AS TALLINNA VESI

Consolidated Interim Report for the 1st quarter of 2017

25th April 2017

Currency	Thousand euros
Start of reporting period	1 January 2017
End of reporting period	31 March 2017
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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 1st quarter of 2017 the operational and financial performance of the Company's has been excellent. All key performance indicators are on track and overall network leakage is below 14%, which represents the best performance in the Company's history and a testament of all the hard work done by AS Tallinna Vesi staff and targeted Capital investments.

The water quality in the 1st quarter of 2017 was 100% compliant based on the 738 samples taken and 6,160 analysis made.

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 the 1st quarter of 2017, the final effluent leaving Paljassaare was 100% compliant with all stipulated requirements.

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 drinking water and 5 km wastewater network are 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 our employees and ensuring appropriate succession plans are in place.

OPERATIONAL INDICATORS FOR THREE MONTHS OF 2017

Indicator	2017	2016
Drinking water		
Compliance of water quality at the customers' tap	100,0%	100,0%
Water loss in the water distribution network	13,7%	17,5%
Average duration of water interruptions per property in hours	3,02h	3,49h
Waste water		
Number of sewer blockages	195	188
Number of sewer bursts	39	26
Wastewater treatment compliance with environmental standards	100,0%	100,0%
Customer service		
Number of written complaints	9	11
Number of customer contacts regarding water quality	24	13
Number of customer contacts regarding water pressure	38	58
Number of customer contacts regarding blockages and discharge of storm water	269	300
Responding written customer contacts within at least 2 work days	99,9%	98,1%
Number of failed promises	3	0
Notification of unplanned water interruptions at least 1 h before the interruption	100,0%	96,5%

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 back in 2011.
- 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 years, 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 and on the 26th January 2017, the District Court dismissed AS Tallinna Vesi's appeal.
- The Company submitted its Cassation to the Court on 27th February 2017, and is currently awaiting a decision as to whether or not the case will be heard.
- 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 2016 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 submitted their Post Hearing Briefs in February 2017, with the final verdict expected in the summer of 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 1st QUARTER 2017

The Group's sales revenues during the 1st quarter of 2017 were EUR 13.78 million, being down by 4.1% or EUR 0.59 million compared to the same period in 2016.

The gross profit in the 1st quarter of 2017 was EUR 8.21 million, showing a decrease of 1.5% or EUR 0.13 million. Decrease in gross profit was mainly related to lower storm water revenues and profit from construction and asphalting services, higher electricity costs and other costs of goods sold costs. It was balanced by higher water and wastewater revenues and by lower depreciation and pollution tax expenses.

The operating profit was EUR 6.49 million, showing a decrease of 2.2% or EUR 0.15 million. The operating profit was mostly impacted by the above mentioned changes in gross profit.

The net profit for the 1st quarter of 2017 was EUR 6.36 million, being higher by 12.8% or EUR 0.72 million. The net profit was mainly impacted by above mentioned changes in operating profit, balanced by lower financial expenses, which in itself were mostly influenced by the positive change in the fair value of swap contracts in the 1st quarter of 2017 compared to the negative change in the same quarter of 2016. The net profit for the 1st quarter of 2017 and 2016 without the impact resulted from the change of the fair value of swap contracts was EUR 6.11 million and EUR 6.29 million respectively, being lower by 3.0% or EUR 0.19 million year-on-year.

MAIN FINANCIAL INDICATORS

EUR million, except key ratios	1st quarter 2013	2014	2015	2016	2017	Change 2017/2016
Sales	12.69	13.31	13.57	14.37	13.78	-4.1%
Gross profit	7.52	7.26	8.07	8.34	8.21	-1.5%
Gross profit margin %	59.28	54.59	59.51	58.02	59.56	2.7%
Operating profit	6.16	5.68	6.68	6.63	6.49	-2.2%
Operating profit - main business	6.14	5.63	6.66	6.55	6.48	-1.1%
Operating profit margin %	48.50	42.71	49.26	46.15	47.07	2.0%
Profit before taxes	6.21	5.06	6.38	5.64	6.36	12.8%
Net profit	6.21	5.06	6.38	5.64	6.36	12.8%
Net profit margin %	48.96	38.03	47.04	39.23	46.16	17.7%
ROA %	3.01	2.42	3.01	2.61	2.91	11.4%
Debt to total capital employed %	55.94	55.81	55.85	56.15	56.19	0.1%
ROE %	6.84	5.49	6.82	5.96	6.64	11.5%
Current ratio	5.42	4.60	6.81	5.79	5.46	-5.8%

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, design and asphalting services, doubtful debt

FINANCIAL RESULTS FOR THE 1st QUARTER 2017

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 business. The Company does not expect significant changes in the consumption in future. There has been incremental increase in consumption in the past and that is expected to continue.

