

# AS TALLINNA VESI

Consolidated Interim Report for the 1<sup>st</sup> quarter of 2019

26 April 2019



Currency	Thousand euros
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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	<a href="mailto:tvesi@tvesi.ee">tvesi@tvesi.ee</a>
Web page	<a href="http://www.tallinnavesi.ee">www.tallinnavesi.ee</a>
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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## Management report

### Chairman´s summary

2019 has started successfully for Tallinna Vesi, with respect to both operational and financial performance. We saw growth in both the operating and net profit of the Group, due to higher sales revenues from water supply, wastewater and stormwater services, as well as increased profit related to external construction services.

#### *Strong financial performance*

In the 1<sup>st</sup> quarter of 2019, the Company's sales revenue was €14.66 million, which is 4.2% higher year-on-year. Tallinna Vesi's gross profit decreased by 0.7%, amounting to €8.26 million. Slight decrease in gross profit was balanced by lower administrative and financial costs. Tallinna Vesi's net profit was €6.68 million showing an increase of 2.3% in comparison with the same period of 2018.

**+4.2%**

#### *Reliable water supply and wastewater service*

The quality of drinking water was excellent in the 1<sup>st</sup> quarter of 2019. Water samples taken from customers' taps, were 99.73% compliant with the requirements. A total of 744 water samples were taken during the 1<sup>st</sup> 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 2 hours and 35 minutes in the 1<sup>st</sup> quarter of 2019, whereas, the result in the same period of 2018 was 2 hours and 52 minutes.

*Sales revenue was 4.2% higher year-on-year*

The level of leakages in the water network continues to be at a record low. This year we achieved 12.86% for the level of leakages in the first quarter, which is quite an improvement in comparison with 15.19%, in the 1<sup>st</sup> quarter last year. We continue to make targeted capital investments to ensure the continued reliability of the infrastructure. In the 1<sup>st</sup> quarter of 2019, we performed reconstruction works on water pipes and sewers on Reidi street, Gonsiori street and Hiiu-Suurtüki crossroads in collaboration with the City of Tallinn.

In the 1<sup>st</sup> 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. No promises have been broken in 2019. 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, and look for ways to make the processes quicker and more convenient. This year we are 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 1<sup>st</sup> quarter of 2019, another Doors Open Day was held at Ülemiste Water 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 are publishing this spring an interesting history book that looks into the early period of water supply in Tallinn.

We opened new public water tap in in SuperSkypark, at the newly opened T1 Mall of Tallinn and plan to further improve the availability of tap water in public spaces during 2019. Our aim is to encourage people to be more environmentally friendly in their daily routines.



*We encourage people to be more environmentally friendly*

### *Tariff application*

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. At the beginning of 2019, AS Tallinna Vesi challenged Competition Authority's decision. Tallinna Vesi's challenge was dismissed. Consequently, Tallinna Vesi disputed the Competition Authority's decision in the Administrative Court and is now waiting for Court's decision.

AS Tallinna Vesi is still awaiting a verdict from the ICSID Arbitration Panel, which is to decide whether investors are entitled to a compensation as per their damages claim. The decision is expected by 3 May 2019.

## OPERATIONAL INDICATORS FOR THREE MONTHS OF 2019

Indicator	Unit	2019 Q1	2018 Q1	2017 Q1
Compliance of water quality at the customers' tap	%	99.7	99.9	100.0
Water loss in the water distribution network	%	12.9	15.2	13.7
Average duration of water interruptions per property in hours	h	2.59	2.86	3.02
Number of sewer blockages	No	159	156	195
Number of sewer bursts	No	29	25	39
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Number of customer complaints*	No	40	21	9
Number of customer contacts regarding water quality	No	27	14	24
Number of customer contacts regarding water pressure	No	54	37	38
Number of customer contacts regarding blockages and discharge of storm water	No	328	250	269
Responding written customer contacts within at least 2 work days	%	100.0	100.0	99.9
Number of failed promises	No	0	3	3
Notification of unplanned water interruptions at least 1 h before the interruption	%	97.2	96.7	100.0

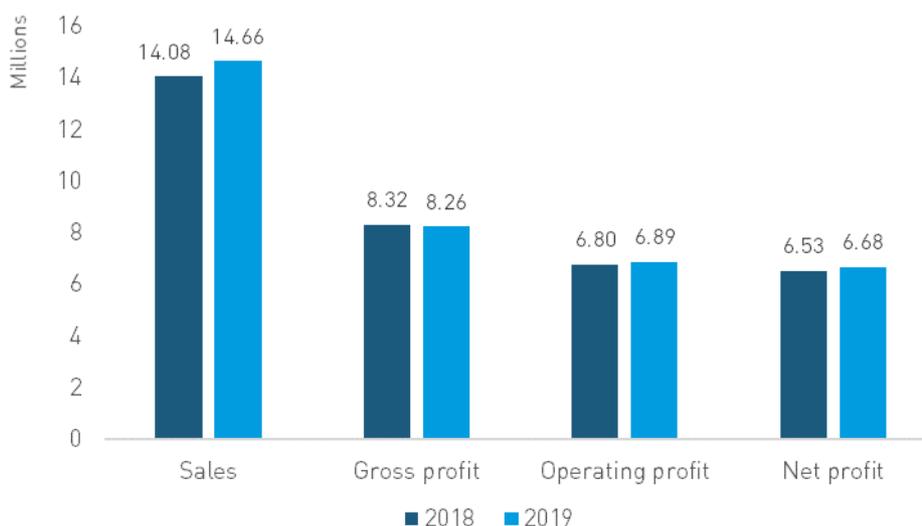
*\*Until 2018, this figure included only the customer complaints received in writing. The number for 2018 and 2019 includes the complaints received both in writing and by phone.*



Karl Heino Brookes  
Chairman of the Management Board

## FINANCIAL HIGHLIGHTS FOR THE 1<sup>st</sup> QUARTER OF 2019

The Group's sales revenues during the 1<sup>st</sup> quarter of 2019 were €14.66 million, being up by 4.2% or €0.58 million compared to the same period in 2018.



