AS TALLINNA VESI

Consolidated Annual report
for the financial year ended
31 December 2014
(Translation of the Estonian original)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

Beginning of the financial year	1 January 2014
End of the financial year	31 December 2014
Name of the Company	AS TALLINNA VESI
Legal form of the Company	Public limited company
Commercial register number	10257326
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment
Auditors	AS PricewaterhouseCoopers
Documents attached to the Annual Report	Independent auditor's report

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MANAGEMENT REPORT

CHAIRMAN'S STATEMENT

In 2014 once again we managed to improve already very high standards for services we are providing to our customers. Without a doubt the quality and operational measures are the best in Baltics. I am very proud to state that in most areas we have managed to improve our performance levels even further. This is due to efforts of our people and teams who have delivered an excellent standard of service across the entire water and wastewater value chain.

Operations performance – best ever water quality

It is imperative that we meet or exceed the levels of services in the contract we signed with the City of Tallinn in 2001. This services contract requires us to maintain a high standard of service to our customers across a range of over 90 levels of service, ensuring that we deliver a service to our customers, that is second to none.

The water quality compliance is something that we are very proud. Whilst in 2013 99.7% of all samples were compliant with EU standards, then in 2014 the result was even better and 99.8% of the samples were compliant. To put this into context, during the year we took 2 496 samples at the customers' tap, and of these only 5 did not meet the required standards.

This high quality product and service has been recognised by our customers. From the results of our 2014 customer satisfaction survey 83% of respondents said they regularly drank tap water, compared with only 48% in 2011. Thanks to the quality of our product and the quality of our communications, more and more of our customers trust the quality of the service we are providing.

Excellent customer service – one of Europe's best performing utilities for service performance

This year we achieved a customer satisfaction rating of 85, as measured by the TRI*M index. Satisfaction with our performance is considerably higher than the European average, reaching the top 10% of European utility sector for several years. This is an excellent outcome and is a good reflection of the hard work we have done to improve all aspects of our service.

In addition to the improvements in the quality of our water and wastewater, we continue to reduce the customer risks related to potential flooding and pollution by making preventative improvements in the performance of our networks. For example, the leakage level is consistently decreasing year-on-year. Figuratively speaking, constant reduction in leakage levels means that we are saving approximately 13 000 m^3 of treated drinking water a day, compared to the time 10 years ago. Compared to 2013, the saving in 2014 was 200 000 m^3, which is the average amount of water being consumed in Tallinn within three days. In 2014, the level of leakages was 16.14% compared to 16.98% in 2013.

Preventive jet washing has resulted in an over 24% reduction in customer contacts related to sewer blockages and problems with storm water discharge.

Our people and teams

The key to any company's success are the people. Our teams have worked "hard and smart" in order to deliver the highest levels of service to our customers. I would very much like to thank all of our people for their dedication and flexibility during the year.

A committed, capable and motivated workforce is central to delivering our objectives, and we remain fully focused on maintaining high levels of employee development and engagement. We are always looking to develop our people and teams.

We strive to continuously improve our safety culture. The safety and well-being of our employees is paramount and we believe that everybody in AS Tallinna Vesi, both collectively and individually, has a part to play in maintaining a safe working environment. In 2014, our health and safety performance stood comparison with the performance of the best in class, and we will remain vigilant in our efforts to achieve the same very high standards in the future.

Responsible company

We acknowledge that by providing a service compliant with all requirements, we influence the quality of life of the citizens of Tallinn, neighbouring municipalities as well as the wider environment in and around the Baltic Sea. This means that our management practices take into account the impact we have on our living environment, and our associations with different stakeholder interests. Our responsibility to all our stakeholder groups, including the environment, is a key reason for our ongoing business improvement. We are one of the initiative members of the Responsible Businees Forum in Estonia. Our focus lies on creating consistency between the various aspects of our business. In addition to the core service our attention is shared between the community, environment, corporate ethics and work environment. In order to be able to assess our performance and identify future needs for development, we participate in the CSR Index organised by the Responsible Business Forum in Estonia. Our corporate social responsibility was once again highly recognised and our company was awarded with the silver marking. This means that with our ethical and socially responsible behaviour we also serve as a role model for other companies.

We want to manage our business in the right way by operating to the highest standards of corporate governance. In 2014, for a second year in a row, we were awarded the Best Investor Relations of all the companies on the NASDAQ OMX Exchanges in all three Baltic Countries. This is the big recognition and a great honour for ourselves and Estonia. In addition, AS Tallinna Vesi was also recognised as the most attractive company in the Nasdaq Baltic Market. I would like to take this opportunity to thank the NASDAQ OMX in Tallinn and the bank analysts who have worked with us to help improve the quality of our interactions with the investment community.

Still attractive for shareholders

We believe our operational and financial performance still makes us an attractive investment for current and future shareholders. We will continue to work hard in our court dispute to ensure that the privatisation contract is respected. Beyond this we will continue to invest in our people and systems to ensure we are well placed to grow across the region if and when the opportunity arises.

For the 2014 financial year our total revenues increased slightly by 0.3% year on year to 53.2 mln euros, mainly due to an increase in sales of water and wastewater services. However, our EPS reduced by 10% year on year to 0.90 euro per share, the reduction is primarily related to the non-monetary revaluation of the fair value of SWAP contracts.

In June 2014, we paid a dividend of 0.90 cents per share, an increase of 3.4% year-on-year. This is in accordance with our dividend policy, which is to increase dividends by a minimum of CPI each year.

Outlook

Given the slow progress in our court cases and the lack of transparent regulatory practice, the outlook for the company remains very uncertain. The Estonian authorities have been unwilling to enter into any meaningful discussions over the privatisation contracts, therefore it appears that the company will be engaged in a long court process, the duration of which is outside of the control of the company. This ongoing dispute and the unstable regulatory environment severely limit our growth opportunities.

In addition to the local court case, in October 2014, AS Tallinna Vesi and its shareholder United Utilities (Tallinn) B.V. commenced the arbitration proceeding against the Republic of Estonia for the breach of the Agreement on the Encouragement and Reciprocal Protection of Investments between the Kingdom of The Netherlands and the Republic of Estonia. As the tariff dispute has lasted very long time with no outcome, international arbitration is the other possibility to solve the dispute.

Regardless of the ongoing tariff dispute, our primary focus in 2015 will be to continue providing very high quality service to our customers, and seeking further efficiencies within our main services area in Tallinn. We are committed to retain our place as the leading water and wastewater company in the Baltic region.

We are very grateful that besides our own professionals we can use technical support and know-how from one of our major shareholder United Utilities, which is also one of the leading water and wastewater companies in UK. Finally, I would like to thank my colleagues in AS Tallinna Vesi, Watercom OÜ and United Utilities, and all our suppliers and business partners for all their expertise, energy and support in serving our customers during the past year. It is because of all your efforts that we are able to report a level of operating and service performance that is second to none. I look forward to our continuing success in the year ahead.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

RESULTS OF OPERATIONS – FOR THE YEAR 2014

Financial highlights of 2014

In 2014 the Group continuously focused on providing high quality service to our clients and service excellence.

The sales revenues of the Group in 2014 have been relatively flat compared to the same period in 2013, increasing 0.3% to 53.24 mln euros. The decreased sales from storm water and fire hydrants services within and outside the main service area by 10.9% or 0.42 mln euros to 3.48 mln euros was compensated with higher water and sewage sales revenues, which increased by 1.8% or 0.83 mln euros to 47.35 mln euros.

The gross profit in 2014 increased 0.9% or 0.26 mln euros mainly due to slightly increased revenues and broadly flat expenses.

The operating profit from the Group's main business activity increased by 0.1% to 24.54 mln euros during the twelve months of 2014 compared to the twelve months of 2013. As revenues have been relatively flat, increasing only 0.3% or 0.15 mln euros, increase in revenues is eliminated by the increase in administration costs, which in itself were highly impacted by higher legal charges related to ongoing tariff dispute. 2014 and 2013 results were also impacted highly by the pollution tax issues the Group has faced in both years. Excluding the pollution tax one off negative impacts of 1.27 mln euros in 2014 and 1.13 mln euros in 2013, extra construction profit of 0.29 mln euros in 2014 and 0.25 mln euros in 2013, the operating profit was 0.7% or 0.18 mln euros higher amounting to 25.81 mln euros compared to 25.63 mln euros in 2013.

Other main economic indicators

million euros	2014	2013	2012	2011	2010
Sales	53.2	53.1	52.9	51.2	49.7
Gross profit	30.8	30.6	32.6	30.3	29.0
Operating profit	24.8	24.8	28.8	28.9	27.5
Operating profit - main business	24.5	24.5	26.8	25.4	24.2
Profit before taxes	22.7	24.6	27.1	25.8	24.9
Net profit	17.9	19.9	22.6	21.5	16.4
Gross profit margin %	57.9	57.6	61.6	59.2	58.4
Operating profit margin %	46.6	46.6	54.4	56.4	55.3
Profit before taxes margin %	42.7	46.3	51.1	50.3	50.1
Net profit margin %	33.7	37.6	42.7	42.0	33.0
ROA %	8.7	9.8	11.3	11.2	8.9
Debt to total capital employed	57.6	57.0	57.8	58.9	60.1
ROE %	20.6	22.9	26.7	27.3	22.4
Current ratio	5.4	4.2	4.3	4.1	2.1
Number of full-time equivalent employees	307	292	301	299	305
Share capital	12.0	12.0	12.0	12.0	12.8

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Main business – water and wastewater activities, excl. connections profit and government grants, construction services, doubtful debt, other income.
Gross profit margin – Gross profit / Net sales
Operating profit margin – Operating profit / Net sales
Profit before taxes margin – Profit before taxes / Net sales
Net profit margin – Net profit / Net sales
ROA – Net profit /Total assets
Debt to Total capital employed – Total liabilities / Total capital employed
ROE – Net profit / Shareholders' equity
Current ratio – Current assets / Current liabilities

Statement of comprehensive income

Sales

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

In 2014, the Group's total sales increased year-on-year by 0.3% to 53.24 mln euros. Lower sales from storm water services within and outside the main service area by 10.9% or 0.42 mln euros to 3.48 mln euros was compensated with higher water and sewage sales revenues, which increased by 1.8% or 0.83 mln euros to 47.35 mln euros.

91.3% of sales comprise of revenues from water and wastewater services to domestic and commercial customers within and outside of the service area, 5.8% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants and 2.9% from other works and services. There is no considerable seasonality in the Group's operation.

Sales of water and wastewater services were 48.19 mln euros, 2.0% increase compared to 2013, resulting from the changes in sales volumes as described below.

Within the service area, sales to residential customers were at 24.15 mln euros, increasing by 2.2% year-on-year. As revenues from apartment blocks form the biggest share of our residential sales, the biggest increase came also from this client group. Sales to commercial customers increased by 0.2% to 19.09 mln euros. Sales to customers outside of the service area increased by 4.9% to 4.52 mln euros compared to 2013. It was mostly affected by water and wastewater services sales, as storm water sales decreased by 15.1% or 0.07 mln euros. Over pollution fees received were 0.84 mln euros, 14.3% increase compared to 2013.

	Year ended 31.12.			Variance 14/13	
Revenues from main operating activities	**2014**	**2013**	**2012**	**th €**	**%**
Private clients, incl:	24 154	23 642	23 789	512	2.2%
Water supply service	13 303	13 022	13 096	281	2.2%
Wastewater disposal service	10 851	10 620	10 693	231	2.2%
Corporate clients, incl:	19 085	19 053	18 767	32	0.2%
Water supply service	10 664	10 585	10 248	79	0.7%
Wastewater disposal service	8 421	8 468	8 519	-47	-0.6%
Outside service area clients, incl:	4 520	4 308	4 524	212	4.9%
Water supply service	1 153	1 095	1 028	58	5.3%

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

Wastewater disposal service	2 957	2 730	2 684	227	8.3%
Storm water disposal service	410	483	812	-73	-15.1%
Over pollution fee	839	734	832	105	14.3%
Storm water treatment and disposal service and fire hydrants service	3 073	3 424	3 915	-351	-10.3%
Construction service and design	925	1 146	351	-221	-19.3%
Other works and services	645	780	746	-135	-17.3%

The sales from operation and maintenance of storm water and fire-hydrants system in the main service area have decreased by 10.3% to 3.07 mln euros in 2014 due to lower volumes compared to the same period in 2013. According to the terms and conditions of the contract, revenues reflect actual volumes treated and costs for treating the storm water.

The sales of construction activities and design services have decreased by 19.3% to 0.93 mln euros in 2014 compared to 2013, partly due to mild winter of 2013 which allowed extra construction works.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 22.40 mln euros in 2014, decrease of 0.11 mln euros or 0.5% from the equivalent period in 2013. The cost decrease is mainly the result of decreased construction services costs (0.17 mln euros) and electricity costs (0.36 mln euros), balanced by the increase in pollution tax expenses (0.29 mln euros).

