AS TALLINNA VESI

Consolidated Interim Report for the 4th quarter of 2019

31 January 2020

Currency	Thousand euros
Start of reporting period	1 January 2019
End of reporting period	31 December 2019
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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Chairman´s summary

The 4th quarter of 2019 was successful for Tallinna Vesi, with respect to both operational and financial performance. Tallinna Vesi´s sales decreased slightly year-on-year, but regardless of the new lower tariff being applied from December 2019, the Company´s operating and net profits increased compared to the 4th quarter of 2018. The operational performance once again reflects the high standards achieved in the supply of pure drinking water to the inhabitants, treatment of wastewater and the maintenance of the water and sewerage networks and good customer service.

Solid financial performance

In the 4th quarter of 2019, the Company's sales revenues were 0.7% lower year-on-year. Sales to domestic customers decreased by 8.2% and sales to corporate customers decreased by 3.2% in the 4th quarter. However, the sales related to construction services increased considerably by 17.6% and sales to customers outside the main service area increased by 11.4%.

The gross profit of the 4th quarter of 2019 was €7.98 million, showing a decrease of 4.7%, which was mainly related to lower water and wastewater revenues from the main service area, affected mostly by new tariffs. The operating profit of Tallinna Vesi was €11.06 million and net profit €10.95 million, mainly positively impacted by the change in the provision formed for the possible third-party claims.

Reliable water supply and wastewater service

Tallinna Vesi has demonstrated excellent operational performance throughout 2019. The quality of drinking water in Tallinn remains high, and water samples taken from customers' taps in 2019 were 99% compliant with all requirements. Even though compliance remains very high, the result was somewhat lower in comparison with the 2018 figure, the reason being attributable to the new analytical method with higher sensitivity. The customer survey carried out in the 4th quarter of 2019 confirmed that the level of people who drink tap water keeps increasing – in 2019 the result was 90%.

In order to ensure the reliability of service to our consumers, we made several significant investments in the water and wastewater networks during 2019. The examples of larger projects include the reconstruction of network in Gonsiori Street, Reidi tee and Lennujaama tee.

Adding to the high quality of drinking water, the percentage of leakage remained at a very low level. In the 4th quarter of 2019, water losses were 14.3% in comparison with 13.1% in the same period of 2018. The annual result, however, improved from 13.7% in 2018 to 12.97% in 2019. Maintaining a low level of leakages is important in preserving raw water and is a testament to our effectiveness in managing and investing in the wider water network and infrastructure.

Compliance of wastewater treatment with the environmental requirements is a key indicator reflecting our efforts to minimise the environmental impact, resulting from wastewater incidents. Throughout 2019, our final treated effluent was 100% compliant with the parameters in our water permit.

Raising environmental awareness and supporting the community

As in previous years, close cooperation with the community has continued throughout 2019, when we contributed to the environmental education of children, youngsters and adults. We held numerous water seminars to nearly a thousand children in kindergartens and schools, and hosted close to 60 tours at our water and wastewater treatment plants.

In 2019, we opened new public water taps in Löwenruh Park and Danish King´s Garden in the Old Town as well as in the T1 Mall of Tallinn. Tallinna Vesi achieved the highest recognition in one category in the Estonian Waterworks Association´s annual awards event, winning the first prize in the category “Water deed of the year”. The award was given to Tallinna Vesi for consistent work in supporting public community events with free drinking water.

Tariff update

In the 4th quarter of 2019, Competition Authority approved the new water tariffs on the basis of Tallinna Vesi’s tariff application. Tallinna Vesi started applying the new tariffs from 01/12/2019 onwards.

Linked to the above, all disputes between the Tallinna Vesi and the Competition Authority were concluded in 2019 and Tallinna Vesi will remain focused on providing an excellent service to our customers and on adapting to the new regulation principles.

OPERATIONAL INDICATORS FOR 2019

Indicator	Unit	2019	2018	2017
Compliance of water quality at the customers' tap	%	99.0	99.9	99.9
Water loss in the water distribution network	%	13.0	13.7	13.8
Average duration of water interruptions per property in hours	h	2.99	3.27	3.14
Number of sewer blockages	No	532	603	654
Number of sewer bursts	No	103	88	135
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Number of customer complaints*	No	167	158	36
Number of customer contacts regarding water quality	No	508	258	219
Number of customer contacts regarding water pressure	No	478	439	298
Number of customer contacts regarding blockages and discharge of storm water	No	1,047	1,043	1,111
Responding written customer contacts within at least 2 workdays	%	100.0	100.0	99.9
Number of failed promises	No	141	33	5
Notification of unplanned water interruptions at least 1 h before the interruption	%	96.2	95.2	98.2

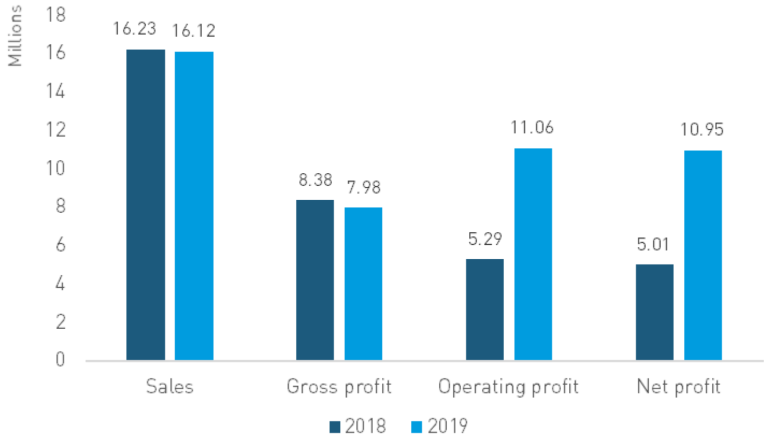
**Until 2018, this figure included only the customer complaints received in writing. The number for 2018 and 2019 includes the complaints received both in writing and by phone.*

Karl Heino Brookes

Chairman of the Management Board

FINANCIAL HIGHLIGHTS FOR THE 4th QUARTER OF 2019

The Group's sales revenues during the 4th quarter of 2019 were €16.12 million, being down by 0.7% or €0.11 million compared to the same period in 2018.



The gross profit in the 4th quarter of 2019 was €7.98 million, showing a decrease of 4.7% or €0.40 million. Decrease in gross profit was related to lower water and wastewater revenues from private and commercial customers within the service area affected been mostly affected by new tariffs from 1/12/2019, accompanied by higher electricity, staff and depreciation costs. The change from main service area revenues and costs were partly balanced by higher revenues from overpollution charges, outside service areas water services and main service area stormwater, which was accompanied by lower other costs of goods sold and chemicals costs.

The operating profit was €11.06 million, showing an increase of 109.1% or €5.77 million. In addition to above-mentioned changes in gross profit, the operating profit was impacted by positive change in the provision formed for the possible third-party claims compared to negative change in the comparative period of 2018 and were partly balanced by higher net other expenses. The operating profit for the 4th quarter of 2019 and 2018 without the impact resulted from the change of provision for the possible third-party claims was €6.44 million and €6.84 million, being lower by 5.9% or €0.40 million year-on-year.

