Tallinna Vesi

Annual Report

2018

AS Tallinna Vesi

Consolidated Annual and Sustainability Report for the financial year ended 31 December 2018

Beginning of the financial year	1 January 2018
End of the financial year	31 December 2018
Name of the Company	AS Tallinna Vesi
Legal form of the Company	Public limited company
Commercial	10257326
Aadress	Ädala St. 10, Tallinn, Estonia
Chairman of the Board	Karl Heino Brookes
Telephone	+ 372 6 262 200
E-mail	tvesi@tvesi.ee
Web-page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water, storm and wastewater disposal and treatment
Auditors	AS PricewaterhouseCoopers
Documents attached to the annual report	Independent auditor's report, GRI Index

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Chairman's statement

Consistently good operational performance

2018 was an exceptional year for both Tallinna Vesi and Estonia in general. The summer of 2018 was one of the warmest in the past 50 years, with the rainfall being only 50% of the usual level. These conditions are especially challenging for Tallinna Vesi, as the main source of water is from surface reservoirs, but thankfully there were no water shortage issues, with the catchment area continuing to supply sufficient volumes of water.

Our wider operational performance was also excellent in 2018. Once again, we managed to achieve further improvements with respect to our results, in both water and wastewater treatment, as well as providing reliable supply of services to our customers, with improved levels of satisfaction.

In a global context, Estonia is fortunate as we have plenty of natural fresh water for the production of drinking water. Nevertheless, we must constantly make sure we are using this resource wisely. Environmental awareness is fundamental in everything we do, which ensures the appropriate management and conservation of our wider catchment area and our wastewater treatment plant at Paljassaare. Throughout 2018, our final treated effluent was fully compliant with all legal requirements.

The quality of drinking water also remained very high in our service area during 2018. In the annual customer survey, as many as 86% of the customers stated that they drink tap water in preference to bottled water. People's environmental awareness has been gradually increasing over the years and continues to be topical in the wider community and media. Our contribution to improving environmental awareness is significant, and we continue to organise bespoke campaigns, and working closely with kindergartens, schools and the local communities.

For several years, we have proudly observed reduced leakage levels in our water network. This is not easy to achieve and is directly attributable to the investments made in the wider network, and swift repairs when emergencies arise.

In order to ensure the reliability of service for our consumers, we made several large targeted investments in the water and wastewater networks during 2018, the best examples of which are the reconstruction of water and wastewater network in Gonsiori and Tondi streets, in the vicinity of Tallinn Airport and at the crossings of Tammsaare-Rahumäe streets and Põhja-Kalasadama streets.

Excellent customer service

As a provider of vital services to over one third of Estonians, it is crucial that we maintain very high standards in customer service.

Each year, an extensive customer satisfaction survey is carried out by the independent research company Kantar Emor. The results of the survey map the current satisfaction level of both our contractual clients, and end-users, who pay indirectly via housing associations and landlords. Once again, we are witnessing high levels of customer satisfaction – Tallinna Vesi is valued as a professional partner. Even though the research methodology has been changed, the data proves that the quality of our service is stable, and customer requests get resolved effectively and efficiently. We will continue to make further improvements in this area, and will adopt new and innovative technology where possible, to enhance and simplify customer interaction.

Outlook for 2019

Our most important task is to provide a reliable and secure service to our customers and this is something we will never compromise. During 2019, we will continue to work closely with our various stakeholders and the wider community. Challenging objectives have been set for the year ahead, to ensure we continue to deliver an exceptional service to our water and wastewater customers, whilst continuing to develop and grow our non-regulated business Watercom.

Following on from the defeat in the Supreme Court back in December 2017, significant effort has been put into the preparation, negotiation and submission of the tariff application. Negotiations are still ongoing, but we expect this to be finalised at some point during 2019. A final verdict is still eagerly awaited from the International Arbitration proceedings that commenced back in 2014, which if successful could see compensation being paid to investors for breaching the Bilateral Investment Treaty, contained within the original Services Agreement, signed at the time of original privatisation, in 2001. We remain optimistic that 2019 will finally bring a conclusion to this long running issue.

We continue to encourage the growth of the Company's subsidiary Watercom. 2018 was the most successful year in Watercom's history, in terms of external sales and margin performance, something which we hope will continue in the future, as they continue to increase their market share in appropriate sectors.

Finally, I would like to thank my colleagues in AS Tallinna Vesi, Watercom OÜ and United Utilities, and all our suppliers and business partners for their continued support and helping the company to deliver such exceptional performance during 2018.

Karl Heino Brookes
Chairman of the Management Board

Our Company

AS Tallinna Vesi is the largest water utility in Estonia, providing drinking water and wastewater disposal services to nearly one third of Estonian population. We serve over 23,600 domestic customers and businesses and 460,000 end users in Tallinn and its surrounding areas: City of Maardu, City of Saue, Harku Parish (villages of Tiskre and Harkujärve, and small town of Harku). As of 31st December 2018, AS Tallinna Vesi employed 310 employees.

We have two main treatment plants, Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant. Every day, we treat an average of 60,000 m^3 of water and 120,000 m^3 of wastewater in our plants. Tallinna Vesi also has an accredited water laboratory and an accredited wastewater laboratory.

AS Tallinna Vesi was privatised in 2001 and based on the Services Agreement signed with the City of Tallinn upon privatisation, the Company is required to fulfil 97 levels of services. Current Services Agreement is effective until 2020, still AS Tallinna Vesi has the exclusive right to provide water and wastewater services in Tallinn until 2025.

The public water supply system comprises almost 1,170 km of water pipes, 18 water pumping stations and 64 ground water pumping stations with 93 boreholes. The catchment area in Harju and Järva counties is around 1,800 km^2. The public sewerage system comprises 1,140 km of wastewater networks, 484 km of storm water networks and 180 sewage- and stormwater pumping stations across the service area.

AS Tallinna Vesi Group consists of two companies. AS Tallinna Vesi is listed on Nasdaq Baltic market. As of 31st December 2018 AS Tallinna Vesi's shareholders, with a direct holding over 5% were United Utilities (Tallinn) B.V. and the City of Tallinn.

AS Tallinna Vesi's subsidiary, Watercom OÜ was founded in 2010, aimed at providing services to the Company and to diversify the product range on offer and develop a non-regulated business.

Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Group (hereinafter referred to as Group). The Group structure has remained unchanged in the past few years.

Ülemiste water treatment plant

Paljassaare wastewater treatment plant

Our main products and services

- Collection, treatment and supply of water
- Pipe construction works
- Transportation services and road construction
- Design works
- Laboratory services
- Collection, treatment and disposal of sewage and storm water
- Owner supervision and project management
- Water and wastewater services

Our Mission

We create a better life with pure water.

Our Vision

Everyone wants to be our customer, employee and partner, because we are the leading water services company in the Baltics.

OUR MISSION AND VISION

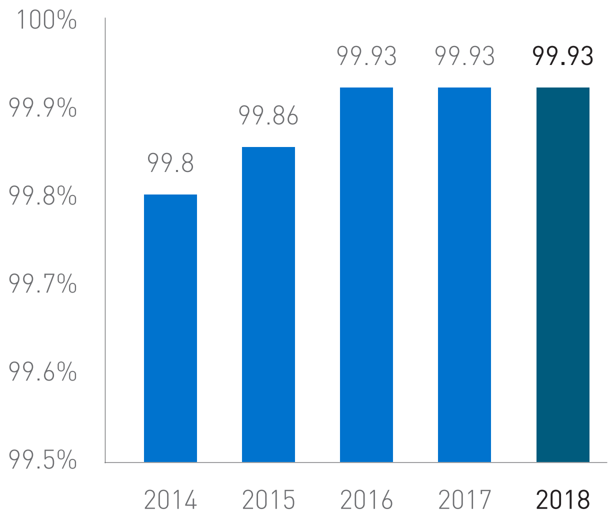
We have a responsibility to supply very high-quality drinking water to consumers, ensure service reliability and to collect and treat wastewater and storm water in an environmentally responsible way.

Our Performance

OPERATIONAL HIGHLIGHTS IN 2018

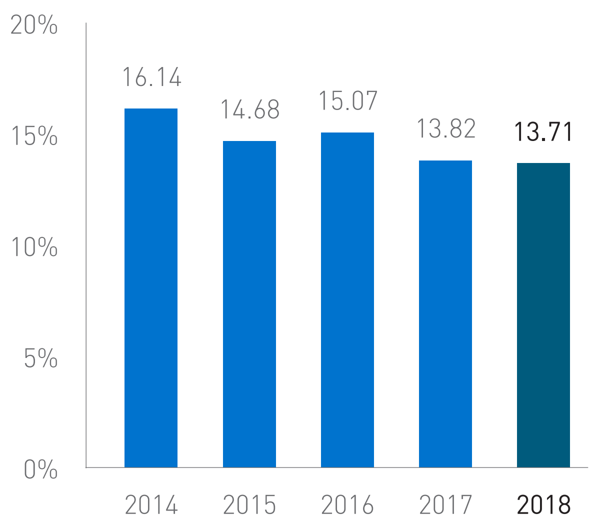
Water quality

Water quality has been very high for past three years. Professional operating of the treatment plant and professional and efficient oversight of the processes allows us to guarantee consistent and improved water quality.



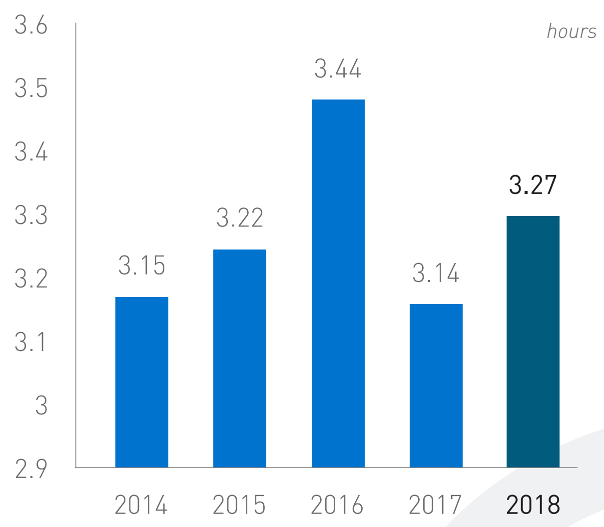
Leakage level in water network

Leakage level has been low for several consecutive years, which is a result of continuous monitoring of the state of our network and good maintenance plan.



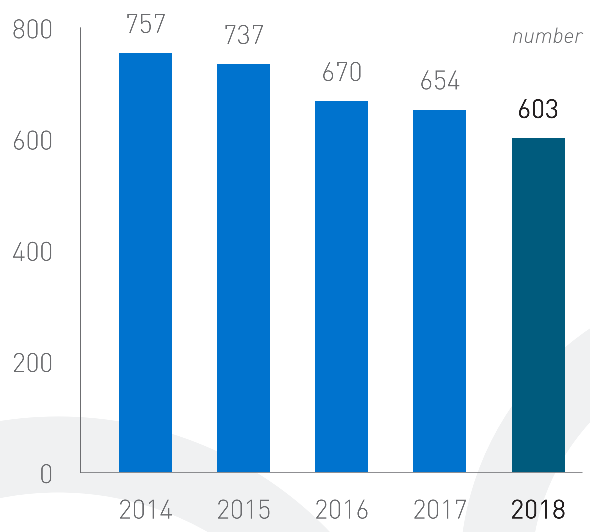
Average interruption time per property in hours

Our aim is to provide high-quality drinking water to all our clients and keep the water interruption time as short as possible. Our target is not to have water interruptions lasting longer than 3.5 hours on average.



Number of sewer blockages

Proactive jet washing has resulted in a smaller number of blockages.

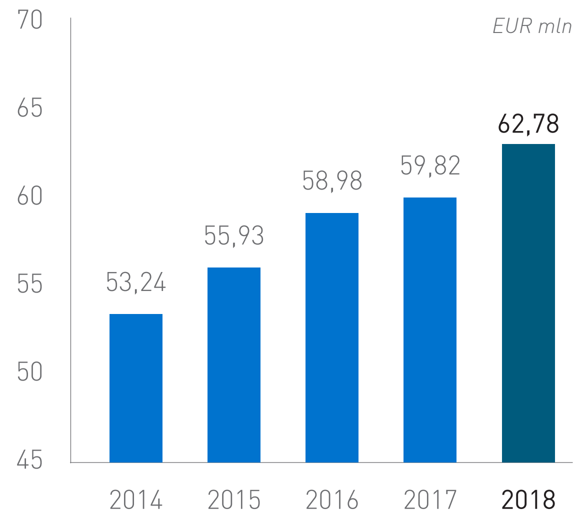


Our Performance

FINANCIAL HIGHLIGHTS IN 2018

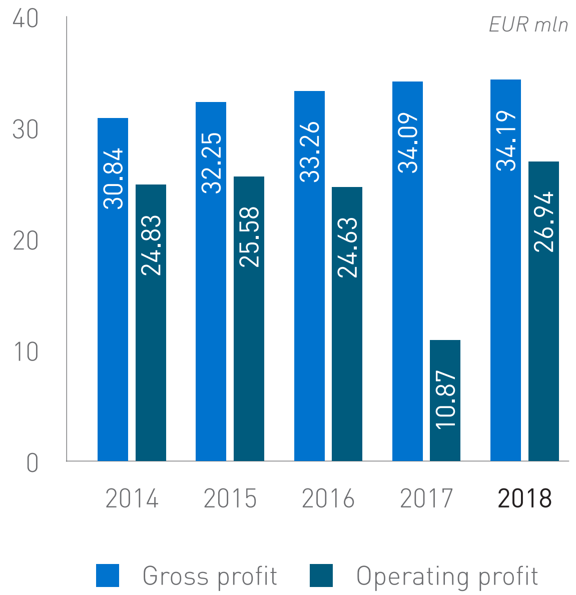
Sales

The sales have increased by 5.0% or EUR 2.97 million. 57.8% of the increase was induced by higher construction and asphalting sales. 43.6% of the sales increase came from higher water and wastewater service revenues, the remainder of changes was allocated to other services.



Gross and operating profit

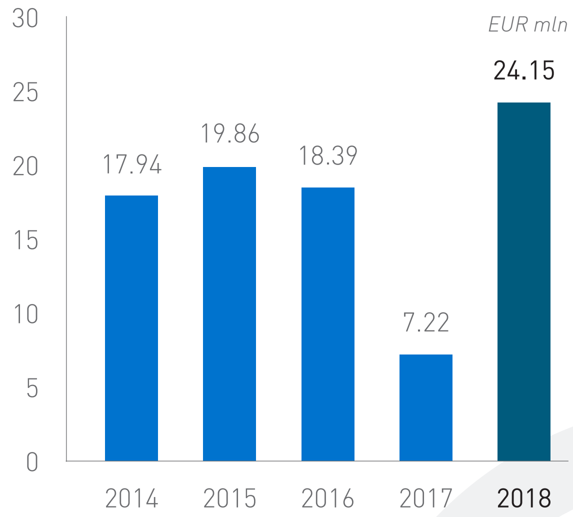
The gross profit increased by 0.3% or EUR 0.10 million to EUR 34.19 million. The increase was related to higher main service revenues and higher profit from construction and asphalting services, accompanied by lower electricity and depreciation costs and pollution tax expenses. It was balanced by higher chemicals, staff and other costs of goods and services sold.



The operating profit increased by 147.9% or EUR 16.07 million to EUR 26.94 million. The increase was mainly impacted by lower expense for provision formed for possible third-party claims (more information on provision related to possible third-party claims can be found in Note 15).

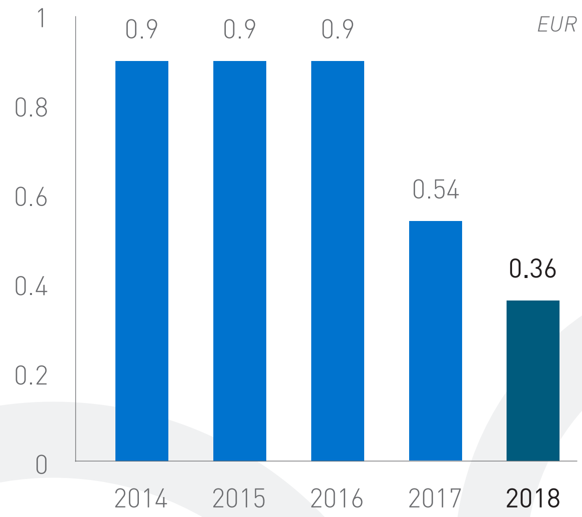
Net profit

The net profit increased by 234.4% or EUR 16.93 million to EUR 24.15 million. In addition to discussed changes it was impacted by higher financial expenses mainly in relation to lower positive change in the fair value of swap contracts by EUR 0.19 million.



Total dividend per share pay-out

Total dividends per share payout from 2017 net profit was 36 cents per share. The dividend payout was reduced in anticipation of the possible outcome of the court case.



HIGHLIGHTS OF THE YEAR

Available tap water

In order to improve the availability of pure drinking water to the public, we opened a new public water tap in Kadriorg in 2018. We also supported Energy Discovery Centre and Super Skypark in T1 Mall of Tallinn in opening public water fountains.

Raising public awareness

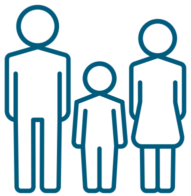
One of our objectives is to improve our customers' awareness. For this purpose, we welcomed a large number of visitors during the Open House Day events at Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant.

In co-operation with Tallinn City Museum, we opened an annual exhibition devoted to the topic of water in Kiek in de Kök.

International recognition

Tallinna Vesi achieved the highest recognition in one category in the international Ground Engineering Awards event, winning the first prize in "International Project of the Year". The award was given to Tallinna Vesi, United Utilities and Lemmikäinen for the joint project of reconstructing Tihase collector.

Support to the local community



During 2018, we also continued to support the wider community and provided support to a number of good causes and charities, including:

- Years of cooperation with and support to the Estonian Disabled Athlete Sports Association
- Assistance to the nursery "Õunake" for disabled children
- Support to the Elementary School "Ristiku" for children with learning disabilities
- A donation made for the project "Christmas in Hospitals", to bring some Christmas joy to children´s departments in hospitals
- Engagement with SPIN project to engage youth with sports and healthy lifestyle
- Supply of high-quality drinking water to several community and sporting events
- Continued environmental education programmes, in co-operation with educational institutions and nurseries.
- Visits by many adults, children and specialists to our water and wastewater treatment facilities.

Most successful construction companies

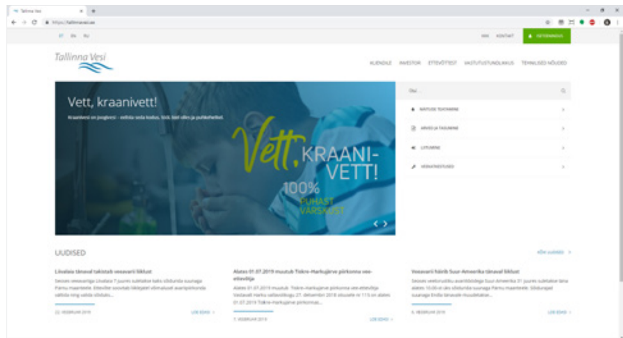
For the first time ever, OÜ Watercom ranked high in several TOP-lists of Äripäev. Watercom was high up in the list of successful infrastructure construction companies (10th place) as well as construction companies (21th place).

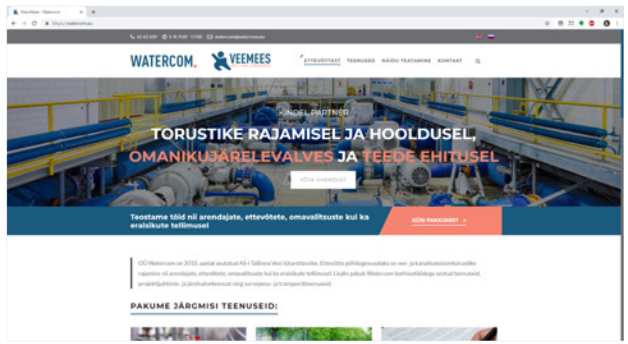
Gold level on social responsibility

We have been awarded the highest i.e. a Gold Level mark in the Responsible Business Index for several consecutive years. Achieving such a good result in a nationally recognised index demonstrates our systematic approach to the CSR matters and actions.

Fresh looks

In 2018, the websites of both Tallinna Vesi and Watercom were given a new and fresh look. In 2019, we are planning to update the self-service portal on Tallinna Vesi´s website, to support the strategic objective of directing more and more customers to convenient and modern self-service channels.





Strategy

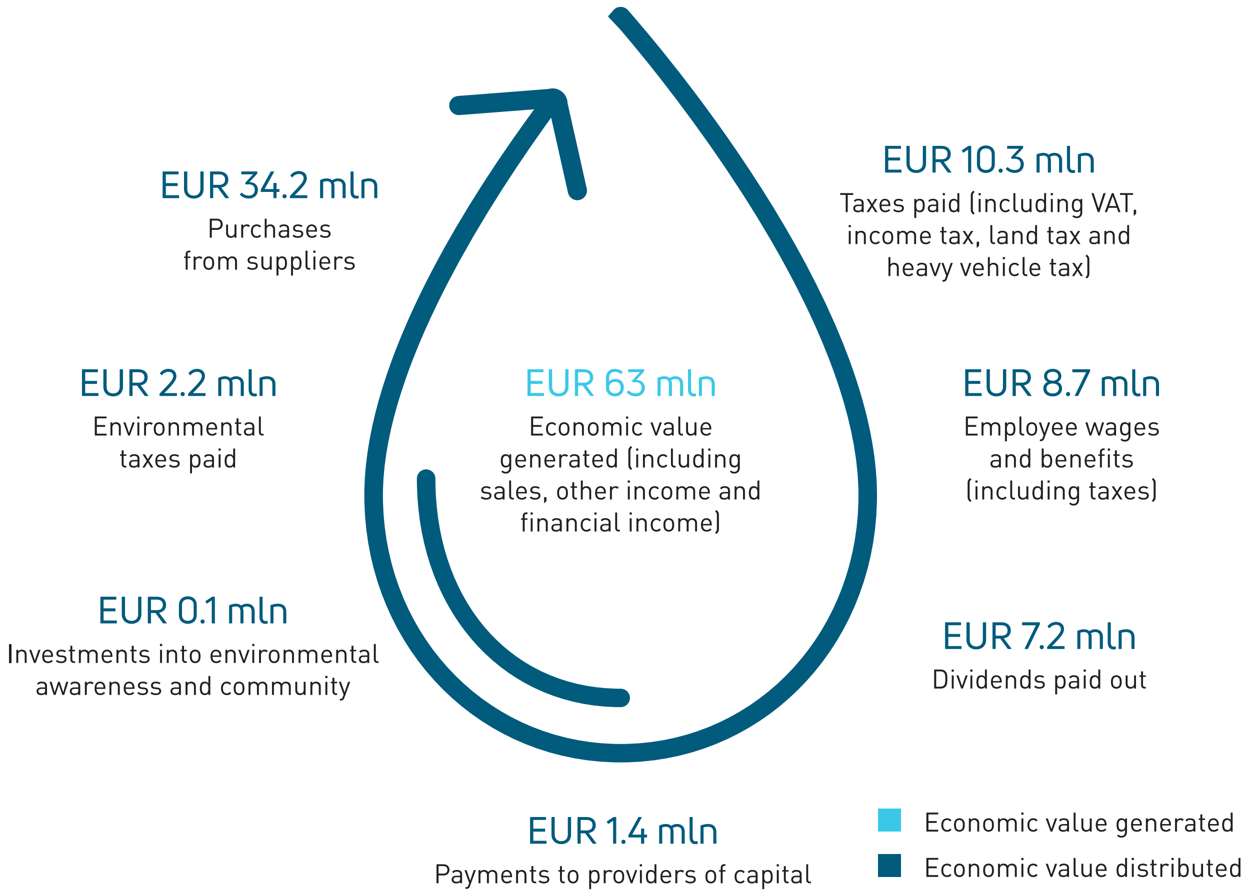
HOW WE CREATE VALUE

We create a better life with pure water, through commitment. We work tirelessly and passionately to achieve the company's goals and objectives.

As a large company, Tallinna Vesi holds an important place in the community and has the responsibility to look out both for the employees, clients, consumers, investors, partners, state and environment. A large quantity of our economic value created is re-distributed.

In addition to providing a vital service, Tallinna Vesi gives back to the society through taxes, partnership with other organisations, investments into the infrastructure and dividends distributed to investors.

Breakdown of the value generated and distributed by the company



HOW WE DELIVER VALUE TO DIFFERENT STAKEHOLDERS

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

Delivering social value

CUSTOMERS

Our key priority is to provide our customers with a high-quality service, which they can rely on continuously, 24/7. We are fully aware of our responsibilities and deliver our promises.

- We anticipate our customers' needs before those become problems.
- We embrace the latest technology to enhance customer communications.
- We deliver our promises.

EMPLOYEES

We value the contribution of our employees and seek to ensure their continued motivation and commitment.

We create a working environment that encourages everyone to innovate and deliver a high-quality service.

- Health and Safety is paramount in everything we do.
- We encourage continuous improvement and share best practice.
- We constantly train and develop our workforce.
- We live by our values: commitment, customer focus, teamwork, creativity, proactivity.

COMMUNITY

We play an active part in local communities and seek to minimise our operational and environmental impact wherever possible.

Delivering environmental value

QUALITY AND ENVIRONMENT

We value the natural environment we operate in and therefore use natural resources sparingly and continuously seek new ways for more sustainable operations.

- We continuously seek to improve our service, through improved productivity and by adopting the latest technology.
- We minimise our environmental footprint wherever possible.

ENVIRONMENTAL AWARENESS

We work with local communities to promote environmental thinking and awareness.

- We are good corporate citizens and support local communities.
- We make efforts to raise public´s environmental awareness through seminars, field tours and campaigns.
- We support and cooperate with universities and research institutions.

Delivering economic value

INVESTORS

We aim to be transparent and honest thorough our business activities, giving timely and accurate information to our shareholders. All stakeholders are treated equally, and we are focused on a path of continuous improvement, whilst ensuring continued sustainability.

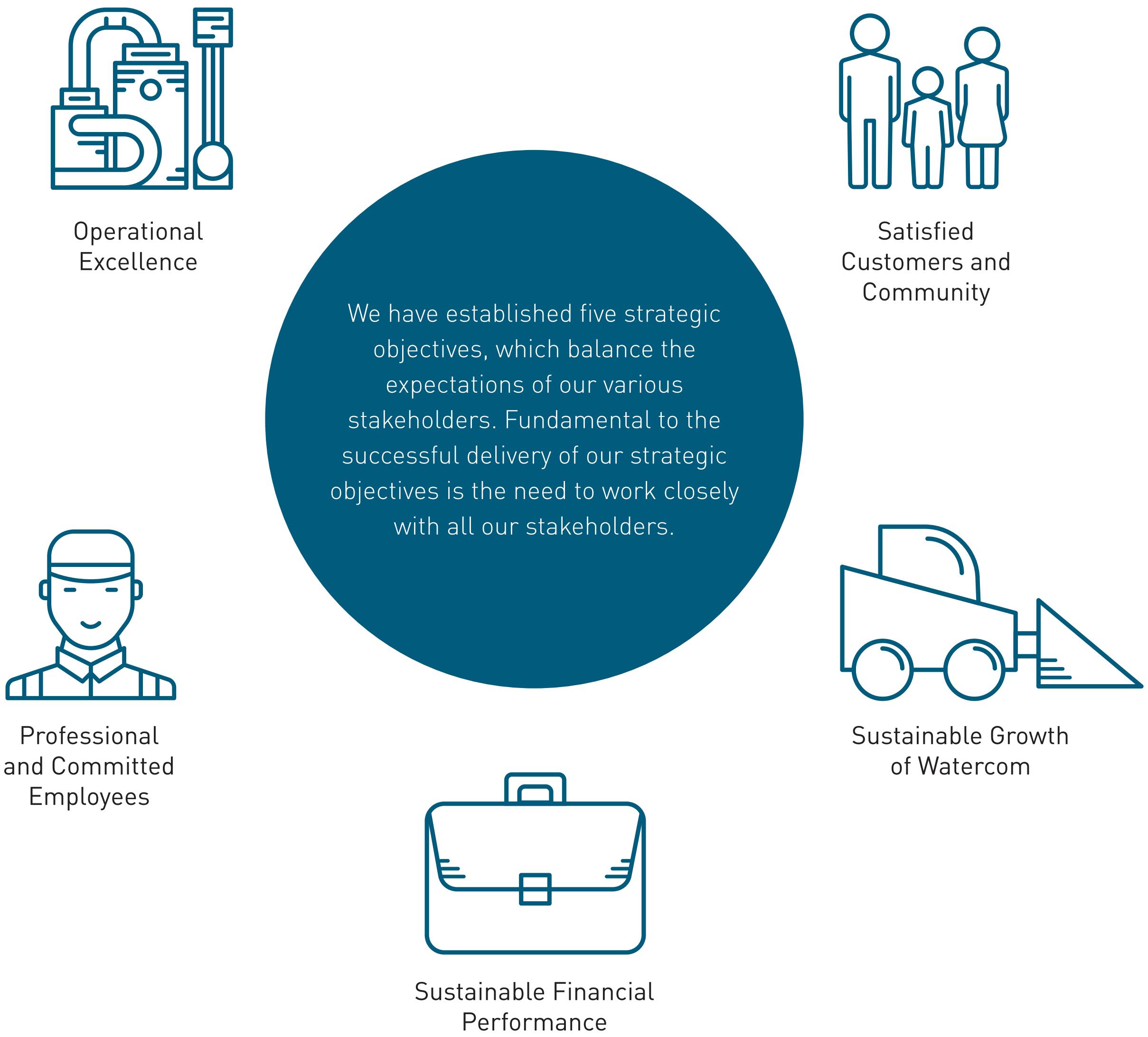
- We spend and invest wisely.
- We seek opportunities for incremental growth.

PARTNERS

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

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

STRATEGIC OBJECTIVES IN 2018-2022



Operational excellence

The Company's continued priority will be to provide a reliable and high-quality drinking water service to our customers, and to ensure that all our activities, from water catchment to wastewater treatment, are enacted in accordance with strict environmental legislation.

