

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 4th quarter of 2016

Currency	Thousand euros
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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 2016, the Company's operational and financial performance was excellent. The majority of key performance indicators (KPIs) were delivered, 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 that period.

The water quality in 2016 was 99.93% compliant. Only two samples taken from customer taps, out of the 2,948 samples taken, were non-compliant. The average network leakage for the period was 15.07%, which is higher than the same period in 2015 (14.68%), 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.

Besides providing quality drinking water, we are also responsible for a wastewater discharge service to nearly one third of Estonia's population (460,000). 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. Throughout 2016, the final effluent leaving Paljassaare was 100% compliant with all stipulated limits.

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 5 km wastewater network are replaced each year. At the end of 2016, we finished the complex repair of Tihase tunnel collector, through which the wastewater from Mustamäe and Õismäe is directed to Paljassaare. We also constructed water pipe in Tondi that now provides a parallel supply to almost 100,000 people.

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 our employees 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 2016

Indicator	2016	2015
<i>Drinking water</i>		
Compliance of water quality at the customers' tap.	99.93%	99.86%
Water loss in the water distribution Network.	15.07%	14.68%
Average duration of water interruptions per property in hours.	3.44 h	3.22 h
<i>Wastewater</i>		
Number of sewer blockages.	670	737
Number of sewer bursts.	107	127
Wastewater treatment compliance with environmental standards	100%	100%
<i>Customer Service</i>		
Number of written complaints	45	67
Number of customer contacts regarding water quality	166	115
Number of customer contacts regarding water pressure	339	337
Number of customer contacts regarding blockages and discharge of storm water	1,190	1,061
Responding written customer contacts, within at least 2 working days	99.46%	99.20%
Number of failed promises	4	9
Notification of unplanned water interruptions, at least 1 h before the interruption	98.8%	98.7%

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 undiscounted 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.
- On 23rd November 2016, the hearing in District Court took place with a decision expected on 26th January 2017.
- On 26th January 2017, the District Court dismissed AS Tallinna Vesi's appeal in the tariff dispute between AS Tallinna Vesi and Competition Authority. The Company has got right to submit the appeal to the Supreme Court by 27th February 2017.
- 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 of 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. 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 dispute.
- In February 2016, the Republic of Estonia submitted their Memorial, with AS Tallinna Vesi and United Utilities (Tallinn) B.V, responding with their counter Memorial in June to which Government of Estonia submitted their rejoinder in September 2016.
- The International Arbitration hearings were held on 7-11 and 14-15 November 2016 in Paris.
- Both parties will submit their Post Hearing Briefs before the end of January 2017.
- 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 for the 4th quarter 2016

The Group's sales revenues during the 4th quarter of 2016 were EUR 14.52 million, being down by 0.1% or EUR 0.02 million compared to the same period in 2015.

The gross profit in the 4th quarter of 2016 was EUR 8.24 million, showing an increase of 0.8% or EUR 0.06 million. Increase in gross profit was related to higher water, wastewater and storm water revenues from the main service area, profit from construction and asphaltting services and lower chemicals costs. It was balanced by lower water, wastewater and storm water revenues from outside of the service area and by higher staff, electricity and other costs of goods sold costs.

The operating profit was EUR 5.36 million, showing a decrease of 20.5% or EUR 1.38 million. The operating profit was impacted by the above mentioned changes in gross profit, which were additionally impacted by higher doubtful receivables expenses and legal costs in the 4th quarter in 2016 compared to the same period in 2015.

The net profit for the 4th quarter of 2016 was EUR 5.45 million, being lower by 12.6% or EUR 0.78 million. The net profit was mainly impacted by above mentioned changes in operating profit, balanced by lower financial expenses. Lower financial expenses were mostly influenced by the positive change in the fair value of swap contracts in the 4th quarter of 2016 compared to the negative change in the same quarter of 2015. The net profit for the 4th quarter of 2016 and 2015 without the impact resulted from the change of the fair value of swap contracts was EUR 4.99 million and EUR 6.38 million respectively, being lower by 21.7% or EUR 1.39 million year on year.

Other main economic indicators

EUR million	Q4 2014	Q4 2015	Q4 2016	Change 16/15	12 months 2014	12 months 2015	12 months 2016	Change 16/15
Sales	13.31	14.53	14.52	-0.1%	53.24	55.93	58.98	5.5%
Gross profit	7.95	8.18	8.24	0.8%	30.84	32.25	33.26	3.1%
Gross profit margin %	59.71	56.26	56.75	0.9%	57.93	57.66	56.39	-2.2%
Operating profit	6.61	6.75	5.36	-20.5%	24.83	25.58	24.63	-3.7%
Operating profit - main business	6.56	6.67	5.52	-17.3%	24.53	25.27	24.44	-3.3%
Operating profit margin %	49.62	46.41	36.94	-20.4%	46.63	45.73	41.75	-8.7%
Profit before taxes	6.29	6.24	5.45	-12.6%	22.73	24.36	22.89	-6.0%
Net profit	6.29	6.24	5.45	-12.6%	17.94	19.86	18.39	-7.4%
Net profit margin %	47.24	42.91	37.56	-12.5%	33.70	35.51	31.18	-12.2%
ROA %	3.06	2.98	2.55	-14.4%	8.73	9.50	8.61	-9.4%
Debt to total capital employed %	57.61	57.43	58.15	1.3%	57.61	57.43	58.15	1.3%
ROE %	7.22	7.01	6.10	-13.0%	20.59	22.31	20.57	-7.8%
Current ratio	5.35	5.40	3.91	-27.5%	5.35	5.40	3.91	-27.5%

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 and asphaltting services, doubtful debt, other income

RESULTS OF OPERATIONS FOR THE 4th QUARTER 2016

Results for the 4th quarter 2016

Statement of comprehensive income

Sales

As the Company's tariffs are frozen at the 2010 tariff level, the changes in the main activities revenues, i.e. from sales of water and wastewater services, are fully driven by consumption with no considerable seasonality in the main operation. The Company does not expect significant changes in the consumption in future. There has been incremental increase in the past and that is expected to continue.

