AS Tallinna Vesi

Results of operations – for the 4th quarter of 2013

Currency	Thousand euros
Start of reporting period	1 January 2013
End of reporting period	31 December 2013
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

Contractual Highlights

- AS Tallinna Vesi tariffs continue to be on the same level based on temporary injunction granted by the Court for the period of court proceedings to protect the Company from the unilateral breach of privatization agreement by Estonian Authorities. At the end of May 2012 the District Court ruled that AS Tallinna Vesi's Services Agreement, that was part of the international privatisation, is a public law contract, overturning the Competition Authority's claim that the tariff mechanism specified in the Services Agreement is allegedly a civil law agreement that the company cannot rely on in an administrative court. AS Tallinna Vesi firmly believes that the terms and conditions of the international privatisation contract that has been deemed a public law contract should not be broken simply by transferring the duties of the regulator from one state institution (the City of Tallinn) to a different state institution (the Competition Authority). A public law contract should enjoy the protection of the Estonian legal system, should the contract not be honoured, then the company will have a claim against the Estonian state.

- AS Tallinna Vesi would like all its shareholders to be fully aware of the facts that the Company was privatised in 2001 with the full support and knowledge of the Estonian national government, with written confirmations from the Prime Minister, the Minister of Finance, and the Competition Authority itself regarding the key terms of the agreements, and utilising the expertise and guidance of the European Bank for Reconstruction and Development (EBRD). In addition to approving the framework of the privatisation the State of Estonia directly benefited as the sovereign guarantee it had been required to provide to EBRD to secure the then municipal AS Tallinna Vesi's loans was passed to the Strategic Investor on privatisation. As this privatisation and these loans were EBRD sponsored projects, then the state of Estonia was required to object if the project did not comply with the PWSSA (Public Water Supply and Sewerage Act), it is noteworthy that it did not, in fact it voted in favour of both the privatisation and loan re-financing.

- During the 1st quarter of 2013 initial court proceedings commenced. Currently the date of the next court hearing is not set. AS Tallinna Vesi believes in open and transparent regulation and requested open court proceedings. On the other hand, the Competition Authority believes its methodology to be a "business secret" hence it requested closed court proceedings. On 20th of March 2013 the Administrative Court rules that the court proceedings would be partially closed, meaning that there could be no public discussion of the Competition Authority's methodology, whilst all other aspects of the hearing will be held in open proceedings, i.e. all information can be made available to the public.

- Discussion of the complaint submitted to the EU Commission is on-going.

- Average real return on capital invested at privatization is 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.

Financial highlights of 4th quarter 2013

In the 4th quarter of 2013 the Company continued focusing on the improvement of customer service and efficiency of operational performance.

During the 4th quarter 2013 the sales have been flat compared to the same period in 2012, increasing 0.5% to 13.78 mln euros.

The gross profit in 4th quarter has been relatively stable decreasing 1.1% or 0.09 mln euros mainly due to slightly increased repair and maintenance works carried out in 4th quarter of 2013.

Increased legal and consultation fees that are mostly related to the tariff dispute has had the main impact on the increase in administration expenses of 19.8% or 0.24 mln euros and hence the decrease in the operating profit from main business by 3.6% or 0.25 mln euros.

The decline in operating profit for the 4th quarter in 2013 of 23.6% or 2.02 mln euros to 6.55 mln euros compared to the same period in 2012 was mostly affected by the fact that the extension program of water and wastewater network was finished in 2012 and in 2013 there was no profit for the compensation for pipes (in 2012 the revenues from government grants amounted to 1.77 mln euros).

mln €	**4 Q 2011**	**4 Q 2012**	**4 Q 2013**	**Change 13/12**	**12 months 2011**	**12 months 2012**	**12 months 2013**	**Change 13/12**
Sales	13,1	13,7	13,8	0,5%	51,2	52,9	53,1	0,3%
Gross profit	7,2	8,4	8,3	-1,1%	30,3	32,6	30,6	-6,2%
Gross profit margin %	54,9	61,2	60,2	-1,6%	59,2	61,6	57,6	-6,4%
Operating profit	8,0	8,6	6,6	-23,6%	28,9	28,8	24,8	-14,0%
Operating profit - main business	5,7	6,8	6,6	-3,6%	25,4	26,7	24,8	-7,4%
Operating profit margin %	61,5	62,5	47,5	-24,0%	56,4	54,4	46,6	-14,2%
Profit before taxes	7,7	8,7	6,2	-28,5%	25,8	27,1	24,6	-9,3%
Net profit	7,7	8,7	6,2	-28,5%	21,5	22,6	19,9	-11,8%
Net profit margin %	58,7	63,2	44,9	-28,9%	42,0	42,7	37,6	-12,1%
ROA %	4,0	4,3	3,1	-29,2%	11,2	11,3	9,8	-12,7%
Debt to total capital employed	58,9	57,8	57,0	-1,4%	58,9	57,8	57,0	-1,4%
ROE %	9,7	10,2	7,1	-30,6%	27,3	26,7	22,9	-14,3%
Current ratio	4,1	4,3	5,1	18,9%	4,1	4,3	5,1	18,9%

Gross profit margin – Gross profit / Net sales
Operating profit margin – Operating profit / Net sales
Net Profit margin – Net Profit / Net sales
ROA – Net profit /average Total Assets for the period
Debt to Total capital employed – Total Liabilities / Total capital employed
ROE – Net profit / Total equity
Current ratio – Current assets / Current liabilities
Main business – water and wastewater activities, excl. connections profit and government grants

RESULTS OF OPERATIONS - FOR THE 4th QUARTER 2013

Profit and Loss Statement

4th quarter 2013

Sales

As the company’s tariffs are frozen at the 2010 tariff level, the changes in the revenues from main activities ie from sales of water and wastewater services is fully driven by consumption.

