AS Tallinna Vesi

Results of operations – for the 3rd quarter of 2016

Currency	Thousand euros
Start of reporting period	1 January 2016
End of reporting period	30 September 2016
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Chairman's summary

During the nine months of 2016, the Company's operational and financial performance was excellent. The majority of key performance indicators (KPIs) are on track, which given the colder weather in the 1st quarter and associated increase in network disruption, was very good and a testament of all the hard work done by AS Tallinna Vesi staff, during the period.

During the nine months of 2016, the water quality was 99.91% compliant. Only two samples taken from customer taps, out of the 2,207 samples taken, were non-compliant. The average network leakage for the period was 15.39%, which is higher than the same period in 2015 (14.58%), but attributable to the colder ambient temperatures in the 1st quarter in 2016, resulting in a higher number of bursts within the clean water network.

Besides providing quality drinking water, we are also responsible for a wastewater discharge service to nearly one third of Estonia's population (440,000). It is therefore extremely important that the wastewater treatment plant in Paljassaare works effectively and in accordance with the stipulated quality requirements, set by the Estonian Ministry of Environment. During the nine months of 2016, the final effluent leaving Paljassaare was again 100% compliant with the stipulated limits.

We continue to make targeted capital investments, renovating or replacing assets based on previous condition surveys and performance data, to ensure the continued reliability of the infrastructure. This includes the 5+5 programme, where 5 km of water and 5 km wastewater network are replaced each year.

Delivering good operational and financial performance is only possible through the continued motivation, commitment and performance of AS Tallinna Vesi staff. We remain focused on the development and training of internal staff and ensuring appropriate succession plans are in place. An example of this, is the company's ongoing graduate and apprentice programmes, which will also inject fresh talent into the business for the future.

Operational performance for the first nine months of 2016

Indicator	**First 9 months 2016**	**First 9 months 2015**
Drinking water		
Compliance of water quality at the customers' tap.	99.91%	99.86%
Water loss in the water distribution Network.	15.39%	14.58%
Average duration of water interruptions per property in hours.	3.51 h	3.20 h
Wastewater		
Number of sewer blockages.	503	583
Number of sewer bursts.	73	91
Wastewater treatment compliance with environmental standards	100%	100%
Customer Service		
Number of written complaints	29	57
Number of customer contacts regarding water quality	108	81
Number of customer contacts regarding water pressure	247	226
Number of customer contacts regarding blockages and discharge of storm water	909	855
Responding written customer contacts, within at least 2 working days	99.0%	99.0%
Number of failed promises	4	9
Notification of unplanned water interruptions, at least 1 h before the interruption	98.4%	98.9%

Contractual Highlights

- Tariffs of AS Tallinna Vesi continue to be on the same level, based on a temporary injunction granted by the Court for the period of court proceedings.
- The Company was privatised in 2001, with the support and knowledge of the Estonian national government.
- At the end of May 2012 the District Court ruled that AS Tallinna Vesi's Services Agreement, which was part of the international privatisation, is a public law contract.
- AS Tallinna Vesi believes that the terms and conditions of the international privatisation contract, that has previously been deemed a public law contract, should be protected by the Estonian legal system.
- In May 2014, AS Tallinna Vesi submitted a claim against the Competition Authority to the Tallinn Administrative Court to avoid the expiry of monetary claims. The Company is claiming compensation for potential damages over the lifetime of the international privatisation contract, up until 2020. The claim is based on estimated future volumes and level of consumer price index (CPI). In recent months, CPI has been lower than at the time the claim was originally calculated, with a current undiscounted value of EUR 73 million, compared to the original of EUR 90 million.
- On 5th of June 2015, the Tallinn Administrative Court dismissed the Company's complaint in the local tariff dispute. The reasoning for the dismissal, was not made disclosed until 12th of October 2015. Tallinn Administrative Court, formed an opinion that the tariffs part of the Services Agreement, which has been deemed to be as a public law contract by the Estonian Courts in 2012, is not binding on the Competition Authority. AS Tallinna Vesi filed the appeal to the Tallinn District Court on 11th of November 2015.
- In October 2014, in parallel to the local dispute about tariffs, AS Tallinna Vesi and its shareholder United Utilities (Tallinn) B.V have commenced international arbitration proceedings against the Republic of Estonia, for breaching the international treaty and more specifically "*the fair and equitable treatment*" requirement by changes to the law and activities of the public authorities which have deprived AS Tallinna Vesi from tariffs approved according to the Services Agreement concluded as part of the privatisation in 2001. The arbitration will be carried out through the International Centre for the Settlement of Investment Disputes (ICSID), which is part of the World Bank Group.
- On 17th of June 2015, the timetable of the International Arbitration Proceedings was determined, with the final hearing set for November 2016. Procedural orders and decisions issued during the arbitration process, subject to the redaction of the confidential information, are available on the ICSID website.
- International Arbitration Proceedings are being held in parallel, and are not linked to the local dispute.
- In February this year, the Republic of Estonia submitted their Memorial, with AS Tallinna Vesi and United Utilities (Tallinn) B.V, responding with their counter Memorial in June to which Government of Estonia submitted their rejoinder in September 2016. The International Arbitration hearings will be held on 7-11 and 14-15 November 2016 in Paris.
- The next local hearing is also expected to take place later on in 2016.

AS Tallinna Vesi has continuously stated its belief in fully transparent regulation, and its willingness to enter into **meaningful and evidence-based dialogue,** which takes into account the privatisation contract that was originally signed back in 2001.

Financial highlights for the 3rd quarter 2016

The Group's sales revenues during the 3rd quarter of 2016 were EUR 15.60 million, being up by 10.8% or EUR 1.51 million compared to the same period in 2015.

The gross profit in the 3rd quarter of 2016 was EUR 8.38 million, showing an increase of 4.9% or EUR 0.39 million. Increase in gross profit was related to higher water, wastewater and storm water revenues and lower chemicals and staff costs. It was balanced by lower profit from construction and asphalting services and by higher electricity and pollution tax costs.

The operating profit was EUR 6.79 million, showing an increase of 14.8% or EUR 0.87 million. The operating profit was impacted by the above mentioned positive changes in gross profit, which were additionally impacted by lower legal costs in the 3rd quarter in 2016 compared to the same period in 2015.

