Tallinna Vesi

AS Tallinna Vesi

Results of operations – for the 4th quarter of 2012

Currency	Thousand euros
Start of reporting period	1 January 2012
End of reporting period	31 December 2012
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Contractual Highlights

- AS Tallinna Vesi tariffs continue to be on the same level based on temporary injunction granted by the Court for the period of court proceedings to protect the Company from the unilateral breach of privatization agreement by Estonian Authorities (more information available at end of the paper from section *Contractual tariff debate*).
- At the end of May the District Court ruled that AS Tallinna Vesi's Services Agreement, that was part of the international privatisation, is a public law contract, overturning the Competition Authority's claim that the tariff mechanism specified in the Services Agreement is allegedly a civil law agreement that the company cannot rely on in an administrative court. In June 2012 the Competition Authority appealed this decision.
- In September the Supreme Court rejected the Competition Authority's appeal, meaning that the District Court's decision has been upheld. It is now for the Administrative Court to determine whether or not the Services Agreement is binding on the Competition Authority, however the tariff mechanism has been deemed a public law contract.
- 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).
- AS Tallinna Vesi was privatised in 2001 with the full support and knowledge of the Estonian national government, with written confirmations from the Prime Minister, the Minister of Finance, and the Competition Authority itself regarding the key terms of the agreements, and utilising the expertise and guidance of the European Bank for Reconstruction and Development (EBRD). In addition to approving the framework of the privatisation the State of Estonia directly benefited as the sovereign guarantee it had been required to provide to EBRD to secure the then municipal AS Tallinna Vesi's loans was passed to the Strategic Investor on privatisation.
- Discussion of the complaint submitted to the EU Commission is 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.

<u>Results for the twelve months of 2012</u>

During the twelve months of 2012 the Company's total sales increased, year on year, by 3.3% to 52.9 mln euros. Sales of water and wastewater treatment were 47.9 mln euros, showing 3.0% increase compared to the twelve months of 2011. These increases in sales are due to higher sales volumes during 2012.

The operating profit from the Company's main business activity increased by 1.3 mln euros or 5.2% to 26.7 mln euros during the twelve months of 2012 compared to the twelve months of 2011.

The Company's profit before taxes for the year in 2012 was 27.1 mln euros, which is a 1.3 mln euros or 5.0% increase compared to the relevant period in 2011.

The Company's net profit for 2012 was 22.6 mln euros, which is 1.1 mln euros or 5.0% higher than the net profit of 21.5 mln euros in the equivalent period in 2011.

Increase in net profit is due to the various impacts from activities not related to the main business performance: reduced construction profits (-1.4 mln euros year on year), non-repeatable one off debt collection in 2011 (-0.5 mln euros), mainly non-cash increase in financial costs in 2011 (1.4 mln euros), income tax on dividends (-0.2 mln euros year on year).

RESULTS OF OPERATIONS - FOR THE 4th QUARTER 2012

Financial highlights of 4th quarter 2012

In the 4th quarter of 2012 the Company's underlying performance was good and stable, continuously focused on the improvement of operational performance and customer service.

During the 4th quarter of 2012 the sales increased by 4.8% mainly due to increase from commercial sectors and outside service area. Gross profit increased in the 4th quarter of 2012 by 16.7% and the operating profit from main business activities increased by 19.5%. Total operating profit increased by 6.6% during the same period as a result of completion of considerably smaller proportion of the construction program than in 4th quarter of 2011.