Cost of goods sold	**Year ended 31.12.**			**Variance 14/13**	
	2014	**2013**	**2012**	**th €**	**%**
Water abstraction charges	-1 057	-997	-937	-60	-6.0%
Chemicals	-1 737	-1 734	-1 631	-3	-0.2%
Electricity	-3 032	-3 392	-3 695	360	10.6%
Pollution tax	-2 163	-1 872	-347	-291	-15.5%
Total direct production costs	**-7 989**	**-7 995**	**-6 610**	**6**	**0.1%**
Staff costs	-4 880	-4 833	-4 750	-47	-1.0%
Depreciation and amortization	-5 370	-5 115	-5 167	-255	-5.0%
Construction service and design	-775	-947	-277	172	18.2%
Other costs of goods sold	-3 385	-3 615	-3 533	230	6.4%
Other costs of goods sold total	**-14 410**	**-14 510**	**-13 727**	**100**	**0.7%**
Total cost of goods sold	**-22 399**	**-22 505**	**-20 337**	**106**	**0.5%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) decreased by 0.01 mln euros or 0.1%. Increased pollution tax expense, the reasons for which are explained below, has the major impact on the increased direct production costs. Other changes came from a combination of increase in regulated prices and tax rates, movements in treatment volumes that affected the variable costs and lower prices, together with the following additional factors:

- Water abstraction charges increased only by 0.06 mln euros or 6.0% to 1.06 mln euros in 2014, driven mainly by 5% raise in tax rates (worth 0.05 mln euros).

- Total chemical costs remained broadly flat, increasing 0.003 mln euros or 0.2% to 1.74 mln euros. Costs change was mainly influenced by the increase in dosage used in sewage treated, which was balanced by decrease in treated volumes and chemicals price. Chemical costs were lower also in water treatment due to the better raw water quality.
- Electricity costs in total decreased by 0.36 mln euros or 10.6% in 2014 compared to 2013. Lower electricity costs are mostly derived from the decrease in treatment volumes and used unit costs, worth 0.21 mln euros. Additional positive effect came from decreased electricity price worth 0.15 mln euros.
- Pollution tax increased by 0.29 mln euros or 15.5% in 2014. The pollution tax cost in 2013 was largely impacted by the incidents in the Wastewater Treatment Plant in the 2nd quarter of 2013 for which the Group received a partial insurance compensation in the 4th quarter of 2013 (worth 0.15 mln euros). In addition, the Group released the one-off expense provision in the beginning of 2013 related to storm water outlet issues occurred in 2012. In 2014, pollution tax costs were largely impacted by the change in Group's water permit. In the 1st and 2nd quarter of 2014 the Group had higher pollution tax costs as concentration limits for heavy metals in treated effluent were reduced 400 times, due to which the Group was not technically able to meet the limit requirements, despite of the fact that the efficiency in treating the effluent continued to be very high. In the revised water permit the concentration limits for heavy metals have been removed. Starting from the 3rd quarter of 2014 the Group's problems were resolved with the issuance of a revised water permit. Eliminating the aforementioned one-off effects from both years, the pollution tax would have increased by 0.15 mln euros or 19.7%. The pollution tax increased due to the increase in pollutants concentration (worth 0.07 mln euros) and overall increase in tax rates by 15% (worth 0.11 mln euros) was balanced by the decrease in volumes (worth 0.04 mln euros).

Other cost of goods sold (staff costs, depreciation, construction services and other cost of goods sold) in the main operating activity decreased by 0.10 mln euros or 0.7%. 0.17 mln euros or 18.2% of the decrease in fixed costs is related to construction services and design, as construction services projects in 2014 came to an end earlier than in 2013. The remaining decrease is related to lower repair and maintenance carried out in 2014. Decrease in construction and maintenance services is balanced by the increase in depreciation costs.

As a result of all of the above, the Group's gross profit for 2014 was 30.84 mln euros, which is an increase of 0.26 mln euros or 0.9%, compared to the gross profit of 30.58 mln euros for 2013. Excluding the pollution tax one-off negative impact of 1.27 mln euros in 2014 and 1.13 mln euros in 2013, extra construction profit of 0.29 mln euros in 2014 and 0.25 mln euros in 2013, the underlying gross profit was 1.5% or 0.46 mln euros higher, amounting to 31.97 mln euros compared to 31.50 mln euros in 2013.

Other Operating Costs

In 2014, the General administration expenses increased in total 0.46 mln euros or 9.0% year-on-year to 5.52 mln euros, mainly due to higher consultation and legal fees related to the ongoing tariff dispute.

Other income/expenses

Other net expenses decreased to a net expense of 0.04 mln euros, compared to 0.08 mln euros net expense in 2013. The result in 2014 has been influenced by lower amount of doubtful receivables than in 2013.

Operating profit

As a result of the above factors, the Group's operating profit from main services for 2014 totalled 24.54 mln euros compared to 24.51 mln euros in 2013, which shows an increase of 0.03 mln euros or 0.1%. Total operating profit for 2014 was 24.83 mln euros, an increase of 0.07 mln euros. Year-on-year the operating profit for 2014 has increased by 0.3%.

As already mentioned before, the underlying operating profit from main services, without the impact of increased pollution tax, construction profit and government grants, for 2014 was 25.81 mln euros, a 0.18 mln euros or 0.7% increase compared to 2013.

Financial expenses

The Group's net financial expenses amounted to 2.10 mln euros in 2014, which is a negative change of 1.90 mln euros compared to 0.20 mln euros financial expenses in 2013. The decline is largely related to the change in the non-monetary revaluation of the fair value of the SWAP contracts and negative decline from interest income revenues.

The standalone SWAP agreements have been signed to mitigate the majority of the long term floating interest risk, the interest SWAP agreements are signed for 75 mln euros and 20 mln euros are still with floating interest rate. At this point in time, the estimated fair value of the SWAP contracts is negative, totalling 1.84 mln euros. Effective interest rate (incl. SWAP interests) in 2014 was 3.10%, amounting in the interest costs of 2.98 mln euros, compared to the effective interest rate of 3.23% and the interest costs of 3.11 mln euros in 2013.

Interest income has decreased in 2014 by 0.25 mln euros or 36.6%.

Profit before tax and net profit

The Group's profit before taxes for 2014 was 22.73 mln euros, which is 1.83 mln euros lower than the profit before taxes of 24.56 mln euros for 2013, resulting mainly from flat revenues, increased pollution tax costs and an increase in professional fees and financial expenses as described above. The Group's profit after taxes for the 2014 was 17.94 mln euros, which is 1.99 mln euros lower than the profit after taxes of 19.94 mln euros for 2013.

Statement of financial position

In the twelve months of 2014 the Group invested 11.07 mln euros into fixed assets. As of 31 December 2014, non-current fixed assets amounted to 157.48 mln euros and total non-current assets amounted to 158.34 mln euros. (31. December 2013: 152.25 mln euros and 155.50 mln euros respectively).

The reduction in receivables and prepayments of 6.75 mln euros to 8.26 mln euros is mainly related to collection of the money for network extension program that was finished in the end of 2012. As the payment terms are longer, the collection for the program can be seen until March 2015.

Compared to the year end of 2013 the current liabilities have decreased by 2.39 mln euros to 8.83 mln euros. The movement is mainly related to the decrease in current portion of long-term borrowings in the amount of 1.98 mln euros. As a result of the refinancing of 20 mln euro loan, the current portion of the loan balance was reclassified to the long term liabilities. The liabilities were also affected by the change of the fair value of derivatives, having an impact on the current liabilities in the amount of 0.74 mln euros.

The Group's loan balance has remained stable at 95 mln euros. As mentioned before, in May 2014, the Company replaced its loan from NIB with the new loan in the amount of 20 mln euros. In December 2014, the Company amended two loans, extending the maturity date from 2015 to 2020. The weighted average interest risk margin for the total loan facility is 1.04%.

The Group has a total debt/total assets level as expected of 57.6%, in range of 55%-65%, reflecting the Group's equity profile. This level is consistent with the same period in 2013 when the total debt/total assets ratio was 57.0%.

Biggest share of the rest of the long term liabilities is deferred income from connection fees amounting to 12.57 mln euros (2013: 10.14 mln euros).

In the 4th quarter of 2011 the Group recorded and noted an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros. In the 4th quarter of 2014 the Group re-evaluated the liability, which now stands at 40.1 mln euros, as per note 3 to the accounts.

Cash flow

As of 31 December 2014, the cash position of the Group is strong. At the end of December 2014 the cash balance of the Group stood at 38.56 mln euros, which is 18.8% of the total assets (2013: 31.79 mln, which is 15.7% of the total assets).

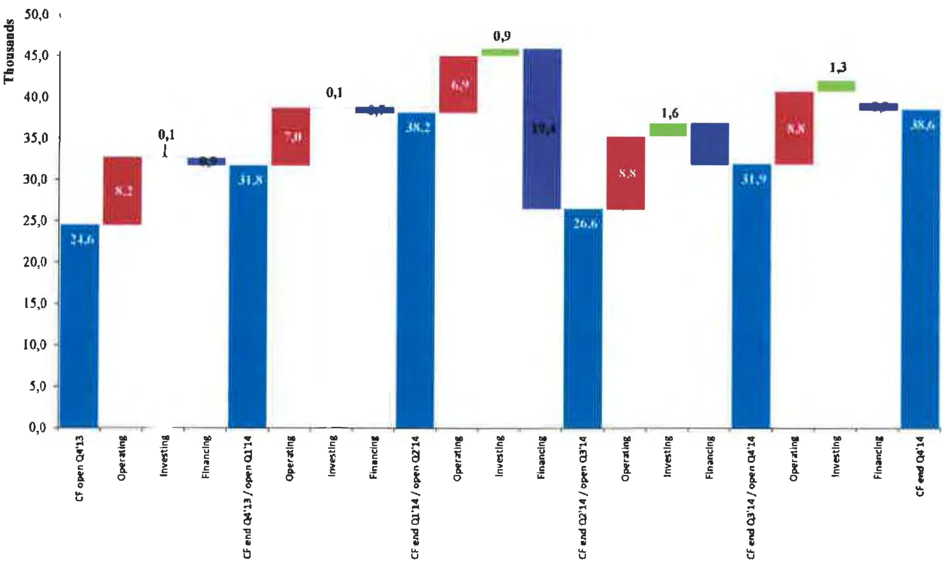
The biggest contribution to the cash flows comes from the main operations. During the twelve months of 2014, the Group generated 31.45 mln euros of cash flows from operating activities, an increase of 1.65 mln euros compared to the corresponding period in 2013.

Underlying operating profit still continues to be the main contributor to operating cash flows. The collection of receivables continues to be very strong, being on average 99.86%.

The Group's cash flows from investing activities have been positive for past three years. In the twelve months of 2014 net cash flows from investing activities resulted in a cash inflow of 1.32 mln euros, a decrease of 2.05 mln euros compared to an inflow of 3.37 mln euros in the twelve months of 2013. This is made up as follows:

- In the twelve months of 2014 the investments in fixed assets have increased 0.46 mln euros, compared to 2013 amounting to 9.65 mln euros.
- The compensations received for the construction of pipelines were 10.52 mln euros in the twelve months of 2014, an increase of 2.64 mln euros compared to the same period in 2013. Most of the cash collected for pipes is related to the sewage network extension program which was ended in 2012. The collections will still continue till March 2015. In 2013 the loan from Maardu Vesi was collected in full. The Group has not given out any new loans.

In the twelve months of 2014, cash outflow from financing amounted to 26.00 mln euros, which is 0.68 mln euros more than in the same period of 2013, mainly due to increased dividend payment and dividend income tax payment by 0.76 mln euros, balanced slightly by lower interest and financing costs by 0.08 mln euros.



Employees

At the end of 2014, the total number of employees was 321 compared to 304 at the end of 2013. The full time equivalent (FTE) was respectively 307 in 2014 compared to the 292 in 2013. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure.

The total salary cost was 7.01 mln euros, including 0.21 mln euros for the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.09 mln euros if the Council would want to replace the Management Board members.

Dividends

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

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

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

Dividends were paid out on 13th of June 2014.

