

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 4th quarter of 2011

Currency	Thousand euros
Start of reporting period	1 January 2011
End of reporting period	31 Detsember 2011
Address	Tallinn, Ädala 10
Chairman of the Management Board	Ian John Alexander Plenderleith
Commercial register number	10 257 326
Telephone	+372 62 62 202
Telefax	+372 62 62 300
E-mail	tvesi@tvesi.ee
Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Privatization Contract and Regulation Overview

During the 4th quarter the Company's share price has been further impacted by the Competition Authority's (CA) prescription to reduce the tariffs by 29% and by the claims that the privatization contract did not comply with the Public Water and Sewerage Act (PWSSA) at the time of privatization.

Our shareholders will be aware that in June 2011 the company lodged an official complaint to the Estonian Administrative court due to the CA's refusal to consider the privatization contract and approve the contractually agreed tariffs. On 29 August the CA responded to the courts disputing all points made in our claims. Regrettably the CA has decided not to wait for the court ruling regarding the legality of the privatization contract and on 10 October the CA sent a prescription to the company asking it to reduce its current tariffs by 29%. The Company has lodged another claim against the prescription and has asked for the temporary injunction from the Estonian Administrative Court. The court has postponed the decision until 6 February 2012.

AS Tallinna Vesi does not believe that the prescription or the non approval of the 2011 tariffs have ever been economically or legally justified and as such will contest both these decisions in court.

The Company would like to highlight that it has fulfilled all aspects of the privatization contract, including a significant improvement in the quality requirements, as determined by the Tallinn City Government in 2001 (see the report about the Operational Performance¹).

Furthermore, in the interests of an open and professional dialogue to demonstrate that its return on invested capital has not been excessive the international economic consulting group Oxera has independently verified that the average real return on capital invested at the time of privatization is 6.2%, that is slightly lower than the expected 6.5% return in 2011 as the privatization contract designed the returns to be lower in early years of contract. Both, the average and the annual return on capital invested are in accordance with the returns allowed by Ofwat the UK regulator over this same period², 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 has continuously stated its belief in fully transparent regulation and its willingness to enter into meaningful dialogue that takes into account the privatization contract signed in 2001.

RESULTS OF OPERATIONS - FOR THE 4th QUARTER 2011

Overview of the financial statements

In the 4th quarter of 2011 the Company's underlying performance was good and stable, continuously focused on improvement of operational performance and customer service. During the 4th quarter of 2011 the sales increased by 4.9% as result of the slight increase in sales volumes mainly due to increase in tourism and related sectors. As result of excellent operational performance and related efficiencies the gross profit increased by 5.1% in the 4th quarter of 2011 and the

¹ <https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=487195&messageId=596220>

² http://www.ofwat.gov.uk/regulating/reporting/rpt_fpr_2007-08.pdf, page 15

underlying operating profit increased by 5.9%. Total operating profit increased by 13.4% during the same period as result of completion of considerable proportion of the construction program. Still the profit before taxes decreased by 3.1% in the 4th quarter of 2011, being impacted by non-cash negative movement in fair value of financial instruments.

<i>mln €</i>	4 Q 2011	4 Q 2010	Change	12 months 2011	12 months 2010	Change
Sales	13,1	12,5	4,9%	51,2	49,7	3,1%
Gross profit	7,2	6,8	5,1%	30,3	29,0	4,5%
Gross profit margin %	54,9	54,8	0,2%	59,2	58,4	1,4%
Operating profit	8,0	7,1	13,4%	28,9	27,5	5,2%
Operating profit - main business	5,7	5,4	5,9%	25,4	24,2	5,2%
Operating profit margin %	61,5	56,9	8,1%	56,4	55,3	2,0%
Profit before taxes	7,7	7,9	-3,1%	25,8	24,9	3,5%
Net profit	7,7	7,9	-3,1%	21,5	16,4	31,1%
Net profit margin %	58,7	63,6	-7,7%	42,0	33,0	27,1%
ROA %	4,0	4,3	-7,3%	11,2	8,9	25,5%
Debt to total capital employed	58,9	60,1	-1,9%	58,9	60,1	-1,9%

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

4th quarter 2011

Sales

In the 4th quarter of 2011 the Company's total sales increased, year on year, by 4.9% to 13.1 mln EUR. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system.

Sales of water and wastewater services were 11.9 mln EUR, a 4.3% increase compared to the 4th quarter of 2010, resulting from the slight rise in sales volumes as described below.

