



**Social Responsibility and
Sustainable Development Report
2012**

Tallinna Vesi



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ABOUT THIS REPORT

Being Estonia's largest water company, our activity affects the quality of life of almost one third of Estonia's population and its surrounding natural habitat. We supply customers with pure drinking water, and collect and treat wastewater and stormwater. Providing high quality service is part of our everyday work that requires commitment and hard work.

We wish to be a trusted partner to our customers, investors, employees and representatives of the community, therefore we aim at disclosing regular information on our activities, financial situation and performance.

AS Tallinna Vesi's report on social responsibility and sustainable development provides an overview of the Company's activities and performance in 2012 in the area of sustainable development in economic, social and environmental perspective. The preparation of a report we have been used this three important aspects of corporate responsible. We believe that our performance today reflects the highest management standards of the Company.

This first report has been compiled in line with the guidelines for the international reporting standard Global Reporting Initiative (GRI) G3.1 level C+, a more detailed overview of which is presented in the GRI table of indicators in the end of the report. Certification materials for International Organization for Standardization (ISO) and Occupational Health and Safety Advisory Services (OHSAS), certified Eco-Management and Audit Scheme (EMAS) environmental report and the annual report together with the financial statement have been used when determining the important topics of the report.

This social responsibility and sustainable development report is the first report and our target is to start publishing this report each year. Our report includes also 100% owned subsidiary OÜ Watercom.

Additional information on the activities of the Company is available at: www.tallinnavesi.ee. Any questions concerning the report can be asked from the Head of Communications of AS Tallinna Vesi (mariliis.topp@tvesi.ee or +372 626 2275).

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vastutustundlik
ettevõtte 2012



CHAIRMAN'S STATEMENT

In 2012, AS Tallinna Vesi has continued to deliver a standard of product and service that is without comparison across the Baltic region. Once again we have managed to improve our performance across all business areas. These successes demonstrate that our sharp focus on operational performance continues to deliver significant benefits for the citizens of Tallinn and the wider environment.

Operations performance- continuous improvement and highest ever standards

We have continued to ensure we meet or exceed the services contract we signed with the City of Tallinn. This services contract requires us to maintain a high standard of service to our customers across a range of 97 levels of quality service, ensuring that we deliver a service to our customers that is second to none.



*Ian John Plenderleith
Chairman of the Management Board*

During 2012 we had continuously improved our performance across all areas of the water and wastewater value chain, achieving the highest standards ever for wastewater treatment, and the performance of both our water network and wastewater network. After setting new high standards in 2011 we are extremely proud to have surpassed these levels in 2012, a clear demonstration of the success of our strategy of continuous improvement.

Excellent customer service – highest ever service ranking

This year our customer satisfaction rating increased to a TRI*M index all time high of 85. This is a huge improvement from the rating of 72 points at the end of 2011. We are now starting to see the benefits of our improved operational performance in our customer satisfaction results. Over the last few years we have made significant reductions in the number of interruptions to supply and other service related problems, for example since 2010 we have reduced the number of sewer blockages from 1 193 to 749. In addition, we have always tried to ensure our customers know in advance about our work when it would impact their daily lives. During the year over 90% of customers that were being impacted by our activities were notified in advance. In 2012, these proactive improvements were well recognised in the comments made by our customers in the results of our customer satisfaction survey.

Our people and teams

The people in ASTV are key to the delivery of the highest levels of service to our customers and we would like to thank them for their dedication and continued hard work during the year.

We believe that a committed, capable and motivated workforce is central to delivering our strategy and we remain fully focused on maintaining high levels of employee development and engagement. We strive to give our staff the opportunity to develop within the company, which can be seen in the fact that three of our five Management Board members have been promoted from within AS Tallinna Vesi.

The safety and well-being of our employees is paramount and we believe that everybody in AS Tallinna Vesi, both collectively and individually, has a part to play in maintaining a safe working environment. In 2012, our health and safety performance stood comparison with the performance of the best in class, and we will remain vigilant in our efforts to achieve the same very high standards in 2013.

Responsible company

As a company we are responsible to our shareholders, customers and other stakeholders for the performance and long-term success of our company. We believe that the way in which we operate already reflects the highest standards of corporate governance. In 2012, our approach to doing business was reflected in the following nominations and awards:

- Responsible Company - Gold award of the Responsible Business Forum in Estonia
- Environmentally friendly Office - the Ministry of Environment
- European Union Commission's EMAS 2012 Award - nomination for environmental performance
- BMA awards - Nasdaq OMX - Best IR 2nd in the Baltics.

The community in which we operate is of great importance to our business and we have continued our investment in Tallinn through sponsorship and in terms of employee time through volunteering. Our main partners in 2013 were as follows:

- Ristiku Elementary School
- Õunakese Kindergarten
- Estonian Disabled Sports Union
- Dark Nights Film Festival (PÖFF) in Tallinn.

Stable financial results

We are a financially robust and resilient business. Our turnover from our main business activity - sales of water and wastewater - increased by 3.1% to 47.9 million euros and our operating profit from these activities increased by 5.2% to 26.7 million euros. The real return (net of inflation) on invested capital in our main business was 6.6% in 2012 and 6.9% over the five year period from 2007 to 2011, which is in accordance with the rates of return made by other privatised water utilities.

In 2012, we improved the long term financial stability of the company by extending our 37.5m Euro loan facility with Nordea bank, extending the maturity on this loan from November 2013 to 2018. By securing this re-financing early we have removed capital market risk by securing our capital structure for a further two years.

Objectives for 2013

We are committed to delivering the highest levels of service to all our direct customers and service users. In 2013, our primary focus will be on improving performance and efficiency in our main services area in Tallinn. By continuing our focussed approach to operational improvements and developing a repeatable business model we believe we will be ideally placed to expand across the region, once our current legal dispute is behind us.

Finally, I would like to thank my colleagues in AS Tallinna Vesi and Watercom OÜ, and all our suppliers and business partners for all their expertise, energy and support in serving our customers in this difficult time. It is because of all your efforts that we are, once again, able to report a level of operating and service performance that is second to none.

HIGHLIGHTS of 2012

- The quality of drinking water was better than ever before. 99.6% of water samples taken at the customers' taps throughout the year complied with all legal quality requirements, keeping the quality level comparable to Western-Europe countries.
- Leakage level has been reducing year-on-year. In 2012 the level of leakages dropped to 15.86%, which is the lowest ever level. Around 10 years ago the leakage level was over 32% meaning that over 13,000 m³ of treated drinking water is currently saved on a daily basis.
- Our focus continues to lie on the risks related to potential floodings and pollution. In 2012, our customers experienced less problems with blockages in the network and wastewater discharge service than before.
- In 2012, there were only 715 sewer blockages causing inconvenience for the population, which is the lowest number in this decade. In 1999, there were 2000 sewer blockages.
- It is essential to ensure the availability of services for the population 24h. Therefore we focus on increasing the security of supply. The number of customer inquiries related to pressure has reduced by 70% over a year, which implies to our ability to provide water supply with the right pressure.
- The most important customer service objective in 2012 was to make sure that our customers know what and when will happen. We managed to achieve that objective in 91% of cases.
- The quality of treated effluent complied with all quality parameters in 2012. The main focus was on making the work more efficient in all treatment stages in order to achieve maximum treatment results in the conditions where pollution loads exceed process capacities.
- The Company achieved or outperformed all of the 97 levels of service agreed upon in the Services Agreement signed with the City of Tallinn.
- Thanks to the last stage of wastewater treatment process, biofilter, the level of nitrogen going to the Bay of Tallinn has reduced by almost 57%. Thus, the content of one of the most important pollutants in wastewater was reduced by 208 tons. The amount of nitrogen led to the Baltic Sea is the smallest in our history.
- With regard to customers' satisfaction with our performance, the score of 85 on a scale of 100, which is the best score so far, placed us in the top ten of European manufacturing companies.
- We continued to work on improving the environmental awareness of the population. Our campaign "Tap Water = Drinking Water" draws attention to the excellent quality of tap water. We continued our cooperation with restaurants under the slogan "Cheers to Nature – Drink Tap Water" to encourage people to ask for tap water when having a meal out. Customer satisfaction survey also demonstrated growth in the number of people drinking tap water.
- In order to explain water circulation and the need for environmental protection to children we continued our cooperation with educational institutions. In 2012, environmental knowledge was shared with over 2000 children in kindergartens and schools.
- 2012 attracted approximately 2300 visitors to the treatment plants from both schools and other companies.
- In 2012, we signed an agreement with 17 companies for developing corporate social responsibility in Estonia.
- As a recognition of our environmental performance, the EU Commission submitted us to be a nominee for the EMAS 2012 award.
- Nasdaq OMX awarded AS Tallinna Vesi as the second best company for Investor Relations. In addition to that our investors' homepage and our annual report came second among the listed companies in the Baltics.
- Det Norske Veritas confirmed the compliance of the management systems of AS Tallinna Vesi and our subsidiary OÜ Watercom with ISO 9001, ISO 1400 and OHSAS 18001 standards. Compliance with the EMAS (Eco-Management Audit Scheme) requirements was confirmed as well.

GENERAL FACTS

- AS Tallinna Vesi is the largest water utility company in Estonia, providing drinking water and wastewater disposal services to approximately 1/3 of Estonia's population.
- We provide water and wastewater disposal services to over 22,000 customers and 430,000 end consumers in Tallinn and its surrounding areas.
- We have the exclusive right to provide water and sewerage services in the Tallinn service area until the year 2020.
- A services agreement with 97 quality levels of service has been concluded between the city of Tallinn and the Company for providing the services.
- We have two main treatment plants: Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant.
- Water has been treated at Ülemiste since 1927. A new water treatment plant was built in 1979.
- In 2012 the Water Treatment Plant produced an average of 60,000 m³ of water per day.
- Almost 90% of drinking water is produced from surface water. Lake Ülemiste is the main source of drinking water for the residents of Tallinn and, therefore, the lake is not a public water body. 10% of the consumers use regional ground water.
- Average water consumption in 2012 was 94 litres per inhabitant. Water consumption has remained stable during previous years.
- Paljassaare Wastewater Treatment Plant started operating in 1980.
- In 2012 the Wastewater Treatment Plant treated on an average 156,000 m³/day.
- We have an accredited water laboratory and an accredited wastewater laboratory, which together conducted approximately 135,000 analyses in 2012.
- The public water supply system comprises almost 1108 km of water networks, 17 water pumping stations and 67 ground water borehole pumping stations with 93 boreholes.
- The public sewerage system comprises 1127 km of wastewater networks, 456 km of storm water networks and over 163 sewerage pumping stations across the service area.
- In 2010 we founded 100% owned subsidiary, Watercom, to diversify the product offering and pursue business development and growth.
- In 2012, AS Tallinna Vesi and our subsidiary employed a total of 313 employees.
- Our shares are listed on the main list of Tallinn Stock Exchange.

Operational sites

- Head office, customer service, support services and OÜ Watercom in Ädala 10, Tallinn.
- Ülemiste water treatment plant, water and microbiological laboratory in Järvevana road 3, Tallinn.
- Paljassaare wastewater treatment plant, composting fields and wastewater laboratory in Paljassaare põik 14, Tallinn.
- Sludge composting and experimental site in Liikva village, Harju county.
- The catchment area ca 1800 square kilometres in Harju and Järvamaa counties.

Mission

We create better life with pure water.

Vision

Everyone wants to be our customer, employee and partner because we are the leading water services company in the Baltic's.

Our values

CREATIVITY

We have the courage and the energy to seek for new opportunities and achieve better solutions.

CUSTOMER FOCUS

Our actions help our customers and colleagues to find solutions.

PROACTIVITY

Act today for a better tomorrow.

TEAMWORK

We all form one team whose success depends on me and my colleague's contribution.

COMMITMENT

We work with passion, doing the maximum to achieve the objectives.

RESULTS OF OPERATIONS

Statement of comprehensive income

Sales

In 2012 the Company's total sales increased year on year by 3.3% to 52.9 mln euros. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system. There is no considerable seasonality in the Company's operation.

Sales of water and wastewater services were 47.9 mln euros, a 3.1% increase compared to 2011, resulting from the rise in sales volumes as described below.

Within the service area, sales to residential customers increased by 0.3% to 23.8 mln euros. Sales to commercial customers increased by 2.9% to 18.8 mln euros. Sales to customers outside of the service area increased by 19.4% to 4.5 mln euros compared to 2011. Over pollution fees received were 0.83 mln euros, a 7.6% increase compared to 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 stayed broadly flat year on year. The volumes sold to commercial customers inside the service area increased by 2.7% compared to the respective period in 2011, mainly due to improvement in industrial sector.

Volumes sold to outside service area were 30.2% higher than in 2011. The main factor in this increase was higher storm water and sewage volumes in 2012 compared to 2011, resulting in sales increase of 19.4% year on year.

The sales from operation and maintenance of storm water and fire-hydrant system increased by 9.6% to 3.9 mln euros in 2012 compared to last year. 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.

