AS TALLINNA VESI

Consolidated Interim Report for the 3rd quarter of 2019

25 October 2019

Currency	Thousand euros
Start of reporting period	1 January 2019
End of reporting period	30 September 2019
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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Management report

Chairman´s summary

The Company has had a successful 3rd quarter in 2019. Despite numerous challenges, we have continued to deliver excellent operational and financial performance, with some improvement compared to the previous year. At the beginning of the 4th quarter, we received important news from the Competition Authority, in that they had approved the Company's tariff application, effectively concluding the long running tariff dispute.

Strong financial performance

The Group´s total sales during the 3rd quarter of 2019 remained stable at €16.49 million. Sales to private customers grew by 1.7% year-on-year. While sales to corporate customers within the main service area increased by 0.2%, sales to customers outside the main service area increased by 8.9%.

The gross profit of the company was €8.92 million, showing a slight increase of 3.8%. Variance was mainly attributable to the increased sales and reduced cost of chemicals, which were balanced by higher electricity, staff and depreciation costs. The Groups net profit was €7.33 million.

If the company was operating with fully frozen tariffs in the 3rd quarter of 2019, then based on the Competition Authority's decision dated 18/10/2019, the company will be facing a reduction in water and wastewater tariffs in the 4th quarter. On average the tariffs will drop 27% for domestic consumers and 15% for commercial consumers.

Reliable water supply and wastewater service

The quality of drinking water in Tallinn remains very good, the water samples taken from customers' taps during the 9 months of 2019 were 99.1% compliant with all requirements. The compliance in the 3rd quarter was 98.0%, which was somewhat lower in comparison with the result of the same period last year. Whereas the quality of drinking water leaving the water treatment plant continues to be excellent, the slight drop in the water quality at customers' taps is attributable to the changed analytical methods used by laboratory. The new analytical method is significantly more sensitive, which provides the water company with much more accurate information than before. As a result of those tests, Tallinna Vesi has made further developments in the water network and improved the effectiveness of maintenance system in order to ensure consistent supply of high-quality drinking water.

We value water as one of the most important natural resources, which must not be wasted. The level of leakages in our water network was 13.07% in the 3rd quarter, representing an excellent result. Low water losses and reduced time of average interruptions to water supply, are a testament to a stable and continuous service provided to our customers. In the 3rd quarter of 2019, the average water disruption time per property was only 3 hours and 4 minutes. The issues with the sewerage network have also reduced. In comparison with the 3rd quarter last year, the number of sewer blockages for the 3rd quarter dropped from 148 to 95. In the 3rd quarter of 2019, treated effluent at Paljassaare Wastewater Treatment Plant was compliant with all quality requirements.

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. Based on the feedback gathered from our customers, they rated us at 4.2 points on a 5-point scale in the 3rd quarter. Even though the number of customer contacts has increased, the level of customer service remains good.

In order to further improve customer satisfaction, we continue to develop our customer interaction channels. Already now we are informing customers of emergency interruptions and reminding them of a need to submit their water meter reading through SMS. In the upcoming months we are also introducing a new self-service environment.

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 3rd quarter of 2019, we hosted the annual Lake Ülemiste Run and participated in several public events. This summer and autumn we provided public events with tap water in tanks equalling approximately over 260,000 water bottles in volume, saving both the environment and money for people. We are very pleased to find that offering people our tap water has become a trend, which also promotes environmental awareness.

New tariff

Competition Authority approved the new water tariffs on the basis of AS Tallinna Vesi's application on 18/10/2019. Tallinna Vesi will start applying the new tariffs with effect from 01/12/2019 onwards. This means the ongoing tariff dispute has finally been resolved, and the company will operate with newly approved tariffs from December, which are in accordance with the Competition Authority's methodology. AS Tallinna Vesi will remain focused on providing an excellent service to our customers, and will adapt quickly to the new regulation principles.

Linked to the above, the Competition Authority concluded its supervisory review procedure, regarding AS Tallinna Vesi´s water and wastewater tariffs in Tallinn and Saue area, on 21 October 2019.

OPERATIONAL INDICATORS FOR NINE MONTHS OF 2019

Indicator	Unit	2019	2018	2017
Compliance of water quality at the customers' tap	%	99.1	99.9	99.9
Water loss in the water distribution network	%	12.5	13.9	13.5
Average duration of water interruptions per property in hours	h	2.83	3.18	3.26
Number of sewer blockages	No	397	443	520
Number of sewer bursts	No	82	65	109
Wastewater treatment compliance with environmental standards	%	100.0	100.0	100.0
Number of customer complaints*	No	123	115	29
Number of customer contacts regarding water quality	No	360	205	177
Number of customer contacts regarding water pressure	No	343	348	240
Number of customer contacts regarding blockages and discharge of storm water	No	749	759	812
Responding written customer contacts within at least 2 workdays	%	100.0	100.0	99.9
Number of failed promises	No	134	33	3
Notification of unplanned water interruptions at least 1 h before the interruption	%	96.9	96.6	98.7

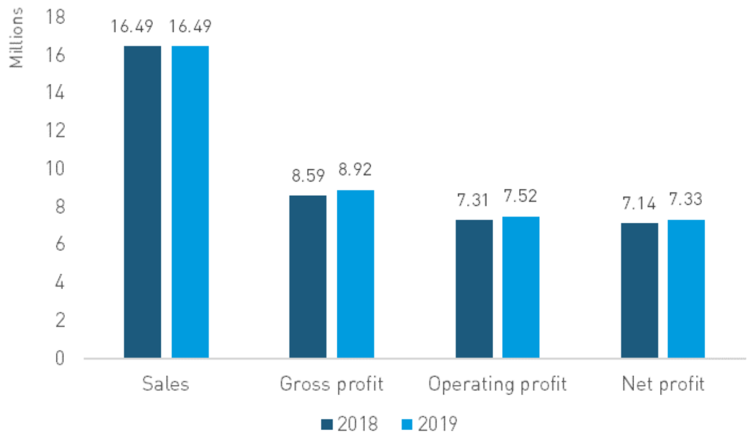
**Until 2018, this figure included only the customer complaints received in writing. The number for 2018 and 2019 includes the complaints received both in writing and by phone.*

Karl Heino Brookes

Chairman of the Management Board

FINANCIAL HIGHLIGHTS FOR THE 3rd QUARTER OF 2019

The Group's sales revenues during the 3rd quarter of 2019 remained stable at €16.49 million.



The gross profit in the 3rd quarter of 2019 was €8.92 million, showing an increase of 3.8% or €0.33 million. Increase in gross profit was related to higher water and wastewater revenues from private customers within the service area and outside service areas and stormwater revenues from the main service area, which was accompanied by lower other costs of goods sold and chemicals costs. The change from revenues and lower costs were partly balanced by higher electricity, staff and depreciation costs.

