AS Tallinna Vesi

Results of operations – for the 1st quarter of 2013

Currency	Thousand euros
Start of reporting period	1 January 2013
End of reporting period	31 March 2013
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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 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 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, 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. 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.

RESULTS OF OPERATIONS - FOR THE 1st QUARTER 2013

Financial highlights of 1st quarter 2013

In the 1st quarter of 2013 the Company's underlying performance was good and stable, continuously focused on the improvement of operational performance and customer service.

During the three months of 2013 the Company's total sales decreased, year on year, by 2.3% to 12.7 mln euros. Sales of water and wastewater treatment were down by 1.5% to 11.7 mln euros compared to the three months of 2012. These decreases in sales are due to lower sales volumes during 2013, as the 1st quarter in 2013 was one day shorter than the comparative period in 2012.

The operating profit from the Company's main business activity decreased by 0.7 mln euros or 10.4% to 6.2 mln euros during the three months of 2013 compared to the three months of 2012. As a comparison Total operating profit decreased by 11.4% during the same period as a result of completion of the sewage extension construction program in 2012, and therefore there were no revenues from government grants in 2013.

The Company's profit before taxes for the first quarter in 2013 was 6.2 mln euros, which is a 0.1 mln euros or 1.5% decrease compared to the relevant period in 2012. The Company's net profit for first quarter of 2013 was 6.2 mln euros, which is 0.1 mln euros or 1.5% smaller than the net profit of 6.3 mln euros in the equivalent period in 2012.

mln €	**1 Q 2011**	**1 Q 2012**	**1 Q 2013**	**Change 13/12**
Sales	12,4	13,0	12,7	-2,3%
Gross profit	7,5	8,2	7,5	-8,1%
Gross profit margin %	60,6	63,0	59,3	-5,9%
Operating profit	6,9	6,9	6,2	-11,4%
Operating profit - main business	6,6	6,9	6,2	-10,4%
Operating profit margin %	55,7	53,5	48,5	-9,3%
Profit before taxes	8,0	6,3	6,2	-1,5%
Net profit	8,0	6,3	6,2	-1,5%
Net profit margin %	64,4	48,5	49,0	0,9%
ROA %	4,2	3,2	3,0	-5,3%
Debt to total capital employed	57,1	57,0	55,9	-1,9%
ROE %	9,8	7,4	6,8	-7,6%
Current ratio	2,6	5,5	5,4	-1,8%

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
ROE – Net profit / Total equity
Current ratio – Current assets / Current liabilities
Main business – water and wastewater activities, excl. connections profit and government grants

Profit and Loss Statement

1st quarter 2013

Sales

In the 1st quarter of 2013 the Company's total sales decreased, year on year, by 2.3% to 12.7 mln euros. 91% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 5% of sales from fees received from the City of Tallinn for operating and maintaining the storm water system and 4% from other works and services.

Sales of water and wastewater services were 11.7 mln euros, a 1.5% decrease compared to the 1st quarter of 2012, resulting from the decrease in sales volumes as described below.

Within the service area, sales to residential customers were at 5.9 mln euros, a 2.0% decrease year on year. Sales to commercial customers increased by 0.8% to 4.6 mln euros, mainly due to industrial customers. Sales to customers outside of the main service area decreased by 8.7% to 1.0 mln euros in the 1st quarter of 2013. Over pollution fees received were 0.18 mln euros, a 2.3% increase compared to the 1st quarter of 2012.

As result of same tariffs billable in 2013 compared to 2012 the sales volumes reflect the same variances in main services area as prescribed above.

Outside service area sales volumes were 18.8% lower than in the 1st quarter of 2012. The main factor in this decrease was lower storm water volumes balanced by some increase in sewerage service due to connection of small areas in neighbouring municipalities. This resulted in a sales decrease year on year by 8.7%; the sales decrease is lower than volumes decrease as storm water tariffs are lower than sewage tariffs.

The sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area decreased by 17.4% to 0.73 mln euros in the 1st 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.

Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 5.2 mln euros in the 1st quarter of 2013, an increase of 0.36 mln euros or 7.5% from the equivalent period in 2012. The cost increase is mainly the result of released provisions positive effect in the first quarter of 2012 in the amount of 0.44 mln euros.

