AS Tallinna Vesi

Results of operations – for the 1st half-year of 2015

Currency	Thousand euros
Start of reporting period	1 January 2015
End of reporting period	30 June 2015
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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

- Tariffs of AS Tallinna Vesi 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 unilateral breach of privatization agreement by the 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 using 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, and should the contract not be honoured, the company will have a claim against the Estonian state.
- 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 over the lifetime of the international privatisation contract up to 2020. The Court decided to stay the claim proceeding until the main tariff dispute is resolved.
- 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 1st of June 2011.
- In 2015, there has been three hearings in the local court as regards to the tariff dispute. On 5th of June, the Tallinn Administrative Court dismissed the Company's complaint in tariff dispute. The Company will appeal the decision.
- 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 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.
- 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.

Financial highlights of 2nd quarter 2015

The Group's sales revenues during the 2nd quarter of 2015 was 13.74 mln euros, being up by 2.8% or 0.37 mln euros compared to the same period in 2014.

The gross profit in the 2nd quarter of 2015 was 8.01 mln euros, showing an increase by 3.6% or 0.28 mln euros. Increase in gross profit is related to higher revenues from main operating activities but also by lower pollution tax costs compared to the comparative period in 2014.

The pollution tax has been lower in 2nd quarter of 2015 compared to the same period last year, as at the beginning of 2014 the Group had problems with 400 times lowered allowed concentrations of heavy metals in the treated effluent, compared to the previous water permit limits. The problem was resolved with the issuance of the revised water permit in September 2014. In the revised water permit the concentration limits for heavy metals have been removed. The revised water permit is valid until the end of the 1st quarter of 2018.

The operating profit from Group's main activities was 6.17 mln euros, showing an increase by 2.7% or 0.17 mln euros. The higher revenues from main operating activities and lower pollution tax costs had also the major impact on operating profit.

The net profit for the 2nd quarter of 2015 was 2.14 mln euros, being up by 178.5% or 1.37 mln euros, mainly due to change in fair value of swap agreements by 1.04 mln euros. The net profit for the 2nd quarter of 2015 and 2014 without the additional exceptional changes that affected the pollution tax in 2014 and impact that resulted from the change of the fair value of swap contracts was respectively 1.13 mln euros and 1.15 mln euros, being 1.5% or 0.02 mln euros lower than in the comparative period last year.

mln €	**Q2 2013**	**Q2 2014**	**Q2 2015**	**Change 15/14**	**6 months 2013**	**6 months 2014**	**6 months 2015**	**Change 15/14**
Sales	13.49	13.37	13.74	2.8%	26.19	26.68	27.31	2.4%
Gross profit	7.32	7.73	8.01	3.6%	14.85	14.99	16.08	7.3%
Gross profit margin %	54.26	57.80	58.28	0.8%	56.69	56.20	58.89	4.8%
Operating profit	5.74	6.19	6.23	0.6%	11.90	11.87	12.92	8.8%
Operating profit - main business	5.70	6.01	6.17	2.7%	11.84	11.64	12.78	9.8%
Operating profit margin %	42.56	46.30	45.34	-2.1%	45.43	44.51	47.29	6.2%
Profit before taxes	6.36	5.55	6.64	19.5%	12.57	10.61	13.02	22.7%
Net profit	1.73	0.77	2.14	178.5%	7.95	5.83	8.52	46.2%
Net profit margin %	12.84	5.74	15.54	171.0%	30.35	21.85	31.19	42.8%
ROA %	0.88	0.39	1.06	173.5%	4.05	2.96	4.25	43.6%
Debt to total capital employed	61.65	61.91	61.28	-1.0%	61.65	61.91	61.28	-1.0%
ROE %	2.30	1.02	2.75	169.0%	10.57	7.77	10.97	41.2%
Current ratio	2.31	2.89	3.19	10.5%	2.31	2.89	3.19	10.5%

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 2nd QUARTER 2015

Profit and Loss Statement

2nd quarter 2015

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 2nd quarter of 2015 the Group's total sales was 13.74 mln euros, showing an increase by 2.8% or 0.37 mln euros year on year. 90.2% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.4% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants and 3.4% from other works and services.

	Quarter 2			Variance 15/14	
Revenues from main operating activities (th.€)	**2015**	**2014**	**2013**	**€**	**%**
Private clients, incl:	6 083	6 001	5 913	82	1.4%
Water supply service	3 345	3 303	3 253	42	1.3%
Wastewater disposal service	2 738	2 698	2 660	40	1.5%
Corporate clients, incl:	4 891	4 804	4 988	87	1.8%
Water supply service	2 717	2 697	2 782	20	0.7%
Wastewater disposal service	2 174	2 107	2 206	67	3.2%
Outside service area clients, incl:	1 197	1 095	1 114	102	9.3%
Water supply service	332	283	263	49	17.3%
Wastewater disposal service	759	722	683	37	5.1%
Storm water disposal service	106	90	168	16	17.8%
Over pollution fee	223	238	224	-15	-6.3%
Storm water treatment and disposal service and fire hydrant service	875	750	864	125	16.7%
Construction service and design	305	285	186	20	7.0%
Other works and services	168	198	204	-30	-15.2%

