AS TALLINNA VESI

Consolidated Annual report
for the financial year ended
31 December 2015
(Translation of the Estonian original)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

Beginning of the financial year	1 January 2015
End of the financial year	31 December 2015
Name of the Company	AS TALLINNA VESI
Legal form of the Company	Public limited company
Commercial register number	10257326
Address	Ädala St.10, Tallinn, Estonia
Chairman of the Board	Karl Heino Brookes
Telephone	+ 372 6 262 200
Fax	+372 6 262 300
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
Auditors	AS PricewaterhouseCoopers
Documents attached to the Annual Report	Independent auditor's report

TABLE OF CONTENTS

MANAGEMENT REPORT

CHAIRMAN'S STATEMENT

2015 was a year of exceptional performance for AS Tallinna Vesi. As in previous years, we managed to achieve further improvements with respect to our operational results and the quality of services that we provide to our customers in Tallinn and its surrounding areas. This is clearly demonstrated by the results of the recent customer satisfaction survey, by the low level of leakages in the network and by the excellent water quality, all of which have surpassed previous performance levels.

As a water utility company, we have a significant interface with the surrounding environment and local communities. Therefore, we work tirelessly to ensure the needs and expectations of our various stakeholders are being met. AS Tallinna Vesi has its own workforce of more than 300 employees and throughout the year, considerable focus was placed on ensuring their continued safety, commitment and development. This was rewarded with excellent results in the 2015 customer and employee opinion surveys as well as with several external awards related to safety, corporate social responsibility and stakeholder relations.

The company has once again excelled in investor relations, which was recognised during the annual Nasdaq Baltic Market Awards, where AS Tallinna Vesi secured the 1st place in several awards, including the main category, "Best Investor Relations in the Baltic market" for a third consecutive year.

The company continues to seek a resolution with respect to the ongoing tariff dispute, and the legal case continues, both in the Local Courts and via International Arbitration. We are continually open to discussions related to a negotiated settlement.

Operations performance – "Best ever water quality and the lowest level of leakages"

Our first priority is to provide a reliable and high quality water service to our customers and ensure that all our activities, from initial water catchment to wastewater treatment, are enacted in accordance with strict environmental legislation.

Together with the legislative requirements, we also have to comply with the 97 levels of service that are stipulated within the Services Agreement, signed by the Company and the City of Tallinn at the time of privatisation, in 2001. Compliance with these service levels ensures the company delivers the best possible service to its customers and carries out investment plans to ensure the continued reliability and performance of the asset base.

One of the most significant indicators directly impacting public health and wellbeing is the quality of drinking water. This is enforced by strict legislation and is backed up by a rigorous sampling and testing regime. In 2015, we took a total of 2,945 water samples from consumers' taps in Tallinn and Saue and carried out 24,500 water analyses. Results of the samples indicated a 99.86% compliance, which represents an all-time best in terms of Company performance and demonstrates the effectiveness of our day-to-day operations and initial water treatment. We continue to encourage people to drink tap water and recent independent research, carried out by EMOR, confirmed that on average, 82% of customers are now drinking tap water, which compares favourably to only 48% in 2011.

Besides providing a premium drinking water service, we are also responsible for a wastewater discharge service to nearly one third of Estonia's population. The effective performance of the wastewater treatment plant in Paljassaare is therefore of paramount importance and it ensures that we meet our environmental obligations related to final effluent discharge into the Baltic Sea. In 2015, the treated effluent was 100% compliant with all the stipulated quality requirements. This has been achieved through targeted investments and improvements in the existing technological processes.

As an example of such investments, we completed the construction of a new coagulant dosing system, which has improved both the efficiency and effectiveness of phosphorous removal from wastewater. Another notable success during 2015 was the reduction achieved in network leakage levels, which ended at 14.68% and compares favourably to the previous year's figure of 16.14%. This is the lowest figure achieved in the Company's history and is comparable to the best performing European utilities.

Leakage level indicates the water loss in the distribution network, which was almost 32% in 2002. We are now saving almost 5,000,000m^3 of treated drinking water per year, which is a significant contribution to the well-being of the environment.

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

We are committed to providing the best quality drinking water to our customers. However, we believe this should be reinforced by an equally outstanding service and by effective communications. Each year, an extensive customer satisfaction survey is carried out by an independent research company, TNS EMOR. The results of this survey map the current level of satisfaction for both our contractual clients and our consumers who pay indirectly via housing associations and landlords

The ratings received are not only based on direct customer/consumer experience, but also on the perceptions generated by external coverage in the media and other forms of indirect contact. In 2015, customer satisfaction reached its highest level to date with a 94 index point level being achieved, compared to 85 in the previous year. This maintains the trend and we continue to outperform the European averages for the utility and industrial sector, by a considerable margin.

This is a remarkable result and once again demonstrates the company's continued commitment to providing an outstanding service to the citizens of Tallinn.

Our employees – "Best working environment in Estonia for 2015"

Ensuring the continued health and safety of employees and third parties who interface with the company's activities is of vital importance. Considerable management focus has been placed on improving the safety culture and enhancing existing policies and procedures. During 2015, health and safety performance improved and in late autumn, this was recognised externally when the company received an award from the Minister of Health and Labour, Jevgeni Ossinovski, for having the "Best Working Environment" in Estonia.

Critical to AS Tallinna Vesi's ongoing success is ensuring the continued motivation and commitment of employees, who work extremely hard in all weather conditions, in order to meet the demands set by our customers and external stakeholders. Acting on feedback received from previous employee opinion surveys, additional personal development opportunities have been created and internal communications enhanced to improve overall staff engagement.

Responsible and sustainable thinking – "Continuous work with stakeholders builds trust"

As a listed company we are accountable to shareholders, customers and a variety of external stakeholders, with whom we interact on a daily basis. Our focus is on creating consistency, transparency and balance between the various elements of our operations and we oversee the business with the highest standards of corporate governance.

In recognition of this, during 2015 we received several external awards, which include:

- "Golden" Mark in Corporate Social Responsibility index by the Minister of Entrepreneurship, Liisa Oviir, on behalf of the Ministry of Economics and Communication, Estonian Responsible Business Forum, Estonian Business School, KPMG and Äripäev. This is a sign of being responsible in our actions and minds thorough the business.
- Nasdaq Baltic Market Awards – 1st place "Best Investor Relations in the Baltics"
- Nasdaq Baltic Market Awards – 1st place "Best Investor Relations in the Baltics according to market professionals".
- Nasdaq Baltic Market Awards – 1st place "Best Interactive Relations"
- Nasdaq Baltic Market Awards – 1st place "Most Trustworthy Company"
- "Most Youth and Children Friendly Company in Tallinn"

During the year, we also continued to support the wider community and provided support to a number of good causes and charities, including:

- Years of coorperation with and support to the Disabled People's Union
- Coorperation with the Estonian Basketball Union, Youth basketball
- Many-sided assistance to the Kindergarten "Õunake" for disabled children
- Support to the Elementary School "Ristiku" for children with learning disabilities
- Engaged with fund-raising initiative "Rat Race" and SPIN project to engage youth with sports and healthy lifestyle
- Provided quality drinking water to several community and sporting events
- Contributed to building ice-skating rinks across the city during the winter period
- Continued our environmental education programmes, in co-operation with educational institutions and kindergartens.
- Provided tours of our water and wastewater treatment facilities to more than 3,000 adults and children

Attractive for shareholders

We firmly believe that our operational and financial performance still makes us an attractive investment for current and future shareholders. Last year's total revenues were EUR 55.93 million, showing an increase by 5.0% or EUR 2.69 million year on year. As tariffs remain frozen at their 2010 levels, related revenues are being impacted by consumption. In 2015, we increased external sales of construction, design and asphalting services by 188.9% or EUR 1.78 million. Operating profit for 2015 was EUR 25.58 million, an increase of 3.0% or EUR 0.75 million, compared to 2014.

We have been a consistent dividend payer. In June 2015, we made a payment of EUR 0.90 per share. This is in accordance with our current dividend policy, which is to increase dividends by a minimum of CPI each year, therefore providing a return that is consistent with other privatised utilities in Europe.

Outlook for 2016

Given the background of the ongoing tariff dispute with the Estonian Competition Authority, the potential for significant expansion into the remainder of the Estonian water utility sector is restricted. Working on the successes of 2015, we will seek further external opportunities in asphalting and construction via our subsidiary Watercom OÜ. However, each opportunity will be carefully considered to ensure no significant risk to the core business. AS Tallinna Vesi has a wealth of knowledge and experience related to the water utility sector and, through various industry bodies and commerce, will continue to share its expertise.

AS Tallinna Vesi has been in dispute with the Estonian Competition Authority, with regards to tariffs, since 2011. Despite the fact that the Administrative court dismissed the Company's claim, considering the Services Contract not to be binding to the Competition Authority, we have appealed to the Circuit court. Until the final verdict in the matter, our tariffs remain frozen at 2010 levels.

In parallel, and independent from the Local Court proceedings, International Arbitration Proceedings are being held via the "International Centre for Settlement of Investment Disputes" (ICSID). In 2014, AS Tallinna Vesi and its shareholder United Utilities (Tallinn) BV, commenced 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 timetable of the International Arbitration Proceedings has been determined, with the final hearing set for November 2016, which will be webcast live and via the internet.

The tariff dispute will continue to be one of our key focuses during the year.

In 2016, we will expect to finalise also the repair works of Tihase tunnel collector, which is a significant artery in the Tallinn sewerage network. The contract for repair works was signed with the Finnish construction company Lemminkäinen and repair works were started in the spring of 2015. As the ground conditions and the construction works have proven to be challenging, the works have lasted longer than expected. Throughout construction, no disruption has been caused to consumers and no pollution incidents have occurred. We expect to finish the construction works by summer 2016. AS Tallinna Vesi's major shareholder United Utilities, have provided and continue to provide constant technical assurance throughout the construction and design phases of the project.

We will continue focussing on delivering an outstanding service to our customers and consumers. Building on the achievements of 2015, we will continue to work with all our stakeholders, including investors, and as a good corporate citizen, will continue to support the wider communities and environment.

Finally, I would like to thank my colleagues in AS Tallinna Vesi, Watercom OÜ and United Utilities, and all our suppliers and business partners for their continued support in helping the company to deliver an exceptional performance during 2015.

Sincerely,
Karl Heino Brookes

ABOUT THE COMPANY

Corporate structure and business model

AS Tallinna Vesi is the largest water utility company in Estonia, providing drinking water and wastewater disposal services to nearly a third of the Estonian population. We serve over 22,000 customers and 430,000 end consumers in Tallinn and its surrounding areas.

AS Tallinna Vesi was privatised in 2001 and based on the services agreement signed with the City of Tallinn at the time of the privatisation, the Company must fulfil 97 levels of services. AS Tallinna Vesi has the exclusive right to provide water and wastewater services in Tallinn until 2025.

We have two main treatment plants, Ülemiste Water Treatment Plant and Paljassaare Wastewater treatment plant.

In 2015, the Water Treatment Plant produced an average 60,000 m^3 of water per day, which has remained stable within recent years. Almost 90% of drinking water is produced from surface water, with Lake Ülemiste as the main source for the residents of Tallinn, leading it to be declared a non-public water body.

Approximately 10% of consumers use regional ground water. Average water consumption has been relatively stable over the years, at around 95 litres per day.

In 2015, the Wastewater Treatment Plant treated on average 120,000 m^3 of wastewater per day, compared to 118,000 m^3 in 2014.

We have an accredited water laboratory and an accredited wastewater laboratory which, in 2015, conducted together approximately 146,000 analysis, out of which 88,000 chemical and 11,000 microbiological analysis of drinking water and 47,000 chemical analysis of wastewater (in 2014 we conducted 143,000 analysis, out of which 85,000 chemical and 11,000 microbiological analysis of drinking water and 47,000 chemical analysis of wastewater).

