

AS TALLINNA VESI

Consolidated Interim Report for the 2nd quarter of 2019

26 July 2019



Currency	Thousand euros
Start of reporting period	1 January 2019
End of reporting period	30 June 2019
Address	Ädala St. 10, Tallinn, Estonia
Chairman of the Management Board	Karl Heino Brookes
Commercial register number	10 257 326
Telephone	+372 62 62 200
Telefax	+372 62 62 300
E-mail	tvesi@tvesi.ee
Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

Contents

	Page
MANAGEMENT REPORT	3
MANAGEMENT CONFIRMATION	19
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	20
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	21
CONSOLIDATED CASH FLOW STATEMENT	22
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	23
NOTES TO THE ACCOUNTS	
NOTE 1. ACCOUNTING PRINCIPLES	24
NOTE 2. CASH AND CASH EQUIVALENTS	24
NOTE 3. PROPERTY, PLANT AND EQUIPMENT	25
NOTE 4. INTANGIBLE ASSETS	26
NOTE 5. RIGHT-OF-USE ASSETS AND LIABILITIES	27
NOTE 6. PROVISION FOR POSSIBLE THIRD-PARTY CLAIMS	28
NOTE 7. REVENUE	29
NOTE 8. STAFF COSTS	29
NOTE 9. COST OF GOODS/SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES	30
NOTE 10. OTHER INCOME / EXPENSES	30
NOTE 11. FINANCIAL INCOME AND EXPENSES	31
NOTE 12. DIVIDENDS	31
NOTE 13. EARNINGS PER SHARE	31
NOTE 14. RELATED PARTIES	32
NOTE 15. LIST OF SUPERVISORY BOARD MEMBERS	33

Management report

Chairman´s summary

Even though at the end of June 2019 AS Tallinna Vesi received a disappointing decision related to its damages claim from the international arbitration, the company´s operational as well as financial performance continues to be good.

Strong financial performance

The Group´s total sales during the 2nd quarter of 2019 increased by 1.1% to €16.15 million. Sales to private customers increased by 1.6% year-on-year. While sales to corporate customers within the main service area decreased by 2.7%, sales to customers outside the main service area increased by 7.0%.

The gross profit of the company was €8.79 million, showing a slight decrease of 1.2%. The change was mostly related to higher electricity and chemicals cost, but partly balanced by higher water and wastewater revenues from within the main service area. Group´s net profit was €2.79 million. The net profit was mainly impacted by higher dividend-related tax costs but also by the additional legal expenses derived from the negative ICSID decision.

Reliable water supply and wastewater service

The quality of drinking water in the 2nd quarter of 2019 remained good. Water samples taken from customers' taps, were 99.17% compliant with the requirements. A total of 725 water samples were taken during the 2nd quarter. The professionalism of specialists managing the treatment process at Ülemiste Water Treatment Plant, as well as renewal and maintenance of water network, are instrumental in ensuring high quality water to our customers. The average water disruption time to individual properties was significantly shorter than in 2018 being 2 hours and 39 minutes in the 2nd quarter of 2019, whereas, the result in the same period of 2018 was 3 hours and 35 minutes.

The level of leakages in the water network continues to be record low. In the 2nd quarter we achieved 11.6% for the level of leakages, which is quite an improvement in comparison with 13.0% in the same period last year. We continue to make targeted capital investments to ensure the continued reliability of the infrastructure. In the 2nd quarter of 2019, we performed reconstruction works on water pipes and sewers on Reidi street and Hiiu-Suurtüki crossroads in collaboration with the City of Tallinn.

In the 2nd quarter of 2019, the treated effluent leaving Paljassaare Wastewater Treatment Plant was fully compliant with the stipulated quality requirements. For the purpose of assessing the treatment efficiency and the quality of wastewater, we monitor pollutants in both the incoming wastewater and treated effluent discharged into the sea. Wastewater laboratory analyses the samples taken from different stages of the wastewater treatment process, and the information received thereby allows us to further improve the treatment efficiency and effluent quality.

High service standards

Besides outstanding financial and operational performance, the company has set itself high standards to provide first-class customer service. We have established clear and challenging targets and give promises to our customers in terms of the speed of our response and problem-solving. In 2019, 2 promises have been broken – both were related to longer than promised water interruptions due to emergency works. All customers (56 in total) have been compensated for the inconvenience.

We also think it is fundamental to provide our customers with important information or respond to their questions as quickly as possible. Therefore, we measure the speed of our responses, and have set a target to respond within two working days to non-complex written requests. In order to further improve customer satisfaction, we continue to develop our customer interaction channels. In the 2nd quarter of 2019, we started the pilot testing of SMS service to be able to inform our customers of important matters in a timely and convenient manner. This year we are also introducing a new self-service environment, and we are also in the process of upgrading the mobile phone application, to enhance its functionality and provide better information.

Raising environmental awareness and supporting the community

Contributing to the environmental education of children, youngsters and adults has become a natural part of our day-to-day activities. In the 2nd quarter of 2019, another Doors Open Day was held at Paljassaare Wastewater Treatment Plant, in which people show increasingly more interest. We also held numerous water seminars in kindergartens and schools, and hosted several tours for bigger groups in our water and wastewater treatment plants. In cooperation with Tallinn City Museum we published a history book that looks into the early period of water supply in Tallinn.

International arbitration and tariff application

On 21 June 2019, an international arbitration tribunal made a decision on Tallinna Vesi's and United Utilities (Tallinn) B.V.'s claim in the proceedings against the Republic of Estonia for compensation for losses caused by a breach of the Agreement on the Encouragement and Reciprocal Protection of Investments between the Kingdom of the Netherlands and the Republic of Estonia. Unfortunately, the arbitration tribunal decided to dismiss the companies' claims, even though one of three panel members dissented strongly. Tribunal's decision is available on [ICSID website](#). International arbitration's decision is final and cannot be challenged.

Despite the disappointing decision, AS Tallinna Vesi will continue to focus on providing an excellent service to its customers and will do its best to meet the expectations of the local communities as well as shareholders of the company.

The process of setting the new tariffs for water supply and wastewater disposal services is still ongoing between Tallinna Vesi and Estonian Competition Authority. In December 2018, the Competition Authority issued a decision on Tallinna Vesi's application for the approval of the prices of water services and related extra services in Tallinn and Saue service area. Competition Authority decided to approve the prices of related extra services, however, refused to approve the prices of water services.

OPERATIONAL INDICATORS FOR SIX MONTHS OF 2019

Indicator	Unit	2019	2018	2017
Compliance of water quality at the customers' tap	%	99.5	99.9	99.9
Water loss in the water distribution network	%	12.2	14.1	13.3
Average duration of water interruptions per property in hours	h	2.63	3.28	3.25
Number of sewer blockages	No	302	295	393
Number of sewer bursts	No	59	50	72
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Number of customer complaints*	No	81	69	17
Number of customer contacts regarding water quality	No	172	101	70
Number of customer contacts regarding water pressure	No	154	183	146
Number of customer contacts regarding blockages and discharge of storm water	No	542	516	539
Responding written customer contacts within at least 2 workdays	%	100.0	100.0	100.0
Number of failed promises	No	56	31	3
Notification of unplanned water interruptions at least 1 h before the interruption	%	97.7	94.4	100.0

