

# AS TALLINNA VESI

**Consolidated Interim Report for the 3<sup>rd</sup> quarter of 2018**

**26 October 2018**



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

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# Management report

## Chairman's summary

**Tallinna Vesi has had successful first 9 months in 2018, with respect to both operational and financial performance.**

### *Solid financial performance*

In the first 9 months of the year, the Company's sales revenues were 7.6% higher year-on-year, which was mainly due to increased sales from water and wastewater services, accompanied by significantly higher revenues from construction and asphaltting services. Revenues from sales to private customers increased by 2.8% and sales to corporate customers by 5.6%.

The gross profit in the 3<sup>rd</sup> quarter of 2018 was EUR 8.59 million, showing a slight increase of 0.3%. Increase in gross profit was attributable to higher water and wastewater revenues and lower electricity costs and depreciation. The operating profit of Tallinna Vesi was EUR 7.31 million and net profit EUR 7.14 million.

**+44.5%**

Watercom grew its  
revenues 44.5%  
year-on-year

We are also glad to witness further growth in our non-regulated business. Watercom has achieved excellent results by growing its revenues 44.5% year-on-year. Strong financial results of Watercom were also recognised by Äripäev. For the first time ever, Watercom was listed among TOP10 most successful infrastructure construction companies in a list put together by business daily Äripäev. The Company achieved the 10<sup>th</sup> place out of 94 companies.

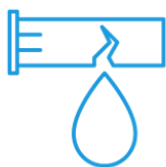
### *Reliable water supply and wastewater service*

We are very pleased with our performance regarding water quality, which is further reinforced by the results of the drinking water samples taken from the customers' taps that were 99.87% compliant with all the required quality standards.

To further safeguard the supply of high-quality drinking water to our end-users, we continue to make targeted capital investments, renovating and replacing assets on the basis of previous condition surveys and performance data, to ensure the continued reliability of the network.



Drinking water  
samples were 99.87%  
compliant with all  
required standards



Level of leakages  
remains low – 13.6%

Water losses in the distribution network continue to be at a low level - in the 3<sup>rd</sup> quarter, the level of leakages in our network was 13.6%. This is an excellent result.

We also managed to reduce the average water interruption time to 3 hours and 5 minutes.

AS Tallinna Vesi does not compromise on safety or protecting the environment. Our final effluent was once again 100% compliant with the applicable permit requirements during the 9 months of 2018. Maintaining the quality of final effluent is essential to the continued security of the Baltic Sea.

### *Raising environmental awareness and supporting the community*

Along with our main activities, it is important for us to be contributing to the initiatives that add value and positively impact our surrounding environment and the children and youth living within the wider Tallinn communities.

Each month, our employees are giving public lectures and water seminars to educate children about water. In Tallinna Vesi's water seminars, children learn about water cycle, water saving, process of cleaning water and wastewater and ways to avoid blockages.



Raising public awareness of the environmental aspects is important to us

One of our objectives is to improve our customers' awareness of the environmental aspects concerning water supply and wastewater disposal services. For this purpose, we welcomed a large number of visitors during the Open House Day event at Paljassaare Wastewater Treatment Plant in September, and we intend to carry out another campaign in autumn, and during winter, to promote drinking tap water among our customers and end-users. The campaign is aimed at growing the number of people drinking tap water, and in turn further promote environmental awareness in the wider community.

For many years, we have been proud to host the annual Ülemiste Lake Run, by opening our sanitary zone for the public on this special occasion. This provides us with an opportunity to proudly showcase our main source of raw water.

## OPERATIONAL INDICATORS FOR NINE 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	%	13.9	13.5	15.4
Average duration of water interruptions per property	h	3.18	3.26	3.51
Sewer blockages	No	443	520	503
Sewer bursts	No	65	109	73
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Written complaints*	No	115	29	29
Customer contacts regarding water quality	No	205	177	108
Customer contacts regarding water pressure	No	348	240	247
Customer contacts regarding blockages and discharge of storm water	No	759	812	909
Responding written customer contacts within at least 2 work days	%	100.0	99.9	99.0
Failed promises	No	33	3	4
Notification of unplanned water interruptions at least 1 h before the	%	96.6	98.7	98.4

*\*In 2018, the methodology for counting complaints was changed. In 2016 and 2017, only written complaints were counted. Since 2018, both written and oral complaints are counted.*

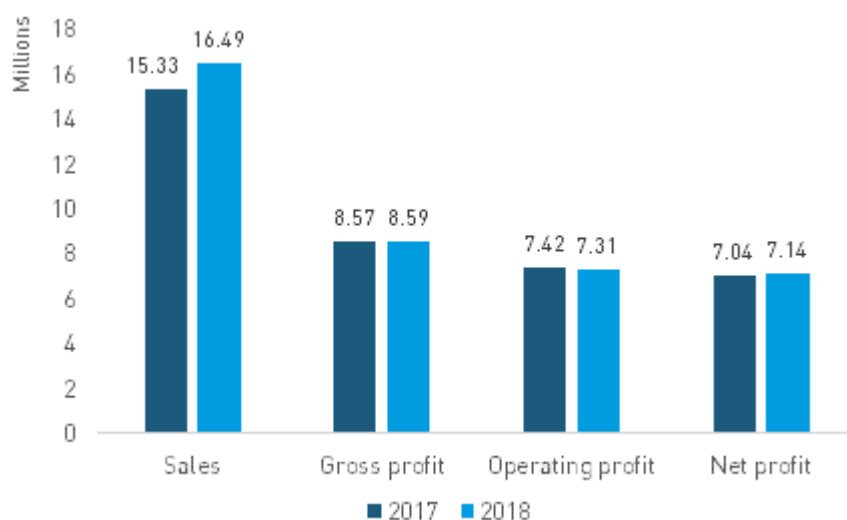


Karl Heino Brookes

Chairman of the Management Board

## FINANCIAL HIGHLIGHTS FOR THE 3<sup>rd</sup> QUARTER 2018

**The Group's sales revenues** during the 3<sup>rd</sup> quarter of 2018 were EUR 16.49 million, being up by 7.6% or EUR 1.16 million compared to the same period in 2017.



**The gross profit** in the 3<sup>rd</sup> quarter of 2018 was EUR 8.59 million, showing a slight increase of 0.3% or EUR 0.02 million. Increase in gross profit was related to higher water and wastewater revenues and lower electricity costs and depreciation. It was balanced by higher staff and asset maintenance costs and other costs of goods/services sold.

**The operating profit** was EUR 7.31 million, showing a decrease of 1.5% or EUR 0.11 million, being mainly affected by above-mentioned changes in gross profit, accompanied by higher administrative and marketing expenses and higher net other expenses.