The public water supply system comprises almost 1,139 km of water networks, 18 water-pumping stations and 64 ground borehole pumping stations with 93 boreholes. The catchment area in Harju and Järvamaa counties is around 1,800 m^2 km.

The public sewerage system comprises 1,115 km of wastewater networks, 481 km of storm water networks and over 174 sewerage pumping stations across the service area. The storm water network is not owned by the Company but by the City of Tallinn.

In 2010, AS Tallinna Vesi founded a subsidiary company, Watercom OÜ, aimed at providing services to the Company, but moreover, to diversify the product range on offer and develop a non-regulated business.

AS Tallinna Vesi Group consists of two companies. The subsidiary, Watercom OÜ, is wholly owned by AS Tallinna Vesi and consolidated to the results of the Group (hereinafter referred to as Group). The Group structure has remained unchanged since 2014.

Environmental impact

As one of the largest water companies in Estonia, our activity influences nearly one third of the country's population. We supply consumers with wholesome drinking water and treat sewage and storm water, using technologies that are both environmentally friendly and modern.

We fully understand that, by providing a service that is compliant with all requirements, we influence the quality of life of the citizens of Tallinn, its neighbouring municipalities and of the wider environment in and around the Baltic Sea. Therefore, our management practices need to take into account the impact we have on our surrounding environment, both living and natural.

The Company`s environmental activity and environmental management system are in compliance with the requirements of the international environmental management standard ISO 14001 and EU Eco Management and Audit Scheme (EMAS) Regulation. The Company´s environmental activities are, to a large extent, regulated by requirements arising from the EU, from national and local government legislation and from the environmental permits issued by the Environmental Board.

Consequently, the environmental impact of our daily activities as a company is rather well mapped and managed.

In order to keep our main activities operational we must rely on resources that have an environmental impact. The Company's core activity is highly dependent on the use of electricity and this has the strongest impact on the environment. We continue striving for higher efficiency in our electricity consumption by maximizing the use of biogas, a product of the sludge digestion process, in local heat production. This contributes significantly towards improving our energy efficiency.

Our duty as a water company is to ensure the availability of high-quality drinking water to our customers. However, the Company itself is also in need of water in order to keep its work processes on-going and to ensure an uninterrupted water supply to the residents of Tallinn. In order to reduce ambient air pollution, the Company is focused on limiting the amount of pollutants emitted from Ülemiste and Paljassaare boiler houses, such as nitrogen dioxide, carbon monoxide, volatile organic compounds and CO_2 greenhouse gas emissions.

A more detailed overview of our environmental performance is available in our environmental report.

The 2014 environmental report can be viewed on AS Tallinna Vesi's webpage:
http://www.tallinnavesi.ee – Investor – Reports – Environmental Reports or directly by following the link: http://tallinnavesi.ee/images/stories/keskkond/emas%202014_est.pdf.

The 2015 environmental report is due to be published at the end of the 2nd half of 2016 at the latest and will be available on the Company's web page.

RESULTS OF OPERATIONS – FOR THE YEAR 2015

Financial highlights of 2015

In 2015, we were able to make further improvements to the services we provide to our customers. We also demonstrated exceptional operational performance and a good financial performance.

The sales revenues of the Group in 2015, compared to the same period in 2014, increased by 5.0%, or EUR 2.69 million, to EUR 55.93 million. The main impact on sales revenues was due to an increase in construction and asphalting services revenues and higher water and wastewater services revenues.

Gross profit in 2015 was EUR 32.25 million, increasing by 4.6%, or EUR 1.41 million, year on year. The increase in gross profit was related to the higher main services revenues mentioned earlier and lower chemical and pollution tax costs, which was supported by higher revenues and profit from construction and asphalting services. In 2014, gross profit was also influenced by an increase in pollution tax expenses, resulting from changes in the water permit limits. The new permit, issued to the Group at the end of 2013 and valid until the end of the 2nd quarter of 2014, set unreasonably high concentration limits for heavy metals, more than 400 times higher than earlier. When eliminating the influence of the 2014 increase in pollution tax, gross profit rose by 0.8% or EUR 0.3 million.

Operating profit in 2015 was EUR 25.58 million, increasing by 3.0%, or EUR 0.75 million, year on year. The operating profit was mainly affected by the changes in gross profit mentioned above and was balanced out by higher staff costs and by consultation and legal fees related to the tariff dispute.

Net profit for 2015 amounted to EUR 19.86 million, up by 10.7% or EUR 1.92 million. The net profit was mainly affected by changes in operating profit mentioned earlier and by lower financial expenses. The lower financial expenses were influenced by a decrease in interest costs of EUR 0.85 million year on year and by a bigger positive change of the fair value of swap contracts by EUR 0.35 million. The net profit for 2015, without the impact resulting from the pollution tax and the change of the fair value of swap contracts, was EUR 19.03 million, 2.32% or EUR 0.43 million higher than in the comparative period last year.

Other main economic indicators

EUR million	**2015**	**2014**	**2013**	**2012**	**2011**
Sales	55.93	53.24	53.09	52.92	51.24
Gross profit	32.25	30.84	30.58	32.59	30.31
Operating profit	25.58	24.83	24.76	28.77	28.89
Operating profit - main business	25.24	24.54	24.50	26.82	25.41
Profit before taxes	24.36	22.73	24.56	27.07	25.77
Net profit	19.86	17.94	19.94	22.60	21.51
Gross profit margin %	57.66	57.93	57.61	61.57	59.16
Operating profit margin %	45.73	46.63	46.63	54.36	56.38
Profit before taxes margin %	43.55	42.69	46.27	51.14	50.28
Net profit margin %	35.51	33.70	37.55	42.70	41.98
ROA %	9.50	8.73	9.83	11.26	11.20

Debt to total capital employed %	57.43	57.61	56.98	57.82	58.93
ROE %	22.31	20.59	22.86	26.69	27.27
Current ratio	5.40	5.35	4.21	4.32	4.12
Number of full-time equivalent employees	311	307	292	301	299
Share capital	12.00	12.00	12.00	12.00	12.00

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

Statement of comprehensive income

Sales

With the Group's water and wastewater tariffs frozen at the 2010 tariff level, changes in water and wastewater sales revenues are fully driven by consumption.

In 2015, the Group's total sales revenues increased year on year by 5.0%, or EUR 2.69 million, to EUR 55.93 million. Of this, 88.1% consisted of sales of water and wastewater services to domestic and commercial customers within and outside of the service area, 6.0% were fees received from the City of Tallinn for operating and maintaining the storm water and fire hydrants system in Tallinn and 5.9% were from other works and services. There is no considerable seasonality in the operation of the Group's main activities (sales of water and wastewater services).

Sales revenues (EUR thousand)	**Year ended 31 December**			**Variance 2015/2014**	
	2015	**2014**	**2013**		
Private clients, incl:	24,408	24,154	23,642	254	1.1%
Water supply service	13,436	13,303	13,022	133	1.0%
Wastewater disposal service	10,972	10,851	10,620	121	1.1%
Corporate clients, incl:	19,358	19,085	19,053	273	1.4%
Water supply service	10,736	10,664	10,585	72	0.7%
Wastewater disposal service	8,622	8,421	8,468	201	2.4%
Outside service area clients, incl:	4,765	4,520	4,308	245	5.4%
Water supply service	1,280	1,153	1,095	127	11.0%
Wastewater disposal service	3,011	2,957	2,730	54	1.8%
Storm water disposal service	474	410	483	64	15.6%
Over pollution fee	766	839	734	-73	-8.7%

Storm water treatment and disposal service and fire hydrant service	3,357	3,073	3,424	284	9.2%
Construction service, design and asphalting	2,724	943	1,146	1,781	188.9%
Other works and services	550	627	780	-77	-12.3%
Sales revenues total	**55,928**	**53,241**	**53,087**	**2,687**	**5.1%**

Sales from water and wastewater services amounted to EUR 49.30 million, showing a 1.4% or EUR 0.70 million increase compared to the twelve months of 2014. This was a result of the changes in sales volumes as described below:

- Sales to private customers within the main service area in 2015 increased by 1.1% to EUR 24.41 million compared to the same period in 2014. The increase in sales to private customers came mainly from apartment blocks, which are also the biggest private customer segment.
- Sales to commercial customers within the main service area increased by 1.4% to EUR 19.36 million, a result stemming primarily from an increase in industry and other customer segments.
- Sales to customers outside the main service area increased by 5.4% to EUR 4.77 million. The biggest increase in sales to outside area customers was a result of the increase in sales of water services which increased by 11.0% to EUR 1.28 million.
- Over pollution fees received from business customers decreased by 8.7% to EUR 0.77 million.

Sales from the operation and maintenance of the main service area storm water and fire-hydrant system, in the twelve months of 2015, were EUR 3.36 million, showing an increase of 9.2% or EUR 0.28 million.

Sales of construction, design and asphalting services were EUR 2.72 million, a rise of 188.9%, or EUR 1.78 million, year on year. Mild weather and consequently a longer construction period, facilitated the increase in pipe construction revenues by EUR 1.00 million. In 2014, the Group began providing asphalting services, mostly internally to the company. As in 2015, asphalting services were extended to external customers, resulting in an increase in revenues of EUR 0.78 million.

Cost of goods sold and Gross profit

The cost of goods sold in the twelve months of 2015 amounted to EUR 23.68 million showing a 5.7%, or EUR 1.28 million increase compared to the equivalent period in 2014. The increase in cost of goods sold was mainly influenced by higher staff costs and an increase in construction and asphalting services related costs, which were balanced-out by lower, direct production costs.

Cost of goods sold (EUR thousand)	**Year ended 31 December**			**Variance 2015/2014**	
	2015	**2014**	**2013**		
Water abstraction charges	-1,101	-1,057	-997	-44	-4.2%
Chemicals	-1,531	-1,737	-1,734	206	11.9%
Electricity	-3,035	-3,032	-3,392	-3	-0.1%
Pollution tax	-1,002	-2,163	-1,872	1,161	53.7%
Total direct production costs	**-6,669**	**-7,989**	**-7,995**	**1,320**	**16.5%**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

Staff costs	-5,603	-4,880	-4,833	-723	-14.8%
Depreciation and amortization	-5,690	-5,370	-5,115	-320	-6.0%
Construction service, design and asphalting	-2,398	-784	-947	-1,614	-205.9%
Other costs of goods sold	-3,319	-3,376	-3,615	57	1.7%
Other costs of goods sold total	**-17,010**	**-14,410**	**-14,510**	**-2,600**	**-18.0%**
Total cost of goods sold	**-23,679**	**-22,399**	**-22,505**	**-1,280**	**-5.7%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were EUR 6.67 million, a decrease by 16.5%, or EUR 1.32 million, year on year. The biggest amount came from a decrease in pollution tax and chemicals costs, which was balanced-out slightly by the increase in water abstraction charges as described below:

- Water abstraction charges remained relatively flat, increasing by 4.2% to EUR 1.10 million. This was driven by an increase in treated volumes and an average 3.1% raise in tax rates.
- Chemicals costs decreased by 11.9% to EUR 1.53 million, mainly as a result of a smaller use of chemicals to remove pollutants in the wastewater treatment process and, on average, a 10.4% lower methanol price, worth EUR 0.14 million and EUR 0.07 million respectively.
- In 2015, electricity costs were almost at the same level as in 2014, amounting to EUR 3.04 million.
- Pollution tax expenses decreased by 53.7% to EUR 1.00 million. The decrease was for the most part influenced by a change in the water permit at the end of 2013, which remained in effect until the end of the 2nd quarter of 2014. The changes in the water permit allowed the concentration for heavy metals to decrease by 400. Previously applicable concentration limits were subsequently re-established, starting from the 3rd quarter of 2014, after which the pollution tax costs stabilised at their normal level. The influences of the changes in the water permit notwithstanding, the pollution tax expenses increased by 12.6%, or EUR 0.11 million, year on year. The main contribution to the increase in pollution tax expenses came from on average 4.8% rise in tax rates amounting to EUR 0.12 million.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other cost of goods sold) amounted to EUR 17.01 million, an increase of 18.0%, or EUR 2.60 million, compared to the same period in 2014. The main increment came from an increase in staff costs and in costs related to higher construction and asphalting services. Higher staff costs were related not only to an increase in the average number of employees throughout the year, which enabled the Group to provide a broader range of services, but also to the increases in salaries in 2015, necessary in order for the Group to pay fair and competitive salaries. In addition, staff costs were affected by the reduced bonus reserve at the end of 2014.

