

AS TALLINNA VESI

Consolidated Interim Report for the 4th quarter of 2018

25 January 2018



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

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Management report

Chairman's summary

The 4th quarter of 2018 was successful for AS Tallinna Vesi, with respect to both operational and financial performance. Tallinna Vesi's sales have increased year-on-year, as well as operating and net profit. The operational performance once again reflects the high standards achieved in the supply of pure drinking water to the inhabitants, treatment of wastewater and the maintenance of the water and sewerage networks and customer service.

Solid financial performance

In the 4th quarter of 2018, the Company's sales revenues were 1.6% higher year-on-year. Sales to domestic customers increased by 2.6% in the 4th quarter, also, the sales related to construction and asphaltting services increased considerably by 8.8%. However, the sales of storm water disposal and treatment services dropped both within the main service area and in surrounding municipalities due to lower level of precipitation.

The gross profit of the 4th quarter of 2018 was EUR 8.38 million, showing a decrease of 4.7%, which was mainly due to increased sales from water and wastewater services, accompanied by higher chemicals and asset maintenance costs. The operating profit of Tallinna Vesi was EUR 5.29 million and net profit EUR 5.01 million.

Reliable water supply and wastewater service

The quality of drinking water remained at a very good level throughout 2018. This performance was verified with 100% compliance, of water samples from customer taps during the 4th quarter of 2018. At the end of last year, we completed a further campaign to promote environmental awareness in the wider community, and encourage people to drink tap water as opposed to bottled water.

In order to ensure the reliability of service to our consumers, we made several significant investments in the water and wastewater networks during 2018. The largest examples of which include the reconstruction of network in Gonsiori, Tammsaare and Tondi streets as well as the junction of Põhja and Kalasadama streets.

Adding to the high quality of drinking water, the percentage of leakage was even lower than in previous years. In the 4th quarter of 2018, water losses dropped to 13.07% in comparison with 14.69% during 2017. Maintaining a low levels of leakage is important in preserving raw water, and is a testament to our effectiveness in managing and investing in the wider water network and infrastructure.

Compliance of wastewater treatment with the environmental requirements, is a key indicator reflecting our efforts to minimise the environmental impact, resulting from wastewater incidents. Throughout 2018, our final treated effluent was 100% compliant with the parameters in our current water permit.

Raising environmental awareness and supporting the community

As per previous years, close cooperation with the community has continued throughout 2018, when we contributed to the environmental education of children, youngsters and adults. We held numerous water seminars in nurseries and schools, and hosted several tours of our water and wastewater treatment plants. In cooperation with Tallinn City Museum, an exhibition on water was opened at Kiek in de Kök, and many lectures and seminars were subsequently organised.

In 2018 we opened new public water taps in Kadriorg, Energy Discovery Centre and concluded agreement for the installation of a drinking water fountain in SuperSkypark, at the newly opened T1 Mall of Tallinn. We will continue to improve the availability of tap water in public spaces during 2019.



Raising public awareness of the environmental aspects is important to us

Tariff update

AS Tallinna Vesi is still in the process of setting the new water- and wastewater services tariffs.

In December, Competition Authority issued a decision on Tallinna Vesi's application for the approval of the prices of water services and related extra services in Tallinn and Saue service area. Competition Authority decided to approve the prices of extra services, however, refused to approve the prices of water services. In the beginning of 2019 AS Tallinna Vesi challenged Competition Authority's decision and is now waiting for the next steps.

AS Tallinna Vesi is still waiting for the decision in the arbitration proceedings regarding the possible damages claim.

OPERATIONAL INDICATORS FOR 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	%	13.7	13.8	15.1
Average duration of water interruptions per property	h	3.27	3.14	3.44
Sewer blockages	No	603	654	670
Sewer bursts	No	88	135	107
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Number of complaints*	No	158	36	45
Customer contacts regarding water quality	No	258	219	166
Customer contacts regarding water pressure	No	439	298	339
Customer contacts regarding blockages and discharge of storm water	No	1,043	1,111	1,190
Responding written customer contacts within at least 2 work days	%	100.0	99.9	99.5
Failed promises	No	33	5	4
Notification of unplanned water interruptions at least 1 h before the	%	95.2	98.2	98.8

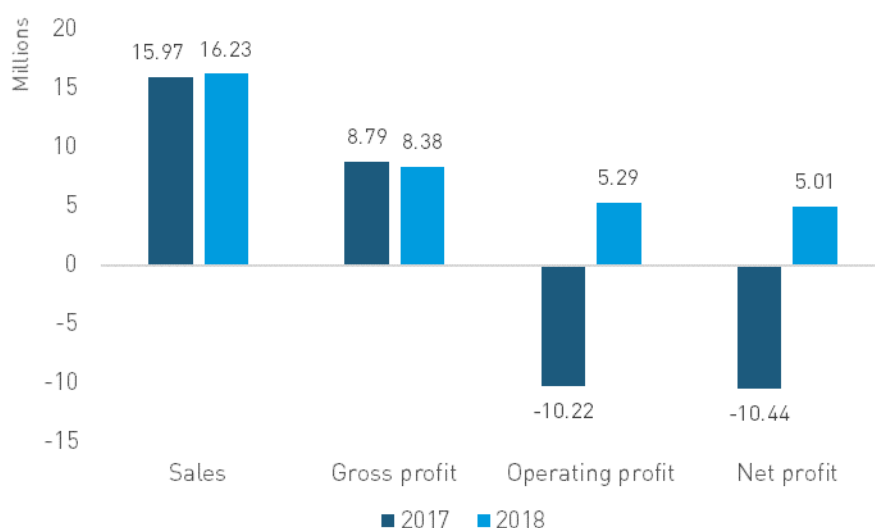
**Until 2018, this figure included only the customer complaints received in writing. The number for 2018 includes the complaints received both in writing and by phone.*



Karl Heino Brookes
Chairman of the Management Board

FINANCIAL HIGHLIGHTS FOR THE 4th QUARTER 2018

The Group's sales revenues during the 4th quarter of 2018 were EUR 16.23 million, being up by 1.6% or EUR 0.26 million compared to the same period in 2017.



The gross profit in the 4th quarter of 2018 was EUR 8.38 million, showing a decrease of 4.7% or EUR 0.41 million. Decrease in gross profit was related to lower storm water treatment and disposal service and fire hydrants service revenues accompanied by higher chemicals and asset maintenance costs and other costs of goods/services sold. It was balanced by higher water and wastewater revenues accompanied by higher construction services related profit and lower electricity costs and pollution tax expenses.

