AS Tallinna Vesi

Results of operations – for the 1st half-year of 2013

Currency	Thousand euros
Start of reporting period	1 January 2013
End of reporting period	30 June 2013
Address	Tallinn, Ädala 10
Chairman of the Management Board	Ian John Alexander Plenderleith
Commercial register number	10 257 326
Telephone	+372 62 62 202
Telefax	+372 62 62 300
E-mail	tvesi@tvesi.ee
Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Contractual Highlights

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

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

- During the 1st quarter of 2013 initial court proceedings commenced. The next court hearing is due to take place on 13 August 2013 AS Tallinna Vesi believes in open and transparent regulation and requested open court proceedings. On the other hand, the Competition Authority believes its methodology to be a "business secret" hence it requested closed court proceedings. On 20th of March 2013 the Administrative Court rules that the court proceedings would be partially closed, meaning that there could be no public discussion of the Competition Authority's methodology, whilst all other aspects of the hearing will be held in open proceedings, i.e all information can be made available to the public.

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

- Average real return on capital invested at privatization is still 6.2% since 2001.

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

RESULTS OF OPERATIONS - FOR THE 1st HALF-YEAR 2013

Financial highlights of 2nd quarter 2013

In the 2nd quarter of 2013 the Company's underlying performance in general was good, the Company is continuously focused on the improvement of operational performance and customer service.

During the 2nd quarter of 2013 the Company's total sales increased, year on year, by 2.6% to 13.5 mln euros. Sales of water and wastewater treatment were up by 2.8% to 12.2 mln euros compared to the 2nd quarter of 2012.

The operating profit from the Company's main business activity decreased by 0.6 mln euros or 8.7% to 5.7 mln euros during the 2nd quarter of 2013 compared to the 2nd quarter of 2012, mainly due to the increase in the variable costs, which is in more detailed explained below.

The Company's profit before taxes for the 2nd quarter in 2013 was 6.4 mln euros, which is a 0.8 mln euros or 13.2% increase compared to the relevant period in 2012. The Company's net profit for 2nd quarter of 2013 was 1.7 mln euros, which is 0.5 mln euros or 50.4% larger than the net profit of 1.2 mln euros in the equivalent period in 2012.

mln €	**2 Q 2011**	**2 Q 2012**	**2 Q 2013**	**Change 13/12**	**6 months 2011**	**6 months 2012**	**6 months 2013**	**Change 13/12**
Sales	12,8	13,1	13,5	2,6%	25,2	26,1	26,2	0,2%
Gross profit	7,8	7,8	7,3	-6,3%	15,4	16,0	14,8	-7,5%
Gross profit margin %	61,4	59,4	54,3	-8,7%	61,0	61,4	56,7	-7,7%
Operating profit	6,9	6,3	5,7	-8,7%	13,8	13,2	11,9	-10,1%
Operating profit - main business	6,7	6,3	5,7	-8,7%	13,2	13,2	11,9	-9,6%
Operating profit margin %	54,0	47,8	42,6	-11,0%	54,8	50,6	45,4	-10,3%
Profit before taxes	5,7	5,6	6,4	13,2%	13,7	11,9	12,6	5,4%
Net profit	1,5	1,2	1,7	50,4%	9,5	7,5	7,9	6,6%
Net profit margin %	11,7	8,8	12,8	46,6%	37,6	28,5	30,3	6,4%
ROA %	0,8	0,6	0,9	44,5%	5,2	3,9	4,0	2,1%
Debt to total capital employed	62,9	63,1	61,7	-2,3%	62,9	63,1	61,7	-2,3%
ROE %	2,2	1,7	2,3	39,1%	14,2	10,7	10,6	-1,5%
Current ratio	2,3	2,6	2,3	-9,9%	2,3	2,6	2,3	-9,9%

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

Profit and Loss Statement

2nd quarter 2013

Sales

In the 2nd quarter of 2013 the Company's total sales increased, year on year, by 2.6% to 13.5 mln euros. 89% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 6% of sales from fees received from the City of Tallinn for operating and maintaining the storm water system and 5% from other works and services.

Sales of water and wastewater services were 12.2 mln euros, a 2.8% increase compared to the 2nd quarter of 2012, resulting from the changes in sales volumes as described below.

Within the service area, sales to residential customers were at 5.9 mln euros, showing a 0.4% decrease year on year, as revenues from apartment blocks form the biggest share of our residential sales, the biggest decrease came also from this client group. Sales to commercial customers increased by 4.4% to 5.0 mln euros, mainly coming from the sales in industrial sector. Sales to customers outside of the main service area increased by 6.6% to 1.1 mln euros in the 2nd quarter of 2013. Over pollution fees received were 0.22 mln euros, a 49.5% increase compared to the 2nd quarter of 2012.