Other main economic indicators

million euros	2012	2011	2010
Sales	52,9	51,2	49,7
Gross profit	32,6	30,3	29,0
Operating profit	28,8	28,9	27,5
Operating profit - main business	26,7	25,4	24,2
Profit before taxes	27,1	25,8	24,9
Net profit	22,6	21,5	16,4
Gross profit margin %	61,6	59,2	58,4
Operating profit margin %	54,4	56,4	55,3
Profit before taxes margin %	51,1	50,3	50,1
Net profit margin %	42,7	42,0	33,0
ROA %	11,3	11,2	8,9
Debt to total capital employed	57,8	58,9	60,1
ROE%	26,7	27,3	22,4
Current ratio	4,3	4,1	2,1
Number of full-time equivalent employees	301	299	305
Share capital	12,0	12,0	12,8

Gross profit margin – Gross profit / Net sales
 Operating profit margin – Operating profit / Net sales
 Profit before taxes margin – Profit before taxes / 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 / Shareholders' equity
 Current ratio – Current assets / Current liabilities

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 20.3 mln euros in 2012, a decrease of 0.59 mln euros or 2.9% from the equivalent period in 2011. The cost decrease is mainly the result of savings from switching from outsourcing to insourcing balanced by increased costs due to higher staff, electricity and chemicals costs as explained below.

Total variable costs decreased by 0.10 mln euros or 1.5% 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:

- Water abstraction charges increased only by 0.04 mln euros or 4.5% to 0.94 mln euros in 2012, despite of 10% increase in tax rates due to positive impact from reduced leakage ratio.
- Total chemical costs increased by 0.20 mln euros or 13.8% to 1.6 mln euros. Chemicals costs increased due to an increase in chemicals price worth 0.13 mln euros (0.07 mln euros coming from methanol price increase by 10%) and due to higher volume impact worth 0.07 mln euros.
- Electricity costs in total increased by 0.72 mln euros or 24.3% in 2012 compared to 2011. Electricity costs were the most impacted by considerable increase in electricity prices, which on average have increased 13.8% with an adverse effect of 0.45 mln euros, in addition the Company was affected by the adverse impact from the increased treated storm water volumes.
- Pollution tax decreased by 1.1 mln euros or 75.4% in 2012. The pollution tax cost was largely impacted by the fact that the Company released a one-off provision related to storm water outlet not fully in control of the Company. Significant improvements in nitrogen removal process also balance the pollution tax increase due to the 15% increase in tax rates and 12.2% increase in volumes.
- 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 Group in second half of 2011 when we finished the construction and implemented the additional stage in sewage treatment process.

To mitigate the external price risk of maintenance services the Company has switched from outsourcing to in-sourcing in various areas in the 3rd quarter of 2012. Total fixed cost of goods sold in the main operating activity decreased by 0.49 mln euros or 3.4% year on year due to said switch.

Due to the start-up of services the Company increased its headcount resulting in 0.36 mln euros or 8.2% increase in salary costs due to overall increase in headcount, which was offset by cost savings for maintenance services and transportation, worth 0.54 mln euros.

As a result of all of the above the Company's gross profit for 2012 was 32.6 mln euros, which is an increase of 2.3 mln euros, or 7.5%, compared to the gross profit of 30.3 mln euros for the 2011.

Other Operating Costs

Marketing expenses increased by 0.02 mln euros or 3.1% to 0.77 mln euros during 2012 compared to the corresponding period in 2011.

In 2012 the General administration expenses increased by 0.45 mln euros or 10.4% year on year to 4.7 mln euros, mainly due to the increase in legal consultancies acquired in the process of tariff dispute.

Other income/expenses

Other net income decreased by 1.9 mln euros or 53.1% to a net income of 1.7 mln euros, compared to 3.6 mln euros net income in 2011. The considerable variances are not related to the main operating performance of the Company.

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 income from this activity have considerably dropped. Profits from constructions and government grants recorded in 2012 were 2.0 mln euros compared to a net income of 3.5 mln euros in 2011.

The rest of the other income/expenses totalled an expense of 0.35 mln euros in 2012 compared to an income of 0.14 mln euros in 2011 that was mainly related to an increase in doubtful debts.

As a result the Company's operating profit from main services for 2012 totalled 26.7 mln euros compared to 25.4 mln euros in 2011. In total the Company's operating profit for all activities for 2012 was 28.8 mln euros, a decrease of 0.12 mln euros compared to an operating profit of 28.9 mln euros achieved in 2011. Year on year the operating profit for 2012 has decreased by 0.4%.

Financial expenses

Net Financial expenses were 1.7 mln euros in 2012, which is a decrease of 1.4 mln euros in expenses compared to 3.1 mln euros net expenses in 2011. In 2011 the financial costs were mainly impacted from the non-cash revaluation of the fair value of swap agreements, in 2011 the revaluation impact was negative by 2.2 mln euros and in 2012 the revaluation impact was negative by 0.09 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 the of the financial year the estimated fair value of the swap contracts is negative, totalling 4.6 mln euros.

Effective interest rate (incl. swaps interests) in 2012 was 3.32%, amounting in the interest costs of 3.2 mln euros, compared respectively to 2.99% and 2.9 mln euros in 2011. This reflects mainly the adverse impact from swap agreements.

Profit Before and After Tax

The Company's profit before taxes for 2012 was 27.1 mln euros, which is 1.3 mln euros higher than the profit before taxes of 25.8 mln euros for 2011, resulting from the movements in fair value of financial instruments as described above.

The Company's profit after taxes for the 2012 was 22.6 mln euros, which is 1.1 mln euros higher than the profit after taxes of 21.5 mln euros for 2011.

Statement of financial position

In the twelve months of 2012 the Company invested 11.3 mln euros into fixed assets. As of 31 December 2012 non-current assets amounted to 158.1 mln euros.

Current assets increased by 7.7 mln euros to 42.6 mln euros in the year mainly due to increased cash at bank. In the twelve months of 2012, cash at bank increased by 9.2 mln euros.

Current liabilities increased by 1.4 mln euros to 9.9 mln euros in the year due to increased customer prepayments and fair value of financial instruments.

The Company has a Total debt/Total assets level as expected of 57.8%, in range of 55%-65%, reflecting the year-end equity profile. This level is consistent with the same period in 2011 when the total debt/total assets ratio was 58.9%.

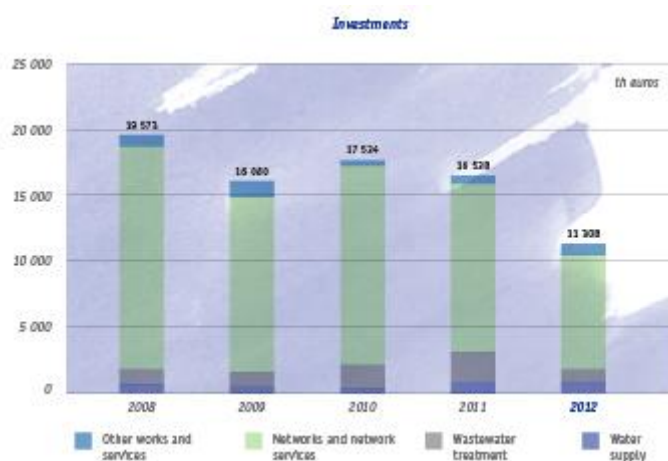
Long-term liabilities stood at 106.2 mln euros at the end of December 2012, consisting mainly of the outstanding balance of three long-term bank loans totalling 95 mln euros. The first repayment of loans or refinancing should take place at the end of 2014. The weighted average interest margin for the 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 disclosed an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros. Considering that the court proceedings are continuously on-going and no conclusion have been made to-date, the Management has not changed the evaluation of the contingent liability.

Cash flow

During the twelve months of 2012, the Company generated 31.7 mln euros of cash flows from operating activities, a decrease of 1.5 mln euros compared to the corresponding period in 2011. 2012 operating cash flows were below 2011 cash flows mainly due to one-off 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 twelve months of 2012 net cash flows from investing activities resulted in a cash inflow of 2.0 mln euros, an increase of 10.5 mln euros compared to an outflow of 8.4 mln euros in the twelve months of 2011. This is mainly due to lower capex spent on network extensions as this program of investments was largely completed by the end of 2011.



In the twelve months of 2012 the cash outflows related to the fixed asset investments were 10.0 mln euros compared to 18.5 mln euros spent in the same period of 2011, a decrease of 8.5 mln euros. The compensations received for the construction of pipelines were 11.2 mln euros in the twelve months of 2012, a decrease of 0.09 mln euros compared to same period in 2011. In 2012 we also gave the 0.77 mln euros loan to AS Maardu Vesi according to the Operating agreement signed in 2008. In 2011 the loan granted to AS Maardu Vesi amounted to 3.2 mln EUR.

In the twelve months of 2012, cash outflow from financing amounted to 24.6 mln euros due to dividends paid to shareholders, dividend tax payment and interest payment which is 1.3 mln euros more than in the same period of 2011.

As a result of all of the above factors, the total cash inflow in the twelve months of 2012 was 9.2 mln euros compared to a cash inflow of 1.5 mln euros in 2011. Cash and cash equivalents stood at 23.9 mln euros as of 31 December 2012, which is 9.2 mln euros higher than in the end of 2011.

Employees

At the end of 2012, the total number of employees was 313 compared to 311 at the end of 2011. The full time equivalent (FTE) was respectively 301 in 2012 compared to the 299 in 2011. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure.

The total salary cost was 6.9 mln euros, including 0.37 mln euros paid to the Management and Supervisory Board members. The off balance sheet potential salary liability would be up to 0.03 mln euros if the Supervisory Board would want to replace the Management Board member.

Corporate structure

At the end of the year, as of 31 December 2012, the Company consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by us and consolidated to the results of the Company.

Dividends and share performance

Based on the results of the 2011 financial year, the Company paid 16,800,600 euros of dividends. Of this, 600 euros was paid to the owner of the B-share and 16,800,000 euros, i.e. 0.84 euros per share to the owners of the A-shares. The dividends were paid out on 15 June 2012, based on the list of shareholders, which was fixed on 05 June 2012.

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

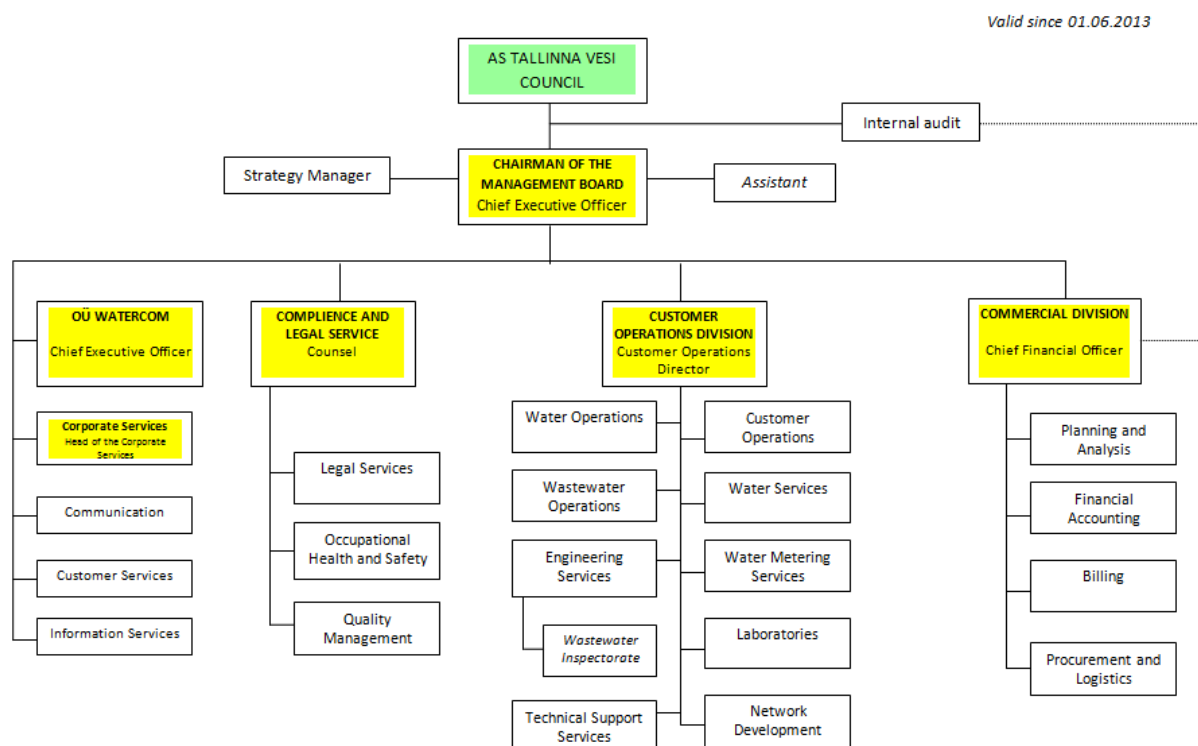
As of 31 December 2012, the shareholders of AS Tallinna Vesi, with a direct holding over 5%, were:

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

Parvus Asset Management owned in total 2.53% of the shares of the Company as per Company's best information as of 31 December 2012. As Parvus has reduced their holding in the Company pension funds have continued to increase their portfolios during 2012, owning 1.98% of the total shares compared to 0.53% at the end of 2011.

At the end of the year, 31 December 2012, the closing price of the AS Tallinna Vesi share was 9.20 euros, which is a 46.26% increase compared to the closing price of 6.29 euros at the beginning of the year. During the same period the OMX Tallinn index rose by 38.22%. Throughout the year the Company's share price was mainly impacted by the on-going contractual debate and interim court decisions.