Sales from water and wastewater services was 12.39 mln euros, showing a 2.1% increase compared to the 2nd quarter of 2014, resulting from the changes in sales volumes as described below:

- Sales to private customers within the service area has increased by 1.4% to 6.08 mln euros, as our biggest residential customer segment apartment blocks has shown ongoing increase in consumption.
- Sales to commercial customers within the service area has increased by 1.8% to 4.89 mln euros, as the consumption of industrial and other commercial customer segment has increased.
- Sales to customers outside of the main service area has increased by 9.3% to 1.20 mln euros. Storm water revenues increase by 17.8% to 0.11 mln euros was accompanied by higher water and wastewater sales respectively to 0.33 mln euros and 0.76 mln euros.
- Over pollution fees received have been decreasing by 6.3% to 0.22 mln euros.

The sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area was 0.88 mln euros, showing an increase by 16.7% in the 2nd quarter of 2015 compared to the same period in 2014.

The sales of construction and design services was 0.31 mln euros, having increased by 7.0% year on year.

Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 5.73 mln euros in the 2nd quarter of 2015, showing 1.6% or 0.09 mln euros increase compared to the equivalent period in 2014. The cost increase is influenced by higher staff and depreciation costs and other costs of goods sold, which is balanced by lower pollution tax costs in the 2nd quarter of 2015.

Cost of goods sold (th €)		**Quarter 2**		**Variance 15/14**	
	2015	**2014**	**2013**	**€**	**%**
Water abstraction charges	-276	-261	-248	-15	-5.7%
Chemicals	-377	-448	-426	71	15.8%
Electricity	-747	-729	-855	-18	-2.5%
Pollution tax	-235	-550	-1 086	315	57.3%
Total direct production costs	**-1 635**	**-1 988**	**-2 615**	**353**	**17.8%**
Staff costs	-1 436	-1 314	-1 250	-122	-9.3%
Depreciation and amortization	-1 437	-1 321	-1 285	-116	-8.8%
Construction service and design	-257	-237	-149	-20	-8.4%
Other costs of goods sold	-968	-783	-873	-185	-23.6%
Other costs of goods sold total	**-4 098**	**-3 655**	**-3 557**	**-443**	**-12.1%**
Total cost of goods sold	**-5 733**	**-5 643**	**-6 172**	**-90**	**-1.6%**

Total direct production costs (water abstraction charges, chemicals, electricity, and pollution taxes) were 1.64 mln euros, showing 17.8% or 0.35 mln euros decrease year on year. Biggest decrease came from pollution tax. Other changes came from a combination of changes in prices and tax rates and movements in treatment volumes that affected the cost of goods sold together with the following additional factors:

- Water abstraction charges increased by 5.7% to 0.28 mln euros, driven mainly by increase in treated volumes and an average 4.1% raise in tax rates.
- Chemicals costs decreased by 15.8% to 0.38 mln euros. Change of costs in wastewater treatment was mainly influenced by the decrease in dosage used to remove pollutants in wastewater and methanol price. Chemicals costs were slightly higher in water treatment mainly due to raw water quality being worse than last year same time.
- Electricity costs increased by 2.5% to 0.75 mln euros. Higher electricity costs mostly derived from the increase of treated volumes and usage of electricity per m^3 in water treatment due to raw water quality being worse, worth in total 0.043 mln euros. Effects of increased costs were slightly reduced by decreased electricity prices, worth 0.025 mln euros.
- In the 2nd quarter of 2015 the pollution tax expense decreased by 57.3% to 0.24 mln euros. Lower costs were related to the change in the allowed concentration of heavy metals in treated effluent in the changed water permit effective in the first two quarters of 2014. Eliminating the one-off impact, the pollution tax expenses increased by 14.5% or 0.03 mln euros year or year.

  Without the above mentioned influence, 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 0.02 mln euros, balanced by the decreased pollution load in the amount of 0.03 mln euros.

Other costs of goods sold (staff costs, depreciation, construction services and other costs of goods sold) were 4.10 mln euros, having increased by 12.1% or 0.44 mln euros. Most of the increase came from higher staff and depreciation costs and other costs of goods sold. Increased staff costs by 9.3% to 1.44 mln euros was mainly related to the Group having a higher headcount to provide more efficient and broader range of insourced services. Increase in other costs of goods sold by 23.6% to 0.97 mln euros was related to timing of maintaining and repairing works and spring recovery asphalting volumes being higher than last year same period.

As a result of all above the Group's gross profit for the 2nd quarter of 2015 was 8.01 mln euros, showing an increase by 3.6% or 0.28 mln euros, compared to the gross profit of 7.73 mln euros for the comparative period of 2014.

Other Operating Costs

Other operating costs were 1.76 mln euros, showing an increase by 7.3% or 0.12 mln euros. Increase in other operating costs were related to consultation and legal fees as their timing continues to have an impact on the administrative expenses.

Other net income/expenses

Other net costs resulted a net expense of 0.02 mln euros, compared to 0.10 mln euros net income in the 2nd quarter of 2014. The results were mainly influenced by the change in the amount of doubtful receivables.