The operating profit was €7.52 million, showing an increase of 2.9% or €0.21 million. In addition to above-mentioned changes in gross profit, the operating profit was impacted also by higher other expenses. The Company bared the loss in disposing the fixed assets as a result of the change of water company in Harku area. At the same time bigger expenses were balanced by expense reduction of doubtful receivables.

The net profit for the 3rd quarter of 2019 was €7.33 million, showing an increase by 2.7% or €0.19 million. The net profit was mainly impacted by above-mentioned changes in the operating profit, balanced by slightly higher net financial expenses. The changes in the financial expenses were mostly influenced by lower positive change in the fair value of swap contracts year-on-year, balanced partly by lower interest expenses. The net profit for the 3rd quarter of 2019 and 2018 without the impact resulted from the change of the fair value of swap contracts was €7.29 million and €6.96 million respectively, being higher by 4.7% or €0.33 million year-on-year.

MAIN FINANCIAL INDICATORS

€ million, except key ratios	3rd quarter 2019	2018	2017	Change 2019/ 2018	9 months 2019	2018	2017	Change 2019/ 2018
Sales	16.49	16.49	15.33	0.00%	47.30	46.55	43.84	1.6%
Gross profit	8.92	8.59	8.57	3.8%	25.97	25.81	25.30	0.6%
Gross profit margin %	54.12	52.10	55.86	3.9%	54.91	55.45	57.71	-1.0%
Operating profit before depreciation and amortisation	9.01	8.73	9.08	3.1%	25.47	25.91	25.76	-1.7%
Operating profit before depreciation and amortisation margin %	54.63	52.95	59.24	3.2%	53.85	55.66	58.76	-3.3%
Operating profit	7.52	7.31	7.42	2.9%	21.01	21.65	21.09	-2.9%
Operating profit - main business	7.19	7.07	7.11	1.6%	20.36	21.15	20.64	-3.7%
Operating profit margin %	45.60	44.31	48.39	2.9%	44.42	46.50	48.10	-4.5%
Profit before taxes	7.33	7.14	7.04	2.7%	20.35	20.94	20.36	-2.8%
Profit before taxes margin %	44.47	43.28	45.93	2.7%	43.03	44.98	46.44	-4.3%
Net profit	7.33	7.14	7.04	2.7%	16.81	19.14	17.66	-12.2%
Net profit margin %	44.47	43.28	45.93	2.7%	35.53	41.11	40.28	-13.6%
ROA %	2.89	2.97	3.23	-3.0%	6.64	8.11	8.13	-18.1%
Debt to total capital employed %	59.29	59.89	56.47	-1.0%	59.29	59.89	56.47	-1.0%
ROE %	7.27	7.58	7.59	-4.1%	16.21	20.85	19.03	-22.2%
Current ratio	5.14	4.99	4.74	3.0%	5.14	4.99	4.74	3.0%
Quick ratio	5.10	4.96	4.69	2.8%	5.10	4.96	4.69	2.8%
Investments into fixed assets	4.66	4.29	2.39	8.5%	10.76	7.36	5.90	46.3%
Payout ratio %	na	62.11	99.72	na	na	62.11	99.72	na

Gross profit margin – Gross profit / Net sales

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

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

Operating profit margin – Operating profit / Net sales

Net profit margin – Net profit / Net sales

ROA – Net profit / Average Total assets for the period

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

ROE – Net profit / Average Total equity for the period

Current ratio – Current assets / Current liabilities

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

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

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

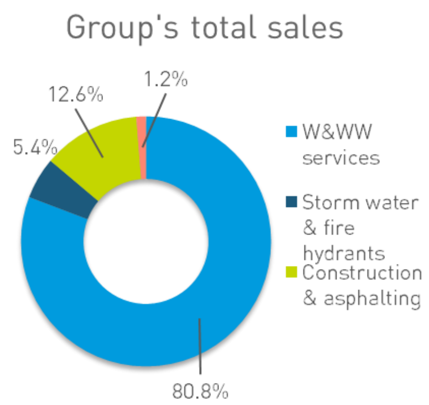
FINANCIAL RESULTS FOR THE 3rd QUARTER OF 2019

Statement of comprehensive income

SALES

As in the 3rd 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 18/10/2019 the CA approved the tariffs of the Company and new tariffs will become applicable starting from 1/12/2019. Domestic tariffs in the main area will be on average around 27% lower and commercial tariffs will be on average 15% lower.



In the 3rd quarter of 2019 the **Group's total sales** were €16.49 million, remaining stable year-on-year. 80.8% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.4% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 12.6% from construction and asphalting services and 1.2% from other works and services. The construction and asphalting services sales are more seasonal, and the Company continues to seek possibilities to keep and to grow these services revenues.

€ thousand	3rd quarter 2019	2018	2017	Variance 2019/2018 EUR	%
Private clients, incl:	**6,430**	**6,322**	**6,148**	**108**	**1.7%**
Water supply service	3,537	3,499	3,380	38	1.1%
Wastewater disposal service	2,893	2,823	2,768	70	2.5%
Corporate clients, incl:	**5,291**	**5,281**	**5,000**	**10**	**0.2%**
Water supply service	3,009	2,969	2,775	40	1.3%
Wastewater disposal service	2,282	2,312	2,225	-30	-1.3%
Outside service area clients, incl:	**1,248**	**1,146**	**1,143**	**102**	**8.9%**
Water supply service	415	381	336	34	8.9%
Wastewater disposal service	766	722	706	44	6.1%
Storm water disposal service	67	43	101	24	55.8%
Over pollution fee	**348**	**238**	**254**	**110**	**46.2%**
Total water supply and wastewater disposal service	**13,317**	**12,987**	**12,545**	**330**	**2.5%**
Storm water treatment and disposal and fire hydrants service	888	807	888	81	10.0%
Construction service, design and asphalting	2,077	2,507	1,735	-430	-17.2%
Other works and services	205	193	164	12	6.2%
SALES REVENUES TOTAL	**16,487**	**16,494**	**15,332**	**-7**	**0.0%**

Sales from water and wastewater services were €13.32 million, showing a 2.5% or €0.33 million increase compared to the 3rd quarter of 2018, resulting from the changes in sales volumes as described below:

- There has been an increase in private customers' revenues of 1.7% to €6.43 million. The increase in domestic customer consumption volumes came from apartment blocks, which is also our biggest private customer group.
- Sales to corporate customers within the service area has stayed at the same level to the comparative period, increasing slightly by 0.2% to €5.29 million. The increase was related to higher consumption in the leisure segment, impacted by two new leisure centres in Tallinn. It was almost fully balanced by lower consumption in the industrial and other commercial customer segment, caused by lower consumption of different customers with biggest impact from Tallinn prison moving out to Rae municipality.
- Sales to customers outside the main service area increased by 8.9% to €1.25 million. It was impacted by an increase of all services, caused mainly by higher water and wastewater supply to Rae, Loo and Kiili areas, accompanied by extraordinary water supply to Viimsi area and higher storm water disposal sales in all areas.
- Over pollution fees received have increased by 46.2% to €0.35 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system amounted to €0.89 million, showing an increase of 10.0% or €0.08 million compared to the same period in 2018, driven mainly by 25.1% higher storm water volumes and higher hydrants maintenance costs, balanced partly by lower cost per stormwater m^3.