As there has not been a tariff increase compared to last year and same tariffs are applied in 2013 the sales volumes reflect the same variances in main services area as prescribed above.

Outside service area sales volumes were 0.1 mln m^3 or 6.0% higher than in the 2nd quarter of 2012. The main factor in this increase was higher volumes in sewerage service due to connection of small areas in neighbouring municipalities, balanced by a small reduction in storm water volumes. This resulted in a sales increase in the 2nd quarter compared to the comparative period last year of 6.6% or 0.07 mln euros. Higher sales increase than volumes increase is due to storm water tariffs being significantly lower than sewage tariffs.

The sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area decreased by 11.1% to 0.86 mln euros in the 2nd quarter of 2013 compared to the same period in 2012. According to the terms and conditions of the contract revenues reflect actual volumes treated and costs for treating the storm water, therefore this cost pass through has no impact on profits.

Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 6.2 mln euros in the 2nd quarter of 2013, showing 0.84 mln euros or 15.8% increase compared to the equivalent period in 2012. The cost increase is highly influenced by the additional pollution tax incurred due to the incidents in the wastewater treatment plant in the 2nd quarter of 2013 resulting extra pollution tax in the amount of 0.91 mln euros.

Total variable costs increased by 0.87 mln euros or 50.1% year on year. Main reason for increased costs was the increase in pollution tax, which was mentioned above. Other changes came from a combination of increase in prices and tax rates and movements in treatment volumes that affected the variable costs together with the following additional factors:

- Water abstraction charges increased only by 0.01 mln euros or 5.1% to 0.25 mln euros in the 2nd quarter of 2013, driven mainly by 5% raise in tax rates.
- Total chemical costs increased by 0.05 mln euros or 12.1% to 0.43 mln euros. Chemicals costs increased due to an increase in chemicals price worth 0.04 mln euros (0.03 mln euros coming from methanol price increase by 21%) and increased coagulant usage due to bad raw water quality amounting to 0.04 mln euros. Costs increase was balanced by a decrease in chemicals volumes used due to less sewage treated, with an impact worth 0.3 mln euros.
- Electricity costs in total decreased by 0.04 mln euros or 4.9% in the 2nd quarter of 2013 compared to the 2nd quarter of 2012. Main reason for lower electricity costs is the decreased treatment volumes, worth 0.09 mln euros. Positive effects are reduced by increased electricity unit costs by 0.05 mln euros.
- In the 2nd quarter of 2013 the pollution tax expense increased by 0.86 mln euros or 378.4%.There was an incident in the wastewater treatment plant due to which for the short period of time not all wastewater could have been treated. Due to that emergency in the 2nd quarter of 2013 higher rates for pollution tax were applied and the Company faced additional pollution tax and income tax all in total worth 0.91 mln euros. Eliminating the effects of the incident the pollution tax would have decreased by 0.05 mln euros or 22.1%. The pollution tax decrease due to the improved pollutants removal process and decrease in volumes was balanced by overall increase in tax rates by 15%.

To mitigate the external price risk of maintenance services the Company switched from outsourcing to insourcing in various areas in the 3rd quarter of 2012. Total fixed cost of goods sold (staff costs, depreciation and other cost of goods sold) in the main operating activity decreased by 0.03 mln euros or 0.9%.

As a result of all of the above the Company's gross profit for the 2nd quarter of 2013 was 7.3 mln euros, which is a decrease of 0.5 mln euros, or 6.3%, compared to the gross profit of 7.8 mln euros for the 2nd quarter of 2012.

Other Operating Costs

Marketing expenses and General administration expenses stayed mostly flat during the 2nd quarter of 2013 compared to the corresponding period in 2012, increasing in total by 0.07 mln euros, mainly due to overall salary increase and also changes in the management board. In the 2nd quarter of 2013 the legal fees related to the on-going tariff dispute have also increased compared to the comparative period last year.

Other net income/expenses

Other net income decreased by 0.02 mln euros or 25.4% to a net expense of 0.05 mln euros, compared to 0.07 mln euros net expense in the 2nd quarter of 2012.

Operating profit

As a result of above factors the Company's operating profit from main services and in total, for the 2nd quarter of 2013 totalled 5.7 mln euros compared to 6.3 mln euros in the corresponding quarter in 2012, which shows a decrease of 0.60 mln euros. Year on year the operating profit for the 2nd quarter has decreased by 8.7%.