**The net profit** for the 3<sup>rd</sup> quarter of 2018 was EUR 7.14 million, showing an increase by 1.4% or EUR 0.10 million. The net profit was mainly impacted by above mentioned changes in the operating profit, accompanied by lower financial expenses. The changes in the financial expenses were mostly influenced by the higher positive change in the fair value of swap contracts in the 3<sup>rd</sup> quarter of 2018 compared to the positive change in the same quarter of 2017. The net profit for the 3<sup>rd</sup> quarter of 2018 and 2017 without the impact resulted from the change of the fair value of swap contracts was EUR 6.96 million and EUR 7.02 million respectively, being lower by 0.9% or EUR 0.06 million year-on-year.

## MAIN FINANCIAL INDICATORS

EUR million, except key ratios	3 <sup>rd</sup> quarter			Change 2018/2017	9 months			Change 2018/2017
	2018	2017	2016		2018	2017	2016	
Sales	16.49	15.33	15.60	7.6%	46.55	43.84	44.46	6.2%
Gross profit	8.59	8.57	8.38	0.3%	25.81	25.30	25.02	2.0%
Gross profit margin %	52.10	55.86	53.75	-6.7%	55.45	57.71	56.27	-3.9%
Operating profit	7.31	7.42	6.79	-1.5%	21.65	21.09	19.27	2.6%
Operating profit - main business	7.07	7.11	6.69	-0.5%	21.15	20.64	18.93	2.5%
Operating profit margin %	44.31	48.39	43.55	-8.4%	46.50	48.10	43.33	-3.3%
Profit before taxes	7.14	7.04	6.53	1.4%	20.94	20.36	17.44	2.8%
Profit before taxes margin %	43.28	45.93	41.85	-5.8%	44.98	46.44	39.22	-3.2%
Net profit	7.14	7.04	6.53	1.4%	19.14	17.66	12.94	8.4%
Net profit margin %	43.28	45.93	41.85	-5.8%	41.11	40.28	29.10	2.1%
ROA %	2.97	3.23	3.17	-7.8%	8.11	8.13	6.21	-0.2%
Debt to total capital employed %	59.89	56.47	59.56	6.1%	59.89	56.47	59.56	6.1%
ROE %	7.58	7.59	8.09	-0.2%	20.85	19.03	14.96	9.6%
Current ratio	4.99	4.74	3.46	5.3%	4.99	4.74	3.46	5.3%
Quick ratio	4.96	4.69	3.42	5.8%	4.96	4.69	3.42	5.8%
Investments into fixed assets	4.29	2.39	4.45	79.5%	7.36	5.90	10.18	24.7%
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 asphaltting services, doubtful debt*

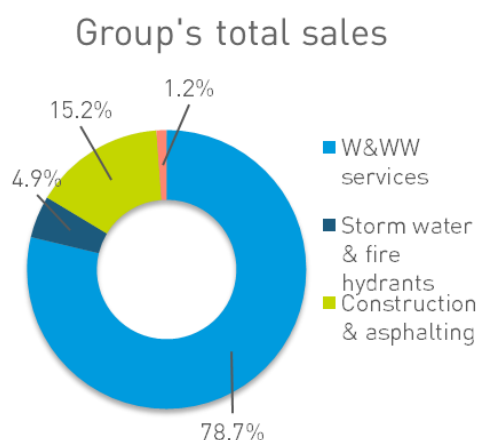
# FINANCIAL RESULTS FOR THE 3<sup>rd</sup> QUARTER 2018

## Statement of comprehensive income

### SALES

As in the 3<sup>rd</sup> 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 28<sup>th</sup> 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 2<sup>nd</sup> of May 2018. From 4<sup>th</sup> of May the CA started the tariff application review process and has asked for additional information during the 2<sup>nd</sup> and 3<sup>rd</sup> quarter from the Company, who has responded to all the questions on time. On 13<sup>th</sup> of September 2018 the Company submitted supplemented tariff application additionally to Tallinn and Saue area also to Harku and surrounding areas water companies. The CA has 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. 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 3<sup>rd</sup> quarter of 2018 the **Group's total sales** were EUR 16.49 million, showing an increase by 7.6% or EUR 1.16 million year-on-year. 78.7% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 4.9% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 15.2% from construction and asphaltting services and 1.2% from other works and services. The construction and asphaltting services sales are more seasonal and the Company continues to seek possibilities to keep and to grow these services revenues.

EUR thousand	3 <sup>rd</sup> quarter			Variance 2018/2017	
	2018	2017	2016	EUR	%
<b>Private clients, incl:</b>	<b>6,322</b>	<b>6,148</b>	<b>6,059</b>	<b>174</b>	<b>2.8%</b>
Water supply service	3,499	3,380	3,330	119	3.5%
Wastewater disposal service	2,823	2,768	2,729	55	2.0%
<b>Corporate clients, incl:</b>	<b>5,281</b>	<b>5,000</b>	<b>4,989</b>	<b>281</b>	<b>5.6%</b>
Water supply service	2,969	2,775	2,758	194	7.0%
Wastewater disposal service	2,312	2,225	2,231	87	3.9%
<b>Outside service area clients, incl:</b>	<b>1,146</b>	<b>1,143</b>	<b>1,068</b>	<b>3</b>	<b>0.3%</b>
Water supply service	381	336	323	45	13.4%
Wastewater disposal service	722	706	665	16	2.3%
Storm water disposal service	43	101	80	-58	-57.4%
<b>Over pollution fee</b>	<b>238</b>	<b>254</b>	<b>214</b>	<b>-16</b>	<b>-6.3%</b>
<b>Total water supply and wastewater disposal service</b>	<b>12,987</b>	<b>12,545</b>	<b>12,330</b>	<b>442</b>	<b>3.5%</b>
Storm water treatment and disposal and fire hydrants service	807	888	972	-81	-9.1%
Construction service, design and asphaltting	2,507	1,735	2,150	772	44.5%
Other works and services	193	164	145	29	17.7%
<b>SALES REVENUES TOTAL</b>	<b>16,494</b>	<b>15,332</b>	<b>15,597</b>	<b>1,162</b>	<b>7.6%</b>

**Sales from water and wastewater services** were EUR 12.99 million, showing a 3.5% or EUR 0.44 million increase compared to the 3<sup>rd</sup> quarter of 2017, resulting from the changes in sales volumes as described below:

- There has been an increase in **private customers'** revenues of 2.8% to EUR 6.32 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 summer was very dry.
- Sales to **corporate customers** within the service area increased by 5.6% to EUR 5.28 million. Increase was related to higher consumption in the sales of industrial and other commercial customer segments caused by one-time higher consumptions and slightly higher average consumption of different customers.
- Sales to **customers outside the main service area** increased slightly by 0.3% to EUR 1.15 million. It was mainly impacted by an increase in the sales of water supply and wastewater disposal services to different surrounding areas, balanced almost fully by a decrease of storm water disposal service.
- **Over pollution fees** received have decreased by 6.3% to EUR 0.24 million.

