



**SOCIAL RESPONSIBILITY
AND SUSTAINABLE
DEVELOPMENT REPORT**

2014



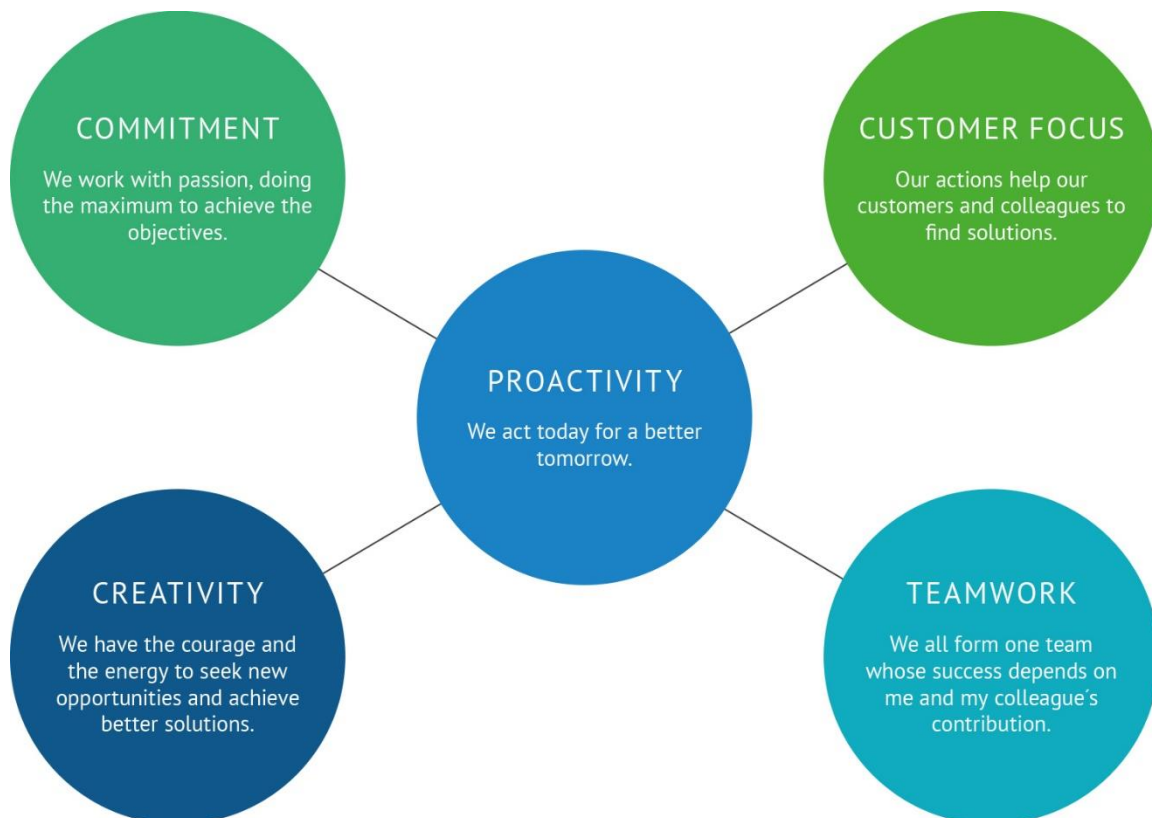
MISSION

We create better life with pure water.

VISION

Everyone wants to be our customer, employee and partner because we are the leading water services company in the Baltic's.

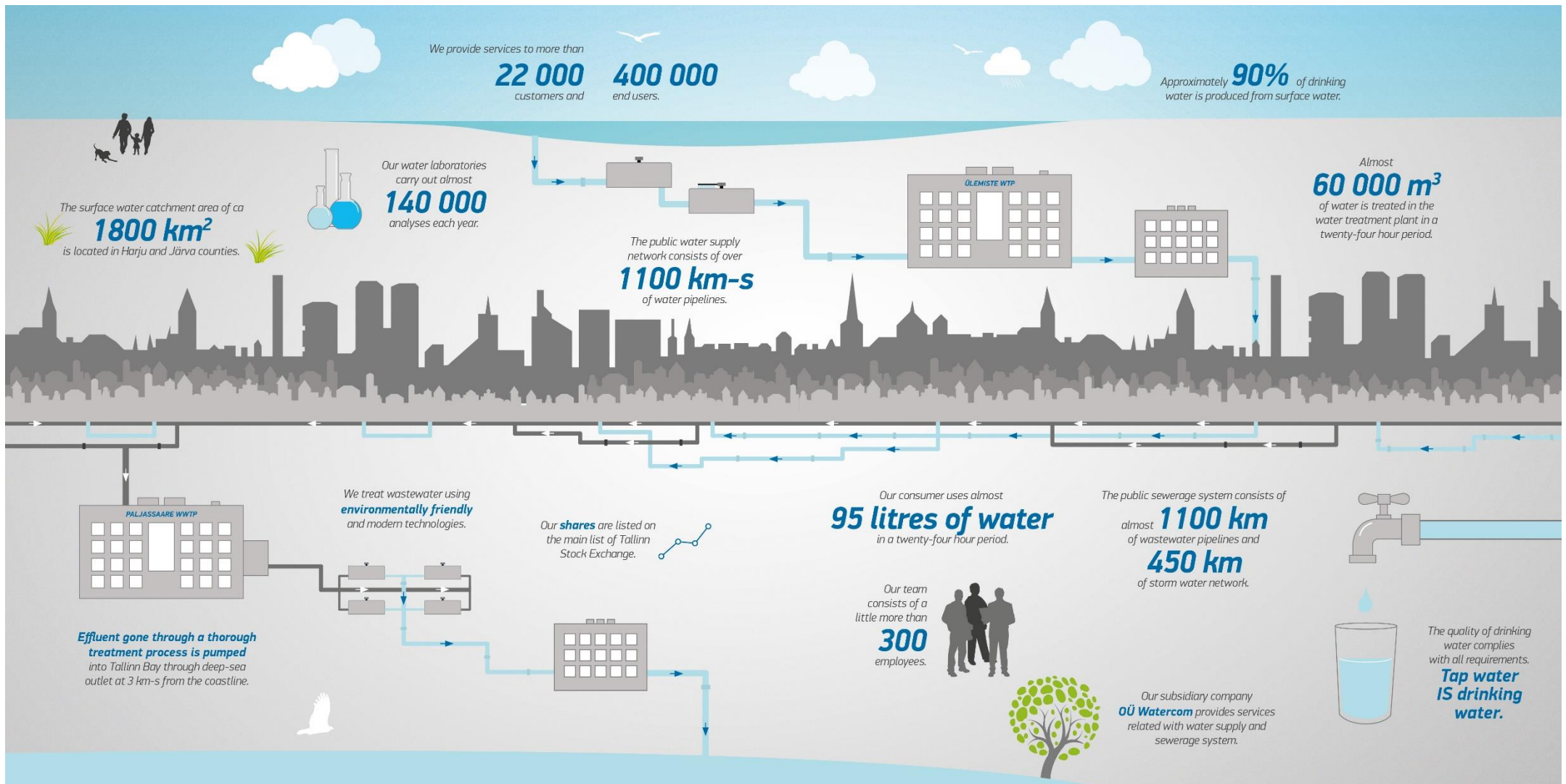
OUR VALUES



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General facts



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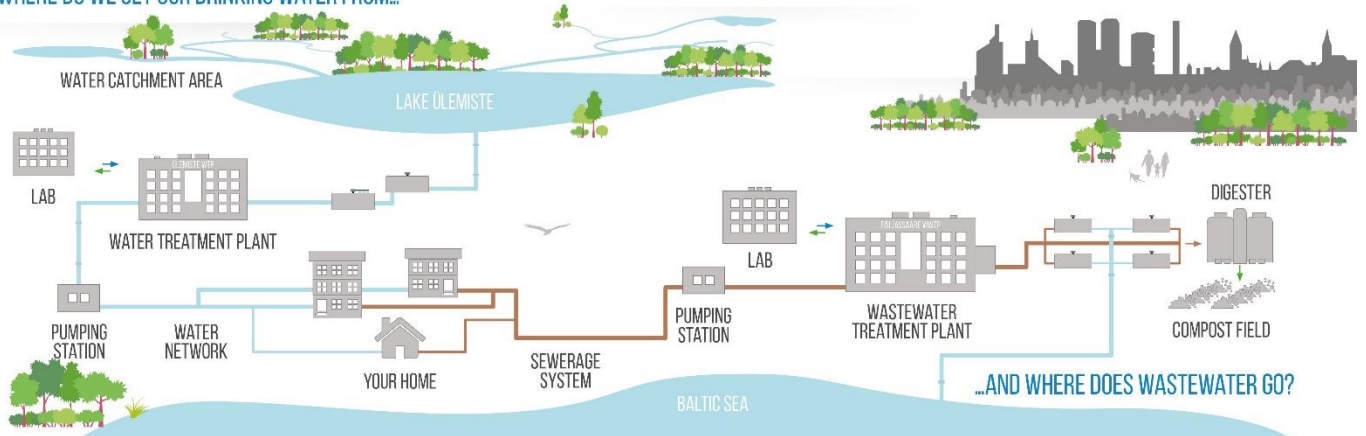
OPERATIONAL SITES