The gross profit in the 1<sup>st</sup> quarter of 2019 was €8.26 million, showing a slight decrease of 0.7% or €0.06 million. Decrease in gross profit was related to higher electricity and staff costs, accompanied by higher pollution tax expenses and depreciation. Higher costs were almost fully balanced by higher water, wastewater and stormwater revenues, accompanied by higher construction services related profit and lower chemicals costs.

The operating profit was €6.89 million, showing an increase of 1.4% or €0.09 million. In addition to above-mentioned changes in gross profit, the operating profit was also impacted by lower administrative and other expenses.

The net profit for the 1<sup>st</sup> quarter of 2019 was €6.68 million, showing an increase by 2.3% or €0.15 million. The net profit was mainly impacted by above mentioned changes in the operating profit, accompanied by lower financial expenses. The changes in the financial expenses were mostly influenced by lower interest expenses, balanced by lower positive change in the fair value of swap contracts in the 1<sup>st</sup> quarter of 2019 compared to the positive change in the same quarter of 2018. The net profit for the 1<sup>st</sup> quarter of 2019 and 2018 without the impact resulted from the change of the fair value of swap contracts was €6.65 million and €6.45 million respectively, being higher by 3.0% or €0.20 million year-on-year.

## MAIN FINANCIAL INDICATORS

€ million, except key ratios	1 <sup>st</sup> quarter			Change 2019/ 2018
	2019	2018	2017	
Sales	14.66	14.08	13.78	4.2%
Gross profit	8.26	8.32	8.21	-0.7%
Gross profit margin %	56.33	59.10	59.56	-4.7%
Operating profit before depreciation and amortisation	8.39	8.22	7.98	2.1%
Operating profit before depreciation and amortisation margin %	57.24	58.40	57.93	-2.0%
Operating profit	6.89	6.80	6.49	1.4%
Operating profit - main business	6.78	6.73	6.48	0.7%
Operating profit margin %	47.00	48.29	47.07	-2.7%
Profit before taxes	6.68	6.53	6.36	2.3%
Profit before taxes margin %	45.58	46.42	46.16	-1.8%
Net profit	6.68	6.53	6.36	2.3%
Net profit margin %	45.58	46.42	46.16	-1.8%
ROA %	2.63	2.83	2.94	-7.0%
Debt to total capital employed %	57.78	60.56	56.19	-4.6%
ROE %	6.30	7.33	6.87	-14.1%
Current ratio	6.28	6.98	5.46	-10.0%
Quick ratio	6.24	6.93	5.40	-10.0%
Investments into fixed assets	3.41	0.85	2.21	300.0%
Payout ratio %	na	na	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 asphaltting services, doubtful debt*

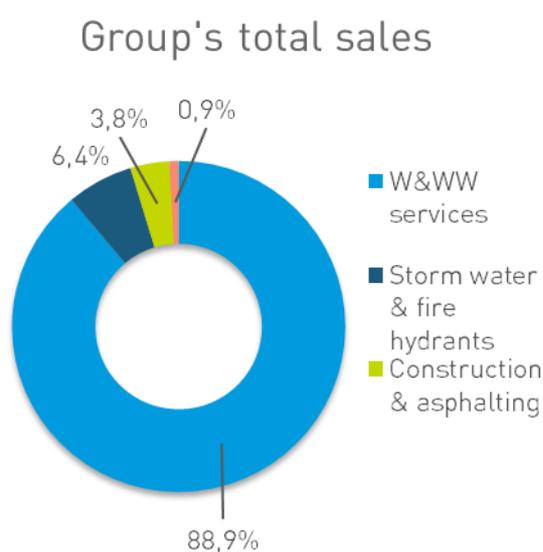
## FINANCIAL RESULTS FOR THE 1<sup>st</sup> QUARTER OF 2019

### Statement of comprehensive income

#### SALES

As in the 1<sup>st</sup> 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 a supervisory review procedure, 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. On 18/04/2019 the CA sent a request to the Company regarding the application, to which the Company must respond by 13/05/2019. 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 1<sup>st</sup> quarter of 2019 the **Group's total sales** were €14.66 million, showing an increase by 4.2% or €0.58 million year-on-year. 88.9% 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, 3.8% from construction and asphaltting services and 0.9% 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	1 <sup>st</sup> quarter			Variance 2019/2018	
	2019	2018	2016	EUR	%
<b>Private clients, incl:</b>	<b>6,491</b>	<b>6,428</b>	<b>6,347</b>	<b>63</b>	<b>1.0%</b>
Water supply service	3,567	3,532	3,489	35	1.0%
Wastewater disposal service	2,924	2,896	2,858	28	1.0%
<b>Corporate clients, incl:</b>	<b>5,002</b>	<b>5,142</b>	<b>5,063</b>	<b>-140</b>	<b>-2.7%</b>
Water supply service	2,734	2,784	2,771	-50	-1.8%
Wastewater disposal service	2,268	2,358	2,292	-90	-3.8%
<b>Outside service area clients, incl:</b>	<b>1,346</b>	<b>1,112</b>	<b>1,108</b>	<b>234</b>	<b>21.0%</b>
Water supply service	385	334	329	51	15.3%
Wastewater disposal service	815	688	683	127	18.5%
Storm water disposal service	146	90	96	56	62.2%
<b>Over pollution fee</b>	<b>194</b>	<b>182</b>	<b>210</b>	<b>12</b>	<b>6.6%</b>
<b>Total water supply and wastewater disposal service</b>	<b>13,033</b>	<b>12,864</b>	<b>12,728</b>	<b>169</b>	<b>1.3%</b>
Storm water treatment and disposal and fire hydrants service	944	796	741	148	18.6%
Construction service, design and asphaltting	558	283	181	275	97.2%
Other works and services	129	134	131	-5	-3.7%
<b>SALES REVENUES TOTAL</b>	<b>14,664</b>	<b>14,077</b>	<b>13,781</b>	<b>587</b>	<b>4.2%</b>