Sales of construction, design and asphalting services were €2.08 million, decreasing by 17.2% or €0.43 million year-on-year. The decrease was mainly related to lower pipe construction services revenues, balanced partly by higher road construction revenues. The drop from pipe construction came despite of the fact that the Company had won some big projects in Tallinn and other parts of Estonia. Still as there was a delay in start of construction, it had an impact to 3rd quarter revenues.

COST OF GOODS AND SERVICES SOLD AND GROSS PROFIT

The cost of goods and services sold amounted to €7.57 million in the 3rd quarter of 2019, decreasing by 4.2% or €0.33 million compared to the equivalent period in 2018. The decrease was influenced by lower construction service-related and chemicals costs, accompanied by lower other costs of goods and services sold. It was balanced partly by higher electricity and staff costs and depreciation.

	3rd quarter			Variance 2019/2018	
€ thousand	**2019**	**2018**	**2017**	**EUR**	**%**
Water abstraction charges	-310	-298	-285	-12	-4.0%
Chemicals	-421	-468	-415	47	10.0%
Electricity	-773	-626	-724	-147	-23.5%
Pollution tax	-194	-204	-233	10	4.9%
Total direct production costs	**-1,698**	**-1,596**	**-1,657**	**-102**	**-6.4%**
Staff costs	-1,546	-1,453	-1,288	-93	-6.4%
Depreciation and amortisation	-1,313	-1,261	-1,515	-52	-4,1
Construction service, design and asphalting	-1,775	-2,251	-1,441	476	21.1%
Other costs of goods/services sold	-1,233	-1,339	-866	106	7.9%
Other costs of goods/services sold total	**-5,867**	**-6,304**	**-5,110**	**437**	**6,9%**
Total cost of goods/services sold	**-7,565**	**-7,900**	**-6,767**	**335**	**4.2%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €1.70 million, showing a 6.4% or €0.10 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 10,0% to €0.42 million, driven mainly by 34.5% lower price of methanol, accompanied by lower usage of methanol and coagulant in wastewater treatment to remove Nitrogen and Phosphorus, worth respectively +€0.04 million, +€0.02 million and +€0.02 million. Lower costs from wastewater treatment were partly balanced by higher usage and 5.4% higher price of coagulant in water treatment process, worth in total -€0.02 million.
- **Electricity costs** increased by 23.5% to €0.77 million, driven mainly by on average 22.5% higher average price of electricity and 11.9% higher wastewater volumes, worth respectively €0.13 million and €0.02 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to €5.87 million, having decreased by 6.9% or €0.44 million. The decrease came from costs related to construction and asphalting services and other costs of goods and services sold, while staff costs and depreciation increased by following reasons:

- **Staff costs** increased by 6.4% to €1.55 million. It was driven by higher number of staff (FTE 9 employees higher than in 3rd quarter of 2018) and change of salaries from the beginning of the year for all employees by CPI.

- **Depreciation** costs increased by 4.1% to €1.31 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 asphalting services costs** decreased by 21.1% to €1.77 million, mainly due to lower construction services revenues mentioned earlier.
- **Other costs of goods/services sold** decreased by 7.9% to €1.23 million, mainly because of timing of assets maintenance and repair costs, balanced by higher sludge disposal costs, worth respectively by +€0.17 million and -€0.06 million.

As a result of all above the **Group's gross profit** for the 3rd quarter of 2019 was €8.92 million, showing an increase of 3.8% or €0.33 million, compared to the gross profit of €8.59 million for the comparative period of 2018.

ADMINISTRATIVE AND MARKETING EXPENSES, OTHER INCOME AND EXPENSES

Administrative and marketing expenses amounted to €1.21 million, having increased by 1.9% or €0.02 million. The higher costs were mainly related to €0.03 million higher staff costs as a result of above mentioned changes of salaries from the beginning of the year by CPI.

Other income and expenses amounted to net expense of €0.20 million, having increased by 101.0% or €0.10 million compared to net expense of €0.10 million in comparative period. The change in other income and expenses was mostly impacted by loss from disposing of fixed assets by €0,16 million related to change of water company in Harku area, which was balanced by expense reduction of doubtful receivables in the amount of +€0,03 million in 3rd quarter 2019 compared to expense of doubtful receivables in the amount of -€0,02 million in comparative period of 2018.

OPERATING PROFIT

As a result of the factors listed above the Group's **operating profit** for the 3rd quarter of 2019 amounted to €7.52 million, being 2.9% or €0.21 million higher than in the corresponding period of 2018. The Group's operating profit from main business was €7.19 million, being 1.6% or €0.12 million higher compared to 2018.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of €0.19 million, compared to net expense of €0.17 million in the 3rd quarter of 2018. The increase was mainly impacted by lower positive change in the fair value of the swap contracts year-on-year, balanced partly by lower interest costs, worth respectively -€0.14 million and +€0.11 million. Lower interest costs were related to Swap contract, which ended in November 2018.

The standalone swap agreements have been signed to mitigate the long-term floating interest risk. The interest swap agreements are signed for €37.5 million, €55.7 million are with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, amounting to €0.32 million. Effective interest rate of loans (incl. swap interests) in the 3rd quarter of 2019 was 1.00%, amounting to interest costs of €0.24 million, compared to the effective interest rate of 1.46% and the interest costs of €0.36 million in the 3rd quarter of 2018.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's **profit before taxes and net profit** for the 3rd quarter of 2019 was €7.33 million, being 2.7% or €0.19 million higher than for the comparative period of 2018. The increase in net profit was mainly impacted by changes in in operating profit, balanced by slightly higher net financial expenses mentioned above, worth respectively +€0.21 million and -€0.02 million. Eliminating the effects of the change of the fair value of swap contracts the Group's net profit for the 3rd quarter of 2019 and 2018 would have been €7.29 million and €6.96 million respectively, showing an increase of 4.7% or €0.33 million year-on-year.