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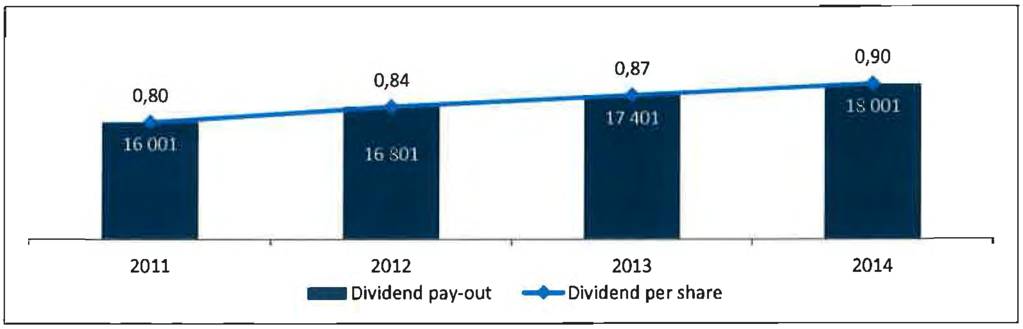
Dividend pay-outs in last four years have been as follows:



Share performance

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

As of 31 December 2014, the shareholders of AS Tallinna Vesi, with a direct holding over 5%, were:

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

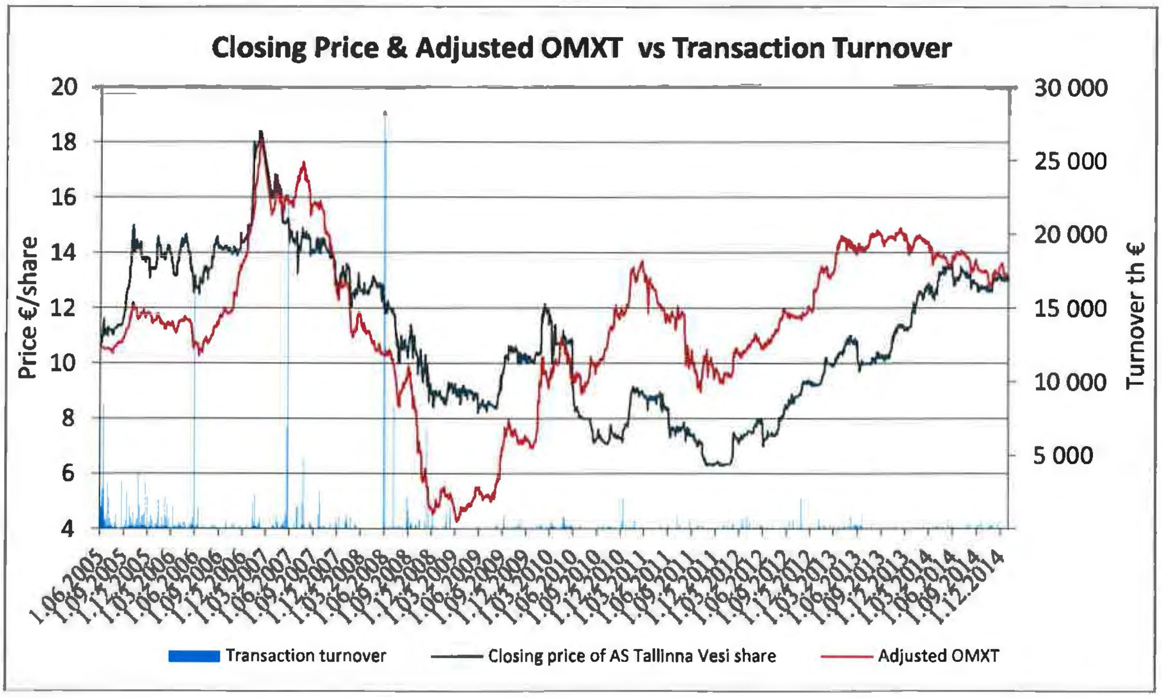
Pension funds holdings in the Company shares dropped in the end of 2014, after Nordea bank took over management of Ergo Life insurance funds and liquidated its holdings in companies listed on the Estonian market. At the end of 2014 the pension funds owned 1.54% of the total shares compared to 2.56% at the end of 2013.

As of 31 December 2014, the closing price of the AS Tallinna Vesi share was 13.10 euros, which is a 10.1% increase (in 2013: 29.3%) compared to the closing price of 11.90 euros at the beginning of the year. During the same period the OMX Tallinn index decreased by 7.7% (2013: 11.4%).

In 2014, 4 962 deals with the Company's shares were concluded (2013: 5 469 deals) during which 1 239 thousand shares or 6.2% exchanged their owners (2013: 1 853 thousand shares or 9.3%).

The turnover of the transactions was 3 192 thousand euros lower than in 2013, amounting to 15 947 thousand euros. The share price has shown an increase despite of the on-going contractual debate.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)



Corporate structure

At the end of the year, as of 31 December 2014, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

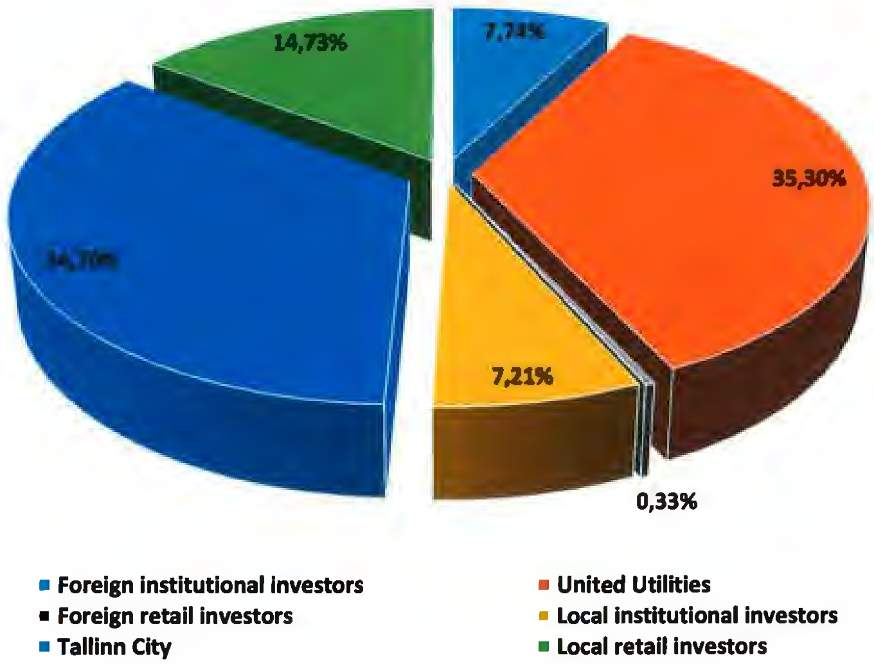
Share price statistics

euros	2014	2013	2012	2011	2010
Share price, open	12.00	9.25	6.30	7.90	10.18
Share price, at the end of the year	13.10	11.90	9.20	6.29	7.89
Share price, low	11.80	9.20	6.30	6.29	7.00
Share price, high	13.60	12.00	9.40	9.29	12.25
Share price, average	12.91	10.42	7.91	7.76	8.95
Traded volume	1 239 135	1 852 865	2 375 967	1 927 386	2 879 132
Turnover, million	16.0	19.1	18.6	14.9	25.6
Capitalisation, million	262.0	238.0	184.0	125.8	157.8
Earnings per share	0.90	1.00	1.13	1.08	0.82
Dividend per share	n/a	0.90	0.87	0.84	0.80
Dividend / net profit	n/a	90%	77%	78%	98%
P/E	14.56	11.90	8.14	5.82	9.62
P/BV	3.0	2.7	2.2	1.6	2.2

P/E = share price at the end of the year / earnings per share
P/BV = share price at the end of the year / book value per share
In 2005 the listing price was 9.25 euros

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

Shareholders by type as of 31 December 2014



Distribution of share capital by size of share ownership as of 31 December 2014

	Shareholders	Shareholders %	No. of shares	% of share capital
1 - 100	1 019	28.4%	52 264	0.3%
101 - 200	617	17.2%	94 679	0.5%
201 - 300	373	10.4%	97 768	0.5%
301 - 500	421	11.7%	178 720	0.9%
501 - 1 000	488	13.6%	373 295	1.9%
1 001 - 5 000	500	13.9%	1 082 228	5.4%
5 001 - 10 000	87	2.4%	617 238	3.1%
10 001 - 50 000	63	1.8%	1 318 270	6.6%
50 000 +	22	0.6%	16 185 538	80.9%
TOTAL	**3 590**	**100.0%**	**20 000 000**	**100.0%**

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 despite of three years of intensive negotiations to try and reach an amicable settlement, that has not happened.

Additional details surrounding this claim can be found via the following links:

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

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

Disclosure of relevant papers and perspectives

The Company has published its tariff application and all relevant correspondence with the Competition Authority (hereinafter CA) on its website www.tallinnavesi.ee and to the Tallinn Stock Exchange, and will keep its investors informed of all future developments regarding the further key developments regarding the processing of the tariff application.

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

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

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

Corporate governance constitutes a system of principles for the management of a company. Generally those principles are regulated by law, the Articles of Association and the internal rules of a company. Since 1st January 2006, the companies listed on the Tallinn Stock Exchange are recommended to follow the Corporate Governance Recommendations issued by the Financial Supervision Authority. Throughout 2014 the management of AS Tallinna Vesi has followed those regulations and principles.

AS Tallinna Vesi is committed to high standards of corporate governance for which the Management Board and Supervisory Board are accountable to the shareholders. AS Tallinna Vesi endeavours to be transparent thorough the business - in its ways of operating, corporate disclosures as well as relations with all stakeholders. AS Tallinna Vesi believes that openness and transparency enable to build the confidence and trust towards the company. As a clear recognition of best investor relations practices, AS Tallinna Vesi has been awarded by Nasdaq Baltic exchanges for several years. From 2009 to 2012, AS Tallinna Vesi has been awarded as the best Best Investor Relations in NASDAQ OMX Tallinn and runner up in the Baltics. In 2013 AS Tallinna Vesi was the first Estonian company to win the Best Investor Relations in the Baltics award. At the beginning of January 2015 Tallinna Vesi was announced as the winner in the main category "The Best Investor Relations in the Baltic" for the second consecutive year. Futhermore, AS Tallinna Vesi was voted as The Most Attractive Company on the Nasdaq Baltic Market in 2014, which was the new category introduced by Nasdaq Baltic.

Investor Relations and Disclosure of Information

At the end of the calendar year, AS Tallinna Vesi discloses the next year's financial calendar, including the disclosure dates of the quarterly and annual financial information and the date of the Annual General Meeting (AGM) of the Shareholders via the Tallinn Stock Exchange homepage. All information disclosed via the Tallinn Stock Exchange is also subsequently disclosed on AS Tallinna Vesi's homepage.

In addition, AS Tallinna Vesi discloses the following information on its website before AGM is held:

- AGM notice,
- background information about the agenda, including annual report subject to approval and the Supervisory Board´s report and auditor´s report;
- information about the Supervisory Board member to be elected and auditor candidate;
- the total number of voting rights and number of voting rights by share type;
- procedure for adding items to the agenda and presenting draft resolutions;
- procedure for inquiring about ASTV's activities from the Management Board, and
- list of identification documents required for attending the general meeting, including the form of the power of attorney.

Resolutions of the General Meetings are published shortly after the meeting, and finalised protocol of the General Meetings is published after seven days have passed from the date of the General Meeting.

After the General Meeting, also the Management Board presentation is disclosed on AS Tallinna Vesi's homepage.

AS Tallinna Vesi has a regular dialogue with its major shareholders and potential investors. For this, AS Tallinna Vesi is having General Meetings of Shareholders at least annually to keep AS Tallinna Vesi's shareholders informed, and to provide the shareholders with the opportunity to ask questions from the Management Board and the Supervisory Board. The Management Board meets also potential and existing investors outside of General Meetings.

AS Tallinna Vesi is also organising an interactive webinar through Tallinn Stock Exchange internet-based environment once a quarter to present AS Tallinna Vesi's financial results. All interested parties can take part of webinar. All webinar recordings are disclosed on Tallinn Stock Exchange‘s and AS Tallinna Vesi's homepage.

The General Meeting of Shareholders

AS Tallinna Vesi is a public limited company, the management bodies of which are the General Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting of Shareholders is AS Tallinna Vesi's highest directing body.

In accordance with the Commercial Code and the Corporate Governance Recommendations, AS Tallinna Vesi convenes its General Meetings, both Annual General Meetings and Extraordinary General Meetings (EGMs) by notifying all of its shareholders via the Tallinn Stock Exchange system and by placing an advertisement in one newspaper with Estonian-wide circulation 3 weeks in advance.

The agendas of AGMs and EGMs of AS Tallinna Vesi are pre-approved by the Supervisory Board, who also puts forward proposals for the attention and voting at the General Meeting. The General Meeting agenda items, the Supervisory Board's proposals, with relevant commentaries about the agenda items, procedural instructions for participating at a General Meeting and how and when to propose additional items to the agenda are disclosed within the General Meeting notice.

Specific rights for adding agenda items granted to shareholders whose shareholding represents at least 1/20 of the share capital are explained in the General Meeting notice as well as on AS Tallinna Vesi's homepage. Voting rights are explained to the shareholders on AS Tallinna Vesi's homepage as well as at the beginning of each General Meeting.

On 20 May 2014, AS Tallinna Vesi held an Annual General Meeting (AGM) of its Shareholders to approve the 2013 annual report and distribution of profit, to elect Supervisory Board members, as well as to elect the auditor. The Management Board also made a presentation on the privatisation contract dispute to update the shareholders.