Total variable costs increased by 0.49 mln euros or 37.3% year on year, without the impact of one off provision release the real increase of variable costs was 0,06 mln euros or 3,3%. The change came from a combination of increase in prices and tax rates and movements in treatment volumes that affected the variable costs together with the following additional factors:

- Water abstraction charges increased only by 0.01 mln euros or 2.5% to 0.25 mln euros in the 1st quarter of 2013, despite of 5% increase in tax rates mainly due to positive impact from 1.1% less leakages than 2012 and smaller production volumes.
- Total chemical costs increased by 0.06 mln euros or 15.1% to 0.42 mln euros. Chemicals costs increased due to an increase in chemicals price worth 0.04 mln euros (0.03 mln euros coming from methanol price increase by 20%) and increased coagulant usage due to bad raw water quality amounting to 0.01 mln euros.
- Electricity costs in total stayed flat in the 1st quarter of 2013 compared to the 1st quarter of 2012. Increased electricity prices, which on average have increased 3% with an adverse effect of 0.03 mln euros, have been balanced by positive effect of decreased treatment volumes.
- Pollution tax increased by 0.43 mln euros or 200.9% in the 1st quarter of 2013, mainly related to released provision in the first quarter of 2012. Pollution tax increase due to the 15% increase in tax rates was balanced by improved pollutants removal process and decrease in volumes.

To mitigate the external price risk of maintenance services the Company switched from outsourcing to insourcing in various areas in the 3rd quarter of 2012. Total fixed cost of goods sold in the main operating activity decreased by 0.13 mln euros or 3.8%.

As a result of all of the above the Company’s gross profit for the 1st quarter of 2013 was 7.5 mln euros, which is a decrease of 0.7 mln euros, or 8.1%, compared to the gross profit of 8.2 mln euros for the 1st quarter of 2012.

Other Operating Costs

Marketing expenses and General administration expenses stayed mostly flat during the 1st quarter of 2013 compared to the corresponding period in 2012, with the exception of overall salary costs increase by 0.07 mln euros.

Other net income/expenses

Other net income decreased by 0.05 mln euros or 156.3% to a net expense of 0.02 mln euros, compared to 0.03 mln euros net income in the 1st quarter of 2012.

In previous years the majority of the income in Other net income/expenses has been related to constructions and government grants. As the major programs were almost entirely completed by end of 2011, the revenues from this activity have ceased. In the 1st quarter of 2013 there were no profits from constructions and government grants compared to a net income of 0.08 mln euros in the 1st quarter of 2012.

The rest of the other income/expenses totalled an expense of 0.02 mln euros in the 1st quarter of 2013 compared to an expense of 0.05 mln euros in the 1st quarter of 2012.

Operating profit

As a result of above factors the Company's operating profit from main services for the 1st quarter of 2013 totalled 6.2 mln euros compared to 6.9 mln euros in the corresponding quarter in 2012. In total the Company's operating profit for all activities for the 1st quarter of 2013 was 6.2 mln euros, which shows a decrease of 0.70 mln euros compared to an operating profit of 6.9 mln euros achieved in the 1st quarter of 2012. Year on year the operating profit for the 1st quarter has decreased by 11.4%.

Financial expenses

Net Financial expenses/income were 0.06 mln euros in the 1st quarter of 2013, which is a decrease of 0.70 mln euros in expenses compared to -0.64 mln euros net expenses in the 1st quarter of 2012. In 2012 the financial costs were mainly impacted from the non-cash revaluation of the fair value of swap agreements, in the 1st quarter of 2012 the revaluation impact was negative by 0.22 mln euros and in the relevant quarter of 2013 the revaluation impact was positive by 0,56 mln euros.

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 is thereby still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling 4.0 mln euros.

Effective interest rate (incl. swap interests) in the 1st quarter of 2013 was 3.28%, amounting in the interest costs of 0.78 mln euros, compared respectively to 3.39% and 0.82 mln euros in the 1st quarter of 2012.

Profit Before and After Tax

The Company's profit before and after taxes for the 1st quarter of 2013 was 6.2 mln euros, which is 0.09 mln euros lower than the profit before and after taxes of 6.3 mln euros for the 1st quarter of 2012, resulting from the movements in fair value of financial instruments and released provisions as described above.

Balance sheet

In the three months of 2013 the Company invested 0.95 mln euros into fixed assets. As of 31 March 2013 non-current fixed assets amounted to 150.0 mln euros and total non-current assets amounted to 155.7 mln euros.