- Head office, customer service, support services and subsidiary OÜ Watercom in Ädala 10, Tallinn.
- Ülemiste water treatment plant, water and microbiological laboratory in Järvevana Road 3, Tallinn.
- Paljassaare wastewater treatment plant, composting fields and wastewater laboratory in Paljassaare Cross 14, Tallinn.
- The catchment area ca 1800 square kilometers in Harju and Järvamaa counties.

OUR MAIN PRODUCTS AND SERVICES

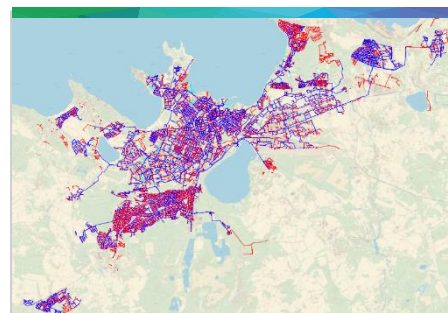
- Water collection, treatment and supply
- Water and wastewater services
- Sewage and storm water drainage and cleaning
- Laboratories
- Infrastructure planning and design
- Water and Sewerage Pipeline Works
- Owner supervision and project management
- Transportation services and road construction

WHERE DO WE GET OUR DRINKING WATER FROM...



OUR MAIN SERVICE AREA

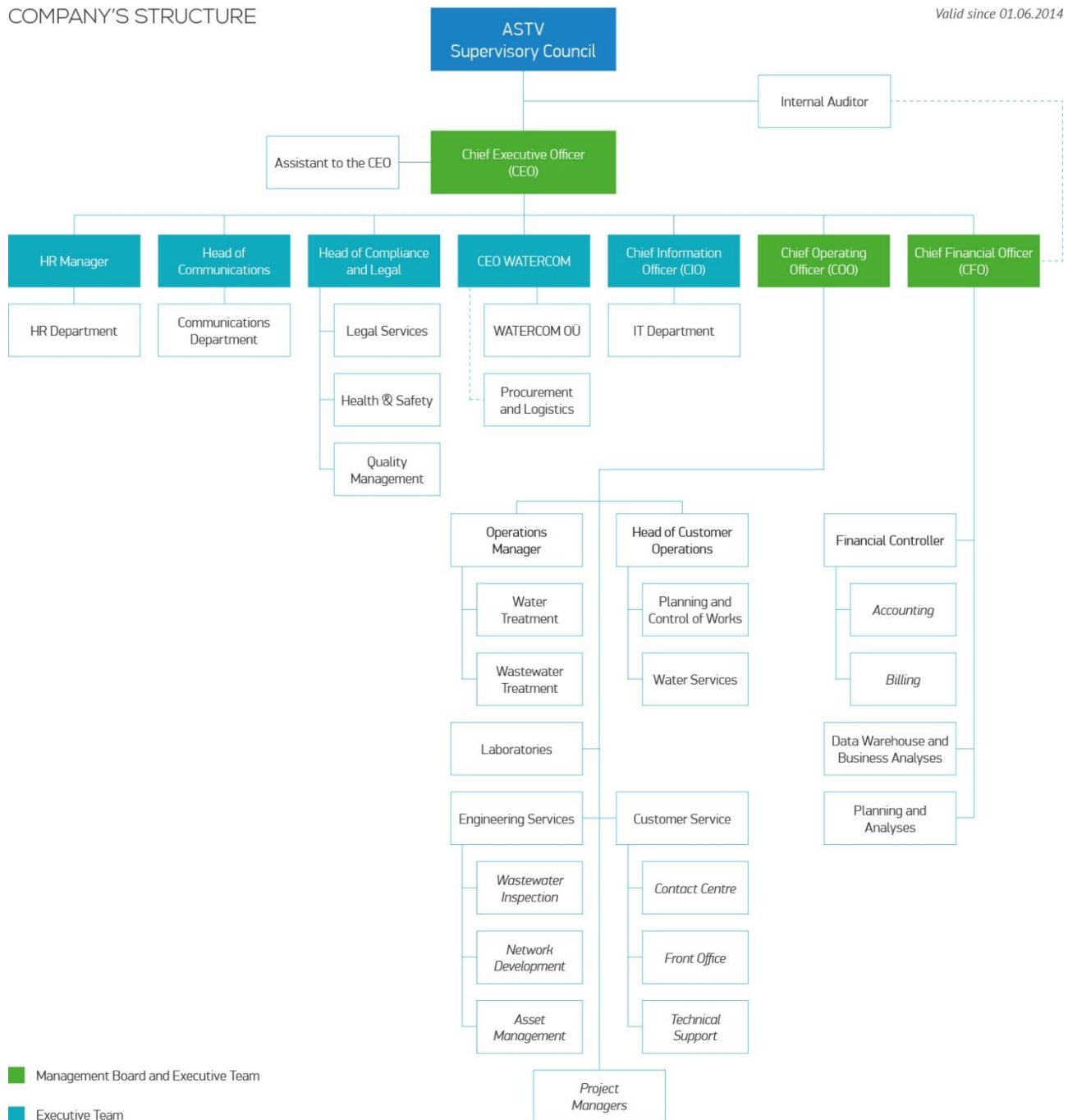
- Tallinn City
- Maardu City
- Saue City and Laagri area
- Saku area
- Viimsi Parish
- Harku Parish and Tabasalu area
- Kiili Parish, Kiili and Luige area
- Jõelähtme, Loo and Iru area
- Rae Parish, Jüri, Assaku and Lagedi area



Our main service area in Estonia

COMPANY'S STRUCTURE

Valid since 01.06.2014



About this report

Being Estonia's largest water company, our activity affects almost one third of Estonia's population. We provide pure drinking water to customers and collect and treat wastewater and stormwater, using environmentally safe and modern technologies. We realise that by offering conforming services to our customers we influence the quality of life of Tallinners, surrounding municipalities and all people living next to the Baltic Sea.

We wish to be a trusted partner to our customers, investors, employees and representatives of the community, therefore our management practices take into account the impact we have on surrounding living environment and the association with the different stakeholder interests. This means we consider social responsibility central to our activities, through everything we do. We do more than we are expected to, in terms of quality, support for the community, environmental education, as well as working environment.

AS Tallinna Vesi's report on social responsibility and sustainable development provides an overview of our activities and performance in 2014 in the area of sustainable development in economic, social and environmental perspective. We have been using these

three important aspects of corporate responsible in preparing this report.

We determined the essential subjects on the basis of the standards of the quality-, occupational health and safety and management systems (ISO, OHSAS). We have also used the environmental report, which was deemed compliant with the Eco-Management and Audit Scheme (EMAS) and audited in 2014, as well as the annual report together with the financial statement.

This report follows the guidelines of the *Global Reporting Initiative* (GRI) G3.1 level C+ and it has been approved by the third party. The social responsibility and sustainable development report includes all information of our Company's activities, including the subsidiary OÜ Watercom, which is 100% owned by AS Tallinna Vesi.

We issue the report according to the GRI-standard annually since 2012. All the reports are available on the webpage of AS Tallinna Vesi.

