Tallinna Vesi

AS Tallinna Vesi

Results of operations – for the 1st quarter of 2012

Currency	Thousand euros
Start of reporting period	1 January 2012
End of reporting period	31 March 2012
Address	Tallinn, Ädala 10
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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

Contractual Highlights

- The court granted temporary injunction for the period of court proceedings to protect the Company from the unilateral breach of privatization agreement by Estonian Authorities (more information available at end of the paper from section *Contractual tariff debate*)
- Due to the fact that the 2011 tariff application and current tariff disputes are almost identical the court has now combined both cases together.
- No court date has yet been established to hear the court case regarding the legality of the tariffs established by the privatisation contract.
- Discussion of the complaint submitted to the EU Commission is ongoing
- Average real return on capital invested at privatization still 6.2% since 2001

The Company has continuously stated its belief in fully transparent regulation and its willingness to enter into **meaningful and evidence-based dialogue** that takes into account the privatization contract signed in 2001.

Year on Year Financial Highlights – 1st Quarter of 2012

- Sales from water & waste water services in main service area increased by 2.7 %
- Reported total operating profit from main services has increased by 0.5% impacted by lower profits from construction activities
- Operating profit from main services increased by 4.2 %
- Net profit for the period is 21% lower compared to 2011 due to adverse variance from non-cash evaluation of fair value of swap agreements
- The Supervisory Council submitted the proposal to AGM to pay 0.84 EUR dividends per share in 2012, total dividend payment would be 16.8 mln EUR. AGM will decide on dividend payment on 22 May 2012 and the proposed dividend payment date is 15 June 2012, the list of shareholders entitled to receive dividends is proposed to be fixed on 5 June at 23.59.

RESULTS OF OPERATIONS - FOR THE 1st QUARTER 2012

Overview of the financial statements

In the 1st quarter of 2012 the Company's underlying performance was good and stable, continuously focused on the improvement of operational performance and customer service. During the 1st quarter of 2012 the sales increased by 4.7% mainly due to even increase from all commercial sectors supported by slight increase from domestic sector. As result of excellent operational performance and related efficiencies the gross profit increased by 8.8% in the 1st quarter of 2012 and the operating profit from main business activities increased by 4.2%. Total operating profit increased by 0.5% during the same period as a result of completion of considerably smaller proportion of the construction program than in 1st quarter of 2011. The profit before taxes decreased by 21.0% in the 1st quarter of 2012, being impacted by non-cash negative movement in fair value of financial instruments opposed to positive movement in 1st quarter of 2011.

mln €	**1 Q 2012**	**1 Q 2011**	**Change**
Sales	13,0	12,4	4,7%
Gross profit	8,2	7,5	8,8%
Gross profit margin %	63,0	60,6	3,9%
Operating profit	6,9	6,9	0,5%
Operating profit - main business	6,9	6,6	4,2%
Operating profit margin %	53,5	55,7	-4,0%
Profit before taxes	6,3	8,0	-21,0%
Net profit	6,3	8,0	-21,0%
Net profit margin %	48,5	64,4	-24,6%
ROA %	3,2	4,2	-24,4%
Debt to total capital employed	57,0	57,1	-0,2%

Gross profit margin – Gross profit / Net sales
Operating profit margin – Operating profit / Net sales
Net Profit margin – Net Profit / Net sales
ROA – Net profit /Total Assets
Debt to Total capital employed – Total Liabilities / Total capital employed
Main business – water and wastewater activities, excl. connections profit and government grants

Profit and Loss Statement

1st quarter 2012

Sales

In the 1st quarter of 2012 the Company's total sales increased, year on year, by 4.7% to 13.0 mln EUR. 92% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 6% of sales from fees received from the City of Tallinn for operating and maintaining the storm water system and 2% from other works and services.

Sales of water and wastewater services were 11.9 mln EUR, a 4.6% increase compared to the 1st quarter of 2011, resulting from the rise in sales volumes as described below.

Within the service area, sales to residential customers increased by 1.4% to 6.1 mln EUR. Sales to commercial customers increased by 4.5% to 4.6 mln EUR, an increase in all commercial sectors signifying recovery from the recession period. Sales to customers outside of the service area increased by 33.1% to 1.1 mln EUR in the 1st quarter of 2012. Over pollution fees received were 0.18 mln EUR, a 14.0% decrease compared to the 1st quarter of 2011.

In the 1st quarter of 2012, the volumes sold to residential customers increased by 1.4% year on year.

