

*Tallinna Vesi*



AS Tallinna Vesi  
Results of operations – for the 3<sup>rd</sup> quarter of 2014

Currency	Thousand euros
Start of reporting period	1 January 2014
End of reporting period	30 September 2014
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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

### Contractual Highlights

- AS Tallinna Vesi tariffs continue to be on the same level based on temporary injunction granted by the Court for the period of court proceedings to protect the Company from the unilateral breach of privatization agreement by Estonian Authorities.
- AS Tallinna Vesi would like all its shareholders to be fully aware of the facts that the Company was privatised in 2001 with the full support and knowledge of the Estonian national government, with written confirmations from the Prime Minister and the Minister of Finance regarding the key terms of the agreements, and utilising the expertise and guidance of the European Bank for Reconstruction and Development (EBRD).
- At the end of May 2012 the District Court ruled that AS Tallinna Vesi's Services Agreement, that was part of the international privatisation, is a public law contract. AS Tallinna Vesi firmly believes that the terms and conditions of the international privatisation contract that has been deemed a public law contract should not be broken simply by transferring the duties of the regulator from one state institution (the City of Tallinn) to a different state institution (the Competition Authority). A public law contract should enjoy the protection of the Estonian legal system, should the contract not be honoured, then the company will have a claim against the Estonian state.
- In addition, two experts that were included in the dispute, presented their independent expert opinions which were of the view that the tariff regulation methodology chosen in the Services Agreement, is an internationally recognised tariff methodology and complied with the PWSSA in force at the time of the privatisation. AS Tallinna Vesi hopes that the expert opinions facilitate swifter resolution of the complaints submitted by the Company against the Competition Authority since 1<sup>st</sup> of June 2011.
- The date of the next local court hearing is not set.
- Following their investigation, the European Commission announced in May 2014 that it has decided not to proceed with the Company's complaints in relation to the anti-monopoly bill. The European Commission did not assess the lawfulness of the application of the amendments made to the Anti-Monopoly Bill adopted in 2010 as regards to the Company and it also did not assess or comment upon the water tariffs of AS Tallinna Vesi. In its letter the European Commission was explicit about leaving the legal opinion on the impact on the Company for the court to decide.
- In May 2014, AS Tallinna Vesi submitted a claim against the Competition Authority to the Tallinn Administrative Court to avoid the expiry of monetary claims. The Company claims compensation for potential damages of over 90 million euros for total losses over the lifetime of the international privatisation contract up to 2020. The total compensation claim applies when the tariffs will remain unchanged till 2020. Of this amount, over 50 million euros has been already caused by the Competition Authority's refusal to approve tariff increases in the period of 2011 – 2013. The Court decided to stay the claim proceeding until the main tariff dispute is resolved.
- AS Tallinna Vesi has continuously stated its belief in fully transparent regulation and its willingness to enter into **meaningful and evidence-based dialogue** that takes into account the privatization contract signed in 2001.
- It has been three years already during which the Company has made intensive effort in trying to agree a solution in order to get the tariff dispute solved. Regretfully it has not been achieved.
- 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 breaching the international treaty and more specifically "*the fair and equitable treatment*" requirement by changes to the law and activities of the public authorities which have deprived AS Tallinna Vesi from tariffs approved according to the Services Agreement concluded as part of the privatisation in 2001. The arbitration will be carried out through the International Centre for the Settlement of Investment Disputes (ICSID), which is part of the World Bank Group.
- Average real return on capital invested at privatization is still 6.2% since 2001.

## Financial highlights of 3<sup>rd</sup> quarter 2014

The Group's sales revenues during the 3<sup>rd</sup> quarter 2014 have been relatively stable being slightly up compared to the same period in 2013, increasing 1.0% to 13.25 mln euros. Similarly to the 3<sup>rd</sup> quarter the sales for 9 months in 2014 are also slightly up compared to the sales in 2013, increasing 1.6% to 39.93 mln euros.

The gross profit in the 3<sup>rd</sup> quarter of 2014 has increased 6.2% or 0.46 mln euros. Increase in gross profit is mainly related to lower pollution tax costs compared to the comparative period in 2013. The pollution tax change is mainly impacted by the incident in wastewater treatment plant in the 3<sup>rd</sup> quarter 2013, causing extra pollution tax of 0.37 mln euros.

The problems with the allowed concentrations of heavy metals reported in previous quarters have been resolved, with the issuance of the new revised water permit. In the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2014 the Group had higher pollution tax costs as concentrations limits for heavy metals in treated effluent were reduced 400 times, due to which the Group was not technically able to meet the limit requirements, despite of the fact that the efficiency in treating the effluent continued to be high. In the revised water permit the concentration limits for heavy metals have been removed.

The operating profit from Group's main activities has increased 3.8% to 6.34 mln euros, mainly due to the lower variable costs, which are in more detailed described below. The operating profit for 9 months in 2014 is at the same level with the operating profit for the comparative period in 2013.

The net profit for the 3<sup>rd</sup> quarter without the extra pollution tax impact in 2013 and 2014 and swap costs impact was 3.6% or 0.21 mln euros lower than in the comparative period last year.

<i>mln €</i>	3 Q 2012	3 Q 2013	3 Q 2014	Change 14/13	9 months 2012	9 months 2013	9 months 2014	Change 14/13
Sales	13,08	13,12	13,25	1,0%	39,21	39,31	39,93	1,6%
Gross profit	8,16	7,44	7,90	6,2%	24,20	22,29	22,90	2,7%
Gross profit margin %	62,37	56,71	59,64	5,2%	61,72	56,70	57,34	1,1%
Operating profit	6,96	6,31	6,35	0,6%	20,20	18,21	18,22	0,1%
Operating profit - main business	6,78	6,11	6,34	3,8%	19,94	17,96	17,98	0,1%
Operating profit margin %	53,26	48,07	47,91	-0,3%	51,51	46,31	45,64	-1,5%
Profit before taxes	6,48	5,80	5,83	0,6%	18,40	18,37	16,44	-10,5%
Net profit	6,48	5,80	5,83	0,6%	13,94	13,74	11,66	-15,2%
Net profit margin %	49,54	44,16	43,97	-0,4%	35,54	34,96	29,19	-16,5%
ROA %	3,39	2,95	2,92	-0,8%	7,29	6,99	5,84	-16,4%
Debt to total capital employed	60,22	58,81	59,46	1,1%	60,22	58,81	59,46	1,1%
ROE %	8,52	7,15	7,21	0,8%	18,33	16,96	14,41	-15,0%
Current ratio	3,73	3,79	4,13	9,0%	3,73	3,79	4,13	9,0%

*Gross profit margin – Gross profit / 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 / Total equity*

*Current ratio – Current assets / Current liabilities*

*Main business – water and wastewater activities, excl. connections profit and government grants, construction services, doubtful debt, other income*

## RESULTS OF OPERATIONS - FOR THE 3<sup>rd</sup> QUARTER 2014

### Profit and Loss Statement

3<sup>rd</sup> quarter 2014

#### Sales

As the Company's tariffs are frozen at the 2010 tariff level, the changes in the revenues from main activities i.e. from sales of water and wastewater services are fully driven by consumption.