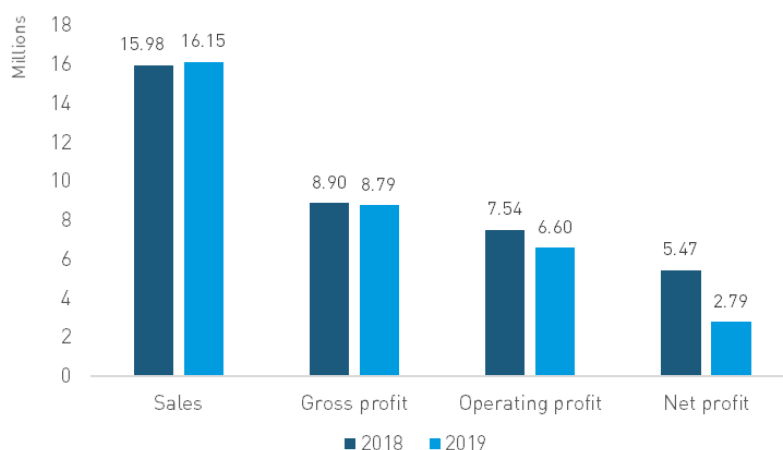
**Until 2018, this figure included only the customer complaints received in writing. The number for 2018 and 2019 includes the complaints received both in writing and by phone.*



Karl Heino Brookes
Chairman of the Management Board

FINANCIAL HIGHLIGHTS FOR THE 2nd QUARTER OF 2019

The Group's sales revenues during the 2nd quarter of 2019 were €16.15 million, being up by 1.1% or €0.17 million compared to the same period in 2018.



The gross profit in the 2nd quarter of 2019 was €8.79 million, showing a decrease of 1.2% or €0.11 million. Decrease in gross profit was related to higher electricity, chemicals, staff and sludge disposal costs. Higher costs were partly balanced by higher water and wastewater revenues from private customers within the service area and outside service areas and stormwater revenues from within the service area, which was additionally balanced by lower water and wastewater services revenues from corporate customers within the service area.

The operating profit was €6.60 million, showing a decrease of 12.4% or €0.94 million. In addition to above-mentioned changes in gross profit, the operating profit was impacted by higher administrative expenses resulting from the additional legal costs related to the ICSID award.

The net profit for the 2nd quarter of 2019 was €2.79 million, showing a decrease by 48.9% or €2.67 million. The net profit was mainly impacted by higher dividend related tax costs and above-mentioned changes in the operating profit, balanced by slightly lower financial expenses. The changes in the financial expenses were mostly influenced by lower interest expenses, balanced almost fully by negative change in the fair value of swap contracts in the 2nd quarter of 2019 compared to the positive change in the same quarter of 2018. The net profit for the 2nd quarter of 2019 and 2018 without the impact resulted from the change of the fair value of swap contracts was €2.81 million and €5.39 million respectively, being lower by 47.8% or €2.57 million year-on-year.

MAIN FINANCIAL INDICATORS

€ million, except key ratios	2 nd quarter			Change 2019/ 2018	6 months			Change 2019/ 2018
	2019	2018	2017		2019	2018	2017	
Sales	16.15	15.98	14.73	1.1%	30.81	30.06	28.51	2.5%
Gross profit	8.79	8.90	8.53	-1.2%	17.05	17.22	16.73	-1.0%
Gross profit margin %	54.44	55.68	57.89	-2.2%	55.34	57.29	58.70	-3.4%
Operating profit before depreciation and amortisation	8.07	8.96	8.69	-9.9%	16.46	17.18	16.68	-4.2%
Operating profit before depreciation and amortisation margin %	49.96	56.04	59.02	-10.9%	53.43	57.15	58.49	-6.5%
Operating profit	6.60	7.54	7.18	-12.4%	13.49	14.34	13.67	-5.9%
Operating profit - main business	6.40	7.35	7.06	-12.9%	13.18	14.08	13.53	-6.4%
Operating profit margin %	40.88	47.18	48.78	-13.4%	43.79	47.70	47.95	-8.2%
Profit before taxes	6.34	7.27	6.96	-12.8%	13.02	13.80	13.32	-5.6%
Profit before taxes margin %	39.23	45.47	47.25	-13.7%	42.25	45.91	46.72	-8.0%
Net profit	2.79	5.47	4.26	-48.9%	9.48	12.00	10.62	-21.0%
Net profit margin %	17.29	34.20	28.92	-49.4%	30.75	39.92	37.25	-23.0%
ROA %	1.09	2.32	1.96	-52.9%	3.78	5.16	4.95	-26.8%
Debt to total capital employed %	61.32	61.64	58.54	-0.5%	61.32	61.64	58.54	-0.5%
ROE %	2.70	5.97	4.61	-54.8%	9.48	13.60	11.89	-30.3%
Current ratio	3.90	5.00	3.70	-22.0%	3.90	5.00	3.70	-22.0%
Quick ratio	3.87	4.96	3.65	-22.0%	3.87	4.96	3.65	-22.0%
Investments into fixed assets	2.70	2.21	1.30	21.8%	6.11	3.07	3.51	99.2%
Payout ratio %	na	62.11	99.72	na	na	62.11	99.72	na

Gross profit margin – Gross profit / Net sales

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

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

Operating profit margin – Operating profit / Net sales

Net profit margin – Net profit / Net sales

ROA – Net profit / Average Total assets for the period

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

ROE – Net profit / Average Total equity for the period

Current ratio – Current assets / Current liabilities

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

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

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

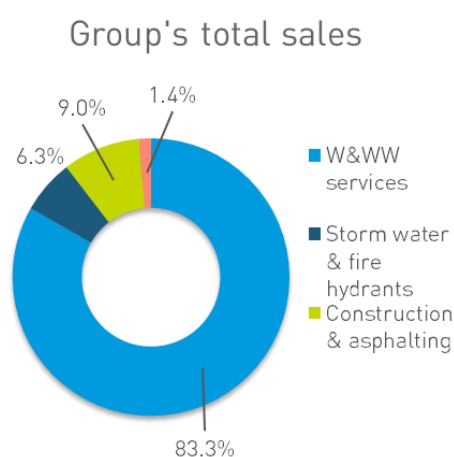
FINANCIAL RESULTS FOR THE 2nd QUARTER OF 2019

Statement of comprehensive income

SALES

As in the 2nd quarter of 2019 the Company's tariffs were frozen at the 2010 tariff level, the changes in the main activities revenues, i.e. from sales of water and wastewater services, are fully driven by consumption with no considerable seasonality in the main business. In the future, the Company does not expect significant changes in the consumption. There has been incremental increase in consumption in the past and that is expected to continue.

At the end of 2017, the Supreme Court made a negative decision as regards to the Company's cassation, as a result of which, the Company's tariffs will be regulated under the Competition Authority's (CA) methodology. On 28/02/2018 Company submitted its tariff application for Tallinn and Saue area to the CA. The tariffs applied for were similar to the water and wastewater tariffs currently charged in the area. The amended tariff application was submitted on 2/05/2018. From 4/05/2018 the CA started the tariff application review. With its decision from 4/12/2018 CA did not approve the prices of water and wastewater services in Tallinn and Saue service area. With the same decision CA approved prices for services directly related to water and wastewater services. On 6/12/2018 CA notified the company of the possible initiation of the supervisory proceedings, to which the Company responded on time on 23/04/2019. On 3/01/2019 the Company challenged CA's decision from 4/12/2018 for refusing to approve the prices of water and wastewater services, that AS Tallinna Vesi applied for in Tallinn and Saue service area. On 12/02/2019 the CA informed the Company that they will not satisfy the Company's challenge. On 14/03/2019 the Company submitted a complaint to the Tallinn Administrative Court, related to the Competition Authority's negative decision from 4/12/2018. On 13/09/2018 the Company submitted supplemented tariff application additionally to Tallinn and Saue area also to Harku and surrounding areas water companies. CA has informed the Company that the supplemented application meets also all the requirements and that they have extended the review from 30 days to 90 days starting as the application is complicated. At the end of June 2019 the CA sent two requests to the Company regarding the supervisory review procedure and Harku and surrounding municipalities application, to which the Company must respond by 2/09/2019. The new tariffs that will be approved and applied in the area will be known after the full process is completed and Competition Authority has approved the tariffs. The tariffs could also change if the CA establishes temporary water tariffs in accordance with the procedure specified in applicable law.