Within the service area, sales to residential customers remained on the same level, with minor 0.1% decrease to 6.0 mln EUR. Sales to commercial customers increased by 5.5% to 4.6 mln EUR. Sales to customers outside of the service area increased by 32.7% to 1.1 mln EUR in the 4th quarter of 2011. Over pollution fees received were 0.16 mln EUR, an 8.1% decrease compared to the 4th quarter of 2010.

In the 4th quarter of 2011, the volumes sold to residential customers increased by 0.2% year on year, the cumulative variance after twelve months being still negative by -0.1% after negative 3rd quarter of 2011. Eliminating the minor impact of revenues reclassification from inside area to the outside area the domestic consumption is flat.

The volumes sold to commercial customers inside the service area have risen, reflecting a 6.2% increase compared to the same period in 2010. The sales volumes increased mainly due to improvement in leisure sector and related industrial and transportation services as result of pick up in tourism sector. The volume increase exceeds the sales increase due to the proportionally higher increase in waste water services which tariffs are a bit lower compared to the water tariffs.

Outside service area sales volumes were 46.5% higher than in the 4th quarter of 2010. The main factor in this increase was higher storm water volumes in the 4th quarter of 2011 compared to 2010, resulting in sales increase year on year by 32.7%, 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 14.5% to 0.92 mln EUR in the 4th quarter of 2011 compared to the same period in 2010. 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 5.9 mln EUR in the 4th quarter of 2011, an increase of 0.26 mln EUR or 4.7% from the equivalent period in 2010. The cost increase was mainly the result of increased treatment volumes by 6.3% that affected all variable costs.

To mitigate the nitrogen treatment and tax risks discussed throughout the 2010, we finished the construction and implemented the additional stage in sewage treatment process in the beginning of the 3rd quarter of 2011. In spite the increase in volumes treated in 4th quarter of 2011 and the increase in tax rates year on year by 14.8%, the treatment results were excellent and resulted in reduced pollution tax payment. The pollution tax calculation depends on waste water treatment results and concentration of different waste components in treated waste water. In the 4th quarter of 2011 the Company was successful to remove all pollutants below the level required for the application of the beneficial coefficient. Thereby the Company achieved in the 4th quarter of 2011 the beneficial 0.5 tax coefficient in contrary to the 4th quarter of 2010 with coefficient 1.0, and thereby the amount of pollution tax payable was 0.67 mln EUR compared to 0.74 mln EUR in the 4th quarter of 2010. We still have to note that the Company accounted for a one-off negative provision for pollution tax in Maardu 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 69.1% lower than in the 4th quarter of 2010.

Chemical costs were 0.43 mln EUR, a 15.5% increase compared to the corresponding period in 2010 reflecting the increase in rates, mainly in methanol price.

Electricity costs increased by 0.09 mln EUR or 12.2% in the 4th quarter of 2011 compared to the 4th quarter of 2010 having adverse impact from higher electricity prices as result of the purchase from the open market, but also from regulated networks fees.

Salary expenses within costs of goods sold decreased in the 4th quarter of 2011, year on year, by 0.05 mln EUR or 4.3% as result of different timing in annual bonus accrual throughout the year. Underlying individual salaries have increased by CPI only and the cost impact is broadly balanced by reduction in headcount.

Other cost of goods sold in the main operating activity increased 0.15 mln EUR, or 13.1% year on year, mainly due to the increase in asphaltting cost related to the networks emergency works reflecting increase in rates of raw materials but also increased volumes. Other increases in rates were broadly balanced by internal efficiencies.

As a result of all of the above the Company's gross profit for the 4th quarter of 2011 was 7.2 mln EUR, which is an increase of 0.35 mln EUR, or 5.1%, compared to the gross profit of 6.8 mln EUR for the 4th quarter of 2010.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.02 mln EUR to 0.19 mln EUR during the 4th quarter of 2011 compared to the corresponding period in 2010. This is mainly the result of a savings targeted efficiencies in number of other items.

In the 4th quarter of 2011 the General administration expenses increased by 0.19 mln EUR year on year to 1.2 mln EUR. Still the increase in legal consultancies acquired in the process of tariff dispute exceeded the prescribed transfer of cost and caused increase in other costs. Within this group the salary costs increase was partly related to the transfer of management services to the salary line.