STRUCTURE AND MANAGEMENT



Corporate governance

Corporate governance constitutes a system of principles for the management of a company. Generally those principles are regulated by law, the Articles of Association and the internal rules of a company. Since 1st January 2006, the companies listed on the Tallinn Stock Exchange are recommended to follow the “Corporate Governance Recommendations” issued by the Financial Supervision Authority. Throughout 2012 the management of AS Tallinna Vesi has followed those regulations and principles.

Investor relations and disclosure of information

At the beginning of each calendar year, AS Tallinna Vesi discloses the financial calendar, including the disclosure dates of the quarterly and annual financial information and the date of the Annual General Meeting (AGM) of the Shareholders via the Tallinn Stock Exchange. All information disclosed via the Tallinn Stock Exchange is also subsequently disclosed on the AS Tallinna Vesi’s website. In addition, AS Tallinna Vesi discloses the following information on its website: AGM notice, useful background information about the agenda and any candidates standing for election, information about identification documents required for attending the general meeting, annual accounts of the previous year, respective auditor’s report, any new agenda items and draft resolutions proposed, and questions about existing agenda items, information about corporate governance and information about the Management and Supervisory Board members as well as the total number of voting rights and number of voting rights by share type. In addition, the following procedures are in place: procedure for familiarising oneself with the general meeting documents, procedure for adding items to the agenda and presenting draft resolutions and procedure for inquiring about the company’s activities from the Management Board. All respective documents are also available at the headquarters of AS Tallinna Vesi until the day before the date of the General Meeting. Resolutions of the General Meetings are published on the AS Tallinna Vesi’s webpage within 7 (seven) days following the date of the General Meeting.

After the general meeting, the following is uploaded to the company’s website: resolutions of the general meeting, Management Board presentation, as well as the minutes of the general meeting, which contain questions and answers regarding the topics discussed at the AGM.

No questions were asked regarding the 2012 AGM agenda. One additional agenda item proposal was submitted for the 2012 AGM by a shareholder asking to send a pre-prepared question to the Prime Minister and Minister of Economic Affairs and Communications of Estonia, asking them how the government is going to safeguard the investments made by local and overseas investors into Tallinna Vesi.

AS Tallinna Vesi has a regular dialogue with its major shareholders and potential investors - presentations are generally made bi-annually and upon request – the timetable of such meetings and the list of presentations are available on the AS Tallinna Vesi’s website. To keep AS Tallinna Vesi’s shareholders informed, General Meetings of Shareholders are held at least annually to provide the shareholders with the opportunity to ask questions from the Management Board and the Supervisory Board.

The general meeting of shareholders

AS Tallinna Vesi is a public limited company, the management bodies of which are the General Meeting of Shareholders, the Supervisory Board and the Management Board. The General Meeting of Shareholders is AS Tallinna Vesi’s highest directing body.

On 22nd May, 2012, AS Tallinna Vesi held an Annual General Meeting (AGM) of its Shareholders to approve the 2011 annual report, distribution of profit via dividends, re-election of Supervisory Board members, as well as to elect auditors and approve sending an enquiry to the Ministry of Economic Affairs and Communications regarding how the ministry plans to ensure investments made by foreign and local

investors would be protected given the recent changes in the law significantly changing the conditions of the company's privatisation. The Management Board also made a presentation on the on-going tariffs dispute to update the shareholders.

In accordance with the Commercial Code and the Corporate Governance Recommendations, AS Tallinna Vesi convenes its General Meetings, both AGMs and EGMs by notifying all of its shareholders via the Tallinn Stock Exchange system and by placing an advertisement in one newspaper with Estonian-wide circulation 3 weeks in advance. Changes in the Articles of Association and management of AS Tallinna Vesi and its subsidiary (incl. the election and recalling of the members of the Management Board) are made according to Part VII of the Commercial Code.

The agendas of AGMs and EGMs of AS Tallinna Vesi are pre-approved by the Supervisory Board, who also puts forward proposals for the attention and voting at the General Meeting. The General Meeting agenda items, the Supervisory Board's proposals, with relevant commentaries about the agenda items, procedural instructions for participating at a General Meeting and how and when to propose additional items to the agenda are disclosed within the General Meeting notice.

Specific rights for adding agenda items granted to shareholders whose shareholding represents at least 1/20 of the share capital are explained in the General Meeting notice as well as on AS Tallinna Vesi's website. Voting rights are explained to the shareholders on AS Tallinna Vesi's website as well as at the beginning of each General Meeting.

The chairman of any AGMs and EGMs is an independent person. In 2012, the AGM was chaired by Mr. Raino Paron, who introduced the procedure for conducting the General Meeting, including the procedure for inquiring about the company's activities from the Management Board.

All members of the Management Board, the Chairman of the Supervisory Board and the auditor participated at the AGM in 2012. When Supervisory Board members stand for election at general meetings, the candidates for these positions usually also participate. However, at the 2012 AGM the UU Supervisory Board member candidates as well as independent Supervisory Board member candidates were unable to participate due to prior commitments. One of the shareholders enquired about their absence and the Company would like to reassure that in the future, all Supervisory Board member candidates would use their best endeavours to participate when they stand for election.

AS Tallinna Vesi does not enable the shareholders to participate at the General Meetings via electronic communication tools, as it would be too complicated and expensive to establish reliable solutions to identify the shareholders most of whom are overseas' residents.

No shareholder has shares that grant them a right for specific control. AS Tallinna Vesi is not aware that any shareholders have concluded any voting agreements.

As per the Articles of Association of AS Tallinna Vesi amended on 24th May 2011, the Company has issued one registered preferred share with the nominal value of 60 euros (B-share). The B-share grants the holder the right to participate at General Meetings as well as in the distribution of profits and of the assets remaining upon dissolution of the Company, also other rights provided by law and the Articles of Association of the Company. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 600 euros. The B-share grants the shareholder 1 (one) vote at the General Meeting (restricted right to vote) when deciding on amending the Articles of Association of the company; increasing and reducing the share capital of the company; issuing convertible bonds; acquisition of treasury shares by the company; deciding on the merger, division, transformation and/or dissolution of the company and deciding on issues related to the activities of the company that have not been placed in the sole.

The Supervisory Board

The Supervisory Board plans the activities of AS Tallinna Vesi, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members with the term of two years. In 2012, five regular and no extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2011 annual report presented to the Annual General Meeting for approval, and reviewed AS Tallinna Vesi's preliminary 2013 budget.

At the time of compilation of this report, AS Tallinna Vesi's Supervisory Board consisted of the following members: Robert John Gallienne (United Utilities), Steven Richard Fraser (United Utilities), Simon Gardiner (United Utilities), Brendan Francis Murphy (United Utilities), Priit Lello (Tallinn City), Rein Ratas (Tallinn City), Toivo Tootsen (Tallinn City), Mart Mägi (independent) and Valdur Laid (independent).

Hr Robert John Gallienne is the Chairman of Supervisory Board. The Supervisory Board has formed three committees to advise the Supervisory Board on audit, nomination and remuneration, and corporate governance matters as described below.

The Audit Committee and Internal Audit

At each meeting, an internal audit report was presented to the Supervisory Board. The internal auditor of AS Tallinna Vesi reports directly to the Audit Committee, which consists of two members of the Supervisory Board. Mr. Mart Mägi is the Chairman of the Audit Committee and Mr. Robert John Gallienne is the second member of the Audit Committee. The Audit Committee follows the Authorised Public Accountants Act and the guidelines issued by the Financial Supervision Authority regarding the composition and working processes of an Audit Committee.

The main tasks of the Audit Committee are:

- to monitor and analyse financial information;
- to monitor and analyse the efficiency of risk management and internal controls;
- to monitor and analyse the processes regarding actual accounts and the consolidated audit report;
- to monitor and analyse independence of appointed external auditor and legality of his/her activity regarding ASTV;
- to evaluate the work of external auditors annually and report to the Supervisory Board about the results of such evaluation.

The appointed external auditor and any member of the external audit team cannot provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2012, the external auditor did not provide any services to AS Tallinna Vesi outside the scope of the annual audit.

Pursuant to the Articles of Association of AS Tallinna Vesi, an external auditor shall be elected by the General Meeting of Shareholders for conducting the annual audit. The remuneration of the external auditor is regulated in the respective contract, signed between the external auditor and the Management Board. AS Tallinna Vesi chooses an external auditor by following internal procurement procedures (which includes approval by the Supervisory Board of AS Tallinna Vesi), ensuring the best match of service quality and the price offered for the services. Offers are taken only from internationally respected, high quality audit companies (the Big 4). AS Tallinna Vesi signs up to 3-year audit contract with a clause that requires the re-appointment of the auditor each year and follows the requirement of the Authorised Public Accountants Act to rotate the auditor after 7 years. Based on the report of the Audit Committee, the Supervisory Board evaluates the quality of the work of the external auditor annually in the course of the approval of the Annual Accounts and discloses the summary of such evaluation in the AGM notice. The external auditor is present at the AGM and participates where necessary.

Nomination and remuneration committee

In 2011 the Supervisory Board renamed the Remuneration Committee as Nomination and Remuneration Committee, which in 2012 continued to advise the Supervisory Board on management remuneration issues and on Management Board nominations. Mr. Valdur Laid is the Chairman of the Nomination and Remuneration Committee and Mr. Robert John Gallienne and Mr. Mart Mägi are the members of the Nomination and Remuneration Committee.

Supervisory Board approves the remuneration principles of the issuer's managers and appoints the Remuneration Committee. The Remuneration Committee recommends the remuneration principles of the Company and exercises supervision that the principles approved by the Supervisory Board and the requirements of the Securities Market Act are being followed.

The Nomination and Remuneration Committee ensures that the proposed remuneration principles are based on the long-term and annual objectives of the Company, taking into account the financial performance of the company and legitimate interests of investors and creditors. The Nomination and Remuneration Committee ensures also that the proportion of remuneration for the principal job and performance related pay (PRP) are in accordance with the duties of the Management Board Member and that the remuneration for principal job forms a sufficient part of the total remuneration. The PRP depends on annual performance and can be adjusted upwards or downwards, incl. not paid at all if so warranted, depending on annual performance results.

Corporate Governance Committee

The Corporate Governance Committee has been formed to improve corporate governance of AS Tallinna Vesi for the benefit of its Supervisory Board and shareholders. Mr. Robert John Gallienne is the Chairman of the Corporate Governance Committee and Messrs Laid and Plenderleith are the other members of the Corporate Governance Committee.

The Management Board

The Management Board is a management body that represents and manages the day-to-day activities of a company in accordance with the law and the Articles of Association of the company. The Management Board is obliged to act in the most economically efficient manner. The Management Board can be composed of three to five members according to the Articles of Association. The Management Board always prepares management reports for Supervisory Board meetings and such reports are disseminated to the Supervisory Board members 1 (one) week in advance of the meeting, as required by the Commercial Code. The Management Board also reports ad hoc to the Supervisory Board ex-meetings, when it feels this is necessary as and when requested by the Chairman of the Supervisory Board.

Both, the Management Board and Supervisory Board members are deemed to be insiders, have signed respective insider agreements, are aware of AS Tallinna Vesi's insider rules and together with their related persons are listed in AS Tallinna Vesi's insider list. In 2012 the Management Board consisted of five members, and at the time of compilation of this report the person in the position of Chief Financial Officer has changed and the role of the Chief Operating Officer has been split in two. The responsibilities of all Management Board members are specified below.

The Chairman of the Management Board is seconded from United Utilities International Ltd, all Management Board members are appointed by the Supervisory Board of AS Tallinna Vesi.

The duties of the Chairman of the Management Board, Mr. Ian John Alexander Plenderleith were, amongst others, to fulfil the everyday obligations of the Chief Executive Officer (CEO) of AS Tallinna Vesi by leading and representing the Company, ensuring the compliance with the contract and the law,

organizing the activities of the Management Board, preparing the strategies and ensuring their implementation.

Until October 2012, the duties of the member of the Management Board, Mr. Leho Võrk, were, amongst others, to fulfil the everyday obligations of the Chief Operating Officer (COO) of AS Tallinna Vesi by managing and being responsible for the operating activities of the Company. Mr. Võrk was appointed to the Management Board from 1st February 2012. Throughout 2011 and until 31st January 2012 Mr. Robert Thomas Yuille was appointed to the role of COO. From 29th October 2012 the role of COO was split into two and from then onwards Mr. Võrk fulfils the everyday obligations of the Customer Operations Director, managing everyday operation of the water and sewerage networks and being responsible for customer services as well as for customer relations with external partners. On 25th April 2013 Leho Võrk, the Customer Operations Director and the member of the Management Board of AS Tallinna Vesi tendered his resignation to the Company and left from AS Tallinna Vesi on 31st of May 2013.