The volumes sold to commercial customers inside the service area have risen, reflecting a 4.3% increase compared to the same period in 2011. The sales volumes increased evenly across all commercial sectors in the 1st quarter of 2012.

Outside service area sales volumes were 49.0% higher than in the 1st quarter of 2011. The main factor in this increase was higher storm water volumes in the 1st quarter of 2012 compared to 2011, resulting in sales increase year on year by 33.1%. Sales increase is lower than volumes increase as storm water tariffs are considerably lower than sewage tariffs.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 3.4% to 0.88 mln EUR in the 1st quarter of 2012 compared to the same period in 2011. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 4.8 mln EUR in the 1st quarter of 2012, a decrease of 0.07 mln EUR or 1.5% from the equivalent period in 2011. The cost decrease was mainly the result of the release of a one-off provision worth 0.44 mln EUR described at the pollution tax variance analysis below. Total underlying cost of goods sold increased by 0.36 mln EUR or by 7.4%, mainly due to the increase in variable costs.

Although total variable costs decreased by 0.11 mln EUR, primarily for the reason described above, underlying variable costs increased by 0.33 mln EUR or 23.1% year on year. This was mainly due to high storm water volume in the combined sewerage and storm water system that led to increased wastewater treatment volumes by 19.1% (worth 0.22 mln EUR), that mainly affected the variable costs together with the following additional factors:

- Tax rate on special use of water increased by 7.5% on average, total cost increase by 6.2% or 0.01 mln EUR to 0.24 mln EUR in the 1st quarter of 2012, in combination of increased rates and sales volumes, partly balanced by reduced leaking ratio.
- Chemicals costs increased in extra to the volume impact mainly due to 20.5% higher methanol price worth 0.03 mln EUR. Total chemical costs were 0.37 mln EUR, a 0.12 mln EUR or 47.2% increase compared to the corresponding period in 2011.
- Electricity costs were the most impacted by storm water volumes, but had also considerable hit from increase in electricity rates, which on average have increased 20.3% with an adverse effect of 0.16 mln EUR in extra to the adverse impact from the increased volumes. Electricity costs in total increased by 0.26 mln EUR or 37.9% in the 1st quarter of 2012 compared to the 1st quarter of 2011.
- The pollution tax cost was the most impacted by the fact that the Company released a one-off provision that was established for pollution incident in Maardu and was related to storm water outlet not fully in control of the Company.

  Eliminating the 0.44 mln EUR provision the pollution tax would have been 20.9% lower than in the 1st quarter of 2011. Improved nitrogen removal reduced the pollution tax by 0.11 mln EUR, but the effect was partly balanced by the increased volumes and 14% increase in tax rates. Underlying pollution tax payable was 0.22 mln EUR compared to 0.28 mln EUR in the 1st quarter of 2011.

  The excellent nitrogen removal is the result of the environmental project that was implemented to mitigate the nitrogen treatment and tax risks discussed throughout the 2010 and 2011. The project was completed by the Company in the beginning of the 3rd quarter of 2011 when we finished the construction and implemented the additional stage in sewage treatment process.

Fixed cost of goods sold in the main operating activity were well controlled by the Company, cost increase 0.03 mln EUR or 1.0% year on year being well below the CPI increase as result of implemented efficiency measures.

As a result of all of the above the Company's gross profit for the 1^{st} quarter of 2012 was 8.2 mln EUR, which is an increase of 0.66 mln EUR, or 8.8%, compared to the gross profit of 7.5 mln EUR for the 1^{st} quarter of 2011.

Other Operating Costs

All cost groups were affected by various level increases in salary cost, being impacted by the transfer of costs between the groups due to minor rearrangements in the organization, but also by redundancy compensations. Total salary bill has increased by 3.1% in the 1^{st} quarter of 2012 compared to the same period of 2011, which is below the 2011 CPI of 5.0%.

Marketing expenses increased by 0.02 mln EUR to 0.22 mln EUR during the 1^{st} quarter of 2012 compared to the corresponding period in 2011 only due to discussed change in salary costs.

In the 1^{st} quarter of 2012 the General administration expenses increased by 0.18 mln EUR year on year to 1.1 mln EUR. In extra to the discussed increase in salary cost the General administration expenses increased mainly due to the increase in legal consultancies acquired in the process of tariff dispute.

Other net income/expenses

In the 1^{st} quarter of 2012 Other net income was 0.03 mln EUR, a 0.43 mln EUR negative variance in the 1^{st} quarter of 2012 compared to the 1^{st} quarter of 2011.

