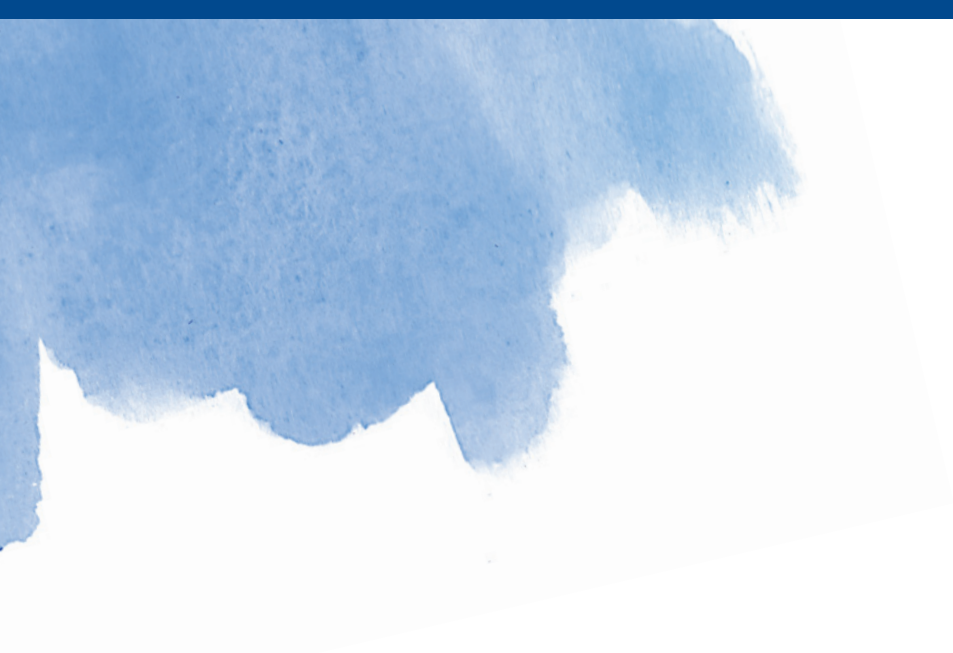


Tallinna Vesi
ANNUAL REPORT 2012



Dear Reader,

This book provides an overview of the performance and highlights of AS Tallinna Vesi in 2012. More detailed information is available in the environmental report attached to this book in an electronic form. For more information about the Company please visit www.tallinnavesi.ee

The Annual Report is illustrated with the photographs of our staff, who live common values.

The text was composed by: AS Tallinna Vesi
Design: Advertising agency Ecwador
Book is printed on environmentally friendly paper!

Tallinna Vesi 2012 Annual Report

General facts	5
Highlights of 2012	6
2012 in numbers	8
Management system	9
Delivery of 2012 objectives	10
Objectives for 2013	11
Chairman's statement	12
Drinking water	15
Wastewater treatment	18
Our customers	20
Our people	23
Our community	26
Our environment	28
Watercom and business development	31
Our compliance	32
Annual accounts	35



MISSION

We create better life with pure water.

VISION

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

OUR VALUES

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

CUSTOMER FOCUS Our actions help our customers and colleagues to find solutions.

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

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

PROACTIVITY Act today for a better tomorrow.



General facts

- AS Tallinna Vesi is the largest water utility company in Estonia, providing drinking water and wastewater disposal services to approximately 1/3 of Estonia's population.
- We provide water and wastewater disposal services to over 22,000 customers and 430,000 end consumers in Tallinn and its surrounding areas.
- We have the exclusive right to provide water and sewerage services in the Tallinn service area until the year 2020.
- A services agreement with 97 quality levels of service has been concluded between the city of Tallinn and the Company for providing the services.
- We have two main treatment plants: Ülemiste Water Treatment Plant and Paljassaare Wastewater Treatment Plant.
- Water has been treated at Ülemiste since 1927. A new water treatment plant was built in 1979.
- In 2012 the Water Treatment Plant produced an average of 60,000 m³ of water per day.
- Almost 90% of drinking water is produced from surface water. Lake Ülemiste is the main source of drinking water for the residents of Tallinn and, therefore, the lake is not a public water body. 10% of the consumers use regional ground water.
- Average water consumption in 2012 was 94 litres per inhabitant. Water consumption has remained stable during previous years.
- Paljassaare Wastewater Treatment Plant started operating in 1980.
- In 2012 the Wastewater Treatment Plant treated on an average 156,000 m³/day.
- We have an accredited water laboratory and an accredited wastewater laboratory, which together conducted approximately 135,000 analyses in 2012.
- The public water supply system comprises almost 1108 km of water networks, 17 water pumping stations and 67 ground water borehole pumping stations with 93 boreholes.
- The public sewerage system comprises 1127 km of wastewater networks, 456 km of storm water networks and over 163 sewerage pumping stations across the service area.
- In 2010 we founded 100% owned subsidiary, Watercom, to diversify the product offering and pursue business development and growth.
- In 2012, AS Tallinna Vesi and our subsidiary employed a total of 313 employees. On an average we employed 314 people in 2012.
- Our shares are listed on the main list of Tallinn Stock Exchange.

OPERATIONAL SITES

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

Highlights of 2012

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





Kalev Kivisild
Operator in Water Treatment Plant

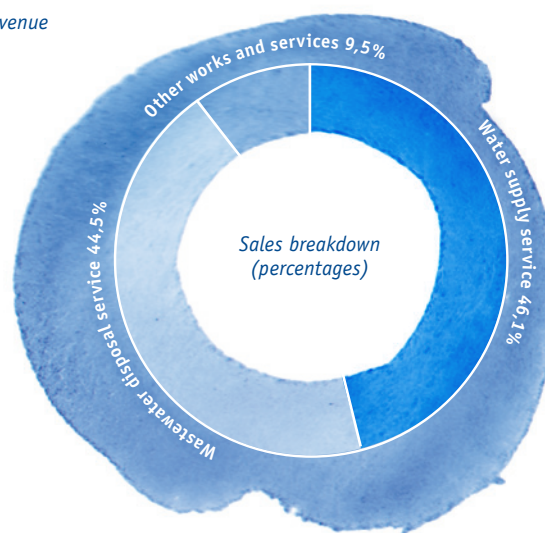
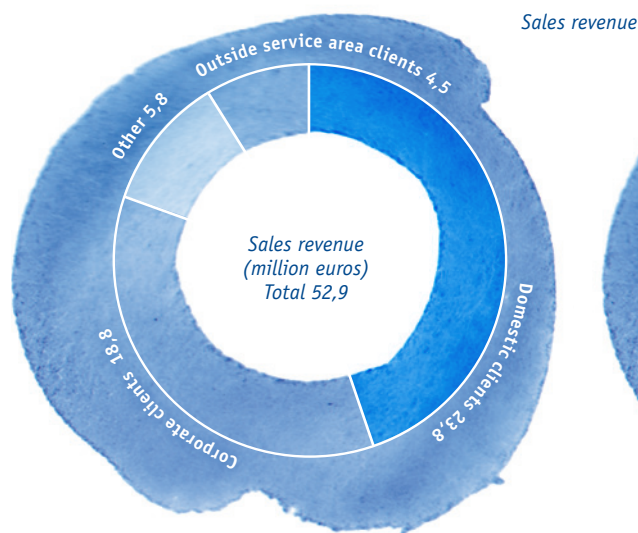
2012 in numbers

Operational results

	2001	2009	2011	2012
WATER				
Compliance of water quality at the customers tap %	63,3	99,3	99,66	99,55
Water loss in the water distribution network %	32,4	17,25	17,73	15,86
WASTEWATER				
Number of sewer blockages	2080	1089	944	715
Number of customer contacts regarding blockages and storm water	-	3772	1804	1239
Wastewater treatment compliance with environmental standards %	-	100	100	100
CUSTOMER SERVICE				
Responding written customer contacts within at least 2 work days %	-	-	95,9	98,5
Number of written complaints	-	280	384	184

Financial results

<i>Million euros</i>	2009	2011	2012
Sales	41,4	51,2	52,9
Gross profit	27,6	30,3	32,6
Operating profit	24,1	28,9	28,8
Profit before taxes	21,3	25,8	27,1
Net profit	17,8	21,5	22,6
Gross profit margin %	66,6	59,2	61,6
Operating profit margin %	58,2	56,4	54,4
Profit before taxes margin %	51,4	50,3	51,1
ROA %	10,9	11,2	11,3
ROE %	22,5	27,3	26,7
Return on invested capital (real) %	6,6	6,5	6,6



Management system

IMPROVE

- Improving plans and activities
- Preventing problems
- Solving problems

CHECK

- Monitoring and measuring of activities
- Carrying out internal audits

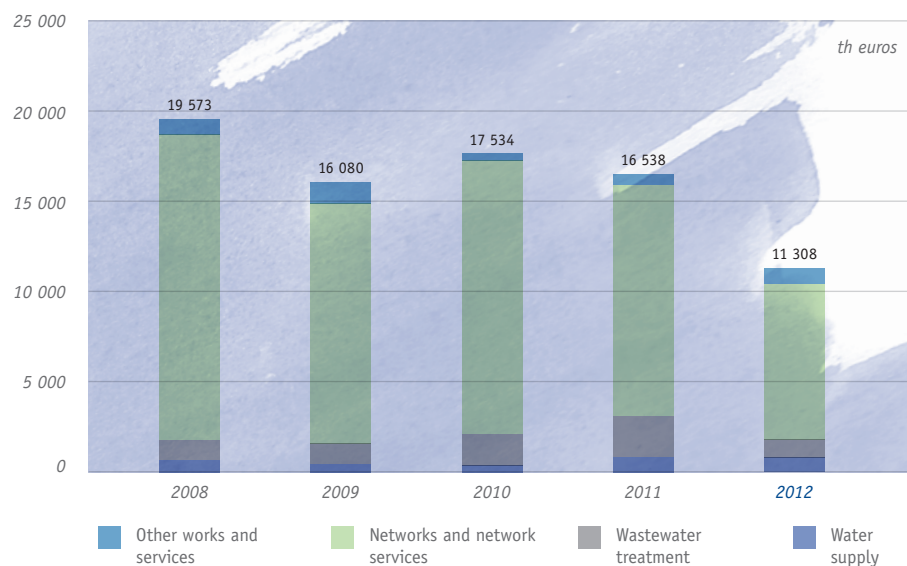
PLAN

- Identifying requirements of significant stakeholders
- Identifying significant risks
- Setting objectives and tasks

DO

- Achieving the objectives
- Organising daily work
- Ensuring the compliance with regulatory and other requirements
- Employee development
- Ensuring communication
- Administration of documentation

Investments



The requirements from various management system standards have been integrated into the management system of the Company, proceeding from principle of continuous improvement.



2001 - ISO 17025 LABORATORIES QUALITY MANAGEMENT SYSTEM*

2002 - ISO 9001 QUALITY MANAGEMENT SYSTEM*

2003 - ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM*

2005 - EU EMAS ENVIRONMENTAL MANAGEMENT SYSTEM

2007 - OHSAS 18001 OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

* required by the Services Agreement concluded between the City of Tallinn and the Company.

Delivery of 2012 objectives

CUSTOMER SERVICE

- ✔ To reduce the number of service failures > Potential commitment for non-compliance with our promises is less than 750 euros
- ✔ To improve the speed of responding to customers > We answer at least 95% of written contacts within 2 working days
- ✔ To improve our proactive communications with customers > We notify at least 80% of customers about unplanned interruptions at least 1 hour in advance
- ✔ To improve the quality of Customer Service phone responses > On first phone call 90% of customers will know what will happen and by when and we'll keep our word
- To improve customer satisfaction to the service as a result of regular surveys > Customer satisfaction with the service is at least 3,5 points out of 4

OPERATIONAL PERFORMANCE

- ✔ To improve water quality > Water quality is 99,31% compliant
- ✔ To reduce the leakage level > Level of water loss in network less than 19,00%
- ✔ To reduce the average lenght of customer interruption > Average lenght of customer interruption is less than 3,5 hours
- ✔ To reduce total number of blockages in sewerage system in Tallinn > 90% of blockages and flooding events responded to within 2 hours
- ✔ Compliant pollution parameters in effluent at Wastewater Treatment Plant and at the storm water outlets > Compliance of pollution parameters in effluent at the WwTP and the storm water outlets in all 4 quarters

FINANCIAL PERFORMANCE

- ✔ Additional revenues from non-regulated activities > Revenue increase from non-regulated activities by 250 000 euros
- Complete investments budget > Minimum of 95% investments budget completed
- To reduce total costs compared to budget > Total costs reduction by 500 000 euros compared to budget

PEOPLE

- ✔ To reduce the number of short-term sick leave days > Less than 1200 short term sick leave day's
- Employees recommend the Company as an Employer > Minimum recommendation index according to the Employee Satisfaction Survey is at least 3,6 points
- Inter-departmental cooperation is better than in 2011 > Based on the Employee Satisfaction Survey, the inter-departmental cooperation is better than in 2011
- Employees' feedback regarding management is better than in 2011 > Based on the Employee Satisfaction Survey the employee feedback to management is better than in 2011
- To reduce the number of work accidents that the employer is liable for > 0 work accidents that the employer is liable for

Objectives for 2013

CUSTOMER SERVICE

Customer satisfaction with our service is higher than European Manufacturing Industry (TRIM index is 10% higher)
Improved customer satisfaction to our problem solving (at least 3,2 points out of 4 in monthly satisfaction survey)
The number of written customer complaints has reduced by 10%
The number of responses with a ranking of 1 is less than 7.5% (monthly satisfaction survey)

OPERATIONAL PERFORMANCE

No non-compliances resulting from LoS (except WS7), environmental and health requirements nor legislation
The number of customer contacts related to water quality has reduced by 10%
The number of customer contacts related to floodings/blockages has reduced by 9%
The number of customer contacts related to water interruptions and pressure has reduced by 10%

FINANCIAL PERFORMANCE

The cost of water production per m³ is as budgeted (0,211 eur per m³)
The cost per m³ for treated wastewater has reduced by 1% compared the budget (0,231 per m³)
External revenues are higher than 3,3 milion eur
Other fixed costs, excluding WTP and WWTP fixed costs, to be kept at the budgeted level at 9 695 thousand Euros

PEOPLE

Our employees recommend us as an empler (recommendation index at least 3,6)
Our employee satisfaction is higher than the Estonian average (by 10 points)
There are no work accidents employer is liable for
Number of days of short term sickness is under 1200



Chairman's statement

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

Against this background of continuous improvement in our services it is very disappointing to find that the privatisation contract, which has helped to deliver these improvements, continues to be attacked by the Competition Authority, and as such the company finds itself having its contract broken as the Competition Authority has refused to grant the contractually agreed tariff increases for the past two years. In spite of our best efforts to engage in a professional dialogue with the Competition Authority it refuses to do so, and instead has increased its criticism of the company and its shareholders by alleging that the privatisation contract signed in 2001 is "illegal" and always was "illegal". These statements have been made without any supporting evidence.

Although our dispute with the Competition Authority continues into 2013 there were a number of positive legal developments for the company. The most important of these was the May 2012 decision of the District Court when it ruled that the tariff mechanism that was the key part of our privatisation is a public law contract. This means that unless the Competition Authority is able to prove that the privatisation was manifestly against the public interest then it will have to uphold the contract or,

if not, then the state of Estonia will be liable for compensation. Decisions such as this one clearly demonstrate the professionalism and integrity of the Estonian court system.