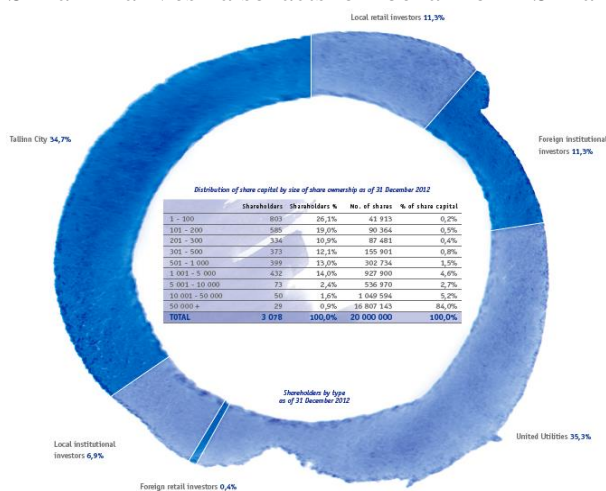
The duties of the member of the Management Board, Mr. Aleksandr Timofejev, are, amongst others, to fulfil the everyday obligations of the Asset Operations Director of AS Tallinna Vesi by managing and being responsible for the operations of treatment facilities and planning and delivery of long-term investments. Mr. Timofejev was appointed to the Management Board from 29th October 2012.

The duties of the member of the Management Board, Ms. Riina Käi, are, amongst others, to fulfil the everyday obligations of the Chief Financial Officer (CFO) of AS Tallinna Vesi by managing and being responsible for the accounting and financial activities of the Company. Ms. Käi was appointed to the Management Board from 29th October 2012.

The duties of the member of the Management Board, Ms. Ilona Nurmela are, amongst others, to fulfil the role of the AS Tallinna Vesi's General Counsel and act as the head of legal and compliance. Ms. Nurmela was appointed to the Management Board from 1st February 2012.

AS Tallinna Vesi has signed Service contracts with all members of the Management Board. AS Tallinna Vesi has not made any transactions with the members of the Management Board nor their related parties. According to the Articles of Association of AS Tallinna Vesi, the Chairman of the Management Board has the sole representation right of the company; other Management Board members can represent the company only jointly. In order to make daily decisions, the Management Board has validated a framework of principles, according to which certain management team members are authorized to conclude transactions in small amounts.

The Management Board of AS Tallinna Vesi also acts on behalf of AS Tallinna Vesi as the sole shareholder of OÜ Watercom.



KEY CONTRACTUAL EVENTS

Contractual tariif debatte

Tariffs are still frozen on the 2010 level despite of the fact that on 9th November 2010 the Company submitted its tariff application for a 3.5% tariff increase from 1st 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, 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 2nd June 2011. Regrettably the CA decided not to wait for the court ruling regarding the legality of the privatization contract and on 10th 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 31st May 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 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 13th June 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.

On 18th September 2012 the Supreme Court rejected the CA's appeal, meaning that the District Court's decision was upheld and the tariff mechanism is now deemed to be a public law contract. It is now for the Administrative Court to determine whether or not this public law contract should be binding on the CA. AS Tallinna Vesi is firmly of the belief 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).

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 on-going.

Disclosure of relevant papers and perspectives

We had published its tariff application and all relevant correspondence with the CA on its website (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. AS Tallinna Vesi 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.

OUR CUSTOMERS

We provide water supply and sewerage services to almost one third of the Estonian population and to approximately 22,000 contractual customers. Our aim is to provide premium quality services without interruptions to the supply. Therefore, in 2012 the Company made its best efforts to maintain the very good quality of drinking water and to further improve the security of supply. We also made efforts to increase the speed of resolving customer contacts and improve notification of the Company's actions. Having analysed the results of the annual feedback survey, we performed several actions to improve our customer relationships in 2012:



- As a result of improved inter-departmental cooperation, the customers who contacted us, knew in 90% of cases, when we will be performing the actions to resolve the issue raised by them;
- In order to reduce inconveniences caused by interruptions to supply, our customers were notified of unplanned interruptions to water supply at least 1 hour in advance;
- Since the middle of 2012 we ask our customers for feedback on a monthly basis. This provides us with the information on the customer contacts during the last month and we can immediately react on any dissatisfaction or issues;
- In 2012 we continued encouraging people to drink tap water by drawing their attention to the very good quality of tap water through the campaign “Tap water = drinking water”. In addition to that we continued our cooperation with several restaurants in
- Tallinn to call for people to ask for tap water when having a meal out.
- In the end of 2012 we carried out a campaign “Paper-free e-service” in order to introduce our renewed e-services to our customers and guide them to use it. We are convinced that the e-service is the most convenient channel for reporting meter readings and forming bills.

Feedback from our customers

Each year, an independent market research company TNS Emor carried out another survey among our customers and end users to analyse customer satisfaction with our service. In 2012, 500 customers and 400 end users participated in the survey.

Satisfaction was measured on the basis of the TRI*M method developed by the research company to characterise the strength of customer relationships and to allow comparison with other companies. This model focuses on three elements:

- TRI*M index, which measures the strength of customer relationships and comprises further four elements – general satisfaction, recommendation, repeated use and usefulness/necessity of services products;
- TRI*M typology of customer relationships, describing the satisfaction and loyalty of customers;
- TRI*M grid analysis to highlight the strengths and weaknesses of a company.

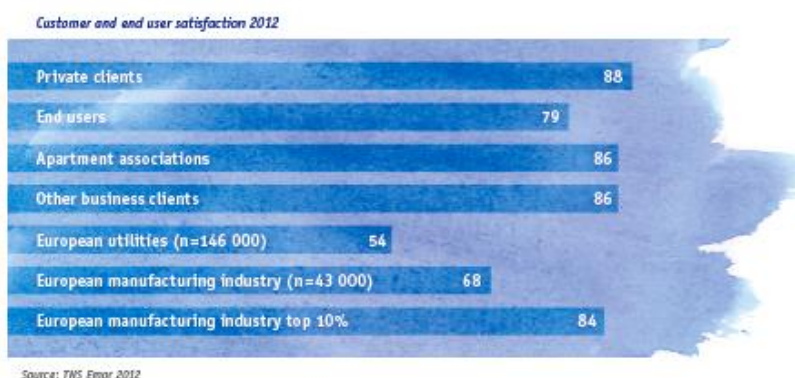
Survey results indicate that customer relationships have grown stronger in all customer segments in the last year: with regard to the end users the strength of customer relationship grew from 72 to 79 points, with regard to the private houses from 74 to 88, with regard to the apartment associations from 72 to 86 and with regard to commercial customers from 70 to 86. Thus, we achieved an average score of 85 on a scale of 100 for customer satisfaction, which is the best ever result and places us among the top 10% of European manufacturing companies.

One of the important reasons for such successful developments are the more positive media coverage and informal communication. This has resulted in a more favourable attitude of our customers towards the services we offer. In addition to that both the customers and end users sense an improvement in price/quality relationship, whereas here the changes have certainly not occurred during only one year, but the ratings on water quality and stability of service have constantly been improving.

The only deficiency continues to lie in the area of problem solving – the solutions we offer have not always met customer expectations. If last year the customers were most critical about us dealing with the clearing of sewer blockages, the latest survey indicated dissatisfaction with resolving contacts related to insufficient water pressure and water quality and the conclusion of and/or amendments to the contracts.

The usage of electronic channels as the main communication channels has increased and people have started to prefer the e-service through Internet to report their meter readings. Our developments in e-service have attracted a lot of positive attention from our customers, whose rating on our e-service has improved.

If satisfaction has been relatively high also in previous years, the latest survey showed that the customers would be prepared to recommend us and continue cooperation with us even if they had an opportunity to choose another service provider. In summary these are excellent results and our biggest challenge is to maintain the high level of services we have achieved.



Development of customer service

Despite the fact that customer satisfaction with our services and products has considerably improved, our aim is to continue to develop our customer services further based on the feedback from our customers. According to the survey the main challenge is how we handle customer contacts.

This year we will carry on with the internal monthly surveys among our customers in order to establish the areas and issues where our customers expect more of us. In addition we are actively asking for customers' proposals to improve our services some of which have already been implemented and some are being developed. We believe that we can further enhance our service standards and provide our customers with a top-class customer service.

Customer satisfaction compared to 2011

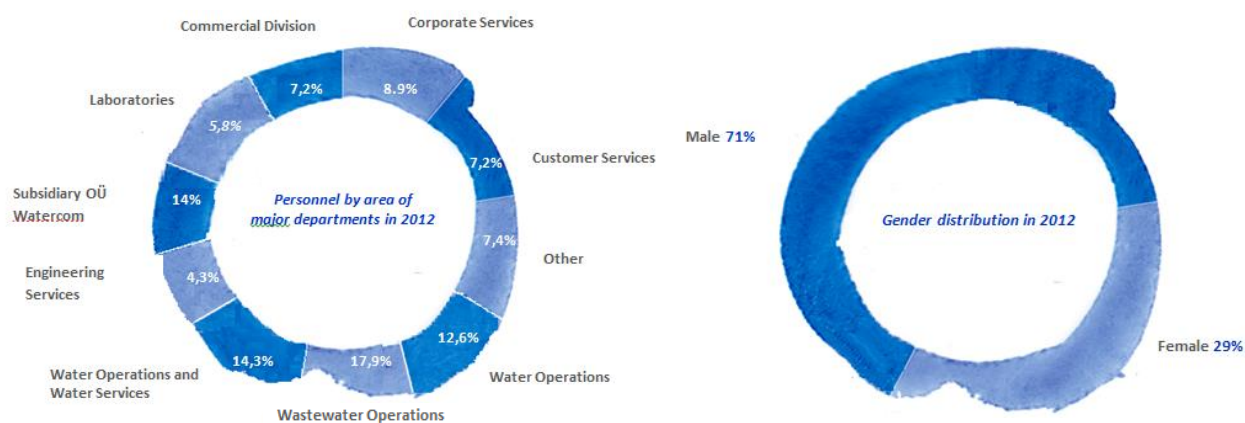
On a scale of 5	Commercial customers		Private customers	
	2011	2012	2011	2012
Taste of water	3,8	4,0	4,1	4,1
Odour of water	4,0	4,1	4,2	4,2
Clarity of water	4,0	4,1	4,2	4,1
Stable water pressure	4,0	3,9	3,9	4,0
Low number of emergencies and interruptions	4,1	4,1	4,1	4,2
Price/quality relationship	2,8	3,1	3,0	3,2
Accuracy and clarity of invoices	4,3	4,5	4,3	4,3
Customer Information line	3,9	4,0	4,0	4,1
Communication by e-mail	4,2	4,2	4,1	4,1
Web-self-service	3,8	4,1	3,8	4,0

Source: TNS Emor 2012

OUR PEOPLE

Undoubtedly, our employees are our main impelling force. Therefore, we deem the involvement of employees in the decision making process, regular informing and equal treatment of staff very important. For that purpose, we use various possibilities and channels, e.g. meetings with the members of the Management Board, quarterly issued internal newsletter and joint events to improve the inter-departmental cooperation. In addition to informing and involving the employees, we deem important to engage people in the best possible way and at the same time, to increase the transparency. For that purpose, changes are made in working arrangement if necessary. Rearrangements made in the Operations Division at the end of 2012 enabled to specify the areas of responsibility and through that clarify the work allocation. The second significant change made in 2012 was the decision taken by the Management Board to order the subcontracting service from the subsidiary company Watercom OÜ instead of organizing an external tender. This decision was driven by the wish to increase the efficiency and service level, as well as to improve the supervision.

At the end of 2012, the Company and its Subsidiary employed a total number of 313 employees under permanent employment contracts. An average we employed 314 people in 2012. 98,7% of full-time and 1,3% half-time employees was on an average in 2012. To ensure equal treatment, we has also signed a collective agreement with the trade Union of Water Supply and Sewerage Staff, the collective agreement applies to all staff. These contractual obligations and benefits extend to all of our employees.

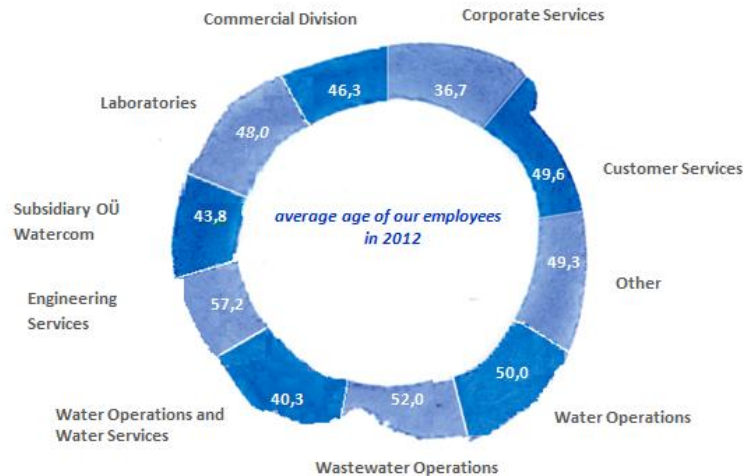


Despite of the fact that the employee commitment and satisfaction was considerably higher in comparison to both Estonian and European average in industry and service sector in 2012, employees' assessments were somewhat more critical than a year ago. Therefore, we deem important to direct attention to those areas that our employees have pointed out.



Development of employees

The development of employees is still one of the most important priorities for the Company. Development and performance reviews are carried out for all employees at least once a year and it is a part of our recognition and remuneration system. In addition to the usual in-service training and development programmes, we focused more on the commitment and competence of the prime management.



The average age of the staff in the Company and the Subsidiary is high (47.2 and 43.8 years respectively) and in larger operational units a considerable number of employees are over 50 years old. Thus it is of critical importance for the Company that the managers would successfully handle the changes in the staff in the upcoming years, maintaining at the same time the high levels of service and production.

