

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 1st half-year of 2016

Currency	Thousand euros
Start of reporting period	1 January 2016
End of reporting period	30 June 2016
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Chairman's summary

In the first six months of 2016, the Company's operational and financial performance was excellent. The majority of key performance indicators (KPIs) are on track, which given the colder weather in the 1st quarter and associated increase in network disruption, was very good and a testament of all the hard work done by AS Tallinna Vesi staff, during the period.

In the first half of 2016, the water quality was 99.93% compliant. Only one sample taken from customer taps, out of the 1,472 samples taken, was non-compliant. The average network leakage for the period was 16.22%, which is higher than the same period in 2015 (13.95%), but attributable to the colder ambient temperatures in the 1st quarter in 2016, resulting in a higher number of bursts within the clean water network. With the advent of warmer weather, we hope to see a corresponding reduction in network leakage.

Besides providing premium drinking water, we are also responsible for a wastewater discharge service to nearly one third of Estonia's population (440,000). It is therefore extremely important that the wastewater treatment plant in Paljassaare works effectively and in accordance with the stipulated quality requirements, set by the Estonian Ministry of Environment. During the 1st half-year of 2016, the final effluent leaving Paljassaare was 100% compliant with the stipulated limits and no pollution incidents have occurred on the network.

We continue to make targeted capital investments, renovating or replacing assets based on previous condition surveys and performance data, to ensure the continued reliability of the infrastructure. This includes the 5+5 programme, where 5 km of water and wastewater network is replaced each year.

Delivering good operational and financial performance is only possible through the continued motivation, commitment and performance of AS Tallinna Vesi staff. We remain focused on the development and training of internal staff and ensuring appropriate succession plans are in place. An example of this, is the company's ongoing graduate and apprentice programmes, which will also inject fresh talent into the business for the future.

Operational performance for the first six months of 2016

Indicator	First 6 months 2016	First 6 months 2015
<i>Drinking water</i>		
Compliance of water quality at the customers' tap.	99.93%	99.93%
Water loss in the water distribution Network.	16.22%	13.95%
Average duration of water interruptions per property in hours.	3.54 h	3.17 h
<i>Wastewater</i>		
Number of sewer blockages.	367	428
Number of sewer bursts.	52	68
Wastewater treatment compliance with environmental standards	100%	100%
<i>Customer Service</i>		
Number of written complaints	21	37
Number of customer contacts regarding water quality	48	38
Number of customer contacts regarding water pressure	157	146
Number of customer contacts regarding blockages and discharge of storm water	569	601
Responding written customer contacts, within at least 2 working days	99.10%	98.70%
Number of failed promises	2	6
Notification of unplanned water interruptions, at least 1 h before the interruption	97.90%	98.80%

Contractual Highlights

- Tariffs of AS Tallinna Vesi continue to be on the same level, based on a temporary injunction granted by the Court for the period of court proceedings.
- The Company was privatised in 2001, with the support and knowledge of the Estonian national government.
- At the end of May 2012 the District Court ruled that AS Tallinna Vesi's Services Agreement, which was part of the international privatisation, is a public law contract.
- AS Tallinna Vesi believes that the terms and conditions of the international privatisation contract, that has previously been deemed a public law contract, should be protected by the Estonian legal system.
- 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 is claiming compensation for potential damages over the lifetime of the international privatisation contract, up until 2020. The claim is based on estimated future volumes and level of consumer price index (CPI). In recent months, CPI has been lower than at the time the claim was originally calculated, with a current value of EUR 73 million, compared to the original of EUR 90 million.
- On 5th of June 2015, the Tallinn Administrative Court dismissed the Company's complaint in the local tariff dispute. The reasoning for the dismissal, was not made disclosed until 12th of October 2015. Tallinn Administrative Court, formed an opinion that the tariffs part of the Services Agreement, which has been deemed to be as a public law contract by the Estonian Courts in 2012, is not binding on the Competition Authority. AS Tallinna Vesi filed the appeal to the Tallinn District Court on 11th of November 2015.
- In October 2014, in parallel to the local dispute about tariffs, 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.
- On 17th of June 2015, the timetable of the International Arbitration Proceedings was determined, with the final hearing set for November 2016. Procedural orders and decisions issued during the arbitration process, subject to the redaction of the confidential information, are available on the [ICSID website](#).
- International Arbitration Proceedings are being held in parallel, and are not linked to the local Court dispute.
- In February this year, the Republic of Estonia submitted their Memorial, with AS Tallinna Vesi and United Utilities (Tallinn) B.V, responding with their counter Memorial in June.
- There have been no hearings connected with the dispute during 2016.

AS Tallinna Vesi has continuously stated its belief in fully transparent regulation, and its willingness to enter into **meaningful and evidence-based dialogue**, which takes into account the privatisation contract that was originally signed back in 2001.

Financial highlights of 2nd quarter 2016

The Group's sales revenues during the 2nd quarter of 2016 were EUR 14.50 million, being up by 5.5% or EUR 0.75 million compared to the same period in 2015.

The gross profit in the 2nd quarter of 2016 was EUR 8.30 million, showing an increase of 3.7% or EUR 0.29 million. Increase in gross profit was related to higher water, wastewater and storm water revenues and lower chemicals costs, which was accompanied by higher revenues and profit from construction and asphaltting services. Increased revenues were balanced by higher depreciation and staff costs.

The operating profit was EUR 5.84 million, showing a decrease by 6.3% or EUR 0.39 million. The operating profit was impacted by the above mentioned positive changes in gross profit, which was further more impacted by higher legal costs.

The net profit for the 2nd quarter of 2016 was EUR 0.77 million, being down by 63.8% or EUR 1.36 million. The net profit was mainly impacted by above mentioned changes in operating profit and higher financial expenses. Higher financial expenses were mostly influenced by the negative change in the fair value of swap contracts in the 2nd quarter of 2016 compared to the big positive change in the same quarter of 2015. The net profit for the 2nd quarter of 2016 and 2015 without the impact resulted from the change of the fair value of swap contracts was EUR 0.99 million and EUR 1.13 million respectively.