**Sales from the operation and maintenance of the main service area storm water and fire hydrant system** amounted to EUR 0.81 million, showing a decrease of 9.1% or EUR 0.08 million in the 3<sup>rd</sup> quarter of 2018 compared to the same period in 2017, driven mainly by 46.4% lower storm water volumes, balanced partly by higher cost per m<sup>3</sup>.

**Sales of construction, design and asphaltting services** were EUR 2.51 million, increasing by 44.5% or EUR 0.77 million year-on-year. The increase was mainly related to higher pipe construction and asphaltting services revenues during the 3<sup>rd</sup> quarter of 2018.

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

**The cost of goods sold** amounted to EUR 7.90 million in the 3<sup>rd</sup> quarter of 2018, increasing by 16.7% or EUR 1.13 million compared to the equivalent period in 2017. The increase was mainly influenced by an increase



in construction and asphaltting services related costs and chemicals, staff and asset maintenance costs and other costs of goods/services sold, balanced by decrease in electricity, pollution tax and depreciation expenses.

EUR thousand	3 <sup>rd</sup> quarter			Variance 2018/2017	
	2018	2017	2016	EUR	%
Water abstraction charges	-298	-285	-277	-13	-4.6%
Chemicals	-468	-415	-345	-53	-12.8%
Electricity	-626	-724	-760	98	13.5%
Pollution tax	-204	-233	-281	29	12.4%
<b>Total direct production costs</b>	<b>-1,596</b>	<b>-1,657</b>	<b>-1,663</b>	<b>61</b>	<b>3.7%</b>
Staff costs	-1,453	-1,288	-1,273	-165	-12.8%
Depreciation and amortization	-1,261	-1,515	-1,427	254	16.8%
Construction service, design and asphaltting	-2,251	-1,441	-2,039	-810	-56.2%
Other costs of goods/services sold	-1,339	-866	-812	-473	-54.6%
<b>Other costs of goods/services sold total</b>	<b>-6,304</b>	<b>-5,110</b>	<b>-5,551</b>	<b>-1,194</b>	<b>-23.4%</b>
<b>Total cost of goods/services sold</b>	<b>-7,900</b>	<b>-6,767</b>	<b>-7,214</b>	<b>-1,133</b>	<b>-16.7%</b>

**Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to EUR 1.60 million, showing a 3.7% or EUR 0.06 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 4.6% to EUR 0.30 million, driven mainly by overall 4.4% increase in abstracted water volumes.
- **Chemicals** costs increased by 12.8% to EUR 0.47 million, driven by on average 28.9% higher price of methanol, balanced by lower usage of methanol to remove Nitrogen, worth respectively EUR -0.03 million and EUR +0.02 million. Higher chemicals costs in wastewater treatment process were accompanied by 5.6% higher treated water volumes and 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 each EUR -0.01 million.
- **Electricity costs** decreased by 13.5% to EUR 0.63 million, driven by on average 11.8% lower electricity prices (including networks fees), worth EUR 0.07 million. Lower costs from prices were accompanied by 20.8% lower wastewater volumes and were partly balanced by increase in treated volumes in water treatment processes, worth respectively EUR +0.05 million and EUR -0.03 million.
- **Pollution tax expense** decreased by 12.4% to EUR 0.20 million, mainly due to 20.8% lower treated wastewater volumes, balanced by higher pollution load of BOD7 and Nitrogen, worth respectively EUR +0.05 million and EUR -0.03 million in total.

**Other costs of goods sold** (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to EUR 6.30 million, having increased by 23.4% or EUR 1.19 million. The increase came mostly from costs related to construction and asphaltting services, accompanied by higher staff and maintenance costs and other costs of goods/services sold and were partly balanced by decrease in depreciation costs by following reasons:

- **Staff costs** increased by 12.8% to EUR 1.45 million, driven by change of salaries from the beginning of the year for all employees based on CPI and change in salary system of skilled workers in 2017 and individual changes in 2018, accompanied by review of bonus reserve in the 3<sup>rd</sup> quarter of 2018.

- **Construction and asphaltting services costs** increased by 56.2% to EUR 2.25 million, mainly due to higher construction and asphaltting services revenues mentioned earlier and project specific changes.
- **Depreciation** decreased by 16.8% to EUR 1.26 million, mainly due to lower accelerated depreciation and cost of machinery and equipment depreciation year-on-year.
- **Other costs of goods/services sold** increased by 54.6% to EUR 1.34 million, mainly because of higher asset maintenance costs and costs for sludge disposal. Asset maintenance costs increased by 38.2% or EUR 0.25 million, driven mainly by higher different maintenance and repair works related costs in water and wastewater treatment processes and higher repairs costs on stormwater network.

As a result of all above the **Group's gross profit** for the 3<sup>rd</sup> quarter of 2018 was EUR 8.59 million, showing a slight increase of 0.3% or EUR 0.02 million, compared to the gross profit of EUR 8.57 million for the comparative period of 2017.

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

**Administrative and marketing expenses** amounted to EUR 1.19 million, having increased by 7.2% or EUR 0.08 million. The increase was mainly related to changes in staff costs by reasons mentioned in other costs of goods/services sold and higher tariff dispute related costs.

**Other income and expenses** increased by EUR 0.06 million to EUR 0.10 million, being mostly impacted by positive changes in doubtful receivables in 2017 compared to negative change in 2018 and higher other income in 2017.

### *OPERATING PROFIT*

As a result of the factors listed above the Group's **operating profit** for the 3<sup>rd</sup> quarter of 2018 amounted to EUR 7.31 million, being 1.5% or EUR 0.11 million lower than in the corresponding period of 2017. The Group's operating profit from main business was EUR 7.07 million, being 0.5% or EUR 0.04 million lower compared to 2017.

### *FINANCIAL EXPENSES*

**The Group's net financial income and expenses** have resulted a net expense of EUR 0.17 million, compared to net expense of EUR 0.38 million in the 3<sup>rd</sup> quarter of 2017. The decrease was mainly impacted by higher positive change in the fair value of the swap contracts year-on-year and lower interest costs, worth respectively EUR 0.16 million and EUR 0.04 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 0.41 million. Effective interest rate of loans (incl. swap interests) in the 3<sup>rd</sup> quarter of 2018 was 1.46%, amounting to interest costs of EUR 0.36 million, compared to the effective interest rate of 1.62% and the interest costs of EUR 0.39 million in the 3<sup>rd</sup> quarter of 2017.

