AS Tallinna Vesi

Results of operations – for the 1st half-year of 2012

Currency	Thousand euros
Start of reporting period	1 January 2012
End of reporting period	30 June 2012
Address	Tallinn, Ädala 10
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Contractual Highlights

- 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 (more information available at end of the paper from section *Contractual tariff debate*).
- At end of May 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.
- In June the Competition Authority appealed the District Court's ruling to the Supreme Court stating that in its opinion AS Tallinna Vesi's international privatisation, tariff criteria and the supporting contracts agreed at privatisation in 2001 were the private business activity of the City of Tallinn, and therefore do not warrant any protection under Estonian public law.
- AS Tallinna Vesi disagrees with this position and will take full legal action to protect the interests of the company and its shareholders from this further attempt by the Competition Authority to unilaterally break the international privatisation contract.
- AS Tallinna Vesi 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.
- Discussion of the complaint submitted to the EU Commission is ongoing.
- Average real return on capital invested at privatization still 6.2% since 2001.

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

RESULTS OF OPERATIONS - FOR THE 1st HALF-YEAR 2012

Financial highlights of 2nd quarter 2012

In the 2nd quarter of 2012 the Company's underlying performance was good and stable, continuously focused on the improvement of operational performance and customer service. During the 2nd quarter of 2012 the sales increased by 2.8% mainly due to even increase from all commercial sectors. Gross profit remained on the same level and the operating profit from main business activities decreased by 5.5% in the 2nd quarter of 2012. Total operating profit decreased by 8.8% during the same period as a result of completion of considerably smaller proportion of the construction program than in 2nd quarter of 2011. The profit before taxes decreased by 2.2% in the 2nd quarter of 2012, being further impacted by increased income tax on dividends. The adverse profit movements were partly balanced by lower quarterly negative non-cash movement in fair value of financial instruments.

mln €	2 Q 2010	2 Q 2011	2 Q 2012	Change 12/11	6 months 2010	6 months 2011	6 months 2012	Change 12/11
Sales	12,5	12,8	13,1	2,8%	24,7	25,2	26,1	3,8%
Gross profit	7,3	7,8	7,8	-0,4%	14,9	15,4	16,0	4,4%
Gross profit margin %	58,6	61,4	59,4	-3,2%	60,4	61,0	61,4	0,6%
Operating profit	7,2	6,9	6,3	-8,8%	13,9	13,8	13,2	-4,2%
Operating profit - main business	6,1	6,7	6,3	-5,5%	12,6	13,2	13,2	-0,7%
Operating profit margin %	57,5	54,0	47,8	-11,4%	56,2	54,8	50,6	-7,7%
Profit before taxes	5,8	5,7	5,6	-2,2%	11,1	13,7	11,9	-13,2%
Net profit	-2,7	1,5	1,2	-22,7%	2,6	9,5	7,5	-21,3%
Net profit margin %	-21,4	11,7	8,8	-24,9%	10,3	37,6	28,5	-24,2%
ROA %	-1,5	0,8	0,6	-26,2%	1,4	5,3	4,0	-24,8%
Debt to total capital employed	66,5	62,9	63,1	0,3%	66,5	62,9	63,1	0,3%

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

2nd quarter 2012

Sales

In the 2nd quarter of 2012 the Company's total sales increased, year on year, by 2.8% to 13.1 mln EUR. 91% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 7% of sales from fees received from the City of Tallinn for operating and maintaining the storm water system and 2% from other works and services.

Sales of water and wastewater services were 11.9 mln EUR, a 1.7% increase compared to the 2nd quarter of 2011, resulting from the rise in sales volumes as described below.

Within the service area, sales to residential customers were stable at 5.9 mln EUR with no change year on year. Sales to commercial customers increased by 3.1% to 4.8 mln EUR, an increase in most commercial sectors signifying recovery from the recession period. Sales to customers outside of the main service area increased by 13.6% to 1.0 mln EUR in the 2nd quarter of 2012. Over pollution fees received were 0.15 mln EUR, a 33.4% decrease compared to the 2nd quarter of 2011.

As result of same tariffs billable in 2012 compared to 2011 the sales volumes reflect the same variances in main services area as prescribed above. The volumes sold to residential customers increased by 0.1% year on year. The volumes sold to commercial customers increased by 3.1% evenly across all commercial sectors in the 2nd quarter of 2012.