Other net income/expenses

The majority of the income in Other net income/expenses relates to constructions and government grants. The drivers for this income stream are the networks extension program and the connections activity in Tallinn. Income and expenses from constructions and government grants totaled a net income of 2.4 mln EUR in the 4th quarter of 2011 compared to a net income of 1.7 mln EUR in the 4th quarter of 2010, this line varied throughout the year and is dependent on construction volumes and estimates to the profit margins on projects completed. 2011 4th quarter profits from government grants profits were influenced mainly by delays in construction in previous quarters which were completed and compensated in 4th quarter. The extensive construction program is expected to be completed in 1st half of 2012.

The rest of the other income/expenses totaled an expense of 0.10 mln EUR in the 4th quarter of 2011 compared to an expense of 0.23 mln EUR in the 4th quarter of 2010, reflecting mainly the impact from the different timing of profits from construction of individual connection points.

As a result the Company's operating profit from main services for the 4th quarter of 2011 totaled 5.7 mln EUR compared to 5.4 mln EUR in the corresponding quarter in 2010. In total the Company's operating profit for all activities for the 4th quarter of 2011 was 8.0 mln EUR, an increase of 0.9 mln EUR compared to an operating profit of 7.1 mln EUR achieved in the 4th quarter of 2010. Year on year the operating profit for the 4th quarter has increased by 13.4%.

Financial expenses

Net Financial revenues/expenses were 0.36 mln EUR in the 4th quarter of 2011, which is a negative variance of 1.2 mln EUR or 143.2% compared to the net expenses in the 4th quarter of 2010. In both years the financial costs were impacted from the non-cash revaluation of the fair value of swap agreements, in the 4th quarter of 2010 the impact was positive by 1.1 mln EUR and in the relevant quarter of 2011 the impact was negative by 0.67 mln EUR.

The Company has mitigated majority of the long term floating interest risk with 5 interest swap agreements, each with a principal value of 15 mln EUR. At this point in time the estimated fair value of these swap contracts is still negative, totaling 4.5 mln EUR, with a negative revaluation in the 4th quarter 2011 in the amount of 0.67 mln EUR.

Profit Before Tax

The Company's profit before taxes for the 4th quarter of 2011 was 7.7 mln EUR, which is 0.25 mln EUR lower than the profit before taxes of 7.9 mln EUR for the 4th quarter of 2010.

Results for the twelve months of 2011

During the twelve months of 2011 the Company's total sales increased, year on year, by 3.1% to 51.2 mln EUR. Sales of water and wastewater treatment were 46.5 mln EUR, a 3.0% increase compared to the twelve months of 2010.

The operating profit from the Company's main business activity increased by 5.2% to 25.4 mln EUR during the twelve months of 2011 compared to the twelve months of 2010.

The Company's profit before taxes for the twelve months of 2011 was 25.8 mln EUR, which is a 3.5% increase compared to the relevant period in 2010.

The Company's net profit for the twelve months of 2011 was 21.5 mln EUR, which is 5.1 mln EUR higher than the net profit of 16.4 mln EUR in the equivalent period in 2010. Increase in net profit is mainly due to the decreased income tax from 8.5 mln EUR to 4.3 mln EUR as result of lower dividends paid to the shareholders in 2011 compared to 2010.

Balance sheet

During the twelve months of 2011 the Company invested 16.5 mln EUR into fixed assets. Non-current assets were 150.7 mln EUR at 31 December 2011.

Current assets increased by 7.7 mln EUR to 41.4 mln EUR in the twelve months of the year. Customer receivables increased by 6.2 mln EUR as result of the increase in accrued income related to long term construction projects and payment schedules, and the cash at bank increased by 1.5 mln EUR.

Current liabilities decreased by 7.4 mln EUR to 8.5 mln EUR in the twelve months of the year. This was mainly due to a 7.6 mln EUR reclassification of Current portion of long-term borrowings to Non-current liabilities after renewal of the loan agreement.

The Company has a leverage level as expected of 58.9%, in the target range of 60%, reflecting the increase in Equity of 5.5 mln EUR as a result of the higher profit generation compared to the dividend payment in 2011.

Long-term liabilities stood at 113.2 mln EUR at the end of December 2011, consisting almost entirely of the outstanding balance of three long-term bank loans. As of 30 April 2011 the total 95 mln EUR loan capital was recorded within long term liabilities in accordance with the signed loan agreements. In April 2011 the Company renewed its loan agreement and according to the loan agreements the first repayment of loans or refinancing should take place in 2013. The weighted average interest margin for the total available facility is 0.82%.