FINANCIAL RESULTS FOR THE NINE MONTHS OF 2019

Statement of comprehensive income

SALES

During the nine months of 2019 the **Group's total sales** were €47.30 million, showing an increase by 1.6% or €0.75 million year-on-year. **Sales from water and wastewater services** for nine months of 2019 were 39.80 million, increasing 1.5% or €0.60 million year-on-year. 84.1% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.0% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 8.7% from construction and asphalting services and 1.2% from other works and services.

	9 months			Variance 2019/2018	
€ thousand	**2019**	**2018**	**2017**	EUR	%
Private clients, incl:	**19,451**	**19,178**	**18,808**	**273**	**1.4%**
Water supply service	10,698	10,579	10,339	119	1.1%
Wastewater disposal service	8,753	8,599	8,469	154	1.8%
Corporate clients, incl:	**15,668**	**15,947**	**15,256**	**-279**	**-1.7%**
Water supply service	8,754	8,835	8,423	-81	-0.9%
Wastewater disposal service	6,914	7,112	6,833	-198	-2.8%
Outside service area clients, incl:	**3,859**	**3,440**	**3,353**	**419**	**12.2%**
Water supply service	1,231	1,086	1,005	145	13.4%
Wastewater disposal service	2,351	2,143	2,081	208	9.7%
Storm water disposal service	277	211	267	66	31.3%
Over pollution fee	**818**	**635**	**722**	**183**	**28.8%**
Total water supply and wastewater disposal service	**39,796**	**39,200**	**38,139**	**596**	**1.5%**
Storm water treatment and disposal service and fire hydrants service	2,849	2,483	2,468	366	14.7%
Construction service, design and asphalting	4,092	4,360	2,780	-268	-6.1%
Other works and services	564	507	454	57	11.2%
SALES REVENUES TOTAL	**47,301**	**46,550**	**43,841**	**751**	**1.6%**

During the nine months of 2019 there has been an increase in **sales to private customers** by 1.4% to €19.45 million and a decrease to **corporate customers** within the service area by 1.7% to €15.67 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group. 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 3rd quarter results. Sales to **customers outside the main service area** increased by 12.2% to €3.86 million, being impacted by an increase in the sales of all services by reasons mentioned in 3rd quarter results. **Over pollution fees** received have increased by 28.8% to €0.82 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the nine months of 2019 amounted to €2.85 million, showing an increase of 14.7% or €0.37 million year-on-year, driven mainly by 15.1% higher storm water volumes and by higher hydrants maintenance costs in 3rd quarter of 2019, balanced slightly by lower cost per m^3.

Sales of construction, design and asphalting services were €4.09 million, decreasing by 6.1% or €0.27 million year-on-year. The decrease was mainly related to lower pipe construction revenues in 2nd and 3rd quarter because of reasons mentioned in 3rd quarter results.

COST OF GOODS AND SERVICES SOLD AND GROSS AND OPERATING PROFITS

	9 months			Variance 2019/2018	
€ thousand	2019	2018	2017	EUR	%
Water abstraction charges	-904	-892	-873	-12	-1.3%
Chemicals	-1,256	-1,249	-1,100	-7	-0.6%
Electricity	-2,594	-2,082	-2,354	-512	-24.6%
Pollution tax	-788	-715	-726	-73	-10.2%
Total direct production costs	**-5,542**	**-4,938**	**-5,053**	**-604**	**-12.2%**
Staff costs	-4,895	-4,677	-4,188	-218	-4.7%
Depreciation and amortisation	-3,951	-3,812	-4,227	-139	-3.6%
Construction service, design and asphalting	-3,465	-3,852	-2,315	387	10.0%
Other costs of goods/services sold	-3,474	-3,460	-2,759	-14	-0.4%
Other costs of goods/services sold total	**-15,785**	**-15,801**	**-13,489**	**16**	**0.1%**
Total cost of goods/services sold	**-21,327**	**-20,739**	**-18,542**	**-588**	**-2.8%**

During the nine months of 2019 **the cost of goods sold** amounted to €21.33 million, increasing by 2.8% or €0.59 million compared to the equivalent period in 2018. **Total direct production costs** (water abstraction charges, chemicals, electricity and pollution tax expenses) amounted to €5.54 million, showing a 12.2% or €0.60 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:

- **Electricity costs** increased by 24.6% to €2.59 million, driven by on average 25.3% higher electricity prices (including networks fees), worth €0.50 million.
- **Pollution tax expense** increased by 10.2% to €0.79 million, mainly due to 8.1% higher treated wastewater volumes, accompanied by impact from higher pollution load of different pollutants, worth respectively -€0.06 million and -€0.01 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to €15.79 million, being almost at the same level as in comparative period of 2018. The changes in other costs of goods sold were mainly driven by costs related to construction services by being 10.0% lower amounting to €3.35 million, driven by lower construction services revenues mentioned above and project specific changes. It was balanced by 4.7% higher staff costs amounting to €4.90 million and by 3.6% higher depreciation amounting to €3.95 million by the same reasons mentioned in the 3rd quarter results.

The **Group's gross profit** for the nine months of 2019 was €25.97 million, showing an increase of 0.6% or €0.16 million compared to the comparative period of 2018. The **Group's operating profit** for the nine months of 2019 amounted to €21.01 million, being 2.9% or €0.64 million lower than in the corresponding period of 2018, being mainly impacted by 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.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of €0.66 million, compared to net expense of €0.71 million in the nine 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 +€0.31 million and -€0.28 million.

PROFIT BEFORE TAXES AND NET PROFIT

The **Group's profit before taxes** for the nine months of 2019 were €20.35 million, being 2.8% or €0.59 million lower than for the relevant period of 2018. The **Group's net profit** for the nine months of 2019 were €16.81 million, being 12.2% or €2.33 million lower than for the equivalent period of 2018. Eliminating the effects of the change of the derivatives fair value the Group's net profit for the nine months of 2019 would have been €16.75 million, showing a decrease by 10.9% or €2.05 million year-on-year.

Statement of financial position

In the nine months of 2019 the Group invested into fixed assets €10.76 million. As of 30/09/2019, non-current tangible assets amounted to €185.55 million and total non-current assets amounted to €186.75 million (30/09/2018: €177.64 million and €178.35 million respectively).

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

Compared to the year end of 2018 the trade receivables, accrued income and prepaid expenses have shown an increase in the amount of €0.81 million to €8.44 million. Increase mainly derives from €0.41 million higher construction services related trade receivables, accompanied by higher storm water and construction services related accrued income, respectively by €0.27 million and €0.16 million. The collectability rate continues to be high at 99.79% level, which is by 0.07% higher than as of September 2018.