The net profit for the 3rd quarter of 2016 was EUR 6.53 million, being higher by 28.0% or EUR 1.43 million. The net profit was mainly impacted by above mentioned changes in operating profit and lower financial expenses. Lower financial expenses were mostly influenced by the positive change in the fair value of swap contracts in the 3rd quarter of 2016 compared to the negative change in the same quarter of 2015. The net profit for the 3rd quarter of 2016 and 2015 without the impact resulted from the change of the fair value of swap contracts was EUR 6.42 million and EUR 5.54 million respectively, being higher by 16.0% or EUR 0.88 million year on year.

Other main economic indicators

EUR million	**Q3 2014**	**Q3 2015**	**Q3 2016**	**Change 16/15**	**9 months 2014**	**9 months 2015**	**9 months 2016**	**Change 16/15**
Sales	13.25	14.08	15.60	10.8%	39.93	41.39	44.46	7.4%
Gross profit	7.90	7.99	8.38	4.9%	22.90	24.07	25.02	3.9%
Gross profit margin %	59.64	56.72	53.75	-5.2%	57.34	58.15	56.27	-3.2%
Operating profit	6.35	5.92	6.79	14.8%	18.22	18.83	19.27	2.3%
Operating profit - main business	6.34	5.77	6.69	16.0%	17.97	18.60	18.93	1.8%
Operating profit margin %	47.91	42.02	43.55	3.6%	45.64	45.50	43.33	-4.8%
Profit before taxes	5.83	5.10	6.53	28.0%	16.44	18.12	17.44	-3.8%
Net profit	5.83	5.10	6.53	28.0%	11.66	13.62	12.94	-5.0%
Net profit margin %	43.97	36.22	41.85	15.5%	29.19	32.91	29.10	-11.6%
ROA %	2.92	2.51	3.14	25.5%	5.84	6.69	6.23	-6.8%
Debt to total capital employed %	59.46	59.35	59.56	0.4%	59.46	59.35	59.56	0.4%
ROE %	7.21	6.16	7.78	26.2%	14.41	16.46	15.41	-6.3%
Current ratio	4.13	4.26	3.46	-18.8%	4.13	4.26	3.46	-18.8%

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

RESULTS OF OPERATIONS FOR THE 3rd QUARTER 2016

Results for the 3rd quarter 2016

Statement of comprehensive income

Sales

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

In the 3rd quarter of 2016 the Group's total sales were EUR 15.60 million, showing an increase by 10.8% or EUR 1.51 million year on year. 79.1% of sales comprise of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.2% of sales are the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 13.8% from construction and asphalting services and 0.9% from other works and services. The construction and asphalting services sales are more seasonal and the Company continues to seek possibilities to keep and to grow construction and asphalting revenues.

Revenues from main operating activities EUR thousand	**Quarter III**			**Variance 16/15**	
	2016	**2015**	**2014**	**EUR**	**%**
Total water supply and waste water disposal service, incl:	12,330	12,098	12,081	232	1.9%
Private clients, incl:	6,059	5,938	5,967	121	2.0%
Water supply service	3,330	3,267	3,283	63	1.9%
Wastewater disposal service	2,729	2,671	2,684	58	2.2%
Corporate clients, incl:	4,989	4,852	4,780	137	2.8%
Water supply service	2,758	2,723	2,706	35	1.3%
Wastewater disposal service	2,231	2,129	2,074	102	4.8%
Outside service area clients, incl:	1,068	1,117	1,118	-49	-4.4%
Water supply service	323	316	296	7	2.2%
Wastewater disposal service	665	721	738	-56	-7.8%
Storm water disposal service	80	80	84	0	0.0%
Over pollution fee	214	191	216	23	12.0%
Storm water treatment and disposal service and fire hydrant service	972	837	739	135	16.1%
Construction service, design and asphalting	2,150	1,020	289	1,130	110.8%
Other works and services	145	128	144	17	13.3%

Sales from water and wastewater services were EUR 12.33 million, showing a 1.9% or EUR 0.23 million increase compared to the 3rd quarter of 2015, resulting from the changes in sales volumes as described below:

- There has been an increase in residential customers' revenues by 2.0% to EUR 6.06 million. 99% from the total increase in domestic customer volumes comes from apartment blocks, which is also our biggest customer group. There has been also a slight increase in other residential customer groups.
- Sales to commercial customers within the service area have increased by 2.8% to EUR 4.99 million. Increase is mostly related to industrial and other commercial customer segments.
- Sales to customers outside the main service area have shown a decrease by 4.4% to EUR 1.07 million. It is mainly driven by decrease in wastewater revenues by 7.8% to EUR 0.67 million. The decline is related to the sales to Viimsi, as they started to use their new wastewater treatment facilities from the

beginning of 2016. While the sales to Viimsi have ceased, the sales to other outside areas have increased.

- Over pollution fees received have increased by 12.0% to EUR 0.21 million.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system were EUR 0.97 million, showing an increase of 16.1% or EUR 0.14 million in the 3rd quarter of 2016 compared to the same period in 2015.

Sales of construction, design and asphalting services were EUR 2.15 million, having increased by 110.8% or EUR 1.13 million year on year. The increase was related to the higher pipe construction revenues resulting from different projects during the quarter.

Cost of goods sold and Gross profit

The cost of goods sold amounted to EUR 7.21 million in the 3rd quarter of 2016, showing 18.4% or EUR 1.12 million increase compared to the equivalent period in 2015. The cost increase is mainly influenced by increase in construction and asphalting services related costs and also by higher electricity and pollution tax costs, which was partly balanced by lower chemicals and staff costs.

