# AS TALLINNA VESI

## Consolidated Interim Report for the 1st half-year of 2017

28th July 2017

| | |
|---|---|
| Currency | Thousand euros |
| Start of reporting period | 1 January 2017 |
| End of reporting period | 30 June 2017 |
| Address | Ädala St. 10, Tallinn, Estonia |
| Chairman of the Management Board | Karl Heino Brookes |
| Commercial register number | 10 257 326 |
| Telephone | +372 62 62 200 |
| Telefax | +372 62 62 300 |
| E-mail | tvesi@tvesi.ee |
| Web page | www.tallinnavesi.ee |
| Field of activity | Production, treatment and distribution of water; storm and wastewater disposal and treatment |

# Contents

# MANAGEMENT REPORT

## CHAIRMAN'S SUMMARY

Tallinna Vesi has had successful first 6 months in 2017, with respect to both operational and financial performance.

### Consistently high quality of drinking water and final effluent

We are very pleased with our performance regarding water quality, which is further reinforced by the results of the drinking water samples taken from the customers' taps that were 99.93% compliant with all the required quality standards.

99.93%

Compliance of water quality at the customers' tap is consistently high (2016 – 99.93%).

Together with consistent high-quality water supplied from our treatment plant on the shore of lake Ülemiste, we further safeguard this quality at the consumers tap, by completing annual preventative maintenance and targeted capital investments. This helps to ensure the continued reliability and performance of the 1,000 km of network that make up Tallinna Vesi's water network.

To further safeguard the supply of high quality drinking water to our end-users, we are currently exploring the feasibility of an alternative source of raw water to directly supply the Ülemiste Water Treatment Plant. Once constructed, this will bypass lake Ülemiste, providing raw water directly from the inland catchment area, via the Pirita-Ülemiste channel. An environmental impact study is currently being undertaken, which will be followed by the detailed design, if no adverse comments are received.

12.94%

Water losses reached the lowest leakage score ever in the second quarter of 2017.

Water losses in the distribution network have been considerably lower in the first six months compared to previous years, and are now at 13.33%, compared to 16.22% in 2016. This figure reduces even further if the last 3 months are taken in isolation – 12.94%. This is the lowest leakage score achieved in the Company's history. We also managed to reduce the average water interruption to 3 hours and 15 minutes in 2017, which is testament to the reliability of the network and the effectiveness of our operational teams, who work on a continuous 24/7 basis.

Similar to drinking water, we have achieved excellent results regarding the final effluent quality leaving our wastewater treatment plant at Paljassaare. During the first 6 months of this year, all samples complied with the relevant quality parameters. This provides further confirmation that our treatment process is effective and able to respond to the ever changing volumes and consistency of wastewater entering the plant.

### Solid financial performance

In the first 6 months of the year, the Company's sales revenues were 1.2% lower year-on-year, which was mainly due to the reduced sale volumes of the Company's subsidiary Watercom, and lower revenues from storm water collection service. However, this decrease was offset by higher volumes of water and wastewater services.

Despite the reduction in revenues, the Company's net profit amounted to EUR 10.62 million, showing an increase of 65.7% year-on-year. Besides the above factors affecting the sales revenues, the net profit was also impacted by lower costs related to the tariff dispute, as well as a change in the fair value of interest SWAP agreements. Reduced income tax on dividends, was a result of the Company's

+65.7%

The net profit of the company increased to EUR 10.62 million in the first 6 months of 2017.

decision to pay only part of the dividend in June, with the remainder being deferred until after important decisions have been received, with respect to the ongoing tariff dispute.

With respect to the dispute, we are still awaiting decisions from both the local courts and International Arbitration. The Supreme Court decided to take Tallinna Vesi's Cassation into proceedings, which given previous Court rulings, was taken as a positive step for the Company. We hope that the final verdict on this matter would be reached soon.

## Employees are the heart of a successful company

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Tallinna Vesi was awarded with 2nd place for best HR project in 2017.

It is the competent staff of Tallinna Vesi who stand behind the excellent performance of the company and succession planning is one of our key strategic objectives. Also, our efforts were recently recognised by the Estonian Human Resource Management Association PARE, awarding Tallinna Vesi the second place in the category "Best HR Project in 2017".

In the first half of 2017, the Company also had re-certification audits completed, by an external auditor. Both Tallinna Vesi and its subsidiary Watercom successfully passed the audits that related to our quality and occupational health and safety management systems. We also submitted our annual environmental report to the auditors related to 2016, which was drafted in accordance with the voluntary EU Eco Management and Audit Scheme (EMAS). Tallinna Vesi received positive feedback, for a well-structured and accurate report, together with the professionalism and competency of staff interviewed.

## We support good cause initiatives

Along with our main activities, it is important for us to be contributing to the initiatives that add value and positively impact our surrounding environment and the children and youth living within the wider Tallinn communities. Once again provided our support to the Estonian Youth Song and Dance Celebration, by supplying refreshing drinking water to the events.

We were also delighted to support the SPIN project that engages youth with sport through football. SPIN was one of the annual award winners announced by the UEFA Foundation for Children Awards.

Tallinna Vesi contributes to community projects that engage youth and promote environmental awareness.

## OPERATIONAL INDICATORS FOR SIX MONTHS OF 2017

| Indicator | 2017 | 2016 |
|---|---|---|
| **Drinking water** | | |
| Compliance of water quality at the customers' tap | 99,9% | 99,9% |
| Water loss in the water distribution network | 13,3% | 16,2% |
| Average duration of water interruptions per property in hours | 3,25h | 3,54h |
| **Waste water** | | |
| Number of sewer blockages | 393 | 367 |
| Number of sewer bursts | 72 | 52 |
| Wastewater treatment compliance with environmental standards | 100,0% | 100,0% |

| Customer service | | |
|---|---|---|
| Number of written complaints | 17 | 21 |
| Number of customer contacts regarding water quality | 70 | 48 |
| Number of customer contacts regarding water pressure | 146 | 157 |
| Number of customer contacts regarding blockages and discharge of storm water | 539 | 569 |
| Responding written customer contacts within at least 2 work days | 100,0% | 99,1% |
| Number of failed promises | 3 | 2 |
| Notification of unplanned water interruptions at least 1 h before the interruption | 100,0% | 97,9% |

Karl Heino Brookes
Chairman of the Management Board

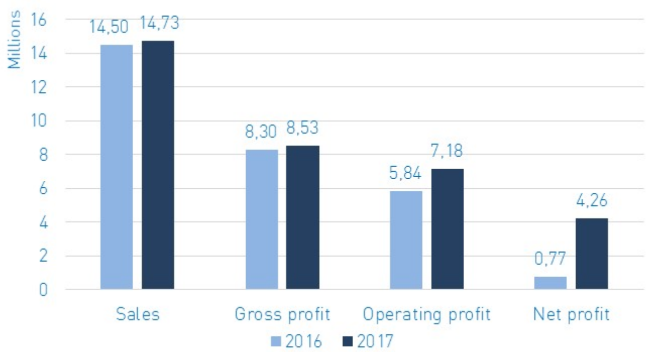
## CONTRACTUAL HIGHLIGHTS

- Tariffs of AS Tallinna Vesi continue to be on the same level, based on a temporary injunction granted by the Court for the period of court proceedings back in 2011.
- The Company was privatised in 2001, with the support and knowledge of the Estonian national government.
- At the end of May 2012, the District Court ruled that AS Tallinna Vesi's Services Agreement, which was part of the international privatisation, is a public law contract.
- AS Tallinna Vesi believes that the terms and conditions of the international privatisation contract, that has previously been deemed a public law contract, should be protected by the Estonian legal system.
- In May 2014, AS Tallinna Vesi submitted a claim against the Competition Authority to the Tallinn Administrative Court to avoid the expiry of monetary claims. The Company is claiming compensation for potential damages over the lifetime of the international privatisation contract, up until 2020. The claim is based on estimated future volumes and level of consumer price index (CPI). In recent years, CPI has been lower than at the time the claim was originally calculated, with a current undiscounted value of EUR 72 million, compared to the original of EUR 90 million.
- On 5th of June 2015, the Tallinn Administrative Court dismissed the Company's complaint in the local tariff dispute. The reasoning for the dismissal, was not made disclosed until 12th of October 2015. Tallinn Administrative Court, formed an opinion that the tariffs part of the Services Agreement, which has been deemed to be as a public law contract by the Estonian Courts in 2012, is not binding on the Competition Authority. AS Tallinna Vesi filed the appeal to the Tallinn District Court on 11th of November 2015.
- On 23rd November 2016, the hearing in District Court took place and on the 26th January 2017, the District Court dismissed AS Tallinna Vesi's appeal.