As a result of all of the above, the Group's gross profit for 2015 was EUR 32.25 million, 4.6%, or EUR 1.41 million, higher compared to a gross profit of EUR 30.84 million in 2014.

Administrative and marketing expenses

Administrative and marketing expenses were EUR 6.52 million, showing an increase of 9.2% or EUR 0.55 million. This was mainly due to an increase in salary costs and in consultation and legal fees related to the tariff dispute. The increase in salary expenses was mostly related to the reduced bonus reserve in 2014 but it was also affected by salary increases at the beginning of 2015. Legal and consultation fees will continue to be at higher levels for as long as the Company is involved in ongoing local and international disputes.

Operating profit

As a result of the factors listed above, the Group's operating profit for 2015 amounted to EUR 25.58 million, 3.0% or EUR 0.75 million higher than in 2014. The Group's operating profit from the core business was 2.9% or EUR 0.71 million higher compared to 2014. The operating profit from the main services, without the impact of the pollution tax increase in 2014, decreased by 1.7%, or EUR 0.43 million, to EUR 25.24 million.

Financial expenses

The Group's net financial income and expenses resulted in a net expense of EUR 1.22 million, compared to a net expense of EUR 2.10 million in 2014. It was mainly the result of a decrease in interest costs of EUR 0.85 million and a EUR 0.35 million higher positive change in the fair value of the swap contracts. The decrease in costs was balanced-out by a lower interest income of 78.1% or EUR 0.34 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 of the loans are still with floating interest rate. As of 31st December 2015, the estimated value of the fair swap contracts is negative, totalling EUR 1.01 million. The effective interest rate of loans, including swap interests, in 2015 was 2.2%, amounting to interest costs of EUR 2.13 million, compared to the effective interest rate of 3.1% and the interest costs of EUR 2.98 million in 2014.

Profit before taxes and net profit

The Group's profit before taxes for 2015 was EUR 24.36 million, 7.2% or EUR 1.63 million higher than profit before taxes of EUR 22.73 million for 2014. This was a direct result of increased revenues and decreased financial expenses and was set-off by the increase in costs as described above. The Group's net profit for 2015 was EUR 19.86 million, EUR 1.92 million higher than the net profit of EUR 17.94 million for 2014.

Statement of financial position

In the twelve months of 2015, the Group invested EUR 11.30 million into fixed assets. As of 31st December 2015, non-current tangible assets amounted to EUR 162.73 million and total non-current assets amounted to EUR 163.63 million (31st December 2014: EUR 157.48 million and EUR 158.34 million respectively).

Compared to the year end of 2014, there has been a reduction in receivables and prepayments of EUR 1.09 million to EUR 7.17 million, which is mainly related to the collection of money for the network extension program.

Current liabilities decreased by EUR 0.41 million to EUR 8.42 million in comparison to the year end of 2014. The increase in trade and other payables by EUR 0.73 million was balanced-out by a decrease in the fair value of derivatives of EUR 0.56 million and in prepayments of EUR 0.65 million. The increase in payables was related to increased investment-related liabilities as well as to a bigger bonus reserve.

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

The Group had a Total debt/Total assets level of 57.4%, well within the expected range of 55%-65%, reflecting the Group's equity profile. This level was consistent with the same period in 2014, when the Total debt/Total assets ratio was 57.6%.

Deferred income from connection fees grew, compared to the end of 2014, by EUR 2.46 million to 15.03 million.

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 have caused an outflow of economic benefits of up to EUR 36.0 million. At the end of 2015, the Group re-evaluated the liability, which now stands at EUR 42.8 million (31 December 2014: EUR 40.1 million), as per note 3 to the accounts. The re-evaluation is made annually at the end of each year.

Cash flow

As of 31st December 2015, the cash balance of the Group stood at EUR 37.82 million, which was 18.1% of the total assets (31st December 2014: EUR 38.56 million, forming 18.8% of the total assets).

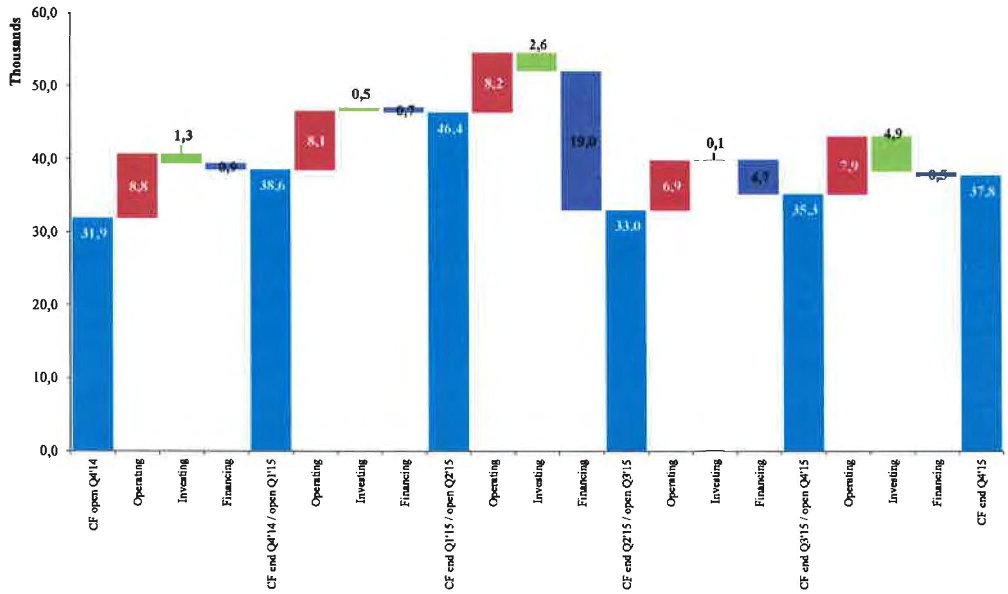
The biggest contribution to the cash flows came from main operations. During the twelve months of 2015, the Group generated EUR 31.11 million of cash flows from operating activities, a decrease of EUR 0.34 million compared to the corresponding period in 2014. Underlying operating profit still continued to be the main contributor to operating cash flows. The collection of receivables continued to be strong.

In the twelve months of 2015, the result of net cash flows from investment activities was a cash outflow of EUR 6.87 million, a decrease of EUR 8.19 million compared to the inflow of EUR 1.32 million in the twelve months of 2014. This was made up as follows:

- In the twelve months of 2015 the investments in fixed assets increased by EUR 3.85 million when compared to 2014, amounting to EUR 13.50 million.
- The compensations received for the construction of pipelines were EUR 6.50 million in the twelve months of 2015, showing a decrease of EUR 4.02 million when compared to the same period of 2014.

In the twelve months of 2015, cash outflow from financing activities amounted to EUR 24.99 million, decreasing by EUR 1.01 million when compared to the same period in 2014. The change was mainly related to a reduction in interest payments of EUR 0.82 million due to the renewal of swap contracts. In addition to and in spite of the same dividend payment, dividend income tax was lower by EUR 0.29 million due to a change in income tax rate.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)



Employees

Competent and engaged employees are key to any business. The Group is committed to creating a work environment where everyone is respected and valued. We have described our human resource management procedures, including but not limited to recruitment, remuneration, evaluation and training policies. We follow equality principles in selecting and managing people which translates into providing, when feasible, equal opportunities to everyone. Understanding and appreciating the diversity of our staff, we ensure that everyone is treated fairly and equally and that they have access to the same opportunities as is reasonably practicable. We aim to ensure that no employees are discriminated against due to, but not exclusive to, age; gender; religion; cultural or ethnic origin; disability; sexuality orientation or marital status.

At the end of 2015, the total number of employees was 323 compared to 321 at the end of 2014. The full time equivalent (FTE) was 311 in 2015 compared to the 307 in 2014. The average number of employees (FTE) during the full year was respectively 307 in 2015 and 300 in 2014.

By gender, employee allocation was as follows:

As of 31st December 2015	**Women**	**Men**	**Total**
Group	**99**	**224**	**323**
Management Team	11	9	20
Executive Team	6	3	9
Management Board	1	2	3
Supervisory Board	0	9	9

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

As of 31st December 2014	Women	Men	Total
Group	**98**	**223**	**321**
Management Team	11	9	20
Executive Team	6	3	9
Management Board	1	2	3
Supervisory Board	0	9	9

It is of paramount importance, that we invest in our people and have appropriately qualified employees. For this purpose, we prepare annual training plans and have designed succession planning and apprenticeship programs that allow us to have ongoing people development and highly skilled employees.

We arrange an annual employee engagement survey conducted by an independent research company TNS EMOR. Based on the feedback from the employee engagement survey, we carry out discussions with our employees and, based on these discussions, prepare action plans at department and company level in order to address any issues raised.

At the end of 2015, the employee engagement index amounted to 72 points (in 2014, 71), which is higher than the Estonian average of 66 points and the European average of 60 points. This compares very favourably with the score of 58 points, which is the average of the Estonian manufacturing sector.

The total salary cost was EUR 7.98 million, including EUR 0.18 million paid to Management and Supervisory Council members. 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

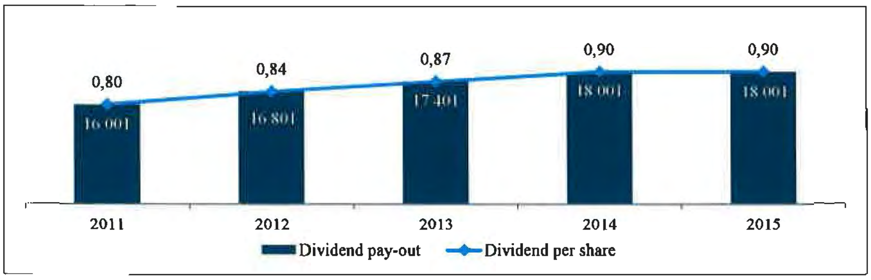
Dividend allocation to shareholders is recorded as a liability in the financial statement of the Company at the time when profit allocation and dividend payment is confirmed by the annual general meeting of shareholders.

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

The Annual general meeting of shareholders, held on 27th May 2015, approved a 90-cent dividend per share to be paid and a total dividend pay-out of EUR 18.0 million from the 2014 net income profit. Hence, there was no change compared to the dividend of 90 cents paid per share in 2014.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

Dividends were paid out on 19th of June 2015. Dividend pay-outs in last five years have been as follows:



Share performance

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

As of 31 December 2015, the shareholders of AS Tallinna Vesi, with a direct holding over 5%, were:

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

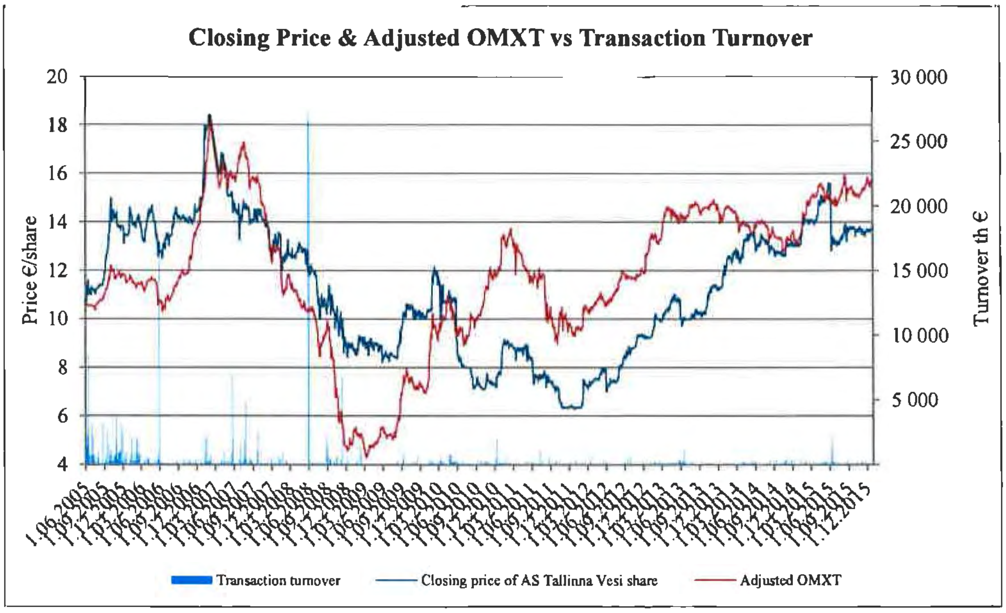
During 2015, the shareholder structure was relatively stable compared to the end of 2014. At the end of 2015 the pension funds owned 1.89% of the total shares compared to 1.54% at the end of 2014.