Current assets increased by 8.0 mln euros to 50.6 mln euros in the three months mainly due to increased cash at bank. In the three months of 2013, cash at bank increased by 8.6 mln euros.

Current liabilities decreased by 0.56 mln euros to 9.3 mln euros in the three months due to decreased customer prepayments, payments to suppliers and fair value of financial instruments – the latter being a technical transaction rather than an increase in current liabilities.

The Company has a Total debt/Total assets level as expected of 55.9%, in range of 55%-65%, reflecting the beginning of the year equity profile. This level is consistent with the same period in 2012 when the total debt/total assets ratio was 57.0%.

Long-term liabilities stood at 106.1 mln euros at the end of March 2013, consisting mainly of the outstanding balance of three long-term bank loans totalling 95 mln euros. The first repayment of loans or refinancing should take place at the end of 2014. The weighted average interest margin for the total loan facility is 0.96%. 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 on-going, the Management has not changed the evaluation of the contingent liability.

Cash flow

During the three months of 2013, the Company generated 8.3 mln euros of cash flows from operating activities, an increase of 0.96 mln euros compared to the corresponding period in 2012. 2013 operating cash flows were above 2012 cash flows mainly due to changes in trade debtors and payables. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the three months of 2013 net cash flows from investing activities resulted in a cash inflow of 1.0 mln euros, a decrease of 0.21 mln euros compared to an inflow of 1.2 mln euros in the three months of 2012. This is mainly due to lower capex spent on assets acquisitions and compensations for construction of pipelines.

In the three months of 2012 the cash outflows related to the fixed asset investments were 1.6 mln euros compared to 1.7 mln euros spent in the same period of 2012, a decrease of 0.08 mln euros. The compensations received for the construction of pipelines were 2.4 mln euros in the three months of 2013, a decrease of 0.42 mln euros compared to same period in 2012. In 2013 the Company did not give further loans to AS Maardu Vesi. In 2012 the loan granted to AS Maardu Vesi amounted to 0.23 mln EUR.

In the three months of 2013, cash outflow from financing amounted to 0.76 mln euros due to interests paid and loan financing costs, which is 0.04 mln euros more than in the same period of 2012.

As a result of all of the above factors, the total cash inflow in the three months of 2013 was 8.6 mln euros compared to a cash inflow of 7.9 mln euros in 2012. Cash and cash equivalents stood at 32.5 mln euros as of 31 March 2013, which is 9.9 mln euros higher than at the corresponding period of 2012.

Employees

At the end of the 1st quarter of 2013, the total number of employees was 309 compared to 310 at the end of the 1st quarter of 2012. The full time equivalent (FTE) was respectively 295 in 2013 compared to the 298 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.

Corporate structure

At the end of the quarter, 31 December 2012, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Share performance

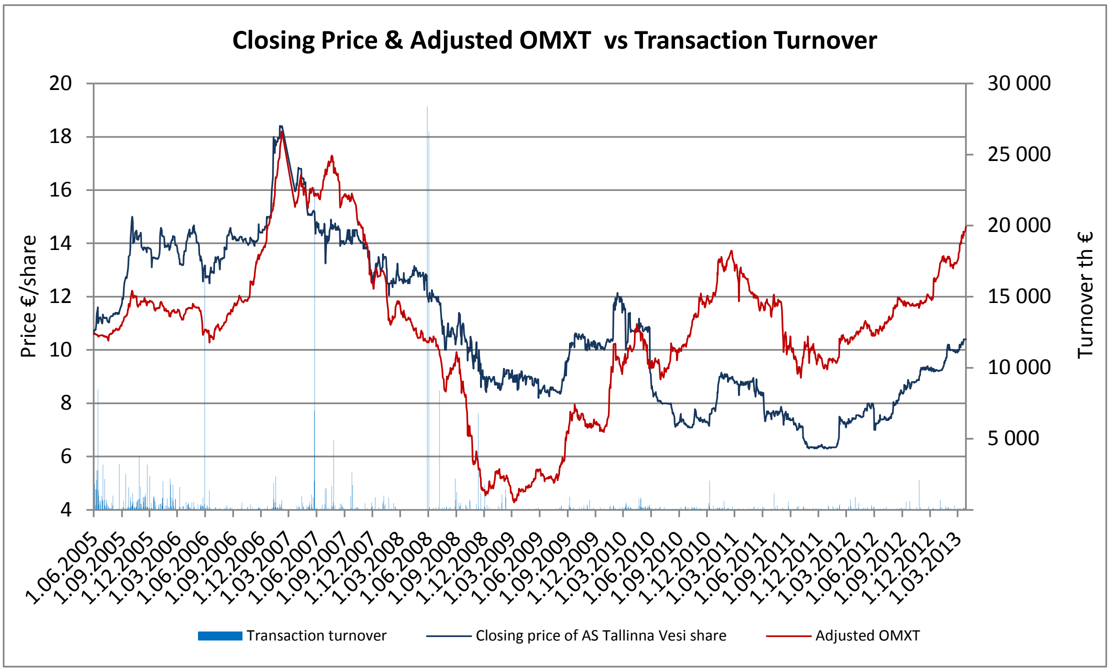
AS Tallinna Vesi is listed on NASDAQ OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31 March 2013 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 1.10% of the shares of the Company as per Company's best information as of 31 March 2013. As Parvus has reduced their holding in the Company pension funds have continued to increase their portfolios during the 1st quarter of 2013, owning 2.43% of the total shares compared to 1.25% at the end of 1st quarter 2012.