OPERATIONS PERFORMANCE – CONTINUOUS IMPROVEMENT AND HIGHEST EVER STANDARDS

We have continued to ensure we meet or exceed the services contract we signed with the City of Tallinn. This services contract requires us to maintain a high standard of service to our customers across a range of over 90 levels of service, ensuring that we deliver a service to our customers that is second to none.

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

EXCELLENT CUSTOMER SERVICE - HIGHEST EVER SERVICE RANKING

This year our customer satisfaction rating increased to a TRI*M index all time high of 85. This is a huge improvement from the rating of 72 points at the end of 2011. We are now starting to see the benefits of our improved operational performance in our customer satisfaction results. Over the last few years we have made significant

reductions in the number of interruptions to supply and other service related problems, for example since 2010 we have reduced the number of sewer blockages from 1 193 to 749. In addition, we have always tried to ensure our customers know in advance about our work when it would impact their daily lives. During the year over 90% of customers that were being impacted by our activities were notified in advance. In 2012, these proactive improvements were well recognised in the comments made by our customers in the results of our customer satisfaction survey.

PRIVATISATION CONTRACT DISPUTE

Throughout 2012 we have been unable to bring our dispute with the Competition Authority to a professional conclusion. As a consequence our tariffs remain at 2010 levels, and we still stand accused of acting illegally in Estonia. However, in spite of the fact that our legal disputes has not ended, the year saw a number of positive developments.

In the first quarter of 2012 the courts ruled that the Competition Authority could not unilaterally impose a 29% tariff cut on the company. The company sought an injunction from the courts to stop the Competition Authority's precept taking effect until all of our court cases have been concluded and the courts granted this injunction.

In May 2012, the Estonian Courts ruled that the tariff agreement from the privatisation contract was a public law contract. This is a landmark decision as it means that unless the Competition Authority is able to prove that the

privatisation contract is manifestly against the public interest then the contract must be honoured or if not the state of Estonia will have to pay compensation. The Competition Authority had previously tried to avoid any discussion of the privatisation contract by claiming it was a private arrangement between the City of Tallinn and AS Tallinna Vesi and as such should be treated as a civil law contract.

Our only disappointment was that the courts upheld the Competition Authority's request for closed court proceedings. We find it strange that an organisation that purports to represent the interests of the public should not believe its methods should be subject to public scrutiny. However, as we believe in absolute transparency in all our communications we have applied to the courts to have the court proceedings re-opened.

In addition, we continue with our complaint to the EU Commission. Throughout the year we have engaged in thorough and very professional dialogue with the EU Commission to help it fully understand all aspects of our case.

OUR PEOPLE AND TEAMS

The people in ASTV are key to the delivery of the highest levels of service to our customers and we would like to thank them for their dedication and continued hard work during the year. Against the backdrop of continued negative media coverage supplemented by the over-politicisation of our company, our staff have once again, delivered world class performance.

Ian Plenderleith
Chairman of the Management Board



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

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

RESPONSIBLE COMPANY

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

- Responsible Company - Gold award of the Responsible Business Forum in Estonia
- Environmentally friendly Office - the Ministry of Environment

- European Union Commission's EMAS 2012 Award - nomination for environmental performance
- BMA awards - Nasdaq OMX - Best IR 2nd in the Baltics

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

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

STABLE REVENUES, RETURNS IN ACCORDANCE WITH OTHER PRIVATISED UTILITIES

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

In 2012, we improved the long term financial stability of the company by extending our 37.5m Euro loan facility with Nordea bank, extending the maturity on this loan from November 2013 to 2018. By securing this re-financ-

ing early we have removed capital market risk by securing our capital structure for a further two years.

OUTLOOK

In the current political and regulatory environment the outlook for the company is very uncertain. Given that the Estonian authorities are unwilling to enter into any meaningful discussions over the privatisation contracts, it appears that the company will be engaged in a long court process, which could last a number of years. It is apparent that the significant improvements in service count for very little within the new system of regulation. I would, however, like to inform all our stakeholders that we are committed to delivering the highest levels of service to all our direct customers and service users. This ongoing dispute severely limits our growth opportunities and as such, in 2013, our primary focus will be on improving performance and efficiency in our main services area in Tallinn. By continuing our focussed approach to operational improvements and developing a repeatable business model we believe we will be ideally placed to expand across the region, once our current legal dispute is behind us.

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

Drinking water

2012 Objectives

- *Water quality at least 99.31% compliant with the regulation*
- *Level of water losses below 19.00% in the networks*
- *Average duration of interruptions to water supply less than 3,5 hours and maximum duration of interruptions stays below 12 hours*

2013 Objectives

- *Water quality at least 99.31% compliant with the regulation*
- *Number of customer contacts related to water quality reduced by 10%*
- *Number of customer contacts related to water interruptions and –pressure reduced by 10%*

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

TAP WATER IS DRINKING WATER

The quality of drinking water supplied to our customers in the capital city has been keeping the quality level comparable to Western-Europe countries for several years already. The quality of drinking water is subject to strict legal requirements and we have also agreed a particular level of service within the Services Agreement concluded with the

City of Tallinn. We have outperformed those requirements assuring good quality of drinking water to each customer.

Water quality is inspected by following the drinking water monitoring programme approved by the Health Board. The programme specifies the sampling points, sampling frequency and the parameters to be analysed. Samples are taken from raw water (Lake Ülemiste, catchment area thereof and ground water), treatment process and consumers' taps. There are 120 sampling points in Tallinn (kindergartens, schools, institutions) that have been evenly spread out across the entire service area. 24 samples are taken from each sampling point per annum. That means that a total of approximately 3000 samples are taken from consumers' taps. The production and supply of drinking water involves taking of almost 30,000 samples and making approximately 80,000 analyses per annum.

The structure of the Company also includes a laboratory unit, which has been accredited by the Estonian Accreditation Centre since 2001. Laboratory unit consists of a water and microbiology laboratory at Ülemiste water treatment plant and a wastewater laboratory at Paljassaare wastewater treatment plant.

Water analyses are made in our water and microbiology laboratory, which is also one of the biggest laboratories in Estonia. The quality of analyses is guaranteed by the attested samplers, accredited quality management system (ISO 17025) and modern equipment as well as professional staff that enable offering a wide range of services also outside the Company.

Water quality is also independently monitored by the Northern Services of the Health Board and Supervisory Foundation of Water Companies in Tallinn and our laboratories are supervised by the Estonian Accreditation Centre.

WATER TREATMENT

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

Compliance of drinking water quality has significantly improved over the decade



against bacteria during its journey through the network up to the consumer's tap.

SURFACE WATER QUALITY

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

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

GROUND WATER QUALITY

Approximately 10% of the population in Tallinn were supplied with drinking water extracted from Cambrian-Vendian and Ordovician-Cambrian aquifers in 2012. The areas sup-

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

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

SECURITY OF SUPPLY AND QUALITY

We are constantly carrying out maintenance and updates of

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

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

Year-on-year reduction in leakage level demonstrates a more sustainable usage of water resources. In 2012, the

Leakage level has considerably decreased:

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

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

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

Dmitri Andrianov
Leakage Inspector



Wastewater treatment

2012 Objectives

- *Number of blockages on public sewerage network remain under 1000*
- *Compliance of pollution parameters in effluent at the WwTP and stormwater plant in all 4 quarters*

2013 Objectives

- *9% reduced number of customer contacts related to floodings/blockages*
- *0 non-compliances*

WASTEWATER TREATMENT

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

Paljassaare Wastewater Treatment Plant uses environmentally-friendly and modern technologies to treat the wastewater collected from Tallinn and its surrounding areas. In 2012, the quality of treated effluent in Paljassaare Wastewater Treatment Plant was in compliance with all the set parameters.

We continue to invest in the assets of the wastewater treatment plant in order to improve the quality of treated effluent which has gone through the treatment process and is disposed to the Gulf of Finland. In 2012, we made the operations more efficient, carried out the extensive reconstruction of the first treatment stage and made the planned replacements of process equipment. As a result of the treatment stage, biofilter, commissioned in 2011, the volume of nitrogen discharged to the sea has reduced by almost 40%. Thus, the content of one of the most important pollutants in wastewater was reduced by 208

tons. The amount of nitrogen led to the Baltic Sea is the smallest in our history. Sludge is a by-product of wastewater treatment and the Company processes the sludge into soil conditioner that is used in landscaping and horticulture. All of the sludge is re-used.

OPERATING THE SEWERAGE NETWORK

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

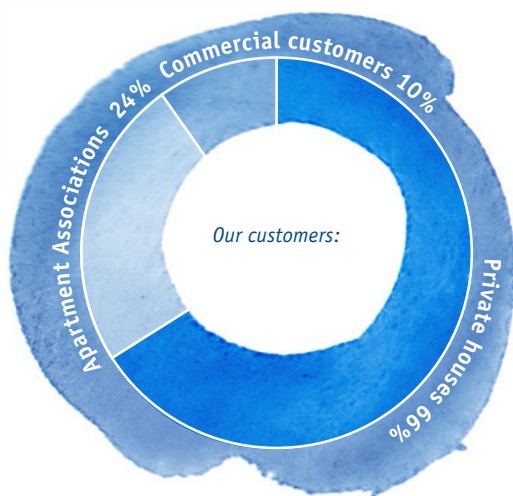
Collection and discharge of wastewater is secured by preventive flushing of sewerage pipes as well as by reconstruction and extension of sewerage and stormwater networks. In 2012, a total of 5.91 km of sewerage network was reconstructed and a total of 173.2km of network was flushed.

More information on the Company's water and wastewater treatment is available in the 2012 electronic environmental report.



Hannes Sundja
Controlroom Chief Specialist in Wastewater Treatment plant

Our customers



We provide water supply and sewerage services to almost one third of the Estonian population and to approximately 22,000 contractual customers.

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

- As a result of improved inter-departmental cooperation, the customers who contacted us, knew in 90%

2012 Objectives

- Potential claim from customers for not keeping our promises is below 750 EUR;
- We respond to 95 % of written customer requests within two business days;
- In 80% of the cases customers are informed of unplanned interruptions to water supply 1 hour in advance;
- At least 90% of the customers know by the end of the first phone call with the Company what and when we will be doing and we keep our word;
- Customer satisfaction with the service has improved in the results of regular surveys;

2013 Objectives

- Customer satisfaction with our service is 10% higher than European manufacturing sector
- Customer satisfaction with our problem solving has improved according to the internal monthly satisfaction survey
- The number of written customer complaints has decreased by 10%
- Number of responses with a ranking of "1" is less than 7.5% in the internal monthly satisfaction survey

of cases, when we will be performing the actions to resolve the issue raised by them;

- In order to reduce inconveniences caused by interruptions to supply, our customers were notified of unplanned interruptions to water supply at least 1 hour in advance;
- Since the middle of 2012 we ask our customers for feedback on a monthly basis. This provides us with the information on the customer contacts during the last month and we can immediately react on any dissatisfaction or issues;
- In 2012 we continued encouraging people to drink tap water by drawing their attention to the very good quality of tap water through the campaign "Tap water = drinking water". In addition to that we continued our cooperation with several restaurants in

Tallinn to call for people to ask for tap water when having a meal out.

- In the end of 2012 we carried out a campaign "Paper-free e-service" in order to introduce our renewed e-services to our customers and guide them to use it. We are convinced that the e-service is the most convenient channel for reporting meter readings and forming bills.

FEEDBACK FROM OUR CUSTOMERS

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

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

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

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

One of the important reasons for such successful developments are the more positive media coverage and informal communication. This has resulted in a more favourable attitude of our customers towards the services we offer.

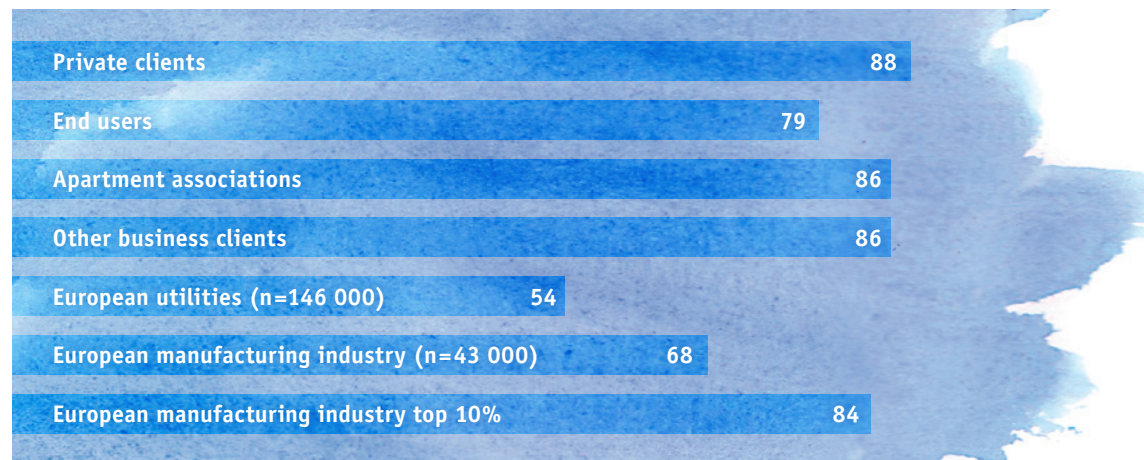
In addition to that both the customers and end users sense an improvement in price/quality relationship, whereas here the changes have certainly not occurred during only one year, but the ratings on water quality and stability of service have constantly been improving.

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

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

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

Customer and end user satisfaction 2012



Source: TNS Emor 2012

Customer satisfaction compared to 2011

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

Source: TNS Emor 2012

DEVELOPMENT OF CUSTOMER SERVICE

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

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

Our people

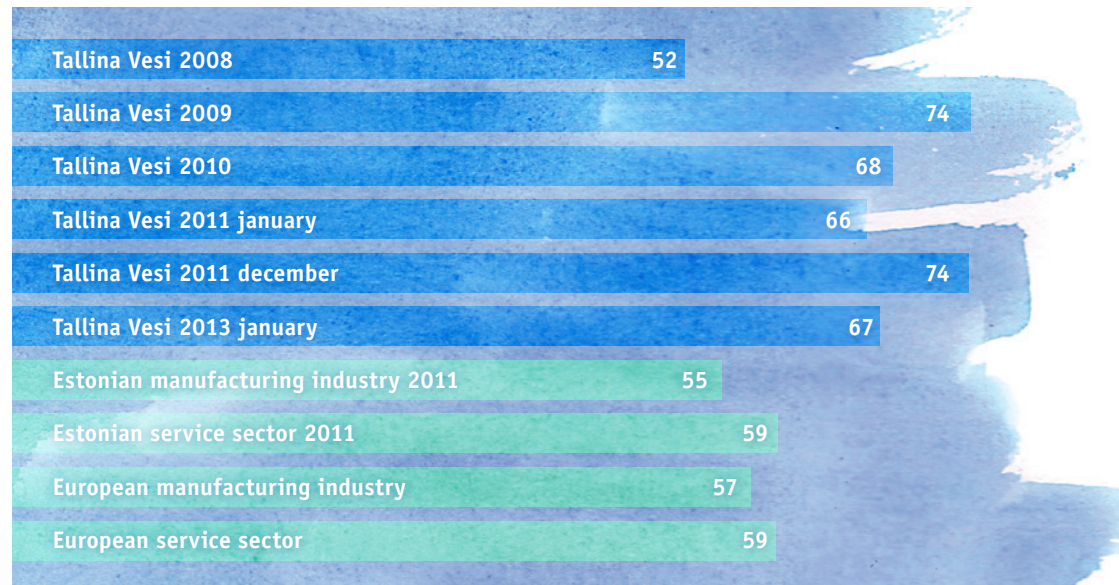
2012 Objectives

- *Employees recommend the Company as an employer, recommendation level index is better than in 2011.*
- *Inter-departmental co-operation is better than in 2011.*
- *Employee feedback on management is better than in 2011.*
- *No work accidents resulting from any factors depending on the employer and the number of short-term sickness days is below 1200.*

2013 Objectives

- *Employees recommend the Company as an employer, recommendation level index is higher than 3.6.*
- *Employee satisfaction survey indicates that satisfaction is 10 points higher than as an average in Estonian companies.*
- *No work accidents resulting from any factors depending on the employer.*
- *Number of short-term sickness days stays under 1200.*

Employee commitment



Source: TNS Emor 2012

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

At the end of 2012, the Company and its Subsidiary employed a total number of 313 employees under permanent employment contracts, which is at the same level with year 2011 and its 311 employees.