In the 2nd quarter of 2019 the **Group's total sales** were €16.15 million, showing an increase by 1.1% or €0.17 million year-on-year. 83.3% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.3% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 9.0% from construction and asphalting services and 1.4% from other works and services.

The construction and asphaltting services sales are more seasonal, and the Company continues to seek possibilities to keep and to grow these services revenues.

€ thousand	2 nd quarter			Variance 2019/2018	
	2019	2018	2017	EUR	%
Private clients, incl:	6,531	6,427	6,313	104	1.6%
Water supply service	3,595	3,547	3,470	48	1.4%
Wastewater disposal service	2,936	2,880	2,843	56	1.9%
Corporate clients, incl:	5,375	5,525	5,193	-150	-2.7%
Water supply service	3,011	3,083	2,877	-72	-2.3%
Wastewater disposal service	2,364	2,442	2,316	-78	-3.2%
Outside service area clients, incl:	1,264	1,181	1,102	83	7.0%
Water supply service	431	370	339	61	16.5%
Wastewater disposal service	770	733	692	37	5.0%
Storm water disposal service	63	78	71	-15	-19.2%
Over pollution fee	275	216	258	59	27.3%
Total water supply and wastewater disposal service	13,445	13,349	12,866	96	0.7%
Storm water treatment and disposal and fire hydrants service	1,017	881	839	136	15.4%
Construction service, design and asphaltting	1,457	1,569	864	-112	-7.1%
Other works and services	230	180	159	50	27.8%
SALES REVENUES TOTAL	16,149	15,979	14,728	170	1.1%

Sales from water and wastewater services were €13.45 million, showing a 0.7% or €0.10 million increase compared to the 2nd quarter of 2018, resulting from the changes in sales volumes as described below:

- There has been an increase in **private customers'** revenues of 1.6% to €6.53 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group, balanced partly by lower consumption of private houses customer group as the consumption of this customer group was very high due to very warm and dry 2018 spring and summer.
- Sales to **corporate customers** within the service area decreased by 2.7% to €5.38 million. Decrease was related to lower consumption in the sales of industrial and other commercial customer segment, caused by lower consumption of different customers with biggest impact from Tallinn prison moving out to Rae municipality. It was balanced by higher consumption in the sales of leisure segment impacted by two new leisure centres in Tallinn.
- Sales to **customers outside the main service area** increased by 7.0% to €1.26 million. It was impacted by an increase of water and wastewater services, caused mainly by higher supply to Rae and Maardu areas, accompanied by extraordinary water supply to Viimsi area and was partly balanced by lower consumption of storm water disposal services in almost all areas.
- **Over pollution fees** received have increased by 27.3% to €0.28 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were €1.02 million, showing an increase of 15.4% or €0.14 million compared to the

same period in 2018, driven mainly by higher cost per m³, balanced partly by 21.1% lower storm water volumes.

Sales of construction, design and asphaltting services were €1.46 million, decreasing by 7.1% or €0.11 million year-on-year. The decrease was mainly related to lower pipe construction services revenues during the 2nd quarter of 2019.

COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

The cost of goods and services sold amounted to €7.36 million in the 2nd quarter of 2019, increasing by 3.9% or €0.28 million compared to the equivalent period in 2018. The increase was influenced by higher costs in different cost groups, balanced partly by lower construction service-related costs and pollution tax expenses.

€ thousand	2 nd quarter			Variance 2019/2018	
	2019	2018	2017	EUR	%
Water abstraction charges	-303	-303	-292	0	0.0%
Chemicals	-429	-346	-352	-83	-24.0%
Electricity	-817	-698	-777	-119	-17.0%
Pollution tax	-226	-233	-201	7	3.0%
Total direct production costs	-1,775	-1,580	-1,622	-195	-12.3%
Staff costs	-1,704	-1,631	-1,479	-73	-4.5%
Depreciation and amortisation	-1,297	-1,268	-1,360	-29	-2.3%
Construction service, design and asphaltting	-1,246	-1,359	-735	113	8.3%
Other costs of goods/services sold	-1,336	-1,244	-1,006	-92	-7.4%
Other costs of goods/services sold total	-5,583	-5,502	-4,580	-81	-1.5%
Total cost of goods/services sold	-7,358	-7,082	-6,202	-276	-3.9%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €1.78 million, showing a 12.3% or €0.20 million increase compared to the equivalent period in 2018. Changes in direct production costs came from a combination of changes in prices and in treated volumes that affected the cost of goods sold together with the following additional factors:

- **Chemicals** costs increased by 24.0% to €0.43 million, driven mainly by higher usage of methanol, coagulant and polymers to remove Nitrogen, Phosphorus and sludge from wastewater, balanced partly by 13.2% lower price of methanol, worth respectively -€0.04 million, -€0.03 million, -€0.02 million and +€0.02 million.
- **Electricity costs** increased by 17.0% to €0.82 million, driven mainly by on average 17.0% higher average price of electricity, worth €0.12 million.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to €5.58 million, having increased by 1.5% or €0.08 million. The increase came from different costs groups, with only exception of costs related to construction and asphaltting services, by following reasons:

- **Staff costs** increased by 4.5% to €1.70 million. It was driven by higher workload in Watercom related to higher number of staff and workload of own staff in offering construction and

transportation services for inside and outside the Group, accompanied by change of salaries from the beginning of the year for all employees based on CPI.

- **Depreciation** increased by 2.3% to €1.30 million, being mainly impacted by change of recognising the leases according to accounting standard IFRS 16 Leases, mentioned in note 5 to the financial statements, balanced partly by lower depreciation of machinery and mechanisms.
- **Construction and asphaltting services costs** decreased by 8.3% to €1.25 million, mainly due to lower construction services revenues mentioned earlier.
- **Other costs of goods/services sold** increased by 7.4% to €1.34 million, mainly because of €0.11 million higher sludge disposal costs.

As a result of all above the **Group's gross profit** for the 2nd quarter of 2019 was €8.79 million, showing a decrease of 1.2% or €0.11 million, compared to the gross profit of €8.90 million for the comparative period of 2018.

ADMINISTRATIVE AND MARKETING EXPENSES, OTHER INCOME AND EXPENSES

Administrative and marketing expenses amounted to €2.12 million, having increased by 62.0% or €0.81 million. The higher costs were mainly related to negative award from ICSID and as a result having the liability to pay 25% of Estonian legal costs.

Other income and expenses amounted to net expense of €0.07 million, having increased by 39.6% or €0.02 million compared to net expense of €0.05 million in comparative period. The change in other income and expenses was mostly impacted by profit from the sale of some old cars in 2nd quarter of 2018, worth €0.03.

OPERATING PROFIT

As a result of the factors listed above the Group's **operating profit** for the 2nd quarter of 2019 amounted to €6.60 million, being 12.4% or €0.94 million lower than in the corresponding period of 2018. The Group's operating profit from main business was €6.40 million, being 12.9% or €0.95 million lower compared to 2018.