Financial expenses

The company received net financial income in the amount of 0.62 mln euros in the 2nd quarter of 2013, which is a positive change of 1.3 mln euros compared to -0.67 mln euros financial expenses in the 2nd quarter of 2012. In 2012 the financial costs were mainly impacted from the non-cash revaluation of the fair value of swap agreements, in the 2nd quarter of 2012 when the revaluation impact was negative by 0.22 mln euros compared to the positive revaluation impact of 1.1 mln euros in the 2nd quarter of 2013.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk, the interest swap agreements are signed for 75 mln euros and 20 mln euros are thereby still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling 2.9 mln euros. In order to continuously mitigate the interest risk, the Company entered into 2 new swap contracts in the total amount of 30 mln euros in May 2013, which will come into force after two old contracts expire. One contract was concluded for the period of 2013-2108 and the other one for the period if 2015-2018. The average fixed interest rate for new contracts is 0.92%.

Effective interest rate (incl. swap interests) in the 2nd quarter of 2013 was 3.24%, amounting in the interest costs of 0.78 mln euros, compared respectively to 3.35% and 0.80 mln euros in the 2nd quarter of 2012.

Profit Before and After Tax

The Company's profit before taxes for the 2nd quarter of 2013 was 6.4 mln euros, which is 0.8 mln euros higher than the profit before taxes of 5.6 mln euros for the 2nd quarter of 2012, resulting from the movements in fair value of financial instruments and increased costs as described above.

The year on year increase in dividend payment by 0.6 mln euros increased also the income tax on dividends by 0.16 mln euros. The Company's profit after taxes for the 2nd quarter of 2013 was 1.7 mln euros, which is 0.5 mln euros higher than the profit after taxes of 1.2 mln euros for the 2nd quarter of 2012.

Results for the six months of 2013

During the six months of 2013 the Company's total sales increased, year on year, by 0.2% to 26.2 mln euros. Sales of water and wastewater treatment were 24.0 mln euros, a 0.7% increase compared to the six months of 2012.

The movements in sales are similar to the movements in the 2nd quarter described above. There has been a slight 0.1 mln euros or 1.2% decline in the sales to residential customers and 0.3 mln euros or 2.6% of increase in the sales to the commercial clients. Industrial sector has given the most of the increase in the sales to commercial clients.

Due to less rainfall, the revenues from storm water treatment in the first half of 2013 remain 0.27 mln euros or 15.6% behind the comparative period in 2012.

The operating profit from the Company's main business activity decreased by 9.6% to 11.9 mln euros during the six months of 2013 compared to the six months of 2012. Main reason for a decline comes from the rise in pollution tax expenses (1.29 mln euros year on year). Increase is influenced by two factors: first the pollution tax expenses in 2012 were impacted by the reversal of provision in the amount of 0.44 mln euros made in 2011 and also due to the incident at the wastewater treatment plant described above.

The Company's profit before taxes for the six months of 2013 was 12.6 mln euros, which is a 5.4% increase compared to the relevant period in 2012 being highly influenced by the change in fair value of swap contracts.

The Company's net profit for the six months of 2013 was 7.9 mln euros, which is 0.4 mln euros higher than the net profit of 7.5 mln euros in the equivalent period in 2012.

Balance sheet

In the six months of 2013 the Company invested 3.5 mln euros into fixed assets. As of 30 June 2013 non-current fixed assets amounted to 151.1 mln euros and total non-current assets amounted to 159.5 mln euros.

Current assets decreased by 6.0 mln euros to 36.7 mln euros in the six months mainly due to decreased cash at bank by 3.0 mln euros and lower trade receivables by 2.9 mln euros.

Current liabilities increased by 6.0 mln euros to 15.9 mln euros in the six months mainly due to increased payments to suppliers and also due to the dividend income tax liability that is due in July in the amount of 4.6 mln euros.

The Company has a Total debt/Total assets level as expected of 61.7%, in range of 55%-65%, reflecting the post dividend payment equity profile. This level is consistent with the same period in 2012 when the total debt/total assets ratio was 63.1%.

Long-term liabilities stood at 105.1 mln euros at the end of June 2013, consisting mainly of the outstanding balance of three long-term bank loans totalling 95 mln euros. The first repayment of loans or refinancing should take place at the end of 2014. The weighted average interest margin for the total loan facility is 0.96%. The rest of long term liabilities reflect mainly the accounting record of deferred income from connection fees.