<i>EUR million</i>	Q2 2014	Q2 2015	Q2 2016	Change 16/15	6 months 2014	6 months 2015	6 months 2016	Change 16/15
Sales	13.37	13.74	14.50	5.5%	26.68	27.31	28.87	5.7%
Gross profit	7.73	8.01	8.30	3.7%	14.99	16.08	16.64	3.4%
Gross profit margin %	57.80	58.28	57.27	-1.7%	56.20	58.89	57.64	-2.1%
Operating profit	6.19	6.23	5.84	-6.3%	11.87	12.92	12.47	-3.4%
Operating profit - main business	6.00	6.17	5.69	-7.8%	11.63	12.83	12.23	-4.6%
Operating profit margin %	46.30	45.34	40.29	-11.1%	44.51	47.29	43.21	-8.6%
Profit before taxes	5.55	6.64	5.27	-20.5%	10.61	13.02	10.91	-16.2%
Net profit	0.77	2.14	0.77	-63.8%	5.83	8.52	6.41	-24.8%
Net profit margin %	5.74	15.54	5.34	-65.7%	21.85	31.19	22.21	-28.8%
ROA %	0.39	1.06	0.38	-64.4%	2.96	4.25	3.14	-26.0%
Debt to total capital employed %	61.91	61.28	62.06	1.3%	61.91	61.28	62.06	1.3%
ROE %	1.02	2.75	1.00	-63.6%	7.77	10.97	8.28	-24.5%
Current ratio	2.89	3.19	2.63	-17.7%	2.89	3.19	2.63	-17.7%

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 and asphaltting services, doubtful debt, other income

RESULTS OF OPERATIONS FOR THE 2nd QUARTER 2016

Profit and Loss Statement

2nd quarter 2016

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 2016 the Group's total sales were EUR 14.50 million, showing an increase by 5.5% or EUR 0.75 million year on year. 86.8% 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 6.8% from other works and services.

Revenues from main operating activities EUR thousand	Quarter II			Variance 16/15	
	2016	2015	2014	EUR	%
Total water supply and waste water disposal service, incl:	12,582	12,394	12,138	188	1.5%
<u>Private clients, incl:</u>	<u>6,200</u>	<u>6,083</u>	<u>6,001</u>	<u>117</u>	<u>1.9%</u>
Water supply service	3,410	3,345	3,303	65	1.9%
Wastewater disposal service	2,790	2,738	2,698	52	1.9%
<u>Corporate clients, incl:</u>	<u>5,070</u>	<u>4,891</u>	<u>4,804</u>	<u>179</u>	<u>3.7%</u>
Water supply service	2,831	2,717	2,697	114	4.2%
Wastewater disposal service	2,239	2,174	2,107	65	3.0%
<u>Outside service area clients, incl:</u>	<u>1,101</u>	<u>1,197</u>	<u>1,095</u>	<u>-96</u>	<u>-8.0%</u>
Water supply service	346	332	283	14	4.2%
Wastewater disposal service	686	759	722	-73	-9.6%
Storm water disposal service	69	106	90	-37	-34.9%
<u>Over pollution fee</u>	<u>211</u>	<u>223</u>	<u>238</u>	<u>-12</u>	<u>-5.4%</u>
Storm water treatment and disposal service and fire hydrant service	924	875	750	49	5.6%
Construction service, design and asphaltting	827	324	297	503	155.2%
Other works and services	164	149	186	15	10.1%

Sales from water and wastewater services were EUR 12.58 million, showing a 1.5% or EUR 0.19 million increase compared to the 2nd quarter of 2015, resulting from the changes in sales volumes as described below:

- There has been a slight increase in all residential customer groups within the service area in the 2nd quarter of 2016 compared to the same period in 2015 resulting a total increase in private customers' revenues by 1.9% to EUR 6.20 million.
- Sales to commercial customers within the service area have increased by 3.7% to EUR 5.07 million. Increase is mostly related to leisure and other customer segments.
- Sales to customers outside the main service area have shown a decrease by 8.0% to EUR 1.10 million. Wastewater revenues decreased by 9.6% to EUR 0.69 million and storm water revenues decreased by 34.9% to EUR 0.07 million, while water revenues increased by 4.2% to EUR 0.35 million. Decrease in the revenues from customers outside the main service area is mainly related to the sales to Viimsi, as they started to use their new wastewater treatment facilities from the beginning of 2016. Whilst the sales to Viimsi have ceased, the sales to other areas have increased.
- Over pollution fees received have decreased by 5.4% to EUR 0.21 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were EUR 0.92 million, showing a slight increase of 5.6% or EUR 0.05 million in the 2nd quarter of 2016 compared to the same period in 2015.

Sales of construction, design and asphaltting services were EUR 0.83 million, having increased by 155.2% or EUR 0.50 million year on year. The increase was mainly related to the higher construction revenues resulted from an ongoing big project started at the end of 2015 and couple of ongoing bigger projects started in June.

Cost of Goods Sold and Gross profit

The cost of goods sold amounted to EUR 6.20 million in the 2nd quarter of 2016, showing 8.1% or EUR 0.46 million increase compared to the equivalent period in 2015. The cost increase is mainly influenced by increase in construction and asphaltting services related costs and also by higher depreciation and staff costs, which was partly balanced by lower chemicals and electricity costs.

Cost of goods sold EUR thousand	Quarter II			Variance 16/15	
	2016	2015	2014	EUR	%
Water abstraction charges	-283	-276	-261	-7	-2.5%
Chemicals	-285	-377	-448	92	24.4%
Electricity	-728	-747	-729	19	2.5%
Pollution tax	-235	-235	-550	0	0.0%
Total direct production costs	-1,531	-1,635	-1,988	104	6.4%
Staff costs	-1,470	-1,436	-1,314	-34	-2.4%
Depreciation and amortization	-1,591	-1,437	-1,321	-154	-10.7%
Construction service, design and asphaltting	-675	-271	-243	-404	-149.1%
Other costs of goods sold	-928	-954	-777	26	2.7%
Other costs of goods sold total	-4,664	-4,098	-3,655	-566	-13.8%
Total cost of goods sold	-6,195	-5,733	-5,643	-462	-8.1%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax) were EUR 1.53 million, showing 6.4% or EUR 0.10 million decrease year on year. Changes in direct production costs came from a combination of changes in prices and in treated volumes that affected the cost of goods sold together with the following additional factors:

- Water abstraction charges increased slightly by 2.5% to EUR 0.28 million, driven mainly by increase in treated volumes.
- Chemicals costs decreased by 24.4% to EUR 0.29 million, driven mainly by 45.1% lower methanol price used in wastewater treatment, worth EUR 0.05 million, which was complemented by lower usage of methanol, coagulant and polymer in the wastewater treatment process, respectively worth EUR 0.02, EUR 0.02 and EUR 0.01 million.
- Electricity costs decreased by 2.5% to EUR 0.73 million. Electricity costs decrease was related to lower electricity prices and electricity usage, balanced by increase in treated volumes.
- Pollution tax expense stayed at the same level compared to the 2nd quarter of 2015, being EUR 0.24 million.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to EUR 4.66 million, having increased by 13.8% or EUR 0.57 million. The increase of costs came from costs related to construction and asphaltting services, depreciation and higher staff costs. Staff costs increased by 2.4% to EUR 1.47 million. It was partly driven by higher headcount and also increase in salaries compared to the same period in 2015. Increase in construction and asphaltting services costs by 149.1% to EUR 0.68 million was related to increased construction and asphaltting services revenues mentioned earlier. Increase in depreciation costs by 10.7% to EUR 1.59 million was related to accelerated depreciation of fixed assets in wastewater treatment process, which will cease to be used.

As a result of all above the Group's gross profit for the 2nd quarter of 2016 was EUR 8.30 million, showing an increase of 3.7% or EUR 0.29 million, compared to the gross profit of EUR 8.01 million for the comparative period of 2015.

Administrative and marketing expenses

Administrative and marketing expenses were EUR 2.42 million, showing an increase of 37.7% or EUR 0.66 million. Most of the increase came from higher legal and consultation fees, which continue to be at a high level

during the time the Company has ongoing local and international disputes. Increase in salary expenses was related to slightly higher headcount, but also to some increase in salaries.

Operating profit

As a result of the factors listed above the Group's operating profit for the 2nd quarter of 2016 totalled EUR 5.84 million, being 6.3% or EUR 0.39 million lower than in the corresponding quarter of 2015. The Group's operating profit from main business was 7.8% or EUR 0.48 million lower compared to 2015.

Financial expenses

The Group's net financial income and expenses have resulted a net expense of EUR 0.57 million, compared to net income of EUR 0.41 million in the 2nd quarter of 2015. It is mainly impacted by a negative change of the fair value of the swap contracts year on year (-EUR 1.22 million), which was balanced by decrease in interest expenses (+EUR 0.26 million).

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 EUR 75 million and EUR 20 million are still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling EUR 1.88 million. Effective interest rate of loans (incl. swap interests) in the 2nd quarter of 2016 was 1.52%, amounting to interest costs of EUR 0.37 million, compared to the effective interest rate of 2.56% and the interest costs of EUR 0.61 million in the 2nd quarter of 2015.

Profit Before and After Tax

The Group's profit before taxes for the 2nd quarter of 2016 was EUR 5.27 million, being 20.5% or EUR 1.36 million lower than for the 2nd quarter of 2015, resulting mainly from increased revenues, balanced by the increased costs and net financial expenses as described above. Eliminating the influence of the derivatives fair value, the Group's profit before taxes for the 2nd quarter of 2016 would have been EUR 5.49 million, showing a decrease by 2.5% or EUR 0.14 million compared to the relevant period in 2015.

The Group's profit after taxes for the 2nd quarter of 2016 was EUR 0.77 million, being 63.8% or EUR 1.36 million lower than for the 2nd quarter of 2015. Eliminating the effects of the derivatives fair value the net profit after taxes would have been 12.6% or EUR 0.14 million lower than in 2015.

Results for the six months of 2016

During the six months of 2016 the Group's total sales were EUR 28.87 million, showing an increase by 5.7% or EUR 1.56 million year on year.

Sales from water and wastewater services for six months of 2016 were EUR 25.10 million, increasing 1.8% or EUR 0.45 million compared to the six months of 2015. 87.0% of sales comprised of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.5% of sales were the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants and 6.5% from other works and services.

Revenues from main operating activities EUR thousand	6 months			Variance 16/15	
	2016	2015	2014	EUR	%
Total water supply and waste water disposal service, incl:	25,102	24,654	24,178	448	1.8%
<u>Private clients, incl:</u>	<u>12,538</u>	<u>12,237</u>	<u>12,048</u>	<u>301</u>	<u>2.5%</u>
Water supply service	6,895	6,731	6,630	164	2.4%
Wastewater disposal service	5,643	5,506	5,418	137	2.5%
<u>Corporate clients, incl:</u>	<u>9,952</u>	<u>9,564</u>	<u>9,458</u>	<u>388</u>	<u>4.1%</u>
Water supply service	5,504	5,287	5,277	217	4.1%
Wastewater disposal service	4,448	4,277	4,181	171	4.0%

<u>Outside service area clients, incl:</u>	<u>2,230</u>	<u>2,446</u>	<u>2,240</u>	<u>-216</u>	<u>-8.8%</u>
Water supply service	654	623	538	31	5.0%
Wastewater disposal service	1,355	1,531	1,478	-176	-11.5%
Storm water disposal service	221	292	224	-71	-24.3%
<u>Over pollution fee</u>	<u>382</u>	<u>407</u>	<u>432</u>	<u>-25</u>	<u>-6.1%</u>
Storm water treatment and disposal service and fire hydrant service	1,870	1,719	1,741	151	8.8%
Construction service, design and asphaltting	1,588	667	427	921	138.1%
Other works and services	306	271	332	35	12.9%

During the six months of 2016 there has been a 2.5% or EUR 0.30 million increase in the sales to residential customers and 4.1% or EUR 0.39 million increase in the sales to the commercial customers within the service area. Increase in the sales to residential customers comes from different private customer segments. The sales increase in commercial customers is mostly related to industrial and other customer segments. The sales revenues from outside service area customers for water, wastewater and storm water services have decreased 8.8% or EUR 0.22 million compared to the six months of 2015, being mainly influenced by Viimsi having their own wastewater treatment facilities from the beginning of the year mentioned earlier.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the six months of 2016 were EUR 1.87 million, showing an increase of 8.8% or EUR 0.15 million.