mln €	**4 Q 2010**	**4 Q 2011**	**4 Q 2012**	**Change 12/11**	**12 months 2010**	**12 months 2011**	**12 months 2012**	**Change 12/11**
Sales	12,5	13,1	13,7	4,8%	49,7	51,2	52,9	3,3%
Gross profit	6,8	7,2	8,4	16,7%	29,0	30,3	32,6	7,5%
Gross profit margin %	54,8	54,9	61,2	11,3%	58,4	59,2	61,6	4,1%
Operating profit	7,1	8,0	8,6	6,6%	27,5	28,9	28,8	-0,4%
Operating profit - main business	5,4	5,7	6,8	19,5%	24,2	25,4	26,7	5,2%
Operating profit margin %	56,9	61,5	62,5	1,7%	55,3	56,4	54,4	-3,6%
Profit before taxes	7,9	7,7	8,7	12,8%	24,9	25,8	27,1	5,0%
Net profit	7,9	7,7	8,7	12,8%	16,4	21,5	22,6	5,0%
Net profit margin %	63,6	58,7	63,2	7,6%	33,0	42,0	42,7	1,7%
ROA %	4,3	4,0	4,3	7,9%	8,9	11,2	11,3	0,5%
Debt to total capital employed	60,1	58,9	57,8	-1,9%	60,1	58,9	57,8	-1,9%

Gross profit margin – Gross profit / Net sales
Operating profit margin – Operating profit / Net sales
Net Profit margin – Net Profit / Net sales
ROA – Net profit /Total Assets
Debt to Total capital employed – Total Liabilities / Total capital employed
Main business – water and wastewater activities, excl. connections profit and government grants

Profit and Loss Statement

4th quarter 2012

Sales

In the 4th quarter of 2012 the Company's total sales increased, year on year, by 4.8% to 13.7 mln euros. 90% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 7% of sales from fees received from the City of Tallinn for operating and maintaining the storm water system and 3% from other works and services.

Sales of water and wastewater services were 12.4 mln euros, a 4.4% increase compared to the 4th quarter of 2011, resulting from the rise in sales volumes as described below.

Within the service area, sales to residential customers were stable at 6.0 mln euros with no change year on year. Sales to commercial customers increased by 5.0% to 4.8 mln euros, mainly due to industrial customers. Sales to customers outside of the main service area increased by 17.0% to 1.3 mln euros in the 4th quarter of 2012. Over pollution fees received were 0.27 mln euros, a 67.1% increase compared to the 4th quarter of 2011.

As result of same tariffs billable in 2012 compared to 2011 the sales volumes reflect the same variances in main services area as prescribed above

Outside service area sales volumes were 35.5% higher than in the 4th quarter of 2011. The main factor in this increase was higher storm water volumes supplemented by some increase in sewerage service due to connection of small areas in neighbouring municipalities. This resulted in a sales increase year on year by 16.9%; the sales increase is lower than volumes increase as storm water tariffs are lower than sewage tariffs.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 7.2% to 1.0 mln euros in the 4th quarter of 2012 compared to the same period in 2011. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated. This cost pass through increase has no impact on profits.

Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 5.3 mln euros in the 4th quarter of 2012, a decrease of 0.57 mln euros or 9.7% 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 and electricity costs as explained below.

Total variable costs decreased by 0.34 mln euros or 16.0% 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 0.02 mln euros or 7.8% to 0.24 mln euros in the 4th quarter of 2012, despite of 10% increase in tax rates due to positive impact from reduced leakage ratio.
- Total chemical costs decreased by 0.01 mln euros or 3.0% to 0.42 mln euros. Chemicals costs decreased despite of an increase in chemicals price worth 0.03 mln euros (0.02 mln euros coming from methanol price increase by 12%) due to lower volume impact worth 0.05 mln euros.
- Electricity costs in total increased by 0.15 mln euros or 17.8% in the 4th quarter of 2012 compared to the 4th quarter of 2011. Electricity costs were the most impacted by considerable increase in electricity prices, which on average have increased 7.4% with an adverse effect of 0.07 mln euros, in addition the Company was affected by the adverse impact from the increased treated storm water volumes.
- Pollution tax decreased by 0.49 mln euros or 72.9% in the 4th quarter of 2012. Significant improvements in nitrogen removal process balance the pollution tax increase due to the 15% increase in tax rates and 4% 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 Company 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 insourcing in various areas in the 3rd quarter of 2012. Total fixed cost of goods sold in the main operating activity decreased by 0.24 mln euros or 6.2% year on year due to said switch.