FINANCIAL EXPENSES

The Group's net financial income and expenses have stayed at the same level resulting a net expense of €0.27 million in both comparative periods. The changes were mainly impacted by lower interest costs, balanced almost fully by negative change in the fair value of the swap contracts compared to positive change in 2nd quarter of 2018, worth respectively +€0.10 million and -€0.10 million. Lower interest cost was related to Swap contract, which ended in November 2018.

The standalone swap agreements have been signed to mitigate the long-term floating interest risk. The interest swap agreements are signed for €37.5 million, €55.7 million are with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, amounting to €0.36 million. Effective interest rate of loans (incl. swap interests) in the 2nd quarter of 2019 was 1.05%, amounting to interest costs of €0.25 million, compared to the effective interest rate of 1.46% and the interest costs of €0.35 million in the 2nd quarter of 2018.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's **profit before taxes** for the 2nd quarter of 2019 was €6.34 million, being 12.8% or €0.93 million lower than for the comparative period of 2018. The Group's **net profit** for the 2nd quarter of 2019 was €2.79 million, being 48.9% or €2.67 million lower than for the 2nd quarter of 2018, being mainly impacted by higher income tax on dividends and changes in operating profit mentioned above, worth respectively €1.74 million and €0.94 million. Eliminating the effects of the change of the fair value of swap contracts the Group's net profit for the 2nd quarter of 2019 and 2018 would have been €2.81 million and €5.39 million respectively, showing a decrease of 47.8% or €2.57 million year-on-year.

FINANCIAL RESULTS FOR THE SIX MONTHS OF 2019

Statement of comprehensive income

SALES

During the six months of 2019 the **Group's total sales** were €30.81 million, showing an increase by 2.5% or €0.76 million year-on-year. **Sales from water and wastewater services** for six months of 2019 were 26.48 million, increasing 1.0% or €0.27 million year-on-year. 85.9% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.4% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 6.5% from construction and asphaltting services and 1.2% from other works and services.

€ thousand	6 months			Variance 2019/2018	
	2019	2018	2017	EUR	%
Private clients, incl:	13,021	12,855	12,660	166	1.3%
Water supply service	7,161	7,079	6,960	82	1.2%
Wastewater disposal service	5,860	5,776	5,700	84	1.5%
Corporate clients, incl:	10,376	10,667	10,256	-291	-2.7%
Water supply service	5,745	5,867	5,648	-122	-2.1%
Wastewater disposal service	4,631	4,800	4,608	-169	-3.5%
Outside service area clients, incl:	2,611	2,293	2,210	318	13.9%
Water supply service	816	704	669	112	15.9%
Wastewater disposal service	1,585	1,421	1,375	164	11.5%
Storm water disposal service	210	168	166	42	25.0%
Over pollution fee	469	397	468	72	18.1%
Total water supply and wastewater disposal service	26,477	26,212	25,594	265	1.0%
Storm water treatment and disposal service and fire hydrants service	1,961	1,677	1,580	284	16.9%
Construction service, design and asphaltting	2,016	1,853	1,045	163	8.8%
Other works and services	359	314	290	45	14.3%
SALES REVENUES TOTAL	30,813	30,056	28,509	757	2.5%

During the six months of 2019 there has been an increase in **sales to private customers** by 1.3% to €13.02 million and a decrease to **corporate customers** within the service area by 2.7% to €10.38 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group, accompanied by decrease in an individual houses as the spring and summer of 2018 was very dry. Lower sales in corporate clients is related to a decrease in the sales of industrial and other commercial customer segments, balanced by higher consumption in leisure segment by reasons mentioned in 2nd quarter results. Sales to **customers outside the main service area** increased by 13.9% to €2.61 million, being impacted by an increase in the sales of all services. **Over pollution fees** received have increased by 18.1% to €0.47 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the six months of 2019 amounted to €1.96 million, showing an increase of 16.9% or €0.28 million year-on-year, driven mainly by 11.7% higher storm water volumes, balanced partly by lower cost per m³.

Sales of construction, design and asphaltting services were €2.02 million, increasing by 8.8% or €0.16 million year-on-year. The increase was mainly related to higher pipe construction services revenues in 1st quarter of 2019 as the Company won some big projects in Tallinn and other parts of Estonia in 2018 which continued in 2019 and had a small setback in increasing revenues in 2nd quarter of 2019 because some big jobs won from procurements will be started in 3rd quarter of 2019.

COST OF GOODS AND SERVICES SOLD AND GROSS AND OPERATING PROFITS

€ thousand	6 months		Variance 2019/2018		
	2019	2018	2017	EUR	%
Water abstraction charges	-594	-594	-588	0	0.0%
Chemicals	-834	-781	-685	-53	-6.8%
Electricity	-1,821	-1,457	-1,630	-364	-25.0%
Pollution tax	-594	-511	-493	-83	-16.2%
Total direct production costs	-3,843	-3,343	-3,396	-500	-15.0%
Staff costs	-3,349	-3,224	-2,900	-125	-3.9%
Depreciation and amortisation	-2,638	-2,551	-2,711	-87	-3.4%
Construction service, design and asphaltting	-1,690	-1,600	-874	-90	-5.6%
Other costs of goods/services sold	-2,242	-2,121	-1,894	-121	-5.7%
Other costs of goods/services sold total	-9,919	-9,496	-8,379	-423	-4.5%
Total cost of goods/services sold	-13,762	-12,839	-11,775	-923	-7.2%

During the six months of 2019 **the cost of goods sold** amounted to €13.76 million, increasing by 7.2% or €0.92 million compared to the equivalent period in 2018. **Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €3.84 million, showing a 15.0% or €0.50 million increase compared to the equivalent period in 2018. Changes in direct production costs came from a combination of changes in prices and in treated volumes that affected the cost of goods sold together with the following additional factors:

- **Chemicals** costs increased by 6.8% to €0.83 million, driven mainly by higher usage of methanol and coagulant to remove Nitrogen and Phosphorus from wastewater, balanced partly by lower dosage of coagulant in water treatment process, worth respectively -€0.02 million, -€0.03 million and +€0.02 million. Change in usage of chemicals was in addition accompanied by higher costs from higher different prices of chemicals, worth in total -€0.02 million, with only exception of 9.2% lower methanol price.
- **Electricity costs** increased by 25.0% to €1.82 million, driven by on average 26.5% higher electricity prices (including networks fees), worth €0.37 million.
- **Pollution tax expense** increased by 16.2% to €0.59 million, mainly due to 6.1% higher treated wastewater volumes, accompanied by higher pollution load of different pollutants, worth respectively -€0.04 million and -€0.04 million.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to €9.92 million, having increased by 4.5% or €0.42 million. Changes in other costs of goods sold were mainly driven by the same reasons as mentioned in the 2nd quarter results. It had only one opposite change in costs related to construction services by being 5.6% higher amounting to €1.69 million, driven by higher construction services revenues mentioned above and project specific changes.

The **Group's gross profit** for the six months of 2019 was €17.05 million, showing a decrease of 1.0% or €0.17 million compared to the comparative period of 2018. The **Group's operating profit** for the six months of 2019 amounted to €13.49 million, being 5.9% or €0.84 million lower than in the corresponding period of 2018, mainly being impacted by the additional legal costs resulting from the

ICSID award according to which the Company is liable for 25% of Estonian legal costs related to this matter.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of €0.47 million, compared to net expense of €0.54 million in the six months of 2018. The decrease was mainly impacted by lower positive change in the fair value of the swap contracts year-on-year, balanced by lower interest costs, worth respectively €-0.15 million and €+0.20 million.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for the six months of 2019 were €13.02 million, being 5.6% or €0.78 million lower than for the relevant period of 2018. The Group's net profit for the six months of 2019 were €9.48 million, being 21.0% or €2.52 million lower than for the equivalent period of 2018. Eliminating the effects of the change of the derivatives fair value the Group's net profit for the six months of 2019 would have been €9.46 million, showing a decrease by 20.1% or €2.38 million year-on-year.