In the 1st quarter of 2017 the Group's total sales were EUR 13.78 million, showing a decrease by 4.1% or EUR 0.59 million year-on-year. 92.4% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.4% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 1.3% from construction and asphalting services and 1.0% from other works and services. The construction and asphalting services sales are more seasonal and the Company continues to seek possibilities to keep and to grow these services revenues.

	1st quarter			Variance 2017/2016	
EUR thousand	2017	2016	2015	EUR	%
Private clients, incl:	6,347	6,338	6,154	9	0.1%
Water supply service	3,489	3,485	3,386	4	0.1%
Waste water disposal service	2,858	2,853	2,768	5	0.2%
Corporate clients, incl:	5,063	4,883	4,672	180	3.7%
Water supply service	2,771	2,673	2,569	98	3.7%
Waste water disposal service	2,292	2,210	2,103	82	3.7%
Outside service area clients, incl:	1,108	1,130	1,249	-22	-1.9%
Water supply service	329	308	292	21	6.8%
Waste water disposal service	683	670	771	13	1.9%
Storm water disposal service	96	152	186	-56	-36.8%
Over pollution fee	210	171	184	39	22.8%
Total water supply and waste water disposal service	**12,728**	**12,522**	**12,259**	**206**	**1.6%**
Storm water treatment and disposal service and fire hydrants service	741	945	844	-204	-21.6%
Construction service, design and asphalting	181	761	344	-580	-76.2%
Other works and services	131	141	121	-10	-7.1%
SALES REVENUES TOTAL	**13,781**	**14,369**	**13,568**	**-588**	**-4.1%**

Sales from water and wastewater services were EUR 12.73 million, showing a 1.6% or EUR 0.21 million increase compared to the 1st quarter of 2016, resulting from the changes in sales volumes as described below:

- There has been an increase in private customers' revenues by 0.1% to EUR 6.35 million. The increase in domestic customer consumption volumes came from apartment blocks, which is also our biggest private customer group. At the same time, there was a slight in individual houses and other customer groups.

- Sales to corporate customers within the service area increased by 3.7% to EUR 5.06 million. Increase was mostly related to increase in sales of industrial and leisure segments.
- Sales to customers outside the main service area have shown a decrease by 1.9% to EUR 1.11 million. It was mainly driven by decrease in storm water revenues by 36.8% to EUR 0.10 million, due to lower snow melting water and stormwater volumes in the 1st quarter of 2017. While there has been a decrease in storm water sales, the sales of water supply and waste water disposal services to outside areas in total have increased.
- Over pollution fees received have increased by 22.8% to EUR 0.21 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were EUR 0.74 million, showing a decrease of 21.6% or EUR 0.20 million in the 1st quarter of 2017 compared to the same period in 2016.

Sales of construction, design and asphalting services were EUR 0.18 million, decreasing by 76.2% or EUR 0.58 million year-on-year. The decrease was related to lower pipe construction services revenues during the 1st quarter of 2017.

COST OF GOODS/ SERVICES SOLD AND GROSS PROFIT

The cost of goods sold amounted to EUR 5.57 million in the 1st quarter of 2017, showing 7.6% or EUR 0.46 million decrease compared to the equivalent period in 2016. The cost decrease is mainly influenced by decrease in construction and asphalting services related costs and also by lower depreciation and pollution tax expenses, which was partly balanced by higher electricity and other costs of goods sold costs.

	1st quarter			Variance 2017/2016	
EUR thousand	2017	2016	2015	EUR	%
Water abstraction charges	-296	-291	-270	-5	-1.7%
Chemicals	-333	-342	-360	9	2.6%
Electricity	-854	-810	-828	-44	-5.4%
Pollution tax	-292	-336	-300	44	13.1%
Total direct production costs	-1,775	-1,779	-1,758	4	0.2%
Staff costs	-1,421	-1,418	-1,348	-3	-0.2%
Depreciation and amortization	-1,351	-1,431	-1,394	80	5.6%
Construction service, design and asphalting	-138	-675	-308	537	79.6%
Other costs of goods/services sold	-888	-729	-686	-159	-21.8%
Other costs of goods/services sold total	-3,798	-4,253	-3,736	455	10.7%
Total cost of goods/services sold	-5,573	-6,032	-5,494	459	7.6%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax) were EUR 1.78 million, being on same level as last year same period. 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 1.7% to EUR 0.30 million, driven mainly by increase in treated volumes.
- Chemicals costs decreased by 2.6% to EUR 0.33 million, driven mainly by lower usage of coagulant and methanol in the wastewater treatment process, worth in total EUR 0.07 million. Savings were balanced by 17.7% higher methanol price and 13.5% higher coagulant price, worth in total EUR 0.02 million, and higher use of polymers, worth EUR 0.03 million. Lower

total year-on-year chemicals costs in wastewater treatment process were offset by increase in usage of different chemicals in water treatment due to higher treated water volumes and higher dosage of different chemicals due to poor raw water quality, worth in total EUR 0.02 million.