With timely investments, we prevent bigger disruptions to our operational processes that may put our compliance at risk and cause significant reputational damage to the Company. Adoption of new technology and work methods will help us to operate in a more efficient and safer manner.

To achieve Operational Excellence, we need to:

- Invest into assets in a timely manner
- Adopt sustainable practices and best technologies

Satisfied customers and community

Tallinna Vesi provides vital services to the population within its service area. We are responsible for a continuous supply of high-quality drinking water, and a reliable wastewater service.

Great customer service relies on understanding our precise customer needs, anticipating problems and resolving complaints quickly and courteously. We want our customers to have trust in us and confidence in our service.

To keep our customers satisfied, we need to be able to communicate through a diverse range of media platforms.

To ensure the customers and community are satisfied, we need to:

- Deliver on our promises
- Simplify and reduce the need for interaction

Professional and committed employees

Achieving operational excellence is not possible without the continued commitment of our workforce. We consider our people as our greatest asset, and we offer an environment where people with passion and commitment can work together, not only towards the achievement of corporate goals, but also towards personal career goals, supported by training and continuous development of staff.

Ensuring the continued health and safety of employees, and third parties who interface with the Company's activities, is of vital importance. It is central to everything we do and safety will never be compromised. We ensure a safe working environment, making sure that our facilities and equipment fulfil the relevant safety standards and legislation.

Considering the age profile in the Company it is of critical importance that we establish a systematic approach to succession planning. We believe it is advantageous to build teams with both new and experienced staff, to generate fresh and innovative ideas that are built on a solid base of practical experience.

We encourage our employees to continuously learn and develop themselves. We support the progression of staff internally, and provide career development opportunities when possible.

To ensure the commitment and professionalism of our employees, we need to:

- Create a positive health and safety culture
- Plan succession in a systematic manner
- Develop a motivating working environment

Sustainable financial performance

We are committed to increasing shareholder value – delivering an appropriate rate of return, combining the distribution of dividends, whilst improving the share price.

A sustainable revenue stream with a high collectability rate is essential to providing sufficient cash flows to cover operating costs and finance sustainable investments, whilst ensuring an adequate rate of return to our investors.

A strong capital structure of the Company is essential to support the delivery of shareholder value and provide sufficient financing for investments.

To ensure the sustainability of the Company´s financial performance, we need to:

- Maintain a sustainable revenue stream
- Ensure strong capital structure
- Deliver shareholder value

Sustainable growth – Watercom

We keep looking for ways to increase shareholder value by ensuring the growth of Watercom.

Operational results

ENSURING QUALITY OF OUR SERVICES

To ensure the best quality of service for our customers, besides legislative requirements, we are contractually required to comply with 97 levels of service. This responsibility stems from the Services Agreement concluded with the City of Tallinn in 2001. Our performance and compliance with the levels of service are reviewed annually by an independent monitoring unit – Supervisory Foundation for Water Companies in Tallinn – to whom we submit annual Levels of Service Reports.

In 2018, we complied with and in many cases outperformed all contractual levels of service. For example, one requirement is to have the level of leakages below 26%, whereas the actual level achieved by the Company in 2018 was 13.71% (2017: 13.82%). Also, the water quality remained at the highest level in the history, being 99.93% (2017: 99.93%) against the contractual target of 95%.

Besides the 97 levels of service, the Services Agreement requires us to comply with the following management systems:

- since 2001, ISO 17025 Quality Management System of Laboratories;
- since 2002, ISO 9001 Quality Management System;
- since 2003, ISO 14001 Environmental Management System.

Our environmental activity and environmental management system are in compliance with the requirements of the international environmental standard ISO 14001 and EU Eco Management and Audit Scheme (EMAS) Regulation. Doing business in an environment-friendly manner and the safety of our employees is fundamental to us, therefore we have voluntarily implemented the following management systems:

- since 2005, EMAS-compliant European Eco-Management and Audit Scheme;
- since 2007, OHSAS 18001 Occupational Health and Safety Management System.

In the recent years, the activity of the Company and its management systems fully complied with all applicable quality, environmental, occupational safety and work environment standards and systems and legal requirements. Such compliance is regularly monitored via internal audits and was confirmed via an external audit undertaken by AS Metrosert.

According to AS Metrosert, the management systems have been appropriately developed and improved and the Company's activity complies with the requirements set forth in the standards.

Uninterrupted services

Our role is to ensure the availability of high-quality water services to our customers and community 24 hours a day and 365 days a year. Therefore, our focus lies on ensuring the reliability of the service, preventing problems and finding fast resolutions to the problems. Stringent control over drinking water and consistently high-quality levels in all segments of our products and services are fundamental to ensure the provision of uninterrupted services. Effective water treatment and functioning of the water network, prevention of problems through regular maintenance and efficient, prompt and smooth disposal of wastewater and treatment thereof in compliance with strict requirements contribute to the continuous availability of a stable service.

One of the levels of service we have to meet is the duration of unplanned interruptions. Therefore, we make continuous efforts to provide uninterrupted services to our customers and minimise the duration of unplanned interruptions. Last year there were no unplanned interruptions, that lasted longer than 12 hours. Average duration of an interruption in 2018 was 3 hours and 16 minutes (3 hours and 8 minutes in 2017).

Infrastructure investments are vital to provide uninterrupted services. Stable high quality and economic sustainability of services is largely dependent on the planning of investments. Both the preventive maintenance and timely investments in the infrastructure are instrumental for the Company to be able to deliver its main duties. The investments made have a direct impact also on the key performance indicators of the Company such as customer satisfaction, level of leakages, sewer blockages and water bursts etc.

In 2018, the investments in our main water treatment infrastructure amounted to EUR 1,861 thousand (1,171 thousand in 2017), amongst which the largest projects were the construction of level II switchyard and reconstruction of clarifiers. EUR 350 thousand was invested in wastewater treatment (EUR 1,068 thousand in 2017), including the investment in critical backup equipment and upgrades to the pumps in sewage pumping stations. Key investments in water supply and sewerage networks were the reconstruction of water network at Tammsaare-Tondi crossing and water and wastewater network in Gonsiori and Tondi streets. The total level of investments made in water and wastewater network was EUR 5,008 thousand (EUR 3,804 thousand in 2017). The cost of new connection points was EUR 2,771 thousand in 2018 (EUR 2,619 thousand in 2017).

- **Levels of Service.** Our target each year is to fulfil all the 97 service levels as set out in the Services Agreement. In 2018, the Company had no failures in the levels of service.
- **Water interruptions.** The target for an average water interruption of 3.5 hours was met in 2018. On average the water interruption lasted 3 hours 16 minutes in 2018 (2017: 3 hours 8 min).

Interruptions entail unexpected discomfort, which is why we have prepared measures to alleviate the situation for our customers. In case of interruptions, we employ the measures to mitigate the inconveniences resulting from an interruption to the service. For instance, if needed we provide our customers with temporary water tanks. Furthermore, we were able to notify the customers in advance of any unplanned interruptions in 95.2% of the events (2017: 98.2%).

AS Tallinna Vesi provides water services to nearly one third of Estonian population.

Drinking water quality

Water	2018	2017	2016	2015	2014
Compliance of water quality at the consumers' tap	99.93%	99.93%	99.93%	99.86%	99.80%
Water leakages in the water network	13.71%	13.82%	15.07%	14.68%	16.14%
Average duration of water interruptions per property in hours	3.27	3.14	3.44	3.22	3.15

AS Tallinna Vesi provides water service to nearly one third of Estonian population. We recognise the significant responsibility we have to bring high-quality drinking water to each of our consumers. The quality of drinking water affects the quality of life and health of all our consumers including partners and investors, which makes ensuring the stable supply of high-quality water at the customers' taps our highest priority. To achieve our water quality objective, we carry out the flushing programme, monitor the quality of water leaving the water treatment plant and take regular samples from the customers' taps.

The quality of drinking water is subject to strict legal requirements. The quality must comply with Regulation No 82 "Quality and control requirements and analysis methods for drinking water", issued by the Minister of Social Affairs on the basis of the Estonian Water Act and the European Drinking Water Directive 93/83/EC. In addition to legislative requirements, we have also agreed upon additional quality standards in the Services Agreement concluded with the City of Tallinn. In terms of water quality, we have outperformed those requirements assuring a supply of good-quality drinking water to each and every one of our customers. The results of all analyses are public and made available on the Company's website.

Water quality is inspected by following the drinking water monitoring programme approved by the Health Board. The programme specifies the sampling points, sampling frequency and the parameters to be analysed. Samples are taken from raw water (Lake Ülemiste and its catchment area and from ground water), from the treatment process and from consumers' taps. There are approximately 120 sampling points in Tallinn including nurseries, schools and other institutions, evenly spread out across the entire service area. In case any non-compliant water gets into the network, we have a legal requirement to notify the Health Board and the public, if necessary, of such occurrences and take immediate steps to resolve the problem.

We have a separate laboratory unit, which has been accredited by the Estonian Accreditation Centre since 2001. The laboratory unit consists of a water and microbiology laboratory at Ülemiste Water Treatment Plant and a wastewater laboratory at Paljassaare Wastewater Treatment Plant. Water analyses are made in our water and microbiology laboratory, which is also one of the largest laboratories in Estonia. The quality of analyses is guaranteed by the attested samplers, accredited quality management system (ISO 17025) and modern equipment, as well as the professional staff who enable us to offer a wide range of services also externally. Water quality is independently monitored by the Northern Services of the Health Board and Supervisory Foundation for Water Companies in Tallinn, and our laboratories are supervised by the Estonian Accreditation Centre.

Our accredited water laboratory and our accredited wastewater laboratory conduct approximately 150,000 analyses a year, out of which about 2/3 are chemical and microbiological analyses of drinking water and 1/3 chemical analyses of wastewater.

- Drinking Water Quality. In 2018, tap water remained excellent and comparable to that of any other country in Western Europe. Strict legal requirements apply to the quality of drinking water. Compliance is monitored in accordance with the drinking water monitoring programmes, approved by the Estonian Health Board. In 2018, we took a total of 2,977 samples across the service area (2017: 2,973). The quality of drinking water taken from the customers' tap was 99.93% (2017: 99.93%) compliant with the requirements. Only 2 samples (2017: 2) did not meet the requirements at first, but the new samples taken after immediate maintenance actions were fully compliant.

ENVIRONMENT

Environmental compliance

We provide pure drinking water to the network to supply our customers and safely collect, treat and recycle wastewater back to the environment. We rely directly on natural water resources, which we highly appreciate and care for. Thus, we do our best to employ these resources sustainably and contribute to the well-being of the environment.

We are the most regulated water company in Estonia. To ensure the fulfilment of minimum environmental requirements set for water companies, we are required to comply with legislative acts issued by the European Union (EU) and the Estonian government, as well as by the local governments. At EU level, this means above all the compliance with Water Framework Directive No 2000/60/EC of the EU Council. At national level the Company is required to comply, amongst others, with the Water Act, the Public Water Supply and Sewerage Act, the General Part of the Environmental Code Act, the Waste Act, the Chemicals Act, the Atmospheric Air Protection Act and any regulations adopted on the basis thereof. At the local level, the Company has to abide by various guidelines and regulations established by the local governments in Tallinn and neighbouring municipalities.

We act in accordance with the requirements of the environmental permits issued to us and comply with the precepts issued by the Environmental Board. The following environmental permits have been issued to AS Tallinna Vesi:

- 4 permits for the special use of water;
- 2 waste permits;
- 2 ambient air pollution permits.

The Company's environmental activities are, to a large extent, regulated by requirements arising from the EU, from national and local government legislation and from the environmental permits issued by the Environmental Board. Consequently, the environmental impact of our daily activities as a company is rather well mapped and managed.

In order to keep our main activities operational, we must rely on resources that have an environmental impact. The Company's core activity is highly dependent on the use of electricity. We continue striving for higher efficiency in our electricity consumption. For instance, we are maximizing the use of biogas, which is a product of sludge digestion process, in local heat production. To reduce ambient air pollution, the Company is limiting the amount of pollutants emitted from Ülemiste and Paljassaare boiler houses, such as nitrogen dioxide, carbon monoxide, volatile organic compounds and CO_2 greenhouse gas emissions.

A more detailed overview of our environmental performance is available in our environmental report. The environmental report can be viewed on AS Tallinna Vesi's website. The 2018 environmental report is due to be published in the 1st half of 2019 and will be available on the Company's website. In 2018, the Company did not identify any non-compliances with environmental laws or regulations.

Sustainable use of water

To provide a sustainable service, it is crucial to ensure the availability of sufficient quantity and quality of raw water in the lake. To provide drinking water to the citizens of Tallinn, water must be extracted from its natural environment. AS Tallinna Vesi supplies its customers with drinking water extracted from both surface water in lake Ülemiste and ground water sources. We are determined to use the water sustainably and continuously increase the efficiency of our water usage.

Ground water is a limited and slowly renewable natural resource, which is the reason why we have gradually been reducing the share of ground water in water treatment, thus serving the purpose of sustainable use of water. About 10% of consumers use regional ground water and 90% of drinking water is produced from surface water, with Lake Ülemiste as the main source for the residents of Tallinn, leading it to be declared a non-public water body.

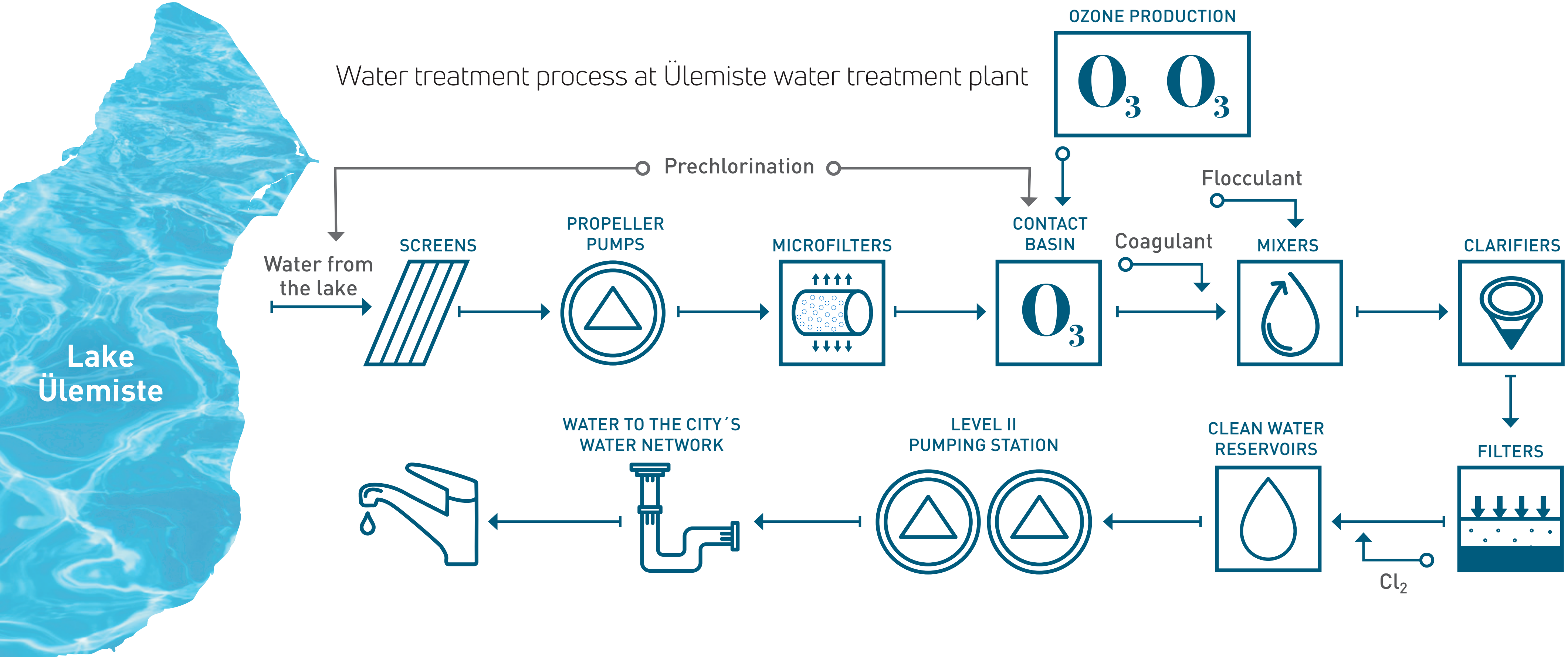
Surface water: 24,306 th. m^3 (2017: 23,716 th. m^3)
Ground water: 2,656 th. m^3 (2017: 2,711 th. m^3)

Lake Ülemiste has an extensive surface water catchment system, serving also as a source for additional water during dry periods. In 2018, the Water Treatment Plant produced an average of 63,300 m³ of water per day (2017: 61,000 m³). That quantity has been relatively stable over the years, but the extraordinary warm summer in 2018 resulted in increased consumption. Average water consumption per capita in Tallinn has also been relatively stable over the years, at around 90 litres per day.

Our duty as a water company is to ensure the availability of high-quality drinking water to our customers. However, the Company itself is also in need of water in order to keep its work processes going and to ensure an uninterrupted water supply. As part of our pursuit of a sustainable use of water, our actions are also targeted to reducing leakages in the water network. Higher level of leakages also means higher use of process water and energy for the Company with an effect on both the natural environment and the Company's profitability. Therefore, one of our main objectives is to keep leakages i.e., losses of pure water in the water network, at minimum because lower levels of leakages also means lower volumes of water extracted from natural water

We are determined to use the water sustainably.

Water treatment process at Ülemiste water treatment plant



sources. Lowering the level of leakages also diminishes the demand for water extraction as well as the risks of soil erosion. Besides the increased value the lower levels of leakages provide in terms of environmental sustainability, they also reduce our own costs due to smaller losses in treated water. This, in turn, directly and indirectly affects our employees, investors and clients as well as the public sector and the community.

About ten years ago the level of leakages exceeded 32%, while in 2018, the level of leakages was 13.71% (2017: 13.82%). This means we are currently saving over 14,000 m³ of treated water a day compared to ten years ago. The reduction in the level of leakages has been facilitated by our consistent efforts to use the water resource sustainably and with lower losses. To achieve this result, we have acquired new equipment for faster detection and enhanced remote inspection. Detecting and fixing leakages as fast as possible and regular preventive action continue to contribute further to the reduction in the level of leakages.

- Leakage Level. As a result of a proper network maintenance plan in 2018 the Company has managed to keep the leakage level low at 13.71% (2017: 13.82%). This is the best result in the Company's history.

- Water Treatment Plant. Although the raw water quality was challenging, the quality of water produced in Ülemiste Water Treatment Plant and ground water pumping stations complied with all legal requirements.

Effluent quality

Besides a sustainable use of water, we are also determined to improve the natural and living environment around the Baltic Sea. Therefore, we safely collect, treat and recycle wastewater back to the environment. We treat wastewater collected in Tallinn and its nearest surrounding areas by using environment-friendly and modern technologies at our Paljassaare Wastewater Treatment Plant.

14 LIFE BELOW WATER

The quality of the effluent discharged into the sea has a direct impact on the marine environment, and therefore, directly and/or indirectly constitutes an important aspect for all our stakeholders. We are committed to reducing the adverse environmental impact, maintaining high standards and achieving results that can outperform the standards that have been set for treated effluent discharged into the Baltic Sea.

In 2018, 43.9 million m³ of wastewater (2017: 51.5 million m³) was treated and discharged into the Baltic Sea.

The quality of effluent discharged into the sea is set by legal acts and water permits. The concentration of pollutants in wastewater taken into the treatment plant and in the effluent leaving the plant are monitored in order to assess the efficiency of the treatment process and the quality of effluent. The wastewater laboratory carries out analyses at different wastewater treatment stages. Such results provide us essential information, which allows us to further improve the efficiency of the treatment processes and the quality of effluent.

Compared to regulatory requirements the treatment efficiency of Paljassaare Wastewater Treatment Plant outperformed all parameters in 2018:

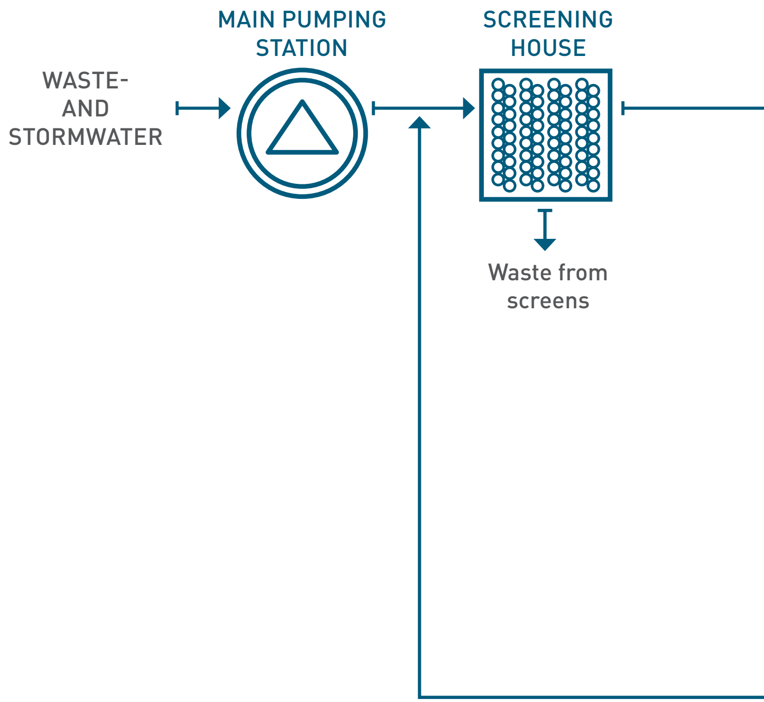
	Requirement	2018	2017
Biological oxygen demand (BOD)	80%	98%	97%
Chemical oxygen demand (COD)	75%	92%	91%
Suspended solids	90%	98%	98%
Total nitrogen (N_{tot})	80%	86%	84%
Total phosphorus (P_{tot})	80%	93%	92%
Oil products	75%	82%	84%

Our work is largely dependent on the weather: for example, it affects the quality and quantity of water entering to the plants, sewage parameters as well as the amount of energy and chemicals required in the treatment processes. Therefore, extreme weather conditions pose a great challenge as they may have significant impact on our business. The strongest impact on the activities of the Company and its stakeholders (including employees, community, clients and the public) result from extreme weather events, such as heavy downpours. Heavy downpour and peaking quantities of storm water may cause flooding and short-term inability of the sewage and storm water network to take in such large amounts of water. Moreover, it may result in the incapacity of the Wastewater Treatment Plant to take in and/or fully treat such large amounts of sewage. Under such circumstances and to avoid major damages, we are, from time to time, forced to discharge partially treated sewage into the sea or to open emergency outlets to conduct highly diluted wastewater into the sea.

During heavy showers in 2018, we were compelled to open the emergency outlets in the Wastewater Treatment Plant 2 times (2017: 4 times), all for a short period of time, in order to avoid major damages. A total of 154,673 m^3 (2017: 111,309 m^3) of wastewater diluted by storm water (dilution at least ¼) was discharged into the sea during those events.

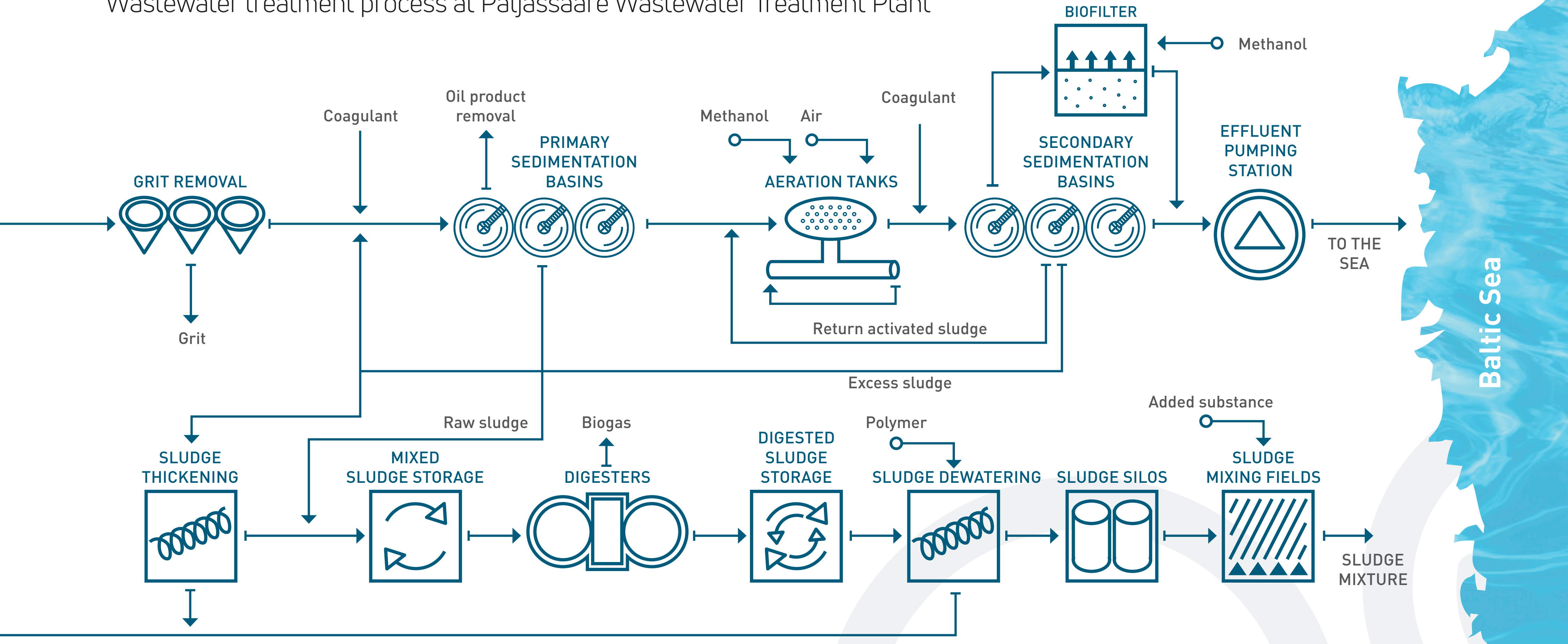
An effective operation and minimization of the risks are fundamental in keeping such occurrences as rare as possible. Moreover, in cooperation with the local authorities the separate sewerage system continues to be developed further, allowing storm water to be led straight to the receiving water and only sewage is to be conducted to the wastewater treatment plant.

- **Wastewater Treatment Plant.** Despite the several severe rainfall events, there were no pollution incidents at the wastewater treatment plant in 2018. A series of investments have been planned over the next years that will provide additional security and minimise the risk of any future pollution incidents.

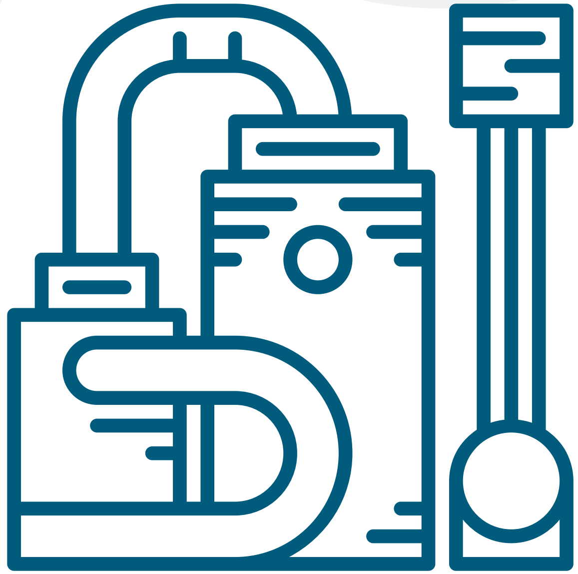


Wastewater	2018	2017	2016	2015	2014
Number of sewer blockages	603	654	670	737	757
Number of sewer bursts	88	135	107	127	119
Compliance of effluent leaving Wastewater Treatment Plant	100%	100%	100%	100%	100%

Wastewater treatment process at Paljassaare Wastewater Treatment Plant



OBJECTIVES: OPERATIONAL PERFORMANCE

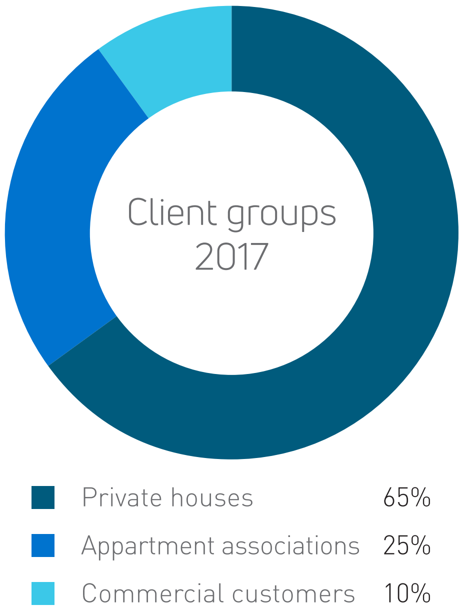


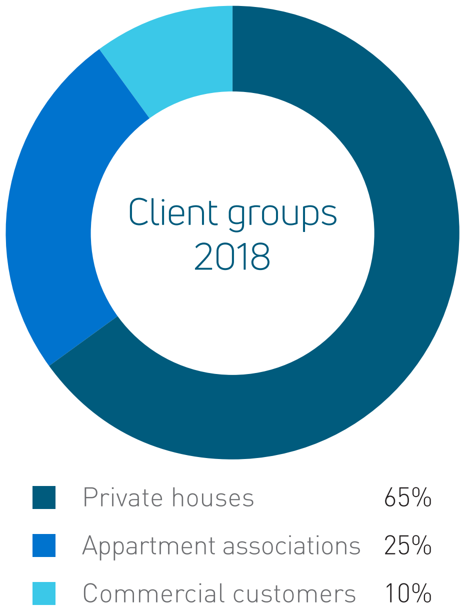
Operational objectives of 2018	
No cases of non-compliance with levels of service as stated within the Services Agreement	Achieved
Leakage level in the water network is lower than 14.5%	Achieved
Drinking water quality is at least 99.6% compliant with all the requirements	Achieved
100% quality of final effluent and no pollution incidents	Achieved
Average restoration time for any water interruption is less or equal to 3.5 hours	Achieved
Operational objectives of 2019	
No cases of non-compliance with Levels of service as stated within the Services contract	0
Leakage level in the water network	<14%
Compliance with water permit requirements	100%
Water interruptions that last ≤5 hours	≥86%
Recycled sludge at the budgeted level	≥95%

OUR CUSTOMERS

We provide water supply and sewerage services to over 23,600 contractual customers and approximately 460,000 end users in Tallinn and its surrounding areas. We are responsible for serving almost one third of the Estonian population with reliable and high-quality water supply and sewerage services.