Sales from water and wastewater services were €13.03 million, showing a 1.3% or €0.17 million increase compared to the 1<sup>st</sup> quarter of 2018, resulting from the changes in sales volumes as described below:

- There has been an increase in **private customers'** revenues of 1.0% to €6.49 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group.
- Sales to **corporate customers** within the service area decreased by 2.7% to €5.00 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 21.0% to €1.35 million. It was impacted by an increase in all services, caused by higher water supply to Rae area accompanied by higher consumption of waste and storm water disposal services in all areas.
- **Over pollution fees** received have increased by 6.6% to €0.19 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were €0.94 million, showing an increase of 18.6% or €0.15 million compared to the same period in 2018, driven mainly by 33.6% higher storm water volumes, balanced partly by lower cost per m<sup>3</sup>.

**Sales of construction, design and asphaltting services** were €0.56 million, increasing by 97.2% or €0.27 million year-on-year. The increase was mainly related to higher pipe construction and asphaltting services revenues during the 1<sup>st</sup> quarter of 2019.

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

**The cost of goods and services sold** amounted to €6.40 million in the 1<sup>st</sup> quarter of 2019, increasing by 11.2% or €0.65 million compared to the equivalent period in 2018. The increase was influenced by higher costs in all groups, with only exception of lower chemicals costs.

€ thousand	1 <sup>st</sup> quarter			Variance 2019/2018	
	2019	2018	2016	EUR	%
Water abstraction charges	-292	-291	-296	-1	-0.3%
Chemicals	-405	-435	-333	30	6.9%
Electricity	-1,004	-759	-854	-245	-32.3%
Pollution tax	-367	-277	-292	-90	-32.5%
<b>Total direct production costs</b>	<b>-2,068</b>	<b>-1,762</b>	<b>-1,775</b>	<b>-306</b>	<b>-17.4%</b>
Staff costs	-1,645	-1,593	-1,421	-52	-3.3%
Depreciation and amortisation	-1,340	-1,283	-1,351	-57	-4.4%
Construction service, design and asphaltting	-445	-241	-138	-204	-84.6%
Other costs of goods/services sold	-906	-878	-888	-28	-3.2%
<b>Other costs of goods/services sold total</b>	<b>-4,336</b>	<b>-3,995</b>	<b>-3,798</b>	<b>-341</b>	<b>-8.5%</b>
<b>Total cost of goods/services sold</b>	<b>-6,404</b>	<b>-5,757</b>	<b>-5,573</b>	<b>-647</b>	<b>-11.2%</b>

**Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €2.07 million, showing a 17.4% or €0.31 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 decreased by 6.9% to €0.40 million, driven mainly by lower usage of methanol and polymers to remove Nitrogen and sludge from wastewater, worth respectively €0.02 million and €0.01 million.
- **Electricity costs** increased by 32.3% to €1.00 million, driven mainly by on average 35.5% higher average price of electricity, accompanied by 16.3% higher wastewater volumes to waste and stormwater pumping stations, worth respectively €0.26 million and €0.03 million. Higher costs were partly balanced by 0.5% decrease in treated volumes in water treatment process, worth €0.02 million.
- **Pollution tax expense** increased by 32.5% to €0.37 million, mainly due to 16.3% higher treated wastewater volumes and higher pollution load of BOD7 and suspended solids, worth respectively €0.05 million, €0.02 million and €0.01 million.

**Other costs of goods sold** (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to €4.34 million, having increased by 8.5% or €0.34 million. The increase came mostly from costs related to construction and asphaltting services, accompanied by other different costs by following reasons:

- **Staff costs** increased by 3.3% to €1.64 million. It was mainly driven by higher workload in Watercom related to higher construction services revenues mentioned as more construction done by own staff, accompanied by review of bonus reserve in the 1<sup>st</sup> quarter of 2019.
- **Depreciation** increased by 4.4% to EUR 1.34 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.
- **Construction and asphaltting services costs** increased by 84.6% to €0.44 million, mainly due to higher construction and asphaltting services revenues mentioned earlier and project specific changes.
- **Other costs of goods/services sold** increased by 3.2% to €0.91 million, mainly because of 8.4% or €0.03 million higher asset maintenance costs, driven mainly by higher different maintenance and repair works related costs in wastewater treatment.

As a result of all above the **Group's gross profit** for the 1<sup>st</sup> quarter of 2019 was €8.26 million, showing a decrease of 0.7% or €0.06 million, compared to the gross profit of €8.32 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 7.8% or €0.12 million. The lower costs were mainly related to decrease in tariff dispute related costs.

**Other income and expenses** amounted to net income of €0.01 million, having decreased by 119.4% or €0.04 million compared to net expense of €0.03 million in comparative period. The decrease was mostly impacted by higher penalty income received, balanced by lower positive change in doubtful receivables, worth respectively +€0.04 million and -€0.02 million.

### *OPERATING PROFIT*

As a result of the factors listed above the Group's **operating profit** for the 1<sup>st</sup> quarter of 2019 amounted to €6.89 million, being 1.4% or €0.09 million higher than in the corresponding period of 2018. The Group's operating profit from main business was €6.78 million, being 0.7% or €0.05 million higher compared to 2018.