The majority of the income in Other net income/expenses has been related to constructions and government grants in previous years. The drivers for this income stream were the networks extension program and the connections activity in Tallinn. As the major programs are close to completion in the 1^{st} half of 2012, the revenues from this activity have already dropped and will continue to drop throughout the year. Income and expenses from constructions and government grants totaled a net income of 0.08 mln EUR in the 1^{st} quarter of 2012 compared to a net income of 0.32 mln EUR in the 1^{st} quarter of 2011.

The rest of the other income/expenses totaled an expense of 0.05 mln EUR in the 1^{st} quarter of 2012 compared to an income of 0.15 mln EUR in the 1^{st} quarter of 2011 that was mainly related to a one-off extraordinary debt collection.

As a result of all these factors the Company's operating profit from main services for the 1^{st} quarter of 2012 totaled 6.9 mln EUR compared to 6.6 mln EUR in the corresponding quarter in 2011. In total the Company's operating profit for all activities for the 1^{st} quarter of 2012 was 6.9 mln EUR, an increase of 0.04 mln EUR compared to an operating profit of 6.9 mln EUR achieved in the 1^{st} quarter of 2011. Year on year the operating profit for the 1^{st} quarter has increased by 0.5%.

Financial expenses

Net Financial revenues/expenses were 0.64 mln EUR in the 1st quarter of 2012, which is a negative variance of 1.7 mln EUR or 159.9% compared to the net revenues in the 1st quarter of 2011. In both years the financial costs were mainly impacted from the non-cash revaluation of the fair value of swap agreements, in the 1st quarter of 2011 the revaluation impact was positive by 1.5 mln EUR and in the relevant quarter of 2012 the revaluation impact was negative by 0.22 mln EUR.

The swap agreements have been signed to mitigate the majority of the long term floating interest risk, the interest swap agreements are signed for 75 mln EUR and 20 mln EUR is thereby still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totaling 4.7 mln EUR.

Effective interest rate in the 1st quarter of 2012 was 3.39%, amounting in the interest costs of 0.82 mln EUR, compared to 2.84% and in the amount of 0.68 mln EUR in the 1st quarter of 2011. This reflects the euribor increase and adverse impact from swap agreements that became effective in the 2nd quarter of 2011.

Profit Before Tax

The Company's profit before taxes for the 1st quarter of 2012 was 6.3 mln EUR, which is 1.7 mln EUR lower than the profit before taxes of 8.0 mln EUR for the 1st quarter of 2011. The profit before tax has mainly been suppressed by the described revaluation of interest swap agreements.

Balance sheet

In the 1st quarter the total assets have increased by 6.2 mln EUR that is characteristic for the Company's traditional cash generation and capex spend profile throughout the year.

Current assets increased by 9.5 mln EUR to 44.4 mln EUR in the three months of the year. Cash at bank increased by 7.9 mln EUR and the customer receivables increased by 1.7 mln EUR as result of the reclassification of accrued income related to financing of long term construction projects from non-current assets to current assets.

During the three months of 2012 the Company invested 1.5 mln EUR into fixed assets. Non-current assets were 153.8 mln EUR at 31 March 2012.

Current liabilities decreased by 0.44 mln EUR to 8.0 mln EUR in the three months of the year, due to decrease in Trade payables, reflecting capex payables profile throughout the year.

The Company has a Total debt/Total assets level as expected of 57.0%, in the target range of 50%-60%, reflecting the pre-dividend increase in Equity of 6.3 mln EUR.

Long-term liabilities stood at 105.0 mln EUR at the end of March 2012, consisting mainly of the outstanding balance of three long-term bank loans and supplemented by deferred income from connection fees. The total 95 mln EUR loan capital is recorded within long term liabilities in accordance with the signed loan agreements. The first repayment of loans or refinancing should take place at the end of 2013. The weighted average interest margin for the total loan facility is 0.82%.

Considering that the court proceedings are continuously ongoing, the Management has not changed the evaluation of the contingent liability. In the 4th quarter of 2011 the Company recorded an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros, as per note 3 to the annual accounts.

Cash flow

During the three months of 2012, the Company generated 6.6 mln EUR of cash flows from operating activities, a decrease of 2.5 mln EUR compared to the corresponding period in 2011. 2012 operating cash flows were below 2011 cash flows mainly due extraordinary payments of overdue debt in 1st quarter of 2011. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the three months of 2012 net cash inflows from investing activities were 1.2 mln EUR, an increase of 3.2 mln EUR compared to an outflow of 2.0 mln EUR in the 1st quarter of 2011, mainly due to lower capex spent on network extension. At the end of 1st quarter of 2012 the cash outflows related to the fixed asset investments were 1.7 mln EUR compared to 3.8 mln EUR spent in the same period of 2011. The compensations received for the construction of pipelines were 2.7 mln EUR in the 1st quarter of 2012, an increase of 0.77 mln EUR compared to same period in 2011. In 2012 the Company also gave the 0.23 mln EUR loan to Maardu according to the Operating agreement signed in 2008.