Current liabilities have increased by €0.61 million to €13.64 million compared to the year end of 2018, mainly deriving from higher investments related trade payables, accompanied by higher current liabilities from the right-of-use assets mentioned above, respectively €0.47 million and €0.19 million.

Deferred income from connection fees has grown compared to the end of 2018 by €6.24 million to €28.98 million.

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

The Group's loan balance has decreased slightly, being €93.18 million, as the Company has started to pay back NIB loan in May 2019. The weighted average interest risk margin for the total loan facility is 0.79%.

The Group has a Total debt to assets level of 59.3%, in range of 55%-65%, reflecting the Group's equity profile. In comparative period of 2018, the total debt to assets ratio was 59.9%.

Cash flow

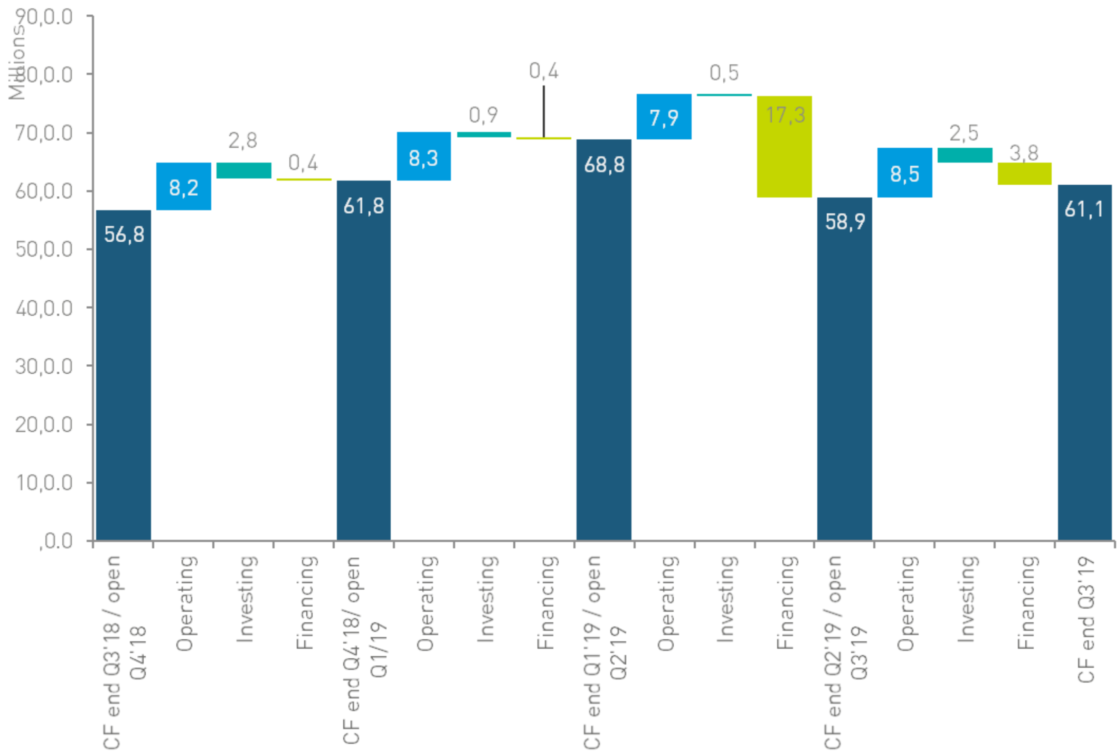
As of 30/09/2019, the cash position of the Group is strong. At the end of September 2019, the cash balance of the Group stood at €61.12 million, which is 23.8% of the total assets (30/09/2018: €56.76 million, forming 23.3% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the nine months of 2019, the Group generated €24.70 million of cash flows from operating activities, a decrease of €1.42 million compared to the corresponding period in 2018. Underlying operating profit continues to be the main contributor to operating cash flows.

In the nine months of 2019 the result of net cash flows from investing activities was a cash outflow of €3.91 million, a decrease of €0.17 million compared to the cash outflow of €4.08 million in the nine months of 2018. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by €0.77 million compared to 2018 amounting to €6.15 million.
- The compensations received for the construction of pipelines were €1.67 million, showing a decrease of €0.54 million compared to the same period of 2018.

In the nine months of 2019 cash outflow from financing activities amounted to €21.43 million, increasing by €11.17 million compared to the same period in 2018. The change was mainly related to higher dividend and related tax payment and paying the first instalment of NIB loan, balanced by lower interest payments, respectively -€9.54 million, -€1.82 million and +€0.31 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 3rd 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 311 in 2019 compared to the 296 in 2018. Average number of employees during the nine months was respectively 320 in 2019 and 316 in 2018.

By gender, employee allocation was as follows:

	As of 30/09/2019			As of 30/09/2018		
	Women	Men	Total	Women	Men	Total
Group	92	233	325	88	222	310
Management Team	14	14	28	14	15	29
Executive Team	4	4	8	4	4	8
Management Board	1	2	3	1	2	3
Supervisory Board	1	8	9	1	8	9

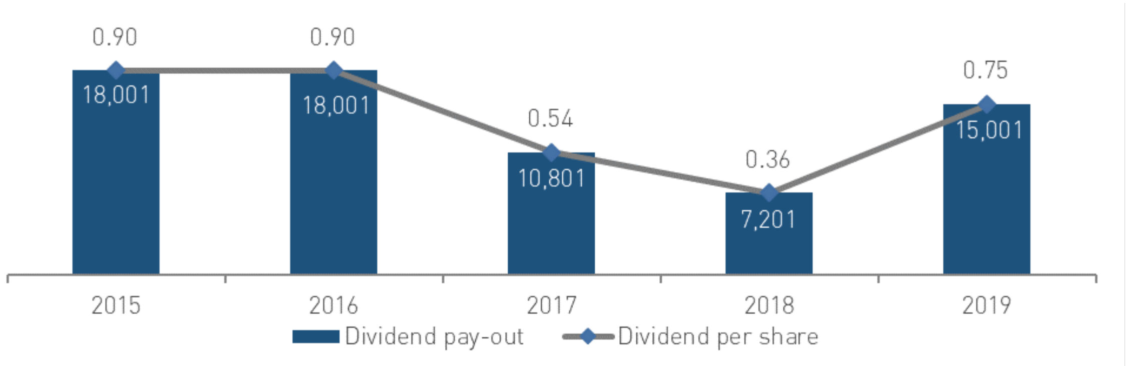
The total salary costs were €2.12 million for the 3rd quarter of 2019, including €0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could be up to €0.09 million should the Council want to replace the current Management Board members.