Statement of financial position

In the six months of 2019 the Group invested into fixed assets €6.11 million. As of 30/06/2019, non-current tangible assets amounted to €182.43 million and total non-current assets amounted to €183.67 million (30/06/2018: €174.71 million and €175.48 million respectively).

Due to the changes in IFRS (International Financial reporting Standard), starting from 1/01/2019 leases are no longer classified either operating or finance leases and instead, the Group started to recognise operating leases with a term of more than 12 months as Right-of-use assets and corresponding liabilities as liabilities. Consequently, the non-current assets and liabilities increased by €0.70 million on 1/01/2019. See more in note 5 to the financial statements.

Compared to the year end of 2018 the trade receivables, accrued income and prepaid expenses have shown an increase in the amount of €0.65 million to €8.28 million. Increase mainly derives from higher main services and construction services related trade receivables and accrued income, respectively by €0.22 million and €0.38 million. The collectability rate continues to be high at 99.71% level, which is by 0.12% higher than as of June 2018.

Current liabilities have increased by €4.32 million to €17.35 million compared to the year end of 2018, mainly deriving from higher dividend tax related liability and liability to pay 25% of Estonian legal costs according to negative award from ICSID, accompanied by higher current liabilities from the right-of-use assets mentioned above, respectively €3.38 million, €0.67 million and €0.20 million.

Deferred income from connection fees has grown compared to the end of 2018 by €4.27 million to €27.02 million.

Provision for possible third-party claims has not changed compared to the end of 2018, being €19.07 million. More detailed information about the provision is in Note 6 to the financial statements.

The Group's loan balance has decreased slightly, being €93.18 million, as the Company has started to pay back NIB loan. The weighted average interest risk margin for the total loan facility is 0.79%.

The Group has a Total debt to assets level of 61.3%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2018, the total debt to assets ratio was 61.6%.

Cash flow

As of 30/06/2019, the cash position of the Group is strong. At the end of June 2019, the cash balance of the Group stood at €58.89 million, which is 23.4% of the total assets (30/06/2018: €52.15 million, forming 22.1% of the total assets).

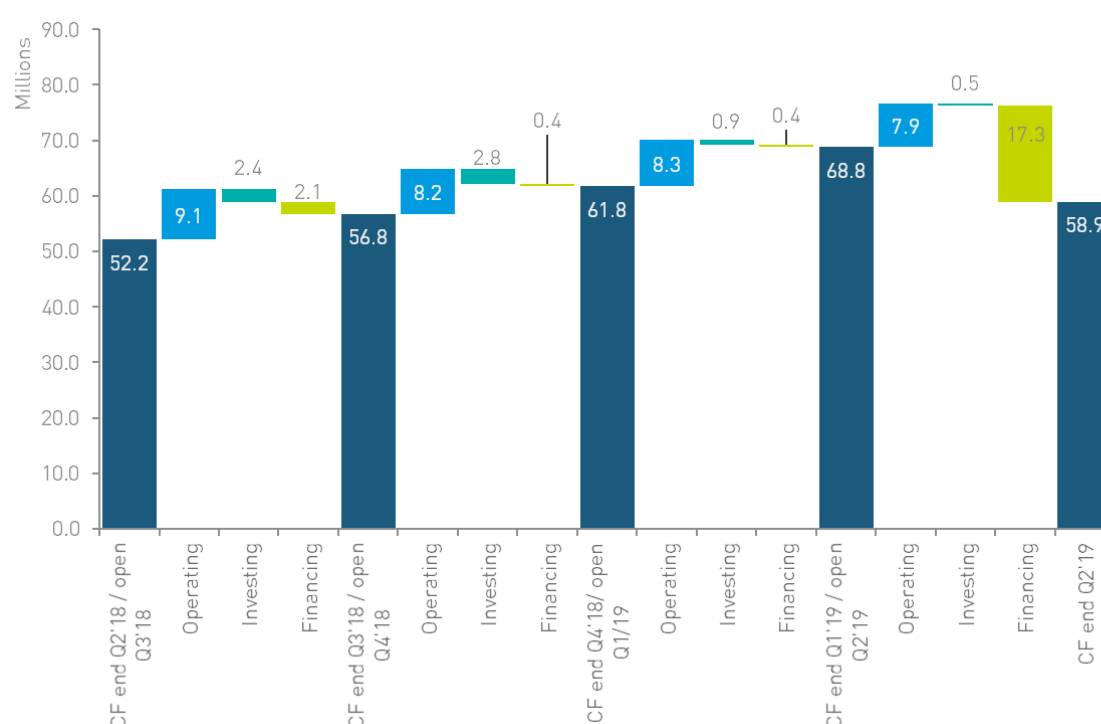
The biggest contribution to the cash flows comes from main operations. During the six months of 2019, the Group generated €16.19 million of cash flows from operating activities, a decrease of

€0.86 million compared to the corresponding period in 2018. Underlying operating profit continues to be the main contributor to operating cash flows.

In the six months of 2019 the result of **net cash flows from investing activities** was a cash outflow of €1.40 million, a decrease of €0.27 million compared to the cash outflow of €1.67 million in the six months of 2018. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by €0.33 million compared to 2018 amounting to €3.09 million.
- The compensations received for the construction of pipelines have been relatively stable year-on-year amounting to €1.67 million.

In the six months of 2019 **cash outflow from financing activities** amounted to €17.66 million, increasing by €9.46 million compared to the same period in 2018. The change was mainly related to higher dividend payment and paying the first instalment of NIB loan, balanced by lower interest payments, respectively -€7.76 million, -€1.82 million and +€0.20 million.



EMPLOYEES

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

We have described our human resource policies. We follow equality principles in selecting and managing people, which translates into providing, when feasible, equal opportunities to everyone. Understanding and appreciating the diversity of our staff, we ensure, that everyone is treated fairly and equally and they have access to the same opportunities as is reasonable and practicable. We

aim to ensure, that no employees are discriminated against due to, but not exclusive to age, gender, religion, cultural or ethnic origin, disability, sexual orientation or marital status.

At the end of the 2nd quarter of 2019, the total number of employees was 321 compared to 319 at the end of the same period in 2018. The full time equivalent (FTE) was 308 in both years of 2019 and 2018. Average number of employees during the six months was respectively 317 in 2019 and 316 in 2018.

By gender, employee allocation was as follows:

	As of 30/06/2019			As of 30/06/2018		
	Wome n	Me n	Tota l	Wome n	Me n	Tota l
Group	94	227	321	95	224	319
Management Team	13	14	27	14	15	29
Executive Team	3	4	7	4	4	8
Management Board	1	2	3	1	2	3
Supervisory Board	1	8	9	1	8	9

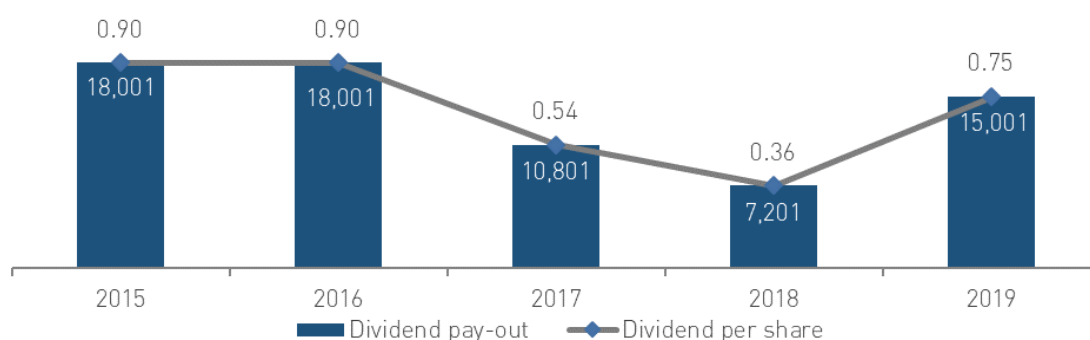
The total salary costs were €2.33 million for the 2nd quarter of 2019, including €0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could be up to €0.09 million should the Council want to replace the current Management Board members.