As of 31 December 2015, the closing price of AS Tallinna Vesi's share was EUR 13.80 representing a 5.3% increase from EUR 13.10 in the beginning of the year (in 2014, the increase was 10.1%). During the same period, the OMX Tallinn Index saw an increase of 19.1% (-7.7% respectively in 2014).

In 2015, shareholders completed 7,818 deals using Company's shares in which 79% or 1,581 thousand shares exchanged owners. In 2014, the number of deals was 4,962, with 1,239 thousand shares, or 6.2%, exchanging owners.

The turnover of the transactions was EUR 5.80 million higher than in 2014, amounting to EUR 21.75 million.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)



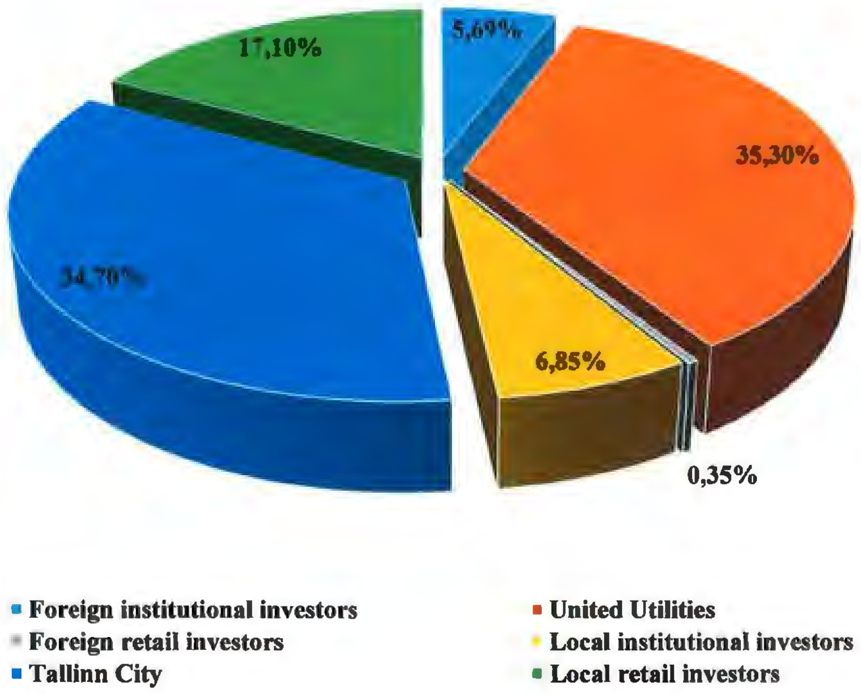
Share price statistics

EUR	2015	2014	2013	2012	2011
Share price, open	13.10	12.00	9.25	6.30	7.90
Share price, at the end of the year	13.80	13.10	11.90	9.20	6.29
Share price, low	12.80	11.80	9.20	6.30	6.29
Share price, high	15.60	13.60	12.00	9.40	9.29
Share price, average	13.88	12.91	10.42	7.91	7.76
Traded volume, million	1,581	1,239	1,852	2,375	1,927
Turnover, million	21.7	16.0	19.1	18.6	14.9
Capitalisation, million	276.0	262.0	238.0	184.0	125.8
Earnings per share	0.99	0.90	1.00	1.13	1.08
Dividend per share	n/a	0.90	0.90	0.87	0.84
Dividend / net profit	n/a	100%	90%	77%	78%
P/E	13.94	14.56	11.90	8.14	5.82
P/BV	3.1	3.0	2.7	2.2	1.6

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

Shareholders by type as of 31 December 2015



Distribution of share capital by size of share ownership as of 31 December 2015

	Shareholders	Shareholders %	No. of shares	% of share capital
1 - 100	1,473	32.1%	77,406	0.4%
101 - 200	789	17.2%	121,784	0.6%
201 - 300	453	9.9%	117,786	0.6%
301 - 500	542	11.8%	227,861	1.1%
501 - 1,000	574	12.5%	438,974	2.2%
1,001 - 5,000	591	12.9%	1,269,903	6.3%
5,001 - 10,000	87	1.9%	634,737	3.2%
10,001 - 50,000	63	1.4%	1,206,793	6.0%
50,000 +	20	0.4%	15,904,756	79.5%
TOTAL	**4,592**	**100.0%**	**20,000,000**	**100.0%**

Future actions and 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 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 after three years of seeking negotiations to try to reach mutually agreeable settlement, but that has not happened.

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

At this point in time, the Company cannot determine future developments in relation to the claim, possible outcomes or timing of the conclusion of the proceedings.

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

Overview

Corporate governance is a system of principles for the control and management of a Company. These principles are regulated by law, by the Articles of Association and by the internal rules of the Company. As of 1st January 2006, companies listed on the Nasdaq Tallinn Stock Exchange have been encouraged to follow the Corporate Governance Recommendations issued by the Financial Supervision Authority. AS Tallinna Vesi is committed to following those recommendations and acted accordingly throughout 2015. This report covers the principles applicable as of 31st December 2015 and approved by the Financial Supervision Authority.

AS Tallinna Vesi is committed to high standards of corporate governance, for which the Management Board and the Supervisory Board are accountable to the shareholders. The corporate governance model and operational structure are designed to ensure that all employees work towards the common objectives of the Company. Good corporate governance, internal controls and risk management are all key elements to a successful business. Good corporate governance, transparency, sustainability, internal controls and risk management are fundamental components to build and maintain the trust and credibility of all stakeholders of the Company. AS Tallinna Vesi considers it crucial to be transparent in its methods of operation, making corporate disclosures and in its relations with its stakeholders. AS Tallinna Vesi has received recognition for best investor relations by Nasdaq Baltic on several occasions:

- In 2009, AS Tallinna Vesi was awarded Best Investor Relations in Nasdaq Tallinn; the Company was also bestowed with an award for Best Annual Report.
- In 2010, AS Tallinna Vesi was awarded Best Investor Relations in Nasdaq Tallinn while the Baltic Corporate Governance Institute awarded AS Tallinna Vesi with Best Corporate Governance in Estonia.
- In 2011, AS Tallinna Vesi was conferred with Best Investor Relations on the Nasdaq Tallinn Stock Exchange and second place in the Nasdaq Baltic Markets.
- In 2012, AS Tallinna Vesi's was recognized as one of the final nominees for the "Best Interactive Investor Relations"and its annual report was awarded second place in the Baltic Markets
- In 2013, as recognition to the work done in the field of corporate governance and investor relations, AS Tallinna Vesi won the main category award for Best Investor Relations in the Baltic Markets thus becoming the first Estonian recipient of the award.
- In 2014, AS Tallinna Vesi received Best Investor Relations in the Baltic Markets for a second year. In addition, AS Tallinna Vesi was also recognized as the most attractive company in the Baltic Markets.
- In 2015, AS Tallinna Vesi won the Nasdaq Market Awards main category "Best Investor Relations in the Baltics" for a third consecutive year. Additionally, the Company was recognized with first places in the following categories: "Best Investor Relations according to market professionals", "Best Interactive Investor Relations" and the "Most Trustworthy Company within the Baltic Markets".

Since 2010, AS Tallinna Vesi has been a member of the Baltic Institute of Corporate Governance, which promotes the best practices of corporate governance in the region. All members of the Management Board of AS Tallinna Vesi have successfully completed the Executive Program of Professional Board Members provided by the Baltic Institute of Corporate Governance.

Investor Relations and Disclosure of Information

Corporate Governance Recommendations statements are available on AS Tallinna Vesi's homepage https://www.tallinnavesi.ee under the section "Investor". The Corporate Governance Recommendations Report is an integral part of the Annual Report of AS Tallinna Vesi, which is prepared at the end of each financial year. Annual reports are made public on the Nasdaq Tallinn Stock Exchange and are also available on the Company's homepage https://www.tallinnavesi.ee –> Investor –> Reports.
AS Tallinna Vesi discloses the following year's financial calendar on the Nasdaq Tallinn Stock Exchange prior to the end of the calendar year. This information includes the dates of the quarterly and annual financial information and the date of the Annual General Meeting (AGM) of Shareholders. All information disclosed via the Nasdaq Tallinn Stock Exchange is also subsequently made available on AS Tallinna Vesi's homepage.

Additionally, prior to the AGM being held, AS Tallinna Vesi discloses the following information on its website:

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

Decisions of the General Meetings and Management Board presentations are being published shortly after the meeting via the Nasdaq Tallinn Stock Exchange. Finalised and certified minutes of the General Meetings are published seven days following the date of the General Meeting. All documents and information published via Nasdaq Tallinn Stock Exchange are available on AS Tallinna Vesi's homepage https://www.tallinnavesi.ee -> Investor -> Shareholders meeting.

AS Tallinna Vesi has a regular dialogue with its major shareholders and potential investors and to this purpose, the Company holds General Meetings for shareholders, not less than once per year, to keep shareholders informed and to provide shareholders with an opportunity to question directly the Management Board and the Supervisory Board. The Management Board also meets both existing and potential investors outside of the General Meetings.

AS Tallinna Vesi organises quarterly investor conferences, webinars, using the NASDAQ webinar service. Webinar is a virtual conference, in which company representatives give information about the company and its performance. Webinar allows interactive communication and the possibility to ask questions and receive answers directly from the Management Board members of the Company. The webinar information is announced via the Nasdaq Tallinn Stock Exchange and is open to all interested parties. All webinar recordings and presentations of the webinars are disclosed on the Nasdaq Tallinn Stock Exchange and on AS Tallinna Vesi's homepage.

The General Meeting of Shareholders

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

In accordance with the Commercial Code and with the Corporate Governance Recommendations, AS Tallinna Vesi convenes both Annual General Meetings (AGM's) and Extraordinary General Meetings (EGM's) by notifying all of its shareholders via the Nasdaq Tallinn Stock Exchange and by publishing information on its homepage and in one national daily newspaper at least 3 weeks in advance. Information related to General Meetings is disclosed in Estonian and English on the Company's homepage and on the Stock Exchange announcements. The announcement in the daily newspaper is published only in Estonian.

The agendas of AGM's and EGM's of AS Tallinna Vesi are pre-approved by the Supervisory Board, which also puts forward proposals for attention and for voting at the General Meeting. The General Meeting agenda items, the Supervisory Board's proposals along with relevant comments about the agenda items, procedural instructions for participating in a General Meeting and procedure for proposing additional items to the agenda are disclosed within the General Meeting's notice.

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

On 27th May 2015, AS Tallinna Vesi held the Annual General Meeting (AGM) of its shareholders to approve the 2014 Annual Report and distribution of profit and to elect a Supervisory Board member and an auditor. The Management Board made a presentation on the overall performance of the Company, highlighting the improvements in the occupational environment and –safety area as well as in the financial and operational performance. No questions regarding the items in the 2015 AGM agenda were asked, nor were any additional agenda item proposals made in 2015.