### *PROFIT BEFORE TAXES AND NET PROFIT*

The Group's **profit before taxes** and **net profit** for the 3<sup>rd</sup> quarter of 2018 was EUR 7.14 million, being 1.4% or EUR 0.10 million higher than for the comparative period of 2017. Eliminating the effects of the change of the fair value of swap contracts the Group's net profit for the 3<sup>rd</sup> quarter of 2018 and 2017 would have been EUR 6.96 million and EUR 7.02 million respectively, showing a decrease of 0.9% or EUR 0.06 million year-on-year.

# FINANCIAL RESULTS FOR THE NINE MONTHS OF 2018

## Statement of comprehensive income

### SALES

During the nine months of 2018 the **Group's total sales** were EUR 46.55 million, showing an increase by 6.2% or EUR 2.71 million year-on-year. **Sales from water and wastewater services** for nine months of 2018 were 39.20 million, increasing 2.8% or EUR 1.06 million year-on-year. 84.2% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.3% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 9.4% from construction and asphaltting services and 1.1% from other works and services.

EUR thousand	9 months			Variance 2018/2017	
	2018	2017	2016	EUR	%
<b>Private clients, incl:</b>	<b>19,178</b>	<b>18,808</b>	<b>18,597</b>	<b>370</b>	<b>2.0%</b>
Water supply service	10,579	10,339	10,225	240	2.3%
Wastewater disposal service	8,599	8,469	8,372	130	1.5%
<b>Corporate clients, incl:</b>	<b>15,947</b>	<b>15,256</b>	<b>14,942</b>	<b>691</b>	<b>4.5%</b>
Water supply service	8,835	8,423	8,262	412	4.9%
Wastewater disposal service	7,112	6,833	6,680	279	4.1%
<b>Outside service area clients, incl:</b>	<b>3,440</b>	<b>3,353</b>	<b>3,298</b>	<b>87</b>	<b>2.6%</b>
Water supply service	1,086	1,005	977	81	8.1%
Wastewater disposal service	2,143	2,081	2,020	62	3.0%
Storm water disposal service	211	267	301	-56	-21.0%
<b>Over pollution fee</b>	<b>635</b>	<b>722</b>	<b>596</b>	<b>-87</b>	<b>-12.0%</b>
<b>Total water supply and wastewater disposal service</b>	<b>39,200</b>	<b>38,139</b>	<b>37,433</b>	<b>1,061</b>	<b>2.8%</b>
Storm water treatment and disposal service and fire hydrants service	2,483	2,468	2,841	15	0.6%
Construction service, design and asphaltting	4,360	2,780	3,738	1,580	56.8%
Other works and services	507	454	451	53	11.7%
<b>SALES REVENUES TOTAL</b>	<b>46,550</b>	<b>43,841</b>	<b>44,463</b>	<b>2,709</b>	<b>6.2%</b>

During the nine months of 2018 there has been an increase in **sales to private customers** by 2.0% to EUR 19.18 million and to **corporate customers** within the service area by 4.5% to EUR 15.95 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 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2018 as the spring and summer were very dry. Higher sales in corporate clients is related to an increase in the sales of industrial and other commercial customer segments by reasons mentioned in 3<sup>rd</sup> quarter results. Sales to **customers outside the main service area** increased by 2.6% to EUR 3.44 million, being mainly impacted by an increase in the sales of water supply and wastewater disposal services, balanced by lower storm water disposal services sales. **Over pollution fees** received have decreased by 12.0% to EUR 0.64 million.

**Sales from the operation and maintenance of the main service area storm water and fire hydrant system** in the nine months of 2018 amounted to EUR 2.48 million, showing a slight increase of 0.6% or EUR 0.02 million year-on-year, driven mainly by higher cost per m<sup>3</sup>, balanced by 13.6% lower storm water volumes.

**Sales of construction, design and asphaltting services** were EUR 4.36 million, increasing by 56.8% or EUR 1.58 million year-on-year. The increase was mainly related to higher pipe construction services revenues as the Company has won some big jobs/procurements in Tallinn and other parts of Estonia.

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

EUR thousand	9 months			Variance 2018/2017	
	2018	2017	2016	EUR	%
Water abstraction charges	-892	-873	-852	-19	-2.2%
Chemicals	-1,249	-1,100	-972	-149	-13.5%
Electricity	-2,082	-2,354	-2,297	272	11.6%
Pollution tax	-715	-726	-852	11	1.5%
<b>Total direct production costs</b>	<b>-4,938</b>	<b>-5,053</b>	<b>-4,973</b>	<b>115</b>	<b>2.3%</b>
Staff costs	-4,677	-4,188	-4,161	-489	-11.7%
Depreciation and amortization	-3,812	-4,227	-4,449	415	9.8%
Construction service, design and asphaltting	-3,852	-2,315	-3,389	-1,537	-66.4%
Other costs of goods/services sold	-3,460	-2,759	-2,470	-701	-25.4%
<b>Other costs of goods/services sold total</b>	<b>-15,801</b>	<b>-13,489</b>	<b>-14,469</b>	<b>-2,312</b>	<b>-17.1%</b>
<b>Total cost of goods/services sold</b>	<b>-20,739</b>	<b>-18,542</b>	<b>-19,442</b>	<b>-2,197</b>	<b>-11.8%</b>

During the nine months of 2018 **the cost of goods sold** amounted to EUR 20.74 million, increasing by 11.8% or EUR 2.20 million compared to the equivalent period in 2017. **Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to EUR 4.94 million, showing a 2.3% or EUR 0.12 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 2.2% to EUR 0.89 million, driven mainly by overall 2.9% increase in abstracted water volumes.
- **Chemicals** costs increased by 13.5% to EUR 1.25 million, driven by on average 11.3% higher methanol price, accompanied by higher usage of methanol and polymers to remove Nitrogen and sludge from influent in the wastewater treatment process, worth respectively EUR 0.04 million, EUR 0.03 million and EUR 0.02 million. It was additionally accompanied by higher dosage of coagulant due to poor raw water quality, higher different chemicals prices and by 2.9% higher treated water volumes in water treatment process, worth respectively EUR 0.02 million, EUR 0.02 million and EUR 0.01 million.
- **Electricity costs** decreased by 11.6% to EUR 2.08 million, driven by on average 12.6% lower electricity prices (including networks fees), worth EUR 0.30 million. Lower costs from prices were partly balanced by 2.9% increase in treated water volumes and by 5.3% higher consumption of electricity per m<sup>3</sup> in water treatment process, worth in total EUR 0.05 million.
- **Pollution tax expense** decreased by 1.5% to EUR 0.72 million, mainly due to 5.3% lower treated wastewater volumes, balanced by higher concentration of Nitrogen and BOD7, worth respectively EUR +0.04 million, EUR -0.03 million and EUR -0.01 million.