Sales of construction, design and asphaltting services were EUR 1.59 million, increasing by 138.1% or EUR 0.92 million year on year. Increase resulted mainly from construction of a large project which was started already at the end of last year and couple of ongoing projects started in June.

Cost of goods sold EUR thousand	6 months			Variance 16/15	
	2016	2015	2014	EUR	%
Water abstraction charges	-575	-546	-525	-29	-5.3%
Chemicals	-627	-736	-860	109	14.8%
Electricity	-1,538	-1,575	-1,566	37	2.3%
Pollution tax	-571	-536	-1,626	-35	-6.5%
Total direct production costs	-3,311	-3,393	-4,577	82	2.4%
Staff costs	-2,888	-2,784	-2,542	-104	-3.7%
Depreciation and amortization	-3,023	-2,830	-2,619	-193	-6.8%
Construction service, design and asphaltting	-1,349	-579	-330	-770	-133.0%
Other costs of goods sold	-1,657	-1,641	-1,618	-16	-1.0%
Other costs of goods sold total	-8,917	-7,834	-7,109	-1,083	-13.8%
Total cost of goods sold	-12,228	-11,227	-11,686	-1,001	-8.9%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were EUR 3.31 million, showing a decrease by 2.4% or EUR 0.08 million year on year. Biggest decrease came from the decrease in chemicals and electricity costs, balanced slightly by increase in water abstraction charges and pollution tax as described below:

- Water abstraction charges increased by 5.3% to EUR 0.58 million, driven by increase in treated volumes.
- Chemicals costs decreased by 14.8% to EUR 0.63 million, driven mainly by on average 30.6% lower methanol price and smaller use of chemicals to remove pollutants in wastewater treatment process, worth respectively EUR 0.08 million and EUR 0.03 million.

- In the six months of 2016 electricity costs have decreased by 2.3% to EUR 1.54 million. Electricity costs decrease was related to on average 4.2% lower electricity prices, balanced by increase in treated volumes.
- Pollution tax expense increased by 6.5% to EUR 0.57 million. The increase is influenced by the increase in treated volumes.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to EUR 8.92 million, being higher by 13.8% or EUR 1.08 million compared to the same period in 2015. Main increase came from increase in staff costs, depreciation and costs related to higher construction and asphaltting services by the same reasons mentioned earlier in 2nd quarter results.

The gross profit for the six months of 2016 was EUR 16.64 million, being 3.4% or EUR 0.55 million higher compared to the same period in 2015. The operating profit was EUR 12.47 million, showing a decrease by 3.4% or EUR 0.44 million during the six months of 2016. The decrease in operating profit was driven by changes in operating profit mentioned earlier in 2nd quarter results.

The Group's net financial income and expenses have resulted a net expense of EUR 1.56 million, compared to net income of EUR 0.10 million in the six months of 2015. The net financial expenses were influenced by the decrease in interest costs by EUR 0.65 million, which was supplemented by the negative non-monetary impact of the change in the fair value of the swap contracts the Company has entered. The negative non-monetary impact for 2016 expenses is EUR 0.87 million (2015: positive impact EUR 1.41 million).

The Group's profit before taxes for the six months of 2016 was EUR 10.91 million, showing a 16.2% decrease compared to the relevant period in 2015. The Group's net profit for the six months of 2016 was EUR 6.41 million, which is EUR 2.11 million lower than the net profit for equivalent period in 2015. Eliminating the effects of the derivatives fair value the profit before taxes and the net profit after taxes would have been in six months of 2016 respectively EUR 11.78 million and EUR 7.28 million (as of 30th June 2015 EUR 11.61 million and EUR 7.11 million respectively).

Statement of financial position

In the six months of 2016 the Group invested EUR 5.73 million into fixed assets. As of 30th June 2016 non-current tangible assets amounted to EUR 165.11 million and total non-current assets amounted to EUR 165.91 million (30th June 2015: EUR 159.00 million and EUR 160.48 million respectively).

Compared to the year end of 2015 the receivables and prepayments have shown a decrease in the amount of EUR 0.17 million to EUR 7.01 million. The collection rate of receivables continues to be high being 99.76% compared to 99.75% in the 2nd quarter of 2015.

Current liabilities have increased by EUR 6.11 million to EUR 14.53 million compared to the year end of 2015. The increase in trade and other payables by EUR 5.12 million is related to dividend income tax liability and also increased investment related liabilities.

The Group's loan balance has remained stable at EUR 95 million. 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 62.1%, in range of 55%-65%, reflecting the Group's equity profile. This level is consistent with the same period in 2015 when the Total debt/Total assets ratio was 61.3%.

Deferred income from connection fees has grown compared to the end of 2015 by EUR 0.38 million to 15.41 million.

Contingent liability regarding the tariff risk

In the 4th quarter of 2011 the Group evaluated and noted an exceptional off-balance sheet contingent liability, which could cause an outflow of economic benefits of up to EUR 36 million. In the 4th quarter of 2015 the Group re-evaluated the liability, which now stands at EUR 43 million, as per note 13 to the accounts. The re-evaluation is made annually at the end of the year.