And on 29 October 2014, AS Tallinna Vesi held an Extraordinary General Meeting (EGM) of its Shareholders to elect a Supervisory Board member.

No questions were asked neither regarding the 2014 AGM nor EGM agenda. Neither were any additional agenda item proposals made in 2014.

The chairman of any AGM and EGM is an independent person. In 2014, the AGM was chaired by Mr. Raino Paron and EGM by Mr Sven Papp, who both introduced the procedure for conducting the General Meeting, including the procedure for inquiring about the AS Tallinna Vesi's activities from the Management Board.

All members of the Management Board, the Chairman of the Supervisory Board and the auditor in charge participated at the AGM in 2014. When a Supervisory Board member or auditor in charge stands for election at the General Meeting, the candidate for the respective position usually also participates in the meeting. Therefore, the Supervisory Board member candidate Mr Robert John Gallienne and Mr Mart Mägi participated at the 2014 AGM. Supervisory Board member candidate Mr Martin Benjamin Padley participated at the 2014 EGM. Candidate for the position of auditor in charge Mr Ago Vilu also participated at the 2014 AGM, among others.

AS Tallinna Vesi does not enable the shareholders to participate at the General Meetings via electronic communication tools, as it would be too complicated and expensive to establish reliable solutions to identify the shareholders most of whom are overseas' residents.

No shareholder has shares that grant them a right for specific control. AS Tallinna Vesi is not aware that any shareholders have concluded any voting agreements.

As per the Articles of Association of AS Tallinna Vesi amended on 24 May 2011, AS Tallinna Vesi has issued one registered preferred share with the nominal value of 60 euros (B-share). The B-share grants the holder the right to participate at General Meetings as well as in the distribution of profits and of the assets remaining upon dissolution of AS Tallinna Vesi, also other rights provided by law and the Articles of Association of AS Tallinna Vesi. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 600 euros. The B-share grants the shareholder 1 (one) vote at the General Meeting (restricted right to vote) when deciding on amending the Articles of Association of AS Tallinna Vesi; increasing and reducing the share capital of AS Tallinna Vesi; issuing convertible bonds; acquisition of treasury shares by AS Tallinna Vesi; deciding on the merger, division, transformation and/or dissolution of AS Tallinna Vesi and deciding on issues related to the activities of AS Tallinna Vesi that have not been placed in the sole.

The Supervisory Board

The Supervisory Board plans the activities of AS Tallinna Vesi, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members with the term of two years. In 2014, five regular and no extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2013 annual report presented to the Annual General Meeting for approval, and reviewed AS Tallinna Vesi's 2015 budget.

At the time of compilation of this report, AS Tallinna Vesi's Supervisory Board consisted of the following members:

- Mr Simon Gardiner (United Utilities (Tallinn) B.V.), Supervisory Board member until 22 May 2016, Chairman of the Supervisory Board;
- Mr Steven Richard Fraser (United Utilities (Tallinn) B.V.), Supervisory Board member until 21 January 2016;
- Mr Brendan Francis Murphy (United Utilities (Tallinn) B.V.), Supervisory Board member until 27 October 2015;
- Mr Martin Benjamin Padley (United Utilities (Tallinn) B.V.), Supervisory Board member until 31 October 2016;
- Mr Priit Lello (Tallinn City), Supervisory Board member until 16 November 2015;
- Mr Rein Ratas (Tallinn City), Supervisory Board member until 22 May 2016;
- Mr Toivo Tootsen (Tallinn City), Supervisory Board member until 7 April 2015;
- Mr Mart Mägi (independent) Supervisory Board member until 22 May 2016;

- Mr Allar Jõks (independent) Supervisory Board member until 21 May 2015.

AS Tallinna Vesi has not made any transactions with the members of the Supervisory Board nor their related parties.

The Supervisory Board has formed three committees to advise the Supervisory Board on audit, nomination and remuneration, and corporate governance matters as described below.

The Audit Committee and Internal Audit

At each meeting, an internal audit report was presented to the Supervisory Board. The internal auditor of AS Tallinna Vesi reports directly to the Audit Committee. At the time of compilation of this report, the Audit Committee consisted of the following members of the Supervisory Board: Mr Brendan Francis Murphy is the Chairman of the Audit Committee, and Mr Allar Jõks and Mr Simon Gardiner are members of the Audit Committee. The Audit Committee follows the Authorised Public Accountants Act and the guidelines issued by the Financial Supervision Authority regarding the composition and working processes of an Audit Committee.

The main tasks of the Audit Committee are:
- to monitor and analyse financial information;
- to monitor and analyse the effectiveness of risk management and internal controls;
- to monitor and analyse the audit processes regarding the consolidated annual accounts;
- to monitor and analyse independence of external auditor and legality of his/her activity regarding ASTV;
- to evaluate the work of external auditors annually and report to the Supervisory Board about the results of such evaluation.
- to monitor independence of external auditor

The appointed external auditor and any member of the external audit team cannot provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2014, the external auditor did not provide any services to AS Tallinna Vesi outside the scope of the annual audit.

Pursuant to the Articles of Association of AS Tallinna Vesi, an external auditor shall be elected by the General Meeting of Shareholders to conduct the annual audit. The remuneration of the external auditor is regulated in the respective contract, signed between the external auditor and the Management Board. In 2014, the Group paid 28 thousand euros of audit fee as per the invoices for auditing the annual reports. AS Tallinna Vesi chooses an external auditor by following internal procurement procedures (which includes approval by the Supervisory Board of AS Tallinna Vesi), ensuring the best match of service quality and the price offered for the services. Proposals are taken only from internationally respected, high quality audit companies. AS Tallinna Vesi signs up to 3-year audit contract with a clause that requires the re-appointment of the auditor in charge each year and follows the Financial Supervision Authority guidelines of 1 November 2013 "Rotation of the auditors of certain subjects of financial supervision by the state" with regard to the requirement to rotate the auditor in charge after every 5 years. Based on the report of the Audit Committee, the Supervisory Board evaluates the quality of the work of the external auditor annually in the course of the approval of the Annual Accounts and discloses the summary of such evaluation in the AGM notice. The external auditor is present at the AGM and participates where necessary.

Nomination and Remuneration Committee

In 2014, the Nomination and Remuneration Committee continued to advise the Supervisory Board on management remuneration issues and Management Board nominations. At the time of compilation of this report, the Nomination and Remuneration Committee consisted of the following members of the Supervisory Board: Mr Steven Richard Fraser is the Chairman of the Nomination and Remuneration Committee, and Mr Mart Mägi and Mr Simon Gardiner are members of the Nomination and Remuneration Committee.

Supervisory Board approves the remuneration principles of the issuer's managers and appoints the Nomination and Remuneration Committee. The Nomination and Remuneration Committee recommends the remuneration principles of AS Tallinna Vesi and exercises supervision that the principles approved by the Supervisory Board and the requirements of the Securities Market Act are being followed.

The Nomination and Remuneration Committee ensures that the proposed remuneration principles are based on the short- and long-term objectives of AS Tallinna Vesi, taking into account the financial performance of AS Tallinna Vesi and legitimate interests of investors. The Nomination and Remuneration Committee ensures also that the proportion of remuneration for the principal job and performance related pay (PRP) are in accordance with the duties of the Management Board Member and that the remuneration for principal job forms a sufficient part of the total remuneration. The PRP depends on annual performance and can be adjusted upwards or downwards. If the annual results are worse than expected it can be decided that no PRP is paid.

Corporate Governance Committee

In 2014, the Corporate Governance Committee continued to advise the Supervisory Board on improvement of corporate governance of AS Tallinna Vesi for the benefit of its Supervisory Board and shareholders. At the time of compilation of this report, the Corporate Governance Committee consisted of the following members of the Supervisory Board: Mr Allar Jõks is the Chairman of the Corporate Governance Committee, and Mr Karl Heino Brookes and Mr Simon Gardiner are members of the Corporate Governance Committee.

The Management Board

The Management Board is a management body that represents and manages the day-to-day activities of AS Tallinna Vesi in accordance with the law and the Articles of Association of AS Tallinna Vesi. The Management Board is obliged to act in the most economically efficient manner. The Management Board can be composed of two to five members according to the Articles of Association. The Management Board always prepares management reports for Supervisory Board meetings and such reports are disseminated to the Supervisory Board members one week in advance of the meeting, as required by the Commercial Code. The Management Board also reports *ad hoc* to the Supervisory Board ex-meetings, when it is considered necessary as and when requested by the Chairman of the Supervisory Board.

Both the Management Board and Supervisory Board members are deemed to be insiders who are aware of AS Tallinna Vesi's insider rules and together with their related persons are listed in AS Tallinna Vesi's insider list. Until 31 January 2014 the Management Board consisted of four members; between 1 February 2014 and 19 March 2014 the number of members has been three; between 20 March 2014 and 1 June 2014 the number of members has been four; and since 2 June 2014 onwards, including during compilation of this report, the Management Board of AS Tallinna Vesi has consisted of three members. The responsibilities of all Management Board members are specified below. All Management Board members are appointed by the Supervisory Board of AS Tallinna Vesi. The members are as follows:

- Mr Karl Heino Brookes, with the powers of the Management Board member until 20 March 2017;
- Ms Riina Käi, with the powers of the Management Board member until 29 October 2015;
- Mr Aleksandr Timofejev, with the powers of the Management Board member until 29 October 2015.

The duties of the Chairman of the Management Board, Mr. Ian John Alexander Plenderleith until 1 June 2014, and Mr Karl Heino Brookes since 02 June 2014 onwards were, amongst others, to fulfil the everyday obligations of the Chief Executive Officer (CEO) of AS Tallinna Vesi by leading and representing AS Tallinna Vesi, ensuring the compliance with contracts and the law, organizing the activities of the Management Board, coordinating preparation the strategies and ensuring their implementation.

The duties of the member of the Management Board, Mr. Aleksandr Timofejev, are, amongst others, to fulfil the everyday obligations of the Chief Operations Officer (COO) of AS Tallinna Vesi by managing and being responsible for the operations of treatment facilities and planning and delivery of long-term investments; management of AS Tallinna Vesi's water and sewerage networks' everyday operations, as well as being responsible for customer services and relations as well as relations established with external partners.

The duties of the member of the Management Board, Ms. Riina Käi, are, amongst others, to fulfil the everyday obligations of the Chief Financial Officer (CFO) of AS Tallinna Vesi by managing and being responsible for the accounting and financial activities of AS Tallinna Vesi.

Until her leaving on 31 January 2014, the duties of the member of the Management Board, Ms. Ilona Nurmela were, amongst others, to fulfil the role of AS Tallinna Vesi's General Counsel and act as the head of legal and compliance.

AS Tallinna Vesi has signed service contracts with all members of the Management Board. AS Tallinna Vesi has not made any transactions with the members of the Management Board nor their related parties.

According to the Articles of Association of AS Tallinna Vesi, the Chairman of the Management Board has the sole representation right of AS Tallinna Vesi, other Management Board members can represent AS Tallinna Vesi only jointly. In order to make daily decisions, the Management Board has approved a framework of principles, according to which certain management team members are authorized to conclude transactions in small amounts.

The Management Board of AS Tallinna Vesi also acts on behalf of AS Tallinna Vesi as the sole shareholder of OÜ Watercom.

Conformity with Tallinn Stock Exchange Corporate Governance Recommendations

Starting from 1st January 2006, the companies whose shares have been admitted for trading on the regulated market operating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or non-compliance with the Corporate Governance Recommendations. If the issuer does not comply with the Corporate Governance Recommendations, it shall explain the reasons for its non-compliance in the report.

Declaration of Conformity by AS Tallinna Vesi

In 2014, AS Tallinna Vesi has complied with the vast majority of the Corporate Governance Recommendations. However, AS Tallinna Vesi did not comply with certain recommendations, which are listed below together with the reasons for such non-compliance:

'2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector. '

The arrangements undertaken in connection with the privatisation of AS Tallinna Vesi in 2001 provided that, in return for certain fees, United Utilities International Ltd. would provide AS Tallinna Vesi with technical and asset management services and make its personnel available to AS Tallinna Vesi in connection with its operation and management. The working hours, rates of compensation, and all other matters relating to the employment of the individual directly employed by United Utilities International Ltd. are to be determined solely by United Utilities International Ltd., the Supervisory Board does not review the principles of remuneration of this Management Board member.

'2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.

AS Tallinna Vesi does disclose the overall Management Board remuneration in note 24, but considers that individual remuneration is sensitive and private information and additional disclosure would bring no benefit to the shareholders.

'3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.'

Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members. Under the Shareholders` Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be reserved for independent members to be elected to the Supervisory Board as permitted by the Tallinn Stock Exchange on listing in June 2005.

Information Disclosure

'2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer.'

The Management Board Members of AS Tallinna Vesi are not in the Management Boards and Supervisory Boards of other Issuers.