### *FINANCIAL EXPENSES*

**The Group's net financial income and expenses** have resulted a net expense of €0.21 million, compared to net expense of €0.26 million in the 1<sup>st</sup> quarter 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 +€0.10 million and -€0.04 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 €45 million, €50 million are with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, amounting to €0.34 million. Effective interest rate of loans (incl. swap interests) in the 1<sup>st</sup> 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 1<sup>st</sup> quarter of 2018.

### *PROFIT BEFORE TAXES AND NET PROFIT*

The Group's **profit before taxes** and **net profit** for the 1<sup>st</sup> quarter of 2019 was €6.68 million, being 2.3% or €0.15 million higher than for the comparative period of 2018. Eliminating the effects of the change of the fair value of swap contracts the Group's net profit for the 1<sup>st</sup> quarter of 2019 and 2018 would have been €6.65 million and €6.45 million respectively, showing an increase of 3.0% or €0.20 million year-on-year.

## Statement of financial position

In the three months of 2019 **the Group invested into fixed assets** €3.41 million. As of 31/03/2019, non-current tangible assets amounted to €181.17 million and total non-current assets amounted to €182.46 million (31/03/2018: €173.90 million and €174.70 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 been relatively stable showing a slight decrease of €0.24 million to €7.39 million. Decrease mainly derives lower trade receivables from construction activities, which were balanced by higher accrued income and prepayments, respectively by -€0.74 million, +€0.28 million and +€0.21 million. The collectability rate continues to be high at 99.79% level, which is by 0.03% lower than as of March 2018.

**Current liabilities** have decreased by €0.81 million to €12.22 million compared to the year end of 2018, mainly deriving from lower construction activities and investments related trade payables and prepayments for connections, which is balanced by higher current liabilities from the right-of-use assets mentioned above, respectively -€0.59 million, -€0.61 million +€0.19 million.

**Deferred income from connection fees** has grown compared to the end of 2018 by €3.05 million to €25.79 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 remained stable at €95 million. The weighted average interest risk margin for the total loan facility is 0.79%.

The Group has a **Total debt to assets** level of 57.8%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2018, the total debt to assets ratio was 60.6%.

## Cash flow

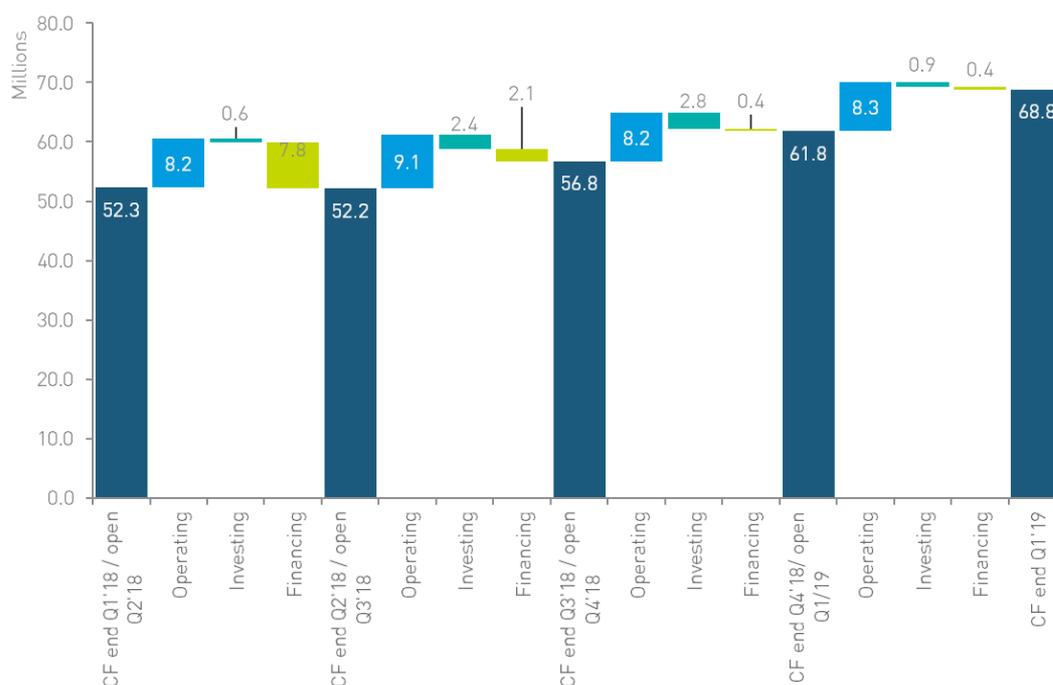
As of 31/03/2019, the cash position of the Group is strong. At the end of March 2019, the cash balance of the Group stood at €68.83 million, which is 26.6% of the total assets (31/03/2018: €52.31 million, forming 22.3% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the three months of 2019, the Group generated €8.29 million of **cash flows from operating activities**, a decrease of €0.52 million compared to the corresponding period in 2018. Underlying operating profit continues to be the main contributor to operating cash flows.

In the three months of 2019 the result of **net cash flows from investing activities** was a cash outflow of €0.87 million, a decrease of €0.18 million compared to the cash outflow of €1.05 million in the three months of 2018. This is made up as follows:

- The cash outflows from investments in fixed assets has been almost at the same level as in comparative period, amounting respectively to €1.67 million in 2019 and €1.66 million in 2018.
- The compensations received for the construction of pipelines were €0.79 million, showing an increase of €0.20 million compared to the same period of 2018.

In the three months of 2019 **cash outflow from financing activities** amounted to €0.36 million, decreasing by €0.06 million compared to the same period in 2018. The change was mainly related to lower interest payments.



## 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 1<sup>st</sup> quarter of 2019, the total number of employees was 314 compared to 315 at the end of the same period in 2018. The full time equivalent (FTE) was respectively 299 in 2019 compared to the 303 in 2018. Average number of employees during the three months was respectively 299 in 2019 and 301 in 2018.