At the end of the quarter, 31 March 2013, the closing price of the AS Tallinna Vesi share was 10.40 euros, which is a 13.04% increase compared to the closing price of 9.20 euros at the beginning of the quarter. During the same period the OMX Tallinn index rose by 14.17%. In the 1st quarter the Company's share price was mainly impacted by the on-going contractual debate, interim court decisions and impending dividend payment announcement.



Operational highlights in 1st quarter 2013

Indicator	2012 Q1	2013 Q1
Drinking water		
Compliance of water quality at the customers tap	100%	99,87%
Water loss in the water distribution network	17.64%	17.44%
Average duration of water interruptions per property, h	2.86 h	3.12 h
Number of customer contacts regarding water pressure	204	147
Wastewater		
Number of sewer blockages	218	251
Number of customer contacts regarding blockages and storm water	418	422
Wastewater treatment compliance with environmental standards	100%	100%
Customer service		
Responding written customer contacts within at least 2 work days	99.2%	99.1%
Number of written contacts	44	38
Number of failed promises	3	3
Notification of unplanned water interruptions at least 1 h before the interruption	88.9%	96.0%

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:
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MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of consolidated condensed financial statements for the 3 months period of financial year 2013 ended 31 March 2013. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 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 management report gives a true and fair view of the main events that occurred during the 3 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 9 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 25 April 2013 have been considered in preparing the financial statements.