Sharing the knowledge and experience is crucial for the development of employees. This is why the proportion of in-house guidance and the involvement of mentors, also from outside of the Company, has increased. This means that the knowledge is been communicated from colleague to colleague or from mentor to mentee. Almost 25% of the Company's employees participate in various long-term development programmes. Also the number of competency certificate renewals, professional group trainings and in-house trainings increased, compared to 2011. There were 701 training days in total in 2012 (an average of 2.2 days per employee).

Occupational health and safety

Work environment related activities of the Company are in compliance with the requirements of legislation and the international occupational health and safety management system standard OHSAS 18001.

Work environment management system is based on an assessment of risks in the work environment area and execution of activities aimed at preventing or reducing these risks. Workplaces are under constant internal monitoring and internal as well as external audits of the management system are carried out. Approximately 10% of the Company's staff participates in carrying out the annual internal environmental audits.

In line with the Occupational Health and Safety Act, a Work Environment Council has been established in the Company. The Council has equal number of representatives appointed by the Company and those elected by the employees. The Work Environment Council has 12 members in total and each of them has one substitute member. Thus, it total it involves 8% of the staff. The Work Environment Council represents all employees.



The Work Environment Council in 2012

In 2012, 4 work accidents occurred, of which 2 were in AS Tallinna Vesi and 2 in its Subsidiary OÜ Watercom. There wasn't any workplace death and none of these accidents had serious consequences.

Total number of lost days derived from work accidents was 7 and 6 working days. In two cases, there were no lost workdays. The causes of occupational accidents were thoroughly analysed by the Work Environment Council and prepare a report and action plans which is accordance with our procedures and the requirements of the Labour Inspectorate. Action plans to prevent any further occupational accidents of a similar type were put together and the timely delivery of those action plans was constantly monitored by the Work Environment Council.

More and more, the Company focuses on raising the awareness of employees. "Terve Tilgu" traffic sign is used to keep the employees' eye on how the work accident related objectives are met on a weekly basis. Internal newsletter focused on safety issues and cartoons on safety (Napo) as well as other related information is shown on the TV set at the rest-room. Relevant information is displayed in the rest-room where employees can obtain necessary information and take materials along with them.

Work environment trainings

The implementation and results of work environment related actions are largely dependent on the awareness of employees and, therefore, much attention is paid to work environment trainings, information materials and other actions as well as channels to raise awareness of the issues related to work environment. In 2012, the following training events in the field of occupational safety were carried out:

- first-aid training and in-service training;
- training and in-service training for Work Environment Council members and the Work Environment representatives;
- training on temporary traffic reorganisation (marking road works) with training exercise on site;
- chlorine safety training in the Water Treatment Plant in co-operation with the Estonian Technical Surveillance Authority and the Rescue Board ;
- training on the usage of trench support;
- various fire, electrical, chemical and gas work safety trainings; trainings on the usage of pressure equipment and working in manholes and collectors;
- informative lectures to employees on various safety-related topics (personal protection equipment, acting in case of a work accident, ergonomics and physiological risk factors etc);

- 9-days training for work environment specialists organized by the Labour Inspectorate;
- various health promoting work places seminars.

Continuous improvement in the field of occupational safety

Like in previous years, we commit to the continuous improvement of the work environment. Several actions for improving the work environment were carried out in 2012 at the treatment plants, water and sewerage networks, laboratories, and offices:

- renewal of the Company's work environment risk analysis, to assess and inspect the risk factors at work sites;
- carried out targeted inspection at all workshops and corrected all the failures found in the work environment;
- adjusted the existing ventilation systems due to the rearrangements done at work sites;
- participated in the Finnish-Estonian-Latvian cooperation project that aims on compiling the best practice in occupational health care for IT employees, by carrying out measurements (lights, micro-climate, air movement, carbon dioxide in the air etc) in cooperation with the Tallinn University of Technology Ergonomics Laboratories and checked out IT employees work environment. Measurements were followed by feedback along with possible improvement suggestions;
- various measurements of lights, internal climate, noise, temperature were continuously performed in the departments;
- throughout 2013–2015 we will replace all office chairs, in order to guarantee employees with ergonomically correct and comfortable sitting position.

Promoting occupational health

For the eighth year, the Company successfully participated in the „Health Promoting Work Places“ project, aimed at developing a healthy work environment, primarily by changing mindsets and increasing the mutual involvement of both employers and employees.

We organise various sports activities for its employees to promote healthy lifestyle. Employees of the Company have the opportunity to use two gyms, as well as squash and ball courts. In cooperation with the North Estonia Medical Centre, a study of muscular tensions and cortisol (stress hormone) in spit was carried out in the occupational health care cabinet, with 40 employees participating. During the period of 23-29 April, a Heart Week took place all over Estonia and within this event, the Company organized various activities: yoga in the office and yoga lesson in the evening; heart-healthy meals at the canteen; possibility to visit Kalev SPA water park at good price; in the health cabinet, employees could measure their blood pressure and weigh themselves. In addition to the activities organized within the Company, also other activities taking place within the Heart Week were promoted.

Employees attend regular health checks, as foreseen by the law, which provide the basis for adjustment of working conditions where necessary. In addition to the procedures foreseen by legislation, the Company provides influenza vaccinations to all interested employees and prophylactic massage according to the prescription of the occupational health doctor.

COMMUNITY

Being Estonia's largest water company, our activity affects the quality of life of almost one third of Estonia's population and its surrounding natural habitat. We supply customers with pure drinking water, and collect and treat wastewater and stormwater. Using environmentally safe and modern technologies, the discharged wastewater is treated and directed back to the nature. Providing high quality service is part of our everyday work that requires commitment and hard work.

Stakeholders

Our decisions and actions affect our employees, customers and co-operation partners as well as local communities, environment and society in general. We believe that mutual communication between stakeholders is very important.

To define our social impact, we have identified all major stakeholders since 2008.

Our key stakeholders for CSR are those that have connections with us on a daily basis and whom we impact the most, such as:

Our employees - We believe that it is important for us to have competent and motivated employees, who share the core values of the Company. Based on the feedback from the staff, the employee commitment and satisfaction was considerably higher in comparison to both Estonian and European average in industry and service sector in 2012. This indicates high standards of stable working culture and common values.

Our customers - Quality, speed, service reliability and keeping the promises are important parts of customer relations for the Company. In order to better understand the expectations of customers and to implement improvements in our products and services, we carry out surveys on satisfaction to get feedback from our staff. The 2012 results show that our customer relationships have grown considerably stronger during the last years, which proves the need for and benefits of feedback. Thus we believe that the feedback collected through the surveys serves as an important input for development.

Owners – we aim to be transparent both in our economic activities, disclosure of information and in our relationship with shareholders. We are committed to following the high standards of good corporate governance that the Management Board and Supervisory Council of the company are responsible for in front of the shareholders.

Governance – We continue to focus on complying with and outperforming the standards set in the Services Agreement concluded with the City of Tallinn. In line with the Services Agreement we are required to guarantee the compliance with the high quality standards on the more than 90 levels of service for our customers. Cooperation with the Ministry of Environment, Ministry of Economy and Communications and the units of local governments has become a tradition in order to further improve our services provided to the customers.

Suppliers – We consider it important to check the supply chain and inform our partners of the environmental aspects identified by us. That means that we expect our suppliers to meet our quality, environmental, occupational and environmental safety requirements. The compliance with the occupational health and safety requirements is followed in all construction sites, both in ours and those of the sub-contractors. We always assess the conformity with requirements after the completion of the works and expiry of the contract. The average mark in 2012 on the environmental performance of our subcontractors was “very good”.

Surrounding municipalities - OÜ Watercom, the subsidiary of AS Tallinna Vesi, is paying strong attention to also the surrounding municipalities by cooperating with different stakeholders. The long-term cooperation and good references of OÜ Watercom's engineers enable to actively participate in the tenders in our area of activities across Estonia by concluding several contracts for the management of projects related to extensive water services with water companies and local governments and for performing owner supervision.

Environmental organisations – it has been extremely important for us for many years to cooperate with all relevant environmental organisations and institutions (Environmental Board, Health Board, Labour Inspectorate etc.). We actively participate in working groups and discussions by presenting our opinions on the draft laws concerning water sector mainly through the Estonian Waterworks Association (EVEL). Since 2002 we are a member of the Estonian Association for Quality and since 2003 a member of the Estonian Association for Environmental Management. Our performance and levels of service are once a year assessed by an independent monitoring unit – Supervisory Foundation of Water Companies in Tallinn. On water quality we are closely cooperating with the Northern Services of the Health Board and the Supervisory Foundation of Water Companies in Tallinn and concerning our laboratories with the Estonian Accreditation Centre etc.

Academic circles – we deem it important to promote cooperation with educational and scientific institutions. We are consistently working to grow environmental awareness amongst the new generation. Our employees are carrying out conversations on the subjects related to water circulation in kindergartens and schools. Furthermore, both water treatment plant and wastewater treatment plant are carrying out excursions to introduce treatment processes throughout the year.

Civil society – we are actively cooperating with the non-profit organisations aimed at environmental protection and promotion of corporate social responsibility, e.g. Non-profit organisation Ökomeedia and Responsible Business Forum in Estonia.

Partners – with the help of several cooperation partners we contribute to the activities and developments of the local community. We support the Estonian Association of Disabled Athletes in order to improve the quality of life of disabled people. In cooperation with the Tallinn Black Nights Film Festival (PÖFF) the biggest film festival in Estonia takes place gathering more than 70 000 people each year and providing people with an opportunity to share many important subjects concerning our society through films. Also, each spring we contribute to a cleaner environment together with Coca-Cola Hellenic and the Embassy of the USA by organising cleaning days together.

Community

However, we wish to do more than what is required and expected from us, in order to make a positive impact on the natural environment around us, as well as the quality of people's life. In addition to providing the high quality service, we give our best to contribute to the welfare of the community through involvement and raising of awareness.

Increasing awareness:

- Support and attention to those in need forms an essential part of community's integrity. This is why we involve the local community in our already long-term cooperation with Kindergarten "Õunake" and Ristiku Elementary School. Baking ginger breads together with kindergarten children before Christmas has already become a tradition; also, we use the drawing of a kid from Õunake on our environment-friendly e-card. Kids from Ristiku Elementary School were involved in our 2012 Water Day activities.

- Our employees participated in a fund-raising Rat Race that supports children from large families facing the risk of poverty.
- Via cooperation with the Friends of the Tallinn Zoo we sponsor the polar bear called Vaida. In 2012, our employees also collected nearly 16 kg of acorns for feeding various animals of the zoo.
- Our employees voluntarily participate also in several other community projects. For example, by the leading of Belgian NGO LEO we collected plastic caps that would be reprocessed and the money coming from that would be used for obtaining a trained guide dog for people with visual impairments.

Involvement:

- We encourage other companies to do also more than they have to or what is required by the law. In 2012, we signed an agreement together with 17 companies in order to improve the responsible business in Estonia through open communication and cooperation.
- We consistently work towards raising an environmentally aware young generation that values the nature. Our employees carry out discussion groups in kindergartens and schools; in 2012, more than 2000 kids learned about the environment that way. We participated in “Back to School” project, in order to create interest in sustainable development in young people by using open discussion. Target is to teach kids and through them also their parents how to preserve and value more nature around us. In autumn 2012, a TV play called “Garbage Wolf and Super Rabbit” was created in cooperation with the Junior Chamber International Estonia and the Puppet Theatre.
- We also do diligent work in promoting the environmentally conscious mindset among the population. We use the campaign “Tap Water = Drinking Water” to point out the excellent quality of tap water. To encourage clients to ask for tap water when dining out, cooperation continued with restaurants under the slogan “Cheers to Nature – Ask for Tap Water“. Campaign “Free from Paper with E-service” is used to promote the use of e-billing instead of paper bills among the clients.
- Besides our main assignments – production of drinking water and treating of wastewater – the Company’s plants fulfil also an important role in raising the population’s awareness. Each year we introduce the work at the plants to more and more interested people – in 2012, nearly 2300 visitors came to the excursions at the plants.
- We help to bring in life one of Estonia’s major culture events, the Tallinn Black Nights Film Festival. In cooperation, we have more possibilities to impact the local community by creating greener life environment, raising people’s awareness and taking notice of those in need. Together we supported the Tartu University Hospital Children’s Fund for producing a children’s film with describing translation so that children with visual impairments could also enjoy the film.



Baking ginger breads in Õunakese kindergarten



Education programme in kindergarten 2012



Tallinn Black Nights Film Festival 2012

Support and co-operation:

- In 2012, we continued supporting the efforts of Mikk Pahapill and the swimmers of the Estonian Union of Sports for the Disabled, so that they could contribute to the Estonian sport's success story.
- In cooperation with local City Districts public gardens were refreshed after a harsh winter by providing compost soil for free.
- Pure and refreshing drinking water was provided at various public and health events, e.g. Stamina health run and walk series and at the run around Lake Ülemiste. We also helped to organize the Flower Festival and took part in building the skating rinks.
- Together with the hard-working employees of Coca-Cola Company and US Embassy we cleaned Pikakari beach during the "Let's Get It Done" event, so that the local community could fully enjoy the beautiful nature on the coast.
- A **tree planting event** (instructed by the Environmental Board) took place in the area of Ülemiste Water Treatment Plant. 40 employees of the Company willing to reduce their carbon footprint and protect Lake Ülemiste against pollution and dust coming from the road were involved in the planting event. More than 500 plants in total were set in the area during the event.



