITIES				
Deferred income from connection fees		20 058	18 170	19 632
Borrowings		95 423	95 771	95 565
Derivatives		219	459	178
Provision for possible third party claims	5	17 522	0	17 522
Other payables		44	15	44
TOTAL NON-CURRENT LIABILITIES		133 266	114 415	132 941
TOTAL LIABILITIES		141 776	122 824	142 592
EQUITY				
Share capital		12 000	12 000	12 000
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		54 338	57 745	47 804
TOTAL EQUITY		92 350	95 757	85 816
TOTAL LIABILITIES AND EQUITY		234 126	218 581	228 408

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

	Note	Quarter 1 2018	Quarter 1 2017	for the year ended 31 December 2017
Revenue	6	14 077	13 781	59 815
Cost of goods/services sold	8	-5 757	-5 573	-25 725
GROSS PROFIT		8 320	8 208	34 090
Marketing expenses	8	-112	-100	-356
General administration expenses	8	-1 379	-1 566	-5 028
Other income (+)/expenses (-)	9	-31	-55	-17 841
OPERATING PROFIT (+)/LOSS (-)		6 798	6 487	10 865
Interest income	10	4	4	15
Interest expense	10	-348	-380	-1 502
Other financial income (+)/expenses (-)	10	80	250	543
PROFIT (+)/LOSS (-) BEFORE TAXES		6 534	6 361	9 921
Income tax on dividends	11	0	0	-2 700
NET PROFIT (+)/LOSS (-) FOR THE PERIOD		6 534	6 361	7 221
COMPREHENSIVE INCOME (+)/LOSS (-) FOR THE PERIOD		6 534	6 361	7 221
Attributable profit (+)/loss(-) to:		0	0	0
Equity holders of A-shares		6 533	6 360	7 220
B-share holder		0,60	0,60	0,60
Earnings per A share (in euros)	12	0,33	0,32	0,36
Earnings per B share (in euros)	12	600	600	600

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements.

CONSOLIDATED CASH FLOWS STATEMENT

(EUR thousand)

	Note	2018	3 months 2017	for the year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		6 798	6 487	10 865
Adjustment for depreciation/amortisation	3,4,8,9	1 423	1 497	6 170
Adjustment for revenues from connection fees	9	-69	-61	-258
Other non-cash adjustments		-5	0	-26
Profit (-)/loss (+) from sale and write off of property, plant and equipment, and intangible assets		-1	-4	-12
Change in current assets involved in operating activities		1 035	249	-558
Change in liabilities involved in operating activities		-376	-951	17 064
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		8 805	7 217	33 245
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-1 660	-3 167	-9 761
Compensations received for construction of pipelines		589	872	2 698
Proceeds from sale of property, plant and equipment, and intangible assets		15	21	62
Interest received		4	4	15
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-1 052	-2 270	-6 986
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-355	-341	-1 512
Repayment of finance lease		-65	-79	-260
Received loans		0	0	37 500
Repayment of loans		0	0	-37 500
Dividends paid	11	0	0	-10 801
Income tax on dividends	11	0	0	-2 700
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-420	-420	-15 273
CHANGE IN CASH AND CASH EQUIVALENTS		7 333	4 527	10 986
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	44 973	33 987	33 987
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	52 306	38 514	44 973

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR thousand)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2016	12 000	24 734	1 278	51 384	89 396
Dividends	0	0	0	-10 801	-10 801
Comprehensive income for the period	0	0	0	7 221	7 221
as of 31 December 2017	12 000	24 734	1 278	47 804	85 816
as of 31 December 2016	12 000	24 734	1 278	51 384	89 396
Dividends	0	0	0	0	0
Comprehensive income for the period	0	0	0	6 361	6 361
as of 31 March 2017	12 000	24 734	1 278	57 745	95 757
as of 31 December 2017	12 000	24 734	1 278	47 804	85 816
Dividends	0	0	0	0	0
Comprehensive income for the period	0	0	0	6 534	6 534
as of 31 March 2018	12 000	24 734	1 278	54 338	92 350

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements.