By gender, employee allocation was as follows:

Group	As of 31/03/2019			As of 31/03/2018		
	Women	Men	Total	Women	Men	Total
Group	91	223	314	96	219	315
Management Team	14	14	28	14	13	27
Executive Team	4	4	8	4	4	8
Management Board	1	2	3	1	2	3
Supervisory Board	1	8	9	0	9	9

The total salary costs were €2.29 million for the 1<sup>st</sup> quarter of 2019, including €0.08 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.

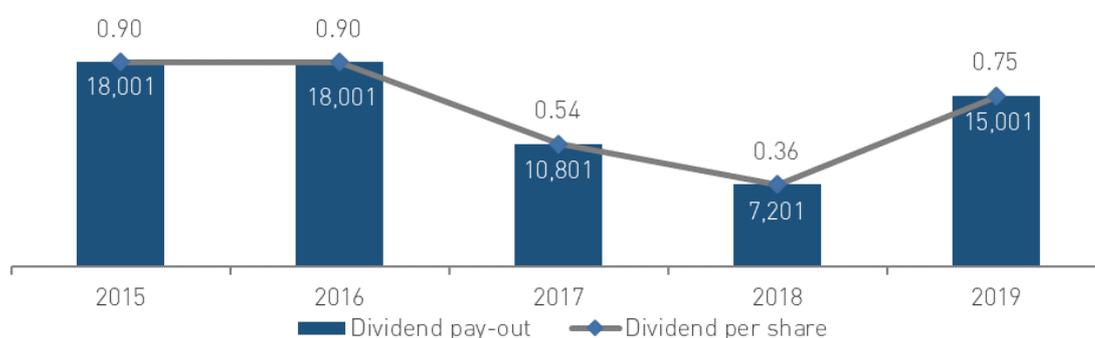
## DIVIDENDS

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 2018 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. The Supervisory Council decided in its meeting held on 25 April 2019 to make a proposal to Annual General Meeting to pay out EUR 0.75 per A share and 600 EUR per B share from the 2018 profits. The pay-out is equal to 62.1% of earnings per share in 2018.

The Annual General Meeting of shareholders will be held on 30/05/2019.

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 31/03/2019, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

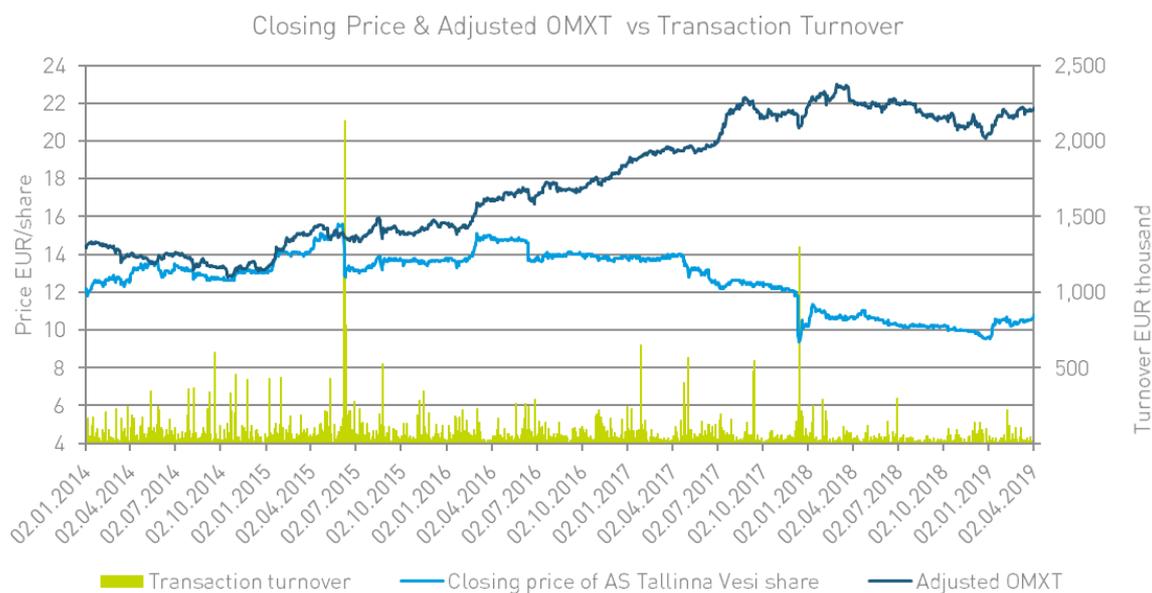
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the three months of 2019 the shareholder structure has been relatively stable compared to the end of 2018. At the end of the 1<sup>st</sup> quarter of 2019 the pension funds shareholding has decreased, being 1.02% of the total shares compared to 1.33% at the end of 2018.

As of 31/03/2019, the closing price of AS Tallinna Vesi share was €10.60, which is 10.4% (2018: 4.9%) higher compared to the closing price of €9.60 at the beginning of the quarter. During the 1<sup>st</sup> quarter the OMX Tallinn index increased by 6.5% (2018: 2.2%).

In the three months of 2019, 794 deals with the Company's shares were concluded (2018: 1,325 deals) during which 166 thousand shares or 0.8% of total shares exchanged their owners (2018: 260 thousand shares or 1.3%).

The turnover of the transactions was €1.10 million lower than in 2018 comparative period, amounting to €1.71 million.



## CORPORATE STRUCTURE

As of 31/03/2019, 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 1<sup>st</sup> quarter of 2019 were as follows: Mr Toivo Tootsen' term as a Supervisory Council member was extended until 7/04/2021.

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<sup>nd</sup> of June 2014 there are 3 members of the Management Board of AS Tallinna Vesi: Karl Heino Brookes (Chairman of the Board, with the powers of the Management Board Member until 21/03/2020), Aleksandr Timofejev (with the powers of the Management Board Member until 29/10/2021) and Riina Käi (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](#)

## LEGAL CLAIM FOR BREACH OF INTERNATIONAL TREATY

In May 2014, the Supervisory Council of the Company gave notice of potential international arbitration proceedings against the Republic of Estonia for breaching the undertakings it is required to abide by in the bilateral investment treaty.