In the 4th quarter of 2013 the Company’s total sales increased, year on year, by 0.5% to 13.78 mln euros. 87.9% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 6.2% of sales from fees received from the City of Tallinn for operating and maintaining the storm water system and 5.9% from other works and services.

Sales of water and wastewater services were 12.11 mln euros, a 2.1% decrease compared to the 4th quarter of 2012, resulting from the changes in sales volumes as described below.

Within the service area, sales to residential customers were at 6.03 mln euros, showing a 0.2% increase year on year, as revenues from apartment blocks form the biggest share of our residential sales, the biggest increase came also from this client group. Sales to commercial customers decreased by 0.5% to 4.78 mln euros, mainly coming from the sales in industrial sector. Sales to customers outside of the main service area decreased by 9.2% to 1.16 mln euros in the 4th quarter of 2013. It was mostly affected by storm water as sales of water and wastewater increased slightly by 5.4% or 0.05 mln euros. Over pollution fees received were 0.15 mln euros, a 46.9% decrease compared to the 4th quarter of 2012.

	Quarter 4			Variance 13/12	
Revenues from main operating activities	**2013**	**2012**	**2011**	**€**	**%**
Private clients, incl:	6 026	6 016	6 019	10	0,2%
Water supply service	3 329	3 320	3 319	9	0,3%
Wastewater disposal service	2 697	2 696	2 700	1	0,0%
Corporate clients, incl:	4 776	4 802	4 574	-26	-0,5%
Water supply service	2 640	2 613	2 463	27	1,0%
Wastewater disposal service	2 136	2 189	2 111	-53	-2,4%
Outside service area clients, incl:	1 163	1 282	1 096	-119	-9,3%
Water supply service	294	264	253	30	11,4%
Wastewater disposal service	721	699	689	22	3,1%
Storm water disposal service	148	319	154	-171	-53,6%
Over pollution fee	146	274	164	-128	-46,7%
Storm water treatment and disposal service	853	927	840	-74	-8,0%
Fire hydrants service	127	56	77	71	126,8%
Construction service and design	437	161	101	276	171,4%
Other works and services	250	191	208	59	30,9%

Outside service area sales volumes were 0.56 mln m^3 or 24.7% lower than in the 4th quarter of 2012. As already mentioned before the main factor in this decrease was a reduction in storm water volumes influenced by lower rainfall.

The sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area decreased by 0.2% to 0.98 mln euros in the 4th quarter of 2013 compared to the same period in 2012. According to the terms and conditions of the contract revenues reflect actual volumes treated and costs for treating the storm water, therefore this cost pass through has no impact on profits.

The sales of construction activities and design services have increased by 171.4% to 0.44 mln euros in the 4th quarter of 2013 compared to 4th quarter in 2012, partly due to mild winter of 2013 allowing construction works.

Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 5.48 mln euros in the 4th quarter of 2013, showing 0.16 mln euros or 3.0% increase compared to the equivalent period in 2012. The cost increase is highly influenced by the additional construction works and extra emergency and repair works carried out in the 4th quarter of 2013.

Cost of goods sold	Quarter 4			Variance 13/12	
	2013	2012	2011	€	%
Water abstraction charges	-257	-236	-219	-21	8,9%
Chemicals	-424	-419	-432	-5	1,2%
Electricity	-826	-964	-818	138	-14,3%
Pollution tax	-58	-180	-665	122	-67,8%
Staff costs	-1 202	-1 256	-1 131	54	-4,3%
Depreciation and amortization	-1 266	-1 302	-1 364	36	-2,8%
Construction service and design	-357	-91	-103	-266	292,3%
Other costs of goods sold	-1 094	-877	-1 163	-217	24,7%
Total cost of goods sold	**-5 484**	**-5 325**	**-5 895**	**-159**	**3,0%**

Total production costs (water abstraction charges, chemicals, electricity and pollution taxes) decreased by 0.23 mln euros or 13.0% year on year. Biggest decreases come from the decrease in pollution tax and electricity. Other changes came from a combination of increase in prices and tax rates and movements in treatment volumes that affected the costs of goods sold together with the following additional factors:

- Water abstraction charges increased only by 0.02 mln euros or 8.8% to 0.26 mln euros in the 4th quarter of 2013, driven mainly by 5% raise in tax rates and raw water volumes.
- Total chemical costs remained broadly flat, increasing 1.2% to 0.42 mln euros. Costs increase was mainly the result of an increase in chemicals price, which was balanced by decrease in volumes used due to less sewage treated.
- Electricity costs decreased by 0.14 mln euros or 14.3% in the 4th quarter of 2013 compared to the 4th quarter of 2012. Lower electricity costs are mostly derived from the decrease in treatment volumes and used unit costs, worth 0.15 mln euros. Positive effects are reduced slightly by increased electricity price worth 0.01 mln euros.
- In the 4th quarter of 2013 the pollution tax expense decreased by 0.12 mln euros or 67.8%. There was an incident in the wastewater treatment plant in the beginning of the year. In the 4th quarter the Company was paid an insurance compensation worth 0.15 mln euros. Eliminating the effects of the insurance compensation the pollution tax would have increased by 0.03 mln euros or 15.5%. The pollution tax increase due to the increase in pollutants concentration (worth 0.04 mln euros) and overall increase in tax rates by 15% (worth 0.03 mln euros) was balanced by the decrease in volumes (worth 0.04 mln euros).