In the 4th quarter of 2016 the Group's total sales were EUR 14.52 million, showing a decrease by 0.1% or EUR 0.02 million year on year. 87.9% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.7% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 5.3% from construction and asphaltting services and 1.1% from other works and services. The construction and asphaltting services sales are more seasonal and the Company continues to seek possibilities to keep and to grow these services revenues.

Revenues from main operating activities EUR thousand	Quarter IV			Variance 16/15	
	2016	2015	2014	EUR	%
Total water supply and waste water disposal service, incl:	12,763	12,545	12,340	218	1.7%
<u>Private clients, incl:</u>	<u>6,352</u>	<u>6,232</u>	<u>6,139</u>	<u>120</u>	<u>1.9%</u>
Water supply service	3,495	3,437	3,390	58	1.7%
Wastewater disposal service	2,857	2,795	2,749	62	2.2%
<u>Corporate clients, incl:</u>	<u>5,128</u>	<u>4,942</u>	<u>4,848</u>	<u>186</u>	<u>3.8%</u>
Water supply service	2,813	2,726	2,681	87	3.2%
Wastewater disposal service	2,315	2,216	2,167	99	4.5%
<u>Outside service area clients, incl:</u>	<u>1,102</u>	<u>1,202</u>	<u>1,163</u>	<u>-100</u>	<u>-8.3%</u>
Water supply service	329	341	319	-12	-3.5%
Wastewater disposal service	689	760	741	-71	-9.3%
Storm water disposal service	84	101	103	-17	-16.8%
<u>Over pollution fee</u>	<u>181</u>	<u>169</u>	<u>190</u>	<u>12</u>	<u>7.1%</u>
Storm water treatment and disposal service and fire hydrants service	830	801	593	29	3.6%
Construction service, design and asphaltting	773	1,037	228	-264	-25.5%
Other works and services	153	151	149	2	1.3%

Sales from water and wastewater services were EUR 12.76 million, showing a 1.7% or EUR 0.22 million increase compared to the 4th quarter of 2015, resulting from the changes in sales volumes as described below:

- There has been an increase in residential customers' revenues by 1.9% to EUR 6.35 million. 91% of the total increase in domestic customer volumes comes from apartment blocks, which is also our biggest private customer group. There has been also a slight increase in individual houses customer group.
- Sales to commercial customers within the service area have increased by 3.8% to EUR 5.13 million. Increase is mostly related to industrial segment, accompanied by increase in leisure and other commercial customer segments.
- Sales to customers outside the main service area have shown a decrease by 8.3% to EUR 1.10 million. It is mainly driven by decrease in wastewater revenues by 9.3% to EUR 0.69 million. The decline is related to the sales to Viimsi, as they started to use their new wastewater treatment facilities from the

beginning of 2016. While the sales to Viimsi have ceased, the sales to other outside areas in total have increased.

- Over pollution fees received have increased by 7.1% to EUR 0.18 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were EUR 0.83 million, showing an increase of 3.6% or EUR 0.03 million in the 4th quarter of 2016 compared to the same period in 2015.

Sales of construction, design and asphaltting services were EUR 0.77 million, having decreased by 25.5% or EUR 0.26 million year on year. The decrease was related to lower asphaltting services revenues during the quarter.

Cost of goods sold and Gross profit

The cost of goods sold amounted to EUR 6.28 million in the 4th quarter of 2016, showing 1.2% or EUR 0.08 million decrease compared to the equivalent period in 2015. The cost decrease is mainly influenced by decrease in construction and asphaltting services related costs and also by lower chemicals costs, which was partly balanced by higher electricity, staff and other costs of goods sold costs.

Cost of goods sold EUR thousand	Quarter IV			Variance 16/15	
	2016	2015	2014	EUR	%
Water abstraction charges	-318	-282	-267	-36	-12.8%
Chemicals	-336	-400	-444	64	16.0%
Electricity	-809	-747	-743	-62	-8.3%
Pollution tax	-239	-234	-328	-5	-2.1%
Total direct production costs	-1,702	-1,663	-1,782	-39	-2.3%
Staff costs	-1,569	-1,481	-1,157	-88	-5.9%
Depreciation and amortization	-1,412	-1,437	-1,342	25	1.7%
Construction service, design and asphaltting	-617	-951	-173	334	35.1%
Other costs of goods sold	-979	-825	-909	-154	-18.7%
Other costs of goods sold total	-4,577	-4,694	-3,581	117	2.5%
Total cost of goods sold	-6,279	-6,357	-5,363	78	1.2%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax) were EUR 1.70 million, showing 2.3% or EUR 0.04 million increase 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 by 12.8% to EUR 0.32 million, driven mainly by increase in treated volumes.
- Chemicals costs decreased by 16.0% to EUR 0.34 million, driven mainly by 23.1% lower methanol price, worth EUR 0.03 million, and by lower usage of coagulant and methanol in the wastewater treatment process, worth respectively EUR 0.04 million and EUR 0.02 million. Savings were balanced by increase in usage of different chemicals in water treatment due to higher treated water volumes and poor raw water quality, worth in total EUR 0.02.
- Electricity costs increased by 8.3% to EUR 0.81 million. It was related to increase in treated volumes and electricity usage, worth EUR 0.07 million, balanced by on average 2.2% lower electricity prices, worth EUR 0.02 million.
- Pollution tax expense increased by 2.1% to EUR 0.24 million, due to increase in treated sewage volumes, balanced by lower pollution load of different pollutants.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to EUR 4.58 million, having decreased by 2.5% or EUR 0.12 million. The decrease came from costs related to construction and asphaltting services, balanced by increase in staff costs and other

costs of goods sold costs. Decrease in construction and asphaltting services costs by 35.1% to EUR 0.62 million was related to a decrease in construction and asphaltting services revenues mentioned earlier. Staff costs increased by 5.9% to EUR 1.57 million. It was mostly driven by the review of bonus reserve in the 4th quarter of 2016. Other costs of goods sold increase is mainly related to higher use of different rental mechanisms, worth EUR 0.05 million.

