

AS TALLINNA VESI

Consolidated Interim Report for the 3rd quarter of 2017

26th October 2017



Currency	Thousand euros
Start of reporting period	1 January 2017
End of reporting period	30 September 2017
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

CHAIRMAN'S SUMMARY

Tallinna Vesi has had successful first 9 months in 2017, with respect to both operational and financial performance.

Reliable water supply and wastewater service

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 99.91% compliant with all the required quality standards. This means only two samples out of 2,225 samples taken, exceeded the allowed limits.



99.91%

Compliance of water quality at the customers' tap is consistently high.

To further safeguard the supply of high quality drinking water to our end-users, we commissioned a new water pipe in the third quarter of 2017, which can provide an alternative supply to nearly 100,000 people in Tallinn. The alternative supply pipe is one of the most important investments of the last decade in securing uninterrupted water supply service to the City. ASTV also opened a new public water tap on the cycle and pedestrian track on Järvevana Road, in order to improve the availability of pure drinking water to the general public.

Water losses in the distribution network have been considerably lower in the first nine months compared to previous years, and are now at 13.52%, compared to 15.39% in 2016. We also managed to reduce the average water interruption time 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.

AS Tallinna Vesi does not compromise on safety or protecting the environment. Our final effluent was once again 100% compliant with the applicable permit requirements during the 9 months of 2017. Maintaining the quality of final effluent is essential to the continued security of the Baltic Sea.



13.52%

Water loss in the water distribution network
[2016 – 17.5%]

Solid financial performance

In the first 9 months of the year, the Company's sales revenues were 1.4% 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 partially offset by higher volumes of water and wastewater services.

Despite the reduction in revenues, the Company's net profit amounted to EUR 17.66 million, showing an increase of 36.5% 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.



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Tallinna Vesi was awarded with the 3rd place among service providers in Estonian Companies' Competitiveness ranking 2017.

In September Tallinna Vesi refinanced its long-term loan in a total amount of 37.5 million euros. Refinancing has generated a reduction in our loan interest risk margin, from 0.95% to 0.79%.

Strong financial results of Tallinna Vesi were recognised at the largest Estonian entrepreneurship competition held by Estonian Chamber of Commerce and Industry. We were awarded with the 3rd place in the Estonian Companies' Competitiveness ranking 2017" among service providers.

Raising environmental awareness and supporting the community

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.

One of our objectives is to improve our customers' awareness of the environmental aspects concerning water supply and wastewater disposal services. For this purpose, we welcomed a large number of visitors during the Open House Day event at Ülemiste Water Treatment Plant in September, and later this year we will also be launching our annual awareness campaign.



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

For many years, we have been proud to host the annual Ülemiste Lake Run, by opening our sanitary zone for the public on this special occasion. This year the run celebrated its 45th anniversary.

Good investor relations also continue to be one of our top priorities. In September, we welcomed nearly 100 private investors to our water treatment plant, for an investor themed presentation and site tour.

OPERATIONAL INDICATORS FOR NINE 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	13.5%	15.4%
Average duration of water interruptions per property in hours	3.26h	3.51h
Waste water		
Number of sewer blockages	520	503
Number of sewer bursts	109	73
Wastewater treatment compliance with environmental standards	100.0%	100.0%
Customer service		
Number of written complaints	29	29
Number of customer contacts regarding water quality	177	108
Number of customer contacts regarding water pressure	240	247
Number of customer contacts regarding blockages and discharge of storm water	812	909

Responding written customer contacts within at least 2 work days	99.9%	99.0%
Number of failed promises	3	4
Notification of unplanned water interruptions at least 1 h before the interruption	98.7%	98.4%



Karl Heino Brookes
Chairman of the Management Board

CONTRACTUAL HIGHLIGHTS

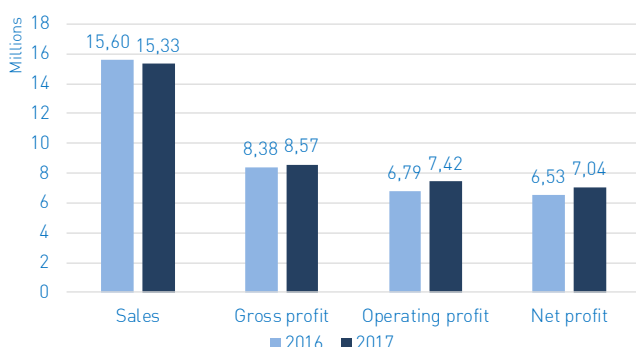
- Tariffs of AS Tallinna Vesi continue to be on the same level, based on a temporary injunction granted by the Court for the period of court proceedings back in 2011.
- The Company was privatised in 2001, with the support and knowledge of the Estonian national government.
- At the end of May 2012, the 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 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. The time of final decision has not yet been 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 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. The time of final verdict is not announced but it is expected rather at the end of this year or in the beginning of 2018.
- 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 3rd QUARTER 2017

The Group’s sales revenues during the 3rd quarter of 2017 were EUR 15.33 million, being down by 1.7% or EUR 0.26 million compared to the same period in 2016.



The gross profit in the 3rd quarter of 2017 was EUR 8.57 million, showing an increase of 2.2% or EUR 0.18 million. Increase in gross profit was mainly related to higher water and wastewater revenues and construction and asphaltting related profit, which was supported by lower electricity and pollution tax expenses. It was balanced by lower storm water revenues and by higher depreciation and chemical costs.

The operating profit was EUR 7.42 million, showing an increase of 9.2% or EUR 0.63 million. In addition to the above-mentioned changes in gross profit, the operating profit was impacted by considerably lower tariff dispute related costs in the 3rd quarter of 2017.