- The Company submitted its Cassation to the Court on 27th February 2017.
- On 20th of June 2017 Supreme Court decided to open proceedings on AS Tallinna Vesi´s appeal in cassation. No hearings have taken place nor timetable determined.
- In October 2014, in parallel to the local dispute about tariffs, AS Tallinna Vesi and its shareholder United Utilities (Tallinn) B.V have commenced international arbitration proceedings against the Republic of Estonia, for breaching the international treaty and more specifically *"the fair and equitable treatment"* requirement by changes to the law and activities of the public authorities which have deprived AS Tallinna Vesi of tariffs approved according to the Services Agreement concluded as part of the privatisation in 2001. The arbitration will be carried out through the International Centre for the Settlement of Investment Disputes (ICSID), which is part of the World Bank Group.
- On 17th of June 2015, the timetable of the International Arbitration Proceedings was determined. Procedural orders and decisions issued during the arbitration process, subject to the redaction of the confidential information, are available on the ICSID website.
- *International Arbitration Proceedings are being held in parallel, and are not linked to the local dispute.*
- In February 2016, the Republic of Estonia submitted their Memorial, with AS Tallinna Vesi and United Utilities (Tallinn) B.V, responding with their counter Memorial in June 2016 to which Government of Estonia submitted their rejoinder in September 2016.
- The International Arbitration hearings were held on 7-11 and 14-15 November 2016 in Paris.
- Both parties submitted their Post Hearing Briefs in February 2017, with the final verdict expected in the second half of 2017.
- AS Tallinna Vesi has continuously stated its belief in fully transparent regulation, and its willingness to enter into **meaningful and evidence-based dialogue,** which takes into account the privatisation contract that was originally signed back in 2001.

## FINANCIAL HIGHLIGHTS FOR THE 2nd QUARTER 2017

The Group's sales revenues during the 2nd quarter of 2017 were EUR 14.73 million, being up by 1.6% or EUR 0.23 million compared to the same period in 2016.




The gross profit in the 2nd quarter of 2017 was EUR 8.53 million, showing an increase of 2.7% or EUR 0.22 million. Increase in gross profit was mainly related to higher water and wastewater revenues, which was supported by lower depreciation and pollution tax expenses. It was balanced by lower storm water revenues and by higher chemical costs and construction and asphalting related costs.

The operating profit was EUR 7.18 million, showing an increase of 23.0% or EUR 1.34 million. The operating profit was in addition to the above mentioned changes in gross profit impacted by considerably lower tariff dispute related costs in the 2nd quarter of 2017.

The net profit for the 2nd quarter of 2017 was EUR 4.26 million, being higher by 450.3% or EUR 3.49 million. The net profit was mainly impacted by above mentioned changes in the operating profit, complimented by lower financial expenses and lower dividend related income tax cost. The changes in the financial expenses were mostly influenced by the positive change in the fair value of swap contracts in the 2nd quarter of 2017 compared to the negative change in the same quarter of 2016.

Lower dividend related income tax cost was influenced by lower dividend pay-out in June 2017, worth in total EUR 1.80 million. The net profit for the 2nd quarter of 2017 and 2016 without the impact resulted from the change of the fair value of swap contracts was EUR 4.10 million and EUR 0.99 million respectively, being higher by 313.9% or EUR 3.11 million year-on-year.

## MAIN FINANCIAL INDICATORS

| EUR million, except key ratios | 2nd quarter | | | Change | 6 months | | | Change |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2017/2016 | 2015 | 2016 | 2017 | 2017/2016 |
| Sales | 13.74 | 14.50 | 14.73 | 1.6% | 27.31 | 28.87 | 28.51 | -1.2% |
| Gross profit | 8.01 | 8.30 | 8.53 | 2.7% | 16.08 | 16.64 | 16.73 | 0.6% |
| Gross profit margin % | 58.28 | 57.27 | 57.89 | 1.1% | 58.89 | 57.64 | 58.70 | 1.8% |
| Operating profit | 6.23 | 5.84 | 7.18 | 23.0% | 12.92 | 12.47 | 13.67 | 9.6% |
| Operating profit - main business | 6.17 | 5.69 | 7.06 | 24.0% | 12.83 | 12.23 | 13.53 | 10.6% |
| Operating profit margin % | 45.34 | 40.29 | 48.78 | 21.1% | 47.29 | 43.21 | 47.95 | 11.0% |
| Profit before taxes | 6.64 | 5.27 | 6.96 | 31.9% | 13.02 | 10.91 | 13.32 | 22.1% |
| Profit before taxes margin % | 48.29 | 36.38 | 47.25 | 29.9% | 47.67 | 37.80 | 46.72 | 23.6% |
| Net profit | 2.14 | 0.77 | 4.26 | 450.3% | 8.52 | 6.41 | 10.62 | 65.7% |
| Net profit margin % | 15.54 | 5.34 | 28.92 | 441.6% | 31.19 | 22.21 | 37.25 | 67.8% |
| ROA % | 1.06 | 0.38 | 1.98 | 421.9% | 4.25 | 3.14 | 4.94 | 57.1% |
| Debt to total capital employed % | 61.28 | 62.06 | 58.54 | -5.7% | 61.28 | 62.06 | 58.54 | -5.7% |
| ROE % | 2.75 | 1.00 | 4.77 | 377.5% | 10.97 | 8.28 | 11.90 | 43.8% |
| Current ratio | 3.19 | 2.63 | 3.70 | 40.8% | 3.19 | 2.63 | 3.70 | 40.8% |

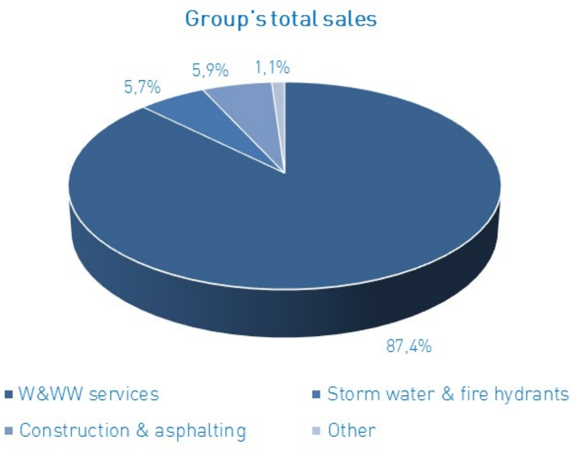
*Gross profit margin – Gross profit / Net sales*
*Operating profit margin – Operating profit / Net sales*
*Net profit margin – Net profit / Net sales*
*ROA – Net profit / Average Total assets for the period*
*Debt to Total capital employed – Total liabilities / Total capital employed*
*ROE – Net profit / Total equity*
*Current ratio – Current assets / Current liabilities*
*Main business – water and wastewater activities, excl. connections profit and government grants, construction, design and asphalting services, doubtful debt*

# FINANCIAL RESULTS FOR THE 2nd QUARTER 2017

## STATEMENT OF COMPREHENSIVE INCOME

### SALES

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




In the 2nd quarter of 2017 the Group's total sales were EUR 14.73 million, showing an increase by 1.6% or EUR 0.23 million year-on-year. 87.4% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.7% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 5.9% from construction and asphalting services and 1.1% from other works and services. The construction and asphalting services sales are more seasonal and the Company continues to seek possibilities to keep and to grow these services revenues.

| EUR thousand | 2nd quarter 2017 | 2nd quarter 2016 | 2nd quarter 2015 | Variance 2017/2016 EUR | Variance 2017/2016 % |
|---|---|---|---|---|---|
| Private clients, incl: | 6,313 | 6,200 | 6,083 | 113 | 1.8% |
| Water supply service | 3,470 | 3,410 | 3,345 | 60 | 1.8% |
| Waste water disposal service | 2,843 | 2,790 | 2,738 | 53 | 1.9% |
| Corporate clients, incl: | 5,193 | 5,070 | 4,891 | 123 | 2.4% |
| Water supply service | 2,877 | 2,831 | 2,717 | 46 | 1.6% |
| Waste water disposal service | 2,316 | 2,239 | 2,174 | 77 | 3.4% |
| Outside service area clients, incl: | 1,102 | 1,101 | 1,197 | 1 | 0.1% |
| Water supply service | 339 | 346 | 332 | -7 | -2.0% |
| Waste water disposal service | 692 | 686 | 759 | 6 | 0.9% |
| Storm water disposal service | 71 | 69 | 106 | 2 | 2.9% |
| Over pollution fee | 258 | 211 | 223 | 47 | 22.3% |
| Total water supply and waste water disposal service | 12,866 | 12,582 | 12,394 | 284 | 2.3% |
| Storm water treatment and disposal service and fire hydrants service | 839 | 924 | 875 | -85 | -9.2% |
| Construction service, design and asphalting | 864 | 827 | 324 | 37 | 4.5% |
| Other works and services | 159 | 164 | 149 | -5 | -3.0% |
| SALES REVENUES TOTAL | 14,728 | 14,497 | 13,742 | 231 | 1.6% |

Sales from water and wastewater services were EUR 12.87 million, showing a 2.3% or EUR 0.28 million increase compared to the 2nd quarter of 2016, resulting from the changes in sales volumes as described below:

- There has been an increase in private customers' revenues by 1.8% to EUR 6.31 million. The increase in domestic customer consumption volumes came mainly from apartment blocks, which is also our biggest private customer group. There was also a slight increase in other private customer groups.
- Sales to corporate customers within the service area increased by 2.4% to EUR 5.19 million. Increase was mostly related to increase in sales of industrial and leisure segments.