Due to the start-up of services the Company increased its headcount resulting in 0.13 mln euros or 11.1% increase in salary costs due to overall increase in headcount, which was offset by cost savings for maintenance services and transportation, worth 0.24 mln euros.

As a result of all of the above the Company's gross profit for the 4th quarter of 2012 was 8.4 mln euros, which is an increase of 1.2 mln euros, or 16.7%, compared to the gross profit of 7.2 mln euros for the 4th quarter of 2011.

Other Operating Costs

Marketing expenses and General administration expenses stayed flat during the 4th quarter of 2012 compared to the corresponding period in 2011.

Other net income/expenses

Other net income decreased by 0.67 mln euros or 29.6% to a net income of 1.6 mln euros, compared to 2.3 mln euros net income in the 4th quarter of 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 revenues from this activity have considerably dropped. Profits from constructions and government grants recorded in the 4th quarter of 2012 were 1.8 mln euros compared to a net income of 2.4 mln euros in the 4th quarter of 2011.

The rest of the other income/expenses totalled an expense of 0.19 mln euros in the 4th quarter of 2012 compared to an expense of 0.10 mln euros in the 4th quarter of 2011 that was mainly related to an increase in doubtful debts.

Operating profit

As a result of above factors the Company's operating profit from main services for the 4th quarter of 2012 totalled 6.8 mln euros compared to 5.7 mln euros in the corresponding quarter in 2011. In total the Company's operating profit for all activities for the 4th quarter of 2012 was 8.6 mln euros, which shows an increase of 0.60 mln euros compared to an operating profit of 8.0 mln euros achieved in the 4th quarter of 2011. Year on year the operating profit for the 4th quarter has increased by 6.6%.

Financial expenses

Net Financial expenses/income were 0.09 mln euros in the 4th quarter of 2012, which is a decrease of 0.45 mln euros in expenses compared to -0.36 mln euros net expenses in the 4th quarter of 2011. In 2011 the financial costs were mainly impacted from the non-cash revaluation of the fair value of swap agreements, in the 4th quarter of 2011 the revaluation impact was negative by 0.67 mln euros and in the relevant quarter of 2012 the revaluation impact was positive by 0,35 mln euros.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk, the interest swap agreements are signed for 75 mln euros and 20 mln euros is thereby still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling 4.6 mln euros.

Effective interest rate in the 4th quarter of 2012 was 3.30%, amounting in the interest costs of 0.80 mln euros, compared respectively to 2.57% and 0.62 mln euros in the 4th quarter of 2011. This reflects mainly the adverse impact from swap agreements that became effective only from the 2nd quarter of 2011.

Profit Before and After Tax

The Company's profit before taxes for the 4th quarter of 2012 was 8.7 mln euros, which is 1.0 mln euros higher than the profit before taxes of 7.7 mln euros for the 4th quarter of 2011, resulting from the movements in fair value of financial instruments as described above. The Company's profit after taxes for the 4th quarter of 2012 was 8.7 mln euros, which is also 1.0 mln euros higher than the profit after taxes of 7.7 mln euros for the 4th quarter of 2011.

Balance sheet

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 latter being a technical transaction rather than an increase in current liabilities.

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 2013. The weighted average interest margin for the total loan facility is 0.82%. The rest of long term liabilities reflect mainly the accounting record of deferred income from connection fees.

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

Cash flow

During the twelve months of 2012, the Company generated 28.4 mln euros of cash flows from operating activities, a decrease of 1.8 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 the Company 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 21.3 mln euros due to dividends paid to shareholders and dividend tax payment, which is 1.1 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 at the corresponding period of 2011.

Employees

At the end of the 4th quarter of 2012, the total number of employees was 313 compared to 311 at the end of the 4th quarter of 2011. The full time equivalent (FTE) was respectively 301 in 2012 compared to the 299 in 2011. The increase in employee numbers is related to the prescribed switch from outsourcing to insourcing. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure.