Date of the previous report:
07/07/2014



**ESTONIAN SUSTAINABLE
BUSINESS INDEX
SILVER LEVEL 2014**

Chairman's statement

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

Operations performance – best ever water quality

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

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

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

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

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

In addition to the improvements in the quality of our water and wastewater, we continue to reduce the customer risks related to potential flooding and pollution by making preventative improvements in the performance of our networks. For example, the leakage level is

consistently decreasing year-on-year. Figuratively speaking, constant reduction in leakage levels means that we are saving approximately 13,000 m³ of treated drinking water a day, compared to the time 10 years ago. Compared to 2013, the saving in 2014 was 200,000 m³, which is the average amount of water being consumed in Tallinn within three days. In 2014, the level of leakages was 16.14% compared to 16.98% in 2013.

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

Our people and teams

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

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

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



*Karl Heino Brookes,
Chairman of the Management Board*

vigilant in our efforts to achieve the same very high standards in the future.

Responsible company

We acknowledge that by providing a service compliant with all requirements, we influence the quality of life of the citizens of Tallinn, neighbouring municipalities, as well as the wider environment in and around the Baltic Sea. This means that our management practices take into account the impact we have on our living environment, and our associations with different stakeholder interests. Our responsibility to all our stakeholder groups, including the environment, is a key reason for our ongoing business improvement. We are one of the initiative members of the Responsible Business Forum in Estonia. We have been recognized for our responsible way of doing business, through our activities for several years. In 2014, we were recognized with CSR Silver marking for our social, environmental and workplace practices, but also business ethics.

Not only do we aim to do the right things for our stakeholders, we also want to manage our business in the right way by operating to the highest standards of corporate governance. In 2014, for a second year in a row, we were awarded the Best Investor Relations of all the companies on the Nasdaq Baltic Market in all three Baltic Countries. In addition, AS Tallinna Vesi was recognized as the most attractive company in the Nasdaq Baltic Market. I would like to take this opportunity to thank the Nasdaq Baltic Market in Tallinn and the bank analysts who have worked with us to help improve the quality of our interactions with the investment community.

Still attractive for shareholders

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

For the 2014 financial year our total revenues increased by 0.3% year on year to 53.2 mln euros, mainly due to an increase in sales of water and wastewater services. However, our EPS reduced by 10% year on year to 0.90 euro per share, the

reduction is primarily related to the non-monetary revaluation of the fair value of SWAP contracts.

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

Outlook

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

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

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

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

Our community

Being Estonia's largest water company, our activity affects almost one third of Estonia's population. We understand the impact of our business on the surrounding natural habitat and therefore deem it important that our activities engage with the interests of different stakeholders. Having in mind the perspectives of our development, we have mapped our stakeholders, considering those who are most impacted by our activity and decisions and whose satisfaction is important for us. We give our best to do more than what is required and expected from us, in order to make a positive impact on the natural environment around us as well as the quality of people's life.

We support and encourage our employees to actively participate in the community activities. It is namely our employees who, in addition to their daily work, have an important responsibility of passing on the environment- and community-orientated mind-set.

Our main stakeholders

- Customers

Our most important role is to provide our customers a service, which they can depend on 24/7, 365 days a year. We are committed to keep our promises and eager to deliver the highest quality of services to our customers.

- Employees

We value our employees highly and wish to create opportunities so that everyone in our team could contribute at the best level possible. Our aim is to create a working environment to support providing our customers with high quality services. Most of all, we consider safe working environment to be very important – no work assignment is worth getting hurt for.

- Community

The community we operate in, people whose lives our work impacts – they are vital for us. We therefore consider very important to actively take part and support the community we operate in.

- Investors

We aim to be transparent and honest thorough our business activities, giving timely and accurate information to our shareholders. We treat all our stakeholders equally and we are dedicated on efficiency while ensuring the sustainability of the company.

- Partners

We develop relationships with partners and suppliers based on common values to support achieving our and their objectives.

Teamwork

We deem it important to be a good neighbour in the community, therefore we support and encourage our employees to actively participate in the community activities. Also, in addition to their daily work our employees have an important responsibility to live our values through a voluntary participation in various community projects. Our employees also appear on the photos of the AS Tallinna Vesi's various data carrying media.

Our employees volunteer to organise group conversations in kindergartens to talk about the sustainable usage of environment, participate in the events of cleaning up some areas, assist the Food Bank and help organising open doors days and other events. For example, each year our employees help to clean up the beautiful surroundings of Soodla water reservoir, help to organize the doors open days at our treatment plants so that visitors could learn about the operating of the plants, and take actively part in carrying and communicating our messages. Like for many years before, our employees together with the employees of Coca-Cola Hellenic and the Embassy of the United States of America cleaned the Pikakari beach within the framework of cleaning up event "Let's Do It!" for the local community to be able to enjoy the scenic coastal area. Over 100 volunteers participated to contribute.

Improved environmental awareness of consumers

We value the natural environment we operate in, therefore use natural resources sparingly and continuously seek new ways for a more sustainable consumption. In order to help to shape an environmentally conscious way of thinking in the society, we encourage and support others accordingly.

We keep on working hard to encourage people's environmental mind-set. We promote tap water as drinking water and draw people's attention to the excellent quality of tap water with our message "Tap

Water IS Drinking Water.” We also continued our co-operation with restaurants, so that the customers would have the courage and awareness to ask for tap water when they dine out. In the end of 2014, 85% of people trusted tap water quality, while in 2011 only 48% of people drank tap.

2014 was the Gulf of Finland Year. Treating wastewater at Paljassaare Wastewater Treatment Plant significantly contributes to the shaping of cleaner Baltic Sea. In order for the people to make their contribution to the cleaner nature environment, but even more importantly – so that they would know how to prevent problems and fuss caused by the blockages, we once again draw the public attention on the topic „Don’t Clog the Toilet.” The figure of SAPO or Sanitary Police explained people what can be thrown into the toilet and what may cause blockages in the pipelines.

We continue contributing to environmental awareness of youth who would value the environment. Our employees organise group conversations in kindergartens and schools where we discuss the topics of water circle, sparing water consumption and blockages.

We have put together two sets of study materials on water and environment for teachers, supporting the new national study program of nature studies. “Blue Classroom,” published in 2103, is meant for using in the nature study classes of the II school level. In 2014, in connection with the Gulf of Finland Year, we published a new study material “Blue Classroom: LABORATORY,” which suits mainly for teaching nature studies in the III school level. To introduce these materials, information days for the teachers were organized, with 13 school teachers from Tallinn participating.

Besides our main responsibilities – production of drinking water and treatment of wastewater – our treatment plants also have an important role to play in increasing the population’s awareness. Each year we introduce the plants’ work to more and more people. In 2014, a total of almost 1,500 visitors took guided tours in the treatment plants.

Once again, we participated in the project called “Tours of Wisdom,” organized by the “Back to School” network. The project invited schools and classes to submit creative application to visit our treatment plants – this time, 5 schools took interest, and the winner was Põltsamaa Gymnasium who

wrote lyrics for the song about Lake Ülemiste. [Video about the performance](#) is available.

Every year, we open the doors of our treatment plants also during the doors open day. In spring, over 100 people visited Paljassaare Wastewater Treatment Plant and in August a record-shattering 800 people in Ülemiste Water Treatment Plant.

Cooperation and attention

We wish to contribute and provide positive impressions also to the people who need more assistance and attention in the society.

For years, we have supported the disabled people through the nursery “Õunake” and the Estonian Union of Sports for the Disabled, also the children with learning difficulties in Ristiku Elementary School. It is very touching to draw attention to those who really need help and attention. We organised a meeting of Ristiku Elementary School children with the Pille Lill Music Fund, so that children could take part in and learn about classical music. Positive emotions are powerful inspirers and children’s enthusiasm about music is free and sincere.

In February, the Minister of Culture Ms Urve Tiidus recognized the companies who have long supported the Estonian culture. We received a valuable title “Friend of the Culture 2014.”

We are a member of the Association of Friends of Tallinn Zoological Gardens and proudly sponsor a polar bear girl called Nora.

In cooperation with the city district governments, we gave planting soil for free to everybody who were interested in it to make our city look more fresh and green.

High quality drinking water was provided at numerous sports and health promotion events. We also provide water for the Flower Festival and ice skating rinks in winter.