The net profit for the 3rd quarter of 2017 was EUR 7.04 million, being higher by 7.9% or EUR 0.52 million. The net profit was mainly impacted by above mentioned changes in the operating profit, and by higher financial expenses. The changes in the financial expenses were mostly influenced by the lower positive change in the fair value of swap contracts in the 3rd quarter of 2017 compared to the positive change in the same quarter of 2016. The net profit for the 3rd quarter of 2017 and 2016 without the impact resulted from the change of the fair value of swap contracts was EUR 7.02 million and EUR 6.42 million respectively, being higher by 9.3% or EUR 0.60 million year-on-year.

MAIN FINANCIAL INDICATORS

EUR million, except key ratios	3 rd quarter			Change 2017/2016	9 months			Change 2017/2016
	2015	2016	2017		2015	2016	2017	
Sales	14.08	15.60	15.33	-1.7%	41.39	44.46	43.84	-1.4%
Gross profit	7.99	8.38	8.57	2.2%	24.07	25.02	25.30	1.1%
Gross profit margin %	56.72	53.75	55.86	3.9%	58.15	56.27	57.71	2.5%
Operating profit	5.92	6.79	7.42	9.2%	18.83	19.27	21.09	9.5%
Operating profit - main business	5.77	6.69	7.11	6.2%	18.60	18.93	20.64	9.1%
Operating profit margin %	42.02	43.55	48.39	11.1%	45.50	43.33	48.10	11.0%
Profit before taxes	5.10	6.53	7.04	7.9%	18.12	17.44	20.36	16.8%
Profit before taxes margin %	36.22	41.85	45.93	9.8%	43.78	39.22	46.44	18.4%
Net profit	5.10	6.53	7.04	7.9%	13.62	12.94	17.66	36.5%
Net profit margin %	36.22	41.85	45.93	9.8%	32.91	29.10	40.28	38.4%
ROA %	2.52	3.17	3.23	1.8%	6.66	6.21	8.13	30.8%
Debt to total capital employed %	59.35	59.56	56.47	-5.2%	59.35	59.56	56.47	-5.2%
ROE %	6.16	7.78	7.32	-5.9%	16.46	15.41	18.35	19.0%
Current ratio	4.26	3.46	4.74	36.9%	4.26	3.46	4.74	36.9%

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

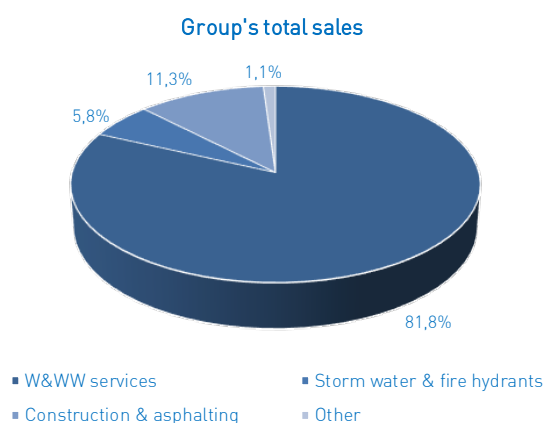
Main business – water and wastewater activities, excl. connections profit and government grants, construction, design and asphaltting services, doubtful debt

FINANCIAL RESULTS FOR THE 3rd 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. In the future, the Company does not expect significant changes in the consumption. There has been incremental increase in consumption in the past and that is expected to continue.



In the 3rd quarter of 2017 the **Group's total sales** were EUR 15.33 million, showing a decrease by 1.7% or EUR 0.26 million year-on-year. 81.8% of sales comprise of sales of 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, 11.3% from construction and asphaltting services and 1.1% from other works and services. The construction and asphaltting services

sales are more seasonal and the Company continues to seek possibilities to keep and to grow these services revenues.

EUR thousand	3 rd quarter			Variance 2017/2016	
	2017	2016	2015	EUR	%
Private clients, incl:	6,148	6,059	5,938	89	1.5%
Water supply service	3,380	3,330	3,267	50	1.5%
Waste water disposal service	2,768	2,729	2,671	39	1.4%
Corporate clients, incl:	5,000	4,989	4,852	11	0.2%
Water supply service	2,775	2,758	2,723	17	0.6%
Waste water disposal service	2,225	2,231	2,129	-6	-0.3%
Outside service area clients, incl:	1,143	1,068	1,117	75	7.0%
Water supply service	336	323	316	13	4.0%
Waste water disposal service	706	665	721	41	6.2%
Storm water disposal service	101	80	80	21	26.3%
Over pollution fee	254	214	191	40	18.7%
Total water supply and waste water disposal service	12,545	12,330	12,098	215	1.7%
Storm water treatment and disposal service and fire hydrants service	888	972	837	-84	-8.6%
Construction service, design and asphalting	1,735	2,150	1,020	-415	-19.3%
Other works and services	164	145	128	19	13.1%
SALES REVENUES TOTAL	15,332	15,597	14,083	-265	-1.7%

Sales from water and wastewater services were EUR 12.55 million, showing a 1.7% or EUR 0.22 million increase compared to the 3rd quarter of 2016, resulting from the changes in sales volumes as described below:

- There has been an increase in **private customers'** revenues by 1.5% to EUR 6.15 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 individual houses and other private customer groups.
- Sales to **corporate customers** within the service area increased by 0.2% to EUR 5.00 million. Increase was mostly related to increase in sales of other and leisure segments.
- Sales to **customers outside the main service area** have increased by 7.0% to EUR 1.14 million. It was mainly impacted by increase in the sales of waste water and storm water disposal services and complemented by a small increase in the sales of water supply service.
- **Over pollution fees** received have increased by 18.7% to EUR 0.25 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were EUR 0.89 million, showing a decrease of 8.6% or EUR 0.08 million in the 3rd quarter of 2017 compared to the same period in 2016, driven mainly by 18.3% lower storm water volumes as the summer was quite dry.