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

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

Leho Võrk
Member of the Management Board
Customer Operations Director

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

25 April 2013

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

CONCOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

		as of 31 March		as of 31 December
ASSETS	**Note**	**2013**	**2012**	**2012**
CURRENT ASSETS				
Cash and cash equivalents	2	32 511	22 636	23 935
Trade receivables, accrued income and prepaid expenses		17 748	21 531	18 323
Inventories		362	271	356
TOTAL CURRENT ASSETS		**50 621**	**44 438**	**42 614**
NON-CURRENT ASSETS				
Other long-term receivables		5 647	6 380	7 560
Property, plant and equipment	3	148 913	145 915	149 400
Intangible assets	3	1 102	1 502	1 154
TOTAL NON-CURRENT ASSETS		**155 662**	**153 797**	**158 114**
TOTAL ASSETS		**206 283**	**198 235**	**200 728**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		118	29	115
Trade and other payables		5 272	4 855	5 482
Derivatives		1 949	1 780	2 039
Prepayments		1 994	1 378	2 252
TOTAL CURRENT LIABILITIES		**9 333**	**8 042**	**9 888**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		8 285	6 922	7 892
Borrowings		95 692	95 150	95 717
Derivatives		2 066	2 931	2 538
Other payables		20	9	20
TOTAL NON-CURRENT LIABILITIES		**106 063**	**105 012**	**106 167**
TOTAL LIABILITIES		**115 396**	**113 054**	**116 055**
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		52 875	47 169	46 661
TOTAL EQUITY		**90 887**	**85 181**	**84 673**
TOTAL LIABILITIES AND EQUITY		**206 283**	**198 235**	**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 1		for the year ended 31 December
	Note	**2013**	**2012**	**2012**
Revenue	4	12 693	12 993	52 924
Costs of goods sold	6	-5 169	-4 809	-20 337
GROSS PROFIT		**7 524**	**8 184**	**32 587**
Marketing expenses	6	-223	-216	-772
General administration expenses	6	-1 127	-1 051	-4 740
Other income (+)/ expenses (-)	7	-18	32	1 696
OPERATING PROFIT		**6 156**	**6 949**	**28 771**
Financial income	8	846	391	1 591
Financial expenses	8	-788	-1 034	-3 297
PROFIT BEFORE TAXES		**6 214**	**6 306**	**27 065**
Income tax on dividends	9	0	0	-4 466
NET PROFIT FOR THE PERIOD		**6 214**	**6 306**	**22 599**
COMPREHENSIVE INCOME FOR THE PERIOD		**6 214**	**6 306**	**22 599**
Attributable profit to:				
Equity holders of A-shares		6 213	6 305	22 598
B-share holder		0,60	0,60	0,60
Earnings per A share (in euros)	10	0,31	0,32	1,13
Earnings per B share (in euros)	10	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	Quarter 1 2013	Quarter 1 2012	for the year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		6 156	6 949	28 771
Adjustment for depreciation/amortisation	6	1 487	1 434	5 879
Adjustment for profit from government grants and connection fees		-2	-78	-2 043
Other non-cash adjustments		-20	4	-153
Profit/loss(+) from sale and write off of property, plant and equipment, and intangible assets		-20	-1	-6
Change in current assets involved in operating activities		350	-631	-160
Change in liabilities involved in operating activities		369	-321	-568
Total cash flow from operating activities		**8 320**	**7 356**	**31 720**
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted		0	-227	-765
Acquisition of property, plant and equipment, and intangible assets		-1 634	-1 717	-10 011
Proceeds from sales of property, plant and equipment		20	1	38
Compensations received for construction of pipelines		2 350	2 769	11 198
Interest received		281	401	1 585
Total cash flow used in investing activities		**1 017**	**1 227**	**2 045**
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-731	-717	-3 272
Repayment of finance lease		-30	0	-61
Dividends paid	9	0	0	-16 801
Income tax on dividends	9	0	0	-4 466
Total cash flow used in financing activities		**-761**	**-717**	**-24 600**
Change in cash and cash equivalents		**8 576**	**7 866**	**9 165**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**23 935**	**14 770**	**14 770**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**32 511**	**22 636**	**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**
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
Comprehensive income for the period	0	0	0	6 306	6 306
as of 31 March 2012	**12 000**	**24 734**	**1 278**	**47 169**	**85 181**
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 661**	**84 673**
Comprehensive income for the period	0	0	0	6 214	6 214
as of 31 March 2013	**12 000**	**24 734**	**1 278**	**52 875**	**90 887**

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 March		**as of 31 December**
	2013	**2012**	**2012**
Cash in hand and in bank	1 934	1 341	1 859
Short-term deposits	30 577	21 295	22 076
Total cash and cash equivalents	**32 511**	**22 636**	**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		
	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 2011									
Acquisition cost	24 248	162 106	40 594	1 175	2 849	1 677	222	5 362	238 233
Accumulated depreciation	-5 111	-52 920	-27 837	-808	0	0	0	-4 007	-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 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 book 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
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 March 2013									
Acquisition in book value	0	0	0	0	714	138	96	0	948
Reclassification	0	1 764	473	1	-1 831	-409	-52	54	0
Depreciation	-69	-700	-548	-20	0	0	0	-150	-1 487
as of 31 March 2013									
Acquisition cost	24 793	169 143	44 278	1 299	1 141	769	69	5 953	247 445
Accumulated depreciation	-5 453	-56 233	-29 946	-878	0	0	0	-4 920	-97 430
Book value	**19 340**	**112 910**	**14 332**	**421**	**1 141**	**769**	**69**	**1 033**	**150 015**

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 March 2013 the book value of the assets (Machinery and equipment) leased under financial lease is 902 thousand euros (31 December 2012: 886 thousand euros).