Operating profit

As a result of the factors listed above the Group's operating profit for the 2nd quarter of 2015 totalled 6.23 mln euros, being 0.6% or 0.04 mln euros higher than in the corresponding quarter in 2014. Removing the pollution tax impact in relation to the concentration limits for heavy metals, the Group's operating profit had been 4.7% or 0.31 mln euros lower compared to 2014.

Financial expenses

The Group's net financial income and expenses have resulted a net income of 0.41 mln euros, compared to net expense 0.64 mln euros in the 2nd quarter of 2014. It is mainly impacted by a positive 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 0.43 mln euros. Effective interest rate (incl. swap interests) in the 2nd quarter of 2015 was 2.57%, amounting the interest costs of 0.62 mln euros, compared to the effective interest rate of 3.05% and the interest costs of 0.73 mln euros in the 2nd quarter of 2014. In April 2015, the Company signed 4 SWAP contracts in the notional amount of 45 mln euros. The contracts became effective from the 1st of June 2015 after the existing contracts finished. The interest rates fixed in the new contracts are on average 2.9% lower than for the contracts that ended.

Profit Before and After Tax

The Group's profit before taxes for the 2nd quarter of 2015 was 6.64 mln euros, being 19.5% or 1.08 mln euros higher than for the 2nd quarter of 2014, resulting mainly from increased revenues and lower pollution tax costs and net financial expenses as described above. Eliminating the influence of the pollution tax and derivatives fair value, the Group's profit before taxes for the 2nd quarter of 2015 would have been 5.63 mln euros, showing a decrease by 5.1% or 0.30 mln euros compared to the relevant period in 2014.

The Group's profit after taxes for the 2nd quarter of 2015 was 2.14 mln euros, by being 1.37 mln euros higher than for the 2nd quarter of 2014. Net profit after taxes eliminating the effects of the pollution tax and derivatives in both years would have been 1.5% or 0.02 mln euros lower in 2015.

Results for the six months of 2015

During the six months of 2015 the Group's total sales were 27.31 mln euros, showing an increase by 2.4% or 0.63 mln euros year on year. Sales from water and wastewater services were 24.65 mln euros, being increased by 2.0% or 0.48 mln euros compared to the six months of 2014.

The movements in sales are mostly similar to movements in the 2nd quarter described above. There has been a slight 1.6% or 0.19 mln euros increase in the sales to residential customers and 1.1% or 0.11 mln euros increase in the sales to the commercial clients within the service area. The sales revenues from outside service area clients for water, wastewater and storm water services were 2.45 mln euros, by showing an increase of 9.2% 0.21 mln euros compared to the six months of 2014.

The sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area in the six months of 2015 were 1.72 mln euros, showing a decrease by 1.3% or 0.02 mln euros.

Total direct production costs (water abstraction charges, chemicals, electricity, and pollution taxes) were 3.39 mln euros, showing a decrease by 25.9% or 1.18 mln euros year on year. Biggest decrease came from the decrease in pollution tax and chemicals costs, balanced slightly by the increase in water abstraction and electricity costs as described below:

- Water abstraction charges increased by 4.0% to 0.55 mln euros, driven mainly by 4.1% raise in tax rates.
- Total chemical costs decreased by 14.4% to 0.74 mln euros. Change of costs in wastewater treatment was mainly influenced by the decrease in dosage used to remove pollutants in wastewater and methanol price. Chemicals costs were slightly higher in water treatment mainly due to raw water quality being worse than last year same time.
- Electricity costs have increased slightly by 0.6% to 1.58 mln euros. Higher electricity costs were mostly derived from increase in volumes in treatment facilities and usage of electricity per m3 in water treatment due to raw water quality being worse, worth 0.07 mln euros, balanced by the decrease in electricity price, worth 0.06 mln euros.
- In the 6 months of 2015 the pollution tax expense decreased by 67.0% to 5.54 mln euros. The decrease is influenced by the problems with allowed concentrations of heavy metals covered above. Eliminating the one-off influences the pollution tax expenses have increased by 13.5% or 0.06 mln euros year of year.

Other cost of goods sold (staff costs, depreciation, construction services and other cost of goods sold) were 7.83 mln euros, by being higher by 10.2% or 0.73 mln euros. Most of the increase came from higher construction services costs, staff and depreciation costs. Higher construction services costs were related to earlier start of construction activities due to favourable weather and some high-value contracts. Higher staff costs were mainly related to the Group having a higher headcount to provide more efficient and broader range of insourced services.

Due to the increased revenues and decreased expenses the gross profit for 6 months in 2015 was 16.08 mln euros, by being 7.3% or 1.09 mln euros higher compared to the same period in 2014. The operating profit was 12.92 mln euros, showing an increase by 8.8% or 1.04 mln euros during the six months of 2015.

The Group’s net financial income and expenses have resulted a net income of 0.10 mln euros, compared to net expense 1.26 mln euros in the 6 months of 2014. It is mainly 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 2015 expenses is 1.41 mln euros (2014: negative impact 0.06 mln euros).