Corporate structure

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

Share performance

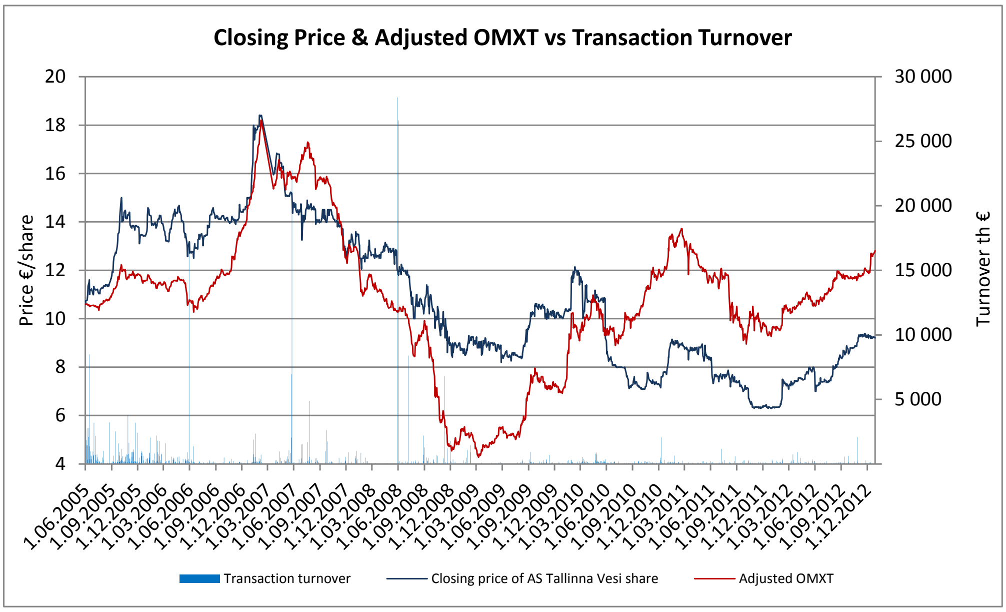
AS Tallinna Vesi is listed on NASDAQ OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

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

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

Parvus Asset Management owned in total 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 the 4th quarter of 2012, owning 1.98% of the total shares compared to 0.53% at the end of 4th quarter 2011.

At the end of the quarter, 31 December 2012, the closing price of the AS Tallinna Vesi share was 9.20 euros, which is a 7.10% increase compared to the closing price of 8.59 euros at the beginning of the quarter. During the same period the OMX Tallinn index rose by 9.88%. In the 4th quarter the Company’s share price was mainly impacted by the on-going contractual debate and interim court decisions.



Operational highlights in the twelve months of 2012

- In the twelve months of 2012, the operational and quality indicators of AS Tallinna Vesi have been stable and indicate continuous improvement. Compared to twelve months of 2011, the most remarkable improvements have been in removing pollution from the wastewater discharged into the Baltic Sea and in wastewater, service quality and customer communication indicators. For example:
  - The quality indicators for water quality are still at the high level, from taken samples 99.55% were fully in accordance with the norms, outperforming considerably the required standard 95% at customers' taps.
  - Total number of sewage blockages has decreased by 24% or by 229 blockages.
  - The leakage level was 15.86%, which is 1.9% less than in 2011.
  - Compared to the twelve months of 2011, the biofilter has enabled to reduce the volume of pollutants discharged to the sea by 37%.
  - The Company's environmental performance has been recognized by the European Commission, with the company nominated for the EMAS 2012 award.

Key contractual events

Contractual tariff debate

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

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

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

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

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

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

On 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.

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

Complaint to European Commission

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

Disclosure of relevant papers and perspectives

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

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

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

Additional information:
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MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of consolidated condensed financial statements for the 12 months period of financial year 2012 ended 31 December 2012. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 December 2012 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim management report gives a true and fair view of the main events that occurred during the 12 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 24 January 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