As a result of all above the Group's gross profit for the 4th quarter of 2016 was EUR 8.24 million, showing an increase of 0.8% or EUR 0.06 million, compared to the gross profit of EUR 8.18 million for the comparative period of 2015.

Administrative and marketing expenses, other income and expenses

Administrative and marketing expenses were EUR 2.54 million, showing an increase of 86.6% or EUR 1.18 million. Most of the increase came from higher tariff disputes related legal and consultation fees. Legal fees continue to be at a high level during the time the Company has ongoing local and international disputes. Other income and expenses increased by EUR 0.27 million to EUR 0.34 million, being mostly impacted by increase in doubtful receivables.

Operating profit

As a result of the factors listed above the Group's operating profit for the 4th quarter of 2016 totalled EUR 5.36 million, being 20.5% or EUR 1.38 million lower than in the corresponding quarter of 2015. The Group's operating profit from main business was 17.3% or EUR 1.15 million lower compared to 2015.

Financial expenses

The Group's net financial income and expenses have resulted a net income of EUR 0.09 million, compared to net expense of EUR 0.51 million in the 4th quarter of 2015. It was mainly impacted by a positive change of the fair value of the swap contracts year on year, worth EUR 0.60 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 1.32 million. Effective interest rate of loans (incl. swap interests) in the 4th quarter of 2016 was 1.58%, amounting to interest costs of EUR 0.38 million, compared to the effective interest rate of 1.57% and the interest costs of EUR 0.38 million in the 4th quarter of 2015.

Profit before taxes and Net profit

The Group's profit before taxes and net profit for the 4th quarter of 2016 was EUR 5.45 million, being 12.6% or EUR 0.78 million lower than for the 4th quarter of 2015, resulting mainly from increased inside service area revenues and decreased net financial expenses, balanced by the increased costs as described above. Eliminating the influence of the derivatives fair value, the Group's net profit for the 4th quarter of 2016 would have been EUR 4.99 million, showing a decrease by 21.7% or EUR 1.39 million compared to the relevant period in 2015.

Results for the twelve months of 2016

Statement of comprehensive income

Sales

During the twelve months of 2016 the Group's total sales were EUR 58.98 million, showing an increase by 5.5% or EUR 3.05 million year on year.

Sales from water and wastewater services for twelve months of 2016 were EUR 50.20 million, increasing 1.8% or EUR 0.90 million compared to the twelve months of 2015. 85.1% of sales comprised of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.2% of sales were the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 7.6% from construction and asphaltting services and 1.0% from other works and services.

Revenues from main operating activities EUR thousand	12 months			Variance 16/15	
	2016	2015	2014	EUR	%
Total water supply and waste water disposal service, incl:	50,196	49,297	48,599	899	1.8%
<u>Private clients, incl:</u>	<u>24,949</u>	<u>24,408</u>	<u>24,154</u>	<u>541</u>	<u>2.2%</u>
Water supply service	13,720	13,436	13,303	284	2.1%
Wastewater disposal service	11,229	10,972	10,851	257	2.3%
<u>Corporate clients, incl:</u>	<u>20,069</u>	<u>19,358</u>	<u>19,086</u>	<u>711</u>	<u>3.7%</u>
Water supply service	11,075	10,736	10,664	339	3.2%
Wastewater disposal service	8,994	8,622	8,422	372	4.3%
<u>Outside service area clients, incl:</u>	<u>4,400</u>	<u>4,765</u>	<u>4,521</u>	<u>-365</u>	<u>-7.7%</u>
Water supply service	1,306	1,280	1,153	26	2.0%
Wastewater disposal service	2,709	3,011	2,957	-302	-10.0%
Storm water disposal service	385	474	411	-89	-18.8%
<u>Over pollution fee</u>	<u>778</u>	<u>766</u>	<u>838</u>	<u>12</u>	<u>1.6%</u>
Storm water treatment and disposal service and fire hydrant service	3,671	3,357	3 073	314	9.4%
Construction service, design and asphaltting	4,511	2,724	944	1,787	65.6%
Other works and services	604	550	625	54	9.8%

During the twelve months of 2016 there has been a 2.2% or EUR 0.54 million increase in the sales to residential customers and 3.7% or EUR 0.71 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 7.7% or EUR 0.37 million compared to the twelve months of 2015, being mainly influenced by Viimsi having their own wastewater treatment facilities from the beginning of the year as mentioned earlier, balanced by higher sales of services to other outside services areas.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the twelve months of 2016 were EUR 3.67 million, showing an increase of 9.4% or EUR 0.31 million year on year.

Sales of construction, design and asphaltting services were EUR 4.51 million, increasing by 65.6% or EUR 1.79 million year on year. Increase was mainly a result of different pipe construction projects.

Cost of goods sold and Gross and Operating profits

Cost of goods sold EUR thousand	12 months			Variance 16/15	
	2016	2015	2014	EUR	%
Water abstraction charges	-1,169	-1,101	-1,057	-68	-6.2%
Chemicals	-1,308	-1,531	-1,737	223	14.6%
Electricity	-3,107	-3,035	-3,032	-72	-2.4%
Pollution tax	-1,091	-1,002	-2,163	-89	-8.9%
Total direct production costs	-6,675	-6,669	-7,989	-6	-0.1%
Staff costs	-5,729	-5,603	-4,880	-126	-2.2%
Depreciation and amortization	-5,862	-5,690	-5,369	-172	-3.0%
Construction service, design and asphaltting	-4,006	-2,398	-784	-1,608	-67.1%
Other costs of goods sold	-3,449	-3,319	-3,376	-130	-3.9%
Other costs of goods sold total	-19,046	-17,010	-14,409	-2,036	-12.0%
Total cost of goods sold	-25,721	-23,679	-22,398	-2,042	-8.6%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were EUR 6.68 million, showing a slight increase by 0.1% or EUR 0.01 million year on year. Increase in costs came from the decrease in chemicals costs, balanced by increase in all other direct production costs as described below:

- Water abstraction charges increased by 6.2% to EUR 1.17 million, driven by increase in treated volumes.
- Chemicals costs decreased by 14.6% to EUR 1.31 million, driven mainly by on average 30.0% lower methanol price and smaller use of different chemicals to remove pollutants in wastewater treatment process, worth respectively EUR 0.17 million and EUR 0.09 million, balanced by the increased water treatment process chemicals costs driven by increase in usage and treated volumes, worth EUR 0.04 million.
- Electricity costs have increased by 2.4% to EUR 3.11 million. Electricity costs increase was related to increase in treated volumes and in usage, worth EUR 0.18 million, balanced by on average 3.2% lower electricity prices, worth EUR 0.11 million.
- Pollution tax expense increased by 8.9% to EUR 1.09 million, driven mainly by the increase in treated sewage volumes, worth EUR 0.11 million, balanced by lower nitrogen pollution load, worth EUR 0.05 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 19.05 million, being higher by 12.0% or EUR 2.04 million compared to the same period in 2015. Increase came from higher costs in all other costs of goods sold costs groups impacted mainly by the same reasons as mentioned earlier in 4th quarter results.

The gross profit for the twelve months of 2016 was EUR 33.26 million, being 3.1% or EUR 1.01 million higher compared to the same period in 2015. The operating profit was EUR 24.63 million, showing a decrease by 3.7% or EUR 0.95 million during the twelve months of 2016. The decrease in operating profit was driven mostly by the changes in operating profit mentioned earlier in 4th quarter results.

Financial expenses

The Group's net financial income and expenses have resulted a net expense of EUR 1.74 million, compared to net expense of EUR 1.22 million in the twelve months of 2015. The net financial expenses were influenced by the decrease in interest costs by EUR 0.68 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 0.32 million (2015: positive impact EUR 0.83 million).

Profit before taxes and Net profit

The Group's profit before taxes for the twelve months of 2016 was EUR 22.89 million, showing a 6.0% or EUR 1.47 million decrease compared to the relevant period in 2015. The Group's net profit for the twelve months of 2016 was EUR 18.39 million, which is 7.4% or EUR 1.47 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 would have been in twelve months of 2016 respectively EUR 23.20 million and EUR 18.70 million (as of 31st December 2015 EUR 23.53 million and EUR 19.03 million respectively).

Statement of financial position

In the twelve months of 2016 the Group invested EUR 14.95 million into fixed assets. As of 31st December 2016 non-current tangible assets amounted to EUR 171.18 million and total non-current assets amounted to EUR 172.01 million (31st December 2015: EUR 162.73 million and EUR 163.63 million respectively).

Compared to the year end of 2015 the receivables and prepayments have shown a decrease in the amount of EUR 0.01 million to EUR 7.17 million. The collection rate of receivables continues to be high, being 99.49% compared to 99.74% in the 4th quarter of 2015.

Current liabilities have increased by EUR 2.22 million to EUR 10.64 million compared to the year end of 2015. Increase mainly derives from increased prepayments of connections in construction process by EUR

0.75 million and increase in trade and other payables by EUR 1.44 million, which is related to increased construction activities and investments related liabilities.

Deferred income from connection fees has grown compared to the end of 2015 by EUR 2.02 million to 17.05 million.

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 58.1%, 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 57.4%.

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 2016 the Group re-evaluated the liability, which now stands at EUR 43 million, as per note 14 to the accounts. The re-evaluation is made annually at the end of the year.

Cash flow

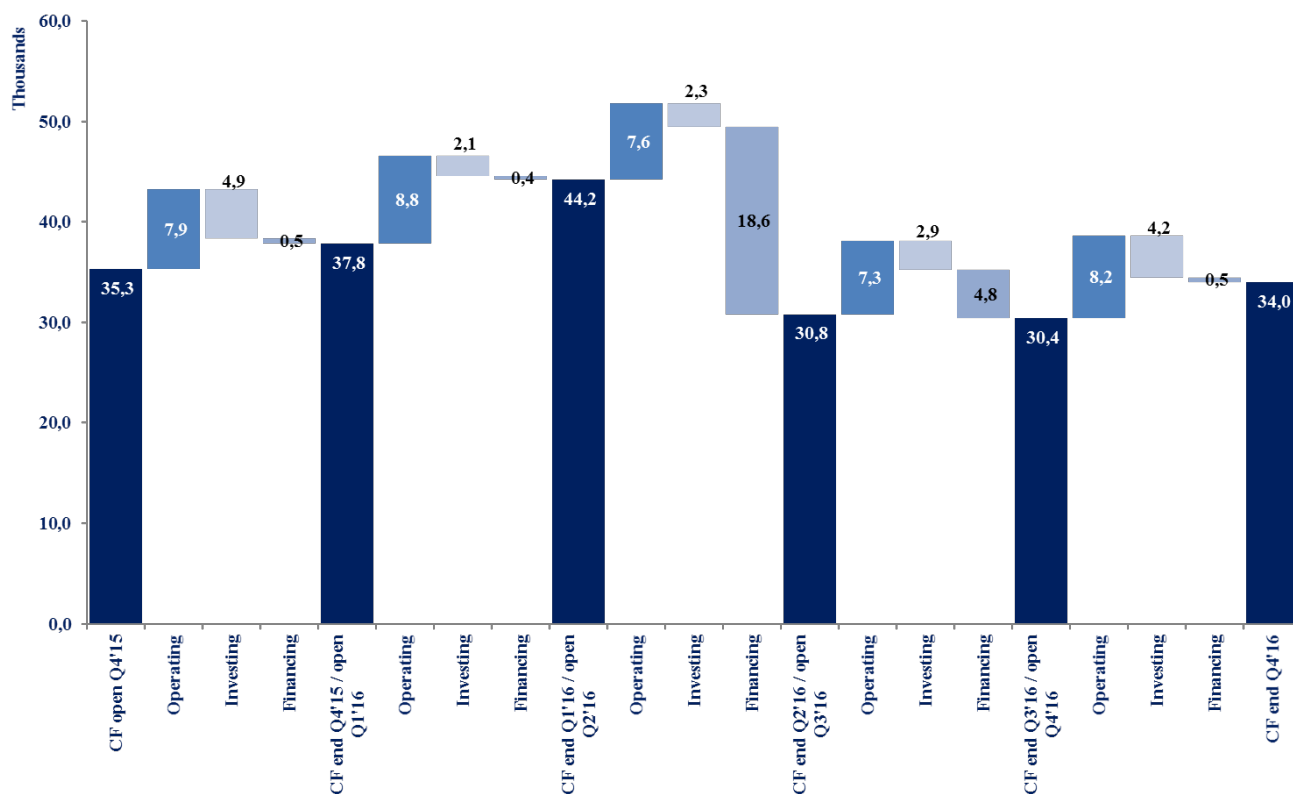
As of 31st December 2016 the cash position of the Group is strong. At the end of December 2016 the cash balance of the Group stood at EUR 33.99 million, which is 15.9% of the total assets (31st December 2015: EUR 37.82 million, forming 18.1% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the twelve months of 2016, the Group generated EUR 31.87 million of cash flows from operating activities, an increase of EUR 0.76 million compared to the corresponding period in 2015. Underlying operating profit continues to be the main contributor to operating cash flows.