Despite of the fact that the employee commitment and satisfaction was considerably higher in comparison to both Estonian and European average in industry and service sector in 2012, employees' assessments were somewhat more critical than a year ago (Figure 1). Therefore, we deem important to direct attention to those areas that our employees have pointed out.

DEVELOPMENT OF EMPLOYEES

The development of employees is still one of the most important priorities for the Company. In addition to the usual in-service training and development programmes, we focused more on the commitment and competence of the prime management.

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

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

OCCUPATIONAL HEALTH AND SAFETY

Work environment related activities of the Company are in compliance with the requirements of legislation and the

international occupational health and safety management system standard OHSAS 18001.

Work environment management system is based on an assessment of risks in the work environment area and execution of activities aimed at preventing or reducing these risks. Workplaces are under constant internal monitoring and internal as well as external audits of the management system are carried out.

In 2012, 4 work accidents occurred, of which 2 were in AS Tallinna Vesi and 2 in its Subsidiary OÜ Watercom. None of these accidents had serious consequences. The number of lost days derived from work accidents decreased in comparison to 2011 from 91 to 13 working days. Work Environment Council thoroughly analysed the causes of all work accidents and based on that improvement activities were implemented to prevent any further similar accidents.

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



WORK ENVIRONMENT TRAININGS

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

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

CONTINUOUS IMPROVEMENT IN THE FIELD OF OCCUPATIONAL SAFETY

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

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

PROMOTING OCCUPATIONAL HEALTH

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

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

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

Our community

2012 Objectives

- *To find within our work environment-friendly solutions and to promote environmental awareness among our employees and population.*
- *To contribute to the development of community in order to be surrounded by more green and sporty environment as well as more environmentally conscious people.*
- *To provide support and attention to those in need.*

2013 Objectives

- *To improve the environmental awareness of stakeholders, incl our employees.*
- *To improve the cooperation with educational and science institutions.*
- *To inspire the community to take more part in environmental and ethical business projects.*
- *To support undertakings that meet our values.*

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

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

INVOLVEMENT

SUPPORT AND
CO-OPERATION

INCREASING AWARENESS

- Support and attention to those in need forms an essential part of community's integrity. This is why we involve the local community in our already long-term cooperation with Kindergarten "Õunake" and Ristiku Elementary School. Baking ginger breads together with kindergarten children before Christmas has already become a tradition; also, we use the drawing of a kid from Õunake on our environment-friendly e-card. Kids from Ristiku Elementary School were involved in our 2012 Water Day activities.
 - Our employees participated in a fund-raising Rat Race that supports children from large families facing the risk of poverty.
 - Via cooperation with the Friends of the Tallinn Zoo we sponsor the polar bear called Vaida. In 2012, our employees also collected nearly 16 kg of acorns for feeding various animals of the zoo.
 - Our employees voluntarily participate also in several other community projects. For example, by the leading of Belgian NGO LEO we collected plastic caps that would be reprocessed and the money coming from that would be used for obtaining a trained guide dog for people with visual impairments.
-
- We encourage other companies to do also more than they have to or what is required by the law. In 2012, we signed an agreement together with 17 companies in order to improve the responsible business in Estonia through open communication and cooperation.
 - We consistently work towards raising an environmentally aware young generation that values the nature. Our employees carry out discussion groups in kindergartens and schools; in 2012, more than 2000 kids learned about the environment that way. We participated in "Back to School" project, in order to create interest in sustainable development in young people by using open discussion. Target is to teach kids and through them also their parents how to preserve and value more nature around us. In autumn 2012, a TV play called "Garbage Wolf and Super Rabbit" was created in cooperation with the Junior Chamber International Estonia and the Puppet Theatre.
 - We also do diligent work in promoting the environmentally conscious mindset among the population. We use the campaign "Tap Water = Drinking Water" to point out the excellent quality of tap water. To encourage clients to ask for tap water when dining out, cooperation continued with restaurants under the slogan "Cheers to Nature – Ask for Tap Water". Campaign "Free from Paper with E-service" is used to promote the use of e-billing instead of paper bills among the clients.
 - Besides our main assignments – production of drinking water and treating of wastewater -- the Company's plants fulfil also an important role in raising the population's awareness. Each year we introduce the work at the plants to more and more interested people – in 2012, nearly 2300 visitors came to the excursions at the plants.
 - We help to bring in life one of Estonia's major culture events, the Tallinn Black Nights Film Festival. In cooperation, we have more possibilities to impact the local community by creating greener life environment, raising people's awareness and taking notice of those in need. Together we supported the Tartu University Hospital Children's Fund for producing a children's film with describing translation so that children with visual impairments could also enjoy the film.
-
- In 2012, we continued supporting the efforts of Mikk Pahapill and the swimmers of the Estonian Union of Sports for the Disabled, so that they could contribute to the Estonian sport's success story.
 - In cooperation with local City Districts public gardens were refreshed after a harsh winter by providing compost soil for free.
 - Pure and refreshing drinking water was provided at various public and health events, e.g. Stamina health run and walk series and at the run around Lake Ülemiste. We also helped to organize the Flower Festival and took part in building the skating rinks.
 - Together with the hard-working employees of Coca-Cola Company and US Embassy we cleaned Pikakari beach during the "Let's Get It Done" event, so that the local community could fully enjoy the beautiful nature on the coast.

Our environment

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

To improve customer satisfaction and the effectiveness of our environmental activities, we have implemented a quality and environmental management system. As a part of management system, integrated in our daily operations, the aim of the environmental management system is to minimize or where possible, avoid polluting the environment. Implementing the environmental management system also means we agree activities for improved environmental performance as part of setting the Company's annual objectives and individual performance objectives of our unit managers and employees.

There are several positive aspects related to our operations, which allow to improve the environment either directly or indirectly. One of the most important of these is raising people's awareness about the environment. Additional information about our environmental activities can be found in the electronic Environment Report attached to this annual yearbook and on our website.

We have also identified the operational aspects that are most likely to cause significant changes to surrounding environment and have established necessary control mechanisms to avoid or mitigate any unfavorable environmental impact.

Our environmental activities and the environmental management system are in accordance with international environmental management standard ISO 14001 and the requirements of the European Union's Eco Management and Audit System EMAS certificate. The quality and environment policies express our principles about managing corporate responsibility and environmental activities.





Age Kaasik
Assistant in OÜ Watercom



Marja-Liisa Kruusimäe
Head of Legal



Watercom and business development

In 2010 AS Tallinna Vesi founded its 100% owned subsidiary, Watercom, to pursue business development and growth. The main focus of Watercom lies on increasing the long term profitability of AS Tallinna Vesi (group) by expanding the core activities and developing new services.

Objectives in 2012

- *To improve the competitiveness of the Company by providing construction supervision services outside the main service area of AS Tallinna Vesi;*
- *To grow the turnover from water and sewerage construction activities outside the group by at least 712 000 EUR;*
- *To improve the Company's environmental as well as work environment and –safety performance;*
- *To increase customer satisfaction with Watercom services*

In 2013, Watercom will be focusing on the following markets and services:

NETWORKS CONSTRUCTION

The construction of water and wastewater networks for developers, companies and private persons turned out to be the main activity of the Company in 2012. For these activities the Company holds a construction unit called Veemees. That unit mainly provides construction, but also maintenance and emergency services for real estate developers, construction companies, water companies and apartment associations. If in 2012, Veemees continued to focus on carrying out large construction projects and on building the street networks in Tallinn and Harju County.

The objective for 2013 will be to continue focusing on extensive projects of water and sewerage network construction and on investments in implementing new technologies.

SUPERVISION AND PROJECT MANAGEMENT

The other business branch of the Company is to provide project management and owner supervision services. Due to a long-term work practice, the Company's staff has significant knowledge and experience in this area. In 2012, the Company performed owner supervision on large-scale road maintenance projects as well as on water and sewerage facilities in Tallinn.

The long-term work experience of the Company's engineers and strong references provided the Company with an opportunity to actively participate in the tenders of the respective field across Estonia in 2012, which resulted in signing several contracts for managing and performing owner supervision on large-scale water service projects of water companies and local governments. The Company successfully completed owner supervision projects in Sauga in Pärnu County, Kuusalu in Harju County, Aaviku and also in other areas of Estonia. In 2012, a large-scale supervision project was started in Harku Rural Municipality. This project is planned to last 2,5 years and it involves the construction of more than 100 km of network, 4 water treatment facilities and a new wastewater treatment facility.

Watercom will actively carry on participating in different owner supervision tenders across Estonia and grow its portfolio of contracts in 2013.

DEVELOPING NEW SERVICES

In 2012, the Company decided to start providing several new services that would assist in creating opportunities for extending the business in water and sewerage sector.

In 2012, Watercom made considerable investments in purchasing construction equipment in order to provide transport services for the water and sewerage construction sites. Supplementing its technical base with new heavy machinery such as dumpers and excavators enabled the Company to focus more than before on bigger construction sites and offer machinery rental services also to other companies.

Since 2012 Watercom is also providing road reinstatement, i.e. backfilling services. This enables us to provide a more complete service to our customers and through that add value to the entire group of AS Tallinna Vesi.

For more information about Watercom and Veemees unit, please visit www.watercom.eu

Our compliance

2012 objective

- *To ensure the compliance with applicable regulatory requirements, EMAS 1221/2009 Regulation, OHSAS 18001 standard and requirements of ISO 9001 and ISO 14001 standards stipulated in LoS A1 of the Services Agreement*

2013 objective

0 non-compliances resulting from LoS (except WS7), environmental and health requirements, as well as legislation

We strive to be the leading water company in the Baltics, do business ethically and in compliance with the highest standards. ISO and EMAS certification requirements help us keep abreast of the industry and lead by example. Following best practices not just in compliance but also in corporate governance has been recognised by our stakeholders - translating into awards for best investor relations and a nomination for 2012 EMAS Award of the EU Commission for recognising outstanding environmental performance.

In order to ensure fulfilment of minimum environmental requirements set for all water companies, we are required to comply with EU, national as well as local self-governments' legislative acts. On the EU level, this means compliance with the EU Council Water Framework Directive nr 2000/60/EC. On national level, the Company is required to comply with the Water Act, Public Water Supply and Sewerage Act, Waste Act, Chemicals Act, Ambient Air Protection Act and any regulations adopted on the basis thereof. On the local level, since the Company operates in Tallinn as well as its neighbouring municipalities, then

the Company has to abide by various guidelines and regulations enacted within various territories. Changes in applicable regulation and legislation are monitored and communicated monthly to relevant managers in charge of implementing the changes. We actively participate in working groups and discussion rounds as well as issue opinions on draft legal acts pertaining to our industry usually primarily via the Estonian Water Companies Association (EVEL). We are a member of the Estonian Quality Association (from 2002), a member of the Estonian Environmental Management Association (EKJA - from 2003), and a founder member of the Corporate Socially Responsible Forum (VEF – from December 2012). We also cooperate with other quality-conscious and environmentally aware businesses to promote doing business in an ethical and responsible way.

Under the Services Agreement concluded between the City of Tallinn, the Company and the investor on 12th January 2001, we are contractually required to comply with 97 quality levels of service. This makes us the most regulated water company in Estonia. Our performance and the quality of our service is reviewed annually by an independent monitoring unit - the Supervisory Foundation for the Water Companies in Tallinn to whom we submit annual Levels of Service (LoS) reports by 31st March each year. In 2012, we complied with 96 out of 97 contractual quality levels of service. Our only failure was regarding only one water interruption out of 710 interruptions that lasted longer than the contractually agreed 12 hours. Considering that there may be aggravating external factors like geological condition, weather and city traffic which may influence how quickly we can localise and

eliminate the problem, this is an excellent result.

Besides the 97 quality levels of service, we are contractually required to comply with the following standards and systems:

- 2001 - ISO 17025 Laboratories Quality Management System*
- 2002 - ISO 9001 Quality Management System
- 2003 - ISO 14001 Environmental Management System*

*The accreditation certificate of our laboratories is valid until 11th May 2016.

Doing business in an environmentally safe way as well as the safety of our employees are extremely important to us, so from 2005 and 2007, respectively we have voluntarily complied with the following standards and systems:

- 2005 - EU EMAS (Environmental Management and Auditing System) stipulated by 25.11.2009 Regulation nr 1221/2009 of the European Parliament and Council
- 2007 - OHSAS 18001 Occupational Health and Safety Management System.

In 2012, the company (including its subsidiary OÜ Watercom) and its management system have fully complied with all mandatory as well as voluntary quality, environmental, occupational safety and work environment standards and systems as well as legal requirements. Such compliance is routinely monitored via internal audits and has

been confirmed by way of an external ISO/EMAS audit undertaken by Det Norske Veritas. The external auditors of the company quality, environmental, occupational safety and work environment system did not find any non-conformities 3rd year in a row, which is an outstanding and rare result. The auditors even made positive observations about continuous improvement of the managers' and employees' commitment to improve efficiency in the company. The next recertification audit will be in 2014.

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

More information about the environmental permits and regarding our environmental compliance is available in our 2012 environmental (EMAS) report - available on our webpage: www.tallinnavesi.ee - About us – Environment – Environmental Reports. In 2012, we didn't receive a single prescription from any authorities.

We also require our suppliers to confirm already at the bid stage that their practices meet quality, environmental, work environment and occupational safety requirements. We monitor all construction sites as well as the sites of our sub-contractors to ensure occupational safety and environmental protection measures are followed. Compli-

ance of suppliers is assessed after the completion of works and the contract and in 2012, the average assessment to environmental activities of the Company's suppliers was "very good".

Customers, investors, employees and the community and regularly publish information on our activities, financial standing and results. Regular cooperation with the trade union and the work environment council as well as analysing the results of annual employee satisfaction surveys helps us to better take into account the wishes of our employees.