**Other costs of goods sold** (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to EUR 15.80 million, having increased by 17.1% or EUR 2.31 million. Changes in other costs of goods sold were driven by the same reasons as mentioned in the 3<sup>rd</sup> quarter results.

The **Group's gross profit** for the nine months of 2018 was EUR 25.81 million, showing an increase of 2.0% or EUR 0.51 million compared to the comparative period of 2017. The **Group's operating profit** for the nine months of 2018 amounted to EUR 21.65 million, being 2.6% or EUR 0.56 million higher than in the corresponding period of 2017.

## FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.71 million, compared to net expense of EUR 0.73 million in the nine months of 2017. The decrease was mainly impacted by lower interest costs balanced by lower positive change in the fair value of the swap contracts year-on-year, worth respectively EUR +0.10 million and EUR -0.09 million.

## PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for the nine months of 2018 were EUR 20.94 million, being 2.8% or EUR 0.58 million higher than for the relevant period of 2017. The Group's net profit for the nine months of 2018 were EUR 19.14 million, being 8.4% or EUR 1.48 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 nine months of 2018 would have been EUR 18.80 million, showing an increase by 9.1% or EUR 1.57 million year-on-year.

## Statement of financial position

In the nine months of 2018 the Group invested into fixed assets EUR 7.36 million. As of 30.09.2018, non-current tangible assets amounted to EUR 177.64 million and total non-current assets amounted to EUR 178.35 million (30.09.2017: EUR 172.40 million and EUR 173.20 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 0.46 million to EUR 8.18 million. Increase mainly derives from higher accrued income and trade receivables, respectively by EUR 0.16 million and EUR 0.29 million, being mainly impacted by construction activities and higher connection points receivables and main services revenues. The collectability rate continues to be high at 99.7% level, compared to 99.5% at the end of September 2017.

Current liabilities have increased by EUR 3.45 million to EUR 13.10 million compared to the year end of 2017. Increase mainly derives from higher short-term debt obligations and in trade and other payables by respectively EUR 1.77 million and EUR 1.33 million. Increase in debt obligations is related to reclassification of 1<sup>st</sup> payment of NIB loan from long-term to short-term loan. The higher trade and other payables are related to payables related to pipe construction services and investments, accompanied by higher prepayments for connections by EUR 0.61 million.

Deferred income from connection fees has grown compared to the end of 2017 by EUR 1.93 million to EUR 21.56 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 12<sup>th</sup> 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%.

The Group has a Total debt to assets level of 59.9%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2017 the total debt to assets ratio was 56.5%.

## CASH FLOW

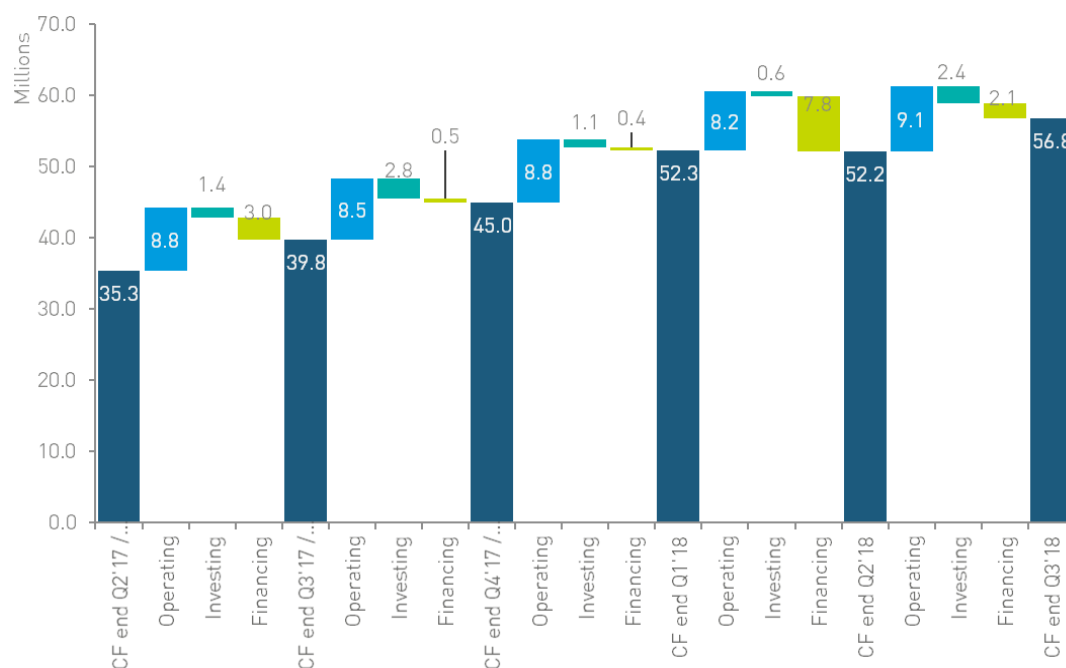
As of 30.09.2018, the cash position of the Group is strong. At the end of September 2018, the cash balance of the Group stood at EUR 56.76 million, which is 23.3% of the total assets (30.09.2017: EUR 39.77 million, forming 18.0% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the nine months of 2018, the Group generated EUR 26.12 million of cash flows from operating activities, an increase of EUR 1.38 million compared to the corresponding period in 2017. Underlying operating profit continues to be the main contributor to operating cash flows.

In the nine months of 2018 the result of net cash flows from investing activities was a cash outflow of EUR 4.08 million, a slight decrease of EUR 0.08 million compared to the cash outflow of EUR 4.16 million in the nine months of 2017. This is made up as follows:

- The cash outflows from investments in fixed assets has increased by EUR 0.51 million compared to 2017 amounting to EUR 6.92 million.
- The compensations received for the construction of pipelines were EUR 2.75 million, showing an increase of EUR 0.56 million compared to the same period of 2017.

In the nine months of 2018 **cash outflow from financing activities** amounted to EUR 10.26 million, decreasing by EUR 4.54 million compared to the same period in 2017. The change was mainly related to lower dividend payment and related tax payment by EUR 4.50 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 the involvement of our staff in the decision-making process instrumental for them to understand and be able to support the Company in its pursuits. Our staff can vary to a large degree in age, nationality, nature of work and in many other aspects. This requires us to be resourceful and flexible in our communication with the staff in order to involve, engage and listen to them. This is done using several opportunities and channels of communication, such as regular staff meetings with the management, information boards, intranet, informative letters, team events and a quarterly internal newsletter. Estonian is not a communication language for quite a number of our staff. Therefore, we organize Estonian classes at the Company's expense to make the staff, whose mother tongue is not Estonian, also feel as part of our unified team. At the same time, we provide the majority of important information also in Russian.

