AS TALLINNA VESI

Consolidated Interim Report for the 2nd quarter of 2018

27th July 2018

Currency	Thousand euros
Start of reporting period	1 January 2018
End of reporting period	30 June 2018
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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Chairman´s summary

In the 2nd quarter of 2018, AS Tallinna Vesi once again achieved consistently good financial results, as well as excellent operational performance.

Financial performance

The Group's total sales during the 2nd quarter of 2018 increased by 8.5% to EUR 15.98 million. We have seen an increase in sales volumes and sales from construction services were also higher. The sales were higher due to the dryer weather and temporary increase in several industrial consumers' consumption. Sales to private customers increased by 1.8%, and sales to corporate customers by 6.4%.

Group's net profit was EUR 5.47 million, showing an increase by 28.3% year-on-year. The net profit was mainly impacted by lower income tax costs, related to a reduced dividend payment.

Excellent operational results

The quality of drinking water remained excellent in the 2nd quarter of 2018. Water samples taken from customers' taps were 100% compliant with all requirements. We are also pleased to see that the average water disruption time to individual properties remained at a high level, being 3 hours 17 minutes in the 2nd quarter of 2018.

The level of leakages in the water network continues to be low. Although 13.00% in the 2nd quarter of 2018 is slightly higher than the result for the same period previous year, this is still an excellent result.

In the 2nd quarter we reviewed our promises to customers, which are to deliver high-quality water, keep the environment safe, respond to our customers´ requests quickly, be accurate in billing and keep to our agreements. In case we fail to keep those promises, we pay compensation to the customer on our own initiative.

A research agency Kantar Emor conducts regular customer satisfaction surveys for AS Tallinna Vesi. In the 2nd quarter, the customer satisfaction index reached 4.1 points on a 5-point scale.

The issues with the sewerage network have reduced, and the number of sewer blockages dropped 25% from 393 in the first six months of 2017 to 295 in 2018. AS Tallinna Vesi continues to improve public awareness about sewer-related issues, to reduce the volume of domestic waste ending up in the sewerage network.

In the 2nd quarter of 2018, the treated effluent at Paljassaare Wastewater Treatment Plant was compliant with all stipulated quality requirements.

Awarded achievements

We are proud of high standards in everything we do. Once again, we have been awarded the highest i.e. a Gold Level mark in the Responsible Business Index. Achieving such a good result in a nationally recognised index demonstrates our systematic approach to the CSR matters.

In a study carried out by research agency Kantar Emor, Tallinna Vesi was often named by people as the most preferred employer in Estonia. We hope that it encourages more young people to choose to get an education in one of the fields that are essential for a water-company.

The Company was also recognised for its engineering project and was awarded with a Ground Engineering Award in the category of "Best international project" for reconstruction of Tihase collector. We would like to thank our partners, especially those from United Utilities and Lemmikäinen Eesti AS. Great cooperation between the partners is fundamental to the success of such a complicated project.

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 2018, 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.

For Tallinna Vesi this is the first tariff application, which has been submitted based on the Competition Authority's recommended methodology. The approval process is ongoing, and it is still unclear, when the new tariffs would be approved.

Tallinna Vesi is 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 SIX MONTHS OF 2018

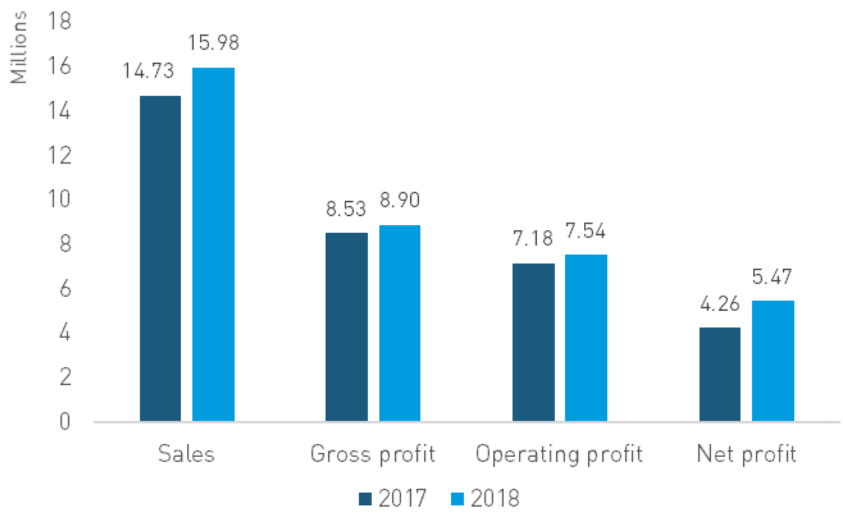
Indicator	Unit	2018	2017	2016
Compliance of water quality at the customers' tap	%	99.9	99.9	99.9
Losses in the water distribution network	%	14.1	13.3	16.2
Average duration of water interruptions per property	h	3.28	3.25	3.54
Sewer blockages	No	295	393	367
Sewer bursts	No	50	72	52
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Written complaints	No	69	17	21
Customer contacts regarding water quality	No	101	70	48
Customer contacts regarding water pressure	No	183	146	157
Customer contacts regarding blockages and discharge of storm water	No	516	539	569
Responding written customer contacts within at least 2 work days	%	100.0	100.0	99.1
Failed promises	No	31	3	2
Notification of unplanned water interruptions at least 1 h before the	%	94.4	100.0	97.9

Karl Heino Brookes

Chairman of the Management Board

FINANCIAL HIGHLIGHTS FOR THE 2nd QUARTER 2018

The Group's sales revenues during the 2nd quarter of 2018 were EUR 15.98 million, being up by 8.5% or EUR 1.25 million compared to the same period in 2017.



The gross profit in the 2nd quarter of 2018 was EUR 8.90 million, showing an increase of 4.3% or EUR 0.37 million. Increase in gross profit was related to higher water and wastewater revenues, accompanied by higher construction services related profit and lower electricity costs and depreciation. It was balanced by higher staff and asset maintenance costs.