In October 2014 AS Tallinna Vesi and its shareholder United Utilities (Tallinn) B.V have commenced international arbitration proceedings against the Republic of Estonia for breach of the Agreement on the Encouragement and Reciprocal Protection of Investments between the Kingdom of The Netherlands and the Republic of Estonia.

The claim was filed as three years of intensive negotiation to try and reach an amicable settlement that has not happened.

The hearings of international arbitration took place in Paris in November 2016 and the decision is expected on 3/05/2019.

Additional details related with the claim can be found via the following links:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=609264&messageId=754811>

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=627851&messageId=779161>

## DISCLOSURE OF RELEVANT PAPERS AND PERSPECTIVES

The Company will keep the investment community informed of all relevant developments of the tariff dispute. AS Tallinna Vesi has published all relevant materials on its website (<https://tallinnavesi.ee/en/investor/stock-announcements/>) and to the Tallinn Stock Exchange.

Additional information:

Karl Heino Brookes

Chairman of the Management Board

+372 62 62 200

[karl.brookes@tvesi.ee](mailto:karl.brookes@tvesi.ee)

## MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 3 months period of financial year 2019 ended 31 March 2019. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 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 3 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 9 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 April 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 April 2019

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

AS TALLINNA VESI  
CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE 3 MONTHS PERIOD OF FINANCIAL YEAR 2019 ENDED 31 MARCH 2019

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(€ thousand)

ASSETS	Note	as of 31 March		as of 31 December
		2019	2018	2018
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	2	68 828	52 306	61 769
Trade receivables, accrued income and prepaid expenses		7 390	6 685	7 631
Inventories		537	436	498
<b>TOTAL CURRENT ASSETS</b>		<b>76 755</b>	<b>59 427</b>	<b>69 898</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	3	181 171	173 902	179 185
Intangible assets	4	623	797	665
Right-of-use assets	5	664	0	0
<b>TOTAL NON-CURRENT ASSETS</b>		<b>182 458</b>	<b>174 699</b>	<b>179 850</b>
<b>TOTAL ASSETS</b>		<b>259 213</b>	<b>234 126</b>	<b>249 748</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		4 052	345	3 823
Trade and other payables		5 694	5 011	6 047
Derivatives		139	452	207
Prepayments		2 334	2 702	2 955
<b>TOTAL CURRENT LIABILITIES</b>		<b>12 219</b>	<b>8 510</b>	<b>13 032</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred income from connection fees		25 792	20 058	22 745
Borrowings		92 437	95 423	91 919
Derivatives		201	219	173
Provision for possible third party claims	6	19 068	17 522	19 068
Other payables		46	44	46
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>137 544</b>	<b>133 266</b>	<b>133 951</b>
<b>TOTAL LIABILITIES</b>		<b>149 763</b>	<b>141 776</b>	<b>146 983</b>
<b>EQUITY</b>				
Share capital		12 000	12 000	12 000
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		71 438	54 338	64 753
<b>TOTAL EQUITY</b>		<b>109 450</b>	<b>92 350</b>	<b>102 765</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>259 213</b>	<b>234 126</b>	<b>249 748</b>

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  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(€ thousand)

		Quarter 1		for the year ended 31 December
	Note	2019	2018	2018
Revenue	7	14 664	14 077	62 780
Cost of goods and services sold	9	-6 404	-5 757	-28 594
<b>GROSS PROFIT</b>		<b>8 260</b>	<b>8 320</b>	<b>34 186</b>
Marketing expenses	9	-112	-112	-386
General administration expenses	9	-1 261	-1 379	-5 025
Other income (+)/expenses (-)	10	6	-31	-1 836
<b>OPERATING PROFIT (+)/LOSS (-)</b>		<b>6 893</b>	<b>6 798</b>	<b>26 939</b>
Financial income	11	8	4	21
Financial expenses	11	-216	-268	-1 010
<b>PROFIT (+)/LOSS (-) BEFORE TAXES</b>		<b>6 685</b>	<b>6 534</b>	<b>25 950</b>
Income tax on dividends	12	0	0	-1 800
<b>NET PROFIT (+)/LOSS (-) FOR THE PERIOD</b>		<b>6 685</b>	<b>6 534</b>	<b>24 150</b>
<b>COMPREHENSIVE INCOME (+)/LOSS (-) FOR THE PERIOD</b>		<b>6 685</b>	<b>6 534</b>	<b>24 150</b>
<b>Attributable profit (+)/loss(-) to:</b>				
Equity holders of A-shares		6 684	6 533	24 149
B-share holder		0,60	0,60	0,60
Earnings per A share (in euros)	13	0,33	0,33	1,21
Earnings per B share (in euros)	13	600	600	600

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

## CONSOLIDATED CASH FLOWS STATEMENT

(€ thousand)

	Note	2019	3 months 2018	for the year ended 31 December 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating profit		6 893	6 798	26 939
Adjustment for depreciation/amortisation	3,4,5,9,10	1 502	1 423	5 790
Adjustment for revenues from connection fees	10	-86	-69	-295
Other non-cash adjustments		0	-5	-20
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		-5	-1	-115
Change in current assets involved in operating activities		208	1 035	54
Change in liabilities involved in operating activities		-224	-376	1 939
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>8 288</b>	<b>8 805</b>	<b>34 292</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment, and intangible assets		-1 670	-1 660	-10 736
Compensations received for construction of pipelines, incl connection fees		787	589	3 716
Proceeds from sale of property, plant and equipment, and intangible assets		7	15	160
Interest received		7	4	17
<b>TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>-869</b>	<b>-1 052</b>	<b>-6 843</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
Interest paid and loan financing costs, incl swap interests		-258	-355	-1 394
Lease payments		-102	-65	-258
Dividends paid	12	0	0	-7 201
Income tax on dividends	12	0	0	-1 800
<b>TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>-360</b>	<b>-420</b>	<b>-10 653</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>7 059</b>	<b>7 333</b>	<b>16 796</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>2</b>	<b>61 769</b>	<b>44 973</b>	<b>44 973</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>2</b>	<b>68 828</b>	<b>52 306</b>	<b>61 769</b>