The Group’s profit before taxes for the six months of 2015 was 13.02 mln euros, showing a 22.7% increase compared to the relevant period in 2014. The Group’s net profit for the six months of 2015 was 8.52 mln euros, which is 2.69 mln euros higher than the net profit for equivalent period in 2014.

Balance sheet

In the six months of 2015 the Group invested 4.59 mln euros into fixed assets. As of 30 June 2015 non-current tangible assets amounted to 159.0 mln euros and total non-current assets amounted to 160.5 mln euros. (30. June 2014: 153.5 mln euros and 154.5 mln euros respectively).

Compared to the year end of 2014 there has been a reduction in receivables and prepayments in the amount of 1.66 mln euros to 6.60 mln euros which is mainly related to collection of money for network extension program.

Compared to the year end of 2014 the current liabilities have increased by 3.74 mln euros to 12.56 mln euros. The movement is mainly related to the dividend income tax payable in July.

The Group's loan balance has remained stable at 95 mln euros. The weighted average interest risk margin for the total loan facility is 0.95%.

The Group has a Total debt/Total assets level as expected of 61.3%, in range of 55%-65%, reflecting the Group's equity profile. This level is consistent with the same period in 2014 when the total debt/total assets ratio was 61.9%.

Biggest share of the rest of the long term liabilities is deferred income from connection fees amounting to 13.71 mln euros (2014: 10.75 mln euros).

In the 4th 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 4th quarter of 2014 the Group re-evaluated the liability, which now stands at 40.1 mln euros, as per note 13 to the accounts.

Cash flows

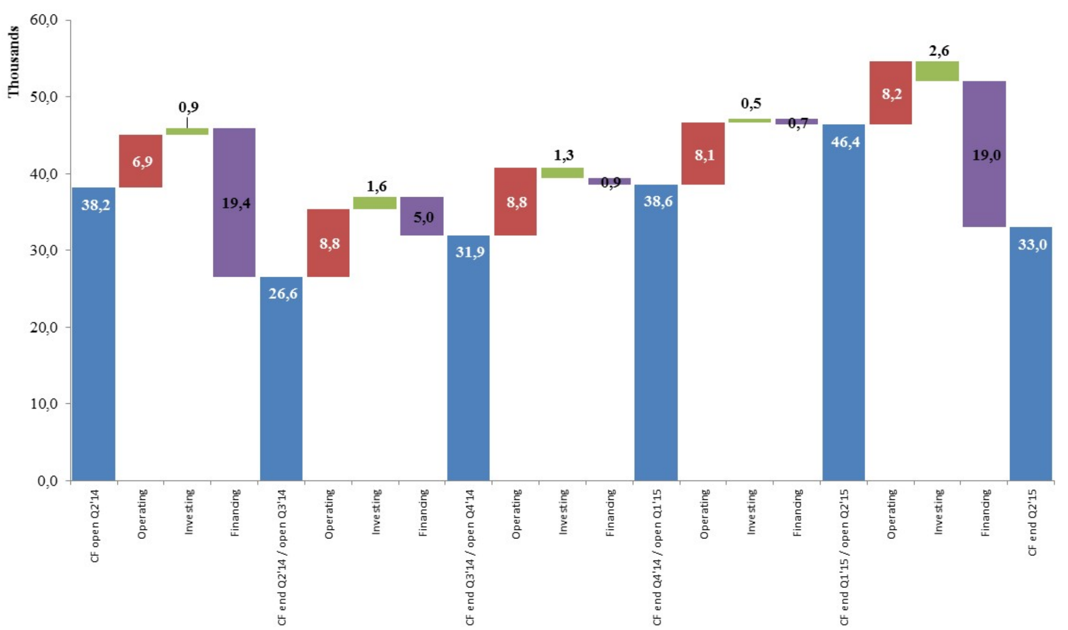
As of 30 June 2015 the cash position of the Group is strong. At the end of June 2015 the cash balance of the Group stood at 33.04 mln euros, which is 16.5% of the total assets (2014: 26.57 mln, which was 13.5% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the six months of 2015, the Group generated 16.28 mln euros of cash flows from operating activities, an increase of 2.45 mln euros compared to the corresponding period in 2014.

In 2015 the operating cash flows were above 2014 cash flows due to a change in operating profit and working capital. Underlying operating profit still continues to be the main contributor to operating cash flows. The collection of receivables is continuously strong.

In the six months of 2015 the result of net cash flows from investing activities was a cash outflow of 2.07 mln euros, a decrease of 3.09 mln euros compared to the inflow of 1.02 mln euros in the six months of 2014. This is made up as follows:

- In the six months of 2015 the investments in fixed assets have increased 1.09 mln euros compared to 2014 amounting to 4.71 mln euros.
- The compensations received for the construction of pipelines were 2.56 mln euros in the six months of 2015, showing a decrease of 1.78 mln euros compared to same period of 2014. Most of the cash collected for pipes was related to the sewage network extension program, which was completed in 2012. The collection for extension program ended in March 2015.
- In the six months of 2015, cash outflow from financing amounted to 19.73 mln euros, which is on the same level compared to previous year. Cash outflow was mainly made of dividend payment, which was on the same level as same period of 2014.