The operating profit was EUR 5.29 million, showing an increase of 151.8% or EUR 15.52 million. In addition to above-mentioned changes in gross profit, the operating profit was also impacted by lower expense for provision formed for the possible third-party claims accompanied by higher administrative and marketing expenses and lower net other expenses. The operating profit for the 4th quarter of 2018 and 2017 without the impact resulted from the change of provision for the possible third-party claims was EUR 6.84 million and EUR 7.30 million, being lower by 6.3% or EUR 0.46 million year-on-year.

The net profit for the 4th quarter of 2018 was EUR 5.01 million, showing an increase by 148.0% or EUR 15.45 million. The net profit was mainly impacted by above mentioned changes in the operating profit, accompanied by higher financial expenses. The changes in the financial expenses were mostly influenced by the lower positive change in the fair value of swap contracts in the 4th quarter of 2018 compared to the positive change in the same quarter of 2017. The net profit for the 4th quarter of 2018 and 2017 without the impact resulted from the change of the fair value of swap contracts and the change of provision for the possible third-party claims was EUR 6.53 million and EUR 6.95 million respectively, being lower by 6.0% or EUR 0.42 million year-on-year.

MAIN FINANCIAL INDICATORS

EUR million, except key ratios	4 th quarter			Change 2018/ 2017	12 months			Change 2018/ 2017
	2018	2017	2016		2018	2017	2016	
Sales	16.23	15.97	14.52	1.6%	62.78	59.82	58.98	5.0%
Gross profit	8.38	8.79	8.24	-4.7%	34.19	34.09	33.26	0.3%
Gross profit margin %	51.61	55.04	56.75	-6.2%	54.45	56.99	56.39	-4.5%
Operating profit before depreciation and amortisation	6.75	-8.79	6.87	176.8%	32.46	16.80	30.83	93.2%
Operating profit before depreciation and amortisation margin %	41.57	-55.00	47.34	175.6%	51.70	28.08	52.28	84.1%
Operating profit	5.29	-10.22	5.36	151.8%	26.94	10.87	24.63	147.9%
Operating profit - main business	5.06	-10.40	5.52	148.6%	26.21	10.24	24.44	156.0%
Operating profit margin %	32.61	-64.00	36.94	150.9%	42.91	18.16	41.75	136.2%
Profit before taxes	5.01	-10.44	5.45	148.0%	25.95	9.92	22.89	161.6%
Profit before taxes margin %	30.88	-65.36	37.56	147.3%	41.33	16.59	38.81	149.2%
Net profit	5.01	-10.44	5.45	148.0%	24.15	7.22	18.39	234.4%
Net profit margin %	30.88	-65.36	37.56	147.3%	38.47	12.07	31.18	218.6%
ROA %	2.03	-4.64	2.59	143.7%	10.10	3.27	8.70	209.2%
Debt to total capital employed %	58.85	62.43	58.15	-5.7%	58.85	62.43	58.15	-5.7%
ROE %	5.18	-11.47	6.29	145.2%	25.61	8.24	20.62	210.7%
Current ratio	5.36	5.51	3.91	-2.7%	5.36	5.51	3.91	-2.7%
Quick ratio	5.33	5.46	3.87	-3.3%	5.33	5.46	3.87	-3.3%
Investments into fixed assets	3.04	3.58	4.78	-15.0%	10.40	9.47	14.95	9.7%
Payout ratio %	na	99.72	58.73	na	na	99.72	58.73	na

Gross profit margin – Gross profit / Net sales

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

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

Operating profit margin – Operating profit / Net sales

Net profit margin – Net profit / Net sales

ROA – Net profit / Average Total assets for the period

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

ROE – Net profit / Average Total equity for the period

Current ratio – Current assets / Current liabilities

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

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

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

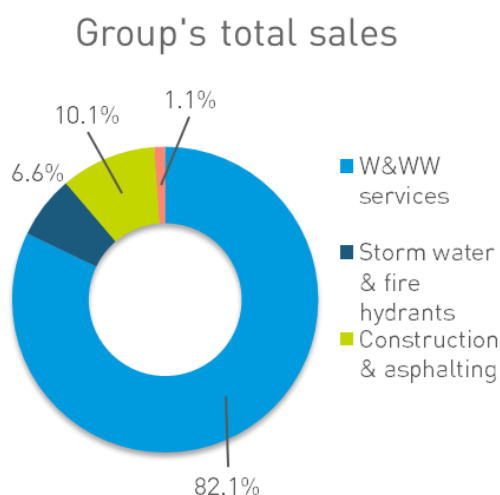
FINANCIAL RESULTS FOR THE 4th QUARTER 2018

Statement of comprehensive income

SALES

As in the 4th 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. With its decision from 4th of December 2018 CA did not approve the prices of water and wastewater services in Tallinn and Saue service area. With the same decision CA approved prices for services directly related to water and wastewater services. On 6th of December 2018 CA notified the company of the initiation of a supervisory review procedure, to which the Company is expected to file its response by 30th of January 2019. On 3rd of January 2019 the Company challenged CA's decision dated 4th of December 2018 for refusing to approve the prices of water and wastewater services, that AS Tallinna Vesi applied for in Tallinn and Saue service area. On 13th of September 2018 the Company submitted supplemented tariff application additionally to Tallinn and Saue area also to Harku and surrounding areas water companies. CA has informed the Company that the supplemented application meets also all the requirements and that they have extended the review from 30 days to 90 days starting as the application is complicated. 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 the tariffs. The tariffs could also change if the CA establishes temporary water tariffs in accordance with the procedure specified in applicable law.



In the 4th quarter of 2018 the **Group's total sales** were EUR 16.23 million, showing an increase by 1.6% or EUR 0.26 million year-on-year. 82.1% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.6% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 10.1% 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.