As a result of all of the above factors, the total cash inflow in the three months of 2012 was 7.9 mln EUR compared to a cash inflow of 7.2 mln EUR in the three months of 2011. Cash and cash equivalents stood at 22.6 mln EUR as at 31 March 2012 which is 2.2 mln EUR higher than at the corresponding period of 2011.

Employees

At the end of the 1st quarter of 2012, the total number of employees was 310 compared to 315 at the end of the 1st quarter of 2011. The full time equivalent (FTE) was respectively 298 in 2012 compared to the 301 in 2011. 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.

Corporate structure

At the end of the quarter, 31 March 2012, 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.

Share performance

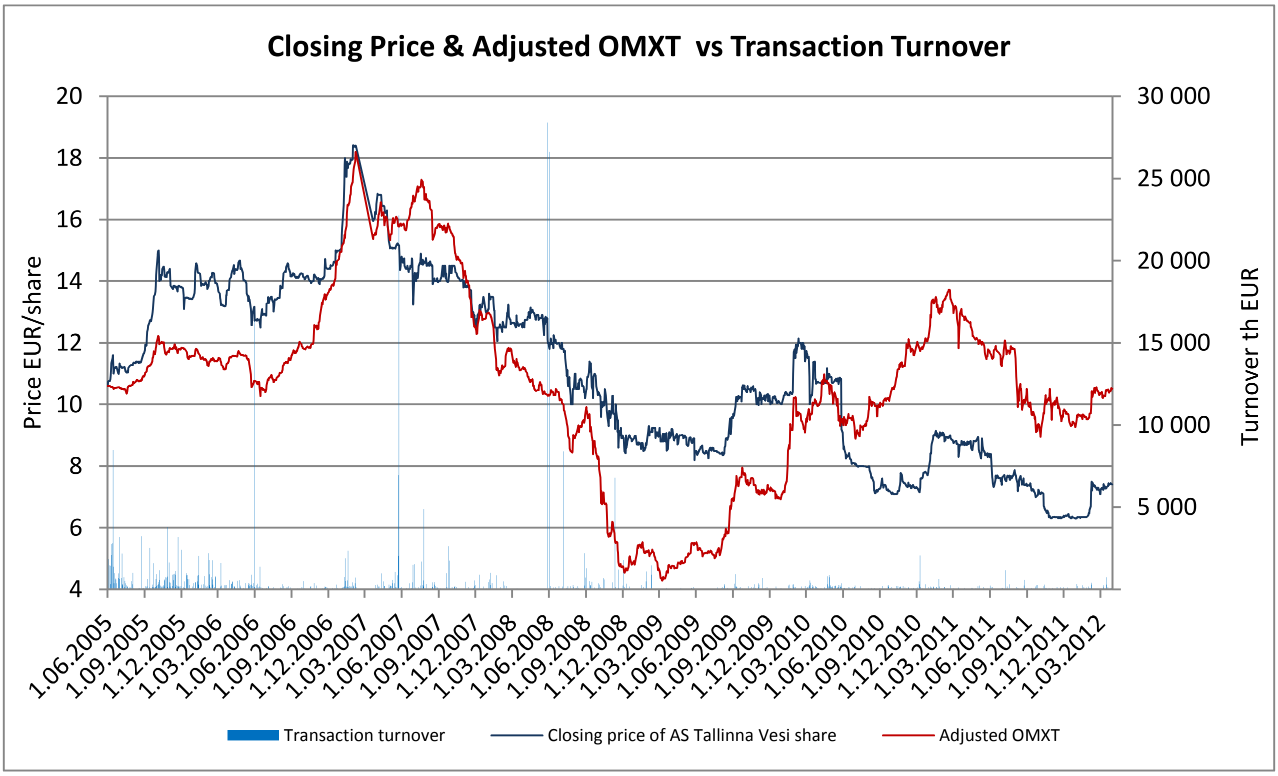
AS Tallinna Vesi is listed on NASDAQ OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31 March 2012 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

Parvus Asset Management owned in total 6.09% of the shares of the Company as per Company's best information as of 31 March 2012.