Cash flows

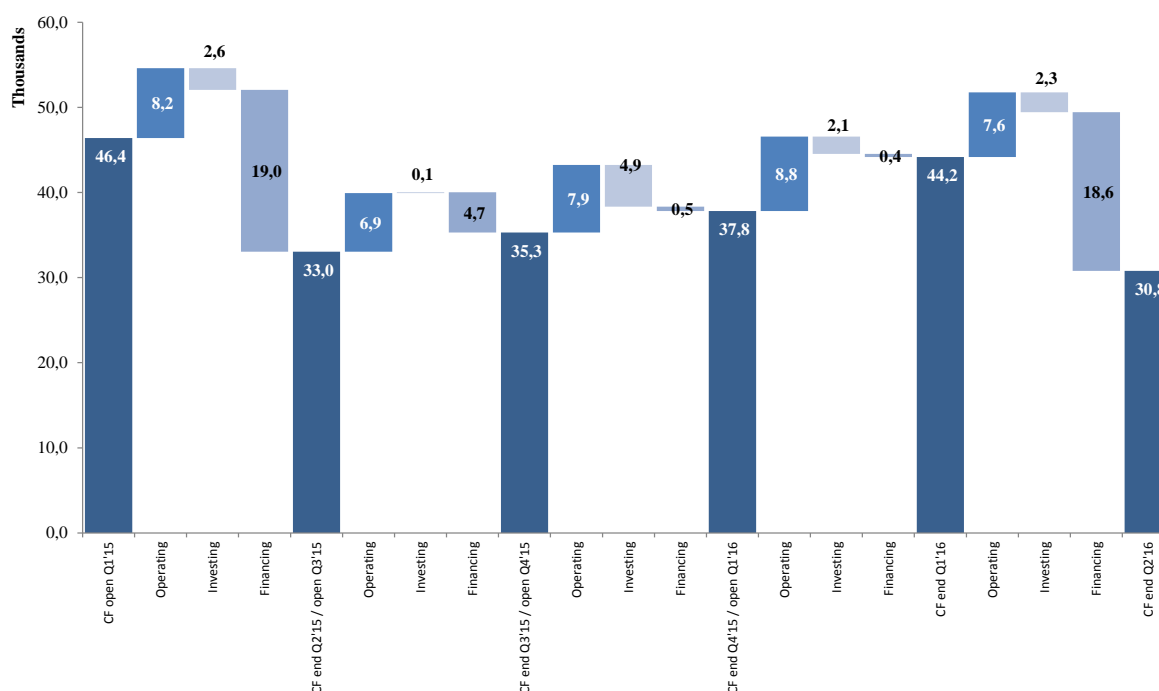
As of 30th June 2016 the cash position of the Group is strong. At the end of June 2016 the cash balance of the Group stood at EUR 30.79 million, which is 15.1% of the total assets (30th June 2015: EUR 33.04 million, forming 16.5% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the six months of 2016, the Group generated EUR 16.34 million of cash flows from operating activities, an increase of EUR 0.06 million compared to the corresponding period in 2015. Underlying operating profit continues to be the main contributor to operating cash flows. The collection of receivables continues to be strong.

In the six months of 2016 the result of net cash flows from investing activities was a cash outflow of EUR 4.38 million, an increase of EUR 2.31 million compared to the cash outflow of EUR 2.07 million in the six months of 2015. This is made up as follows:

- The investments in fixed assets have increased by EUR 0.70 million compared to 2015 amounting to EUR 5.41 million.
- The compensations received for the construction of pipelines were EUR 0.97 million, showing a decrease of EUR 1.59 million compared to the same period of 2015. It is mostly related to the extension program for which last payments were received in the 1st quarter of 2015.

In the six months of 2016 cash outflow from financing activities amounted to EUR 19.00 million, decreasing by EUR 0.74 million compared to the same period in 2015. The change was mainly related to reduction in interest payments by EUR 0.65 million related to renewal of swap contracts in 2nd quarter of 2015. Most of the outflow was comprised of the dividends payment in the amount of EUR 18.00 million in both years.



Employees

Competent and engaged employees are the key to any business. The Group is committed to creating a work environment where everyone is respected and valued. We have described our human resource management procedures, including but not limited to recruitment, remuneration, evaluation and training policies. We follow equality principles in selecting and managing people which translates into providing, when feasible, equal opportunities to everyone. Understanding and appreciating the diversity of our staff, we ensure that everyone is treated fairly and equally and that they have access to the same opportunities as is reasonably practicable. We aim to ensure that no employees are discriminated against due to, but not exclusive to, age; gender; religion; cultural or ethnic origin; disability; sexuality orientation or marital status.

At the end of the 2nd quarter of 2016, the total number of employees was 323 compared to 320 at the end of the 2nd quarter of 2015. The full time equivalent (FTE) was respectively 313 in 2016 compared to the 308 in 2015. Average number of employees (FTE) during the six months was respectively 310 in 2016 and 305 in 2015.

By gender, employee allocation was as follows:

As of 30 th June 2016	Women	Men	Total
Group	97	226	323
Management Team	13	12	25
Executive Team	6	3	9
Management Board	1	2	3
Supervisory Board	0	9	9
As of 30th June 2015	Women	Men	Total
Group	97	223	320
Management Team	11	13	24
Executive Team	5	3	8
Management Board	1	2	3
Supervisory Board	0	9	9

The total salary costs were EUR 2.10 million for the 2nd quarter of 2016, including EUR 0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could rise up to EUR 0.08 million should the Council want to replace the current Management Board members.

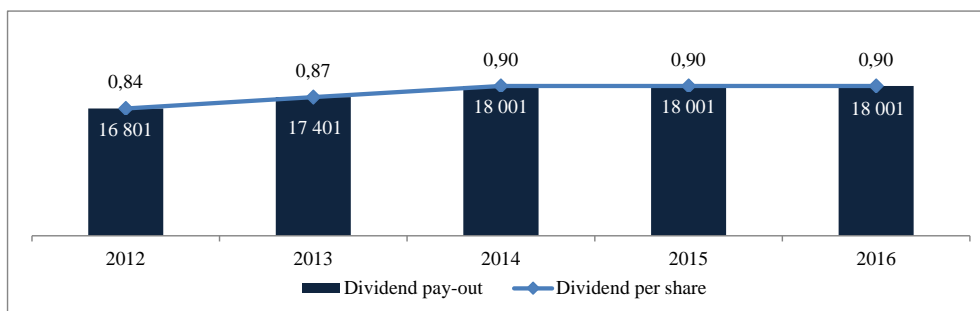
Dividends

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

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 2nd of June 2016, 90 cents dividends per share and the total dividend pay-out from the profit of 2015 net income in the amount of EUR 18.0 million was approved. It is in accordance with the Company's dividend policy. There was no change compared to 2015 in dividends of 90 cents per share.