Other cost of goods sold (staff costs, depreciation, construction services and other cost of goods sold) in the main operating activity increased by 0.39 mln euros or 11.1%. 67.7% or 0.27 mln euros of the increase in fixed costs is related to construction services and design, which relates to increased revenues from pipeline construction as mentioned above, the profit from construction and design in the 4th quarter was 0,08 mln euros compared to 0.07 mln euros in the comparative period in 2012. The remaining increase is related to higher repair and maintenance carried out in the 4th quarter of 2013.

As a result of all of the above the Company’s gross profit for the 4th quarter of 2013 was 8.29 mln euros, which is a decrease of 0.09 mln euros, or 1.1%, compared to the gross profit of 8.38 mln euros for the 4th quarter of 2012.

Other Operating Costs

General administration expenses increased in total 0.24 mln euros or 19.8%, mainly because of higher consultation and legal fees, balanced by salary decrease and also changes in the management board.

Operating profit

As a result of above factors the Company's operating profit from main services for the 4th quarter of 2013 totalled 6.55 mln euros compared to 6.80 mln euros in the corresponding quarter in 2012, which shows a decrease of 0.25 mln euros or 3.6%. Total operating profit for the 4th quarter of 2013 decreased 2.02 mln euros. Year on year the operating profit for the 4th quarter has decreased by 23.6%.

Other net income/expenses

Other net income decreased to a net expenses of 0.15 mln euros, compared to 1.59 mln euros net revenues in the 4th quarter of 2012. The decline in government grants revenues was the main contributor to Other net income decrease in the 4th quarter of 2013.

Financial expenses

The company's net financial expenses amounted to 0.36 mln euros in the 4th quarter of 2013, which is a negative change of 0.45 mln euros compared to 0.09 mln euros financial income in the 4th quarter of 2012.

Main influence being decrease in interest income by 0.44 mln euros or 81.9% caused by the decrease in the interest bearing receivables. Financial expenses have been flat compared to 4th quarter of 2012.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk, the interest swap agreements are signed for 75 mln euros and 20 mln euros are still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling 2.32 mln euros. Effective interest rate (incl. swap interests) in the 4th quarter of 2013 was 3.18%, amounting in the interest costs of 0.77 mln euros, compared to the effective interest rate of 3.30% and the interest costs of 0.80 mln euros into the 4th quarter of 2012.

Profit Before and After Tax

The Company's profit before taxes for the 4th quarter of 2013 was 6.19 mln euros, which is 2.47 mln euros lower than the profit before taxes of 8.66 mln euros for the 4th quarter of 2012, resulting mainly from the decreased government grant revenues and increased professional fees as described above.

As the dividends were paid out in June 2013 and 2012 there is no income tax in the 4th quarter and the Company's profit after taxes equals to the profit before taxes amount.

Results for the twelve months of 2013

During the twelve months of 2013 the Company's total sales have been relatively stable increasing, year on year, by 0.3% to 53.09 mln euros. Sales of water and wastewater treatment were 47.74 mln euros, a 0.4% increase compared to the twelve months of 2012.

There has been a slight 0.15 mln euros or 0.6% decline in the sales to residential customers and 0.29 mln euros or 1.5% of increase in the sales to the commercial clients. The sales revenues from outside service area clients for water and wastewater services has also been relatively stable showing an increase of 0.11 mln euros or 3.0% compared to 12 months in 2012.

Due to less rainfall, the revenues from storm water treatment in the twelve months of 2013 remained 0.58 mln euros or 15.5% behind the comparative period in 2012 in the main service area.

The operating profit from the Company's main business activity decreased by 7.4% to 24.75 mln euros during the twelve months of 2013 compared to the twelve months of 2012. As revenues have been relatively flat, increasing only 0.3% or 0.16 mln euros, then the main reason for a decline comes from the rise in pollution tax expenses (1.53 mln euros year on year), further influenced by the drop in government grant profits (1.77

mln euros year on year). Pollution tax increase is influenced by two factors: first the pollution tax expenses in 2012 were impacted by the reversal of provision in the amount of 0.44 mln euros made in 2011 and also by the incidents at the wastewater treatment plant in the first part of the year.

Net financial expenses decreased by 1.51 mln euros or 88.5%. Interest income has decreased due to the decrease in interest bearing receivables.

Interest expenses have mostly been affected by the non-monetary impact of the change in the fair value of the swap contracts the Company has entered. The positive non-monetary impact for 2013 expenses is 2.26 mln euros (2012: negative impact 0.09 mln euros).

The Company's profit before taxes for the twelve months of 2013 was 24.56 mln euros, which is a 9.3% decrease compared to the relevant period in 2012. Decrease in operating profit was partly compensated by the change in fair value of swap contracts (2.34 mln euros).