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

Cash flow

During the six months of 2013, the Company generated 15.3 mln euros of cash flows from operating activities, a decrease of 0.38 mln euros compared to the corresponding period in 2012. 2013 operating cash flows were below 2012 cash flows mainly due to the lower operating profit and also from an increase in current payables. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the six months of 2013 net cash flows from investing activities resulted in a cash inflow of 0.71 mln euros, a decrease of 1.0 mln euros compared to an inflow of 1.7 mln euros in the six months of 2012. This is made up as follows:

In the six months of 2013 the cash outflows related to the fixed asset investments were 3.4 mln euros compared to 4.2 mln euros spent in the same period of 2012, a decrease of 0.80 mln euros. The compensations received for the construction of pipelines were 3.6 mln euros in the six months of 2013, a decrease of 2.0 mln euros compared to same period in 2012. In 2013 the Company did not give any loans. In 2012 the loan granted to AS Maardu Vesi amounted to 0.38 mln euros.

In the six months of 2013, cash outflow from financing amounted to 19.0 mln euros due to interests paid and loan financing costs and dividends paid, which is 0.57 mln euros more than in the same period of 2012, almost entirely due to higher dividends.

As a result of all of the above factors, the total cash outflow in the six months of 2013 was 3.0 mln euros compared to a cash outflow of 1.1 mln euros in 2012. Cash and cash equivalents stood at 20.9 mln euros as of 30 June 2013, which are 7.2 mln euros higher than at the corresponding period of 2012.

Employees

At the end of the 2nd quarter of 2013, the total number of employees was 309 compared to 318 at the end of the 2nd quarter of 2012. The full time equivalent (FTE) was respectively 296 in 2013 compared to the 304 in 2012. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure.

Dividends

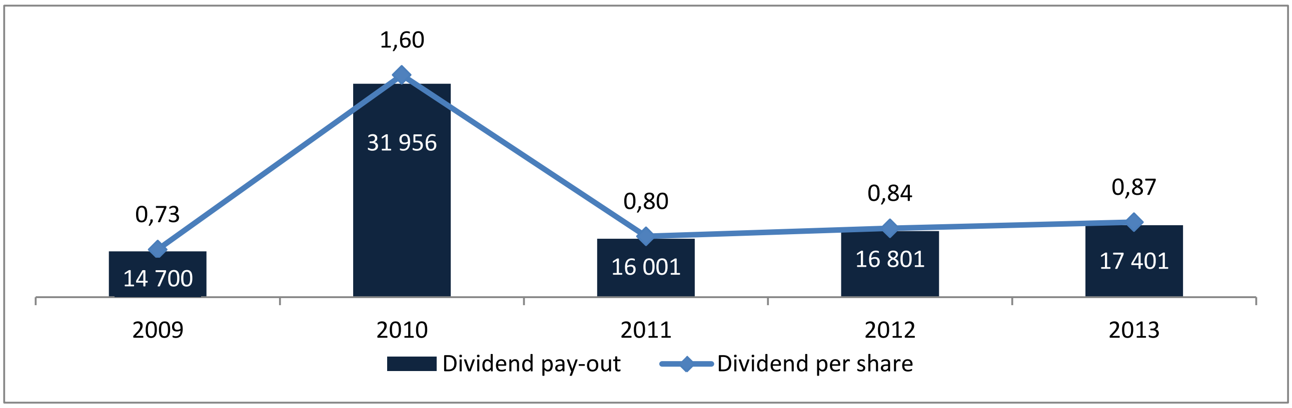
Dividend allocation to the shareholders is recorded as the liability in the financial statement of the Company at the time when the profit allocation and hence dividend payment is confirmed by the annual general meeting of shareholders.

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

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

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

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



Share performance

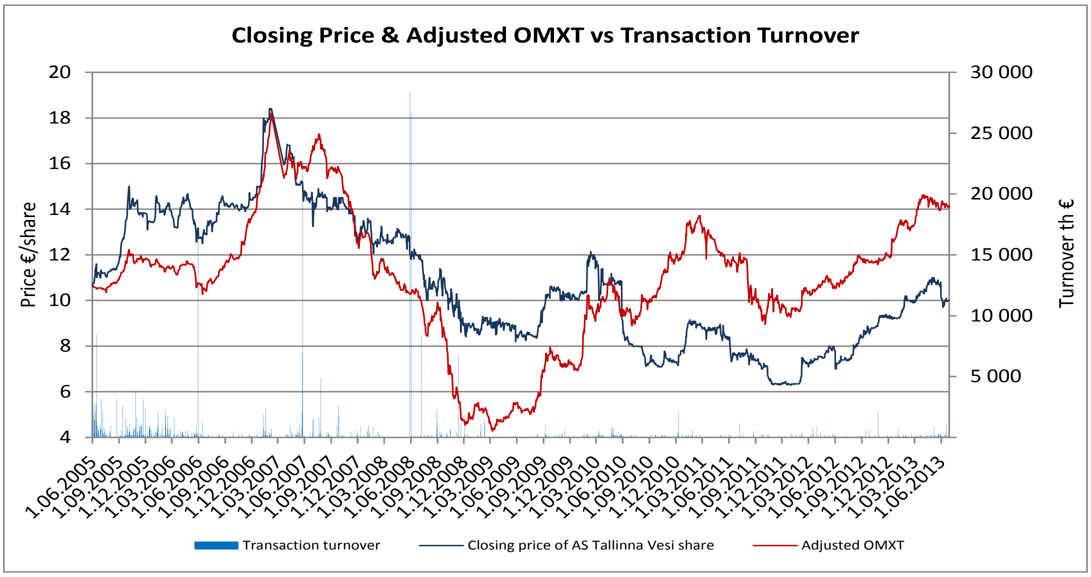
AS Tallinna Vesi is listed on NASDAQ OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 30 June 2013 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