In 2018, we focused on solving complaints and ensuring the stability of water quality in all service areas.





Customer Service	2018	2017	2016	2015	2014
Number of customer complaints*	158**	36	45	67	76
Number of customer contacts regarding water quality	258	219	166	115	152
Number of customer contacts regarding water pressure	439	298	339	337	380
Number of customer contacts regarding blockages and discharge of storm water	1,043	1,111	1,190	1,061	1,060
% of written contacts answered in accordance to required deadline***	100.0%	99.9%	99.46%	99.20%	99.10%
Number of failed promises	33	5	4	9	54
Results of the annual customer satisfaction survey (TRI*M index)****	53	90	94	94	85
Number of contacts per customer	0.97	1.1	1.3	1.3	1.5
Notification of unplanned water interruptions at least 1 h before the interruption	95.18%	98.2%	98.8%	98.7%	95.0%

**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.*
*** In 2014-2017 only complaints from customers in Tallinn were counted. From 2018 all complaints are included.*
**** In 2013-2016 the numbers reflect the indicator „Responding to written customer contacts within 2 working days".*
***** From 2018, the methodology for calculating TRI*M index is different. Due to this, the results are not comparable to previous years.*

Great customer service relies on understanding our customers' needs, anticipating problems and resolving complaints quickly and courteously. We want our customers to trust us and have confidence in our service. Systematic and regular feedback from our customers and consumers is instrumental for us to have their honest opinion on our activities, recognise our strengths as well as weaknesses, which we should address more in the future.

Addressing customer satisfaction is also important to our partners, investors, community and public sector. Good results in customer satisfaction improve the reputation and reliability of the Company. Each year, an independent market research company Kantar Emor carries out a survey among our customers and end users. The survey interviewed 1,313 customers and end users, for the purpose of mapping any changes in the strength of our customer relationships and the factors shaping it and obtaining feedback on the effectiveness of our operations.

Satisfaction is measured using TRI*M method developed by the research company to characterise the strength of customer relationships and to allow benchmarking with other companies. This model focuses on two elements:

- TRI*M index measures the strength of customer relationships and comprises, since 2018, two elements – general satisfaction and the extent to which the company distinguishes from the other companies providing utility services;
- TRI*M grid analysis to highlight the strengths and weaknesses of a company.

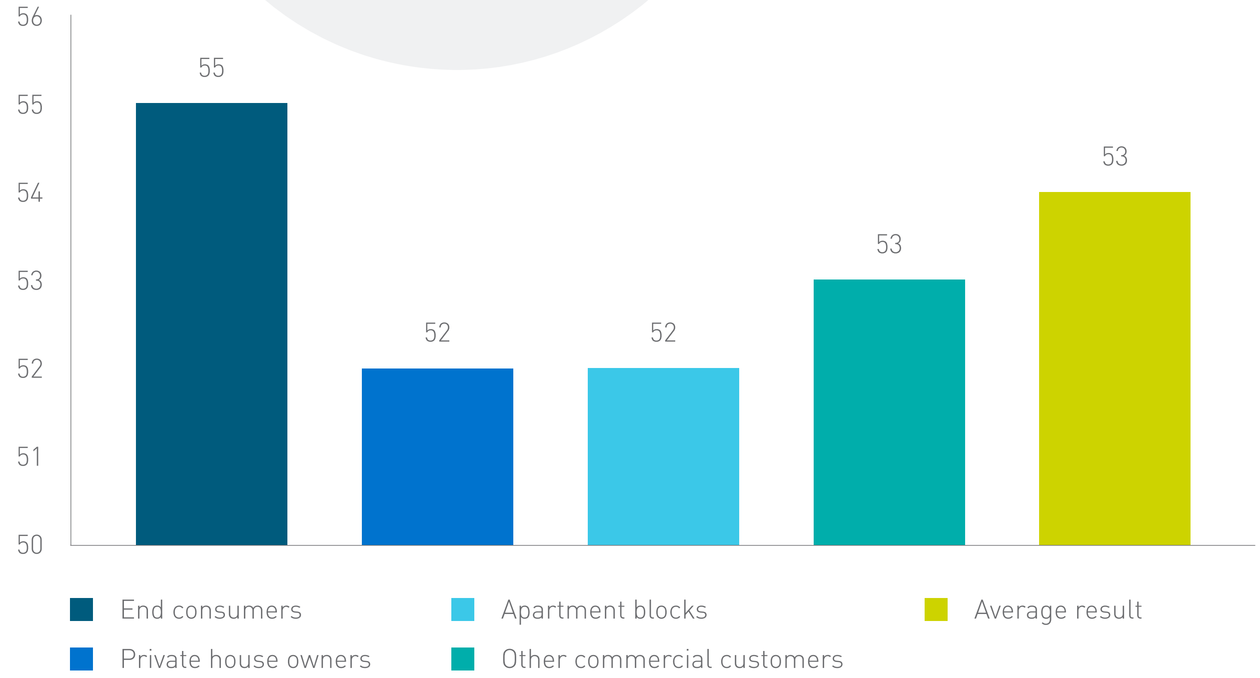
In 2018, several significant changes were made to the survey methodology that had an impact also on the results. Following the trends in Estonia and worldwide, an online feedback survey was conducted instead of a phone survey for the first time. The fact that respondents have more time to think about their response on the Internet and feel less compelled to express as they think they are expected to, all the responses tend to be more critical as a rule. However, setting aside the likely impact of changes in methodology, we can say that the customer relationships are still excellent, and the ratings given to the quality and level of service provided by Tallinna Vesi have remained high throughout the years.

Another major change was made in the methodology used for the calculation of TRI*M index. In previous years, the strength of customer relationship was measured by considering four components, however, following the trends on the survey market, Tallinna Vesi transferred to the model comprising two components. Compared to the formerly used model focusing on the usefulness/necessity of services/products and recommendation, the new model places more emphasis on the extent to which the company distinguishes from other similar companies.

The survey carried out using the new model revealed that the overall customer satisfaction remains very high (more than 100 index points across almost all customer segments) and slightly less than half of the respondents (38-45% in various customer segments) said that Tallinna Vesi is better at carrying out its tasks than the other utility service providers. 49-57% of the respondents felt that the company is as good as the other utility companies and 3-7% felt that Tallinna Vesi is worse at carrying out its tasks compared to the other utility service providers. Regardless of the small number of negative ratings given to Tallinna Vesi in this regard, this question has clearly had an adverse effect on the calculation of TRI*M index due to the large number of respondents who remained neutral.

Because of the changes in the methodology used for the calculation of TRI*M index and the questions underlying those calculations, a comparison with the results of previous years is no longer relevant. However, the results of the survey indicate that any result over 50 index points reflect a clearly positive

Satisfaction of our customers and end users in 2018



attitude towards the company, and recommending the company is highly likely in each case exceeding 50 index points. For Tallinna Vesi, the average result using the new TRI*M index across various customer segments was 52-55 index points. So, although the level and standards of utility services provided by the company are evenly high, the new methodology sets the bar considerably higher for Tallinna Vesi.

High quality service and a guaranteed water supply are the basis of a strong customer relationship. Ratings given to the quality of service are generally very high, especially by those, who drink tap water. The quality of water along with its clarity and cleanliness of pipes also serve as the prioritised indicators that matter to our end users. „Drink tap water" message has been well noticed by all segments and over the years this has also brought about a change in the daily habits of consumers. We are pleased to see that 86% of end users (73% in 2017) trust to drink tap water by either drinking it from the tap or after filtration. Nine out of ten private house owners state that they drink tap water.

Even though the clients' feedback to our services continues to be good, we need to continue making efforts in maintaining and increasing customer satisfaction through further improvements in the services provided and in the quality of customer service itself.

Problem solving continues to be our focus. Although the total number of problems has grown year-on-year, which is reflected by a higher number of phone calls and e-mails received by customer service, our customers' ratings on our problem solving remained at the level comparable to the last years.

We issue a quarterly digital client newsletter to keep our customers informed about the matters that interest them based on their regular feedback. One of our priorities is developing our self-service platform further by upgrading the functionality of self-service in 2019.

Improvements are sought in terms of solutions offered, promptness of actions and quality of service - keeping promises, keeping clients informed about the course of actions. The subjects, which have high importance but currently receive average ratings are treated as the second priority. In terms of end users, a close cooperation with e.g. housing associations is fundamental for the information on water interruptions to always reach all residents of the building through their representatives. Smooth communication of information is also important for commercial customers. In terms of private clients, the focus of attention should go to the speed of fixing leakages and stable water pressure.

Responsible customer service

Besides the high quality of product, responsible customer service is another aspect underpinning customer satisfaction. Our responsible customer service is primarily represented in three activities: proactive communication, consistent monitoring of complaints and issues and specific promises related to ensuring the availability of service and providing information

In addition to the annual customer satisfaction surveys, it is essential for us to have regular feedback on our service quality and ask our customers to rate our work on a monthly basis. We have set ourselves a target to achieve at least 4.1 points on a 5-point scale as a total average for the year. In 2018, we managed to deliver our target at an annual average of 4.12 points (2017: 4.2). The counting of complaints underwent a significant change in 2018 – if earlier only the complaints received in writing were counted, then now we are also including the complaints made by phone in the count. The total number of written and verbal customer complaints in 2018 was 158 (in 2017 we had 36 written complaints and those received by phone were not counted).

We have implemented a unique system of promises, which means that if we fail to keep our promises, we automatically pay compensation to our customers.

In 2018, we failed to keep our promises in 33 cases (2017: 5). 28 of those 33 cases were related to one interruption to water supply where we were unable to reopen the supply at the exact time we had promised to the client. The other instances concerned notifications of planned water interruptions – due to inaccuracies in the database of contact details the information on planned interruptions failed to reach 5 customers. We analysed each of the cases in detail and paid compensation to the customers.

OUR PROMISES TO CUSTOMERS:

We deliver high-quality water

We will respond to the issues you may have with water quality and pressure on the following working day at the latest.

We keep the environment safe

We will clear public sewer blockages within 12 hours at the latest.

We quickly respond to our customers' requests

We will respond to the questions received via customer information line within 2 and those received by e-mail within 3 working days at the latest.

We are accurate in billing

If there are doubts about the accuracy of a water meter, we will carry out an extraordinary verification and notify you of the results within 2 working days. Should the bill prove to be inaccurate, we will issue a corrected bill on the next working day at the latest.

We keep to our agreements

In case of planned interruptions, we ensure the water supply by the promised time, or sooner. In case of unplanned interruptions due to emergency repair works, we will restore the water supply in 12 hours at the latest. If an appointment or a visit has been agreed by our specialist, we will arrive at the agreed time.

OBJECTIVES: CUSTOMERS

Customer service objectives in 2018	
Number of customer complaints (oral and written)[1]	Achieved
Number of repeated written customer contacts[2] ⩽ 1,300	Achieved
Monthly customer satisfaction index (Kantar Emor 5 point scale) ⩾ 4.1	Achieved
Customer service objectives in 2019	
Repeated written contacts	⩽ 1,142
Monthly customer satisfaction index (Kantar Emor 5 point scale)	⩾ 4.2
Percentage of water meter readings submitted through self-service channels	⩾ 75%
Percentage of people, who drink tap water (according to monthly customer satisfaction survey)	⩾ 90%

[1] From 2018, the methodology of measuring the complaints has changed. Besides written complaints, the company has also included a target to reduce complaints from phone conversations.
[2] "Repeated customer contact" is a repeated contact by the same client if the main topic of the contact remains the same. Each letter by the same customer is counted as a separate repeated contact after the first contact.

COMMUNITY AND PUBLIC

The community we operate in and people whose lives our work impacts are of vital importance to us. We therefore consider it essential to actively engage in and support the community we operate in.

Our aim is to distribute messages that help to improve the environmental awareness, and provide environment themed educational study materials and programs for free. We also strive to spread our knowledge on our activity as we believe we have managed to gather and grow in our Company a lot of excellent experts in this field.

Sponsorship strategy

Whilst making decisions about sponsorship projects, we keep in mind the following principles:

- **Defined impact area.** Due to Tallinna Vesi´s service area, the focus of sponsorship activities is Tallinn.
- **Projects closely linked to our main activities,** i.e. providing Tallinners with water supply and wastewater services.

- **Involvement of employees.** Tallinna Vesi´s employees need to be aware of the company´s sponsorship activities and should be actively involved in those.
- **Systematic approach and consistency.** Tallinna Vesi supports the same areas from year to year to provide continuity and clarity in its approach to sponsorship. The decision-making process is clear to applicants.

Our main sponsorship areas and activities

Tallinna Vesi mainly supports initiatives that are related to environmental education or local community.

Environmental education

Our business is closely related to one of the most important and valuable natural resources – water. We understand the impact we have on the natural environment and try to minimize our environmental footprint. In our sponsorship activities, we dedicate our efforts to educate the community on water-related environmental matters in order to improve the environmental awareness of the youth.

While only few years ago in 2011, 48% of people trusted to drink tap water, the number of people drinking tap water had grown to 86% by the end of 2018 (2017: 73%). At the end of 2018 we once again arranged the awareness campaign on tap water, which has helped to improve the result.

Yearly outdoor campaign

Once a year, we organize an advertising campaign to serve one of the following causes:

- promote drinking tap water;
- keep people from throwing trash/hazardous waste into the sewage system;
- promote Tallinna Vesi's environmental/ sponsorship efforts or employer brand.

Educational materials

Tallinna Vesi produces and distributes educational materials for nurseries and schools. All educational materials are made available both in Estonian and Russian. In 2018, a study-wall explaining the water cycle was built in Energy Discovery Centre and an animation introducing water and wastewater treatment "Where are you going, Tilgu?" was created.

Water seminars

Each year our employees devote their time to hold water seminars in schools and nurseries. Tallinna Vesi intends to continue doing so on a regular basis.

In the upcoming years, a wider range of employees will be involved in giving lessons. 1,243 children participated in such group conversations in 2018 (2017: 1,371). Additionally, AS Tallinna Vesi organised several public seminars together with the City Museum of Tallinn.

Excursions and open house days

Each year, Tallinna Vesi holds open house events in the water treatment plant and wastewater treatment plant to allow the public to visit our main operational sites and learn about our company.

In 2018, 81 guided tours were held in our treatment plants (2017: 71). Additionally, we held open doors days in our water and wastewater treatment plants. In September, we had nearly two hundred people visiting the wastewater treatment plant and in March there were just as many visitors at Ülemiste water treatment plant.

Participation in public events

At least twice a year, Tallinna Vesi participates in public community events to educate the public on water-related matters and improve the image of the company.

Tallinna Vesi also enables and supports the run Ülemiste Järvejooks annually, opening the territory up for the public.

Local community

Tallinna Vesi supports the community initiatives by providing water tanks at the events. Along with the City of Tallinn, we also set up public water taps both in- and outdoors to make tap water more readily available in public space. We have carefully chosen a few projects and organisations to donate to and we encourage an active participation by our employees by allowing our teams to take a day off to attend charity initiatives.

Water tanks at public events

Providing people with pure water is one of our main activities. Besides the general water supply through the public network, we sponsor events with water tanks to make water available at public events. We mainly provide water tanks to public sports, community events and children´s and youth events.

Public water taps

Each year, together with City of Tallinn or other partners, Tallinna Vesi opens at least one new public water tap either outdoors or indoors (for example in public areas, such as museums, port, airport, shopping centre etc.).

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.

Supporting those with fewer possibilities

Tallinna Vesi supports a few organisations that need our help in providing better opportunities for the people with special needs to increase their involvement in all aspects of life. For example, we make yearly donations to Estonian Disabled Athlete Sports Association, SPIN program and nursery Õunake.

EMPLOYEES

The most important task of our team is to provide a reliable and high-quality service to the residents, which is what our team stands for. People are the key in maintaining and growing the vitality of a company. We seek to create a supportive work environment and provide good working conditions as those are essential prerequisites for our employees to enjoy their work in the Company. Our people are fundamental in delivering the best value to the rest of our stakeholders, we value our people highly and aim to be a valued employer. Tallinna Vesi is a socially responsible company, valuing its staff and being committed to continuous improvement, making efforts to have committed and competent people working in its team. The HR policies, which are followed in the management of the Company, are available on the Company's website.

At the end of last year, a total of 310 people were working in AS Tallinna Vesi and its subsidiary OÜ Watercom (2017: 312) under employment contracts with unspecified term, 97% of them worked full-time and 3% part-time (2017: 98% full-time and 2% part time). Majority of the employees were placed in Tallinn.

In order to engage our employees, we involve them in the decision-making process. We consider the involvement of our staff in the decision-making process instrumental for them to understand and be able to support the Company in its pursuits. Our staff can vary to a large degree in age, nationality, nature of work and in many other aspects. This requires us to be resourceful and flexible in our communication with the staff in order to involve, engage and listen to them. This is done using several opportunities and channels of communication, such as regular staff meetings with the management, information boards, intranet, informative letters, team events and an internal quarterly newsletter.

Our employees are loyal to the Company. The person with the longest service has been with the Company for 55.4 years (2017: 54.4 years) and the average number of years in the Company is 11.0 years (2017: 12.1 years). Our voluntary employee turnover decreased notably in 2018 and reached 6.9% (2017: 10.7%). All the employees voluntarily leaving the company are asked for their feedback on the reasons for leaving. Increased mobility of people, i.e. change of residence, commencing studying, is one reason that can be highlighted here. The total employee turnover was 21.3% (2017: 19.5%).

Although the number of our staff has been relatively stable in the last few years, the average age of our staff is relatively high at 45 years (2017: 46 years). Therefore, we need to focus on employment as well as on succession planning. The age profile within the Group is as follows:

Groups of staff by age	<30 years		30-50 years		>50 years	
	2017	2018	2017	2018	2017	2018
Management Board	0	0	3	3	0	0
Executive Team*	1	0	7	7	0	1
Management Team	1	0	23	25	2	4
All staff	**39**	**48**	**146**	**148**	**127**	**114**

**Including Management Board*

Groups of staff by gender	Total number		Women		Men		Women/Men	
	2017	2018	2017	2018	2017	2018	2017	2018
Management Board	3	3	1	1	2	2	33%/66%	33%/66%
Executive Team*	8	8	4	4	4	4	50%/50%	50%/50%
Management Team	26	29	14	14	12	15	54%/46%	48%/52%
All staff	**312**	**310**	**94**	**92**	**218**	**218**	**30%/70%**	**30%/70%**

**Including Management Board*

More diversity is added to the team by the members of our staff for whom Estonian is not a communication language. We organise Estonian classes at the Company's expense to make the staff, whose mother tongue is not Estonian, also feel as part of our unified team. At the same time, we provide most of the important information also in Russian.

Considering the variation within the team, it is essential to follow equality principles both in selecting and managing people. This translates into providing, when feasible, equal opportunities to everyone. Understanding and appreciating the diversity of our staff, we ensure that everyone is treated fairly and equally, and they have access to the same opportunities as is reasonable and practicable. We aim to ensure, that no employees are discriminated against due to, but not exclusive to age, gender, religion, cultural or ethnic origin, disability, sexual orientation or marital status. To ensure equal treatment, we have signed a collective agreement with the Trade Union of Water Supply and Sewerage Staff. Even though less than 10% of our staff belong to the trade union, contractual obligations and benefits agreed upon in the agreement extend to all our employees.

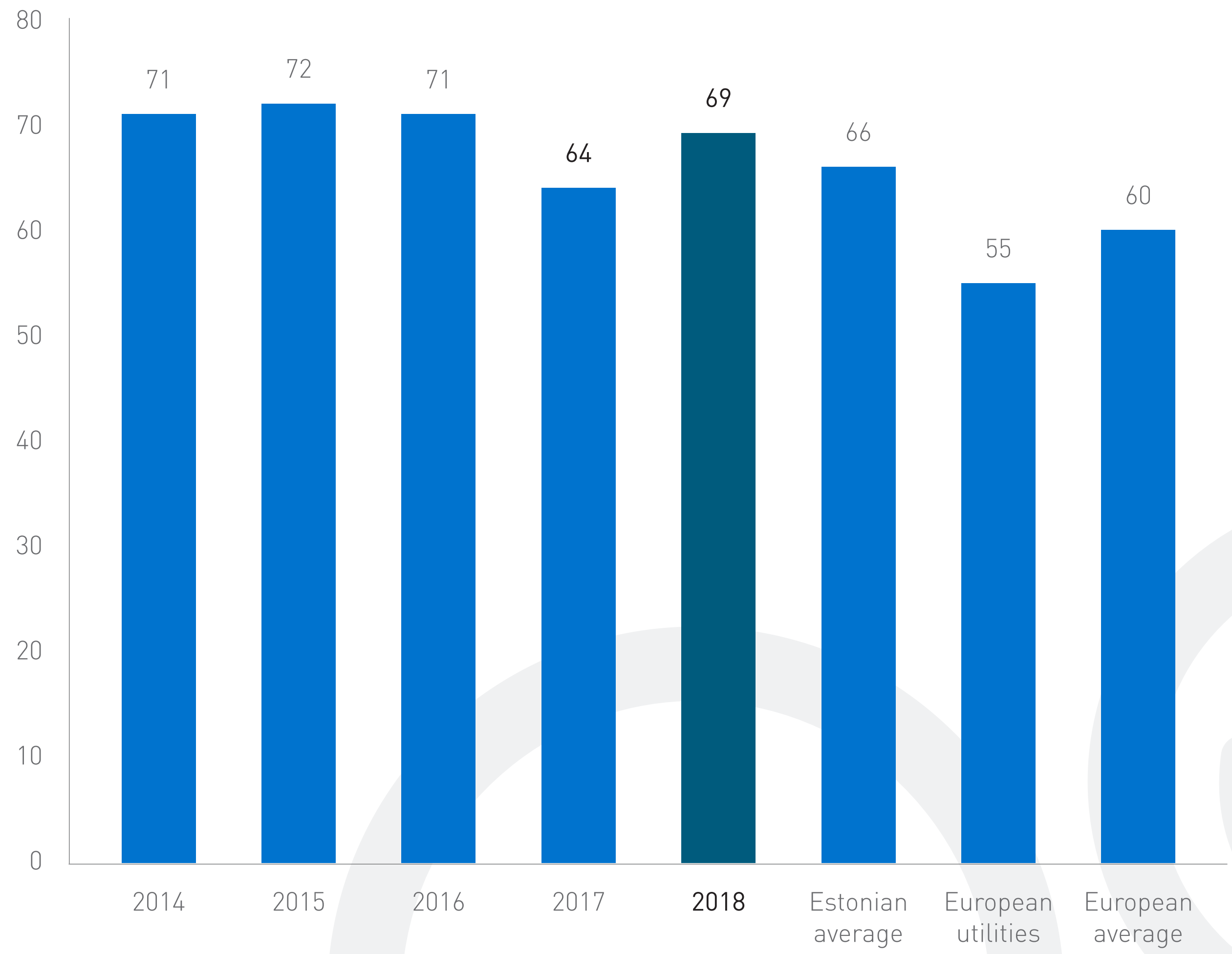
All members of staff have the opportunity to receive annual performance related pay (PRP), which is based on very clear and transparent principles as well as the delivery of a balanced combination of personal and company objectives, which are set annually. Every year the corporate KPI targets are agreed and in 2018, 60% of the total PRP is dependent on the fulfilment of corporate objectives (see the Delivery of 2018 Objectives). 40% of the PRP is dependent on the personal objectives of each employee.

Commitment in the team

Two-way interaction is of paramount importance in the teamwork and therefore, feedback from the employees plays an important role in the company culture. In order to receive honest feedback from our people, an employee commitment survey is carried out annually. The employee survey provides an evaluation on our approach to employee management and the working conditions provided. In 2018, 92% (2017: 96%) of our employees participated in the survey. We believe this is a sign that our employees understand the importance of their feedback.

The results of the survey showed the employee commitment in the Company to be slightly higher than the Estonian and European average in 2018. Compared to the previous year's survey the commitment index has increased by five TRI*M index points. The increase has been impacted by some reorganisations in departments and by bringing in new energetic and competent professionals.

Commitment of our staff in 2014–2018 in comparison with Estonian and European average by Kantar Emor (TRI*M index)



Development of staff and succession planning

Considering the age structure in the Company, it is critical for us to have a systematic approach and action plan for succession planning. To continue developing and improving our results, we need to maintain the Company-specific knowledge but also bring new and fresh energy to the company. We believe that the teams, containing both recently graduated and more experienced people of advanced age, make the strongest teams of all. The performance of the Company depends on the skills and professionalism of its employees.

Even though all our vacancies are public, we always circulate the job offers internally as well. We support the development of staff internally, provide career opportunities within the Company and inspire our staff to develop and rotate between different teams. In 2018 the internal succession happened in 15 occasions, which is a very good result. The discussion of the plans for professional development always constitutes a part of the annual performance interviews, which are held at the beginning of each calendar year with all employees (100%), regardless of their gender or employee category. Interim reviews are performed with specialists and managers also in July-August. We encourage our employees to continuously learn and develop themselves and we try to find development opportunities, which serve the interests of both the employees and the Company.

The majority of trainings concern the following areas: occupational safety, leadership, technical skills trainings, language and computer trainings. In 2018, we had 1.9 (2017: 2.3) 8 hour-training days per employee. Genders are not distinguished whilst monitoring the training days and providing training opportunities, as the trainings are arranged considering the training needs of all our employees. In 2018, we provided more internal trainings. The employees carried out the trainings about customer service, legal matters and the processes of the Company.

We provide trainings and support to our managers to be able to effectively manage their teams. We have developed and established a Good Leadership Standard, which serves as the basis for leadership development in the Company. For new employees we offer the possibility to use either a coach or a mentor.

In 2018, we continued with the summer trainee program and other succession-related programs such as the graduate program, apprentice program and internal young specialist program. Those programs are a part of our succession planning and allow us to engage young people in the activities of our Company already whilst they are studying and provide them with valuable work experience and development opportunities. Through those programs we have employed 20 new young specialists and skilled workers. Many of them have already succeeded in their positions and are working in the managerial positions.

In 2018. the Board approved clear salary procedures and principles, which give transparent and systematic approach in payment systems and increase the motivation of employees.

People are the key in maintaining and growing the vitality of a company.

We also continue to employ the Good Retirement Practice, which means that all retirements are planned ahead to ensure the transfer of know-how from the more experienced staff to the young members and to thank the retirees for their commitment. In positions, which require significant company-specific knowledge and skills, the employee who is about to retire and young specialist work alongside with each other for 2-6 months. By providing such transfer of knowledge and experience to the learning employee, we value the experience of the retiring employee and contribute to the professionalism of the new employee. The Company also pays retirees a company benefit depending on the duration of employment. 15 employees retired during 2018.

OCCUPATIONAL HEALTH AND SAFETY

Occupational safety is an inseparable part of our business, being central to everything we do. We believe, that no work assignment is worth getting injured for. Safe and good working environment is a key focus for us as an employer in ensuring that our employees are cared for and do not risk their health or lives during work. Occupational health and safety is also crucial considering Tallinna Vesi's employer brand – we strive to be a valued employer, who provides a working environment where people are happy to come to in the morning, knowing that they have everything they need to have a safe and nice day at work. Occupational health and safety is a constantly evolving area, which does not allow the employers to become too comfortable – there are always further improvements to consider.

In addition to the Work Environment Council of 10 members, the Company also has 11 working environment representatives elected by different units. Our Health and Safety Manager organises regular meetings with the working environment representatives to discuss all issues relating to the work environment in the Company. All actions along with the responsible persons, deadlines and targeted outcomes are entered into one table, which is available for all staff to read, and the delivery of those actions is constantly monitored. Overview of the issues raised by the representatives is also presented at the meetings of the Work Environment Council. Our target is for the working environment representatives and Work Environment Council members to have greater role and impact than before.

Our Company's work environment performance is compliant with the requirements of national legislation and international occupational health and safety management system standard OHSAS 18001. Work environment management system is based on the assessment of risks and execution of activities aimed at preventing or reducing dangerous situations. Members of Health and Safety Team make internal working environment checks at workplaces on a daily basis. In 2018, the Health and Safety Department carried out 425 safety audits in total (2017: 342). Compliance of emergency and construction sites (at least 94% compliant sites) has also been set as the Company's overall objective. In 2018, 98.12% (2017: 94.15%) of the Company's audited sites met the safety requirements.

Furthermore, the Work Environment Council members and managers carry out additional safety audits on work sites and operational units. Negative findings are dealt with by agreeing improvement actions and checking the delivery of those later. The actions can include an extra training course, guidance, purchase of safer tools/equipment or an additional sign.

To ensure the safety of our own employees, it is important that our subcontractors and cooperation partners also maintain high standards in occupational safety. We wish to be an example to them. Therefore, we also check the compliance with the safety requirements of our cooperation partners and subcontractors on a regular basis.