The operating profit was EUR 7.54 million, showing an increase of 4.9% or EUR 0.36 million, being mainly affected by above-mentioned changes in gross profit.

The net profit for the 2nd quarter of 2018 was EUR 5.47 million, showing an increase by 28.3% or EUR 1.21 million. The net profit was mainly impacted by lower dividend related income tax cost, accompanied by above mentioned changes in the operating profit and by slightly 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 2nd quarter of 2018 compared to the positive change in the same quarter of 2017. The net profit for the 2nd quarter of 2018 and 2017 without the impact resulted from the change of the fair value of swap contracts was EUR 5.39 million and EUR 4.10 million respectively, being higher by 31.3% or EUR 1.29 million year-on-year.

MAIN FINANCIAL INDICATORS

EUR million, except key ratios	2nd quarter 2018	2017	2016	Change 2018/2017	6 months 2018	2017	2016	Change 2018/2017
Sales	15.98	14.73	14.50	8.5%	30.06	28.51	28.87	5.4%
Gross profit	8.90	8.53	8.30	4.3%	17.22	16.73	16.64	2.9%
Gross profit margin %	55.68	57.89	57.27	-3.8%	57.29	58.70	57.64	-2.4%
Operating profit	7.54	7.18	5.84	4.9%	14.34	13.67	12.47	4.9%
Operating profit - main business	7.35	7.06	5.69	4.2%	14.08	13.53	12.23	4.1%
Operating profit margin %	47.18	48.78	40.29	-3.3%	47.70	47.95	43.21	-0.5%
Profit before taxes	7.27	6.96	5.27	4.4%	13.80	13.32	10.91	3.6%
Profit before taxes margin %	45.47	47.25	36.38	-3.8%	45.91	46.72	37.80	-1.7%
Net profit	5.47	4.26	0.77	28.3%	12.00	10.62	6.41	13.0%
Net profit margin %	34.20	28.92	5.34	18.3%	39.92	37.25	22.21	7.2%
ROA %	2.32	1.96	0.37	18.3%	5.16	4.95	3.10	4.3%
Debt to total capital employed %	61.64	58.54	62.06	6.0%	61.64	58.54	62.06	5.3%
ROE %	5.97	4.61	0.90	29.7%	13.60	11.89	7.70	14.4%
Current ratio	5.00	3.70	2.63	35.1%	5.00	3.70	2.63	35.1%
Quick ratio	4.96	3.65	2.60	35.9%	4.96	3.65	2.60	35.9%
Investments into fixed assets	2.21	1.30	3.73	70.2%	3.07	3.51	5.73	-12.6%
Payout ratio %*	na	99.72	58.73	na	na	99.72	58.73	na

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

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

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

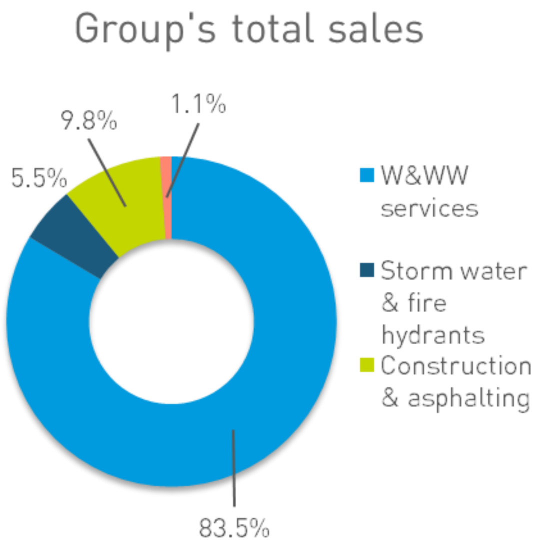
Main business – water and wastewater activities, excl. connections profit and government grants, construction, design and asphalting services, doubtful debt

FINANCIAL RESULTS FOR THE 2nd QUARTER 2018

Statement of comprehensive income

SALES

As in the 2nd 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 (CA) methodology. On 28th February 2018 Company submitted its tariff application for Tallinn and Saue area to the CA. The tariffs applied for were similar to the water and wastewater tariffs currently charged in the area. The amended tariff application was submitted on 2nd of May 2018. From 4th of May the CA started the tariff application review process and has asked for additional information during the 2nd quarter from the Company, who has responded to all the questions on time. On 13th of July the CA started administrative procedure as regards to tariff application and has given time to respond the letter by 13th of August 2018. Also the CA informed the Company that they have extended the tariff application from 30 days to 90 days starting from receiving the application, which meets all the requirements as the application is complicated to review the application. Currently CA has spent 21 days for their procedures to deal with the tariff application. 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 2nd quarter of 2018 the **Group's total sales** were EUR 15.98 million, showing an increase by 8.5% or EUR 1.25 million year-on-year. 83.5% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.5% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 9.8% from construction and asphalting services and 1.1% 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.

	2nd quarter			Variance 2018/2017	
EUR thousand	**2018**	**2017**	**2016**	**EUR**	**%**
Private clients, incl:	**6,427**	**6,313**	**6,200**	**114**	**1.8%**
Water supply service	3,547	3,470	3,410	77	2.2%
Wastewater disposal service	2,880	2,843	2,790	37	1.3%
Corporate clients, incl:	**5,525**	**5,193**	**5,070**	**332**	**6.4%**
Water supply service	3,083	2,877	2,831	206	7.2%
Wastewater disposal service	2,442	2,316	2,239	126	5.4%
Outside service area clients, incl:	**1,181**	**1,102**	**1,101**	**79**	**7.2%**
Water supply service	370	339	346	31	9.1%
Wastewater disposal service	733	692	686	41	5.9%
Storm water disposal service	78	71	69	7	9.9%
Over pollution fee	**216**	**258**	**211**	**-42**	**-16.3%**
Total water supply and wastewater disposal service	**13,349**	**12,866**	**12,582**	**483**	**3.8%**
Storm water treatment and disposal and fire hydrants service	881	839	924	42	5.0%
Construction service, design and asphalting	1,569	864	827	705	81.6%
Other works and services	180	159	164	21	13.2%
SALES REVENUES TOTAL	**15,979**	**14,728**	**14,497**	**1,251**	**8.5%**