We help to make happen one of the largest Estonian cultural events, the Dark Nights Film Festival. Last year the festival had 80,000 visitors.

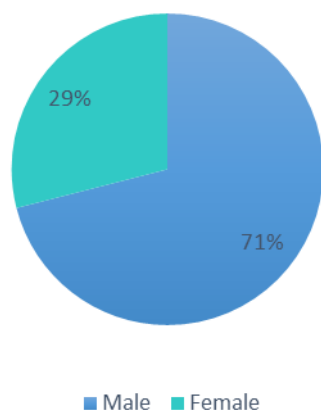
Last year the Responsible Business Forum awarded the Company with the silver mark of sustainable business index. This index helps us to consistently analyse how to act in a socially responsible manner and design a sustainable business model

Our employees

In case of providing a vital service, teamwork and staff's contribution are of utmost importance. It is the people who carry the company forward. However, prerequisite to achieving good results and enjoying the work is first and foremost, a supportive work environment.

The number and gender distribution of our employees has remained quite stable over the recent years. Last year our team, including the subsidiary company, consisted of 321 employees with permanent contract (311 in 2013). 98% of them worked full-time and 2% half-time. All the employees were placed in Tallinn.

EMPLOYEES BY GENDER, IN 2014



To ensure equal treatment, we have also signed a collective agreement with the trade Union of Water Supply and Sewerage Staff, the collective agreement applies to all staff. These contractual obligations and benefits extend to all of our employees.

Involving the employees

We consider important that our staff is involved in the activities of the Company, is regularly informed and treated equally. We use several ways for this, for example organise regular staff meetings with the management and issue a quarterly internal newsletter.

Two-way interaction is of high importance in the team work and therefore, feedback from the employees forms an essential part of the organization's internal culture. One channel, which gives a systematic overview of the employees' satisfaction, is the annual employee commitment

and satisfaction survey. In 2014, 92% of our employees took part in the survey and the commitment rate (71%) was higher than the average commitment among the Estonian and European industries and service providers.

In addition, all our employees can suggest how to improve the environment, quality and working environment or some other area by providing their ideas to the "Bank of Good Ideas." Those ideas that are positively marked will be implemented and the authors get recognized.

Development of employees

The development of employees is still one of the most important priorities for AS Tallinna Vesi. Development and performance reviews are carried out for all employees at least once a year and it is a part of our recognition and remuneration system.

Characteristically for a stable manufacturing enterprise, the average age of the staff both in AS Tallinna Vesi and its subsidiary is high (average age is 47 years). Therefore, it is of critical importance for us to take a very systematic approach towards working with the new generation and passing on the knowledge and experience, in order to successfully cope with the change of staff expected to occur in the coming years.

We believe that sharing of knowledge and experience is very important from the perspective of staff development. Therefore, there has been a significant increase during the past years within the in-house guidance, as well as in involvement of mentors from both in- and outside of AS Tallinna Vesi. In 2014, there were 365 training days in total (an average of 1.1 days per employee).

Occupational health and safety

Work environment performance of AS Tallinna Vesi is in compliance with the requirements of national legislation and international occupational health and safety management system standard OHSAS 18001.

In line with the Occupational Health and Safety Act, a Work Environment Council has been established in AS Tallinna Vesi (comprising also the subsidiary

company), which stands for everything related to the occupational health and safety of all of our employees. The Council has equal number of representatives appointed by AS Tallinna Vesi and those selected by the employees. The Work Environment Council has 10 members in total and each of them has one substitute member. In addition, the Council has two non-voting members – Head of the Occupational Health and Safety and the representative of the Trade Unions. Thus, nearly 8% of the employees are involved in the Council's activities.

In 2014, 2 occupational accidents occurred, one of which had more serious consequences. In a less serious accident, the employee fell and got a thoracic concussion. In a more serious accident, the employee's leg remained under collapsing ground, resulting in a broken bone in the hock area. Our Work Environment Council made a thorough analyse of the reasons that caused both accidents and corrective actions were taken to prevent similar actions in the future.

In 2014, the number of lost working days increased from 55 to 74, compared to 2013 (thoracic concussion caused 26 and broken hock 48 lost working days). The number of lost working days is counted starting from the first day missed from work.

Continuous improvement of work environment

Occupational health and safety is something that we absolutely do not compromise on. Therefore, despite of the good results achieved so far, it is important not to rest on the laurels, but to carry on channelling our time and energy into maintaining a safe work environment and making further improvements thereof. In 2014, several supporting activities were carried out at the treatment plants, water and sewerage networks, laboratories and offices, e.g. renewal of risk analysis, removing the shortcomings in the work environment as a result of the internal safety audits, carried out by all managers and members of the Work Environment Council, updates to the personal protection equipment procedure, regular activities related with fire safety installations of buildings and vehicles, and activities related with the creation and promotion of an ergonomic work environment.



Our customers

We provide water supply and sewerage services to almost one third of the Estonian population and to more than 22,000 contractual customers.

We understand how important our service is for people and therefore, we focus on maintaining and improving the quality and reliability of our services. In 2014, our special focus was on enhancing the customers' awareness of our actions that impact their quality of life. We also made efforts to increase the quality of resolving customer contacts, which would reduce the customers' need for repeated contacts.

Feedback from customers

In order to objectively assess our activities and understand both our strengths and problematic issues which require more attention in the future, we deem it very important to continually ask for feedback from our customers. There are several ways for the customers to give feedback to us: by e-mail, by phone and through the direct contacts with our customer service people. The best feedback for us, however, is the annual survey carried out among our customers and end users by an independent market research company TNS EMOR. Satisfaction is measured on the basis of the TRI*M method developed by the research company to characterise the strength of customer relationships and to allow comparison with other companies.

This model focuses on three elements:

- TRI*M index, which measures the strength of customer relationships and comprises further four elements – general satisfaction, recommendation, repeated use and usefulness/necessity of services/products;
- TRI*M typology of customer relationships, describing the satisfaction and loyalty of customers;
- TRI*M grid analysis to highlight the strengths and weaknesses of a company.

Customer satisfaction

The survey carried out in 2014 once again gives us encouragement with very good results. Compared with customer satisfaction in European utility and manufacturing sector, the feedback to our work has been excellent.

In 2014, a total of 900 customers and end users were surveyed by EMOR to map changes in our customer relations' strength and factors influencing it, as well as to receive feedback on our activities' success.

The survey that has been carried out for seven years now, has indicated an increase in satisfaction year-on-year. However, the satisfaction in 2014 was the highest ever – the average satisfaction index was 85 points and that is significantly higher than the average customer satisfaction in the European utility sector (which was 55 points).

Satisfaction of Company's customers and end users in comparison with Europe, 2014



Continuously positive trend can be seen in the number of people drinking tap water. While five years ago, only every second end-user drank tap water, in 2014, the number of tap drinkers among all customer segments has increased to 80%-90%. “Drink Tap Water” campaign that we have been carrying out for several years now, has played an important role in this. Also, this was the most frequently noticed media message among all customer segments. Increasing tendency in tap drinking is certainly related also to the improvements in the quality and taste of water. This is also supported by the results of the survey among end-users and the assessment they have been given to the water quality, and within last year especially in Maardu-Muuga area.

Assessments given to the taste, odour and clarity of water have improved compared to the previous year, both in commercial and private customer segments. Also the assessments given to the price-quality ratio have improved.

Developing the customers service

Even though the feedback to our services continues to be good, it also indicates a need to focus more on the constant strengthening of the emotional side of customer relations. Therefore, we will keep focusing on maintaining and increasing the satisfaction mainly through the improvements in the services provided and in customer service.

In 2015, we see a continuous possibility to develop the problem solving in the customer service. Though the number of customer complaints has reduced year by year mainly as a result of preventive activities, it is still important to provide quick solutions that meet customer expectations. We also try to provide more information about our activities and keep customers better informed about the solution being provided to them.