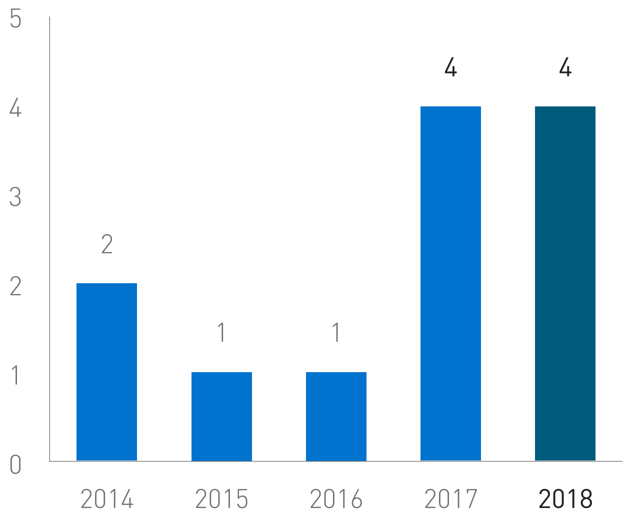
One of the main indicators for assessing our performance in occupational health and safety is the accident frequency rate (AFR), which demonstrates how many work accidents with major injuries or with >3 days lost have there been for 100,000 working hours. AFR has been monitored in the Company since 2015 and it has also been one of the Company's objectives. In 2018, the accident frequency rate was 0.37 (2017: 0.36). Two work accidents with lost work time of over 3 days occurred in 2018.

In one accident an employee sustained a knee injury when involved in a manual handling activity. All staff whose work involves manual handling of weights had a follow-up training on the subject. In another case an employee fell on a slippery surface on the company's territory whilst coming to work. In order to avoid similar accidents in the future, we placed the signs reminding people of slippery roads on the walls and in the cars and we will make sure that we are effective in keeping our territory as clean as possible of snow and ice. Since 2018, we are not including in the calculation of AFR the accidents, the causes of which are not related to the company or its staff.

Total number of work accidents

In 2018, 4 work accidents in total were registered in the Company (2017: 4), incl. 2 minor accidents with no lost time. However, going forward we intend to be more effective in preventing such minor work accidents and will pay particular attention to obtaining information on dangerous occurrences and near misses from our staff. In 2018, 206 of such observations were made by the staff. Based on the information received from the employees we aim to make the improvements in order to prevent any possible accidents in the future.

Number of work accidents 2014-2018



To reduce any potential risks, we continue contributing to the safety of our company's working environment. Key aspect in creating and maintaining a safe work environment is definitely the awareness of the employees. Involvement of our staff in various work environment-related initiatives and activities is fundamental in improving the awareness. We organise informative meetings to give the staff an opportunity to share information. We try to improve the staff's awareness of safety issues also through discussions and different printed materials and safety videos. Systematic engagement of employees has resulted in considerably increased attention towards one's work environment, which is where the occupational safety starts in the first place.

We carry out work environment trainings on a regular basis. The list of topics addressed, amongst others, was as follows:

- training and in-service training on first aid,
- fire safety training for the staff,
- hot works training,
- various safety trainings whilst working with chemicals,
- electrical safety trainings,
- training for temporary traffic rearrangements,
- evacuation drills.

In 2018, we carried out also other activities to improve safety and work environment. We continued to improve the safety of excavation and backfilling sites.

All the initiatives above as well as several other actions help us to make our work environment safer and more comfortable for our employees.

OBJECTIVES: EMPLOYEES

Health and safety objectives of 2018	
Work accidents frequency rate (excluding unavoidable accidents) <0.2	Not achieved
Compliance at Tallinna Vesi´s sites according to safety audits ≥ 94%	Achieved
Compliance at Watercom´s sites according to safety audits ≥ 94%	Achieved
Number of safety observations (positive or negative) or near misses ≥ 200	Achieved
Employee related objectives of 2019	
Work accidents frequency rate (excluding unavoidable accidents)	≤ 0,2
Compliance at Tallinna Vesi´s and Watercom´s sites according to safety audits	≥ 95%
Number of safety observations (positive or negative) or near misses	≥ 200
Minimum number of training days per employee	≥ 1
Employee commitment (according to annual employee satisfaction survey)	≥ 72

Financial results

ECONOMIC ENVIRONMENT

As AS Tallinna Vesi operates only in Estonia, then our activities are mainly dependent on the trends in Estonian economy.

According to the Ministry of Finance's forecast, Estonia's Gross Domestic Production (GDP) growth in the first half of 2018 reached 3.7%. It was mostly driven by the domestic demand and supported by the export. The real GDP is expected to be 3.6% in 2018 (7.8% real growth). The slowdown of the increase is mostly related to the slowdown in foreign demand. Growth is more supported by the manufacturing industry and export of services. For the period 2019-2021 the economic growth is expected to be around 3% per annum.

The domestic consumption in 2013-2016 was rather high compared to the general economic growth being 3.8% per annum.

In 2017, CPI mostly showed an increasing trend, which continued also in 2018. Similar to the CPI of 3.4% at the end of 2017, the CPI was also 3.4% at the end of 2018. CPI is expected to stabilise and slightly slow down in 2019, to be around 2.8%.

Changes in CPI and construction price index have direct impact on both operating and capital expenditures of the Company. According to the Statistics Estonia, average construction price index increased by 1.7% compared to 2017 (2017: 1.5%). The strongest impact on the index came from 4.0% salary increases and over 2.6% increase in the construction machinery prices. Construction material prices grew less and were higher by 0.4%.

AS Tallinna Vesi is also dependent on the labour market. Labour market continues to be intense and pressure for salary growth for skilled employees remains. Employment growth in the first half of 2018 was 1.3% and the unemployment remained around 6% according to the Summer Macroeconomic Prognosis of Ministry of Finance of Estonia. It is relatively difficult to find skilled staff. The average change in salaries has been quite high over the last couple of years. The nominal growth in salaries during the first three quarters of 2018 was around 7% (Statistics Estonia) and is expected to be in Estonia around 6% in 2019, which has an impact to the Company's profitability. Changes in the average salaries affect both the operating and capital expenditures.

Forecast for economic growth in 2018-2022 (%)

	2004–2016	2017	2018	2019	2020	2021	2022
1. GDP real growth	2.9	4.9	3.6	3.0	2.9	2.8	2.7
2. GDP nominal growth	7.4	8.9	7.8	6.3	5.8	5.5	5.4
2a. GDP in current prices (bln €)		23.6	25.5	27.1	28.6	30.2	31.8

**Source: Ministry of Finance 2018 summer forecast*

Main financial indicators of AS Tallinna Vesi

Main financial indicators EUR million, except key ratios and share data	Performance				
	2018	2017	2016	2015	2014
Sales	62.78	59.82	58.98	55.93	53.24
Gross profit	34.19	34.09	33.26	32.25	30.84
Operating profit before depreciation and amortisation (EBITDA)	32.73	17.04	31.03	31.77	30.68
Operating profit	26.94	10.87	24.63	25.58	24.83
Operating profit - main business	*26.21*	*10.24*	*24.44*	*25.24*	*24.54*
Profit before taxes	25.95	9.92	22.89	24.36	22.73
Net profit	24.15	7.22	18.39	19.86	17.94
Gross profit margin %	54.45	56.99	56.39	57.66	57.93
EBITDA margin %	52.13	28.49	52.61	56.80	57.63
Operating profit margin %	42.91	18.16	41.75	45.73	46.63
Profit before taxes margin %	41.34	16.59	38.81	43.55	42.69
Net profit margin %	38.47	12.07	31.18	35.51	33.70
ROA %	10.10	3.27	8.70	9.58	8.79
Debt to total assets %	58.85	62.43	58.15	57.43	57.61
ROE %	25.61	8.24	20.62	22.55	20.58
Current ratio	5.36	5.51	3.91	5.40	5.35
Number of full-time equivalent employees, at the end of the year	296	300	301	311	307
Share price, at the end of the year	9.60	10.20	13.80	13.80	13.10
Share capital	12.00	12.00	12.00	12.00	12.00
Earnings per share	1.21	0.36	0.92	0.99	0.90
Dividend per share	n/a*	0.36	0.54	0.90	0.90
Cash balance, at the end of the year	61.77	44.97	33.99	37.82	38.56
Investments to fixed assets	10.40	9.47	14.95	11.30	11.07

EBITDA: Operating profit + depreciation and amortisation
Gross profit margin: Gross profit / Sales
EBITDA margin: EBITDA/ Sales
Operating profit margin: Operating profit / Sales
Profit before taxes margin: Profit before taxes / Sales
Net profit margin: Net profit / Sales
ROA: Net profit /Average Total assets for the period

Debt to Total capital employed: Total liabilities / Total capital employed
ROE: Net profit / Average Total equity for the period
Current ratio: Current assets / Current liabilities
Main business: water and wastewater activities, excl. connections profit and government grants, construction, design and asphalting services, doubtful debt

**Dividends for 2018 have not been declared at the time of issuing the report.*

STATEMENT OF COMPREHENSIVE INCOME

Sales

Similar to previous years, the Company's tariffs were frozen at the 2010 level also in 2018. Consequently, the changes in the main activity's revenues, i.e. from sales of water and wastewater services, were fully driven by consumption with no considerable seasonality in the main operation. There have been incremental increases in consumption in the past and those are expected to continue also going forward as no dramatic increases or decreases are expected in the future either.

At the end of 2017, the Supreme Court made a negative decision as regards to the Company's appeal in cassation, as a result of which, the Company's tariffs will be regulated under the Competition Authority's (CA) methodology. On 28th February, the 2018 Company submitted its tariff application for Tallinn and Saue area to the CA. The tariffs, which the Company applied for, were similar to the water and wastewater tariffs currently charged in the area. The amended tariff application was submitted on 2nd May 2018. On 4th May, the CA started the review of tariff application. With its decision of 4th December 2018, the CA did not approve the prices of water and wastewater services in Tallinn and Saue service area. With the same decision, the CA approved prices for services directly related to water and wastewater services. On 6th December 2018, the CA notified the Company of the initiation of a supervisory review procedure, to which the Company is expected to respond by 1st April 2019. On 3rd January 2019, the Company challenged CA's decision dated 4th December 2018 refusing to approve the prices of water and wastewater services in Tallinn and Saue service area that AS Tallinna Vesi applied for. The CA is expected to decide on the challenge by 12th February 2019. The latest information on this issue will be made public through stock announcements.

On 13th September 2018, the Company submitted a supplemented tariff application, which in addition to Tallinn and Saue area included also the tariffs of water companies in Harku and surrounding areas. CA has informed the Company that the supplemented application also meets all the requirements and that they have extended the review period from 30 days to 90 days due to the application being particularly complicated and requiring more processing work than usual. 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 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. 83.7% of the total sales comes from the sale of water and wastewater services to domestic and commercial customers within and outside the service area, 5.7% from the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 9.6% from construction and asphalting services and 1.1% from other works and services. The sale of construction and asphalting services is more seasonal and the Group continues to seek possibilities to keep and grow these services revenues.

Sales from water and wastewater services were EUR 52.53 million, showing a 2.5% or EUR 1.29 million increase compared to the twelve months of 2017, and resulted from the changes in sales volumes as described below:

- There has been an increase in revenues from private customers by 2.1% to EUR 25.76 million. The increase in domestic customer consumption volumes is attributable to the biggest residential customer group - apartment blocks, accompanied by increase in consumption of private houses as the spring and summer were very dry.

- Sales to corporate customers within the service area have increased by 4.1% to EUR 21.25 million. The increase is attributable to slightly higher consumption of different customers in industrial and other commercial customer segments.

- Sales to customers outside the main service area have been at the same level as in 2017 amounting to EUR 4.68 million. It is mainly driven by decrease in sales of storm water disposal service and increase in water supply service and treatment of wastewater, revenues of which changed respectively by -35.5% or EUR 0.18 million to EUR 0.32 million, +8.8% or EUR 0.12 million to EUR 1.47 million and +2.1% or EUR 0.06 to EUR 2.89 million.

	for the year ended 31 December			Variance 2018/2017	
EUR thousand	2018	2017	2016	EUR th	%
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 waste water disposal service	**52,528**	**51,237**	**50,196**	**1,291**	**2.5%**
Storm water treatment and disposal and fire hydrant service	3,562	3,668	3,671	-106	-2.9%
Construction service, design and asphalting	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%**

- Over-pollution fees received have decreased by 9.7% to EUR 0.84 million.

- Sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area have decreased by 2.9% to EUR 3.56 million, although the treated volumes were 30.8% lower, the compensation per m^3 was higher.

- Sales of construction, design and asphalting 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 revenues collected during the year as the Company has won some big procurements in Tallinn and other parts of Estonia.

Cost of goods and services sold and Gross profit

Cost of goods and services sold were EUR 28.59 million in the twelve months of 2018, showing a 11.2% or EUR 2.87 million increase year-on-year. The increase in chemical, staff and other costs of goods and services sold was accompanied by higher costs related to construction and asphalting services. Higher costs were balanced by lower depreciation and electricity costs and pollution tax expenses.

EUR thousand	for the year ended 31 December			Variance 2018/2017	
	2018	2017	2016	EUR th	%
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 asphalting	-5,240	-3,638	-4,006	-1,602	-44.0%
Other costs of goods sold	-5,151	-3,764	-3,449	-1,387	-36.8%
Total other costs of goods/services sold	**-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%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were EUR 6.74 million, showing a decrease by 3.1% or EUR 0.22 million year-on-year. Changes in direct production costs were attributable to a combination of changes in prices and treated volumes that affected the cost of goods sold along with the following additional factors:

- Water abstraction charges increased by 1.6% to EUR 1.19 million, driven by 2.5% overall increase in abstracted water volumes.
- Chemicals costs increased by 16.2% to EUR 1.74 million, driven mainly by an average of 17.9% higher methanol price and higher use of methanol and polymers in wastewater treatment process, worth respectively EUR 0.10 million, EUR 0.06 million and EUR 0.03 million. Higher chemicals costs in wastewater treatment were accompanied also by increase in costs in water treatment process, driven by increase in dosage of coagulant and higher coagulant and chlorine prices, worth respectively EUR 0.02 million and a total prices impact of EUR 0.03 million.
- Electricity costs have decreased by 10.8% to EUR 2.85 million, driven mainly by an average of 9.4% lower electricity prices and network fees, accompanied by 14.6% lower treated wastewater volumes and balanced by higher electricity consumption per m^3 in water treatment process, worth respectively EUR +0.30 million, EUR +0.12 million and EUR -0.05 million.
- Pollution tax expense decreased by 12.5% to EUR 0.96 million, driven mainly by 14.6% lower treated sewage volumes, balanced by increased pollution load of BOD7, worth respectively EUR +0.16 million and EUR -0.03 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 21.85 million, having increased by 16.5% or EUR 3.09 million compared to the same period in 2017. Increase in staff costs of 8.6% or EUR 0.50 million was related to change in salaries from the beginning of 2018 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 as at the end of 2018. Decrease in depreciation costs of 7.2% or EUR 0.40 million was related to the lower accelerated depreciation need and cost of machinery and equipment depreciation year-on-year. Construction and asphalting services related costs increased by 44.0% or EUR 1.60 million, driven mainly by higher construction and asphalting services related revenues mentioned earlier. Other cost of goods sold were higher by 36.8% or EUR 1.34 million due to an increase in asset maintenance costs in water and wastewater treatment processes and higher repair costs on stormwater network, accompanied by sludge disposal costs.

Consequently, the Group's gross profit for 2018 was EUR 34.19 million, showing a slight increase by 0.3% or EUR 0.10 million compared to the gross profit of EUR 34.09 million in 2017.

Other income and expenses

Other income/expenses amounted to net expenses of EUR 1.84 million, having decreased by EUR 16.01 million. The decrease was mainly impacted by lower expense for provision formed for possible third-party claims, if those are to be recognised by the court, worth EUR 15.98 million. The provision takes into account the possible price difference of three years between the tariffs approved by City of Tallinn in 2010 and the tariffs calculated based on the best knowledge of Competition Authority's methodology. 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. The frozen tariffs are the tariffs which have been approved by an administrative act from City of Tallinn. Additional information is provided in Note 15 to the financial accounts.

Operating profit

As a result of the factors listed above, the Group's operating profit for 2018 amounted to EUR 26.94 million, showing an increase by 147.9% or EUR 16.07 million year-on-year. The Group's operating profit from the main business was EUR 26.21 million, showing an increase by 156.0% or EUR 15.97 million compared to the same period in 2017.

Financial expenses

The Group's net financial income and expenses have resulted in a net expense of EUR 0.99 million, compared to net expense of EUR 0.94 million in 2017. The increase was mainly impacted by a EUR 0.19 million lower positive change in the fair value of the swap contracts, balanced by decrease in the interest costs by EUR 0.14 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 and EUR 50 million are still with floating interest rate. At the end of 2018, the estimated fair value of the swap contracts is negative, amounting to EUR 0.38 million (at the end of 2017: EUR 0.76 million). Effective interest rate of loans (incl. swap interests) in 2018 was 1.42%, resulting in interest costs of EUR 1.37 million, compared to the effective interest rate of 1.57% and the interest costs of EUR 1.51 million in 2017.

Profit before taxes and net profit

The Group's profit before taxes for 2018 was EUR 25.95 million, showing an increase by 161.6% or EUR 16.03 million compared to the relevant period in 2017. The Group's net profit for 2018 was EUR 24.15 million, showing an increase by 234.4% or EUR 16.93 million year-on-year. Eliminating the effects of the change of derivatives fair value and change of provision for the possible third-party claims, the net profit for 2018 and 2017 would have been respectively EUR 25.32 million and EUR 24.17 million.

STATEMENT OF FINANCIAL POSITION

The cash balance of the Group remains strong being EUR 61.77 million at the end of 2018 (at the end of 2017: EUR 44.97), forming 24.7% of the total assets (2017: 19.7%).

In 2018, the Group invested EUR 10.40 million into fixed assets (in 2017: EUR 9.47 million). As of 31st December 2018 non-current tangible assets amounted to EUR 179.19 million and total non-current assets amounted to EUR 179.85 million (31st December 2017: EUR 174.45 million and EUR 175.26 million respectively).

Compared to the year end of 2017 the receivables, accrued income and prepayments have been relatively stable showing a slight decrease of EUR 0.09 million to EUR 7.63 million. The collection rate of receivables has slightly decreased from 99.8% in 2017 to 99.7% in 2018.

Current liabilities have increased by EUR 3.38 million to EUR 13.03 million compared to the year end of 2017. The increase mainly derives from reclassification of two instalments 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 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 Other income and expenses results. More detailed information about the provision is in Note 15 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's Total debt to assets level is at 58.9% as expected, in the range of 55%-65%, reflecting the Group's equity profile. In 2017 the total debt to assets ratio was 62.4%.

CASH FLOW

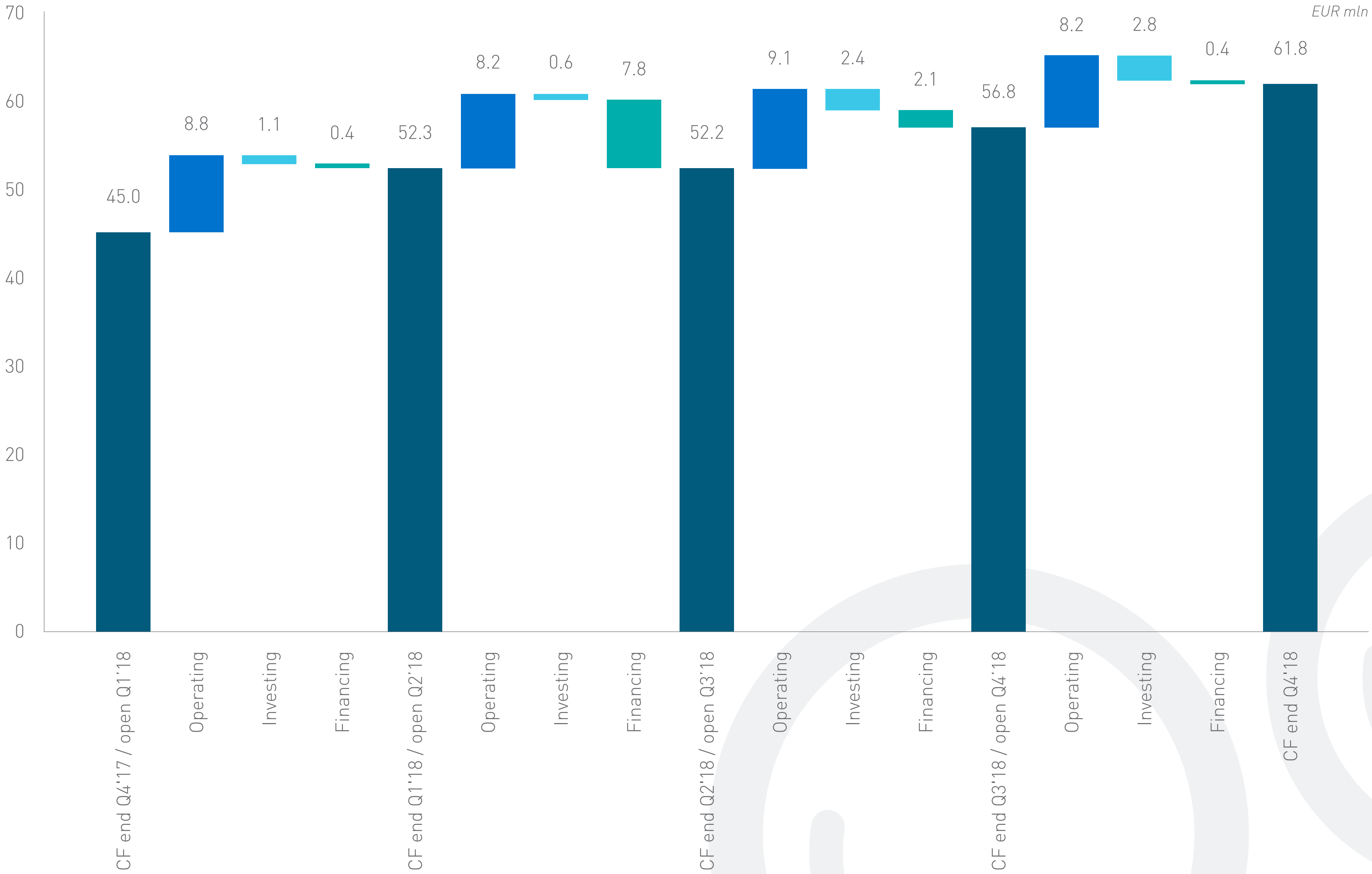
As of 31st December 2018, the cash position of the Group was strong. At the end of December 2018 the cash balance of the Group stood at EUR 61.77 million, which was 24.7% of the total assets (31st December 2017: EUR 44.97 million, forming 19.7% of the total assets).

The biggest contribution to the cash flow comes from the main operations. During 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 2018, the result of net cash flows from investing activities was a cash outflow of EUR 6.84 million, a decrease of EUR 0.14 million compared to the cash outflow of EUR 6.99 million in 2017. This is made up as follows:

- The cash outflows from investments in fixed assets have increased by EUR 0.98 million compared to 2017, amounting to EUR 10.74 million.
- The compensations received for pipe construction were EUR 2.70 million, showing a increase of EUR 1.02 million compared to the same period of 2017.

In 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 reduction in dividend payments and dividend income tax altogether by EUR 4.50 million.


EUR mln
70
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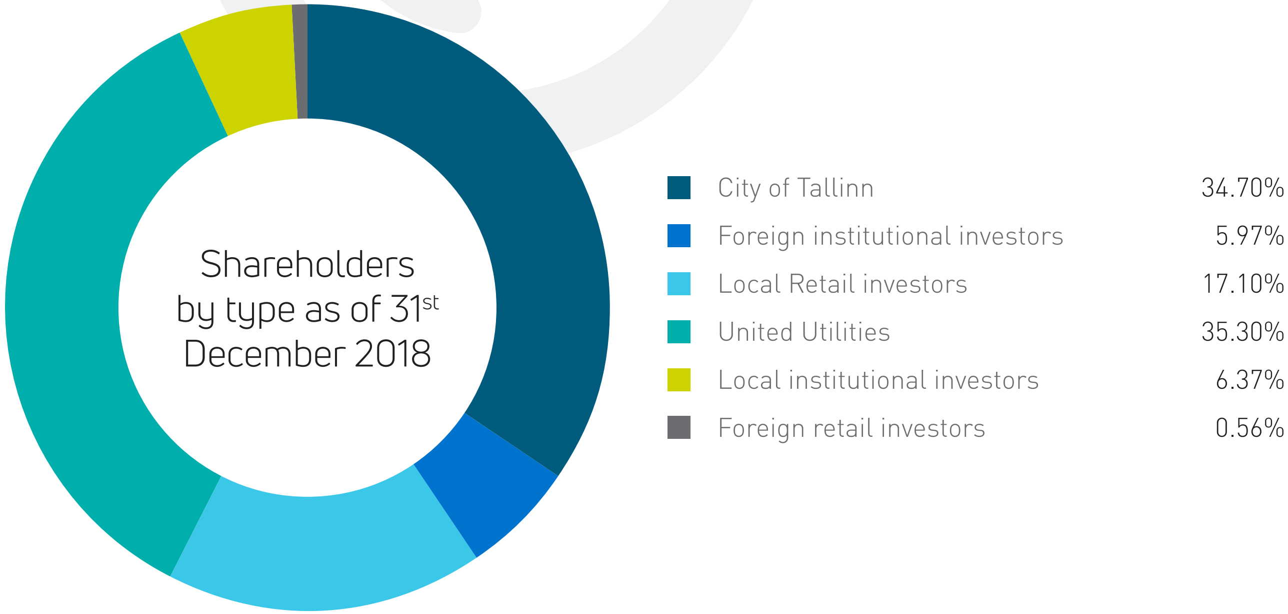
30
20
10
0
45.0
8.8
1.1
0.4
52.3
8.2
0.6
7.8
52.2
9.1
2.4
2.1
56.8
8.2
2.8
0.4
61.8
CF end Q4'17 / open Q1'18
Operating
Investing
Financing
CF end Q1'18 / open Q2'18
Operating
Investing
Financing
CF end Q2'18 / open Q3'18
Operating
Investing
Financing
CF end Q3'18 / open Q4'18
Operating
Investing
Financing
CF end Q4'18

INVESTORS

We aim to be transparent and honest through our business activities, giving timely and accurate information to our shareholders. We treat all our shareholders equally and are dedicated to efficiency while ensuring the sustainability of the Company.



Investor communication

AS Tallinna Vesi is a listed company and its shares have been listed on Nasdaq Baltic market since 1 June 2005. A company's market value is a good indication of the overall value of the company and the investors' perceptions of its business prospects. Market value is affected not only by factors controlled by the company but also by those, which cannot be controlled. Profitability and cost effectiveness are major influences on market value and can be controlled by the Management Board of the Company.

Given the Supreme Court's decision as regards to the tariff dispute with the Estonian Competition Authority, the Company's tariffs will be regulated by the Competition Authority's methodology, which would mean a reduction in tariffs and revenues. In 2018, the Company continued operating with frozen tariffs approved in 2010. However, good control over revenues, in conjunction with the growing population of Tallinn and its surrounding municipalities, allowed us to unveil a steady and slightly increased strong revenue stream in 2018. In addition, similarly to 2017, attention was paid to the growth of non-regulated revenues, i.e. revenues from pipe construction and asphalting.

Continuing and transparent communication is one of the main factors in maintaining excellent investor relations. Therefore, we continue to regularly communicate our targets, strategy and performance to the investors as well as to all other stakeholders. Each quarter, we introduce Company's quarterly financial results to the investors and take part in discussions on the webinars. Additionally, we hold regular meetings with key institutional shareholders and potential investors and the Company's Management Board. All shareholders are welcome to ask questions from the members of the Management Board and the Supervisory Board at the Annual General Meeting of Shareholders.

We have worked hard on our investor relations programme since the listing on the Tallinn Stock Exchange and will continue to do so in the following years. In order to further improve the transparency of our Management Board's activities to shareholders, we applied and have reported good corporate governance recommendations on a regular basis since 2006.

Our contribution to maintaining excellent investor relations has also been recognised externally.

Distribution of share capital by size of share ownership as of 31st December 2018

	Shareholders 2018 (2017)	Shareholders % 2018 (2017)	No. of shares 2018 (2017)	% of share capital 2018 (2017)
1 - 100	2,023 (2,067)	39.5% (38.4%)	100,223 (103,565)	0.5% (0.5%)
101 - 200	874 (915)	17.1% (17.0%)	136,592 (142,433)	0.7% (0.7%)
201 – 300	470 (512)	9.2% (9.5%)	122,247 (132,486)	0.6% (0.7%)
301 - 500	509 (532)	9.9% (9.9%)	210,894 (220,375)	1.1% (1.1%)
501 - 1,000	522 (585)	10.2% (10.9%)	390,460 (442,531)	2.0% (2.2%)
1,001 - 5,000	562 (603)	11.0% (11.2%)	1,212,610 (1,301,274)	6.1% (6.5%)
5,001 - 10,000	84 (86)	1.6% (1.6%)	609,663 (617,953)	3.0% (3.1%)
10,001 - 50,000	63 (67)	1.2% (1.2%)	1,220,804 (1,309,907)	6.1% (6.5%)
50,000 +	18 (18)	0.4% (0.3%)	15,996,507 (15,731,476)	80.0% (78.7%)
TOTAL 2018	**5,125**	**100.0%**	**20,000,000**	**100.0%**
TOTAL 2017	**5,385**	**100.0%**	**20,000,000**	**100.0%**

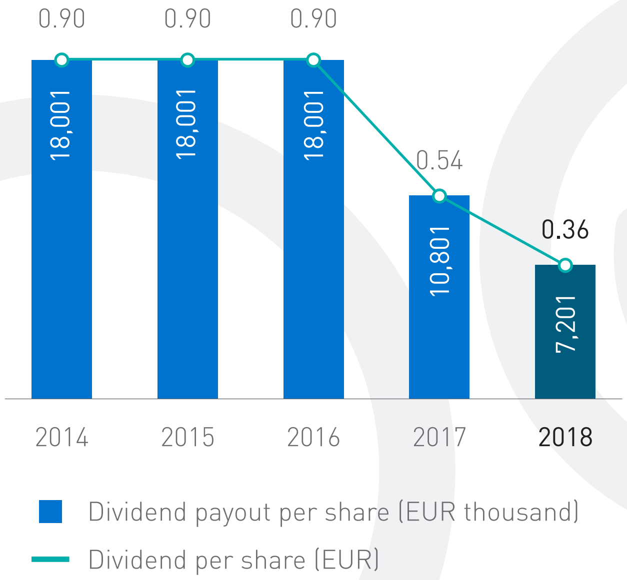
Dividends

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 are confirmed by the Annual General Meeting of shareholders.