In the 3<sup>rd</sup> quarter of 2014 the Group's total sales increased, year on year, by 1.0% to 13.25 mln euros. 91.2% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 5.6% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants and 3.3% from other works and services.

Sales of water and wastewater services were 12.08 mln euros, a 3.5% increase compared to the 3<sup>rd</sup> quarter of 2013, resulting from the changes in sales volumes as described below.

Within the service area, sales to residential customers were at 5.97 mln euros, showing a 3.4% increase year on year, as revenues from apartment blocks form the biggest share of our residential sales, the biggest increase came also from this client group. Sales to commercial customers increased by 2.1% to 4.78 mln euros, mainly coming from the sales in other inside sector. Sales to customers outside of the main service area increased by 8.2% to 1.12 mln euros in the 3<sup>rd</sup> quarter of 2014. It was mostly affected by wastewater sales. The sales of water was stable. Over pollution fees received were 0.22 mln euros, a 16.7% increase compared to the 3<sup>rd</sup> quarter of 2013.

Revenues from main operating activities	Quarter 3			Variance 14/13	
	2014	2013	2012	€	%
<u>Private clients, incl:</u>	<u>5 967</u>	<u>5 770</u>	<u>5 782</u>	<u>197</u>	<u>3,4%</u>
Water supply service	3 283	3 176	3 180	107	3,4%
Wastewater disposal service	2 684	2 594	2 602	90	3,5%
<u>Corporate clients, incl:</u>	<u>4 780</u>	<u>4 683</u>	<u>4 617</u>	<u>97</u>	<u>2,1%</u>
Water supply service	2 706	2 654	2 549	52	2,0%
Wastewater disposal service	2 074	2 029	2 068	45	2,2%
<u>Outside service area clients, incl:</u>	<u>1 118</u>	<u>1 030</u>	<u>1 101</u>	<u>88</u>	<u>8,5%</u>
Water supply service	296	286	255	10	3,5%
Wastewater disposal service	738	665	702	73	11,0%
Storm water disposal service	84	79	144	5	6,3%
<u>Over pollution fee</u>	<u>216</u>	<u>185</u>	<u>234</u>	<u>31</u>	<u>16,8%</u>
Storm water treatment and disposal service and fire hydrant service	739	853	1 082	-114	-13,4%
Construction service and design	282	420	83	-138	-32,9%
Other works and services	151	181	177	-30	-16,6%

Outside service area sales volumes were 0.07 mln m<sup>3</sup> or 5.4% higher than in the 3<sup>rd</sup> quarter of 2013. As already mentioned before the main factor in this increase came from higher sewage volumes.

The sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area have decreased by 13.4% to 0.74 mln euros in the 3<sup>rd</sup> quarter of 2014 due to lower volumes compared to the same period in 2013.

The sales of construction activities and design services have decreased by 32.9% to 0.28 mln euros in the 3<sup>rd</sup> quarter of 2014 compared to 3<sup>rd</sup> quarter in 2013.

### Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 5.35 mln euros in the 3<sup>rd</sup> quarter of 2014, showing 0.33 mln euros or 5.8% decrease compared to the equivalent period in 2013. The cost decrease is mainly influenced by the pollution tax decrease in the 3<sup>rd</sup> quarter of 2014 as described below.

Cost of goods sold	Quarter 3			Variance 14/13	
	2014	2013	2012	€	%
Water abstraction charges	-265	-246	-226	-19	7,7%
Chemicals	-433	-464	-467	31	-6,7%
Electricity	-723	-775	-899	52	-6,7%
Pollution tax	-209	-513	-154	304	-59,3%
<b>Total direct production costs</b>	<b>-1 630</b>	<b>-1 998</b>	<b>-1 746</b>	<b>368</b>	<b>-18,4%</b>
Staff costs	-1 181	-1 165	-1 163	-16	1,4%
Depreciation and amortization	-1 408	-1 265	-1 289	-143	11,3%
Construction service and design	-278	-343	-83	65	-19,0%
Other costs of goods sold	-852	-909	-639	57	-6,3%
<b>Other costs of goods sold total</b>	<b>-3 719</b>	<b>-3 682</b>	<b>-3 174</b>	<b>-37</b>	<b>1,0%</b>
<b>Total cost of goods sold</b>	<b>-5 349</b>	<b>-5 680</b>	<b>-4 920</b>	<b>331</b>	<b>-5,8%</b>

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) decreased by 0.37 mln euros or 18.4% year on year. Biggest decrease came from the decrease in pollution tax. Other changes came from a combination of increase in prices and tax rates and movements in treatment volumes that affected the costs of goods sold together with the following additional factors:

- Water abstraction charges increased only by 0.02 mln euros or 7.7% to 0.27 mln euros in the 3<sup>rd</sup> quarter of 2014, driven mainly by 5% raise in tax rates (worth 0.01 mln euros).
- Total chemical costs remained broadly flat, decreasing 0.03 mln euros or 6.7% to 0.43 mln euros in the 3<sup>rd</sup> quarter of 2014. Costs change was mainly influenced by the decrease in dosage used in sewage treated and chemicals price, which was balanced by increase in treated volumes. Chemical costs were lower also in water treatment due to the better raw water quality.
- Electricity costs decreased by 0.05 mln euros or 6.7% in the 3<sup>rd</sup> quarter of 2014 compared to the 3<sup>rd</sup> quarter of 2013. Lower electricity costs are mostly derived from the decrease in electricity price and used unit costs, worth 0.08 mln euros. Positive effects are reduced slightly by increased used volumes in treatment plants worth 0.03 mln euros.
- In the 3<sup>rd</sup> quarter of 2014 the pollution tax expense decreased by 0.30 mln euros or 59.3%. The decrease is related to the incident in the wastewater treatment plant in the 3<sup>rd</sup> quarter of 2013. Eliminating the one-off influence the pollution tax expenses have increased by 0.07 mln euros or 47.0% in the 3<sup>rd</sup> quarter of 2014 compared to relevant period in 2013.