Cost of goods sold EUR thousand	**Quarter III**			**Variance 16/15**	
	2016	**2015**	**2014**	**EUR**	**%**
Water abstraction charges	-277	-272	-265	-5	-1.8%
Chemicals	-345	-395	-433	50	12.7%
Electricity	-760	-713	-723	-47	-6.6%
Pollution tax	-281	-233	-209	-48	-20.6%
Total direct production costs	**-1,663**	**-1,613**	**-1,630**	**-50**	**-3.1%**
Staff costs	-1,273	-1,338	-1,181	65	4.9%
Depreciation and amortization	-1,427	-1,423	-1,408	-4	-0.3%
Construction service, design and asphalting	-2,039	-868	-281	-1,171	-134.9%
Other costs of goods sold	-812	-853	-849	41	4.8%
Other costs of goods sold total	**-5,551**	**-4,482**	**-3,719**	**-1,069**	**-23.9%**
Total cost of goods sold	**-7,214**	**-6,095**	**-5,349**	**-1,119**	**-18.4%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution tax) were EUR 1.66 million, showing 3.1% or EUR 0.05 million increase year on year. Changes in direct production costs came from a combination of changes in prices and in treated volumes that affected the cost of goods sold together with the following additional factors:

- Water abstraction charges increased slightly by 1.8% to EUR 0.28 million, driven mainly by increase in treated volumes.
- Chemicals costs decreased by 12.7% to EUR 0.35 million, driven mainly by 37.2% lower methanol price, worth EUR 0.05 million, and by lower usage of coagulant in the wastewater treatment process, worth EUR 0.02 million. Savings were balanced by increase in usage of different chemicals in water treatment due to higher water volumes and to improve poor raw water quality, worth in total EUR 0.01.
- Electricity costs increased by 6.6% to EUR 0.76 million. It was related to increase in treated volumes and electricity usage, balanced by lower electricity prices.
- Pollution tax expense increased by 20.6% to EUR 0.28 million, mainly due to increase in treated sewage volumes.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 5.55 million, having increased by 23.9% or EUR 1.07 million. The increase came from costs related to construction and asphalting services, balanced by decrease in staff costs. Increase in construction and asphalting services costs by 134.9% to EUR 2.04 million was related to increased construction and asphalting services revenues mentioned earlier. Staff costs decreased by 4.9% to EUR 1.27 million. It was mostly driven by the review of bonus reserve in the 3rd quarter of 2016.

As a result of all above the Group's gross profit for the 3rd quarter of 2016 was EUR 8.38 million, showing an increase of 4.9% or EUR 0.39 million, compared to the gross profit of EUR 7.99 million for the comparative period of 2015.

Administrative and marketing expenses

Administrative and marketing expenses were EUR 1.55 million, showing a decrease of 24.5% or EUR 0.50 million. Most of the decrease came from lower tariff disputes related legal and consultation fees. Despite of the fact that in the 3rd quarter of 2016 the legal costs were lower than in the comparative period in 2015, the legal fees continue to be at a high level during the time the Company has ongoing local and international disputes.

Operating profit

As a result of the factors listed above the Group's operating profit for the 3rd quarter of 2016 totalled EUR 6.79 million, being 14.8% or EUR 0.87 million higher than in the corresponding quarter of 2015. The Group's operating profit from main business was 16.0% or EUR 0.92 million higher compared to 2015.

Financial expenses

The Group's net financial income and expenses have resulted a net expense of EUR 0.27 million, compared to net expense of EUR 0.82 million in the 3rd quarter of 2015. It was mainly impacted by a positive change of the fair value of the swap contracts year on year, worth EUR 0.54 million, which was complemented by decrease in interest expenses, worth EUR 0.03 million.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk. The interest swap agreements are signed for EUR 75 million and EUR 20 million are still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling EUR 1.78 million. Effective interest rate of loans (incl. swap interests) in the 3rd quarter of 2016 was 1.57%, amounting to interest costs of EUR 0.38 million, compared to the effective interest rate of 1.63% and the interest costs of EUR 0.40 million in the 3rd quarter of 2015.

Profit before taxes and Net profit

The Group's profit before taxes and net profit for the 3rd quarter of 2016 was EUR 6.53 million, being 28.0% or EUR 1.43 million higher than for the 3rd quarter of 2015, resulting mainly from increased revenues and decreased net financial expenses, balanced by the increased costs as described above. Eliminating the influence of the derivatives fair value, the Group's net profit for the 3rd quarter of 2016 would have been EUR 6.42 million, showing an increase by 16.0% or EUR 0.88 million compared to the relevant period in 2015.

Results for the nine months of 2016

Statement of comprehensive income

Sales

During the nine months of 2016 the Group's total sales were EUR 44.46 million, showing an increase by 7.4% or EUR 3.07 million year on year.

Sales from water and wastewater services for nine months of 2016 were EUR 37.43 million, increasing 1.9% or EUR 0.68 million compared to the nine months of 2015. 84.2% of sales comprised of sales of water and wastewater services to domestic and commercial customers within and outside of the service area. 6.4% of sales were the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants, 8.4% from construction and asphalting services and 1.0% from other works and services.

Revenues from main operating activities EUR thousand		**9 months**		**Variance 16/15**	
	2016	**2015**	**2014**	**EUR**	**%**
Total water supply and waste water disposal service, incl:	37,433	36,751	36,259	682	1.9%
Private clients, incl:	18,597	18,175	18,015	422	2.3%
Water supply service	10,225	9,998	9,913	227	2.3%
Wastewater disposal service	8,372	8,177	8,102	195	2.4%
Corporate clients, incl:	14,942	14,416	14,238	526	3.6%
Water supply service	8,262	8,010	7,983	252	3.1%
Wastewater disposal service	6,680	6,406	6,255	274	4.3%
Outside service area clients, incl:	3,298	3,563	3,358	-265	-7.4%
Water supply service	977	939	834	38	4.0%
Wastewater disposal service	2,020	2,251	2,216	-231	-10.3%
Storm water disposal service	301	373	308	-72	-19.3%
Over pollution fee	596	597	648	-1	-0.2%
Storm water treatment and disposal service and fire hydrant service	2,841	2,556	2,480	285	11.2%
Construction service, design and asphalting	3,738	1,687	716	2,051	121.6%
Other works and services	451	400	476	51	12.8%

During the nine months of 2016 there has been a 2.3% or EUR 0.42 million increase in the sales to residential customers and 3.6% or EUR 0.53 million increase in the sales to the commercial customers within the service area. Increase in the sales to residential customers comes from different private customers segments. The sales increase in commercial customers is mostly related to industrial and other customer segments. The sales revenues from outside service area customers for water, wastewater and storm water services have decreased 7.4% or EUR 0.27 million compared to the nine months of 2015, being mainly influenced by Viimsi having their own wastewater treatment facilities from the beginning of the year as mentioned earlier.