Customers' satisfaction with various aspects of service in 2013 and 2014 on a 5-point scale

Aspect of service	Commercial customers		Private customers	
	2013	2014	2013	2014
Taste of water	3.9	4.1	4	4.2
Odour of water	4	4.2	4.1	4.3
Clarity of water	4.1	4.2	4.1	4.2
Stable water pressure	4	4	3.9	3.9
Low number of emergencies and interruptions	4.1	4.2	4.1	4.2
Price/quality ratio	3.2	3.5	3.2	3.5
Accuracy and clarity of invoices	4.4	4.4	4.2	4.3
Customer Information line	4	4	3.9	3.9
Communication by e-mail	4.1	4.2	4.1	4.0
Self-service	4	4.1	4	4.1



Our environment

Our environmental activities and the environmental management system are in accordance with international environmental management standard ISO 14001 and the requirements of the European Union's Eco Management and Audit System EMAS certificate. The quality and environment policies express our principles about managing corporate responsibility and environmental activities.

We act in accordance with the conditions set out in the environmental permits issued to AS Tallinna Vesi and observe the precepts set out by authorities. The main licensing authority for us is the Environmental Board's Harju-Järva-Rapla regional department, who

has issued the following environmental permits to us:

- 4 permits for a special use of water,
- 1 waste permits,
- 2 ambient air pollution permits.

Energy consumption

In 2014, our direct and indirect energy consumption was 197,213 GJ in total, 138,067 GJ of which was indirect and 59,146 GJ direct energy consumption. By its use, our energy consumption can be divided into electrical energy, heat energy and transportation energy.

DIRECT AND INDIRECT ENERGY CONSUMPTION IN 2013-2014

Source of energy	Renewable or non-renewable source	Direct or indirect consumption	Source of energy is used for	Energy consumption in 2013 (GJ)	Energy consumption in 2014 (GJ)
Oil shale	Non-renewable	Indirect	Electrical energy	142 952	133 877
Natural gas	Non-renewable	Direct	Heat energy	14 780	14 364
Natural gas	Non-renewable	Indirect	Heat energy (remote heating)	3 776	4 190
Biogas	Renewable	Direct	Heat energy	26 316	32 317
Petrol*	Non-renewable	Direct	Transportation	3 335	3 189
Diesel*	Non-renewable	Direct	Transportation	9 611	9 276
Total				200 770 GJ	197 213 GJ

*31.2 litres of petrol and 27.5 litres of diesel = 1 GJ

Majority of the electrical and heat energy is used for running the main operations – for the work of water and wastewater treatment plants and the pumping stations on the network. Most of the heat energy is being bought from AS Tallinna Küte or is produced on site from the natural gas that is bought from AS Eesti Gaas. At the Wastewater Treatment Plant in Paljassaare, heat energy is produced from a renewable energy source - biogas, which is a product from the sludge fermentation process. All the biogas produced at the wastewater treatment plant is used on site and this covers most (90-100%) of the need for heat energy that the plant has.

Together with the subsidiary company, we have 131 vehicles in total, to carry out various works. Majority of this is the motor-cars, incl. small vans and the cars that the network teams are using. Our vehicles use mostly diesel fuel, and company cars to a smaller extent also petrol.

Several important investments were made in 2014 to reduce the energy consumption, e.g. more than 100 metering points were developed in water and wastewater treatment plants, which enable to make a more specific analyse of the energy consumption on various process equipment. Based on the energy consumption analyse, we made changes in the operating instructions for the equipment that consumes a lot of energy at the wastewater treatment plant (e.g. main pumps) in 2014. Capital repairs done on the ozonators at the water treatment plant also helped to increase the energy efficiency. In addition, energy efficiency on the pumping stations' equipment was increased in 2014. Due to these investments and favourable weather conditions, the energy consumption dropped in 2014 by 6% or 9076 GJ.

Water

One of our main tasks is to provide a high quality tap water supply to our customers. Nearly 90% of our customers in the cities of Tallinn and Maardu get their drinking water from surface water. Despite the fact that Lake Ülemiste is the main drinking water resource for all the Tallinners, the natural catchment of the lake itself is small. Therefore, an extensive

water catchment system has been created. Water extracted from the Cambrian-Vendi and Ordovician-Cambrian ground water layers supplies drinking water to nearly 10% of Tallinners.

Our activity in the use of water resources is regulated by the Water Act and the regulations applied based on that. As a water undertaker, we are obliged to hold a valid permit for a special use of water and pay respective fee for the use of water resource.

OVERALL USE OF WATER IN 2013-2014, BY WATER SOURCE

Water source	Water extracted annually in 2013 (m ³)	Water extracted annually in 2014 (m ³)
Surface water extraction from the Lake Ülemiste	22 200 000	22 610 000
Ground water extraction from ground water layers	2 417 000	2 364 900
Total water extraction	24 617 000	24 974 900
<i>Incl. own water use</i>	<i>455 646</i>	<i>514 180</i>

Ülemiste sanitary protection zone

Lake Ülemiste is the primary surface water source for the water treatment plant. Its volume that can be regulated and used is 15.78 million m³. Ülemiste itself is the fourth largest lake in Estonia, with a surface area of 9.3 km² and an average depth of ca 3.4 m. The total surface water catchment area is ca 1800 km². Although a total of forty species of vascular plants have been found in this lake, only 9 of these are widely spread. There are 15 different species of fish in the Ülemiste Lake. Reportedly, there are no protected species in this area. The lake is a drinking water source for more than 400,000 people living in Tallinn and its surrounding areas.

To protect the Lake Ülemiste as an important drinking water source for Tallinners, a sanitary protection zone around the Lake Ülemiste was formed in line with the Water Act § 36 (1). The sanitary protection zone includes the lake, the water catchment facilities thereof, the bank reinforcement facilities and the area surrounding the lake, which must be kept in its natural condition. The sanitary protection zone is marked and protected with a fence. Under the Water Act, entry into the sanitary protection zone is permitted only for persons performing duties related to environmental supervision and health protection, servicing of water catchment facilities and forest maintenance, mowing of grass plants and water monitoring.

Over the recent years, human- and development activities, construction of motorways and airport

activity have become more intensive in the areas surrounding the lake and this has caused the environmental risks on a drinking water source to increase. Due to the fact that the Ülemiste Water Treatment Plant does not have an alternative raw water supply source today, we deem it extremely important to ensure natural balance around the lake. Free public access to the drinking water reservoir may increase the risk of polluting the water source and deteriorate water quality.

Emissions

Air emissions

In order to reduce the ambient air pollution, AS Tallinna Vesi focuses on limiting the amount of pollutants emitted from Ülemiste and Paljassaare boiler houses, particularly the pollutants of primary importance, such as nitrogen dioxide, carbon monoxide and volatile organic compounds, as well as the greenhouse gas emissions. Also the emissions of ozone produced for drinking water treatment are regulated. The Company has been issued two ambient air pollution permits without a term and we pay pollution fee for the pollutants emitted to the air.

Discharges of effluents by the Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant have been relatively small and remained stable throughout the years. 2014 has not seen any substantial changes in this regard.

WASTE EMISSIONS TO THE AMBIENT AIR FROM THE BOILERS OF WATER AND WASTEWATER TREATMENT PLANTS IN 2013-2014 (T)

Pollutant	Emission in 2013 (t)	Emission in 2014 (t)
Nitrogen dioxide	3,4	3.8
Carbon monoxide	3,2	3.7
Volatile organic compounds	0,2	0.3
Carbon dioxide	2919	3345
Hydrogen sulphide	17	16.8
Solid particles in sum	0,004	0.004

Waste

The majority of our waste is produced in the wastewater treatment process and in the Customer Operations Department. In 2014, we produced a total of 45,718 tons of waste. We have currently one waste permit issued for the stabilized waste, sediments from the domestic wastewater treatment and biodegradable waste.

The largest amounts of waste are produced at the wastewater treatment plant where all the sludge produced is reused and composted on site, producing composting soil for greening purposes. The other type of waste that we store and partly reuse is the waste from the asphaltting. All the other waste, collected and sorted by its type, is periodically being handed over to the contractual waste handlers.