Without the incident in the treatment plant in 2013, the main contribution to increased pollution tax costs came from increased volumes treated in the amount of 0.04 mln euros and increased tax rates in the amount of 0.03 mln euros.

Other cost of goods sold (staff costs, depreciation, construction services and other cost of goods sold) in the main operating activity increased by 0.04 mln euros or 1.0%. Most of the increase came from increased depreciation costs, balanced by the decrease in construction services costs and other costs.

In 2014 the construction services projects are coming to an end earlier than in 2013, lowering the costs related to construction in the 3<sup>rd</sup> quarter compared to the same period in 2013. In 2014 the external construction have been less profitable than in 2013. Increased staff costs by 1.4% or 0.02 mln euros mainly relate to higher headcount to provide more efficient and broader range of insourced services. Decrease in other costs were related to the less maintenance works.

As a result of all of the above the Group's gross profit for the 3<sup>rd</sup> quarter of 2014 was 7.90 mln euros, which is an increase of 0.46 mln euros, or 6.2%, compared to the gross profit of 7.44 mln euros for the 3<sup>rd</sup> quarter of 2013.

#### *Other Operating Costs*

General administration expenses increased in total 0.25 mln euros or 21.6%, mainly because of higher consultation and legal fees related to continuing tariff dispute.

#### *Other net income/expenses*

Other net income increased to a net expense of 0.09 mln euros, compared to 0.15 mln euros net income in the 3<sup>rd</sup> quarter of 2013. The result in the 3<sup>rd</sup> quarter of 2013 has been influenced by collecting the doubtful receivables.

#### *Operating profit*

As a result of above factors the Group's operating profit for the 3<sup>rd</sup> quarter of 2014 totalled 6.35 mln euros compared to 6.31 mln euros in the corresponding quarter in 2013, which shows an increase of 0.04 mln euros or 0.6%. Removing the impact of pollution tax in relevant periods the Group's operating profit had been 4.9% or 0.33 mln euros lower.

#### *Financial expenses*

The Group's net financial expenses have been stable amounting to 0.52 mln euros in the 3<sup>rd</sup> quarter of 2014, which is a negative change of 0.01 mln euros compared to 0.51 mln euros financial income in the 3<sup>rd</sup> quarter of 2013. The biggest reason for the decline comes from difference of the change of the fair value of the swap contracts.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk, the interest swap agreements are signed for 75 mln euros and 20 mln euros are still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling 2.23 mln euros. Effective interest rate (incl. swap interests) in the 3<sup>rd</sup> quarter of 2014 was 3.12%, amounting in the interest costs of 0.76 mln euros, compared to the effective interest rate of 3.21% and the interest costs of 0.78 mln euros into the 3<sup>rd</sup> quarter of 2013.

Other influences for change in financial expenses has been increase in interest income by 0.09 mln euros.

#### *Profit Before and After Tax*

The Group's profit before and after taxes for the 3<sup>rd</sup> quarter of 2014 was 5.83 mln euros, which is 0.03 mln euros or 0.6% higher than the profit before taxes of 5.80 mln euros for the 3<sup>rd</sup> quarter of 2013, resulting mainly from increased revenues, decreased pollution tax costs and an increase in professional fees as described above.

### **Results for the nine months of 2014**

During the nine months of 2014 the Group's total sales increased, year on year, by 1.6% to 39.93 mln euros. Sales of water and wastewater treatment were 36.26 mln euros, a 1.8% increase compared to the nine months of 2013.

The movements in sales are mostly similar to the movements in the 3<sup>rd</sup> quarter described above. There has been a slight 0.40 mln euros or 2.3% increase in the sales to residential customers and 0.04 mln euros or 0.3% of decrease in the sales to the commercial clients. The sales revenues from outside service area clients for water, wastewater and stormwater services has also been relatively stable showing an increase of 0.21 mln euros or 6.7% compared to nine months in 2013.

The revenues from storm water treatment in the nine months of 2014 are relatively stable, increasing 0.04 mln euros or 1.5% compared to nine months in 2013.

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) decreased by 0.22 mln euros or 3.5% year on year. Biggest decrease came from the decrease in electricity costs as described below.

- Water abstraction charges increased only by 0.05 mln euros or 6.8% to 0.79 mln euros during 9 months in 2014, driven mainly by 5% raise in tax rates (worth 0.04 mln euros).
- Total chemical costs remained broadly flat, decreasing 0.02 mln euros or 1.3% to 1.29 mln euros in the 9 months in 2014. Costs change was mainly influenced by the decrease in dosage used in sewage treated, which was balanced by increase in treated volumes and chemicals price. Chemical costs were lower also in water treatment due to the better raw water quality.
- Electricity costs decreased by 0.28 mln euros or 10.8% during the 9 months in 2014 compared to the same period in 2013. Lower electricity costs are mostly derived from the decrease in electricity price and used unit costs, worth 0.29 mln euros. Positive effects are reduced slightly by increased used volumes in treatment plants worth 0.01 mln euros.
- In the 9 months of 2014 the pollution tax expense increased by 0.02 mln euros or 1.2%. The slight increase is masked by the incidents in the wastewater treatment plant in the nine months of 2013. Eliminating the one-off influences the pollution tax expenses have increased by 1.09 mln euros or 203.9% in the nine months of 2014 compared to relevant period in 2013.

The problems with the allowed concentrations of heavy metals reported in the 1<sup>st</sup> and 2<sup>nd</sup> quarters have been resolved, with the issuance of the new revised water permit. In the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2014 the Group had higher pollution tax costs as limit concentrations of heavy metals in treated effluent were reduced 400 times, due to which the Group was not technically able to meet the limit values, although nothing was changed in the efficiency of Group's operations

Other cost of goods sold (staff costs, depreciation, construction services and other cost of goods sold) in the main operating activity increased by 0.24 mln euros or 2.2%. Most of the increase came from increased depreciation costs and staff costs.

Due to the increased revenues and broadly flat expenses the gross profit for 9 months in 2014 has improved by 0.61 mln euros or 2.7% compared to the same period in 2013. The operating profit remained also fairly stable increasing by 0.1% to 18.22 mln euros during the nine months of 2014 compared to the nine months of 2013. The increase in the gross profit of 0.61 mln euros was very much influenced by increased administration costs, which in itself were highly impacted by higher legal charges related to ongoing tariff dispute.

Net financial expenses increased by 1.94 mln euros or 1200.0%. Almost fully influenced by the non-monetary impact of the change in the fair value of the swap contracts the Company has entered. The positive non-monetary impact for 2014 expenses is 0.09 mln euros (2013: positive impact 1.94 mln euros).