The Company's net profit for the twelve months of 2013 was 19.94 mln euros, which is 2.47 mln euros lower than the net profit of 22.60 mln euros in the equivalent period in 2012.

Balance sheet

In the twelve months of 2013 the Company invested 8.65 mln euros into fixed assets. As of 31 December 2013 non-current fixed assets amounted to 152.25 mln euros and total non-current assets amounted to 155.50 mln euros. (2012: 149.40 mln euros and 158.11 mln euros respectively).

The reduction in long-term receivables compared to year end by 5.35 mln euros to 2.21 mln euros is mainly related to the repayment of AS Maardu Vesi's loan to the Company in May in the amount of 3.81 mln euros. Remaining movement is related to reclassification of long term receivable to short term.

The increase of current assets in the amount if 4.61 mln euros is mainly related to collection of receivables and AS Maardu Vesi loan.

Current liabilities have increased by 1.32 mln euros to 11.21 mln euros in the twelve months. The increase is related to the fact that in November 2014, there is scheduled the first repayment of NIB loan in the amount of 2 mln euros. Other movements are related to decreased payments to suppliers in the amount of 0.72 mln euros and change in derivatives by 0.22 mln euros, balanced by the increase in Customer prepayments in the amount of 0.24 mln euros.

The Company has a Total debt/Total assets level as expected of 57.0%, in range of 55%-65%, reflecting the year end equity profile. This level is consistent with the same period in 2012 when the total debt/total assets ratio was 57.8%.

The company's loan balance has remained stable at 95 mln euros, of which long term loan amounts to 93 mln euros and short term 2 million euros. The weighted average interest margin for the total loan facility is 0.96%.

Biggest share of the rest of the long term liabilities is deferred income from connection fees amounting to 10.14 mln euros (2012: 7.89 mln euros).

In the 4th quarter of 2011 the Company recorded and noted an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros. In the 3rd quarter of 2013 the Company re-evaluated the liability, which now stands at 34.0 mln euros, as per note 13 to the accounts.

Cash flow

As of 31 December 2013 the cash position of the Company is strong. The cash flows of the Company has continued to be rather stable, during twelve months of 2013 cash balance has increased by 7.85 mln euros (2012: 9.16 mln euros). At the end of 2013 the cash balance of the Company stood at 31.8 mln euros, which is 15.7% of the total assets (2012: 23.9 mln, which is 11.9% of the total assets).

The biggest contributor to the cash flows comes from main operations. During the twelve months of 2013, the Company generated 29.78 mln euros of cash flows from operating activities, a decrease of 1.92 mln euros compared to the corresponding period in 2012.

2013 operating cash flows were below 2012 cash flows mainly due to lower operating profit and also from a change in profits from government grants. Underlying operating profit still continues to be the main contributor to operating cash flows.

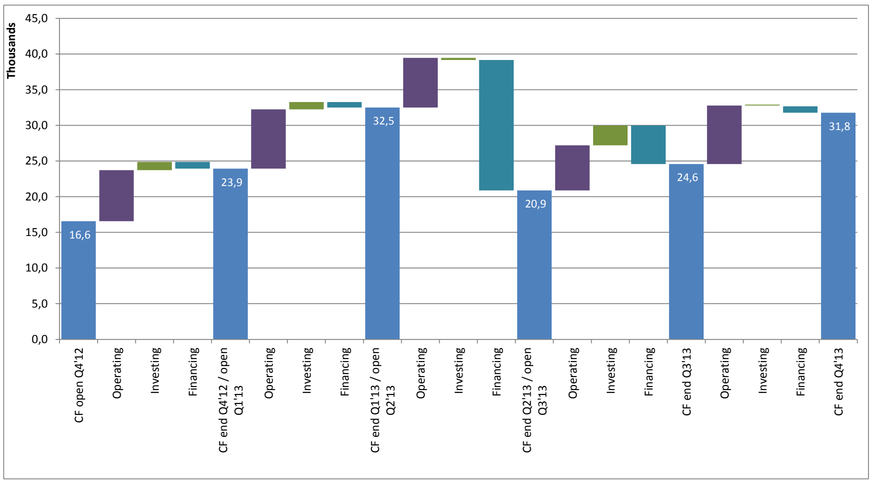
The Company's cash flows from investing activities have also been positive for past two years. In the twelve months of 2013 net cash flows from investing activities resulted in a cash inflow of 3.37 mln euros, an increase of 1.33 mln euros compared to an inflow of 2.05 mln euros in the twelve months of 2012. This is made up as follows:

In 2013 AS Maardu Vesi repaid their loan in full in the amount of 3.81 mln euros. In 2013 the Company did not grant any additional loans (in 2012: 0.77 mln euros was granted to AS Maardu Vesi).

In the twelve months of 2013 the investments in fixed assets had decreased 0.82 mln euros compared to 2012 amounting to 9.19 mln euros.

The compensations received for the construction of pipelines were 7.89 mln euros in the twelve months of 2013, a decrease of 3.31 mln euros compared to same period in 2012.

In the twelve months of 2013, cash outflow from financing amounted to 25.32 mln euros, which is 0.72 mln euros more than in the same period of 2012, almost entirely due to higher dividends.