AMOUNTS OF WASTE BY TYPE IN 2013-2014

Type of waste	Amount in 2013 (t)	Amount in 2014 (t)
Mixed domestic waste	97	93
Paper and cardboard	4	6
Packaging	0,7	0.5
Biodegradable waste	5	7.2
Screenings	984	1 085
Sludge	27 220	32 109
Sediments from sand traps	422	142
Excavated soil and stones	13 341	10 882
Asphaltting waste	869	1 190
Building and demolition waste	47	84
Concrete and bricks	53	62
Metals	14	44.8
Hazardous waste	0	3.4*
Other	79	2

*2013 and 2014 amounts in total

Wastewater

At the Paljassaare Wastewater Treatment Plant we treat the wastewater collected from Tallinn and its surrounding areas, by using environment-friendly and modern technologies. In 2014, Paljassaare Wastewater Treatment Plant treated total of 42.99 million m³ of wastewater. The quality of the treated effluent, discharged to the sea, is regulated with legal acts and the permit for a special use of water no L.VV/322982. Content of pollutants is being monitored in the incoming influent and outgoing effluent, in order to assess the efficiency of the treatment process and the quality of the effluent.

Effluent treated at the Paljassaare Wastewater Treatment Plant (WWTP) is discharged through a 2.8 km long deep-sea outlet 26 m deep into the Bay of Tallinn. Baltic Sea is one of the biggest brackish water bodies in the world and is ecologically unique. The Baltic Sea covers 415,266 km² and its average depth is nearly 50 metres. Baltic Sea bottom fauna is impoverished. There are nearly 100 different species of fish. There are various protected areas in the Baltic Sea. Some of them are established by large international organizations like the HELCOM and Baltic Sea protection areas (BSPA), or BirdLife International and internationally important bird areas (IBA). These areas are important for the whole Baltic Sea.

The important pollution parameters for us are the following:

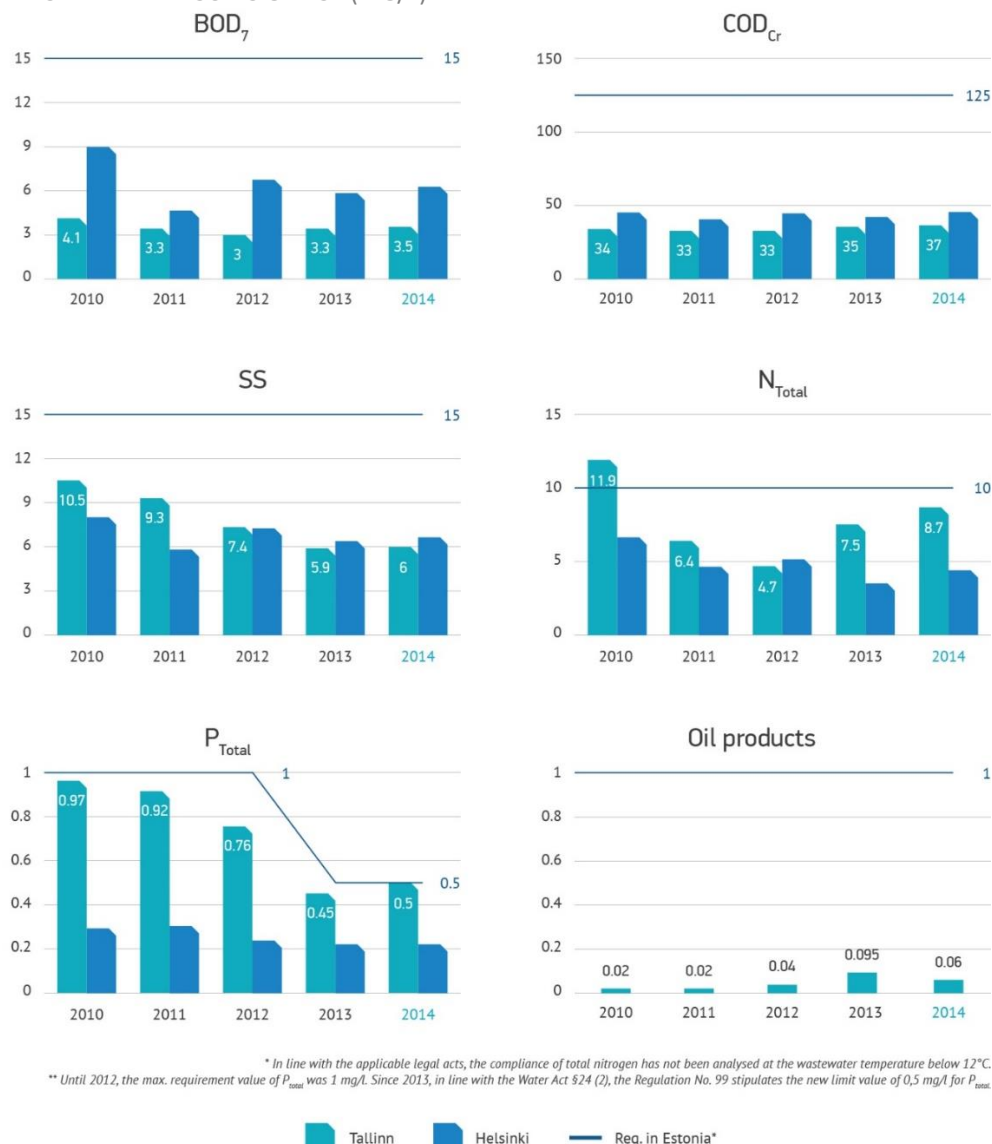
- BOD₇ (biological oxygen demand shows the amount of oxygen required for the defined biological decomposition of organic matter in the course of 7 days);
- COD_{Cr} (chemical oxygen demand is a measure of the decomposition of organic matter, measured as the consumption of oxygen in chemical oxidation of all organic matter in water);

- SS (suspended solids shows the volume of solid matter in water which is caught in a filter with a defined mesh size);
- N_{total} and P_{total} (total nitrogen and total phosphorus are elements contained in nutrient salts, which increase the growth of plankton in water. If the content of nutrient salts is too high, the growth can be so strong that oxygen is used up and a shortage of oxygen arises);
- Oil products (show the amount of light (e.g. petroleum) and heavy (e.g. heavy fuel oil) oil products).

The relative amount of precipitation in 2014 was similar to that in 2013. At two times over the last year (in June and July), we were enforced to open the emergency overflow at the wastewater treatment plant for a short time, in order to avoid

extensive damages caused by heavy rain. However, due to the generally very good weather conditions and good operating work, only very small amount (1303 m³) of wastewater, diluted with a storm water (in the proportion of 1:4), was discharged into the Baltic Sea in 2014. Due to the impact loads exceeding the capacity of the biological treatment, we discharged 224,485 m³ of highly diluted wastewater that had undergone mechanical treatment into the Baltic Sea, by using the deep sea outlet in 2014. In a long perspective, discharging the diluted or partially treated wastewater into the sea may have a negative impact on the sea environment, impacting the content of nutrients in the sea water. However, small quantities will be mixed with sea water and this does not have a negative impact.

AVERAGE POLLUTION PARAMETERS IN THE TREATED EFFLUENT IN 2010-2014, COMPARED TO THE LEGAL REQUIREMENTS AND THE RESULTS OF HSY (MG/L)



Management and responsibility

We are the largest water company in Estonia and we provide water and wastewater services for more than 400,000 people in Tallinn and its neighbouring municipalities. AS Tallinna Vesi is a public limited company, the management bodies of which are:

- the General Meeting of Shareholders (the highest directing body),
- the Supervisory Board,
- the Management Board.

The General Meeting of Shareholders

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

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

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

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

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

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

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

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

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

As per the Articles of Association of AS Tallinna Vesi amended on 24 May 2011, AS Tallinna Vesi has issued one registered preferred share with the nominal value of 60 euros (B-share). The B-share grants the holder the right to participate at General Meetings as well as in the distribution of profits and of the assets remaining upon dissolution of AS Tallinna Vesi, also other rights provided by the law and the Articles of Association of AS Tallinna Vesi. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 600 euros. The B-share grants the shareholder 1 (one) vote at the General Meeting (restricted right to vote) when deciding on amending the Articles of Association of AS Tallinna Vesi; increasing and reducing the share capital of AS Tallinna Vesi; issuing convertible bonds; acquisition of treasury shares by AS Tallinna Vesi; deciding on the merger,

division, transformation and/or dissolution of AS Tallinna Vesi and deciding on issues related to the activities of AS Tallinna Vesi that have not been placed in the sole.