Cleaning up event "Let's do it 2012"



Tree planting event in Ülemiste 2012

ENVIRONMENT

We understand that our activity has a significant impact on the surrounding natural environment. Therefore our objective is to cause as little environmental damage as possible from its day-to-day operations. We monitor our impact on the environment, the quality of life of the population as well as business activities by identifying and keeping in check existing and potential negative and positive consequences.

We are also required to comply with environmental permits as well as any prescriptions of the authorities issued to the company. The main authorising body licencing our activities is the Harju-Järva-Rapla region department of the Environmental Board, which, as at 31.12.2012 has issued us 4 permits for the special use of water, 2 waste permits and 2 ambient air pollution permits. In 2012, we complied with all the requirements set in our environmental permits.

Environmental management system

Our environmental activity is in compliance with the requirements of the international environmental management standard ISO 14001 and EU Eco Management and Audit Scheme (EMAS) Regulation.

The environmental management system forms a part of the management system, the objective of which is to avoid or at the least minimise environmental pollution via integrating the environmental management system elements into the daily.

The basis for the environmental management system is the identification of both negative and positive significant environmental aspects and impacts which form the basis for determining the Company's environmental objectives and tasks for improving performance. Significant environmental aspects are those different facets of the Company's activities, which, in contact with the surrounding environment, have the most serious consequences for the natural environment, the quality of life and the Company's business activities.

An overview of the significant environmental aspects of the Company, their actual or potential environmental impact, the accompanying environmental objectives and tasks as well as progress against the objectives is presented in the next chapters of this Environmental Report.

Management of the environmental system has been established in accordance with the Company's structural scheme, described on the page 10. The main responsibility for ensuring and improving the functioning of the environmental management system lies with the senior management and the heads of structural units. Unit managers involve their employees in setting and fulfilling environmental objectives and tasks.

Management system control and audits

In 2012 several authorities monitored the compliance of Company's activities, incl. environmental activities, with the requirements. Assessments and precepts related to environment or work environment were issued by the Transport Department of the City of Tallinn, the North-Estonian Regional Rescue Centre and Estonian Technical Surveillance Authority. The Company has presented its solutions for the received precepts, which have been approved by the authorities.

In addition to supervisory authorities, the Company's compliance with environmental legislation and Services Agreement requirements as well as with other intra-Company requirements is also monitored in internal and external audits of the management system.

As result of internal audits carried out in 2012 the internal auditors put forward a total of 5 non-conformities and 44 proposals, which formed a good source of management system improvement ideas for the managers.

In 2012 an interim audit was carried out in the Company by accredited certifier Det Norske Veritas in order to evaluate the compliance of the management system with the requirements of ISO 9001, ISO 14001, OHSAS 18001 standards and with the EU (EMAS) Regulation 1221/2009.

During the external audit no non-conformities to the requirements of ISO and OHSAS standards were discovered. The EMAS Report included one minor non-conformity, which was promptly eliminated. As a result of external audit Det Norske Veritas confirmed the compliance of the management system and EMAS Report with the abovementioned requirements.

Environmental policy

Quality and environmental policy approved by the Company's Executive Team expresses the Company's principles in organising activities related to corporate social responsibility and environment..

Our contribution to custome and the community:

- Our customers have a possibility to continuously use pure drinking water and the possibility to discharge wastewater and storm water environmentally wisely.
- Our customers can communicate with us conveniently; we are fast and professional in finding solutions to their problems.
- We take responsibility and are aware of our impact on the health and quality of life of residents.
- We do more than required by the legal acts and we follow the best practices.
- We use natural resources sparingly.
- We shape the environmentally conscious way of thinking in our community by keeping an open dialogue, cooperation and valuing education.
- We proactively include various stakeholders, find sustainable solutions and constantly improve our services and work organisation.
- We are open and honest in providing regular information about our activities to our stakeholders.
- We strive to be a good neighbour in the community, by supporting water related activities that promote environmental awareness and healthy life style.

Treatment process

Water treatment process:

1. Surface water is gathered to Lake Ülemiste and directed to Water Treatment Plant.
2. Raw water passes through screens and microfilters, witch remove algae and plankton from the water.
3. Water is led into reservoirs, where a mixture of ozone in air is injected into the water to deactivate microorganisms and oxidize organic substances.
4. A water treatment chemical coagulant is added to clarify the water.
5. During the clarification phase particulate matter, chemical flocs and precipitates are removed from the water.
6. Water passes through filters. In summer, dependent on the quality of raw water coming into the plant, activated carbon may be added in order to remove any remaining particles and to improve the taste of the drinking water.
7. Chlorine is added to the water for disinfection purposes.
8. The water is directed to drinking water reservoirs, from which it is pumped to the city water network in accordance with demand.

Wastewater treatment process:

1. Wastewater collected through the sewerage network is directed into the Main Pumping Station. Storm water is also collected into the combined sewerage system and directed to the Main Pumping Station.
2. Storm water collected in the areas of separate sewerage network is led to the storm water outlets through a separate storm water network.
3. In the mechanical treatment stage, the wastewater is screened to remove larger solids and the grit removal tanks remove grit and sand from the wastewater.
4. Smaller solid particles are removed in the primary sedimentation basins, formed sludge is removed from the process.
5. Coagulant is added to the wastewater for the chemical treatment of the phosphorus.
6. For the biological treatment the wastewater is conducted to the aeration tanks where the vital activity of various bacteria helps to remove nitrogen and biologically decomposing substances from the wastewater. To ensure a living environment suitable for the bacteria and to make their work more efficient, air and additional carbon in the form of methanol is injected.
7. Activated sludge that has formed in aeration tanks is settled in the secondary sedimentation basins.
8. Additional volume of nitrogen and biodegradable pollutants are removed from wastewater in biofilter as a result of the vital processes of the bacteria. Additional carbon in the form of methanol is added to increase the efficiency of the work of the bacteria.
9. Treated wastewater i.e. effluent is pumped via a deep sea outlet into the sea.
10. Sludge removed during the different phases of the treatment process is pumped to the sludge treatment plant.
11. Sludge is digested and stabilised in anaerobic digesters where bacteria make the organic matter decompose.
12. The biogas created in the course of anaerobic sludge digestion is used for the technological process and heating in the plant.
13. The stabilised sludge is dried and mixed with peat.
14. The outcome – sludge mixture with high nutrient content - is used in cultivation.

Water treatment

Water is undoubtedly one of the most valuable natural resources. The availability of pure drinking water is of critical importance for human life. Thus we understand our responsibility for the production of good quality drinking water for the population and we do our best to protect the surrounding environment.



Ülemiste sanitar protection zone

Lake Ülemiste is the largest of the lakes surrounding in Tallinn and forth in Estonia. Ülemiste is the main part of the Tallinn water supply system, where most of the city gets its drinking water from. The use of volume is 15.78 million m³. An area is ca 9.3 km² and an average depth ca 3.4 m. A drainage basin is ca 1800 km². Although a total of forty species of vascular plants are founded in this lake, but only 4 of these are most spread. The total number of fish are 15. Reportedly, were aren't any protected species in this area

Lake Ülemiste is the drinking water source for Tallinn and thus, pursuant to the Water Act, it is not a public water body. Taking into account the requirements set for the water quality of a lake used as a drinking water resource and the need to ensure that these are also met in the future, a sanitary protection zone of Lake Ülemiste catchment area was approved in 2009. The sanitary protection zone shall include

the lake, the water catchment facilities thereof, the bank reinforcement facilities and the area surrounding the lake, which must be kept in its natural condition. Under the Water Act, entry into the sanitary protection zone is permitted only for persons performing duties related to environmental supervision and health protection, servicing of water intake facilities and forest maintenance, mowing of grass plants and water monitoring.

Water treatment

Ülemiste Water Treatment Plant treats water according to the treatment scheme widely used in the world. We are using ozone to improve the quality, odour, colour and taste of water and this has enabled us to reduce the volume of chlorine used by almost 10 times over a decade. Drinking water must be safe and must not contain any infectious bacteria. For this purpose we are adding small quantity of chlorine, which is absolutely safe for human health, but extremely effective for protecting water against bacteria during its journey through the network up to the consumer's tap.

Surface water quality

Almost 90% of our consumers in Tallinn (City Centre, Lasnamäe, Mustamäe, Põhja-Tallinn, Kristiine, Haabersti), City of Maardu and Pirita settlement are supplied with surface water. Although Lake Ülemiste serves as the main drinking water source for Tallinners, the natural catchment area of the lake itself is small. Therefore, an extensive water catchment system has been set up in order to provide sufficient supply. Surface water quality is mostly affected by the weather conditions. Thus the entire water catchment system influences surface water quality. Our main challenges are related to the weather – first of all floodings and changes in raw water due to lengthy winter periods.

Usage of surface water from lake Ülemiste and compliance with special use of water permit no HR01037, thousand m³

	2008	2009	2010	2011	2012
thousand /m ³	22,241	21,172	21,978	21,569	21,750

In 2012, we used 564,338 m³ of water for its own use.

The quality of surface water sources is inspected according to the programme established by the permit for the special use of water. Our accredited laboratory analyses the quality of water sources in the entire catchment area, we also inspect the water in Lake Ülemiste as well as the water taken to the lake. We use the results to assess changes and processes on the catchment area and decide upon the need to restock water in the lake.

Ground water quality

Approximately 10% of the population in Tallinn were supplied with drinking water extracted from Cambrian-Vendian and Ordovician-Cambrian aquifers in 2012. The areas supplied with ground water are Nõmme, Laagri, Merivälja, Pirita, Tiskre, Harku Rural Municipality as well as the City of Saue and Muuga and Kallavere settlements in the City of Maardu. All ground water quality parameters are monitored according to the drinking water source monitoring programme and if necessary, ground water is treated. Pressure filters installed in the ground water pumping stations for removing excess iron and manganese have ensured good quality water supply. Water tests show that treatment significantly improves the organoleptic qualities and stability index of ground water, it also reduces ammonium, iron and manganese content in water and increases oxygen content.

Ground water in Cambrian-Vendian aquifer in Northern- Estonia contains natural radionuclides. In order to assess the impact of radioactivity on consumers' health, the Estonian Radiation Centre in cooperation with the Health Board carried out a health risk assessment in 2010. Based on the results of the risk

assessment, any health damage of accidental nature resulting from the content of radionuclides in the water of Cambrian-Vendian boreholes is unlikely.

Usage of ground water and compliance with permits for special use of water No HR01037, HR1112, HA0382, HA1106, m³

	2008	2009	2010	2011	2012
Actual usage by Tallinn	2 450 533	2 552 685	2 461 524	2 229 612	2 161 789
<i>Incl from Cambrian-Vendi aquifer</i>	<i>2 168 265</i>	<i>2 186 521</i>	<i>2 042 743</i>	<i>1 803 412</i>	<i>1 748 057</i>
Maximum volume permitted	6 676 945	6 676 945	6 676 945	6 676 945	6 676 945
Actual usage by Saue	214,028	202,621	222,473	213,701	210,655
<i>Incl from Cambrian-Vendi aquifer</i>	<i>166,770</i>	<i>146,184</i>	<i>165,110</i>	<i>187,074</i>	<i>155,639</i>
Maximum volume permitted	474,500	474,500	474,500	474,500	474,500
Actual usage by Tiskre	39,661	41,733	43,513	45,471	
Maximum volume permitted	65,700	65,700	65,700	65,700/ 71,800***	
Actual usage by Harku *	6,372	703	0	12,697	57,187***
<i>Incl from Ordovician-Cambrian aquifer</i>				<i>10,308</i>	<i>8,492</i>
Maximum volume permitted	51,100	51,100	51,100	51,100/ 66,320***	138,120/ 141,120****
Actual usage by Maardu City **		766,505	714,454	618,751	35,997
Maximum volume permitted		1,383,350	1,383,350	1,383,350/ 1,382,400***	1,382,400

* Since 25.10.2011 Tiskre area has been addressed in the permit for special use of water for Harku Rural Municipality (HA0382).

** In 2008, the Company entered into the contract for operating the public water supply and sewerage infrastructure assets in the City of Maardu with AS Maardu Vesi and started those activities in summer 2009.

*** The maximum volume permitted by the new permit for special use of water No HA1106 and HA0382.

**** Since 25.10.2011 Tiskre area has been addressed in the permit for special use of water for Harku Rural Municipality (HA0382). On 25.09.2012, an increase in the allowed water extraction volume by 3000 m³ was applied for. Thus, 141 120 m³ became the maximum volume permitted.

Security of supply and quality

We are constantly carrying out maintenance and updates of the process in order to maintain and improve drinking water quality. The focus of our daily work lies on increasing the security of supply. In 2012 we concentrated on upgrading both the filter systems and pumping stations. We replaced several meters in water treatment in order to make the process supervision and controls more efficient. To ensure continuous operation we renewed the energy supply and pumping systems in microfilteres' building.

Water quality at the consumer's tap is not impacted solely by the age of the network. It is so in case the water network has been properly maintained and in a timely manner and repaired if it has been deemed necessary. We reconstructed approximately 5.1 km of water network in 2012. We clean and flush the network regularly to ensure the supply of high quality drinking water to our consumers. In 2012 we cleaned approximately 1000 km of water network. This way sediments get removed from the inner surface of pipes. Investments in replacing old water pipes and network extensions have facilitated improvement in water quality at the customer tap and more efficient usage of water resources.