Sales from water and wastewater services were EUR 13.35 million, showing a 3.8% or EUR 0.48 million increase compared to the 2nd quarter of 2017, resulting from the changes in sales volumes as described below:

- There has been an increase in **private customers'** revenues of 1.8% 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, accompanied by increase in an individual houses segment water consumption as the spring has been very dry.
- Sales to **corporate customers** within the service area increased by 6.4% to EUR 5.52 million. Increase was related to higher consumption in the sales of industrial and other commercial customer segments caused by one-time higher consumptions.
- Sales to **customers outside the main service area** increased by 7.2% to EUR 1.18 million. It was mainly impacted by an increase in the sales of water supply and wastewater disposal services to different surrounding areas.
- **Over pollution fees** received have decreased by 16.3% to EUR 0.22 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system amounted to EUR 0.88 million, showing an increase of 5.0% or EUR 0.04 million in the 2nd quarter of 2018 compared to the same period in 2017, driven mainly by 3.5% higher storm water volumes.

Sales of construction, design and asphalting services were EUR 1.57 million, increasing by 81.6% or EUR 0.71 million year-on-year. The increase was mainly related to higher pipe construction services revenues during the 2nd quarter of 2018.

COST OF GOODS/ SERVICES SOLD AND GROSS PROFIT

The cost of goods sold amounted to EUR 7.08 million in the 2nd quarter of 2018, increasing by 14.2% or EUR 0.88 million compared to the equivalent period in 2017. The increase was mainly influenced by increase in construction and asphalting services related costs, staff and asset maintenance costs, balanced by decrease in electricity and depreciation expenses.

	2nd quarter			Variance 2018/2017	
EUR thousand	**2018**	**2017**	**2016**	**EUR**	**%**
Water abstraction charges	-303	-292	-283	-11	-3.8%
Chemicals	-346	-352	-285	6	1.7%
Electricity	-698	-777	-728	79	10.2%
Pollution tax	-233	-201	-235	-32	-15.9%
Total direct production costs	**-1,580**	**-1,622**	**-1,531**	**42**	**2.6%**
Staff costs	-1,631	-1,479	-1,470	-152	-10.3%
Depreciation and amortization	-1,268	-1,360	-1,591	92	6.8%
Construction service, design and asphalting	-1,359	-735	-675	-624	-84.9%
Other costs of goods/services sold	-1,244	-1,006	-928	-238	-23.7%
Other costs of goods/services sold total	**-5,502**	**-4,580**	**-4,664**	**-922**	**-20.1%**
Total cost of goods/services sold	**-7,082**	**-6,202**	**-6,195**	**-880**	**-14.2%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to EUR 1.58 million, showing a 2.6% or EUR 0.04 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** increased by 3.8% to EUR 0.30 million, driven mainly by overall 3.5% increase in abstracted water volumes.
- **Chemicals** costs decreased slightly by 1.7% to EUR 0.35 million, driven by lower usage of methanol and coagulant to remove pollutants, balanced by higher usage of polymers to remove sludge in the wastewater treatment process, worth respectively EUR +0.01 million, EUR +0.02 million and EUR -0.01 million. Lower chemicals costs in wastewater treatment process were balanced by higher dosage of coagulant and chlorine in water treatment process due to poor raw water quality and higher prices of chlorine and coagulant, worth respectively both EUR -0.01 million.
- **Electricity costs** decreased by 10.2% to EUR 0.70 million, driven by on average 12.8% lower electricity prices (including networks fees), worth EUR 0.11 million. Lower costs from prices were partly balanced by increase in treated volumes in water and wastewater processes, worth EUR 0.03 million.
- **Pollution tax expense** increased by 15.9% to EUR 0.23 million, mainly due to higher pollution load of pollutants and by 2.9% increase in treated wastewater volumes, worth respectively EUR -0.02 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 5.50 million, having increased by 20.1% or EUR 0.92 million. The increase came mostly from costs related to construction and asphalting services, accompanied by higher staff and maintenance costs and balanced by decrease in depreciation costs. Increase in construction and asphalting services costs by 84.9% to EUR 1.36 million was related to higher construction services revenues mentioned earlier and project specific changes. Staff costs increase by 10.3% to EUR 1.63 million was related to change of salaries from the beginning of the year for all employees based on CPI increase and higher workload, accompanied by review of bonus reserve in the 2nd quarter of 2018. 21.4% or EUR 0.14 million higher asset maintenance costs were mainly related to timing of different maintenance and repair works in wastewater treatment processes. Decrease in depreciation by 6.8% to EUR 1.27 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 2nd quarter of 2018 was EUR 8.90 million, showing an increase of 4.3% or EUR 0.37 million, compared to the gross profit of EUR 8.53 million for the comparative period of 2017.

ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses amounted to EUR 1.31 million, having increased by 1.2% or EUR 0.02 million. The increase was mainly related to change in marketing expenses salaries by reasons mentioned in other costs of goods sold and higher postal expenses.