Sales from the operation and maintenance of the main service area storm water and fire hydrant system in the nine months of 2016 were EUR 2.84 million, showing an increase of 11.2% or EUR 0.29 million year on year.

Sales of construction, design and asphalting services were EUR 3.74 million, increasing by 121.6% or EUR 2.05 million year on year. Increase was mainly a result of different pipe construction projects.

Cost of goods sold and Gross and Operating profits

Cost of goods sold EUR thousand		**9 months**		**Variance 16/15**	
	2016	**2015**	**2014**	**EUR**	**%**
Water abstraction charges	-852	-819	-790	-33	-4.0%
Chemicals	-972	-1,131	-1,293	159	14.1%
Electricity	-2,297	-2,288	-2,289	-9	-0.4%
Pollution tax	-852	-768	-1,835	-84	-10.9%
Total direct production costs	**-4,973**	**-5,006**	**-6,207**	**33**	**0.7%**
Staff costs	-4,161	-4,122	-3,723	-39	-0.9%
Depreciation and amortization	-4,449	-4,253	-4,027	-196	-4.6%

Construction service, design and asphalting	-3,389	-1,447	-611	-1,942	-134.2%
Other costs of goods sold	-2,470	-2,494	-2,467	24	1.0%
Other costs of goods sold total	**-14,469**	**-12,316**	**-10,828**	**-2,153**	**-17.5%**
Total cost of goods sold	**-19,442**	**-17,322**	**-17,035**	**-2,120**	**-12.2%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) were EUR 4.97 million, showing a decrease by 0.7% or EUR 0.03 million year on year. Decrease in costs came from the decrease in chemicals, balanced by increase in water abstraction charges and pollution tax as described below:

- Water abstraction charges increased by 4.0% to EUR 0.85 million, driven by increase in treated volumes.
- Chemicals costs decreased by 14.1% to EUR 0.97 million, driven mainly by on average 32.7% lower methanol price and smaller use of different chemicals to remove pollutants in wastewater treatment process, worth respectively EUR 0.13 million and EUR 0.04 million, balanced by the increased water treatment process chemicals costs driven by increase in treated volumes, worth EUR 0.01 million.
- Electricity costs have increased by 0.4% to EUR 2.30 million. Electricity costs increase was related to increase in treated volumes and in usage, balanced by on average 3.5% lower electricity prices.
- Pollution tax expense increased by 10.9% to EUR 0.85 million, driven mainly by the increase in treated sewage volumes.

Other costs of goods sold (staff costs, depreciation, construction and asphalting services costs and other costs of goods sold) amounted to EUR 14.47 million, being higher by 17.5% or EUR 2.15 million compared to the same period in 2015. Main increase came from increase in staff costs, depreciation and costs related to higher construction and asphalting services.

The gross profit for the nine months of 2016 was EUR 25.02 million, being 3.9% or EUR 0.95 million higher compared to the same period in 2015. The operating profit was EUR 19.27 million, showing an increase by 2.3% or EUR 0.43 million during the nine months of 2016. The increase in operating profit was driven mostly by the changes in operating profit mentioned earlier in 3rd quarter results.

Financial expenses

The Group's net financial income and expenses have resulted a net expense of EUR 1.83 million, compared to net expense of EUR 0.71 million in the nine months of 2015. The net financial expenses were influenced by the decrease in interest costs by EUR 0.68 million, which was supplemented by the negative non-monetary impact of the change in the fair value of the swap contracts the Company has entered. The negative non-monetary impact for 2016 expenses is EUR 0.78 million (2015: positive impact EUR 0.97 million).

Profit before taxes and Net profit

The Group's profit before taxes for the nine months of 2016 was EUR 17.44 million, showing a 3.8% decrease compared to the relevant period in 2015. The Group's net profit for the nine months of 2016 was EUR 12.94 million, which is EUR 0.68 million lower than the net profit for equivalent period in 2015. Eliminating the effects of the derivatives fair value, the profit before taxes and the net profit would have been in nine months of 2016 respectively EUR 18.21 million and EUR 13.71 million (as of 30th September 2015 EUR 17.15 million and EUR 12.65 million respectively).

Statement of financial position

In the nine months of 2016 the Group invested EUR 10.18 million into fixed assets. As of 30th September 2016 non-current tangible assets amounted to EUR 167.99 million and total non-current assets amounted to EUR 168.80 million (30th September 2015: EUR 159.45 million and EUR 160.47 million respectively).

Compared to the year end of 2015 the receivables and prepayments have shown an increase in the amount of EUR 0.79 million to EUR 7.96 million, mainly due to higher receivables from construction activities. The collection rate of receivables continues to be high being 99.78% compared to 99.75% in the 3rd quarter of 2015.

Current liabilities have increased by EUR 2.79 million to EUR 11.21 million compared to the year end of 2015. Increase mainly derives from increased prepayments of connections in construction process by EUR 1.51 million and increase in trade and other payables by EUR 0.85 million, which is related to increased construction activities and investment related liabilities.

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

The Group has a Total debt/Total assets level as expected of 59.6%, in range of 55%-65%, reflecting the Group's equity profile. This level is consistent with the same period in 2015 when the Total debt/Total assets ratio was 59.3%.

Deferred income from connection fees has grown compared to the end of 2015 by EUR 0.77 million to 15.80 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 cause an outflow of economic benefits of up to EUR 36 million. In the 4th quarter of 2015 the Group re-evaluated the liability, which now stands at EUR 43 million, as per note 13 to the accounts. The re-evaluation is made annually at the end of the year.