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

NOTE 4. REVENUE

Revenues from main operating activities	Quarter 1 2013	Quarter 1 2012	for the year ended 31 December 2012
Total water supply and waste water disposal service, incl:	11 719	11 895	47 912
Private clients, incl:	5 932	6 054	23 789
Water supply service	3 264	3 330	13 096
Waste water disposal service	2 668	2 724	10 693
Corporate clients, incl:	4 606	4 569	18 767
Water supply service	2 509	2 464	10 248
Waste water disposal service	2 097	2 105	8 519
Outside service area clients, incl:	1 002	1 097	4 524
Water supply service	253	255	1 028
Waste water disposal service	661	662	2 684
Storm water disposal service	88	180	812
Over pollution fee	179	175	832
Storm water treatment and disposal service	673	838	3 713
Fire hydrants service	53	41	202
Other works and services	248	219	1 097
Total revenue	**12 693**	**12 993**	**52 924**

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

NOTE 5. STAFF COSTS

	Quarter 1 2013	Quarter 1 2012	for the year ended 31 December 2012
Salaries and wages	-1 338	-1 212	-5 150
Social security and unemployment insurance taxation	-458	-418	-1 718
Staff costs total	**-1 796**	**-1 630**	**-6 868**
Number of employees at the end of reporting period	**309**	**310**	**313**

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

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

	Quarter 1		for the year ended 31 December
Cost of goods sold	**2013**	**2012**	**2012**
Water abstraction charges	-246	-240	-937
Chemicals	-420	-365	-1 631
Electricity	-935	-932	-3 695
Pollution tax	-216	214	-347
Staff costs	-1 216	-1 123	-4 750
Depreciation and amortization	-1 299	-1 282	-5 167
Other costs of goods sold	-837	-1 081	-3 810
Total cost of goods sold	**-5 169**	**-4 809**	**-20 337**
Marketing expenses			
Staff costs	-116	-107	-373
Depreciation and amortization	-81	-81	-326
Other marketing expenses	-26	-28	-73
Total marketing expenses	**-223**	**-216**	**-772**
Administrative expenses			
Staff costs	-464	-400	-1 745
Depreciation and amortization	-81	-71	-295
Other general administration expenses	-582	-580	-2 700
Total administrative expenses	**-1 127**	**-1 051**	**-4 740**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 1		for the year ended 31 December
	2013	**2012**	**2012**
Profit from government grant	0	77	2 037
Connection fees	28	23	96
Depreciation of single connections	-26	-22	-91
Doubtful receivables expenses (-) / expense reduction (+)	-1	-3	-169
Other income / expenses (-)	-19	-43	-177
Total other income / expenses	**-18**	**32**	**1 696**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Quarter 1		for the year ended 31 December
	2013	**2012**	**2012**
Interest income	284	391	1 591
Interest expense, loan	-274	-433	-1 358
Interest expense, swap	-505	-382	-1 851
Increase (+) /decrease (-) of fair value of swap	561	-223	-89
Other financial income (+)/ expenses (-)	-8	4	1
Total financial income / expenses	**58**	**-643**	**-1 706**

NOTE 9. DIVIDENDS

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

Income tax rates in 2013 and 2012 were 21/79.
No dividends have been announced or paid in the 1st quarters of 2013 and 2012.

NOTE 10. EARNINGS PER SHARE

	Quarter 1		for the year ended 31 December
	2013	**2012**	**2012**
Net profit minus B-share preferred dividend rights	6 213	6 305	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
Earnings per A share (in euros)	0,31	0,32	1,13
Earnings per B share (in euros)	600	600	600

Diluted earnings per share for the periods ended 31 March 2013 and 2012 and 31 December 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 March**		**as of 31 December**
	2013	**2012**	**2012**
Accounts receivable	1 902	4 582	4 919
Accrued income	9 578	10 282	7 123
Other long-term receivables	1 859	3 002	3 746
Deferred income	0	21	0
Trade and other payables	182	224	187

Transactions	**Quarter 1**		**for the year ended 31 December**
	2013	**2012**	**2012**
Revenue	726	869	3 877
Government grant receivable for constructing new pipelines	0	298	4 429
Purchase of administrative and consulting services	244	241	998
Financial income	191	288	1 226
Short-term employee benefits to Management Board (excluding social tax)	71	64	326
Supervisory Board fees excluding social tax	10	10	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".

In the first quarters of 2013 and 2012 no termination fees were paid to the Management Board members. In 2012 45 thousand euros was paid to Management Board members as termination fees. The off balance sheet potential salary liability would be up to 90 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 March 2013 from all Supervisory Council and Management Board members Leho Võrk owned 179 and Riina Käi owned 100 shares (as of 31 March 2012: Leho Võrk owned 179 shares and Siiri Lahe owned 700 shares and 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
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 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 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.