OPERATING PROFIT

As a result of the factors listed above the Group's **operating profit** for the 2nd quarter of 2018 amounted to EUR 7.54 million, being 4.9% or EUR 0.36 million higher than in the corresponding period of 2017. The Group's operating profit from main business was EUR 7.35 million, being 4.2% or EUR 0.29 million higher compared to 2017.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.27 million, compared to net expense of EUR 0.23 million in the 2nd 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 -0.08 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 0.59 million. Effective interest rate of loans (incl. swap interests) in the 2nd quarter of 2018 was 1.46%, amounting to interest costs of EUR 0.35 million, compared to the effective interest rate of 1.61% and the interest costs of EUR 0.39 million in the 2nd quarter of 2017.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's **profit before taxes** for the 2nd quarter of 2018 was EUR 7.27 million, being 4.4% or EUR 0.31 million higher than for the comparative period of 2017. The Group's **net profit** for the 2nd quarter of 2018 was EUR 5.47 million, being 28.3% or EUR 1.21 million higher than for the 2nd quarter of 2017, being impacted by the decrease in income tax on dividends, worth EUR 0.90 million. Eliminating the effects of the change of the fair value of swap contracts the Group's net profit for the 2nd quarter of 2018 and 2017 would have been EUR 5.39 million and EUR 4.10 million respectively, showing an increase of 31.3% or EUR 1.22 million year-on-year.

FINANCIAL RESULTS FOR THE SIX MONTHS OF 2018

Statement of comprehensive income

SALES

During the six months of 2018 the **Group's total sales** were EUR 30.06 million, showing an increase by 5.4% or EUR 1.55 million year-on-year. **Sales from water and wastewater services** for six months of 2018 were 26.21 million, increasing 2.4% or EUR 0.62 million year-on-year. 87.2% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.6% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 6.2% from construction and asphalting services and 1.0% from other works and services.

EUR thousand	6 months 2018	2017	2016	Variance 2018/2017 EUR	%
Private clients, incl:	**12,855**	**12,660**	**12,538**	**195**	**1.5%**
Water supply service	7,079	6,960	6,895	119	1.7%
Wastewater disposal service	5,776	5,700	5,643	76	1.3%
Corporate clients, incl:	**10,667**	**10,256**	**9,952**	**411**	**4,0%**
Water supply service	5,867	5,648	5,504	219	3.9%
Wastewater disposal service	4,800	4,608	4,448	192	4.2%
Outside service area clients, incl:	**2,293**	**2,210**	**2,230**	**83**	**3.8%**
Water supply service	704	669	654	35	5.2%
Wastewater disposal service	1,421	1,375	1,355	46	3.3%
Storm water disposal service	168	166	221	2	1.2%
Over pollution fee	**397**	**468**	**382**	**-71**	**-15.2%**
Total water supply and wastewater disposal service	**26,212**	**25,594**	**25,102**	**618**	**2.4%**
Storm water treatment and disposal service and fire hydrants service	1,677	1,580	1,870	97	6.1%
Construction service, design and asphalting	1,853	1,045	1,588	808	77.3%
Other works and services	314	290	306	24	8.3%
SALES REVENUES TOTAL	**30,056**	**28,509**	**28,866**	**1,547**	**5.4%**

During the six months of 2018 there has been an increase in **sales to private customers** by 1.5% to EUR 12.86 million and to **corporate customers** within the service area by 4.0% to EUR 10.67 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group, accompanied by increase in an individual houses segment in the 2nd quarter of 2018 as the spring has been very dry. Higher sales in corporate clients is related to an increase in the sales of industrial and other commercial customer segments mostly in 2nd quarter of 2018. Sales to **customers outside the main service area** increased by 3.8% to EUR 2.29 million, being mainly impacted by an increase in the sales of water supply and wastewater disposal services. **Over pollution fees** received have decreased by 15.2% to EUR 0.40 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the six months of 2018 amounted to EUR 1.68 million, showing an increase of 6.1% or EUR 0.10 million year-on-year, driven mainly by 8.9% higher storm water volumes.

Sales of construction, design and asphalting services were EUR 1.85 million, increasing by 77.3% or EUR 0.81 million year-on-year. The increase was mainly related to higher pipe construction services revenues during the 2nd quarter of 2018.

COST OF GOODS/ SERVICES SOLD AND GROSS AND OPERATING PROFITS

	6 months			Variance 2018/2017	
EUR thousand	**2018**	**2017**	**2016**	**EUR**	**%**
Water abstraction charges	-594	-588	-575	-6	-1.0%
Chemicals	-781	-685	-627	-96	-14.0%
Electricity	-1,457	-1,630	-1,538	173	10.6%
Pollution tax	-511	-493	-571	-18	-3.7%
Total direct production costs	**-3,343**	**-3,396**	**-3,311**	**53**	**1.6%**
Staff costs	-3,224	-2,900	-2,888	-324	-11.2%
Depreciation and amortization	-2,551	-2,711	-3,023	160	5.9%
Construction service, design and asphalting	-1,600	-874	-1,349	-726	-83.1%
Other costs of goods/services sold	-2,121	-1,894	-1,657	-227	-12.0%
Other costs of goods/services sold total	**-9,496**	**-8,379**	**-8,917**	**-1,117**	**-13.3%**
Total cost of goods/services sold	**-12,839**	**-11,775**	**-12,228**	**-1,064**	**-9.0%**

During the six months of 2018 **the cost of goods sold** amounted to EUR 12.84 million, increasing by 9.0% or EUR 1.06 million compared to the equivalent period in 2017. **Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to EUR 3.34 million, showing a 1.6% or EUR 0.05 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** were at the same level as in the comparative period last year, amounting to EUR 0.59 million.
- **Chemicals** costs increased by 14.0% to EUR 0.78 million, driven by higher usage of methanol and polymers to remove Nitrogen and sludge from influent in the wastewater treatment process, worth respectively EUR 0.05 million and EUR 0.01 million. It was 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 10.6% to EUR 1.46 million, driven by on average 13.2% lower electricity prices (including networks fees), worth EUR 0.23 million. Lower costs from prices were partly balanced by increase in treated volumes in water and wastewater processes, worth EUR 0.06 million.
- **Pollution tax expense** increased by 3.7% to EUR 0.51 million, mainly due to 3.4% higher treated wastewater volumes, worth EUR 0.02 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 9.50 million, having increased by 13.3% or EUR 1.12 million. Changes in other costs of foods sold were driven by the same reasons as mentioned in the 2nd quarter results.