Employees

At the end of the 2nd quarter of 2015, the total number of employees was 320 compared to 317 at the end of the 2nd quarter of 2014. The full time equivalent (FTE) was respectively 308 in 2015 compared to the 304 in 2014. 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

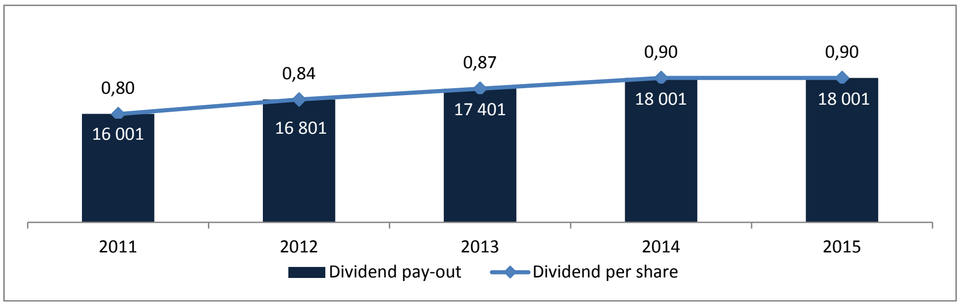
Dividend allocation to the shareholders is recorded as a liability in the financial statement of the Company at the time when the profit allocation and dividend payment is confirmed by the annual general meeting of shareholders.

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.

In the annual general meeting of shareholders held on 27th of May 2015, 90 cents dividends per share and the total dividend pay-out from the profit of 2014 net income in the amount of 18.0 mln euros was approved. It is in accordance with the Company's dividend policy. Compared to 2014 dividends of 90 cents per share there was no change.

Dividends were paid out on 19th of June 2015.

Dividend pay-outs in last five 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 June 2015 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

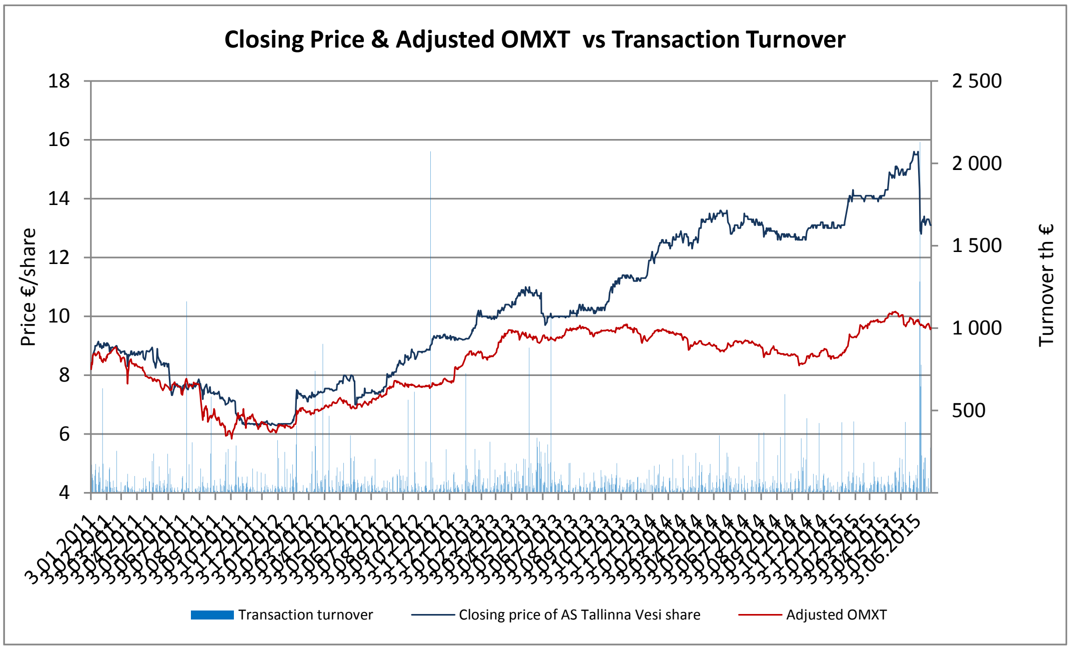
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

During the six months of 2015 the shareholder structure has been relatively stable compared to the end of 2014. At the end of 2nd quarter 2015 the pension funds owned 1.87% of the total shares compared to 1.54% at the end of 4th quarter 2014.

As of 30th June 2015, the closing price of the AS Tallinna Vesi share was 13.10 euros, which is a 7.1% decrease (2014: +4.8%) compared to the closing price of 14.10 euros at the beginning of the quarter. During the same period the OMX Tallinn index decreased by 2.1% (2014: +0.7%).

In the six months of 2015, 4 571 deals with the Company's shares were concluded (2014: 2 519 deals) during which 1 027 thousand shares or 5.1% exchanged their owners (2014: 581 thousand shares or 2.9%).

The turnover of the transactions was 6 786 thousand euros higher than in 2014, amounting to 14 271 thousand euros.