Up until 2017, according to the dividend policy, which is also published on Company's website, the Company has maintained the dividends to shareholders in real terms, i.e. dividend amounts have increased in line with inflation each year. In 2017, the Company reduced the dividend pay-out from 2016 dividends to 60%, as the outcome of the local and international dispute was unclear. In 2018, 100% of the 2017 net profit was paid out as dividends. The net profit was lower than normal in 2017 due to the provision formed for possible third party-claims as described in the Note 15 to the Financial Accounts. The dividend policy and dividends will be reviewed in 2019 after the new tariffs will be in place.

In the Annual General Meeting of shareholders held on 31st of May 2018, 36 cents dividends per share and the total dividend pay-out from the profit of 2017 net income in the amount of EUR 7.2 million was approved. Compared to 2017 it accounted for 66.67% of the amounts paid out.

Dividends were paid out on 26th June 2018. Dividend pay-outs in the last five years have been as follows:



Share performance

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

As of 31st December 2018, AS Tallinna Vesi shareholders, with a direct holding over 5%, were United Utilities (Tallinn) B.V. (35.3%) and City of Tallinn (34.7%).

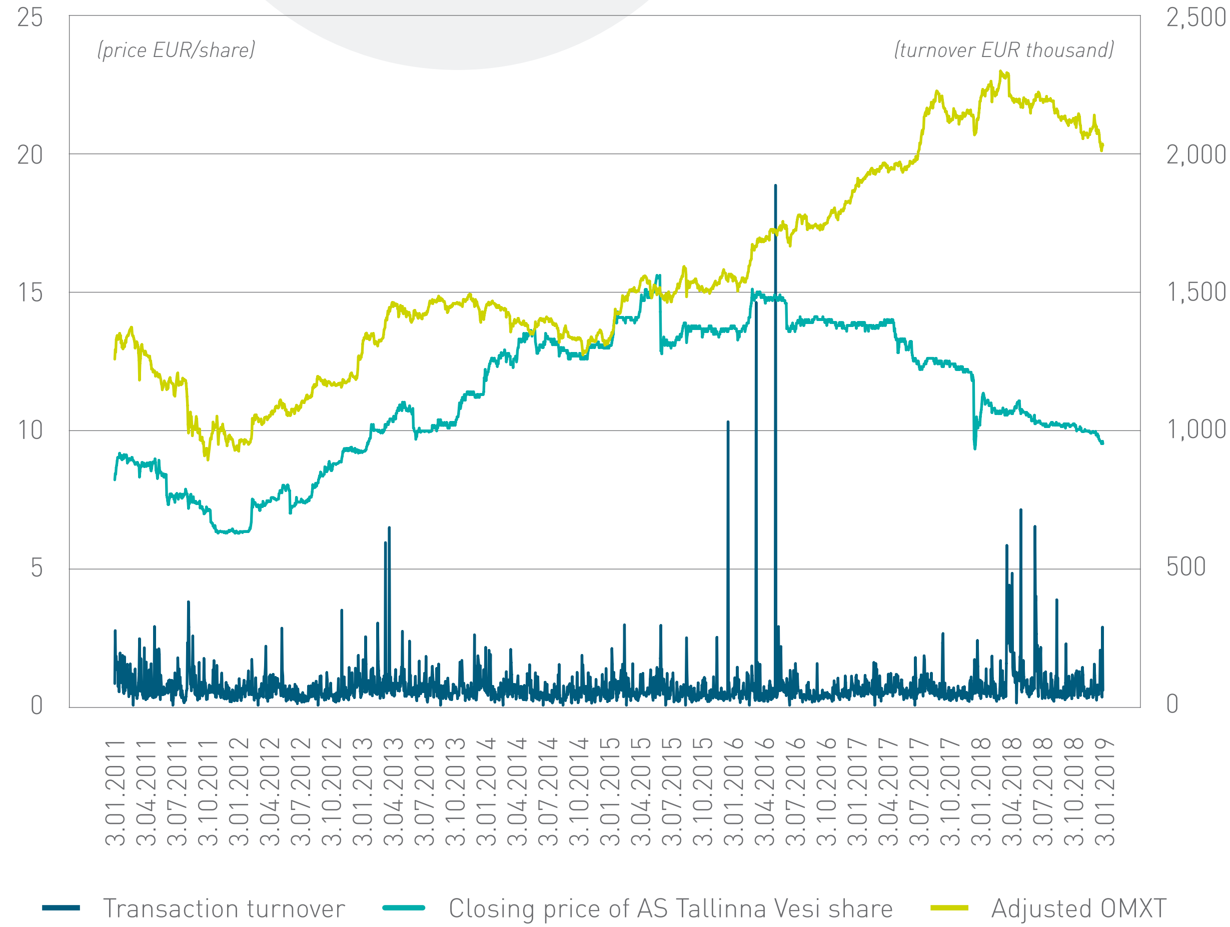
The shareholder structure has been relatively stable throughout 2018 compared to the end of 2017. At the end of 2018, the pension funds owned 1.33% of the total shares compared to 1.43% at the end of 2017.

As of 31st December 2018, the closing price of AS Tallinna Vesi's share was EUR 9.60, which is 5.88% lower than at the beginning of the year EUR 10.20 (in 2017: the price decreased to 10.20 or 26,09% compared to the opening price in 2017 of EUR 13.80). During 2018 the OMX Tallinn index decreased even more than AS Tallinna Vesi share, decreasing by 6.38% (2017: increase 15.49%).

3,983 deals with the Company's shares were concluded in 2018 (2017: 8,476 deals), during which 765 thousand shares or 3.82% of total shares changed their owners (2017: 1,345 thousand or 6.73%).

The turnover of the transactions was EUR 8.54 million higher than in 2017, amounting to EUR 7.95 million (2017: EUR 16.48 million).

Closing price and adjusted OMXT vs transactions turnover



Share price statistics

EUR	2018	2017	2016	2015	2014
Share price, open	10.20	13.70	13.80	13.10	12.00
Share price, at the end of the year	9.60	10.20	13.80	13.80	13.10
Share price, low	9.54	8.52	13.30	12.80	11.80
Share price, high	11.35	14.00	15.10	15.60	13.60
Share price, average	10.39	12.81	14.12	13.88	12.91
Traded volume, thousand	765	1,346	1,048	1,581	1,239
Turnover, EUR million	7.95	16.48	14.71	21.74	15.95
Capitalisation, EUR million	192	204	276	276	262
Earnings per share	1.21	0.36	0.92	0.99	0.90
Dividend per share	n/a*	0.36	0.54	0.90	0.90
Dividend / net profit	n/a	100%	58%	91%	100%
P/E	7.93	28.33	15.00	13.94	14.56
P/BV	1.9	2.4	3.1	3.1	3.0

P/E = share price at the end of the year / earnings per share
P/BV = share price at the end of the year / book value per share
*Capitalization = share price at the end of the year * No of shares*
In 2005 the listing price was 9.25 euros

**Dividends for 2018 have not been declared at the time of issuance of the report.*

ACTIVITIES OF THE SUBSIDIARY OÜ WATERCOM

OÜ Watercom was established by AS Tallinna Vesi in 2010.

Watercom provides the following services:

- Construction and design of pipes;
- Services related to road maintenance;
- Project management and owner's supervision;
- Jet washing and transportation.

Watercom is certified by the following standards: ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2015.

Watercom's main objectives and development trends in the next year

2018 was a very successful year for Watercom. The targets set for revenues and profit were achieved and further growth is expected in 2019. In 2018 Watercom made a breakthrough by delivering more external revenue and profit than ever, surpassing the revenues provided within the group by more than 50%. The focus will remain on external revenues also in 2019.

The success of Watercom has also been recognised externally. In October, Watercom was listed among TOP10 most successful infrastructure construction companies in a TOP compiled by an Estonian business daily Äripäev. The Company achieved the 10th place out of 94 companies operating in Estonia.

The companies were ranked based on six indicators: 2017 sales; sales increase compared to 2016; 2017 operating profit; profit increase compared to 2016; cost-efficiency and return on assets in 2017. The companies were ranked in each category and the points from each of the six lists were summed up.

Outlook for 2019 remains positive with expectations to achieve the highest ever external sales and profit figures. The Company will continue monitoring different possibilities of further external growth.

Pipe and road construction

In 2018, the construction of water and wastewater networks for developers, companies and individuals was the main activity of Watercom. Construction of pipes is carried out under the trademark Veemees. Similar to previous years, the focus was on feasible construction projects and procurements in Tallinn and elsewhere in Estonia.

2018 was a reasonably good year in the construction sector – an increase in financing provided by the European Union Cohesion Fund and state funds was accompanied by growth in real estate development in Tallinn and nearby areas. Construction market is still extremely competitive and therefore, efficient cost management is crucial in achieving sustainable profitability. In 2018, the construction margin was raised through the improved controls to manage costs more efficiently. Although the real estate market was active in 2018, we have noticed a decreasing trend in demand in the 1st quarter of 2019. There have been less price inquiries from developers and main contractors. No high growth is expected in real estate development in 2019, as the demand for new apartments and retail space shows signs of cooling down.

External road construction market was more active in 2018 and Watercom carried out several external works for the City of Tallinn. However, as Watercom's focus lies mainly on providing the service of restoring emergency excavation spots, no additional resources have been recruited as the existing resources proved to be sufficient.

WATERCOM.

Other services

During 2018, Watercom managed to win several supervision contracts for the tender on public water supply and sewerage system in Kilingi-Nõmme, Kumna, Vääna. Watercom is also concentrating on smaller external supervision projects in Tallinn and surrounding municipalities. In 2019, Watercom will continue to seek additional possibilities to retain and increase the sales of supervision services by participating in various procurements.

Jet washing and transportation services are mostly provided within the group, but are also available to external clients. Proactive jet washing program has helped to keep much better control over the number of blockages.

OBJECTIVES: FINANCIAL PERFORMANCE

Financial objectives of 2018	
OÜ Watercom's external revenues ≥ EUR 6.25 million	Achieved
OÜ Watercom's external profit ≥ EUR 0.45 million	Achieved
Financial objectives of 2019	
OÜ Watercom's external revenues	≥ EUR 7.40 million
OÜ Watercom's external profit	≥ EUR 0.53 million
Savings made on direct production cost and fixed operating cost compared to 2019 budget	≥ 2%

Corporate governance

CORPORATE GOVERNANCE REPORT

Corporate governance is a system of principles for the control and management of a company. These principles are regulated by law, by the Articles of Association and by the internal rules of a company. As of 1st January 2006, the companies listed on the Nasdaq Tallinn Stock Exchange have been encouraged to follow the Corporate Governance Recommendations issued by the Financial Supervision Authority. AS Tallinna Vesi is committed to following those recommendations and has acted accordingly throughout 2018. This report covers the principles applicable as of 31st December 2018, which have been approved by the Financial Supervision Authority.

AS Tallinna Vesi is committed to high standards of corporate governance, for which the Management Board and the Supervisory Board are accountable to the shareholders. The corporate governance model and operational structure are designed to ensure that all employees work towards the common objectives of the Company. Good corporate governance, internal controls and risk management are all key elements to a successful business. Good corporate governance, transparency, sustainability, internal controls and risk management are fundamental components to build and maintain the trust and credibility of all stakeholders of the Company. AS Tallinna Vesi considers it crucial to be transparent in its methods of operation through corporate disclosures and through its relations with stakeholders. AS Tallinna Vesi has received recognition for best investor relations by Nasdaq Baltic on several occasions:

- In 2014, AS Tallinna Vesi received Best Investor Relations in the Baltic Markets for a second year. In addition, AS Tallinna Vesi was also recognized as the most attractive company in the Baltic Markets.
- In 2015, AS Tallinna Vesi won the Nasdaq Market Awards main category "Best Investor Relations in Baltics" for the third consecutive year. Additionally, the Company was recognized with first places in the following categories: "Best Investor Relations according to market professionals", "Best Interactive Investor Relations" and the "Most Trustworthy Company within the Baltic Markets".
- In 2016, AS Tallinna Vesi won the Nasdaq Market Awards main category "Best Investor Relations in Baltics" for the fourth consecutive year. Additionally, the Company got the first places in categories "The Best Interactive Investor Relations" and "Best Reporting Company". The Company's investor relations were highly recognised also by market professionals and the Company received the second place in the category of "Best Investor Relations According to Market Professionals".

Since 2010 AS Tallinna Vesi has been a member of the Baltic Institute of Corporate Governance, which promotes the best practices of corporate governance in the region. All members of the Management Board of AS Tallinna Vesi have successfully completed the Executive Program of Professional Board Members provided by the Baltic Institute of Corporate Governance. Chief Financial Officer Riina Käi also serves as a Board Member of the Baltic Institute of Corporate Governance since 2016 to support promoting good corporate governance principles in the Baltics.

INVESTOR RELATIONS AND DISCLOSURE OF INFORMATION

Corporate Governance Recommendations statements are available on AS Tallinna Vesi's website www.tallinnavesi.ee. The Corporate Governance Recommendations Report is an integral part of the Annual Report of AS Tallinna Vesi, which is prepared at the end of each financial year. Annual reports are made public on the Nasdaq Tallinn Stock Exchange and are also available on the Company's website.

AS Tallinna Vesi discloses the following year's financial calendar on the Nasdaq Tallinn Stock Exchange prior to the end of the calendar year. This information includes the dates of quarterly and annual financial information and the date of Annual General Meeting (AGM) of Shareholders. All information disclosed via the Nasdaq Tallinn Stock Exchange is also subsequently made available on AS Tallinna Vesi's website.

Additionally, prior to the AGM, AS Tallinna Vesi discloses the following information on its website:

- AGM notice;
- background information about the agenda, including the Annual Report to be approved, the Supervisory Board´s report and the Auditor´s report;
- information about the Supervisory Board member to be elected and the auditor candidate;
- the total number of voting rights and number of voting rights by share type;
- procedure for adding items to the agenda and presenting draft resolutions;
- procedure for inquiring about the Company's activities from the Management Board
- the list of identification documents required for attending the general meeting, including the form of power of attorney.

Decisions of the General Meetings and Management Board presentations are being published shortly after the meeting via Nasdaq Tallinn Stock Exchange. Finalised and certified minutes of the General Meetings are published seven days following the date of the General Meeting. All documents and information published via Nasdaq Tallinn Stock Exchange are available on AS Tallinna Vesi's website.

Tallinna Vesi has received recognition for best investor relations by Nasdaq Baltic on several occasions.

AS Tallinna Vesi holds regular discussions with its major shareholders and potential investors. To this end, the Company holds General Meetings for shareholders, not less than once a year, to keep shareholders informed and to provide them with an opportunity to question directly the Management Board and the Supervisory Board. The Management Board also meets both existing and potential investors outside of the General Meetings including but not limited to meetings on site, roadshows, by being present in conferences, through webinars and investor calls.

AS Tallinna Vesi organises quarterly investor webinars, using the Nasdaq webinar service. Webinar is a virtual conference, in which company representatives provide information about the company and its performance. Webinar allows interactive communication and the possibility to ask questions and receive answers directly from the Management Board members of the Company. The webinar information is announced via the Nasdaq Tallinn Stock Exchange and is open to all interested parties. All webinar recordings and presentations are disclosed on the Nasdaq Tallinn Stock Exchange and on AS Tallinna Vesi's website.

GENERAL MEETING OF SHAREHOLDERS

AS Tallinna Vesi is a public limited company, the management bodies of which are the General

Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting of Shareholders is AS Tallinna Vesi's highest management body.

In accordance with the Commercial Code and Corporate Governance Recommendations, AS Tallinna Vesi convenes both Annual General Meetings (AGM) and Extraordinary General Meetings (EGM) by notifying all of its shareholders via Nasdaq Tallinn Stock Exchange and by publishing information on its website and in one national daily newspaper at least 3 weeks in advance. Information related to General Meetings is disclosed in Estonian and English on the Company's website and in Stock Exchange announcements. The announcement in the daily newspaper is published only in Estonian.

The agendas of AGMs and EGMs of AS Tallinna Vesi are pre-approved by the Supervisory Board, who also put forward proposals that require attention and are subject to voting at the General Meeting. The General Meeting's agenda items, the Supervisory Board's proposals along with relevant comments about the agenda items, procedural instructions for participating in a General Meeting and procedure for proposing additional items to the agenda are disclosed along with the General Meeting's notice.

Specific rights for adding agenda items granted to shareholders, whose shareholding represents at least 1/20 of the share capital, are described in the General Meeting's notice, as well as on AS Tallinna Vesi's website. Voting rights are explained to the shareholders on the Company's website, as well as at the beginning of each General Meeting.

On 31st May 2018, AS Tallinna Vesi held the Annual General Meeting (AGM) of its shareholders to approve the 2017 Annual Report, distribution of profit, to recall one member of Supervisory Board, to elect new Supervisory Board member and to extend the authorities of two Supervisory Board members and to elect the auditor. The Management Board made a presentation on the overall performance of the Company, highlighting the improvements in the occupational environment and safety area as well as in the financial and operational performance. No questions regarding the items in the 2018 AGM agenda were asked, nor were any additional agenda items proposed in 2018.

The Chairman of an AGM is an independent person. In 2018, the AGM was chaired by Mr. Priit Raudsepp, who introduced the procedure for conducting the General Meeting, including the procedure for inquiring about AS Tallinna Vesi's activities from the Management Board.

All members of the Management Board, the Chairman of the Supervisory Board and the signing auditor participated in the AGM in 2018. When a Supervisory Board member or a lead auditor stands for election at the General Meeting, the candidate for the respective position usually participates in the Meeting. Therefore, the Supervisory Board member candidate Mrs. Katrin Kendra participated in the 2018 AGM, also Doctor Martin Padley and Mr Simon Gardiner attended the meeting. The candidate for the position of lead auditor, Mr. Tiit Raimla unfortunately could not attend the AGM in 2018 due to his other responsibilities, whilst the other signing auditor Eva Jansen-Diener was present in the 2018 AGM.

AS Tallinna Vesi does not allow its shareholders to participate at the General Meetings via electronic communication tools, as it has proven too complicated and expensive to establish reliable solutions to identify the shareholders, especially those who are overseas residents. However, should sufficiently secure and reliable means become available, it is allowed under the Articles of Association of the Company.

No shareholders have shares granting them the right for specific control. AS Tallinna Vesi is unaware of any shareholders having concluded any voting agreements.

As per the Articles of Association of AS Tallinna Vesi, AS Tallinna Vesi has issued one registered preferred share with a nominal value of 60 euros (B-share). The B-share grants the holder the right to participate in General Meetings, in the distribution of profits and disposal of assets remaining upon dissolution of AS Tallinna Vesi and other rights provided by law and by the Articles of Association of AS Tallinna Vesi. The B-share grants the holder preferential right to receive a dividend to an agreed sum of 600 euros. The B-share grants the shareholder 1 (one) vote at the General Meeting (restricted right to vote) when deciding on amendments to the Articles of Association of AS Tallinna Vesi, on increasing or reducing the share capital of AS Tallinna Vesi, on issuing convertible bonds, on acquisition of treasury shares by AS Tallinna Vesi, upon deciding on a merger, division, transformation and/or dissolution of AS Tallinna Vesi and upon deciding issues related to the activities of AS Tallinna Vesi that have not been placed under the exclusive competence of the General Meeting by the law. The Company has 20 million A shares, every A share gives one vote on voting.

SUPERVISORY BOARD

The Supervisory Board plans the activities of AS Tallinna Vesi, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members each with a term of two years. In 2018, five regular and no extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2017 Annual Report and reviewed the dividend proposal, both of which were then presented to the Annual General Meeting for approval, and reviewed AS Tallinna Vesi's budget for 2019. In addition, in its meetings, the Supervisory Board reviewed major risks that the Company faces, regulatory and legal issues, matters regarding operations, finances, reporting, investments, human resources, customer service as well as customer and employee satisfaction, health and safety, market development for non-regulated businesses and other operational and business matters. In 2018, the Supervisory Board also reviewed and approved the strategic objectives for 2018-2022.

The following points are usually brought up at every Supervisory Board meeting:

- minutes of the previous meeting;
- information on issues dealt with by the Supervisory Board's committees as appropriate;
- the Management Board report covering the following areas: operational, legal and regulatory, financial, communication, human resources, health, safety and quality, non-regulated business;
- major projects and issues;
- decisions on special cases.

At the time of compilation of this report, AS Tallinna Vesi's Supervisory Board consisted of the following members:

Simon Roger Gardiner
(United Utilities (Tallinn) B.V.)
Supervisory Board member until
3.06.2020

Keith Haslett
(United Utilities (Tallinn) B.V.)
Supervisory Board member until
22.01.2020

Martin Padley
(United Utilities (Tallinn) B.V.)
Supervisory Board member until
2.11.2020

Brendan Francis Murphy
(United Utilities (Tallinn) B.V.)
Supervisory Board member until
28.10.2019

Allar Jõks
(independent)
Supervisory Board member until
1.06.2019

Priit Rohumaa
(independent)
Supervisory Board member until
2.06.2019

Katrin Kendra
(Tallinn City)
Supervisory Board member until
31.05.2020

Toivo Tootsen
(Tallinn City)
Supervisory Board member until
6.04.2019

Priit Lello
(Tallinn City)
Supervisory Board member until
16.11.2019

AS Tallinna Vesi has not made any transactions with members of the Supervisory Board nor their related parties.

The Supervisory Board has formed three committees to advise the Supervisory Board on audit, on nomination and remuneration and on corporate governance matters as described below.

AUDIT COMMITTEE AND INTERNAL AUDIT

The Audit Committee is the subcommittee to the Supervisory Board, which provides an oversight of the financial reporting process, the audit process, the systems of internal controls, review of risk management and assessment and compliance with the laws and regulations. The Audit Committee follows the Auditors Activities Act and the guidelines issued by the Financial Supervision Authority regarding the composition and working processes of an Audit Committee.

The main responsibilities of the Audit Committee are:

- to review quarterly and annual financial statements, including reporting to the Supervisory Board on significant issues considered by the Audit Committee in relation to the financial statements and how those issues were addressed;
- to monitor and analyse the effectiveness of risk management systems and internal controls;
- to review the annual report and the scope, processes and results of the annual audit and to report to the Supervisory Board on the effectiveness of the audit process;
- to monitor and analyse the independence and objectivity of external auditors and the legality of their activity regarding AS Tallinna Vesi and how the objectivity has been safeguarded;
- to annually evaluate the work of external auditors and report to the Supervisory Board about the results of such evaluation;
- to make recommendations to the Supervisory Board for the appointment or reappointment of the external auditor and to be responsible for the tender of the external audit and agree on the fees paid to the auditor;
- to monitor the independence of the internal auditor;
- to review the scope effectiveness of the internal audit function, including reviewing and approving the annual audit plan.

At each Supervisory Board meeting, an internal audit report is presented to the Supervisory Board. In 2017 and 2018, the internal audit service was bought in from Ernst & Young Baltics AS. The internal auditor of AS Tallinna Vesi reports directly to the Audit Committee.

Neither the appointed external financial auditor nor any member of the external audit team can provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2018, the external auditor did not provide any services to the Group outside the scope of the annual audit for financial accounts, except for external assurance provided on GRI Standard reporting referred in GRI index for the period ended 31 December 2018. In 2019, the corporate social responsibility and sustainability report will also be externally audited.

Pursuant to the Articles of Association of AS Tallinna Vesi, an external auditor, whose responsibility is to conduct the annual audit, is elected by the General Meeting of Shareholders. AS Tallinna Vesi chooses

At the time of compilation of this report, the Audit Committee consisted of the following members of the Supervisory Board:

Brendan Francis Murphy
Chairman of the Audit Committee

Allar Jõks
Member of the Audit Committee

Simon Roger Gardiner
Member of the Audit Committee

through external auditor through the procurement process, ensuring the best match of service quality and the price offered for the services. Qualification criteria are strict in order to get the best service in the market. The selected auditors are approved by the Audit Committee and the Supervisory Board before being voted by the General Meeting of Shareholders. The procurement for auditing the year ending 31 December 2018 and the year 2019 was carried out in spring 2018. The company has got the right to extend the contract twice for two-year periods i.e. for the periods 2020- 2021 and 2022-2023. The remuneration of the external auditor is regulated in the contract signed between the external auditor and the Management Board. In 2018, the Group paid EUR 25.7 thousand for the annual financial audits against the relevant invoices issued (in 2017 EUR 33 thousand) and EUR 36.6 thousand for internal audit services against the relevant invoices issued (in 2017 EUR 41 thousand). According to the Good Corporate Governance principles of AS Tallinna Vesi, the lead auditor needs to be re-appointed at least every 5 years, it also follows the Financial Supervision Authority guidelines of 1st November 2013 "Rotation of the auditors of certain subjects of financial supervision by the state" with regard to the requirement to rotate the lead auditor every 5 years. We have followed that principle and the lead auditor is currently Tiit Raimla.

Based on the report of the Audit Committee, the Supervisory Board evaluates the quality of the work of the external auditor annually, in the course of the approval of the Annual Accounts, and discloses the summary of such evaluation in the AGM notice. The external auditor is present at the AGM and participates where necessary.

NOMINATION AND REMUNERATION COMMITTEE

In 2018, the Nomination and Remuneration Committee continued to advise the Supervisory Board on management remuneration issues and Management Board nominations.

The Supervisory Board approves the remuneration principles of the issuer's managers and appoints the Nomination and Remuneration Committee. The Nomination and Remuneration Committee recommends the remuneration principles for AS Tallinna Vesi and exercises due supervision to ensure that the principles approved by the Supervisory Board and the requirements of the Securities Market Act are being followed.

The Nomination and Remuneration Committee ensures that the remuneration principles proposed are based on the short- and long-term objectives of AS Tallinna Vesi, taking into account the financial performance of AS Tallinna Vesi and the legitimate interests of investors. The Nomination and Remuneration Committee also ensures that the proportion of remuneration for the principal job and performance related pay (PRP) are in accordance with the duties of the Management Board Member and that the remu-

At the time of compilation of this report, the Nomination and Remuneration Committee consisted of the following members of the Supervisory Board:

Martin Benjamin Padley
Chairman of the Nomination and Remuneration Committee

Priit Rohumaa
Member of the Nomination and Remuneration Committee

Simon Roger Gardiner
Member of the Nomination and Remuneration Committee

neration for the principal job forms a sufficient part of the total remuneration. According to the existing PRP principles, members of the Management Board are entitled to a maximum PRP of 25% of their annual gross salary. The PRP depends on the annual financial and operational performance of the company, 60% of the PRP is related to Group objectives and 40% of PRP is related to individual specific objectives. PRP to be paid out for 2019 is 80% dependant on the performance of the Company and 20% dependant on the personal performance. The proportion and objectives are reviewed and confirmed by the remuneration and nomination committee. If the annual results are worse than expected, a decision can be taken not to pay out any PRP.

CORPORATE GOVERNANCE COMMITTEE

In 2018, the Corporate Governance Committee continued to advise the Supervisory Board on the improvement of corporate governance of AS Tallinna Vesi for the benefit of its Supervisory Board and shareholders.

MANAGEMENT BOARD

The Management Board is a management body that represents and manages the day-to-day business of AS Tallinna Vesi in accordance with the law and the Articles of Association of AS Tallinna Vesi. The Management Board is obliged to act in the most economically efficient manner. The Management Board may be composed of two to five members, in line with the Articles of Asso-

At the time of compilation of this report, the Corporate Governance Committee consisted of the following members:

Allar Jõks
Chairman of the Corporate Governance Committee

Karl Heino Brookes
Member of the Corporate Governance Committee

Simon Roger Gardiner
Member of the Corporate Governance Committee

The Management Board members are as follows:

Karl Heino Brookes
Chairman of the Management Board
Member of the Management Board until 21.03.2020

Riina Käi
Chief Financial Officer
Member of the Management Board until 29.10.2021

Aleksandr Timofejev
Chief Operations Officer
Member of the Management Board until until 29.10.2021

ciation, and is elected for a term of 3 years. The Management Board always prepares management reports for the Supervisory Board meetings and such reports are distributed to the Supervisory Board members 1 (one) week in advance of the meeting, as required by the Commercial Code. The Management Board also reports ad hoc to the Supervisory Board outside of meetings, when considered necessary, and if so requested by the Chairman of the Supervisory Board.

Both Management Board and Supervisory Board Members are deemed to be insiders who are aware of AS Tallinna Vesi's insider rules and, along with their related persons, are listed in the Group's insider list. From 2nd June 2014 until compilation of this report, the Management Board of AS Tallinna Vesi consisted of three members. The Supervisory Board of AS Tallinna Vesi has appointed all Management Board members.

The responsibilities of all Management Board members are specified below.

The duties of the Chairman of the Management Board, Mr. Karl Heino Brookes, are to, inter alia, fulfil the everyday obligations of the Chief Executive Officer (CEO) of AS Tallinna Vesi by leading and representing AS Tallinna Vesi, by ensuring its compliance with contracts and the law, by organizing the activities of the Management Board and by coordinating the preparation of strategies and ensuring their implementation.

The duties of the member of the Management Board, Mr. Aleksandr Timofejev, are to, inter alia, fulfil the everyday obligations of the Chief Operations Officer (COO) of AS Tallinna Vesi by managing and being responsible for the operations of the treatment facilities, the planning and delivery of long-term investments and the management of AS Tallinna Vesi's water and sewerage networks' everyday operations, as well as being responsible for relations established with external partners.

The duties of the member of the Management Board, Ms. Riina Käi, are to, inter alia, fulfil the everyday obligations of the Chief Financial Officer (CFO) of AS Tallinna Vesi by managing and being responsible for the accounting and financial activities of AS Tallinna Vesi.

AS Tallinna Vesi has signed service contracts with all members of the Management Board. AS Tallinna Vesi has not made any transactions with the members of the Management Board nor with any of their related parties outside the main services.