The Group's profit before taxes for the nine months of 2014 was 16.44 mln euros, which is a 10.5% decrease compared to the relevant period in 2013. The Group's net profit for the nine months of 2014 was 11.66 mln euros, which is 2.09 mln euros lower than the net profit of 13.74 mln euros in the equivalent period in 2013.

Without the impact from the revaluation of swap contracts the net profit for nine months in 2014 is lower by 0.24 mln euros compared to same period in 2013.



## **Balance sheet**

In the nine months of 2014 the Group invested 6.71 mln euros into fixed assets. As of 30 September 2014 non-current fixed assets amounted to 154.66 mln euros and total non-current assets amounted to 155.54 mln euros. (30. September 2013: 151.21 mln euros and 156.41 mln euros respectively).

The reduction in receivables and prepayments of 5.6 mln euros to 11.58 mln euros is mainly related to collection of the money for extension program.

Compared to the year end the current liabilities have decreased by 0.57 mln euros to 10.64 mln euros in the nine months. The movement is mainly related to increased prepayments in the amount of 1.27 mln euros and Trade payables by 0.58 mln euros, balanced by the decrease in Current portion of long-term borrowings in the amount of 1.98 mln euros.

The Group's loan balance has remained stable at 95 mln euros. In May 2014, the Company replaced its loan from NIB with the new loan in the amount of 20 mln euros. The weighted average interest risk margin for the total loan facility is 1.04%.

The Group has a Total debt/Total assets level as expected of 59.5%, in range of 55%-65%, reflecting the Group's equity profile. This level is consistent with the same period in 2013 when the total debt/total assets ratio was 58.8%.

Biggest share of the rest of the long term liabilities is deferred income from connection fees amounting to 11.10 mln euros (2013: 8.57 mln euros).

In the 4<sup>th</sup> quarter of 2011 the Group recorded and noted an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros. In the 3<sup>rd</sup> quarter of 2013 the Group re-evaluated the liability, which now stands at 34.0 mln euros, as per note 13 to the accounts.

## **Cash flow**

As of 30 September 2014 the cash position of the Group is strong and continuously stable. At the end of September 2014 the cash balance of the Group stood at 31.95 mln euros, which is 16.0% of the total assets (2013: 24.58 mln, which is 12.5% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the nine months of 2014, the Group generated 22.64 mln euros of cash flows from operating activities, an increase of 1.05 mln euros compared to the corresponding period in 2013.

2014 operating cash flows were above 2013 cash flows due to a change in working capital. Underlying operating profit still continues to be the main contributor to operating cash flows. The collection of receivables is continuously strong.

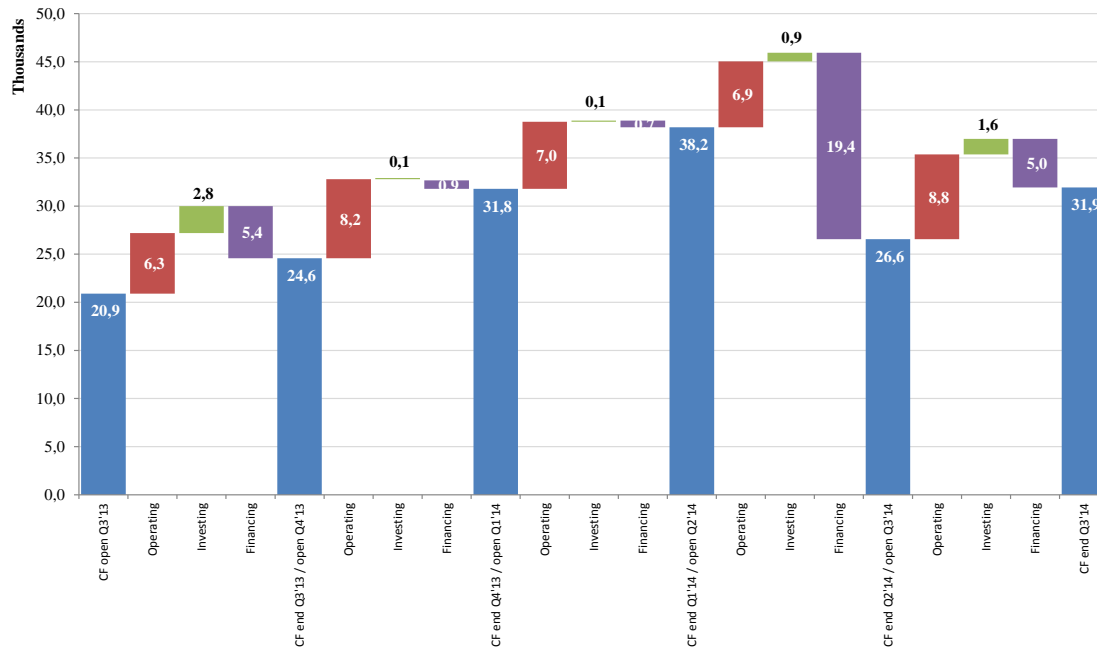
The Group's cash flows from investing activities have also been positive for past two years. In the nine months of 2014 net cash flows from investing activities resulted in a cash inflow of 2.64 mln euros, a decrease of 0.86 mln euros compared to an inflow of 3.49 mln euros in the nine months of 2013. This is made up as follows:

In the nine months of 2014 the investments in fixed assets have decreased 0.20 mln euros compared to 2013 amounting to 5.97 mln euros.

The compensations received for the construction of pipelines were 8.23 mln euros in the nine months of 2014, an increase of 3.08 mln euros compared to same period in 2013. Most of the cash collected for pipes is related to the sewage network extension program which was ended in 2012. The collections will still continue till

March 2015. In 2013 the loan from Maardu Vesi was collected in full. The Group has not given out any new loans.

In the nine months of 2014, cash outflow from financing amounted to 25.12 mln euros, which is 0.68 mln euros more than in the same period of 2013, mainly due to increased dividend payment and dividend income tax payment by 0.76 mln euros, balanced slightly by lower interest and financing costs by 0.08 mln euros.



## Employees

At the end of the 3<sup>rd</sup> quarter of 2014, the total number of employees was 312 compared to 305 at the end of the 3<sup>rd</sup> quarter of 2013. The full time equivalent (FTE) was respectively 298 in 2014 compared to the 293 in 2013. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure.