The Supervisory Board

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

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

Mr Simon Gardiner (United Utilities (Tallinn) B.V.), Supervisory Board member until 22 May 2016, Chairman of the Supervisory Board;

Mr Steven Richard Fraser (United Utilities (Tallinn) B.V.), Supervisory Board member until 21 January 2016;

Mr Brendan Francis Murphy (United Utilities (Tallinn) B.V.), Supervisory Board member until 27 October 2015;

Mr Martin Benjamin Padley (United Utilities (Tallinn) B.V.), Supervisory Board member until 31 October 2016;

Mr Priit Lello (Tallinn City), Supervisory Board member until 16 November 2015;

Mr Rein Ratas (Tallinn City), Supervisory Board member until 22 May 2016;

Mr Toivo Tootsen (Tallinn City), Supervisory Board member until 7 April 2015;

Mr Mart Mägi (independent) Supervisory Board member until 22 May 2016;

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

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

The Audit Committee and Internal Audit

Internal auditor reports about his/her activities and prepares an internal audit report to the Audit Committee. At the time of compilation of this report,

the Audit Committee consisted of the following members of the Supervisory Board: Mr Brendan Francis Murphy is the Chairman of the Audit Committee, and Mr Allar Jõks and Mr Simon Gardiner are members of the Audit Committee. The Audit Committee follows the Authorised Public Accountants Act and the guidelines issued by the Financial Supervision Authority regarding the composition and working processes of an Audit Committee.

The main tasks of the Audit Committee are:

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

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

Auditor is being paid for his/her services according to the agreement signed between the external auditor and the Management Board. External auditor is selected by following internal procurement procedures (which includes approval by the Supervisory Board of AS Tallinna Vesi), ensuring the best match of service quality and the price offered for the services. Quotations are taken only from internationally respected, high quality audit companies. AS Tallinna Vesi signs up to 3-year audit contract with a clause that requires the re-appointment of the lead auditor each year and follows the guidelines established by the Financial Supervision Authority on 1 November 2013. 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 also present at the AGM.

Nomination and Remuneration Committee

In 2014, the Nomination and Remuneration Committee continued to advise the Supervisory Board

on management remuneration issues and Management Board nominations. The Nomination and Remuneration Committee consists of the following members of the Supervisory Board: Mr Steven Richard Fraser is the Chairman of the Nomination and Remuneration Committee, and Mr Mart Mägi and Mr Simon Gardiner are members of the committee. Supervisory Board approves the remuneration principles of the issuer's managers and appoints the members of the Nomination and Remuneration Committee. The Nomination and Remuneration Committee recommends the remuneration principles of AS Tallinna Vesi and exercises supervision that the principles approved by the Supervisory Board and the requirements of the Securities Market Act are being followed.

The Nomination and Remuneration Committee ensures that the proposed remuneration principles are based on the short- and long-term objectives of AS Tallinna Vesi, taking into account the financial performance of AS Tallinna Vesi and legitimate interests of investors. The Nomination and Remuneration Committee ensures that the proportion of remuneration for the principal job and performance related pay (PRP) are in accordance with the duties of the Management Board Member and that the remuneration for principal job forms a sufficient part of the total remuneration.

Corporate Governance Committee

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

The Management Board

The Management Board is a management body that represents and manages the day-to-day activities of AS Tallinna Vesi in accordance with the law and the Articles of Association of AS Tallinna Vesi. The members of the Management Board are nominated by the Supervisory Board and they are obliged to act in the economically most efficient manner. The Management Board always prepares management reports for Supervisory Board meetings and such reports are disseminated to the Supervisory Board

members one week in advance of the meeting, as required by the Commercial Code. The Management Board also reports *ad hoc* to the Supervisory Board ex-meetings, when it is considered necessary as and when requested by the Chairman of the Supervisory Board.

Both the Management Board and Supervisory Board members are deemed to be insiders who are aware of AS Tallinna Vesi's insider rules and together with their related persons are listed in AS Tallinna Vesi's insider list. Between 1 February 2014 and 19 March 2014 the Management Board consisted of three members; between 20 March 2014 and 1 June 2014 the number of members has been four; and since 2 June 2014 onwards, including during compilation of this report, the Management Board of AS Tallinna Vesi has consisted of three members.

The members of the Management Board at the time of compilation of this report were as follows:

Mr Karl Heino Brookes, with the powers of the Management Board member until 20 March 2017;

Ms Riina Käi, with the powers of the Management Board member until 29 October 2015;

Mr Aleksandr Timofejev, with the powers of the Management Board member until 29 October 2015.

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

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

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

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

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.

Investor relations and disclosure of information

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

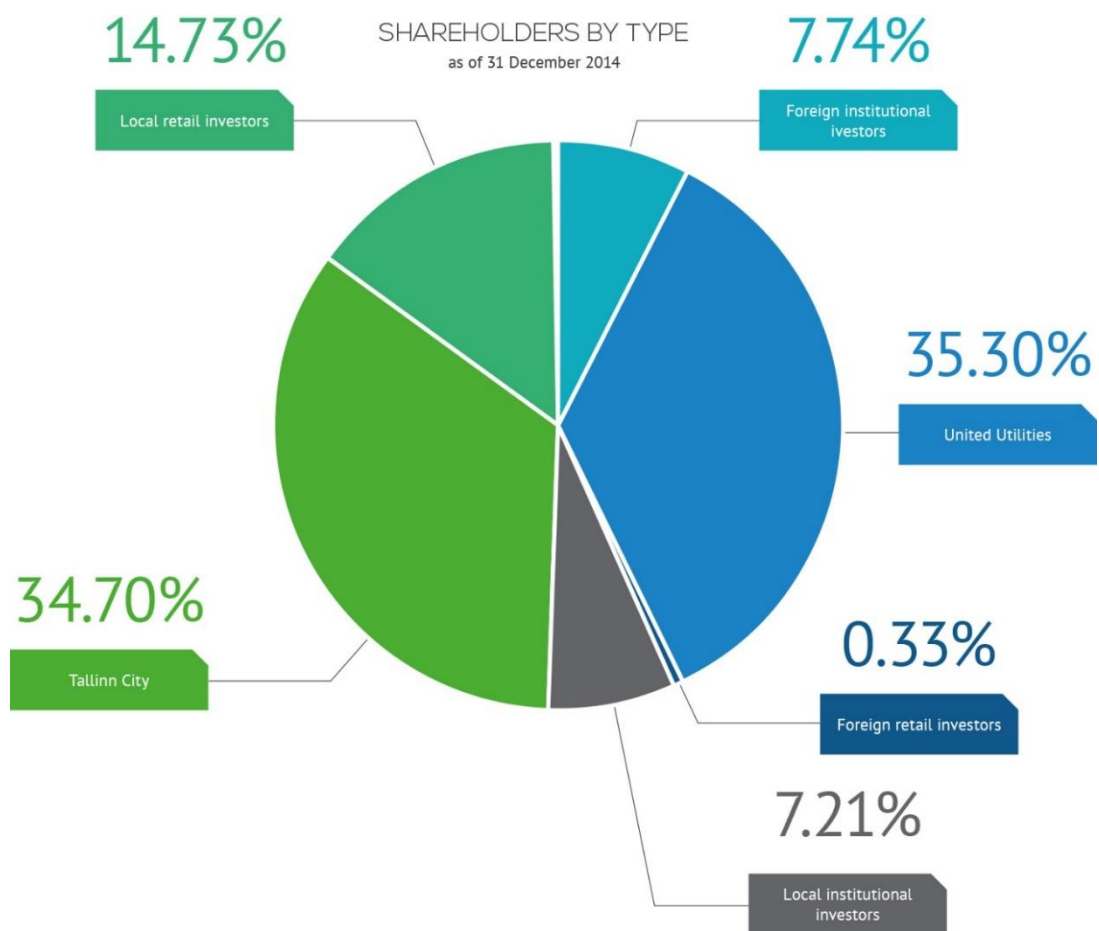
Resolutions of the General Meetings are published on AS Tallinna Vesi's homepage after seven days have

passed from the date of the General Meeting. The following is disclosed on the company's homepage: resolutions of the general meeting, Management Board presentation, as well as the minutes of the General Meeting, which contain questions and answers regarding the topics discussed at the AGM.

AS Tallinna Vesi has a regular dialogue with its major shareholders and potential investors. Presentation materials are disclosed on AS Tallinna Vesi's homepage. To keep AS Tallinna Vesi's shareholders informed, General Meetings of Shareholders are held at least annually to provide the shareholders with the opportunity to ask questions from the Management Board and the Supervisory Board.