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

At the end of the 3<sup>rd</sup> quarter of 2018, the total number of employees was 310 compared to 314 at the end of the same period in 2017. The full time equivalent (FTE) was respectively 296 in 2018 compared to the 302 in 2017. Average number of employees during the nine months was respectively 316 in 2018 and 315 in 2017.

By gender, employee allocation was as follows:

	As of 30.09.2018			As of 30.09.2017		
	Women	Men	Total	Women	Men	Total
Group	88	222	310	92	222	314
Management Team	14	15	29	14	13	27
Executive Team	4	4	8	4	4	8
Management Board	1	2	3	1	2	3
Supervisory Board	1	8	9	0	9	9

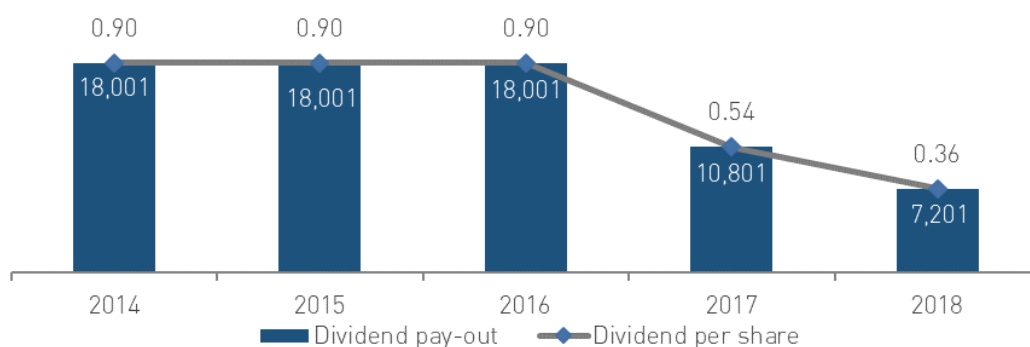
The total salary costs were EUR 2.00 million for the 3<sup>rd</sup> quarter of 2018, including EUR 0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could rise up to EUR 0.09 million should the Council want to replace 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 31<sup>st</sup> 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 26<sup>th</sup> of June 2018.

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



## SHARE PERFORMANCE

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

As of 30.09.2018, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

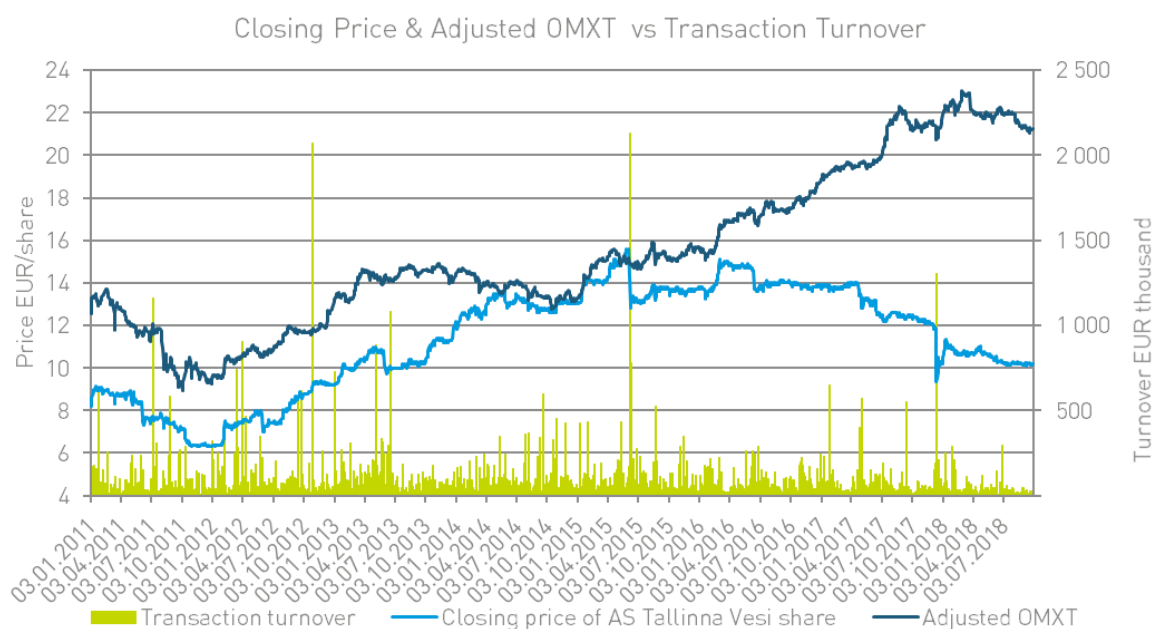


During the nine months of 2018 the shareholder structure has been relatively stable compared to the end of 2017. At the end of the 3<sup>rd</sup> quarter of 2018 the pension funds shareholding has stayed the same level as at the end of the 2<sup>nd</sup> quarter, being 1.31% of the total shares compared to 1.43% at the end of 2017.

As of 30.09.2018, the closing price of AS Tallinna Vesi share was EUR 10.20, which is 0.5% (2017: -0.8%) lower compared to the closing price of EUR 10.25 at the beginning of the quarter. During the 3<sup>rd</sup> quarter the OMX Tallinn index decreased by 3.4% (2017: +7.8%).

In the nine months of 2018, 3,014 deals with the Company's shares were concluded (2017: 5,890 deals) during which 546 thousand shares or 2.7% of total shares exchanged their owners (2017: 911 thousand shares or 4.6%).

The turnover of the transactions was EUR 6,163 thousand lower than in 2017 comparative period, amounting to EUR 5.78 million.





## CORPORATE STRUCTURE

As of 30.09.2018, 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. There were no changes made in the Supervisory Council members in the 3<sup>rd</sup> quarter of 2018.

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 2<sup>nd</sup> 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 21<sup>st</sup> March 2020), Aleksandr Timofeev (with the powers of the Management Board Member until 29<sup>th</sup> October 2021) and Riina Käi (with the powers of the Management Board Member until 29<sup>th</sup> 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 2<sup>nd</sup> 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](mailto:karl.brookes@tvesi.ee)

## MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 9 months period of financial year 2018 ended 30 September 2018. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 September 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 9 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 3 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 October 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 October 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>

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE 9 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 30 SEPTEMBER 2018

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(EUR thousand)