It has to be noted that in the 4th quarter of 2011 the Company disclosed an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros, as per note 13 to the interim accounts.

Cash flow

During the twelve months of 2011, the Company generated 30.2 mln EUR of cash flows from operating activities, an increase of 5.4 mln EUR compared to the corresponding period in 2010. 2011 operating cash flows were above 2010 cash flows mainly due to the working capital movement and particularly related to the payments of overdue debts in 2011. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the twelve months of 2011 net cash outflows from investing activities were 8.4 mln EUR, which is 1.4 mln EUR less than in 2010. At the end of 4th quarter of 2011 the cash outflows related to the fixed asset investments were 18.5 mln EUR. Within the group the increased compensations received for the construction of pipelines is balancing the increase in capital expenditures. In 2011 the Company has also given the 3.2 mln EUR loan to Maardu according to the Operating agreement signed in 2008.

The cash outflows from financing activities were 20.3 mln EUR during the twelve months of 2011 compared to cash outflows of 20.5 mln EUR during the same twelve months of 2010, representing the payouts of the dividends and income tax in both years and loans received in 2010.

As a result of all of the above factors, the total cash inflow in the twelve months of 2011 was 1.5 mln EUR compared to a cash outflow of 5.5 mln EUR in the twelve months of 2010. Cash and cash equivalents stood at 14.8 mln EUR as at 31 December 2011 which is 1.5 mln EUR higher than at the corresponding period of 2010.

Employees

At the end of the 4th quarter of 2011, the total number of employees was 311 compared to 319 at the end of the 4th quarter of 2010. The full time equivalent (FTE) was respectively 299 in 2011 compared to the 305 in 2010. 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 December 2011, 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

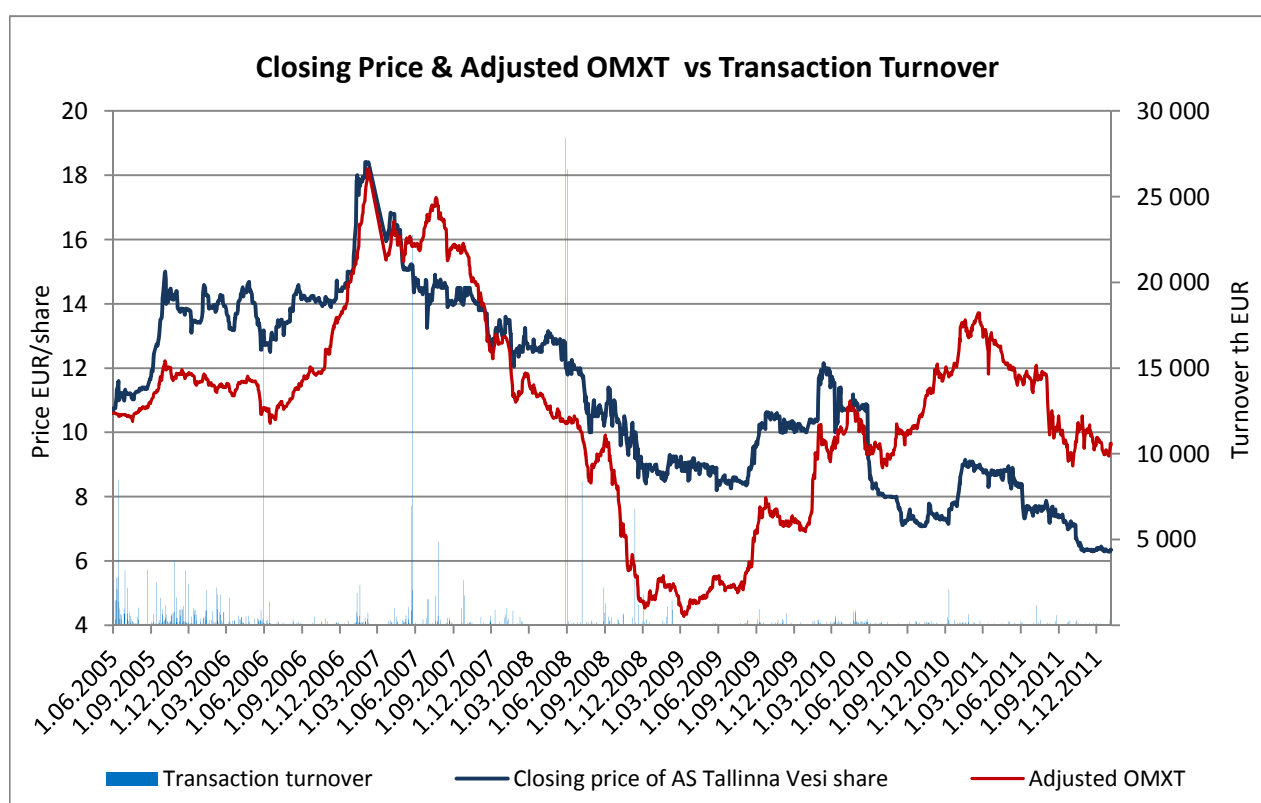
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31 December 2011 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 7.79% of the shares of the Company as per Company's best information as of 31 December 2011.