The net profit for the 4th quarter of 2019 was €10.95 million, showing an increase by 118.5% or €5.94 million. The net profit was mainly impacted by above-mentioned changes in the operating profit, accompanied by lower net financial expenses. The changes in the financial expenses were influenced by higher positive change in the fair value of swap contracts year-on-year and by lower interest expenses. The net profit for the 4th quarter of 2019 and 2018 without the impact resulted from the change of the fair value of swap contracts and the change of provision for the possible third-party claims was €6.23 million and €6.53 million respectively, being lower by 4.6% or €0.30 million year-on-year.

MAIN FINANCIAL INDICATORS

€ million, except key ratios	4th quarter 2019	2018	2017	Change 2019/ 2018	12 months 2019	2018	2017	Change 2019/ 2018
Sales	16.12	16.23	15.97	-0.7%	63.42	62.78	59.82	1.0%
Gross profit	7.98	8.38	8.79	-4.7%	33.95	34.19	34.09	-0.7%
Gross profit margin %	49.49	51.61	55.04	-4.1%	53.53	54.45	56.99	-1.7%
Operating profit before depreciation and amortisation	12.72	6.82	-8.73	86.5%	38.18	32.73	17.04	16.7%
Operating profit before depreciation and amortisation margin %	78.86	42.01	-54.62	87.7%	60.21	52.13	28.49	15.5%
Operating profit	11.06	5.29	-10.22	109.1 %	32.08	26.94	10.87	19.1%
Operating profit - main business	10.82	5.07	-10.40	113.6 %	31.19	26.22	10.25	18.9%
Operating profit margin %	68.61	32.61	-64.00	110.4 %	50.57	42.91	18.16	17.9%
Profit before taxes	10.95	5.01	-10.44	118.5 %	31.30	25.95	9.92	20.6%
Profit before taxes margin %	67.93	30.88	-65.36	120.0 %	49.36	41.33	16.59	19.4%
Net profit	10.95	5.01	-10.44	118.5 %	27.76	24.15	7.22	14.9%
Net profit margin %	67.93	30.88	-65.36	120.0 %	43.77	38.47	12.07	13.8%
ROA %	4.21	2.03	-4.64	107.5 %	10.83	10.10	3.27	7.2%
Debt to total capital employed %	56.05	58.85	62.43	-4.8%	56.05	58.85	62.43	-4.8%
ROE %	9.95	5.00	-11.47	99.1%	25.43	25.61	8.24	-0.7%
Current ratio	5.48	5.36	5.51	2.8%	5.48	5.36	5.51	2.2%
Quick ratio	5.44	5.33	5.46	2.4%	5.44	5.33	5.46	2.1%
Investments into fixed assets	5.33	3.04	3.58	75.2%	16.09	10.40	9.47	54.8%
Payout ratio %	na	62.11	99.72	0.0%	na	62.11	99.72	0.0%

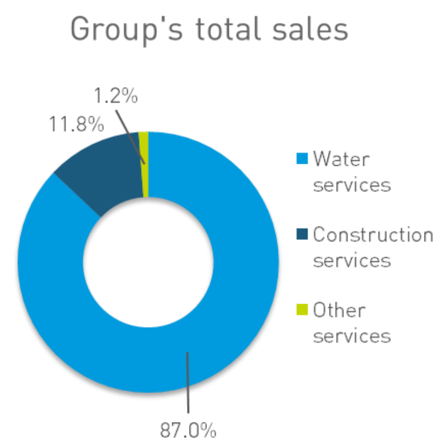
Gross profit margin – Gross profit / Net sales
Operating profit before depreciation and amortisation – Operating profit + depreciation and amortisation
Operating profit before depreciation and amortisation margin – Operating profit before depreciation and amortisation / Net sales
Operating profit margin – 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 services related activities, excl. connections profit and government grants, construction services, doubtful debt

FINANCIAL RESULTS FOR THE 4th QUARTER OF 2019

Statement of comprehensive income

SALES

As on 18/10/2019 the CA approved the tariffs of the Company and new tariffs were applicable starting from 1/12/2019, the changes in the 4th quarter of 2019 from main activities revenues, i.e. from sales of water and wastewater services, were mainly driven by lower tariffs from main service area, accompanied by changes in consumption with no considerable seasonality. Domestic tariffs in the main services area decreased on average around 27% and commercial tariffs 15%. In the future, the Company does not expect significant changes in the consumption as there has been incremental increase in consumption in the past.



In the 4th quarter of 2019 the **Group's total sales** were €16.12 million, showing a decrease by 0.7% or €0.11 million year-on-year. 87.0% of sales comprise of water services within and outside of the service area, 11.8% from construction services and 1.2% from other services. The construction services sales are more seasonal, and the Company continues to seek possibilities to keep and to grow these services revenues.

€ thousand	4th quarter 2019	2018	2017	Variance 2019/2018 €	%
Water supply service	3,083	3,600	3,532	-517	-14.4%
Wastewater disposal service	2,966	2,987	2,885	-21	-0.7%
Total from private clients	6,049	6,587	6,417	-538	-8.2%
Water supply service	2,728	2,898	2,787	-170	-5.9%
Wastewater disposal service	2,403	2,401	2,363	2	0.1%
Total from corporate clients	5,131	5,299	5,150	-168	-3.2%
Water supply service	392	380	342	12	3.2%
Wastewater disposal service	841	749	752	92	12.3%
Storm water disposal service	148	111	232	37	33.3%
Total from outside service area clients	1,381	1,240	1,326	141	11.4%
Storm water treatment and disposal and fire hydrants service	1,153	1,078	1,200	75	7.0%
Overpollution charges and discharging	318	227	233	91	40.1%
Total from water services	14,032	14,431	14,326	-399	-2.8%
Construction services	1,899	1,615	1,496	284	17.6%
Other services	191	183	152	8	4.4%
TOTAL REVENUE	**16,122**	**16,229**	**15,974**	**-107**	**-0.7%**

Sales from water services were €14.03 million, showing a 2.8% or €0.40 million decrease compared to the 4th quarter of 2018, resulting from the changes in the tariff and sales volumes as described below:

- There has been a decrease in **private customers'** revenues of 8.2% to €6.05 million, driven mainly by on average 27% lower tariffs from 1/12/2019. The decrease from tariff was accompanied by lower customer consumption volumes from individual houses, balanced partly by higher customer consumption volumes from apartment blocks, which is our biggest private customer group. The total impact from change of tariffs was -€0.61 million and from consumption +€0.07 million.
- Sales to **corporate customers** within the service area decreased by 3.2% to €5.13 million, driven also mainly by on average 15% lower tariffs from 1/12/2019. The decrease from tariff was partly balanced by higher consumption in the leisure segment, impacted by two new and one reopened leisure centres in Tallinn. The total impact from change of tariffs was -€0.25 million and from consumption +€0.08 million.
- Sales to **customers outside the main service area** increased by 11.4% to €1.38 million. It was impacted by an increase of all services, caused mainly by higher wastewater and storm water disposal from Rae, Saue and Kiili areas and water supply to Maardu area. The total impact from change of tariffs was -€0.04 million and from consumption +€0.18 million.
- **Sales from the operation and maintenance of the main service area storm water and fire hydrant system** amounted to €1.15 million, showing an increase of 7.0% or €0.08 million compared to the same period in 2018, driven mainly by 54.3% higher storm water volumes, balanced by lower cost per stormwater m^3.
- **Overpollution charges and discharging** revenues received have increased by 40.1% to €0.32 million.