Cash flow

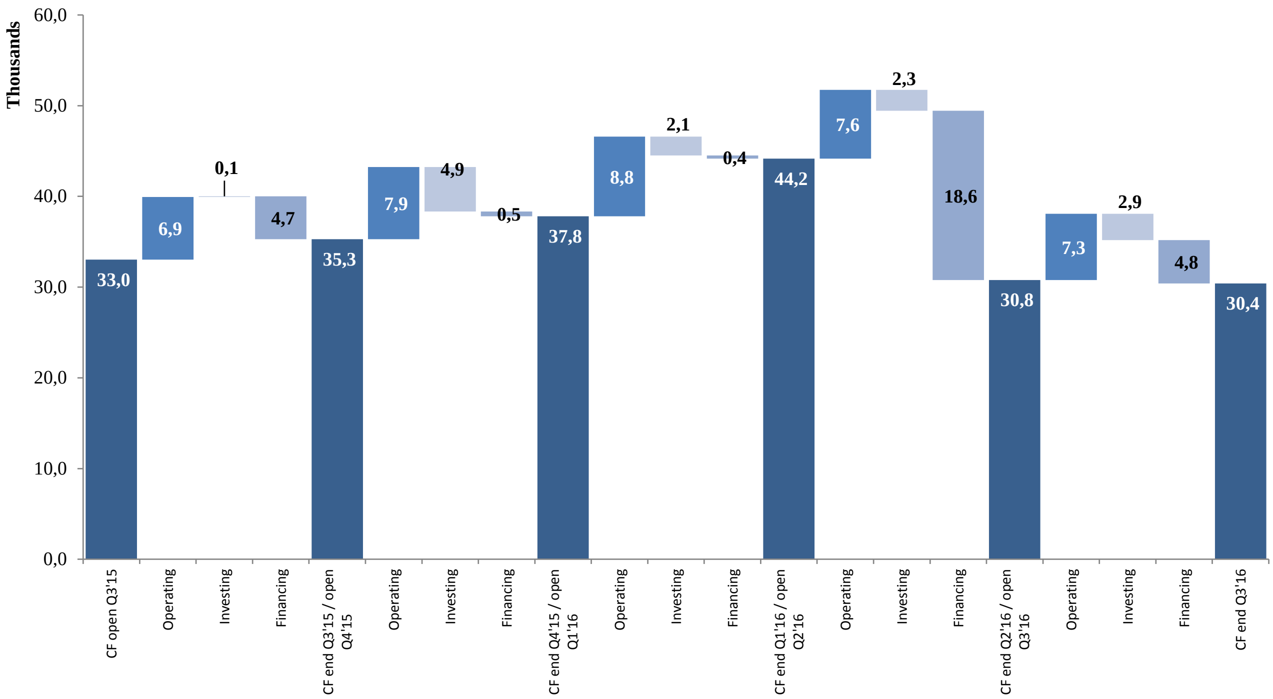
As of 30th September 2016 the cash position of the Group is strong. At the end of September 2016 the cash balance of the Group stood at EUR 30.41 million, which is 14.6% of the total assets (30th September 2015: EUR 35.29 million, forming 17.3% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the nine months of 2016, the Group generated EUR 23.63 million of cash flows from operating activities, an increase of EUR 0.05 million compared to the corresponding period in 2015. Underlying operating profit continues to be the main contributor to operating cash flows.

In the nine months of 2016 the result of net cash flows from investing activities was a cash outflow of EUR 7.26 million, an increase of EUR 5.29 million compared to the cash outflow of EUR 1.98 million in the nine months of 2015. This is made up as follows:

- The cash outflows from investments in fixed assets have increased by EUR 1.76 million compared to 2015 amounting to EUR 9.78 million.
- The compensations received for the construction of pipelines were EUR 2.45 million, showing a decrease of EUR 3.50 million compared to the same period of 2015. It is mostly related to the extension program for which last payments were received in the 1st quarter of 2015.

In the nine months of 2016 cash outflow from financing activities amounted to EUR 23.78 million, decreasing by EUR 0.68 million compared to the same period in 2015. The change was mainly related to reduction in interest payments by EUR 0.66 million related to renewal of swap contracts in the 2nd quarter of 2015. Most of the outflow was comprised of the dividends and income tax on dividends payment, respectively in the amount of EUR 18.00 million and EUR 4.50 million in both years.



Employees

Competent and engaged employees are the 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 the 3rd quarter of 2016, the total number of employees was 317 compared to 325 at the end of the 3rd quarter of 2015. The full time equivalent (FTE) was respectively 307 in 2016 compared to the 314 in 2015. Average number of employees (FTE) during the nine months was respectively 310 in 2016 and 307 in 2015.

By gender, employee allocation was as follows:

As of 30th September 2016	**Women**	**Men**	**Total**
Group	**93**	**224**	**317**
Management Team	12	12	24
Executive Team	5	3	8
Management Board	1	2	3
Supervisory Board	0	9	9

As of 30th September 2015	**Women**	**Men**	**Total**
Group	**99**	**226**	**325**
Management Team	12	13	25
Executive Team	6	3	9
Management Board	1	2	3
Supervisory Board	0	9	9

The total salary costs were EUR 1.77 million for the 3rd quarter of 2016, including EUR 0.05 million paid to Management and Supervisory Council members (excluding social taxes). The off-balance sheet potential salary liability could rise up to EUR 0.08 million should the Council want to replace the current Management Board members.

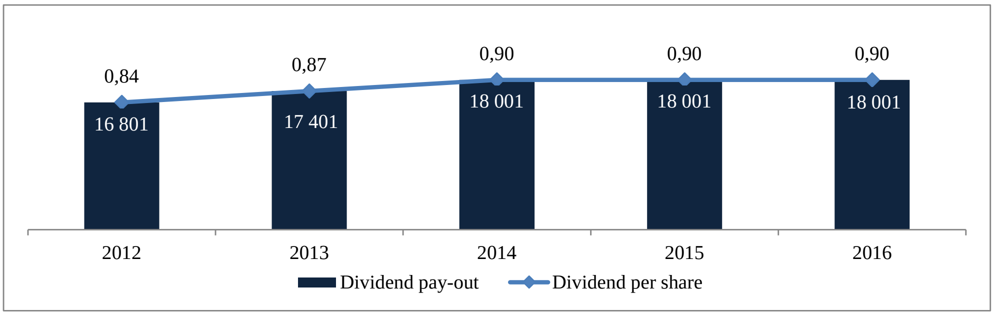
Dividends

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

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.

In the annual general meeting of shareholders held on 2nd of June 2016, 90 cents dividends per share and the total dividend pay-out from the profit of 2015 net income in the amount of EUR 18.0 million was approved. It is in accordance with the Company's dividend policy. There was no change compared to 2015 in dividends of 90 cents per share.