- Electricity costs increased by 5.4% to EUR 0.85 million. It was related to on average 8.0% higher electricity prices, worth EUR 0.07 million, balanced by decrease in treated wastewater volumes, worth EUR 0.02 million.
- Pollution tax expense decreased by 13.1% to EUR 0.29 million, mainly due to decrease in treated wastewater volumes, balanced by higher pollution load of different pollutants.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 3.80 million, having decreased by 10.7% or EUR 0.46 million. The decrease came mostly from costs related to construction and asphalting services and depreciation, balanced by increase of other costs of goods sold. Decrease in construction and asphalting services costs by 79.6% to EUR 0.14 million was related to a decrease in construction and asphalting services revenues mentioned earlier. Other costs of goods sold increase is mainly related to timing of asset maintenance works and higher use of different rental mechanisms.

As a result of all above the Group's gross profit for the 1st quarter of 2017 was EUR 8.21 million, showing a decrease of 1.5% or EUR 0.13 million, compared to the gross profit of EUR 8.34 million for the comparative period of 2016.

ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses were relatively stable amounting to EUR 1.67 million. The slight increase was related to some increase of the IT purchases and consultation costs. Increase was balanced by lower staff costs due to some vacancies and slightly lower tariff dispute related costs.

OPERATING PROFIT

As a result of the factors listed above the Group's operating profit for the 1st quarter of 2017 amounted to EUR 6.49 million, being 2.2% or EUR 0.15 million lower than in the corresponding period of 2016. The Group's operating profit from main business was EUR 6.48 million, being 1.1% or EUR 0.07 million lower compared to 2016.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.13 million, compared to net expense of EUR 1.00 million in the 1st quarter of 2016. The decrease was mainly impacted by a positive change in the fair value of the swap contracts year-on-year, worth EUR 0.91 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, amounting to EUR 1.07 million. Effective interest rate of loans (incl. swap interests) in the 1st quarter of 2017 was 1.60%, amounting to interest costs of EUR 0.38 million, compared to the effective interest rate of 1.47% and the interest costs of EUR 0.35 million in the 1st quarter of 2016.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes and net profit for the 1st quarter of 2017 were EUR 6.36 million, being 12.8% or EUR 0.72 million higher than for the 1st quarter of 2016. Eliminating the effects of the change in derivatives fair value, the Group's net profit for the 1st quarter of 2017 would have been EUR 6.11 million, showing a decrease by 3.0% or EUR 0.19 million compared to the relevant period in 2016.

STATEMENT OF FINANCIAL POSITION

In the three months of 2017 the Group invested into fixed assets EUR 2.21 million. As of 31.03.2017, non-current tangible assets amounted to EUR 171.88 million and total non-current assets amounted to EUR 172.70 million (31.03.2016: EUR 163.12 million and EUR 163.91 million respectively).

Compared to the year end of 2016 the trade receivables, accrued income and prepaid expenses have shown a decrease in the amount of EUR 0.26 million to EUR 6.91 million. The collection rate of receivables continues to be high, being 99.4% compared to 99.8% in the 1st quarter of 2016.

Current liabilities have decreased by EUR 2.23 million to EUR 8.41 million compared to the year end of 2016. Decrease mainly derives from decrease in trade and other payables by EUR 1.90 million and decreased prepayments of connections in construction process by EUR 0.31 million. It is related to decreased construction activities and investments related liabilities.

Deferred income from connection fees has grown compared to the end of 2016 by EUR 1.12 million to EUR 18.17 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 to assets level as expected of 56.2%, in range of 55%-65%, reflecting the Group's equity profile. This level is consistent with the same period in 2016, when the Total debt to assets ratio was also 56.2%.

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 1st quarter of 2017 the Group re-evaluated the liability, which now stands at EUR 43 million (4th quarter of 2016 EUR 43 million), as per note 14 to the accounts.