Employees

At the end of the 4th quarter of 2013, the total number of employees was 304 compared to 313 at the end of the 4th quarter of 2012. The full time equivalent (FTE) was respectively 292 in 2013 compared to the 301 in 2012. 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.

Dividends

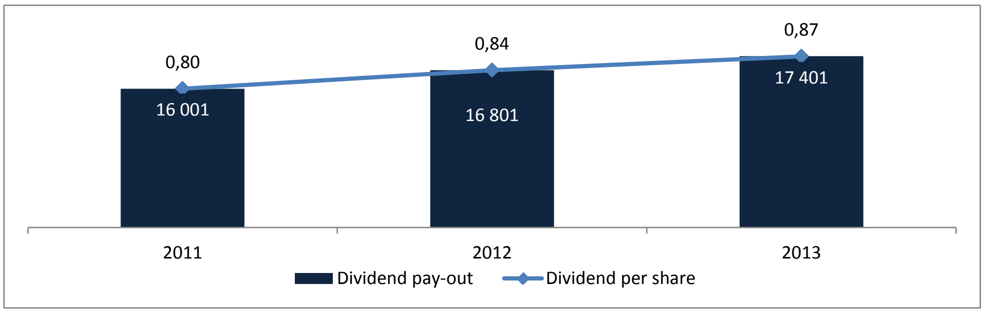
Dividend allocation to the shareholders is recorded as the liability in the financial statement of the Company at the time when the profit allocation and dividend payment is confirmed by the annual general meeting of shareholders.

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

On the annual general meeting of shareholders held on 21st May 2013, 87 cents dividends per share and the total dividend pay-out from the profit of 2012 net income in the amount of 17.4 mln euros was approved. It is in accordance with the Company's dividend policy. Compared to 2012 dividends of 84 cents per share, the increase is equal to the inflation.

Dividends were paid out on 13th and 14th of June 2013.

Dividend pay-outs in last three years have been as follows:



Share performance

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

As of 31 December 2013 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

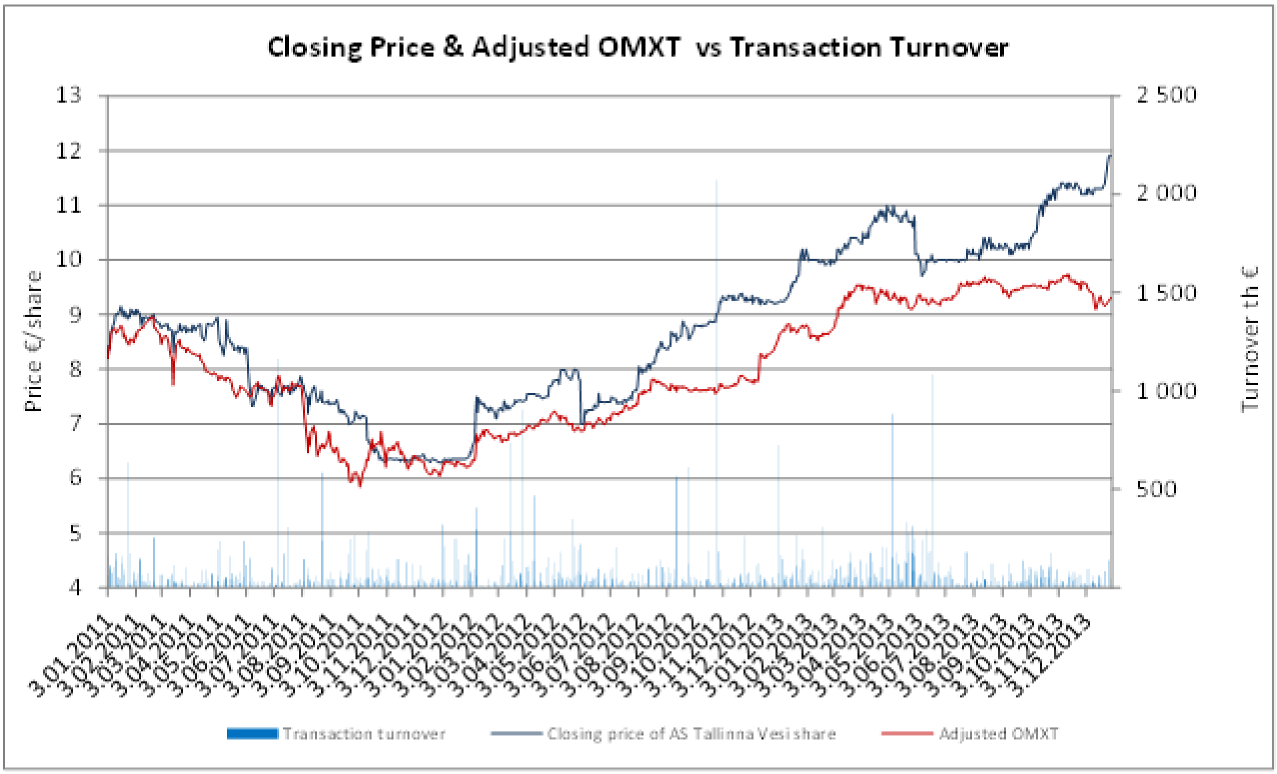
Pension funds have continued to increase their portfolios during the 4th quarter of 2013, owning 2.56% of the total shares compared to 1.57% at the end of 1st quarter 2012.

