Independent auditor's report

To the Shareholders of AS Tallinna Vesi

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallinna Vesi (the Company) and its subsidiary (together the Group) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia.

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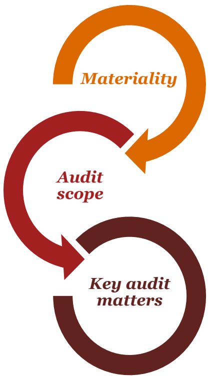
Our audit approach

Overview



Materiality

Overall group materiality is EUR 1,372 thousand, which represents 5% of profit before tax, adjusted for one-off expense related to the tariff dispute provision.

Audit scope

The audit team performed full scope audit procedures for the Company and for its subsidiary.

Key audit matters

- Provision relating to the potential consequences of tariff dispute with the Estonian Competition Authority
- Estimates involved in capitalisation of capital expenditures and determining their useful lives

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	EUR 1,372 thousand
How we determined it	5% of profit before tax, adjusted for one-off tariff dispute provision
Rationale for the materiality benchmark applied	We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by shareholders in evaluating the performance of the Group. We have adjusted the profit before tax by adding back the cost of tariff dispute provision as one-off item not reflecting the operational results.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	***How our audit addressed the key audit matters***
Provision relating to the potential consequences of the legal dispute with the Estonian Competition Authority (refer to Notes 3 “Critical accounting estimates” and 14 “Provision for possible third-party claim” for further details). The Company was involved in the lawsuit with the Estonian Competition Authority over the tariffs of water and sewage services. As a result of the outcome of the lawsuit, potential third-party compensation claims could arise. The management has recognised a provision in respect of potential claims from the customers in the amount of EUR 17.5 million, representing 40% of the maximum amount that could be payable in case all customers would claim for a compensation for past three years and all such claims would be recognised by the courts. We have considered assessment of this provision to be a key audit matter given the potential magnitude and uncertainty in the timing and amount of possible outflow of economic benefits.	We discussed the outcome of the litigation with the Group management. We read the minutes of meetings of the Management and Supervisory Board where developments in the legal proceedings were discussed. We also obtained confirmations from the Group’s internal and external legal counsels in order to compare their expert opinions to management’s position on the provision. We discussed with the management the inputs and assumptions used to estimate the amount of potential outflows of economic benefits as a basis of provision. We found the management’s assessment supportable in the context of information available. We read the disclosures regarding the dispute and resulting provision and concluded that they met the disclosure requirements of IFRS standards and appropriately reflected the nature of the resolution.
Estimates involved in capitalisation of capital expenditures, and determining their useful lives (refer to Note 2 “Accounting policies”, Note 3 “Critical accounting estimates” and Note 8 “Property, plant and equipment” for further details). In 2017, the Group capitalised additions to property, plant and equipment (PPE), mainly related to the construction of water and wastewater network and new customer pipeline connections, in the amount of EUR 9.2 million. Expenditures are capitalised if they create new or enhance the existing assets, and expensed if they relate to repair or maintenance of the assets. Classification of the expenditures involves judgment. The useful lives of PPE items are based on management’s estimates regarding the period during which the asset or its significant components will be used. The estimates are based on historical experience and market practice and take into consideration the physical condition of the assets.	We assessed whether the Group’s accounting policies in relation to the capitalisation of expenditures are in compliance with IFRS and found them to be consistent. We obtained a listing of capital expenditures incurred during the year and, on a sample basis, checked whether the projects were undertaken based on internal purchase order that had been properly approved by the responsible individuals with such authority with no material exceptions noted. We inspected a sample of contracts and underlying invoices to determine whether the classification between capital and operating expenditure was appropriate. We noted no material exceptions We evaluated whether the useful lives determined and applied by the management were in line with historical experience and the market practice.

Capital expenditure is not considered to be an area of significant risk for our audit but as it requires considerable time and resource to audit due to its magnitude, it is considered to be a key audit matter.	We checked whether the depreciation of PPE items was commenced timely, by comparing the date of the reclassification from construction in progress to finished projects, with the date of the act of completion of the work. We noted no material exceptions.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises of two entities, the Company and its subsidiary, both located in Estonia. The group audit team performed full scope audit procedures on the financial statements of the Company and its subsidiary. We also audited the consolidation process to obtain evidence that there were no material misstatements of the consolidated financial information.

Other information

The Management Board is responsible for the other information contained in the Consolidated Annual and Sustainability Report in addition to the consolidated financial statements, our auditor's report thereon and our auditor's report on the sustainability information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of the Company on 23 April 2008 for the financial year ended 31 December 2008. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment the Company of 10 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of the Company can be extended for up to the financial year ending 31 December 2027.

AS PricewaterhouseCoopers

Ago Vilu
Certified auditor in charge, auditor's certificate no.325

Eva Jansen-Diener
Auditor's certificate no.501

6 March 2018

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