Sales of construction, design and asphaltting services were EUR 1.74 million, decreasing by 19.3% or EUR 0.42 million year-on-year. The decrease was mainly related to lower pipe construction services revenues during the 3rd quarter of 2017.

COST OF GOODS/ SERVICES SOLD AND GROSS PROFIT

The cost of goods sold amounted to EUR 6.77 million in the 3rd quarter of 2017, decreasing by 6.2% or EUR 0.45 million compared to the equivalent period in 2016. The decrease in cost was mainly influenced by decrease in construction and asphaltting services related costs, pollution tax expenses and electricity costs, balanced by increase in chemicals costs, depreciation and other costs of goods sold.

EUR thousand	3 rd quarter			Variance 2017/2016	
	2017	2016	2015	EUR	%
Water abstraction charges	-285	-277	-272	-8	-2.9%
Chemicals	-415	-345	-395	-70	-20.3%
Electricity	-724	-760	-713	36	4.7%
Pollution tax	-233	-281	-233	48	17.1%
Total direct production costs	-1,657	-1,663	-1,613	6	0.4%
Staff costs	-1,288	-1,273	-1,338	-15	-1.2%
Depreciation and amortization	-1,515	-1,427	-1,423	-88	-6.2%
Construction service, design and asphaltting	-1,441	-2,039	-868	598	29.3%
Other costs of goods/services sold	-866	-812	-853	-54	-6.7%
Other costs of goods/services sold total	-5,110	-5,551	-4,482	441	7.9%
Total cost of goods/services sold	-6,767	-7,214	-6,095	447	6.2%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax) were EUR 1.66 million, showing 0.4% or EUR 0.01 million decrease 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 2.9% to EUR 0.29 million, driven mainly by overall 0.4% increase in treated water volumes.
- **Chemicals** costs increased by 20.3% to EUR 0.42 million, driven by 34.1% higher methanol price in the wastewater treatment process, worth EUR 0.03 million, and higher usage of methanol and coagulant, worth in total EUR 0.03 million. Higher total year-on-year chemicals costs in wastewater treatment process were accompanied by increase in costs of different chemicals in water treatment due to higher price and higher dosage of different chemicals due to poor raw water quality, worth in total EUR 0.01 million.
- **Electricity costs** decreased by 4.7% to EUR 0.72 million. It was related to on average 2.6% lower electricity price, worth EUR 0.02 million.
- **Pollution tax expense** decreased by 17.1% to EUR 0.23 million, mainly due to lower pollution load of Nitrogen and 8.4% decrease in treated wastewater volumes, worth respectively EUR 0.02 million and EUR 0.02 million.

Other costs of goods sold (staff costs, depreciation, construction and asphaltting services costs and other costs of goods sold) amounted to EUR 5.11 million, having decreased by 7.9% or EUR 0.44 million. The decrease came mostly from costs related to construction and asphaltting services, balanced by increase in depreciation costs and other costs of goods sold. Increase in depreciation by 6.2% to EUR 1.52 million was mainly related to accelerated depreciation costs in 2017. Other costs of goods sold increase is mainly related to timing of asset maintenance works in wastewater treatment process and higher cleaning costs rising from the new cleaning supplier contract, worth EUR 0.02

million. Decrease in construction and asphaltting services costs by 29.3% to EUR 1.44 million was related to a decrease in construction and asphaltting services revenues mentioned earlier and project specific changes.

As a result of all above the **Group's gross profit** for the 3rd quarter of 2017 was EUR 8.57 million, showing an increase of 2.2% or EUR 0.18 million, compared to the gross profit of EUR 8.38 million for the comparative period of 2016.

ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses amounted to EUR 1.11 million, having decreased by 28.5% or EUR 0.44 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 3rd quarter of 2017 amounted to EUR 7.42 million, being 9.2% or EUR 0.63 million higher than in the corresponding period of 2016. The Group's operating profit from main business was EUR 7.11 million, being 6.2% or EUR 0.42 million higher compared to 2016.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.38 million, compared to net expense of EUR 0.27 million in the 3rd quarter of 2016. The increase was mainly impacted by a negative change in the fair value of the swap contracts year-on-year, worth EUR 0.08 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 0.89 million. Effective interest rate of loans (incl. swap interests) in the 3rd quarter of 2017 was 1.62%, amounting to interest costs of EUR 0.39 million, compared to the effective interest rate of 1.57% and the interest costs of EUR 0.38 million in the 3rd quarter of 2016.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes and **net profit** for the 3rd quarter of 2017 were EUR 7.04 million, being 7.9% or EUR 0.52 million higher than for the 3rd quarter of 2016. Eliminating the effects of the change in derivatives fair value, the Group's net profit for the 3rd quarter of 2017 would have been EUR 7.02 million, showing an increase by 9.3% or EUR 0.60 million compared to the relevant period in 2016.

RESULTS FOR THE NINE MONTHS OF 2017

STATEMENT OF COMPREHENSIVE INCOME

SALES

During the nine months of 2017 the **Group's total sales** were EUR 43.84 million, showing a decrease by 1.4% or EUR 0.62 million year-on-year.

Sales from water and wastewater services for nine months of 2017 were EUR 38.14 million, increasing 1.9% or EUR 0.71 million compared to the nine months of 2016. 87.0% of sales comprised of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 5.6% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 6.3% from construction and asphaltting services and 1.0% from other works and services.