Outside service area sales volumes were 15.7% higher than in the 2nd quarter of 2011. The main factor in this increase was higher storm water volumes supplemented by some increase in sewerage service due to connection of small areas in neighboring municipalities, resulting in sales increase year on year by 13.6%. Sales increase is lower than volumes increase as storm water tariffs are lower than sewage tariffs.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 25.4% to 0.97 mln EUR in the 2nd quarter of 2012 compared to the same period in 2011. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 5.3 mln EUR in the 2nd quarter of 2012, an increase of 0.40 mln EUR or 8.0% from the equivalent period in 2011. The cost increase is mainly the result of higher staff, electricity and chemicals costs as explained below.

Total variable costs increased by 0.17 mln EUR or 10.9% year on year in combination of increase in regulated prices and tax rates and movements in treatment volumes that affected the variable costs together with the following additional factors:

- Cost of tax on special use of water increased only by 0.01 mln EUR or 2.2% to 0.24 mln EUR in the 2nd quarter of 2012, despite of 7.5% increase in tax rates due to positive impact from reduced leakage ratio.
- Total chemical costs increased by 0.07 mln EUR or 22.2% to 0.38 mln EUR. Chemicals costs increased in extra to the volume impact worth 0.05 mln EUR, mainly due to the increase in chemicals price worth 0.02 mln EUR (0.01 mln EUR coming from methanol price increase by 8%).
- Electricity costs in total increased by 0.19 mln EUR or 27.5% in the 2nd quarter of 2012 compared to the 2nd quarter of 2011. Electricity costs were the most impacted by considerable hit from increase in electricity rates, which on average have increased 15.2% with an adverse effect of 0.13 mln EUR, in addition the Company was affected by the adverse impact from the increased wastewater volumes.
- Pollution tax decreased by 0.10 mln EUR or 29.9% in the 2nd quarter of 2012. Improved nitrogen removal reduced the pollution tax despite of the 14% increase in tax rates.

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

Fixed cost of goods sold in the main operating activity increased by 0.22 mln EUR or 6.7% year on year mainly due to 0.21 mln EUR or 19.8% increase in salary costs due to overall increase in headcount by 7 employees. The Company has increased its headcount to mitigate the external price risk of maintenance services by switching from outsourcing to insourcing in various areas in the 2nd quarter of 2012. Without the change the total increase in fixed costs would had been by 0.10 mln EUR higher compared to the actual cost.

As a result of all of the above the Company's gross profit for the 2nd quarter of 2012 was 7.8 mln EUR, which is a decrease of 0.03 mln EUR, or 0.4%, compared to the gross profit of 7.8 mln EUR for the 2nd quarter of 2011.

Other Operating Costs

Marketing expenses increased by 0.01 mln EUR or 5.5% during the 2nd quarter of 2012 compared to the corresponding period in 2011 due to change in salary costs.

In the 2nd quarter of 2012 the General administration expenses increased by 0.05 mln EUR or 4.1% year on year to 1.3 mln EUR, mainly due to the increase in legal consultancies acquired in the process of tariff dispute supplemented by depreciation expense.

Other net income/expenses

Other net expenses increased by 0.52 mln EUR or 115% to a net cost of 0.07 mln EUR, compared to 0.45 mln EUR net income in the 2nd quarter of 2011. The considerable variances are not related to the main operating performance of the Company.

The majority of the income in Other net income/expenses has been related to constructions and government grants in previous years. As the major programs were completed by end of 2011, the revenues from this activity have considerably dropped and will continue to drop throughout the year. There were almost no profits from constructions and government grants recorded in the 2nd quarter of 2012 compared to a net income of 0.25 mln EUR in the 2nd quarter of 2011. The minor last stage constructions of the extension program will be completed by end of 2012.

The rest of the other income/expenses totaled an expense of 0.71 mln EUR in the 2nd quarter of 2012 compared to an income of 0.20 mln EUR in the 2nd quarter of 2011 that was mainly related to a one-off extraordinary debt collection in 2011.