Operational performance

The first half of 2015 can be characterised with stability in the quality of our services. Above all, this provides confidence to all consumers that they are provided with a high-quality drinking water, stable water supply and wastewater discharging service. In addition to the quality of service, we also concentrate on being a good partner for our customers. Feedback from the customers has become more and more positive, however, we aim to continue making efforts to meet and exceed the customers' expectations.

Operational indicators for the first half of 2015

Indicator	6 months 2014	6 months 2014
Drinking water		
Compliance of water quality at the customers' tap	99.86%	99.93%
Water loss in the water distribution network	16.38%	13.95%
Average duration of water interruptions per property in hours	2.80	3.17
Wastewater		
Number of sewer blockages	434	428
Number of sewer bursts	72	68
Wastewater treatment compliance with environmental standards	100%	100%
Customer Service		
Number of written complaints	32	37
Number of customer contacts regarding water quality	65	38
Number of customer contacts regarding water pressure	144	146
Number of customer contacts regarding blockages and discharge of storm water	529	601
Responding written customer contacts within at least 2 work days	99.0%	98.7%
Number of failed promises	21	6
Notification of unplanned water interruptions at least 1 h before the interruption	97.4%	98.8%

Corporate structure

As of 30 June 2015, 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 2nd 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/en/Investor/Regulation) 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.

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

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 6 months period of financial year 2015 ended 30 June 2015. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 2015 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 6 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 23 July 2015 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

23 July 2015

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

		as of 30 June		as of 31 December
ASSETS	**Note**	**2015**	**2014**	**2014**
CURRENT ASSETS				
Cash and cash equivalents	2	33 035	26 566	38 560
Trade receivables, accrued income and prepaid expenses		6 602	15 526	8 261
Inventories		467	441	412
TOTAL CURRENT ASSETS		**40 104**	**42 533**	**47 233**
NON-CURRENT ASSETS				
Other long-term receivables		0	22	0
Derivatives		631	0	0
Property, plant and equipment	3	159 004	153 526	157 481
Intangible assets	3	846	919	862
TOTAL NON-CURRENT ASSETS		**160 481**	**154 467**	**158 343**
TOTAL ASSETS		**200 585**	**197 000**	**205 576**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		306	169	261
Trade and other payables		9 649	9 947	4 855
Derivatives		565	1 764	1 078
Prepayments		2 042	2 846	2 631
TOTAL CURRENT LIABILITIES		**12 562**	**14 726**	**8 825**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		13 713	10 752	12 567
Borrowings		96 125	95 846	96 250
Derivatives		493	620	761
Other payables		24	21	23
TOTAL NON-CURRENT LIABILITIES		**110 355**	**107 239**	**109 601**
TOTAL LIABILITIES		**122 917**	**121 965**	**118 426**
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		39 656	37 023	49 138
TOTAL EQUITY		**77 668**	**75 035**	**87 150**
TOTAL LIABILITIES AND EQUITY		**200 585**	**197 000**	**205 576**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (thousand EUR)

		Quarter 2		6 months		for the year ended 31 December
	Note	2015	2014	2015	2014	2014
Revenue	4	13 742	13 371	27 311	26 678	53 241
Costs of goods/services sold	6	-5 733	-5 643	-11 227	-11 686	-22 399
GROSS PROFIT		**8 009**	**7 728**	**16 084**	**14 992**	**30 842**
Marketing expenses	6	-103	-106	-240	-273	-456
General administration expenses	6	-1 657	-1 535	-2 871	-2 900	-5 517
Other income (+)/ expenses (-)	7	-18	104	-58	55	-41
OPERATING PROFIT		**6 231**	**6 191**	**12 915**	**11 874**	**24 828**
Financial income	8	1 025	154	1 472	288	432
Financial expenses	8	-620	-793	-1 368	-1 549	-2 532
PROFIT BEFORE TAXES		**6 636**	**5 552**	**13 019**	**10 613**	**22 728**
Income tax on dividends	9	-4 500	-4 785	-4 500	-4 785	-4 785
NET PROFIT FOR THE PERIOD		**2 136**	**767**	**8 519**	**5 828**	**17 943**
COMPREHENSIVE INCOME FOR THE PERIOD		**2 136**	**767**	**8 519**	**5 828**	**17 943**
Attributable profit to:						
Equity holders of A-shares		2 135	766	8 518	5 827	17 942
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,11	0,04	0,43	0,29	0,90
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.