EUR thousand	9 months			Variance 2017/2016	
	2017	2016	2015	EUR	%
Private clients, incl:	18,808	18,597	18,175	211	1.1%
Water supply service	10,339	10,225	9,998	114	1.1%
Waste water disposal service	8,469	8,372	8,177	97	1.2%
Corporate clients, incl:	15,256	14,942	14,416	314	2.1%
Water supply service	8,423	8,262	8,010	161	1.9%
Waste water disposal service	6,833	6,680	6,406	153	2.3%
Outside service area clients, incl:	3,353	3,298	3,563	55	1.7%
Water supply service	1,005	977	939	28	2.9%
Waste water disposal service	2,081	2,020	2,251	61	3.0%
Storm water disposal service	267	301	373	-34	-11.3%
Over pollution fee	722	596	597	126	21.1%
Total water supply and waste water disposal service	38,139	37,433	36,751	706	1.9%
Storm water treatment and disposal service and fire hydrant service	2,468	2,841	2,556	-373	-13.1%
Construction service, design and asphalting	2,780	3,738	1,687	-958	-25.6%
Other works and services	454	451	400	3	0.7%
SALES REVENUES TOTAL	43,841	44,463	41,394	-622	-1.4%

During the nine months of 2017 there has been an increase in sales to **private customers** by 1.1% to EUR 18.81 million and 2.1% increase to EUR 15.26 million in sales to **corporate customers** within the service area. Increase in sales to private customers came mainly from apartment blocks, accompanied by slight increase in individual houses, 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 increased by 1.7% to EUR 3.35 million, mainly due to higher water and waste water disposal services, decreased by lower snow melting water and storm water volumes in 2017. **Over pollution fees** received have increased by 21.1% to EUR 0.72 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the nine months of 2017 were EUR 2.47 million, showing a decrease of 13.1% or EUR 0.37 million year-on-year, driven mainly by 26.2% lower storm water volumes in 2017.

Sales of construction, design and asphalting services were EUR 2.78 million, decreasing by 25.6% or EUR 0.96 million year-on-year. The decrease was mainly related to lower pipe construction services revenues during 2017.

COST OF GOODS SOLD AND GROSS AND OPERATING PROFITS

EUR thousand	9 months			Variance 2017/2016	
	2017	2016	2015	EUR	%
Water abstraction charges	-873	-852	-819	-21	-2.5%
Chemicals	-1,100	-972	-1,131	-128	-13.2%
Electricity	-2,354	-2,297	-2,288	-57	-2.5%
Pollution tax	-726	-852	-768	126	14.8%

Total direct production costs	-5,053	-4,973	-5,006	-80	-1.6%
Staff costs	-4,188	-4,161	-4,122	-27	-0.6%
Depreciation and amortization	-4,227	-4,449	-4,253	222	5.0%
Construction service, design and asphalting	-2,315	-3,389	-1,447	1,074	31.7%
Other costs of goods/services sold	-2,759	-2,470	-2,494	-289	-11.7%
Other costs of goods/services sold total	-13,489	-14,469	-12,316	980	6.8%
Total cost of goods/services sold	-18,542	-19,442	-17,322	900	4.6%

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were EUR 5.05 million, showing an increase of 1.6% or EUR 0.08 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 2.5% to EUR 0.87 million, driven by 1.2% increase in treated water volumes.
- **Chemicals costs** increased by 13.2% to EUR 1.10 million, driven mainly by on average 37.9% higher methanol price and higher use of polymers in wastewater treatment process, worth respectively EUR 0.09 million and EUR 0.04 million, which was 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 0.03 million and EUR 0.02 million.
- **Electricity costs** have increased by 2.5% to EUR 2.35 million. It was related to on average 4.2% higher electricity prices and higher cost per m³ in treating raw water in water treatment plant, worth respectively EUR 0.10 million and EUR 0.01 million, balanced by decrease in treated wastewater volumes, worth EUR 0.05 million.
- **Pollution tax expense** decreased by 14.8% to EUR 0.73 million, driven mainly by 11.3% decrease in treated sewage volumes, worth EUR 0.09 million, supplemented by the decreased pollution loads, worth EUR 0.03 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 13.49 million, having decreased by 6.8% or EUR 0.98 million compared to the same period in 2016. Changes in other costs of goods sold are driven mainly by the same reasons as mentioned in 3rd quarter results.

Group's gross profit for the nine months of 2017 was EUR 25.30 million, being 1.1% or EUR 0.28 million higher compared to the same period in 2016. **Group's operating profit** was EUR 21.09 million, showing an increase by 9.5% or EUR 1.82 million during the nine months of 2017. The increase in operating profit was mostly driven by the changes in gross profit mentioned earlier and lower tariff dispute related costs in 2017.

FINANCIAL EXPENSES

The Group's net financial income and expenses have resulted a net expense of EUR 0.73 million, compared to net expense of EUR 1.83 million in the nine 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 1.21 million.

PROFIT BEFORE TAXES AND NET PROFIT

The Group's profit before taxes for the nine months of 2017 was EUR 20.36 million, showing a 16.8% or EUR 2.92 million increase compared to the relevant period in 2016. **The Group's net profit** for the nine months of 2017 was EUR 17.66 million, which is 36.5% or EUR 4.72 million higher than the net

profit for equivalent period in 2016, impacted by the decrease in income tax on dividends, worth EUR 1.80 million. Eliminating the effects of the derivatives fair value, the net profit for the nine months of 2017 would have been EUR 17.23 million, showing an increase by 25.7% or EUR 3.52 million compared to the relevant period in 2016.

STATEMENT OF FINANCIAL POSITION

In the nine months of 2017 **the Group invested into fixed assets** EUR 5.90 million. As of 30.09.2017, non-current tangible assets amounted to EUR 172.40 million and total non-current assets amounted to EUR 173.20 million (30.09.2016: EUR 167.99 million and EUR 168.80 million respectively).

Compared to the year end of 2016 **the trade receivables, accrued income and prepaid expenses** have shown an increase in the amount of EUR 0.52 million to EUR 7.68 million. The collection rate of receivables continues to be high, being 99.51% compared to 99.78% at the end of September 2016.