The Chairman of any AGM is an independent person. In 2015, the AGM was chaired by Mr. Sven Papp, who introduced the procedure for conducting the General Meeting, including the procedure for inquiring about AS Tallinna Vesi's activities from the Management Board.

All members of the Management Board, the Chairman of the Supervisory Board and the lead auditor participated in the AGM in 2015. When a Supervisory Board member or a lead auditor stands for election at the General Meeting, the candidate for the respective position usually participates in the Meeting. Therefore, the Supervisory Board member candidate Mr Allar Jõks participated in the 2015 AGM. The candidate for the position of lead auditor, Mr. Ago Vilu, also participated in the 2015 AGM.

AS Tallinna Vesi does not allow its shareholders to participate at the General Meetings via electronic communication tools, as it has been too complicated and expensive to establish reliable solutions to identify the shareholders, especially those who are overseas' residents.

No shareholders have shares that grant them a right for specific control. AS Tallinna Vesi is unaware of any shareholders having concluded any voting agreements.

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

The Supervisory Board

The Supervisory Board plans the activities of AS Tallinna Vesi, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members each with a term of two years. In 2015, five regular and no extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2014 Annual Report presented to the Annual General Meeting for approval and reviewed AS Tallinna Vesi's budget for 2016. In addition, in its meetings, the Supervisory Board reviews major risks that the Company faces, regulatory and legal issues, matters regarding operations, finances and human resources, customer service and satisfaction, market development for non-regulated businesses and other operational and business matters.

The following points are usually brought up at every Supervisory Board meeting:

- minutes of the previous meeting;
- information on issues dealt with by the Supervisory Board's committees as appropriate;
- the Management Board report covering operational, legal and regulatory, financial, communication, human resources, health, safety and quality areas;
- major projects and issues;
- decisions on special cases.

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

- Mr. Simon Gardiner (United Utilities (Tallinn) B.V.), Supervisory Board member until 22nd May 2016;
- Mr. Steven Richard Fraser (United Utilities (Tallinn) B.V.), Supervisory Board member until 21st January 2018;
- Mr. Brendan Francis Murphy (United Utilities (Tallinn) B.V.), Supervisory Board member until 27th October 2017;
- Mr. Martin Benjamin Padley (United Utilities (Tallinn) B.V.), Supervisory Board member until 31st October 2016;
- Mr. Priit Lello (Tallinn City), Supervisory Board member until 15th November 2017;
- Mr. Rein Ratas (Tallinn City), Supervisory Board member until 22nd May 2016;
- Mr. Toivo Tootsen (Tallinn City), Supervisory Board member until 5th April 2017;
- Mr. Mart Mägi (independent) Supervisory Board member until 22nd May 2016;
- Mr. Allar Jõks (independent) Supervisory Board member until 28th May 2017.

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

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

The Audit Committee and Internal Audit

The Audit Committee is the subcommittee to the Supervisory Board, which provides an oversight of the financial reporting process, the audit process, the systems of internal controls and compliance with the laws and regulations. The Audit Committee follows the Authorised Public Accountants Act and the guidelines issued by the Financial Supervision Authority regarding the composition and working processes of an Audit Committee.

The main responsibilities of the Audit Committee are:

- to review quarterly and annual financial statements, including reporting to the Supervisory Board on significant issues considered by the Audit Committee in relation to the financial statements and how those issues were addressed;
- to monitor and analyse the effectiveness of risk management systems and internal controls;
- to review annual report and the scope, processes and results of the annual audit and to report to the Supervisory Board on the effectiveness of the audit process;
- to monitor and analyse the independence and objectivity of external auditors and the legality of their activity regarding AS Tallinna Vesi and how the objectivity has been safeguarded;
- to annually evaluate the work of external auditors and report to the Supervisory Board about the results of such evaluation;
- to make recommendations to the Supervisory Board for the appointment or reappointment of the external auditor and to be responsible for the tender of the external audit and to agree the fees paid to the auditor;
- to monitor the independence of the internal auditor;
- to review the scope effectiveness of the internal audit function, including reviewing and approving the annual audit plan and KPI's from the internal auditor.

At the time of compilation of this report, the Audit Committee consisted of the following members of the Supervisory Board:

- Mr. Brendan Francis Murphy acting as the Chairman of the Audit Committee;
- Mr. Allar Jõks and
- Mr. Simon Gardiner.

At each Supervisory Board meeting, an internal audit report is presented to the Supervisory Board. The internal auditor of AS Tallinna Vesi reports directly to the Audit Committee.

The external auditor appointed and any member of the external audit team cannot provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2015, the external auditor did not provide any services to the Group outside the scope of the annual audit.

Pursuant to the Articles of Association of AS Tallinna Vesi, an external auditor is elected by the General Meeting of Shareholders to conduct the annual audit. The remuneration of the external auditor is regulated in the contract signed between the external auditor and the Management Board respectively. In 2015, the Group paid EUR 29 thousand for the annual audits against the relevant invoices issued. AS Tallinna Vesi chooses an external auditor by following internal procurement procedures (which include approval by the Audit Committee and the Supervisory Board of AS Tallinna Vesi), thus ensuring the best match of service-quality and price offered for the services. Offers are taken only from internationally respected, high-quality audit companies. AS Tallinna Vesi signs a 3-year audit contract with a clause that requires re-appointment of the lead auditor each year and follows the Financial Supervision Authority guidelines of 1st November 2013 "Rotation of the auditors of certain subjects of financial supervision by the state" with regard to the requirement to rotate the lead auditor every 5 years.

Based on the report of the Audit Committee, the Supervisory Board evaluates the quality of the work of the external auditor annually, in the course of the approval of the Annual Accounts, and discloses the summary of such evaluation in the AGM notice. The external auditor is present at the AGM and participates where necessary.

Nomination and Remuneration Committee

In 2015, the Nomination and Remuneration Committee continued to advise the Supervisory Board on management remuneration issues and Management Board nominations.

At the time of compilation of this report, the Nomination and Remuneration Committee consisted of the following members of the Supervisory Board:

- Mr. Steven Richard Fraser, acting as the Chairman of the Nomination and Remuneration Committee;
- Mr. Mart Mägi and
- Mr. Simon Gardiner.

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

The Nomination and Remuneration Committee ensures that the remuneration principles proposed are based on the short- and long-term objectives of AS Tallinna Vesi, taking into account the financial performance of AS Tallinna Vesi and the legitimate interests of investors. The Nomination and Remuneration Committee also ensures that the proportion of remuneration for the principal job and performance related pay (PRP) are in accordance with the duties of the Management Board Member and that the remuneration for the principal job forms a sufficient part of the total remuneration. According to the existing PRP principles, members of the Management Board are entitled to a maximum PRP of 25% of their annual gross salary. The PRP depends on the annual financial and operational performance of the company. If the annual results are worse than expected, a decision can be taken not to pay any PRP.

Corporate Governance Committee

In 2015, the Corporate Governance Committee continued to advise the Supervisory Board on the improvement of corporate governance of AS Tallinna Vesi for the benefit of its Supervisory Board and shareholders.

At the time of compilation of this report, the Corporate Governance Committee consisted of the following members:

- Mr. Allar Jõks acting as Chairman of the Corporate Governance Committee;
- Mr. Karl Heino Brookes and
- Mr. Simon Gardiner.

The Management Board

The Management Board is a management body that represents and manages the day-to-day business of AS Tallinna Vesi in accordance with the law and the Articles of Association of AS Tallinna Vesi. The Management Board is obliged to act in the most economically efficient manner. The Management Board can be composed of two to five members, in line with the Articles of Association and is elected for a term of 3 years. The Management Board always prepares management reports for the Supervisory Board meetings and such reports are distributed to the Supervisory Board members 1 (one) week in advance of the meeting, as required by the Commercial Code. The Management Board also reports *ad hoc* to the Supervisory Board outside of meetings, when considered necessary, and if requested to do so by the Chairman of the Supervisory Board.

Both Management Board and Supervisory Board Members are deemed to be insiders who are aware of AS Tallinna Vesi's insider rules and together with their related persons, are listed in the Group's insider list. Since 2nd June 2014 and until compilation of this report, the Management Board of AS Tallinna Vesi has consisted of three members. The Supervisory Board of AS Tallinna Vesi has appointed all Management Board members. The members are as follows:

- Mr. Karl Heino Brookes, with the powers of Management Board member until 20th March 2017;
- Ms. Riina Käi, with the powers of Management Board member until 29th October 2018;
- Mr. Aleksandr Timofejev, with the powers of Management Board member until 29th October 2018.

The responsibilities of all Management Board members are specified below.

The duties of the Chairman of the Management Board, Mr. Karl Heino Brookes, are to, *inter alia*, fulfil the everyday obligations of the Chief Executive Officer (CEO) of AS Tallinna Vesi by leading and representing AS Tallinna Vesi, by ensuring its compliance with contracts and the law, by organizing the activities of the Management Board and by coordinating the preparation of strategies and ensuring their implementation.

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

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

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

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

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

Equal opportunities and diversity in selecting Management Board and Supervisory Board Members.

In selecting members to the Management and Supervisory Boards, AS Tallinna Vesi is committed to the principles of equality being adhered to. No one is discriminated against because of their age, gender, religion, ethnic origin or other characters. In selecting Management Board Members and Supervisory Board Members, experience in the business or area of expertise, education and background are considered to be the most important, in order to provide an effective and balanced Board. The allocation between men and women in the Supervisory Board and Management Board is outlined in the Management Report.

Conformity with NASDAQ Tallinn Stock Exchange Corporate Governance Recommendations

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

Declaration of Conformity by AS Tallinna Vesi

In 2015, AS Tallinna Vesi complied with the vast majority of the Corporate Governance Recommendations. However, AS Tallinna Vesi did not comply with certain recommendations, which are listed below, along with the reasons for such non-compliance:

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

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

"2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member, as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear

and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure."

AS Tallinna Vesi discloses the overall Management Board remuneration in Note 25 of the annual accounts but considers that individual remuneration is sensitive and private information and that additional disclosure would bring no benefit to the shareholders.

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

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

Information Disclosure

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

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

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

The Supervisory Board approves the remuneration principles of the Management Board. In 2015, there were no other transactions between AS Tallinna Vesi and either any member of the Management Board or any persons or companies related to them.

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

The Supervisory Board member's fee was determined by the General Meeting in 2005, at the listing of the Company's shares on the Tallinn Stock Exchange. The remuneration of Supervisory Board members was set at 6,391 euros per year per person and has remained unchanged. The fee has been paid to five members out of nine. The Supervisory Board member's fee is not paid to the members representing UUTBV. The fee is subject to deduction and payment of applicable taxes and is payable on a monthly basis. The Supervisory Board members were not paid any additional benefits in 2015.

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

In 2015, five Supervisory Board meetings were held as follows: 29th January 2015, 26th March 2015, 23rd April 2015, 30th July 2015 and 5th November 2015.

The 29th January 2015 Supervisory Board meeting was attended by, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Steven Richard Fraser, Mart Mägi, Toivo Tootsen, Allar Jõks and Rein Ratas.

The 26th March 2015 Supervisory Board meeting was attended by, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Steven Richard Fraser, Mart Mägi, Toivo Tootsen, Priit Lello and Rein Ratas.

The 23rd April 2015 Supervisory Board meeting was attended by, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Mart Mägi, Allar Jõks, Toivo Tootsen, Priit Lello and Rein Ratas.

The 30th July 2015 Supervisory Board meeting was attended by, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Mart Mägi, Allar Jõks, Toivo Tootsen, Priit Lello and Rein Ratas.

The 5th November 2015 Supervisory Board meeting was attended by, Messrs. Simon Gardiner, Martin Padley, Brendan Murphy, Mart Mägi, Allar Jõks, Toivo Tootsen, Rein Ratas and Priit Lello.