Dividends were paid out on 27th of June 2016. 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 30th June 2016 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

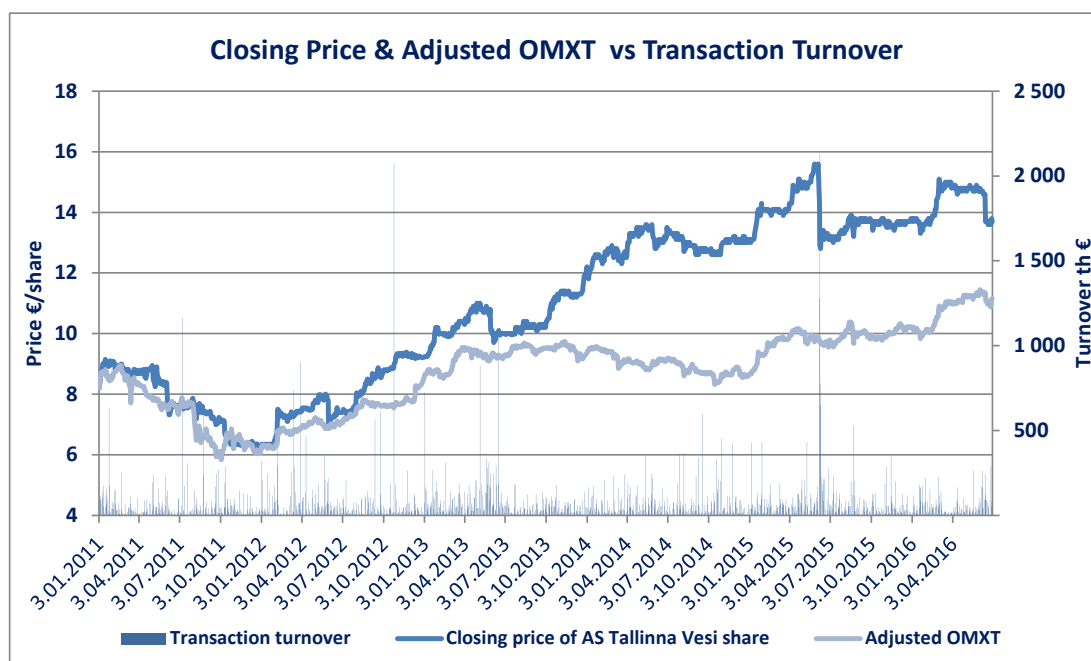
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

During the six months of 2016 the shareholder structure has been relatively stable compared to the end of 2015. At the end of 2nd quarter 2016 the pension funds owned 1.87% of the total shares compared to 1.88% at the end of 4th quarter 2015.

As of 30th June 2016, the closing price of AS Tallinna Vesi share was EUR 13.70, which is -7.4% (2015: -7.1%) lower compared to the closing price of EUR 14.80 at the beginning of the quarter. During the same period the OMX Tallinn index increased by 1.0% (2015: -2.1%).

In the six months of 2016, 3,171 deals with the Company's shares were concluded (2015: 4,571 deals) during which 537 thousand shares or 2.7% exchanged their owners (2015: 1,027 thousand shares or 5.1%).

The turnover of the transactions was EUR 6.64 million lower than in 2015, amounting to EUR 7.63 million.



Corporate structure

As of 30th June 2016, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Corporate Governance

Supervisory Council

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members, who are appointed for two years. There has been no changes in Supervisory Council members in the 2nd quarter of 2016. In the annual general meeting four of the Supervisory Council members were re-elected (more information [here](#)).

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

More information about the Supervisory Council and committees can be found in the note 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 20th of March 2017), Aleksandr Timofejev (with the powers of the Management Board Member until 29th of October 2018) and Riina Käi (with the powers of the Management Board Member until 29th of October 2018).

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

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=609264&messageId=754811>
<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=627851&messageId=779161>

Disclosure of relevant papers and perspectives

The Company will keep the investment community informed of all relevant developments of the tariff dispute, both locally as well as internationally. AS Tallinna Vesi has published all relevant materials on its website (<http://www.tallinnavesi.ee/en/Investor/Regulation>) and to the Tallinn Stock.

At this point in time the Company will not speculate on future developments, possible outcomes or timing of the proceedings.

Additional information:

Karl Heino Brookes
Chairman of the Management Board
+372 6262 201
karl.brookes@tvesi.ee

AS TALLINNA VESI

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for the 6 months period of financial year 2016 ended 30 June 2016

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together the Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 6 months period of financial year 2016 ended 30 June 2016. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 2016 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 28 July 2016 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

28 July 2016

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 6 months period of financial year 2016 ended 30 June 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

ASSETS	Not	as of 30 June		as of 31 December
		2016	2015	2015
CURRENT ASSETS				
Cash and cash equivalents	2	30 785	33 035	37 819
Trade receivables, accrued income and prepaid expenses		7 007	6 602	7 174
Inventories		367	467	447
TOTAL CURRENT ASSETS		38 159	40 104	45 440
NON-CURRENT ASSETS				
Derivatives		0	631	142
Property, plant and equipment	3	165 108	159 004	162 732
Intangible assets	3	805	846	758
TOTAL NON-CURRENT ASSETS		165 913	160 481	163 632
TOTAL ASSETS		204 072	200 585	209 072
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		730	306	328
Trade and other payables		10 709	9 649	5 586
Derivatives		628	565	523
Prepayments		2 465	2 042	1 983
TOTAL CURRENT LIABILITIES		14 532	12 562	8 420
NON-CURRENT LIABILITIES				
Deferred income from connection fees		15 412	13 713	15 030
Borrowings		95 440	96 125	95 974
Derivatives		1 254	493	628
Other payables		18	24	13
TOTAL NON-CURRENT LIABILITIES		112 124	110 355	111 645
TOTAL LIABILITIES		126 656	122 917	120 065
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		39 404	39 656	50 995
TOTAL EQUITY		77 416	77 668	89 007
TOTAL LIABILITIES AND EQUITY		204 072	200 585	209 072

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 6 months period of financial year 2016 ended 30 June 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