Leakage level has considerably decreased:

	2008	2009	2010	2011	2012
Leakage level %	17.25	17.51	21.39	17.73	15.86

Year-on-year reduction in leakage level demonstrates a more sustainable usage of water resources. In 2012, the leakage level decreased to 15.86%, which is the lowest ever result. Around 10 years ago the leakage level was over 32% meaning that over 13,000 m³ of treated drinking water is saved on a daily basis. Our consistent efforts in implementing sustainable usage of water resources with less losses have resulted in significant reduction of leakage level.

Average time for eliminating leakages 2008-2012, in days

	2008	2009	2010	2011	2012
Average time of eliminating leakages	1.5	1.3	1.5	0.97	0.83

It is important for customers to be supplied with water of excellent quality and at the right pressure. Although it is not possible to fully avoid the interruptions to water supply, it is possible to reduce the number and duration of interruptions and notify the customers in advance. The number of customer inquiries related to pressure has reduced by 70% over a year, which implies to our ability to provide water supply with the right pressure. The duration of interruptions to water supply has also reduced compared to 2011. In order to reduce inconvenience caused by interruptions to water supply we notified 90% of customers in advance of emergency closings of water. Security of supply has significantly improved due to better planning of works.

Wastewater treatment

Our Wastewater Treatment Plant removes pollutants from wastewater in order to ensure compliance with environmental requirements and general cleanliness of the Baltic Sea and the Gulf of Finland.

It is a brackish sea with mixed salt and fresh water. The Baltic Sea covers 415,266 square kilometres and the average depth of the whole is around 50 metres. Baltic Sea bottom fauna is impoverished. There are nearly 100 different species of fish. There are lot's of different protected areas in the Baltic Sea. Some of them are established by large international organizations like The Helsinki Commission or BirdLife International. These areas are important for the whole Baltic Sea.

Wastewater treatment at Paljassaare plant contributes significantly to the creation of a pure environment for the Baltic Sea. Since 2006 Tallinn is no longer included in the Helcom list of hotspots. This has been an excellent recognition of our investments made in the continuous improvement of our wastewater treatment process.

The main measures for ensuring the collection and discharge of wastewater are linked to preventive flushing of wastewater network as well as reconstruction and extension of sewerage and storm water network; additionally wastewater concentration levels are regularly monitored in order to prevent failures of the treatment process.

Our focus continues to lie on the risks related to potential floodings and pollution. The number of blockages is the main indicator for the conditions of the sewerage network. In 2012, our customers experienced less problems with blockages in the network and wastewater discharge service than before. Reduction of blockages has been achieved by numerous preventive activities such as for example increasing the efficiency of jet washing. 19% reduction in the number of bursts on the network also demonstrates the stability of sewerage network.

Number of blockages 2008-2012

	2008	2009	2010	2011	2012
Number of blockages	1,336	1,089	1,152	982	749

Collection and discharge of wastewater is secured by preventive flushing of sewerage pipes as well as by reconstruction and extension of sewerage and stormwater networks. In 2012, a total of 5.91 km of sewerage network was reconstructed and a total of 173.2km of network was flushed.

Wastewater and storm water network reconstruction 2008-2012, km

	2008	2009	2010	2011	2012
reconstructions	5.9	5.5	5.7	5.7	5.9

56,982,383 m³ of wastewater was treated at Paljassaare Wastewater Treatment Plant in 2012.

Treated wastewater volume 2008-2012, m³

thousand m ³ /year	2008	2009	2010	2011	2012
Treated wastewater volume	51,338	46,173	45,915	50,806	56,982

Outlets to the sea

In 2012 we had one pollution incident. Throughout the year, 185,922 m³ of highly diluted wastewater, which underwent mechanical treatment, was discharged to the sea through the deep-sea outlet due to the shock loads, which exceeded the biological treatment capacity.

2012 was a year of very much snow, the summer was also very rainy. Partly treated wastewater was discharged to the sea mainly in March-April during thaw, the rest was lead to the sea on single days in July and September during heavy showers, i.e. in extraordinary weather conditions, when the emergency outlet was opened and a total of 136 962 m³ of wastewater diluted with stormwater (1/6) was conducted to environment to avoid major damages. Pursuance of the requirements we paid the pollution tax for this.

Wastewater Treatment Plant overflows 2008 - 2012, m³/year

	2008	2009	2010	2011	2012
Untreated wastewater discharged to the sea	12,489	0	0	107,510	136,962
Partly treated wastewater discharged to the sea	61,386	64,181	173,941	23,604	185,922

The quality of water discharged to the sea is set by legislation and the permit for special use of permit HR01037. The concentration of pollutants in sewage led to the treatment plant and in the wastewater led from treatment, as well as the efficiency of the treatment process are monitored in order to assess the quality of wastewater. The following are the most significant indicators monitored:

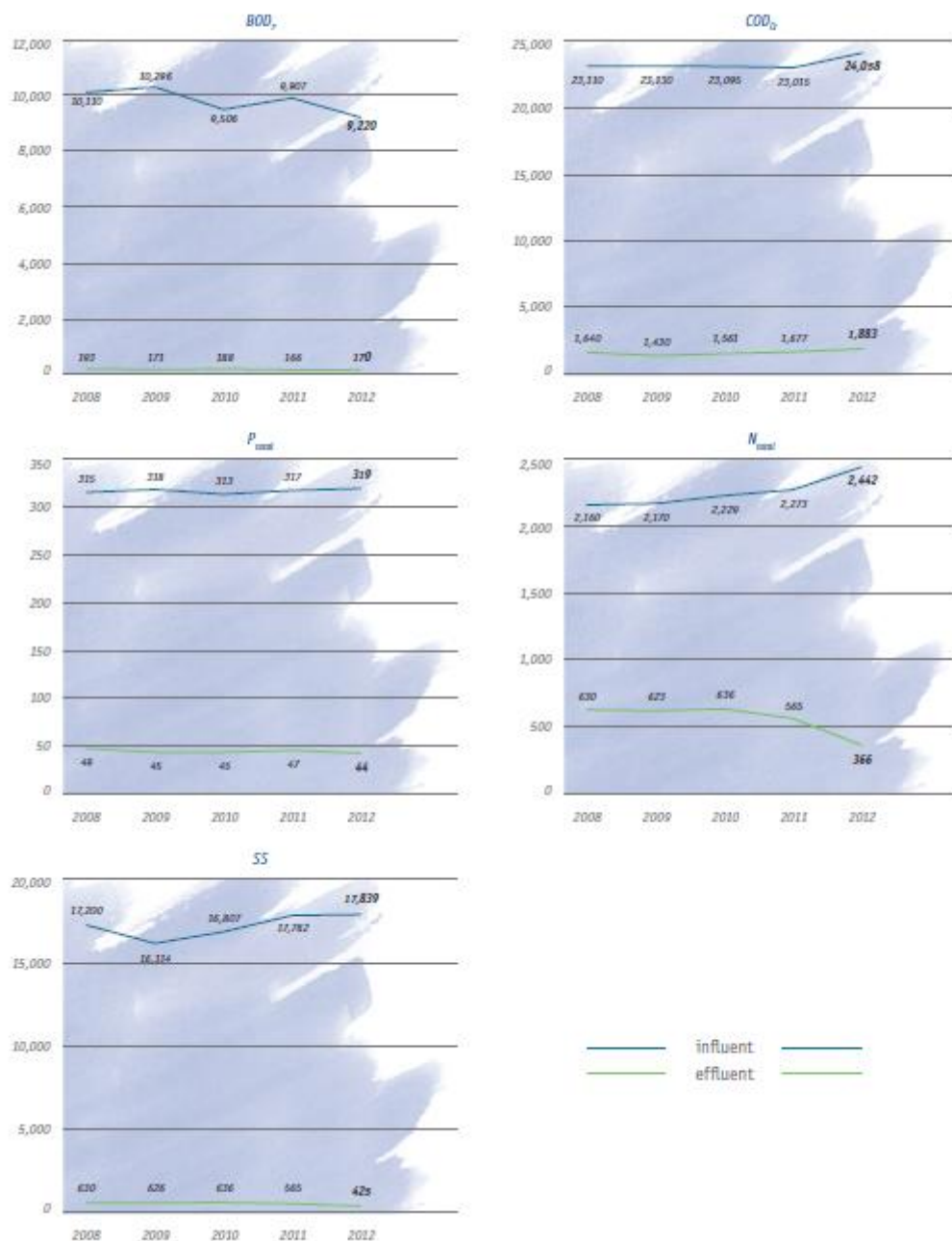
- Biological oxygen demand (BOD7) shows the amount of oxygen required for the defined biological decomposition of organic matter in the course of 7 days;
- Total phosphorus (Ptot) and total nitrogen (Ntot) are elements contained in nutrient salts, which increase the growth of plankton in water. If the content of nutrient salts is too high, such growth can be so strong that oxygen is used up and a shortage of oxygen arises;
- Suspended solids (SS) shows the volume of solid matter in water which is caught in a filter with a defined mesh size;
- Chemical oxygen demand (CODCr) is a measure of the decomposition of organic matter, measured as the consumption of oxygen in chemical oxidation of all organic matter in water;
- Oil products show the amount of light (like petroleum) and heavy (like heavy fuel oil) oil products.

Thanks to the very good operating work, use of chemicals and electricity without any resource restrictions and the 3rd treatment stage - biofilter - launched in the second half of the year, the Company achieved full

compliance of wastewater leaving the wastewater treatment plant with all regulatory requirements in all 4 quarters in year 2011 and also in year 2012. In 2012, the Company was also recognised for this achievement by the Ministry of Environment.

The treatment results of 2012 were in compliance with the HELCOM requirements, which are similar to the requirements set by legislation. The Helsinki Commission, or HELCOM, organizes intergovernmental cooperation between countries located round the Baltic Sea in order to protect the Baltic Sea environment from all sources of pollution.

Amounts of pollutants coming into the Wastewater Treatment Plant and discharged into the sea 2008-2012, tons



More information on the Company's water and wastewater treatment is available in environmental report (www.tallinnavesi.ee).

Waste management

Most of the waste produced is non-hazardous waste. The majority of the waste is produced at the Wastewater Treatment Plant and in the Customer Operations Department. A total of 63,518 tons of waste was produced in 2012.

Types and amounts of the more significant waste 2008-2012, in tons

Type of waste	2008	2009	2010	2011	2012
Mixed municipal waste	115	145	171	112	96
Paper and cardboard	14	13	14	14	4
Packages	4	4.7	4.7	4.5	0.7
Biodegradable waste	2.5	5.2	5.4	5.3	4.4
Waste from screens	286	337	303	596	920
Wastewater sludge	35,691	31,087	33,885	28,763	20,437
Sandtraps grid	1,105	975	716	509	141
Excavated stones and soil	10,334	9,569	11,750	12,417	39,183
Asphalt waste	1,021	947	1,790	1,161	2,305
Mixed building waste	33	43	18	30	103
Concrete and bricks	48	29	40	38	243
Metal scrap	14	0.5	26.7	23.6	47
Hazardous waste	5	4	3.5	2.1	3
Other waste	4.5	1	250.2*	115.7	32
TOTAL	48,678	43,159	48,977	43,791	63,518

■ Possible to reuse. * Includes 248 tons of mineral snowcleaning waste.

Waste related to wastewater treatment

The large share of non-hazardous wastes are always wastewater sludge as a by-product from the wastewater treatment process. Other treatment process related waste such as waste from screens and sand traps' sludge is also produced in significant amounts. All sludge is reused and to be sold to customers or to be used on different sites. Possibilities for additional treatment of other waste created in wastewater treatment and reduction of waste going to landfill are explored by the AS Tallinna Vesi.

Excavation waste

The amount of excavated soil and stones form the bulk of the waste produced at networks maintenance and repair works. The amount has increased in recent years in connection with the redaction Tallinn City Council Regulation No 28 of 20.05.2010 of Tallinn City Excavation Works Regulation enforced on 29.05.2010, which set an obligation on the performers of excavation works to carry out asphalt reinstatement works in a larger volume. Due to the increase in the volume of construction-, maintenance- and emergency services of the subsidiary, the total volume of excavation and stone waste grew considerably in 2012 to 39,182 tons.

Sorted office waste

In 2012 we continued to separate paper and cardboards as well as packages from mixed municipal waste, in order to allow further recycling and reuse. The proportion of electronic bills to be sent to customers was increased, also improved self-service and double-sided printing was made automatic, where possible, in order to reduce the amount of paper used.

Hazardous waste

The share of hazardous waste in the total volume of waste is small, below 1%, and its amounts have remained stable over recent years. The largest category of hazardous waste is used oil and oil waste, which is the result of maintenance works in machinery and equipment.

Similarly to the recent years, the proportion of reusable waste from ordinary waste is over 90%, with both sludge reusage and reusable waste delivered to partners taken into account.

Energy consumption

In 2012, our direct energy consumption of primary energy sources in total 2,208,203 m³ which includes petrol and disel (203 m³), gas (542 000m³) and biogas (1 666 000m³).

The majority of electricity consumed is used for running the core processes– in the Water and Wastewater Treatment Plants, and in the Networks to operate pumping stations and other equipment.