Leho Võrk
Member of the Management Board
Customer Operations Director

Aleksandr Timofejev
Member of the Management Board
Asset Operations Director

Riina Käi
Member of the Management Board
Chief Financial Officer

Ilona Nurmela
Member of the Management Board
General Counsel

24 January 2013

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

CONCOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

		as of 31 December	
ASSETS	**Note**	**2012**	**2011**
CURRENT ASSETS			
Cash and cash equivalents	2	23 935	14 770
Trade receivables, accrued income and prepaid expenses		18 323	19 845
Inventories		281	248
Non-current assets held for sale		75	73
TOTAL CURRENT ASSETS		**42 614**	**34 936**
NON-CURRENT ASSETS			
Other long-term receivables		7 560	9 583
Property, plant and equipment	3	149 400	145 973
Intangible assets	3	1 154	1 577
TOTAL NON-CURRENT ASSETS		**158 114**	**157 133**
TOTAL ASSETS		**200 728**	**192 069**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		99	0
Trade and other payables		5 482	5 789
Derivatives		2 039	1 552
Prepayments		2 252	1 146
TOTAL CURRENT LIABILITIES		**9 872**	**8 487**
NON-CURRENT LIABILITIES			
Deferred income from connection fees		7 892	6 824
Borrowings		95 733	94 938
Derivatives		2 538	2 936
Other payables		20	9
TOTAL NON-CURRENT LIABILITIES		**106 183**	**104 707**
TOTAL LIABILITIES		**116 055**	**113 194**
EQUITY			
Share capital		12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		46 661	40 863
TOTAL EQUITY		**84 673**	**78 875**
TOTAL LIABILITIES AND EQUITY		**200 728**	**192 069**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (thousand EUR)

		Quarter 4		for the year ended 31 December	
	Note	**2012**	**2011**	**2012**	**2011**
Revenue	4	13 709	13 079	52 924	51 240
Costs of goods sold	6	-5 325	-5 895	-20 337	-20 927
GROSS PROFIT		**8 384**	**7 184**	**32 587**	**30 313**
Marketing expenses	6	-196	-190	-772	-748
General administration expenses	6	-1 202	-1 204	-4 740	-4 294
Other income (+)/ expenses (-)	7	1 586	2 254	1 696	3 619
OPERATING PROFIT		**8 572**	**8 044**	**28 771**	**28 890**
Financial income	8	542	910	1 591	1 947
Financial expenses	8	-451	-1 272	-3 297	-5 071
PROFIT BEFORE TAXES		**8 663**	**7 682**	**27 065**	**25 766**
Income tax on dividends	9	0	0	-4 466	-4 253
NET PROFIT FOR THE PERIOD		**8 663**	**7 682**	**22 599**	**21 513**
COMPREHENSIVE INCOME FOR THE PERIOD		**8 663**	**7 682**	**22 599**	**21 513**
Attributable profit to:					
Equity holders of A-shares		8 662	7 681	22 598	21 512
B-share holder		0,60	0,60	0,60	0,60
Earnings per A share (in euros)	10	0,43	0,38	1,13	1,08
Earnings per B share (in euros)	10	600	600	600	600

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

CONSOLIDATED CASH FLOW STATEMENT

(thousand EUR)

	Note	for the year ended 31 December 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		28 771	28 890
Adjustment for depreciation/amortisation	6	5 879	5 729
Adjustment for profit from government grants and connection fees		-2 043	-3 484
Other finance income/expenses(-)	8	-56	35
Other non-cash adjustments		-97	0
Profit/loss(+) from sale and write off of property, plant and equipment, and intangible assets		-6	65
Change in current assets involved in operating activities		-160	720
Change in liabilities involved in operating activities		-568	1 306
Interest paid and loan financing costs		-3 272	-3 051
Total cash flow from operating activities		**28 448**	**30 210**
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans granted		-765	-3 151
Acquisition of property, plant and equipment, and intangible assets		-10 011	-18 506
Proceeds from sales of property, plant and equipment		38	13
Compensations received for construction of pipelines		11 198	11 284
Interest received		1 585	1 939
Total cash flow used in investing activities		**2 045**	**-8 421**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of finance lease		-61	0
Dividends paid	9	-16 801	-16 001
Income tax on dividends	9	-4 466	-4 253
Total cash flow used in financing activities		**-21 328**	**-20 254**
Change in cash and cash equivalents		**9 165**	**1 535**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**14 770**	**13 235**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**23 935**	**14 770**