The **Group's gross profit** for the six months of 2018 was EUR 17.22 million, showing an increase of 2.9% or EUR 0.48 million compared to the comparative period of 2017. The **Group's operating profit** for the six months of 2018 amounted to EUR 14.34 million, being 4.9% or EUR 0.67 million higher than in the corresponding period of 2017. The increase in operating profit was driven by the changes in gross profit, accompanied by lower tariff dispute related costs.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.54 million, compared to net expense of EUR 0.35 million in the six months 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 -0.25 million and EUR +0.07 million.

PROFIT BEFORE TAXES AND NET PROFIT

The **Group's profit before taxes** for the six months of 2018 were EUR 13.80 million, being 3.6% or EUR 0.48 million higher than for the relevant period of 2017. The **Group's net profit** for the six months of 2018 were EUR 12.00 million, being 13.0% or EUR 1.38 million higher than for the equivalent period of 2017. Eliminating the effects of the change of the derivatives fair value the Group's net profit for the six months of 2018 would have been EUR 11.84 million, showing an increase by 15.9% or EUR 1.63 million year-on-year.

Statement of financial position

In the six months of 2018 **the Group invested into fixed assets** EUR 3.07 million. As of 30.06.2018, non-current tangible assets amounted to EUR 174.71 million and total non-current assets amounted to EUR 175.48 million (30.06.2017: EUR 171.67 million and EUR 172.48 million respectively).

Compared to the year end of 2017 **the trade receivables, accrued income and prepaid expenses** have shown an increase in the amount of EUR 0.43 million to EUR 8.15 million. Increase mainly derives from higher accrued income and trade receivables, respectively by EUR 0.27 million and EUR 0.13 million, being mainly impacted by construction activities and higher connection points receivables and main services revenues. The collectability rate continues to be high at 99.59% level, compared to 99.45% at the end of June 2017.

Current liabilities have increased by EUR 2.50 million to EUR 12.15 million compared to the year end of 2017. Increase mainly derives from higher in trade and other payables by EUR 1.75 million, being related to higher payables related to pipe construction services and investments, accompanied by higher prepayments for connections by EUR 0.70 million.

Deferred income from connection fees has grown compared to the end of 2017 by EUR 0.84 million to EUR 20.47 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 61.6%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2017 the total debt to assets ratio was 58.5%.

CASH FLOW

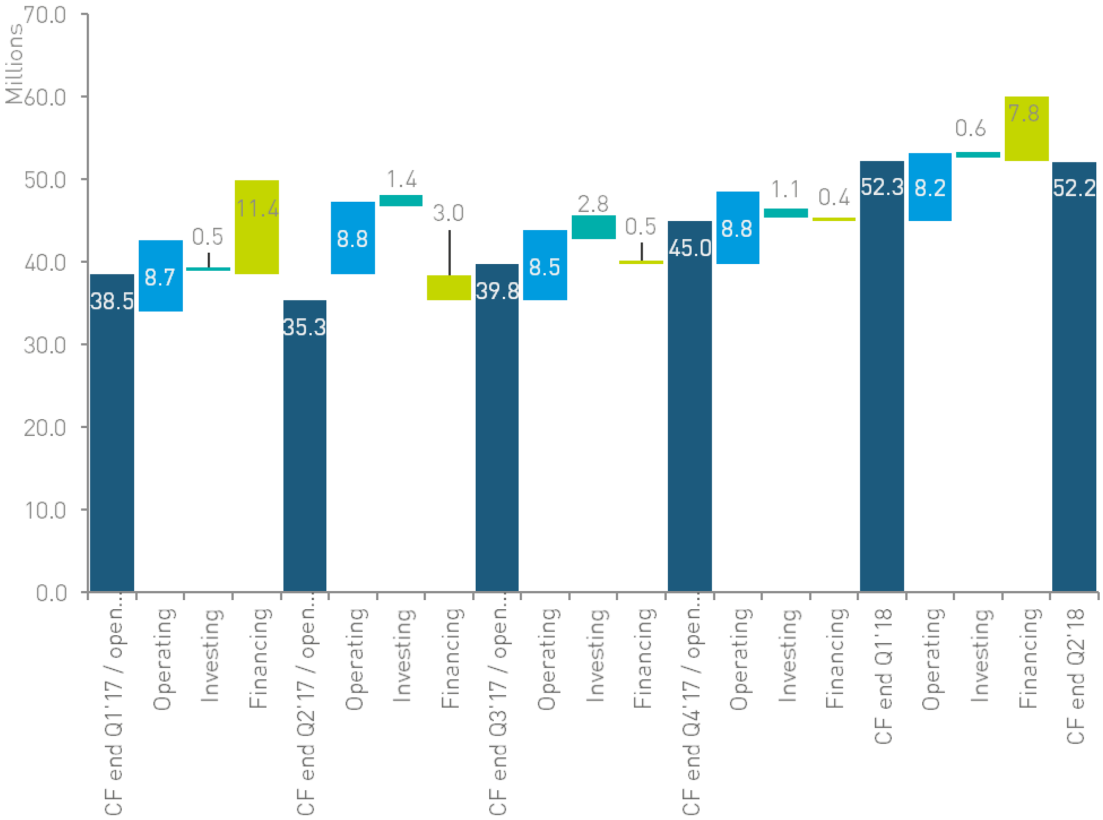
As of 30.06.2018, the cash position of the Group is strong. At the end of June 2018, the cash balance of the Group stood at EUR 52.15 million, which is 22.1% of the total assets (30.06.2017: EUR 35.34 million, forming 16.4% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the six months of 2018, the Group generated EUR 17.04 million of **cash flows from operating activities**, an increase of EUR 1.14 million compared to the corresponding period in 2017. Underlying operating profit continues to be the main contributor to operating cash flows.

In the six months of 2018 the result of **net cash flows from investing activities** was a cash outflow of EUR 1.67 million, a decrease of EUR 1.09 million compared to the cash outflow of EUR 2.76 million in the six months of 2017. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by EUR 0.94 million compared to 2017 amounting to EUR 3.42 million.
- The compensations received for the construction of pipelines were EUR 1.68 million, showing an increase of EUR 0.12 million compared to the same period of 2017.