At the end of the quarter, 31 March 2012, the closing price of the AS Tallinna Vesi share was 7.41 EUR, which is a 17.81% increase compared to the closing price of 6.29 EUR at the beginning of the quarter. During the same period the OMX Tallinn index rose by 13.45%. In the 1st quarter the Company's share price was mainly impacted by the ongoing contractual debate and interim court decisions.



Operational highlights in 1st quarter of 2012

- In the 1st quarter of 2012, the operational and quality indicators of AS Tallinna Vesi have been on the highest level ever and indicate continuous improvement. Compared to 1st quarter 2011, the most remarkable improvements have been in removing pollution from the wastewater discharged into the Baltic Sea and in wastewater, service quality and customer communication indicators. For example:
  - The quality indicators for water quality have so far been on the highest level ever, from taken samples 100% were fully in accordance with the norms, outperforming considerably the required standard 95% at customers' taps.
  - Total number of sewage blockages has decreased by 33%.
  - Total time of interruptions has decreased by 8%.
  - The leakage level is below 17%, over 4% less than in 2011.
  - Compared to the 1st quarter of 2011, the biofilter has enabled to reduce the volume of discharge of nitrogen by 51.2%.
  - More details on operating performance can be found from **/LINK to TSE/**

Key contractual events

Contractual tariff debate

Tariffs are still frozen on the 2010 level despite of the fact that on 9 November 2010 the Company submitted its tariff application for a 3.5% tariff increase from 1 January 2011, which was contractually agreed in the privatisation contract to the Competition Authority (CA), the new price checker. The tariff application is fully in accordance with the law and the best practice regulation for privatized utilities, such as that favoured by Ofwat in the UK and recommended by the World Bank for privatized utilities.

On 2nd May the CA informed the Company about the rejection of the tariff application. The CA completely ignored the privatization contract and did not perform any analysis of the contractual and financial performance of the Company during the period after privatization. The CA is arguing that the Company's profitability is too high using their own recommendatory and unverified methodology.

The Company has calculated that the average real return on invested capital from 2001 till 2012 has been 6.2% and the Company has also had these returns independently verified by the international economics consulting company, Oxera. The annual return on capital invested is in accordance with the returns allowed by Ofwat the UK regulator over this same period[1], and the return permitted by the Dutch Energy regulator Energiekamer, which allowed a real rate of return of 6% in its regulatory determination of September 2010.

The Company and its investors cannot accept such a unilateral breach of the privatization terms and contract by Estonian Authorities and the Company submitted an appeal to the court on 2 June 2011.

Regrettably the CA decided not to wait for the court ruling regarding the legality of the privatization contract and on 10 October 2011 the CA sent a prescription to the company asking it to reduce its current tariffs by 29%. The Company lodged another claim against the prescription and asked for the temporary injunction from the Estonian court. The court granted the temporary injunction for the period of court proceedings on 6 February 2012 and this decision was confirmed by next level court on 2nd of March. The ruling cannot be appealed any further and due legal process must now take its course.

On 6th of February the Court joined both the current (2010) tariffs case and the case regarding the rejection of AS Tallinna Vesi's 2011 tariff application. Thus, the prescription has been halted until both disputes have been resolved. The outcome and lengths of the Court proceedings is outside the control of the Company.

Complaint to European Commission

In parallel, on 10th December 2010 AS Tallinna Vesi lodged a complaint to the European Commission regarding certain measures adopted by the Estonian authorities. The company believes these measures unilaterally alter the terms of AS Tallinna Vesi's privatization regime, and without any objective justification, any form of meaningful prior discussion, or willingness to engage in dialogue. Therefore they violate EU rules on the

[1] http://www.ofwat.gov.uk/regulating/reporting/rpt_fpr_2007-08.pdf ,page 15

freedom of establishment and the free movement of capital (articles 49 and 63 TFEU). The process is ongoing.

Disclosure of relevant papers and perspectives

The Company has published its tariff application and all relevant correspondence with the CA on its website (http://www.tallinnavesi.ee/?op=body&id=728) and to the Tallinn Stock Exchange and will keep its investors informed of all future developments regarding the further key developments regarding the processing of the tariff application. Still, at this point in time the Company is unable to say what is going to happen to the tariffs as it is unclear at the moment how the CA intends to respond to the Court and what would be the next steps by the European Commission.

Additional information:
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MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of consolidated condensed financial statements for the 3 months period of financial year 2012 ended 31 March 2012. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 2012 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 management report gives a true and fair view of the main events that occured during the 3 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 9 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 financial statements on 26 April 2012 have been considered in preparing the financial statements.