At the end of the quarter, 31 December 2011, the closing price of the AS Tallinna Vesi share was 6.29 EUR, which is a 12.64% decrease compared to the closing price of 7.20 EUR at the beginning of the quarter. During the same period the OMX Tallinn index dropped by 1.01%.



Operational highlights in 2011

- Company's overall operating performance is continuously good, most of the quality aspects exceeding the levels of 2010, increasing the customer service standards and operational efficiency. For example:

- The quality indicators for water quality have so far been on the highest level ever, from taken samples 99.66% were fully in accordance with the norms, outperforming considerably the required standard 95% at customers' taps.
 - Total number of sewage blockages has decreased by 18.1%.
 - Total time of interruptions has decreased by 37.9%.
 - The leakage level is below 18%, over 3% less than in 2010.
 - As a result of excellent nitrogen removal from the waste water we received the beneficial coefficient and reduction in the amount of pollution tax.
- The Company connected Maardu to the Tallinn water and sewerage network. It resolved the water quality and environmental risk issues for the City of Maardu, providing the most cost efficient and sustainable solution for provision of high quality water services.

Key contractual events

Contractual tariff application

Tariffs are still frozen on the 2010 level despite of the fact that on 9 November 2010 the Company submitted its contract based tariff application to the new regulator. 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 Competition Authority (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 unverified methodology that is not in accordance with the World Bank guidelines for privatized utilities. The Company has calculated that the average real return on invested capital from 2001 till 2011 has been 6.2% and the Company has also had these returns independently verified by the international economics consulting company, Oxera.

The Company and its investors cannot accept such unilateral breach of the privatization terms and contract by Estonian Authorities and the Company submitted an appeal to the court on 2 June 2011. 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 freedom of establishment and the free movement of capital (articles 49 and 63 TFEU).

As a consequence of this complaint, on 22 February 2011 the European Commission sent a Request For Information to the Estonian authorities regarding the points raised by AS Tallinna Vesi in its complaint. The Estonian authorities were due to respond in early May, however requested and were granted a 30 day extension. The Estonian authorities responded

to the Commission by the end of June. In October the Commission sent further questions to the Company for the commentaries. The process is ongoing.

Prescription to reduce the tariffs

On 10th October 2011 the Company received the prescription from the Competition Authority to lower the current tariffs by 29%. In addition and in support of its decision the Competition Authority has taken the extreme action of declaring the privatisation contract signed in 2001 to be illegal. To quote *“the CA, having familiarised itself with ASTV’s claim regarding privatisation, is of the opinion that in the part concerning the price of water services, conducting the privatisation with the alleged aim of achieving the lowest possible tariff increase was not in accordance with the law.”*

The Company wishes to make it absolutely clear to all its shareholders that it completely disagrees with the position taken by the CA, and will seek an interim injunction from the Estonian Courts to block this action within 30 days after receipt of the prescription. The Company believes that by declaring the privatisation illegal and using a Ministerial decree to attempt to force down ASTV’s tariffs the CA as an agency representing the Estonian state and national government has shown an absolute disregard for legal due process. Furthermore for the Company to have to defend itself in court for honouring all the terms and conditions of its contract, including most importantly the improved service obligations that were contractually required by the Government of the City of Tallinn in 2001, goes against all the internationally acceptable norms of business conduct and public governance in long term privatisation contracts.

Therefore the Company has lodged another claim against the CA regarding the prescription and has asked for the temporary injunction from the Estonian Administrative Court. The Court has postponed the decision regarding the temporary injunction until 6 February 2012. The outcome and lengths of the Court proceedings is outside the control of the Company.