EUR thousand	4 th quarter			Variance 2018/2017	
	2018	2017	2016	EUR	%
Private clients, incl:	6,587	6,417	6,352	170	2.6%
Water supply service	3,600	3,532	3,495	68	1.9%
Wastewater disposal service	2,987	2,885	2,857	102	3.5%
Corporate clients, incl:	5,299	5,150	5,128	149	2.9%
Water supply service	2,898	2,787	2,813	111	4.0%
Wastewater disposal service	2,401	2,363	2,315	38	1.6%
Outside service area clients, incl:	1,240	1,326	1,102	-86	-6.5%
Water supply service	380	342	329	38	11.1%
Wastewater disposal service	749	752	689	-3	-0.4%
Storm water disposal service	111	232	84	-121	-52.2%
Over pollution fee	202	205	181	-3	-1.5%
Total water supply and wastewater disposal service	13,328	13,098	12,763	230	1.8%
Storm water treatment and disposal and fire hydrants service	1,078	1,200	830	-122	-10.2%
Construction service, design and asphaltting	1,640	1,507	773	133	8.8%
Other works and services	183	169	153	14	8.3%
SALES REVENUES TOTAL	16,229	15,974	14,519	255	1.6%

Sales from water and wastewater services were EUR 13.33 million, showing a 1.8% or EUR 0.23 million increase compared to the 4th quarter of 2017, resulting from the changes in sales volumes as described below:

- There has been an increase in **private customers'** revenues of 2.6% to EUR 6.59 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group, accompanied by an increase in an individual houses' consumption.
- Sales to **corporate customers** within the service area increased by 2.9% to EUR 5.30 million. Increase was related to higher consumption in the sales of all commercial customer segments caused by slightly higher average consumption of different customers.
- Sales to **customers outside the main service area** decreased by 6.5% to EUR 1.24 million. It was mainly impacted by a decrease of storm water disposal service, balanced partly by an increase in the sales of water supply service to Rae area.
- **Over pollution fees** received have decreased by 1.5% to EUR 0.20 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were EUR 1.08 million, showing a decrease of 10.2% or EUR 0.12 million in the 4th quarter of 2018 compared to the same period in 2017, driven mainly by 53.8% lower storm water volumes, balanced by higher cost per m³.

Sales of construction, design and asphaltting services were EUR 1.64 million, increasing by 8.8% or EUR 0.13 million year-on-year. The increase was mainly related to higher pipe construction and asphaltting services revenues during the 4th quarter of 2018.

COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

The cost of goods and services sold amounted to EUR 7.85 million in the 4th quarter of 2018, increasing by 9.4% or EUR 0.67 million compared to the equivalent period in 2017. The increase was mainly influenced by an increase in other costs of goods/services sold, accompanied by higher construction and asphaltting services related expenses and chemicals and asset maintenance costs. Higher costs were partly balanced by a decrease in pollution tax and electricity expenses.

EUR thousand	4 th quarter			Variance 2018/2017	
	2018	2017	2016	EUR	%
Water abstraction charges	-294	-295	-318	1	0.3%
Chemicals	-495	-401	-336	-94	-23.4%
Electricity	-767	-839	-809	72	8.6%
Pollution tax	-248	-374	-239	126	33.7%
Total direct production costs	-1,804	-1,909	-1,702	105	5.5%
Staff costs	-1,606	-1,596	-1,569	-10	-0.6%
Depreciation and amortisation	-1,366	-1,351	-1,412	-15	-1.1%
Construction service, design and asphaltting	-1,388	-1,328	-617	-60	-4.5%
Other costs of goods/services sold	-1,690	-998	-919	-692	-69.3%
Other costs of goods/services sold total	-6,050	-5,273	-4,577	-777	-14.7%
Total cost of goods/services sold	-7,854	-7,182	-6,279	-672	-9.4%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to EUR 1.80 million, showing a 5.5% or EUR 0.11 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:

- **Chemicals** costs increased by 23.4% to EUR 0.50 million, driven mainly by on average 33.6% higher price of methanol and by higher usage of methanol to remove Nitrogen, worth respectively EUR 0.05 million and EUR 0.03 million. Higher chemicals costs in wastewater treatment process were accompanied by higher prices of chlorine and coagulant, worth in total EUR 0.01 million.
- **Electricity costs** decreased by 8.6% to EUR 0.78 million, driven mainly by 32.5% lower wastewater volumes, worth EUR 0.11 million. Lower costs were partly balanced by increase in treated volumes in water treatment process and refilling of Paunküla reservoir, worth respectively EUR 0.02 million and EUR 0.03 million.
- **Pollution tax expense** decreased by 33.7% to EUR 0.25 million, mainly due to 32.5% lower treated wastewater volumes, worth EUR 0.12 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 6.05 million, having increased by 14.7% or EUR 0.78 million. The increase came mostly from other costs of goods/services sold and costs related to construction and asphaltting services by following reasons:

- **Construction and asphaltting services costs** increased by 4.5% to EUR 1.39 million, mainly due to higher construction and asphaltting services revenues mentioned earlier and project specific changes.

- **Other costs of goods/services sold** increased by 69.3% to EUR 1.69 million, mainly because of higher asset maintenance costs and costs for sludge disposal. Asset maintenance costs increased by 49.6% or EUR 0.45 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 4th quarter of 2018 was EUR 8.38 million, showing a decrease of 4.7% or EUR 0.41 million, compared to the gross profit of EUR 8.79 million for the comparative period of 2017.

ADMINISTRATIVE AND MARKETING EXPENSES, OTHER INCOME AND EXPENSES

Administrative and marketing expenses amounted to EUR 1.42 million, having increased by 8.0% or EUR 0.11 million. The increase was mainly related to higher IT services and tariff dispute related costs.

Other income and expenses amounted to net expenses of EUR 1.66 million, having decreased by 90.6% or EUR 16.04 million. The decrease was mostly impacted by EUR 15.98 million lower provision for third party claims accompanied by profit from sale of some cars. The provision takes into account three years of possible difference in the prices between the tariffs approved by the City of Tallinn in 2010 and the best knowledge of application of CA methodology. The estimation of 40% of the full amount has not been changed since 2017. Still the Company does not consider itself liable to customers for any claims related to the tariffs applied until the new tariffs approved by the Competition Authority are duly implemented. Additional information in Note 5 to the abbreviated accounts.

OPERATING PROFIT

As a result of the factors listed above the Group's **operating profit** for the 4th quarter of 2018 amounted to EUR 5.29 million, being 151.8% or EUR 15.52 million higher than in the corresponding period of 2017. The Group's operating profit from main business was EUR 5.06 million, being 148.6% or EUR 15.46 million higher compared to 2017. Eliminating the effect of the change of provision for the possible third-party claims the operating profit for the 4th quarter of 2018 and 2017 would have been EUR 6.84 million and EUR 7.30 million, being lower by 6.3% or EUR 0.46 million year-on-year.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.28 million, compared to net expense of EUR 0.22 million in the 4th quarter of 2017. The increase was mainly impacted by lower positive change in the fair value of the swap contracts year-on-year and lower interest costs, worth respectively EUR -0.10 million and EUR +0.04 million.