Dividends were paid out on 27th of June 2016. 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 30th September 2016 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

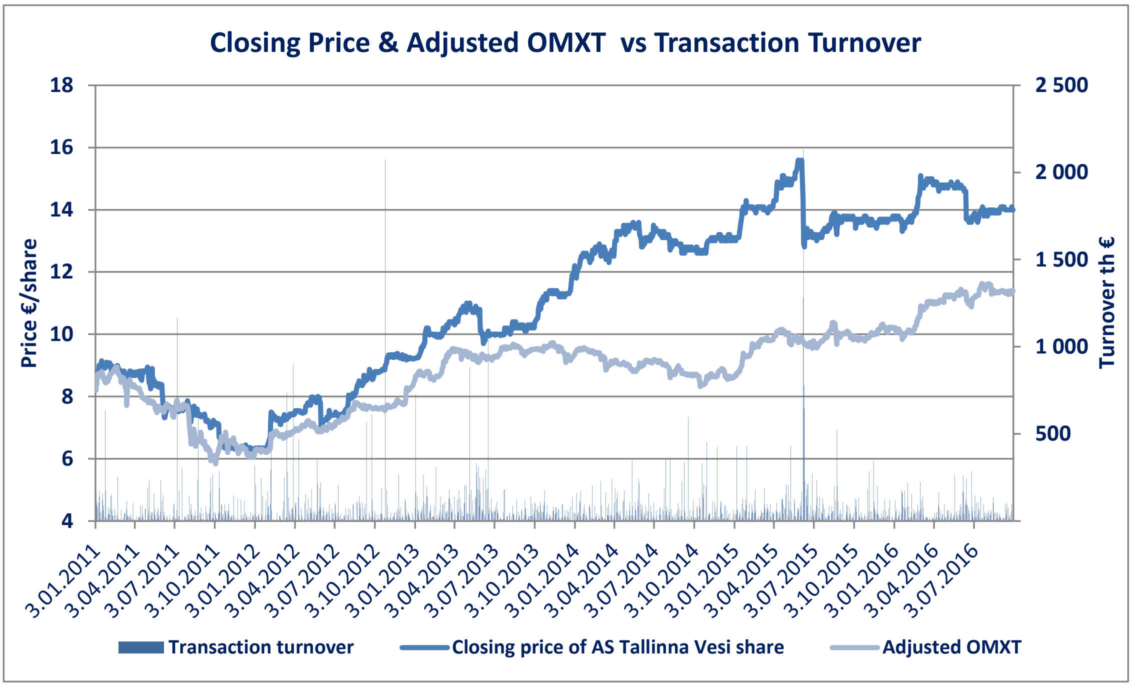
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

During the nine months of 2016 the shareholder structure has been relatively stable compared to the end of 2015. At the end of 3rd quarter 2016 the pension funds owned 2.24% of the total shares compared to 1.88% at the end of 4th quarter 2015.

As of 30th September 2016, the closing price of AS Tallinna Vesi share was EUR 14.00, which is 2.2% (2015: 5.3%) higher compared to the closing price of EUR 13.70 at the beginning of the quarter. During the same period the OMX Tallinn index increased by 2.1% (2015: 2.2%).

In the nine months of 2016, 4,684 deals with the Company's shares were concluded (2015: 6,472 deals) during which 753 thousand shares or 3.8% exchanged their owners (2015: 1,329 thousand shares or 6.6%).

The turnover of the transactions was EUR 7.69 million lower than in 2015, amounting to EUR 10.64 million.



Corporate structure

As of 30th September 2016, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Corporate Governance

Supervisory Council

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members, who are appointed for two years. There has been no changes in Supervisory Council members in the 3rd quarter of 2016. In the annual general meeting four of the Supervisory Council members were re-elected (more information here).

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

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

http://tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Audit-Committee
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Corporate-Governance-Report

Management Board

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

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

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

Starting from 2nd of June 2014 there are 3 members of the Management Board of AS Tallinna Vesi: Karl Heino Brookes (Chairman of the Board, with the powers of the Management Board Member until 20th of March 2017), Aleksandr Timofejev (with the powers of the Management Board Member until 29th of October 2018) and Riina Käi (with the powers of the Management Board Member until 29th of October 2018).

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

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

Future actions & risks

Legal claim for breach of international treaty

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

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

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

Additional details related with the claim can be found via the following links:

https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=609264&messageId=754811
https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=627851&messageId=779161

Disclosure of relevant papers and perspectives

The Company will keep the investment community informed of all relevant developments of the tariff dispute, both locally as well as internationally. AS Tallinna Vesi has published all relevant materials on its website (http://www.tallinnavesi.ee/en/Investor/Regulation) and to the Tallinn Stock.

At this point in time the Company will not speculate on future developments, possible outcomes or timing of the proceedings.

Additional information:
Karl Heino Brookes
Chairman of the Management Board
+372 6262 201
karl.brookes@tvesi.ee

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 9 months period of financial year 2016 ended 30 September 2016. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 September 2016 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim report gives a true and fair view of the main events that occurred during the 9 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 3 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 27 October 2016 have been considered in preparing the financial statements.

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

Karl Heino Brookes
Chairman of the Management Board
Chief Executive Officer

Aleksandr Timofejev
Member of the Management Board
Chief Operating Officer

Riina Käi
Member of the Management Board
Chief Financial Officer

27 October 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR thousand)

		as of 30 September		as of 31 December
ASSETS	**Note**	**2016**	**2015**	**2015**
CURRENT ASSETS				
Cash and cash equivalents	2	30 405	35 290	37 819
Trade receivables, accrued income and prepaid expenses		7 960	7 414	7 174
Inventories		423	429	447
TOTAL CURRENT ASSETS		**38 788**	**43 133**	**45 440**
NON-CURRENT ASSETS				
Derivatives		0	239	142
Property, plant and equipment	3	167 991	159 454	162 732
Intangible assets	3	808	776	758
TOTAL NON-CURRENT ASSETS		**168 799**	**160 469**	**163 632**
TOTAL ASSETS		**207 587**	**203 602**	**209 072**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		670	322	328
Trade and other payables		6 434	6 837	5 586
Derivatives		622	513	523
Prepayments		3 488	2 449	1 983
TOTAL CURRENT LIABILITIES		**11 214**	**10 121**	**8 420**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		15 802	14 052	15 030
Borrowings		95 447	96 057	95 974
Derivatives		1 162	591	628
Other payables		18	11	13
TOTAL NON-CURRENT LIABILITIES		**112 429**	**110 711**	**111 645**
TOTAL LIABILITIES		**123 643**	**120 832**	**120 065**
EQUITY				
Share capital		12 000	12 000	12 000
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		45 932	44 758	50 995
TOTAL EQUITY		**83 944**	**82 770**	**89 007**
TOTAL LIABILITIES AND EQUITY		**207 587**	**203 602**	**209 072**