Sales of construction services were €1.90 million, increasing by 17.6% or €0.28 million year-on-year. The increase was mainly related to higher pipe construction services revenues, accompanied by higher road construction revenues. The increase came from some big projects won by the Company in Tallinn and other parts of Estonia.

COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

The cost of goods and services sold amounted to €8.14 million in the 4th quarter of 2019, increasing by 3.7% or €0.29 million compared to the equivalent period in 2018. The increase was influenced by higher electricity, staff and construction services related costs, accompanied by higher pollution tax expenses and depreciation. It was partly balanced by lower chemicals costs and other costs of goods and services sold.

	4th quarter			Variance 2019/2018	
€ thousand	**2019**	**2018**	**2017**	**€**	**%**
Water abstraction charges	-314	-294	-295	-20	-6.8%
Chemicals	-408	-495	-401	87	17.6%
Electricity	-972	-767	-839	-205	-26.7%
Pollution tax	-302	-248	-374	-54	-21.8%
Total direct production costs	-1,996	-1,804	-1,909	-192	-10.6%
Staff costs	-1,707	-1,606	-1,596	-101	-6.3%
Depreciation and amortisation	-1,470	-1,366	-1,351	-104	-7.6%
Construction services	-1,655	-1,370	-1,319	-285	-20.8%
Other costs of goods/services sold	-1,315	-1,708	-1,007	393	23.0%
Other costs of goods/services sold total	-6,147	-6,050	-5,273	-97	-1.6%
Total cost of goods/services sold	**-8,143**	**-7,854**	**-7,182**	**-289**	**-3.7%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €2.00 million, showing a 10.6% or €0.19 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:

- **Water abstraction charges** increased by 6.8% to €0.31 million, driven mainly by 7.4% higher abstracted water volumes to water treatment process.
- **Chemicals** costs decreased by 17.6% to €0.41 million, driven mainly by 44.5% lower price of methanol, accompanied by lower usage of methanol in wastewater treatment to remove Nitrogen, worth respectively +€0.07 million and +€0.07 million. Lower costs from wastewater treatment were partly balanced by higher usage of coagulant in water treatment process and higher prices of different other chemicals, worth respectively -€0.02 million and -€0.03 million.
- **Electricity costs** increased by 26.7% to €0.97 million, driven mainly by on average 26.4% higher average price of electricity and 26.4% higher wastewater volumes, balanced partly by lower usage of electricity per m^3 in water treatment process and in surface water, worth respectively -€0.19 million, -€0.03 million, +€0.04 million and +€0.02 million.
- **Pollution tax expenses** increased by 21.8% to €0.30 million, driven mainly by 26.4% higher wastewater volumes.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to €6.15 million, having increased by 1.6% or €0.10 million. The increase came from costs related to construction services and staff costs and depreciation, while other costs of goods and services sold decreased by following reasons:

- **Staff costs** increased by 6.3% to €1.71 million. It was driven by higher number of staff (FTE 13 employees higher than in 4th quarter of 2018) and change of salaries from the beginning of the year for all employees by CPI, balanced partly by lower costs from reviewed bonus reserve at the end of 4th quarter of 2019.
- **Depreciation** costs increased by 7.6% to €1.47 million, being mainly impacted by change of recognising the leases according to accounting standard IFRS 16 Leases, mentioned in note 3 to the financial statements, accompanied by higher accelerated depreciation costs.
- **Construction services costs** increased by 20.8% to €1.66 million, mainly due to higher construction services revenues mentioned earlier.
- **Other costs of goods/services sold** decreased by 23.0% to €1.32 million, mainly because of lower assets maintenance and repairs costs, balanced by higher sludge disposal costs, worth respectively by +€0.35 million and -€0.04 million.

As a result of all above the **Group's gross profit** for the 4th quarter of 2019 was €7.98 million, showing a decrease of 4.7% or €0.40 million, compared to the gross profit of €8.38 million for the comparative period of 2018.

ADMINISTRATIVE AND MARKETING EXPENSES, OTHER INCOME AND EXPENSES

Administrative and marketing expenses amounted to €1.37 million, having decreased by 3.4% or €0.05 million. The lower costs were mainly related to €0.05 million decrease in legal costs.

Other income and expenses amounted to net income of €4.46 million, compared to net expense of €1.66 million in comparative period. The change was mostly impacted by €4.63 million positive change in provision for third party claims compared to negative change of €1.55 million in 2018, balanced by lower profit from sale of some fixed assets. The provision takes into account three years of possible difference in the prices between the tariffs approved by the City of Tallinn in 2010 and the best understanding of CA methodology. The estimation of 40% of the full amount has not been changed since 2018. Still the Company does not consider itself liable to customers for any claims related to the tariffs applied until the new tariffs were approved by the CA. Additional information in Note 5 to the abbreviated accounts.

OPERATING PROFIT

As a result of the factors listed above the Group's **operating profit** for the 4th quarter of 2019 amounted to €11.06 million, being 109.1% or €5.77 million higher than in the corresponding period of 2018. The Group's operating profit from main business was €10.82 million, being 113.6% or €5.76 million higher compared to 2018. Eliminating the effect of the change of provision for the possible third-party claims the operating profit for the 4th quarter of 2019 and 2018 would have been €6.44 million and €6.84 million, being lower by 5.9% or €0.40 million year-on-year.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of €0.11 million, compared to net expense of €0.28 million in the 4th quarter of 2018. The decrease was impacted by higher positive change in the fair value of the swap contracts year-on-year, accompanied by lower interest costs, worth respectively €0.07 million and €0.11 million. Lower interest costs were related to Swap contract, which ended in November 2018 and lower interest costs from new NIB loan.

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 €0.22 million. Effective interest rate of loans (incl. swap interests) in the 4th quarter of 2019 was 0.90%, amounting to interest costs of €0.21 million, compared to the effective interest rate of 1.31% and the interest costs of €0.32 million in the 4th quarter of 2018.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's **profit before taxes and net profit** for the 4th quarter of 2019 was €10.95 million, being 118.5% or €5.94 million higher than for the comparative period of 2018. The increase in net profit was mainly impacted by changes in operating profit, accompanied by lower net financial expenses mentioned above, worth respectively €5.77 million and €0.17 million. Eliminating the effects of the change of the fair value of swap contracts and the change of provision for the possible third-party claims the Group's net profit for the 4th quarter of 2019 and 2018 would have been €6.23 million and €6.53 million respectively, showing a decrease of 4.6% or €0.30 million year-on-year.