CASH FLOW

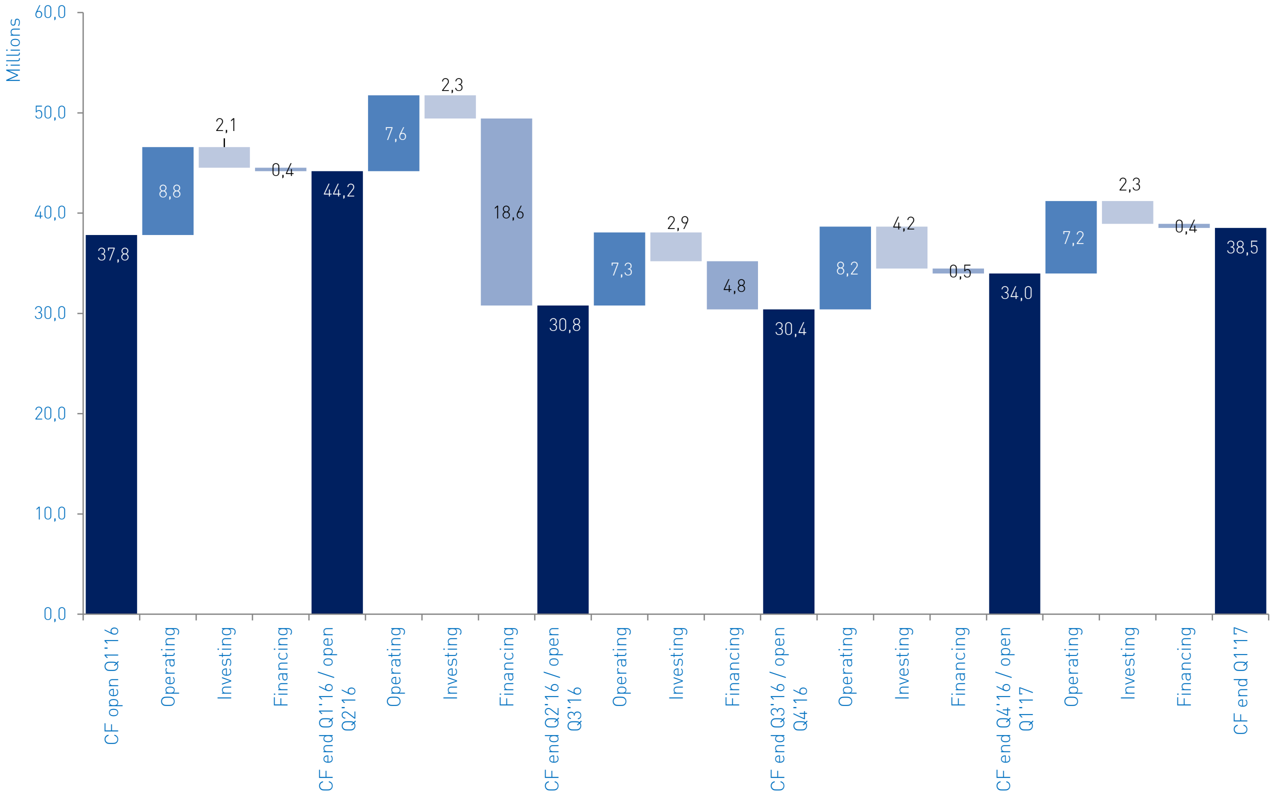
As of 31.March 2017, the cash position of the Group is strong. At the end of March 2017 the cash balance of the Group stood at EUR 38.51 million, which is 17.6% of the total assets (31. March 2016: EUR 44.17 million, forming 20.5% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the three months of 2017, the Group generated EUR 7.22 million of cash flows from operating activities, a decrease of EUR 1.54 million compared to the corresponding period in 2016. Underlying operating profit continues to be the main contributor to operating cash flows.

In the three months of 2017 the result of net cash flows from investing activities was a cash outflow of EUR 2.27 million, an increase of EUR 0.22 million compared to the cash outflow of EUR 2.05 million in the three months of 2016. This is made up as follows:

- The cash outflows from investments in fixed assets have increased by EUR 0.93 million compared to 2016 amounting to EUR 3.17 million.
- The compensations received for the construction of pipelines were EUR 0.87 million, showing an increase of EUR 0.72 million compared to the same period of 2016.

In the three months of 2017 cash outflow from financing activities amounted to EUR 0.42 million, increasing by EUR 0.07 million compared to the same period in 2016. The change was mainly related to increase in interest payments by EUR 0.06.



EMPLOYEES

We believe it is important to treat our employees equally, involve them in the decision-making process and to inform them regularly. We consider the involvement of our staff in the decision-making process instrumental for them to understand and be able to support the Company in its pursuits. Our staff can vary to a large degree in age, nationality, nature of work and in many other aspects. This requires us to be resourceful and flexible in our communication with the staff in order to involve, engage and listen to them. This is done using several opportunities and channels of communication, such as regular staff meetings with the management, information boards, intranet, informative letters, team events and a quarterly internal newsletter. Estonian is not a communication language for quite a number of our staff. Therefore, we organise Estonian classes at the Company's expense to make the staff, whose mother tongue is not Estonian, also feel as part of our unified team. At the same time, we provide the majority of important information also in Russian.