DIVIDENDS

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

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

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



SHARE PERFORMANCE

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

As of 30/09/2019, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

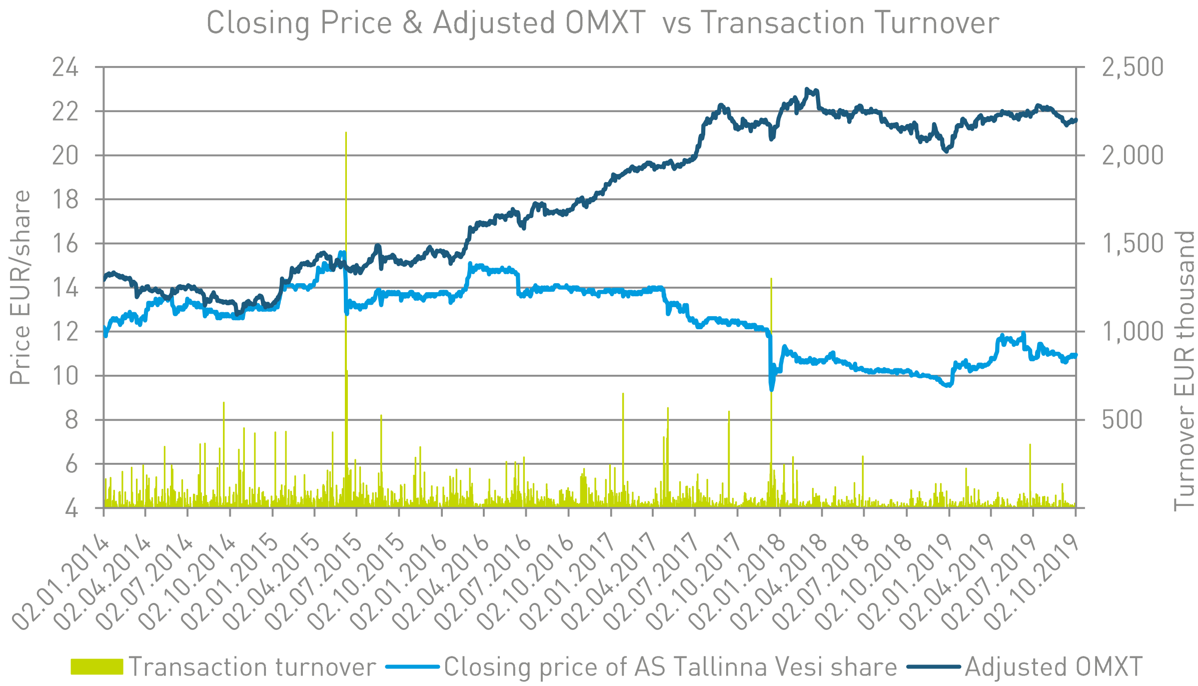
- United Utilities (Tallinn) BV (35.3%)
- City of Tallinn (34.7%)

During the nine months of 2019 the shareholder structure has been relatively stable compared to the end of 2018. At the end of the 3rd quarter of 2019 the pension funds shareholding was at the same level as at the end of the 2nd quarter, having decreased to 0.99% of the total shares compared to 1.33% at the end of 2018.

As of 30/09/2019, the closing price of AS Tallinna Vesi share was €10.85, which is 0.46% (2018: -0.49%) lower compared to the closing price of €10.90 at the beginning of the quarter. During the 3rd quarter the OMX Tallinn index dropped by 1.54% (2018: -3.63%).

In the nine months of 2019, 3,096 deals with the Company's shares were concluded (2018: 3,014 deals) during which 499 thousand shares or 2.5% of total shares exchanged their owners (2018: 546 thousand shares or 2.7%).

The turnover of the transactions was €0.38 million lower than in 2018 comparative period, amounting to €5.4 million.



CORPORATE STRUCTURE

As of 30/09/2019, 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 no changes in the Supervisory Council members in the 3rd quarter of 2019.

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 2/06/2014 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).

In 3rd quarter the announcement was made that Riina Käi will leave the Company from the beginning of 2020. The election of new Chief Financial Officer is in process.

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 9 months period of financial year 2019 ended on 30 September 2019. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended on 30 September 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 9 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 3 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 24 October 2019 have been considered in preparing the financial statements.

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

Karl Heino Brookes
Chairman of the Management Board
Chief Executive Officer

Aleksandr Timofejev
Member of the Management Board
Chief Operating Officer

Riina Käi
Member of the Management Board
Chief Financial Officer

24 October 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€ thousand)

ASSETS	Note	as of 30 September 2019	as of 30 September 2018	as of 31 December 2018
CURRENT ASSETS				
Cash and cash equivalents	2	61 125	56 756	61 769
Trade receivables, accrued income and prepaid expenses		8 439	8 181	7 631
Inventories		539	441	498
TOTAL CURRENT ASSETS		70 103	65 378	69 898
NON-CURRENT ASSETS				
Property, plant and equipment	3	185 550	177 639	179 185
Intangible assets	4	594	709	665
Right-of-use assets	5	602	0	0
TOTAL NON-CURRENT ASSETS		186 746	178 348	179 850
TOTAL ASSETS		256 849	243 726	249 748
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		4 010	2 032	3 823
Trade and other payables		6 719	7 531	6 047
Derivatives		271	301	207
Prepayments		2 639	3 239	2 955
TOTAL CURRENT LIABILITIES		13 639	13 103	13 032
NON-CURRENT LIABILITIES				
Deferred income from connection fees		28 981	21 562	22 745
Borrowings		90 503	93 626	91 919
Derivatives		50	112	173
Provision for possible third party claims	6	19 068	17 522	19 068
Other payables		36	48	46
TOTAL NON-CURRENT LIABILITIES		138 638	132 870	133 951
TOTAL LIABILITIES		152 277	145 973	146 983
EQUITY				
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		66 560	59 741	64 753
TOTAL EQUITY		104 572	97 753	102 765
TOTAL LIABILITIES AND EQUITY		256 849	243 726	249 748

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ thousand)