		Quarter 2		6 months		for the year ended 31 December
	Note	2016	2015	2016	2015	2015
Revenue	4	14 497	13 742	28 866	27 311	55 928
Costs of goods/services sold	6	-6 195	-5 733	-12 228	-11 227	-23 679
GROSS PROFIT		8 302	8 009	16 638	16 084	32 249
Marketing expenses	6	-69	-103	-195	-240	-435
General administration expenses	6	-2 355	-1 657	-3 883	-2 871	-6 086
Other income (+)/ expenses (-)	7	-37	-18	-87	-58	-150
OPERATING PROFIT		5 841	6 231	12 473	12 915	25 578
Financial income	8	13	24	28	60	95
Financial expenses	8	-580	381	-1 591	44	-1 315
PROFIT BEFORE TAXES		5 274	6 636	10 910	13 019	24 358
Income tax on dividends	9	-4 500	-4 500	-4 500	-4 500	-4 500
NET PROFIT FOR THE PERIOD		774	2 136	6 410	8 519	19 858
COMPREHENSIVE INCOME FOR THE PERIOD		774	2 136	6 410	8 519	19 858
Attributable profit to:						
Equity holders of A-shares		773	2 135	6 409	8 518	19 857
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,04	0,11	0,32	0,43	0,99
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.

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Consolidated Unaudited Interim Condensed Financial Statements
for the 6 months period of financial year 2016 ended 30 June 2016

CONSOLIDATED CASH FLOW STATEMENT

(EUR thousand)

		6 months		for the year ended
	Note	2016	2015	31 December
				2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		12 473	12 915	25 578
Adjustment for depreciation/amortisation	3,6,7	3 283	3 079	6 184
Adjustment for revenues from connection fees	7	-106	-93	-194
Other non-cash adjustments		-7	-8	-15
Profit (-) /loss (+) from sale and write off of property, plant and equipment, and intangible assets		-9	-2	2
Change in current assets involved in operating activities		254	-341	-897
Change in liabilities involved in operating activities		453	730	453
Total cash flow from operating activities		16 341	16 280	31 111
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-5 412	-4 709	-13 495
Compensations received for construction of pipelines		971	2 556	6 499
Proceeds from sale of property, plant and equipment, and intangible assets		30	12	30
Interest received		32	67	99
Total cash flow used in investing activities		-4 379	-2 074	-6 867
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-739	-1 388	-2 178
Repayment of finance lease		-148	-156	-306
Dividends paid	9	-18 001	-18 001	-18 001
Income tax on dividends	9	-108	-186	-4 500
Total cash flow used in financing activities		-18 996	-19 731	-24 985
Change in cash and cash equivalents		-7 034	-5 525	-741
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD				
		37 819	38 560	38 560
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD				
	2	30 785	33 035	37 819

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

AS TALLINNA VESIConsolidated Unaudited Interim Condensed Financial Statements
for the 6 months period of financial year 2016 ended 30 June 2016**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(EUR thousand)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
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	19 858	19 858
as of 31 December 2015	12 000	24 734	1 278	50 995	89 007
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
as of 31 December 2015	12 000	24 734	1 278	50 995	89 007
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	6 410	6 410
as of 30 June 2016	12 000	24 734	1 278	39 404	77 416

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 6 months period of financial year 2016 ended 30 June 2016

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)**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
	2016	2015	2015
Cash in hand and in bank	26 198	11 890	13 738
Short-term deposits	4 587	21 145	24 081
Total cash and cash equivalents	30 785	33 035	37 819

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 6 months period of financial year 2016 ended 30 June 2016

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

(EUR thousand)

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

	Property, plant and equipment				Assets in progress			Intangible assets		Total property, plant and equipment and 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		
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 - 31 December 2015										
Acquisition in book value	0	0	0	0	9 212	1 915	171	0		11 298
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	-12	-19	-1	0	0	0	0		-32
Reclassification	310	6 895	1 752	43	-6 405	-2 530	-184	184		65
Depreciation	-327	-2 836	-2 668	-78	0	0	0	-275		-6 184
as of 31 December 2015										
Acquisition cost	25 950	187 943	47 016	1 277	3 495	656	62	5 192		271 591
Accumulated depreciation	-6 218	-63 266	-33 191	-930	0	0	0	-4 496		-108 101
Net book value	19 732	124 677	13 825	347	3 495	656	62	696		163 490
Transactions in the period 01 January 2016 - 30 June 2016										
Acquisition in book value	0	0	0	0	4 821	719	187	0		5 727
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-16	0	0	0	0	-5		-21
Reclassification	28	1 049	1 059	7	-1 704	-449	-115	125		0
Depreciation	-165	-1 501	-1 435	-37	0	0	0	-145		-3 283
as of 30 June 2016										
Acquisition cost	25 978	188 933	47 544	1 284	6 612	926	134	5 313		276 724
Accumulated depreciation	-6 383	-64 708	-34 111	-967	0	0	0	-4 642		-110 811
Net book value	19 595	124 225	13 433	317	6 612	926	134	671		165 913

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 2016 the book value of the assets (Machinery and equipment) leased under financial lease is 1 274 thousand euros (31 December 2015: 1 442 thousand euros).

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 6 months period of financial year 2016 ended 30 June 2016

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

NOTE 4. REVENUE	Quarter 2		6 months		for the year
	2016	2015	2016	2015	ended 31
Revenues from main operating activities					December
Total water supply and waste water disposal service, incl:	12 582	12 394	25 102	24 654	49 297
<u>Private clients, incl:</u>	<u>6 200</u>	<u>6 083</u>	<u>12 538</u>	<u>12 237</u>	<u>24 408</u>
Water supply service	3 410	3 345	6 895	6 731	13 436
Wastewater disposal service	2 790	2 738	5 643	5 506	10 972
<u>Corporate clients, incl:</u>	<u>5 070</u>	<u>4 891</u>	<u>9 952</u>	<u>9 564</u>	<u>19 358</u>
Water supply service	2 831	2 717	5 504	5 287	10 736
Wastewater disposal service	2 239	2 174	4 448	4 277	8 622
<u>Outside service area clients, incl:</u>	<u>1 101</u>	<u>1 197</u>	<u>2 230</u>	<u>2 446</u>	<u>4 765</u>
Water supply service	346	332	654	623	1 280
Wastewater disposal service	686	759	1 355	1 531	3 011
Storm water disposal service	69	106	221	292	474
<u>Over pollution fee</u>	<u>211</u>	<u>223</u>	<u>382</u>	<u>407</u>	<u>766</u>
Storm water treatment and disposal service and fire hydrants service	924	875	1 870	1 719	3 357
Construction service, design and asphaltting	827	324	1 588	667	2 724
Other works and services	164	149	306	271	550
Total revenue	14 497	13 742	28 866	27 311	55 928