We have described our human resource policies. We follow equality principles in selecting and managing people, which translates into providing, when feasible, equal opportunities to everyone. Understanding and appreciating the diversity of our staff, we ensure, that everyone is treated fairly and equally and they have access to the same opportunities as is reasonable and practicable. We aim to ensure, that no employees are discriminated against due to, but not exclusive to age, gender, religion, cultural or ethnic origin, disability, sexual orientation or marital status.

At the end of the 1st quarter of 2017, the total number of employees was 312 compared to 319 at the end of the 1st quarter of 2016. The full time equivalent (FTE) was respectively 303 in 2017 compared to the 307 in 2016. Average number of employees (FTE) during the three months was respectively 301 in 2017 and 310 in 2016.

By gender, employee allocation was as follows:

As of 31.03.2017	Women	Men	Total
Group	87	220	307
Management Team	12	13	25
Executive Team	4	4	8
Management Board	1	2	3
Supervisory Board	0	9	9

As of 31.03.2016	Women	Men	Total
Group	97	222	319
Management Team	13	13	26
Executive Team	6	3	9
Management Board	1	2	3
Supervisory Board	0	9	9

The total salary costs were EUR 2.05 million for the 1st quarter of 2017, including EUR 0.08 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.

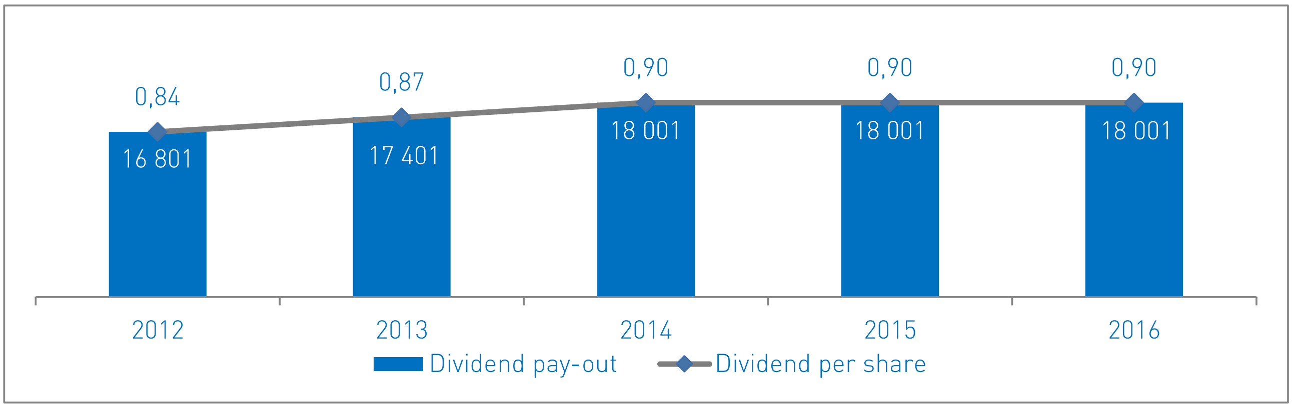
DIVIDENDS

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.

The dividend policy has been related keeping the dividends in real term i.e. dividends amounts have been increased in line with inflation. Every year the Supervisory Board evaluates the proposal of the dividends to be paid out to the shareholders and approves it to be presented to the voting to the Annual General Meeting of shareholders, considering all circumstances.

The Annual General Meeting of Shareholders will be held on 01st June 2017.

Dividends will be paid out in June 2017. 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 31.03.2017, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