FINANCIAL RESULTS FOR THE TWELVE MONTHS OF 2019

Statement of comprehensive income

SALES

During the twelve months of 2019 the **Group's total sales** were €63.42 million, showing an increase by 1.0% or €0.64 million year-on-year. **Sales from water services** for twelve months of 2019 were 56.87 million, increasing 1.2% or €0.65 million year-on-year. 89.7% of sales comprise of sales of water services within and outside of the service area, 9.4% from construction services and 0.9% from other services.

	12 months			Variance 2019/2018	
€ thousand	**2019**	**2018**	**2017**	**€**	**%**
Water supply service	13,781	14,179	13,872	-398	-2.8%
Wastewater disposal service	11,719	11,586	11,353	133	1.1%
Total from private clients	25,500	25,765	25,225	-265	-1.0%
Water supply service	11,482	11,733	11,210	-251	-2.1%
Wastewater disposal service	9,317	9,513	9,197	-196	-2.1%
Total from corporate clients	20,799	21,246	20,407	-447	-2.1%
Water supply service	1,622	1,465	1,346	157	10.7%
Wastewater disposal service	3,193	2,893	2,833	300	10.4%
Storm water disposal service	426	322	499	104	32.3%
Total from outside service area clients	5,241	4,680	4,678	561	12.0%
Storm water treatment and disposal and fire hydrants service	4,002	3,562	3,668	440	12.4%
Overpollution charges and discharging	1,324	960	1,042	364	37.9%
Total from water services	56,866	56,213	55,020	653	1.2%
Construction services	5,960	5,950	4,219	10	0.2%
Other services	597	617	576	-20	-3.2%
TOTAL REVENUE	**63,423**	**62,780**	**59,815**	**643**	**1.0%**

During the twelve months of 2019 there has been a decrease in **sales to private customers** by 1.0% to €25.50 million and to **corporate customers** within the service area by 2.1% to €20.80 million. The decrease in main service area sales is mainly related to change of water services tariffs from 1/12/2019, balanced partly by changes in consumption, worth respectively -€0.86 million and +€0.15 million. Higher sales in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group, and were partly balanced by lower volumes from individual houses, worth in total +€0.34 million. 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 4th quarter results, worth in total -€0.19 million. Sales to **customers outside the main service area** increased by 12.0% to €5.24 million, being impacted by an increase in the sales of all services by reasons mentioned in 4th quarter results, accompanied by higher water volumes to Rae area because of Tallinn prison moving out to

Rae municipality and extraordinary water supply to Viimsi area. **Sales from the operation and maintenance of the main service area storm water and fire hydrant system** in the twelve months of 2019 amounted to €4.00 million, showing an increase of 12.4% or €0.44 million year-on-year, driven mainly by 26.4% higher storm water volumes, balanced partly by lower cost per m^3. **Overpollution charges and discharging** revenues received have increased by 37.9% to €1.32 million.

COST OF GOODS AND SERVICES SOLD AND GROSS AND OPERATING PROFITS

	12 months			Variance 2019/2018	
€ thousand	**2019**	**2018**	**2017**	**€**	**%**
Water abstraction charges	-1,219	-1,187	-1,168	-32	-2.7%
Chemicals	-1,664	-1,744	-1,501	80	4.6%
Electricity	-3,566	-2,849	-3,193	-717	-25.2%
Pollution tax	-1,089	-963	-1,100	-126	-13.1%
Total direct production costs	-7,538	-6,743	-6,962	-795	-11.8%
Staff costs	-6,602	-6,283	-5,784	-319	-5.1%
Depreciation and amortisation	-5,420	-5,177	-5,577	-243	-4.7%
Construction services	-5,096	-5,204	-3,584	108	2.1%
Other costs of goods/services sold	-4,814	-5,187	-3,818	373	7.2%
Other costs of goods/services sold total	-21,932	-21,851	-18,763	-81	-0.4%
Total cost of goods/services sold	**-29,470**	**-28,594**	**-25,725**	**-876**	**-3.1%**

During the twelve months of 2019 **the cost of goods sold** amounted to €29.47 million, increasing by 3.1% or €0.88 million compared to the equivalent period in 2018. **Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €7.54 million, showing a 11.8% or €0.80 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:

- **Water abstraction charges** increased by 2.7% to €1.22 million, driven mainly by 2.9% higher abstracted water volumes into water treatment process.
- **Chemicals** costs decreased by 4.6% to €1.66 million, driven mainly by 25.1% lower price of methanol, balanced by higher prices of different other chemicals, worth respectively +€0.14 million and -€0.08 million.
- **Electricity costs** increased by 25.2% to €3.57 million, driven by on average 25.6% higher electricity prices (including networks fees), worth €0.70 million.
- **Pollution tax expense** increased by 13.1% to €1.09 million, mainly due to 12.9% higher treated wastewater volumes, worth €0.13 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to €21.93 million, having increased slightly by 0.4% or €0.08 million. The changes in other costs of goods sold were mainly driven by 5.1% higher staff costs amounting to €6.60 million and by 4.7% higher depreciation amounting to €5.42 million by the same reasons mentioned in the 4th quarter results. Higher costs were partly balanced by 2.1% lower construction services costs amounting to €5.10 million, driven by project specific changes and as more work done with own resources. It was accompanied by 7.2% lower other costs of goods and services sold, amounting to €4.81 million by the same reasons mentioned in the 4th quarter results.

The **Group's gross profit** for the twelve months of 2019 was €33.95 million, showing a decrease of 0.7% or €0.23 million compared to the comparative period of 2018. The **Group's operating profit** for the twelve months of 2019 amounted to €32.08 million, being 19.1% or €5.14 million higher than in the corresponding period of 2018, being mainly impacted by change of provision for the possible third-party claims mentioned in 4th quarter results and the additional legal costs resulting from the

ICSID award according to which the Company was liable to pay for 25% of Estonian legal costs related to this matter. Eliminating the effect of the change of provision for the possible third-party claims the operating profit for 2019 and 2018 would have been €27.45 million and EUR 28.49 million, being lower by 3.6% or €1.04 million year-on-year.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of €0.77 million, compared to net expense of €0.99 million in the twelve months of 2018. The decrease was mainly impacted by lower interest costs, balanced by lower positive change in the fair value of the swap contracts year-on-year, worth respectively +€0.42 million and -€0.22 million.

PROFIT BEFORE TAXES AND NET PROFIT

The **Group's profit before taxes** for the twelve months of 2019 were €31.30 million, being 20.6% or €5.35 million higher than for the relevant period of 2018. The **Group's net profit** for the twelve months of 2019 were €27.76 million, being 14.9% or €3.61 million higher than for the equivalent period of 2018. Eliminating the effects of the change of the derivatives fair value and the change of provision for the possible third-party claims the Group's net profit for the twelve months of 2019 would have been €22.98 million, showing a decrease by 9.3% or €2.34 million year-on-year.