Current liabilities have decreased by EUR 0.52 million to EUR 10.12 million compared to the year end of 2016. Decrease mainly derives from decrease in trade and other payables by EUR 0.72 million and from increased prepayments of connections in construction process by EUR 0.20 million. Changes in trade and other payables were related to lower construction activities and investments related liabilities.

Deferred income from connection fees has grown compared to the end of 2016 by EUR 1.80 million to EUR 18.85 million and is 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 0.79%. In the end of September the Company refinanced its long-term loan in the amount of EUR 37.5 million, decreasing the interest risk margin from previous 0.95%.

The Group has a Total debt to assets level as expected of 56.5%, 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 59.6%.

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 3rd quarter of 2017 the Group re-evaluated the liability, which now stands at EUR 44 million (2nd quarter of 2017 EUR 44 million), as per note 14 to the accounts.

CASH FLOW

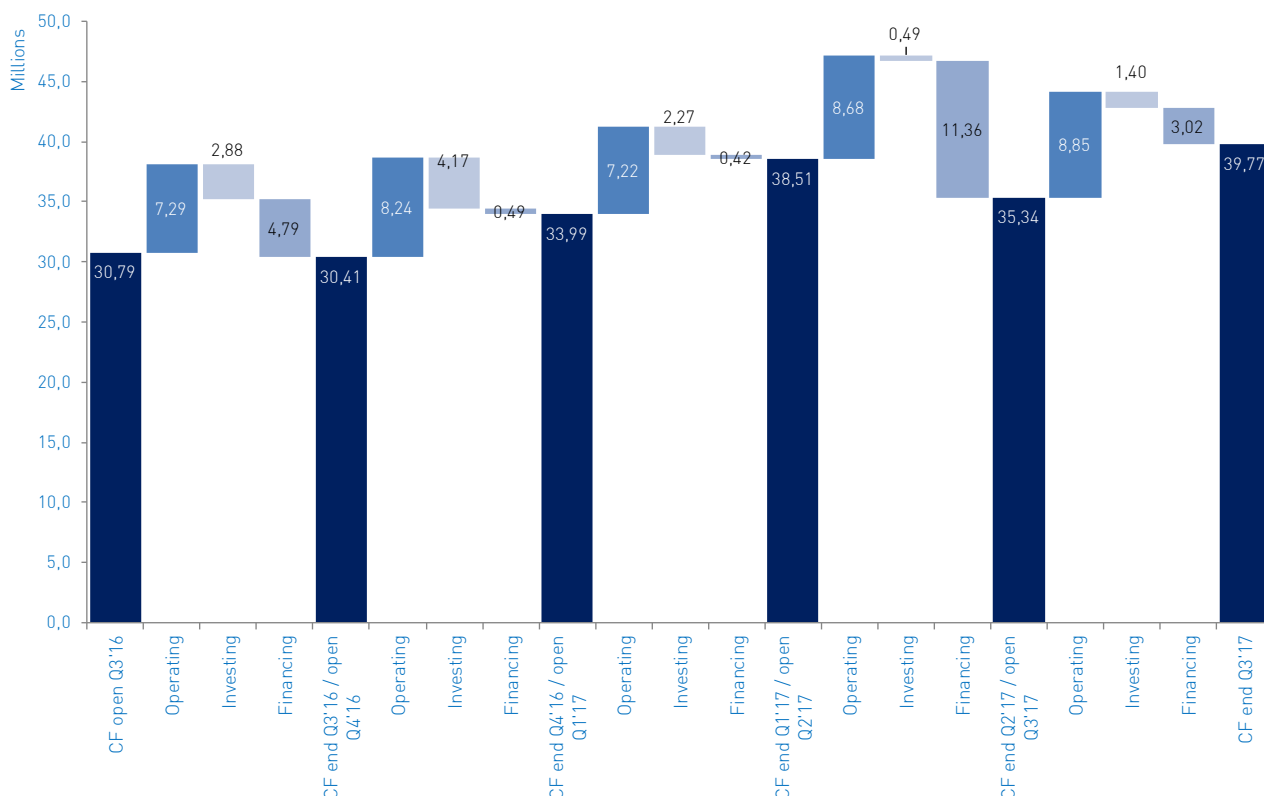
As of 30.09.2017, the cash position of the Group is strong. At the end of September 2017, the cash balance of the Group stood at EUR 39.77 million, which is 18.0% of the total assets (30.09.2016: EUR 30.41 million, forming 14.6% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the nine months of 2017, the Group generated EUR 24.75 million of **cash flows from operating activities**, an increase of EUR 1.12 million compared to the corresponding period in 2016. Underlying operating profit continues to be the main contributor to operating cash flows.

In the nine months of 2017 the result of **net cash flows from investing activities** was a cash outflow of EUR 4.16 million, a decrease of EUR 3.10 million compared to the cash outflow of EUR 7.26 million in the nine months of 2016. This is made up as follows:

- The cash outflows from investments in fixed assets have decreased by EUR 3.36 million compared to 2016 amounting to EUR 6.41 million.
- The compensations received for the construction of pipelines were EUR 2.19 million, showing a decrease of EUR 0.25 million compared to the same period of 2016.

In the nine months of 2017 **cash outflow from financing activities** amounted to EUR 14.80 million, decreasing by EUR 8.98 million compared to the same period in 2016. The change was mainly related to decrease in dividends paid by EUR 7.20 million and income tax on dividends by EUR 1.80 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 3rd quarter of 2017, the total number of employees was 314 compared to 317 at the end of the 3rd quarter of 2016. The full time equivalent (FTE) was respectively 302 in 2017 compared to the 307 in 2016. Average number of employees (FTE) during the nine months was respectively 306 in 2017 and 310 in 2016.