Starting from the end of Q3 2013, AS Tallinna Vesi is organising an interactive webinar through Tallinn Stock Exchange for presenting the Company's financial results. All interested parties can take part of webinar, it is an internet-based environment. All webinar recordings are disclosed on Company's, as well as Tallinn Stock Exchange webpage. Previously, AS Tallinna Vesi used to hold a conference call at the end of each quarter, where Company's financial results were presented.

As it can be seen from the drawing below, the shareholders of AS Tallinna Vesi having a significant influence are the United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7% of the shares. The proportion of shareholders with a significant influence has remained at the same level. The balance of 30% of shares is free floating on the Nasdaq OMX Baltic Exchange, where AS Tallinna Vesi was listed on 1 June 2005.



Results of operations

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

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

The operating profit from the Group's main business activity increased by 0.1% to 24.54 mln euros during the twelve months of 2014 compared to the twelve months of 2013. As revenues have been relatively flat, increasing only 0.3% or 0.15 mln euros, increase in revenues is eliminated by the increase in administration costs, which in itself were highly impacted by higher legal charges related to ongoing tariff dispute. 2014 and 2013 results were also highly impacted by the pollution tax issues the Group has faced in both years.

Excluding the pollution tax one off negative impacts of 1.27 mln euros in 2014 and 1.13 mln euros in 2013, extra construction profit of 0.29 mln euros in 2014 and 0.25 mln euros in 2013, the operating profit was 0.7% or 0.18 mln euros higher amounting to 25.81 mln euros compared to 25.63 mln euros in 2013.

Salary costs

At the end of 2014, the total number of employees was 321. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure. In 2014, the total salary costs were 7.01 mln euros, including 0.21 mln euros for the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.09 mln euros if the Council would want to replace the Management Board members.

Dividends

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

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

On the annual general meeting of shareholders held on 20th May 2014, 90 cents dividends per share and the total dividend pay-out in the amount of 18 mln euros was approved. It is in accordance with the Company's dividend policy. Compared to 2013 dividends of 87 cents per share, the increase is equal to the inflation. Dividends were paid out on 13th of June 2014.

COST OF GOODS SOLD

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

OTHER MAIN ECONOMIC INDICATORS

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

REVENUES FROM MAIN OPERATING ACTIVITIES

(thousand EUR)	Year ended 31.12.			Variance 14/13	
	2014	2013	2012	th €	%
Private clients, incl:	24 154	23 642	23 789	512	2.2%
Water supply service	13 303	13 022	13 096	281	2.2%
Wastewater disposal service	10 851	10 620	10 693	231	2.2%
Corporate clients, incl:	19 085	19 053	18 767	32	0.2%
Water supply service	10 664	10 585	10 248	79	0.7%
Wastewater disposal service	8 421	8 468	8 519	-47	-0.6%
Outside service area clients, incl:	4 520	4 308	4 524	212	4.9%
Water supply service	1 153	1 095	1 028	58	5.3%
Wastewater disposal service	2 957	2 730	2 684	227	8.3%
Storm water disposal service	410	483	812	-73	-15.1%
Over pollution fee	839	734	832	105	14.3%
Storm water treatment and disposal service and fire hydrants service	3 073	3 424	3 915	-351	-10.3%
Construction service and design	925	1 146	351	-221	-19.3%
Other works and services	645	780	746	-135	-17.3%

Statement of financial position

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

The reduction in receivables and prepayments of 6.75 mln euros to 8.26 mln euros is mainly related to collection of the money for network extension

program that was finished in the end of 2012. As the payment terms are longer, the collection for the program can be seen until March 2015.

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

change of the fair value of derivatives, having an impact on the current liabilities in the amount of 0.74 mln euros.

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

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

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

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

Cash flow

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

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

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

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

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

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

Future actions & risks

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

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

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

Disclosure of information

As the Company believes in a transparent regulation, we have published the tariff application and all relevant correspondence on our website www.tallinnavesi.ee and to the Tallinn Stock Exchange. We deem it important to keep our investors informed of all future developments regarding the further key developments in the processing of the tariff application.

In opposite to the Company, the Competition Authority (CA) has requested the Court procedures to

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

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



GRI content index

Standard disclosures

nr	Description	Reported	Page number
1.1	Statement from the most senior decision-maker of the organization.	Completely	8-9
2.1	Name of the organization.	Completely	5
2.2	Primary brands, products, and/or services.	Completely	5
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Completely	6
2.4	Location of organization's headquarters.	Completely	5
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Completely	5
2.6	Nature of ownership and legal form.	Completely	23-24
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Completely	5
2.8	Scale of the reporting organization.	Completely	4-5; 12; 25-28
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Completely	No significant changes
2.10	Awards received in the reporting period.	Completely	8-9
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Completely	7
3.2	Date of most recent previous report (if any).	Completely	7
3.3	Reporting cycle (annual, biennial, etc.)	Completely	7
3.4	Contact point for questions regarding the report or its contents.	Completely	5
3.5	Process for defining report content.	Completely	7
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	Completely	7
3.7	State any specific limitations on the scope or boundary of the report. <i>(there are one specific limitation in indicator EN20, because As Tallinna Vesi does not calculate the air emission from the transport)</i>	Completely	17-18 (EN20)
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Completely	7
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	Completely	No changes
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. <i>(Partially reported indicators (EN1, EN2, EN30) were removed from the report. One additional indicator (EN5) was completely reported. Additional data has been added regarding indicators EN4 and EN22.)</i>	Completely	Removed: EN1, EN2, EN30. Added: EN5
3.12	Table identifying the location of the Standard Disclosures in the report.	Completely	29-30
3.13	Policy and current practice with regard to seeking external assurance for the report.	Completely	31
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	Completely	20-24
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Completely	21-22
4.3	State the number and gender of members of the highest governance body that are independent and/or non-executive members.	Completely	21-22
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Completely	12, 20-24
4.14	List of stakeholder groups engaged by the organization.	Completely	10
4.15	Basis for identification and selection of stakeholders with whom to engage.	Completely	10

Performance indicators

nr	Description	Reported	Page number
		Completely	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Completely	25-28
EN3	Direct energy consumption by primary energy source.	Completely	16
EN4	Indirect energy consumption by primary source.	Completely	16
EN5	Energy saved due to conservation and efficiency improvements.	Completely	16
EN8	Total water withdrawal by source.	Completely	17
EN9	Water sources significantly affected by withdrawal of water.	Completely	17
EN20	NOx, SOx, and other significant air emissions by type and weight. (Specific limitation of data, because AS Tallinna Vesi does not calculate the air emission from the transport)	Completely	17-18
EN21	Total water discharge by quality and destination.	Completely	18-19
EN22	Total weight of waste by type and disposal method.	Partially	18
EN23	Total number and volume of significant spills.	Completely	19
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Completely	18
LA1	Number of employees	Completely	12
LA4	Percentage of employees covered by collective bargaining agreements.	Completely	12
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programs.	Completely	13
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Partially	12-13
LA10	Average hours of training per year per employee by gender, and by employee category.	Partially	12
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	Completely	12
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Partially	10-11
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	Completely	27-28
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Completely	14-15

Reporting verification



Maalinn Consulting OÜ

External Verification Statement

(Application Level Check)

Maalin Consulting OÜ hereby states that AS Tallinna Vesi has presented its Social Responsibility and Sustainable Development Report 2014 (the Report) to Maalinn Consulting OÜ for an application level verification, which have concluded that the Report fulfils the requirements of GRI Application Level C+.

GRI Application Levels communicate the extent to which the content of the GRI G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for the Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines.

Application levels *do not* provide an opinion on the sustainability performance of the reporter *nor* the quality of the information in the report.

Tallinn, 25th of June 2015

A handwritten signature in blue ink, appearing to read 'Helen Maalinn', followed by a long horizontal line.

Helen Maalinn

Consultant and GRI Guidelines' specialist
GRI Certified Training Program, Certificate No TR81578
Maalinn Consulting OÜ

This statement only concerns material submitted to Maalinn Consulting OÜ at the time of the check on 25/6/2015. Maalinn Consulting OÜ explicitly excludes the statement being applied to any later changes to such material.