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

(EUR thousand)

NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by the EU. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 March		as of 31 December
	2018	2017	2017
Cash in hand and in bank	33 731	25 124	29 871
Short-term deposits	18 575	13 390	15 102
Total cash and cash equivalents	52 306	38 514	44 973

(EUR thousand)

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Total property, plant and equipment
as of 31 December 2016						
Acquisition cost	26 134	199 921	47 297	1 104	3 402	277 858
Accumulated depreciation	-6 545	-65 527	-33 816	-793	0	-106 681
Net book value	19 589	134 394	13 481	311	3 402	171 177
Transactions in the period 01 January 2017 - 31 December 2017						
Acquisition in book value	0	0	0	0	9 222	9 222
Write off and sale of property, plant and equipment in residual value	0	-5	-37	0	-7	-49
Reclassification	283	8 223	1 624	71	-10 201	0
Depreciation	-286	-3 189	-2 349	-75	0	-5 899
as of 31 December 2017						
Acquisition cost	26 415	207 666	48 279	1 157	2 416	285 933
Accumulated depreciation	-6 829	-68 243	-35 560	-850	0	-111 482
Net book value	19 586	139 423	12 719	307	2 416	174 451
Transactions in the period 01 January 2018 - 31 March 2018						
Acquisition in book value	0	0	0	0	818	818
Write off and sale of property, plant and equipment in residual value	-12	-2	-4	0	0	-18
Reclassification	62	649	63	0	-749	25
Depreciation	-73	-736	-544	-21	0	-1 374
as of 31 March 2018						
Acquisition cost	26 461	208 315	48 232	1 157	2 485	286 650
Accumulated depreciation	-6 898	-68 981	-35 998	-871	0	-112 748
Net book value	19 563	139 334	12 234	286	2 485	173 902

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

As of 31 March 2018 the book value of the assets (Machinery and equipment) leased under financial lease is 891 thousand euros (31 December 2017: 948 thousand euros).

(EUR thousand)

NOTE 4. INTANGIBLE ASSETS

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2016			
Acquisition cost	5 313	255	5 568
Accumulated depreciation	-4 738	0	-4 738
Net book value	575	255	830
Transactions in the period 01 January 2017 - 31 December 2017			
Acquisition in book value	0	252	252
Reclassification	117	-117	0
Depreciation	-271	0	-271
as of 31 December 2017			
Acquisition cost	5 247	390	5 637
Accumulated depreciation	-4 826	0	-4 826
Net book value	421	390	811
Transactions in the period 01 January 2018 - 31 March 2018			
Acquisition in book value	0	35	35
Depreciation	-49	0	-49
as of 31 March 2018			
Acquisition cost	5 247	425	5 672
Accumulated depreciation	-4 875	0	-4 875
Net book value	372	425	797

NOTE 5. PROVISION FOR POSSIBLE THIRD PARTY CLAIMS

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

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

The potential undiscounted payments by the Company in the future, if customer claims are to be recognised by the courts, amounts to EUR 44 million (EUR 44 million as of 31st December 2017). This estimate marks the maximum difference between the tariffs established by the City of Tallinn and those tariff as estimated by the Company based on our current best understanding of the Competition Authority's methodology over the last three years.

The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be EUR 17.5 million. If such liability materialises, the Company may seek to increase its damages claim against the Republic of Estonia in the ongoing ICSID arbitration, or initiating a new ICSID arbitration. The Company will monitor the situation and thus may adjust the relevant provision on the rolling basis.

(EUR thousand)

NOTE 6. REVENUE

	Quarter 1		for the year ended 31 December
	2018	2017	2017
Revenues from main operating activities			
Total water supply and waste water disposal service, incl:	12 864	12 728	51 237
Private clients, incl:	6 428	6 347	25 225
Water supply service	3 532	3 489	13 872
Wastewater disposal service	2 896	2 858	11 353
Corporate clients, incl:	5 142	5 063	20 407
Water supply service	2 784	2 771	11 210
Wastewater disposal service	2 358	2 292	9 197
Outside service area clients, incl:	1 112	1 108	4 678
Water supply service	334	329	1 346
Wastewater disposal service	688	683	2 833
Storm water disposal service	90	96	499
Over pollution fee	182	210	927
Storm water treatment and disposal service and fire hydrants service	796	741	3 668
Construction service, design and asphalting	283	181	4 287
Other works and services	134	131	623
Total revenue	14 077	13 781	59 815