ASSETS	Note	as of 30 September 2018	as of 31 December 2017
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2	56 756	39 767
Trade receivables, accrued income and prepaid expenses		8 181	7 684
Inventories		441	472
<b>TOTAL CURRENT ASSETS</b>		<b>65 378</b>	<b>47 923</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	177 639	172 402
Intangible assets	4	709	793
<b>TOTAL NON-CURRENT ASSETS</b>		<b>178 348</b>	<b>173 195</b>
<b>TOTAL ASSETS</b>		<b>243 726</b>	<b>221 118</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of long-term borrowings		2 032	246
Trade and other payables		7 531	6 308
Derivatives		301	630
Prepayments		3 239	2 934
<b>TOTAL CURRENT LIABILITIES</b>		<b>13 103</b>	<b>10 118</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income from connection fees		21 562	18 851
Borrowings		93 626	95 607
Derivatives		112	263
Provision for possible third party claims	5	17 522	0
Other payables		48	23
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>132 870</b>	<b>114 744</b>
<b>TOTAL LIABILITIES</b>		<b>145 973</b>	<b>124 862</b>
<b>EQUITY</b>			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		59 741	58 244
<b>TOTAL EQUITY</b>		<b>97 753</b>	<b>96 256</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>243 726</b>	<b>221 118</b>

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



AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE 9 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 30 SEPTEMBER 2018

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(EUR thousand)

		Quarter 3		9 months		for the year ended 31 December
	Note	2018	2017	2018	2017	2017
Revenue	6	16 494	15 332	46 550	43 841	59 815
Cost of goods/services sold	8	-7 900	-6 767	-20 739	-18 542	-25 725
<b>GROSS PROFIT</b>		<b>8 594</b>	<b>8 565</b>	<b>25 811</b>	<b>25 299</b>	<b>34 090</b>
Marketing expenses	8	-87	-76	-293	-255	-356
General administration expenses	8	-1 100	-1 031	-3 695	-3 813	-5 028
Other income (+)/expenses (-)	9	-97	-39	-176	-142	-17 841
<b>OPERATING PROFIT</b>		<b>7 310</b>	<b>7 419</b>	<b>21 647</b>	<b>21 089</b>	<b>10 865</b>
Financial income	10	5	3	14	12	15
Financial expense	10	-176	-380	-723	-740	-959
<b>PROFIT BEFORE TAXES</b>		<b>7 139</b>	<b>7 042</b>	<b>20 938</b>	<b>20 361</b>	<b>9 921</b>
Income tax on dividends	11	0	0	-1 800	-2 700	-2 700
<b>NET PROFIT FOR THE PERIOD</b>		<b>7 139</b>	<b>7 042</b>	<b>19 138</b>	<b>17 661</b>	<b>7 221</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>7 139</b>	<b>7 042</b>	<b>19 138</b>	<b>17 661</b>	<b>7 221</b>
Attributable profit:						
Equity holders of A-shares		7 138	7 041	19 137	17 660	7 220
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	12	0,36	0,35	0,96	0,88	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	2018	9 months 2017	for the year ended 31 December 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating profit		21 647	21 089	10 865
Adjustment for depreciation/amortisation	3,4,8,9	4 263	4 670	6 170
Adjustment for revenues from connection fees	9	-216	-191	-258
Other non-cash adjustments		-11	-19	-26
Profit (-)/loss (+) from sale and write off of property, plant and equipment, and intangible assets		-48	-17	-12
Change in current assets involved in operating activities		-458	-534	-558
Change in liabilities involved in operating activities		946	-250	17 064
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>26 123</b>	<b>24 748</b>	<b>33 245</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment, and intangible assets		-6 922	-6 414	-9 761
Compensations received for construction of pipelines		2 752	2 194	2 698
Proceeds from sale of property, plant and equipment, and intangible assets		79	44	62
Interest received		11	12	15
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-4 080</b>	<b>-4 164</b>	<b>-6 986</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
Interest paid and loan financing costs, incl swap interests		-1 075	-1 099	-1 512
Repayment of finance lease		-184	-204	-260
Received loans		0	37 500	37 500
Repayment of loans		0	-37 500	-37 500
Dividends paid	11	-7 201	-10 801	-10 801
Income tax on dividends	11	-1 800	-2 700	-2 700
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-10 260</b>	<b>-14 804</b>	<b>-15 273</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>11 783</b>	<b>5 780</b>	<b>10 986</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>2</b>	<b>44 973</b>	<b>33 987</b>	<b>33 987</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>2</b>	<b>56 756</b>	<b>39 767</b>	<b>44 973</b>

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	17 661	17 661
as of 30 September 2017	12 000	24 734	1 278	58 244	96 256
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	19 138	19 138
as of 30 September 2018	12 000	24 734	1 278	59 741	97 753

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 September		as of 31 December
	2018	2017	2017
Cash in hand and in bank	41 756	27 419	29 871
Short-term deposits	15 000	12 348	15 102
<b>Total cash and cash equivalents</b>	<b>56 756</b>	<b>39 767</b>	<b>44 973</b>



### NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Total property, plant and equipment
<b>as of 31 December 2016</b>						
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
<b>Net book value</b>	<b>19 589</b>	<b>134 394</b>	<b>13 481</b>	<b>311</b>	<b>3 402</b>	<b>171 177</b>
<b>Transactions in the period 01 January 2017 - 31 December 2017</b>						
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
<b>as of 31 December 2017</b>						
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
<b>Net book value</b>	<b>19 586</b>	<b>139 423</b>	<b>12 719</b>	<b>307</b>	<b>2 416</b>	<b>174 451</b>
<b>Transactions in the period 01 January 2018 - 30 September 2018</b>						
Acquisition in book value	0	0	0	0	7 291	7 291
Write off and sale of property, plant and equipment in residual value	-13	-2	-16	0	0	-31
Reclassification	63	3 610	350	39	-4 037	25
Depreciation	-218	-2 259	-1 558	-62	0	-4 097
<b>as of 30 September 2018</b>						
Acquisition cost	26 461	211 172	48 280	1 196	5 670	292 779
Accumulated depreciation	-7 043	-70 400	-36 785	-912	0	-115 140
<b>Net book value</b>	<b>19 418</b>	<b>140 772</b>	<b>11 495</b>	<b>284</b>	<b>5 670</b>	<b>177 639</b>

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

As of 30 September 2018 the book value of the assets (Machinery and equipment) leased under financial lease is 780 thousand euros (31 December 2017: 948 thousand euros).