- Sales to customers outside the main service area have been relatively stable, being EUR 1.10 million in both comparative years. It was mainly impacted by small increase in the sales of waste water and storm water disposal services, which was balanced by the decrease in the sales of water supply service.
- Over pollution fees received have increased by 22.3% to EUR 0.26 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were EUR 0.84 million, showing a decrease of 9.2% or EUR 0.09 million in the 2nd quarter of 2017 compared to the same period in 2016, driven mainly by 13.8% lower storm water volumes as the spring was quite dry.

Sales of construction, design and asphalting services were EUR 0.86 million, increasing by 4.5% or EUR 0.04 million year-on-year. The increase was mainly related to higher pipe construction services revenues during the 2nd quarter of 2017.

## COST OF GOODS/ SERVICES SOLD AND GROSS PROFIT

The cost of goods sold amounted to EUR 6.20 million in the 2nd quarter of 2017, being at the same level compared to the equivalent period in 2016. The change in cost was mainly influenced by increase in different direct production costs, other costs of goods sold and construction and asphalting services related costs, accompanied by decrease in depreciation and pollution tax expenses.

| | 2nd quarter | | | Variance 2017/2016 | |
|---|---|---|---|---|---|
| EUR thousand | 2017 | 2016 | 2015 | EUR | % |
| Water abstraction charges | -292 | -283 | -276 | -9 | -3.2% |
| Chemicals | -352 | -285 | -377 | -67 | -23.5% |
| Electricity | -777 | -728 | -747 | -49 | -6.7% |
| Pollution tax | -201 | -235 | -235 | 34 | 14.5% |
| Total direct production costs | -1,622 | -1,531 | -1,635 | -91 | -5.9% |
| Staff costs | -1,479 | -1,470 | -1,436 | -9 | -0.6% |
| Depreciation and amortization | -1,360 | -1,591 | -1,437 | 231 | 14.5% |
| Construction service, design and asphalting | -735 | -675 | -271 | -60 | -8.9% |
| Other costs of goods/services sold | -1,006 | -928 | -954 | -78 | -8.4% |
| Other costs of goods/services sold total | -4,580 | -4,664 | -4,098 | 84 | 1.8% |
| Total cost of goods/services sold | -6,202 | -6,195 | -5,733 | -7 | -0.1% |

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax) were EUR 1.62 million, showing 5.9% or EUR 0.09 million increase compared to equivalent period in 2016. Changes in direct production costs came from a combination of changes in prices and in treated volumes that affected the cost of goods sold together with the following additional factors:

- Water abstraction charges increased by 3.2% to EUR 0.29 million, driven mainly by 1.1% increase in treated water volumes.
- Chemicals costs increased by 23.5% to EUR 0.35 million, driven mainly by 89.9% higher methanol price in the wastewater treatment process, worth EUR 0.05 million, and higher usage of polymers, worth EUR 0.02 million. Higher total year-on-year chemicals costs in wastewater treatment process were accompanied by increase in usage of different chemicals in water treatment due to higher treated water volumes and higher dosage of different chemicals due to poor raw water quality, worth in total EUR 0.02 million.
- Electricity costs increased by 6.7% to EUR 0.78 million. It was related to on average 7.0% higher electricity price, worth EUR 0.05 million.

- Pollution tax expense decreased by 14.5% to EUR 0.20 million, mainly due to lower pollution load of Nitrogen and 3.4% decrease in treated wastewater volumes, worth respectively EUR 0.02 million and EUR 0.01 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 4.58 million, having decreased by 1.8% or EUR 0.08 million. The decrease came mostly from costs related to depreciation, balanced by increase in other costs of goods sold and costs related to construction and asphalting services. Decrease in depreciation by 14.5% to EUR 1.36 million was mainly related to accelerated depreciation costs in the equivalent period of 2016. Other costs of goods sold increase is mainly related to timing of asset maintenance works in wastewater treatment process and higher transportation costs, which in itself was mostly influenced by use of different rental mechanisms and higher maintenance and repairs costs of cars. Increase in construction and asphalting services costs by 8.9% to EUR 0.74 million was related to an increase in construction and asphalting services revenues mentioned earlier and project specific changes.

As a result of all above the Group's gross profit for the 2nd quarter of 2017 was EUR 8.53 million, showing an increase of 2.7% or EUR 0.22 million, compared to the gross profit of EUR 8.30 million for the comparative period of 2016.

## ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses amounted to EUR 1.29 million, having decreased by 46.6% or EUR 1.13 million. The decrease was mainly related to lower tariff dispute related costs.

## OPERATING PROFIT

As a result of the factors listed above the Group's operating profit for the 2nd quarter of 2017 amounted to EUR 7.18 million, being 23.0% or EUR 1.34 million higher than in the corresponding period of 2016. The Group's operating profit from main business was EUR 7.06 million, being 24.0% or EUR 1.37 million higher compared to 2016.

## FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.23 million, compared to net expense of EUR 0.57 million in the 2nd quarter of 2016. The decrease was mainly impacted by a positive change in the fair value of the swap contracts year-on-year, worth EUR 0.37 million.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk. The interest swap agreements are signed for EUR 75 million and EUR 20 million are still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, amounting to EUR 0.91 million. Effective interest rate of loans (incl. swap interests) in the 2nd quarter of 2017 was 1.61%, amounting to interest costs of EUR 0.39 million, compared to the effective interest rate of 1.52% and the interest costs of EUR 0.37 million in the 2nd quarter of 2016.

## PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for the 2nd quarter of 2017 was EUR 6.96 million, being 31.9% or EUR 1.69 million higher than for the 2nd quarter of 2016. The Group's net profit for the 2nd quarter of 2017 was EUR 4.26 million, being 450.3% or EUR 3.49 million higher compared to 2016, impacted by the decrease in income tax on dividends, worth EUR 1.80 million. Eliminating the effects of the change in derivatives fair value, the Group's net profit for the 2nd quarter of 2017 would have been EUR 4.10 million, showing an increase by 313.9% or EUR 3.11 million compared to the relevant period in 2016.

# RESULTS FOR THE SIX MONTHS OF 2017

## STATEMENT OF COMPREHENSIVE INCOME

### SALES

During the six months of 2017 the Group's total sales were EUR 28.51 million, showing a decrease by 1.2% or EUR 0.36 million year-on-year.

Sales from water and wastewater services for six months of 2017 were EUR 25.59 million, increasing 2.0% or EUR 0.49 million compared to the six months of 2016. 89.8% of sales comprised of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.5% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 3.7% from construction and asphalting services and 1.0% from other works and services.

| | 6 months | | | Variance 2017/2016 | |
|---|---|---|---|---|---|
| EUR thousand | 2017 | 2016 | 2015 | EUR | % |
| Private clients, incl: | 12,660 | 12,538 | 12,237 | 122 | 1.0% |
| Water supply service | 6,960 | 6,895 | 6,731 | 65 | 0.9% |
| Waste water disposal service | 5,700 | 5,643 | 5,506 | 57 | 1.0% |
| Corporate clients, incl: | 10,256 | 9,952 | 9,564 | 304 | 3.1% |
| Water supply service | 5,648 | 5,504 | 5,287 | 144 | 2.6% |
| Waste water disposal service | 4,608 | 4,448 | 4,277 | 160 | 3.6% |
| Outside service area clients, incl: | 2,210 | 2,230 | 2,446 | -20 | -0.9% |
| Water supply service | 669 | 654 | 623 | 15 | 2.3% |
| Waste water disposal service | 1,375 | 1,355 | 1,531 | 20 | 1.5% |
| Storm water disposal service | 166 | 221 | 292 | -55 | -24.9% |
| Over pollution fee | 468 | 382 | 407 | 86 | 22.5% |
| Total water supply and waste water disposal service | 25,594 | 25,102 | 24,654 | 492 | 2.0% |
| Storm water treatment and disposal service and fire hydrant service | 1,580 | 1,870 | 1,719 | -290 | -15.5% |
| Construction service, design and asphalting | 1,045 | 1,588 | 667 | -543 | -34.2% |
| Other works and services | 290 | 306 | 271 | -16 | -5.2% |
| SALES REVENUES TOTAL | 28,509 | 28,866 | 27,311 | -357 | -1.2% |

During the six months of 2017 there has been an increase in sales to private customers by 1.0% to EUR 12.66 million and 3.1% increase to EUR 10.26 million in sales to corporate customers within the service area. Increase in sales to private customers came solely from apartment blocks, while other domestic customer segments had a slight decrease. Sales increase in corporate customers is mostly related to industrial and leisure segments. Sales to customers outside the main service area have decreased by 0.9% to EUR 0.17 million, mainly due to lower snow melting water and storm water volumes in 2017. Over pollution fees received have increased by 22.5% to EUR 0.47 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the six months of 2017 were EUR 1.58 million, showing a decrease of 15.5% or EUR 0.29 million year-on-year, driven mainly by 30.8% lower storm water volumes in 2017.