In the six months of 2018 **cash outflow from financing activities** amounted to EUR 8.19 million, decreasing by EUR 3.59 million compared to the same period in 2017. The change was mainly related to lower dividend payment by EUR 3.60 million.



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

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

At the end of the 2nd quarter of 2018, the total number of employees was at the same level as for the same period in 2017 amounting to 319 employees. The full time equivalent (FTE) was respectively 308 in 2018 compared to the 309 in 2017. Average number of employees (FTE) during the six months was respectively 299 in 2018 and 305 in 2017.

By gender, employee allocation was as follows:

	As of 30.06.2018			As of 30.06.2017		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Group	**95**	**224**	**319**	**96**	**223**	**319**
Management Team	14	15	29	14	13	27
Executive Team	4	4	8	5	4	9
Management Board	1	2	3	1	2	3
Supervisory Board	1	8	9	0	9	9

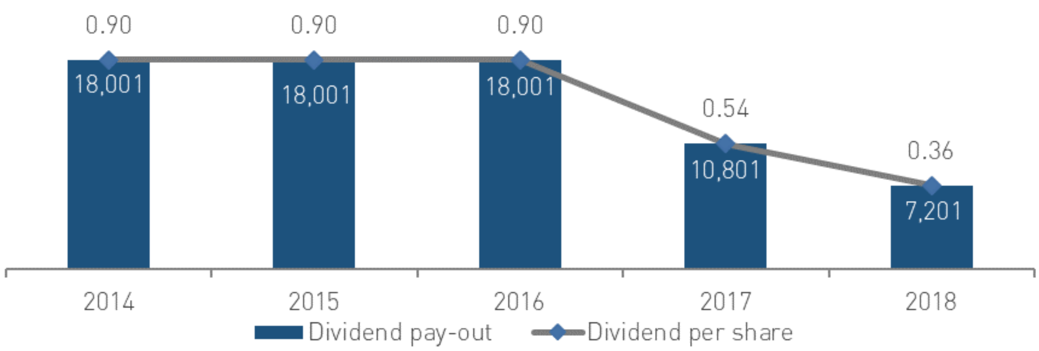
The total salary costs were EUR 2.24 million for the 2nd quarter of 2018, including EUR 0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could rise up to EUR 0.09 million should the Council want to replace the current 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. In the Annual General Meeting held on 31st May 2018, the Supervisory Board proposed to pay out EUR 0.36 per A share and 600 EUR per B share, which is equal to earnings per share in 2017. The proposal was approved by Annual General Meeting and the dividend pay-out was made on 26th of 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 30.06.2018, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

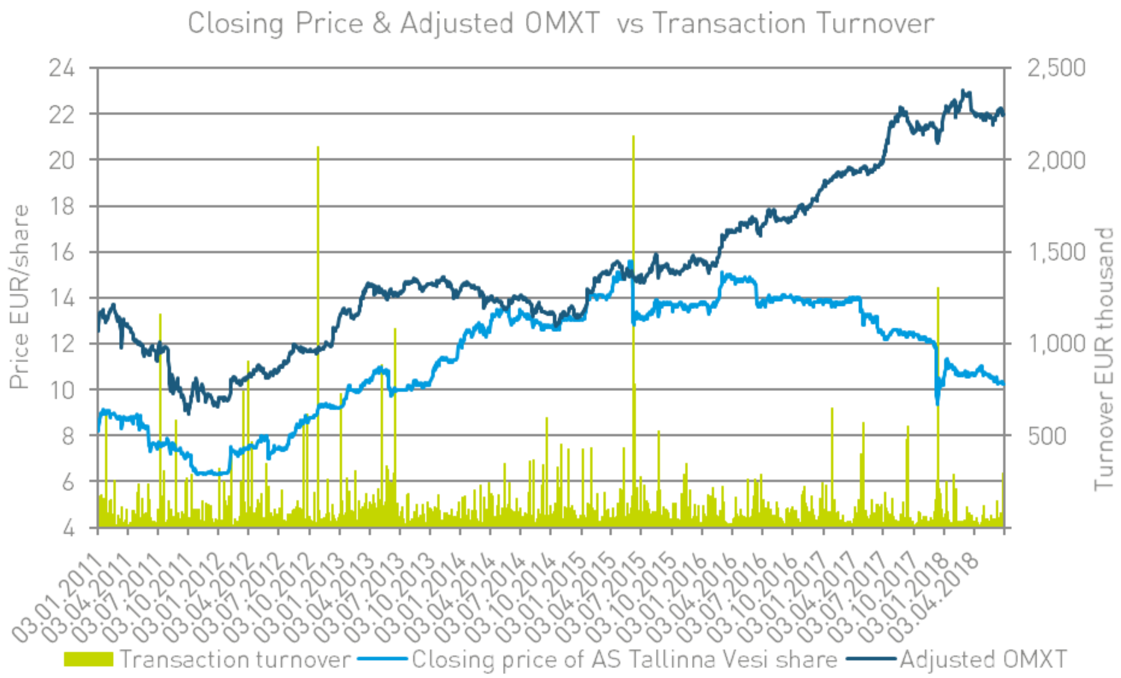
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the six months of 2018 the shareholder structure has been relatively stable compared to the end of 2017. At the end of 2nd quarter of 2018 the pension funds shareholding has decreased slightly, being 1.31% of the total shares compared to 1.43% at the end of 2017.

As of 30.06.2018, the closing price of AS Tallinna Vesi share was EUR 10.25, which is 4.2% (2017: -10.7%) lower compared to the closing price of EUR 10.70 at the beginning of the quarter. During the 2nd quarter the OMX Tallinn index decreased by 0.6% (2017: +1.3%).

In the six months of 2018, 2,289 deals with the Company's shares were concluded (2017: 4,329 deals) during which 439 thousand shares or 2.2% of total shares exchanged their owners (2017: 640 thousand shares or 3.2%).