Hilje Raavel
Administrator in Water
Treatment Plant

Annual accounts

Results of operations - for the year 2012	36
Key contractual events	42
Corporate governance and corporate governance recommendations report	44
Management confirmation	50
Consolidated statement of financial position	51
Consolidated statement of comprehensive income	52
Consolidated statement of cash flow	53
Consolidated statement of changes in equity	54
Notes to the consolidated financial statements	55
Note 1. General information	55
Note 2. Accounting policies	55
Note 3. Contingent liability regarding the tariff risk	62
Note 4. Critical accounting estimates	62
Note 5. Financial risk management	63
Note 6. Cash and cash equivalents	66
Note 7. Trade receivables, accrued income and prepaid expenses	67
Note 8. Other long-term receivables	67
Note 9. Property, plant and equipment and intangible assets	68
Note 10. Borrowings	69
Note 11. Trade and other payables	70
Note 12. Derivatives	70
Note 13. Government grants	71
Note 14. Other contingent liabilities	71
Note 15. Prepayments	71
Note 16. Share capital	71
Note 17. Revenue	72
Note 18. Staff costs	72
Note 19. Cost of goods sold, marketing and administrative expenses	72
Note 20. Other income / expenses	73
Note 21. Financial income and expenses	73
Note 22. Dividends	73
Note 23. Earnings per share	73
Note 24. Operating lease	73
Note 25. Related parties	74
Note 26. Subsidiaries	74
Note 27. Supplementary disclosures on the parent company of the group	75
Confirmation of the management and supervisory boards	79
Independent auditor's report	80
AS Tallinna Vesi management board and supervisory council 2012	81

Results of operations - for the year 2012

RETURN ON INVESTED CAPITAL

The real return on capital invested at the time of privatisation was 6.6% in 2012, which is slightly higher than the 6.2% average real return on capital invested over the contract period starting from 2001, as the privatisation contract designed the returns to be lower in early years of

contract. Furthermore, in the interests of an open and professional dialogue to demonstrate that its return on invested capital has not been excessive, the international economic consulting group Oxera has independently verified the calculation of the average real return on capital invested at the time of privatisation and Oxera's report is available on AS Tallinna Vesi's webpage.

Both, the average and the annual return on capital invested are in accordance with the returns allowed by Ofwat, the UK regulator over this same period, and the return permitted by the Dutch Energy regulator Energiekamer, which allowed a real rate of return of 6.0% in its regulatory determination of September 2010.

Other main economic indicators

million euros	2012	2011	2010	2009	2008
Sales	52,9	51,2	49,7	49,4	46,0
Gross profit	32,6	30,3	29,0	31,2	28,6
Operating profit	28,8	28,9	27,5	29,5	25,9
Operating profit - main business	26,7	25,4	24,2	26,9	24,1
Profit before taxes	27,1	25,8	24,9	25,6	23,1
Net profit	22,6	21,5	16,4	21,7	18,9
Gross profit margin %	61,6	59,2	58,4	63,2	62,1
Operating profit margin %	54,4	56,4	55,3	59,8	56,3
Profit before taxes margin %	51,1	50,3	50,1	51,9	50,3
Net profit margin %	42,7	42,0	33,0	44,0	41,1
ROA %	11,3	11,2	8,9	12,3	11,6
Debt to total capital employed	57,8	58,9	60,1	49,7	49,9
ROE%	26,7	27,3	22,4	24,4	23,1
Current ratio	4,3	4,1	2,1	4,2	1,8
Number of full-time equivalent employees	301	299	305	322	317
Share capital	12,0	12,0	12,8	12,8	12,8

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Profit before taxes margin – Profit before taxes / Net sales

Net profit margin – Net profit / Net sales

ROA – Net profit / Total assets

Debt to Total capital employed – Total liabilities / Total capital employed

ROE – Net profit / Shareholders' equity

Current ratio – Current assets / Current liabilities

STATEMENT OF COMPREHENSIVE INCOME

Sales

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

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

Within the service area, sales to residential customers increased by 0.3% to 23.8 mln euros. Sales to commercial customers increased by 2.9% to 18.8 mln euros. Sales to customers outside of the service area increased by 19.4% to 4.5 mln euros compared to 2011. Over pollution fees received were 0.83 mln euros, a 7.6% increase compared to 2011.

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

The volumes sold to residential customers stayed broadly flat year on year. The volumes sold to commercial customers inside the service area increased by 2.7% compared to the respective period in 2011, mainly due to improvement in industrial sector.

Volumes sold to outside service area were 30.2% higher

than in 2011. The main factor in this increase was higher storm water and sewage volumes in 2012 compared to 2011, resulting in sales increase of 19.4% year on year.

The sales from operation and maintenance of storm water and fire-hydrant system increased by 9.6% to 3.9 mln euros in 2012 compared to last year. This is in accordance with the terms and conditions of the contract whereby the storm water and fire-hydrant costs are invoiced based on actual costs and volumes treated.

Cost of Goods Sold and Gross Margin

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

Total variable costs decreased by 0.10 mln euros or 1.5% year on year in combination of increase in regulated prices and tax rates and movements in treatment volumes that affected the variable costs together with the following additional factors:

- Water abstraction charges increased only by 0.04 mln euros or 4.5% to 0.94 mln euros in 2012, despite of 10% increase in tax rates due to positive impact from reduced leakage ratio.
- Total chemical costs increased by 0.20 mln euros or 13.8% to 1.6 mln euros. Chemicals costs increased due to an increase in chemicals price worth 0.13 mln euros (0.07 mln euros coming from methanol price increase by 10%) and due to higher volume impact worth 0.07 mln euros.

- Electricity costs in total increased by 0.72 mln euros or 24.3% in 2012 compared to 2011. Electricity costs were the most impacted by considerable increase in electricity prices, which on average have increased 13.8% with an adverse effect of 0.45 mln euros, in addition the Group was affected by the adverse impact from the increased treated storm water volumes.
- Pollution tax decreased by 1.1 mln euros or 75.4% in 2012. The pollution tax cost was largely impacted by the fact that the Group released a one-off provision related to storm water outlet not fully in control of the Group. Significant improvements in nitrogen removal process also balance the pollution tax increase due to the 15% increase in tax rates and 12.2% increase in volumes.
- The improved nitrogen removal is the result of the environmental project that was implemented to mitigate the nitrogen treatment and tax risks discussed throughout the 2010 and 2011. The project was completed by the Group in second half of 2011 when we finished the construction and implemented the additional stage in sewage treatment process.

To mitigate the external price risk of maintenance services the Group 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 0.49 mln euros or 3.4% year on year due to said switch.

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

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

Other Operating Costs

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

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

Other income/expenses

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

In previous years the majority of the income in Other net income/expenses has been related to constructions and government grants. As the major programs were almost entirely completed by end of 2011, the income from this activity have considerably dropped. Profits from constructions and government grants recorded in 2012 were 2.0 mln euros compared to a net income of 3.5 mln euros in 2011.

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

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

Financial expenses

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

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

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

Profit Before and After Tax

The Group's profit before taxes for 2012 was 27.1 mln euros, which is 1.3 mln euros higher than the profit before taxes of 25.8 mln euros for 2011, resulting from the movements in

fair value of financial instruments as described above.

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

STATEMENT OF FINANCIAL POSITION

In the twelve months of 2012 the Group 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 Group has a Total debt/Total assets level as expected of 57.8%, in range of 55%-65%, reflecting the year-end equity profile. This level is consistent with the same period in 2011 when the total debt/total assets ratio was 58.9%.

Long-term liabilities stood at 106.2 mln euros at the end of December 2012, consisting mainly of the outstanding balance of three long-term bank loans totalling 95 mln euros. The first repayment of loans or refinancing should take place at the end of 2014. The weighted average interest margin for the total loan facility is 0.96%. The rest of long term liabilities reflect mainly the accounting record of deferred income from connection fees.

In the 4th quarter of 2011 the Group disclosed an excep-

tional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros, as per note 3 to the accounts. Considering that the court proceedings are continuously on-going and no conclusion have been made to-date, the Management has not changed the evaluation of the contingent liability.

CASH FLOW

During the twelve months of 2012, the Group generated 31.7 mln euros of cash flows from operating activities, a decrease of 1.5 mln euros compared to the corresponding period in 2011. 2012 operating cash flows were below 2011 cash flows mainly due to one-off large payments of overdue debt in 1st half of 2011. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the twelve months of 2012 net cash flows from investing activities resulted in a cash inflow of 2.0 mln euros, an increase of 10.5 mln euros compared to an outflow of 8.4 mln euros in the twelve months of 2011. This is mainly due to lower capex spent on network extensions as this program of investments was largely completed by the end of 2011.

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

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

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

EMPLOYEES

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

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

CORPORATE STRUCTURE

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

DIVIDENDS AND SHARE PERFORMANCE

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

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

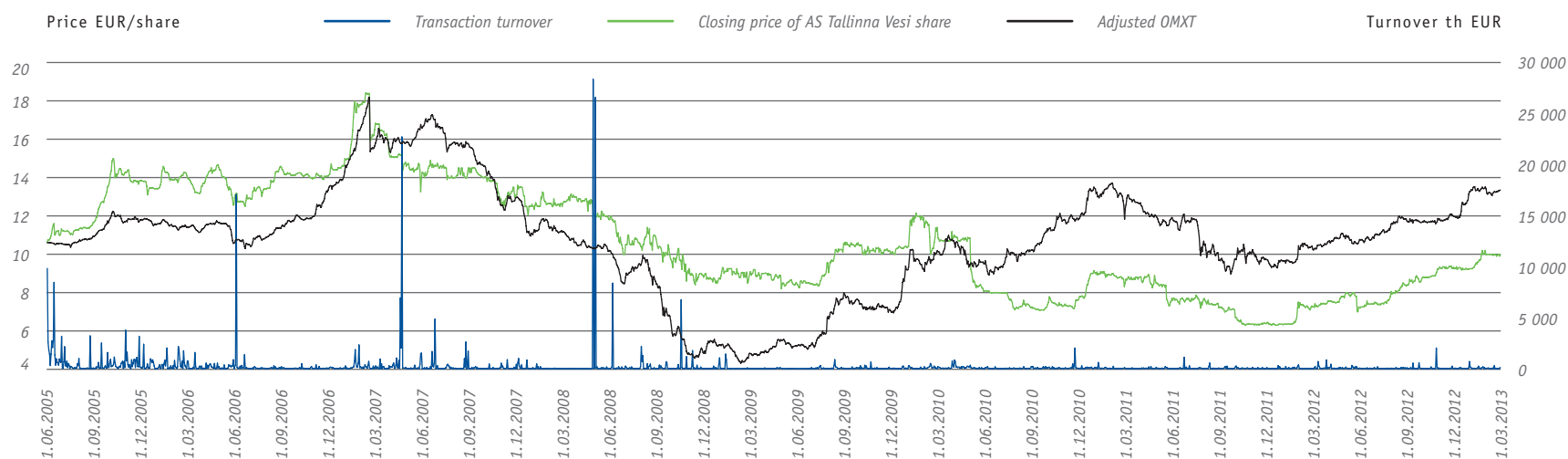
As of 31 December 2012, the shareholders of AS Tallinna Vesi, with a direct holding over 5%, were:

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

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

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

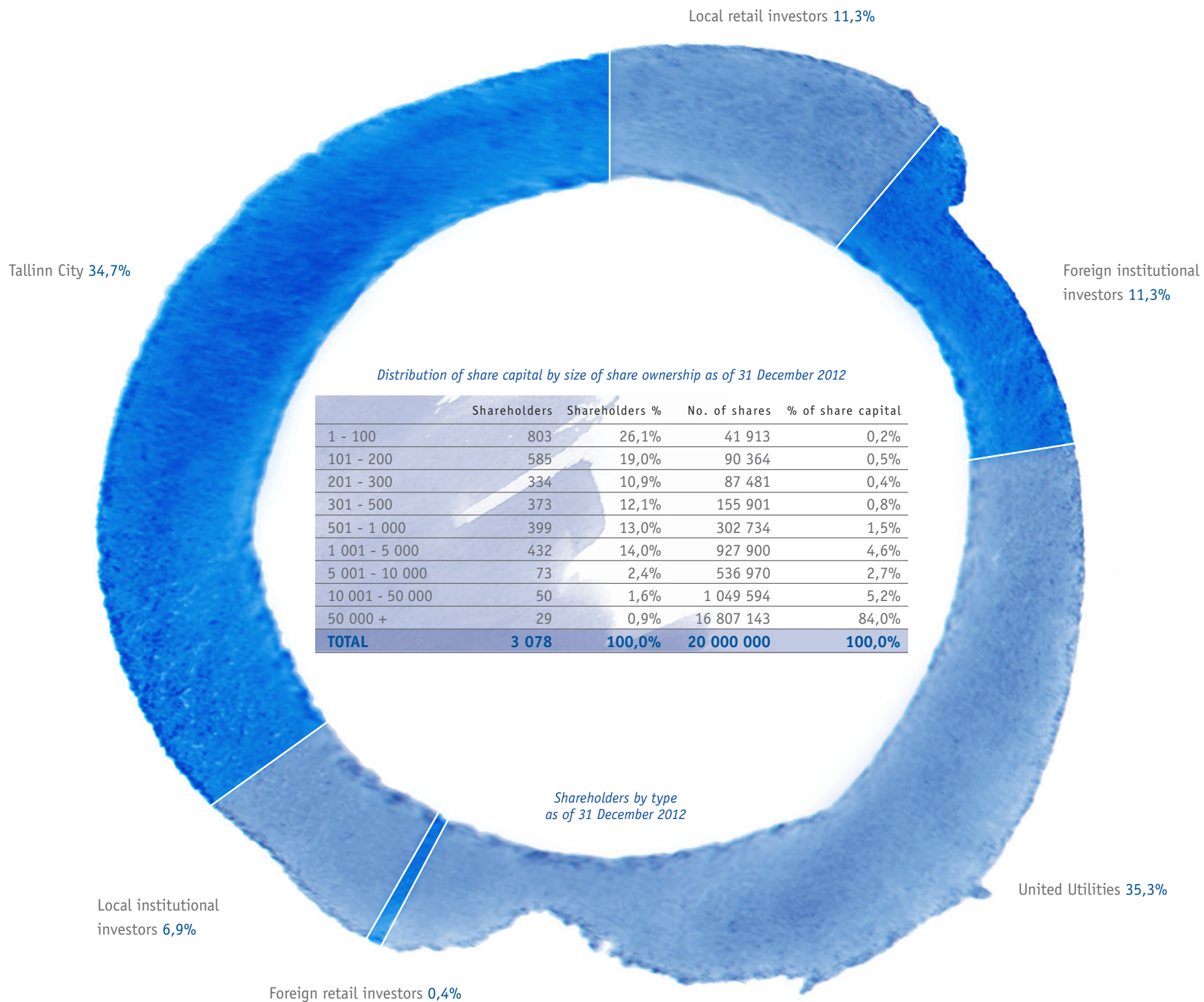
Closing price & adjusted OMXT vs Transaction Turnover



Share price statistics

euros	2012	2011	2010	2009	2008
Share price, open	6,30	7,90	10,18	9,00	13,25
Share price, at the end of the year	9,20	6,29	7,89	10,00	8,99
Share price, low	6,30	6,29	7,00	8,20	8,41
Share price, high	9,40	9,29	12,25	10,69	13,60
Share price, average	7,91	7,76	8,95	9,28	11,38
Traded volume	2 375 967	1 927 386	2 879 132	1 547 108	7 958 820
Turnover, million	18,6	14,9	25,6	14,5	92,9
Capitalisation, million	184,0	125,8	157,8	200,0	179,8
Earnings per share	1,13	1,08	0,82	1,09	0,95
Dividend per share	n/a	0,84	0,80	1,60	0,73
Dividend / net profit	n/a	78%	98%	147%	78%
P/E	8,14	5,82	9,62	9,20	9,50
P/BV	2,2	1,6	2,2	2,2	2,2

P/E = share price at the end of the year / earnings per share P/BV = share price at the end of the year / book value per share In 2005 the listing price was 9.25 euros



Key contractual events

CONTRACTUAL TARIFF DEBATE

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

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

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

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

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

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

On 31st May 2012 District Court issued a ruling, deeming the tariffs part of the Services Agreement signed in 2001 as part of AS Tallinna Vesi's privatization package of agreements to be an administrative (public law) agreement. The District court has thereby ruled in favour of AS Tallinna Vesi, overturning the Competition Authority's claim that the tariff mechanism specified in the Services Agreement is allegedly a civil law agreement that the Company cannot rely on in an administrative court.