The standalone swap agreements have been signed to mitigate the long-term floating interest risk. The interest swap agreements are signed for EUR 45 million, EUR 50 million are with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, amounting to EUR 0.38 million. Effective interest rate of loans (incl. swap interests) in the 4th quarter of 2018 was 1.31%, amounting to interest costs of EUR 0.32 million, compared to the effective interest rate of 1.46% and the interest costs of EUR 0.35 million in the 4th quarter of 2017.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's **profit before taxes** and **net profit** for the 4th quarter of 2018 was EUR 5.01 million, being 148.0% or EUR 15.45 million higher than for the comparative period of 2017. Eliminating the effects of the change of the fair value of swap contracts and the change of provision for the possible third-party claims the Group's net profit for the 4th quarter of 2018 and 2017 would have been EUR 6.53 million and EUR 6.95 million respectively, showing a decrease of 6.0% or EUR 0.42 million year-on-year.

FINANCIAL RESULTS FOR THE TWELVE MONTHS OF 2018

Statement of comprehensive income

SALES

During the twelve months of 2018 the **Group's total sales** were EUR 62.78 million, showing an increase by 5.0% or EUR 2.97 million year-on-year. **Sales from water and wastewater services** for twelve months of 2018 were 52.53 million, increasing 2.5% or EUR 1.29 million year-on-year. 83.7% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.7% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 9.6% from construction and asphaltting services and 1.1% from other works and services.

EUR thousand	12 months			Variance 2018/2017	
	2018	2017	2016	EUR	%
Private clients, incl:	25,765	25,225	24,949	540	2.1%
Water supply service	14,179	13,872	13,720	307	2.2%
Wastewater disposal service	11,586	11,353	11,229	233	2.1%
Corporate clients, incl:	21,246	20,407	20,069	839	4.1%
Water supply service	11,733	11,210	11,075	523	4.7%
Wastewater disposal service	9,513	9,197	8,994	316	3.4%
Outside service area clients, incl:	4,680	4,678	4,400	2	0.0%
Water supply service	1,465	1,346	1,306	119	8.8%
Wastewater disposal service	2,893	2,833	2,709	60	2.1%
Storm water disposal service	322	499	385	-177	-35.5%
Over pollution fee	837	927	778	-90	-9.7%
Total water supply and wastewater disposal service	52,528	51,237	50,196	1,291	2.5%
Storm water treatment and disposal service and fire hydrants service	3,562	3,668	3,671	-106	-2.9%
Construction service, design and asphaltting	6,000	4,287	4,511	1,713	40.0%
Other works and services	690	623	604	67	10.8%
SALES REVENUES TOTAL	62,780	59,815	58,982	2,965	5.0%

During the twelve months of 2018 there has been an increase in **sales to private customers** by 2.1% to EUR 25.76 million and to **corporate customers** within the service area by 4.1% to EUR 21.25 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 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 4th quarter results. Sales to **customers outside the main service area** stayed at the same level amounting to EUR 4.68 million, being impacted by an increase in the sales of water supply and wastewater disposal services, balanced almost fully by lower storm water disposal services sales. **Over pollution fees** received have decreased by 9.7% to EUR 0.84 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the twelve months of 2018 amounted to EUR 3.56 million, showing a decrease of 2.9% or EUR 0.11 million year-on-year, driven mainly by 30.8% lower storm water volumes, balanced partly by higher cost per m³.

Sales of construction, design and asphaltting services were EUR 6.00 million, increasing by 40.0% or EUR 1.71 million year-on-year. The increase was mainly related to higher pipe construction services revenues as the Company won some big procurements in Tallinn and other parts of Estonia.

COST OF GOODS AND SERVICES SOLD AND GROSS AND OPERATING PROFITS

EUR thousand	12 months			Variance 2018/2017	
	2018	2017	2016	EUR	%
Water abstraction charges	-1,187	-1,168	-1,169	-19	-1.6%
Chemicals	-1,744	-1,501	-1,308	-243	-16.2%
Electricity	-2,849	-3,193	-3,107	344	10.8%
Pollution tax	-963	-1,100	-1,091	137	12.5%
Total direct production costs	-6,743	-6,962	-6,675	219	3.1%
Staff costs	-6,283	-5,784	-5,729	-499	-8.6%
Depreciation and amortisation	-5,177	-5,577	-5,862	400	7.2%
Construction service, design and asphaltting	-5,240	-3,638	-4,006	-1,602	-44.0%
Other costs of goods/services sold	-5,151	-3,764	-3,449	-1,387	-36.8%
Other costs of goods/services sold total	-21,851	-18,763	-19,046	-3,088	-16.5%
Total cost of goods/services sold	-28,594	-25,725	-25,721	-2,869	-11.2%

During the twelve months of 2018 **the cost of goods sold** amounted to EUR 28.59 million, increasing by 11.2% or EUR 2.87 million compared to the equivalent period in 2017. **Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to EUR 6.74 million, showing a 3.1% or EUR 0.22 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 1.6% to EUR 1.19 million, driven mainly by overall 2.5% increase in abstracted water volumes.
- **Chemicals** costs increased by 16.2% to EUR 1.74 million, driven by on average 17.9% 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 0.10 million, EUR 0.06 million and EUR 0.03 million. It was additionally accompanied by higher dosage of coagulant due to poor raw water quality, higher coagulant and chlorine prices and by 2.5% higher treated water volumes in water treatment process, worth respectively EUR 0.02 million, prices impact in total EUR 0.03 million and EUR 0.01 million.
- **Electricity costs** decreased by 10.8% to EUR 2.85 million, driven by on average 9.4% lower electricity prices (including networks fees), worth EUR 0.30 million. Lower costs from prices were accompanied by 14.6% lower wastewater volumes and were partly balanced by 2.5% increase in treated water volumes and by 6.9% higher consumption of electricity per m³ in water treatment process, worth respectively EUR +0.12 million, EUR -0.02 million and EUR -0.05 million.
- **Pollution tax expense** decreased by 12.5% to EUR 0.96 million, mainly due to 14.6% lower treated wastewater volumes, balanced partly by higher concentration of BOD₇, worth respectively EUR +0.16 million and EUR -0.03 million.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to EUR 21.85 million, having increased by 16.5% or EUR 3.09 million. Changes in other costs of goods sold were mainly driven by the same reasons as mentioned in the 4th quarter results. It was additionally accompanied by 8.6% higher staff costs amounting to EUR 6.28 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 reviewed bonus reserve at the end of 4th quarter of 2018. The higher costs were partly balanced by 7.2% lower depreciation and amortisation costs, which was mainly impacted by lower accelerated depreciation and cost of machinery and equipment depreciation year-on-year.