The turnover of the transactions was EUR 3,884 thousand lower than in 2017 comparative period, amounting to EUR 4.69 million.



CORPORATE STRUCTURE

As of 30.06.2018, 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 2nd quarter of 2018 were as follows: Mr Simon Roger Gardiner's and Mr Martin Padley's terms as Supervisory members were extended (respectively valid until 03.06.2020 and 02.11.2020), Mr Rein Ratas has been recalled from the Supervisory Council member and a new Supervisory Council member Mrs Katrin Kendra was nominated (term valid until 31.05.2020).

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 2021) and Riina Käi (with the powers of the Management Board Member until 29th October 2021).

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 2nd 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 6 months period of financial year 2018 ended 30 June 2018. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 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 6 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 26 July 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 July 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 30 June		as of 31 December
ASSETS	Note	2018	2017	2017
CURRENT ASSETS				
Cash and cash equivalents	2	52 154	35 344	44 973
Trade receivables, accrued income and prepaid expenses		8 151	6 868	7 716
Inventories		441	484	457
TOTAL CURRENT ASSETS		60 746	42 696	53 146
NON-CURRENT ASSETS				
Property, plant and equipment	3	174 713	171 666	174 451
Intangible assets	4	771	816	811
TOTAL NON-CURRENT ASSETS		175 484	172 482	175 262
TOTAL ASSETS		236 230	215 178	228 408
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		478	244	264
Trade and other payables		7 955	7 879	6 200
Derivatives		411	622	578
Prepayments		3 308	2 806	2 609
TOTAL CURRENT LIABILITIES		12 152	11 551	9 651
NON-CURRENT LIABILITIES				
Deferred income from connection fees		20 475	18 400	19 632
Borrowings		95 239	95 709	95 565
Derivatives		181	292	178
Provision for possible third party claims	5	17 522	0	17 522
Other payables		47	11	44
TOTAL NON-CURRENT LIABILITIES		133 464	114 412	132 941
TOTAL LIABILITIES		145 616	125 963	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		52 602	51 203	47 804
TOTAL EQUITY		90 614	89 215	85 816
TOTAL LIABILITIES AND EQUITY		236 230	215 178	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)

		Quarter 2		6 months		for the year ended 31 December
	Note	2018	2017	2018	2017	2017
Revenue	6	15 979	14 728	30 056	28 509	59 815
Cost of goods/services sold	8	-7 082	-6 202	-12 839	-11 775	-25 725
GROSS PROFIT		8 897	8 526	17 217	16 734	34 090
Marketing expenses	8	-94	-78	-206	-179	-356
General administration expenses	8	-1 216	-1 216	-2 595	-2 782	-5 028
Other income (+)/expenses (-)	9	-48	-48	-79	-103	-17 841
OPERATING PROFIT		7 539	7 184	14 337	13 670	10 865
Financial income	10	5	4	9	9	15
Financial expense	10	-279	-229	-547	-359	-959
PROFIT BEFORE TAXES		7 265	6 959	13 799	13 320	9 921
Income tax on dividends	11	-1 800	-2 700	-1 800	-2 700	-2 700
NET PROFIT FOR THE PERIOD		5 465	4 259	11 999	10 620	7 221
COMPREHENSIVE INCOME FOR THE PERIOD		5 465	4 259	11 999	10 620	7 221
Attributable profit:						
Equity holders of A-shares		5 464	4 258	11 998	10 619	7 220
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	12	0,27	0,21	0,60	0,53	0,36
Earnings per B share (in euros)	12	600	600	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	6 months 2018	6 months 2017	for the year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		14 337	13 670	10 865
Adjustment for depreciation/amortisation	3,4,8,9	2 839	3 005	6 170
Adjustment for revenues from connection fees	9	-141	-125	-258
Other non-cash adjustments		-11	0	-26
Profit (-)/loss (+) from sale and write off of property, plant and equipment, and intangible assets		-39	-11	-12
Change in current assets involved in operating activities		-427	264	-558
Change in liabilities involved in operating activities		484	-902	17 064
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		17 042	15 901	33 245
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-3 418	-4 361	-9 761
Compensations received for construction of pipelines		1 676	1 554	2 698
Proceeds from sale of property, plant and equipment, and intangible assets		67	38	62
Interest received		8	9	15
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-1 667	-2 760	-6 986
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-710	-779	-1 512
Repayment of finance lease		-120	-141	-260
Received loans		0	0	37 500
Repayment of loans		0	0	-37 500
Dividends paid	11	-7 201	-10 801	-10 801
Income tax on dividends	11	-163	-63	-2 700
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-8 194	-11 784	-15 273
CHANGE IN CASH AND CASH EQUIVALENTS		7 181	1 357	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	52 154	35 344	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	-10 801	-10 801
Comprehensive income for the period	0	0	0	10 620	10 620
as of 30 June 2017	12 000	24 734	1 278	51 203	89 215
as of 31 December 2017	12 000	24 734	1 278	47 804	85 816
Dividends	0	0	0	-7 201	-7 201
Comprehensive income for the period	0	0	0	11 999	11 999
as of 30 June 2018	12 000	24 734	1 278	52 602	90 614

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 30 June		as of 31 December
	2018	2017	2017
Cash in hand and in bank	52 154	25 198	29 871
Short-term deposits	0	10 146	15 102
Total cash and cash equivalents	52 154	35 344	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 - 30 June 2018						
Acquisition in book value	0	0	0	0	3 003	3 003
Write off and sale of property, plant and equipment in residual value	-13	-2	-13	0	0	-28
Reclassification	63	1 345	248	3	-1 636	23
Depreciation	-146	-1 491	-1 058	-41	0	-2 736
as of 30 June 2018						
Acquisition cost	26 461	208 966	48 281	1 160	3 783	288 651
Accumulated depreciation	-6 971	-69 691	-36 385	-891	0	-113 938
Net book value	19 490	139 275	11 896	269	3 783	174 713