On 13th June 2012 the Competition Authority appealed the Tallinn District Court's ruling to the Supreme Court. In their appeal, the Competition Authority has stated that in its opinion AS Tallinna Vesi's international privatisation, tariff criteria and the supporting contracts agreed at privatisation in 2001 were the private business activity of the City of Tallinn, and therefore do not warrant any protection under Estonian public law.

On 18th September 2012 the Supreme Court rejected the CA's appeal, meaning that the District Court's decision was upheld and the tariff mechanism is now deemed to be a public law contract. It is now for the Administrative Court to determine whether or not this public law contract should be binding on the CA. AS Tallinna Vesi is firmly of the belief that the terms and conditions of the international privatisation contract that has been deemed a public law contract should not be broken simply by transferring the duties of the regulator from one state institution (the City of Tallinn) to a different state institution (the Competition Authority).

AS Tallinna Vesi was privatised in 2001 with the full support and knowledge of the Estonian national government, with written confirmations from the Prime Minister, the Minister of Finance, and the Competition Authority itself regarding the key terms of the agreements, and utilising the expertise and guidance of the European Bank for Reconstruction and Development (EBRD). In addition to approving the framework of the privatisation the State of Estonia directly benefited as the sovereign guarantee it had been required to provide to EBRD to secure the then

municipal AS Tallinna Vesi's loans was passed to the Strategic Investor on privatisation.

COMPLAINT TO EUROPEAN COMMISSION

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

DISCLOSURE OF RELEVANT PAPERS AND PERSPECTIVES

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

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

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

Corporate governance and corporate governance recommendations report

OVERVIEW

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

AS Tallinna Vesi is committed to high standards of corporate governance for which the Management Board and Supervisory Board are accountable to the shareholders. AS Tallinna Vesi endeavours to be transparent in its ways of operating, corporate disclosures and relations with its shareholders. AS Tallinna Vesi has been recognized several times for this – in 2009, the NASDAQ OMX Baltic awarded AS Tallinna Vesi for the Best Annual Report in NASDAQ OMX Baltic and for the Best Investor Relations in NASDAQ OMX Tallinn. In 2010 the NASDAQ OMX Baltic awarded AS Tallinna Vesi for the Best Investor Relations in NASDAQ OMX Tallinn and the Baltic Corporate Governance Institute awarded AS Tallinna Vesi for the Best Corporate Governance in Estonia. In 2011 the Company was awarded the Best Investor relations on the Tallinn Stock Exchange and second place on all the Baltic Stock Exchanges by NASDAQ OMX. In addition the Company's investors' web-page was highlighted amongst the equal top five and the Annual Accounts were awarded the second place on all the Baltic Stock Exchanges. In 2012 the Company was

recognized for eminent investor relations, being awarded with second place on all the Baltic Stock Exchanges by Nasdaq OMX for the Best Investor relations. In addition the Company was awarded 2nd place for Best Investor Relations Online and Best Annual Report on all the Baltic Stock Exchanges.

INVESTOR RELATIONS AND DISCLOSURE OF INFORMATION

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

for inquiring about the company's activities from the Management Board. All respective documents are also available at the headquarters of AS Tallinna Vesi until the day before the date of the General Meeting. Resolutions of the General Meetings are published on the AS Tallinna Vesi's webpage within 7 (seven) days following the date of the General Meeting.

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

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

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

THE GENERAL MEETING OF SHAREHOLDERS

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

On 22nd May, 2012, AS Tallinna Vesi held an Annual General Meeting (AGM) of its Shareholders to approve the 2011 annual report, distribution of profit via dividends, re-election of Supervisory Board members, as well as to elect auditors and approve sending an enquiry to the Ministry of Economic Affairs and Communications regarding how the ministry plans to ensure investments made by foreign and local investors would be protected given the recent changes in the law significantly changing the conditions of the company's privatisation. The Management Board also made a presentation on the on-going tariffs dispute to update the shareholders.

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

The agendas of AGMs and EGMs of AS Tallinna Vesi are pre-approved by the Supervisory Board, who also puts forward proposals for the attention and voting at the General Meeting. The General Meeting agenda items, the Supervisory Board's proposals, with relevant commentaries about the

agenda items, procedural instructions for participating at a General Meeting and how and when to propose additional items to the agenda are disclosed within the General Meeting notice.

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

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

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

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

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

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

THE SUPERVISORY BOARD

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

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

The Supervisory Board has formed three committees to advise the Supervisory Board on audit, nomination and remuneration, and corporate governance matters as described below.

THE AUDIT COMMITTEE AND INTERNAL AUDIT

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

The main tasks of the Audit Committee are:

- to monitor and analyse financial information;
- to monitor and analyse the efficiency of risk management and internal controls;
- to monitor and analyse the processes regarding actual accounts and the consolidated audit report;

- to monitor and analyse independence of appointed external auditor and legality of his/her activity regarding ASTV;
- to evaluate the work of external auditors annually and report to the Supervisory Board about the results of such evaluation.

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

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

NOMINATION AND REMUNERATION COMMITTEE

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

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

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

CORPORATE GOVERNANCE COMMITTEE

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

THE MANAGEMENT BOARD

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

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

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

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

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

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

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

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

AS Tallinna Vesi has signed Service contracts with all members of the Management Board. AS Tallinna Vesi has not made any transactions with the members of the Management Board nor their related parties.

According to the Articles of Association of AS Tallinna Vesi, the Chairman of the Management Board has the sole representation right of the company; other Management Board members can represent the company only jointly. In order to make daily decisions, the Management Board has validated a framework of principles, according to which certain management team members are authorized to conclude transactions in small amounts.

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

CONFORMITY WITH TALLINN STOCK EXCHANGE CORPORATE GOVERNANCE RECOMMENDATIONS

Starting from 1st January 2006, the companies whose shares have been admitted for trading on the regulated market op-

erating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or non-compliance with the Corporate Governance recommendations. If the issuer does not comply with the Corporate Governance Recommendations, it shall explain the reasons for its non-compliance in the report.

DECLARATION OF CONFORMITY BY AS TALLINNA VESI

In 2012, AS Tallinna Vesi has complied with the vast majority of the Corporate Governance principles. However, AS Tallinna Vesi did not comply with certain principles, which are listed below together with the reasons for such non-compliance:

'2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.'

The arrangements undertaken in connection with the privatisation of AS Tallinna Vesi in 2001 provided that, in return for certain fees, United Utilities International Ltd. would provide AS Tallinna Vesi with technical and asset manage-

ment services and make its personnel available to the company in connection with its operation and management. The working hours, rates of compensation, and all other matters relating to the employment of the individual directly employed by United Utilities International Ltd. are to be determined solely by United Utilities International Ltd., the Supervisory Board does not review the principles of remuneration of this Management Board member.

'2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.'

AS Tallinna Vesi does disclose the overall Management Board remuneration in the report, appendix 25, but considers that individual remuneration is sensitive and private information and the disclosure thereof would bring no benefit to the shareholders.

'3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.'

Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members. Under the Shareholders' Agreement, United Utilities (Tallinn)

B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be reserved for independent members to be elected to the Supervisory Board as permitted by the Tallinn Stock Exchange on listing in June 2005.

INFORMATION DISCLOSURE

'2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer.'

The Management Board Members of AS Tallinna Vesi are not in the Management Boards and Supervisory Boards of other Issuers.

'2.3.2. The Supervisory Board shall approve the transactions which are significant to the Issuer and concluded between the Issuer and a member of its Management Board or another person connected/close to them and shall determine the terms of such transactions.'

The Supervisory Board approves the remuneration principles of the Management Board. In 2012, there were no other transactions between AS Tallinna Vesi and any member of the Management Board.

'3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating sepa-

rately basic and additional payment (incl. compensation for termination of contract and other payable benefits).'

According to the decision of the General Meeting the remuneration of Supervisory Board members is set at 6 391 euros per year per person. The fee is paid to six members out of nine. The fee is subject to deduction and payment of applicable taxes and is payable monthly. The Supervisory Board members were not paid any additional benefits in 2012.

'3.2.6. If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.'

In 2012, five Supervisory Board meetings were held (26th January 2012, 22nd March 2012, 26th April 2012, 19th July 2012 and 25th October 2012).

The following members of the Supervisory Board attended more than 50% of the meetings during the time they were appointed or elected in 2012: Mr. Robert John Gallienne, Mr. Steven Richard Fraser, Mr. Simon Gardiner, Mr. Brendan Francis Murphy, Mr. Rein Ratas, Mr. Toivo Tootsen, Mr. Priit Lello and Mr. Mart Mägi.

'3.3.2. A Supervisory Board member candidate shall inform other members of the Supervisory Board about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him.'

All Supervisory Board members are aware of this requirement and at minimum once per annum AS Tallinna Vesi requires all Supervisory Board members to update the record of their business interests. No business transactions took place between AS Tallinna Vesi and either any Supervisory Board member or any persons or companies related to them in 2012.

The previous sections, Chairman's statement, Results of operations – for the year 2012, Corporate Governance and Corporate Governance Recommendations Report from the Management Report are an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2012. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of AS Tallinna Vesi.



Ian John Alexander Plenderleith
Chairman of the Management Board
25.02.2013



Leho Võrk
Member of the Management Board
25.02.2013



Aleksandr Timofejev
Member of the Management Board
25.02.2013



Riina Käi
Member of the Management Board
25.02.2013



Ilona Nurmela
Member of the Management Board
25.02.2013

Management confirmation

The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements of AS Tallinna Vesi (Company) and its subsidiary Watercom OÜ (together referred as Group) for the financial year ended 31 December 2012 on pages 24 to 58.

The financial statements have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of the Group.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Group's assets and liabilities as of 31 December 2012, and of income and expenses during the financial year. These estimates are based on current information about the Group and consider all plans and risks as of 31 December 2012. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 25 February 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
25.02.2013



Leho Vörk
Member of the Management Board
25.02.2013



Aleksandr Timofejev
Member of the Management Board
25.02.2013



Riina Käi
Member of the Management Board
25.02.2013



Ilona Nurmela
Member of the Management Board
25.02.2013

Consolidated statement of financial position

as of 31 December	Note	2012	2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	23 935	14 770
Trade receivables, accrued income and prepaid expenses	7	18 323	19 845
Inventories		356	321
TOTAL CURRENT ASSETS		42 614	34 936
NON-CURRENT ASSETS			
Other long-term receivables	8	7 560	9 583
Property, plant and equipment	9	149 400	145 973
Intangible assets	9	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	10	115	0
Trade and other payables	11	5 482	5789
Derivatives	12	2 039	1 552
Prepayments	15	2 252	1 146
TOTAL CURRENT LIABILITIES		9 888	8 487
NON-CURRENT LIABILITIES			
Deferred income from connection fees		7 892	6 824
Borrowings	10	95 717	94 938
Derivatives	12	2 538	2 936
Other payables		20	9
TOTAL NON-CURRENT LIABILITIES		106 167	104 707
TOTAL LIABILITIES		116 055	113 194
EQUITY			
Share capital	16	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

Consolidated statement of comprehensive income

for the year ended 31 December	Note	2012	2011
Revenue	17	52 924	51 240
Costs of goods sold	19	-20 337	-20 927
GROSS PROFIT		32 587	30 313
Marketing expenses	19	-772	-748
General administration expenses	19	-4 740	-4 294
Other income(+)/ expenses(-)	20	1 696	3 619
OPERATING PROFIT		28 771	28 890
Financial income	21	1 591	1 947
Financial expenses	21	-3 297	-5 071
PROFIT BEFORE TAXES		27 065	25 766
Income tax on dividends	22	-4 466	-4 253
NET PROFIT FOR THE PERIOD		22 599	21 513
COMPREHENSIVE INCOME FOR THE PERIOD		22 599	21 513
ATTRIBUTABLE PROFIT TO:			
Equity holders of A-shares		22 598	21 512
B-share holder		0.60	0.60
Earnings per A share (in euros)	23	1.13	1.08
Earnings per B share (in euros)	23	600	600

Consolidated statement of cash flow

for the year ended 31 December	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		28 771	28 890
Adjustment for depreciation/amortisation	9,19	5 879	5 729
Adjustment for income from government grants and connection fees	20	-2 043	-3 484
Other finance income(+)/expenses(-)	21	-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
TOTAL CASH FLOW FROM OPERATING ACTIVITIES		31 720	33 261
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans granted	8	-765	-3 151
Acquisition of property, plant and equipment, and intangible assets		-10 011	-18 506
Compensations received for construction of pipelines		11 198	11 284
Proceeds from sale of property, plant and equipment, and intangible assets		38	13
Interest received		1 585	1 939
TOTAL CASH FLOW USED IN INVESTING ACTIVITIES		2 045	-8 421
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid and loan financing costs, incl swap interests	21	-3 272	-3 051
Repayment of finance lease		-61	0
Dividends paid	22	-16 801	-16 001
Income tax on dividends	22	-4 466	-4 253
TOTAL CASH FLOW USED IN FINANCING ACTIVITIES		-24 600	-23 305
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	6	23 935	14 770

Consolidated statement of changes in equity

	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 (Note 22)	0	0	0	-16 001	-16 001
Comprehensive income for the period (Note 23)	0	0	0	21 513	21 513
AS OF 31 DECEMBER 2011	12 000	24 734	1 278	40 863	78 875
Dividends (Note 22)	0	0	0	-16 801	-16 801
Comprehensive income for the period (Note 23)	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

NOTE 1. GENERAL INFORMATION

AS Tallinna Vesi (Company) is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 400 000 people in Tallinn and in several neighbouring municipalities of Tallinn. AS Tallinna Vesi has the exclusive right to provide water and sewerage services in Tallinn's main service area until the year 2020. Shareholders of AS Tallinna Vesi having a significant influence are, United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Nasdaq OMX Baltic Exchange, in which AS Tallinna Vesi was listed on 1 June 2005.

Watercom OÜ (Subsidiary) was founded at 2010 by the Company and its main areas of activity are services related to water business and owner supervision, construc-

tion and project management services related to water and sewage.