Sales of construction, design and asphalting services were EUR 1.05 million, decreasing by 34.2% or EUR 0.54 million year-on-year. The decrease was mainly related to lower pipe construction services revenues during 2017 1st quarter.

## COST OF GOODS SOLD AND GROSS AND OPERATING PROFITS

| | 6 months | | | Variance 2017/2016 | |
|---|---|---|---|---|---|
| EUR thousand | 2017 | 2016 | 2015 | EUR | % |
| Water abstraction charges | -588 | -575 | -546 | -13 | -2.3% |
| Chemicals | -685 | -627 | -736 | -58 | -9.3% |
| Electricity | -1,630 | -1,538 | -1,575 | -92 | -6.0% |
| Pollution tax | -493 | -571 | -536 | 78 | 13.7% |
| Total direct production costs | -3,396 | -3,311 | -3,393 | -85 | -2.6% |
| | | | | | |
| Staff costs | -2,900 | -2,888 | -2,784 | -12 | -0.4% |
| Depreciation and amortization | -2,711 | -3,023 | -2,830 | 312 | 10.3% |
| Construction service, design and asphalting | -874 | -1,349 | -579 | 475 | 35.2% |
| Other costs of goods/services sold | -1,894 | -1,657 | -1,641 | -237 | -14.3% |
| Other costs of goods/services sold total | -8,379 | -8,917 | -7,834 | 538 | 6.0% |
| | | | | | |
| Total cost of goods/services sold | -11,775 | -12,228 | -11,227 | 453 | 3.7% |

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were EUR 3.40 million, showing an increase of 2.6% or EUR 0.09 million year-on-year. Change in costs came from the decrease in pollution tax expense, balanced by increase in all other direct production costs as described below:

- Water abstraction charges increased by 2.3% to EUR 0.59 million, driven by 0.8% increase in treated water volumes.
- Chemicals costs increased by 9.3% to EUR 0.69 million, driven mainly by on average 42.4% higher methanol price and higher use of polymers in wastewater treatment process, worth respectively EUR 0.06 million and EUR 0.04 million, accompanied by increased water treatment process chemicals costs driven by increase in usage and treated volumes, worth EUR 0.03 million. Increased costs were balanced by decrease in methanol and coagulant usage in wastewater treatment process to remove pollutants, worth respectively EUR 0.05 million and EUR 0.03 million.
- Electricity costs have increased by 6.0% to EUR 1.63 million. It was related to on average 7.6% higher electricity prices and higher cost per $m^3$ used to treat raw water in water treatment plant, worth respectively EUR 0.12 million and EUR 0.02 million, balanced by decrease in treated wastewater volumes, worth EUR 0.04 million.
- Pollution tax expense decreased by 13.7% to EUR 0.49 million, driven mainly by 12.8% decrease in treated sewage volumes, worth EUR 0.07 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 8.38 million, having decreased by 6.0% or EUR 0.54 million compared to the same period in 2016. Changes in other costs of goods sold are driven by the same reasons as mentioned in 2nd quarter results.

Group's gross profit for the six months of 2017 was EUR 16.73 million, being 0.6% or EUR 0.10 million higher compared to the same period in 2016. Group's operating profit was EUR 13.67 million, showing an increase by 9.6% or EUR 1.20 million during the six months of 2017. The increase in operating profit was mostly driven by the changes in gross profit mentioned earlier and lower tariff related costs in 2nd quarter in 2017.

### FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.35 million, compared to net expense of EUR 1.56 million in the six months of 2016. The decrease was mainly impacted by a positive change in the fair value of the swap contracts year-on-year, worth EUR 1.28 million.

### PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for the six months of 2017 was EUR 13.32 million, showing a 22.1% or EUR 2.41 million increase compared to the relevant period in 2016. The Group's net profit for the six months of 2017 was EUR 10.62 million, which is 65.7% or EUR 4.21 million higher than the net profit for equivalent period in 2016. Eliminating the effects of the derivatives fair value, the net profit for the six months of 2017 would have been EUR 10.21 million, showing an increase by 40.2% or EUR 2.93 million compared to the relevant period in 2016.

## STATEMENT OF FINANCIAL POSITION

In the six months of 2017 the Group invested into fixed assets EUR 3.51 million. As of 30.06.2017, non-current tangible assets amounted to EUR 171.67 million and total non-current assets amounted to EUR 172.48 million (30.06.2016: EUR 165.11 million and EUR 165.91 million respectively).

Compared to the year end of 2016 the trade receivables, accrued income and prepaid expenses have shown a decrease in the amount of EUR 0.30 million to EUR 6.87 million. The collection rate of receivables continues to be high, being 99.45% compared to 99.76% in the end of June 2016.

Current liabilities have increased by EUR 0.91 million to EUR 11.55 million compared to the year end of 2016. Increase mainly derives from increase in trade and other payables by EUR 0.85 million and increased prepayments of connections in construction process by EUR 0.07 million. Changes in trade and other payables were related to dividend income tax liability, balanced by lower construction activities and investments related liabilities.

Deferred income from connection fees has grown compared to the end of 2016 by EUR 1.35 million to EUR 18.40 million and are related to bigger developments in the beginning of the year.

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

The Group has a Total debt to assets level as expected of 58.5%, in range of 55%-65%, reflecting the Group's equity profile. This level is consistent with the same period in 2016, when the Total debt to assets ratio was also 62.1%.

## CONTINGENT LIABILITY REGARDING THE TARIFF RISK

In the 4th quarter of 2011 the Group evaluated and noted an exceptional off-balance sheet contingent liability, which could cause an outflow of economic benefits of up to EUR 36 million. In the 2nd quarter of 2017 the Group re-evaluated the liability, which now stands at EUR 44 million (1st quarter of 2017 EUR 43 million), as per note 14 to the accounts.

## CASH FLOW

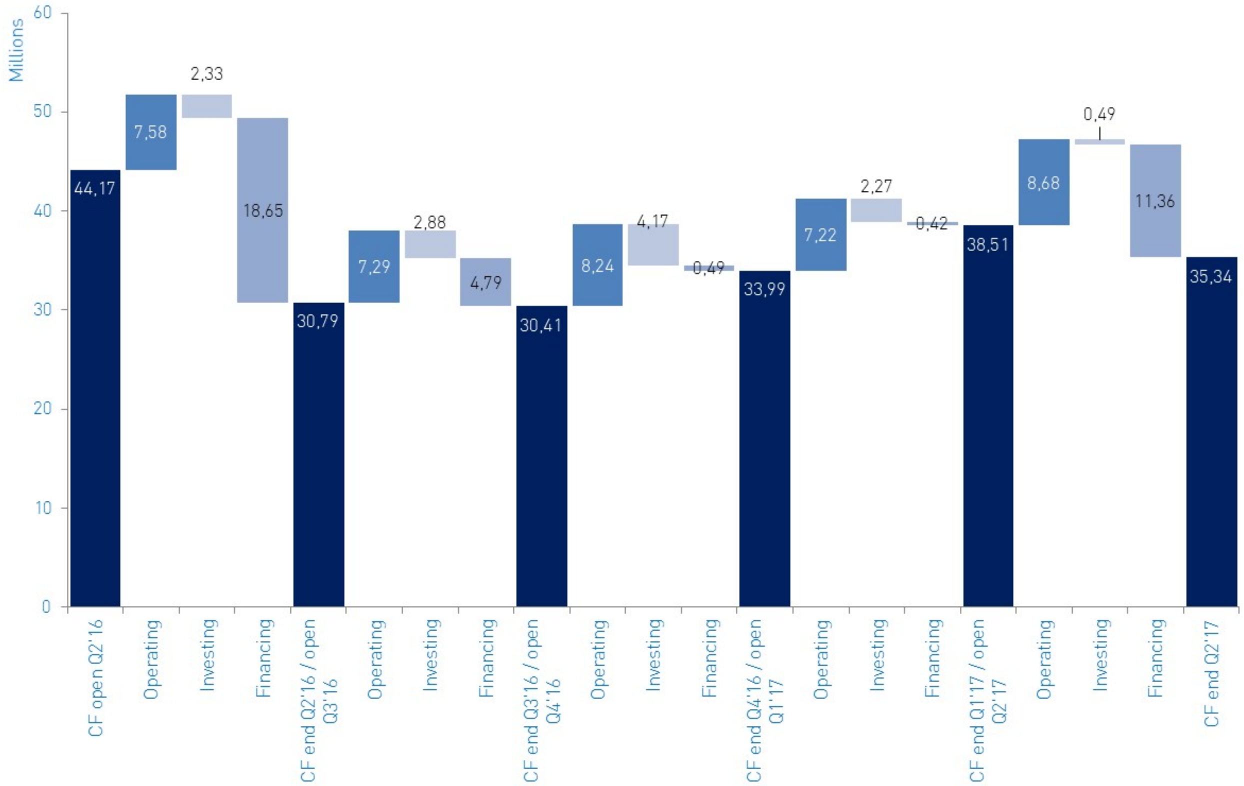
As of 30.06.2017, the cash position of the Group is strong. At the end of June 2017 the cash balance of the Group stood at EUR 35.34 million, which is 16.4% of the total assets (30.06.2016: EUR 30.79 million, forming 15.1% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the six months of 2017, the Group generated EUR 15.90 million of cash flows from operating activities, a decrease of EUR 0.44 million compared to the corresponding period in 2016. Underlying operating profit continues to be the main contributor to operating cash flows.