2.3.2. The Supervisory Board shall approve the transactions which are significant to the Issuer and concluded between the Issuer and a member of its Management Board or another person connected/close to them and shall determine the terms of such transactions.

The Supervisory Board approves the remuneration principles of the Management Board. In 2014, there were no other transactions between AS Tallinna Vesi and either any member of the Management Board or any persons or companies related to them.

3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).

According to the decision of the General Meeting the remuneration of Supervisory Board members is set at 6 391 euros per year per person. The fee is paid to six members out of nine. The fee is subject to deduction and payment of applicable taxes and is payable monthly. The Supervisory Board members were not paid any additional benefits in 2014.

3.2.6. If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.

In 2014, five Supervisory Board meetings were held (23 January 2014, 19 March 2014, 24 April 2014, 31 July 2014 and 30 October 2014).

The following members of the Supervisory Board attended more than 50% of the meetings during the time they were appointed or elected in 2014: Mr. Robert John Gallienne, Mr. Steven Richard Fraser, Mr. Simon Gardiner, Mr. Brendan Francis Murphy, Mr. Rein Ratas, Mr. Toivo Tootsen, Mr. Priit Lello, Mr Allar Jõks and Mr. Mart Mägi.

3.3.2. A Supervisory Board member candidate shall inform other members of the Supervisory Board about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him.

All Supervisory Board members are aware of this requirement and at minimum once per annum AS Tallinna Vesi requires all Supervisory Board members to update the record of their business interests. No business transactions took place between AS Tallinna Vesi and either any Supervisory Board member or any persons or companies related to them in 2014.

Management Report which consists of Chairman's statement, Results of operations – for the year 2014, Corporate Governance and Corporate Governance Recommendations Report is an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2014. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of AS Tallinna Vesi.

Name	**Position**	**Signature**	**Date**
Karl Heino Brookes	Chairman of the Management Board		17-2-15
Aleksandr Timofejev	Member of the Management Board		27.02.2015
Riina Käi	Member of the Management Board		27.02.2015

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT CONFIRMATION

The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements of AS Tallinna Vesi (Company) and its subsidiary Watercom OÜ (together referred as Group) for the financial year ended 31 December 2014 on pages 26 to 60.

The financial statements have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of the Group.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Group's assets and liabilities as of 31 December 2014, and of income and expenses during the financial year. These estimates are based on current information about the Group and consider all plans and risks as of 31 December 2014. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 27 February 2015 have been considered in preparing the financial statements.

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

Name	Position	Signature	Date
Karl Heino Brookes	Chairman of the Management Board		27-2-15
Aleksandr Timofejev	Member of the Management Board		27.02.2015
Riina Käi	Member of the Management Board		27.02.2015

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		as of 31 December	
ASSETS	**Note**	**2014**	**2013**
CURRENT ASSETS			
Cash and cash equivalents	6	38 560	31 786
Trade receivables, accrued income and prepaid expenses	7	8 261	15 010
Inventories		412	429
TOTAL CURRENT ASSETS		**47 233**	**47 225**
NON-CURRENT ASSETS			
Other long-term receivables	8	0	2 213
Property, plant and equipment	9	157 481	152 246
Intangible assets	9	862	1 037
TOTAL NON-CURRENT ASSETS		**158 343**	**155 496**
TOTAL ASSETS		**205 576**	**202 721**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings	10	261	2 146
Trade and other payables	11	4 855	4 761
Derivatives	12	1 078	1 816
Prepayments	14	2 631	2 490
TOTAL CURRENT LIABILITIES		**8 825**	**11 213**
NON-CURRENT LIABILITIES			
Deferred income from connection fees		12 567	10 143
Borrowings	10	96 250	93 618
Derivatives	12	761	507
Other payables		23	32
TOTAL NON-CURRENT LIABILITIES		**109 601**	**104 300**
TOTAL LIABILITIES		**118 426**	**115 513**
EQUITY			
Share capital	15	12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		49 138	49 196
TOTAL EQUITY		**87 150**	**87 208**
TOTAL LIABILITIES AND EQUITY		**205 576**	**202 721**

Notes to the financial statements on pages 30 to 60 form an integral part of the financial statements.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		for the year ended 31 December	
	Note	**2014**	**2013**
Revenue	16	53 241	53 087
Costs of goods sold	18	-22 399	-22 505
GROSS PROFIT		**30 842**	**30 582**
Marketing expenses	18	-456	-690
General administration expenses	18	-5 517	-5 060
Other income(+)/ expenses(-)	19	-41	-75
OPERATING PROFIT		**24 828**	**24 757**
Financial income	20	432	681
Financial expenses	20	-2 532	-877
PROFIT BEFORE TAXES		**22 728**	**24 561**
Income tax on dividends	21	-4 785	-4 625
NET PROFIT FOR THE PERIOD		**17 943**	**19 936**
COMPREHENSIVE INCOME FOR THE PERIOD		**17 943**	**19 936**
Attributable profit to:			
Equity holders of A-shares		17 942	19 935
B-share holder		0.60	0.60
Earnings per A share (in euros)	22	0.90	1.00
Earnings per B share (in euros)	22	600	600

Notes to the financial statements on pages 30 to 60 form an integral part of the financial statements.

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PricewaterhouseCoopers, Tallinn

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

CONSOLIDATED STATEMENT OF CASH FLOW

		for the year ended 31 December	
	Note	**2014**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		24 828	24 757
Adjustment for depreciation/amortisation	9,18,19	5 851	5 809
Adjustment for income from government grants and revenue from connection fees	19	-143	-117
Other non-cash adjustments		-33	11
Profit(-)/loss(+) from sale and write off of property, plant and equipment, and intangible assets		145	-138
Change in current assets involved in operating activities		1 165	-433
Change in liabilities involved in operating activities		-364	-92
Total cash flow from operating activities		**31 449**	**29 797**
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment of loan	8	0	3 814
Acquisition of property, plant and equipment, and intangible assets		-9 646	-9 187
Compensations received for construction of pipelines		10 523	7 885
Proceeds from sale of property, plant and equipment, and intangible assets		13	165
Interest received	20	432	693
Total cash flow from in investing activities		**1 322**	**3 370**
CASH FLOWS FROM FINANCING ACTIVITIES			
Received loans	10	20 000	0
Repayment of loans	10	-20 000	0
Interest paid and loan financing costs, incl swap interests	20	-2 995	-3 154
Repayment of finance lease		-216	-136
Dividends paid	21	-18 001	-17 401
Income tax on dividends	21	-4 785	-4 625
Total cash flow used in financing activities		**-25 997**	**-25 316**
Change in cash and cash equivalents		**6 774**	**7 851**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**31 786**	**23 935**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	**38 560**	**31 786**

Notes to the financial statements on pages 30 to 60 form an integral part of the financial statements.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 661**	**84 673**
Dividends (Note 21)	0	0	0	-17 401	-17 401
Comprehensive income for the period (Note 22)	0	0	0	19 936	19 936
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 196**	**87 208**
Dividends (Note 21)	0	0	0	- 18 001	-18 001
Comprehensive income for the period (Note 22)	0	0	0	17 943	17 943
as of 31 December 2014	**12 000**	**24 734**	**1 278**	**49 138**	**87 150**

Notes to the financial statements on pages 30 to 60 form an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

AS Tallinna Vesi (Company) is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 400 000 people in Tallinn and in several neighbouring municipalities of Tallinn. AS Tallinna Vesi has the exclusive right to provide water and sewerage services in Tallinn's main service area until the year 2020. As Tallinna Vesi has been also appointed as a water undertaker till 2025.

Shareholders of AS Tallinna Vesi having a significant influence are, United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Nasdaq OMX Baltic Exchange, in which AS Tallinna Vesi was listed on 1 June 2005

Watercom OÜ (Subsidiary) was founded at 2010 by the Company and its main areas of activity are services related to water business and owner supervision, construction and project management services related to water and sewage.

The Company and the Subsidiary together form a group (Group).

Contacts:

Name	AS Tallinna Vesi	OÜ Watercom
Commercial register number	10257326	11944939
VAT identification number	EE100060979	EE101374619
Address	Ädala 10, 10614 Tallinn	Ädala 10, 10614 Tallinn
Telephone	62 62 200	62 62 620
Fax	62 62 300	62 62 300
E-mail	tvesi@tvesi.ee	watercom@watercom.eu

NOTE 2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements (hereinafter referred to as 'financial statements') are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) (hereinafter IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the accounting policy for derivatives, measured at fair value through profit and loss, as disclosed in the accounting policies below.

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue at 27 February 2015. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of AS Tallinna Vesi and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Adoption of New or Revised Standards and Interpretations

There are no new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact to the Group.

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2015 or later periods and which the Group has not early adopted:

Equity Method in Separate Financial Statements - Amendments to IAS 27, effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU. The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Disclosure Initiative – Amendments to IAS 1, effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU. The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

The Group is currently assessing the impact of the new standards on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Principles of consolidation, accounting for business combinations and subsidiaries

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than one half of the voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. The subsidiary has been consolidated in the Group's financial statements.

In the consolidated financial statements, the financial statements of the subsidiary are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and its subsidiary use uniform accounting policies. Where necessary, the accounting policies of the subsidiary have been changed to ensure consistency with the policies adopted by the Group.

Investment in subsidiary is carried at cost (less any impairment losses) in the separate primary financial statements of the Company.

Foreign currency

Functional and presentation currency

Consolidated financial statements for the year ended 31 December 2014 have been presented in euros.

For the convenience of the users, these financial statements have been presented in thousands of euros, unless stated otherwise.

Foreign currency transactions and balances

All other currencies except for the functional currency (the functional currency of the Parent Company and subsidiary located in Estonia is Euro) constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency (monetary receivables and loans) have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses are recognised in the statement of comprehensive income as income or expenses of that period.

Current and non-current distinction of assets and liabilities

Assets and liabilities are classified in the statement of financial position as current or non-current. Assets expected to be recovered of in the next financial year or during the normal operating cycle of the Group are considered as current. Liabilities whose due date is in the next 12 months or that is expected to be settled in the next financial year or during the normal operating cycle of the Group are considered as current. All other assets and liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and the cash flow statement comprise of cash on hand, cash in bank accounts and short-term, risk free, highly liquid bank deposits with original maturities of three months or less.

Cash flows from operating activities are reported using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash flows from investing and financing activities are reported using the direct method.

Financial assets

Financial assets are cash, trade receivables, accrued income, others current and long-term receivables including the derivatives with positive value.

Financial assets are recorded in statement of financial position at value date (i.e. are recognised when the Group becomes the owner of the financial assets and are derecognised when the Group has transferred substantially all risk and rewards incidental to ownership).
According to the purpose of acquisition and management intentions the financial assets are divided into the following groups:

- Financial assets at fair value through profit or loss
- Receivables and loans
- Investments held-to-maturity
- Financial assets available-for-sale

As of 31 December 2014 and 2013 the Group did not have any investments held-to-maturity and financial assets available-for-sale.

Financial assets held for trading are classified as financial assets at fair value through profit or loss (asset is acquired for the purpose of selling in the near term). Financial assets at fair value through profit or loss are initially recorded at fair value, transaction costs are recorded in the profit or loss. Financial assets of this category are subsequently carried at fair value and gains/losses from changes in fair value are recorded in profit or loss of the period. The quoted market price on balance date is their basis for establishing the fair value of financial assets at fair value through profit or loss.

Loans and receivables are initially recognised at a fair value plus the transaction costs. Loans and receivables are subsequently carried at amortised cost, using effective interest method (less any impairment allowances).

As of 31 December 2014 and 2013 the Company had given no loans.

Receivables

Trade receivables comprise of short term receivables generated in the ordinary course of business. Trade receivables are recorded using at the amortised cost method.

Allowance for receivables is recorded if there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the agreement. Impairment of individually material receivables is evaluated separately for each customer, considering the present value estimated future cash flows. For receivables which are not individually significant and for which there is no direct information that their value has been decreased, the allowance is evaluated collectively using previous years' experience on impairment of receivables. The amount of the allowance for doubtful receivables is the difference between their carrying amount and present value of future cash flows, using effective interest rate method. The carrying amount of receivables is reduced by the impairment loss and impairment loss is recorded in the statement of comprehensive income on the row 'Other income(+)/ expenses(-)'. Subsequent recoveries of doubtful receivables are recorded as a decrease of impairment loss.

Inventories

Inventories are initially recorded at cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and discounts. The weighted-average cost method has been used to determine the cost of inventories. Inventories are carried in the statement of financial position at the lower of the cost and net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

Non-current assets held for sale

Non-current assets held for sale are the property, plant and equipment items that are most probably sold within next 12 months and for which the management has begun sales activity and the assets are offered for sale for a reasonable price compared to their fair value.