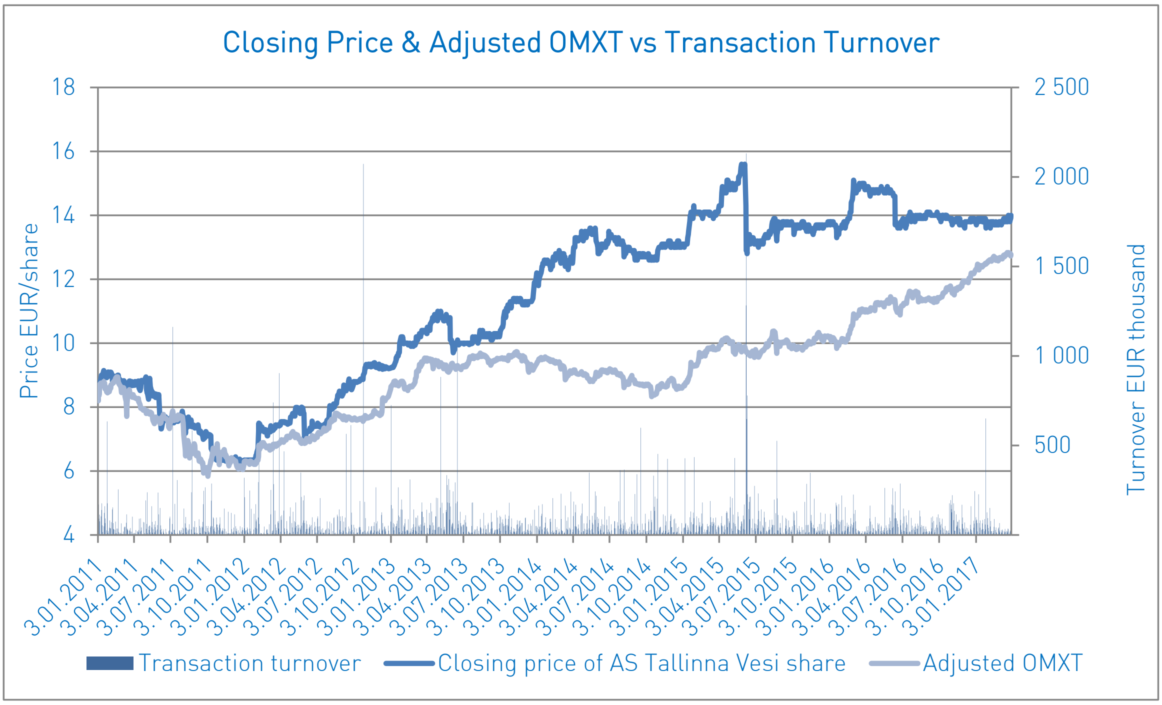
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

During the three months of 2017 the shareholder structure has been relatively stable compared to the end of 2016. At the end of 1st quarter 2017 the pension funds shareholding has stayed the same, being 2.1% of the total shares, compared to the end of 2016.

As of 31.03.2017, the closing price of AS Tallinna Vesi share was EUR 14.00, which is 1.4% (2016: 7.2%) higher compared to the closing price of EUR 13.80 at the beginning of the quarter. During the 1st quarter the OMX Tallinn index increased by 4.3% (2016: 8.0%).

In the three months of 2017, 1,784 deals with the Company's shares were concluded (2016: 1,514 deals) during which 246 thousand shares or 1.2% of total shares exchanged their owners (2016: 258 thousand shares or 1.3%).

The turnover of the transactions was EUR 0.22 million lower than in 2016, amounting to EUR 3.39 million.



CORPORATE STRUCTURE

As of 31st March 2017, 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 1st quarter of 2017. Tallinn City reappointed Mr Toivo Tootsen with the powers of the Supervisory Council Member until 06th April 2019.

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

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

https://www.tallinnavesi.ee/en/about-us/corporate-governance/supervisory-council/
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 21st March 2020), Aleksandr Timofejev (with the powers of the Management Board Member until 29th October 2018) and Riina Käi (with the powers of the Management Board Member until 29th 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 62 200
karl.brookes@tvesi.ee

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OU Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 3 months period of financial year 2017 ended 31 March 2017. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 2017 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a fair presentation of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim report gives a fair presentation of the main events that occurred during the 3 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 9 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 24 April 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

24 April 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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

		as of 31 March		as of 31 December
ASSETS	Note	2017	2016	2016
CURRENT ASSETS				
Cash and cash equivalents	2	38,514	44,174	33,987
Trade receivables, accrued income and prepaid expenses		6,911	7,349	7,167
Inventories		456	405	449
TOTAL CURRENT ASSETS		45,881	51,928	41,603
NON-CURRENT ASSETS				
Property, plant and equipment	3	171,881	163,122	171,177
Intangible assets	4	819	791	830
TOTAL NON-CURRENT ASSETS		172,700	163,913	172,007
TOTAL ASSETS		218,581	215,841	213,610
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		245	444	264
Trade and other payables		5,129	6,159	7,030
Derivatives		612	594	610
Prepayments		2,423	1,771	2,735
TOTAL CURRENT LIABILITIES		8,409	8,968	10,639
NON-CURRENT LIABILITIES				
Deferred income from connection fees		18,170	15,338	17,050
Borrowings		95,771	95,807	95,795
Derivatives		459	1,071	715
Other payables		15	13	15
TOTAL NON-CURRENT LIABILITIES		114,415	112,229	113,575
TOTAL LIABILITIES		122,824	121,197	124,214
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		57,745	56,632	51,384
TOTAL EQUITY		95,757	94,644	89,396
TOTAL LIABILITIES AND EQUITY		218,581	215,841	213,610