Statement of financial position

In the twelve months of 2019 **the Group invested into fixed assets** €16.09 million. As of 31/12/2019, non-current tangible assets amounted to €189.63 million and total non-current assets amounted to €190.34 million (31/12/2018: €179.19 million and €179.85 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 1 to the financial statements.

Compared to the year end of 2018 **the trade receivables, accrued income and prepaid expenses** have shown a decrease in the amount of €0.39 million to €7.24 million. Decrease mainly derives from lower water services related trade receivables, balanced by slightly higher receivables from construction services, respectively by -€0.48 million and +€0.09 million. The collectability rate continues to be high at 99.73% level, which is at the same level as of December 2018.

Current liabilities have increased by €0.21 million to €13.24 million compared to the year end of 2018, mainly deriving from higher investments and construction activities related trade payables, accompanied by higher current liabilities from the right-of-use assets mentioned above, whilst prepayments for connections has decreased, respectively by +€0.38 million, +€0.20 million, +€0.19 million and -€0.65 million.

Deferred income from connection fees has grown compared to the end of 2018 by €8.32 million to €31.07 million.

Provision for possible third-party claims has decreased compared to the end of 2018 by €4.63 million to €14.44 million by changes mentioned in 4th quarter Other income and expenses results. Additionally, more detailed information about the provision is in Note 5 to the financial statements.

The Group's **loan balance** has decreased, being €91.36 million, as the Company has started to pay back NIB loan in May 2019. In November 2019 the Company repaid its long-term loan to Nordea Bank (in the amount of €37.5 million) and entered into new loan contract with Nordic Investment Bank (at the same amount). The new loan maturity date is 28/11/2024. As a result of the new loan the average loan interest risk margin decreased from 0.79% to 0.66%.

The Group has a **Total debt to assets** level of 56.05%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2018, the total debt to assets ratio was 58.85%.

Cash flow

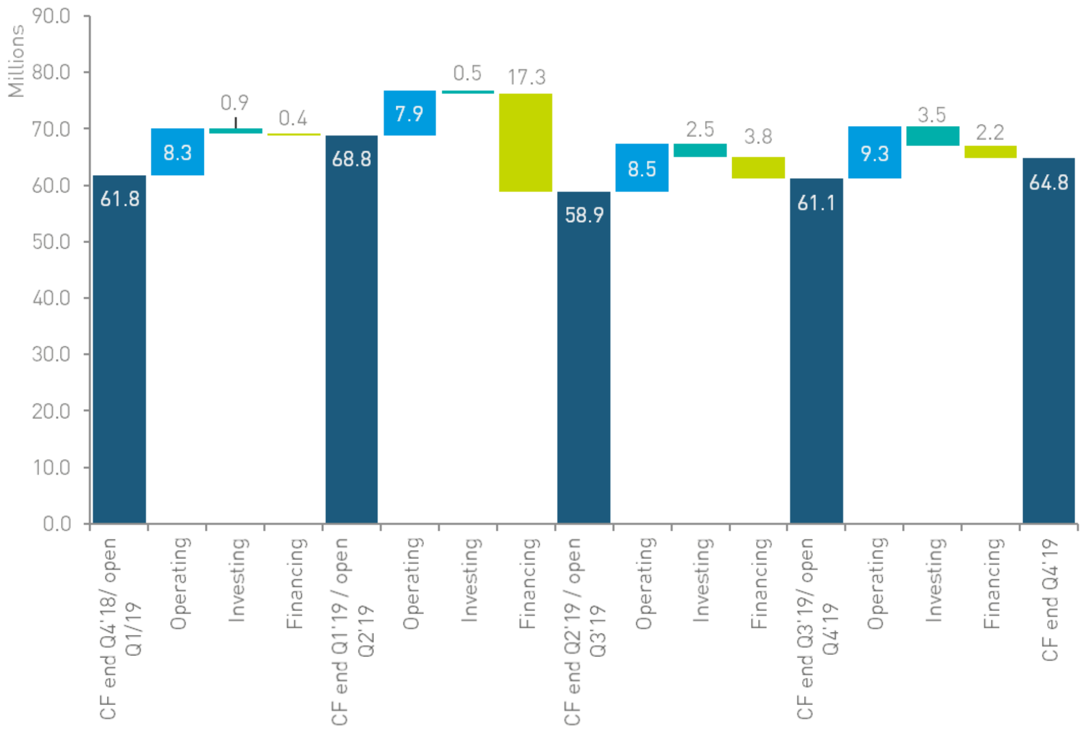
As of 31/12/2019, the cash position of the Group is strong. At the end of December 2019, the cash balance of the Group stood at €64.78 million, which is 24.6% of the total assets (31/12/2018: €61.77 million, forming 24.7% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the twelve months of 2019, the Group generated €34.02 million of **cash flows from operating activities**, a decrease of €0.27 million compared to the corresponding period in 2018. Underlying operating profit continues to be the main contributor to operating cash flows.

In the twelve months of 2019 the result of **net cash flows from investing activities** was a cash outflow of €7.37 million, an increase of €0.53 million compared to the cash outflow of €6.84 million in the twelve months of 2018. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by €0.30 million compared to 2018 amounting to €10.44 million.
- The compensations received for the construction of pipelines were €3.01 million, showing a decrease of €0.71 million compared to the same period of 2018.

In the twelve months of 2019 **cash outflow from financing activities** amounted to €23.64 million, increasing by €12.99 million compared to the same period in 2018. The change was mainly related to higher dividend and related tax payment and paying the first two instalments of NIB loan, balanced by lower interest payments, respectively -€9.54 million, -€3.64 million and +€0.34 million.



EMPLOYEES

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

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

At the end of the 4th quarter of 2019, the total number of employees was 325 compared to 310 at the end of the same period in 2018. The full time equivalent (FTE) was respectively 314 in 2019 compared to the 296 in 2018. Average number of employees during the twelve months was respectively 321 in 2019 and 316 in 2018.