In the twelve months of 2016 the result of net cash flows from investing activities was a cash outflow of EUR 11.43 million, an increase of EUR 4.56 million compared to the cash outflow of EUR 6.87 million in the twelve months of 2015. This is made up as follows:

- The cash outflows from investments in fixed assets have increased by EUR 1.03 million compared to 2015 amounting to EUR 14.53 million.
- The compensations received for the construction of pipelines were EUR 3.00 million, showing a decrease of EUR 3.50 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 twelve months of 2016 cash outflow from financing activities amounted to EUR 24.28 million, decreasing by EUR 0.71 million compared to the same period in 2015. The change was mainly related to reduction in interest payments by EUR 0.67 million related to renewal of swap contracts in the 2nd quarter of 2015. Most of the outflow was comprised of the dividends and income tax on dividends payment, respectively in the amount of EUR 18.00 million and EUR 4.50 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 4th quarter of 2016, the total number of employees was 311 compared to 323 at the end of the 4th quarter of 2015. The full time equivalent (FTE) was respectively 301 in 2016 compared to the 311 in 2015. Average number of employees (FTE) during the twelve months was respectively 308 in 2016 and 308 in 2015.

By gender, employee allocation was as follows:

As of 31 st December 2016	Women	Men	Total
Group	87	224	311
Management Team	12	13	25
Executive Team	4	4	8
Management Board	1	2	3
Supervisory Board	0	9	9
As of 31st December 2015	99	224	323
Management Team	11	9	20
Executive Team	6	3	9
Management Board	1	2	3
Supervisory Board	0	9	9

The total salary costs were EUR 2.09 million for the 4th 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.

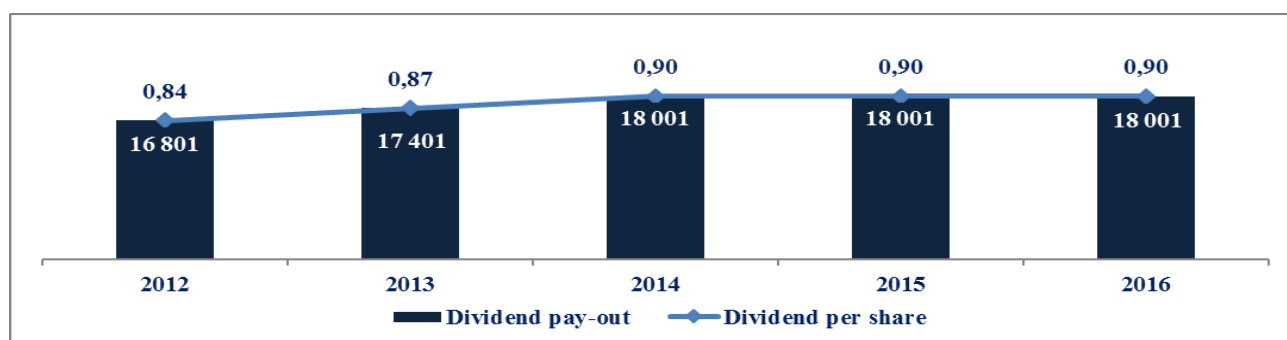
Dividends

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 has been no change compared to 2014 and 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 31st December 2016 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