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR thousand)

		Quarter 3		9 months		for the year ended 31 December
	Note	**2016**	**2015**	**2016**	**2015**	**2015**
Revenue	4	15 597	14 083	44 463	41 394	55 928
Costs of goods/services sold	6	-7 214	-6 095	-19 442	-17 322	-23 679
GROSS PROFIT		**8 383**	**7 988**	**25 021**	**24 072**	**32 249**
Marketing expenses	6	-74	-78	-270	-318	-435
General administration expenses	6	-1 474	-1 971	-5 356	-4 843	-6 086
Other income (+)/ expenses (-)	7	-43	-21	-130	-78	-150
OPERATING PROFIT		**6 792**	**5 918**	**19 265**	**18 833**	**25 578**
Financial income	8	7	18	35	78	95
Financial expenses	8	-272	-835	-1 862	-790	-1 315
PROFIT BEFORE TAXES		**6 527**	**5 101**	**17 438**	**18 121**	**24 358**
Income tax on dividends	9	0	0	-4 500	-4 500	-4 500
NET PROFIT FOR THE PERIOD		**6 527**	**5 101**	**12 938**	**13 621**	**19 858**
COMPREHENSIVE INCOME FOR THE PERIOD		**6 527**	**5 101**	**12 938**	**13 621**	**19 858**
Attributable profit to:						
Equity holders of A-shares		6 526	5 100	12 937	13 620	19 857
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,33	0,26	0,65	0,68	0,99
Earnings per B share (in euros)	10	600	600	600	600	600

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(EUR thousand)

	Note	9 months 2016	9 months 2015	for the year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		19 265	18 833	25 578
Adjustment for depreciation/amortisation	3,6,7	4 847	4 628	6 184
Adjustment for revenues from connection fees	7	-161	-142	-194
Other non-cash adjustments		-11	-11	-15
Profit (-) /loss (+) from sale and write off of property, plant and equipment, and intangible assets		-10	-4	2
Change in current assets involved in operating activities		-749	-1 118	-897
Change in liabilities involved in operating activities		450	983	453
Total cash flow from operating activities		**23 631**	**23 169**	**31 111**
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-9 776	-8 015	-13 495
Compensations received for construction of pipelines		2 445	5 942	6 499
Proceeds from sale of property, plant and equipment, and intangible assets		31	14	30
Interest received		39	83	99
Total cash flow used in investing activities		**-7 261**	**-1 976**	**-6 867**
CASH FLOWS USED IN FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-1 078	-1 738	-2 178
Repayment of finance lease		-205	-224	-306
Dividends paid	9	-18 001	-18 001	-18 001
Income tax on dividends	9	-4 500	-4 500	-4 500
Total cash flow used in financing activities		**-23 784**	**-24 463**	**-24 985**
Change in cash and cash equivalents		**-7 414**	**-3 270**	**-741**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**37 819**	**38 560**	**38 560**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**30 405**	**35 290**	**37 819**

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (EUR thousand)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2014	**12 000**	**24 734**	**1 278**	**49 138**	**87 150**
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	19 858	19 858
as of 31 December 2015	**12 000**	**24 734**	**1 278**	**50 995**	**89 007**
as of 31 December 2014	**12 000**	**24 734**	**1 278**	**49 138**	**87 150**
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	13 621	13 621
as of 30 September 2015	**12 000**	**24 734**	**1 278**	**44 758**	**82 770**
as of 31 December 2015	**12 000**	**24 734**	**1 278**	**50 995**	**89 007**
Dividends	0	0	0	-18 001	-18 001
Comprehensive income for the period	0	0	0	12 938	12 938
as of 30 September 2016	**12 000**	**24 734**	**1 278**	**45 932**	**83 944**

Notes to the consolidated financial statements on pages 6 to 12 form an integral part of the condensed financial statements

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 September		**as of 31 December**
	2016	**2015**	**2015**
Cash in hand and in bank	19 073	11 988	13 738
Short-term deposits	11 332	23 302	24 081
Total cash and cash equivalents	**30 405**	**35 290**	**37 819**

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)

NOTE 3. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

	Property, plant and equipment				Assets in progress			Intangible assets	
	Land and buildings	**Facilities**	**Machinery and equipment**	**Other equipment**	**Construction in progress**	**Construction in progress - unfinished pipelines**	**Unfinished intangible assets**	**Acquired licenses and other intangible assets**	**Total property, plant and equipment and intangible assets**
as of 31 December 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
Net book value	**19 749**	**120 630**	**14 760**	**383**	**688**	**1 271**	**75**	**787**	**158 343**
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 residual 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	-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
Net book value	**19 732**	**124 677**	**13 825**	**347**	**3 495**	**656**	**62**	**696**	**163 490**
Transactions in the period 01 January 2016 - 30 September 2016									
Acquisition in book value	0	0	0	0	8 241	1 670	266	0	10 177
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-16	0	0	0	0	-5	-21
Reclassification	32	2 657	1 449	26	-3 306	-868	-115	125	0
Depreciation	-248	-2 264	-2 059	-55	0	0	0	-221	-4 847
as of 30 September 2016									
Acquisition cost	25 982	190 483	47 599	1 111	8 430	1 458	213	5 313	280 589
Accumulated depreciation	-6 466	-65 413	-34 400	-793	0	0	0	-4 718	-111 790
Net book value	**19 516**	**125 070**	**13 199**	**318**	**8 430**	**1 458**	**213**	**595**	**168 799**

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

As of 30 September 2016 the book value of the assets (Machinery and equipment) leased under financial lease is 1 206 thousand euros (31 December 2015: 1 502 thousand euros).