In the six months of 2017 the result of net cash flows from investing activities was a cash outflow of EUR 2.76 million, a decrease of EUR 1.62 million compared to the cash outflow of EUR 4.38 million in the six months of 2016. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by EUR 1.05 million compared to 2016 amounting to EUR 4.36 million.
- The compensations received for the construction of pipelines were EUR 1.55 million, showing an increase of EUR 0.58 million compared to the same period of 2016.

In the six months of 2017 cash outflow from financing activities amounted to EUR 11.78 million, decreasing by EUR 7.21 million compared to the same period in 2016. The change was mainly related to decrease in dividends paid by EUR 7.20 million.




## EMPLOYEES

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

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

At the end of the 2nd quarter of 2017, the total number of employees was 319 compared to 323 at the end of the 2nd quarter of 2016. The full time equivalent (FTE) was respectively 309 in 2017 compared to the 313 in 2016. Average number of employees (FTE) during the six months was respectively 305 in 2017 and 310 in 2016.

By gender, employee allocation was as follows:

| As of 30.06.2017 | Women | Men | Total |
|---|---|---|---|
| Group | 92 | 224 | 316 |
| Management Team | 14 | 13 | 27 |
| Executive Team | 5 | 4 | 9 |
| Management Board | 1 | 2 | 3 |
| Supervisory Board | 0 | 9 | 9 |

| As of 30.06.2016 | Women | Men | Total |
|---|---|---|---|
| Group | 97 | 226 | 323 |
| Management Team | 13 | 12 | 25 |
| Executive Team | 6 | 3 | 9 |
| Management Board | 1 | 2 | 3 |
| Supervisory Board | 0 | 9 | 9 |

The total salary costs were EUR 2.10 million for the 2nd quarter of 2017, including EUR 0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could rise up to EUR 0.08 million should the Council want to replace the current Management Board members.

## DIVIDENDS

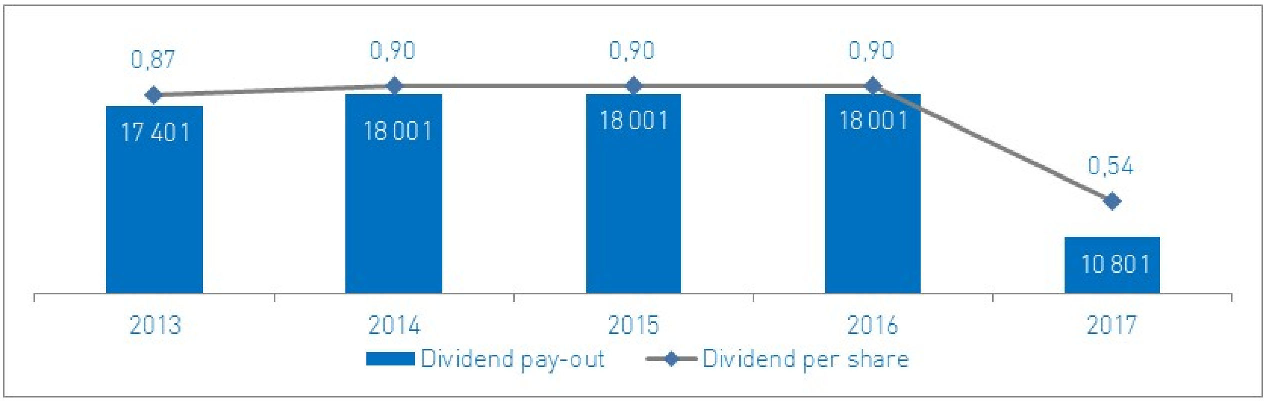
Dividend allocation to the shareholders is recorded as a liability in the financial statement of the Company at the time when the profit allocation and dividend payment is confirmed by the annual general meeting of shareholders.

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

In the annual general meeting of shareholders held on 01.06.2017, the Supervisory Board propose to pay out 60% of the usual dividend in June 2017, and defer the decision as regards to the remaining

40%, until after decisions have been received related to the ongoing tariff dispute. These decisions are expected later in the year, from both the Supreme Court of Estonia and the International Arbitration. Proposal of dividend payment of EUR 0.54 per A-share and total pay-out in the amount of EUR 10.8 million was approved.

Dividends were paid out on 26.06.2017. Dividend pay-outs in last five years have been as follows:




## SHARE PERFORMANCE

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

As of 30.06.2017, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

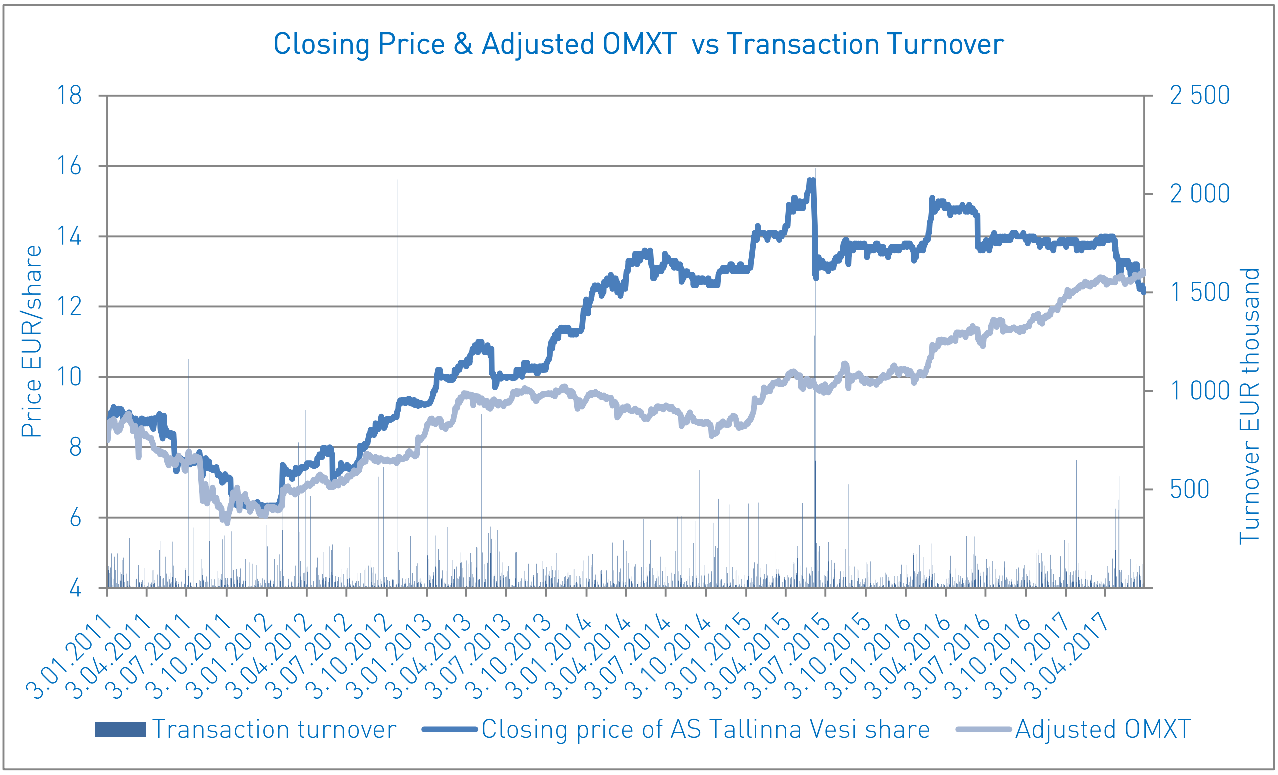
| | |
|---|---|
| United Utilities (Tallinn) BV | 35.3% |
| City of Tallinn | 34.7% |

During the six months of 2017 the shareholder structure has been relatively stable compared to the end of 2016. At the end of 2nd quarter 2017 the pension funds shareholding has decreased, being 1.8% of the total shares compared to 2.1% at the end of 2016.