		Quarter 3		9 months		for the year ended 31 December
	Note	2019	2018	2019	2018	2018
Revenue	7	16 487	16 494	47 301	46 550	62 780
Cost of goods and services sold	9	-7 565	-7 900	-21 327	-20 739	-28 594
GROSS PROFIT		8 922	8 594	25 974	25 811	34 186
Marketing expenses	9	-89	-87	-297	-293	-386
General administration expenses	9	-1 120	-1 100	-4 408	-3 695	-5 025
Other income (+)/expenses (-)	10	-195	-97	-256	-176	-1 836
OPERATING PROFIT		7 518	7 310	21 013	21 647	26 939
Financial income	11	12	5	30	14	21
Financial expenses	11	-199	-176	-691	-723	-1 010
PROFIT BEFORE TAXES		7 331	7 139	20 352	20 938	25 950
Income tax on dividends	12	0	0	-3 544	-1 800	-1 800
NET PROFIT FOR THE PERIOD		7 331	7 139	16 808	19 138	24 150
COMPREHENSIVE INCOME FOR THE PERIOD		7 331	7 139	16 808	19 138	24 150
Attributable profit to:						
Equity holders of A-shares		7 330	7 138	16 807	19 137	24 149
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	13	0,37	0,36	0,84	0,96	1,21
Earnings per B share (in euros)	13	600	600	600	600	600

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

CONSOLIDATED CASH FLOWS STATEMENT

(€ thousand)

	Note	9 months 2019	9 months 2018	for the year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		21 013	21 647	26 939
Adjustment for depreciation/amortisation	3,4,5,9,10	4 457	4 263	5 790
Adjustment for revenues from connection fees	10	-277	-216	-295
Other non-cash adjustments		0	-11	-20
Profit (-)/loss (+) from sale of property, plant and equipment, and intangible assets		154	-48	-115
Change in current assets involved in operating activities		-843	-458	54
Change in liabilities involved in operating activities		195	946	1 939
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		24 699	26 123	34 292
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-6 147	-6 922	-10 736
Compensations received for construction of pipelines, incl connection fees		2 205	2 752	3 716
Proceeds from sale of property, plant and equipment, and intangible assets		7	79	160
Interest received		25	11	17
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-3 910	-4 080	-6 843
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-764	-1 075	-1 394
Lease payments		-306	-184	-258
Repayment of loans		-1 818	0	0
Dividends paid	12	-14 965	-7 201	-7 201
Withheld income tax paid on dividends	12	-36	0	0
Income tax paid on dividends		-3 544	-1 800	-1 800
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-21 433	-10 260	-10 653
CHANGE IN CASH AND CASH EQUIVALENTS		-644	11 783	16 796
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	12	61 769	44 973	44 973
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	12	61 125	56 756	61 769

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ thousand)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2017	12 000	24 734	1 278	47 804	85 816
Dividends	0	0	0	-7 201	-7 201
Comprehensive income for the period	0	0	0	24 150	24 150
as of 31 December 2018	12 000	24 734	1 278	64 753	102 765
as of 31 December 2017	12 000	24 734	1 278	47 804	85 816
Dividends	0	0	0	-7 201	-7 201
Comprehensive income for the period	0	0	0	19 138	19 138
as of 30 September 2018	12 000	24 734	1 278	59 741	97 753
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	16 808	16 808
as of 30 September 2019	12 000	24 734	1 278	66 560	104 572

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 September		as of 31 December
	2019	2018	2018
Cash in hand and in bank	46 125	41 756	46 769
Short-term deposits	15 000	15 000	15 000
Total cash and cash equivalents	61 125	56 756	61 769

(€ thousand)

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Total property, plant and equipment
as of 31 December 2017						
Acquisition cost	26 415	207 666	48 279	1 157	2 416	285 933
Accumulated depreciation	-6 829	-68 243	-35 560	-850	0	-111 482
Net book value	19 586	139 423	12 719	307	2 416	174 451
Transactions in the period 1 January 2018 - 31 December 2018						
Acquisition in book value	0	0	0	0	10 317	10 317
Write off and sale of property, plant and equipment in residual value	-13	-2	-29	0	0	-44
Reclassification	102	7 792	1 601	64	-9 534	25
Depreciation	-289	-3 147	-2 043	-85	0	-5 564
as of 31 December 2018						
Acquisition cost	26 500	215 059	48 792	1 141	3 199	294 691
Accumulated depreciation	-7 114	-70 993	-36 544	-855	0	-115 506
Net book value	19 386	144 066	12 248	286	3 199	179 185
Transactions in the period 1 January 2019 - 30 September 2019						
Acquisition in book value	0	0	0	0	10 685	10 685
Write off and sale of property, plant and equipment in residual value	-7	-129	-24	0	0	-160
Reclassification	42	8 885	513	17	-9 459	-2
Depreciation	-217	-2 400	-1 475	-66	0	-4 158
as of 30 September 2019						
Acquisition cost	26 528	223 635	49 033	1 155	4 425	304 776
Accumulated depreciation	-7 324	-73 213	-37 771	-918	0	-119 226
Net book value	19 204	150 422	11 262	237	4 425	185 550

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

As of 30 September 2019 the book value of the assets (Machinery and equipment) leased under financial lease is €861k (31 December 2018: €878k).

(€ thousand)

NOTE 4. INTANGIBLE ASSETS

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2017			
Acquisition cost	5 247	390	5 637
Accumulated depreciation	-4 826	0	-4 826
Net book value	421	390	811
Transactions in the period 1 January 2018 - 31 December 2018			
Acquisition in book value	0	80	80
Reclassification	420	-420	0
Depreciation	-226	0	-226
as of 31 December 2018			
Acquisition cost	4 206	50	4 256
Accumulated depreciation	-3 591	0	-3 591
Net book value	615	50	665
Transactions in the period 1 January 2019 - 30 September 2019			
Acquisition in book value	0	78	78
Reclassification	72	-72	0
Depreciation	-149	0	-149
as of 30 September 2019			
Acquisition cost	4 278	56	4 334
Accumulated depreciation	-3 740	0	-3 740
Net book value	538	56	594

(€ thousand)

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 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 €702k on 1 January 2019.

Right-of-use assets

	Machinery and equipment
Transactions in the period 1 January 2019 - 30 September 2019	
Reclassification 1 January 2019	702
Acquisition in book value	64
Depreciation	-150
Termination of contracts	-14
as of 30 September 2019	
Acquisition cost	745
Accumulated depreciation	-143
Net book value	**602**

Lease liability for right-of-use assets

Transactions in the period 1 January 2019 - 30 September 2019	
Reclassification 1 January 2019	702
Additions	64
Repayments of leases	-148
Termination of contracts	-14
as of 30 September 2019	
Current portion	192
Non-current portion	412
Remaining liability	**604**

As a result of adopting new accounting principles, EBITDA has increased by €153k for the first 9 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 €153k, as repayments of the lease liabilities are classified as cash flows from financing activities. The net profit decreased by €2k for the first 9 months of 2019 as a result of adopting new accounting principles.