By gender, employee allocation was as follows:

As of 30.09.2017	Women	Men	Total
Group	92	222	314
Management Team	14	13	27
Executive Team	4	4	8
Management Board	1	2	3
Supervisory Board	0	9	9
As of 30.09.2016	Women	Men	Total
Group	93	224	317
Management Team	12	12	24
Executive Team	5	3	8
Management Board	1	2	3
Supervisory Board	0	9	9

The total salary costs were EUR 1.78 million for the 3rd 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.

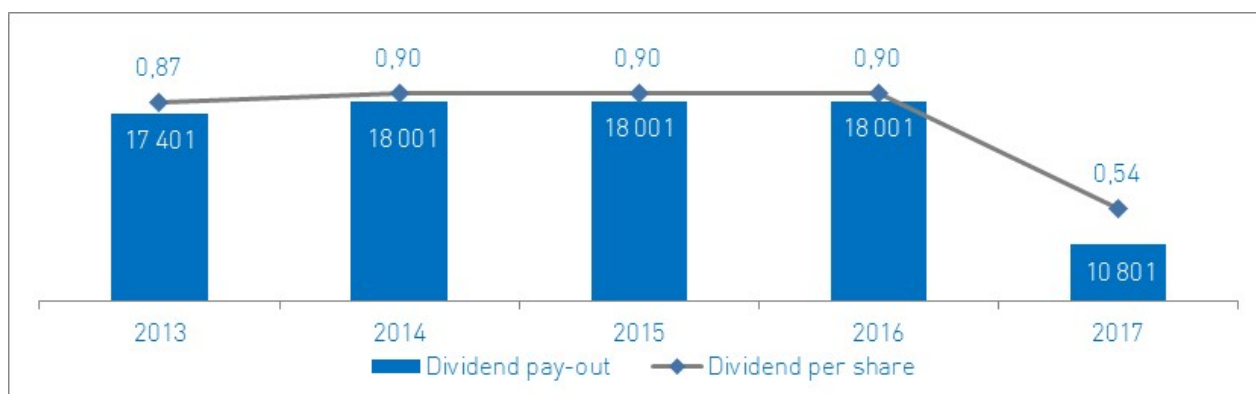
DIVIDENDS

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 disputes. 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 30.09.2017, AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

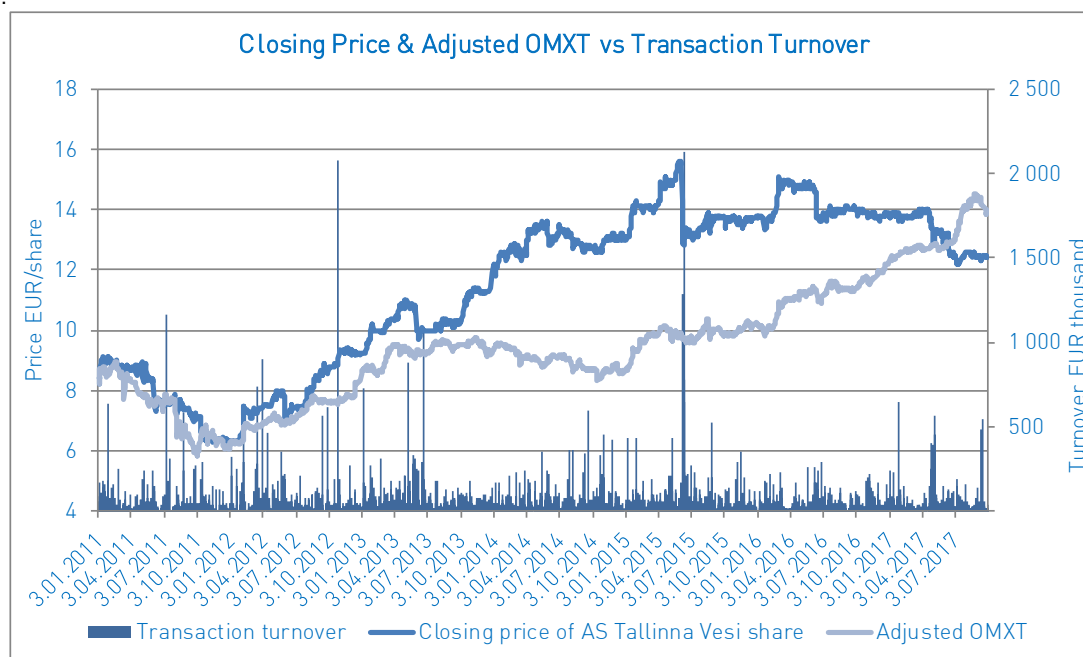
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

During the nine months of 2017 the shareholder structure has been relatively stable compared to the end of 2016. At the end of 3rd quarter 2017 the pension funds shareholding has decreased, being 1.6% of the total shares compared to 2.1% at the end of 2016.

As of 30.09.2017, the closing price of AS Tallinna Vesi share was EUR 12.40, which is 0.8% (2016: 2.2%) lower compared to the closing price of EUR 12.50 at the beginning of the quarter. During the 3rd quarter the OMX Tallinn index increased by 7.8% (2016: 2.1%).

In the nine months of 2017, 5,890 deals with the Company's shares were concluded (2016: 4,684 deals) during which 911 thousand shares or 4.6% of total shares exchanged their owners (2016: 753 thousand shares or 3.8%).

The turnover of the transactions was EUR 1.31 million higher than in 2016, amounting to EUR 11.95 million.



CORPORATE STRUCTURE

As of 30.09.2017, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

CORPORATE GOVERNANCE

SUPERVISORY COUNCIL

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members, who are appointed for two years. There were no changes in the Supervisory Council members in the 3rd quarter of 2017.