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

NOTE 7. STAFF COSTS

	Quarter 1		for the year ended 31 December
	2018	2017	2017
Salaries and wages	-1 678	-1 531	-6 051
Social security and unemployment insurance taxation	-567	-518	-2 046
Staff costs total	-2 245	-2 049	-8 097
Average number of employees during the reporting period	315	312	316

(EUR thousand)

NOTE 8. COST OF GOODS/SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

	Quarter 1		for the year ended 31 December
	2018	2017	2017
Cost of goods/services sold			
Water abstraction charges	-291	-296	-1 168
Chemicals	-435	-333	-1 501
Electricity	-759	-854	-3 193
Pollution tax	-277	-292	-1 100
Staff costs	-1 593	-1 421	-5 784
Depreciation and amortization	-1 283	-1 351	-5 577
Construction service, design and asphalting	-241	-138	-3 638
Other costs	-878	-888	-3 764
Total cost of goods/services sold	-5 757	-5 573	-25 725
Marketing expenses			
Staff costs	-94	-91	-301
Depreciation and amortization	0	0	-1
Other marketing expenses	-18	-9	-54
Total marketing expenses	-112	-100	-356
Administrative expenses			
Staff costs	-558	-537	-2 012
Depreciation and amortization	-77	-90	-355
Other general administration expenses	-744	-939	-2 661
Total administrative expenses	-1 379	-1 566	-5 028

NOTE 9. OTHER INCOME/EXPENSES

	Quarter 1		for the year ended 31 December
	2018	2017	2017
Connection fees	69	61	258
Depreciation of single connections	-63	-56	-237
Doubtful receivables expenses (-)/ expense reduction (+)	26	-31	-20
Provision for possible third party claims (Note 5)	0	0	-17 522
Other income (+)/expenses (-)	-63	-29	-320
Total other income / expenses	-31	-55	-17 841

(EUR thousand)

NOTE 10. FINANCIAL INCOME AND EXPENSES

	Quarter 1		for the year ended 31 December
	2018	2017	2017
Interest income	4	4	15
Interest expense, loan	-188	-226	-865
Interest expense, swap	-160	-154	-637
Increase (+)/decrease (-) of fair value of swap	85	254	569
Other financial income (+)/expenses (-)	-5	-4	-26
Total financial income / expenses	-264	-126	-944

NOTE 11. DIVIDENDS

	for the year ended 31 December 2017
Dividends declared during the period	10 801
Dividends paid during the period	10 801
Income tax on dividends paid	-2 700
Income tax accounted for	-2 700

Dividend income tax rate in 2018 is 20/80 (in 2017: 20/80).

Paid-up dividends per shares:	
Dividends per A-share (in euros)	0,54
Dividends per B-share (in euros)	600

NOTE 12. EARNINGS PER SHARE

	Quarter 1		for the year ended 31 December
	2018	2017	2017
Net profit (+)/loss (-) minus B-share preferred dividend rights	6 533	6 360	7 220
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,33	0,32	0,36
Earnings per B share (in euros)	600	600	600

Diluted earnings per share for the periods ended 31 March 2018 and 2017 and 31 December 2017 was equal to earnings per share figures stated above.

(EUR thousand)

NOTE 13. RELATED PARTIES

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

Shareholders having the significant influence

	as of 31 March		as of 31 December
Balances recorded on the statement of financial position of the Group	2018	2017	2017
Accounts receivable	3	3	500
Trade and other payables	185	190	184

	Quarter 1		for the year ended 31 December
Transactions	2018	2017	2017
Revenue	796	741	3 668
Purchase of administrative and consulting services	254	257	1 008
Fees for Management Board (excluding social tax)	72	69	182
Supervisory Board fees (excluding social tax)	8	8	32

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

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

In the first 3 months of 2018 and throughout the year ending on 31 December 2017, no termination payments were paid to any of the Management Board members. The off balance sheet potential salary liability would be up to 90 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

As of 31 March 2018 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 31 March and 31 December 2017: Riina Käi owned 100 shares).

NOTE 14. LIST OF SUPERVISORY BOARD MEMBERS

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

Introduction of Supervisory Board members is published at company's web page.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board