Considering the above, Messrs. Simon Gardiner, Martin Padley, Brendan Francis Murphy, Rein Ratas, Mart Mägi and Toivo Tootsen attended all Supervisory Board meetings. Messrs. Priit Lello and Allar Jõks attended more than 50% of the meetings. Mr. Steven Richard Fraser attended two meetings out of five. He did not attend one meeting due to a planned holiday and two other meetings due to performance of other duties in United Utilities. Nevertheless, Mr. Steven Richard Fraser familiarised himself with all papers distributed for each Supervisory Board meeting and has been well informed of matters concerning AS Tallinna Vesi.

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

All Supervisory Board members are aware of this requirement and at minimum once per year, AS Tallinna Vesi requires all Supervisory Board members to update the record of their business interests. No business transactions took place between AS Tallinna Vesi and either any Supervisory Board member or any persons or companies related to them in 2015.

Management Report which consists of Chairman's statement, Results of operations – for the year 2015, Corporate Governance and Corporate Governance Recommendations Report is an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2015. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of AS Tallinna Vesi.

Name	**Position**	**Signature**	**Date**
Karl Heino Brookes	Chairman of the Management Board		7-3-16
Aleksandr Timofejev	Member of the Management Board		7-3-16
Riina Käi	Member of the Management Board		07.03.2016

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT CONFIRMATION

The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements of AS Tallinna Vesi (Company) and its subsidiary Watercom OÜ (together referred as Group) for the financial year ended 31 December 2015 on pages 31 to 66.

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

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Group's assets and liabilities as of 31 December 2015, and of income and expenses during the financial year. These estimates are based on current information about the Group and consider all plans and risks as of 31 December 2015. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 7 March 2016 have been considered in preparing the financial statements.

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

Name	Position	Signature	Date
Karl Heino Brookes	Chairman of the Management Board		7-3-16.
Aleksandr Timofejev	Member of the Management Board		7-3-16
Riina Käi	Member of the Management Board		07.03.2016

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		as of 31 December	
ASSETS	**Note**	**2015**	**2014**
CURRENT ASSETS			
Cash and cash equivalents	6	37,819	38,560
Trade receivables, accrued income and prepaid expenses	7	7,174	8,261
Inventories		447	412
TOTAL CURRENT ASSETS		**45,440**	**47,233**
NON-CURRENT ASSETS			
Derivatives	8	142	0
Property, plant and equipment	9	162,732	157,481
Intangible assets	9	758	862
TOTAL NON-CURRENT ASSETS		**163,632**	**158,343**
TOTAL ASSETS		**209,072**	**205,576**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings	10	328	261
Trade and other payables	11	5,586	4,855
Derivatives	8	523	1,078
Prepayments	13	1,983	2,631
TOTAL CURRENT LIABILITIES		**8,420**	**8,825**
NON-CURRENT LIABILITIES			
Deferred income from connection fees		15,030	12,567
Borrowings	10	95,974	96,250
Derivatives	8	628	761
Other payables		13	23
TOTAL NON-CURRENT LIABILITIES		**111,645**	**109,601**
TOTAL LIABILITIES		**120,065**	**118,426**
EQUITY			
Share capital	14	12,000	12,000
Share premium		24,734	24,734
Statutory legal reserve		1,278	1,278
Retained earnings		50,995	49,138
TOTAL EQUITY		**89,007**	**87,150**
TOTAL LIABILITIES AND EQUITY		**209,072**	**205,576**

Notes to the financial statements on pages 35 to 66 form an integral part of the financial statements.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	for the year ended 31 December 2015	2014
Revenue	15	55,928	53,241
Costs of goods sold	17	-23,679	-22,399
GROSS PROFIT		**32,249**	**30,842**
Marketing expenses	17	-435	-456
General administration expenses	17	-6,086	-5,517
Other income(+)/ expenses(-)	18	-150	-41
OPERATING PROFIT		**25,578**	**24,828**
Financial income	19	95	432
Financial expenses	19	-1,315	-2,532
PROFIT BEFORE TAXES		**24,358**	**22,728**
Income tax on dividends	20	-4,500	-4,785
NET PROFIT FOR THE PERIOD		**19,858**	**17,943**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**19,858**	**17,943**
Attributable profit to:			
Equity holders of A-shares		19,857	17,942
B-share holder		0.60	0.60
Earnings per A share (in euros)	21	0.99	0.90
Earnings per B share (in euros)	21	600	600

Notes to the financial statements on pages 35 to 66 form an integral part of the financial statements.

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Kuupäev/date 04.03.2016
PricewaterhouseCoopers, Tallinn

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	for the year ended 31 December 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		25,578	24,828
Adjustment for depreciation/amortisation	9,17,18	6,184	5,851
Adjustment for revenue from connection fees	18	-194	-143
Other non-cash adjustments		-15	-33
Profit(-)/loss(+) from sale and write off of property, plant and equipment, and intangible assets		2	145
Change in current assets involved in operating activities		-897	1,165
Change in liabilities involved in operating activities		453	-364
Total cash flow from operating activities		**31,111**	**31,449**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-13,495	-9,646
Compensations received for construction of pipelines		6,499	10,523
Proceeds from sale of property, plant and equipment, and intangible assets		30	13
Interest received		99	432
Total cash flow from in investing activities		**-6,867**	**1,322**
CASH FLOWS FROM FINANCING ACTIVITIES			
Received loans	10	0	20,000
Repayment of loans	10	0	-20,000
Interest paid and loan financing costs, incl swap interests		-2,178	-2,995
Finance lease payments		-306	-216
Dividends paid	20	-18,001	-18,001
Income tax on dividends	20	-4,500	-4,785
Total cash flow used in financing activities		**-24,985**	**-25,997**
Change in cash and cash equivalents		**-741**	**6,774**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**38,560**	**31,786**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	**37,819**	**38,560**

Notes to the financial statements on pages 35 to 66 form an integral part of the financial statements.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2013	**12,000**	**24,734**	**1,278**	**49,196**	**87,208**
Dividends (Note 20)	0	0	0	-18,001	-18,001
Comprehensive income for the period (Note 21)	0	0	0	17,943	17,943
as of 31 December 2014	**12,000**	**24,734**	**1,278**	**49,138**	**87,150**
Dividends (Note 20)	0	0	0	- 18,001	-18,001
Comprehensive income for the period (Note 21)	0	0	0	19,858	19,858
as of 31 December 2015	**12,000**	**24,734**	**1,278**	**50,995**	**89,007**

Notes to the financial statements on pages 35 to 66 form an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

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

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

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

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

Contacts:

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

NOTE 2. ACCOUNTING POLICIES

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

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

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

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue at 7 March 2016. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of AS Tallinna Vesi and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

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

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

Adoption of New or Revised Standards and Interpretations

There are no new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that would be expected to have a material impact to the Group.

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2016 or later periods and which the Group has not early adopted:

Equity Method in Separate Financial Statements - Amendments to IAS 27, effective for annual periods beginning on or after 1 January 2016. The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Disclosure Initiative – Amendments to IAS 1, effective for annual periods beginning on or after 1 January 2016. The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

IFRS 9, Financial Instruments: Classification and Measurement, (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15, Revenue from Contracts with Customers, (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

IFRS 16, Leases, (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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

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

Principles of consolidation, accounting for business combinations and subsidiaries

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

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

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

Foreign currency

Functional and presentation currency

Consolidated financial statements for the year ended 31 December 2015 have been presented in euros.

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

Foreign currency transactions and balances

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

Current and non-current distinction of assets and liabilities

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

Cash and cash equivalents

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

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

Financial assets

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

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

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

As of 31 December 2015 and 2014 the Group did not have any investments held-to-maturity and financial assets available-for-sale.

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

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

As of 31 December 2015 and 2014 the Group had given no loans.

Receivables

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

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

Inventories

Inventories are initially recorded at cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and discounts.

The weighted-average cost method has been used to determine the cost of inventories. Inventories are carried in the statement of financial position at the lower of the cost and net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

Non-current assets held for sale

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

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

Property, plant and equipment, and intangible assets

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

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

Acquired licenses

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

Other intangible assets

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

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

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

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

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

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

Applicable depreciation/amortization rates:

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

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

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

Impairment of assets

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

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

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

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

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

Financial liabilities

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

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

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

Derivatives

With regard to derivatives, the Group uses interest rate swap contracts, in order to mitigate risks related to fluctuations in interest rates. Such derivatives are initially recognised at their fair value at the date of entering into the contract and are subsequently carried at fair value with changes recognised in profit or loss. If fair value is positive, the derivative is recognised as an asset, if negative, as a liability.

Derivatives are classified as a current asset or liability if expected to be settled within 12 months; otherwise, they are classified as non-current.

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

Corporate income tax

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

Income tax on dividends in Estonia

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

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

Employee benefits

Employee short-term benefits

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

Termination benefits

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

Provisions and contingent liabilities

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

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

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

Share capital

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

Statutory reserve capital

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

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

Leases

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

The Group as the lessee

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

Revenue

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

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

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

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

Earnings per share

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

Segment reporting

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

NOTE 3. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

The management has evaluated the amount of the contingent liability as of 31 December 2015 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 42.8 million (31 December 2014: EUR 40.1 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.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES

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

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

- As of 31 December 2015 Group owns property, plant and equipment, and intangible assets with a net book value of EUR 163.5 million (31 December 2014: EUR 158.3 million) and annual depreciation was EUR 6.2 million (2014: EUR 5.9 million). If the depreciation/amortization rates decreased/increased by 5%, the depreciation/amortization expense would increase/decrease respectively by EUR 309 thousand (2014: EUR 293 thousand).

- The Group undertook to construct water and wastewater and storm water pipelines with construction costs of EUR 41 million in 2008-2012. The construction of pipelines compensated by local government with the grants receivable in 2008-2015. Compensations received from local government are recognised as government grants - compensations received are deducted from the book value of the constructed pipeline. Any amount exceeding the construction cost of the pipeline is recognized as income upon the completion of construction works. The part of the compensation that received after the completion of the construction works was recognized in the statement of financial position as a receivable from local government at its present value. The last payment was collected in March 2015. The compensation receivable was discounted using a rate of 3.5% as of 31 December 2014.

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

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

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

NOTE 5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

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

Market risk

Foreign exchange risk

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

Majority of Group's purchases are made in euros. The proportion of purchases in other currencies in 2015 was 2.7% (2014: 2.0%). Because of the small proportion of transactions in foreign currencies the Group has not taken any special activities to reduce this risk.

On 31 December 2015 the Group's bank accounts balances (including deposits) totalled EUR 37,819 thousand (31 December 2014: EUR 38,560 thousand) from which no sums were in foreign currencies (31 December 2014: no foreign currencies). There were no other significant exposures to foreign currencies arising from Group's other financial assets and financial liabilities.

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

Price risk

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

Cash flow interest rate risk and fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate in the future due to changes in market interest rates. Cash flows interest rate risk is the risk that financial expenses arising from financial liabilities with floating interest rate will increase when interest rates on the market increase.

The Group's interest rate risk arises mostly from long-term borrowings. Borrowings issued at variable interest rates (Note 10) expose the Group to cash flow interest rate risk. The Group's policy is to maintain approximately 80% of its borrowings at fixed rate. In order to mitigate the cash flow interest rate risk, the Group has concluded 6 (2014: 6) floating-to-fixed interest rate swap contracts (Note 8). As of 31 December 2015 the interest rate swap contracts have the notional amount of EUR 75 million (31 December 2014: EUR 90 million with one contract in amount of EUR 15 million becoming effective in November 2015), therefore only borrowings in the amount of EUR 19.9 million from total of EUR

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

94.9 million (31 December 2014: EUR 19.9 million from total of EUR 94.9 million) remain exposed to the cash flow interest rate risk.