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

AS TALLINNA VESI  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(€ thousand)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2017</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>47 804</b>	<b>85 816</b>
Dividends	0	0	0	-7 201	-7 201
Comprehensive income for the period	0	0	0	24 150	24 150
<b>as of 31 December 2018</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>64 753</b>	<b>102 765</b>
<b>as of 31 December 2017</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>47 804</b>	<b>85 816</b>
Comprehensive income for the period	0	0	0	6 534	6 534
<b>as of 31 March 2018</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>54 338</b>	<b>92 350</b>
<b>as of 31 December 2018</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>64 753</b>	<b>102 765</b>
Comprehensive income for the period	0	0	0	6 685	6 685
<b>as of 31 March 2019</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>71 438</b>	<b>109 450</b>

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  
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(€ 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 31 March		as of 31 December	
	2019	2018	2018	2018
Cash in hand and in bank	53 828	33 731	46 769	46 769
Short-term deposits	15 000	18 575	15 000	15 000
<b>Total cash and cash equivalents</b>	<b>68 828</b>	<b>52 306</b>	<b>61 769</b>	<b>61 769</b>

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(€ thousand)

### NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Total property, plant and equipment
<b>as of 31 December 2017</b>						
Acquisition cost	26 415	207 666	48 279	1 157	2 416	285 933
Accumulated depreciation	-6 829	-68 243	-35 560	-850	0	-111 482
<b>Net book value</b>	<b>19 586</b>	<b>139 423</b>	<b>12 719</b>	<b>307</b>	<b>2 416</b>	<b>174 451</b>
<b>Transactions in the period 1 January 2018 - 31 December 2018</b>						
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
<b>as of 31 December 2018</b>						
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
<b>Net book value</b>	<b>19 386</b>	<b>144 066</b>	<b>12 248</b>	<b>286</b>	<b>3 199</b>	<b>179 185</b>
<b>Transactions in the period 1 January 2019 - 31 March 2019</b>						
Acquisition in book value	0	0	0	0	3 393	3 393
Write off and sale of property, plant and equipment in residual value	0	0	-2	0	0	-2
Reclassification	2	3 333	235	0	-3 572	-2
Depreciation	-72	-799	-511	-21	0	-1 403
<b>as of 31 March 2019</b>						
Acquisition cost	26 502	218 319	48 952	1 141	3 020	297 934
Accumulated depreciation	-7 186	-71 719	-36 982	-876	0	-116 763
<b>Net book value</b>	<b>19 316</b>	<b>146 600</b>	<b>11 970</b>	<b>265</b>	<b>3 020</b>	<b>181 171</b>

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

As of 31 March 2019 the book value of the assets (Machinery and equipment) leased under financial lease is €954 thousand (31 December 2018: €878 thousand).

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(€ thousand)

**NOTE 4. INTANGIBLE ASSETS**

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
<b>as of 31 December 2017</b>			
Acquisition cost	5 247	390	5 637
Accumulated depreciation	-4 826	0	-4 826
<b>Net book value</b>	<b>421</b>	<b>390</b>	<b>811</b>
<b>Transactions in the period 1 January 2018 - 31 December 2018</b>			
Acquisition in book value	0	80	80
Reclassification	420	-420	0
Depreciation	-226	0	-226
<b>as of 31 December 2018</b>			
Acquisition cost	4 206	50	4 256
Accumulated depreciation	-3 591	0	-3 591
<b>Net book value</b>	<b>615</b>	<b>50</b>	<b>665</b>
<b>Transactions in the period 1 January 2019 - 31 March 2019</b>			
Acquisition in book value	0	6	6
Depreciation	-48	0	-48
<b>as of 31 31 March 2019</b>			
Acquisition cost	4 206	56	4 262
Accumulated depreciation	-3 639	0	-3 639
<b>Net book value</b>	<b>567</b>	<b>56</b>	<b>623</b>

## 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 €702 thousand on 1 January 2019.

### Right-of-use assets

	Machinery and equipment
<b>Transactions in the period 1 January 2019 - 31 March 2019</b>	
Reclassification 1 January 2019	702
Acquisition in book value	13
Depreciation	-51
<b>as of 31 March 2019</b>	
Acquisition cost	715
Accumulated depreciation	-51
<b>Net book value</b>	<b>664</b>

### Lease liability for right-of-use assets

<b>Transactions in the period 1 January 2019 - 31 March 2019</b>	
Reclassification 1 January 2019	702
Additions	13
Repayments of leases	-50
<b>as of 31 March 2019</b>	
Current portion	191
Non-current portion	474
<b>Remaining liability</b>	<b>665</b>

As a result of adopting new accounting principles, EBITDA has increased by €52 thousand for the first 3 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 €52 thousand, as repayments of the lease liabilities are classified as cash flows from financing activities. The net profit decreased by €1 thousand for the first 3 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 reflecting the Competition Authority's interpretation of the law.

According to the law the tariffs established by the City of Tallinn are in force until the Competition Authority approves the new tariffs and the Company has implemented these tariffs in line with the law. The Company has acted in good faith and in reliance on promises by the previous regulator. Thus the Company does not consider itself liable to the customers for any claims related to the tariffs applied until the new tariffs approved by the Competition Authority are duly implemented.