DIVIDENDS

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

The Company's dividend policy up to 2017 was related to keeping the dividends in real term i.e. dividends amounts have been increased in line with inflation. Every year the Supervisory Council evaluates the proposal of the dividends to be paid out to the shareholders and approves it to be presented to the voting to the Annual General Meeting of shareholders, considering all circumstances. In the Annual General Meeting held on 30/05/2019, the Supervisory Board proposed to pay out €0.75 per A-share and €600 per B-share, which is equal to 62.1% of earnings per share in 2018. The proposal was approved by Annual General Meeting and the dividend pay-out was made on 25/06/2019.

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



SHARE PERFORMANCE

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

As of 30/06/2019, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

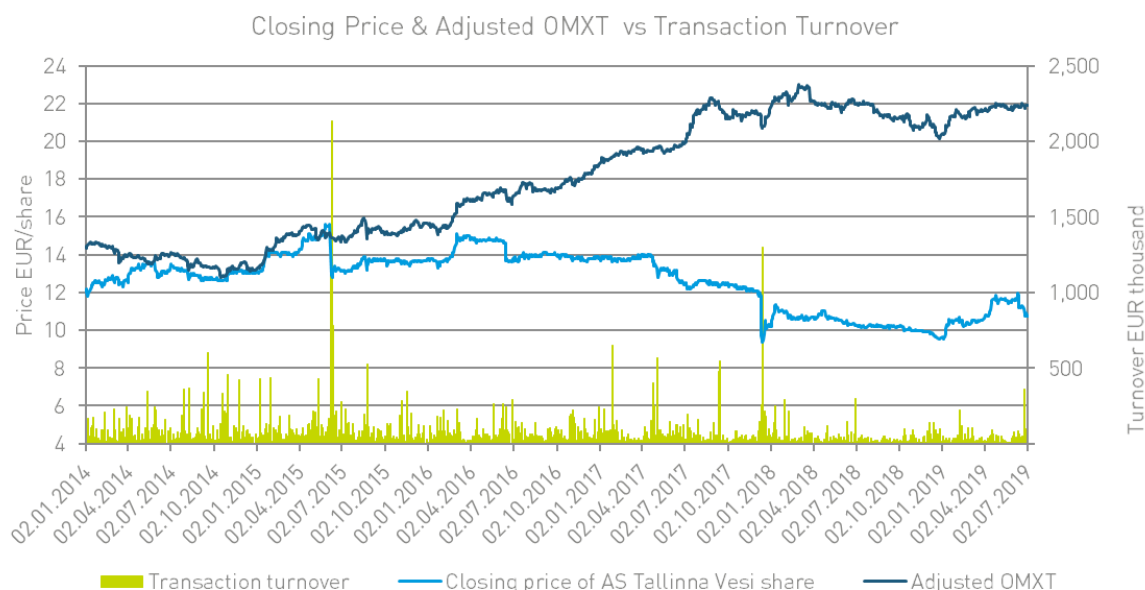
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the six months of 2019 the shareholder structure has been relatively stable compared to the end of 2018. At the end of the 2nd quarter of 2019 the pension funds shareholding has decreased, being 0.99% of the total shares compared to 1.33% at the end of 2018.

As of 30/06/2019, the closing price of AS Tallinna Vesi share was €10.90, which is 2.8% (2018: 4.2%) higher compared to the closing price of €10.60 at the beginning of the quarter. During the 2nd quarter the OMX Tallinn index increased by 1.3% (2018: -0.6%).

In the six months of 2019, 2,047 deals with the Company's shares were concluded (2018: 2,289 deals) during which 336 thousand shares or 1.7% of total shares exchanged their owners (2018: 439 thousand shares or 2.2%).

The turnover of the transactions was €1.07 million lower than in 2018 comparative period, amounting to €3.62 million.



CORPORATE STRUCTURE

As of 30/06/2019, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

CORPORATE GOVERNANCE

SUPERVISORY COUNCIL

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members, who are appointed for two years. Changes in the Supervisory Council members in the 2nd quarter of 2019 were as follows: Mr Allar Jõks' and Priit Rohumaa's terms as a Supervisory Council member were extended until 2/06/2021.

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

More information about the Supervisory Council and committees can be found in the note 15 to the financial statements as well as from the Company's webpage:

[About us > Management board > Supervisory council](#)

[About us > Audit committee](#)

[About us > Principles of governance > Corporate governance report](#)

MANAGEMENT BOARD

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

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

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

Starting from 2 June 2014 there are 3 members of the Management Board of AS Tallinna Vesi: Karl Heino Brookes (Chairman of the Board, with the powers of the Management Board Member until 21/03/2020), Aleksandr Timofejev (with the powers of the Management Board Member until 29/10/2021) and Riina Kãi (with the powers of the Management Board Member until 29/10/2021).

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

[About us > Management board](#)

Additional information:

Karl Heino Brookes

Chairman of the Management Board

+372 62 62 200

karl.brookes@tvesi.ee

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 6 months period of financial year 2019 ended 30 June 2019. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 2019 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a fair presentation of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim report gives a fair presentation of the main events that occurred during the 6 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

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

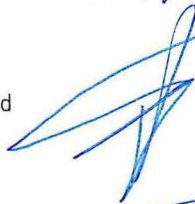
Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 26 July 2019 have been considered in preparing the financial statements.

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

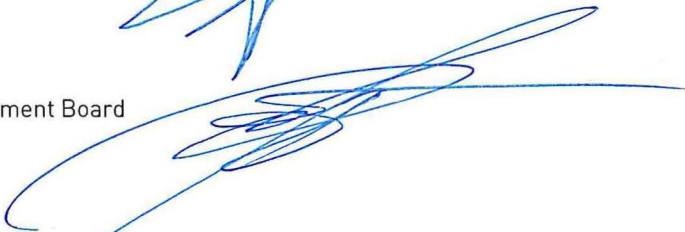
Karl Heino Brookes
Chairman of the Management Board
Chief Executive Officer



Aleksandr Timofejev
Member of the Management Board
Chief Operating Officer



Riina Käi
Member of the Management Board
Chief Financial Officer



26 July 2019

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

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€ thousand)

ASSETS	Note	as of 30 June 2019	as of 31 December 2018
CURRENT ASSETS			
Cash and cash equivalents	2	58 895	52 154
Trade receivables, accrued income and prepaid expenses		8 278	8 151
Inventories		526	441
TOTAL CURRENT ASSETS		67 699	60 746
NON-CURRENT ASSETS			
Property, plant and equipment	3	182 428	174 713
Intangible assets	4	645	771
Right-of-use assets	5	600	0
TOTAL NON-CURRENT ASSETS		183 673	175 484
TOTAL ASSETS		251 372	236 230
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		4 020	478
Trade and other payables		10 124	7 955
Derivatives		247	411
Prepayments		2 961	3 308
TOTAL CURRENT LIABILITIES		17 352	12 152
NON-CURRENT LIABILITIES			
Deferred income from connection fees		27 017	20 475
Borrowings		90 534	95 239
Derivatives		115	181
Provision for possible third party claims	6	19 068	17 522
Other payables		45	47
TOTAL NON-CURRENT LIABILITIES		136 779	133 464
TOTAL LIABILITIES		154 131	145 616
EQUITY			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		59 229	52 602
TOTAL EQUITY		97 241	102 765
TOTAL LIABILITIES AND EQUITY		251 372	236 230