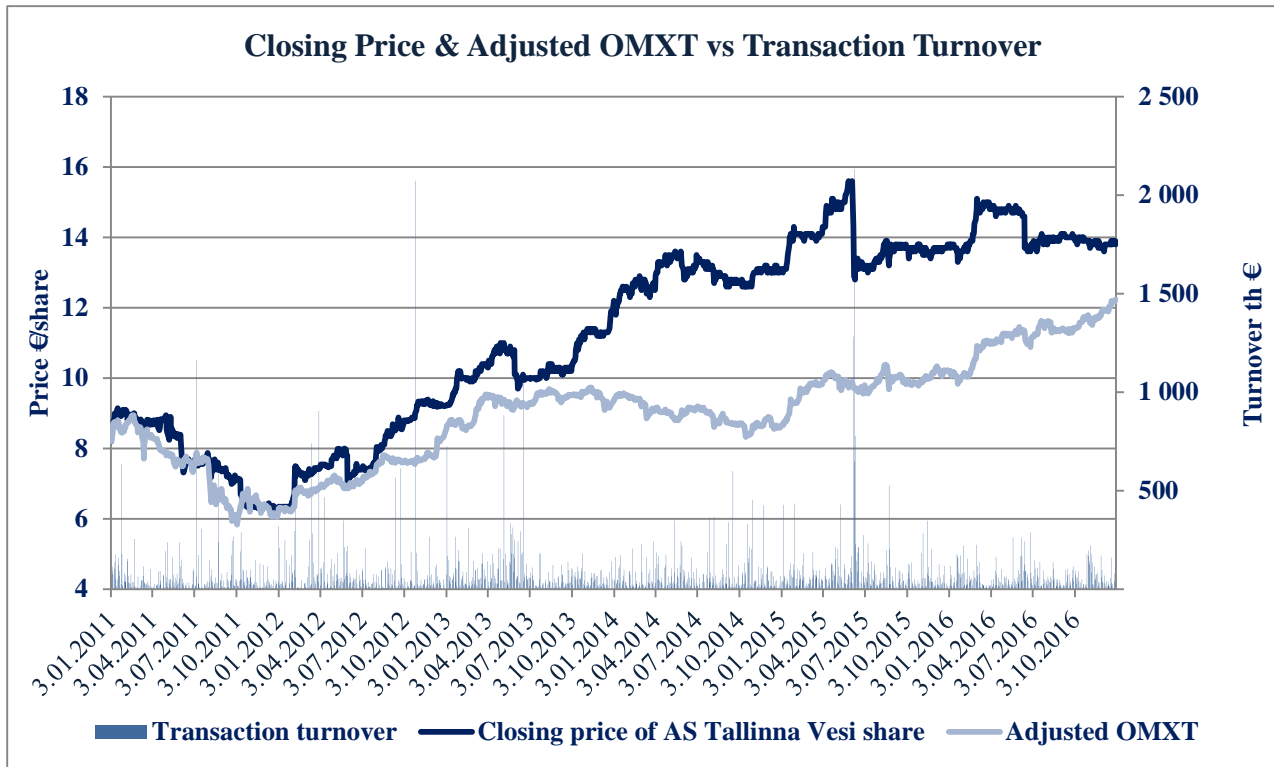
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

During the twelve months of 2016 the shareholder structure has been relatively stable compared to the end of 2015. At the end of 4th quarter 2016 the pension funds owned 2.11% of the total shares compared to 1.88% at the end of 4th quarter 2015.

As of 31st December 2016, the closing price of AS Tallinna Vesi share was EUR 13.80, which is -1.4% (2015: 0.0%) lower compared to the closing price of EUR 14.00 at the beginning of the quarter. During the same period the OMX Tallinn index increased by 7.4% (2015: 4.1%).

In the twelve months of 2016, 6,502 deals with the Company's shares were concluded (2015: 7,818 deals) during which 1,048 thousand shares or 5.2% of total shares exchanged their owners (2015: 1,581 thousand shares or 7.9%).

The turnover of the transactions was EUR 7.03 million lower than in 2015, amounting to EUR 14.71 million.



Corporate structure

As of 31st December 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 4th 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.

The hearings of international arbitration took place in Paris in November 2016 and the decision is expected in 2017.

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 <https://www.tallinnavesi.ee/en/investor/stock-announcements>) and to the Tallinn Stock Exchange.

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

Additional information:

Karl Heino Brookes
Chairman of the Management Board
+372 62 62 204
karl.brookes@tvesi.ee

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2016 ended 31 December 2016

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 12 months period of financial year 2016 ended 31 December 2016. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 December 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 12 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.

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

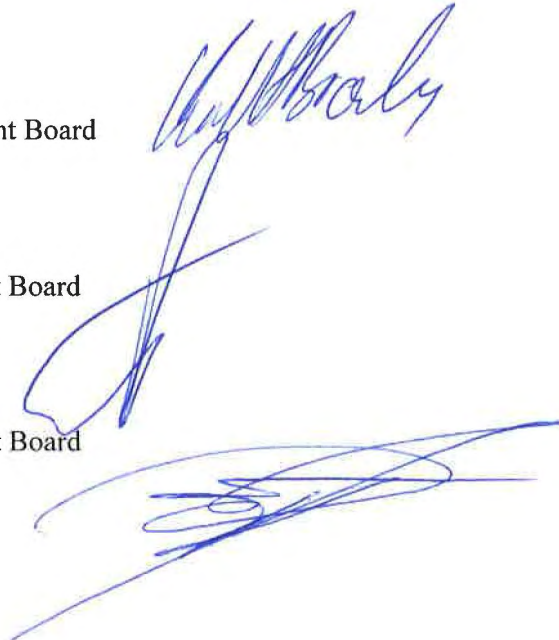
Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 26 January 2017 have been considered in preparing the financial statements.

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

Karl Heino Brookes
Chairman of the Management Board
Chief Executive Officer

Aleksandr Timofejev
Member of the Management Board
Chief Operating Officer

Riina Käi
Member of the Management Board
Chief Financial Officer



26 January 2017

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 12 months period of financial year 2016 ended 31 December 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

ASSETS	Note	as of 31 December	
		2016	2015
CURRENT ASSETS			
Cash and cash equivalents	2	33 987	37 819
Trade receivables, accrued income and prepaid expenses		7 167	7 174
Inventories		449	447
TOTAL CURRENT ASSETS		41 603	45 440
NON-CURRENT ASSETS			
Derivatives		0	142
Property, plant and equipment	3	171 177	162 732
Intangible assets	4	830	758
TOTAL NON-CURRENT ASSETS		172 007	163 632
TOTAL ASSETS		213 610	209 072
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		264	328
Trade and other payables		7 030	5 586
Derivatives		610	523
Prepayments		2 735	1 983
TOTAL CURRENT LIABILITIES		10 639	8 420
NON-CURRENT LIABILITIES			
Deferred income from connection fees		17 050	15 030
Borrowings		95 795	95 974
Derivatives		715	628
Other payables		15	13
TOTAL NON-CURRENT LIABILITIES		113 575	111 645
TOTAL LIABILITIES		124 214	120 065
EQUITY			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		51 384	50 995
TOTAL EQUITY		89 396	89 007
TOTAL LIABILITIES AND EQUITY		213 610	209 072

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements.