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:

Siiri Lahe
Chief Financial Officer
+372 6262 262
siiri.lahe@tvesi.ee

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2011 ended 31 December 2011

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 12 months period of financial year 2011 ended 31 December 2011. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 December 2011 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 occurred during the 12 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.

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

All material subsequent events that occurred by the interim accounts preparation date of 26 January 2012 have been assessed as part of this review.


The company is carrying on its activities as a going concern.



Ian John Alexander Plenderleith

Chairman of the Management Board

Chief Executive Officer



Robert Thomas Yuille

Member of the Management Board

Chief Operating Officer



Siiri Lahe

Member of the Management Board

Chief Financial Officer

26 January 2012

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2011 ended 31 December 2011

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousand EUR)

		as of 31 December	
ASSETS	Note	2011	2010
CURRENT ASSETS			
Cash and equivalents	2	14 770	13 235
Customer receivables, accrued income and prepaid expenses		26 277	20 088
Inventories		248	306
Non-current assets held for sale		73	76
TOTAL CURRENT ASSETS		41 368	33 705
NON-CURRENT ASSETS			
Long-term investment assets		3 151	0
Property, plant and equipment	3	145 973	148 179
Intangible assets	3	1 577	1 972
TOTAL NON-CURRENT ASSETS		150 701	150 151
TOTAL ASSETS		192 069	183 856
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		0	7 624
Trade and other payables		5 789	6 367
Derivatives		1 552	963
Short-term provisions		0	117
Prepayments and deferred income		1 146	810
TOTAL CURRENT LIABILITIES		8 487	15 881
NON-CURRENT LIABILITIES			
Deferred income from connection fees		6 824	5 765
Borrowings		94 938	87 428
Derivatives		2 936	1 304
Other payables		9	115
TOTAL NON-CURRENT LIABILITIES		104 707	94 612
TOTAL LIABILITIES		113 194	110 493
EQUITY			
Share capital		12 000	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		40 863	34 569
TOTAL EQUITY		78 875	73 363
TOTAL LIABILITIES AND EQUITY		192 069	183 856

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

for the 12 months period of financial year 2011 ended 31 December 2011

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 4		for the year ended 31 December	
	Note	2011	2010	2011	2010
Revenue	4	13 079	12 465	51 240	49 680
Costs of goods sold	6	-5 895	-5 631	-20 927	-20 684
GROSS PROFIT		7 184	6 834	30 313	28 996
Marketing expenses	6	-190	-214	-748	-787
General administration expenses	6	-1 204	-1 017	-4 294	-3 651
Other income/ expenses (-)	7	2 254	1 490	3 619	2 906
OPERATING PROFIT		8 044	7 093	28 890	27 464
Financial income	8	910	387	1 947	1 060
Net financial expenses	8	-1 272	450	-5 071	-3 624
PROFIT BEFORE TAXES		7 682	7 930	25 766	24 900
Income tax on dividends	9	0	0	-4 253	-8 495
NET PROFIT FOR THE PERIOD		7 682	7 930	21 513	16 405
COMPREHENSIVE INCOME FOR THE PERIOD		7 682	7 930	21 513	16 405
Attributable profit to:					
Equity holders of A-shares		7 681	7 929	21 512	16 404
B-share holder		0,64	0,64	0,64	0,64
Earnings per A share (in euros)	10	0,38	0,40	1,08	0,82
Earnings per B share (in euros)	10	639	639	639	639

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2011 ended 31 December 2011

CONSOLIDATED CASH FLOW STATEMENTS

(thousand EUR)

		for the year ended 31 December	
	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		28 890	27 464
Adjustment for depreciation/amortisation	6	5 729	5 620
Adjustment for profit from government grants and connection fees		-3 484	-3 312
Other finance income/expenses(-)	8	35	-14
Profit/loss(+) from sale of property, plant and equipment, and intangible assets		55	-3
Expensed property, plant and equipment		10	70
Change in current assets involved in operating activities		720	-8 894
Change in liabilities involved in operating activities		1 306	6 297
Interest paid		-3 051	-2 443
Total cash flow from operating activities		30 210	24 785
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans granted		-3 151	0
Acquisition of property, plant and equipment, and intangible assets		-18 506	-17 055
Compensations received for construction of pipelines		11 284	6 139
Proceeds from sale of property, plant and equipment, and intangible assets		13	16
Interest received		1 939	1 109
Total cash flow used in investing activities		-8 421	-9 791
CASH FLOWS FROM FINANCING ACTIVITIES			
Received loans		0	20 000
Dividends paid	9	-16 001	-31 956
Income tax on dividends	9	-4 253	-8 495
Total cash flow used in financing activities		-20 254	-20 451
Change in cash and cash equivalents		1 535	-5 457
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		13 235	18 692
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	14 770	13 235