On 4 December 2018, the Competition Authority did not approve the tariff application, the Company has submitted. According to the decision they did not approve the pollution tax and additional capital component. 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 tariffs could also change if the CA establishes temporary water tariffs in accordance with the procedure specified in applicable law.

The potential undiscounted payments by the Company, if customer claims are to be recognised by the courts in full and all customers submit their claims, amounts to €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 31 March 2019 no official claims have been submitted. If such liability materialises, the Company may seek to increase its damages claim against the Republic of Estonia in the ongoing ICSID arbitration, or initiate a new ICSID arbitration. The Company will monitor the situation and thus may adjust the relevant provision on the rolling basis.

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(€ thousand)

## NOTE 7. REVENUE

	Quarter 1	for the year ended	
	2019	2018	31 December 2018
<b>Revenues from main operating activities</b>			
Total water supply and waste water disposal service, incl:	13 033	12 864	52 528
Private clients, incl:	6 491	6 428	25 765
Water supply service	3 567	3 532	14 179
Wastewater disposal service	2 924	2 896	11 586
Corporate clients, incl:	5 002	5 142	21 246
Water supply service	2 734	2 784	11 733
Wastewater disposal service	2 268	2 358	9 513
Outside service area clients, incl:	1 346	1 112	4 680
Water supply service	385	334	1 465
Wastewater disposal service	815	688	2 893
Storm water disposal service	146	90	322
Over pollution fee	194	182	837
Storm water treatment and disposal service and fire hydrants service	944	796	3 562
Construction service, design and asphaltting	558	283	6 000
Other works and services	129	134	690
<b>Total revenue</b>	<b>14 664</b>	<b>14 077</b>	<b>62 780</b>

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

## NOTE 8. STAFF COSTS

	Quarter 1	for the year ended	
	2019	2018	31 December 2018
Salaries and wages	-1 702	-1 678	-6 479
Social security and unemployment insurance tax	-575	-567	-2 190
<b>Staff costs total</b>	<b>-2 277</b>	<b>-2 245</b>	<b>-8 669</b>
<b>Average number of employees during the reporting period</b>	<b>314</b>	<b>315</b>	<b>316</b>

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

	Quarter 1		for the year ended 31
	2019	2018	December 2018
<b>Cost of goods and services sold</b>			
Water abstraction charges	-292	-291	-1 187
Chemicals	-405	-435	-1 744
Electricity	-1 004	-759	-2 849
Pollution tax	-367	-277	-963
Staff costs	-1 645	-1 593	-6 283
Depreciation and amortization	-1 340	-1 283	-5 177
Construction service, design and asphalting	-445	-241	-5 240
Other costs	-906	-878	-5 151
<b>Total cost of goods and services sold</b>	<b>-6 404</b>	<b>-5 757</b>	<b>-28 594</b>
<b>Marketing expenses</b>			
Staff costs	-88	-94	-321
Depreciation and amortization	0	0	-1
Other marketing expenses	-24	-18	-64
<b>Total marketing expenses</b>	<b>-112</b>	<b>-112</b>	<b>-386</b>
<b>Administrative expenses</b>			
Staff costs	-544	-558	-2 065
Depreciation and amortization	-83	-77	-342
Other general administration expenses	-634	-744	-2 618
<b>Total administrative expenses</b>	<b>-1 261</b>	<b>-1 379</b>	<b>-5 025</b>

## NOTE 10. OTHER INCOME/EXPENSES

	Quarter 1		for the year ended 31
	2019	2018	December 2018
Connection fees	86	69	295
Depreciation of single connections	-79	-63	-270
Doubtful receivables expenses (-)/ expense reduction (+)	3	26	-30
Provision for possible third party claims (Note 6)	0	0	-1 546
Other income (+)/expenses (-)	-4	-63	-285
<b>Total other income / expenses</b>	<b>6</b>	<b>-31</b>	<b>-1 836</b>

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## NOTE 11. FINANCIAL INCOME AND EXPENSES

	Quarter 1		for the year ended
	2019	2018	31 December 2018
Interest income	8	4	21
Interest expense, loan	-188	-188	-752
Interest expense, swap	-62	-160	-614
Increase (+)/decrease (-) of fair value of swap	40	85	376
Other financial income (+)/expenses (-)	-6	-5	-20
<b>Total financial income / expenses</b>	<b>-208</b>	<b>-264</b>	<b>-989</b>

## NOTE 12. DIVIDENDS

	for the year ended 31 December 2018
Dividends declared during the period	7 201
Dividends paid during the period	7 201
Income tax on dividends paid	-1 800
<b>Income tax accounted for</b>	<b>-1 800</b>

Dividend income tax rate in 2019 is 20/80 (in 2018: 20/80).

Paid-up dividends per shares:

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

## NOTE 13. EARNINGS PER SHARE

	Quarter 1		for the year ended
	2019	2018	31 December 2018
Net profit (+)/loss (-) minus B-share preferred dividend rights	6 684	6 533	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
Earnings per A share (in euros)	0,33	0,33	1,21
Earnings per B share (in euros)	600	600	600

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

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## 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 31 March		as of 31 December
<b>Balances recorded on the statement of financial position of the Group</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
Accounts receivable	3	3	221
Trade and other payables	-181	185	179
		<b>Quarter 1</b>	<b>for the year ended 31 December</b>
<b>Transactions</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
Revenue	944	796	3 562
Purchase of administrative and consulting services	243	254	1 009
<b>Fees for Management Board (excluding social tax)</b>	<b>76</b>	<b>72</b>	<b>192</b>
<b>Supervisory Board fees (excluding social tax)</b>	<b>8</b>	<b>8</b>	<b>32</b>

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 want to replace all Management Board members.

### Company shares belonging to the Management Board and Supervisory Board members

As of 31 March 2019 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 31 March 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/ettevete/management-board/supervisory-council/>