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

Ian John Alexander Plenderleith
Chairman of the Management Board
Chief Executive Officer

Leho Võrk
Member of the Management Board
Chief Operating Officer

Siiri Lahe
Member of the Management Board
Chief Financial Officer

Ilona Nurmela
Member of the Management Board
General Counsel

26 April 2012

Introduction and photos of the Management Board members are published in 2010 Yearbook and at www.tallinnavesi.ee

CONCOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

ASSETS	Note	as of 31 March 2012	as of 31 March 2011	as of 31 December 2011
CURRENT ASSETS				
Cash and equivalents	2	22 636	20 439	14 770
Customer receivables, accrued income and prepaid expenses		21 531	18 560	19 845
Inventories		193	287	248
Non-current assets held for sale		78	76	73
TOTAL CURRENT ASSETS		**44 438**	**39 362**	**34 936**
NON-CURRENT ASSETS				
Long-term investment assets		6 380	429	9 583
Property, plant and equipment	3	145 915	147 926	145 973
Intangible assets	3	1 502	1 851	1 577
Derivatives		0	131	0
TOTAL NON-CURRENT ASSETS		**153 797**	**150 337**	**157 133**
TOTAL ASSETS		**198 235**	**189 699**	**192 069**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		29	7 607	0
Trade and other payables		4 855	5 431	5 789
Derivatives		1 780	906	1 552
Short-term provisions		0	27	0
Prepayments and deferred income		1 378	1 005	1 146
TOTAL CURRENT LIABILITIES		**8 042**	**14 976**	**8 487**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		6 922	5 810	6 824
Borrowings		95 150	87 449	94 938
Derivatives		2 931	0	2 936
Other payables		9	115	9
TOTAL NON-CURRENT LIABILITIES		**105 012**	**93 374**	**104 707**
TOTAL LIABILITIES		**113 054**	**108 350**	**113 194**
EQUITY				
Share capital		12 000	12 782	12 000
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		47 169	42 555	40 863
TOTAL EQUITY		**85 181**	**81 349**	**78 875**
TOTAL LIABILITIES AND EQUITY		**198 235**	**189 699**	**192 069**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (thousand EUR)

	Note	Quarter 1 2012	Quarter 1 2011	for the year ended 31 December 2011
Revenue	4	12 993	12 404	51 240
Costs of goods sold	6	-4 809	-4 882	-20 927
GROSS PROFIT		**8 184**	**7 522**	**30 313**
Marketing expenses	6	-216	-200	-748
General administration expenses	6	-1 051	-874	-4 294
Other income (+)/ expenses (-)	7	32	464	3 619
OPERATING PROFIT		**6 949**	**6 912**	**28 890**
Financial income	8	391	1 752	1 947
Financial expenses	8	-1 034	-678	-5 071
PROFIT BEFORE TAXES		**6 306**	**7 986**	**25 766**
Income tax on dividends	9	0	0	-4 253
NET PROFIT FOR THE PERIOD		**6 306**	**7 986**	**21 513**
COMPREHENSIVE INCOME FOR THE PERIOD		**6 306**	**7 986**	**16 405**
Attributable profit to:				
Equity holders of A-shares		6 305	7 985	21 512
B-share holder		0,60	0,64	0,60
Earnings per A share (in euros)	10	0,32	0,40	1,08
Earnings per B share (in euros)	10	600	639	600

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

CONSOLIDATED CASH FLOW STATEMENT

(thousand EUR)