The Company and the Subsidiary together form a group (Group).

NOTE 2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements (hereinafter referred to as 'financial statements') are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) (hereinafter IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the accounting policy for derivatives, measured at fair value through profit and loss, as disclosed in the accounting policies below.

The Management Board of AS Tallinna Vesi authorised these consolidated financial statements for issue at 25 February 2013. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of AS Tallinna Vesi and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Name:	AS Tallinna Vesi	OÜ Watercom
Commercial register number:	10257326	11944939
VAT identification number	EE100060979	EE101374619
Address:	Ädala 10, 10614 Tallinn	Ädala 10, 10614 Tallinn
Telephone:	62 62 200	62 62 620
Fax:	62 62 300	62 62 300
E-mail:	tvesi@tvesi.ee	watercom@watercom.eu

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.

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact to the Group.

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods and which the Group has not early adopted:

IFRS 13, Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU. Aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to

have a material impact on the Group.

PRINCIPLES OF CONSOLIDATION, ACCOUNTING FOR BUSINESS COMBINATIONS AND SUBSIDIARIES

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than one half of the voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. The subsidiary has been consolidated in the Group's financial statements.

In the consolidated financial statements, the financial statements of the subsidiary are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and its subsidiary use uniform accounting policies. Where necessary, the accounting policies of the subsidiary have been changed to ensure consistency with the policies adopted by the Group.

Investment in subsidiary is carried at cost (less any impairment losses) in the separate primary financial statements of the Company.

FOREIGN CURRENCY

Functional and presentation currency

Consolidated financial statements for the year ended 31 December 2012 have been presented in euros.

For the convenience of the users, these financial statements have been presented in thousands of euros, unless stated otherwise.

Foreign currency transactions and balances

All other currencies except for the functional currency (the functional currency of the Parent Company and subsidiary located in Estonia is Euro) constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency (monetary receivables and loans) have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses are recognised in the statement of comprehensive income as income or expenses of that period.

CURRENT AND NON-CURRENT DISTINCTION OF ASSETS AND LIABILITIES

Assets and liabilities are classified in the statement of financial position as current or non-current. Assets expected to be recovered or in the next financial year or during the normal operating cycle of the Group are considered as current. Liabilities whose due date is in the next 12 months or that is expected to be settled in the next financial year or during the normal operating cycle of the Group are considered as current. All other assets and liabilities are classified as non-current.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position and the cash flow statement comprise of cash on hand, cash in bank accounts and short-term, risk free, highly liquid bank deposits with original maturities of three months or less.

Cash flows from operating activities are reported using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Cash flows from investing and financing activities are reported using the direct method.

FINANCIAL ASSETS

Financial assets are cash, trade receivables, accrued income, others current and long-term receivables including the derivatives with positive value.

Financial assets are recorded in statement of financial position at value date (i.e. are recognised when the Group becomes the owner of the financial assets and are derecognised when the Group has transferred substantially all risk and rewards incidental to ownership). According to the purpose of acquisition and management intentions the financial assets are divided into the following groups:

- Financial assets at fair value through profit or loss
- Receivables and loans
- Investments held-to-maturity
- Financial assets available-for-sale

As of 31 December 2012 and 2011 the Group did not have any investments held-to-maturity and financial assets available-for-sale.

Financial assets held for trading are classified as financial assets at fair value through profit or loss (asset is acquired for the purpose of selling in the near term). Finan-

cial assets at fair value through profit or loss are initially recorded at fair value, transaction costs are recorded in the profit or loss. Financial assets of this category are subsequently carried at fair value and gains/losses from changes in fair value are recorded in profit or loss of the period. The quoted market price on balance date is their basis for establishing the fair value of financial assets at fair value through profit or loss.

Loans and receivables are initially recognised at a fair value plus the transaction costs. Loans and receivables are subsequently carried at amortised cost, using effective interest method (less any impairment allowances). As of 31 December 2012 and 2011 the Company had given one loan.

RECEIVABLES

Trade receivables comprise of short term receivables generated in the ordinary course of business. Trade receivables are recorded using at the amortised cost method.

Allowance for receivables is recorded if there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the agreement. Impairment of individually material receivables is evaluated separately for each customer, considering the present value estimated future cash flows. For receivables which are not individually significant and for which there is no direct information that their value has been decreased, the allowance is evaluated collectively using previous years experience on impairment of receivables. The amount of the allowance for doubtful receivables is the difference between their carrying amount and present value of future cash flows, using effective interest rate method. The carrying amount of

receivables is reduced by the impairment loss and impairment loss is recorded in the statement of comprehensive income on the row „Other income/ expenses“. Subsequent recoveries of doubtful receivables are recorded as a decrease of impairment loss.

INVENTORIES

Inventories are initially recorded at cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and discounts.

The weighted-average cost method has been used to determine the cost of inventories. Inventories are carried in the statement of financial position at the lower of the cost and net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are the property, plant and equipment items that are most probably sold within next 12 months and for which the management has begun sales activity and the assets are offered for sale for a reasonable price compared to their fair value.

Non-current assets held for sale are classified in the statement of financial position as current assets and depreciation ended at the moment of reclassification. Non-current assets held for sale are carried in the statement of financial position at the lower of at book value and fair value less costs to sell.

PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

Property, plant and equipment are tangible assets used in operating activities of the Group with an expected useful life of over one year. Property, plant and equipment are carried in the statement of financial position at historical cost less accumulated depreciation and any impairment losses.

Intangible assets are recognised in the statement of financial position only if the following conditions are met:

- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the cost of the asset can be measured reliably.

Acquired licenses

Acquired computer software that is not an integral part of the related hardware is recognised as an intangible asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the statement of comprehensive income. Costs of computer software shall be depreciated over the estimated useful lifetime, the duration of which is up to 10 years.

Other intangible assets

Expenses for acquiring patents, trademarks, licences and

certificates are capitalized if it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a straight line basis over the estimated useful lifetime, the duration of which does not exceed 10 years.

The cost of purchased property, plant and equipment and intangible assets comprises the purchase price, transportation costs, installation, and other direct expenses (incl. internal labour costs) related to the acquisition or implementation. Labour costs are capitalised with employee's hourly index applied to working hours which are needed for taking the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Hourly rate is calculated individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Group and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced item of property, plant and equipment is derecognised. Costs related to ongoing maintenance and repairs are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset.

Applicable depreciation/amortization rates:

- buildings 1,25-2,0 % per annum;
- facilities 1,0-8,33 % per annum;
- machinery and equipment 3,33-50 % per annum;
- instruments and other equipment etc. 10-20 % per annum;
- acquired licenses and other intangible assets 10-33 % per annum.

In exceptional circumstances rates may differ from the above ranges if it is evident that the estimated useful life of the asset varies materially from the ranges of rates assigned to the respective category.

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate it is treated as a change in the accounting estimate and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes. Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount. To determine profits and losses from the sale of property, plant and equipment the book value of the sold assets is subtracted from the proceeds. The respective profits and losses are reported in the line "Other income / expenses".

IMPAIRMENT OF ASSETS

Assets that are subject to depreciation/amortisation and property, plant and equipment with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable value of intangible assets in progress is tested annually, by comparing their recoverable amount with the carrying amount.

Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount of the assets is the higher of the:

- fair value less costs to sell and
- value in use.

In case it is not possible to determine the fair value of assets less costs to sell, the asset's value in use is considered to be its recoverable value. The value in use is calculated as the present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or a group of assets (cash-generating unit). For the purposes of assessing impairment, the Group is considered to be a single cash-generating unit as it is the lowest level for which there are separately identifiable cash flows. The impairment loss is immediately recognised in the statement of comprehensive income. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

If based on the results of the assessment it appears that the recoverable amount of an asset or the cash-generat-

ing unit has increased, the earlier impairment is reversed up to the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recorded in the statement of comprehensive income of the period as a decrease in impairment loss.

FINANCIAL LIABILITIES

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long term financial liabilities and derivatives. Financial liabilities (except derivatives) are initially recognised at fair value net of transaction cost. Subsequently financial liabilities are carried at the amortised cost.

Amortised cost of short term financial liabilities is usually equal to their nominal value, thus they are carried on statement of financial position at the amount payable. For calculating the amortised cost of long-term financial liabilities these are initially recognized at fair value of amount received (less transaction costs), interest expense is calculated from the liability using the effective interest method subsequently.

Liabilities are classified as current liabilities, unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

DERIVATIVES

With regard to derivatives, the Group uses interest rate swap contracts, in order to mitigate risks related to fluctuations in interest rates. Such derivatives are initially

recognised at their fair value at the date of entering into the contract and are subsequently carried at fair value with changes recognised in profit or loss. If fair value is positive, the derivative is recognised as an asset, if negative, as a liability. Derivatives are classified as a current asset or liability if expected to be settled within 12 months; otherwise, they are classified as non-current.

Gains and losses attributable to changes in the fair value of derivatives are recognised in the statement of comprehensive income of the reporting period. Gains and losses from the disposal of derivatives are also recognised in the statement of comprehensive income.

CORPORATE INCOME TAX

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise.

Income tax on dividends in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The rate is 21/79 on the amount of the dividends payable (2011: 21/79).

The contingent tax liability that would occur if all distributable retained earnings were paid out as dividends is not recognized in the statement of financial position. The income tax due on dividend distribution is recorded as a

liability and as a tax expense in the statement of comprehensive income during the same period as the dividend is declared regardless of the actual payment date or the period for which dividends are declared. Income tax liability is due on the 10th date of the month following the dividend payment.

EMPLOYEE BENEFITS

Employee short-term benefits

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable within 12 months after the end of the period during which the employee worked. Social security tax payments include contribution to state pension funds. The Group has no legal or constructive obligation to make pension or similar payments beyond social security tax.

Termination benefits

Termination benefits are benefits which are payable after the Group decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily or when the employee and employer have an agreement, in exchange for the benefits outlined. The Group recognises termination benefits as liabilities and expenses only when the Group is obliged to offer termination benefits in order to encourage voluntary leaving.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

The amount of servitudes likely payable that henceforth must be paid to the owners of private land resulting from the restrictions related to land use in case the Group's pipes are located on their land, are recorded as provisions. On the statement of financial position the liability is classified as short-term, because it can be realized to full extent within 12 months from the balance date.

Provisions have been recognised based on of the best estimates of the Group's Management Board and the actual costs of these transactions can differ from the provided estimates.

Commitments and other possible and existing liabilities, the realization of which is unlikely or the amount of accompanying costs cannot be assessed with sufficient reliability but which can become liabilities on certain terms in the future, are disclosed as contingent liabilities in the notes to the financial statements.

SHARE CAPITAL

Shares are recorded within the equity capital. Pursuant to the Group's Articles of Association, the Group has two classes of shares: the A-Shares, with a nominal value of 0.60 euros each and a single preference share B-Share, with a nominal value of 60 euros.

STATUTORY RESERVE CAPITAL

Pursuant to the requirements of the Commercial Code the statutory reserve capital is set up comprising of the allocations from net profits. The annual allocation must be at least 5% of the net profit of the accounting year until the reserve capital is equal to 10% of paid-up share capital. As the Group's reserve capital has reached the required level, the reserve capital is no longer increased from net profit.

At the decision of the General Meeting of the Shareholders the reserve capital can be used for the covering of loss in case it is not possible to cover it from the Group's available shareholders' equity, also for increasing the Group's share capital. The reserve capital cannot be distributed to the shareholders.

LEASES

A lease is an agreement whereby the lesser conveys to the lessee in return for a payment or series payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

The Group as the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease lia-

bility is reduced by principal payments. The finance charge is recognised as an interest expense in the statement of comprehensive income. The finance lease liability is recognised either within short or long-term borrowing in the statement of financial position.

Payments made under operating leases are charged to the statement of comprehensive income over the lease term on a linear basis.

GOVERNMENT GRANTS

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Government grants received for expenses incurred in previous periods or which do not include additional conditions for future compliance are recognised as income in the period when government grant was received. Government grants are not recognised as income before there exists sufficient confidence that Group complies with the conditions relating to government grants and the grants will be received.

Government grants received as compensations for the construction of water, sewerage and storm water pipelines shall be deducted from the book value of the pipeline constructed and any amounts exceeding the construction cost of pipeline shall be recognized as income upon delivery of construction works within "Other income/expenses" as income from government grants.

REVENUE

Revenue is recognised at the fair value of consideration received or receivable, net of VAT and sales discounts. Revenue comprises sales of services.

Sales of water, wastewater, storm water and fire hydrants services and other sales income is recorded in the period when the service has been provided, the amount of the revenue and cost incurred for the transaction can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity.

Connection fees received from customers are recognised as income during the period of the duration of useful life of related assets which is 75 years. The acquisition costs of pipelines taken into use and the connection fees received from customers are recorded respectively on the statement of financial position as "Property, plant and equipment" and "Deferred income from connection fees". Income/expense from amortization of assets and liabilities is respectively recorded as "Other income/expenses".

Interest income is recognised in case the receipt of income is likely and the amount of income can be determined reliably. Interest income is recognised using the effective interest method.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit of the accounting year with the weighted average number of issued shares of the period. The Group has no instruments that would have a diluting effect on the earnings per share.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board, being the chief operating decision-maker. The Management Board, who is responsible for allocating re-

sources and assessing performance of the operating segments, reports to the Supervisory Board which has been identified as the steering committee that makes strategic decisions. The Management Board has determined that the activities of the Group form a single operating segment. The internal reporting reviewed by the Supervisory Board and the Management Board is prepared using the same accounting principles and format of statement of financial position and statement of comprehensive income as provided in these consolidated financial statements.

NOTE 3. 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. Should the Court uphold the CA's position the privatization contract could cease to be the basis for the tariffs of water and sewerage services in Tallinn. The length of the court process and the decision are not within the Company's control.

The management has evaluated the amount of the contingent liability as of 31 December 2012 arising from the potential claims against the Company if the Court ruling would support the CA's position. As result of this, the outflow of economic benefits could be up to 36 mln euros that could be claimed within 10 years of the final judgement of the courts.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of material misstatements to the carrying amounts of assets and liabilities within the next financial year are addressed below.

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the note 2 in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in note 9.
- As of 31 December 2012 Group owns property, plant and equipment, and intangible assets with a book value of 150.6 mln euros (31 December 2011: 147.6 mln euros) and annual depreciation was 5.9 mln euros (2011: 5.8 mln euros). If the depreciation/amortization rates decreased / increased by 5 %, the depreciation/amortization expense would increase / decrease respectively by 295 thousand euros (2011: 286 thousand euros).
- The Group has assumed an obligation to construct water and wastewater and storm water pipelines in construction costs of 41 mln euros (2011: 41 mln euros) in 2008-2012. The construction of pipelines is compensated by local government with the grants receivable in 2008-2014. Compensations received from local government are recognised as government grants - compensations received or receivable are deducted from the book value of the constructed pipeline. Any amount exceeding the construction cost of the pipeline is recognized as income upon the completion of construction works. The part of the compensation that is received after the completion of the construction works is recognized in the statement of financial position as a receivable from local government at its present value. Recognition

of the above compensations is dependent on several uncertain circumstances and the estimates of the Management Board, in particular those regarding the total and the fair value of the compensations receivable. In recording income from government grants (Note 20) in these financial statements the best knowledge and estimates of the Management Board of the profit rates of the project have served as the basis for calculation.