As of 31 December 2013, the closing price of the AS Tallinna Vesi share was 11.90 euros, which is a 15.5% increase compared to the closing price of 10.30 euros at the beginning of the quarter. During the same period the OMX Tallinn index decreased by 2.3%.

In 12 months in 2013 the share price has increased 29.3%. (in 2012: 46.3%), whilst the OMX Tallinn index increased by 11.4% (2012: 38.2%).

In 2013 5 469 deals with the Company's shares were concluded (2012: 4 427 deals) during which 1 853 thousand shares or 9.3% exchanged their owners (2012: 2 376 thousand shares or 11.9%).

The turnover of the transactions was 552 thousand euros higher than in 2012 amounting to 19 139 thousand euros. The share price has shown an increase despite of the on-going contractual debate.



Corporate structure

At the end of the quarter, 31 December 2013, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Corporate Governance

Supervisory Council

Supervisory Council plans and organises the management of the Company and supervises the activities of the Management Board. According to AS Tallinna Vesi articles of association Supervisory Council consists of 9 members who are appointed for two years.

In the annual general meeting that was held on 21st May 2013 the independent member Valdur Laid was recalled from the Supervisory Council and new independent member Allar Jõks was appointed.

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

More information about the Supervisory Council and committees can be found in the note 12 to the financial statements as well as from the Company's webpage:
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Audit-Committee
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Corporate-Governance-Report

Management Board

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

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

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

Starting from 1st June 2013 there are 4 members of the Management Board of AS Tallinna Vesi: Ian Plenderleith (Chairman of the Board), Ilona Nurmela, Aleksandr Timofejev and Riina Käi.

Additional information about the members of the Management Board can be found from the Company's website:
http://tallinnavesi.ee/en/Investor/Corporate-Governance/Management-Board

Future actions & risks

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). The process is on-going.

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.

In opposite to the Company the CA has requested the Court procedures to be closed. Based on misleading information submitted by the CA the Court approved the CA's request. ASTV has reapplied for open proceedings.

Still, at this point in time the Company is unable to say what is going to happen to the tariffs before Court judgments and what would be the next steps by the European Commission. The outcome and lengths of the Court proceedings is outside the control of the Company.

Additional information:
Ian John Alexander Plenderleith
Chairman of the Management Board
+372 6262 201
ian.plenderleith@tvesi.ee

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 12 months period of financial year 2013 ended 31 December 2013. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 December 2013 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim report gives a true and fair view of the main events that occurred during the 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.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 23 January 2014 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

Aleksandr Timofejev
Member of the Management Board
Asset Operations Director

Riina Käi
Member of the Management Board
Chief Financial Officer

Ilona Nurmela
Member of the Management Board
General Counsel

23 January 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

		as of 31 December	
ASSETS	**Note**	**2013**	**2012**
CURRENT ASSETS			
Cash and cash equivalents	2	31 786	23 935
Trade receivables, accrued income and prepaid expenses		15 010	18 323
Inventories		429	356
TOTAL CURRENT ASSETS		**47 225**	**42 614**
NON-CURRENT ASSETS			
Other long-term receivables		2 213	7 560
Property, plant and equipment	3	152 246	149 400
Intangible assets	3	1 037	1 154
TOTAL NON-CURRENT ASSETS		**155 496**	**158 114**
TOTAL ASSETS		**202 721**	**200 728**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		2 146	115
Trade and other payables		4 761	5 482
Derivatives		1 816	2 039
Prepayments		2 490	2 252
TOTAL CURRENT LIABILITIES		**11 213**	**9 888**
NON-CURRENT LIABILITIES			
Deferred income from connection fees		10 143	7 892
Borrowings		93 618	95 717
Derivatives		507	2 538
Other payables		32	20
TOTAL NON-CURRENT LIABILITIES		**104 300**	**106 167**
TOTAL LIABILITIES		**115 513**	**116 055**
EQUITY			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		49 196	46 661
TOTAL EQUITY		**87 208**	**84 673**
TOTAL LIABILITIES AND EQUITY		**202 721**	**200 728**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 4		for the year ended 31 December	
	Note	**2013**	**2012**	**2013**	**2012**
Revenue	4	13 778	13 709	53 087	52 924
Costs of goods sold	6	-5 484	-5 325	-22 505	-20 337
GROSS PROFIT		**8 294**	**8 384**	**30 582**	**32 587**
Marketing expenses	6	-152	-196	-690	-772
General administration expenses	6	-1 440	-1 202	-5 060	-4 740
Other income (+)/ expenses (-)	7	-151	1 586	-75	1 696
OPERATING PROFIT		**6 551**	**8 572**	**24 757**	**28 771**
Financial income	8	98	542	681	1 591
Financial expenses	8	-456	-451	-877	-3 297
PROFIT BEFORE TAXES		**6 193**	**8 663**	**24 561**	**27 065**
Income tax on dividends	9	0	0	-4 625	-4 466
NET PROFIT FOR THE PERIOD		**6 193**	**8 663**	**19 936**	**22 599**
COMPREHENSIVE INCOME FOR THE PERIOD		**6 193**	**8 663**	**19 936**	**22 599**
Attributable profit to:					
Equity holders of A-shares		6 192	8 662	19 935	22 598
B-share holder		0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,31	0,43	1,00	1,13
Earnings per B share (in euros)	10	600	600	600	600