	Note	Quarter 1 2012	Quarter 1 2011	for the year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		6 949	6 912	28 890
Adjustment for depreciation/amortisation	6	1 434	1 394	5 729
Adjustment for profit from government grants and connection fees		-78	-315	-3 484
Other finance income/expenses(-)	8	4	-2	35
Profit/loss(+) from sale of property, plant and equipment, and intangible assets		-1	0	55
Expensed property, plant and equipment		3	0	10
Change in current assets involved in operating activities		-631	1 616	720
Change in liabilities involved in operating activities		-324	-128	1 306
Interest paid		-717	-290	-3 051
Total cash flow from operating activities		**6 639**	**9 187**	**30 210**
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted		-227	-429	-3 151
Acquisition of property, plant and equipment, and intangible assets		-1 717	-3 812	-18 506
Compensations received for construction of pipelines		2 769	2 004	11 284
Proceeds from sale of property, plant and equipment, and intangible assets		1	0	13
Interest received		401	254	1 939
Total cash flow used in investing activities		**1 227**	**-1 983**	**-8 421**
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	9	0	0	-16 001
Income tax on dividends	9	0	0	-4 253
Total cash flow used in financing activities		**0**	**0**	**-20 254**
Change in cash and cash equivalents		**7 866**	**7 204**	**1 535**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**14 770**	**13 235**	**13 235**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**22 636**	**20 439**	**14 770**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2010	**12 782**	**24 734**	**1 278**	**34 569**	**73 363**
Reduction of the share capital	**-782**	**0**	**0**	**782**	0
Dividends	0	0	0	-16 001	-16 001
Comprehensive income for the period	0	0	0	21 513	21 513
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
as of 31 December 2010	**12 782**	**24 734**	**1 278**	**34 569**	**73 363**
Comprehensive income for the period	0	0	0	7 986	7 986
as of 31 March 2011	**12 782**	**24 734**	**1 278**	**42 555**	**81 349**
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
Comprehensive income for the period	0	0	0	6 306	6 306
as of 31 March 2012	**12 000**	**24 734**	**1 278**	**47 169**	**85 181**

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

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

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 31 March		as of 31 December
	2012	**2011**	**2011**
Cash in hand and in bank	1 341	949	1 456
Short-term deposits	21 295	19 490	13 314
Total cash and cash equivalents	**22 636**	**20 439**	**14 770**

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

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 2010									
Acquisition cost	24 067	155 727	39 570	1 157	2 216	7 462	119	5 232	235 550
Accumulated depreciation	-4 838	-50 307	-26 120	-755	0	0	0	-3 379	-85 399
Book value	**19 229**	**105 420**	**13 450**	**402**	**2 216**	**7 462**	**119**	**1 853**	**150 151**
Transactions in the period 01.01.2011 - 31.12.2011									
Acquisition in book value	0	0	0	0	5 178	11 126	234	0	16 538
Write off and sale of property, plant and equipment, and intangible assets in book value	-1	0	-65	0	0	0	0	0	-66
Compensated by government grants	0	0	0	0	0	-13 270	0	0	-13 270
Reclassification	182	6 412	1 553	43	-4 545	-3 641	-131	131	4
Depreciation	-273	-2 646	-2 181	-78	0	0	0	-629	-5 807
as of 31 December 2011									
Acquisition cost	24 247	162 106	40 594	1 175	2 849	1 677	222	5 363	238 233
Accumulated depreciation	-5 110	-52 920	-27 837	-808	0	0	0	-4 008	-90 683
Book value	**19 137**	**109 186**	**12 757**	**367**	**2 849**	**1 677**	**222**	**1 355**	**147 550**
Transactions in the period 01.01.2012 - 31.03.2012									
Acquisition in book value	0	0	0	0	1 303	132	112	0	1 547
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-1	0	0	0	0	0	-1
Compensated by government grants	0	0	0	0	0	-244	0	0	-244
Reclassification	49	494	473	24	-934	-85	-7	7	21
Depreciation	-68	-685	-497	-19	0	0	0	-187	-1 456
as of 31 March 2012									
Acquisition cost	24 296	162 599	40 979	1 200	3 218	1 480	327	5 371	239 470
Accumulated depreciation	-5 178	-53 604	-28 247	-828	0	0	0	-4 196	-92 053
Book value	**19 118**	**108 995**	**12 732**	**372**	**3 218**	**1 480**	**327**	**1 175**	**147 417**

Property, plant and equipment and intangible assets are written off if the conditions of the asset do not enable further usage for production purposes.
As of 31 March 2012 the net balance sheet value of finance leases was 234 thousand euros.As of 31 December 2011 there were no finance lease contracts.

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

NOTE 4. REVENUE

Revenues from main operating activities	Quarter 1 2012	Quarter 1 2011	for the year ended 31 December 2011
Total water supply and waste water disposal service, incl:	11 895	11 371	46 492
Private clients, incl:	6 054	5 970	23 711
Water supply service	3 330	3 289	13 072
Waste water disposal service	2 724	2 681	10 639
Corporate clients, incl:	4 569	4 373	18 234
Water supply service	2 464	2 314	9 881
Waste water disposal service	2 105	2 059	8 353
Outside service area clients, incl:	1 097	825	3 789
Water supply service	255	205	901
Waste water disposal service	842	620	2 888
Overpollution fee	175	203	758
Stormwater treatment and disposal service	838	802	3 351
Fire hydrants service	41	48	221
Other works and services	219	183	1 176
Total revenue	**12 993**	**12 404**	**51 240**

100 % of AS Tallinna Vesi revenue was generated within the Estonian Republic.
Code of Estonian Classification of Economic Activities (EMTAK) is 36001.