The **Group's gross profit** for the twelve months of 2018 was EUR 34.19 million, showing a slight increase of 0.3% or EUR 0.10 million compared to the comparative period of 2017. The **Group's operating profit** for the twelve months of 2018 amounted to EUR 26.94 million, being 147.9% or EUR 16.07 million higher than in the corresponding period of 2017. Eliminating the effect of the change of provision for the possible third-party claims mentioned in 4th quarter results the operating profit for 2018 and 2017 would have been EUR 28.49 million and EUR 28.39 million, being at the same level year-on-year.

FINANCIAL EXPENSES

The **Group's net financial income and expenses** have resulted a net expense of EUR 0.99 million, compared to net expense of EUR 0.94 million in the twelve months of 2017. The increase was mainly impacted by lower positive change in the fair value of the swap contracts year-on-year, balanced by lower interest costs, worth respectively EUR -0.19 million and EUR +0.14 million.

PROFIT BEFORE TAXES AND NET PROFIT

The **Group's profit before taxes** for the twelve months of 2018 were EUR 25.95 million, being 161.6% or EUR 16.03 million higher than for the relevant period of 2017. The **Group's net profit** for the twelve months of 2018 were EUR 24.15 million, being 234.4% or EUR 16.93 million higher than for the equivalent period of 2017. Eliminating the effects of the change of the derivatives fair value and the change of provision for the possible third-party claims the Group's net profit for the twelve months of 2018 would have been EUR 24.59 million, showing an increase by 4.4% or EUR 1.05 million year-on-year.

Statement of financial position

In the twelve months of 2018 the **Group invested into fixed assets** EUR 10.40 million. As of 31.12.2018, non-current tangible assets amounted to EUR 179.19 million and total non-current assets amounted to EUR 179.85 million (31.12.2017: EUR 174.45 million and EUR 175.26 million respectively).

Compared to the year end of 2017 the **trade receivables, accrued income and prepaid expenses** have been relatively stable showing only a slight decrease of EUR 0.09 million to EUR 7.63 million. The collectability rate continues to be high at 99.7% level, compared to 99.8% at the end of December 2017.

Current liabilities have increased by EUR 3.38 million to EUR 13.03 million compared to the year end of 2017, mainly deriving from reclassification of two installments of NIB loan from long-term to short-term liability.

Deferred income from connection fees has grown compared to the end of 2017 by EUR 3.11 million to EUR 22.75 million.

Provision for possible third party claims has grown compared to the end of 2017 by EUR 1.55 million to EUR 19.07 million by changes mentioned in 4th quarter Other income and expenses results. Additionally, 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 62.4%.

CASH FLOW

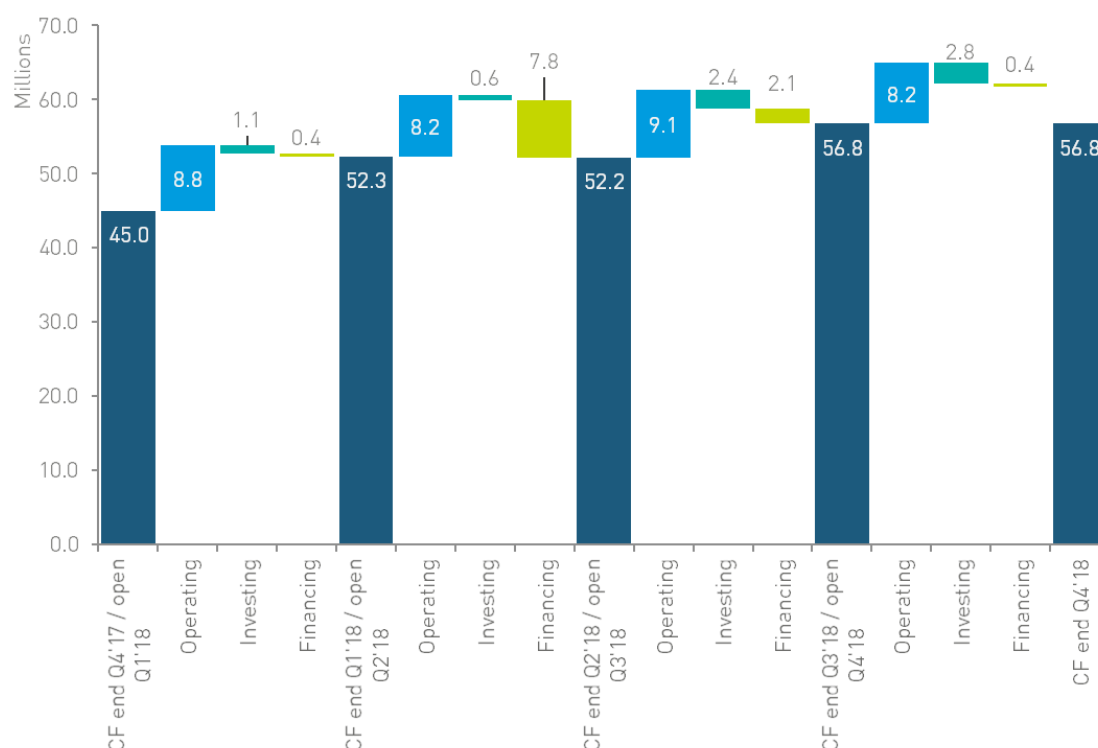
As of 31.12.2018, the cash position of the Group is strong. At the end of December 2018, the cash balance of the Group stood at EUR 61.77 million, which is 24.7% of the total assets (31.12.2017: EUR 44.97 million, forming 19.7% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the twelve months of 2018, the Group generated EUR 34.29 million of **cash flows from operating activities**, an increase of EUR 1.05 million compared to the corresponding period in 2017. Underlying operating profit continues to be the main contributor to operating cash flows.

In the twelve months of 2018 the result of **net cash flows from investing activities** was a cash outflow of EUR 6.84 million, a slight decrease of EUR 0.14 million compared to the cash outflow of EUR 6.99 million in the twelve months of 2017. This is made up as follows:

- The cash outflows from investments in fixed assets has increased by EUR 0.98 million compared to 2017 amounting to EUR 10.74 million.
- The compensations received for the construction of pipelines were EUR 3.72 million, showing an increase of EUR 1.02 million compared to the same period of 2017.