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

AS TALLINNA VESI**Consolidated Unaudited Interim Condensed Financial Statement**

for the 12 months period of financial year 2011 ended 31 December 2011

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2009	12 782	24 734	1 278	50 120	88 914
Dividends	0	0	0	-31 956	-31 956
Net profit of the financial year	0	0	0	16 405	16 405
as of 31 December 2010	12 782	24 734	1 278	34 569	73 363
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
Net profit of the financial period	0	0	0	21 513	21 513
as of 31 December 2011	12 000	24 734	1 278	40 863	78 875

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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

for the 12 months period of financial year 2011 ended 31 December 2011

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (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.

On the 1st January 2011 Estonia joined the Eurozone and Estonian kroon (EEK) was replaced by euro (EUR). As a result of that, since that day the Group converted its accounting into euros and the financial statements of 2011 and further years is compiled in euros. Comparative data is converted by an official exchange rate for transition of 15.6466 EEK/EUR.

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2011	2010
Cash in hand and in bank	1 456	651
Short-term deposits	13 314	12 584
Total cash and cash equivalents	14 770	13 235

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement
for the 12 months period of financial year 2011 ended 31 December 2011

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

(thousand EUR)

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

	Property, plant and equipment				Assets in progress			Intangible assets			Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	
as of 31 December 2009											
Acquisition cost	23 913	150 807	38 419	1 179	2 469	3 885	92	95	889	4 752	226 500
Accumulated depreciation	-4 566	-47 723	-24 774	-737	0	0	0	0	-612	-2 547	-80 959
Book value	19 347	103 084	13 645	442	2 469	3 885	92	95	277	2 205	145 541
Transactions in the period 01.01.2010 - 31.12.2010											
Acquisition in book value	0	0	0	0	6 738	10 734	0	62	0	0	17 534
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-4	-9	0	0	0	0	0	0	-15
Compensated by government grants	0	0	0	0	0	-7 080	0	0	0	0	-7 080
Reclassification	155	4 928	1 890	54	-7 058	-77	-25	-38	4	32	-135
Depreciation	-272	-2 593	-2 081	-82	0	0	0	0	-180	-486	-5 694
Total transactions in the period 01.01.2010 - 31.12.2010	-119	2 335	-195	-37	-320	3 577	-25	24	-176	-454	4 610
as of 31 December 2010											
Acquisition cost	24 067	155 727	39 570	1 157	2 148	7 462	68	119	714	4 518	235 550
Accumulated depreciation	-4 838	-50 307	-26 120	-755	0	0	0	0	-612	-2 767	-85 399
Book value	19 229	105 420	13 450	402	2 148	7 462	68	119	102	1 751	150 151
Transactions in the period 01.01.2011 - 31.12.2011											
Acquisition in book value	0	0	0	0	5 178	11 126	0	234	0	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	0	0	-66
Compensated by government grants	0	0	0	0	0	-13 349	0	0	0	0	-13 349
Reclassification	182	6 412	1 553	43	-4 530	-3 562	-15	-131	82	49	83
Depreciation	-273	-2 646	-2 181	-78	0	0	0	0	-70	-559	-5 807
Total transactions in the period 01.01.2011 - 31.12.2011	-92	3 766	-693	-35	648	-5 785	-15	103	12	-510	-2 601
as of 31 December 2011											
Acquisition cost	24 247	162 106	40 594	1 175	2 796	1 677	53	222	714	4 649	238 233
Accumulated depreciation	-5 110	-52 920	-27 837	-808	0	0	0	0	-600	-3 408	-90 683
Book value	19 137	109 186	12 757	367	2 796	1 677	53	222	114	1 241	147 550

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 December 2011 there were no finance lease contracts. As of 31 December 2010 the net balance sheet value of finance leases was 257 thousand euros.