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#### NOTE 4. INTANGIBLE ASSETS

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
<b>as of 31 December 2016</b>			
Acquisition cost	5 313	255	5 568
Accumulated depreciation	-4 738	0	-4 738
<b>Net book value</b>	<b>575</b>	<b>255</b>	<b>830</b>
<b>Transactions in the period 01 January 2017 - 31 December 2017</b>			
Acquisition in book value	0	252	252
Reclassification	117	-117	0
Depreciation	-271	0	-271
<b>as of 31 December 2017</b>			
Acquisition cost	5 247	390	5 637
Accumulated depreciation	-4 826	0	-4 826
<b>Net book value</b>	<b>421</b>	<b>390</b>	<b>811</b>
<b>Transactions in the period 01 January 2018 - 30 September 2018</b>			
Acquisition in book value	0	64	64
Reclassification	330	-330	0
Depreciation	-166	0	-166
<b>as of 30 September 2018</b>			
Acquisition cost	5 577	124	5 701
Accumulated depreciation	-4 992	0	-4 992
<b>Net book value</b>	<b>585</b>	<b>124</b>	<b>709</b>

#### 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.

## NOTE 6. REVENUE

	Quarter 3		9 months		for the year ended
	2018	2017	2018	2017	31 December 2017
<b>Revenues from main operating activities</b>					
Total water supply and waste water disposal service, incl:	12 987	12 545	39 200	38 139	51 237
Private clients, incl:	6 322	6 148	19 178	18 808	25 225
Water supply service	3 499	3 380	10 579	10 339	13 872
Wastewater disposal service	2 823	2 768	8 599	8 469	11 353
Corporate clients, incl:	5 281	5 000	15 947	15 256	20 407
Water supply service	2 969	2 775	8 835	8 423	11 210
Wastewater disposal service	2 312	2 225	7 112	6 833	9 197
Outside service area clients, incl:	1 146	1 143	3 440	3 353	4 678
Water supply service	381	336	1 086	1 005	1 346
Wastewater disposal service	722	706	2 143	2 081	2 833
Storm water disposal service	43	101	211	267	499
Over pollution fee	238	254	635	722	927
Storm water treatment and disposal service and fire hydrants service	807	888	2 483	2 468	3 668
Construction service, design and asphalting	2 507	1 735	4 360	2 780	4 287
Other works and services	193	164	507	454	623
<b>Total revenue</b>	<b>16 494</b>	<b>15 332</b>	<b>46 550</b>	<b>43 841</b>	<b>59 815</b>

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

## NOTE 7. STAFF COSTS

	Quarter 3		9 months		for the year ended
	2018	2017	2018	2017	31 December 2017
Salaries and wages	-1 492	-1 331	-4 841	-4 432	-6 051
Social security and unemployment insurance	-505	-451	-1 637	-1 498	-2 046
<b>Staff costs total</b>	<b>-1 997</b>	<b>-1 782</b>	<b>-6 478</b>	<b>-5 930</b>	<b>-8 097</b>
<b>Average number of employees during the reporting period</b>	<b>316</b>	<b>318</b>	<b>316</b>	<b>315</b>	<b>316</b>

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

	Quarter 3		9 months		for the year ended
	2018	2017	2018	2017	31 December 2017
<b>Cost of goods/services sold</b>					
Water abstraction charges	-298	-285	-892	-873	-1 168
Chemicals	-468	-415	-1 249	-1 100	-1 501
Electricity	-626	-724	-2 082	-2 354	-3 193
Pollution tax	-204	-233	-715	-726	-1 100
Staff costs	-1 453	-1 288	-4 677	-4 188	-5 784
Depreciation and amortization	-1 261	-1 515	-3 812	-4 227	-5 577
Construction service, design and asphalting	-2 251	-1 441	-3 852	-2 315	-3 638
Other costs	-1 339	-866	-3 460	-2 759	-3 764
<b>Total cost of goods/services sold</b>	<b>-7 900</b>	<b>-6 767</b>	<b>-20 739</b>	<b>-18 542</b>	<b>-25 725</b>
<b>Marketing expenses</b>					
Staff costs	-73	-63	-245	-223	-301
Depreciation and amortization	0	0	0	0	-1
Other marketing expenses	-14	-13	-48	-32	-54
<b>Total marketing expenses</b>	<b>-87</b>	<b>-76</b>	<b>-293</b>	<b>-255</b>	<b>-356</b>
<b>Administrative expenses</b>					
Staff costs	-471	-431	-1 556	-1 519	-2 012
Depreciation and amortization	-94	-89	-253	-268	-355
Other general administration expenses	-535	-511	-1 886	-2 026	-2 661
<b>Total administrative expenses</b>	<b>-1 100</b>	<b>-1 031</b>	<b>-3 695</b>	<b>-3 813</b>	<b>-5 028</b>

## NOTE 9. OTHER INCOME/EXPENSES

	Quarter 3		9 months		for the year ended
	2018	2017	2018	2017	31 December 2017
Connection fees	75	65	216	191	258
Depreciation of single connections	-69	-60	-198	-175	-237
Doubtful receivables expenses (-)/ expense reduction (+)	-19	15	-13	-15	-20
Provision for possible third party claims (Note 5)	0	0	0	0	-17 522
Other income (+)/expenses (-)	-84	-59	-181	-143	-320
<b>Total other income / expenses</b>	<b>-97</b>	<b>-39</b>	<b>-176</b>	<b>-142</b>	<b>-17 841</b>



(EUR thousand)

## NOTE 10. FINANCIAL INCOME AND EXPENSES

	Quarter 3		9 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Interest income	5	3	14	12	15
Interest expense, loan	-187	-225	-564	-676	-865
Interest expense, swap	-164	-162	-487	-475	-637
Increase (+)/decrease (-) of fair value of swap	179	21	343	432	569
Other financial income (+)/expenses (-)	-4	-14	-15	-21	-26
<b>Total financial income / expenses</b>	<b>-171</b>	<b>-377</b>	<b>-709</b>	<b>-728</b>	<b>-944</b>

## NOTE 11. DIVIDENDS

	Quarter 3		9 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Dividends declared during the period	0	0	7 201	10 801	10 801
Dividends paid during the period	0	0	7 201	10 801	10 801
Income tax on dividends paid	0	0	-1 800	-2 700	-2 700
<b>Income tax accounted for</b>	<b>0</b>	<b>0</b>	<b>-1 800</b>	<b>-2 700</b>	<b>-2 700</b>

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

Paid-up dividends per shares:

Dividends per A-share (in euros)	0,00	0,00	0,36	0,54	0,54
Dividends per B-share (in euros)	600	600	600	600	600

## NOTE 12. EARNINGS PER SHARE

	Quarter 3		9 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Net profit minus B-share preferred dividend rights	7 138	7 041	19 137	17 660	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)	0,36	0,35	0,96	0,88	0,36
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 September 2018 and 2017 and 31 December 2017 was equal to earnings per share figures stated above.

## 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 September		as of 31 December		
Balances recorded on the statement of financial position of the Group	2018	2017	2017		
Accounts receivable	346	3	500		
Trade and other payables	189	189	184		
Transactions	Quarter 3		9 months		for the year ended 31 December
	2018	2017	2018	2017	2017
Revenue	807	888	2 483	2 468	3 668
Purchase of administrative and consulting services	254	254	765	754	1 008
Fees for Management Board (excluding social tax)	38	38	154	144	182
Supervisory Board fees (excluding social tax)	8	8	24	24	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 9 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 87 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 September 2018 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 September 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>