As of 31 December 2015, if the interest rates of the Group's borrowings, that are exposed to the cash flow interest rate risk, had been 50 basis points (31 December 2014: 50 basis points) higher with all other variables held constant, profit for the year would have been EUR 102 thousand (2014: EUR 97 thousand) lower.

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

Credit risk

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

According to the Group's risk management policies the Group's short term resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in credit institutions. For fixed term depositing counterparties with at least a long term Baa1 rating (by Moody's) is used. As of 31 December 2015 100% of Group's fixed term deposits were deposited with counterparty with higher rating than A3 (31 December 2014: 100% higher than A3). The Group is also monitoring European Banking Authority's recommendations regarding banks' recapitalization needs and fixed term deposits are opened only in banks with no capitalization shortfall.

Sales of Group's products and services is done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers' payment discipline is consistently observed. In the case of overdue debt the clients are contacted by billing group. As of the end of December 2015 there were no clients (31 December 2014: one client) with receivables (Note 23) exceeding 5% of total trade receivables.

Financial assets as of 31 December 2015			**Overdue**		
	Balance	**Not due**	Not impaired (up to 2 months)	Impaired	Impairment
Cash and cash equivalents (Note 6)	37,819	37,819	0	0	0
Trade receivables (Note 7)	6,684	6,524	131	129	-100
Commercial entities	3,353	3,266	75	93	-81
Private persons	3,331	3,258	56	36	-19
Accrued income (Note 7)	7	7	0	0	0
Derivatives (Note 8)	142	142	0	0	0
Total	**44,652**	**44,492**	**131**	**129**	**-100**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

as of 31 December 2014			**Overdue**		
	Balance	**Not due**	Not impaired (up to 2 months)	Impaired	Impairment
Cash and cash equivalents (Note 6)	38,560	38,560	0	0	0
Trade receivables (Note 7)	6,403	6,244	125	128	-94
Commercial entities	3,112	3,013	82	89	-72
Private persons	3,291	3,231	43	39	-22
Accrued income (Note 7)	9	9	0	0	0
Government grant receivable (Note 7, 23)	1,577	1,577	0	0	0
Total	**46,549**	**46,390**	**125**	**128**	**-94**

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

Liquidity risk

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

Financial liabilities in terms of payment (undiscounted amounts):

as of 31 December 2015	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Trade and other payables (Note 11)	2,149	436	0	0	0	2,585
Derivatives (Note 8)	523	0	0	628	0	1,151
Borrowings (incl finance lease)	76	172	996	84,377	14,860	100,481
Total	**2,748**	**608**	**996**	**85,005**	**14,860**	**104,217**

as of 31 December 2014	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Trade and other payables (Note 11)	1,955	464	6	0	10	2,435
Derivatives (Note 8)	1,078	0	0	761	0	1,839
Borrowings (incl finance lease)	88	190	1,026	85,477	14,917	101,698
Total	**3,121**	**654**	**1,032**	**86,238**	**14,927**	**105,972**

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

5.2 Capital management

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

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

		as of 31 December
	2015	**2014**
Borrowings	96,301	96,511
Cash	-37,819	-38,560
Net debt	**58,482**	**57,951**
Equity	**89,007**	**87,150**
Total capital	**147,489**	**145,101**
Net debt to total capital ratio	39.7%	39.9%
Total assets	209,072	205,576
Proportion of equity from total assets	42.6%	42.4%

5.3 Fair value estimation

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

At the end of 2015 all Group's long-term borrowings had floating interest rates. The fair values of long-term borrowings are based on discounted cash flows using the borrowing rate of 0.95% (2014: 0.97% - 1.12%) and are within level 3 of the fair value hierarchy. As of 31 December 2015, the fair value of the Group's long-term borrowings was EUR 150 thousand higher than their carrying amount (31 December 2014: EUR 68 thousand higher).

The fair value of financial instruments carried at fair value (interest rate swap contracts, Note 8) has been determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of interest rate swap contracts is calculated as the present value of estimated future cash flows based on observable yield curves.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 6. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2015	**2014**
Cash in hand and in bank	13,738	13,358
Short-term deposits	24,081	25,202
Total cash and cash equivalents	**37,819**	**38,560**

NOTE 7. TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES

	as of 31 December	
	2015	**2014**
Accounts receivable	6,784	6,497
Allowance for doubtful receivables	-100	-94
Total trade receivables	**6,684**	**6,403**
Allowance for doubtful receivables at the beginning of the period	**-94**	**-368**
Proceeds from doubtful receivables during the period	9	249
Allowance for doubtful receivables recognised during the period	-22	-108
Receivables written off balance sheet during the period	7	133
Allowance for doubtful receivables at the end of the period	**-100**	**-94**

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

	as of 31 December	
	2015	**2014**
Accrued interest	5	9
Government grant receivables (Note 23)	0	1,577
Other accrued income	254	11
Prepaid expenses	231	261
Total accrued income and prepaid expenses	**490**	**1,858**
Total trade receivables, accrued income and prepaid expenses	**7,174**	**8,261**

The Company's current assets (incl. trade receivables, accruals and inventory) in the amount of EUR 7,056 thousand (31 December 2014: EUR 8,477 thousand) have been pledged as a security for the bank loans (Note 10), as a part of commercial pledge.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 8. DERIVATIVES

	as of 31 December 2015	2014
Non-current assets		
Interest rate swap contracts	142	0
Current liabilities		
Interest rate swap contracts	523	1,078
Non-current liabilities		
Interest rate swap contracts	628	761

	as of 31 December 2015	2014
Contracts start date	November 2013 – June 2015	May 2010 – November 2015
Contracts maturity date	November 2018 – November 2020	May 2015 – November 2018
Contracts notional amount	75 000	90 000

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment				Assets in progress			Intangible assets	Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Unfinished pipelines	Unfinished intangible assets	Acquired licenses and other intangible assets	
as of 31 December 2013									
Acquisition cost	24,851	175,032	44,874	1,321	577	988	27	5,517	253,187
Accumulated depreciation	-5,662	-58,179	-30,639	-917	0	0	0	-4,507	-99,904
Book value	**19,189**	**116,853**	**14,235**	**404**	**577**	**988**	**27**	**1,010**	**153,283**
Transactions in the period 01 January 2014 - 31 December 2014									
Acquisition in book value	0	0	0	0	8,428	2,475	166	0	11,069
Write off and sales of property, plant and equipment, and intangible assets in book value	0	-7	-47	0	-17	-87	0	0	-158
Reclassification	839	6,544	2,961	61	-8,300	-2,105	-118	118	0
Depreciation (Note 18, 19)	-279	-2,760	-2,389	-82	0	0	0	-341	-5, 851
as of 31 December 2014									
Acquisition cost	25,689	181,365	47,206	1,359	688	1,271	75	5,013	262,666
Accumulated depreciation	-5,940	-60,735	-32,446	-976	0	0	0	-4,226	-104,323
Book value	**19,749**	**120,630**	**14,760**	**383**	**688**	**1,271**	**75**	**787**	**158,343**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

	Property, plant and equipment				Assets in progress			Intangible assets	Total property, plant and equipment and intangible assets
	Land and buildings	**Facilities**	**Machinery and equipment**	**Other equipment**	**Construc tion in progress**	**Unfinished pipelines**	**Unfinished intangible assets**	**Acquired licenses and other intangible assets**	
Transactions in the period 01 January 2015 - 31 December 2015									
Acquisition in book value	0	0	0	0	9,212	1,915	171	0	11,298
Write off and sale of property, plant and equipment, and intangible assets in book value	0	-12	-19	-1	0	0	0	0	-32
Reclassification	310	6,895	1,752	43	-6,405	-2,530	-184	184	65
Depreciation (Note 18, 19)	-327	-2,836	-2,668	-78	0	0	0	-275	-6,184
as of 31 December 2015									
Acquisition cost	25,950	187,943	47,016	1,277	3,495	656	62	5,192	271,591
Accumulated depreciation	-6,218	-63,266	-33,191	-930	0	0	0	-4,496	-108,101
Book value	**19,732**	**124,677**	**13,825**	**347**	**3,495**	**656**	**62**	**696**	**163,490**

Property, plant and equipment and intangible assets are written off if the condition of the asset does not enable further usage for production purposes. As of 31 December 2015 the book value of the assets (Machinery and equipment) leased under financial lease is EUR 1,422 thousand (31 December 2014: EUR 1,664 thousand).

The Group's non-current assets in the amount of EUR 12,911 thousand (31 December 2014: EUR 13,515 thousand) have been pledged as a security for the bank loans (Note 10), as a part of commercial pledge. A mortgage for the Group's non-current assets (land, buildings and facilities) in the book value amount of EUR 30,849 thousand (31 December 2014: EUR 31,422 thousand) serves as a security to the bank loans (Note 10).

During the year, the Group has capitalised borrowing costs amounting to EUR 34 thousand (2014: EUR 24 thousand) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 1.02% (2014: 1.11%).

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 10. BORROWINGS

	as of 31 December	
	2015	**2014**
Current liabilities		
Current portion of long-term finance lease liabilities	328	261
Non-current liabilities		
Long-term bank loans	94,923	94,917
Long-term finance lease liabilities	1,051	1,333

Bank loans at 31 December 2015		
Currency EUR (euro)	**Balance**	**Effective interest rate**
Borrowings at floating interest rate (based on 1- and 6-month Euribor)	94,923	0.95%-0.98%
Finance lease liabilities	1,378	1.21%-3.05%

Bank loans at 31 December 2014		
Currency EUR (euro)	**Balance**	**Effective interest rate**
Borrowings at floating interest rate (based on 1- and 6-month Euribor)	94,917	0.75%-1.64%
Finance lease liabilities	1,594	1.21%-3.05%

The Group's loan agreements mature in November 2018 (31 December 2014: November 2018) in the amount of EUR 37.5 million and in November 2020 (31 December 2014: November 2020) in the amount of EUR 37.5 million, the third loan agreement in the amount of EUR 20 million will be repaid in eleven equal semi-annual repayments from November 2019 to November 2024 (31 December 2014: November 2019 to May 2024).

Collateral of loans and pledged assets		**Collateral at book value as of 31 December**	
Type of collateral	**Specification and location of collateral**	**2015**	**2014**
Commercial pledge	Movables of the Company (Note 7, 9)	19,967	21,992
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	30,849	31,422

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 11. TRADE AND OTHER PAYABLES

	for the year ended 31 December	
	2015	**2014**
Trade payables - operating expenditures	1,371	1,522
Trade payables - capital expenditures	932	636
Payables to related parties (Note 23)	184	199
Payables to employees	1,241	699
Interest payable	30	44
Other accrued expenses	98	68
Warranty reserve	68	72
Taxes payable incl:		
Income tax	161	150
VAT	618	487
Water abstraction charges	282	267
Pollution taxes	236	346
Social security tax	323	299
Other	42	66
Total trade and other payables	**5,586**	**4,855**

NOTE 12. OTHER CONTINGENT LIABILITIES

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

The Group's distributable retained earnings as at 31 December 2015 amounted to EUR 50,995 thousand (2014: EUR 49,138 thousand). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is EUR 12,749 thousand (2014: EUR 12,285 thousand).

NOTE 13. PREPAYMENTS

	as of 31 December	
	2015	**2014**
Prepayments for water and sewerage services	87	64
Prepayments for connection fee	1,896	2,567
Total prepayments	**1,983**	**2,631**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 14. SHARE CAPITAL

At 31 December 2015 the nominal value of the share capital was 12,000,060 (twelve million and sixty) euros, composed of 20,000,000 (twenty million) A-shares with the nominal value of 0.60 euros (sixty eurocents) per share and 1 (one) preferred B-share with a nominal value of 60 (sixty) euros.

The B-share has been issued with the right of veto to the shareholder when voting on the following issues: amending the Articles of Association, increase and decrease of share capital, issuance of convertible bonds, acquisition of own (treasury) shares, deciding on the merger, division, transformation and/or dissolution of AS Tallinna Vesi and deciding other issues related to the activities of the AS Tallinna Vesi that have not been placed in the sole competence of the General Meeting by law that either the Management Board or the Supervisory Board have put to the vote of the General Meeting. In 2015 and 2014, the B-share granted the holder the preferential right to receive a dividend in an agreed amount of 600 (six hundred) euros.