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

		Quarter 1		for the year ended 31 December
	Note	2017	2016	2016
Revenue	5	13,781	14,369	58,982
Cost of goods/services sold	7	-5,573	-6,032	-25,721
GROSS PROFIT		8,208	8,337	33,261
Marketing expenses	7	-100	-127	-365
General administration expenses	7	-1,566	-1,528	-7,799
Other income (+)/expenses (-)	8	-55	-50	-470
OPERATING PROFIT		6,487	6,632	24,627
Interest income	9	4	15	41
Interest expense	9	-380	-350	-1,447
Other financial income (+)/expenses (-)	9	250	-660	-331
PROFIT BEFORE TAXES		6,361	5,637	22,890
Income tax on dividends	10	0	0	-4,500
NET PROFIT FOR THE PERIOD		6,361	5,637	18,390
COMPREHENSIVE INCOME FOR THE PERIOD		6,361	5,637	18,390
Attributable profit to:		0	0	0
Equity holders of A-shares		6,360	5,636	18,389
B-share holder		0.60	0.60	0.60
Earnings per A share (in euros)	11	0.32	0.28	0.92
Earnings per B share (in euros)	11	600	600	600

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

CONSOLIDATED CASH FLOWS STATEMENT

(EUR thousand)

	Note	3 months 2017	3 months 2016	for the year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		6,487	6,632	24,627
Adjustment for depreciation/amortisation	3,4,7,8	1,497	1,561	6,405
Adjustment for revenues from connection fees	8	-61	-53	-218
Other non-cash adjustments		0	-3	-15
Profit (-)/loss (+) from sale and write off of property, plant and equipment, and intangible assets		-4	-7	-42
Change in current assets involved in operating activities		249	-132	41
Change in liabilities involved in operating activities		-951	761	1,074
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		7,217	8,759	31,872
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-3,167	-2,235	-14,526
Compensations received for construction of pipelines		872	149	3,002
Proceeds from sale of property, plant and equipment, and		21	18	50
Interest received		4	15	45
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-2,270	-2,053	-11,429
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-341	-288	-1,510
Repayment of finance lease		-79	-63	-264
Dividends paid	10		0	-18,001
Income tax on dividends	10	0	0	-4,500
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-420	-351	-24,275
CHANGE IN CASH AND CASH EQUIVALENTS		4,527	6,355	-3,832
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2	33,987	37,819	37,819
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	38,514	44,174	33,987

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR thousand)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
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
as of 31 December 2015	12,000	24,734	1,278	50,995	89,007
Dividends	0	0	0	0	0
Comprehensive income for the period	0	0	0	5,637	5,637
as of 31 March 2016	12,000	24,734	1,278	56,632	94,644
as of 31 December 2016	12,000	24,734	1,278	51,384	89,396
Dividends	0	0	0	0	0
Comprehensive income for the period	0	0	0	6,361	6,361
as of 31 March 2017	12,000	24,734	1,278	57,745	95,757

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

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 March		as of 31 December
	2017	2016	2016
Cash in hand and in bank	25,124	16,482	21,900
Short-term deposits	13,390	27,692	12,087
Total cash and cash equivalents	38,514	44,174	33,987

(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 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**
Transactions in the period 01 January 2017 - 31 March 2017						
Acquisition in book value	0	0	0	0	2,147	2,147
Write off and sale of property, plant and equipment in residual value	0	0	-17	0	0	-17
Reclassification	-3	1,320	115	1	-1,433	0
Depreciation	-72	-741	-594	-19	0	-1,426
as of 31 March 2017						
Acquisition cost	26,131	201,231	47,309	1,105	4,116	279,892
Accumulated depreciation	-6,617	-66,258	-34,324	-812	0	-108,011
Net book value	**19,514**	**134,973**	**12,985**	**293**	**4,116**	**171,881**

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 March 2017 the book value of the assets (Machinery and equipment) leased under financial lease is 1,057 thousand euros (31 December 2016: 1,130 thousand euros).

(EUR thousand)

NOTE 4. INTANGIBLE ASSETS

	Acquired licenses and other intangible assets	Unfinished intangible assets	Total intangible assets
as of 31 December 2015			
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
Transactions in the period 01 January 2017 - 31 March 2017			
Acquisition in book value	0	60	60
Reclassification	25	-25	0
Depreciation	-71	0	-71
as of 31 March 2017			
Acquisition cost	5,338	290	5,628
Accumulated depreciation	-4,809	0	-4,809
Net book value	529	290	819

(EUR thousand)

NOTE 5. REVENUE

	Quarter 1		for the year ended 31 December
	2017	2016	2016
Revenues from main operating activities			
Total water supply and waste water disposal service, incl:	12,728	12,522	50,196
Private clients, incl:	6,347	6,338	24,949
Water supply service	3,489	3,485	13,720
Wastewater disposal service	2,858	2,853	11,229
Corporate clients, incl:	5,063	4,883	20,069
Water supply service	2,771	2,673	11,075
Wastewater disposal service	2,292	2,210	8,994
Outside service area clients, incl:	1,108	1,130	4,400
Water supply service	329	308	1,306
Wastewater disposal service	683	670	2,709
Storm water disposal service	96	152	385
Over pollution fee	210	171	778
Storm water treatment and disposal service and fire hydrants service	741	945	3,671
Construction service, design and asphalting	181	761	4,511
Other works and services	131	141	604
Total revenue	13,781	14,369	58,982