Pension funds have continued to increase their portfolios during the 2nd quarter of 2013, owning 2.47% of the total shares compared to 1.57% at the end of 1st quarter 2012.

As of 30 June 2013, the closing price of the AS Tallinna Vesi share was 10.00 euros, which is a 3.85% decrease compared to the closing price of 10.40 euros at the beginning of the quarter. During the same period the OMX Tallinn index decreased by 3.04%. In the 2nd quarter the Company's share price was mainly impacted by the on-going contractual debate and dividend payment in June.



Operational highlights in 1st half-year of 2013

Indicator	2012 Q1	2013 Q1
Drinking water		
Compliance of water quality at the customers tap	99.73%	99,80%
Water loss in the water distribution network	16.4%	16.64%
Average duration of water interruptions per property, h	3.2 h	3.53 h
Wastewater		
Number of sewer blockages	398	478
Number of sewer bursts	62	74
Wastewater treatment compliance with environmental standards	100%	100%
Customer service		
Number of written contacts	4647	4698
Number of customer contacts regarding water quality	100	90
Number of customer contacts regarding water pressure	340	326
Responding written customer contacts within at least 2 work days	98.4%	98.6%
Number of failed promises	6	9
Notification of unplanned water interruptions at least 1 h before the interruption	89.0%	97.1%

Complaint to European Commission

In parallel, on 10th December 2010 AS Tallinna Vesi lodged a complaint to the European Commission regarding certain measures adopted by the Estonian authorities. The company believes these measures unilaterally alter the terms of AS Tallinna Vesi's privatization regime, and without any objective justification, any form of meaningful prior discussion, or willingness to engage in dialogue. Therefore they violate EU rules on the freedom of establishment and the free movement of capital (articles 49 and 63 TFEU). The process is on-going.

Disclosure of relevant papers and perspectives

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

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

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

Corporate structure

At the end of the quarter, 30 June 2013, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Supervisory Council

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

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

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

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

Management Board

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

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

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

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

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

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

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 6 months period of financial year 2013 ended 30 June 2013. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 2013 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