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)

NOTE 4. REVENUE	**Quarter 3**		**9 months**		**for the year ended 31 December**
Revenues from main operating activities	**2016**	**2015**	**2016**	**2015**	**2015**
Total water supply and waste water disposal service, incl:	12 330	12 098	37 433	36 751	49 297
Private clients, incl:	6 059	5 938	18 597	18 175	24 408
Water supply service	3 330	3 267	10 225	9 998	13 436
Wastewater disposal service	2 729	2 671	8 372	8 177	10 972
Corporate clients, incl:	4 989	4 852	14 942	14 416	19 358
Water supply service	2 758	2 723	8 262	8 010	10 736
Wastewater disposal service	2 231	2 129	6 680	6 406	8 622
Outside service area clients, incl:	1 068	1 117	3 298	3 563	4 765
Water supply service	323	316	977	939	1 280
Wastewater disposal service	665	721	2 020	2 251	3 011
Storm water disposal service	80	80	301	373	474
Over pollution fee	214	191	596	597	766
Storm water treatment and disposal service and fire hydrants service	972	837	2 841	2 556	3 357
Construction service, design and asphalting	2 150	1 020	3 738	1 687	2 724
Other works and services	145	128	451	400	550
Total revenue	**15 597**	**14 083**	**44 463**	**41 394**	**55 928**

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

NOTE 5. STAFF COSTS	**Quarter 3**		**9 months**		**for the year ended 31 December**
	2016	**2015**	**2016**	**2015**	**2015**
Salaries and wages	-1 320	-1 393	-4 440	-4 410	-5 963
Social security and unemployment insurance taxation	-446	-464	-1 501	-1 470	-2 017
Staff costs total	**-1 766**	**-1 857**	**-5 941**	**-5 880**	**-7 980**
Number of employees at the end of reporting period			**317**	**325**	**323**

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)

NOTE 6. COST OF GOODS/SERVICES SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

	Quarter 3		9 months		for the year ended 31 December
Cost of goods/services sold	**2016**	**2015**	**2016**	**2015**	**2015**
Water abstraction charges	-277	-272	-852	-819	-1 101
Chemicals	-345	-395	-972	-1 131	-1 531
Electricity	-760	-713	-2 297	-2 288	-3 035
Pollution tax	-281	-233	-852	-768	-1 002
Staff costs	-1 273	-1 338	-4 161	-4 122	-5 603
Depreciation and amortization	-1 427	-1 423	-4 449	-4 253	-5 690
Construction service, design and asphalting	-2 039	-868	-3 389	-1 447	-2 398
Other costs	-812	-853	-2 470	-2 494	-3 319
Total cost of goods/services sold	**-7 214**	**-6 095**	**-19 442**	**-17 322**	**-23 679**
Marketing expenses					
Staff costs	-63	-67	-239	-270	-362
Depreciation and amortization	0	-3	-1	-10	-11
Other marketing expenses	-11	-8	-30	-38	-62
Total marketing expenses	**-74**	**-78**	**-270**	**-318**	**-435**
Administrative expenses					
Staff costs	-430	-452	-1 541	-1 488	-2 015
Depreciation and amortization	-85	-78	-245	-232	-308
Other general administration expenses	-959	-1 441	-3 570	-3 123	-3 763
Total administrative expenses	**-1 474**	**-1 971**	**-5 356**	**-4 843**	**-6 086**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 3		9 months		for the year ended 31 December
	2016	**2015**	**2016**	**2015**	**2015**
Connection fees	55	49	161	142	194
Depreciation of single connections	-52	-46	-152	-133	-175
reduction (+)	-12	-3	-10	-2	13
Other income (+)/ expenses (-)	-34	-21	-129	-85	-182
Total other income / expenses	**-43**	**-21**	**-130**	**-78**	**-150**

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (EUR thousand)

NOTE 8. FINANCIAL INCOME AND EXPENSES	Quarter 3		9 months		for the year ended 31 December
	2016	2015	2016	2015	2015
Interest income	7	18	35	78	95
Interest expense, loan	-217	-234	-663	-749	-981
Interest expense, swap	-150	-158	-413	-1 003	-1 149
Increase (+) /decrease (-) of fair value of swap	98	-439	-775	974	830
Other financial income (+)/ expenses (-)	-3	-4	-11	-12	-15
Total financial income / expenses	**-265**	**-817**	**-1 827**	**-712**	**-1 220**

NOTE 9. DIVIDENDS	Quarter 3		9 months		for the year ended 31 December
	2016	2015	2016	2015	2015
Dividends declared during the period	0	0	18 001	18 001	18 001
Dividends paid during the period	0	0	18 001	18 001	18 001
Income tax on dividends paid	0	0	-4 500	-4 500	-4 500
Income tax accounted for	**0**	**0**	**-4 500**	**-4 500**	**-4 500**
Paid-up dividends per shares:					
Dividends per A-share (in euros)	0,00	0,00	0,90	0,90	0,90
Dividends per B-share (in euros)	600	600	600	600	600

Dividend income tax rate in 2016 is 20/80 (in 2015: 20/80).

NOTE 10. EARNINGS PER SHARE

	Quarter 3		9 months		for the year ended 31 December
	2016	2015	2016	2015	2015
Net profit minus B-share preferred dividend rights	6 526	5 100	12 937	13 620	19 857
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,33	0,26	0,65	0,68	0,99
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 September 2016 and 2015 and 31 December 2015 was equal to earnings per share figures stated above.

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS (thousand EUR)

NOTE 11. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded in working capital on the statement of financial position of the Group	**as of 30 September**		**as of 31 December**
	2016	**2015**	**2015**
Accounts receivable	3	3	271
Trade and other payables	192	197	184

Transactions	**Quarter 3**		**9 months**		**for the year ended 31 December**
	2016	**2015**	**2016**	**2015**	**2015**
Revenue	971	837	2 841	2 556	3 357
Purchase of administrative and consulting services	260	271	771	803	1 050
Financial income	0	0	0	14	14
Fees for Management Board (excluding social tax)	38	40	153	116	151
Supervisory Board fees (excluding social tax)	8	8	24	24	32

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

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

In the first 9 months of 2016 and throughout the year ending on 31 December 2015, management board members were not paid any leaving compensation. The off balance sheet potential salary liability would be up to 79 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

As of 30 September 2016 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 September and 31 December 2015: Riina Käi owned 100 shares).

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

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

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

NOTE 13. 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.

The management has evaluated the amount of the contingent liability as of 30 September 2016 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 43 million (30 September 2015: 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.