By gender, employee allocation was as follows:

	As of 31/12/2019			As of 31/12/2018		
	Women	**Men**	**Total**	**Women**	**Men**	**Total**
Group	**89**	**236**	**325**	**92**	**218**	**310**
Management Team	13	16	29	14	15	29
Executive Team	5	4	9	4	4	8
Management Board	1	2	3	1	2	3
Supervisory Board	1	8	9	1	8	9

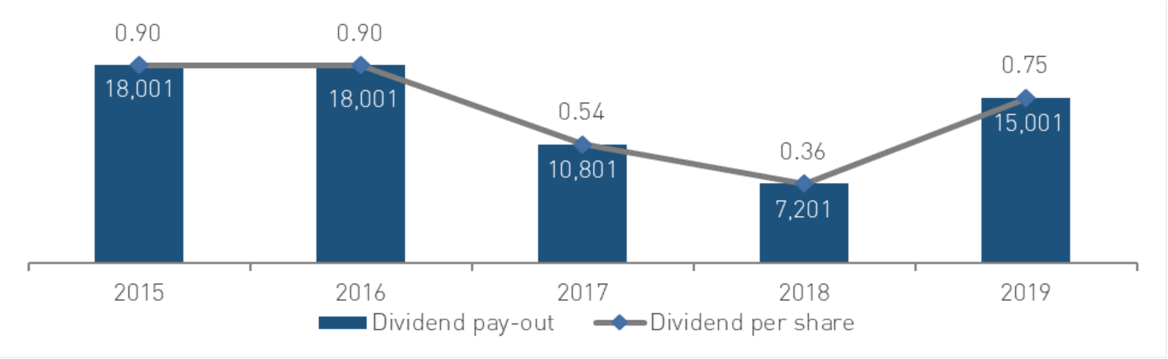
The total salary costs were €2.32 million for the 4th quarter of 2019, including €0.06 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could be up to €0.09 million should the Council want to replace the current Management 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 31/12/2019, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

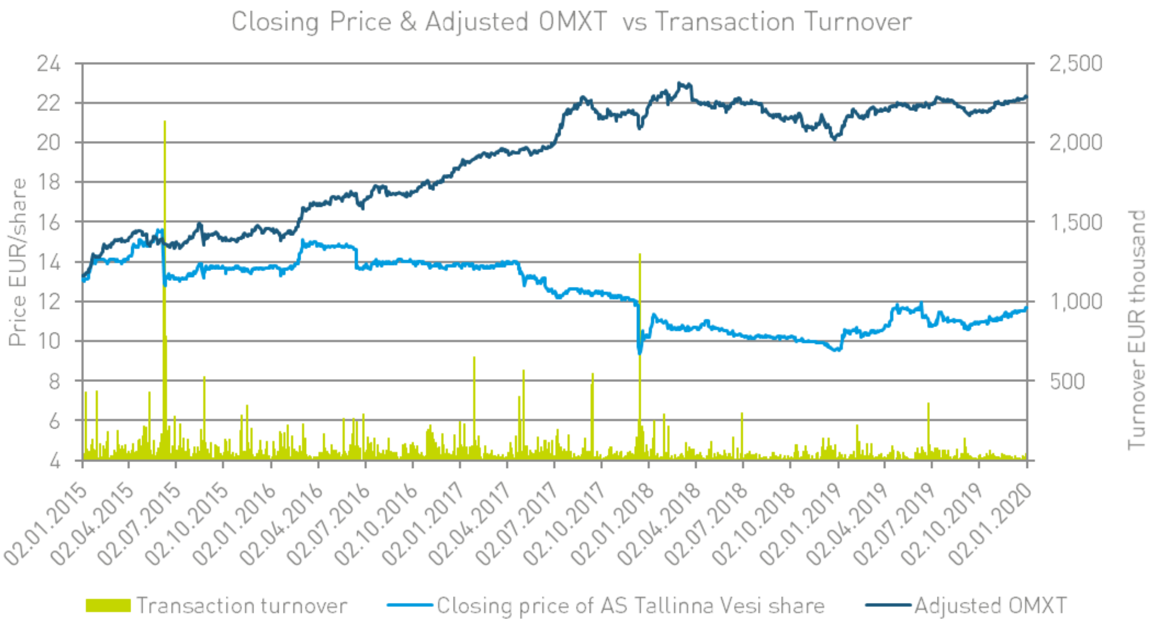
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the twelve months of 2019 the shareholder structure has been relatively stable compared to the end of 2018. At the end of the 4th quarter of 2019 the pension funds shareholding has decreased, being 0.97% of the total shares compared to 1.33% at the end of 2018.

As of 31/12/2019, the closing price of AS Tallinna Vesi share was €11.70, which is 7.83% (2018: -5.88%) higher compared to the closing price of €10.85 at the beginning of the quarter. During the 4th quarter the OMX Tallinn index went up by 3.60% (2018: -4.36%).

In the twelve months of 2019, 3,996 deals with the Company's shares were concluded (2018: 3,983 deals) during which 595 thousand shares or 3.0% of total shares exchanged their owners (2018: 765 thousand shares or 3.8%).

The turnover of the transactions was €1.47 million lower than in 2018 comparative period, amounting to €6.48 million.



CORPORATE STRUCTURE

As of 31/12/2019, 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. There were following changes in the Supervisory Council members in the 4th quarter of 2019: Mr Brendan Francis Murphy' and Mr Priit Lello' terms as a Supervisory Council member were extended (respectively until 29/10/2021 and 15/11/2021).

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 14 to the financial statements as well as from the Company's webpage:

About us > Management board > Supervisory council

About us > Audit committee

About us > Principles of governance > Corporate governance report

MANAGEMENT BOARD

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

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

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

Starting from 1/01/2020 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 Kristi Ojakäär (with the powers of the Management Board Member until 1/01/2023). AS Tallinn Vesi's previous CFO Riina Käi has left the Company at the end of December 2019.

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 12 months period of financial year 2019 ended on 31 December 2019. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended on 31 December 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 12 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 31 January 2020 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

Kristi Ojakäär
Member of the Management Board
Chief Financial Officer

31 January 2020

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

(€ thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		as of 31 December	
ASSETS	Note	2019	2018
CURRENT ASSETS			
Cash and cash equivalents	2	64 775	61 769
expenses		7 239	7 631
Inventories		504	498
TOTAL CURRENT ASSETS		72 518	69 898
NON-CURRENT ASSETS			
Property, plant and equipment	3	189 627	179 185
Intangible assets	4	710	665
TOTAL NON-CURRENT ASSETS		190 337	179 850
TOTAL ASSETS		262 855	249 748
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term lease liabilities		352	191
Current portion of long-term bank loans		3 631	3 632
Trade and other payables		6 718	6 047
Derivatives		221	207
Prepayments		2 323	2 955
TOTAL CURRENT LIABILITIES		13 245	13 032
NON-CURRENT LIABILITIES			
Deferred income from connection fees		31 070	22 745
Leases		964	624
Loans		87 592	91 295
Derivatives		0	173
Provision for possible third party claims	5	14 442	19 068
Other payables		18	46
TOTAL NON-CURRENT LIABILITIES		134 086	133 951
TOTAL LIABILITIES		147 331	146 983
EQUITY			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		77 512	64 753
TOTAL EQUITY		115 524	102 765
TOTAL LIABILITIES AND EQUITY		262 855	249 748