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ thousand)

		Quarter 2		6 months		for the year ended
	Note	2019	2018	2019	2018	31 December
						2018
Revenue	7	16 149	15 979	30 813	30 056	62 780
Cost of goods and services sold	9	-7 358	-7 082	-13 762	-12 839	-28 594
GROSS PROFIT		8 791	8 897	17 051	17 217	34 186
Marketing expenses	9	-96	-94	-208	-206	-386
General administration expenses	9	-2 026	-1 216	-3 288	-2 595	-5 025
Other income (+)/expenses (-)	10	-67	-48	-61	-79	-1 836
OPERATING PROFIT		6 602	7 539	13 494	14 337	26 939
Financial income	11	10	5	18	9	21
Financial expenses	11	-276	-279	-491	-547	-1 010
PROFIT BEFORE TAXES		6 336	7 265	13 021	13 799	25 950
Income tax on dividends	12	-3 544	-1 800	-3 544	-1 800	-1 800
NET PROFIT FOR THE PERIOD		2 792	5 465	9 477	11 999	24 150
COMPREHENSIVE INCOME FOR THE PERIOD		2 792	5 465	9 477	11 999	24 150
Attributable profit to:						
Equity holders of A-shares		2 791	5 464	9 476	11 998	24 149
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	13	0,14	0,27	0,47	0,60	1,21
Earnings per B share (in euros)	13	600	600	600	600	600

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

CONSOLIDATED CASH FLOWS STATEMENT

(€ thousand)

	Note	2019	6 months 2018	for the year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		13 494	14 337	26 939
Adjustment for depreciation/amortisation	3,4,5,9,10	2 969	2 839	5 790
Adjustment for revenues from connection fees	10	-179	-141	-295
Other non-cash adjustments		0	-11	-20
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		-5	-39	-115
Change in current assets involved in operating activities		-663	-427	54
Change in liabilities involved in operating activities		570	484	1 939
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		16 186	17 042	34 292
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-3 093	-3 418	-10 736
Compensations received for construction of pipelines, incl connection fees		1 668	1 676	3 716
Proceeds from sale of property, plant and equipment, and intangible assets		7	67	160
Interest received		15	8	17
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-1 403	-1 667	-6 843
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-509	-710	-1 394
Lease payments		-209	-120	-258
Repayment of loans		-1 818	0	0
Dividends paid	12	-14 965	-7 201	-7 201
Income tax paid on dividends		-156	-163	-1 800
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-17 657	-8 194	-10 653
CHANGE IN CASH AND CASH EQUIVALENTS		-2 874	7 181	16 796
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	61 769	44 973	44 973
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	58 895	52 154	61 769

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ thousand)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2017	12 000	24 734	1 278	47 804	85 816
Dividends	0	0	0	-7 201	-7 201
Comprehensive income for the period	0	0	0	24 150	24 150
as of 31 December 2018	12 000	24 734	1 278	64 753	102 765
as of 31 December 2017	12 000	24 734	1 278	47 804	85 816
Dividends	0	0	0	-7 201	-7 201
Comprehensive income for the period	0	0	0	11 999	11 999
as of 30 June 2018	12 000	24 734	1 278	52 602	90 614
as of 31 December 2018	12 000	24 734	1 278	64 753	102 765
Dividends	0	0	0	-15 001	-15 001
Comprehensive income for the period	0	0	0	9 477	9 477
as of 30 June 2019	12 000	24 734	1 278	59 229	97 241

Notes to the consolidated financial statements on pages 6 to 15 form an integral part of the condensed financial statements.

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

(€ thousand)

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 June		as of 31 December
	2019	2018	2018
Cash in hand and in bank	43 895	52 154	46 769
Short-term deposits	15 000	0	15 000
Total cash and cash equivalents	58 895	52 154	61 769

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

(€ thousand)

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Total property, plant and equipment
as of 31 December 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 1 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
Transactions in the period 1 January 2019 - 30 June 2019						
Acquisition in book value	0	0	0	0	6 017	6 017
Write off and sale of property, plant and equipment in residual value	0	0	-2	0	0	-2
Reclassification	42	6 134	435	10	-6 623	-2
Depreciation	-145	-1 588	-994	-43	0	-2 770
as of 30 June 2019						
Acquisition cost	26 542	221 100	49 144	1 150	2 593	300 529
Accumulated depreciation	-7 259	-72 488	-37 457	-897	0	-118 101
Net book value	19 283	148 612	11 687	253	2 593	182 428

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

As of 30 June 2019 the book value of the assets (Machinery and equipment) leased under financial lease is €907k (31 December 2018: €878k).

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

(€ thousand)

NOTE 4. INTANGIBLE ASSETS

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2017			
Acquisition cost	5 247	390	5 637
Accumulated depreciation	-4 826	0	-4 826
Net book value	421	390	811
Transactions in the period 1 January 2018 - 31 December 2018			
Acquisition in book value	0	80	80
Reclassification	420	-420	0
Depreciation	-226	0	-226
as of 31 December 2018			
Acquisition cost	4 206	50	4 256
Accumulated depreciation	-3 591	0	-3 591
Net book value	615	50	665
Transactions in the period 1 January 2019 - 30 June 2019			
Acquisition in book value	0	78	78
Reclassification	72	-72	0
Depreciation	-98	0	-98
as of 31 30 June 2019			
Acquisition cost	4 278	56	4 334
Accumulated depreciation	-3 689	0	-3 689
Net book value	589	56	645

NOTE 5. RIGHT-OF-USE ASSETS AND LIABILITIES

Since 1 January 2019 the Group recognises leases according to the standard IFRS 16 Leases. IFRS 16 replaces the previous standard IAS 17 Leases and is mandatory from the beginning of 2019. IFRS 16 introduces a new single lessee accounting model and therefore, leases are no longer classified either operating or finance leases as it was required according to IAS 17. As a result of the change in the accounting policies, lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Furthermore, a lessee is required to recognise depreciation of lease assets separately from interest on lease liabilities in the income statement.

On 1 January 2019 the Group applied a simplified transition approach and did not restate comparative amounts for the year prior to the first adoption. Lease commitments existing at the date of implementation, which had so far been recognised as operating leases, were 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 were measured at the amount of the lease liability on adoption. Consequently, the liabilities and assets of the Group increased by €702k on 1 January 2019.

Right-of-use assets

	Machinery and equipment
Transactions in the period 1 January 2019 - 30 June 2019	
Reclassification 1 January 2019	702
Acquisition in book value	13
Depreciation	-101
Termination of contracts	-14
as of 30 June 2019	
Acquisition cost	696
Accumulated depreciation	-96
Net book value	600

Lease liability for right-of-use assets

Transactions in the period 1 January 2019 - 30 June 2019	
Reclassification 1 January 2019	702
Additions	13
Repayments of leases	-100
Termination of contracts	-14
as of 30 June 2019	
Current portion	182
Non-current portion	419
Remaining liability	601

As a result of adopting new accounting principles, EBITDA has increased by €103k for the first 6 months of 2019, as lease payments are recognised as depreciation of the right-of-use assets and as interest on the lease liabilities that are excluded from EBITDA. According to the previous standard IAS 17, lease payments were included in Cost of Goods/Services Sold or Marketing or Administrative expenses that are included in EBITDA.