Non-current assets held for sale are classified in the statement of financial position as current assets and depreciation ended at the moment of reclassification. Non-current assets held for sale are carried in the statement of financial position at the lower of at book value and fair value less costs to sell.

Property, plant and equipment, and intangible assets

Property, plant and equipment are tangible assets used in operating activities of the Group with an expected useful life of over one year. Property, plant and equipment are carried in the statement of financial position at historical cost less accumulated depreciation and any impairment losses.

Intangible assets are recognised in the statement of financial position only if the following conditions are met:
- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Acquired licenses

Acquired computer software that is not an integral part of the related hardware is recognised as an intangible asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the statement of comprehensive income. Costs of computer software shall be depreciated over the estimated useful lifetime, the duration of which is up to 10 years.

Other intangible assets

Expenses for acquiring patents, trademarks, licences and certificates are capitalized if it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a straight line basis over the estimated useful lifetime, the duration of which does not exceed 10 years.

The cost of purchased property, plant and equipment and intangible assets comprises the purchase price, transportation costs, installation, and other direct expenses (incl. internal labour costs) related to the acquisition or implementation. Labour costs are capitalised with employee's hourly index applied to working hours which are needed for taking the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Hourly rate is calculated individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Group and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced item of property, plant and equipment is derecognised. Costs related to ongoing maintenance and repairs are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset.

Applicable depreciation/amortization rates:
- buildings 1.25-2.0 % per annum;
- facilities 1.0-8.33 % per annum;
- machinery and equipment 3.33-50 % per annum;
- instruments and other equipment etc. 10-20 % per annum;
- acquired licenses and other intangible assets 10-33 % per annum.

In exceptional circumstances rates may differ from the above ranges if it is evident that the estimated useful life of the asset varies materially from the ranges of rates assigned to the respective category.

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate it is treated as a change in the accounting estimate and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes. Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount. To determine profits and losses from the sale of property, plant and equipment the book value of the sold assets is subtracted from the proceeds. The respective profits and losses are reported in the line 'Other income(+)/ expenses(-)'.

Impairment of assets

Assets that are subject to depreciation/amortisation and property, plant and equipment with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable value of intangible assets in progress is tested annually, by comparing their recoverable amount with the carrying amount.

Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount of the assets is the higher of the:
- fair value less costs to sell and
- value in use.

In case it is not possible to determine the fair value of assets less costs to sell, the asset's value in use is considered to be its recoverable value. The value in use is calculated as the present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or a group of assets (cash-generating unit). For the purposes of assessing impairment, the Group is considered to be a single cash-generating unit as it is the lowest level for which there are separately identifiable cash flows. The impairment loss is immediately recognised in the statement of comprehensive income. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

If based on the results of the assessment it appears that the recoverable amount of an asset or the cash-generating unit has increased, the earlier impairment is reversed up to the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recorded in the statement of comprehensive income of the period as a decrease in impairment loss.

Financial liabilities

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long term financial liabilities and derivatives. Financial liabilities (except derivatives) are initially recognised at fair value net of transaction cost. Subsequently financial liabilities are carried at the amortised cost.

Amortised cost of short term financial liabilities is usually equal to their nominal value, thus they are carried on statement of financial position at the amount payable. For calculating the amortised cost of long-term financial liabilities these are initially recognized at fair value of amount received (less transaction costs), interest expense is calculated from the liability using the effective interest method subsequently.

Liabilities are classified as current liabilities, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

Derivatives

With regard to derivatives, the Group uses interest rate swap contracts, in order to mitigate risks related to fluctuations in interest rates. Such derivatives are initially recognised at their fair value at the date of entering into the contract and are subsequently carried at fair value with changes recognised in profit or loss. If fair value is positive, the derivative is recognised as an asset, if negative, as a liability. Derivatives are classified as a current asset or liability if expected to be settled within 12 months; otherwise, they are classified as non-current.

Gains and losses attributable to changes in the fair value of derivatives are recognised in the statement of comprehensive income of the reporting period. Gains and losses from the disposal of derivatives are also recognised in the statement of comprehensive income.

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise.

Income tax on dividends in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. In 2014, the rate was 21/79 on the amount of the dividends payable (2013: 21/79). In 2015, the rate is 20/80.

The contingent tax liability that would occur if all distributable retained earnings were paid out as dividends is not recognized in the statement of financial position. The income tax due on dividend distribution is recorded as a liability and as a tax expense in the statement of comprehensive income during the same period as the dividend is declared regardless of the actual payment date or the period for which dividends are declared. Income tax liability is due on the 10th date of the month following the dividend payment.

Employee benefits

Employee short-term benefits

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable within 12 months after the end of the period during which the employee worked. Social security tax payments include contribution to state pension funds. The Group has no legal or constructive obligation to make pension or similar payments beyond social security tax.

Termination benefits

Termination benefits are benefits which are payable after the Group decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily or when the employee and employer have an agreement, in exchange for the benefits outlined. The Group recognises termination benefits as liabilities and expenses only when the Group is obliged to offer termination benefits in order to encourage voluntary leaving.

Provisions and contingent liabilities

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

The amount of servitudes likely payable that henceforth must be paid to the owners of private land resulting from the restrictions related to land use in case the Group's pipes are located on their land, are recorded as provisions. On the statement of financial position the liability is classified as short-term, because it can be realized to full extent within 12 months from the balance date.

Provisions have been recognised based on of the best estimates of the Group's Management Board and the actual costs of these transactions can differ from the provided estimates. Commitments and other possible and existing liabilities, the realization of which is unlikely or the amount of accompanying costs cannot be assessed with sufficient reliability but which can become liabilities on certain terms in the future, are disclosed as contingent liabilities in the notes to the financial statements.

Share capital

Shares are recorded within the equity capital. Pursuant to the Group's Articles of Association, the Group has two classes of shares: the A-Shares, with a nominal value of 0.60 euros each and a single preference share B-Share, with a nominal value of 60 euros.

Statutory reserve capital

Pursuant to the requirements of the Commercial Code the statutory reserve capital is set up comprising of the allocations from net profits. The annual allocation must be at least 5% of the net profit of the accounting year until the reserve capital is equal to 10% of paid-up share capital. As the Group's reserve capital has reached the required level, the reserve capital is no longer increased from net profit.

At the decision of the General Meeting of the Shareholders the reserve capital can be used for the covering of loss in case it is not possible to cover it from the Group's available shareholders' equity, also for increasing the Group's share capital. The reserve capital cannot be distributed to the shareholders.

Leases

A lease is an agreement whereby the lesser conveys to the lessee in return for a payment or series payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

The Group as the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the statement of comprehensive income. The finance lease liability is recognised either within short or long-term borrowing in the statement of financial position. Payments made under operating leases are charged to the statement of comprehensive income over the lease term on a linear basis.

Revenue

Revenue is recognised at the fair value of consideration received or receivable, net of VAT and sales discounts. Revenue comprises sales of services.

Sales of water, wastewater, storm water and fire hydrants services and other sales income is recorded in the period when the service has been provided, the amount of the revenue and cost incurred for the transaction can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity.

Connection fees received from customers are recognised as income during the period of the duration of useful life of related assets which is 75 years. The acquisition costs of pipelines taken into use and the connection fees received from customers are recorded respectively on the statement of financial position as 'Property, plant and equipment' and 'Deferred income from connection fees'. Income/expense from amortization of assets and liabilities is respectively recorded as 'Other income(+)/ expenses(-)'.

Interest income is recognised in case the receipt of income is likely and the amount of income can be determined reliably. Interest income is recognised using the effective interest method.

Earnings per share

Earnings per share are calculated by dividing the net profit of the accounting year with the weighted average number of issued shares of the period. The Group has no instruments that would have a diluting effect on the earnings per share.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board, being the chief operating decision-maker. The Management Board, who is responsible for allocating resources and assessing performance of the operating segments, reports to the Supervisory Board which has been identified as the steering committee that makes strategic decisions. The Management Board has determined that the activities of the Group form a single operating segment. The internal reporting reviewed by the Supervisory Board and the Management Board is prepared using the same accounting principles and format of statement of financial position and statement of comprehensive income as provided in these consolidated financial statements.

NOTE 3. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

The management has evaluated the amount of the contingent liability as of 31 December 2014 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 40.1 mln euros (31 December 2013: 34 mln euros) that could be claimed within 10 years of the final judgement of the courts.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of material misstatements to the carrying amounts of assets and liabilities within the next financial year are addressed below.

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the note 2 in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in note 9.

- As of 31 December 2014 Group owns property, plant and equipment, and intangible assets with a book value of 158.3 mln euros (31 December 2013: 153.3 mln euros) and annual depreciation was 5.9 mln euros (2013: 5.8 mln euros). If the depreciation/amortization rates decreased/increased by 5%, the depreciation/amortization expense would increase/decrease respectively by 293 thousand euros (2013: 290 thousand euros).

- The Group undertook to construct water and wastewater and storm water pipelines with construction costs of 41 mln euros in 2008-2012. The construction of pipelines is compensated by local government with the grants receivable in 2008 – 2015. Compensations received from local government are recognised as government grants - compensations received or receivable are deducted from the book value of the constructed pipeline. Any amount exceeding the construction cost of the pipeline is recognized as income upon the completion of construction works. The part of the compensation that is received after the completion of the construction works is recognized in the statement of financial position as a receivable from local government at its present value. The compensation receivable has been discounted using a rate of 3.5% (2013: 3.5%). If the discount rate would be decreased/increased by 50 basis points, the profit of the accounting period would increase/decrease up to 2 thousand euros (2013: up to 36 thousand euros).

- Accounts receivable - for the evaluation of doubtful debts the individual debts are grouped by age and, based on past experience, the following percentages are applied in the doubtful debt calculation:

61 to 90 days over due date	10%;
91 to 180 days over due date	30%;
181 to 360 days over due date	70%;
over 360 days over due date	100%.

Impairment of individually material receivables can differ from the rates above.

NOTE 5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

In its business activities the Group is exposed to different financial risks: market risk (including currency risk, price risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's financial risks are managed under the control and supervision of the Management Board by the financial department. Financial department identifies, evaluates and manages financial risks in co-operation with the Group's operating units.

Market risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group's foreign exchange risk is related to purchases done and amounts owed in foreign currencies.

Majority of Group's purchases are made in euros. The proportion of purchases in other currencies in 2014 was 2.0% (2013: less than 2.0%). Because of the small proportion of transactions in foreign currencies the Group has not taken any special activities to reduce this risk.

On 31 December 2014 the Group's bank accounts balances (including deposits) totalled 38 560 thousand euros (31 December 2013: 31 786 thousand euros) from which no sums were in foreign currencies (31 December 2013: no foreign currencies). There were no other significant exposures to foreign currencies arising from Group's other financial assets and financial liabilities.

Due to the above the Group considers its currency risk level to be low.

Price risk

The Group has no price risk regarding financial instruments because it has no investments into equity instruments.

Cash flow interest rate risk and fair value interest rate risk

The Group's interest rate risk arises mostly from long-term borrowings. Borrowings issued at variable interest rates (Note 10) expose the Group to cash flow interest rate risk. The Group's policy is to maintain approximately 80% of its borrowings at fixed rate. In order to mitigate the cash flow interest rate risk, the Group has concluded 6 (2013: 6) floating-to-fixed interest rate swap contracts (Note 12). As of 31 December 2014 the interest rate swap contracts have the notional amount of 90 mln euros (31 December 2013: 90 mln euros), with one contract becoming effective in November 2015 (in amount of 15 mln euros), therefore only borrowings in the amount of 19.9 mln euros from total of 94.9 mln euros (31 December 2013: 19.9 mln euros from total of 94.9 mln euros) remain exposed to the cash flow interest rate risk.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

As of 31 December 2014, if the interest rates of the Group's borrowings, that are exposed to the cash flow interest rate risk, had been 50 basis points (31 December 2013: 50 basis points) higher/lower with all other variables held constant, profit for the year would have been EUR 97 thousand (2013: EUR 101 thousand) lower/higher.

Overnight and fixed term deposits have fixed interest rate and therefore expose the Group to fair value interest rate risk. As all these instruments are carried at amortised cost, the change in market interest rates would not have an effect on the financial statements of the Group.

Credit risk

Credit risk expresses potential loss that can arise if counterparty fails to fulfil its contractual obligations. Cash in bank accounts and deposits, financial assets at fair value through profit and loss, trade and other receivables are exposed to credit risk.

According to the Group's risk management policies the Group's short term resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in credit institutions. For fixed term depositing counterparties with at least a long term Baa1 rating (by Moody's) is used. As of 31 December 2014 100% of Group's fixed term deposits were deposited with counterparty with higher rating than A3 (31 December 2013: 85% higher than A3). The Group is also monitoring European Banking Authority's recommendations regarding banks' recapitalization needs and fixed term deposits are opened only in banks with no capitalization shortfall.