As payment of government grant for pipelines will be received until June of 2014 and the exact extent of compensation depends on water consumption, the fair value of compensation receivable is also based on estimates. In the estimates compensation is receivable for 2013-2014 and has been discounted using a rate of 7% (2011: 7%). If the discount rate would be decreased/increased by 50 basis points, the profit of the accounting period would increase/decrease up to 81 thousand euros (2011: up to 198 thousand euros).

- Accounts receivable - for the evaluation of doubtful debts the individual debts are grouped by age and, based on past experience, the following percentages are applied in the doubtful debt calculation:

61 to 90 days over due date	10%;
91 to 180 days over due date	30%;
181 to 360 days over due date	70%;
over 360 days over due date	100%.

Impairment of individually material receivables can differ from the rates above.

NOTE 5. FINANCIAL RISK MANAGEMENT

5.1 FINANCIAL RISK FACTORS

In its business activities the Group is exposed to different financial risks: market risk (including currency risk, price risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

According to the Group's procedures, approved by the Management Board, the financial risk management is carried out by the financial department. Financial department identifies, evaluates and hedges financial risks in co-operation with the Group's operating units.

MARKET RISK

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group's foreign exchange risk is related to purchases done and amounts owed in foreign currencies. Majority of Group's purchases are made in euros. The proportion of purchases in other currencies in 2012 was less than 0.5% (2011: less than 0.5%). Because of the small proportion of transactions in foreign currencies the Group has not taken any special activities to reduce this risk.

On 31 December 2012 the Group's bank accounts balances (including deposits) totalled 23 935 thousand euros (31 December 2011: 14 770 thousand euros) from which no sums were in foreign currencies (31 December 2011: no foreign currencies). There were no other significant exposures to foreign currencies arising from Group's other financial assets and financial liabilities.

Due to the above the Group considers its currency risk level to be low.

Price risk

The Group has no price risk regarding financial instruments because it has no investments into equity instruments.

Cash flow interest rate risk and fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate in the future due to changes in market interest rates. Cash flows interest rate risk is the risk that financial expenses arising from financial liabilities with floating interest rate will increase when interest rates on the market increase.

The Group's interest rate risk arises mostly from long-term borrowings. Borrowings issued at variable interest rates (Note 10) expose the Group to cash flow interest rate risk. The Group's policy is to maintain approximately 75% of its borrowings at fixed rate. In order to mitigate the cash flow interest rate risk, the Group has concluded 5 (2011: 5) floating-to-fixed interest rate swap contracts (Note 12). As of 31 December 2012 the interest rate swap

contracts have the notional amount of 75 mln euros (31 December 2011: 75 mln euros), therefore only borrowings in the amount of 19.9 mln euros (31 December 2011: 19.9 mln euros) remain exposed to the cash flow interest rate risk.

As of 31 December 2012, if the interest rates of the Group's borrowings and interest rate swap contracts had been 50 basis points (31 December 2011: 50 basis points) higher/lower with all other variables held constant, profit for the year would have been EUR 333 thousand (2011: EUR 698 thousand) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings and fair value change of interest rate swaps.

Overnight and fixed term deposits and long-term loan to co-partner have fixed interest rate and therefore expose the Group to fair value interest rate risk. As all these instruments are carried at amortised cost, the change in market interest rates would not have an effect on the financial statements of the Group.

CREDIT RISK

Credit risk expresses potential loss that can arise if counterparty fails to fulfil its contractual obligations. Cash in bank accounts and deposits, financial assets at fair value through profit and loss, trade and other receivables are exposed to credit risk.

According to the Group's risk management policies the Group's short term resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in credit institutions. For fixed term depositing counterparties with at least a long term A rating (by

Moody's) are used. As of 31 December 2012 100% of Group's fixed term deposits were deposited with counterparty with higher rating than A3 (31 December 2011: 100% higher than A3). Starting from Jan 2012 the Group is also monitoring European Banking Authority's recommendations regarding banks' recapitalization needs and

fixed term deposits are opened only in banks with no capitalization shortfall.

The selling of Group's products and services is done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers' payment

discipline is consistently observed. In the case of overdue debt the clients are contacted by Group's Credit group. At the end of December 2012 only one client's (31 December 2011: one client's) receivables (Note 25) exceeded 5% of total trade receivables constituting 47.0% of it (31 December 2011: 46.2%).

as of 31 December 2012			Overdue		
FINANCIAL ASSETS	Balance	Not due	Not impaired (up to 2 months)	Impaired	Impairment
Cash and cash equivalents (Note 6)	23 935	23 935	0	0	0
Trade receivables (Note 7)	10 470	10 353	83	533	-499
Commercial entities	7 278	7 201	51	480	-454
Private persons	3 192	3 152	32	53	-45
Accrued income (Note 7)	21	21	0	0	0
Loan to co-partner (Note 7, 8)	3 916	3 916	0	0	0
Government grant receivable (Note 7, 8, 25)	10 868	10 868	0	0	0
TOTAL	49 210	49 093	83	533	-499

as of 31 December 2011			Overdue		
FINANCIAL ASSETS	Balance	Not due	Not impaired (up to 2 months)	Impaired	Impairment
Cash and cash equivalents (Note 6)	14 770	14 770	0	0	0
Trade receivables (Note 7)	10 808	10 625	150	547	-514
Commercial entities	7 460	7 348	92	401	-381
Private persons	3 348	3 277	58	146	-133
Accrued income (Note 7)	16	16	0	0	0
Loan to co-partner (Note 8)	3 151	3 151	0	0	0
Government grant receivable (Note 7, 8, 25)	15 310	15 310	0	0	0
TOTAL	44 055	43 872	150	547	-514

The Group's maximum credit risk is equal to the carrying amount of the financial assets and is considered to be low.

LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations due to insufficient cash funds or inflows. This risk realizes when the Group doesn't have enough funds to serve its loans, to fulfil its working capital needs, to invest and/or to make declared dividend payments.

In liquidity risk management the Group has taken a prudent view, maintaining sufficient cash balance and short term deposits to be able to fulfil its financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Group.

Financial liabilities in terms of payment (undiscounted amounts):

as of 31 December 2012	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Trade and other payables	2 863	38	0	0	9	2 910
Derivatives	2 039	0	0	2 538	0	4 577
Borrowings (incl finance lease)	78	168	953	55 876	44 038	101 113
TOTAL	4 980	206	953	58 414	44 047	108 600
as of 31 December 2011	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Trade and other payables	2 761	34	0	0	9	2 804
Derivatives	1 552	0	0	2 936	0	4 488
Borrowings	150	301	1 427	84 810	14 628	101 316
TOTAL	4 463	335	1 427	87 746	14 637	108 608

5.2 CAPITAL MANAGEMENT

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern, to be in accordance with Business Plan's capital structure approved by Supervisory Board and the long-term borrowing contracts that limit the Company's equity ratio to a minimum of 35% of the total assets.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (Note 10; including 'current and noncurrent borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents (Note 6). Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

as of 31 December	2012	2011
Borrowings	95 832	94 938
Cash	-23 935	-14 770
NET DEBT	71 897	80 168
EQUITY	84 673	78 875
TOTAL CAPITAL	156 570	159 043
Gearing ratio	45,9%	50,4%
Total assets	200 728	192 069
Proportion of equity to total assets	42,2%	41,1%

5.3 FAIR VALUE ESTIMATION

Fair values of cash and cash equivalents, trade receivable, other long-term receivables, short-term borrowings and trade payable do not vary significantly from their carrying amount because their realization will take place within 12 months or these were recognised close to the balance sheet date.

At the end of 2012 all Group's long-term borrowings had floating interest rates. Because Group's contractual long-term borrowings risk margins were smaller, than market's risk margin currently applicable to the Group, the fair value of its long-term borrowings on 31 December 2012 was 1 240 thousand euros smaller than their carrying amount (31 December 2011: 2 167 thousand euros smaller).

Smaller interest risk margins compared to market situation means that if the Group would like to refinance its long-term borrowings on existing market conditions it would bring along higher interest expenses compared to the existing agreements.

The fair value of financial instruments carried at fair value (interest rate swap contracts, Note 12) has been measured using the inputs other than quoted prices, but observable for the asset or liability either directly or indirectly, i.e. level 2.

NOTE 6. 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

NOTE 7. TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES

as of 31 December	2012	2011
Cash in hand and in bank	10 969	11 322
Short-term deposits	-499	-514
TOTAL CASH AND CASH EQUIVALENTS	10 470	10 808
Allowance for doubtful receivables at the beginning of the period	-514	-1 152
Proceeds from doubtful receivables during the period	150	894
Allowance for doubtful receivables recognised during the period	-319	-480
Receivables written off balance sheet during the period	184	224
Allowance for doubtful receivables at the end of the period	-499	-514

Impairment losses recognised during the period are reported in profit or loss as "Other income (+) / expenses (-)". For further information on ageing of receivables (including overdue receivables), please see Note 5.

as of 31 December	2012	2011
Accrued interest	21	16
Government grant receivables	7 123	8 878
Prepaid expenses	709	143
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	7 853	9 037
TOTAL TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES	18 323	19 845

The Group's current assets (incl. trade receivables, accruals and inventory) in the amount of 18 679 thousand euros (31 December 2011: 20 166 thousand euros) have been pledged as a security for the bank loans (Note 10), as a part of commercial pledge.

NOTE 8. OTHER LONG-TERM RECEIVABLES

as of 31 December	2012	2011
Government grant receivables	3 746	6 432
Loan to co-partner	3 814	3 151
TOTAL OTHER LONG-TERM RECEIVABLES	7 560	9 583

The Group's long term receivables in the amount of 3 746 thousand euros (31 December 2011: 6 432 thousand euros) have been pledged as a security to the bank loans (Note 10), as a part of commercial pledge.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment				Assets in progress			Intangible assets	Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Unfinished pipelines	Unfinished intangible assets	Acquired licenses and other intangible assets	
as of 31 December 2010									
Acquisition cost	24 067	155 727	39 570	1 157	2 216	7 462	119	5 232	235 550
Accumulated depreciation	-4 838	-50 307	-26 120	-755	0	0	0	-3 379	-85 399
Book value	19 229	105 420	13 450	402	2 216	7 462	119	1 853	150 151
Transactions in the period 01 January 2011 - 31 December 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 (Note 13)	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 (Note 19)	-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	238 223
Accumulated depreciation	-5 110	-52 920	-27 837	-808	0	0	0	-4 008	-90 683
Book value	19 137	109 186	12 757	367	2 849	1 677	222	1 355	147 550
Transactions in the period 01 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 (Note 13)	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 (Note 19)	-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 condition of the asset do not enable further usage for production purposes. As of 31 December 2012 the book value of the assets (Machinery and equipment) leased under financial lease is 886 thousand euros (31 December 2011: 0 euros).

The Group's non-current assets in the amount of 14 573 thousand euros (31 December 2011: 13 939 thousand euros) have been pledged as a security for the bank loans (Note 10), as a part of commercial pledge. A mortgage for the Group's non-current assets (land, buildings and facilities) in the book value amount of 32 766 thousand euros (31 December 2011: 32 558 thousand euros) serves as a security to the bank loans (Note 10).

During the year, the Group has capitalised borrowing costs amounting to 57 thousand euros (2011: 86 thousand euros) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 1.39% (2011: 2.13%).

NOTE 10. BORROWINGS

as of 31 December	2012	2011
CURRENT BORROWINGS		
Current portion of long-term finance lease liabilities	115	0
TOTAL CURRENT BORROWINGS	115	0
NON-CURRENT BORROWINGS		
Long-term bank loans	94 919	94 938
Long-term finance lease liabilities	798	0
TOTAL NON-CURRENT BORROWINGS	95 717	94 938
BANK LOANS AT 31 DECEMBER 2012		
Currency EUR (euro)	Balance	Effective interest rate
Borrowings at floating interest rate (based on 1- and 6-month Euribor)	94 919	0.82%-1.55%
Finance lease liabilities	913	2.27%-3.05%
BANK LOANS AT 31 DECEMBER 2011		
Currency EUR (euro)	Balance	Effective interest rate
Borrowings at floating interest rate (based on 1- and 6-month Euribor)	94 938	1.64%-2.24%

In November 2012 the Company renewed its loan agreements in a total amount of 75 000 thousand euros. As a result of the renewal one 37 500 thousand euro loan agreement was prolonged to November 2018 (31 December 2011: November 2013). Company's other loan agreements' due dates were not changed being May 2019 (31 December 2011: May 2019) for 20 000 thousand euros loan agreement and November 2015 (31 December 2011: November 2015) for 37 500 thousand euros loan agreement.

COLLATERAL OF LOANS AND PLEDGED ASSETS		Collateral at book value as of 31 December	
Type of collateral	Specification and location of collateral	2012	2011
Commercial pledge	Movables of the Company (Notes 7, 8, 9)	36 998	40 537
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana road 3, Tallinn, Estonia (Note 9)	32 776	32 558

NOTE 11. TRADE AND OTHER PAYABLES

for the year ended 31 December	2012	2011
Trade payables - operating expenditures	1 743	1 860
Trade payables - capital expenditures	834	568
Payables to related parties (Note 25)	187	194
Payables to employees	869	849
Interest payable	50	76
Other accrued expenses	135	172
Guarantee deposit	28	0
Taxes payable incl:		
Income tax	142	136
VAT	744	733
Water abstraction charges	236	219
Pollution taxes	181	665
Social security tax	284	273
Other	49	44
TOTAL TRADE AND OTHER PAYABLES	5 482	5 789

NOTE 12. DERIVATIVES

Liabilities	Balance amount	Short-term portion	Long-term portion
AS OF 31 DECEMBER 2012			
SWAP contracts	4 577	2 039	2 538
AS OF 31 DECEMBER 2011			
SWAP contracts	4 488	1 552	2 936
as of 31 December		2012	2011
Contracts start date		2010.05 – 2011.11	2010.05 – 2011.11
Contracts maturity date		2013.11 – 2015.11	2013.11 – 2015.11
Contracts notional amount		75 000	75 000

NOTE 13. GOVERNMENT GRANTS

Government grants for assets

Government grants receivable accrued during the financial year for completed constructions of pipelines amounted to 4 429 thousand euros (2011: 16 749 thousand euros). Property, plant and equipment compensated by the government grant amounted to 2 392 thousand euros (2011: 13 270 thousand euros) (Note 9). The remainder of the compensation is recognised in the statement of comprehensive income (Note 20).

NOTE 14. OTHER CONTINGENT LIABILITIES

Tax authority is entitled to check the Group's tax accounting within 6 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. According to the Group's Management Board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Group.

The Group's distributable retained earnings as at 31 December 2012 amounted to 46 661 thousand euros (2011: 40 863 thousand euros). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 12 404 thousand euros (2011: 10 863 thousand euros).

NOTE 15. PREPAYMENTS

as of 31 December	2012	2011
Prepayments for water and sewerage services	76	143
Prepayments for connection fee	2 176	1 003
TOTAL PREPAYMENTS	2 252	1 146

NOTE 16. SHARE CAPITAL

At 31 December 2012 the nominal value of the share capital was 12 000 060 (twelve million and sixty) euros, composed of 20 000 000 (twenty million) A-shares with the nominal value of 0.60 euros (sixty eurocents) per share and 1 (one) preferred B-share with a nominal value of 60 (sixty) euros.