## Dividends

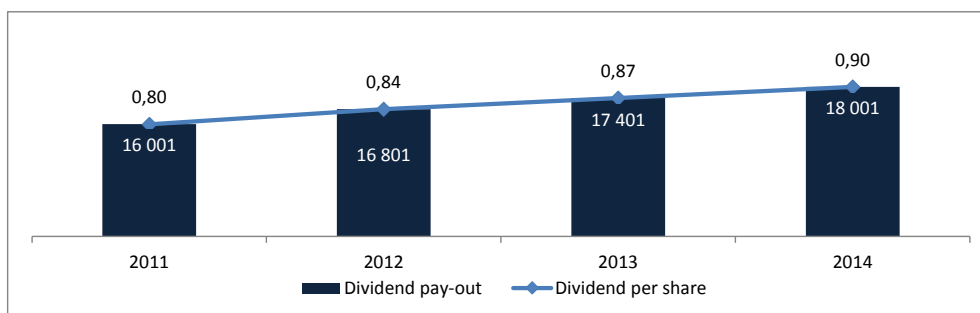
Dividend allocation to the shareholders is recorded as the liability in the financial statement of the Company at the time when the profit allocation and dividend payment is confirmed by the annual general meeting of shareholders.

According to the dividend policy, which is also published on Company's website, the Company will maintain dividends to shareholders at the same amount in real terms, i.e. dividends will increase in line with inflation each year.

On the annual general meeting of shareholders held on 20<sup>th</sup> May 2014, 90 cents dividends per share and the total dividend pay-out from the profit of 2013 net income in the amount of 18.00 mln euros was approved. It is in accordance with the Company's dividend policy. Compared to 2013 dividends of 87 cents per share, the increase is equal to the inflation.

Dividends were paid out on 13<sup>th</sup> of June 2014.

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



## Share performance

AS Tallinna Vesi is listed on NASDAQ OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 30 September 2014 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

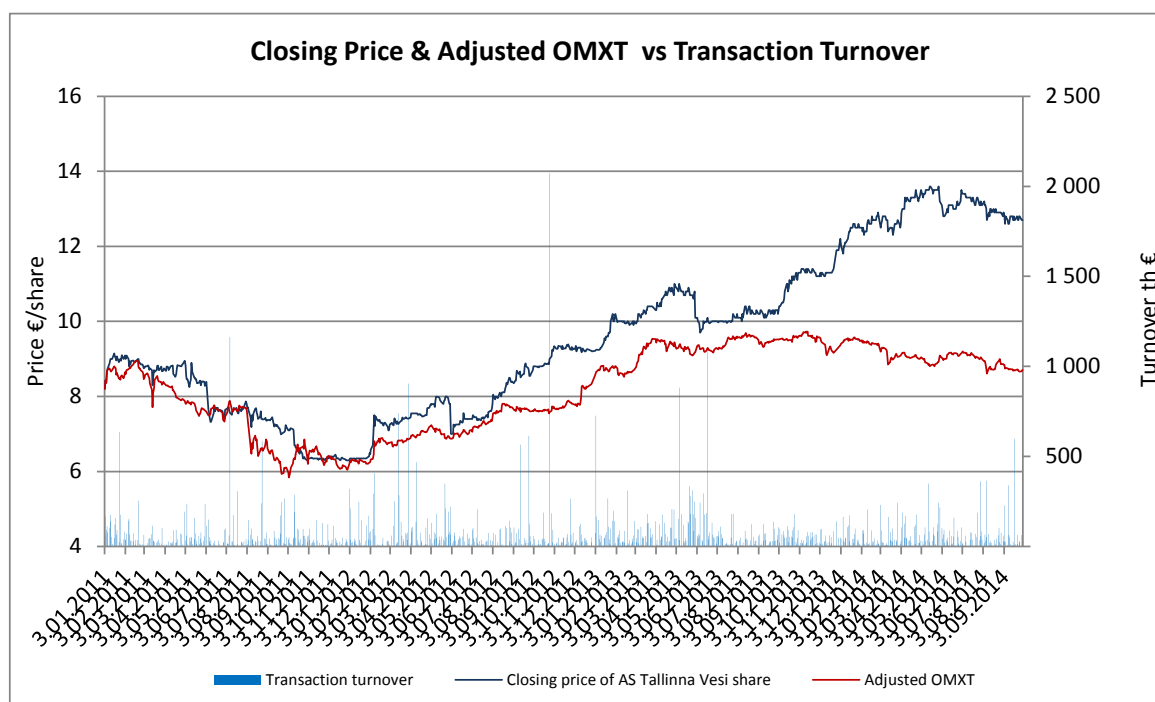
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

Pension funds have continued to hold the share in their portfolios during the 3<sup>rd</sup> quarter of 2014, owning 2.53% of the total shares compared to 2.54% at the end of 3<sup>rd</sup> quarter 2013.

As of 30 September 2014, the closing price of the AS Tallinna Vesi share was 12.70 euros, which is a -3.8% (2013: 3.0%) decrease compared to the closing price of 13.20 euros at the beginning of the quarter. During the same period the OMX Tallinn index decreased by -4.6% (2013: 2.9%).

In the nine months of 2014 3 840 deals with the Company's shares were concluded (2013: 4 278 deals) during which 913 thousand shares or 4.6% exchanged their owners (2013: 1 562 thousand shares or 7.8%).

The turnover of the transactions was 4 147 thousand euros lower than in 2013 amounting to 11 758 thousand euros. The share price has shown an increase despite of the on-going contractual debate.



## Operational performance

Similarly to previous years, the 9 months in 2014 can be characterized by permanently high quality levels. Above all, it gives security to our consumers that they are provided with a high-quality drinking water. Low leakage level is another positive sign of the Company's excellent performance. We continue to commit to the improvement of customer service and focus on our activities in increasing the environmental awareness of the community. Operational indicators for 9 months in 2014:

<b>Indicator</b>	<b>2013 9 months</b>	<b>2014 9 months</b>
<b><i>Drinking water</i></b>		
Compliance of water quality at the customers tap	99.64%	99.77%
Water loss in the water distribution network	16.65%	16.33%
Average duration of water interruptions per property	3.54 h	2.96 h
<b><i>Wastewater</i></b>		
Number of sewer blockages	605	582
Number of customer contacts regarding flooding, blockages and storm water	1150	788
Wastewater treatment compliance with environmental standards	100%	100%
<b><i>Customer Service</i></b>		
Number of written complaints	107	51
Number of customer contacts regarding water quality	195	129
Number of customer contacts regarding water pressure	472	273
Responding written customer contacts within at least 2 work days	99%	98.90%
Number of failed promises	115	42
Notification of unplanned water interruptions at least 1h before the interruption	96.95%	96.77%

## Corporate structure

At the end of the quarter, 30 September 2014, 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.