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

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

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

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

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

I.J.A. Plenderleith

Aleksandr Timofejev
Member of the Management Board
Asset Operations Director

Riina Käi
Member of the Management Board
Chief Financial Officer

Ilona Nurmela
Member of the Management Board
General Counsel

25 July 2013

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

CONCOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

		as of 30 June		as of 31 December
ASSETS	**Note**	**2013**	**2012**	**2012**
CURRENT ASSETS				
Cash and cash equivalents	2	20 892	13 678	23 935
Trade receivables, accrued income and prepaid expenses		15 378	20 187	18 323
Inventories		391	315	356
TOTAL CURRENT ASSETS		**36 661**	**34 180**	**42 614**
NON-CURRENT ASSETS				
Other long-term receivables		8 396	5 370	7 560
Property, plant and equipment	3	150 146	147 395	149 400
Intangible assets	3	949	1 349	1 154
TOTAL NON-CURRENT ASSETS		**159 491**	**154 114**	**158 114**
TOTAL ASSETS		**196 152**	**188 294**	**200 728**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		149	45	115
Trade and other payables		11 458	9 639	5 482
Derivatives		1 883	1 909	2 039
Prepayments		2 366	1 727	2 252
TOTAL CURRENT LIABILITIES		**15 856**	**13 320**	**9 888**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		8 333	6 990	7 892
Borrowings		95 680	95 424	95 717
Derivatives		1 040	3 019	2 538
Other payables		24	9	20
TOTAL NON-CURRENT LIABILITIES		**105 077**	**105 442**	**106 167**
TOTAL LIABILITIES		**120 933**	**118 762**	**116 055**
EQUITY				
Share capital		12 000	12 000	12 000
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		37 207	31 520	46 661
TOTAL EQUITY		**75 219**	**69 532**	**84 673**
TOTAL LIABILITIES AND EQUITY		**196 152**	**188 294**	**200 728**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 2		6 months		for the year ended 31 December
	Note	**2013**	**2012**	**2013**	**2012**	**2012**
Revenue	4	13 493	13 145	26 186	26 139	52 924
Costs of goods sold	6	-6 172	-5 332	-11 341	-10 092	-20 337
GROSS PROFIT		**7 321**	**7 813**	**14 845**	**16 047**	**32 587**
Marketing expenses	6	-175	-191	-399	-398	-772
General administration expenses	6	-1 351	-1 264	-2 479	-2 375	-4 740
Other income (+)/ expenses (-)	7	-53	-71	-70	-39	1 696
OPERATING PROFIT		**5 742**	**6 287**	**11 897**	**13 235**	**28 771**
Financial income	8	1 395	352	2 237	747	1 591
Financial expenses	8	-779	-1 021	-1 562	-2 058	-3 297
PROFIT BEFORE TAXES		**6 358**	**5 618**	**12 572**	**11 924**	**27 065**
Income tax on dividends	9	-4 625	-4 466	-4 625	-4 466	-4 466
NET PROFIT FOR THE PERIOD		**1 733**	**1 152**	**7 947**	**7 458**	**22 599**
COMPREHENSIVE INCOME FOR THE PERIOD		**1 733**	**1 152**	**7 947**	**7 458**	**22 599**
Attributable profit to:						
Equity holders of A-shares		1 732	1 151	7 946	7 457	22 598
B-share holder		0,60	0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,09	0,06	0,40	0,37	1,13
Earnings per B share (in euros)	10	600	600	600	600	600

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

CONSOLIDATED CASH FLOW STATEMENT (thousand EUR)

	Note	6 months 2013	2012	for the year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		11 897	13 235	28 771
Adjustment for depreciation/amortisation	6	2 963	2 883	5 879
Adjustment for profit from government grants and connection fees		0	-80	-2 043
Other non-cash adjustments		-48	5	-153
Profit/loss(+) from sale and write off of property, plant and equipment, and intangible assets		-20	7	-6
Change in current assets involved in operating activities		-864	-510	-160
Change in liabilities involved in operating activities		1 348	114	-568
Total cash flow from operating activities		**15 276**	**15 654**	**31 720**
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted		0	-384	-765
Acquisition of property, plant and equipment, and intangible assets		-3 445	-4 243	-10 011
Proceeds from sales of property, plant and equipment		20	2	38
Compensations received for construction of pipelines		3 551	5 581	11 198
Interest received		583	757	1 585
Total cash flow used in investing activities		**709**	**1 713**	**2 045**
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-1 563	-1 658	-3 272
Repayment of finance lease		-64	0	-61
Dividends paid	9	-17 401	-16 801	-16 801
Income tax on dividends	9	0	0	-4 466
Total cash flow used in financing activities		**-19 028**	**-18 459**	**-24 600**
Change in cash and cash equivalents		**-3 043**	**-1 092**	**9 165**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**23 935**	**14 770**	**14 770**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**20 892**	**13 678**	**23 935**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
Dividends	0	0	0	-16 801	-16 801
Comprehensive income for the period	0	0	0	22 599	22 599
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 661**	**84 673**
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
Dividends	0	0	0	-16 801	-16 801
Comprehensive income for the period	0	0	0	7 458	7 458
as of 30 June 2012	**12 000**	**24 734**	**1 278**	**31 520**	**69 532**
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 661**	**84 673**
Dividends	0	0	0	-17 401	-17 401
Comprehensive income for the period	0	0	0	7 947	7 947
as of 30 June 2013	**12 000**	**24 734**	**1 278**	**37 207**	**75 219**

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

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

NOTE 1. ACCOUNTING PRINCIPLES

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

Changes in presentation of statement of cash flow

In 2012 the Group decided to change the presentation of cash flow statement by reclassifying interest paid and loan financing costs that were previously shown under cash flows from operating activities to cash flows from financing activities. The reason for reclassification is to give better overview of Group's cash flows as the Group considers that interest paid and loan financing costs are more related with financing activities rather than operating activities.