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

NOTE 6. STAFF COSTS

	Quarter 1		for the year ended 31 December
	2017	2016	2016
Salaries and wages	-1,531	-1,553	-5,999
Social security and unemployment insurance taxation	-518	-526	-2,028
Staff costs total	-2,049	-2,079	-8,027
Number of employees at the end of reporting period	312	319	311

(EUR thousand)

NOTE 7. COST OF GOODS/SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

	Quarter 1		for the year ended 31 December
	2017	2016	2016
Cost of goods/services sold			
Water abstraction charges	-296	-291	-1,169
Chemicals	-333	-342	-1,308
Electricity	-854	-810	-3,107
Pollution tax	-292	-336	-1,091
Staff costs	-1,421	-1,418	-5,729
Depreciation and amortization	-1,351	-1,431	-5,862
Construction service, design and asphalting	-138	-675	-4,006
Other costs	-888	-729	-3,449
Total cost of goods/services sold	**-5,573**	**-6,032**	**-25,721**
Marketing expenses			
Staff costs	-91	-117	-312
Depreciation and amortization	0	0	-1
Other marketing expenses	-9	-10	-52
Total marketing expenses	**-100**	**-127**	**-365**
Administrative expenses	0	0	0
Staff costs	-537	-544	-1,986
Depreciation and amortization	-90	-80	-343
Other general administration expenses	-939	-904	-5,470
Total administrative expenses	**-1,566**	**-1,528**	**-7,799**

NOTE 8. OTHER INCOME / EXPENSES

	Quarter 1		for the year ended 31 December
	2017	2016	2016
Connection fees	61	53	218
Depreciation of single connections	-56	-50	-199
Doubtful receivables expenses (-)/expense reduction (+)	-31	1	-322
Other income (+)/expenses (-)	-29	-54	-167
Total other income / expenses	**-55**	**-50**	**-470**

(EUR thousand)

NOTE 9. FINANCIAL INCOME AND EXPENSES

	Quarter 1		for the year ended 31 December
	2017	2016	2016
Interest income	4	15	41
Interest expense, loan	-226	-224	-881
Interest expense, swap	-154	-126	-566
Increase (+)/decrease (-) of fair value of swap	254	-656	-316
Other financial income (+)/expenses (-)	-4	-4	-15
Total financial income / expenses	-126	-995	-1,737

NOTE 10. DIVIDENDS

	for the year ended 31 December 2016
Dividends declared during the period	18,001
Dividends paid during the period	18,001
Income tax on dividends paid	-4,500
Income tax accounted for	-4,500

Dividend income tax rate in 2017 is 20/80 (in 2016: 20/80).

Paid-up dividends per shares:	
Dividends per A-share (in euros)	0.90
Dividends per B-share (in euros)	600

NOTE 11. EARNINGS PER SHARE

	Quarter 1		for the year ended 31 December
	2017	2016	2016
Net profit minus B-share preferred dividend rights	6,360	5,636	18,389
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
Earnings per A share (in euros)	0.32	0.28	0.92
Earnings per B share (in euros)	600	600	600

Diluted earnings per share for the periods ended 31 March 2017 and 2016 and 31 December 2016 was equal to earnings per share figures stated above.

(thousand EUR)

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

	as of 31 March		as of 31 December
Balances recorded in working capital on the statement of financial position of the Group	2017	2016	2016
Accounts receivable	3	3	420
Trade and other payables	190	190	190

	Quarter 1		for the year ended 31 December
Transactions	2017	2016	2016
Revenue	741	945	3,671
Purchase of administrative and consulting services	257	254	1,031
Fees for Management Board (excluding social tax)	69	71	191
Supervisory Board fees (excluding social tax)	8	8	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 3 months of 2017 and throughout the year ending on 31 December 2016, no termination payments were paid to any of the Management Board members. The off balance sheet potential salary liability would be up to 81 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 March 2017 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 31 March and 31 Decenber 2016: Riina Käi owned 100 shares).

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. On 26th January 2017, Tallinn Circuit court dismissed the Companies appeal. The Company do not agree with the decision and filed the cassation to the Supreme Court on 27th February 2017. The length of the court process and the decision are not within the Company's control.

No reliable estimate can be made at this stage regarding the ultimate outcome of the legal proceedings. The management has evaluated the amount of the contingent liability as of 31 March 2017 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 2016: EUR 43 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.