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 Timofeev (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 9 months period of financial year 2017 ended 30 September 2017. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 September 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 9 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 3 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 26 October 2017 have been considered in preparing the financial statements.

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

Karl Heino Brookes
Chairman of the Management Board
Chief Executive Officer

Aleksandr Timofejev
Member of the Management Board
Chief Operating Officer

Riina Käi
Member of the Management Board
Chief Financial Officer

26 October 2017

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

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 9 MONTHS PERIOD OF FINANCIAL YEAR 2017 ENDED 30 SEPTEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

ASSETS	Note	as of 30 September 2017	as of 31 December 2016
CURRENT ASSETS			
Cash and cash equivalents	2	39 767	30 405
Trade receivables, accrued income and prepaid expenses		7 684	7 960
Inventories		472	423
TOTAL CURRENT ASSETS		47 923	38 788
NON-CURRENT ASSETS			
Property, plant and equipment	3	172 402	167 991
Intangible assets	4	793	808
TOTAL NON-CURRENT ASSETS		173 195	168 799
TOTAL ASSETS		221 118	207 587
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		246	670
Trade and other payables		6 308	6 434
Derivatives		630	622
Prepayments		2 934	3 488
TOTAL CURRENT LIABILITIES		10 118	11 214
NON-CURRENT LIABILITIES			
Deferred income from connection fees		18 851	15 802
Borrowings		95 607	95 447
Derivatives		263	1 162
Other payables		23	18
TOTAL NON-CURRENT LIABILITIES		114 744	112 429
TOTAL LIABILITIES		124 862	123 643
EQUITY			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		58 244	45 932
TOTAL EQUITY		96 256	89 394
TOTAL LIABILITIES AND EQUITY		221 118	207 587

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

AS TALLINNA VESI

CONSOLIDATED UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE 9 MONTHS PERIOD OF FINANCIAL YEAR 2017 ENDED 30 SEPTEMBER 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

		Quarter 3		9 months		for the year ended
	Note	2017	2016	2017	2016	31 December
						2016
Revenue	5	15 332	15 597	43 841	44 463	58 982
Cost of goods/services sold	7	-6 767	-7 214	-18 542	-19 442	-25 721
GROSS PROFIT		8 565	8 383	25 299	25 021	33 261
Marketing expenses	7	-76	-74	-255	-270	-365
General administration expenses	7	-1 031	-1 474	-3 813	-5 356	-7 799
Other income (+)/expenses (-)	8	-39	-43	-142	-130	-470
OPERATING PROFIT		7 419	6 792	21 089	19 265	24 627
Interest income	9	3	7	12	35	41
Interest expense	9	-387	-367	-1 151	-1 076	-1 447
Other financial income (+)/expenses (-)	9	7	95	411	-786	-331
PROFIT BEFORE TAXES		7 042	6 527	20 361	17 438	22 890
Income tax on dividends	10	0	0	-2 700	-4 500	-4 500
NET PROFIT FOR THE PERIOD		7 042	6 527	17 661	12 938	18 390
COMPREHENSIVE INCOME FOR THE PERIOD		7 042	6 527	17 661	12 938	18 390
Attributable profit to:		0	0	0	0	0
Equity holders of A-shares		7 041	6 526	17 660	12 937	18 389
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	11	0,35	0,33	0,88	0,65	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)

		9 months		for the year ended 31 December
	Note	2017	2016	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		21 089	19 265	24 627
Adjustment for depreciation/amortisation	3,4,7,8	4 670	4 847	6 406
Adjustment for revenues from connection fees	8	-191	-161	-218
Other non-cash adjustments		-19	-11	-15
Profit (-)/loss (+) from sale and write off of property, plant and equipment, and intangible assets		-17	-10	-42
Change in current assets involved in operating activities		-534	-749	41
Change in liabilities involved in operating activities		-250	450	1 073
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		24 748	23 631	31 872
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-6 414	-9 776	-14 526
Compensations received for construction of pipelines		2 194	2 445	3 002
Proceeds from sale of property, plant and equipment, and intangible assets		44	31	50
Interest received		12	39	45
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES		-4 164	-7 261	-11 429
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-1 099	-1 078	-1 510
Repayment of finance lease		-204	-205	-264
Received loans		37 500	0	0
Repayment of loans		-37 500	0	0
Dividends paid	10	-10 801	-18 001	-18 001
Income tax on dividends	10	-2 700	-4 500	-4 500
TOTAL CASH FLOWS USED IN FINANCING ACTIVITIES		-14 804	-23 784	-24 275
CHANGE IN CASH AND CASH EQUIVALENTS		5 780	-7 414	-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	39 767	30 405	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	12 938	12 938
as of 30 September 2016	12 000	24 734	1 278	45 932	83 944
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	17 661	17 661
as of 30 September 2017	12 000	24 734	1 278	58 244	96 256

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 September		as of 31 December
	2017	2016	2016
Cash in hand and in bank	27 419	19 073	21 900
Short-term deposits	12 348	11 332	12 087
Total cash and cash equivalents	39 767	30 405	33 987

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 September 2017						
Acquisition in book value	0	0	0	0	5 724	5 724
Write off and sale of property, plant and equipment in residual value	0	0	-33	0	-5	-38
Reclassification	91	3 277	807	18	-4 193	0
Depreciation	-214	-2 417	-1 774	-56	0	-4 461
as of 30 September 2017						
Acquisition cost	26 224	202 901	47 768	1 122	4 928	282 943
Accumulated depreciation	-6 758	-67 647	-35 287	-849	0	-110 541
Net book value	19 466	135 254	12 481	273	4 928	172 402