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 June		as of 31 December
	2013	**2012**	**2012**
Cash in hand and in bank	1 481	1 217	1 859
Short-term deposits	19 411	12 461	22 076
Total cash and cash equivalents	**20 892**	**13 678**	**23 935**

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

(thousand EUR)

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

	Property, plant and equipment				Assets in progress		Intangible assets		
	Land and buildings	**Facilities**	**Machinery and equipment**	**Other equipment**	**Construction in progress**	**Construction in progress - unfinished pipelines**	**Unfinished intangible assets**	**Acquired licenses and other intangible assets**	**Total property, plant and equipment and intangible assets**
as of 31 December 2011									
Acquisition cost	24 247	162 106	40 594	1 175	2 849	1 677	222	5 363	238 233
Accumulated depreciation	-5 110	-52 920	-27 837	-808	0	0	0	-4 008	-90 683
Net book value	**19 137**	**109 186**	**12 757**	**367**	**2 849**	**1 677**	**222**	**1 355**	**147 550**
Transactions in the period 01 January 2012 - 31 December 2012									
Acquisition in book value	0	0	0	0	7 862	3 153	293	0	11 308
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-1	0	-32	0	0	0	-33
Compensated by government grants	0	0	0	0	0	-2 392	0	0	-2 392
Reclassification	545	5 361	3 713	153	-8 421	-1 398	-490	537	0
Depreciation	-273	-2 701	-2 062	-80	0	0	0	-763	-5 879
as of 31 December 2012									
Acquisition cost	24 793	167 389	44 018	1 302	2 258	1 040	25	5 899	246 724
Accumulated depreciation	-5 384	-55 543	-29 611	-862	0	0	0	-4 770	-96 170
Net book value	**19 409**	**111 846**	**14 407**	**440**	**2 258**	**1 040**	**25**	**1 129**	**150 554**
Transactions in the period 01 January 2013 - 30 June 2013									
Acquisition in book value	0	0	0	0	3 159	254	97	0	3 510
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	0	0	-6	0	0	0	-6
Reclassification	24	2 077	940	4	-2 585	-460	-54	54	0
Depreciation	-139	-1 390	-1 092	-40	0	0	0	-302	-2 963
as of 30 June 2013									
Acquisition cost	24 817	169 466	44 958	1 306	2 826	834	68	5 953	250 228
Accumulated depreciation	-5 523	-56 933	-30 703	-902	0	0	0	-5 072	-99 133
Net book value	**19 294**	**112 533**	**14 255**	**404**	**2 826**	**834**	**68**	**881**	**151 095**

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

As of 30 June 2013 the book value of the assets (Machinery and equipment) leased under financial lease is 923 thousand euros (31 December 2012: 886 thousand euros).

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

NOTE 4. REVENUE

Revenues from main operating activities	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2013	**2012**	**2013**	**2012**	**2012**
Total water supply and waste water disposal service, incl:	12 239	11 908	23 958	23 803	47 912
Private clients, incl:	5 913	5 936	11 846	11 990	23 789
Water supply service	3 253	3 265	6 517	6 595	13 096
Wastewater disposal service	2 660	2 671	5 329	5 395	10 693
Corporate clients, incl:	4 988	4 778	9 594	9 347	18 767
Water supply service	2 782	2 621	5 291	5 085	10 248
Wastewater disposal service	2 206	2 157	4 303	4 262	8 519
Outside service area clients, incl:	1 114	1 044	2 115	2 142	4 524
Water supply service	263	254	515	510	1 028
Wastewater disposal service	683	622	1 344	1 283	2 684
Storm water disposal service	168	168	256	349	812
Over pollution fee	224	150	403	324	832
Storm water treatment and disposal service	810	919	1 483	1 757	3 713
Fire hydrants service	54	53	107	94	202
Other works and services	390	265	638	485	1 097
Total revenue	**13 493**	**13 145**	**26 186**	**26 139**	**52 924**

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

NOTE 5. STAFF COSTS

	Quarter 2		**6 months**		**for the year ended 31 December**
	2013	**2012**	**2013**	**2012**	**2012**
Salaries and wages	-1 326	-1 315	-2 673	-2 538	-5 150
Social security and unemployment insurance taxation	-445	-439	-895	-846	-1 718
Staff costs total	**-1 771**	**-1 754**	**-3 568**	**-3 384**	**-6 868**
Number of employees at the end of reporting period			**309**	**318**	**313**