CONSOLIDATED CASH FLOW STATEMENT (thousand EUR)

	Note	6 months 2015	6 months 2014	for the year ended 31 December 2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		12 915	11 874	24 828
Adjustment for depreciation/amortisation	6	3 079	2 895	5 851
Adjustment for revenues from connection fees	7	-93	-72	-143
Other non-cash adjustments		-8	24	-33
Profit (-) /loss (+) from sale and write off of property, plant and equipment, and intangible assets		-2	3	145
Change in current assets involved in operating activities		-341	-1 592	1 165
Change in liabilities involved in operating activities		730	703	-364
Total cash flow from operating activities		**16 280**	**13 835**	**31 449**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-4 709	-3 618	-9 646
Compensations received for construction of pipelines		2 556	4 340	10 523
Proceeds from sale of property, plant and equipment, and intangible assets		12	1	13
Interest received		67	296	432
Total cash flow from investing activities		**-2 074**	**1 019**	**1 322**
CASH FLOWS FROM FINANCING ACTIVITIES				
Received loans		0	20 000	20 000
Repayment of loans		0	-20 000	-20 000
Interest paid and loan financing costs, incl swap interests		-1 388	-1 486	-2 995
Repayment of finance lease		-156	-82	-216
Dividends paid	9	-18 001	-18 001	-18 001
Income tax on dividends	9	-186	-505	-4 785
Total cash flow used in financing activities		**-19 731**	**-20 074**	**-25 997**
Change in cash and cash equivalents		**-5 525**	**-5 220**	**6 774**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**38 560**	**31 786**	**31 786**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**33 035**	**26 566**	**38 560**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 196**	**87 208**
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	17 943	17 943
as of 31 December 2014	**12 000**	**24 734**	**1 278**	**49 138**	**87 150**
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 196**	**87 208**
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	5 828	5 828
as of 30 June 2014	**12 000**	**24 734**	**1 278**	**37 023**	**75 035**
as of 31 December 2014	**12 000**	**24 734**	**1 278**	**49 138**	**87 150**
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	8 519	8 519
as of 30 June 2015	**12 000**	**24 734**	**1 278**	**39 656**	**77 668**

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

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 June		as of 31 December
	2015	**2014**	**2014**
Cash in hand and in bank	11 890	794	13 358
Short-term deposits	21 145	25 772	25 202
Total cash and cash equivalents	**33 035**	**26 566**	**38 560**

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		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Unfinished intangible assets	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
as of 31 December 2013									
Acquisition cost	24 851	175 032	44 874	1 321	577	988	27	5 517	253 187
Accumulated depreciation	-5 662	-58 179	-30 639	-917	0	0	0	-4 507	-99 904
Net book value	**19 189**	**116 853**	**14 235**	**404**	**577**	**988**	**27**	**1 010**	**153 283**
Transactions in the period 01 January 2014 - 31 December 2014									
Acquisition in book value	0	0	0	0	8 428	2 475	166	0	11 069
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	-7	-47	0	-17	-87	0	0	-158
Reclassification	839	6 544	2 961	61	-8 300	-2 105	-118	118	0
Depreciation	-279	-2 760	-2 389	-82	0	0	0	-341	-5 851
as of 31 December 2014									
Acquisition cost	25 689	181 365	47 206	1 359	688	1 271	75	5 013	262 666
Accumulated depreciation	-5 940	-60 735	-32 446	-976	0	0	0	-4 226	-104 323
Net book value	**19 749**	**120 630**	**14 760**	**383**	**688**	**1 271**	**75**	**787**	**158 343**
Transactions in the period 01 January 2015 - 30 June 2015									
Acquisition in book value	0	0	0	0	3 804	663	119	0	4 586
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-10	0	0	0	0	0	-10
Reclassification	26	1 898	575	18	-1 340	-1 167	-140	140	10
Depreciation	-167	-1 425	-1 312	-40	0	0	0	-135	-3 079
as of 30 June 2015									
Acquisition cost	25 675	183 130	47 388	1 377	3 152	767	54	5 152	266 695
Accumulated depreciation	-6 067	-62 027	-33 375	-1 016	0	0	0	-4 360	-106 845
Net book value	**19 608**	**121 103**	**14 013**	**361**	**3 152**	**767**	**54**	**792**	**159 850**

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

As of 30 June 2015 the book value of the assets (Machinery and equipment) leased under financial lease is 1 555 thousand euros (31 December 2014: 1 664 thousand euros).

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

NOTE 4. REVENUE

Revenues from main operating activities	Quarter 2 2015	Quarter 2 2014	6 months 2015	6 months 2014	for the year ended 31 December 2014
Total water supply and waste water disposal service, incl:	12 394	12 138	24 654	24 178	48 598
Private clients, incl:	6 083	6 001	12 237	12 048	24 154
Water supply service	3 345	3 303	6 731	6 630	13 303
Wastewater disposal service	2 738	2 698	5 506	5 418	10 851
Corporate clients, incl:	4 891	4 804	9 564	9 459	19 085
Water supply service	2 717	2 697	5 287	5 278	10 664
Wastewater disposal service	2 174	2 107	4 277	4 181	8 421
Outside service area clients, incl:	1 197	1 095	2 446	2 239	4 520
Water supply service	332	283	623	538	1 153
Wastewater disposal service	759	722	1 531	1 478	2 957
Storm water disposal service	106	90	292	223	410
Over pollution fee	223	238	407	432	839
Storm water treatment and disposal service and fire hydrants service	875	750	1 719	1 741	3 073
Construction service and design	305	285	647	415	925
Other works and services	168	198	291	344	645
Total revenue	**13 742**	**13 371**	**27 311**	**26 678**	**53 241**