In the twelve months of 2018 **cash outflow from financing activities** amounted to EUR 10.65 million, decreasing by EUR 4.62 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 4th quarter of 2018, the total number of employees was 310 compared to 312 at the end of the same period in 2017. The full time equivalent (FTE) was respectively 296 in 2018 compared to the 300 in 2017. Average number of employees during the twelve months was 316 in both years of 2018 and in 2017.

By gender, employee allocation was as follows:

	As of 31.12.2018			As of 31.12.2017		
	Women	Men	Total	Women	Men	Total
Group	92	218	310	94	218	312
Management Team	14	15	29	14	12	26
Executive Team	4	4	8	4	4	8
Management Board	1	2	3	1	2	3
Supervisory Board	1	8	9	0	9	9

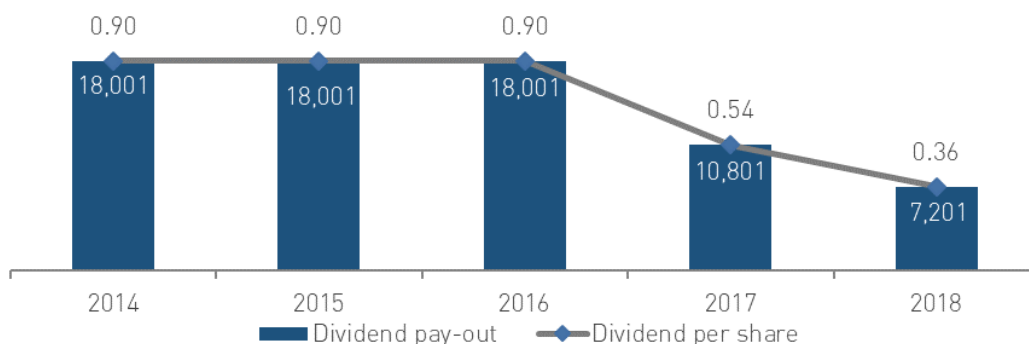
The total salary costs were EUR 2.19 million for the 4th quarter of 2018, including EUR 0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could be up to EUR 0.09 million should the Council want to replace the current 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 Baltic Main List with trading code TVEAT and ISIN EE3100026436.

As of 31.12.2018, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

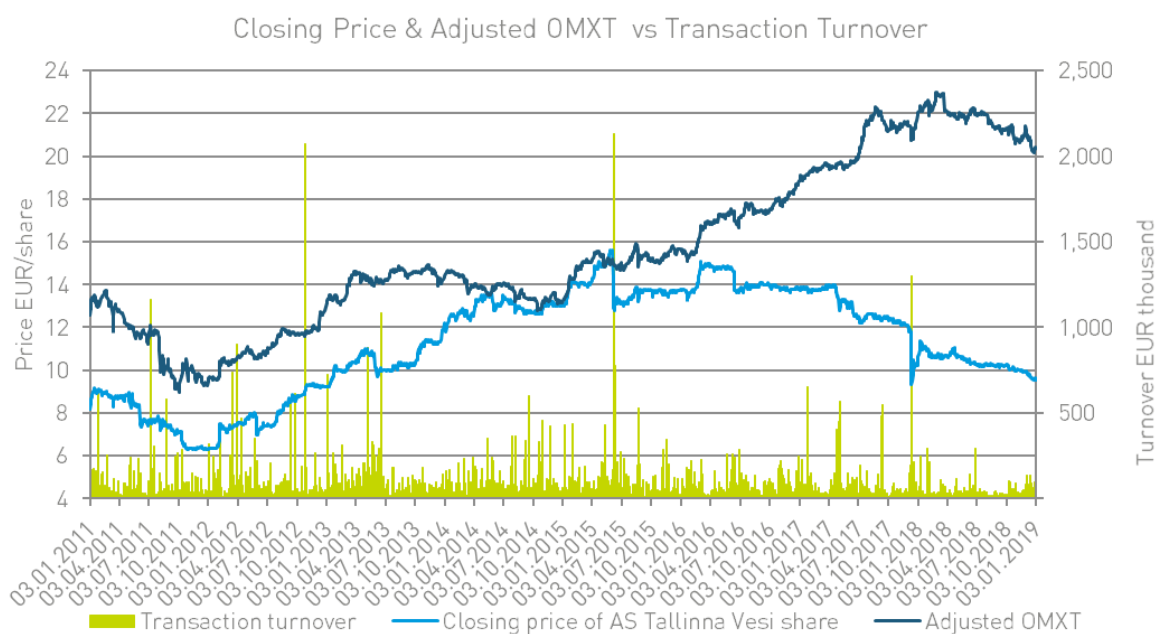
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the twelve months of 2018 the shareholder structure has been relatively stable compared to the end of 2017. At the end of the 4th quarter of 2018 the pension funds shareholding has decreased, being 1.33% of the total shares compared to 1.43% at the end of 2017.

As of 31.12.2018, the closing price of AS Tallinna Vesi share was EUR 9.60, which is 5.9% (2017: -17.7%) lower compared to the closing price of EUR 10.20 at the beginning of the quarter. During the 4th quarter the OMX Tallinn index decreased by 4.4% (2017: +1.3%).

In the twelve months of 2018, 3,983 deals with the Company's shares were concluded (2017: 8,476 deals) during which 765 thousand shares or 3.8% of total shares exchanged their owners (2017: 1,345 thousand shares or 6.7%).

The turnover of the transactions was EUR 8.54 million lower than in 2017 comparative period, amounting to EUR 7.95 million.



CORPORATE STRUCTURE

As of 31.12.2018, 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 4th 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 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 Timofeev (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 1st half of 2019.

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 12 months period of financial year 2018 ended 31 December 2018. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 December 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 12 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.