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

(€ thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Quarter 4		for the year ended 31 December	
	Note	2019	2018	2019	2018
Revenue	6	16 122	16 229	63 423	62 780
Cost of goods and services sold	8	-8 143	-7 854	-29 470	-28 594
GROSS PROFIT		7 979	8 375	33 953	34 186
Marketing expenses	8	-93	-93	-390	-386
General administration expenses	8	-1 281	-1 330	-5 689	-5 025
Other income (+)/expenses (-)	9	4 457	-1 660	4 201	-1 836
OPERATING PROFIT		11 062	5 292	32 075	26 939
Financial income	10	8	7	38	21
Financial expenses	10	-118	-287	-809	-1 010
PROFIT BEFORE TAXES		10 952	5 012	31 304	25 950
Income tax on dividends	11	0	0	-3 544	-1 800
NET PROFIT FOR THE PERIOD		10 952	5 012	27 760	24 150
COMPREHENSIVE INCOME FOR THE PERIOD		10 952	5 012	27 760	24 150
Attributable profit to:					
Equity holders of A-shares		10 951	5 011	27 759	24 149
B-share holder		0,60	0,60	0,60	0,60
Earnings per A share (in euros)	12	0,55	0,25	1,39	1,21
Earnings per B share (in euros)	12	600	600	600	600

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

(€ thousand)

CONSOLIDATED CASH FLOWS STATEMENT

	Note	for the year ended 31 December 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		32 075	26 939
Adjustment for depreciation/amortisation	3,4,8,9	6 109	5 790
Adjustment for revenues from connection fees	9	-389	-295
Other non-cash adjustments	5	-4 624	1 526
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		138	-115
Change in current assets involved in operating activities		391	54
Change in liabilities involved in operating activities		318	393
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		34 018	34 292
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-10 441	-10 736
Compensations received for construction of pipelines, incl connection fees		3 010	3 716
Proceeds from sale of property, plant and equipment, and intangible assets		24	160
Interest received		36	17
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-7 371	-6 843
CASH FLOWS USED IN FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl swap interests		-1 056	-1 394
Lease payments		-404	-258
Received loans		37 500	0
Repayment of loans		-41 136	0
Dividends paid	11	-14 965	-7 201
Withheld income tax paid on dividends	11	-36	0
Income tax paid on dividends		-3 544	-1 800
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-23 641	-10 653
CHANGE IN CASH AND CASH EQUIVALENTS		3 006	16 796
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	61 769	44 973
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	64 775	61 769

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

(€ thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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
Dividends	0	0	0	-15 001	-15 001
Comprehensive income for the period	0	0	0	27 760	27 760
as of 31 December 2019	12 000	24 734	1 278	77 512	115 524

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

(€ thousand)

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to the International Financial Reporting Standards as adopted by the EU. The same accounting policies have beem followed in the interim financial statements as in the most recent annual financial statements, except for the information related to the changes described below. The interim report has been prepared in accordance with the standard IAS 34 Interim Financial Reporting.

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 liablities 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 €702 thousand on 1 January 2019.

As a result of adopting new accounting principles, the Group's EBITDA has increased by €205 thousand for 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. The Group's operating profit has increased by €7 thousand and net profit has decreased by €3 thousand for 2019. According to the previous standard IAS 17, lease payments were fully included in Cost of Goods/Services Sold or Marketing or Administrative expenses. Operating cash flows have increased and financing cash flows have decreased by €205 thousand, as repayments of the lease liabilities are classified as cash flows from financing activities.

According to the principles of the standard IFRS 8 Operating Segments, an entity shall report seperately information about an operating segment if either its reported revenue, profit or loss, or assets account for 10 per cent or more of the particular combined measure of all operating segments. From 2019 quarter 4 the Group's chief operating decision maker observes construction services separately and the segment's revenue is more than 10% of the combined revenue of all operating segments of the Group. Thus, the Group shall report information about each operating segment separately. Please see note 6 for more information about the Group's segment reporting.

The Group has changed the presentation of cash flows statement by reclassfifying the revaluation of the provision described in note 5 from the line 'Change in liabilities involved in operating activities' to the line 'Other non-cash adjustments'. In the cash flow statement of 2018, €1,546 thousand have been reclassified. This reclassification has no impact on the total cash flows from operating activities.

NOTE 2. CASH AND CASH EQUIVALENTS

		as of 31 December
	2019	2018
Cash in hand and in bank	43 175	46 769
Short-term deposits	21 600	15 000
Total cash and cash equivalents	64 775	61 769

(€ thousand)

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Facilities	Machinery and equipment	Construction in progress	Right-of-use assets	Right-of-use assets in progress	Total property, plant and equipment
as of 31 December 2017							
Acquisition cost	26 415	207 666	49 436	2 416	0	0	285 933
Accumulated depreciation	-6 829	-68 243	-36 410	0	0	0	-111 482
Net book value	19 586	139 423	13 026	2 416	0	0	174 451
Transactions in the period 1 January 2018 - 31 December 2018							
Acquisition in book value	0	0	0	10 317	0	0	10 317
property, plant and equipment in residual	-13	-2	-29	0	0	0	-44
Reclassification	102	7 792	1 665	-9 534	0	0	25
Depreciation	-289	-3 147	-2 128	0	0	0	-5 564
as of 31 December 2018							
Acquisition cost	26 500	215 059	49 933	3 199	0	0	294 691
Accumulated depreciation	-7 114	-70 993	-37 399	0	0	0	-115 506
Net book value	19 386	144 066	12 534	3 199		0	179 185
Transactions in the period 1 January 2019 - 31 December 2019							
Reclassification 01.01.2019 (IFRS16)	0	0	-823	-26	1 525	26	702
Acquisition in book value	0	0	0	15 606	0	237	15 843
property, plant and equipment in residual	-7	-130	-20	0	-37	0	-194
Reclassification	245	14 829	1 245	-16 323	262	-262	-4
Depreciation	-321	-3 342	-1 870	0	-372	0	-5 905
as of 31 December 2019							
Acquisition cost	26 688	229 228	48 552	2 456	2 493	1	309 418
Accumulated depreciation	-7 385	-73 805	-37 486	0	-1 115	0	-119 791
Net book value	19 303	155 423	11 066	2 456	1 378	1	189 627

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.

In comparison with the previous annual report, the Group has made a change in presenting information in the Note 'Property, plant and equipment'. The column 'Other equipment', which stood as a separate column, is now included in the column 'Machinery and equipment'.

By nature the right-of-use assets comply with the asset class of machinery and equipment.

As at 31 December 2019 the Group had entered into the lease agreements, which take effect in 2020, in the total amount of €825 thousand.

(€ 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 - 31 December 2019			
Acquisition in book value	0	249	249
Reclassification	288	-288	0
Depreciation	-204	0	-204
as of 31 December 2019			
Acquisition cost	4 463	11	4 474
Accumulated depreciation	-3 764	0	-3 764
Net book value	699	11	710

NOTE 5. PROVISION FOR POSSIBLE THIRD PARTY CLAIMS

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

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 18 October 2019 the Competition Authority approved the tariffs that the Company had applied for in September of that year. The new tariffs for water services came into force on 1 December 2019. In the Company's main service area the private customer tariffs reduced by 27% and commercial customer tariffs dropped by 15%, on average.

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 €36.1 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 €14.4 million (31 December 2018: €19.1 million). As of 31 December 2019 no official claims have been submitted. The Company will monitor the situation and thus may adjust the relevant provision on the rolling basis.