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 2010	**12 782**	**24 734**	**1 278**	**34 569**	**73 363**
Reduction of the share capital	-782	0	0	782	0
Dividends	0	0	0	-16 001	-16 001
Comprehensive income for the period	0	0	0	21 513	21 513
as of 31 December 2011	**12 000**	**24 734**	**1 278**	**40 863**	**78 875**
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**

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

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

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2012	**2011**
Cash in hand and in bank	1 859	1 456
Short-term deposits	22 076	13 314
Total cash and cash equivalents	**23 935**	**14 770**

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

(thousand EUR)

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

	Property, plant and equipment				Assets in progress		Intangible assets		
	Land and buildings	**Facilities**	**Machinery and equipment**	**Other equipment**	**Construction in progress**	**Construction in progress - unfinished pipelines**	**Unfinished intangible assets**	**Acquired licenses and other intangible assets**	**Total property, plant and equipment and intangible assets**
as of 31 December 2010									
Acquisition cost	24 067	155 727	39 570	1 157	2 216	7 462	119	5 232	235 550
Accumulated depreciation	-4 838	-50 307	-26 120	-755	0	0	0	-3 379	-85 399
Book value	**19 229**	**105 420**	**13 450**	**402**	**2 216**	**7 462**	**119**	**1 853**	**150 151**
Transactions during the period of 01.01.2011 - 31.12.2011									
Acquisition in book value	0	0	0	0	5 178	11 126	234	0	16 538
Write off and sale of property, plant and equipment, and intangible assets in book value	-1	0	-65	0	0	0	0	0	-66
Compensated by government grants	0	0	0	0	0	-13 270	0	0	-13 270
Reclassification	182	6 412	1 553	43	-4 545	-3 641	-131	131	4
Depreciation	-273	-2 646	-2 181	-78	0	0	0	-629	-5 807
as of 31 December 2011									
Acquisition cost	24 247	162 106	40 594	1 175	2 849	1 677	222	5 363	238 233
Accumulated depreciation	-5 110	-52 920	-27 837	-808	0	0	0	-4 008	-90 683
Book value	**19 137**	**109 186**	**12 757**	**367**	**2 849**	**1 677**	**222**	**1 355**	**147 550**
Transactions during the period of 01.01.2012 - 31.12.2012									
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	0	0	0	0	-1
Compensated by government grants	0	0	0	0	0	-2 392	0	0	-2 392
Reclassification	545	5 361	3 713	153	-8 453	-1 398	-490	537	-32
Depreciation	-273	-2 701	-2 062	-80	0	0	0	-763	-5 879
as of 31 December 2012									
Acquisition cost	24 793	167 389	44 018	1 302	2 258	1 040	25	5 899	246 724
Accumulated depreciation	-5 384	-55 543	-29 611	-862	0	0	0	-4 770	-96 170
Book value	**19 409**	**111 846**	**14 407**	**440**	**2 258**	**1 040**	**25**	**1 129**	**150 554**

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

As of 31 December 2012 the net balance sheet value of fixed assets acquired with finance leases was 886 thousand euros. As of 31 December 2011 there were no finance lease contracts.

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

NOTE 4. REVENUE

Revenues from main operating activities	Quarter 4 2012	Quarter 4 2011	for the year ended 31 December 2012	for the year ended 31 December 2011
Total water supply and waste water disposal service, incl:	12 374	11 853	47 912	46 492
Private clients, incl:	6 016	6 019	23 789	23 711
Water supply service	3 320	3 319	13 096	13 072
Waste water disposal service	2 696	2 700	10 693	10 639
Corporate clients, incl:	4 802	4 574	18 767	18 234
Water supply service	2 613	2 463	10 248	9 881
Waste water disposal service	2 189	2 111	8 519	8 353
Outside service area clients, incl:	1 282	1 096	4 524	3 789
Water supply service	264	253	1 028	901
Waste water disposal service	1 018	843	3 496	2 888
Over pollution fee	274	164	832	758
Storm water treatment and disposal service	927	840	3 713	3 351
Fire hydrants service	56	77	202	221
Other works and services	352	309	1 097	1 176
Total revenue	**13 709**	**13 079**	**52 924**	**51 240**