Electricity consumption 2008-2012, kWh

Unit	2008	2009	2010	2011	2012
Water Treatment	10,237,200	10,371,961	10,656,875	10,381,797	10,324,562
Wastewater Treatment	20,167,157	19,645,827	19,749,590	21,720,862	25,195,382
<i>Incl electricity from biogas</i>	<i>1,390,471</i>	<i>730,299</i>	<i>1,966,080</i>	<i>764,786</i>	<i>0</i>
Networks pumping stations	6,213,493	5,964,515	6,432,559	6,324,407	7,103,909
Maardu*		383,728	693,265	719,450	558,143
Other	924,809	885,720	865,723	799,763	992,707
TOTAL	37,543,659	37,251,751	38,398,012	39,946,279	44,174,703

* The Company started operating the assets of the water company of Maardu City on July 1st 2009.

In the water treatment process, electricity is mostly used for pumping water in the various stages of the treatment process and into the water supply system, a significant part of electricity is used for producing ozone. Wastewater treatment process electricity consumption is to a large degree also impacted by the weather, because combined sewerage system is being used to a great extent, as a result of which a large volume of storm water is directed to the wastewater treatment process.

Consumption of heat energy

The majority of heat energy consumed is used for running the core processes – for heating the operations and office buildings. Heat energy is purchased from AS Eesti Gaas and AS Tallinna Küte. To some extent the use of heat energy is compensated by the heat energy received from the biogas in Wastewater Treatment Plant. In 2012, the 100% heat used in the Wastewater Treatment Plant was produced out of biogas. In 2011 and 2012 the heat consumption of AS Tallinna Vesi in Maardu was 0.

Consumption of heat energy 2008-2012, MWh

Unit	2008	2009	2010	2011	2012
Water Treatment	5,142	4,264	5,617.60	4,357.6	4,800.0
Wastewater Treatment	7,423	6,515	8,176	6,634	10,467.0
<i>Incl electricity from biogas</i>	<i>4,654</i>	<i>5,032.50</i>	<i>4,505.60</i>	<i>5,133.7</i>	<i>10,467.0</i>
Territory of Adala office	960.4	956.6	1,256.70	1,176.24	1,212.76
Maardu*	0	66.6	38.4	0	0
TOTAL	13,525.40	11,802.20	15,097.70	12,167.84	16,479.76

* The Company started operating the assets of the water company of Maardu City on July 1st 2009.

Fuel consumption

We have 95 vehicles for carrying out different operating tasks, over half of them use petrol for fuel. The biggest group of vehicles is passenger cars and operating vehicles, including minivans and team vans. A smaller group of vehicles includes special purpose vehicles such tractors and trucks.

Fuel consumption 2008-2012, in litres

	2008	2009	2010	2011	2012
Petrol	141,644	126,286	85,735	66,418	71,030
Diesel	205,738	201,351	170,365	140,331	132,284
TOTAL FUEL	347,382	327,637	256,100	206,410	203,314
Total number of vehicles	140	137	124	98	95

Air emission

In order to reduce ambient air pollution, we focused on limiting the amount of pollutants emitted from Ülemiste and Paljassaare boiler houses, particularly the pollutants of primary importance, such as nitrogen dioxide, carbon monoxide and volatile organic compounds as well as CO₂ greenhouse gas emissions. Also the emissions of ozone produced for drinking water treatment are regulated.

The Environmental Board issued two termless air pollution permits. Pollution permit no L.ÕV.HA 48701 is valid for Ülemiste Water Treatment Plant pollution sources – the chimney of the boiler house, ozonisation, diesel generator. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.

Ambient air pollution from Water Treatment Plant pollution sources 2008 - 2012, in tons

Pollutant	2008		2009		2010		2011		2012	
	Allowed	Actual	Allowed	Actual	Allowed	Actual	Allowed	Actual	Allowed	Actual
Nitrogen dioxide	2.4	1.4	2.4	1.4	2.4	1.5	1.954	1.3	1.954	1.236
Carbon monoxide	1.9	1.3	1.9	1.3	1.9	1.4	1.846	1.19	1.846	1.127
Volatile organic compounds	0.17	0.1	0.17	0.09	0.17	0.1	0.125	0.08	0.125	0.077
Carbon dioxide	1,691	1,209	1,691	1,145	1,691	1,271	1,688	1,081	1,688	1,021
Sulphur dioxide	0.01	0	0.01	0	0.01	0.007	0	0	0	0.001*
Total solid particles	0.05	0.002	0.05	0.003	0.05	0.003	0.004	0.004	0.004	0.004

* Sulphur dioxide emissions into ambient air were below the threshold.

Pollution permit no L.ÕV/319438 is valid for Paljassaare Wastewater Treatment Plant pollution sources – the chimney of the boiler house, exhaust pipes, the chimney of the combined heat plant. Establishes the list of pollutants emitted into ambient air and the annual permitted emission amounts thereof.

Ambient air pollution from Wastewater Treatment Plant pollution sources 2008- 2012, in tons

Pollutant	2008		2009		2010		2011		2012	
	Allowed	Actual	Allowed	Actual	Allowed	Actual	Allowed	Actual	Allowed	Actual
Nitrogen dioxide	29.8	17.4	29.8	10.6	29.8	23.5	29.8	11	29.8	2.64
Carbon monoxide	210	115	210	62.3	210	161.9	210	64.9	210	2.64
Volatile organic compounds	14	7.7	14	4.2	14	10.8	14	5	14	14
Carbon dioxide	4,440	3,697	4,440	3,229	4,440	4,135	4,440	3,298	4,440	2,392
Sulphur dioxide	17.8	17.5	17.8	16.9	17.8	16.9	17.8	17.4	17.8	17.78
Total solid particles	0.05	0.002	0.05	0.003	0.05	0.003	0.004	0.004	0.004	0.004

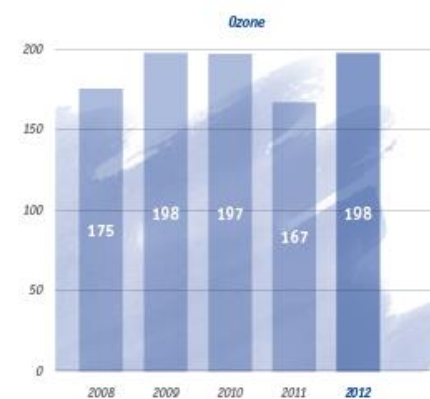
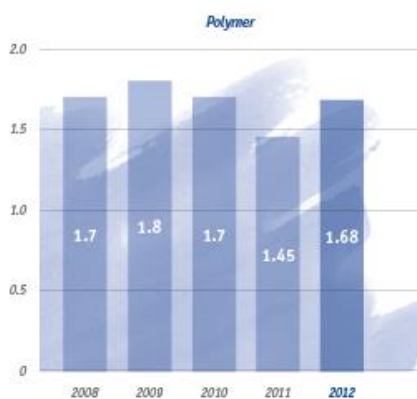
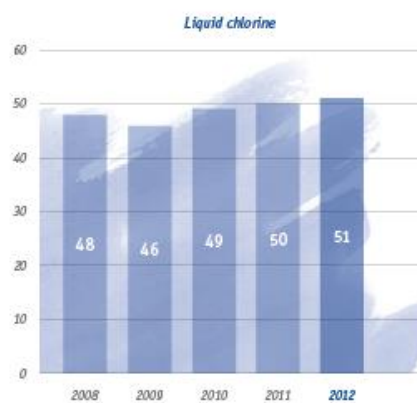
* Sulphur dioxide emissions into ambient air were below the threshold.

Chemicals handling

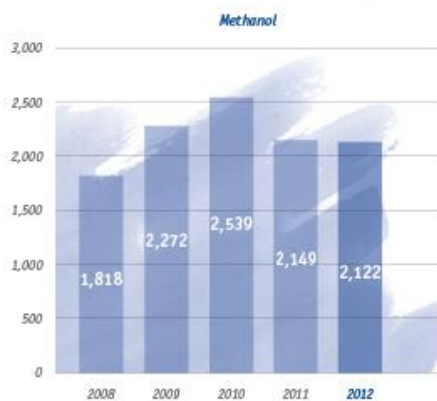
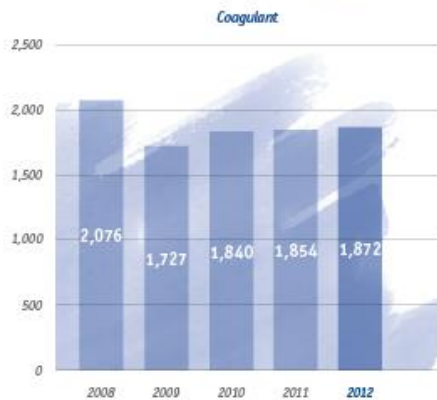
We use approximately 450 hazardous and less hazardous chemicals in its operating activities. On one hand chemicals become hazardous primarily due to their characteristics, which pose a danger to the population and the environment, on the other hand the level of hazardousness depends on the amount of chemical used. In 2012, we used a total of 5,819.8 tons of different chemicals.

Large amounts chemicals and more hazardous chemicals are used at treatment plants. They are liquid chlorine, coagulant, polymers, ozone and methanol. The amounts of chemicals used at the treatment plants predominantly depend on the volume and characteristics of the water reaching the plants, which, in turn, depend on weather conditions in the case of surface water and on the level of pollution in the case of wastewater.

Usage of water treatment chemicals 2008-2012, tons



Usage of wastewater treatment chemicals 2008-2012, tons



GRI CONTENT INDEX

Standard disclosures

Indicator	Description	Reported	Page number
1.1	Statement from the most senior decision-maker of the organization.	Completely	4-5
2.1	Name of the organization.	Completely	3
2.2	Primary brands, products, and/or services.	Completely	3;7
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Completely	13-14
2.4	Location of organization's headquarters.	Completely	7
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Completely	3
2.6	Nature of ownership and legal form.	Completely	13-14; 19
2.7	Markets served	Completely	7;22
2.8	Scale of the reporting organization.	Completely	7; 9
2.9	Significant changes during the reporting period regarding size, structure, or ownership. <i>(There have not been any significant changes of the report)</i>	Completely	Not relevant
2.10	Awards received in the reporting period.	Completely	4-6
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Completely	3
3.2	Date of most recent previous report (if any).	Completely	First report
3.3	Reporting cycle (annual, biennial, etc.)	Completely	3
3.4	Contact point for questions regarding the report or its contents.	Completely	3
3.5	Process for defining report content.	Completely	3
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	Completely	3
3.7	State any specific limitations on the scope or boundary of the report. <i>(there are one specific limitation in indicator EN20, because As Tallinna Vesi do not calculate the air emission from the transport)</i>	Completely	44-45
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Completely	13
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	Completely	First report
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Completely	First report
3.13	Policy and current practice with regard to seeking external assurance for the report.	Completely	46
3.12	Table identifying the location of the Standard Disclosures in the report.	Completely	44-45
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	Completely	14-19
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Completely	17-18
4.3	State the number and gender of members of the highest governance body that are independent and/or non-executive members.	Completely	17
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Completely	15-19; 24-25
4.14	List of stakeholder groups engaged by the organization.	Completely	28-29
4.15	Basis for identification and selection of stakeholders with whom to engage.	Completely	28

Performance indicators

Indicator	Description	Reported	Page number
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Completely	9-13
EN1	Materials used by weight or volume.	Partially	33-43
EN2	Percentage of materials used that are recycled input materials.	Partially	41
EN3	Direct energy consumption by primary energy source.	Completely	41
EN4	Indirect energy consumption by primary source.	Partially	41
EN8	Total water with drawal by source.	Completely	34-36
EN9	Water sources significantly affected by withdrawal of water.	Completely	34-35
EN20	NOx, SOx, and other significant air emissions by type and weight. (Specific limitation of datas, because As Tallinna Vesi do not calculate the air emission from the transport)	Completely	42
EN21	Total water discharge by quality and destination.	Completely	37-39
EN22	Total weight of waste by type and disposal method.	Partially	40
EN23	Total number and volume of significant spills.	Completely	10;38
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Completely	37
EN30	Total environmental protection expenditures and investments by type.	Partially	10;12-13
LA 1	Number of employees	Completely	24-25
LA4	Percentage of employees covered by collective bargaining agreements.	Completely	24-25
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Completely	25
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Partially	26
LA10	Average hours of training per year per employee by gender, and by employee category.	Partially	25
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	Completely	25
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Partially	28-31
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Completely	20-21
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Completely	22-23



External Verification Statement

(Application Level Check)

Maalin Consulting OÜ hereby states that AS Tallinna Vesi has presented its Social Responsibility and Sustainable Development Report 2012 (the Report) to Maalinn Consulting OÜ for an application level verification, which have concluded that the Report fulfils the requirements of GRI Application Level C+.

GRI Application Levels communicate the extent to which the content of the GRI G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for the Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines.

Application levels *do not* provide an opinion on the sustainability performance of the reporter *nor* the quality of the information in the report.

Tallinn, 5th of July 2013

A handwritten signature in blue ink, appearing to read 'Helen' followed by a long horizontal stroke.

Helen Maalinn

Consultant and GRI Guidelines' specialist
GRI Certified Training Program, Certificate No TR81578
Maalinn Consulting OÜ

This statement only concerns material submitted to Maalinn Consulting OÜ at the time of the check on 5/7/2013. Maalinn Consulting OÜ explicitly excludes the statement being applied to any later changes to such material.