Operating profit

As a result of above factors the Company's operating profit from main services for the 2nd quarter of 2012 totaled 6.3 mln EUR compared to 6.7 mln EUR in the corresponding quarter in 2011. In total the Company's operating profit for all activities for the 2nd quarter of 2012 was 6.3 mln EUR, a decrease of 0.61 mln EUR compared to an operating profit of 6.9 mln EUR achieved in the 2nd quarter of 2011. Year on year the operating profit for the 2nd quarter has decreased by 8.8%.

Financial expenses

Net Financial expenses were -0.67 mln EUR in the 2nd quarter of 2012, which is a positive variance of 0.48 mln EUR or 42.0% compared to the net expenses in the 2nd quarter of 2011. In both years the financial costs were mainly impacted from the non-cash revaluation of the fair value of swap agreements, in the 2nd quarter of 2011 the revaluation impact was negative by 0.77 mln EUR and in the relevant quarter of 2012 the revaluation impact was negative by 0.22 mln EUR.

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 EUR and 20 mln EUR is thereby still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totaling 4.9 mln EUR.

Effective interest rate in the 2nd quarter of 2012 was 3.35%, amounting in the interest costs of 0.80 mln EUR, compared respectively to 3.11% and 0.75 mln EUR in the 2nd quarter of 2011. This reflects mainly the adverse impact from swap agreements that became effective only from the 2nd quarter of 2011.

Profit Before and After Tax

The Company's profit before taxes for the 2nd quarter of 2012 was 5.6 mln EUR, which is 0.1 mln EUR lower than the profit before taxes of 5.7 mln EUR for the 2nd quarter of 2011. The year on year increase in dividend payment by 0.8 mln EUR increased also the income tax on dividends by 0.2 mln EUR. The Company's profit after taxes for the 2nd quarter of 2012 was 1.2 mln EUR, which is 0.3 mln EUR lower than the profit after taxes of 1.5 mln EUR for the 2nd quarter of 2011.

Results for the six months of 2012

During the six months of 2012 the Company's total sales increased, year on year, by 3.8% to 26.1 mln EUR. Sales of water and wastewater treatment were 23.8 mln EUR, a 3.1% increase compared to the six months of 2011.

The operating profit from the Company's main business activity decreased by 0.7% to 13.2 mln EUR during the six months of 2012 compared to the six months of 2011.

The Company's profit before taxes for the six months of 2012 was 11.9 mln EUR, which is a 13.2% decrease compared to the relevant period in 2011.

The Company's net profit for the six months of 2012 was 7.5 mln EUR, which is 2.0 mln EUR lower than the net profit of 9.5 mln EUR in the equivalent period in 2011.

Decrease in net profit is due to the various impacts from activities not related to the main business performance: reduced construction profits (0.5 mln EUR year on year), non-repeatable one off debt collection in 2011 (-0.5 mln EUR), mainly non-cash increase in financial costs in 2012 (-0.5 mln EUR), income tax on dividends (-0.2 mln EUR year on year).

Balance sheet

During the six months of 2012 the Company invested 4.4 mln EUR into fixed assets. Non-current assets were 154.1 mln EUR at 30 June 2012.

Current assets decreased by 0.76 mln EUR to 34.2 mln EUR in the six months of the year. In the six months of 2012 Cash at bank decreased by 1.1 mln EUR.

Current liabilities increased by 4.8 mln EUR to 13.3 mln EUR in the six months of the year, due to dividend tax liability.

The Company has a Total debt/Total assets level as expected of 63.1%, in range of 55%-65%, reflecting the pre-tax and post-dividend decrease in Equity of 9.3 mln EUR.

Long-term liabilities stood at 105.4 mln EUR at the end of June 2012, consisting mainly of the outstanding balance of three long-term bank loans totaling 95 mln EUR. The first repayment of loans or refinancing should take place at the end of 2013. The weighted average interest margin for the total loan facility is 0.82%. The rest of long term liabilities reflect mainly the accounting record of deferred income from connection fees.

In the 4th quarter of 2011 the Company recorded an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros, as per note 13 to the accounts. Considering that the court proceedings are continuously ongoing, the Management has not changed the evaluation of the contingent liability.