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

NOTE 5. STAFF COSTS

	Quarter 4 2012	Quarter 4 2011	for the year ended 31 December 2012	for the year ended 31 December 2011
Salaries and wages	-1 398	-1 298	-5 150	-4 801
Social security and unemployment insurance taxation	-466	-433	-1 718	-1 602
Staff costs total	**-1 864**	**-1 731**	**-6 868**	**-6 403**
Number of employees at the end of reporting period			**313**	**311**

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

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

	Quarter 4		for the year ended 31 December	
Cost of goods sold	**2012**	**2011**	**2012**	**2011**
Water abstraction charges	-236	-219	-937	-897
Chemicals	-419	-432	-1 631	-1 433
Electricity	-964	-818	-3 695	-2 972
Pollution tax	-180	-665	-347	-1 409
Staff costs	-1 256	-1 131	-4 750	-4 390
Depreciation and amortization	-1 302	-1 364	-5 167	-5 182
Other costs of goods sold	-968	-1 266	-3 810	-4 644
Total cost of goods sold	**-5 325**	**-5 895**	**-20 337**	**-20 927**
Marketing expenses				
Staff costs	-101	-97	-373	-349
Depreciation and amortization	-81	-81	-326	-325
Other marketing expenses	-14	-12	-73	-74
Total marketing expenses	**-196**	**-190**	**-772**	**-748**
Administrative expenses				
Staff costs	-507	-503	-1 745	-1 664
Depreciation and amortization	-76	-48	-295	-222
Other general administration expenses	-619	-653	-2 700	-2 408
Total administrative expenses	**-1 202**	**-1 204**	**-4 740**	**-4 294**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 4		for the year ended 31 December	
	2012	**2011**	**2012**	**2011**
Profit from government grant	1 774	2 354	2 042	3 479
Other income / expenses (-)	-188	-100	-346	140
Total other income / expenses	**1 586**	**2 254**	**1 696**	**3 619**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Quarter 4		for the year ended 31 December	
	2012	**2011**	**2012**	**2011**
Interest income	542	910	1 591	1 947
Interest expense	-801	-625	-3 209	-2 885
Increase (+) /decrease (-) of fair value of swap	352	-666	-89	-2 221
Other financial income (+)/ expenses (-)	-2	19	1	35
Total financial income / expenses	**91**	**-362**	**-1 706**	**-3 124**

NOTE 9. DIVIDENDS

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

Income tax rates in 2012 and 2011 were 21/79.

NOTE 10. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2012	**2011**	**2012**	**2011**
Net profit minus B-share preferred dividend rights	8 662	7 681	22 598	21 512
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,43	0,38	1,13	1,08
Earnings per B share (in euros)	600	600	600	600

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

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

NOTE 11. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded in working capital on the statement of financial position of the Group	as of 31 December	
	2012	**2011**
Accounts receivable	4 919	4 977
Accrued income	7 123	8 878
Other long-term receivables	3 746	6 432
Trade and other payables	187	194

Transactions with the related parties	**Quarter 4**		**for the year ended 31 December**	
	2012	**2011**	**2012**	**2011**
Sales of services	973	908	3 877	3 535
Government grant receivable for constructing new pipelines	3 254	12 239	4 429	16 750
Purchase of administrative and consulting services	257	274	998	1 001
Financial income	454	787	1 226	1 624
Short-term employee benefits to Management Board (excluding social tax)	116	58	326	246
Supervisory Board fees (excluding social tax)	10	9	40	39

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

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members

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

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

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

Introduction of Supervisory Board members is published at company's web page and introduction with photos in 2011 Yearbook.
http://www.tallinnavesi.ee/en/Investor/Corporate-Governance/Supervisory-Board
http://www.tallinnavesi.ee/images/stories/dokumendid/Investor/ar_eng_2011.pdf

NOTE 13. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

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

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