Sales of Group's products and services is done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers' payment discipline is consistently observed. In the case of overdue debt the clients are contacted by billing group. At the end of December 2014 only one client's (31 December 2013: one client's) receivables (Note 24) exceeded 5% of total trade receivables constituting 7.8% of it (31 December 2013: 8.4%).

Financial assets

as of 31 December 2014	**Balance**	**Not due**	**Overdue** Not impaired (up to 2 months)	Impaired	Impairment
Cash and cash equivalents (Note 6)	38 560	38 560	0	0	0
Trade receivables (Note 7)	6 403	6 244	125	128	-94
Commercial entities	3 112	3 013	82	89	-72
Private persons	3 291	3 231	43	39	-22
Accrued income (Note 7)	9	9	0	0	0
Government grant receivable (Note 7, 8, 24)	1 577	1 577	0	0	0
Total	**46 549**	**46 390**	**125**	**128**	**-94**

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as of 31 December 2013	**Balance**	**Not due**	**Overdue** Not impaired (up to 2 months)	Impaired	Impairment
Cash and cash equivalents (Note 6)	31 786	31 786	0	0	0
Trade receivables (Note 7)	6 495	6 271	184	408	-368
Commercial entities	3 321	3 147	143	362	-331
Private persons	3 174	3 124	41	46	-37
Accrued income (Note 7)	9	9	0	0	0
Loan to co-partner and other long-term account receivables (Note 7, 8)	52	52	0	0	0
Government grant receivable (Note 7, 8, 24)	10 315	10 315	0	0	0
Total	**48 657**	**48 433**	**184**	**408**	**-368**

The Group's maximum credit risk is equal to the carrying amount of the financial assets and is considered to be low.

Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations due to insufficient cash funds or inflows. This risk realizes when the Group does not have enough funds to serve its loans, to fulfil its working capital needs, to invest and/or to make declared dividend payments.

Financial liabilities in terms of payment (undiscounted amounts):

as of 31 December 2014	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Trade and other payables	1 955	464	6	0	10	2 435
Derivatives	1 078	0	0	761	0	1 839
Borrowings (incl finance lease)	88	190	1 026	85 477	14 917	101 698
Total	**3 121**	**654**	**1 032**	**86 238**	**14 927**	**105 972**

as of 31 December 2013	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Trade and other payables	2 003	38	0	0	10	2 051
Derivatives	1 816	0	0	507	0	2 323
Borrowings (incl finance lease)	87	187	3 039	94 929	2 010	100 252
Total	**3 906**	**225**	**3 039**	**95 436**	**2 020**	**104 626**

In liquidity risk management the Group has taken a prudent view, maintaining sufficient cash balance and short term deposits to be able to fulfil its financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Group.

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5.2 Capital management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern, to be in accordance with Business Plan's capital structure approved by Supervisory Board and the long-term borrowing contracts that limit the Company's equity ratio to a minimum of 35% of the total assets.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (Note 10; including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents (Note 6). Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

		as of 31 December
	2014	**2013**
Borrowings	96 511	95 764
Cash	-38 560	-31 786
Net debt	**57 951**	**63 978**
Equity	**87 150**	**87 208**
Total capital	**145 101**	**151 186**
Net debt to total capital ratio	39.9%	42.3%
Total assets	205 576	202 721
Proportion of equity from total assets	42.4%	43.0%

5.3 Fair value estimation

Fair values of cash and cash equivalents, trade receivable, other long-term receivables, short-term borrowings and trade payable do not vary significantly from their carrying amount because their realization will take place within 12 months or these were recognised close to the balance sheet date. The fair values of the government grant receivables have been measured using unobservable inputs (level 3) (Note 4).

At the end of 2014 all Group's long-term borrowings had floating interest rates. The fair values of long-term borrowings are based on discounted cash flows using the borrowing rate of 0.97% - 1.12% (2013: 1.66% - 1.84%) and are within level 3 of the fair value hierarchy. As of 31 December 2014, the fair value of the Group's long-term borrowings was 68 thousand euros higher than their carrying amount (31 December 2013: 948 thousand euros smaller).

The fair value of financial instruments carried at fair value (interest rate swap contracts, Note 12) has been determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of interest rate swap contracts is calculated as the present of estimated future cash flows based on observable yield curves.

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NOTE 6. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2014	**2013**
Cash in hand and in bank	13 358	3 295
Short-term deposits	25 202	28 491
Total cash and cash equivalents	**38 560**	**31 786**

NOTE 7. TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES

	as of 31 December	
	2014	**2013**
Accounts receivable	6 497	6 863
Allowance for doubtful receivables	-94	-368
Total trade receivables	**6 403**	**6 495**
Allowance for doubtful receivables at the beginning of the period	**-368**	**-499**
Proceeds from doubtful receivables during the period	249	211
Allowance for doubtful receivables recognised during the period	-108	-166
Receivables written off balance sheet during the period	133	86
Allowance for doubtful receivables at the end of the period	**-94**	**-368**

Impairment losses recognised during the period are reported in profit or loss as 'Other income(+)/ expenses(-)'. For further information on ageing of receivables (including overdue receivables), please see Note 5.

	as of 31 December	
	2014	**2013**
Accrued interest	9	9
Government grant receivables (Note 24)	1 577	8 154
Other accrued income	11	0
Prepaid expenses	261	352
Total accrued income and prepaid expenses	**1 858**	**8 515**
Total trade receivables, accrued income and prepaid expenses	**8 261**	**15 010**

The Company's current assets (incl. trade receivables, accruals and inventory) in the amount of 8 477 thousand euros (31 December 2013: 15 439 thousand euros) have been pledged as a security for the bank loans (Note 10), as a part of commercial pledge.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

NOTE 8. OTHER LONG-TERM RECEIVABLES

	as of 31 December	
	2014	**2013**
Government grant receivables (Note 24)	0	2 161
Long-term accounts receivables	0	52
Total other long-term receivables	**0**	**2 213**

As of 31 December 2014 no long term receivables had been pledged as a security to the bank loans (Note 10) as part of the commercial pledge (31 December 2013: 2 213 thousand euros).

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NOTE 9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment				Assets in progress			Intangible assets	
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Unfinished pipelines	Unfinished intangible assets	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
as of 31 December 2012									
Acquisition cost	24 793	167 389	44 018	1 302	2 258	1 040	25	5 899	246 724
Accumulated depreciation	-5 384	-55 543	-29 611	-862	0	0	0	-4 770	-96 170
Book value	**19 409**	**111 846**	**14 407**	**440**	**2 258**	**1 040**	**25**	**1 129**	**150 554**
Transactions in the period 01 January 2013 - 31 December 2013									
Acquisition in book value	0	0	0	0	6 127	2 103	421	0	8 651
Write off and sales of property, plant and equipment, and intangible assets in book value	0	0	-7	-8	0	-99	0	1	-113
Reclassification	58	7 724	2 030	52	-7 808	-2 056	-419	419	0
Depreciation (Note 18, 19)	-278	-2 717	-2 195	-80	0	0	0	-539	-5 809
as of 31 December 2013									
Acquisition cost	24 851	175 032	44 874	1 321	577	988	27	5 517	253 187
Accumulated depreciation	-5 662	-58 179	-30 639	-917	0	0	0	-4 507	-99 904
Book value	**19 189**	**116 853**	**14 235**	**404**	**577**	**988**	**27**	**1 010**	**153 283**

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	Property, plant and equipment				Assets in progress			Intangible assets	Total property, plant and equipment and intangible assets
	Land and buildings	**Facilities**	**Machinery and equipment**	**Other equipment**	**Construction in progress**	**Unfinished pipelines**	**Unfinished intangible assets**	**Acquired licenses and other intangible assets**	
Transactions in the period 01 January 2014 - 31 December 2014									
Acquisition in book value	0	0	0	0	8 428	2 475	166	0	11 069
Write off and sale of property, plant and equipment, and intangible assets in book value	0	-7	-47	0	-17	-87	0	0	-158
Reclassification	839	6 544	2 961	61	-8 300	-2 105	-118	118	0
Depreciation (Note 18, 19)	-279	-2 760	-2 389	-82	0	0	0	-341	-5 851
as of 31 December 2014									
Acquisition cost	25 689	181 365	47 206	1 359	688	1 271	75	5 013	262 666
Accumulated depreciation	-5 940	-60 735	-32 446	-976	0	0	0	-4 226	-104 323
Book value	**19 749**	**120 630**	**14 760**	**383**	**688**	**1 271**	**75**	**787**	**158 343**

Property, plant and equipment and intangible assets are written off if the condition of the asset does not enable further usage for production purposes. As of 31 December 2014 the book value of the assets (Machinery and equipment) leased under financial lease is 1 664 thousand euros (31 December 2013: 861 thousand euros).

The Group's non-current assets in the amount of 13 515 thousand euros (31 December 2013: 14 287 thousand euros) have been pledged as a security for the bank loans (Note 10), as a part of commercial pledge. A mortgage for the Group's non-current assets (land, buildings and facilities) in the book value amount of 31 422 thousand euros (31 December 2013: 32 147 thousand euros) serves as a security to the bank loans (Note 10).

During the year, the Group has capitalised borrowing costs amounting to 24 thousand euros (2013: 31 thousand euros) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 1.11% (2013: 1.13%).

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NOTE 10. BORROWINGS

	as of 31 December 2014	2013
Current borrowings		
Current portion of long-term bank loans	0	2 000
Current portion of long-term finance lease liabilities	261	146
Total current borrowings	**261**	**2 146**
Non-current borrowings		
Long-term bank loans	94 917	92 934
Long-term finance lease liabilities	1 333	684
Total non-current borrowings	**96 250**	**93 618**

Bank loans at 31 December 2014

Currency EUR (euro)	**Balance**	**Effective interest rate**
Borrowings at floating interest rate (based on 1- and 6-month Euribor)	94 917	0.75%-1.64%
Finance lease liabilities	1 594	1.21%-3.05%

Bank loans at 31 December 2013

Currency EUR (euro)	**Balance**	**Effective interest rate**
Borrowings at floating interest rate (based on 1- and 6-month Euribor)	94 934	0.93%-1.66%
Finance lease liabilities	830	2.27%-3.05%

In May 2014, the Group refinanced a loan in the amount of 20 million euros. Old loan was repaid and a new loan in the amount of 20 million euros was acquired. In December 2014, the Group extended the loan agreement which originally would have become due in November 2015. The new maturity date is November 2020. The Group's loan agreements mature in November 2018 (31 December 2013: November 2015) in the amount of 37.5 million euros and in November 2020 (31 December 2013: November 2018) in the amount of 37.5 million euros, the third loan agreement in the amount of 20 million euros will be repaid in eleven equal semi-annual repayments from November 2019 to November 2024 (31 December 2013: November 2014 to May 2019).

Collateral of loans and pledged assets

Type of collateral	**Specification and location of collateral**	**Collateral at book value as of 31 December 2014**	**2013**
Commercial pledge	Movables of the Company	21 992	31 939
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	31 422	32 147

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NOTE 11. TRADE AND OTHER PAYABLES

	for the year ended 31 December	
	2014	**2013**
Trade payables - operating expenditures	1 522	1 564
Trade payables - capital expenditures	636	214
Payables to related parties (Note 24)	199	197
Payables to employees	699	900
Interest payable	44	33
Other accrued expenses	68	65
Warranty reserve	72	26
<u>Taxes payable incl:</u>		
Income tax	150	141
VAT	487	823
Water abstraction charges	267	257
Pollution taxes	346	209
Social security tax	299	283
Other	66	49
Total trade and other payables	**4 855**	**4 761**

NOTE 12. DERIVATIVES

Liabilities	**Balance amount**	**Short-term portion**	**Long-term portion**
as of 31 December 2014			
SWAP contracts	**1 839**	1 078	761
as of 31 December 2013			
SWAP contracts	**2 323**	1 816	507

		as of 31 December
	2014	**2013**
Contracts start date	May 2010 – November 2015	May 2010 – November 2015
Contracts maturity date	May 2015 – November 2018	May 2015 – November 2018
Contracts notional amount	90 000	90 000

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NOTE 13. OTHER CONTINGENT LIABILITIES

Tax authority have got the right to review to the Group's tax accounting within 5 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

The Group's distributable retained earnings as at 31 December 2014 amounted to 49 138 thousand euros (2013: 49 196 thousand euros). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 12 285 thousand euros (2013: 13 077 thousand euros).

NOTE 14. PREPAYMENTS

	as of 31 December	
	2014	**2013**
Prepayments for water and sewerage services	64	55
Prepayments for connection fee	2 567	2 435
Total prepayments	**2 631**	**2 490**

NOTE 15. SHARE CAPITAL

At 31 December 2014 the nominal value of the share capital was 12 000 060 (twelve million and sixty) euros, composed of 20 000 000 (twenty million) A-shares with the nominal value of 0.60 euros (sixty eurocents) per share and 1 (one) preferred B-share with a nominal value of 60 (sixty) euros.