Cash flow

During the six months of 2012, the Company generated 14.0 mln EUR of cash flows from operating activities, a decrease of 1.7 mln EUR compared to the corresponding period in 2011. 2012 operating cash flows were below 2011 cash flows mainly due large payments of overdue debt in 1st half of 2011. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the six months of 2012 net cash inflows from investing activities were 1.7 mln EUR, an increase of 3.9 mln EUR compared to an outflow of 2.1 mln EUR in the six months of 2011, mainly due to lower capex spent on network extension. In the six months of 2012 the cash outflows related to the fixed asset investments were 4.2 mln EUR compared to 7.8 mln EUR spent in the same period of 2011. The compensations received for the construction of pipelines were 5.6 mln EUR in the six months of 2012, a decrease of 0.70 mln EUR compared to same period in 2011. In 2012 the Company also gave the 0.38 mln EUR loan to Maardu according to the Operating agreement signed in 2008.

In the six months of 2012, cash outflow from financing amounted to 16.8 mln EUR due to dividends paid to shareholders, which is 0.8 mln EUR more than in the same period of 2011.

As a result of all of the above factors, the total cash outflow in the six months of 2012 was 1.1 mln EUR compared to a cash outflow of 2.4 mln EUR in the six months of 2011. Cash and cash equivalents stood at 13.7 mln EUR as of 30 June 2012, which is 2.8 mln EUR higher than at the corresponding period of 2011.

Employees

At the end of the 2nd quarter of 2012, the total number of employees was 318 compared to 311 at the end of the 2nd quarter of 2011. The full time equivalent (FTE) was respectively 304 in 2012 compared to the 297 in 2011. The increase in employee numbers is related to the prescribed switch from outsourcing to insourcing. 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, 30 June 2012, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Share performance

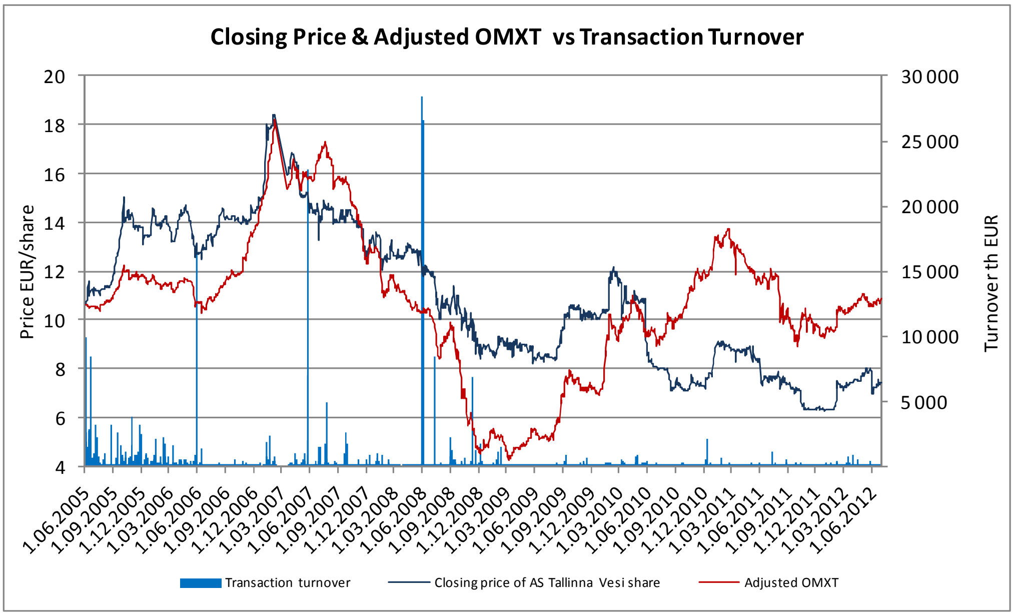
AS Tallinna Vesi is listed on NASDAQ OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 30 June 2012 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

Parvus Asset Management owned in total 4.67% of the shares of the Company as per Company's best information as of 30 June 2012.

At the end of the quarter, 30 June 2012, the closing price of the AS Tallinna Vesi share was 7.40 EUR, which is a 0.13% decrease compared to the closing price of 7.41 EUR at the beginning of the quarter. During the same period the OMX Tallinn index rose by 3.43%. In the 2nd quarter the Company's share price was mainly impacted by the dividend payment and the ongoing contractual debate and interim court decisions.