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2016 ended 31 December 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

	Note	Quarter 4		for the year ended 31 December	
		2016	2015	2016	2015
Revenue	5	14 519	14 534	58 982	55 928
Costs of goods/services sold	7	-6 279	-6 357	-25 721	-23 679
GROSS PROFIT		8 240	8 177	33 261	32 249
Marketing expenses	7	-95	-117	-365	-435
General administration expenses	7	-2 443	-1 243	-7 799	-6 086
Other income (+)/ expenses (-)	8	-339	-72	-470	-150
OPERATING PROFIT		5 363	6 745	24 627	25 578
Interest income	9	6	16	41	95
Interest expense	9	-371	-377	-1 447	-2 130
Other financial income (+)/ expenses (-)	9	455	-147	-331	815
PROFIT BEFORE TAXES		5 453	6 237	22 890	24 358
Income tax on dividends	10	0	0	-4 500	-4 500
NET PROFIT FOR THE PERIOD		5 453	6 237	18 390	19 858
COMPREHENSIVE INCOME FOR THE PERIOD		5 453	6 237	18 390	19 858
Attributable profit to:					
Equity holders of A-shares		5 452	6 236	18 389	19 857
B-share holder		0,60	0,60	0,60	0,60
Earnings per A share (in euros)	11	0,27	0,31	0,92	0,99
Earnings per B share (in euros)	11	600	600	600	600

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements.

AS TALLINNA VESIConsolidated Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2016 ended 31 December 2016**CONSOLIDATED CASH FLOW STATEMENT**

(EUR thousand)

		for the year ended 31 December	
	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		24 627	25 578
Adjustment for depreciation/amortisation	3,4,7,8	6 405	6 184
Adjustment for revenues from connection fees	8	-218	-194
Other non-cash adjustments		-15	-15
Profit (-) /loss (+) from sale and write off of property, plant and equipment, and intangible assets		-42	2
Change in current assets involved in operating activities		41	-897
Change in liabilities involved in operating activities		1 074	453
Total cash flow from operating activities		31 872	31 111
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-14 526	-13 495
Compensations received for construction of pipelines		3 002	6 499
Proceeds from sale of property, plant and equipment, and intangible assets		50	30
Interest received		45	99
Total cash flow used in investing activities		-11 429	-6 867
CASH FLOWS USED IN FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl swap interests		-1 510	-2 178
Repayment of finance lease		-264	-306
Dividends paid	10	-18 001	-18 001
Income tax on dividends	10	-4 500	-4 500
Total cash flow used in financing activities		-24 275	-24 985
Change in cash and cash equivalents		-3 832	-741
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
		37 819	38 560
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
	2	33 987	37 819

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements.

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2016 ended 31 December 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
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	18 390	18 390
as of 31 December 2016	12 000	24 734	1 278	51 384	89 396

Notes to the consolidated financial statements on pages 6 to 13 form an integral part of the condensed financial statements

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2016 ended 31 December 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 31 December	
	2016	2015
Cash in hand and in bank	21 900	13 738
Short-term deposits	12 087	24 081
Total cash and cash equivalents	33 987	37 819

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Consolidated Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2016 ended 31 December 2016

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)**NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Total property, plant and equipment
as of 31 December 2014						
Acquisition cost	25 689	181 365	47 206	1 359	1 959	257 578
Accumulated depreciation	-5 940	-60 735	-32 446	-976	0	-100 097
Net book value	19 749	120 630	14 760	383	1 959	157 481
Transactions in the period 01 January 2015 - 31 December 2015						
Acquisition in book value	0	0	0	0	11 127	11 127
Write off and sale of property, plant and equipment in residual value	0	-12	-19	-1	0	-32
Reclassification	310	6 895	1 752	43	-8 935	65
Depreciation	-327	-2 836	-2 668	-78	0	-5 909
as of 31 December 2015						
Acquisition cost	25 950	187 943	47 016	1 277	4 151	266 337
Accumulated depreciation	-6 218	-63 266	-33 191	-930	0	-103 605
Net book value	19 732	124 677	13 825	347	4 151	162 732
Transactions in the period 01 January 2016 - 31 December 2016						
Acquisition in book value	0	0	0	0	14 628	14 628
Write off and sale of property, plant and equipment in residual value	0	0	-3	0	0	-3
Reclassification	183	12 724	2 361	39	-15 377	-70
Depreciation	-326	-3 007	-2 702	-75	0	-6 110
as of 31 December 2016						
Acquisition cost	26 134	199 921	47 297	1 104	3 402	277 858
Accumulated depreciation	-6 545	-65 527	-33 816	-793	0	-106 681
Net book value	19 589	134 394	13 481	311	3 402	171 177

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

As of 31 December 2016 the book value of the assets (Machinery and equipment) leased under financial lease is 1 130 thousand euros (31 December 2015: 1 422 thousand euros).