According to the Articles of Association of AS Tallinna Vesi, the Chairman of the Management Board has the sole representation right of AS Tallinna Vesi; other Management Board members can represent AS Tallinna Vesi only jointly. In order to make daily decisions, the Management Board has approved the framework of principles, according to which certain Management Team members are authorized to conclude transactions in small amounts.

The Management Board of AS Tallinna Vesi also acts on behalf of AS Tallinna Vesi as the sole shareholder of OÜ Watercom.

Equal opportunities and diversity in selecting Management Board and Supervisory Board members

In selecting members to the Management and Supervisory Boards, AS Tallinna Vesi is committed to the principles of equality being adhered to. Nobody is discriminated against because of their age, gender, religion, ethnic origin or other characteristics. In selecting Management Board Members and Supervisory Board Members, experience in the business or area of expertise, education and background are considered to be the most important, in order to provide an effective and balanced Board. The allocation between men and women in the Management Board is outlined in the Management Report. There is one woman in the Management Board and one woman in the Supervisory Board.

Conformity with NASDAQ Tallinn stock exchange Corporate Governance Recommendations

As of 1st January 2006, companies whose shares have been admitted for trading on the regulated market operating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or non-compliance with the Corporate Governance Recommendations. If the issuer fails to comply with the Corporate Governance Recommendations, it shall explain the reasons for its non-compliance in the report.

Declaration of conformity by AS Tallinna Vesi

In 2018, AS Tallinna Vesi complied with the vast majority of the Corporate Governance Recommendations. However, AS Tallinna Vesi did not comply with certain recommendations, which are listed below, along with the reasons for such non-compliance:

"2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall, above all, take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer and the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector. "

The arrangements undertaken, in connection with the privatisation of AS Tallinna Vesi in 2001, provided that, in return for certain fees, United Utilities International Ltd. would provide AS Tallinna Vesi with technical and asset management services and make its personnel available to AS Tallinna Vesi in connection with its operation and management. The working hours, rates of compensation, and all other matters relating to the employment of the individual directly employed by United Utilities International Ltd. are to be determined solely by United Utilities International Ltd., the Supervisory Board does not discuss or regularly review the principles of remuneration of the relevant Management Board member.

"2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member, as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure."

AS Tallinna Vesi discloses the overall Management Board remuneration in Note 25 of the annual accounts but considers that individual remuneration is private information and that additional disclosure would bring no benefit to the shareholders.

"3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members."

Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members. Under the Shareholders` Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that, UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be reserved for independent members to be elected to the Supervisory Board as permitted by the Tallinn Stock Exchange on listing in June 2005.

Information disclosure

"2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in a company belonging to same group as the Issuer."

The Management Board Members of AS Tallinna Vesi are not in Management Boards and Supervisory Boards of other Issuers.

"2.3.2. The Supervisory Board shall approve the transactions which are significant to the Issuer and concluded between the Issuer and a member of its Management Board or another person connected/close to them and shall determine the terms of such transactions."

The Supervisory Board approves the remuneration principles of the Management Board. In 2018, the transactions between AS Tallinna Vesi and any member of the Management Board or any persons or companies related to them were carried out by the arm's length principle and are disclosed in the related parties' appendix of the financial accounts.

"3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately, basic and additional payment (incl. compensation for termination of contract and other payable benefits)."

The Supervisory Board member's fee was determined by the General Meeting in 2005, at the time of the listing of the Company's shares on the Tallinn Stock Exchange. The remuneration of Supervisory Board members was set at EUR 6,391 per year per person and has remained unchanged. The fee has been paid to five members out of nine. The Supervisory Board member's fee is not paid to the members representing UUTBV. The fee is subject to deduction and payment of applicable taxes and is payable on a monthly basis. The Supervisory Board members were not paid any additional benefits in 2018.

"3.2.6. If a member of the Supervisory Board has attended less than half of the meetings of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report."
In 2018, five Supervisory Board meetings were held as follows: 25th January 2018, 22nd March 2018, 26th April 2018, 1st August 2018 and 1st November 2018.

The 25th January 2018 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Toivo Tootsen and Priit Lello.

The 22nd March 2018 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Brendan Murphy, Keith Haslett, Priit Rohumaa, Toivo Tootsen, Priit Lello and Allar Jõks.

The 26th April 2018 Supervisory Board meeting was attended by Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Toivo Tootsen, Priit Lello and Allar Jõks.

The 1st August 2018 Supervisory Board meeting was attended by, Messrs. Simon Gardiner, Keith Haslett, Priit Rohumaa, Toivo Tootsen and Allar Jõks.

The 1st November 2018 Supervisory Board meeting was attended by, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Keith Haslett, Allar Jõks, Toivo Tootsen, Priit Lello and Mrs Katrin Kendra.

Considering the above, Messrs. Simon Gardiner, Keith Haslett and Toivo Tootsen attended all Supervisory Board meetings. Messrs. Martin Padley, Brendan Murphy, Priit Rohumaa, Priit Lello, Allar Jõks attended more than 50% of the meetings. Mrs. Katrin Kendra attended one meeting as she was only appointed on 31st May 2018, one meeting was missed due to health reasons. Mr Rein Ratas did not attend any meetings due to health reasons and due to the end of service on 31st May 2018. Dr. Marting Padley did not attend two meetings and Mr Brendan Murphy did not attend one meeting due to performance of other duties in United Utilities. Mr Priit Rohumaa did not attend two meetings and Mr Allar Jõks and Mr Priit Lello did not attend one meeting due to their other responsibilities. Nevertheless, Messrs. Martin Padley, Brendan Murphy, Keith Haslett, Priit Rohumaa, Priit Lello, Allar Jõks and Mrs Katrin Kendra familiarised themselves with all papers distributed for each Supervisory Board meeting and have been well-informed of matters concerning AS Tallinna Vesi.

"3.3.2. A Supervisory Board member candidate shall inform other members of the Supervisory Board about the existence of a conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him."

All Supervisory Board members are aware of this requirement and at minimum once per year, AS Tallinna Vesi requests all Supervisory Board members to update the record of their business interests. No business transactions, outside of the main business, took place between AS Tallinna Vesi and either any Supervisory Board member or any persons or companies related to them in 2018. Water and wastewater services were sold to the Supervisory Board members at a price those were sold to all other clients.

The Management Report which consists of chapters "Chairman's statement", "Our company", "Our performance in 2018", "Strategy", "Operational results of 2018", "Financial results of 2018" and "Corporate governance", is an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2018. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of AS Tallinna Vesi.

Business ethics

As a listed company, it is one of AS Tallinna Vesi's priorities to ensure that its activities and the conduct of its directors, officers, employees or any third parties acting on its behalf observe the highest standards of integrity. AS Tallinna Vesi is committed to be a reliable partner to all stakeholders in its activities and is committed to contributing to reliable business climate. AS Tallinna Vesi does not tolerate corruption in any shape or form. In order to prevent corruption AS Tallinna Vesi has worked out several procedures and rules which require all directors, officers, employees and everyone acting on behalf of the Company, to act with high integrity. It is important that our activities at all levels would be transparent, in accordance with the legal requirements and high business ethics. We introduce those principles to our employees and carry out the risk assessment about possible corruption and fraud at least once a year.

In 2017, AS Tallinna Vesi reviewed its Code of Conduct and introduced the whistleblowing policy outlining the procedure for raising concerns and reporting incidents that are in conflict with the law, ethical standards or AS Tallinna Vesi's Code of Conduct.

The Code of Conduct sets forth the standards of business behaviour and ethics for all managers and employees of AS Tallinna Vesi. It lays the foundation for Tallinna Vesi's business operations, environmental issues, human rights and relations with the Company's personnel and stakeholders. The Code of Conduct has been introduced to each manager and employee of the Group, regardless of their term of employment. Regular trainings both in Estonian and Russian have been carried out to ensure that people are familiar with Code of Conduct principles and act accordingly. The executive team members of AS Tallinna Vesi have also participated in fraud and data protection related trainings.

Furthermore, within its sphere of influence, AS Tallinna Vesi encourages its contractors and other partners to adhere to similar high ethical principles as set forth in the Code of Conduct, which is the foundation of all business relationships, both new and those already in existence. AS Tallinna Vesi is not planning any specific trainings for the partners in that regard, but encourages them to acquaint themselves with the Company's policies. All related policies are publicly found on the Company´s website.

Any situation involving a potential violation of the Code of Conduct must be reported as soon as possible.

The employees, partners and third parties of AS Tallinna Vesi have the opportunity to use various channels to raise concerns or report incidents of unethical behaviour. All such reports will be analysed by an independent partner of AS Tallinna Vesi. The system of reporting and processing the information ensures that the confidentiality and anonymity of the reporting party are retained if so requested. The incidents can be reported over the internet, by e-mail, using the hotline or by direct communication.

During 2018 AS Tallinna Vesi did not identify any proven corruption or fraud incidents.

Partners

We strive to do more than we are expected to by legislative and contractual requirements. To serve that purpose, we focus on dialogue and cooperation, both within our team and with partners. Changes in applicable legislation are constantly monitored and communicated to the managers, whom those changes concern. On the other hand, we also value preventive cooperation and actively participate in the development and amending of legal acts primarily via Estonian Waterworks Association. We also cooperate with several quality-conscious companies that have high environmental awareness to promote doing business in an ethical and responsible way.

COOPERATION WITH SUPPLIERS

AS Tallinna Vesi is a service provider. Considering the nature of our activity as a water company, our supply chain includes other service providers and partners, who help us to guarantee the performance of our main operations and availability of services to the customers.

Unlike many other industries, our supply chain is relatively simple, because the Company produces and sells the service without having any external links within its supply chain and there have been no significant changes in the chain. Still, the Company itself is often an integral link in our customers' supply chain and therefore, it is very important that our service meets high quality standards. However, for this short but vital supply chain to work without any interruptions, we need our suppliers to be reliable. For this purpose, in several links of critical importance in the chain we have alternative suppliers in place to whom we can turn to should something happen to our main contract partner. We find our suppliers mostly through tenders, which gives us the opportunity to set the criteria that we expect our suppliers to meet. We consider the environmental safeness and safety of our suppliers' employees very important.

Our cooperation partners can be divided into three larger groups:

- Suppliers of goods
- Suppliers of construction works
- Suppliers of services

Our suppliers are mostly based in Estonia but we also launch international tenders. We choose high-quality products and invest in the renovation of systems in order to ensure an effective and sustainable operational activity. We outsource various support services so that our focus can remain on the main activity. For instance, we are outsourcing advertising, cleaning and security services and many other specific services.

Our subsidiary, OÜ Watercom, also ensures that all construction works are completed properly and on time, by outsourcing some of the works if it is needed and economically justified. We sign long-term contracts to retain our suppliers and to ensure good and reliable cooperation. We have, at any time, approximately 1,000 suppliers in our database with whom we have been in cooperation at least once a year.

Looking for new suppliers as well as monitoring and improving our cooperation with the current partners, are equally important to us. We consistently and systematically assess our cooperation with the suppliers, which allows us to have a two-way interaction with our current partners, create a reliable base of suppliers and employ suppliers' competencies in order to create additional value for the company. Besides assessing the activity of suppliers, we also ask for feedback on our own activity in order to further develop our relations and cooperation with the suppliers, aiming to be a better partner.

Our principles and membership in organisations

We deem it important to be involved and express our opinion on the issues that are relevant in society and to contribute to the development of areas related to our activity and drafting of legislation. To these purposes, we have joined and become a founder member of various associations. We are a founder member of Estonian Association of Environmental Management and Corporate Social Responsibility Forum in Estonia, a collective member of Association for Quality, a member of Estonian Waterworks Association, a member of Taxpayers Association, a member of Baltic Institute of Corporate Governance and other organisations.

We are responsible for providing consumers with a reliable supply of drinking water and for treating wastewater and storm water, by using safe and environment-friendly technologies. To us it is key to bear this fact in mind, while acting consistently and systematically in making our management decisions and performing our daily business activities. Therefore, our management practices need to consider the impact we have on our surrounding environment and the expectations of various stakeholders. Our management has approved the following policies and guiding principles that set the overall framework for acting in different areas.

All of the following policies are available at least in Estonian and English and can also be found on our website:

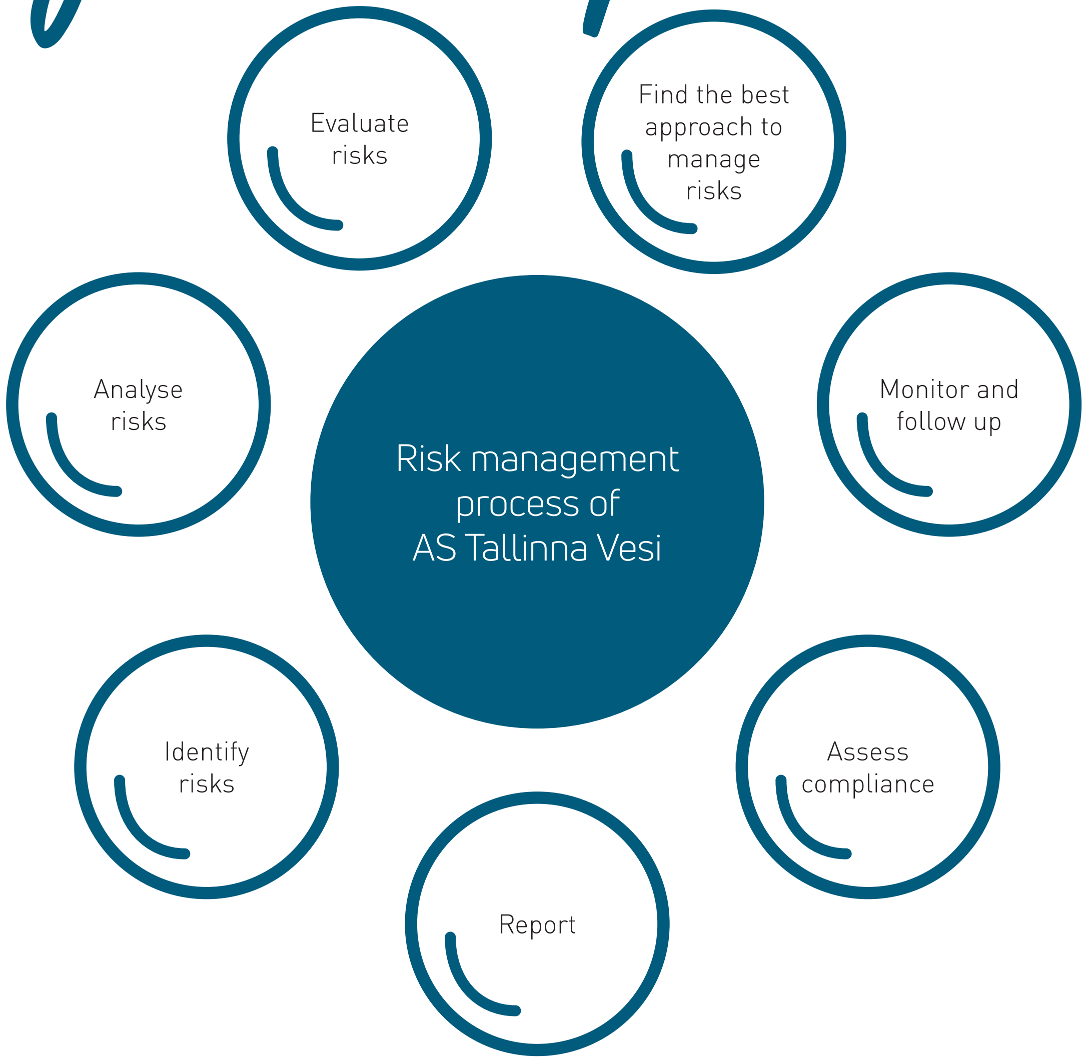
- Environmental Policy;
- Quality Policy;
- Health and Safety Policy;
- Human Resource Policy;
- Principles of Responsible Business.

Risk management process

Risks and uncertainties

In the everyday operations any company is a subject to a variety of risks and uncertainties. AS Tallinna Vesi has defined risk as anything that could have a material adverse effect on the achievement of AS Tallinna Vesi goals and objectives. Risks can be threats, uncertainties or lost opportunities relating to AS Tallinna Vesi's current or future operations or activities.

Risk management is a central part of any organisation's strategic management. As a precautionary approach, we constantly assess and monitor our operational and financial risks. Although risks cannot be entirely avoided, we have worked out an effective system to manage them. The objective of our risk management process is to understand, assess and control the risks and uncertainties, to increase probability of success and minimise the probability of failure and the uncertainty of achieving the Company's overall objectives. AS Tallinna Vesi has defined the roles and responsibilities as well as the components of the risk management process, which is also in line with the Emergency Act.



Risk management process is something that is integrated and embedded in AS Tallinna Vesi organisational culture and processes and supports the implementation of the strategic objectives of the Company. It involves the strategic objectives, processes which need to be efficient to achieve those objectives and structures and recourses which are needed for the achievement of goals and objectives.

Continuous monitoring

The objective of the continuous risk management process is that all major risks, that may harm the achievement of AS Tallinna Vesi objectives, are regularly assessed, managed and monitored. Management ensures, that awareness of risks is established among the employees and risks are considered in a daily decision-making process. Risk reporting is integrated into the business planning process and risks are reviewed regularly across the organisation.

Audit Committee and the Supervisory Board receive and review, on a quarterly basis, the overview of the significant risks along with details of the current controls and any further actions that are planned; and potential financial impact when possible.

Major risk areas

EFFECTIVE LAWS AND REGULATIONS AND CHANGES IN LAWS AND REGULATIONS

The Company's operations are subject to extensive regulation (price regulations, environmental, health and safety). Non-compliance with the existing laws and regulations might result in additional operational expenditures and extra workload. The Company consistently monitors the changes in laws and the development of draft laws, in order to plan its activities on time, as in many cases changes in the laws

AS Tallinna Vesi has divided the risks into the following categories:

- Financial risks
- Operational risks
- Reputational risks
- Legal and Regulatory risks
- Health and Safety risks
- Environmental risks
- Personell risks
- IT risks
- Organisational risks
- Reporting risks
- Going concern risks

may require extensive capital investments and/or rise the operating costs significantly. Currently the review of Public Water Supply and Sewerage Act is ongoing.

POSSIBLE THIRD-PARTY CLAIMS

On 12th December 2017, the Supreme Court made a decision on AS Tallinna Vesi's appeal in cassation with regard to 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. On 4th December 2018, the Competition Authority did not approve the tariff application, the Company had 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 EUR 34.5 million to be the appropriate figure. 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 established temporary water tariffs in accordance with the procedure specified in applicable law. From 2019 onwards, after the approval of the tariffs by Competition Authority, the tariffs will be in line with the methodology established by the Competition Authority. The Company does not consider itself liable towards the consumers, because we have been acting on a legal basis and have not broken the law.

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

FINANCIAL MARKET CONDITIONS AND INTEREST RATES

Changes in interest rates and EURIBOR might have adverse impact on the Company's cash flows and results of operations. Information on financial risk management is presented in Note 5 to the consolidated financial statements.

THREAT OF CYBERCRIME AND/OR TERRORISM

Our resources, assets and infrastructure are exposed to various threats (malicious or accidental), cyber-attack or terrorism which might cause disruption to the operations. Regular reviews of the system security are carried out in order to identify risks and weaknesses and to take corrective measures when justified.

HEALTH AND SAFETY

Serious risks related to occupational health and safety are generally linked to excavation, construction and maintenance work. Depending on the circumstances, the Group could be fined for breaches of statutory obligations, be held liable to third parties and sustain reputational damage. The Group has worked out the full set of procedures and activities, which minimise the possibility of incidents in relation to health and safety.

INABILITY TO TREAT INCOMING WASTEWATER

In case of very heavy rainfall, there is a risk that the wastewater treatment plant has difficulties to treat all incoming wastewater for a short period of time, which might result in pollution incidents. During last years, the risk has been lower, still additional capital investments are planned to further minimise the risk.

DETERIORATION OF RAW WATER QUALITY

The main source of drinking water is Lake Ülemiste and there are periods, when the raw water quality is lower than expected. Poorer raw water quality puts high pressure to the treatment process. Besides the continued monitoring and adjustment of treatment process accordingly, some improvements are planned to maximize the possible use of alternative resources.

LEAK OF SENSITIVE, INSIDER OR PERSONAL INFORMATION

AS Tallinna Vesi is a listed Company and although keeping confidential information protected and managing it in a responsible way, is very important to any company, it is even more important for a listed Company. The Company has mapped all the information it gathers, which qualifies as personal information under the GDPR, and has also identified insider information. There are several controls in place to manage sensitive information technologically, furthermore, the employees are regularly trained in order to make sure that the information is properly handled and managed.

Management confirmation

The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements of AS Tallinna Vesi (Company) and its subsidiary Watercom OÜ (together referred as Group) for the financial year ended 31 December 2018 on pages 74-114.

The financial statements have been prepared according to International Financial Reporting Standards as adopted by the European Union, and give a fair presentation of the financial position, results of operations and cash flows of the Group.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Group's assets and liabilities as of 31 December 2018, and of income and expenses during the financial year. These estimates are based on current information about the Group and consider all plans and risks as of 31 December 2018. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 27 February 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
12.03.2019

Riina Käi
Member of the Management Board
12.03.2019

Aleksandr Timofejev
Member of the Management Board
12.03.2019

Consolidated statement of financial position

as of 31 December (EUR thousand)	Note	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	6	61,769	44,973
Trade receivables, accrued income and prepaid expenses	7	7,631	7,716
Inventories		498	457
Total current assets		**69,898**	**53,146**
Non-current assets			
Property, plant and equipment	9	179,185	174,451
Intangible assets	10	665	811
Total non-current assets		**179,850**	**175,262**
TOTAL ASSETS		**249,748**	**228,408**

as of 31 December (EUR thousand)	Note	2018	2017
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term borrowings	11	3,823	264
Trade and other payables	12	6,047	6,200
Derivatives	8	207	578
Prepayments	14	2,955	2,609
Total current liabilities		**13,032**	**9,651**
Non-current liabilities			
Deferred income from connection fees		22,745	19,632
Borrowings	11	91,919	95,565
Derivatives	8	173	178
Provision for possible third party claims	15	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	16	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 financial statements on pages 78 to 112 form an integral part of the financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December (EUR thousand)	Note	2018	2017
Revenue	17	62,780	59,815
Costs of goods/services sold	19	-28,594	-25,725
Gross profit		**34,186**	**34,090**
Marketing expenses	19	-386	-356
General administration expenses	19	-5,025	-5,028
Other income (+)/ expenses (-)	20	-1,836	-17,841
Operating profit		**26,939**	**10,865**
Financial income	21	21	15
Financial expenses	21	-1,010	-959
Profit before taxes		**25,950**	**9,921**
Income tax on dividends	22	-1,800	-2,700
Net profit for the period		**24,150**	**7,221**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**24,150**	**7,221**
Attributable profit to:			
Equity holders of A-shares		24,149	7,220
B-share holder		0.60	0.60
Earnings per A-share (in euros)	23	1.21	0.36
Earnings per B-share (in euros)	23	600	600

Notes to the financial statements on pages 78 to 112 form an integral part of the financial statements.

Consolidated statement of cash flows

for the year ended 31 December (EUR th)	Note	2018	2017
Cash flows from operating activities			
Operating profit		26,939	10,865
Adjustment for depreciation/amortisation	9,10,19,20	5,790	6,170
Adjustment for revenues from connection fees	20	-295	-258
Other non-cash adjustments		-20	-26
Profit (-)/loss (+) from sale 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, incl connection fees		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**

for the year ended 31 December (EUR th)	Note	2018	2017
Cash flows used in financing activities			
Interest paid and loan financing costs, incl swap interests		-1,394	-1,512
Finance lease payments		-258	-260
Received loans	11	0	37,500
Repayment of loans	11	0	-37,500
Dividends paid	22	-7,201	-10,801
Income tax on dividends	22	-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	6	**44,973**	**33,987**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	**61,769**	**44,973**

Notes to the financial statements on pages 78 to 112 form an integral part of the 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 (Note 22)	0	0	0	- 10,801	-10,801
Comprehensive income for the period (Note 23)	0	0	0	7,221	7,221
as of 31 December 2017	**12,000**	**24,734**	**1,278**	**47,804**	**85,816**
Dividends (Note 22)	0	0	0	- 7,201	-7,201
Comprehensive income for the period (Note 23)	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 financial statements on pages 78 to 112 form an integral part of the financial statements.

Notes to the consolidated *financial statement*

NOTE 1. General information

AS Tallinna Vesi (Company) is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 460,000 people in Tallinn and in several neighbouring municipalities of Tallinn. AS Tallinna Vesi has the exclusive right to provide water and sewerage services in Tallinn's main service area under the services agreement until the year 2020. AS Tallinna Vesi has been also appointed as a water undertaker till 2025.

Shareholders of AS Tallinna Vesi having a significant influence are United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Nasdaq Baltic, in which AS Tallinna Vesi was listed on 1 June 2005.

Watercom OÜ (Subsidiary) was founded at 2010 by the Company and its main areas of activity are services related to water business and owner supervision, construction, design and asphalting service, services related to water and sewage.

The Company and the Subsidiary together form a group (Group).

Contacts:

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NOTE 2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements (hereinafter referred to as 'financial statements') are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) (hereinafter IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the accounting policy for derivatives, measured at fair value through profit and loss, as disclosed in the accounting policies below.

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue at 27 February 2019. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory

Board of AS Tallinna Vesi and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Adoption of New or Revised Standards and Interpretations

The Group has applied the following standards and amendments for the first time for their annual reporting period beginning on 1 January 2018:

IFRS 9, Financial Instruments: Classification and Measurement
Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group assessed the impact of the new standard on its financial statements, please refer to note 3.

IFRS 15, Revenue from Contracts with Customers
The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services

that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Group assessed the impact of the new standard on its financial statements, please refer to note 3.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on 1 January 2018 that have a material impact to the Group.

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods and which the Group has not early adopted:

IFRS 16, Leases, (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has reviewed all of the Group's leasing arrangements in the light of new lease accounting rules in IFRS 16. As at the reporting date, the Group had non-cancellable operating lease commitments of EUR 718 thousand. The Group as a lessee has no low value lease contracts. The Group has decided to recognise the operating lease commitments of the contracts, with maturity less than 12 months, in the same way as other lease assets of the same class in accordance with the principles of IFRS 16.

Since the beginning of 2019 the Group has been applying a simplified transition approach and is not restating comparative amounts for the year prior to the first adoption. Lease commitments existing at the date of implementation that are recognised as operating leases are measured on transition at the discounted value of their remaining lease payments, using the effective interest rate as of 1 January 2019. Right-of-use assets are measured at the amount of the lease liability on adoption. Consequently, the liabilities and assets of the Group have increased by EUR 702 thousand since 1 January 2019. The Group expects the net profit to decrease by approximately EUR 3 thousand for 2019 as a result of adopting new accounting principles.

EBITDA is expected to increase by approximately EUR 199 thousand, as the operating lease payments were included in Cost of Goods/Services Sold or marketing or administrative expenses that are included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from EBITDA. Operating cash flows are expected to increase and financing cash flows to decrease by approximately EUR 199 thousand as repayments of the lease liabilities are classified as cash flows from financing activities.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Principles of consolidation and subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

In the consolidated financial statements, the financial statements of the subsidiary are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Parent Company and its subsidiary use uniform accounting policies. Where necessary, the accounting policies of the subsidiary have been changed to ensure consistency with the policies adopted by the Group.

Investment in subsidiary is carried at cost (less any impairment losses) in the unconsolidated primary financial statements of the Company.

Foreign currency

FUNCTIONAL AND PRESENTATION CURRENCY

Consolidated financial statements for the year ended 31 December 2018 have been presented in euros.

The financial statements have been presented in thousands of euros, unless stated otherwise.

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

All other currencies except for the functional currency (the functional currency of the Parent Company and subsidiary located in Estonia is Euro) constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency (monetary receivables and loans) have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses are recognised in the statement of comprehensive income as income or expenses of that period.

Current and non-current distinction of assets and liabilities

Assets and liabilities are classified in the statement of financial position as current or non-current. Assets expected to be recovered of in the next financial year or during the normal operating cycle of the Group are considered as current. Liabilities whose due date is in the next 12 months or that is expected to be settled in the next financial year or during the normal operating cycle of the Group are considered as current. All other assets and liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and the cash flow statement comprise of cash on hand, cash in bank accounts and short-term, risk free, highly liquid bank deposits with original maturities of three months or less.

Cash flows from operating activities are reported using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash flows from investing and financing activities are reported using the direct method.

Financial assets

ACCOUNTING POLICIES FROM 1 JANUARY 2018

CLASSIFICATION

The Group's financial assets have been classified in the amortised cost measurement category. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

RECOGNITION AND DERECOGNITION

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

MEASUREMENT

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. (Transaction costs of financial assets carried at FVPL are expensed in profit or loss.)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

All Group's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in the statement of comprehensive income on the row 'Other income (+)/ expenses(-)'. Impairment losses are also presented on the row 'Other income (+)/expenses(-)'. As at 1 January 2018 and 31 December 2018, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

IMPAIRMENT

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

Financial assets are recorded in statement of financial position at value date (i.e. are recognised when the Group becomes the owner of the financial assets and are derecognised when the Group has transferred substantially all risk and rewards incidental to ownership).

According to the purpose of acquisition and management intentions the financial assets are divided into the following groups:

- Financial assets at fair value through profit or loss
- Receivables and loans
- Investments held-to-maturity
- Financial assets available-for-sale

Financial assets at fair value through profit or loss are initially recorded at fair value, transaction costs are recorded in the profit or loss (interest swap). Financial assets of this category are subsequently carried at fair value and gains/losses from changes in fair value are recorded in profit or loss of the period. The quoted market price on balance date is their basis for establishing the fair value of financial assets at fair value through profit or loss.

Loans and receivables are initially recognised at a fair value plus the transaction costs. Loans and receivables are subsequently carried at amortised cost, using effective interest method (less any impairment allowances).

Trade receivables comprise of short-term receivables generated in the ordinary course of business. Trade receivables are recorded using at the amortised cost method.