As of 30.06.2017, the closing price of AS Tallinna Vesi share was EUR 12.50, which is 10.7% (2016: -7.4%) lower compared to the closing price of EUR 14.00 at the beginning of the quarter. During the 2nd quarter the OMX Tallinn index increased by 1.3% (2016: 1.0%).

In the six months of 2017, 4,329 deals with the Company's shares were concluded (2016: 3,171 deals) during which 640 thousand shares or 3.2% of total shares exchanged their owners (2016: 537 thousand shares or 2.7%).

The turnover of the transactions was EUR 0.95 million higher than in 2016, amounting to EUR 8.58 million.




## CORPORATE STRUCTURE

As of 30.06.2017, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

## CORPORATE GOVERNANCE

### SUPERVISORY COUNCIL

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members, who are appointed for two years. Changes in the Supervisory Council members in the 2nd quarter of 2017 were as follows. Mr Mart Mägi has been recalled from the Supervisory Council and Mr Priit Rohumaa has been elected as a new Supervisory Council member. Also Mr Allar Jõks' term as a Supervisory Council member was extended.

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

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

https://www.tallinnavesi.ee/en/about-us/corporate-governance/supervisory-council/
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Audit-Committee
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Corporate-Governance-Report

### MANAGEMENT BOARD

Management Board is a governing body, which represents and manages AS Tallinna Vesi in its daily operations in accordance with the legal requirements as well as the Articles of Association. The Management Board must act economically in the most efficient way taking into consideration the interest of the Company and its shareholders and ensure the sustainable development of the Company in accordance with the set objectives and strategy.

To ensure that the company's interests are met in the best way possible, the Management and Supervisory Boards shall extensively collaborate. Meetings of Management and Supervisory Board members are held at least once a quarter. In those meetings the Management Board informs the Supervisory Council about all significant issues in Company's business operations, the fulfilment of the company's short and long-term goals are being discussed and the risks impacting them. For every meeting of the Management Board prepares report and submits the report in advance with the sufficient time for the Supervisory Board to study it.

According to the Articles of Association the Management Board consists of 2-5 members, who are elected for 3 years.

Starting from 2nd of June 2014 there are 3 members of the Management Board of AS Tallinna Vesi: Karl Heino Brookes (Chairman of the Board, with the powers of the Management Board Member until 21st March 2020), Aleksandr Timofejev (with the powers of the Management Board Member until 29th October 2018) and Riina Käi (with the powers of the Management Board Member until 29th October 2018).

Additional information on the members of the Management Board can be found from the Company's website:

http://tallinnavesi.ee/en/Investor/Corporate-Governance/Management-Board

## FUTURE ACTIONS & RISKS

### LEGAL CLAIM FOR BREACH OF INTERNATIONAL TREATY

In May 2014, the Supervisory Council of the Company gave notice of potential international arbitration proceedings against the Republic of Estonia for breaching the undertakings it is required to abide by in the bilateral investment treaty.

In October 2014 AS Tallinna Vesi and its shareholder United Utilities (Tallinn) B.V have commenced international arbitration proceedings against the Republic of Estonia for breach of the Agreement on the Encouragement and Reciprocal Protection of Investments between the Kingdom of The Netherlands and the Republic of Estonia.

The claim was filed as three years of intensive negotiation to try and reach an amicable settlement that has not happened.

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

Additional details related with the claim can be found via the following links:
https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=609264&messageId=754811
https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=627851&messageId=779161

### DISCLOSURE OF RELEVANT PAPERS AND PERSPECTIVES

The Company will keep the investment community informed of all relevant developments of the tariff dispute, both locally as well as internationally. AS Tallinna Vesi has published all relevant materials on its website (http://www.tallinnavesi.ee/en/Investor/Regulation and https://www.tallinnavesi.ee/en/investor/stock-announcements) and to the Tallinn Stock Exchange.At this point in time the Company will not speculate on future developments and possible outcomes or timing of the proceedings.

Additional information:
Karl Heino Brookes
Chairman of the Management Board
+372 62 62 200
karl.brookes@tvesi.ee

# MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 6 months period of financial year 2017 ended 30 June 2017. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 2017 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a fair presentation of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim report gives a fair presentation of the main events that occurred during the 6 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 27 July 2017 have been considered in preparing the financial statements.

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

Karl Heino Brookes
Chairman of the Management Board
Chief Executive Officer

Aleksandr Timofejev
Member of the Management Board
Chief Operating Officer

Riina Käi
Member of the Management Board
Chief Financial Officer

27 July 2017

Introduction and photos of the Management Board members are published at company's web page.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Management-Board

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

| | | as of 30 June | | as of 31 December |
|---|---|---|---|---|
| ASSETS | Note | 2017 | 2016 | 2016 |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 2 | 35 344 | 30 785 | 33 987 |
| Trade receivables, accrued income and prepaid expenses | | 6 868 | 7 007 | 7 167 |
| Inventories | | 484 | 367 | 449 |
| TOTAL CURRENT ASSETS | | 42 696 | 38 159 | 41 603 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 3 | 171 666 | 165 108 | 171 177 |
| Intangible assets | 4 | 816 | 805 | 830 |
| TOTAL NON-CURRENT ASSETS | | 172 482 | 165 913 | 172 007 |
| TOTAL ASSETS | | 215 178 | 204 072 | 213 610 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Current portion of long-term borrowings | | 244 | 730 | 264 |
| Trade and other payables | | 7 879 | 10 709 | 7 030 |
| Derivatives | | 622 | 628 | 610 |
| Prepayments | | 2 806 | 2 465 | 2 735 |
| TOTAL CURRENT LIABILITIES | | 11 551 | 14 532 | 10 639 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred income from connection fees | | 18 400 | 15 412 | 17 050 |
| Borrowings | | 95 709 | 95 440 | 95 795 |
| Derivatives | | 292 | 1 254 | 715 |
| Other payables | | 11 | 18 | 15 |
| TOTAL NON-CURRENT LIABILITIES | | 114 412 | 112 124 | 113 575 |
| TOTAL LIABILITIES | | 125 963 | 126 656 | 124 214 |
| EQUITY | | | | |
| Share capital | | 12 000 | 12 000 | 12 000 |
| Share premium | | 24 734 | 24 734 | 24 734 |
| Statutory legal reserve | | 1 278 | 1 278 | 1 278 |
| Retained earnings | | 51 203 | 39 404 | 51 384 |
| TOTAL EQUITY | | 89 215 | 77 416 | 89 396 |
| TOTAL LIABILITIES AND EQUITY | | 215 178 | 204 072 | 213 610 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

| | | Quarter 2 | | 6 months | | for the year ended 31 December |
|---|---|---|---|---|---|---|
| | Note | 2017 | 2016 | 2017 | 2016 | 2016 |
| Revenue | 5 | 14 728 | 14 497 | 28 509 | 28 866 | 58 982 |
| Cost of goods/services sold | 7 | -6 202 | -6 195 | -11 775 | -12 228 | -25 721 |
| GROSS PROFIT | | 8 526 | 8 302 | 16 734 | 16 638 | 33 261 |
| Marketing expenses | 7 | -78 | -69 | -179 | -195 | -365 |
| General administration expenses | 7 | -1 216 | -2 355 | -2 782 | -3 883 | -7 799 |
| Other income (+)/expenses (-) | 8 | -48 | -37 | -103 | -87 | -470 |
| OPERATING PROFIT | | 7 184 | 5 841 | 13 670 | 12 473 | 24 627 |
| Interest income | 9 | 4 | 13 | 9 | 28 | 41 |
| Interest expense | 9 | -382 | -359 | -763 | -710 | -1 447 |
| Other financial income (+)/expenses (-) | 9 | 153 | -221 | 404 | -881 | -331 |
| PROFIT BEFORE TAXES | | 6 959 | 5 274 | 13 320 | 10 910 | 22 890 |
| Income tax on dividends | 10 | -2 700 | -4 500 | -2 700 | -4 500 | -4 500 |
| NET PROFIT FOR THE PERIOD | | 4 259 | 774 | 10 620 | 6 410 | 18 390 |
| COMPREHENSIVE INCOME FOR THE PERIOD | | 4 259 | 774 | 10 620 | 6 410 | 18 390 |
| Attributable profit to: | | 0 | 0 | 0 | 0 | 0 |
| Equity holders of A-shares | | 4 258 | 773 | 10 619 | 6 409 | 18 389 |
| B-share holder | | 0,60 | 0,60 | 0,60 | 0,60 | 0,60 |
| Earnings per A share (in euros) | 11 | 0,21 | 0,04 | 0,53 | 0,32 | 0,92 |
| Earnings per B share (in euros) | 11 | 600 | 600 | 600 | 600 | 600 |