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

As of 31 December 2015 and 2014 United Utilities (Tallinn) B.V. owned 7,060,870 (35.3%) A-shares, the City of Tallinn owned 6,939,130 (34.7%) A-shares and 1 (one) B-share, with 6,000,000 shares in free float. Other direct shareholders each owned less than 5% of the shares as of 31 December 2015 and 2014.

As of 31 December 2015 from all Supervisory Board and Management Board members Riina Käi owned 100 shares (2014: Riina Käi 100 shares). Dividends declared and paid are disclosed in note 20.

Contingent income tax on the dividend payments from retained earnings is described in note 12.

NOTE 15. REVENUE

Revenues from main operating activities	**for the year ended 31 December 2015**	**2014**
Total water supply and waste water disposal service, incl:	49,297	48,598
Private clients, incl:	24,408	24,154
Water supply service	13,436	13,303
Waste water disposal service	10,972	10,851
Corporate clients, incl:	19,358	19,085
Water supply service	10,736	10,664
Waste water disposal service	8,622	8,421
Outside service area clients, incl:	4,765	4,520
Water supply service	1,280	1,153
Waste water disposal service	3,011	2,957
Storm water disposal service	474	410
Over pollution fee	766	839

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

Storm water treatment and disposal service (Note 23)	3,357	3.073
Construction service, design and asphalting	2,724	943
Other works and services	550	627
Total revenues	**55,928**	**53,241**

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

NOTE 16. STAFF COSTS

	for the year ended 31 December	
	2015	**2014**
Salaries and wages (Note 17)	-5,963	-5,255
Social security and unemployment insurance taxation	-2,017	-1,750
Total staff costs	**-7,980**	**-7,005**
Number of employees at the end of reporting period	**323**	**321**

NOTE 17. COST OF GOODS SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

	for the year ended 31 December	
	2015	**2014**
Cost of goods sold		
Water abstraction charges	-1,101	-1,057
Chemicals	-1,531	-1,737
Electricity	-3,035	-3,032
Pollution tax	-1,002	-2,163
Staff costs (Note 16)	-5,603	-4,880
Depreciation and amortization	-5,690	-5,370
Construction service, design and asphalting	-2,398	-784
Other costs of goods sold	-3,319	-3,376
Total cost of goods sold	**-23,679**	**-22,399**
Marketing expenses		
Staff costs (Note 16)	-362	-340
Depreciation and amortization	-11	-63
Other marketing expenses	-62	-53
Total marketing expenses	**-435**	**-456**
Administrative expenses		
Staff costs (Note 16)	-2,015	-1,785
Depreciation and amortization	-308	-287
Other general administration expenses	-3,763	-3,445
Total administrative expenses	**-6,086**	**-5,517**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 18. OTHER INCOME / EXPENSES

	for the year ended 31 December	
	2015	**2014**
Connection fees	194	143
Depreciation of single connections	-175	-131
Doubtful receivables expenses(-)/expense reduction(+)	13	141
Other income(+)/expenses(-)	-182	-194
Total other income / expenses	**-150**	**-41**

NOTE 19. FINANCIAL INCOME AND EXPENSES

	for the year ended 31 December	
	2015	**2014**
Interest income	95	432
Interest expense, loan	-981	-1,137
Interest expense, swap	-1,149	-1,846
Increase/decrease of fair value of swap	830	483
Other financial income(+)/expenses(-)	-15	-32
Total financial income / expenses	**-1,220**	**-2,100**

NOTE 20. DIVIDENDS

	for the year ended 31 December	
	2015	**2014**
Dividends declared during the period	18,001	18,001
Dividends paid during the period	18,001	18,001
Income tax on dividends paid	-4,500	-4,785
Income tax accounted for	**-4,500**	**-4,785**

Income tax rates in 2015 were 20/80 (2014: 21/79).

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 21. EARNINGS PER SHARE

	for the year ended 31 December	
	2015	**2014**
Net profit minus B-share preferred dividend rights	19,857	17,942
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20,000,000	20,000,000
Earnings per A share (in euros)	0.99	0.90
Earnings per B share (in euros)	600	600

Diluted earnings per share for the periods ended 31 December 2015 and 2014 are equal to earnings per share figures stated above.

NOTE 22. OPERATING LEASE

Leased assets	**for the year ended 31 December**	
	2015	**2014**
Total operating lease expenses for vehicles	216	332
Operating lease (compensated by customers)	881	845

Following periods operating lease payments from the non-cancellable contracts are as follows:	**as of 31 December**	
	2015	**2014**
Less than 1 year	54	58
1-5 years	124	133
Total minimum lease payments	**178**	**191**

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 23. RELATED PARTIES

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

Shareholders having the significant influence

	as of 31 December	
Balances recorded in on the statement of financial position of the Group	**2015**	**2014**
Accounts receivable	271	503
Government grant receivables (Note 7)	0	1,577
Trade and other payables (Note 11)	184	199

	for the year ended 31 December	
Transactions	**2015**	**2014**
Revenue (Note 15)	3,357	3,073
Purchase of administrative and consulting services	1,050	1,041
Financial income	14	327
Short-term employee benefits to the Group's Management Board (excluding social tax)	151	170
The Group's Supervisory Board fees (excluding social tax)	32	39

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

In the year that ended on 31 December 2015 management board members were not paid any termination compensation (in the year that ended on 31 December 2014 EUR 38 thousand were paid). The off balance sheet potential salary liability would be up to EUR 77 thousand (excluding social tax) if the Supervisory Board would replace all Management Board members.

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

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 14. Paid-up dividends are described in note 20.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

NOTE 24. SUBSIDIARIES

Subsidiary	Location	Activity	Holding (%) as of 31 December 2015	2014
Watercom OÜ	Tallinn, Estonia	Provision of construction and other services related to water business	100	100

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

NOTE 25. SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY OF THE GROUP

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

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

The separate reports on the Parent Company

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

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

STATEMENT OF FINANCIAL POSITION

	as of 31 December	
ASSETS	**2015**	**2014**
CURRENT ASSETS		
Cash and cash equivalents	37,384	37,964
Trade receivables, accrued income and prepaid expenses	6,600	8,062
Receivables from subsidiary	43	41
Inventories	413	374
TOTAL CURRENT ASSETS	**44,440**	**46,441**
NON-CURRENT ASSETS		
Derivatives	142	0
Investment in subsidiary	527	527
Property, plant and equipment	165,484	159,178
Intangible assets	742	837
TOTAL NON-CURRENT ASSETS	**166,895**	**160,542**
TOTAL ASSETS	**211,335**	**206,983**
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current portion of long-term borrowings	170	131
Trade and other payables	4,786	4,008
Derivatives	523	1,078
Payables to subsidiary	605	1,127
Prepayments and deferred income	1,980	2,629
TOTAL CURRENT LIABILITIES	**8,064**	**8,973**
NON-CURRENT LIABILITIES		
Deferred income from connection fees	15,031	12,567
Borrowings	95,062	95,209
Derivatives	628	760
Other payables	0	10
TOTAL NON-CURRENT LIABILITIES	**110,721**	**108,546**
TOTAL LIABILITIES	**118,785**	**117,519**
EQUITY		
Share capital	12,000	12,000
Share premium	24,734	24,734
Statutory legal reserve	1,278	1,278
Retained earnings	54,538	51,452
TOTAL EQUITY	**92,550**	**89,464**
TOTAL LIABILITIES AND EQUITY	**211,335**	**206,983**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

STATEMENT OF COMPREHENSIVE INCOME

	for the year ended 31 December	
	2015	**2014**
Revenue	53,164	52,184
Costs of goods sold	-21,081	-21,657
GROSS PROFIT	**32,083**	**30,527**
Marketing expenses	-435	-456
General administration expenses	-5,665	-5,312
Other income(+)/ expenses(-)	-131	-15
OPERATING PROFIT	**25,852**	**24,744**
Financial income	836	2,326
Financial expenses	-1,287	-2,505
PROFIT BEFORE TAXES	**25,401**	**24,565**
Income tax on dividends	-4,314	-4,280
NET PROFIT FOR THE PERIOD	**21,087**	**20,285**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**21,087**	**20,285**
Attributable profit to:		
Equity holders of A-shares	21,086	20,284
B-share holder	0.60	0.60
Earnings per A share (in euros)	0.90	0.90
Earnings per B share (in euros)	600	600

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

CASH FLOW STATEMENT

	for the year ended 31 December	
	2015	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	25,852	24,743
Adjustment for depreciation/amortisation	5,992	5,696
Adjustment for revenue from connection fees	-194	-143
Other non-cash adjustments	-23	-33
Profit(-)/loss(+) from sale and write off of property, plant and equipment, and intangible assets	2	75
Change in current assets involved in operating activities	-559	962
Change in liabilities involved in operating activities	-12	-140
Total cash flow from operating activities	**31,058**	**31,160**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, and intangible assets	-14,409	-10,674
Compensations received for construction of pipelines	6,499	10,523
Proceeds from sale of property, plant and equipment, and intangible assets	30	50
Interest received	95	426
Total cash flow used in investing activities	**-7,785**	**325**
CASH FLOWS FROM FINANCING ACTIVITIES		
Received loans	0	20,000
Repayment of loans	0	-20,000
Interest paid and loan financing costs	-2,150	-2,968
Finance lease payments	-133	-51
Dividends received	745	1,900
Dividends paid	-18,001	-18,001
Income tax on dividends	-4,314	-4,280
Total cash flow used in financing activities	**-23,853**	**-23,400**
Change in cash and cash equivalents	**-580**	**8,085**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**37,964**	**29,879**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	**37,384**	**37,964**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2013	**12,000**	**24,734**	**1,278**	**49,168**	**87,180**
Dividends	0	0	0	-18,001	-18,001
Comprehensive income for the period	0	0	0	20,285	20,285
as of 31 December 2014	**12,000**	**24,734**	**1,278**	**51,452**	**89,464**
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
Adjusted unconsolidated equity as of 31 December 2014	**12,000**	**24,734**	**1,278**	**51,452**	**88,937**
as of 31 December 2014	**12,000**	**24,734**	**1,278**	**51,452**	**89,464**
Dividends	0	0	0	-18,001	-18,001
Comprehensive income for the period	0	0	0	21,087	21,087
as of 31 December 2015	**12,000**	**24,734**	**1,278**	**54,538**	**92,550**
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	0
Adjusted unconsolidated equity as of 31 December 2015	**12,000**	**24,734**	**1,278**	**54,538**	**92,023**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (EUR thousand)

CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 7 March 2016. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report, the financial statements and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

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

Name	**Position**	**Signature**	**Date**
Karl Heino Brookes	Chairman of the Management Board		7-3-2016
Aleksandr Timofejev	Member of the Management Board		7-3.2016
Riina Käi	Member of the Management Board		07.03.2016
Simon Roger Gardiner	Chairman of the Supervisory Board		24/3/16
Steven Richard Fraser	Member of the Supervisory Board		24/3/16
Martin Padley	Member of the Supervisory Board		24/3/16
Brendan Francis Murphy	Member of the Supervisory Board		24/3/16
Mart Mägi	Member of the Supervisory Board		24.03.16
Rein Ratas	Member of the Supervisory Board		24.03.16
Toivo Tootsen	Member of the Supervisory Board		24.03.16
Allar Jõks	Member of the Supervisory Board		24.03.16
Priit Lello	Member of the Supervisory Board		24.03.2016

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Tallinna Vesi

We have audited the accompanying consolidated financial statements of AS Tallinna Vesi and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Tallinna Vesi and its subsidiary as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

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Emphasis of Matter

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

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No. 325

Doris Egel
Auditor's Certificate No. 587

7 March 2016

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