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 September 2017 the book value of the assets (Machinery and equipment) leased under financial lease is 965 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 September 2017			
Acquisition in book value	0	172	172
Reclassification	45	-45	0
Depreciation	-209	0	-209
as of 30 September 2017			
Acquisition cost	5 358	382	5 740
Accumulated depreciation	-4 947	0	-4 947
Net book value	411	382	793

NOTE 5. REVENUE

	Quarter 3		9 months		for the year ended
	2017	2016	2017	2016	31 December
					2016
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	12 545	12 330	38 139	37 433	50 196
Private clients, incl:	6 148	6 059	18 808	18 597	24 949
Water supply service	3 380	3 330	10 339	10 225	13 720
Wastewater disposal service	2 768	2 729	8 469	8 372	11 229
Corporate clients, incl:	5 000	4 989	15 256	14 942	20 069
Water supply service	2 775	2 758	8 423	8 262	11 075
Wastewater disposal service	2 225	2 231	6 833	6 680	8 994
Outside service area clients, incl:	1 143	1 068	3 353	3 298	4 400
Water supply service	336	323	1 005	977	1 306
Wastewater disposal service	706	665	2 081	2 020	2 709
Storm water disposal service	101	80	267	301	385
Over pollution fee	254	214	722	596	778
Storm water treatment and disposal service and fire hydrants service	888	972	2 468	2 841	3 671
Construction service, design and asphalting	1 735	2 150	2 780	3 738	4 511
Other works and services	164	145	454	451	604
Total revenue	15 332	15 597	43 841	44 463	58 982

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

NOTE 6. STAFF COSTS

	Quarter 3		9 months		for the year ended
	2017	2016	2017	2016	31 December
					2016
Salaries and wages	-1 331	-1 320	-4 432	-4 440	-5 999
Social security and unemployment insurance taxation	-451	-446	-1 498	-1 501	-2 028
Staff costs total	-1 782	-1 766	-5 930	-5 941	-8 027
Number of employees at the end of reporting period			314	317	311

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

	Quarter 3		9 months		for the year ended
	2017	2016	2017	2016	31 December 2016
Cost of goods/services sold					
Water abstraction charges	-285	-277	-873	-852	-1 169
Chemicals	-415	-345	-1 100	-972	-1 308
Electricity	-724	-760	-2 354	-2 297	-3 107
Pollution tax	-233	-281	-726	-852	-1 091
Staff costs	-1 288	-1 273	-4 188	-4 161	-5 729
Depreciation and amortization	-1 515	-1 427	-4 227	-4 449	-5 863
Construction service, design and asphalting	-1 441	-2 039	-2 315	-3 389	-4 006
Other costs	-866	-812	-2 759	-2 470	-3 448
Total cost of goods/services sold	-6 767	-7 214	-18 542	-19 442	-25 721
Marketing expenses					
Staff costs	-63	-63	-223	-239	-312
Depreciation and amortization	0	0	0	-1	-1
Other marketing expenses	-13	-11	-32	-30	-52
Total marketing expenses	-76	-74	-255	-270	-365
Administrative expenses	0	0	0	0	0
Staff costs	-431	-430	-1 519	-1 541	-1 986
Depreciation and amortization	-89	-85	-268	-245	-343
Other general administration expenses	-511	-959	-2 026	-3 570	-5 470
Total administrative expenses	-1 031	-1 474	-3 813	-5 356	-7 799

NOTE 8. OTHER INCOME / EXPENSES

	Quarter 3		9 months		for the year ended
	2017	2016	2017	2016	31 December 2016
Connection fees	65	55	191	161	218
Depreciation of single connections	-60	-52	-175	-152	-199
Doubtful receivables expenses (-)/ expense reduction (+)	15	-12	-15	-10	-322
Other income (+)/expenses (-)	-59	-34	-143	-129	-167
Total other income / expenses	-39	-43	-142	-130	-470

NOTE 9. FINANCIAL INCOME AND EXPENSES

	Quarter 3		9 months		for the year ended 31
	2017	2016	2017	2016	2016
Interest income	3	7	12	35	41
Interest expense, loan	-225	-217	-676	-663	-881
Interest expense, swap	-162	-150	-475	-413	-566
Increase (+)/decrease (-) of fair value of swap	21	98	432	-775	-316
Other financial income (+)/expenses (-)	-14	-3	-21	-11	-15
Total financial income / expenses	-377	-265	-728	-1 827	-1 737

NOTE 10. DIVIDENDS

	Quarter 3		9 months		for the year ended 31
	2017	2016	2017	2016	2016
Dividends declared during the period	0	0	10 801	18 001	18 001
Dividends paid during the period	0	0	10 801	18 001	18 001
Income tax on dividends paid	0	0	-2 700	-4 500	-4 500
Income tax accounted for	0	0	-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)	0,00	0,00	0,54	0,90	0,90
Dividends per B-share (in euros)	600	600	600	600	600

NOTE 11. EARNINGS PER SHARE

	Quarter 3		9 months		ended 31 December
	2017	2016	2017	2016	2016
Net profit minus B-share preferred dividend rights	7 041	6 526	17 660	12 937	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)	0,35	0,33	0,88	0,65	0,92
Earnings per B share (in euros)	600	600	600	600	600

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

NOTE 12. RELATED PARTIES

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

Shareholders having the significant influence

	as of 30 September		as of 31 December	
Balances recorded on the statement of financial position of the Group	2017	2016	2016	
Accounts receivable	3	3	420	
Trade and other payables	189	192	190	
	Quarter 3		9 months	
Transactions	2017	2016	2017	2016
Revenue	888	971	2 468	2 841
Purchase of administrative and consulting services	254	260	754	771
Fees for Management Board (excluding social tax)	38	38	144	153
Supervisory Board fees (excluding social tax)	8	8	24	24

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 9 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 82 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

As of 30 September 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 September 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.