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

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

	Quarter 2		6 months		for the year ended 31 December
Cost of goods sold	**2013**	**2012**	**2013**	**2012**	**2012**
Water abstraction charges	-248	-236	-494	-476	-937
Chemicals	-426	-380	-846	-745	-1 631
Electricity	-855	-899	-1 790	-1 831	-3 695
Pollution tax	-1 086	-227	-1 302	-13	-347
Staff costs	-1 250	-1 258	-2 466	-2 331	-4 750
Depreciation and amortization	-1 285	-1 294	-2 584	-2 576	-5 167
Other costs of goods sold	-1 022	-1 038	-1 859	-2 120	-3 810
Total cost of goods sold	**-6 172**	**-5 332**	**-11 341**	**-10 092**	**-20 337**
Marketing expenses					
Staff costs	-80	-94	-196	-191	-373
Depreciation and amortization	-81	-81	-162	-163	-326
Other marketing expenses	-14	-16	-41	-44	-73
Total marketing expenses	**-175**	**-191**	**-399**	**-398**	**-772**
Administrative expenses					
Staff costs	-441	-402	-906	-862	-1 745
Depreciation and amortization	-83	-73	-164	-144	-295
Other general administration expenses	-827	-789	-1 409	-1 369	-2 700
Total administrative expenses	**-1 351**	**-1 264**	**-2 479**	**-2 375**	**-4 740**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 2		6 months		for the year ended 31 December
	2013	**2012**	**2013**	**2012**	**2012**
Profit from government grant	0	0	0	77	2 037
Connection fees	28	24	56	47	96
Depreciation of single connections	-26	-23	-53	-44	-91
Doubtful receivables expenses (-) / expens	4	-1	5	-4	-169
Other income / expenses (-)	-59	-71	-78	-115	-177
Total other income / expenses	**-53**	**-71**	**-70**	**-39**	**1 696**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2013	**2012**	**2013**	**2012**	**2012**
Interest income	298	351	582	742	1 591
Interest expense, loan	-269	-348	-538	-781	-1 358
Interest expense, swap	-510	-455	-1 016	-837	-1 851
Increase (+) /decrease (-) of fair value of swap	1 093	-218	1 655	-440	-89
Other financial income (+)/ expenses (-)	4	1	-8	5	1
Total financial income / expenses	**616**	**-669**	**675**	**-1 311**	**-1 706**

NOTE 9. DIVIDENDS	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2013	**2012**	**2013**	**2012**	**2012**
Dividends declared during the period	17 401	16 801	17 401	16 801	16 801
Dividends paid during the period	17 401	16 801	17 401	16 801	16 801
Income tax on dividends paid	-4 625	-4 466	-4 625	-4 466	-4 466
Income tax accounted for	**-4 625**	**-4 466**	**-4 625**	**-4 466**	**-4 466**
Paid-up dividends per shares:					
Dividends per A-share (in euros)	0,87	0,84	0,87	0,84	0,84
Dividends per B-share (in euros)	600	600	600	600	600

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

NOTE 10. EARNINGS PER SHARE

	Quarter 2		**6 months**		**for the year ended 31 December**
	2013	**2012**	**2013**	**2012**	**2012**
Net profit minus B-share preferred dividend rights	1 732	1 151	7 946	7 457	22 598
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,09	0,06	0,40	0,37	1,13
Earnings per B share (in euros)	600	600	600	600	600

Diluted earnings per share for the periods ended 30 June 2013 and 2012 and 31 December 2012 are equal to earnings per share figures stated above.

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

NOTE 11. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded in working capital on the statement of financial position of the Group		**as of 30 June**	**as of 31 December**
	2013	**2012**	**2012**
Accounts receivable	2 003	4 824	4 919
Accrued income	7 155	9 128	7 123
Other long-term receivables	4 635	1 834	3 746
Deferred income	0	3	0
Trade and other payables	183	176	187

Transactions	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2013	**2012**	**2013**	**2012**	**2012**
Revenue	863	962	1 590	1 832	3 877
Government grant receivable for constructing new pipelines	0	0	0	298	4 429
Purchase of administrative and consulting services	242	245	485	486	998
Financial income	202	258	392	546	1 226
Short-term employee benefits to Management Board (excluding social tax)	90	73	161	137	326
Supervisory Board fees excluding social tax	10	10	20	20	40

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

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

18 thousand euros were paid to the Management Board members as termination fees in the first 6 months of 2013. In the first 6 months of 2012 no termination fees were paid to the Management Board members. 45 thousand euros were paid to the Management Board members as termination fees in the year that ended on 31.12.2012. The off balance sheet potential salary liability would be up to 86 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

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

Company shares belonging to the Management Board and Supervisory Board members

As of 30 June 2013 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 30 June 2012: Leho Võrk owned 179 shares and Siiri Lahe owned 700 shares and as of 31 December 2012: Leho Võrk owned 179 and Riina Käi owned 100 shares).

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Steven Richard Fraser	Member of the Supervisory Board
Simon Gardiner	Member of the Supervisory Board
Brendan Francis Murphy	Member of the Supervisory Board
Toivo Tootsen	Member of the Supervisory Board
Mart Mägi	Member of the Supervisory Board
Rein Ratas	Member of the Supervisory Board
Allar Jõks	Member of the Supervisory Board
Priit Lello	Member of the Supervisory Board

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

NOTE 13. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

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

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