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

## CONSOLIDATED CASH FLOWS STATEMENT

(EUR thousand)

| | Note | 6 months 2017 | 6 months 2016 | for the year ended 31 December 2016 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Operating profit | | 13 670 | 12 473 | 24 627 |
| Adjustment for depreciation/amortisation | 3,4,7,8 | 3 005 | 3 283 | 6 406 |
| Adjustment for revenues from connection fees | 8 | -125 | -106 | -218 |
| Other non-cash adjustments | | 0 | -7 | -15 |
| Profit (-)/loss (+) from sale and write off of property, plant and equipment, and intangible assets | | -11 | -9 | -42 |
| Change in current assets involved in operating activities | | 264 | 254 | 41 |
| Change in liabilities involved in operating activities | | -902 | 453 | 1 073 |
| **TOTAL CASH FLOWS FROM OPERATING ACTIVITIES** | | 15 901 | 16 341 | 31 872 |
| | | | | |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | | |
| Acquisition of property, plant and equipment, and intangible assets | | -4 361 | -5 412 | -14 526 |
| Compensations received for construction of pipelines | | 1 554 | 971 | 3 002 |
| Proceeds from sale of property, plant and equipment, and intangible assets | | 38 | 30 | 50 |
| Interest received | | 9 | 32 | 45 |
| **TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES** | | -2 760 | -4 379 | -11 429 |
| | | | | |
| **CASH FLOWS USED IN FINANCING ACTIVITIES** | | | | |
| Interest paid and loan financing costs, incl swap interests | | -779 | -739 | -1 510 |
| Repayment of finance lease | | -141 | -148 | -264 |
| Dividends paid | 10 | -10 801 | -18 001 | -18 001 |
| Income tax on dividends | 10 | -63 | -108 | -4 500 |
| **TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES** | | -11 784 | -18 996 | -24 275 |
| | | | | |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | | 1 357 | -7 034 | -3 832 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | 2 | 33 987 | 37 819 | 37 819 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | 2 | 35 344 | 30 785 | 33 987 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR thousand)

| | Share capital | Share premium | Statutory legal reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| as of 31 December 2015 | 12 000 | 24 734 | 1 278 | 50 995 | 89 007 |
| Dividends | 0 | 0 | 0 | -18 001 | -18 001 |
| Comprehensive income for the period | 0 | 0 | 0 | 18 390 | 18 390 |
| as of 31 December 2016 | 12 000 | 24 734 | 1 278 | 51 384 | 89 396 |
| as of 31 December 2015 | 12 000 | 24 734 | 1 278 | 50 995 | 89 007 |
| Dividends | 0 | 0 | 0 | -18 001 | -18 001 |
| Comprehensive income for the period | 0 | 0 | 0 | 6 410 | 6 410 |
| as of 30 June 2016 | 12 000 | 24 734 | 1 278 | 39 404 | 77 416 |
| as of 31 December 2016 | 12 000 | 24 734 | 1 278 | 51 384 | 89 396 |
| Dividends | 0 | 0 | 0 | -10 801 | -10 801 |
| Comprehensive income for the period | 0 | 0 | 0 | 10 620 | 10 620 |
| as of 30 June 2017 | 12 000 | 24 734 | 1 278 | 51 203 | 89 215 |

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

# NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

(EUR thousand)

## NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by the EU. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

## NOTE 2. CASH AND CASH EQUIVALENTS

| | as of 30 June | | as of 31 December |
|---|---|---|---|
| | 2017 | 2016 | 2016 |
| Cash in hand and in bank | 25 198 | 26 198 | 21 900 |
| Short-term deposits | 10 146 | 4 587 | 12 087 |
| Total cash and cash equivalents | 35 344 | 30 785 | 33 987 |

(EUR thousand)

## NOTE 3. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Facilities | Machinery and equipment | Other equipment | Construction in progress | Total property, plant and equipment |
|---|---|---|---|---|---|---|
| **as of 31 December 2015** | | | | | | |
| Acquisition cost | 25 950 | 187 943 | 47 016 | 1 277 | 4 151 | 266 337 |
| Accumulated depreciation | -6 218 | -63 266 | -33 191 | -930 | 0 | -103 605 |
| **Net book value** | **19 732** | **124 677** | **13 825** | **347** | **4 151** | **162 732** |
| **Transactions in the period 01 January 2016 - 31 December 2016** | | | | | | |
| Acquisition in book value | 0 | 0 | 0 | 0 | 14 628 | 14 628 |
| Write off and sale of property, plant and equipment in residual value | 0 | 0 | -3 | 0 | 0 | -3 |
| Reclassification | 183 | 12 724 | 2 361 | 39 | -15 377 | -70 |
| Depreciation | -326 | -3 007 | -2 702 | -75 | 0 | -6 110 |
| **as of 31 December 2016** | | | | | | |
| Acquisition cost | 26 134 | 199 921 | 47 297 | 1 104 | 3 402 | 277 858 |
| Accumulated depreciation | -6 545 | -65 527 | -33 816 | -793 | 0 | -106 681 |
| **Net book value** | **19 589** | **134 394** | **13 481** | **311** | **3 402** | **171 177** |
| **Transactions in the period 01 January 2017 - 30 June 2017** | | | | | | |
| Acquisition in book value | 0 | 0 | 0 | 0 | 3 379 | 3 379 |
| Write off and sale of property, plant and equipment in residual value | 0 | 0 | -24 | 0 | -3 | -27 |
| Reclassification | 72 | 2 128 | 574 | 1 | -2 775 | 0 |
| Depreciation | -143 | -1 497 | -1 185 | -38 | 0 | -2 863 |
| **as of 30 June 2017** | | | | | | |
| Acquisition cost | 26 206 | 201 996 | 47 684 | 1 105 | 4 003 | 280 994 |
| Accumulated depreciation | -6 688 | -66 971 | -34 838 | -831 | 0 | -109 328 |
| **Net book value** | **19 518** | **135 025** | **12 846** | **274** | **4 003** | **171 666** |

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

As of 30 June 2017 the book value of the assets (Machinery and equipment) leased under financial lease is 1,027 thousand euros (31 December 2016: 1,130 thousand euros).

(EUR thousand)

## NOTE 4. INTANGIBLE ASSETS

| | Acquired licenses and other intangible assets | Unfinished intangible assets | Total intangible assets |
|---|---|---|---|
| **as of 31 December 2015** | | | |
| Acquisition cost | 5 192 | 62 | 5 254 |
| Accumulated depreciation | -4 496 | 0 | -4 496 |
| **Net book value** | **696** | **62** | **758** |
| **Transactions in the period 01 January 2016 - 31 December 2016** | | | |
| Acquisition in book value | 0 | 324 | 324 |
| Write off and sale of intangible assets in residual value | -5 | 0 | -5 |
| Reclassification | 180 | -131 | 49 |
| Depreciation | -296 | 0 | -296 |
| **as of 31 December 2016** | | | |
| Acquisition cost | 5 313 | 255 | 5 568 |
| Accumulated depreciation | -4 738 | 0 | -4 738 |
| **Net book value** | **575** | **255** | **830** |
| **Transactions in the period 01 January 2017 - 30 June 2017** | | | |
| Acquisition in book value | 0 | 128 | 128 |
| Reclassification | 45 | -45 | 0 |
| Depreciation | -142 | 0 | -142 |
| **as of 30 June 2017** | | | |
| Acquisition cost | 5 358 | 338 | 5 696 |
| Accumulated depreciation | -4 880 | 0 | -4 880 |
| **Net book value** | **478** | **338** | **816** |

(EUR thousand)

## NOTE 5. REVENUE

| | Quarter 2 | | 6 months | | for the year ended 31 December |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2016 |
| Revenues from main operating activities | | | | | |
| Total water supply and waste water disposal service, incl: | 12 866 | 12 582 | 25 594 | 25 102 | 50 196 |
| Private clients, incl: | 6 313 | 6 200 | 12 660 | 12 538 | 24 949 |
| Water supply service | 3 470 | 3 410 | 6 960 | 6 895 | 13 720 |
| Wastewater disposal service | 2 843 | 2 790 | 5 700 | 5 643 | 11 229 |
| Corporate clients, incl: | 5 193 | 5 070 | 10 256 | 9 952 | 20 069 |
| Water supply service | 2 877 | 2 831 | 5 648 | 5 504 | 11 075 |
| Wastewater disposal service | 2 316 | 2 239 | 4 608 | 4 448 | 8 994 |
| Outside service area clients, incl: | 1 102 | 1 101 | 2 210 | 2 230 | 4 400 |
| Water supply service | 339 | 346 | 669 | 654 | 1 306 |
| Wastewater disposal service | 692 | 686 | 1 375 | 1 355 | 2 709 |
| Storm water disposal service | 71 | 69 | 166 | 221 | 385 |
| Over pollution fee | 258 | 211 | 468 | 382 | 778 |
| Storm water treatment and disposal service and fire hydrants service | 839 | 924 | 1 580 | 1 870 | 3 671 |
| Construction service, design and asphalting | 864 | 827 | 1 045 | 1 588 | 4 511 |
| Other works and services | 159 | 164 | 290 | 306 | 604 |
| Total revenue | 14 728 | 14 497 | 28 509 | 28 866 | 58 982 |