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

CONSOLIDATED CASH FLOW STATEMENT (thousand EUR)

	Note	for the year ended 31 December 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		24 757	28 771
Adjustment for depreciation/amortisation	6	5 809	5 879
Adjustment for profit from government grants and revenues from connection fees		-117	-2 043
Other non-cash adjustments		11	-153
Profit/loss(+) from sale and write off of property, plant and equipment, and intangible assets		-138	-6
Change in current assets involved in operating activities		-433	-160
Change in liabilities involved in operating activities		-92	-568
Total cash flow from operating activities		**29 797**	**31 720**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans granted		0	-765
Repayment of loan		3 814	0
Acquisition of property, plant and equipment, and intangible assets		-9 187	-10 011
Proceeds from sales of property, plant and equipment		165	38
Compensations received for construction of pipelines		7 885	11 198
Interest received		693	1 585
Total cash flow used in investing activities		**3 370**	**2 045**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl swap interests		-3 154	-3 272
Repayment of finance lease		-136	-61
Dividends paid	9	-17 401	-16 801
Income tax on dividends	9	-4 625	-4 466
Total cash flow used in financing activities		**-25 316**	**-24 600**
Change in cash and cash equivalents		**7 851**	**9 165**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**23 935**	**14 770**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**31 786**	**23 935**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
Dividends	0	0	0	-16 801	-16 801
Comprehensive income for the period	0	0	0	22 599	22 599
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 661**	**84 673**
Dividends	0	0	0	-17 401	-17 401
Comprehensive income for the period	0	0	0	19 936	19 936
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 196**	**87 208**

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

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 December	
	2013	**2012**
Cash in hand and in bank	3 295	1 859
Short-term deposits	28 491	22 076
Total cash and cash equivalents	**31 786**	**23 935**

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	Total property, plant and equipment and 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	
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
Net book value	**19 137**	**109 186**	**12 757**	**367**	**2 849**	**1 677**	**222**	**1 355**	**147 550**
Transactions in the period 01 January 2012 - 31 December 2012									
Acquisition in book value	0	0	0	0	7 862	3 153	293	0	11 308
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-1	0	-32	0	0	0	-33
Compensated by government grants	0	0	0	0	0	-2 392	0	0	-2 392
Reclassification	545	5 361	3 713	153	-8 421	-1 398	-490	537	0
Depreciation	-273	-2 701	-2 062	-80	0	0	0	-763	-5 879
as of 31 December 2012									
Acquisition cost	24 793	167 389	44 018	1 302	2 258	1 040	25	5 899	246 724
Accumulated depreciation	-5 384	-55 543	-29 611	-862	0	0	0	-4 770	-96 170
Net book value	**19 409**	**111 846**	**14 407**	**440**	**2 258**	**1 040**	**25**	**1 129**	**150 554**
Transactions in the period 01 January 2013 - 31 December 2013									
Acquisition in book value	0	0	0	0	6 127	2 103	421	0	8 651
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-7	-8	0	-99	0	1	-113
Reclassification	58	7 724	2 030	52	-7 808	-2 056	-419	419	0
Depreciation	-278	-2 717	-2 195	-80	0	0	0	-539	-5 809
as of 31 December 2013									
Acquisition cost	24 851	175 113	46 041	1 346	577	988	27	6 319	255 262
Accumulated depreciation	-5 662	-58 260	-31 806	-942	0	0	0	-5 309	-101 979
Net book value	**19 189**	**116 853**	**14 235**	**404**	**577**	**988**	**27**	**1 010**	**153 283**

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

As of 31 December 2013 the book value of the assets (Machinery and equipment) leased under financial lease is 861 thousand euros (31 December 2012: 886 thousand euros).

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

NOTE 4. REVENUE

	Quarter 4		for the year ended 31 December	
Revenues from main operating activities	**2013**	**2012**	**2013**	**2012**
Total water supply and waste water disposal service, incl:	12 111	12 374	47 737	47 912
Private clients, incl:	6 026	6 016	23 642	23 789
Water supply service	3 329	3 320	13 022	13 096
Wastewater disposal service	2 697	2 696	10 620	10 693
Corporate clients, incl:	4 776	4 802	19 053	18 767
Water supply service	2 640	2 613	10 585	10 248
Wastewater disposal service	2 136	2 189	8 468	8 519
Outside service area clients, incl:	1 163	1 282	4 308	4 524
Water supply service	294	264	1 095	1 028
Wastewater disposal service	721	699	2 730	2 684
Storm water disposal service	148	319	483	812
Over pollution fee	146	274	734	832
Storm water treatment and disposal service	853	927	3 137	3 713
Fire hydrants service	127	56	287	202
Construction service and design	437	161	1 146	351
Other works and services	250	191	780	746
Total revenue	**13 778**	**13 709**	**53 087**	**52 924**

100 % of AS Tallinna Vesi revenue was generated within the Estonian Republic.