The B-share has been issued with the right of veto to the shareholder when voting on the following issues: amending the Articles of Association, increase and decrease of share capital, issuance of convertible bonds, acquisition of own (treasury) shares, deciding on the merger, division, transformation and/or dissolution of AS Tallinna Vesi and deciding other issues related to the activities of the AS Tallinna Vesi that have not been placed in the sole competence of the General Meeting by law that either the Management Board or the Supervisory Board have put to the vote of the General Meeting. In 2014 and 2013, the B-share granted the holder the preferential right to receive a dividend in an agreed amount of 600 (six hundred) euros.

The General Meeting of the Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. The Management Board does not have any respective authorities.

As of 31 December 2014 and 2013 United Utilities (Tallinn) B.V. owned 7 060 870 (35.3%) A-shares, the City of Tallinn owned 6 939 130 (34.7%) A-shares and 1 (one) B-share, with 6 000 000 shares in free float. Other direct shareholders each owned less than 5% of the shares as of 31 December 2014 and 2013.

As of 31 December 2014 from all Supervisory Board and Management Board members Riina Käi owned 100 shares (2013: Riina Käi 100 shares). Dividends declared and paid are disclosed in note 21.

Contingent income tax on the dividend payments from retained earnings is described in note 13.

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NOTE 16. REVENUE

Revenues from main operating activities	for the year ended 31 December 2014	2013
Total water supply and waste water disposal service, incl:	48 598	47 737
Private clients, incl:	24 154	23 642
Water supply service	13 303	13 022
Waste water disposal service	10 851	10 620
Corporate clients, incl:	19 085	19 053
Water supply service	10 664	10 585
Waste water disposal service	8 421	8 468
Outside service area clients, incl:	4 520	4 308
Water supply service	1 153	1 095
Waste water disposal service	2 957	2 730
Storm water disposal service	410	483
Over pollution fee	839	734
Storm water treatment and disposal service	3 073	3 424
Construction service and design	925	1 146
Other works and services	645	780
Total revenues	**53 241**	**53 087**

100% of AS Tallinna Vesi revenue was generated within the Estonian Republic.

NOTE 17. STAFF COSTS

	for the year ended 31 December 2014	2013
Salaries and wages (Note 18)	-5 255	-5 233
Social security and unemployment insurance taxation	-1 750	-1 744
Total staff costs	**-7 005**	**-6 977**
Number of employees at the end of reporting period	**321**	**304**

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NOTE 18. COST OF GOODS SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

	for the year ended 31 December	
	2014	**2013**
Cost of goods sold		
Water abstraction charges	-1 057	-997
Chemicals	-1 737	-1 734
Electricity	-3 032	-3 392
Pollution tax	-2 163	-1 872
Staff costs (Note 17)	-4 880	-4 833
Depreciation and amortization	-5 370	-5 115
Construction service and design	-775	-947
Other costs of goods sold	-3 385	-3 615
Total cost of goods sold	**-22 399**	**-22 505**
Marketing expenses		
Staff costs (Note 17)	-340	-375
Depreciation and amortization	-63	-244
Other marketing expenses	-53	-71
Total marketing expenses	**-456**	**-690**
Administrative expenses		
Staff costs (Note 17)	-1 785	-1 769
Depreciation and amortization	-287	-339
Other general administration expenses	-3 445	-2 952
Total administrative expenses	**-5 517**	**-5 060**

NOTE 19. OTHER INCOME / EXPENSES

	for the year ended 31 December	
	2014	**2013**
Connection fees	143	117
Depreciation of single connections	-131	-111
Doubtful receivables expenses(-)/expense reduction(+)	141	45
Other income(+)/expenses(-)	-194	-126
Total other income / expenses	**-41**	**-75**

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NOTE 20. FINANCIAL INCOME AND EXPENSES

	for the year ended 31 December	
	2014	**2013**
Interest income	432	681
Interest expense, loan	-1 137	-1 087
Interest expense, swap	-1 846	-2 024
Increase/decrease of fair value of swap	483	2 255
Other financial income(+)/expenses(-)	-32	-21
Total financial income / expenses	**-2 100**	**-196**

NOTE 21. DIVIDENDS

	for the year ended 31 December	
	2014	**2013**
Dividends declared during the period	18 001	17 401
Dividends paid during the period	18 001	17 401
Income tax on dividends paid	-4 785	-4 625
Income tax accounted for	**-4 785**	**-4 625**

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

Paid-up dividends per shares:		
Dividends per A-share (in euros)	0.90	0.87
Dividends per B-share (in euros)	600	600

NOTE 22. EARNINGS PER SHARE

	for the year ended 31 December	
	2014	**2013**
Net profit minus B-share preferred dividend rights	17 942	19 935
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000
Earnings per A share (in euros)	0.90	1.00
Earnings per B share (in euros)	600	600

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

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NOTE 23. OPERATING LEASE

Leased assets	**for the year ended 31 December**	
	2014	**2013**
Total operating lease expenses for vehicles	332	415
Operating lease (compensated by customers)	845	808

Following periods operating lease payments from the non-cancellable contracts are as follows:	**as of 31 December**	
	2014	**2013**
Less than 1 year	58	199
1-5 years	133	224
Total minimum lease payments	**191**	**423**

The underlying currency of all lease contracts is euro. Leased assets have not been subleased.

NOTE 24. RELATED PARTIES

Transactions with related parties are considered to be transactions with members of the Group's 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 December	
Balances recorded in on the statement of financial position of the Group	**2014**	**2013**
Accounts receivable	503	550
Government grant receivables (Note 7)	1 577	8 154
Long-term government grant receivables (Note 8)	0	2 161
Trade and other payables (Note 11)	199	197

	for the year ended 31 December	
Transactions	**2014**	**2013**
Revenue	3 073	3 424
Purchase of administrative and consulting services	1 041	1 020
Financial income	327	434
Short-term employee benefits to the Group's Management Board (excluding social tax)	170	213
The Group's Supervisory Board fees (excluding social tax)	39	40

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

The Group's Management Board and Supervisory Board members are considered as key management personnel who have received only the contractual salary payments as disclosed above. In addition to this some Board Members have received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees. Such compensations are recorded as purchase of administrative and consulting services.

38 thousand euros were paid to the Management Board members as termination fees in the year that ended on 31 December 2014 (in the year that ended on 31 December 2013: 18 thousand euros). The off balance sheet potential salary liability would be up to 69.3 thousand euros (excluding social tax) if the Supervisory Board would replace all Management Board members.

The Group's Management Board or Supervisory Board members do not have more than 5% shareholding in any of the companies having important business or cooperation relations with the Group.

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 15. Paid-up dividends are described in note 21.

NOTE 25. SUBSIDIARIES

			Holding (%) as of 31 December	
			2014	**2013**
Subsidiary	**Location**	**Activity**		
Watercom OÜ	Tallinn, Estonia	Provision of construction and other services related to water business	100	100

AS Tallinna Vesi registered Watercom OÜ on 25th May 2010.

NOTE 26. SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY OF THE GROUP

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

The separate reports on the Parent Company

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

STATEMENT OF FINANCIAL POSITION

	as of 31 December	
ASSETS	**2014**	**2013**
CURRENT ASSETS		
Cash and cash equivalents	37 964	29 879
Trade receivables, accrued income and prepaid expenses	8 062	14 579
Receivables from subsidiary	41	39
Inventories	374	424
TOTAL CURRENT ASSETS	**46 441**	**44 921**
NON-CURRENT ASSETS		
Other long-term receivables	0	2 212
Investment in subsidiary	527	527
Property, plant and equipment	159 178	153 305
Intangible assets	837	1 003
TOTAL NON-CURRENT ASSETS	**160 542**	**157 047**
TOTAL ASSETS	**206 983**	**201 968**
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current portion of long-term borrowings	131	2 042
Trade and other payables	4 008	4 080
Derivatives	1 078	1 816
Payables to subsidiary	1 127	743
Prepayments and deferred income	2 629	2 488
TOTAL CURRENT LIABILITIES	**8 973**	**11 169**
NON-CURRENT LIABILITIES		
Deferred income from connection fees	12 567	10 144
Borrowings	95 209	92 959
Derivatives	760	507
Other payables	10	9
TOTAL NON-CURRENT LIABILITIES	**108 546**	**103 619**
TOTAL LIABILITIES	**117 519**	**114 788**
EQUITY		
Share capital	12 000	12 000
Share premium	24 734	24 734
Statutory legal reserve	1 278	1 278
Retained earnings	51 452	49 168
TOTAL EQUITY	**89 464**	**87 180**
TOTAL LIABILITIES AND EQUITY	**206 983**	**201 968**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

STATEMENT OF COMPREHENSIVE INCOME

	for the year ended 31 December	
	2014	**2013**
Revenue	52 184	51 693
Costs of goods sold	-21 657	-21 578
GROSS PROFIT	**30 527**	**30 115**
Marketing expenses	-456	-690
General administration expenses	-5 312	-4 734
Other income(+)/ expenses(-)	-15	-76
OPERATING PROFIT	**24 744**	**24 615**
Financial income	2 326	2 932
Financial expenses	-2 505	-3 109
PROFIT BEFORE TAXES	**24 565**	**24 438**
Income tax on dividends	-4 280	-4 625
NET PROFIT FOR THE PERIOD	**20 285**	**19 813**
COMPREHENSIVE INCOME FOR THE PERIOD	**20 285**	**19 813**
Attributable profit to:		
Equity holders of A-shares	20 284	19 812
B-share holder	0.60	0.60
Earnings per A share (in euros)	0.90	0.99
Earnings per B share (in euros)	600	600

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

CASH FLOW STATEMENT

	for the year ended 31 December	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	24 743	24 614
Adjustment for depreciation/amortisation	5 696	5 660
Adjustment for income from government grants and connection fees	-143	-117
Other non-cash adjustments	-33	27
Profit(-)/loss(+) from sale and write off of property, plant and equipment, and intangible assets	75	-134
Change in current assets involved in operating activities	962	-210
Change in liabilities involved in operating activities	-140	-383
Total cash flow from operating activities	**31 160**	**29 457**
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of loan	0	3 814
Acquisition of property, plant and equipment, and intangible assets	-10 674	-10 284
Compensations received for construction of pipelines	10 523	7 884
Proceeds from sale of property, plant and equipment, and intangible assets	50	159
Interest received	426	691
Total cash flow used in investing activities	**325**	**2 264**
CASH FLOWS FROM FINANCING ACTIVITIES		
Received loans	20 000	0
Repayment of loans	-20 000	0
Interest paid and loan financing costs	-2 968	-3 130
Repayment of finance lease	-51	-40
Dividends received	1 900	0
Dividends paid	-18 001	-17 401
Income tax on dividends	-4 280	-4 625
Total cash flow used in financing activities	**-23 400**	**-25 196**
Change in cash and cash equivalents	**8 085**	**6 525**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**29 879**	**23 354**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	**37 964**	**29 879**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 756**	**84 673**
Dividends	0	0	0	-17 401	-17 401
Comprehensive income for the period	0	0	0	19 813	19 813
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 168**	**87 180**
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	555
Adjusted unconsolidated equity as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 168**	**87 208**
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 168**	**87 208**
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	20 285	20 285
as of 31 December 2014	**12 000**	**24 734**	**1 278**	**51 452**	**89 464**
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
Adjusted unconsolidated equity as of 31 December 2014	**12 000**	**24 734**	**1 278**	**51 452**	**88 937**

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Kuupäev/date 27.02.15
PricewaterhouseCoopers, Tallinn

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (thousand EUR)

CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 27 February 2015. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report, the financial statements and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

The annual report has signed by all the members of the Management Board and Supervisory Board.

Name	Position	Signature	Date
Karl Heino Brookes	Chairman of the Management Board		27-2-15
Aleksandr Timofejev	Member of the Management Board		27.02.2015
Riina Käi	Member of the Management Board		27.02.2015
Simon Roger Gardiner	Chairman of the Supervisory Board		26.03.2015
Steven Richard Fraser	Member of the Supervisory Board		26.03.2015
Martin Padley	Member of the Supervisory Board		26.03.2015
Brendan Francis Murphy	Member of the Supervisory Board		26.03.2015
Mart Mägi	Member of the Supervisory Board		26.03.2015
Rein Ratas	Member of the Supervisory Board		26.03.2015
Toivo Tootsen	Member of the Supervisory Board		26.03.2015
Allar Jõks	Member of the Supervisory Board		
Priit Lello	Member of the Supervisory Board		26.03.2015

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Tallinna Vesi

We have audited the accompanying consolidated financial statements of AS Tallinna Vesi and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Tallinna Vesi and its subsidiary as of 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

We draw attention to Note 3 to these consolidated financial statements, which describe the uncertainty related to the outcome of the lawsuit between AS Tallinna Vesi and Estonian Competition Authority. Our opinion is not qualified in respect of this matter.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No. 325

Stan Nahkor
Auditor's Certificate No. 508

27 February 2015

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*