Operating cash flows increased and financing cash flows decreased by €103k, as repayments of the lease liabilities are classified as cash flows from financing activities. The net profit decreased by €1k for the first 6 months of 2019 as a result of adopting new accounting principles.

NOTE 6. PROVISION FOR POSSIBLE THIRD PARTY CLAIMS

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

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 4 December 2018, the Competition Authority did not approve the tariff application, the Company has submitted. On 14 March 2019 the Company challenged the Competition Authority's decision in the Tallinn Administrative Court. The Company applied for the allowed revenue of €44.5 million in the City of Saue and Tallinn, whilst the CA considered appropriate €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 process is ongoing.

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 €47.7 million (31 December 2018: €47.7 million). 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 €19.1 million (31 December 2018: €19.1 million). As of 30 June 2019 no official claims have been submitted. The Company will monitor the situation and thus may adjust the relevant provision on the rolling basis.

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

(€ thousand)

NOTE 7. REVENUE

	Quarter 2		6 months		for the year ended
	2019	2018	2019	2018	31 December 2018
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	13 445	13 349	26 477	26 212	52 528
Private clients, incl:	6 531	6 427	13 021	12 855	25 765
Water supply service	3 595	3 547	7 161	7 079	14 179
Wastewater disposal service	2 936	2 880	5 860	5 776	11 586
Corporate clients, incl:	5 375	5 525	10 376	10 667	21 246
Water supply service	3 011	3 083	5 745	5 867	11 733
Wastewater disposal service	2 364	2 442	4 631	4 800	9 513
Outside service area clients, incl:	1 264	1 181	2 611	2 293	4 680
Water supply service	431	370	816	704	1 465
Wastewater disposal service	770	733	1 585	1 421	2 893
Storm water disposal service	63	78	210	168	322
Over pollution fee	275	216	469	397	837
Storm water treatment and disposal service and fire hydrants service	1 017	881	1 961	1 677	3 562
Construction service, design and asphalting	1 457	1 569	2 016	1 853	6 000
Other works and services	230	180	359	314	690
Total revenue	16 149	15 979	30 813	30 056	62 780

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

NOTE 8. STAFF COSTS

	Quarter 2		6 months		for the year ended
	2019	2018	2019	2018	31 December 2018
Salaries and wages	-1 741	-1 670	-3 443	-3 349	-6 479
Social security and unemployment insurance tax	-589	-565	-1 164	-1 132	-2 190
Staff costs total	-2 330	-2 235	-4 607	-4 481	-8 669
Average number of employees during the reporting period	320	318	317	316	316

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

(€ thousand)

NOTE 9. COST OF GOODS AND SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

	Quarter 2		6 months		for the year ended
	2019	2018	2019	2018	31 December 2018
Cost of goods and services sold					
Water abstraction charges	-303	-303	-594	-594	-1 187
Chemicals	-429	-346	-834	-781	-1 744
Electricity	-817	-698	-1 821	-1 457	-2 849
Pollution tax	-226	-233	-594	-511	-963
Staff costs	-1 704	-1 631	-3 349	-3 224	-6 283
Depreciation and amortization	-1 297	-1 268	-2 638	-2 551	-5 177
Construction service, design and asphalting	-1 246	-1 359	-1 690	-1 600	-5 240
Other costs	-1 336	-1 244	-2 242	-2 121	-5 151
Total cost of goods and services sold	-7 358	-7 082	-13 762	-12 839	-28 594
Marketing expenses					
Staff costs	-81	-77	-168	-172	-321
Depreciation and amortization	0	0	0	0	-1
Other marketing expenses	-15	-17	-40	-34	-64
Total marketing expenses	-96	-94	-208	-206	-386
Administrative expenses					
Staff costs	-545	-527	-1 090	-1 085	-2 065
Depreciation and amortization	-83	-82	-165	-159	-342
Other general administration expenses	-1 398	-607	-2 033	-1 351	-2 618
Total administrative expenses	-2 026	-1 216	-3 288	-2 595	-5 025

NOTE 10. OTHER INCOME/EXPENSES

	Quarter 2		6 months		for the year ended
	2019	2018	2019	2018	31 December 2018
Connection fees	93	71	179	141	295
Depreciation of single connections	-86	-65	-166	-129	-270
Doubtful receivables expenses (-)/ expense reduction (+)	-10	-20	-7	6	-30
Provision for possible third party claims (Note 6)	0	0	0	0	-1 546
Other income (+)/expenses (-)	-64	-34	-67	-97	-285
Total other income / expenses	-67	-48	-61	-79	-1 836

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

(€ thousand)

NOTE 11. FINANCIAL INCOME AND EXPENSES

	Quarter 2		6 months		for the year ended
	2019	2018	2019	2018	31 December 2018
Interest income	10	5	18	9	21
Interest expense, loan	-190	-189	-378	-377	-752
Interest expense, swap	-59	-162	-121	-323	-614
Increase (+)/decrease (-) of fair value of swap	-22	78	18	164	376
Other financial income (+)/expenses (-)	-5	-6	-10	-11	-20
Total financial income / expenses	-266	-274	-473	-538	-989

NOTE 12. DIVIDENDS

	Quarter 2		6 months		for the year ended
	2019	2018	2019	2018	31 December 2018
Dividends declared during the period	15 001	7 201	15 001	7 201	7 201
Dividends paid during the period	14 965	7 201	14 965	7 201	7 201
Withheld income tax on dividends	36	0	36	0	0
Income tax on dividends paid	3 544	1 800	3 544	1 800	1 800
Dividends declared per shares:					
Dividends per A-share (in euros)	0,75	0,36	0,75	0,36	0,36
Dividends per B-share (in euros)	600	600	600	600	600

Dividend income tax rate in 2019 is 20/80, but for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the rate of 20/80, the income tax rate 14/86 is applied. When calculating the average dividend payment of the three preceding years, 2018 is the first year to be taken into account. In addition, for dividends payable to natural persons, income tax at a rate of 7% is withheld on dividends taxed with a lower income tax rate.

Dividend income tax rate in 2018 was 20/80.

NOTE 13. EARNINGS PER SHARE

	Quarter 2		6 months		for the year ended
	2019	2018	2019	2018	31 December 2018
Net profit minus B-share preferred dividend rights	2 791	5 464	9 476	11 998	24 149
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,14	0,27	0,47	0,60	1,21
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 June 2019 and 2018 and 31 December 2018 was equal to earnings per share figures stated above.

AS TALLINNA VESI
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 6 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 30 JUNE 2019

(€ thousand)

NOTE 14. RELATED PARTIES

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

Shareholders having the significant influence

	as of 30 June		as of 31 December	
Balances recorded on the statement of financial position of the Group	2019	2018	2018	
Accounts receivable	336	3	221	
Trade and other payables	179	190	179	
Transactions	Quarter 2 2019	2018	6 months 2019	for the year ended 31 December 2018
Revenue	1 017	881	1 961	3 562
services	249	257	492	1 009
Fees for Management Board (excluding social tax)	40	43	116	115
Supervisory Board fees (excluding social tax)	8	8	16	16

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

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

The potential salary liability would be up to €91k (excluding social tax) if the Supervisory Board would replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

As of 30 June 2019 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 June and 31 December 2018: Riina Käi owned 100 shares).

NOTE 15. LIST OF SUPERVISORY BOARD MEMBERS

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

Introduction of Supervisory Board members is published at company's web page.

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