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

More information about the Supervisory Council and committees can be found in the note 12 to the financial statements as well as from the Company's webpage:

<http://tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board>

<http://tallinnavesi.ee/en/Investor/Corporate-Governance/Audit-Committee>

<http://tallinnavesi.ee/en/Investor/Corporate-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 and Supervisory Board 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 Board 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 20 March 2017), Aleksandr Timofejev (with the powers of the Management Board Member until 29 October 2015) and Riina Käi (with the powers of the Management Board Member until 29 October 2015).

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

<http://tallinnavesi.ee/en/Investor/Corporate-Governance/Management-Board>

## **Future actions & risks**

### 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.

Additional details surrounding this 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 has published its tariff application and all relevant correspondence with the CA on its website (<http://www.tallinnavesi.ee/?op=body&id=728>) and to the Tallinn Stock Exchange and will keep its investors informed of all future developments regarding the further key developments regarding the processing of the tariff application.

In opposite to the Company the CA has requested the Court procedures to be closed. Based on misleading information submitted by the CA the Court approved the CA's request. ASTV has reapplied for open proceedings.

At this point in time the Company is unable to say what is going to happen to the tariffs before Court judgments and outcome of an arbitration. The outcome and lengths of the Court proceedings and arbitration is outside the control of the Company.

#### Additional information:

Karl Heino Brookes

Chairman of the Management Board

+372 6262 201

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

## AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

### MANAGEMENT CONFIRMATION

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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 2014 ended 30 September 2014. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 September 2014 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 true and fair view 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 true and fair view 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 2014 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 Kãi**

Member of the Management Board  
Chief Financial Officer

24 October 2014

Introduction and photos of the Management Board members are published at company's web page.  
<http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Management-Board>

**AS TALLINNA VESI**

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(thousand EUR)

ASSETS	Note	as of 30 September 2014	2013	as of 31 December 2013
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	2	31 946	24 579	31 786
Trade receivables, accrued income and prepaid expenses		11 584	15 393	15 010
Inventories		395	311	429
<b>TOTAL CURRENT ASSETS</b>		<b>43 925</b>	<b>40 283</b>	<b>47 225</b>
<b>NON-CURRENT ASSETS</b>				
Other long-term receivables		6	4 389	2 213
Property, plant and equipment	3	154 656	151 210	152 246
Intangible assets	3	882	815	1 037
<b>TOTAL NON-CURRENT ASSETS</b>		<b>155 544</b>	<b>156 414</b>	<b>155 496</b>
<b>TOTAL ASSETS</b>		<b>199 469</b>	<b>196 697</b>	<b>202 721</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		164	150	2 146
Trade and other payables		5 345	6 071	4 761
Derivatives		1 370	1 836	1 816
Prepayments		3 764	2 579	2 490
<b>TOTAL CURRENT LIABILITIES</b>		<b>10 643</b>	<b>10 636</b>	<b>11 213</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred income from connection fees		11 102	8 567	10 143
Borrowings		95 974	95 650	93 618
Derivatives		859	806	507
Other payables		28	24	32
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>107 963</b>	<b>105 047</b>	<b>104 300</b>
<b>TOTAL LIABILITIES</b>		<b>118 606</b>	<b>115 683</b>	<b>115 513</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		42 851	43 002	49 196
<b>TOTAL EQUITY</b>		<b>80 863</b>	<b>81 014</b>	<b>87 208</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>199 469</b>	<b>196 697</b>	<b>202 721</b>

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements.



**AS TALLINNA VESI**

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(thousand EUR)

		Quarter 3		9 months		for the year ended
	Note	2014	2013	2014	2013	31 December
						2013
Revenue	4	13 253	13 122	39 931	39 309	53 087
Costs of goods sold	6	-5 349	-5 680	-17 036	-17 021	-22 505
<b>GROSS PROFIT</b>		<b>7 904</b>	<b>7 442</b>	<b>22 895</b>	<b>22 288</b>	<b>30 582</b>
Marketing expenses	6	-78	-139	-351	-538	-690
General administration expenses	6	-1 388	-1 141	-4 287	-3 620	-5 060
Other income (+)/ expenses (-)	7	-89	146	-34	75	-75
<b>OPERATING PROFIT</b>		<b>6 349</b>	<b>6 308</b>	<b>18 223</b>	<b>18 205</b>	<b>24 757</b>
Financial income	8	241	282	467	2 519	681
Financial expenses	8	-762	-795	-2 249	-2 357	-877
<b>PROFIT BEFORE TAXES</b>		<b>5 828</b>	<b>5 795</b>	<b>16 441</b>	<b>18 367</b>	<b>24 561</b>
Income tax on dividends	9	0	0	-4 785	-4 625	-4 625
<b>NET PROFIT FOR THE PERIOD</b>		<b>5 828</b>	<b>5 795</b>	<b>11 656</b>	<b>13 742</b>	<b>19 936</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>5 828</b>	<b>5 795</b>	<b>11 656</b>	<b>13 742</b>	<b>19 936</b>
Attributable profit to:						
Equity holders of A-shares		5 827	5 794	11 655	13 741	19 935
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,29	0,29	0,58	0,69	1,00
Earnings per B share (in euros)	10	600	600	600	600	600

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements.



**AS TALLINNA VESI**

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

**CONSOLIDATED CASH FLOW STATEMENT**

(thousand EUR)

	Note	9 months 2014	2013	for the year ended 31 December 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating profit		18 223	18 205	24 757
Adjustment for depreciation/amortisation	6	4 406	4 381	5 809
Adjustment for profit from government grants and revenues from connection fees		-109	-85	-117
Other non-cash adjustments		28	-177	11
Profit/loss(+) from sale and write off of property, plant and equipment, and intangible assets		42	-119	-138
Change in current assets involved in operating activities		-224	-1 528	-433
Change in liabilities involved in operating activities		275	911	-92
<b>Total cash flow from operating activities</b>		<b>22 641</b>	<b>21 588</b>	<b>29 797</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Repayment of loan		0	3 814	3 814
Acquisition of property, plant and equipment, and intangible assets		-5 972	-6 173	-9 187
Compensations received for construction of pipelines		8 228	5 150	7 885
Proceeds from sale of property, plant and equipment, and intangible assets		3	121	165
Interest received		379	582	693
<b>Total cash flow used in investing activities</b>		<b>2 638</b>	<b>3 494</b>	<b>3 370</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Received loans		20 000	0	0
Repayment of loans		-20 000	0	0
Interest paid and loan financing costs, incl swap interests		-2 182	-2 314	-3 154
Repayment of finance lease		-151	-98	-136
Dividends paid	9	-18 001	-17 401	-17 401
Income tax on dividends	9	-4 785	-4 625	-4 625
<b>Total cash flow used in financing activities</b>		<b>-25 119</b>	<b>-24 438</b>	<b>-25 316</b>
<b>Change in cash and cash equivalents</b>		<b>160</b>	<b>644</b>	<b>7 851</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>				
		<b>31 786</b>	<b>23 935</b>	<b>23 935</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>				
	2	<b>31 946</b>	<b>24 579</b>	<b>31 786</b>