NOTE 5. STAFF COSTS

	Quarter 1 2012	Quarter 1 2011	for the year ended 31 December 2011
Salaries and wages	-1 212	-1 176	-4 801
Social security and unemployment insurance taxation	-418	-405	-1 602
Staff costs total	**-1 630**	**-1 581**	**-6 403**
Number of employees at the end of reporting period	**310**	**315**	**311**

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

NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES

	Quarter 1		for the year ended 31 December
Cost of goods sold	**2012**	**2011**	**2011**
Tax on special use of water	-240	-226	-897
Chemicals	-365	-248	-1 433
Electricity	-932	-676	-2 972
Pollution tax	214	-279	-1 409
Staff costs	-1 123	-1 117	-4 390
Depreciation and amortization	-1 282	-1 266	-5 182
Other costs of goods sold	-1 081	-1 070	-4 644
Total cost of goods sold	**-4 809**	**-4 882**	**-20 927**
Marketing expenses			
Staff costs	-107	-91	-349
Depreciation and amortization	-81	-81	-325
Other marketing expenses	-28	-28	-74
Total cost of marketing expenses	**-216**	**-200**	**-748**
General administration expenses			
Staff costs	-400	-373	-1 664
Depreciation and amortization	-71	-47	-222
Other general administration expenses	-580	-454	-2 408
Total cost of general administration expenses	**-1 051**	**-874**	**-4 294**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 1		for the year ended 31 December
	2012	**2011**	**2011**
Profit from government grant	77	315	3 479
Other income / expenses (-)	-45	149	140
Total other income / expenses	**32**	**464**	**3 619**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Quarter 1		for the year ended 31 December
	2012	**2011**	**2011**
Interest income	391	260	1 947
Interest expense	-815	-676	-2 885
Increase (+) /decrease (-) of fair value of swap	-223	1 492	-2 221
Other financial income (+)/ expenses (-)	4	-2	35
Total financial income / expenses	**-643**	**1 074**	**-3 124**

NOTE 9. DIVIDENDS

	Quarter 1		for the year ended 31 December
	2012	**2011**	**2011**
Dividends declared during the period	0	0	16 001
Dividends paid during the period	0	0	16 001
Income tax on dividends paid	0	0	-4 253
Income tax accounted for	**0**	**0**	**-4 253**
Paid-up dividends per shares:			
Dividends per A-share (in euros)	0	0	0,80
Dividends per B-share (in euros)	0	0	600

The income tax rates were 21/79 in 2012 and 2011.

NOTE 10. EARNINGS PER SHARE

	Quarter 1		for the year ended 31 December
	2012	**2011**	**2011**
Net profit minus B-share preference rights	6 305	7 985	21 512
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
Earnings per A share (in euros)	0,32	0,40	1,08
Earnings per B share (in euros)	600	639	600

Diluted earnings per share for the periods ended 31 March 2012 and 2011 and 31 December 2011 are 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

	as of 31 March		**as of 31 December**
Balances recorded in working capital on the statement of financial position of the Group	**2012**	**2011**	**2011**
Accounts receivable	4 582	5 974	4 977
Accrued income	13 284	6 896	15 310
Prepayments and deferred income	21	0	0
Accounts payable - short-term trade and other payables	224	203	194

	Quarter 1		**for the year ended 31 December**
	2011	**2011**	**2011**
Transactions with the related parties			
Sales services	869	802	3 535
Compensation receivable from the local governments for constructing new pipelines	298	2 004	16 750
Purchase of administrative and consulting services	241	229	1 001
Financial income	288	220	1 624
Management Board short-term employee benefits (excluding social tax)	64	63	246
Supervisory Board fees (excluding social tax)	10	10	39

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

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members

As of 31 March 2012 and 2011 and 31 December 2011 from Supervisory Council and Management Board members Siiri Lahe owned 700 and Leho Võrk 179 shares.

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Steven Richard Fraser	Member of the Supervisory Board
Simon Gardiner	Member of the Supervisory Board
Brendan Francis Murphy	Member of the Supervisory Board
Toivo Tootsen	Member of the Supervisory Board
Mart Mägi	Member of the Supervisory Board
Rein Ratas	Member of the Supervisory Board
Valdur Laid	Member of the Supervisory Board
Priit Lello	Member of the Supervisory Board

Introduction and photos of the Management Board members are published in 2010 Yearbook and at www.tallinnavesi.ee