Operational highlights in 1st half of 2012

- In the 1st half of 2012, the operational and quality indicators of AS Tallinna Vesi have been on the highest level ever and indicate continuous improvement. Compared to 1st half of 2011, the most remarkable improvements have been in removing pollution from the wastewater discharged into the Baltic Sea and in wastewater, service quality and customer communication indicators. For example:

- The quality indicators for water quality have so far been on the highest level ever, from taken samples 99.73% were fully in accordance with the norms, outperforming considerably the required standard 95% at customers' taps.
- Total number of sewage blockages has decreased by 31%.
- Total time of interruptions has decreased by 15%.
- The leakage level is below 16.4%, over 3% less than in 2011.
- Compared to the 1st half of 2011, the biofilter has enabled to reduce the volume of pollutants discharged to the sea by 27%.

Key contractual events

Contractual tariff debate

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

On 2nd May 2011 the CA informed the Company about the rejection of the tariff application. The CA completely ignored the privatization contract and did not perform any analysis of the contractual and financial performance of the Company during the period after privatization. The CA is arguing that the Company's profitability is too high using their own recommendatory and unverified methodology.

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

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

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

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

On 31.05.2012 District Court issued a ruling, deeming the tariffs part of the Services Agreement signed in 2001 as part of AS Tallinna Vesi's privatization package of agreements to be an administrative (public law) agreement. The District court has thereby ruled in favour of AS

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

Tallinna Vesi, 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.

On 13.06.2012 the Competition Authority appealed the Tallinn District Court’s ruling to the Supreme Court. In their appeal, the Competition Authority has stated that in its opinion AS Tallinna Vesi’s international privatisation, tariff criteria and the supporting contracts agreed at privatisation in 2001 were the private business activity of the City of Tallinn, and therefore do not warrant any protection under Estonian public law.

AS Tallinna Vesi disagrees with this position and will take full legal action to protect the interests of the company and its shareholders from this further attempt by the Competition Authority to unilaterally break the international privatisation contract.

AS Tallinna Vesi 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.

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 ongoing.

Disclosure of relevant papers and perspectives

The Company has published its tariff application and all relevant correspondence with the CA on its website (http://www.tallinnavesi.ee/?op=body&id=728) and to the Tallinn Stock Exchange and will keep its investors informed of all future developments regarding the further key developments regarding the processing of the tariff application.

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:
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MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of consolidated condensed financial statements for the 6 months period of financial year 2012 ended 30 June 2012. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 2012 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim management report gives a true and fair view of the main events that occured during the 6 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 6 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 19 July 2012 have been considered in preparing the financial statements.

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

Ian John Alexander Plenderleith
Chairman of the Management Board
Chief Executive Officer
I.J.A. Plenderleith

Leho Võrk
Member of the Management Board
Chief Operating Officer

Siiri Lahe
Member of the Management Board
Chief Financial Officer

Ilona Nurmela
Member of the Management Board
General Counsel

19 July 2012

Introduction and photos of the Management Board members are published at company's web page and in 2011 Yearbook.

CONCOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

		as of 30 June		as of 31 December
ASSETS	**Note**	**2012**	**2011**	**2011**
CURRENT ASSETS				
Cash and equivalents	2	13 678	10 830	14 770
Trade receivables, accrued income and prepaid expenses		20 187	15 183	19 845
Inventories		240	327	248
Non-current assets held for sale		75	76	73
TOTAL CURRENT ASSETS		**34 180**	**26 416**	**34 936**
NON-CURRENT ASSETS				
Other long-term receivables		5 370	1 362	9 583
Property, plant and equipment	3	147 395	150 439	145 973
Intangible assets	3	1 349	1 731	1 577
TOTAL NON-CURRENT ASSETS		**154 114**	**153 532**	**157 133**
TOTAL ASSETS		**188 294**	**179 948**	**192 069**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		45	0	0
Trade and other payables		9 639	9 257	5 789
Derivatives		1 909	791	1 552
Provisions		0	114	0
Prepayments		1 727	1 250	1 146
TOTAL CURRENT LIABILITIES		**13 320**	**11 412**	**8 487**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		6 990	5 901	6 824
Borrowings		95 424	94 930	94 938
Derivatives		3 019	751	2 936
Other payables		9	115	9
TOTAL NON-CURRENT LIABILITIES		**105 442**	**101 697**	**104 707**
TOTAL LIABILITIES		**118 762**	**113 109**	**113 194**
EQUITY				
Share capital		12 000	12 000	12 000
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		31 520	28 827	40 863
TOTAL EQUITY		**69 532**	**66 839**	**78 875**
TOTAL LIABILITIES AND EQUITY		**188 294**	**179 948**	**192 069**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 2		6 months		for the year ended 31 December
	Note	**2012**	**2011**	**2012**	**2011**	**2011**
Revenue	4	13 145	12 781	26 139	25 186	51 240
Costs of goods sold	6	-5 332	-4 937	-10 092	-9 820	-20 927
GROSS PROFIT		**7 813**	**7 844**	**16 047**	**15 366**	**30 313**
Marketing expenses	6	-191	-181	-398	-381	-748
General administration expenses	6	-1 264	-1 214	-2 375	-2 088	-4 294
Other income (+)/ expenses (-)	7	-71	448	-39	912	3 619
OPERATING PROFIT		**6 287**	**6 897**	**13 235**	**13 809**	**28 890**
Financial income	8	352	362	747	1 345	1 947
Financial expenses	8	-1 021	-1 515	-2 058	-1 424	-5 071
PROFIT BEFORE TAXES		**5 618**	**5 744**	**11 924**	**13 730**	**25 766**
Income tax on dividends	9	-4 466	-4 253	-4 466	-4 253	-4 253
NET PROFIT FOR THE		**1 152**	**1 491**	**7 458**	**9 477**	**21 513**
COMPREHENSIVE INCOME FOR THE PERIOD		**1 152**	**1 491**	**7 458**	**9 477**	**21 513**
Attributable profit to:						
Equity holders of A-shares		1 151	1 490	7 457	9 476	21 512
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,06	0,07	0,37	0,47	1,08
Earnings per B share (in euros)	10	600	600	600	600	600

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

CONSOLIDATED CASH FLOW STATEMENT (thousand EUR)

	Note	6 months 2012	6 months 2011	for the year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		13 235	13 809	28 890
Adjustment for depreciation/amortisation	6	2 883	2 777	5 729
Adjustment for profit from government grants and connection fees		-80	-560	-3 484
Other finance income/expenses(-)	8	5	-1	35
Profit/loss(+) from sale of property, plant and equipment, and intangible assets		-1	-1	55
Expensed property, plant and equipment		8	0	10
Change in current assets involved in operating activities		-510	1 090	720
Change in liabilities involved in operating activities		114	47	1 306
Interest paid		-1 658	-1 418	-3 051
Total cash flow from operating activities		**13 996**	**15 743**	**30 210**
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted		-384	-1 362	-3 151
Acquisition of property, plant and equipment, and intangible assets		-4 243	-7 793	-18 506
Compensations received for construction of pipelines		5 581	6 285	11 284
Proceeds from sale of property, plant and equipment, and intangible assets		2	2	13
Interest received		757	721	1 939
Total cash flow used in investing activities		**1 713**	**-2 147**	**-8 421**
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	9	-16 801	-16 001	-16 001
Income tax on dividends	9	0	0	-4 253
Total cash flow used in financing activities		**-16 801**	**-16 001**	**-20 254**
Change in cash and cash equivalents		**-1 092**	**-2 405**	**1 535**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**14 770**	**13 235**	**13 235**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**13 678**	**10 830**	**14 770**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2010	**12 782**	**24 734**	**1 278**	**34 569**	**73 363**
Reduction of the share capital	-782	0	0	782	0
Dividends	0	0	0	-16 001	-16 001
Comprehensive income for the period	0	0	0	21 513	21 513
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
as of 31 December 2010	**12 782**	**24 734**	**1 278**	**34 569**	**73 363**
Reduction of the share capital	-782	0	0	782	0
Dividends	0	0	0	-16 001	-16 001
Comprehensive income for the period	0	0	0	9 477	9 477
as of 30 June 2011	**12 000**	**24 734**	**1 278**	**28 827**	**66 839**
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	7 458	7 458
as of 30 June 2012	**12 000**	**24 734**	**1 278**	**31 520**	**69 532**