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

## NOTE 6. STAFF COSTS

| | Quarter 2 | | 6 months | | for the year ended 31 December |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2016 |
| Salaries and wages | -1 568 | -1 571 | -3 100 | -3 129 | -5 999 |
| Social security and unemployment insurance taxation | -530 | -525 | -1 048 | -1 046 | -2 028 |
| Staff costs total | -2 098 | -2 096 | -4 148 | -4 175 | -8 027 |
| Number of employees at the end of reporting period | | | 316 | 323 | 311 |

(EUR thousand)

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

| | Quarter 2 | | 6 months | | for the year ended 31 December |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2016 |
| Cost of goods/services sold | | | | | |
| Water abstraction charges | -292 | -283 | -588 | -575 | -1 169 |
| Chemicals | -352 | -285 | -685 | -627 | -1 308 |
| Electricity | -777 | -728 | -1 630 | -1 538 | -3 107 |
| Pollution tax | -201 | -235 | -493 | -571 | -1 091 |
| Staff costs | -1 479 | -1 470 | -2 900 | -2 888 | -5 729 |
| Depreciation and amortization | -1 360 | -1 591 | -2 711 | -3 023 | -5 863 |
| Construction service, design and asphalting | -735 | -675 | -874 | -1 349 | -4 006 |
| Other costs | -1 006 | -928 | -1 894 | -1 657 | -3 448 |
| Total cost of goods/services sold | -6 202 | -6 195 | -11 775 | -12 228 | -25 721 |
| | | | | | |
| Marketing expenses | | | | | |
| Staff costs | -68 | -58 | -160 | -175 | -312 |
| Depreciation and amortization | 0 | -1 | 0 | -1 | -1 |
| Other marketing expenses | -10 | -10 | -19 | -19 | -52 |
| Total marketing expenses | -78 | -69 | -179 | -195 | -365 |
| | | | | | |
| Administrative expenses | 0 | 0 | 0 | 0 | 0 |
| Staff costs | -551 | -568 | -1 088 | -1 112 | -1 986 |
| Depreciation and amortization | -90 | -79 | -179 | -159 | -343 |
| Other general administration expenses | -575 | -1 708 | -1 515 | -2 612 | -5 470 |
| Total administrative expenses | -1 216 | -2 355 | -2 782 | -3 883 | -7 799 |

## NOTE 8. OTHER INCOME / EXPENSES

| | Quarter 2 | | 6 months | | for the year ended 31 December |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2016 |
| Connection fees | 64 | 53 | 125 | 106 | 218 |
| Depreciation of single connections | -59 | -50 | -115 | -100 | -199 |
| Doubtful receivables expenses (-)/ expense reduction (+) | 0 | 1 | -31 | 2 | -322 |
| Other income (+)/expenses (-) | -53 | -41 | -82 | -95 | -167 |
| Total other income / expenses | -48 | -37 | -103 | -87 | -470 |

(EUR thousand)

## NOTE 9. FINANCIAL INCOME AND EXPENSES

| | Quarter 2 | | 6 months | | for the year ended 31 |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2016 |
| Interest income | 4 | 13 | 9 | 28 | 41 |
| Interest expense, loan | -224 | -221 | -451 | -446 | -881 |
| Interest expense, swap | -158 | -138 | -312 | -264 | -566 |
| Increase (+)/decrease (-) of fair value of swap | 157 | -217 | 411 | -873 | -316 |
| Other financial income (+)/expenses (-) | -4 | -4 | -7 | -8 | -15 |
| Total financial income / expenses | -225 | -567 | -350 | -1 563 | -1 737 |

## NOTE 10. DIVIDENDS

| | Quarter 2 | | 6 months | | for the year ended 31 |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2016 |
| Dividends declared during the period | 10 801 | 18 001 | 10 801 | 18 001 | 18 001 |
| Dividends paid during the period | 10 801 | 18 001 | 10 801 | 18 001 | 18 001 |
| Income tax on dividends paid | -2 700 | -4 500 | -2 700 | -4 500 | -4 500 |
| Income tax accounted for | -2 700 | -4 500 | -2 700 | -4 500 | -4 500 |

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

| | | | | | |
|---|---|---|---|---|---|
| Paid-up dividends per shares: | | | | | |
| Dividends per A-share (in euros) | | | 0,54 | 0,90 | 0,90 |
| Dividends per B-share (in euros) | | | 600 | 600 | 600 |

## NOTE 11. EARNINGS PER SHARE

| | Quarter 2 | | 6 months | | ended 31 December |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2016 |
| Net profit minus B-share preferred dividend rights | 4 258 | 773 | 10 619 | 6 409 | 18 389 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces) | 20 000 000 | 20 000 000 | 20 000 000 | 20 000 000 | 20 000 000 |
| Earnings per A share (in euros) | 0,21 | 0,04 | 0,53 | 0,32 | 0,92 |
| Earnings per B share (in euros) | 600 | 600 | 600 | 600 | 600 |

Diluted earnings per share for the periods ended 30 June 2017 and 2016 and 31 December 2016 was equal to earnings per share figures stated above.

(EUR thousand)

## NOTE 12. RELATED PARTIES

Transactions with related parties are considered to be transactions with members of the Supervisory Board and Management Board, their relatives and the companies in which they have control or significant influence and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

### Shareholders having the significant influence

| Balances recorded on the statement of financial position of the Group | as of 30 June 2017 | as of 30 June 2016 | as of 31 December 2016 |
|---|---|---|---|
| Accounts receivable | 3 | 24 | 420 |
| Trade and other payables | 190 | 186 | 190 |

| Transactions | Quarter 2 2017 | Quarter 2 2016 | 6 months 2017 | 6 months 2016 | for the year ended 31 December 2016 |
|---|---|---|---|---|---|
| Revenue | 839 | 924 | 1 580 | 1 870 | 3 671 |
| Purchase of administrative and consulting services | 243 | 256 | 500 | 511 | 1 031 |
| Fees for Management Board (excluding social tax) | 38 | 44 | 107 | 115 | 191 |
| Supervisory Board fees (excluding social tax) | 8 | 8 | 16 | 16 | 32 |

The Group´s Management Board and Supervisory Board members are considered as key management personnel for whom the contractual salary payments have been accounted for as disclosed above. In addition to this some Board Members have also received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees. Such compensations are recorded on line "Purchase of administrative and consulting services".

The Group's Management Board members are elected for 3 (three) years and Supervisory Board members for 2 (two) years. Stock exchange announcement is published about the change in Management and Supervisory Board.

In the first 6 months of 2017 and throughout the year ending on 31 December 2016, no termination payments were paid to any of the Management Board members. The off balance sheet potential salary liability would be up to 84 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

### Company shares belonging to the Management Board and Supervisory Board members

As of 30 June 2017 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 June and 31 December 2016: Riina Käi owned 100 shares).

## NOTE 13. LIST OF SUPERVISORY BOARD MEMBERS

| | |
|---|---|
| Simon Roger Gardiner | Chairman of the Supervisory Board |
| Steven Richard Fraser | Member of the Supervisory Board |
| Martin Padley | Member of the Supervisory Board |
| Brendan Francis Murphy | Member of the Supervisory Board |
| Priit Rohumaa | Member of the Supervisory Board |
| Rein Ratas | Member of the Supervisory Board |
| Toivo Tootsen | Member of the Supervisory Board |
| Allar Jõks | Member of the Supervisory Board |
| Priit Lello | Member of the Supervisory Board |

Introduction of Supervisory Board members is published at company's web page.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board

## NOTE 14. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

On 10th October 2011 the Estonian Competition Authority (CA) issued a prescript for the Company to reduce the tariffs of water and sewerage services in Tallinn by 29%. The Company disagrees with the position of the CA and has turned to the Estonian Administrative Court disputing the prescription that seeks to break the privatization contract. Should the Court uphold the CA's position the privatization contract could cease to be the basis for the tariffs of water and sewerage services in Tallinn. On 5th June 2015 Tallinn Administrative Court dismissed AS Tallinna Vesi's complaint in tariff dispute. AS Tallinna Vesi appealed the decision in the Circuit Court. On 26th January 2017, Tallinn Circuit court dismissed the Companies appeal. The Company do not agree with the decision and filed the cassation to the Supreme Court on 27th February 2017. On the 20th of June 2017, the Supreme Court decided to open proceedings on AS Tallinna Vesi's appeal in cassation. The length of the court process and the decision are not within the Company's control.

No reliable estimate can be made at this stage regarding the ultimate outcome of the legal proceedings. The management has evaluated the amount of the contingent liability as of 30 June 2017 arising from the potential claims against the Company if the Court ruling would support the CA's position. As result of this, the outflow of economic benefits could be up to EUR 44 million (31 December 2016: EUR 43 million) the part that CA considers to be excessively charged from the clients going back three years, and which could be claimed within 10 years of the final judgement of the courts.