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

**AS TALLINNA VESI**

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2012</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>46 661</b>	<b>84 673</b>
Dividends	0	0	0	-17 401	-17 401
Comprehensive income for the period	0	0	0	19 936	19 936
<b>as of 31 December 2013</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>49 196</b>	<b>87 208</b>
<b>as of 31 December 2012</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>46 661</b>	<b>84 673</b>
Dividends	0	0	0	-17 401	-17 401
Comprehensive income for the period	0	0	0	13 742	13 742
<b>as of 30 September 2013</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>43 002</b>	<b>81 014</b>
<b>as of 31 December 2013</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>49 196</b>	<b>87 208</b>
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	11 656	11 656
<b>as of 30 September 2014</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>42 851</b>	<b>80 863</b>

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

## AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

### **NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS** (thousand EUR)

#### 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
	2014	2013	2013
Cash in hand and in bank	7 154	3 271	3 295
Short-term deposits	24 792	21 308	28 491
<b>Total cash and cash equivalents</b>	<b>31 946</b>	<b>24 579</b>	<b>31 786</b>

# AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

## NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

(thousand EUR)

### NOTE 3. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

	Property, plant and equipment				Assets in progress		Intangible assets Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Unfinished intangible assets		
<b>as of 31 December 2012</b>								
Acquisition cost	24 793	167 389	44 018	1 302	2 258	1 040	25	246 724
Accumulated depreciation	-5 384	-55 543	-29 611	-862	0	0	0	-96 170
<b>Net book value</b>	<b>19 409</b>	<b>111 846</b>	<b>14 407</b>	<b>440</b>	<b>2 258</b>	<b>1 040</b>	<b>25</b>	<b>150 554</b>
<b>Transactions in the period 01 January 2013 - 31 December 2013</b>								
Acquisition in book value	0	0	0	0	6 127	2 103	421	8 651
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-7	-8	0	-99	0	1
Reclassification	58	7 724	2 030	52	-7 808	-2 056	-419	419
Depreciation	-278	-2 717	-2 195	-80	0	0	0	-5 809
<b>as of 31 December 2013</b>								
Acquisition cost	24 851	175 032	44 874	1 321	577	988	27	253 187
Accumulated depreciation	-5 662	-58 179	-30 639	-917	0	0	0	-99 904
<b>Net book value</b>	<b>19 189</b>	<b>116 853</b>	<b>14 235</b>	<b>404</b>	<b>577</b>	<b>988</b>	<b>27</b>	<b>153 283</b>
<b>Transactions in the period 01 January 2014 - 30 September 2014</b>								
Acquisition in book value	0	0	0	0	5 532	1 056	119	6 707
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-2	0	-22	-22	0	-46
Reclassification	74	2 705	1 623	42	-3 419	-1 025	-56	56
Depreciation	-208	-2 110	-1 754	-60	0	0	0	-4 406
<b>as of 30 September 2014</b>								
Acquisition cost	24 925	177 737	46 494	1 363	2 670	996	89	259 848
Accumulated depreciation	-5 870	-60 289	-32 393	-977	0	0	0	-104 310
<b>Net book value</b>	<b>19 055</b>	<b>117 448</b>	<b>14 101</b>	<b>386</b>	<b>2 670</b>	<b>996</b>	<b>89</b>	<b>155 538</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 30 September 2014 the book value of the assets (Machinery and equipment) leased under financial lease is 1 272 thousand euros (31 December 2013: 861 thousand euros).

**AS TALLINNA VESI**

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

**NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

(thousand EUR)

NOTE 4. REVENUE	Quarter 3		9 months		for the year ended
	2014	2013	2014	2013	31 December
<b>Revenues from main operating activities</b>					<b>2013</b>
Total water supply and waste water disposal service, incl:	12 081	11 668	36 258	35 627	47 737
<u>Private clients, incl:</u>	<u>5 967</u>	<u>5 770</u>	<u>18 016</u>	<u>17 616</u>	<u>23 642</u>
Water supply service	3 283	3 176	9 914	9 693	13 022
Wastewater disposal service	2 684	2 594	8 102	7 923	10 620
<u>Corporate clients, incl:</u>	<u>4 780</u>	<u>4 683</u>	<u>14 238</u>	<u>14 277</u>	<u>19 053</u>
Water supply service	2 706	2 654	7 983	7 945	10 585
Wastewater disposal service	2 074	2 029	6 255	6 332	8 468
<u>Outside service area clients, incl:</u>	<u>1 118</u>	<u>1 030</u>	<u>3 356</u>	<u>3 145</u>	<u>4 308</u>
Water supply service	296	286	833	801	1 095
Wastewater disposal service	738	665	2 216	2 009	2 730
Storm water disposal service	84	79	307	335	483
Over pollution fee	<u>216</u>	<u>185</u>	<u>648</u>	<u>589</u>	<u>734</u>
Storm water treatment and disposal service and fire hydrants service	739	853	2 480	2 443	3 424
Construction service and design	282	420	697	703	1 146
Other works and services	151	181	496	536	780
<b>Total revenue</b>	<b>13 253</b>	<b>13 122</b>	<b>39 931</b>	<b>39 309</b>	<b>53 087</b>

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

NOTE 5. STAFF COSTS	Quarter 3		9 months		for the year ended
	2014	2013	2014	2013	31 December
Salaries and wages	-1 234	-1 230	-3 987	-3 907	-5 233
Social security and unemployment insurance taxation	-411	-410	-1 329	-1 302	-1 744
<b>Staff costs total</b>	<b>-1 645</b>	<b>-1 640</b>	<b>-5 316</b>	<b>-5 209</b>	<b>-6 977</b>
<b>Number of employees at the end of reporting period</b>			<b>312</b>	<b>305</b>	<b>304</b>

**AS TALLINNA VESI**

Consolidated Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2014 ended 30 September 2014

**NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

(thousand EUR)