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

NOTE 5. STAFF COSTS	Quarter 2		6 months		for the year
	2016	2015	2016	2015	ended 31
					December
Salaries and wages	-1 571	-1 532	-3 129	-3 014	-5 963
Social security and unemployment insurance taxation	-525	-513	-1 046	-1 008	-2 017
Staff costs total	-2 096	-2 045	-4 175	-4 022	-7 980
Number of employees at the end of reporting period			323	320	323

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 6 months period of financial year 2016 ended 30 June 2016

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)**NOTE 6. COST OF GOODS/SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES**

	Quarter 2		6 months		for the year ended 31 December
	2016	2015	2016	2015	2015
Cost of goods/services sold					
Water abstraction charges	-283	-276	-575	-546	-1 101
Chemicals	-285	-377	-627	-736	-1 531
Electricity	-728	-747	-1 538	-1 575	-3 035
Pollution tax	-235	-235	-571	-536	-1 002
Staff costs	-1 470	-1 436	-2 888	-2 784	-5 603
Depreciation and amortization	-1 591	-1 437	-3 023	-2 830	-5 690
Construction service, design and asphaltting	-675	-271	-1 349	-579	-2 398
Other costs	-928	-954	-1 657	-1 641	-3 319
Total cost of goods/services sold	-6 195	-5 733	-12 228	-11 227	-23 679
Marketing expenses					
Staff costs	-58	-91	-175	-203	-362
Depreciation and amortization	-1	-3	-1	-7	-11
Other marketing expenses	-10	-9	-19	-30	-62
Total marketing expenses	-69	-103	-195	-240	-435
Administrative expenses					
Staff costs	-568	-518	-1 112	-1 035	-2 015
Depreciation and amortization	-79	-78	-159	-154	-308
Other general administration expenses	-1 708	-1 061	-2 612	-1 682	-3 763
Total administrative expenses	-2 355	-1 657	-3 883	-2 871	-6 086

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 2		6 months		for the year ended 31 December
	2016	2015	2016	2015	2015
Connection fees	53	47	106	93	194
Depreciation of single connections	-50	-44	-100	-88	-175
Doubtful receivables expense reduction	1	12	2	1	13
Other income (+)/ expenses (-)	-41	-33	-95	-64	-182
Total other income / expenses	-37	-18	-87	-58	-150

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 6 months period of financial year 2016 ended 30 June 2016

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

NOTE 8. FINANCIAL INCOME AND EXPENSES	Quarter 2		6 months		for the year ended 31 December
	2016	2015	2016	2015	2015
	Interest income	13	24	28	60
Interest expense, loan	-221	-252	-446	-515	-981
Interest expense, swap	-138	-364	-264	-846	-1 149
Increase (+) /decrease (-) of fair value of swap	-217	1 001	-873	1 412	830
Other financial income (+)/ expenses (-)	-4	-4	-8	-7	-15
Total financial income / expenses	-567	405	-1 563	104	-1 220

NOTE 9. DIVIDENDS	Quarter 2		6 months		for the year ended 31 December
	2016	2015	2016	2015	2015
	Dividends declared during the period	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	-4 500	-4 500	-4 500	-4 500
Income tax accounted for	-4 500	-4 500	-4 500	-4 500	-4 500
<i>Paid-up dividends per shares:</i>					
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 2016 is 20/80 (in 2015: 20/80).

NOTE 10. EARNINGS PER SHARE

	Quarter 2		6 months		for the year ended 31 December
	2016	2015	2016	2015	2015
	Net profit minus B-share preferred dividend rights	773	2 135	6 409	8 518
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)	0,04	0,11	0,32	0,43	0,99
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 June 2016 and 2015 and December 2015 was 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 June		as of 31 December
	2016	2015	2015
Accounts receivable	24	25	271
Trade and other payables	186	191	184

Transactions	Quarter 2		6 months		for the year ended
	2016	2015	2016	2015	31 December
Revenue	925	875	1 870	1 719	3 357
Purchase of administrative and consulting services	256	260	511	531	1 050
Financial income	0	0	0	14	14
Fees for Management Board (excluding social tax)	44	31	115	77	151
Supervisory Board fees (excluding social tax)	8	8	16	16	32

The Group's Management Board and Supervisory Board members are considered as key management personnel for whom the contractual salary payments have been accounted for as disclosed above. In addition to this 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 2016 and throughout the year ending on 31 December 2015, management board members were not paid any leaving compensation. The off balance sheet potential salary liability would be up to 79 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 2016 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 June and 31 December 2015: Riina Käi owned 100 shares).

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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
Mart Mägi	Member of the Supervisory Board
Rein Ratas	Member of the Supervisory Board
Toivo Tootsen	Member of the Supervisory Board
Allar Jõks	Member of the Supervisory Board
Priit Lello	Member of the Supervisory Board

Introduction of Supervisory Board members is published at company's web page.

<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. Should the Court uphold the CA's position the privatization contract could cease to be the basis for the tariffs of water and sewerage services in Tallinn. On 5th June 2015 Tallinn Administrative Court dismissed AS Tallinna Vesi's complaint in tariff dispute. AS Tallinna Vesi appealed the decision in the Circuit Court. The length of the court process and the decision are not within the Company's control.

The management has evaluated the amount of the contingent liability as of 30 June 2016 arising from the potential claims against the Company if the Court ruling would support the CA's position. As result of this, the outflow of economic benefits could be up to EUR 43 million (30 June 2015: EUR 40.1 million) the part that CA considers to be excessively charged from the clients going back three years, and which could be claimed within 10 years of the final judgement of the courts.