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

NOTE 5. STAFF COSTS

	Quarter 2 2015	Quarter 2 2014	6 months 2015	6 months 2014	for the year ended 31 December 2014
Salaries and wages	-1 532	-1 396	-3 014	-2 751	-5 255
Social security and unemployment insurance taxation	-513	-467	-1 008	-921	-1 750
Staff costs total	**-2 045**	**-1 863**	**-4 022**	**-3 672**	**-7 005**
Number of employees at the end of reporting period			**308**	**304**	**321**

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

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

	Quarter 2		6 months		for the year ended 31 December
Cost of goods/services sold	**2015**	**2014**	**2015**	**2014**	**2014**
Water abstraction charges	-276	-261	-546	-525	-1 057
Chemicals	-377	-448	-736	-860	-1 737
Electricity	-747	-729	-1 575	-1 566	-3 032
Pollution tax	-235	-550	-536	-1 626	-2 163
Staff costs	-1 436	-1 314	-2 784	-2 543	-4 880
Depreciation and amortization	-1 437	-1 321	-2 830	-2 618	-5 370
Construction service and design	-257	-237	-565	-324	-775
Other costs of goods sold	-968	-783	-1 655	-1 624	-3 385
Total cost of goods/services sold	**-5 733**	**-5 643**	**-11 227**	**-11 686**	**-22 399**
Marketing expenses					
Staff costs	-91	-87	-203	-190	-340
Depreciation and amortization	-3	-10	-7	-51	-63
Other marketing expenses	-9	-9	-30	-32	-53
Total marketing expenses	**-103**	**-106**	**-240**	**-273**	**-456**
Administrative expenses					
Staff costs	-518	-462	-1 035	-939	-1 785
Depreciation and amortization	-78	-76	-154	-157	-287
Other general administration expenses	-1 061	-997	-1 682	-1 804	-3 445
Total administrative expenses	**-1 657**	**-1 535**	**-2 871**	**-2 900**	**-5 517**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 2		6 months		for the year ended 31 December
	2015	**2014**	**2015**	**2014**	**2014**
Connection fees	47	37	93	72	143
Depreciation of single connections	-44	-35	-88	-69	-131
Doubtful receivables expenses (-) / expense reduction (+)	12	137	1	145	141
Other income / expenses (-)	-33	-35	-64	-93	-194
Total other income / expenses	**-18**	**104**	**-58**	**55**	**-41**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2015	**2014**	**2015**	**2014**	**2014**
Interest income	24	154	60	288	432
Interest expense, loan	-252	-293	-515	-584	-1 137
Interest expense, swap	-364	-440	-846	-879	-1 846
Increase (+) /decrease (-) of fair value of swap	1 001	-40	1 412	-62	483
Other financial income (+)/ expenses (-)	-4	-20	-7	-24	-32
Total financial income / expenses	**405**	**-639**	**104**	**-1 261**	**-2 100**

NOTE 9. DIVIDENDS	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2015	**2014**	**2015**	**2014**	**2014**
Dividends declared during the period	18 001	18 001	18 001	18 001	18 001
Dividends paid during the period	18 001	18 001	18 001	18 001	18 001
Income tax on dividends paid	-4 500	-4 785	-4 500	-4 785	-4 785
Income tax accounted for	**-4 500**	**-4 785**	**-4 500**	**-4 785**	**-4 785**
Paid-up dividends per shares:					
Dividends per A-share (in euros)	0,90	0,90	0,90	0,90	0,90
Dividends per B-share (in euros)	600	600	600	600	600

Dividend income tax rate in 2015 is 20/80. In 2014 dividend income taxe rate was 21/79.

NOTE 10. EARNINGS PER SHARE

	Quarter 2		**6 months**		**for the year ended 31 December**
	2015	**2014**	**2015**	**2014**	**2014**
Net profit minus B-share preferred dividend rights	2 135	766	8 518	5 827	17 942
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)	0,11	0,04	0,43	0,29	0,90
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 June 2015 and 2014 and 31 December 2014 are equal to earnings per share figures stated above.

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (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 Ju**	**as of 31 December**
	2015	**2014**	**2014**
Accounts receivable	25	1 570	503
Accrued income	0	6 117	1 577
Trade and other payables	191	186	199

Transactions	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2015	**2014**	**2015**	**2014**	**2014**
Revenue	875	749	1 719	1 741	3 073
Purchase of administrative and consulting services	260	260	531	517	1 041
Financial income	0	125	14	225	327
Fees for Management Board (excluding social tax)	31	31	77	118	170
Supervisory Board fees (excluding social tax)	8	10	16	20	39

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".

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.

In the first 6 months of 2015, management board members were not paid any leaving compensation (in the first 6 months of 2014 and throughout the year ending on 31 December 2014, a total of 38 thousand euros were paid). The off balance sheet potential salary liability would be up to 69 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 June 2015 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 June and 31 December 2014: Riina Käi owned 100 shares).

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Simon Roger Gardiner	Chairman of the Supervisory Board
Steven Richard Fraser	Member of the Supervisory Board
Martin Padley	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.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board

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 40,1 mln euros – the part that CA considers to be excessively charged from the clients going back three years from time of the final judgment.