**NOTE 6. COST OF GOODS SOLD, MARKETING AND ADMINISTRATIVE EXPENSES**

	Quarter 3		9 months		for the year ended
	2014	2013	2014	2013	31 December
<b>Cost of goods sold</b>					
Water abstraction charges	-265	-246	-790	-740	-997
Chemicals	-433	-464	-1 293	-1 310	-1 734
Electricity	-723	-775	-2 289	-2 565	-3 392
Pollution tax	-209	-513	-1 835	-1 814	-1 872
Staff costs	-1 181	-1 165	-3 723	-3 631	-4 833
Depreciation and amortization	-1 408	-1 265	-4 027	-3 850	-5 115
Construction service and design	-278	-343	-602	-578	-947
Other costs of goods sold	-852	-909	-2 477	-2 533	-3 615
<b>Total cost of goods sold</b>	<b>-5 349</b>	<b>-5 680</b>	<b>-17 036</b>	<b>-17 021</b>	<b>-22 505</b>
<b>Marketing expenses</b>					
Staff costs	-63	-84	-253	-281	-375
Depreciation and amortization	-6	-41	-57	-203	-244
Other marketing expenses	-9	-14	-41	-54	-71
<b>Total marketing expenses</b>	<b>-78</b>	<b>-139</b>	<b>-351</b>	<b>-538</b>	<b>-690</b>
<b>Administrative expenses</b>					
Staff costs	-401	-391	-1 340	-1 297	-1 769
Depreciation and amortization	-61	-85	-218	-249	-339
Other general administration expenses	-926	-665	-2 729	-2 074	-2 952
<b>Total administrative expenses</b>	<b>-1 388</b>	<b>-1 141</b>	<b>-4 287</b>	<b>-3 620</b>	<b>-5 060</b>

**NOTE 7. OTHER INCOME / EXPENSES**

	Quarter 3		9 months		for the year ended
	2014	2013	2014	2013	31 December
Connection fees	37	29	109	85	117
Depreciation of single connections	-36	-26	-104	-79	-111
Doubtful receivables expenses (-) / expense reduction (+)	3	121	148	125	45
Other income / expenses (-)	-93	22	-187	-56	-126
<b>Total other income / expenses</b>	<b>-89</b>	<b>146</b>	<b>-34</b>	<b>75</b>	<b>-75</b>

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**NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

(thousand EUR)

NOTE 8. FINANCIAL INCOME AND EXPENSES	Quarter 3		9 months		for the year ended
					31 December
	2014	2013	2014	2013	2013
Interest income	86	1	374	583	681
Interest expense, loan	-282	-266	-866	-805	-1 087
Interest expense, swap	-476	-514	-1 355	-1 529	-2 024
Increase (+) /decrease (-) of fair value of swap	155	281	93	1 936	2 255
Other financial income (+)/ expenses (-)	-4	-15	-28	-23	-21
<b>Total financial income / expenses</b>	<b>-521</b>	<b>-513</b>	<b>-1 782</b>	<b>162</b>	<b>-196</b>

NOTE 9. DIVIDENDS	Quarter 3		9 months		for the year ended
					31 December
	2014	2013	2014	2013	2013
Dividends declared during the period	0	0	18 001	17 401	17 401
Dividends paid during the period	0	0	18 001	17 401	17 401
Income tax on dividends paid	0	0	-4 785	-4 625	-4 625
<b>Income tax accounted for</b>	<b>0</b>	<b>0</b>	<b>-4 785</b>	<b>-4 625</b>	<b>-4 625</b>
<i>Paid-up dividends per shares:</i>					
Dividends per A-share (in euros)	0	0	0,90	0,87	0,87
Dividends per B-share (in euros)	0	0	600	600	600

Income tax rates in 2014 and 2013 were 21/79.

**NOTE 10. EARNINGS PER SHARE**

	Quarter 3		9 months		for the year ended
					31 December
	2014	2013	2014	2013	2013
Net profit minus B-share preferred dividend rights	5 827	5 794	11 655	13 741	19 935
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)	0,29	0,29	0,58	0,69	1,00
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 September 2014 and 2013 and 31 December 2013 are equal to earnings per share figures stated above.

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(thousand EUR)

**NOTE 11. 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 in working capital on the statement of financial position of the Group**

	as of 30 September		as of 31 December
	2014	2013	2013
Accounts receivable	3	818	550
Accrued income	4 587	7 801	8 154
Other long-term receivables	0	4 322	2 161
Trade and other payables	216	188	197

**Transactions**

	Quarter 3		9 months		for the year ended 31 December
	2014	2013	2014	2013	2013
Revenue	739	853	2 480	2 443	3 424
Purchase of administrative and consulting services	252	275	768	760	1 020
Financial income (+)/ decrease (-) of financial income	67	-34	293	358	434
<b>Fees for Management Board (excluding social tax)</b>	58	68	244	229	294
<b>Supervisory Board fees (excluding social tax)</b>	10	10	30	30	40

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 some Board Members have 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".

Company'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.

38 thousand euros were paid to the Management Board members as termination fees in the first 9 months of 2014 (in the first 9 months of 2013 and in the year that ended on 31 December 2013: 18 thousand euros). The off balance sheet potential salary liability would be up to 82 thousand euros (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 30 September 2014 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 September 2013: Riina Käi owned 100 shares). As of 31 December 2013 Riina Käi owned 100 shares.



## AS TALLINNA VESI

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### **NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

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#### **NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS**

Robert John Gallienne	Chairman of the Supervisory Board
Steven Richard Fraser	Member of the Supervisory Board
Simon Gardiner	Member of the Supervisory Board
Brendan Francis Murphy	Member of the Supervisory Board
Toivo Tootsen	Member of the Supervisory Board
Mart Mägi	Member of the Supervisory Board
Rein Ratas	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 and introduction with photos in 2013 Yearbook.

<http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board>

[http://tallinnavesi.ee/images/stories/dokumendid/Investor/tv\\_ar\\_2013\\_eng.pdf](http://tallinnavesi.ee/images/stories/dokumendid/Investor/tv_ar_2013_eng.pdf)

#### **NOTE 13. CONTINGENT LIABILITY REGARDING THE TARIFF RISK**

On 10th October 2011 the Estonian Competition Authority (CA) issued a prescript for the Company to reduce the tariffs of water and sewerage services in Tallinn by 29%. The Company disagrees with the position of the CA and has turned to the Estonian Administrative Court disputing the prescription that seeks to break the privatization contract without any evidence to support its view that privatization contract should not be honoured. The court has granted an injunction to stop the prescription from taking effect. The length of the court process and the decision are not within the Company's control and the end of the proceedings cannot be estimated.

The management has evaluated the potential claims against the Company, if the Court ruling would support the CA's position. As result of this, it is possible that the Company could potentially suffer an outflow of economic benefits of up to 34 mln euros – the part that CA considers to be excessively charged from the clients going back three years from time of the final judgment.