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 24 January 2019 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

24 January 2019

Introduction and photos of the Management Board members are published at company's web page.
<https://tallinnavesi.ee/en/ettevõtte/management-board/>

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 12 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

			as of 31 December
ASSETS	Note	2018	2017
CURRENT ASSETS			
Cash and cash equivalents	2	61 769	44 973
Trade receivables, accrued income and prepaid expenses		7 631	7 716
Inventories		498	457
TOTAL CURRENT ASSETS		69 898	53 146
NON-CURRENT ASSETS			
Property, plant and equipment	3	179 185	174 451
Intangible assets	4	665	811
TOTAL NON-CURRENT ASSETS		179 850	175 262
TOTAL ASSETS		249 748	228 408
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		3 823	264
Trade and other payables		6 047	6 200
Derivatives		207	578
Prepayments		2 955	2 609
TOTAL CURRENT LIABILITIES		13 032	9 651
NON-CURRENT LIABILITIES			
Deferred income from connection fees		22 745	19 632
Borrowings		91 919	95 565
Derivatives		173	178
Provision for possible third party claims	5	19 068	17 522
Other payables		46	44
TOTAL NON-CURRENT LIABILITIES		133 951	132 941
TOTAL LIABILITIES		146 983	142 592
EQUITY			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		64 753	47 804
TOTAL EQUITY		102 765	85 816
TOTAL LIABILITIES AND EQUITY		249 748	228 408

Notes to the consolidated financial statements on pages 6 to 14 form an integral part of the condensed financial statements.

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 12 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

		Quarter 4		for the year ended 31 December	
	Note	2018	2017	2018	2017
Revenue	6	16 229	15 974	62 780	59 815
Cost of goods and services sold	8	-7 854	-7 182	-28 594	-25 725
GROSS PROFIT		8 375	8 792	34 186	34 090
Marketing expenses	8	-93	-101	-386	-356
General administration expenses	8	-1 330	-1 217	-5 025	-5 028
Other income (+)/expenses (-)	9	-1 660	-17 698	-1 836	-17 841
OPERATING PROFIT (+)/LOSS (-)		5 292	-10 224	26 939	10 865
Interest income	10	7	3	21	15
Interest expense	10	-287	-219	-1 010	-959
PROFIT (+)/LOSS (-) BEFORE TAXES		5 012	-10 440	25 950	9 921
Income tax on dividends	11	0	0	-1 800	-2 700
NET PROFIT (+)/LOSS (-) FOR THE PERIOD		5 012	-10 440	24 150	7 221
COMPREHENSIVE INCOME (+)/LOSS (-) FOR THE PERIOD		5 012	-10 440	24 150	7 221
Attributable profit (+)/loss(-) to:					
Equity holders of A-shares		5 011	-10 441	24 149	7 220
B-share holder		0,60	0,60	0,60	0,60
Earnings per A share (in euros)	12	0,25	-0,52	1,21	0,36
Earnings per B share (in euros)	12	600	600	600	600

Notes to the consolidated financial statements on pages 6 to 14 form an integral part of the condensed financial statements.

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 12 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 31 DECEMBER 2018

CONSOLIDATED CASH FLOWS STATEMENT

(EUR thousand)

	Note	for the year ended 31 December 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		26 939	10 865
Adjustment for depreciation/amortisation	3,4,8,9	5 790	6 170
Adjustment for revenues from connection fees	9	-295	-258
Other non-cash adjustments		-20	-26
Profit (-)/loss (+) from sale and write off of property, plant and equipment, and intangible assets		-115	-12
Change in current assets involved in operating activities		54	-558
Change in liabilities involved in operating activities		1 939	17 064
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		34 292	33 245
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-10 736	-9 761
Compensations received for construction of pipelines		3 716	2 698
Proceeds from sale of property, plant and equipment, and intangible assets		160	62
Interest received		17	15
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-6 843	-6 986
CASH FLOWS USED IN FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl swap interests		-1 394	-1 512
Repayment of finance lease		-258	-260
Received loans		0	37 500
Repayment of loans		0	-37 500
Dividends paid	11	-7 201	-10 801
Income tax on dividends	11	-1 800	-2 700
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-10 653	-15 273
CHANGE IN CASH AND CASH EQUIVALENTS		16 796	10 986
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	44 973	33 987
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	61 769	44 973

Notes to the consolidated financial statements on pages 6 to 14 form an integral part of the condensed financial statements.

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 12 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 31 DECEMBER 2018

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
Dividends	0	0	0	-7 201	-7 201
Comprehensive income for the period	0	0	0	24 150	24 150
as of 31 December 2018	12 000	24 734	1 278	64 753	102 765

Notes to the consolidated financial statements on pages 6 to 14 form an integral part of the condensed financial statements.

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2018	2017
Cash in hand and in bank	46 769	29 871
Short-term deposits	15 000	15 102
Total cash and cash equivalents	61 769	44 973

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 12 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 31 DECEMBER 2018
(EUR thousand)

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Total property, plant and equipment
as of 31 December 2016						
Acquisition cost	26 134	199 921	47 297	1 104	3 402	277 858
Accumulated depreciation	-6 545	-65 527	-33 816	-793	0	-106 681
Net book value	19 589	134 394	13 481	311	3 402	171 177
Transactions in the period 01 January 2017 - 31 December 2017						
Acquisition in book value	0	0	0	0	9 222	9 222
Write off and sale of property, plant and equipment in residual value	0	-5	-37	0	-7	-49
Reclassification	283	8 223	1 624	71	-10 201	0
Depreciation	-286	-3 189	-2 349	-75	0	-5 899
as of 31 December 2017						
Acquisition cost	26 415	207 666	48 279	1 157	2 416	285 933
Accumulated depreciation	-6 829	-68 243	-35 560	-850	0	-111 482
Net book value	19 586	139 423	12 719	307	2 416	174 451
Transactions in the period 01 January 2018 - 31 December 2018						
Acquisition in book value	0	0	0	0	10 317	10 317
Write off and sale of property, plant and equipment in residual value	-13	-2	-29	0	0	-44
Reclassification	102	7 792	1 601	64	-9 534	25
Depreciation	-289	-3 147	-2 043	-85	0	-5 564
as of 31 December 2018						
Acquisition cost	26 500	215 059	48 792	1 141	3 199	294 691
Accumulated depreciation	-7 114	-70 993	-36 544	-855	0	-115 506
Net book value	19 386	144 066	12 248	286	3 199	179 185

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

As of 31 December 2018 the book value of the assets (Machinery and equipment) leased under financial lease is 878 thousand euros (31 December 2017: 948 thousand euros).