NOTE 6. PROVISION FOR POSSIBLE THIRD PARTY CLAIMS

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

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

On 4 December 2018, the Competition Authority did not approve the tariff application, the Company has submitted. The Company applied for the allowed revenue of €44.5 million in the City of Saue and Tallinn, whilst the Competition Authority considered appropriate €34.5 million. On 18 October 2019 the Competition Authority has approved the tariffs that the Company applied for in September 2019. The tariffs will be enacted starting from 1 December 2019. In the main area for domestic customers the prices will be lower approximately 27% on average and for commercial customers the tariffs will be lower 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 €47.7 million (31 December 2018: €47.7 million). This estimate marks the maximum difference between the tariffs established by the City of Tallinn and the tariffs as estimated by the Company based on our current best understanding of the Competition Authority's methodology over the past three years.

The Management Board of the Company has assessed the potential liability resulting from such claims, if successful, to be €19.1 million (31 December 2018: €19.1 million). As of 30 September 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 7. REVENUE

	Quarter 3		9 months		for the year ended 31 December
	2019	2018	2019	2018	2018
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	13 317	12 987	39 796	39 200	52 528
Private clients, incl:	6 430	6 322	19 451	19 178	25 765
Water supply service	3 537	3 499	10 698	10 579	14 179
Wastewater disposal service	2 893	2 823	8 753	8 599	11 586
Corporate clients, incl:	5 291	5 281	15 668	15 947	21 246
Water supply service	3 009	2 969	8 754	8 835	11 733
Wastewater disposal service	2 282	2 312	6 914	7 112	9 513
Outside service area clients, incl:	1 248	1 146	3 859	3 440	4 680
Water supply service	415	381	1 231	1 086	1 465
Wastewater disposal service	766	722	2 351	2 143	2 893
Storm water disposal service	67	43	277	211	322
Over pollution fee	348	238	818	635	837
Storm water treatment and disposal service and fire hydrants service	888	807	2 849	2 483	3 562
Construction service, design and asphalting	2 077	2 507	4 092	4 360	6 000
Other works and services	205	193	564	507	690
Total revenue	16 487	16 494	47 301	46 550	62 780

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

NOTE 8. STAFF COSTS

	Quarter 3		9 months		for the year ended 31 December
	2019	2018	2019	2018	2018
Salaries and wages	-1 583	-1 492	-5 026	-4 841	-6 479
Social security and unemployment insurance tax	-535	-505	-1 699	-1 637	-2 190
Staff costs total	-2 118	-1 997	-6 725	-6 478	-8 669
Average number of employees during the reporting period	325	316	320	316	316

(€ thousand)

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

	Quarter 3		9 months		for the year ended 31 December
	2019	2018	2019	2018	2018
Cost of goods and services sold					
Water abstraction charges	-310	-298	-904	-892	-1 187
Chemicals	-421	-468	-1 256	-1 249	-1 744
Electricity	-773	-626	-2 594	-2 082	-2 849
Pollution tax	-194	-204	-788	-715	-963
Staff costs	-1 546	-1 453	-4 895	-4 677	-6 283
Depreciation and amortization	-1 313	-1 261	-3 951	-3 812	-5 177
Construction service, design and asphalting	-1 775	-2 251	-3 465	-3 852	-5 240
Other costs	-1 233	-1 339	-3 474	-3 460	-5 151
Total cost of goods and services sold	-7 565	-7 900	-21 327	-20 739	-28 594
Marketing expenses					
Staff costs	-71	-73	-240	-245	-321
Depreciation and amortization	0	0	0	0	-1
Other marketing expenses	-18	-14	-57	-48	-64
Total marketing expenses	-89	-87	-297	-293	-386
Administrative expenses					
Staff costs	-501	-471	-1 590	-1 556	-2 065
Depreciation and amortization	-84	-94	-249	-253	-342
Other general administration expenses	-535	-535	-2 569	-1 886	-2 618
Total administrative expenses	-1 120	-1 100	-4 408	-3 695	-5 025

NOTE 10. OTHER INCOME/EXPENSES

	Quarter 3		9 months		for the year ended 31 December
	2019	2018	2019	2018	2018
Connection fees	98	75	277	216	295
Depreciation of single connections	-91	-69	-257	-198	-270
Doubtful receivables expenses (-)/ expense reduction (+)	29	-19	22	-13	-30
Provision for possible third party claims (Note 6)	0	0	0	0	-1 546
Other income (+)/expenses (-)	-231	-84	-298	-181	-285
Total other income / expenses	-195	-97	-256	-176	-1 836

(€ thousand)

NOTE 11. FINANCIAL INCOME AND EXPENSES

	Quarter 3		9 months		for the year ended 31 December
	2019	2018	2019	2018	2018
Interest income	12	5	30	14	21
Interest expense, loan	-184	-187	-562	-564	-752
Interest expense, swap	-53	-164	-174	-487	-614
Increase (+)/decrease (-) of fair value of swap	43	179	59	343	376
Other financial income (+)/expenses (-)	-5	-4	-14	-15	-20
Total financial income / expenses	-187	-171	-661	-709	-989

NOTE 12. DIVIDENDS

	Quarter 3		9 months		for the year ended 31 December
	2019	2018	2019	2018	2018
Dividends declared during the period	0	0	15 001	7 201	7 201
Dividends paid during the period	0	0	14 965	7 201	7 201
Withheld income tax on dividends	0	0	36	0	0
Income tax on dividends paid	0	0	3 544	1 800	1 800
Dividends declared per shares:					
Dividends per A-share (in euros)	0,00	0,00	0,75	0,36	0,36
Dividends per B-share (in euros)	0	0	600	600	600

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

Dividend income tax rate in 2018 was 20/80.

NOTE 13. EARNINGS PER SHARE

	Quarter 3		9 months		for the year ended 31 December
	2019	2018	2019	2018	2018
Net profit minus B-share preferred dividend rights	7 330	7 138	16 807	19 137	24 149
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,37	0,36	0,84	0,96	1,21
Earnings per B share (in euros)	600	600	600	600	600

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

(€ thousand)

NOTE 14. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded on the statement of financial position of the Group	as of 30 September 2019	as of 30 September 2018	as of 31 December 2018
Accounts receivable	3	346	221
Trade and other payables	189	189	179

Transactions	Quarter 3 2019	Quarter 3 2018	9 months 2019	9 months 2018	for the year ended 31 December 2018
Revenue	888	807	2 849	2 483	3 562
services	250	254	742	765	1 009
Fees for Management Board (excluding social tax)	40	38	156	154	192
Supervisory Board fees (excluding social tax)	8	8	24	24	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 €90k (excluding social tax) if the Supervisory Board would replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

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

NOTE 15. LIST OF SUPERVISORY BOARD MEMBERS

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

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