Allowance for receivables is recorded if there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the agreement. Impairment of individually material receivables is evaluated separately for each customer, considering the present value estimated future cash flows. For receivables which are not individually significant and for which there is no direct information that their value has been decreased, the allowance is evaluated collectively using previous years' experience on impairment of receivables. The amount of the allowance for doubtful receivables is the difference between their carrying amount and present value of future cash flows, using effective interest rate method. The carrying amount of receivables is reduced by the impairment loss and impairment loss is recorded in the statement of comprehensive income on the row 'Other income (+)/ expenses (-)'. Subsequent recoveries of doubtful receivables are recorded as a decrease of impairment loss.

Inventories

Inventories are initially recorded at cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and discounts.

The FIFO method has been used to determine the cost of inventories. Inventories are carried in the statement of financial position at the lower of the cost and net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

Non-current assets held for sale

Non-current assets held for sale are the property, plant and equipment items that are most probably sold within next 12 months and for which the management has begun sales activity and the assets are offered for sale for a reasonable price compared to their fair value.

Non-current assets held for sale are classified in the statement of financial position as current assets and depreciation ended at the moment of reclassification. Non-current assets held for sale are carried in the statement of financial position at the lower of at book value or fair value less costs to sell.

Property, plant and equipment, and intangible assets

Property, plant and equipment are tangible assets used in operating activities of the Group with an expected useful life of over one year. Property, plant and equipment are carried in the statement of financial position at historical cost less accumulated depreciation and any impairment losses.

Intangible assets are recognised in the statement of financial position only if the following conditions are met:

- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

ACQUIRED LICENSES

Acquired computer software that is not an integral part of the related hardware is recognised as an intangible asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the statement of comprehensive income. Costs of computer software shall be depreciated over the estimated useful lifetime, the duration of which is up to 10 years.

OTHER INTANGIBLE ASSETS

Expenses for acquiring patents, trademarks, licences and certificates are capitalized if it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a straight line basis over the estimated useful lifetime, the duration of which does not exceed 10 years.

The cost of purchased property, plant and equipment and intangible assets comprises the purchase price, transportation costs, installation, and other direct expenses (incl. internal labour costs) related to the acquisition or implementation. Labour costs are capitalised with employee's hourly index applied to working hours which are needed for taking the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Hourly rate is calculated individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Group and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced item of property, plant and equipment is derecognised. Costs related to ongoing maintenance and repairs are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset.

Applicable depreciation/amortisation rates:

- buildings 1.25-2.0% per annum;
- facilities 1.0-8.33% per annum;
- machinery and equipment 3.33-50% per annum;
- instruments and other equipment etc. 10-20% per annum;
- acquired licenses and other intangible assets 10-33% per annum.

In exceptional circumstances rates may differ from the above ranges if it is evident that the estimated useful life of the asset varies materially from the ranges of rates assigned to the respective category.

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate it is treated as a change in the accounting estimate and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes. Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount. To determine profits and losses from the sale of property, plant and equipment the book value of the sold assets is subtracted from the proceeds. The respective profits and losses are reported in the line 'Other income (+) /expenses (-)'.

Impairment of assets

Assets that are subject to depreciation/amortisation and property, plant and equipment with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable value of intangible assets in progress is tested annually, by comparing their recoverable amount with the carrying amount.

Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount of the assets is the higher of the:

- fair value less costs to sell and
- value in use.

In case it is not possible to determine the fair value of assets less costs to sell, the asset's value in use is considered to be its recoverable value. The value in use is calculated as the present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or a group of assets (cash-generating unit). For the purposes of assessing impairment, the Group is considered to be a single cash-generating unit as it is the lowest level for which there are separately identifiable cash flows. The impairment loss is immediately recognised in the statement of comprehensive income. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

If based on the results of the assessment it appears that the recoverable amount of an asset or the cash-generating unit has increased, the earlier impairment is reversed up to the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recorded in the statement of comprehensive income of the period as a decrease in impairment loss.

Financial liabilities

Financial liabilities have the following measurement categories: (a) recognised at fair value through profit or loss (derivatives), (b) recognised at amortised cost.

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long-term financial liabilities and derivatives. Financial liabilities (except derivatives) are initially recognised at fair value net of transaction cost. Subsequently financial liabilities are carried at the amortised cost.

Amortised cost of short-term financial liabilities is usually equal to their nominal value, thus they are carried on statement of financial position at the amount payable. For calculating the amortised cost of long-term financial liabilities, these are initially recognized at fair value of amount received (less transaction costs), interest expense is calculated from the liability using the effective interest method subsequently.

Liabilities are classified as current liabilities, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date.

Derivatives

With regard to derivatives, the Group uses interest rate swap contracts, in order to mitigate risks related to fluctuations in interest rates. Such derivatives are initially recognised at their fair value at the date of entering into the contract and are subsequently carried at fair value with changes recognised in profit or loss. If fair value is positive, the derivative is recognised as an asset, if negative, as a liability. Derivatives are classified as a current asset or liability if expected to be settled within 12 months; otherwise, they are classified as non-current.

Gains and losses attributable to changes in the fair value of derivatives are recognised in the statement of comprehensive income of the reporting period. Gains and losses from the disposal of derivatives are also recognised in the statement of comprehensive income.

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise.

Income tax on dividends in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. In 2018, the rate was 20/80 on the amount of the dividends payable (2017: 20/80).

The contingent tax liability that would occur if all distributable retained earnings were paid out as dividends is not recognized in the statement of financial position. The income tax due on dividend distribution is recorded as a liability and as a tax expense in the statement of comprehensive income during the same period as the dividend is declared regardless of the actual payment date or the period for which dividends are declared. Income tax liability is due on the 10th date of the month following the dividend payment.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Employee benefits

EMPLOYEE SHORT-TERM BENEFITS

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable within 12 months after the end of the period during which the employee worked. Social security tax payments include contribution to state pension funds. The Group has no legal or constructive obligation to make pension or similar payments beyond social security tax.

TERMINATION BENEFITS

Termination benefits are benefits which are payable after the Group decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily or when the employee and employer have an agreement, in exchange for the benefits outlined. The Group recognises termination benefits as liabilities and expenses only when the Group is obliged to offer termination benefits in order to encourage voluntary leaving.

Provisions and contingent liabilities

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

The provision includes the guarantee the Group has given to the construction services provided by the Group itself, which is necessary to meet the warranty obligation for services sold by the reporting date. The amount is recognised in the statement of financial position as a current and non-current liability, depending on the length of the guarantee period and possible time of its realisation.

Provisions have been recognised based on of the best estimates of the Group's Management Board and the actual costs of these transactions can differ from the provided estimates.

Commitments and other possible and existing liabilities, the realization of which is unlikely or the amount of accompanying costs cannot be assessed with sufficient reliability but which can become liabilities on certain terms in the future, are disclosed as contingent liabilities in the notes to the financial statements.

Share capital

Shares are recorded within the equity capital. Pursuant to the Group's Articles of Association, the Group has two classes of shares: the A-Shares, with a nominal value of 0.60 euros each and a single preference share B-Share, with a nominal value of 60 euros.

Statutory reserve capital

Pursuant to the requirements of the Commercial Code the statutory reserve capital is set up comprising of the allocations from net profits. The annual allocation must be at least 5% of the net profit of the accounting year until the reserve capital is equal to 10% of paid-up share capital. As the Group's reserve capital has reached the required level, the reserve capital is no longer increased from net profit.

At the decision of the General Meeting of the Shareholders the reserve capital can be used for the covering of loss in case it is not possible to cover it from the Group's available shareholders' equity, also for increasing the Group's share capital. The reserve capital cannot be distributed to the shareholders.

Leases

A lease is an agreement whereby the lesser conveys to the lessee in return for a payment or series payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

THE GROUP AS THE LESSEE

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the statement of comprehensive income. The finance lease liability is recognised either within short or long-term borrowing in the statement of financial position. Payments made under operating leases are charged to the statement of comprehensive income over the lease term on a linear basis.

Revenue from contracts with customers

ACCOUNTING POLICIES FROM 1 JANUARY 2018

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a service to a customer.

The Group provides water, wastewater, storm water, fire hydrants and other associated services under fixed-price price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered based on the units delivered.

When connecting to the water services network, the clients must pay a connection fee based on the actual costs of infrastructure to be built in order to connect them to the network. The management has concluded that the connection fees do not represent a separate performance obligation from providing the ongoing water service, and thus the revenue from connection fees is deferred and recognised as Other income over the estimated average useful lives of assets providing the service, being 75 years. Connection fees received from customers are carried in the statement of financial position as "Deferred revenue from connection fees" within long-term liabilities.

Revenue from construction services is recognised over time based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The constructed assets have generally no alternative use for the Group due to contractual restrictions. Enforceable right to payment arises during the construction before legal title has passed to the customer.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the statement of profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

The contract asset and contract liability arising from the same contract are presented net in the financial statements.

If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

FINANCING COMPONENT

The Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

Revenue is recognised at the fair value of consideration received or receivable, net of VAT and sales discounts. Revenue comprises sales of services.

Sales of water, wastewater, storm water and fire hydrants services and other sales income is recorded in the period when the service has been provided, the amount of the revenue and cost incurred for the transaction can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity.

Connection fees received from customers are recognised as income during the period of the duration of useful life of related assets which is 75 years. The acquisition costs of pipelines taken into use and the connection fees received from customers are recorded respectively on the statement of financial position as 'Property, plant and equipment' and 'Deferred income from connection fees'. Income/expense from amortisation of assets and liabilities is respectively recorded as 'Other income (+)/expenses (-)'.

Interest income is recognised in case the receipt of income is likely and the amount of income can be determined reliably. Interest income is recognised using the effective interest method.

Earnings per share

Earnings per share are calculated by dividing the net profit of the accounting year with the weighted average number of issued shares of the period. The Group has no instruments that would have a diluting effect on the earnings per share.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the Management Board of the Group to assess its performance and for which discrete financial information is available.

Reportable segments are identified and segment information is reported on the same principle as the Group's structural units are grouped for internal accounting and reporting purposes. As the Group's operating segments other than water supply and waste water disposal service segment, are insignificant, the Management Board of the Group considers the activity of the Group as a single operating segment.

NOTE 3. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies, although no adjustments were recognised to the amounts in the financial statements. The new accounting policies are set out in note 2. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted (the reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements):

ment losses are generally expected to increase and become more volatile.

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables for sales of goods and services,
- bank deposits,
- cash and cash equivalents.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

	Measurement category		Carrying amount EUR		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
Financial assets					
Current					
Cash and cash equivalents	Amortised cost	Amortised cost	44,973	44,973	0
Trade and other receivables	Amortised cost	Amortised cost	7,327	7,327	0

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impair-

Group has valued expected impairment loss, as at 01.01.2018 and according to valuation, impairment losses are not substantially higher than losses recognised under IAS 39 as at 31.12.2017. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied without restating comparative figures; impact on adoption has been recorded in initial balance sheet as at 01.01.2018. Figures as at 31.12.2017 are recorded under IAS 39.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 using the modified retrospective application, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not been applied to comparative information.

As a result of the application no adjustments were recognised to the amounts in the financial statements at 1 January 2018.

NOTE 4. Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of material misstatements to the carrying amounts of assets and liabilities within the next financial year are addressed below:

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the note 2 in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in notes 9 and 10.

As of 31 December 2018 Group owns property, plant and equipment, and intangible assets with a net book value of EUR 180 million (31 December 2017: EUR 175 million) and annual depreciation was EUR 5.8 million (2017: EUR 6.2 million). If the depreciation/amortisation rates decreased/ increased by 5%, the depreciation/ amortisation expense would increase/decrease respectively by EUR 290 thousand (2017: EUR 310 thousand).

- The management has made an estimate with regards to possible third-party claims based on the maximum difference between revenues calculated with the tariffs established by the City of Tallinn and the possible allowed revenues estimated by the Company based on our current best understanding of the Competition Authority's methodology covering past three years. On 4th December 2018, the Competition Authority did not approve the tariff application the Company had submitted. According to the decision they did not approve partially the pollution tax expense and additional capital component. The Company applied for the allowed revenue of EUR 44,5 million, whilst the Competition Authority considered appropriate EUR 34.5 million. The tariffs will change after CA has approved the tariffs for the City of Saue and Tallinn. The tariffs could also change if the Competition Authority establishes temporary water tariffs in accordance with the procedure specified in the applicable 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 to be approved by the Competition Authority are duly implemented.

The potential undiscounted payments by the Company in the future, recognised by the courts, would amount 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 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 19.1 million (EUR 17.5 million as of 31st December 2017). 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 a rolling basis. See also Note 15.

NOTE 5. Financial risk management

Financial risk factors

In its business activities the Group is exposed to different financial risks: market risk (including currency risk, price risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's financial risks are managed under the control and supervision of the Management Board by the financial department. Financial department identifies, evaluates and manages financial risks in co-operation with the Group's operating units.

Market risk

FOREIGN EXCHANGE RISK

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group's foreign exchange risk is related to purchases done and amounts owned in foreign currencies.

Majority of Group's purchases are made in euros. The proportion of purchases in other currencies in 2018 was 0.6% (2017: 1.1%). Because of the small proportion of transactions in foreign currencies the Group has not taken any special activities to reduce this risk.

On 31 December 2018 the Group's bank accounts balances (including deposits) totalled EUR 61,769 thousand (31 December 2017: EUR 44,973 thousand) from which no sums were in foreign currencies (31 December 2017: no foreign currencies). There were no other significant exposures to foreign currencies arising from Group's other financial assets and financial liabilities.

Due to the above the Group considers its currency risk level to be low.

PRICE RISK

The Group has no price risk regarding financial instruments because it has no investments into equity instruments.

CASH FLOW INTEREST RATE RISK AND FAIR VALUE INTEREST RATE RISK

Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate in the future due to changes in market interest rates. Cash flows interest rate risk is the risk that financial expenses arising from financial liabilities with floating interest rate will increase when interest rates on the market change.

Borrowings issued at variable interest rates (Note 11) expose the Group to cash flow interest rate risk. In order to mitigate the cash flow interest rate risk, the Group concludes floating-to-fixed interest rate swap contracts (Note 8). The Group's interest rate risk arises from long-term borrowings and, with Euribor being below zero, from the ineffectiveness of swap contracts as hedging instruments.

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

Overnight and fixed term deposits have fixed interest rate and therefore expose the Group to fair value interest rate risk. As all these instruments are carried at amortised cost, the change in market interest rates would not have an effect on the financial statements of the Group.

Credit risk

Credit risk expresses potential loss that can arise if counterparty fails to fulfil its contractual obligations. Cash in bank accounts and deposits, financial assets at fair value through profit and loss, trade and other receivables are exposed to credit risk.

	31 December 2018		31 December 2017	
EUR thousand	Effective interest rate	Balance	Effective interest rate	Balance
Long-term borrowings	0.811%	94,926	0.81%	94,908
Interest rate swaps (notional principal amount)	0.3%	45,000	0.545%	75,000
Net exposure to cash flow interest rate risk in case Euribor>0		49,926		19,908
Net exposure to cash flow interest rate risk in case Euribor<0		45,000		75,000

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

Impact on profit (EUR thousand)	2018	2017
Interest rates- Increase by 50 basis points*	139	304
Interest rates- Decrease by 50 basis points*	-273	-380

Holding all other variables constant

According to the Group's risk management policies the Group's short-term resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in credit institutions. For cash in banks and short-term depositing counterparties with at least a long term Baa1 rating (by Moody's) is used. As of 31 December 2018, 100% of Group's cash in banks and short term deposits were deposited with counterparties with higher rating than A3 (31 December 2017: 100% higher than A3).

The Group is also monitoring European Banking Authority's recommendations regarding banks' recapitalization needs and fixed term deposits are opened only in banks with no capitalization shortfall.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2018 or 1 January 2018, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of Estonia in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. On that basis described above, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was calculated as follows:

not due	0.02%;
61 to 90 days over due date	10%;
91 to 180 days over due date	30%;
181 to 360 days over due date	70%;
over 360 days over due date	100%.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 1 January 2018 and 31 December 2018.

Sales of Group's products and services is done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers' payment discipline is consistently observed. In the case of overdue debt, the clients are contacted

Financial assets

as of 31 December 2018 (EUR thousand)	Balance	Not due	Overdue: Up to 60 days	Overdue: More than 60 days	Overdue: Impairment
Cash and cash equivalents (Note 6)	61,769	61,769	0	0	0
Trade receivables (Note 7)	7,168	7,005	119	494	-450
Commercial entities	3,594	3,513	67	440	-428
Private persons	3,574	3,491	52	54	-24
Accrued income	4	4	0	0	0
Total	**68,941**	**68,778**	**119**	**494**	**-450**

as of 31 December 2017 (EUR thousand)	Balance	Not due	Overdue: Up to 60 days	Overdue: More than 60 days	Overdue: Impairment
Cash and cash equivalents (Note 6)	44,973	44,973	0	0	0
Trade receivables (Note 7)	7,326	6,856	463	427	-420
Commercial entities	4,035	3,623	420	400	-408
Private persons	3,291	3,233	43	27	-12
Accrued income	1	1	0	0	0
Total	**52,300**	**51,830**	**463**	**427**	**-420**

by billing group. As of the end of December 2018 there was 1 client (31 December 2017: 2 clients) with receivable (Note 7) exceeding 5% of total trade receivables. The receivable has been paid before the date of completion of these financial statements.

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

Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations due to insufficient cash funds or inflows. This risk realizes when the Group does not have enough funds to serve its loans, to fulfil its working capital needs, to invest and/or to make declared dividend payments.

In liquidity risk management the Group has taken a prudent view, maintaining sufficient cash balance and short-term deposits to be able to fulfil its financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Group.

Financial liabilities in terms of payment*

as of 31 December 2018 (EUR thousand)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Trade and other payables (Note 12)	2,636	147	0	31	0	2,814
Derivatives (Note 8)	207	0	0	173	0	380
Borrowings (incl finance lease)	48	138	4,327	91,474	1,827	97,814
Total	**2,891**	**285**	**4,327**	**91,678**	**1,827**	**101,008**

as of 31 December 2017 (EUR thousand)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Trade and other payables (Note 12)	2,354	539	0	0	0	2,893
Derivatives (Note 8)	578	0	0	178	0	756
Borrowings (incl finance lease)	77	166	928	86,811	11,093	99,075
Total	**3,009**	**705**	**928**	**86,989**	**11,093**	**102,724**

**All amounts above are undiscounted*

Capital management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern, to be in accordance with Business Plan's capital structure approved by Supervisory Board and the long-term borrowing contracts that limit the Group's equity ratio to a minimum of 35% of the total assets.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (Note 11; including 'current and non-current borrowings' as shown in the consolidated Statement of financial position) less cash and cash equivalents (Note 6). Total capital is calculated as 'equity' as shown in the consolidated Statement of financial position plus net debt.

as of 31 December (EUR thousand)	2018	2017
Borrowings	95,742	95,829
Cash	-61,769	-44,973
Net debt	**33,973**	**50,856**
Equity	**102,765**	**85,816**
Total capital	**136,738**	**136,672**
Net debt to total capital ratio	24.9%	37.2%
Total assets	249,748	228,408
Proportion of equity from total assets	41.1%	37.6%

Fair value estimation

Fair values of cash and cash equivalents, trade receivable, other long-term receivables, short-term borrowings and trade payable do not vary significantly from their carrying amount because their realization will take place within 12 months or these were recognised close to the balance sheet date.

To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. As of 31 December 2018 and 2017, the Group did not have any financial instruments of level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

At the end of 2018 all Group's long-term borrowings had floating interest rates. The fair values of long-term borrowings are based on discounted cash flows using the borrowing rate of 1.37% (2017: 0.54%) and are within level 3 of the fair value hierarchy. As of 31 December 2018, the fair value of the Group's long-term borrowings was EUR 1,590 thousand lower than their carrying amount (31 December 2017: EUR 928 thousand higher).

The financial instruments carried at fair value (interest rate swap contracts, Note 8) are included in level 2. The fair value of interest rate swap contracts is calculated as the present value of estimated future cash flows based on observable yield curves.

NOTE 6. Cash and cash equivalents

as of 31 December (EUR thousand)	2018	2017
Cash and bank accounts	46,769	29,871
Short-term deposits	15,000	15,102
Total cash and cash equivalents	**61,769**	**44,973**

NOTE 7. Trade receivables, accrued income and prepaid expenses

as of 31 December (EUR thousand)	2018	2017
Accounts receivable	7,618	7,746
Allowance for doubtful receivables	-450	-420
Total trade receivables	**7,168**	**7,326**
Allowance for doubtful receivables at the beginning of the period	**-420**	**-412**
Proceeds from doubtful receivables during the period	27	10
Allowance for doubtful receivables recognised during the period	-57	-31
Receivables written off balance sheet during the period	0	13
Allowance for doubtful receivables at the end of the period	**-450**	**-420**

Impairment losses recognised during the period are reported in profit or loss as 'Other income (+)/expenses (-)'.
For further information on ageing of receivables (including overdue receivables), please see Note 5.

as of 31 December (EUR thousand)	2018	2017
Accrued interest	4	1
Other accrued income	132	125
Prepaid expenses	327	264
Total accrued income and prepaid expenses	**463**	**390**
Total trade receivables, accrued income and prepaid expenses	**7,631**	**7,716**

The Company's current assets (incl. trade receivables, accruals and inventory) in the amount of EUR 7,097 thousand (31 December 2017: EUR 7,410 thousand) have been pledged as a security for the bank loans (Note 11), as a part of commercial pledge.

NOTE 8. Derivatives

as of 31 December (EUR thousand)	2018	2017
Current liabilities		
Interest rate swap contracts	207	578
Non-current liabilities		
Interest rate swap contracts	173	178

as of 31 December (EUR thousand)	2018	2017
Contracts start date	May 2015 – June 2015	November 2013 – June 2015
Contracts maturity date	May 2019 – November 2020	November 2018 – November 2020
Contracts notional amount	45,000	75,000

NOTE 9. Property, plant and equipment

EUR thousand	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 are written off if the condition of the asset does not enable further usage for production purposes. As of 31 December 2018 the book value of the assets (Machinery and equipment) leased under financial lease is EUR 878 thousand (31 December 2017: EUR 948 thousand).

The Group's non-current assets in the book value amount of EUR 11,909 thousand (31 December 2017: EUR 11,996 thousand) have been pledged as a security for the bank loans (Note 11), as a part of commercial pledge. A mortgage for the Group's non-current assets (land, buildings and facilities) in the book value amount of EUR 30,052 thousand (31 December 2017: EUR 30,455 thousand) serves as a security to the bank loans (Note 11).

During the year, the Group has capitalised borrowing costs amounting to EUR 23 thousand (2017: EUR 30 thousand) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 0.79% (2017: 0.91%).

NOTE 10. Intangible assets

EUR thousand	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 amortisation	-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
Amortisation	-271	0	-271
as of 31 December 2017			
Acquisition cost	5,247	390	5,637
Accumulated amortisation	-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
Amortisation	-226	0	-226
as of 31 December 2018			
Acquisition cost	4,206	50	4,256
Accumulated amortisation	-3,591	0	-3,591
Net book value	**615**	**50**	**665**

NOTE 11. Borrowings

as of 31 December (EUR thousand)	2018	2017
Current liabilities		
Current portion of long-term bank loans	3,632	0
Current portion of long-term finance lease liabilities	191	264
Non-current liabilities		
Long-term bank loans	91,295	94,908
Long-term finance lease liabilities	624	657

EUR thousand	Balance	Effective interest rate
Bank loans at 31 December 2018 EUR		
Borrowings at floating interest rate (based on 6-month Euribor)	94,927	0.57%-1%
Finance lease liabilities	815	0.85%-2.3%
Bank loans at 31 December 2017 EUR		
Borrowings at floating interest rate (based on 6-month Euribor)	94,908	0.57%-0.99%
Finance lease liabilities	921	0.7%-2.07%

The Group's loan agreements, valid as of 31 December 2018, mature in November 2020 (31 December 2017: November 2020) in the amount of EUR 37.5 million and in September 2022 (31 December 2017: September 2022) in the amount of EUR 37.5 million, the third loan agreement in the amount of EUR 20 million will be repaid in eleven equal semi-annual repayments from May 2019 to May 2024 (31 December 2017: May 2019 to May 2024).

Collateral of loans and pledged assets

Collateral at book value as of 31 December (EUR thousand)

Type of collateral	Specification and location of collateral	2018	2017
Commercial pledge	Movables of the Company (Note 7, 9)	19,007	19,406
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	30,052	30,455

NOTE 12. Trade and other payables

for the year ended 31 December (EUR thousand)	2018	2017
Trade payables - operating expenditures	2,152	1,740
Trade payables - capital expenditures	391	908
Payables to related parties (Note 25)	179	184
Payables to employees	1,267	1,207
Interest payable	78	82
Other accrued expenses	61	61
Warranty reserve	69	79
Taxes payable incl:		
Income tax	175	164
VAT	715	704
Water abstraction charges	294	293
Pollution taxes	249	374
Social security tax	363	350
Other	54	54
Total trade and other payables	**6,047**	**6,200**

NOTE 14. Prepayments

as of 31 December (EUR thousand)	2018	2017
Prepayments for water and sewerage services	115	91
Prepayments for connection fee	2,840	2,518
Total prepayments	**2,955**	**2,609**

NOTE 13. Other contingent liabilities

Tax authority have got the right to review to the Group's tax accounting within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

The Group's distributable retained earnings as at 31 December 2018 amounted to EUR 64,753 thousand (2017: EUR 47,804 thousand). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is EUR 16,188 thousand (2017: EUR 11,951 thousand) without taking into account the lower tax rate that may be applicable to dividend payments from 2019. See also Note 2.

NOTE 15. Provision for possible third-party claims

On 12 December 2017, the Supreme Court made a decision on AS Tallinna Vesi's cassation in the tariff dispute with the Estonian Competition Authority. The court stated that the Competition Authority (CA) 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 in the main area ie in the City of Saue and Tallinn of EUR 44.5 million, 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.

NOTE 16. Share capital

At 31 December 2018 the nominal value of the share capital was 12,000,060 (twelve million and sixty) euros, composed of 20,000,000 (twenty million) A-shares with the nominal value of 0.60 euros (sixty eurocents) per share and 1 (one) preferred B-share with a nominal value of 60 (sixty) euros.

The B-share has been issued with the right of veto to the shareholder when voting on the following issues: amending the Articles of Association, increase and decrease of share capital, issuance of convertible bonds, acquisition of own (treasury) shares, deciding on the merger, division, transformation and/or dissolution of AS Tallinna Vesi and deciding other issues related to the activities of the AS Tallinna Vesi that have not been placed in the sole competence of the General Meeting by law that either the Management Board or the Supervisory Board have put to the vote of the General Meeting. In 2018 and 2017, the B-share granted the holder the preferential right to receive a dividend in an agreed amount of 600 (six hundred) euros.

The General Meeting of the Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. The Management Board does not have any respective authorities.

As of 31 December 2018 and 2017 United Utilities (Tallinn) B.V. owned 7,060,870 (35.3%) A-shares, the City of Tallinn owned 6,939,130 (34.7%) A-shares and 1 (one) B-share, with 6,000,000 shares in free float. Other direct shareholders each owned less than 5% of the shares as of 31 December 2018 and 2017.

As of 31 December 2018 from all Supervisory Board and Management Board members Riina Käi owned 100 shares (2017: Riina Käi 100 shares). Dividends declared and paid are disclosed in note 22.

Contingent income tax on the dividend payments from retained earnings is described in note 13.

NOTE 17. Revenue

for the year ended 31 December (EUR thousand)	2018	2017
Revenues from main operating activities		
Total water supply and waste water disposal service, incl:	52,528	51,237
Private clients, incl:	**25,765**	**25,225**
Water supply service	*14,179*	*13,872*
Waste water disposal service	*11,586*	*11,353*
Corporate clients, incl:	**21,246**	**20,407**
Water supply service	*11,733*	*11,210*
Waste water disposal service	*9,513*	*9,197*
Outside service area clients, incl:	**4,680**	**4,678**
Water supply service	*1,465*	*1,346*
Waste water disposal service	*2,893*	*2,833*
Storm water disposal service	*322*	*499*
Over pollution fee	**837**	**927**
Storm water treatment and disposal and fire hydrant service (Note 25)	3,562	3,668
Construction service, design and asphalting	6,000	4,287
Other works and services	690	623
Total revenues	**62,780**	**59,815**

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

NOTE 18. Staff costs

for the year ended 31 December (EUR thousand)	2018	2017
Salaries and wages (Note 19)	-6,479	-6,051
Social security and unemployment insurance taxation (Note 19)	-2,190	-2,046
Total staff costs	**-8,669**	**-8,097**
The average number of employees	**316**	**316**

NOTE 19. Cost of goods and services sold, marketing and administrative expenses

for the year ended 31 December (EUR thousand)	2018	2017
Cost of goods and services sold		
Water abstraction charges	-1,187	-1,168
Chemicals	-1,744	-1,501
Electricity	-2,849	-3,193
Pollution tax	-963	-1,100
Staff costs (Note 18)	-6,283	-5,784
Depreciation and amortisation	-5,177	-5,577
Construction service, design and asphalting	-5,240	-3,638
Other costs of goods and services sold	-5,151	-3,764
Total cost of goods and services sold	**-28,594**	**-25,725**
Marketing expenses		
Staff costs (Note 18)	-321	-301
Depreciation and amortisation	-1	-1
Other marketing expenses	-64	-54
Total marketing expenses	**-386**	**-356**
Administrative expenses		
Staff costs (Note 18)	-2,065	-2,012
Depreciation and amortisation	-342	-355
Other general administration expenses	-2,618	-2,661
Total administrative expenses	**-5,025**	**-5,028**

NOTE 20. Other income/expenses

for the year ended 31 December (EUR thousand)	2018	2017
Connection fees	295	258
Depreciation of single connections	-270	-237
Doubtful receivables expenses (-)/expense reduction (+)	-30	-20
Provision for possible third party claims (Note 15)	-1,546	-17,522
Other income (+)/expenses (-)	-285	-320
Total other income/expenses	**-1,836**	**-17,841**

NOTE 21. Financial income and expenses

for the year ended 31 December (EUR thousand)	2018	2017
Interest income	21	15
Interest expense, loan	-752	-865
Interest expense, swap	-614	-637
Increase (+)/decrease (-) of fair value of swap	376	569
Other financial income (+)/expenses (-)	-20	-26
Total financial income/expenses	**-989**	**-944**

NOTE 22. Dividends

for the year ended 31 December (EUR thousand)	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**

Income tax rates in 2018 were 20/80 (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 23. Earnings per share

for the year ended 31 December	2018	2017
Net profit minus B-share preferred dividend rights (EUR thousand)	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
Earnings per A-share (in euros)	1.21	0.36
Earnings per B-share (in euros)	600	600

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

NOTE 24. Operating lease

for the year ended 31 December (EUR thousand)	2018	2017
Leased assets		
Total operating lease expenses for vehicles	924	411
Operating lease (compensated by customers)	972	935

as of 31 December (EUR thousand)	2018	2017
Following periods operating lease payments from the non-cancellable contracts are as follows:		
Less than 1 year	192	95
1-5 years	505	192
Total minimum lease payments	**697**	**287**

The underlying currency of all lease contracts is euro. Leased assets have not been sublet.