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 12 MONTHS PERIOD OF FINANCIAL YEAR 2018 ENDED 31 DECEMBER 2018

(EUR thousand)

NOTE 4. INTANGIBLE ASSETS

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2016			
Acquisition cost	5 313	255	5 568
Accumulated depreciation	-4 738	0	-4 738
Net book value	575	255	830
Transactions in the period 01 January 2017 - 31 December 2017			
Acquisition in book value	0	252	252
Reclassification	117	-117	0
Depreciation	-271	0	-271
as of 31 December 2017			
Acquisition cost	5 247	390	5 637
Accumulated depreciation	-4 826	0	-4 826
Net book value	421	390	811
Transactions in the period 01 January 2018 - 31 December 2018			
Acquisition in book value	0	80	80
Reclassification	420	-420	0
Depreciation	-226	0	-226
as of 31 December 2018			
Acquisition cost	4 206	50	4 256
Accumulated depreciation	-3 591	0	-3 591
Net book value	615	50	665

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.

On 4th December 2018, the Competition Authority did not approve the tariff application, the Company has submitted. According to the decision they did not approve the pollution tax and additional capital component. The Company applied for the allowed revenue of EUR 44.5 million in the City of Saue and Tallinn, whilst the CA considered appropriate EUR 34.5 million. The change in tariffs will take place after CA has approved the tariffs that will be applicable in the City of Saue and Tallinn area in the future. The tariffs could also change if the CA establishes temporary water tariffs in accordance with the procedure specified in applicable law.

The potential undiscounted payments by the Company, if customer claims are to be recognised by the courts in full and all customers submit their claims, amounts to EUR 47.7 million (EUR 43.8 million as of 31st December 2017). This estimate marks the maximum difference between the tariffs established by the City of Tallinn and the tariffs as estimated by the Company based on our current best understanding of the Competition Authority's methodology over the past three years.

The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be EUR 19.1 million (31.12.2017 EUR 17.5 million). As of 31st December 2018 no official claims have been submitted. If such liability materialises, the Company may seek to increase its damages claim against the Republic of Estonia in the ongoing ICSID arbitration, or initiate a new ICSID arbitration. The Company will monitor the situation and thus may adjust the relevant provision on the rolling basis.

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NOTE 6. REVENUE

	Quarter 4		for the year ended 31 December	
	2018	2017	2018	2017
Revenues from main operating activities				
incl:	13 328	13 098	52 528	51 237
Private clients, incl:	6 587	6 417	25 765	25 225
Water supply service	3 600	3 532	14 179	13 872
Wastewater disposal service	2 987	2 885	11 586	11 353
Corporate clients, incl:	5 299	5 150	21 246	20 407
Water supply service	2 898	2 787	11 733	11 210
Wastewater disposal service	2 401	2 363	9 513	9 197
Outside service area clients, incl:	1 240	1 326	4 680	4 678
Water supply service	380	342	1 465	1 346
Wastewater disposal service	749	752	2 893	2 833
Storm water disposal service	111	232	322	499
Over pollution fee	202	205	837	927
Storm water treatment and disposal service and fire hydrants service	1 078	1 200	3 562	3 668
Construction service, design and asphalting	1 640	1 507	6 000	4 287
Other works and services	183	169	690	623
Total revenue	16 229	15 974	62 780	59 815

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

NOTE 7. STAFF COSTS

	Quarter 4		for the year ended 31 December	
	2018	2017	2018	2017
Salaries and wages	-1 638	-1 620	-6 479	-6 051
Social security and unemployment insurance tax	-554	-547	-2 190	-2 046
Staff costs total	-2 192	-2 167	-8 669	-8 097
 Average number of employees during the reporting period	 314	 317	 316	 316

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

	Quarter 4		for the year ended 31 December	
	2018	2017	2018	2017
Cost of goods and services sold				
Water abstraction charges	-294	-295	-1 187	-1 168
Chemicals	-495	-401	-1 744	-1 501
Electricity	-767	-839	-2 849	-3 193
Pollution tax	-248	-374	-963	-1 100
Staff costs	-1 606	-1 596	-6 283	-5 784
Depreciation and amortization	-1 366	-1 351	-5 177	-5 577
Construction service, design and asphaltting	-1 388	-1 328	-5 240	-3 638
Other costs	-1 690	-998	-5 151	-3 764
Total cost of goods and services sold	-7 854	-7 182	-28 594	-25 725
Marketing expenses				
Staff costs	-77	-78	-321	-301
Depreciation and amortization	-1	-1	-1	-1
Other marketing expenses	-15	-22	-64	-54
Total marketing expenses	-93	-101	-386	-356
Administrative expenses				
Staff costs	-509	-493	-2 065	-2 012
Depreciation and amortization	-89	-86	-342	-355
Other general administration expenses	-732	-638	-2 618	-2 661
Total administrative expenses	-1 330	-1 217	-5 025	-5 028

NOTE 9. OTHER INCOME/EXPENSES

	Quarter 4		for the year ended 31 December	
	2018	2017	2018	2017
Connection fees	78	68	295	258
Depreciation of single connections	-71	-61	-270	-237
Doubtful receivables expenses (-)/ expense reduction (+)	-17	-5	-30	-20
Provision for possible third party claims (Note 5)	-1 546	-17 522	-1 546	-17 522
Other income (+)/expenses (-)	-104	-178	-285	-320
Total other income / expenses	-1 660	-17 698	-1 836	-17 841

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NOTE 10. FINANCIAL INCOME AND EXPENSES

	Quarter 4		for the year ended 31 December	
	2018	2017	2018	2017
Interest income	7	3	21	15
Interest expense, loan	-188	-189	-752	-865
Interest expense, swap	-127	-163	-614	-637
Increase (+)/decrease (-) of fair value of swap	33	137	376	569
Other financial income (+)/expenses (-)	-5	-4	-20	-26
Total financial income / expenses	-280	-216	-989	-944

NOTE 11. DIVIDENDS

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

NOTE 12. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2018	2017	2018	2017
Net profit (+)/loss (-) minus B-share preferred dividend rights	5 011	-10 441	24 149	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
Earnings per A share (in euros)	0,25	-0,52	1,21	0,36
Earnings per B share (in euros)	600	600	600	600

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

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NOTE 13. RELATED PARTIES

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

Shareholders having the significant influence

	as of 31 December			
Balances recorded on the statement of financial position of the Group			2018	2017
Accounts receivable			221	500
Trade and other payables			179	184
Transactions	Quarter 4		for the year ended 31 December	
	2018	2017	2018	2017
Revenue	1 078	1 200	3 562	3 668
Purchase of administrative and consulting services	244	255	1 009	1 008
Fees for Management Board (excluding social tax)	39	38	192	182
Supervisory Board fees (excluding social tax)	8	8	32	32

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

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

The off balance sheet potential salary liability would be up to 92 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

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

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