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

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

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 June		as of 31 December
	2012	**2011**	**2011**
Cash in hand and in bank	1 217	308	1 456
Short-term deposits	12 461	10 522	13 314
Total cash and cash equivalents	**13 678**	**10 830**	**14 770**

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

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

	Property, plant and equipment				Assets in progress		Intangible assets		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Unfinished intangible assets	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
as of 31 December 2010									
Acquisition cost	24 067	155 727	39 570	1 157	2 216	7 462	119	5 232	235 550
Accumulated depreciation	-4 838	-50 307	-26 120	-755	0	0	0	-3 379	-85 399
Book value	**19 229**	**105 420**	**13 450**	**402**	**2 216**	**7 462**	**119**	**1 853**	**150 151**
Transactions in the period 01.01.2011 - 31.12.2011									
Acquisition in book value	0	0	0	0	5 178	11 126	234	0	16 538
Write off and sale of property, plant and equipment, and intangible assets in book value	-1	0	-65	0	0	0	0	0	-66
Compensated by government grants	0	0	0	0	0	-13 270	0	0	-13 270
Reclassification	182	6 412	1 553	43	-4 545	-3 641	-131	131	4
Depreciation	-273	-2 646	-2 181	-78	0	0	0	-629	-5 807
as of 31 December 2011									
Acquisition cost	24 247	162 106	40 594	1 175	2 849	1 677	222	5 363	238 233
Accumulated depreciation	-5 110	-52 920	-27 837	-808	0	0	0	-4 008	-90 683
Book value	**19 137**	**109 186**	**12 757**	**367**	**2 849**	**1 677**	**222**	**1 355**	**147 550**
Transactions in the period 01.01.2012 - 30.06.2012									
Acquisition in book value	0	0	0	0	2 934	1 269	147	0	4 350
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-1	0	0	0	0	0	-1
Compensated by government grants	0	0	0	0	0	-266	0	0	-266
Reclassification	116	829	1 243	24	-2 025	-148	-23	23	39
Depreciation	-136	-1 364	-1 015	-38	0	0	0	-375	-2 928
as of 30 June 2012									
Acquisition cost	24 364	162 921	41 705	1 200	3 758	2 532	346	5 387	242 213
Accumulated depreciation	-5 247	-54 270	-28 721	-847	0	0	0	-4 384	-93 469
Book value	**19 117**	**108 651**	**12 984**	**353**	**3 758**	**2 532**	**346**	**1 003**	**148 744**

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 30 June 2012 the net balance sheet value of finance leases was 520 thousand euros. As of 31 December 2011 there were no finance lease contracts.

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

NOTE 4. REVENUE	**Quarter 2**		**6 months**		**for the year ended 31 December**
Revenues from main operating activities	**2012**	**2011**	**2012**	**2011**	**2011**
Total water supply and waste water disposal service, incl:	11 908	11 713	23 803	23 084	46 492
Private clients, incl:	5 936	5 934	11 990	11 906	23 711
Water supply service	3 265	3 271	6 595	6 561	13 072
Waste water disposal service	2 671	2 663	5 395	5 345	10 639
Corporate clients, incl:	4 778	4 634	9 347	9 006	18 234
Water supply service	2 621	2 541	5 085	4 854	9 881
Waste water disposal service	2 157	2 093	4 262	4 152	8 353
Outside service area clients, incl:	1 044	920	2 142	1 744	3 789
Water supply service	254	216	510	421	901
Waste water disposal service	790	704	1 632	1 323	2 888
Overpollution fee	150	225	324	428	758
Stormwater treatment and disposal service	919	726	1 757	1 529	3 351
Fire hydrants service	53	48	94	96	221
Other works and services	265	294	485	477	1 176
Total revenue	**13 145**	**12 781**	**26 139**	**25 186**	**51 240**

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

NOTE 5. STAFF COSTS	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2012	**2011**	**2012**	**2011**	**2011**
Salaries and wages	-1 315	-1 148	-2 538	-2 333	-4 801
Social security and unemployment insurance taxation	-439	-383	-846	-778	-1 602
Staff costs total	**-1 754**	**-1 531**	**-3 384**	**-3 111**	**-6 403**
Number of employees at the end of reporting period			**318**	**311**	**311**