(€ thousand)

NOTE 6. SEGMENT REPORTING

The Group has defined the business segments based on the reports used regularly by the chief operating decision maker for the purposes of making strategic decisions. The chief operating decision maker monitors the Group's operations by activities. Three segments are distinguished: water services, construction and other services.

Water services: water supply, storm and wastewater disposal and treatment, fire hydrants service, overpollution charges and discharging.

Construction services: construction services provided by Watercom OÜ. Construction services have been identified as a reportable segment because its revenues are more than 10% of the combined revenues of all segments.

Other services: road maintenance, jetwash and transportation services, project management and owner's supervision and other activities. Other activities are of less importance to the Group's financial results and none of them constitutes a separate segment for reporting purposes.

The Group's chief operating decision maker assesses the performance of each operating segment on the basis of its revenue (external and inter-segment revenue) and gross profit. The inter-segment transactions are carried out on market terms.

1 January 2018 - 31 December 2018

	Water services	Construction services	Other services	Inter-segment transactions	Total segments
External revenue	56 213	5 950	617	0	62 780
Inter-segment revenue	0	1 736	3 630	-5 366	0
Total segment revenue	56 213	7 686	4 247	-5 366	62 780
Segment's gross profit	33 089	349	1 444	-696	34 186
Unallocated expenses:					
Marketing and Administrative expenses					-5 411
Other income/expenses					-1 836
Operating profit					26 939

1 January 2019 - 31 December 2019

	Water services	Construction services	Other services	Inter-segment transactions	Total segments
External revenue	56 866	5 960	597	0	63 423
Inter-segment revenue	1	2 740	3 399	-6 140	0
Total segment revenue	56 867	8 700	3 996	-6 140	63 423
Segment's gross profit	32 982	329	1 253	-611	33 953
Unallocated expenses:					
Marketing and Administrative expenses					-6 079
Other income/expenses					4 201
Operating profit					32 075

(€ thousand)

Revenue by activities

	Quarter 4		for the year ended 31 December	
	2019	2018	2019	2018
Water services				
Water supply service	3 083	3 600	13 781	14 179
Wastewater disposal service	2 966	2 987	11 719	11 586
Total from private clients	6 049	6 587	25 500	25 765
Water supply service	2 728	2 898	11 482	11 733
Wastewater disposal service	2 403	2 401	9 317	9 513
Total from corporate clients	5 131	5 299	20 799	21 246
Water supply service	392	380	1 622	1 465
Wastewater disposal service	841	749	3 193	2 893
Storm water disposal service	148	111	426	322
Total from outside service area clients	1 381	1 240	5 241	4 680
Storm water treatment and disposal service and fire hydrants service	1 153	1 078	4 002	3 562
Overpollution charges and discharging	318	227	1 324	960
Total from water services	14 032	14 431	56 866	56 213
Construction services	1 899	1 615	5 960	5 950
Other services	191	183	597	617
Total revenue	16 122	16 229	63 423	62 780

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

NOTE 7. STAFF COSTS

	Quarter 4		for the year ended 31 December	
	2019	2018	2019	2018
Salaries and wages	-1 735	-1 638	-6 762	-6 479
Social security and unemployment insurance tax	-587	-554	-2 286	-2 190
Staff costs total	-2 322	-2 192	-9 048	-8 669
Average number of employees during the reporting period	325	314	321	316

(€ thousand)

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

	Quarter 4		for the year ended 31 December	
	2019	2018	2019	2018
Cost of goods and services sold				
Water abstraction charges	-314	-294	-1 219	-1 187
Chemicals	-408	-495	-1 664	-1 744
Electricity	-972	-767	-3 566	-2 849
Pollution tax	-302	-248	-1 089	-963
Staff costs	-1 707	-1 606	-6 602	-6 283
Depreciation and amortization	-1 470	-1 366	-5 420	-5 177
Construction services	-1 655	-1 370	-5 096	-5 204
Other costs	-1 315	-1 708	-4 814	-5 187
Total cost of goods and services sold	-8 143	-7 854	-29 470	-28 594
Marketing expenses				
Staff costs	-78	-77	-318	-321
Depreciation and amortization	0	-1	0	-1
Other marketing expenses	-15	-15	-72	-64
Total marketing expenses	-93	-93	-390	-386
Administrative expenses				
Staff costs	-537	-509	-2 128	-2 065
Depreciation and amortization	-86	-89	-335	-342
Other general administration expenses	-658	-732	-3 226	-2 618
Total administrative expenses	-1 281	-1 330	-5 689	-5 025

NOTE 9. OTHER INCOME/EXPENSES

	Quarter 4		for the year ended 31 December	
	2019	2018	2019	2018
Connection fees	112	78	389	295
Depreciation of single connections	-97	-71	-354	-270
Doubtful receivables expenses (-)/ expense reduction (+)	-2	-17	20	-30
Provision for possible third party claims (Note 5)	4 626	-1 546	4 626	-1 546
Other income (+)/expenses (-)	-182	-104	-480	-285
Total other income / expenses	4 457	-1 660	4 201	-1 836

(€ thousand)

NOTE 10. FINANCIAL INCOME AND EXPENSES

	Quarter 4		for the year ended 31 December	
	2019	2018	2019	2018
Interest income	8	7	38	21
Interest expense, loan	-153	-188	-714	-752
Interest expense, swap	-56	-127	-230	-614
Increase (+)/decrease (-) of fair value of swap	99	33	159	376
Other financial income (+)/expenses (-)	-8	-5	-24	-20
Total financial income / expenses	-110	-280	-771	-989

NOTE 11. DIVIDENDS

	for the year ended 31 December	
	2019	2018
Dividends declared during the period	15 001	7 201
Dividends paid during the period	14 965	7 201
Withheld income tax on dividends	36	0
Income tax on dividends paid	3 544	1 800
Dividends declared per shares:		
Dividends per A-share (in euros)	0,75	0,36
Dividends per B-share (in euros)	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, 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 12. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2019	2018	2019	2018
Net profit minus B-share preferred dividend rights	10 951	5 011	27 759	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
Earnings per A share (in euros)	0,55	0,25	1,39	1,21
Earnings per B share (in euros)	600	600	600	600

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

(€ thousand)

NOTE 13. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded on the statement of financial position of the Group	as of 31 December 2019	2018
Accounts receivable	531	221
Trade and other payables	184	179

	Quarter 4		for the year ended 31 December	
Transactions	2019	2018	2019	2018
Revenue	1 153	1 078	4 002	3 562
Purchase of administrative and consulting services	249	244	991	1 009
Fees for Management Board (excluding social tax)	57	39	213	192
Supervisory Board fees (excluding social tax)	8	8	32	32

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

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

The potential salary liability would be up to €90 thousand (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 31 December 2019 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 31 December 2018: Riina Käi owned 100 shares).

NOTE 14. LIST OF SUPERVISORY BOARD MEMBERS

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

Introduction of Supervisory Board members is published at company's web page.
https://tallinnavesi.ee/en/ettevote/management-board/supervisory-council/