NOTE 25. Related parties

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

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

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

The Group's Management Board or Supervisory Board members do not have more than 5% shareholding in any of the companies having important business or cooperation relations with the Group.

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 16. Paid-up dividends are described in note 22.

Shareholders having the significant influence

as of 31 December (EUR thousand)	2018	2017
Balances recorded in on the statement of financial position of the Group		
Accounts receivable	221	500
Trade and other payables (Note 12)	179	184

for the year ended 31 December (EUR thousand)	2018	2017
Transactions		
Revenue (Note 17)	3,562	3,668
Purchase of administrative and consulting services	1,009	1,008
Short-term employee benefits to the Group's Management Board (excluding social tax, EUR thousand)	**192**	**182**
The Group's Supervisory Board fees (excluding social tax, EUR thousand)	**32**	**32**

NOTE 26. Subsidiaries

			Holding (%) as of 31 December	
Subsidiary	Location	Activity	2018	2017
Watercom OÜ	Tallinn, Estonia	Provision of construction and other services related to water business	**100**	100

AS Tallinna Vesi registered Watercom OÜ on 25th May 2010.

NOTE 27. Supplementary disclosures on the parent company of the group

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

THE SEPARATE REPORTS ON THE PARENT COMPANY

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

Statement of financial position

as of 31 December (EUR thousand)	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	60,529	43,826
Trade receivables, accrued income and prepaid expenses	6,537	6,911
Receivables from subsidiary	65	45
Inventories	495	455
Total current assets	**67,626**	**51,237**
Non-current assets		
Investment in subsidiary	527	527
Property, plant and equipment	184,188	178,728
Intangible assets	662	811
Total non-current assets	**185,377**	**180,066**
TOTAL ASSETS	**253,003**	**231,303**

as of 31 December (EUR thousand)	2018	2017
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term borrowings	3,672	104
Trade and other payables	4,569	4,887
Derivatives	207	578
Payables to subsidiary	735	701
Prepayments and deferred income	2,953	2,606
Total current liabilities	**12,136**	**8,876**
Non-current liabilities		
Deferred income from connection fees	22,745	19,632
Borrowings	91,410	94,930
Derivatives	173	178
Provision for possible third party claims	19,068	17,522
Other payables	31	31
Total non-current liabilities	**133,427**	**132,293**
Total liabilities	**145,563**	**141,169**
Equity		
Share capital	12,000	12,000
Share premium	24,734	24,734
Statutory legal reserve	1,278	1,278
Retained earnings	69,428	52,122
Total equity	**107,440**	**90,134**
TOTAL LIABILITIES AND EQUITY	**253,003**	**231,303**

Statement of comprehensive income

for the year ended 31 December (EUR thousand)	2018	2017
Revenue	56,632	55,440
Costs of goods and services sold	-23,190	-21,950
Gross profit	**33,442**	**33,490**
Marketing expenses	-386	-365
General administration expenses	-4,801	-4,833
Other income (+)/expenses (-)	-1,782	-17,781
Operating profit	**26,473**	**10,520**
Financial income	21	265
Financial expenses	-349	-945
Profit before taxes	**26,145**	**9,840**
Income tax on dividends	-1,638	-2,638
Net profit for the period	**24,507**	**7,202**
Total comprehensive income for the period	**24,507**	**7,202**
Attributable profit to:		
Equity holders of A-shares	24,506	7,201
B-share holder	0.60	0.60
Earnings per A-share (in euros)	1,23	0,36
Earnings per B-share (in euros)	600	600

Statement of cash flows

for the year ended 31 December (EUR thousand)	2018	2017
Cash flows from operating activities		
Operating profit	26,473	10,520
Adjustment for depreciation/amortisation	5,689	6,004
Adjustment for revenue from connection fees	-295	-258
Other non-cash adjustments	-20	-26
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets	-112	-10
Change in current assets involved in operating activities	324	-252
Change in liabilities involved in operating activities	1,808	16,863
Total cash flow from operating activities	**33,867**	**32,841**
Cash flows used in investing activities		
Acquisition of property, plant and equipment, and intangible assets	-11,386	-10,428
Compensations received for construction of pipelines	3,716	2,698
Proceeds from sale of property, plant and equipment, and intangible assets	159	57
Interest received	17	12
Total cash used in investing activities	**-7,494**	**-7,661**
Cash flows used in financing activities		
Interest paid and loan financing costs, incl swap interests	-1,383	-1,512
Finance lease payments	-98	-111
Received loans	0	37,500
Repayment of loans	0	-37,500
Dividends received	650	250
Dividends paid	-7,201	-10,801
Income tax on dividends	-1,638	-2,638
Total cash used in financing activities	**-9,670**	**-14,812**
Change in cash and cash equivalents	**16,703**	**10,368**
Cash and equivalents at the beginning of the period	**43,826**	**33,458**
Cash and equivalents at the end of the period	**60,529**	**43,826**

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**	**55,721**	**93,733**
Dividends	0	0	0	-10,801	-10,801
Comprehensive income for the period	0	0	0	7,202	7,202
as of 31 December 2017	**12,000**	**24,734**	**1,278**	**52,122**	**90,134**
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
Adjusted unconsolidated equity as of 31 December 2017	**12,000**	**24,734**	**1,278**	**52,122**	**89,607**
as of 31 December 2017	**12,000**	**24,734**	**1,278**	**52,122**	**90,134**
Dividends	0	0	0	-7,201	-7,201
Comprehensive income for the period	0	0	0	24,507	24,507
as of 31 December 2018	**12,000**	**24,734**	**1,278**	**69,428**	**107,440**
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
Adjusted unconsolidated equity as of 31 December 2018	**12,000**	**24,734**	**1,278**	**69,428**	**106,913**

Confirmation
of the Management and Supervisory boards

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 27 February 2019. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report, the financial statements and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

The annual report has signed by all the members of the Management Board and Supervisory Board.

Karl Heino Brookes
Chairman of the Management Board
12.03.2019

Riina Käi
Member of the Management Board
12.03.2019

Aleksandr Timofejev
Member of the Management Board
12.03.2019

Simon Roger Gardiner
Chairman of the Supervisory Board
28.03.2019

Keith Haslett
Member of the Supervisory Board
28.03.2019

Martin Padley
Member of the Supervisory Board
28.03.2019

Brendan Francis Murphy
Member of the Supervisory Board
28.03.2019

Priit Lello
Member of the Supervisory Board
28.03.2019

Priit Rohumaa
Member of the Supervisory Board
28.03.2019

Toivo Tootsen
Member of the Supervisory Board
28.03.2019

Allar Jõks
Member of the Supervisory Board
28.03.2019

Katrin Kendra
Member of the Supervisory Board
28.03.2019

Principles of *sustainability reporting*

Our Sustainability and social responsibility report has been prepared according to the Sustainability Reporting Standard of Global Reporting Initiative (GRI Standards). The GRI Standard provides for a choice between "core" and "comprehensive" levels depending on the level of details of the report. Considering the Company's size and scope of operations in a global context, the most suitable of these two options is "core", which includes data about the Company's profile, stakeholders and principles, management approach and key performance indicators.

The Company continues to measure the impacts and performance of material topics through several various indicators. Compared to the 2017 Report, no significant changes have been made and the indicators introduced in 2017, are still used in the report. No major changes have occurred among the activities, impacts, practices or focuses of the Company compared to the previous report.

As in previous year, for some defined material topics disclosures provided by GRI Standard were insufficient to describe the performance of the Company. Thus, addition to the GRI disclosures, few Company-specific indicators have been introduced in this report. In GRI Index those indicators are described without GRI codes.

Process for defining report content

In defining the report content, the principles of stakeholder inclusiveness, sustainability context, materiality and completeness were followed. In order to define the report content and identify material topics, several working groups, involving management team members, were set up in 2017 to discuss the environmental, economic and social topics concerning the Company and to frame the topics, which are material for the Company in terms of sustainability and potential impact on stakeholders. This was done by keeping in mind the company values and objectives as well as external impacts stemming from legislation, market situation and natural environment. Feedback from small investors was also taken into consideration in defining the report content. The company is planning to review the indicators in 2019 and encourage discussion in working groups.

The materiality of the identified topics was assessed from the point of view of both the Company and its stakeholders, considering the information received from stakeholders, feedback from Company's employees and customers and direct communication with shareholders and partners. Having assessed the materiality, all identified subjects were aligned by the GRI Standard.

The identified material topics are as follows:

- Economic performance;
- Indirect economic impacts;
- Anti-corruption;
- Water [Tallinna Vesi: Sustainable use of water];
- Effluents and Waste [Tallinna Vesi: Effluent quality];
- Environmental Compliance;
- Employment;
- Occupational health and safety;
- Training and education [Tallinna Vesi: Development of staff and succession planning];
- Local communities;

- Marketing and labelling
  [Tallinna Vesi: Responsible customer service];
- Socioeconomic compliance
  [Tallinna Vesi: Ensuring quality of our services]

The impacts that make topics material are present both within the organisation as well as outside the Company, which is why all material topics simultaneously affect either directly or indirectly both the organisation and its stakeholders. The impacts and the management approach are described in more detail under the description of each topic. The effectiveness of the management approach is assessed against the Company's strategic and annual objectives. Moreover, we receive feedback through the employee and customer surveys, which also reflect the opinion on our management approach.

The report seeks to provide an overview of AS Tallinna Vesi's and OÜ Watercom's activities and performance in 2018 from the perspective of sustainable development in economic, environmental and social areas. In order to place our activities in a more wider context of sustainability, we will continue to link our activities to the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDG). AS Tallinna Vesi contributes to the achievement of the following SDGs:

To better illustrate how our activities contribute to the achievement of many of the SDGs, which are considered relevant in Estonia, we have related the relevant SDGs to our defined material topics. Each of the material topic in this report, which is accompanied by a SDG label, supports the accomplishment of the particular SDG. All the SDGs and their more specific targets can be found www.un.org/sustainabledevelopment.

Stakeholder engagement

Our activity affects a large number of people. Our aim is to be a trusted partner to our customers, investors, employees and representatives of the community, therefore our management practices take into account the impact that we have on surrounding living environment and the association with the different stakeholder interests.

We understand the impact of our business on the surrounding natural habitat and therefore deem it important, that our activities engage with the interests of different stakeholders. Keeping in mind our development perspectives, we have mapped our stakeholders, who are most impacted by our activity and decisions.

Our stakeholders' satisfaction is important for us and therefore it is essential to hold frequent contact and dialogue with them. The main stakeholders, whom we receive feedback from through surveys, direct communication and involvement, are our employees, customers, cooperation partners, shareholders and investors, but also local governments and community. Their feedback has had a strong impact on the contents of this report and our material topics as well as serves as a basis for setting the objectives of the Company.

The Company gathers regular feedback from its clients through satisfaction surveys. Those surveys give us valuable input and knowledge about our customers´ needs. We participate in community events to gather more useful information about these matters. With investors, face-to-face investor presentations are regularly being held. The company organises quarterly investor webinars to introduce our results and offer the investors a platform to ask their questions.

Internally, we gather feedback from our employees on a regular basis. This feedback is then used to make actual changes in the processes to further increase employee satisfaction.

We strive to be a reliable partner to our stakeholders; therefore, we regularly disclose information on our activity, financial and operational performance and financial position. It is instrumental for us to provide timely, reliable and clear information about our activities both pro-actively and when needed. Due to the strong impact of our activity on both the people and environment, responsible communication is fundamental to our stakeholders and ourselves. Given that our stakeholders have different expectations, it is vital to address all necessary aspects and balance those expectations. Reliable and transparent communication plays an important role in shaping the Company's reputation.

Cooperation with local municipalities and government

We aim at being good partners with national and municipality government institutions. We hold regular meetings with the City of Tallinn to discuss the problems and topics on the agenda to further improve the service provided to our customers and consumers in our main service area, seeking the most optimal solutions together. Furthermore, we intend to actively participate in the development of areas related to our activity as well as in the drafting of respective legislation. Our specialists and experts in their profession, are always willing and prepared to consult and assist with sharing area-specific knowledge.

GRI index

Standard	Disclosure	Page number(s)
GENERAL DISCLOSURES		
GRI 102: General Disclosures 2016	**Organisational profile**	
	102-1 Name of the organisation	*AS Tallinna Vesi*
	102-2 Activities, brands, products, and services	p. 8
	102-3 Location of headquarters	p. 78
	102-4 Location of operations	p. 8
	102-5 Ownership and legal form	p. 8
	102-6 Markets served	p. 8
	102-7 Scale of the organization	p. 8, p. 12-13
	102-8 Information on employees and other workers	p. 35-36 Employees
	102-9 Supply chain	p. 68-69 Cooperation with suppliers
	102-10 Significant changes to the organization and its supply chain	p. 8, p. 68, p. 108
	102-11 Precautionary Principle or approach	p. 70-72 Risk management process
	102-12 External initiatives	p. 34-35 Our main sponsorship areas and activities p. 69 Our principles and membership in organisatsions
	102-13 Membership of associations	p. 69 Our principles and membership in organisatsions
	Strategy	
	102-14 Statement from senior decision-maker	p. 6-7 Chairman's statement
	Ethics and integrity	
	102-16 Values, principles, standards, and norms of behavior	p. 17 How we deliver value to different stakeholders p. 69 Our principles and membership in organisatsions

Standard	Disclosure	Page number(s)
	Governance	
	102-18 Governance structure	p. 64-65 Management Board
	Stakeholder engagement	
	102-40 List of stakeholder groups	p. 17 How we create value to different stakeholders
	102-41 Collective bargaining agreements	p. 36
	102-42 Identifying and selecting stakeholders	p. 116-117 Stakeholder engagement
	102-43 Approach to stakeholder engagement	p. 116-117 Stakeholder engagement *No separate stakeholder engagement was undertaken specifically as part of the report preparation process, however the interests of different stakeholders were gathered throughout the year from different meetings and surveys.*
	102-44 Key topics and concerns raised	p. 115-117 Principles of sustainability reporting Read more on p. 20-41 Operational Results
GRI 102: General Disclosures 2016	Reporting practice	
	102-45 Entities included in the consolidated financial statements	p. 8
	102-46 Defining report content and topic Boundaries	p. 115-117 Process for defining report content
	102-47 List of material topics	p. 115-117 Process for defining report content
	102-48 Restatements of information	p. 115 Principles of sustainability reporting
	102-49 Changes in reporting	p. 115 Principles of sustainability reporting
	102-50 Reporting period	*01.01.2018-31.12.2018*
	102-51 Date of most recent report	*06.03.2018*
	102-52 Reporting cycle	*Annual reporting. We issue the report according to the GRI guideline annually since 2012. All reports are available on the website of AS Tallinna Vesi.*
	102-53 Contact point for questions regarding the report	*tvesi@tvesi.ee*
	102-54 Claims of reporting in accordance with the GRI Standards	*This report follows the Standard of the international Global Reporting Initiative (GRI) and is reported according to standard's in accordance – core option.*
	102-55 GRI content index	p. 118-125

Standard	Disclosure	Page number(s)
GRI 102: General Disclosures 2016	102-56 External assurance	See INDEPENDENT AUDITORS' LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY REPORT. *External assurance to the report has been provided by PricewaterhouseCoopers in accordance with International Standard on Assurance Engagement ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The Auditing Company has performed a limited assurance engagement.*
MATERIAL TOPICS		
	Material topic: Economic performance	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 16-19 Strategy
	103-2 The management approach and its components	p. 16-19 Strategy
	103-3 Evaluation of the management approach	p. 16-19 Strategy
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	*Economic value generated: 63 mln €* *Purchases from suppliers 34.2 ml €* *Environmental taxes 2.2 mln €* *Investments into environmtnal awareness and community 0.1 mln €* *Taxes paid 10.3 mln €* *Employee wages and benefits (incl taxes) 8.7 mln €* *Dividends paid out 7.2 mln €* *Payments to providers of capital 1.4 mln €* p. 16 Breakdown of the value generated and distributed by the company
	Material topic: Indirect economic impacts	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 16-19 Strategy p. 21 Uninterrupted services
	103-2 The management approach and its components	p. 16-19 Strategy p. 21 Uninterrupted services
	103-3 Evaluation of the management approach	p. 16-19 Strategy p. 21 Uninterrupted services

Standard	Disclosure	Page number(s)
GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	*Water treatment 1,862 th.€* *Waste water treatment 350 th.€* *Networks total 5,008 th.€* Read more on p. 21 Uninterrupted services
	Material topic: Anti-corruption	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 16-19 Strategy p. 67-68 Business ethics
	103-2 The management approach and its components	p. 16-19 Strategy p. 67-68 Business ethics
	103-3 Evaluation of the management approach	p. 16-19 Strategy p. 67-68 Business ethics
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	*In 2018 AS Tallinna Vesi did not identify any proven corruption or fraud incidents.* p. 67-68 Business ethics
	Material topic: Water [ASTV: Sustainable use of water]	
6 CLEAN WATER AND SANITATION	SD Goal 6: Ensure access to water and sanitation for all and sustainable management of water resources	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 23-25 Sustainable use of water
	103-2 The management approach and its components	p. 23-25 Sustainable use of water
	103-3 Evaluation of the management approach	p. 23-25 Sustainable use of water
GRI 303: Water 2016	303-1 Water withdrawal by source	*Surface water 24,306 th.m³* *Ground water 2,656 th.m³* p. 23-25 Sustainable use of water
not applicable	Water loss in the water networks i.e. leakages (%)	*13.71%* p. 23-25 Sustainable use of water

Standard	Disclosure	Page number(s)
	Material topic: Effluents and Waste [ASTV: Effluent quality]	
	SD Goal 13: Take urgent action to combat climate change and its impacts	
	SD Goal 14: Conserve and sustainably use the oceans, seas and marine resources	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 25-27 Effluent quality
	103-2 The management approach and its components	p. 25-27 Effluent quality
	103-3 Evaluation of the management approach	p. 25-27 Effluent quality
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	*Destination: Baltic Sea* *Treated wastewater: 43.9 mil m^3* *Diluted wastewater: 154,673 m^3* *Treatment efficiency:* *Biological oxygen demand (BOD) 98%,* *Chemical oxygen demand (COD) 92%,* *Suspended solids 98%,* N_{tot} *86%,* P_{tot} *93%,* *Oil products 82%* p. 25-27 Effluent quality
not applicable	Using the emergency outlet	*2 times* p. 25-27 Effluent quality

Standard	Disclosure	Page number(s)
	Material topic: Environmental Compliance	
	SD Goal 12: Ensure sustainable consumption and production patterns	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 23 Environmental Compliance
	103-2 The management approach and its components	p. 23 Environmental Compliance
	103-3 Evaluation of the management approach	p. 23 Environmental Compliance
GRI 307: Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	*In 2018, the Company did not identify any non-compliance with environmental laws or regulations.* p. 23 Environmental Compliance
	Material topic: Employment	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 35-38 Employees
	103-2 The management approach and its components	p. 35-38 Employees
	103-3 Evaluation of the management approach	p. 35-38 Employees
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	*Voluntary turnover 6.9%* *Total turnover 21.3%* p. 35-38 Employees
not applicable	Employee commitment (TRI*M index), part of GRI 102-44	*69* p. 37-38 Commitment in the team
	Material topic: Occupational health and safety	
	SD Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 39-41 Occupational health and safety
	103-2 The management approach and its components	p. 39-41 Occupational health and safety
	103-3 Evaluation of the management approach	p. 39-41 Occupational health and safety

Standard	Disclosure	Page number(s)
GRI 403: Occupational health and safety 2016	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	*AFR 0.37 (incl. 2 work accidents with more than 3 days lost)* *Total number of accidents: 4* p. 39-41 Occupational health and safety
not applicable	Safety audits	*In 2018 total of 425 safety audits were held.* *98.12 % of audited sites met all the safety requirements.* p. 39-41 Occupational health and safety
	Material topic: Training and education [ASTV: Development of staff and succession planning]	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 38 Development of staff and succession planning
	103-2 The management approach and its components	p. 38 Development of staff and succession planning
	103-3 Evaluation of the management approach	p. 38 Development of staff and succession planning
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	*1.9 (8-hour) training days* p. 38 Development of staff and succession planning
	404-2 Programs for upgrading employee skills and transition assistance programs	p. 38 Development of staff and succession planning
	404-3 Percentage of employees receiving regular performance and career development reviews	*100%* p. 38 Development of staff and succession planning
	Material topic: Local communities	
	SD Goal 12: Ensure sustainable consumption and production patterns	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 34-35 Our main sponsorship areas and activities
	103-2 The management approach and its components	p. 34-35 Our main sponsorship areas and activities
	103-3 Evaluation of the management approach	p. 34-35 Our main sponsorship areas and activities
not applicable	Community members who drink tap water (%)	*86%*
	Number of children participated in water and environment related classes	*1,243 children participated*
	Number of excursions held in WTP and WWTP (excl. open doors day)	*81*

Standard	Disclosure	Page number(s)
	Material topic: Marketing and labelling [ASTV: Responsible customer service]	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 28-33 Our customers
	103-2 The management approach and its components	p. 28-33 Our customers
	103-3 Evaluation of the management approach	p. 28-33 Our customers
GRI 417: Marketing and labeling 2016	417-2 Incidents of non-compliance concerning product and service information and labeling	*33 incidents of non-compliance with voluntary codes (our promises to customers)* p. 28-33 Our customers
not applicable	Written customer complaints	*Total number of complaints: 158* Read more on p. 28-33 Our customers
not applicable	Customer satisfaction TRI*M index and customer monthly feedback results (5 point scale), part of GRI 102-44	*TRI*M: 53* *Monthly feedback result: 4.12* p. 28-33 Our customers
not applicable	Provision of information about unplanned water interruptions to the service (% of all unplanned interruptions)	*information provided in 95.18% of the occations* p. 21 Uninterrupted services
	Material topic: Socioeconomic compliance [Ensuring quality of our services]	
	SD Goal 3: Ensure healthy lives and promote well-being for all at all ages	
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	p. 20-24 Ensuring quality of our services
	103-2 The management approach and its components	p. 20-24 Ensuring quality of our services
	103-3 Evaluation of the management approach	p. 20-24 Ensuring quality of our services
GRI 419:Socioeconomic compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	*In 2018 the organization has not identified any non-compliance with laws and/or regulations.* p. 20 Ensuring quality of services
not applicable	Water quality (% of samples taken from customers taps, which meet all drinking water quality requirements)	*99.93%* p. 22 Drinking water quality
not applicable	Non-compliances with the Services Agreement (incl interruptions to service lasting longer than 12 hours)	*0 non-compliances* p. 21 Ensuring quality of services
not applicable	Average duration of an interruption	*On average the water interruption lasted 3.27 hours (3 hours and 16 minutes)* p. 21 Uninterrupted services

INDEPENDENT LIMITED ASSURANCE REPORT ON THE SUSTAINABILITY INFORMATION

To the Shareholders of AS Tallinna Vesi

(Translation of the Estonian original)*

INTRODUCTION

We have been engaged by the Management Board of AS Tallinna Vesi to provide limited assurance on the selected Sustainability Information described below and included on pages 4-74 and 123-130 in the Consolidated Annual and Sustainability Report of AS Tallinna Vesi and its subsidiary (together the "Group") for the year ended 31 December 2018).

SELECTED SUSTAINABILITY INFORMATION

We assessed the quantitative and qualitative information disclosed in the GRI Index on pages 123-130 and the information on pages 4-74 as referred from the GRI Index (hereinafter the "Sustainability Information"), in the Consolidated Annual and Sustainability Report of the Group for the year ended 31 December 2018. The Sustainability Information has been prepared using the Global Reporting Initiative Standards (hereinafter "GRI Standards") as described on pages 119-121 in the Consolidated Annual and Sustainability Report of the Group.

Our limited assurance engagement was performed with respect to the information of the year ended 31 December 2018 only and we have not performed any procedures with respect to earlier periods or any other elements included in the pages 4-74 and 123-130 of the Consolidated Annual and Sustainability Report and, therefore, do not express any conclusion thereon.

REPORTING CRITERIA

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

RESPONSIBILITIES OF THE MANAGEMENT BOARD

The Management Board of the Group is responsible for:

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

OUR RESPONSIBILITIES

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Sustainability Information is not stated, in all material respects, in accordance with the reporting criteria.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance engagements other than audits or reviews of historical financial information". This standard requires that we comply with ethical requirements to plan and perform the assurance engagement to obtain limited assurance on the Sustainability Information.

This report, including our conclusions, has been prepared solely for management of the Group to assist management in reporting on the Group's sustainability performance and activities. Our limited assurance report has been prepared in accordance with the terms of our engagement. We permit this report to be disclosed in the Consolidated Annual and Sustainability Report of the Group for the year ended 31 December 2018, to enable management to show that as part of their governance responsibilities they have obtained an independent limited assurance report in connection with the Sustainability Information. We do not accept or assume responsibility to anyone other than management of the Group for our work or this report.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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

WORK DONE

Our procedures included:

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

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

REPORTING AND MEASUREMENT METHODOLOGIES

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

LIMITED ASSURANCE CONCLUSION

Based on our work described in this report nothing has come to our attention that causes us to believe that the Sustainability Information for the year ended 31 December 2018 has not been prepared, in all material respects, in accordance with the Core requirements of GRI Standards.

Tiit Raimla
Certified auditor in charge,
auditor's certificate no.287
12 March 2019

Eva Jansen-Diener
Auditor's certificate no.501
12 March 2019

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** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Tallinna Vesi

(Translation of the Estonian original)*

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallinna Vesi and its subsidiary (together the Group) as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee.

WHAT WE HAVE AUDITED

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include accounting policies and other explanatory information.

BASIS FOR OPINION

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

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

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in the Corporate Governance report.

OUR AUDIT APPROACH

Overview

Materiality
Overall group materiality is EUR 1,300 thousand, which represents 5% of profit before tax.

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

Key audit matters

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

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

Materiality

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

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

Key audit matters

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

Key audit matters

Provision relating to the potential consequences of the legal dispute with the Estonian Competition Authority
(refer to Notes 4 "Critical accounting estimates" and 15 "Provision for possible third-party claims" for further details).

The Group was involved in the lawsuit with the Estonian Competition Authority over the tariffs of water and sewage services. As a result of the outcome of the lawsuit, potential third-party compensation claims could arise.

As at 31 December 2018, the provision has been recognised in respect of potential claims from the customers in the amount of EUR 19.1 million, representing 40% of the maximum amount that could be payable in case all customers would claim for a compensation for past three years and all such claims would be recognised by the courts.

Overall group materiality	EUR 1,300 thousand
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by shareholders in evaluating the performance of the Group.

We have considered assessment of this provision to be a key audit matter given the potential magnitude and uncertainty in the timing and amount of possible outflow of economic benefits.

Estimates involved in capitalisation of capital expenditures, and determining their useful lives (refer to Note 2 "Accounting policies", Note 4 "Critical accounting estimates" and Note 9 "Property, plant and equipment" for further details).

In 2018, the Group capitalised additions to property, plant and equipment (PPE), mainly related to the construction of water and wastewater network and new customer pipeline connections, in the amount of EUR 10.3 million.

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

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

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

How our audit addressed the key audit matters

We discussed the outcome of the litigation with the Group management. We read the minutes of meetings of the Management and Supervisory Board where developments in the legal proceedings were discussed. We also obtained confirmations from the Group's internal and external legal counsels in order to compare their expert opinions to management's position on the provision.

We discussed with the management the inputs and assumptions used to estimate the amount of potential outflows of economic benefits as a basis of provision. We found the management's assessment supportable in the context of information available.

We read the disclosures regarding the dispute and resulting provision and concluded that they met the disclosure requirements of IFRS standards and appropriately reflected the nature of the resolution.

We assessed whether the Group's accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS and found them to be consistent.

We obtained a listing of capital expenditures incurred during the year and, on a sample basis, checked whether the projects were undertaken based on internal purchase order that had been properly approved by the responsible individuals with such authority with no material exceptions noted.

We inspected a sample of contracts and underlying invoices to determine whether the classification between capital and operating expenditure was appropriate. We noted no material exceptions

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

We checked whether the depreciation of PPE items was commenced timely, by comparing the date of the reclassification from construction in progress to finished projects, with the date of the act of completion of the work. We noted no material exceptions.

How we tailored our audit scope

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

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

OTHER INFORMATION

The Management Board is responsible for the other information contained in the annual report in addition to the consolidated financial statements, our auditor's report and our limited assurance report on the sustainability information thereon.

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

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

RESPONSIBILITIES OF THE MANAGEMENT BOARD AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment and period of our audit engagement

We were first appointed as auditors of AS Tallinna Vesi, as a public interest entity, on 23 April 2008 for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AS Tallinna Vesi, as a public interest entity, of 11 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AS Tallinna Vesi can be extended for up to the financial year ending 31 December 2027.

Tiit Raimla
Certified auditor in charge,
auditor's certificate no.287
12 March 2019

Eva Jansen-Diener
Auditor's certificate no.501
12 March 2019

pwc

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