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

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

	Quarter 2		6 months		for the year ended 31 December
Cost of goods sold	**2012**	**2011**	**2012**	**2011**	**2011**
Tax on special use of water	-236	-231	-476	-457	-897
Chemicals	-380	-311	-745	-559	-1 433
Electricity	-899	-705	-1 831	-1 382	-2 972
Pollution tax	-227	-324	-13	-603	-1 409
Staff costs	-1 258	-1 050	-2 331	-2 167	-4 390
Depreciation and amortization	-1 294	-1 253	-2 576	-2 519	-5 182
Other costs of goods sold	-1 038	-1 063	-2 120	-2 133	-4 644
Total cost of goods sold	**-5 332**	**-4 937**	**-10 092**	**-9 820**	**-20 927**
Marketing expenses					
Staff costs	-94	-81	-191	-171	-349
Depreciation and amortization	-81	-81	-163	-163	-325
Other marketing expenses	-16	-19	-44	-47	-74
Total cost of marketing expenses	**-191**	**-181**	**-398**	**-381**	**-748**
General administration expenses					
Staff costs	-402	-400	-862	-773	-1 664
Depreciation and amortization	-73	-48	-144	-95	-222
Other general administration expenses	-789	-766	-1 369	-1 220	-2 408
Total cost of general administration expenses	**-1 264**	**-1 214**	**-2 375**	**-2 088**	**-4 294**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 2		6 months		for the year ended 31 December
	2012	**2011**	**2012**	**2011**	**2011**
Profit from government grant	0	246	77	561	3 479
Other income / expenses (-)	-71	202	-116	351	140
Total other income / expenses	**-71**	**448**	**-39**	**912**	**3 619**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2012	**2011**	**2012**	**2011**	**2011**
Interest income	351	361	742	621	1 947
Interest expense	-803	-748	-1 618	-1 423	-2 885
Increase (+) /decrease (-) of fair value of swap	-218	-767	-440	724	-2 221
Other financial income (+)/ expenses (-)	1	1	5	-1	35
Total financial income / expenses	**-669**	**-1 153**	**-1 311**	**-79**	**-3 124**

NOTE 9. DIVIDENDS	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2012	**2011**	**2012**	**2011**	**2011**
Dividends declared during the period	16 801	16 001	16 801	16 001	16 001
Dividends paid during the period	16 801	16 001	16 801	16 001	16 001
Income tax on dividends paid	-4 466	-4 253	-4 466	-4 253	-4 253
Income tax accounted for	**-4 466**	**-4 253**	**-4 466**	**-4 253**	**-4 253**
Paid-up dividends per shares:					
Dividends per A-share (in euros)	0,84	0,80	0,84	0,80	0,80
Dividends per B-share (in euros)	600	600	600	600	600

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

NOTE 10. EARNINGS PER SHARE

	Quarter 2		**6 months**		**for the year ended 31 December**
	2012	**2011**	**2012**	**2011**	**2011**
Net profit minus B-share preference rights	1 151	1 490	7 457	9 476	21 512
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,06	0,07	0,37	0,47	1,08
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 June 2012 and 2011 and 31 December 2011 are equal to earnings per share figures stated above.

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

NOTE 11. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded in working capital on the statement of financial position of the Group	as of 30 June 2012	2011	as of 31 December 2011
Accounts receivable	4 824	4 533	4 977
Accrued income	9 128	4 883	8 878
Other long-term receivables	1 834	0	6 432
Prepayments	3	0	0
Accounts payable - short-term trade and other payables	176	182	194

	Quarter 2		6 months		for the year ended 31 December
	2012	2011	2012	2011	2011
Transactions with the related parties					
Sales services	962	765	1 832	1 606	3 535
Compensation receivable from the local governments for constructing new pipelines	0	281	298	2 285	16 750
Purchase of administrative and consulting services	245	252	486	480	1 001
Financial income	258	278	546	498	1 624
Management Board short-term employee benefits (excluding social tax)	73	58	137	121	246
Supervisory Board fees (excluding social tax)	10	10	20	20	39

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

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members

As of 30 June 2012 from Supervisory Council and Management Board members Siiri Lahe owned 700 and Leho Võrk 179 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
Valdur Laid	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 2011 Yearbook.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board
http://www.tallinnavesi.ee/images/stories/dokumendid/Investor/ar_eng_2011.pdf

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 prescripion 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.