Consolidated Unaudited Interim Condensed Financial Statement
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NOTE 4. REVENUE

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 4		for the year ended 31 December	
	2011	2010	2011	2010
Salaries and wages	-1 298	-1 318	-4 801	-4 340
Social security and unemployment insurance taxation	-433	-439	-1 602	-1 445
Staff costs total	-1 731	-1 757	-6 403	-5 785

311 319

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

for the 12 months period of financial year 2011 ended 31 December 2011

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EUR)**NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES**

	Quarter 4		for the year ended 31 December	
Cost of goods sold	2011	2010	2011	2010
Tax on special use of water	-219	-208	-897	-847
Chemicals	-432	-374	-1 433	-1 433
Electricity	-818	-729	-2 972	-2 704
Pollution tax	-665	-741	-1 409	-2 290
Staff costs	-1 131	-1 182	-4 390	-4 030
Development	0	-8	-8	-8
Depreciation and amortization	-1 364	-1 270	-5 182	-5 092
Other costs of goods sold	-1 266	-1 119	-4 636	-4 280
Total cost of goods sold	-5 895	-5 631	-20 927	-20 684
Marketing expenses				
Staff costs	-97	-96	-349	-320
Depreciation and amortization	-81	-83	-325	-334
Other marketing expenses	-12	-35	-74	-133
Total cost of marketing expenses	-190	-214	-748	-787
General administration expenses				
Staff costs	-503	-479	-1 664	-1 435
Depreciation and amortization	-48	-52	-222	-194
Other general administration expenses	-653	-486	-2 408	-2 022
Total cost of general administration expenses	-1 204	-1 017	-4 294	-3 651

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 4		for the year ended 31 December	
	2011	2010	2011	2010
Profit from government grant	2 354	1 721	3 479	3 310
Other income / expenses (-)	-100	-231	140	-404
Total other income / expenses	2 254	1 490	3 619	2 906

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (thousand EUR)**NOTE 8. FINANCIAL INCOME AND EXPENSES**

	Quarter 4		for the year ended 31 December	
	2011	2010	2011	2010
Interest income, incl swap interests	910	387	1 947	1 060
Interest expense, incl swap interests	-625	-670	-2 885	-2 372
Swap fair value	-666	1 107	-2 221	-1 238
Other financial expenses	19	13	35	-14
Total financial income / expenses	-362	837	-3 124	-2 564

NOTE 9. DIVIDENDS

	for the year ended 31 December	
	2011	2010
Dividends declared during the period	16 001	31 956
Dividends paid during the period	16 001	31 956
Income tax on dividends paid	-4 253	-8 495
Income tax accounted for	-4 253	-8 495
<i>Paid-up dividends per shares:</i>		
Dividends per A-share (in euros)	0,80	1,60
Dividends per B-share (in euros)	639	639

The income tax rates were 21/79 in 2011 and 2010.

NOTE 10. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2011	2010	2011	2010
Net profit minus B-share preference rights	7 681	7 929	21 512	16 404
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
Earnings per A share (in euros)	0,38	0,40	1,08	0,82
Earnings per B share (in euros)	639	639	639	639

Diluted earnings per share for the periods ended 31 December 2011 and 2010 do not vary significantly from the earnings per share figures stated above.

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT (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 December****Balances recorded in working capital on the statement of financial position of the Group**

	2011	2010
Accounts receivable	4 977	7 194
Accrued income	15 310	7 256
Accounts payable - short-term trade and other payables	194	200

	Quarter 4		for the year ended 31 December	
	2011	2010	2011	2010
Transactions with the related parties				
Sales services	908	792	3 535	3 440
Compensation receivable from the local governments for constructing new pipelines	12 239	7 073	16 750	10 390
Purchase of administrative and consulting services	274	231	1 001	1 032
Financial income	787	345	1 624	732
Management Board fees excluding social tax	58	76	246	199
Supervisory Board fees excluding social tax	9	10	39	38

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the board members have also received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees.

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members

As at report generation date Siiri Lahe owned 700 AS Tallinna Vesi shares.

AS TALLINNA VESI

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NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Leslie Anthony Bell	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

AS TALLINNA VESI

Consolidated Unaudited Interim Condensed Financial Statement

for the 12 months period of financial year 2011 ended 31 December 2011

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

NOTE 13. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

On 10th October 2011 the Estonian Competition Authority (CA) issued an 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 without any evidence to support its view that privatization contract should not be honoured. The length of the court process and the decision are not within the Company's control.

The management has evaluated the potential claims against the Company if the Court ruling would support the CA's position. As result of this, it is possible that the Company could suffer an outflow of economic benefits of up to 36 mln euros within 10 years of the final judgement of the courts.