NOTE 5. STAFF COSTS

	Quarter 4		for the year ended 31 December	
	2013	**2012**	**2013**	**2012**
Salaries and wages	-1 326	-1 398	-5 233	-5 150
Social security and unemployment insurance taxation	-442	-466	-1 744	-1 718
Staff costs total	**-1 768**	**-1 864**	**-6 977**	**-6 868**
Number of employees at the end of reporting period			**304**	**313**

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

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

	Quarter 4		for the year ended 31 December	
Cost of goods sold	**2013**	**2012**	**2013**	**2012**
Water abstraction charges	-257	-236	-997	-937
Chemicals	-424	-419	-1 734	-1 631
Electricity	-826	-964	-3 392	-3 695
Pollution tax	-58	-180	-1 872	-347
Staff costs	-1 202	-1 256	-4 833	-4 750
Depreciation and amortization	-1 266	-1 302	-5 115	-5 167
Construction service and design	-357	-91	-947	-277
Other costs of goods sold	-1 094	-877	-3 615	-3 533
Total cost of goods sold	**-5 484**	**-5 325**	**-22 505**	**-20 337**
Marketing expenses				
Staff costs	-94	-101	-375	-373
Depreciation and amortization	-41	-81	-244	-326
Other marketing expenses	-17	-14	-71	-73
Total marketing expenses	**-152**	**-196**	**-690**	**-772**
Administrative expenses				
Staff costs	-472	-507	-1 769	-1 745
Depreciation and amortization	-90	-76	-339	-295
Other general administration expenses	-878	-619	-2 952	-2 700
Total administrative expenses	**-1 440**	**-1 202**	**-5 060**	**-4 740**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 4		for the year ended 31 December	
	2013	**2012**	**2013**	**2012**
Profit from government grant	0	1 772	0	2 037
Connection fees	32	26	117	96
Depreciation of single connections	-31	-24	-111	-91
Doubtful receivables expenses (-) / expense reduction (+)	-79	-157	45	-169
Other income / expenses (-)	-73	-31	-126	-177
Total other income / expenses	**-151**	**1 586**	**-75**	**1 696**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES	**Quarter 4**		**for the year ended 31 December**	
	2013	**2012**	**2013**	**2012**
Interest income	98	542	681	1 591
Interest expense, loan	-276	-284	-1 087	-1 358
Interest expense, swap	-495	-517	-2 024	-1 851
Increase (+) /decrease (-) of fair value of swap	319	352	2 255	-89
Other financial income (+)/ expenses (-)	-4	-2	-21	1
Total financial income / expenses	**-358**	**91**	**-196**	**-1 706**

NOTE 9. DIVIDENDS	**for the year ended 31 December**	
	2013	**2012**
Dividends declared during the period	17 401	16 801
Dividends paid during the period	17 401	16 801
Income tax on dividends paid	-4 625	-4 466
Income tax accounted for	**-4 625**	**-4 466**
Paid-up dividends per shares:		
Dividends per A-share (in euros)	0,87	0,84
Dividends per B-share (in euros)	600	600

Income tax rates in 2013 and 2012 were 21/79.

NOTE 10. EARNINGS PER SHARE

	Quarter 4		**for the year ended 31 December**	
	2013	**2012**	**2013**	**2012**
Net profit minus B-share preferred dividend rights	6 192	8 662	19 935	22 598
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)	0,31	0,43	1,00	1,13
Earnings per B share (in euros)	600	600	600	600

Diluted earnings per share for the periods ended 31 December 2013 and 2012 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

Balances recorded in working capital on the statement of financial position of the Group	**as of 31 December**	
	2013	**2012**
Accounts receivable	550	4 919
Accrued income	8 154	7 123
Other long-term receivables	2 161	3 746
Trade and other payables	197	187

Transactions	**Quarter 4**		**for the year ended 31 December**	
	2013	**2012**	**2013**	**2012**
Revenue	981	973	3 424	3 877
Government grant receivable for constructing new pipelines	0	3 254	0	4 429
Purchase of administrative and consulting services	260	257	1 020	998
Financial income	76	454	434	1 226
Short-term employee benefits to Management Board (excluding social tax)	65	116	294	326
Supervisory Board fees (excluding social tax)	10	10	40	40

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 recorded on line “Purchase of administrative and consulting services”.

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

18 thousand euros were paid to the Management Board members as termination fees in the year that ended on 31 December 2013 (in the year that ended on 31 December 2012: 45 thousand euros). The off balance sheet potential salary liability would be up to 93 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Market prices were checked and used in the transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members

As of 31 December 2013 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 31 December 2012: Leho Võrk owned 179 and Riina Käi owned 100 shares).

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
Allar Jõks	Member of the Supervisory Board
Priit Lello	Member of the Supervisory Board

Introduction of Supervisory Board members is published at company's web page and introduction with photos in 2012 Yearbook.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board
http://www.tallinnavesi.ee/images/stories/dokumendid/Investor/astv_annual_report_2012.pdf

NOTE 13. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

On 10th October 2011 the Estonian Competition Authority (CA) issued a prescript for the Company to reduce the tariffs of water and sewerage services in Tallinn by 29%. The Company disagrees with the position of the CA and has turned to the Estonian Administrative Court disputing the prescription that seeks to break the privatization contract without any evidence to support its view that privatization contract should not be honoured. The court has granted an injunction to stop the prescription from taking effect. The length of the court process and the decision are not within the Company's control and the end of the proceedings cannot be estimated.

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 potentially suffer an outflow of economic benefits of up to 34 mln euros – the part that CA considers to be excessively charged from the clients going back three years from time of the final judgment.