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 30 June 2018 the book value of the assets (Machinery and equipment) leased under financial lease is 883 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 - 30 June 2018			
Acquisition in book value	0	63	63
Reclassification	330	-330	0
Depreciation	-103	0	-103
as of 30 June 2018			
Acquisition cost	5 577	123	5 700
Accumulated depreciation	-4 929	0	-4 929
Net book value	648	123	771

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 2		6 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	13 349	12 866	26 212	25 594	51 237
Private clients, incl:	6 427	6 313	12 855	12 660	25 225
Water supply service	3 547	3 470	7 079	6 960	13 872
Wastewater disposal service	2 880	2 843	5 776	5 700	11 353
Corporate clients, incl:	5 525	5 193	10 667	10 256	20 407
Water supply service	3 083	2 877	5 867	5 648	11 210
Wastewater disposal service	2 442	2 316	4 800	4 608	9 197
Outside service area clients, incl:	1 181	1 102	2 293	2 210	4 678
Water supply service	370	339	704	669	1 346
Wastewater disposal service	733	692	1 421	1 375	2 833
Storm water disposal service	78	71	168	166	499
Over pollution fee	216	258	397	468	927
Storm water treatment and disposal service and fire hydrants service	881	839	1 677	1 580	3 668
Construction service, design and asphalting	1 569	864	1 853	1 045	4 287
Other works and services	180	159	314	290	623
Total revenue	15 979	14 728	30 056	28 509	59 815

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

NOTE 7. STAFF COSTS

	Quarter 2		6 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Salaries and wages	-1 670	-1 568	-3 349	-3 100	-6 051
Social security and unemployment insurance taxation	-565	-530	-1 132	-1 048	-2 046
Staff costs total	-2 235	-2 098	-4 481	-4 148	-8 097
Average number of employees during the reporting period	318	318	316	314	316

(EUR thousand)

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

	Quarter 2		6 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Cost of goods/services sold					
Water abstraction charges	-303	-292	-594	-588	-1 168
Chemicals	-346	-352	-781	-685	-1 501
Electricity	-698	-777	-1 457	-1 630	-3 193
Pollution tax	-233	-201	-511	-493	-1 100
Staff costs	-1 631	-1 479	-3 224	-2 900	-5 784
Depreciation and amortization	-1 268	-1 360	-2 551	-2 711	-5 577
Construction service, design and asphalting	-1 359	-735	-1 600	-874	-3 638
Other costs	-1 244	-1 006	-2 121	-1 894	-3 764
Total cost of goods/services sold	-7 082	-6 202	-12 839	-11 775	-25 725
Marketing expenses					
Staff costs	-77	-68	-172	-160	-301
Depreciation and amortization	0	0	0	0	-1
Other marketing expenses	-17	-10	-34	-19	-54
Total marketing expenses	-94	-78	-206	-179	-356
Administrative expenses					
Staff costs	-527	-551	-1 085	-1 088	-2 012
Depreciation and amortization	-82	-90	-159	-179	-355
Other general administration expenses	-607	-575	-1 351	-1 515	-2 661
Total administrative expenses	-1 216	-1 216	-2 595	-2 782	-5 028

NOTE 9. OTHER INCOME/EXPENSES

	Quarter 2		6 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Connection fees	71	64	141	125	258
Depreciation of single connections	-65	-59	-129	-115	-237
Doubtful receivables expenses (-)/ expense reduction (+)	-20	0	6	-31	-20
Provision for possible third party claims (Note 5)	0	0	0	0	-17 522
Other income (+)/expenses (-)	-34	-53	-97	-82	-320
Total other income / expenses	-48	-48	-79	-103	-17 841

(EUR thousand)

NOTE 10. FINANCIAL INCOME AND EXPENSES

	Quarter 2		6 months		ended 31 December
	2018	2017	2018	2017	2017
Interest income	5	4	9	9	15
Interest expense, loan	-189	-224	-377	-451	-865
Interest expense, swap	-162	-158	-323	-312	-637
Increase (+)/decrease (-) of fair value of swap	78	157	164	411	569
Other financial income (+)/expenses (-)	-6	-4	-11	-7	-26
Total financial income / expenses	-274	-225	-538	-350	-944

NOTE 11. DIVIDENDS

	Quarter 2		6 months		for the year ended 31
	2018	2017	2018	2017	2017
Dividends declared during the period	7 201	10 801	7 201	10 801	10 801
Dividends paid during the period	7 201	10 801	7 201	10 801	10 801
Income tax on dividends paid	-1 800	-2 700	-1 800	-2 700	-2 700
Income tax accounted for	-1 800	-2 700	-1 800	-2 700	-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)	0,36	0,54	0,36	0,54	0,54
Dividends per B-share (in euros)	600	600	600	600	600

NOTE 12. EARNINGS PER SHARE

	Quarter 2		6 months		ended 31 December
	2018	2017	2018	2017	2017
Net profit minus B-share preferred dividend rights	5 464	4 258	11 998	10 619	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	20 000 000	20 000 000
Earnings per A share (in euros)	0,27	0,21	0,60	0,53	0,36
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 June 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 30 June		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	190	190	184

	Quarter 2		6 months		for the year ended 31 December
Transactions	2018	2017	2018	2017	2017
Revenue	881	839	1 677	1 580	3 668
Purchase of administrative and consulting services	257	243	511	500	1 008
Fees for Management Board (excluding social tax)	43	38	115	107	182
Supervisory Board fees (excluding social tax)	8	8	16	16	32

The Group´s Management Board and Supervisory Board members are considered as key management personnel for whom the contractual salary payments have been accounted for as disclosed above. In addition to this 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 6 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 91 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 30 June 2018 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 June 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
Katrin Kendra	Member of the Supervisory Board
Toivo Tootsen	Member of the Supervisory Board
Allar Jõks	Member of the Supervisory Board
Priit Lello	Member of the Supervisory Board

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