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2016 ended 31 December 2016

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)**NOTE 4. INTANGIBLE ASSETS**

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2014			
Acquisition cost	5 013	75	5 088
Accumulated depreciation	-4 226	0	-4 226
Net book value	787	75	862
Transactions in the period 01 January 2015 - 31 December 2015			
Acquisition in book value	0	171	171
Reclassification	184	-184	0
Depreciation	-275	0	-275
as of 31 December 2015	0	0	
Acquisition cost	5 192	62	5 254
Accumulated depreciation	-4 496	0	-4 496
Net book value	696	62	758
Transactions in the period 01 January 2016 - 31 December 2016			
Acquisition in book value	0	324	324
Write off and sale of intangible assets in residual value	-5	0	-5
Reclassification	180	-131	49
Depreciation	-296	0	-296
as of 31 December 2016			
Acquisition cost	5 313	255	5 568
Accumulated depreciation	-4 738	0	-4 738
Net book value	575	255	830

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2016 ended 31 December 2016

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

NOTE 5. REVENUE	Quarter 4		for the year ended 31 December	
	2016	2015	2016	2015
Revenues from main operating activities				
Total water supply and waste water disposal service, incl:	12 763	12 545	50 196	49 297
<u>Private clients, incl:</u>	<u>6 352</u>	<u>6 232</u>	<u>24 949</u>	<u>24 408</u>
Water supply service	3 495	3 437	13 720	13 436
Wastewater disposal service	2 857	2 795	11 229	10 972
<u>Corporate clients, incl:</u>	<u>5 128</u>	<u>4 942</u>	<u>20 069</u>	<u>19 358</u>
Water supply service	2 813	2 726	11 075	10 736
Wastewater disposal service	2 315	2 216	8 994	8 622
<u>Outside service area clients, incl:</u>	<u>1 102</u>	<u>1 202</u>	<u>4 400</u>	<u>4 765</u>
Water supply service	329	341	1 306	1 280
Wastewater disposal service	689	760	2 709	3 011
Storm water disposal service	84	101	385	474
<u>Over pollution fee</u>	<u>181</u>	<u>169</u>	<u>778</u>	<u>766</u>
Storm water treatment and disposal service and fire hydrants service	830	801	3 671	3 357
Construction service, design and asphaltting	773	1 037	4 511	2 724
Other works and services	153	151	604	550
Total revenue	14 519	14 534	58 982	55 928

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

NOTE 6. STAFF COSTS	Quarter 4		for the year ended 31 December	
	2016	2015	2016	2015
Salaries and wages	-1 559	-1 569	-5 999	-5 963
Social security and unemployment insurance taxation	-527	-531	-2 028	-2 017
Staff costs total	-2 086	-2 100	-8 027	-7 980
Number of employees at the end of reporting period			311	323

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Consolidated Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2016 ended 31 December 2016

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)**NOTE 7. COST OF GOODS/SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES**

	Quarter 4		for the year ended 31 December	
	2016	2015	2016	2015
Cost of goods/services sold				
Water abstraction charges	-318	-282	-1 169	-1 101
Chemicals	-336	-400	-1 308	-1 531
Electricity	-809	-747	-3 107	-3 035
Pollution tax	-239	-234	-1 091	-1 002
Staff costs	-1 569	-1 481	-5 729	-5 603
Depreciation and amortization	-1 412	-1 437	-5 862	-5 690
Construction service, design and asphaltting	-617	-951	-4 006	-2 398
Other costs	-979	-825	-3 449	-3 319
Total cost of goods/services sold	-6 279	-6 357	-25 721	-23 679
Marketing expenses				
Staff costs	-73	-92	-312	-362
Depreciation and amortization	0	-2	-1	-11
Other marketing expenses	-22	-23	-52	-62
Total marketing expenses	-95	-117	-365	-435
Administrative expenses				
Staff costs	-444	-527	-1 986	-2 015
Depreciation and amortization	-99	-76	-343	-308
Other general administration expenses	-1 900	-640	-5 470	-3 763
Total administrative expenses	-2 443	-1 243	-7 799	-6 086

NOTE 8. OTHER INCOME / EXPENSES

	Quarter 4		for the year ended 31 December	
	2016	2015	2016	2015
Connection fees	57	53	218	194
Depreciation of single connections	-48	-42	-199	-175
Doubtful receivables expenses (-) / expense reduction (+)	-312	-12	-322	13
Other income (+)/ expenses (-)	-36	-71	-167	-182
Total other income / expenses	-339	-72	-470	-150

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statements

for the 12 months period of financial year 2016 ended 31 December 2016

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)**NOTE 9. FINANCIAL INCOME AND EXPENSES**

	Quarter 4		for the year ended 31 December	
	2016	2015	2016	2015
Interest income	6	16	41	95
Interest expense, loan	-218	-232	-881	-981
Interest expense, swap	-153	-145	-566	-1 149
Increase (+) /decrease (-) of fair value of swap	459	-143	-316	830
Other financial income (+)/ expenses (-)	-4	-4	-15	-15
Total financial income / expenses	90	-508	-1 737	-1 220

NOTE 10. DIVIDENDS

	for the year ended 31 December	
	2016	2015
Dividends declared during the period	18 001	18 001
Dividends paid during the period	18 001	18 001
Income tax on dividends paid	-4 500	-4 500
Income tax accounted for	-4 500	-4 500
<i>Paid-up dividends per shares:</i>		
Dividends per A-share (in euros)	0,90	0,90
Dividends per B-share (in euros)	600	600

Dividend income tax rate in 2016 is 20/80 (in 2015: 20/80).

NOTE 11. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2016	2015	2016	2015
Net profit minus B-share preferred dividend rights	5 452	6 236	18 389	19 857
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
Earnings per A share (in euros)	0,27	0,31	0,92	0,99
Earnings per B share (in euros)	600	600	600	600

Diluted earnings per share for the periods ended 31 December 2016 and 2015 was equal to earnings per share figures stated above.

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NOTE 12. 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 31 December	
	2016	2015
Accounts receivable	420	271
Trade and other payables	190	184

Transactions	Quarter 4		for the year ended 31 December	
	2016	2015	2016	2015
Revenue	830	801	3 671	3 357
Purchase of administrative and consulting services	259	247	1 031	1 050
Financial income	0	0	0	14
Fees for Management Board (excluding social tax)	38	35	191	151
Supervisory Board fees (excluding social tax)	8	8	32	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.

Throughout the years ending on 31 December 2016 and 2015, management board members were not paid any termination payment. The off balance sheet potential salary liability would be up to 82 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

As of 31 December 2016 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 31 December 2015: Riina Käi owned 100 shares).

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NOTE 13. 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 14. 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 31 December 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 (31 December 2015: EUR 42,8 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.