The one B-share has been issued with the right of veto to the shareholder when voting on the following issues: amending the Articles of Association, increase and decrease of share capital, issuance of convertible bonds, acquisition of own (treasury) shares, deciding on the merger, division, transformation and/or dissolution of AS Tallinna Vesi, and, deciding other issues related to the activities of the AS Tallinna Vesi that have not been placed in the sole competence of the General Meeting by law that either the Management Board or the Supervisory Board have put to the vote of the General Meeting. In 2011 and 2012, the B-share granted the holder the preferential right to receive a dividend in an agreed sum of 600 (six hundred) euros.

The General Meeting of the Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. The Management Board does not have any respective authorities.

As of 31 December 2012 and 2011 United Utilities (Tallinn) B.V. owned 7 060 870 (35.3%) A-shares, the City of Tallinn owned 6 939 130 (34.7%) A-shares and 1 (one) B-share, with 6 000 000 shares in free float. Other direct shareholders each owned less than 5% of the shares as of 31 December 2012 and 2011.

As of 31 December 2012 from all Supervisory Board and Management Board members Riina Käi owned 100 and Leho Võrk 179 shares (2011: Siiri Lahe 700 and Leho Võrk 179 shares). Dividends declared and paid are disclosed in note 22.

Contingent income tax on the dividend payments from retained earnings is described in note 14.

NOTE 17. REVENUE

for the year ended 31 December	2012	2011
REVENUES FROM MAIN OPERATING ACTIVITIES		
Total water supply and waste water disposal service, incl:	47 912	46 492
Private clients, incl:	23 789	23 711
Water supply service	13 096	13 072
Waste water disposal service	10 693	10 639
Corporate clients, incl:	18 767	18 234
Water supply service	10 248	9 881
Waste water disposal service	8 519	8 353
Outside service area clients, incl:	4 524	3 789
Water supply service	1 028	901
Waste water disposal service	3 496	2 888
Over pollution fee	832	758
Storm water treatment and disposal service	3 713	3 351
Fire hydrants service	202	221
Other works and services	1 097	1 176
TOTAL REVENUES	52 924	51 240

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

NOTE 18. STAFF COSTS

for the year ended 31 December	2012	2011
Salaries and wages	-5 150	-4 801
Social security and unemployment insurance taxation	-1 718	-1 602
TOTAL STAFF COSTS	-6 868	-6 403
NO. OF EMPLOYEES AT THE END OF REPORTING PERIOD	313	311

NOTE 19. COST OF GOODS SOLD, MARKETING AND ADMINISTRATIVE EXPENSES

for the year ended 31 December	2012	2011
COST OF GOODS SOLD		
Water abstraction charges	-937	-897
Chemicals	-1 631	-1 433
Electricity	-3 695	-2 972
Pollution tax	-347	-1 409
Staff costs (Note 18)	-4 750	-4 390
Depreciation and amortization	-5 167	-5 182
Other costs of goods sold	-3 810	-4 644
TOTAL COST OF GOODS SOLD	-20 337	-20 927
MARKETING EXPENSES		
Staff costs (Note 18)	-373	-349
Depreciation and amortization	-326	-325
Other marketing expenses	-73	-74
TOTAL MARKETING EXPENSES	-772	-748
ADMINISTRATIVE EXPENSES		
Staff costs (Note 18)	-1 745	-1 664
Depreciation and amortization	-295	-222
Other general administration expenses	-2 700	-2 408
TOTAL ADMINISTRATIVE EXPENSES	-4 740	-4 294

NOTE 20. OTHER INCOME / EXPENSES

for the year ended 31 December	2012	2011
Income from government grant	2 037	3 479
Doubtful receivables expenses (-) / expense reduction (+)	-169	414
Other income(+)/expenses(-)	-172	-274
TOTAL OTHER INCOME / EXPENSES	1 696	3 619

NOTE 21. FINANCIAL INCOME AND EXPENSES

for the year ended 31 December	2012	2011
Interest income	1 591	1 947
Interest expense, loan	-1 358	-2 058
Interest expense, swap	-1 851	- 827
Decrease of fair value of swap	-89	-2 221
Other financial income(+)/expenses(-)	1	35
TOTAL FINANCIAL INCOME / EXPENSES	-1 706	-3 124

NOTE 22. 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 23. EARNINGS PER SHARE

for the year ended 31 December	2012	2011
Net profit minus B-share preferred dividend rights	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
Earnings per A share (in euros)	1.13	1.08
Earnings per B share (in euros)	600	600

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

NOTE 24. OPERATING LEASE

for the year ended 31 December	2012	2011
LEASED ASSETS		
Total operating lease expenses for computers and vehicles	319	339
Operating lease (compensated by customers)	770	667
Following period operating lease payments from the non-cancellable contracts are as follows:		
as of 31 December	2012	2011
Less than 1 year	255	230
1-5 years	296	239
TOTAL MINIMUM LEASE PAYMENTS	551	469

The underlying currency of all lease contracts is euro. Leased assets have not been sub-leased.

NOTE 25. 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

as of 31 December	2012	2011
BALANCES RECORDED IN WORKING CAPITAL ON THE STATEMENT OF FINANCIAL POSITION OF THE GROUP		
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
for the year ended 31 December	2012	2011
TRANSACTIONS		
Revenue	3 877	3 535
Government grant receivable for constructing new pipelines	4 429	16 750
Purchase of administrative and consulting services	998	1 001
Financial income	1 226	1 624
SHORT-TERM EMPLOYEE BENEFITS TO MANAGEMENT BOARD (EXCLUDING SOCIAL TAX)	326	246
SUPERVISORY BOARD FEES (EXCLUDING SOCIAL TAX)	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 recorded on line "Purchase of administrative and consulting services".

In 2012 45 thousand euros was paid to Management Board members as termination fees (2011: 0 euros). The off balance sheet potential salary liability would be up to 90 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Market prices were checked and used in the transactions with related parties. The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 16.

Paid-up dividends are described in note 22.

NOTE 26. SUBSIDIARIES

Holding (%), as of 31 December				
Subsidiary	Location	Activity	2012	2011
Watercom OÜ	Tallinn, Estonia	Provision of non-core services related to water business	100	100

AS Tallinna Vesi registered its subsidiary Watercom OÜ on 25th May 2010.

NOTE 27. SUPPLEMENTARY DISCLOSURES ON THE PARENT COMPANY OF THE GROUP

Pursuant to the Accounting Act of the Republic of Estonia, information of the unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company the same accounting policies have been used as in preparing the consolidated financial statements. The accounting policy for reporting subsidiaries has been amended in the separate primary financial statements disclosed as supplementary information in the Annual Report in conjunction with IAS 27, Consolidated and Separate Financial Statements.

In the parent separate primary financial statements, disclosed to these consolidated financial statements (Supplementary disclosures), investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

THE SEPARATE REPORTS ON THE PARENT COMPANY

According to the Estonian Accounting Law, the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

Statement of financial position

as of 31 December	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	23 354	14 442
Trade receivables, accrued income and prepaid expenses	18 246	19 702
Receivables from subsidiary	35	98
Inventories	353	321
TOTAL CURRENT ASSETS	41 988	34 563
NON-CURRENT ASSETS		
Other long-term receivables	7 559	9 583
Investment in subsidiary	527	527
Property, plant and equipment	149 133	146 255
Intangible assets	1 087	1 577
TOTAL NON-CURRENT ASSETS	158 306	157 942
TOTAL ASSETS	200 294	192 505

Statement of financial position

as of 31 December	2012	2011
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current portion of long-term borrowings	19	0
Trade and other payables	4 486	5 238
Derivatives	2 039	1 552
Payables to subsidiary	1 369	622
Prepayments and deferred income	2 221	1 082
TOTAL CURRENT LIABILITIES	10 134	8 494
NON-CURRENT LIABILITIES		
Deferred income from connection fees	7 892	6 824
Borrowings	94 953	94 939
Derivatives	2 538	2 936
Other payables	9	9
TOTAL NON-CURRENT LIABILITIES	105 392	104 708
TOTAL LIABILITIES	115 526	113 202
EQUITY		
Share capital	12 000	12 000
Share premium	24 734	24 734
Statutory legal reserve	1 278	1 278
Retained earnings	46 756	41 291
TOTAL EQUITY	84 768	79 303
TOTAL LIABILITIES AND EQUITY	200 294	192 505

Statement of comprehensive income

for the year ended 31 December	2012	2011
Revenue	52 437	50 669
Costs of goods sold	-20 014	-20 196
GROSS PROFIT	32 423	30 473
Marketing expenses	-731	-673
General administration expenses	-4 553	-4 186
Other income(+)/ expenses (-)	1 291	3 593
OPERATING PROFIT	28 430	29 207
Financial income	1 587	1 986
Net financial expenses	-3 285	-5 106
PROFIT BEFORE TAXES	26 732	26 087
Income tax on dividends	-4 466	-4 253
NET PROFIT FOR THE PERIOD	22 266	21 834
COMPREHENSIVE INCOME FOR THE PERIOD	22 266	21 834
Attributable profit to:		
Equity holders of A-shares	22 265	21 833
B-share holder	0.60	0.60
Earnings per A share (in euros)	1.11	1.09
Earnings per B share (in euros)	600	600

Cash flow statement

for the year ended 31 December	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	28 431	29 207
Adjustment for depreciation/amortisation	5 786	5 675
Adjustment for income from government grants and connection fees	-2 043	-3 432
Other finance income(+)/expenses(-)	0	35
Other non-cash adjustments	7	0
Profit (-)/loss(+) from sale and write off of property, plant and equipment, and intangible assets	30	66
Change in current assets involved in operating activities	-262	671
Change in liabilities involved in operating activities	-10	1 354
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	31 939	33 576
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans granted	-765	-3 151
Acquisition of property, plant and equipment, and intangible assets	-10 530	-19 010
Compensations received for construction of pipelines	11 198	11 284
Proceeds from sale of property, plant and equipment, and intangible assets	2	12
Interest received	1 581	1 943
TOTAL CASH FLOW USED IN INVESTING ACTIVITIES	1 486	-8 922
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid and loan financing costs	-3 242	-3 051
Repayment of finance lease	-4	0
Dividends paid	-16 801	-16 001
Income tax on dividends	-4 466	-4 253
TOTAL CASH FLOW USED IN FINANCING ACTIVITIES	-24 513	-23 305
CHANGE IN CASH AND CASH EQUIVALENTS	8 912	1 349
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14 442	13 093
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	23 354	14 442

Statement of changes in equity

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
AS OF 31 DECEMBER 2010	12 782	24 734	1 278	34 676	73 470
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	21 834	21 834
AS OF 31 DECEMBER 2011	12 000	24 734	1 278	41 291	79 303
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	99
ADJUSTED UNCONSOLIDATED EQUITY AS OF 31 DECEMBER 2011	12 000	24 734	1 278	41 291	78 875
AS OF 31 DECEMBER 2011	12 000	24 734	1 278	41 291	79 303
Dividends	0	0	0	-16 801	-16 801
Comprehensive income for the period	0	0	0	22 266	22 266
AS OF 31 DECEMBER 2012	12 000	24 734	1 278	46 756	84 768
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	432
ADJUSTED UNCONSOLIDATED EQUITY AS OF 31 DECEMBER 2012	12 000	24 734	1 278	46 756	84 673

Confirmation of the management and supervisory boards _____

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 25 February 2013. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report and the financial statements, the Management Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

The annual report has signed by all the members of the Management Board and Supervisory Board.



Ian John Alexander Plenderleith
Chairman of the Management Board
25.02.2013



Leho Võrk
Member of the Management Board
25.02.2013



Aleksandr Timofejev
Member of the Management Board
25.02.2013



Riina Käi
Member of the Management Board
25.02.2013



Ilona Nurmela
Member of the Management Board
25.02.2013



Robert John Gallienne
Chairman of the Supervisory Board
22.03.2013



Steven Richard Fraser
Member of the Supervisory Board
22.03.2013



Simon Gardiner
Member of the Supervisory Board
22.03.2013



Brendan Francis Murphy
Member of the Supervisory Board
22.03.2013



Mart Mägi
Member of the Supervisory Board
22.03.2013



Rein Ratas
Member of the Supervisory Board
22.03.2013



Toivo Tootsen
Member of the Supervisory Board
22.03.2013



Valdur Laid
Member of the Supervisory Board
22.03.2013



Priit Lello
Member of the Supervisory Board
22.03.2013

Independent auditor's report

Translation of the Estonian original*

TO THE SHAREHOLDERS OF AS TALLINNA VESI

We have audited the accompanying consolidated financial statements of AS Tallinna Vesi and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT BOARD'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Tallinna Vesi and its subsidiary as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

EMPHASIS OF MATTER

We draw attention to Note 3 to these consolidated financial statements, which describes the uncertainty related to the outcome of the lawsuit between AS Tallinna Vesi and Estonian Competition Authority. Our opinion is not qualified in respect of this matter.



AS PricewaterhouseCoopers
Pärnu mnt 15, 10141 Tallinn, Estonia; Audit Company's registration No. 6
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

A handwritten signature in blue ink, appearing to read 'Tiit Raimla'.

Tiit Raimla
Auditor's Certificate No.287
25.02.2013

A handwritten signature in blue ink, appearing to read 'Stan Nahkor'.

Stan Nahkor
Auditor's Certificate No.508
25.02.2013

**This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

AS Tallinna Vesi management board and supervisory council 2012



Ian Plenderleith

Chief Executive Officer, Chairman of the Management

Board of the Company from 1 October 2008. He worked for AS Tallinna Vesi as Chief Commercial Officer from October 2004 until August 2007. Between September 2007 and September 2008 he worked as the Finance Partner for the Business Development and International Division of United Utilities. He has over 15 years experience in a variety of financial roles within the Utilities sector both in the UK and internationally. He is a member of the Chartered Institute of Management Accountants. He does not own any shares in AS Tallinna Vesi.



Leho Võrk

Customer Operations Director

Leho Võrk has been working in various positions in AS Tallinna Vesi since 1992. Starting from 2005 he has been a member of the Executive Team of the company and has participated in the development and implementation of several strategic decisions. Leho Võrk holds a master's degree in engineering from the Estonian Agricultural University. He owns 179 shares in AS Tallinna Vesi.



Riina Kãi

Chief Financial Officer

Riina Kãi started working as a Chief Financial Officer and a member of the Management Board of AS Tallinna Vesi from the end of October 2012. Previously she has gained broad work experience in financial accounting and -management. She has worked as a development manager, financial manager, financial controller, financial auditor and as a chief accountant in different companies. Riina holds bachelors degree (specialisation to Financial accounting and -management) as well as Marster's degree of Economic Sciences from Tallinn University of Technology. Riina is also a member of ACCA (Association of Chartered Certified Accountants) since 2009. She owns 100 shares in AS Tallinna Vesi.



Aleksandr Timofejev

Asset Operations Director

Aleksandr Timofejev has been working on various positions in AS Tallinna Vesi since 2007. Starting from 2011 he has been a member of Executive Team of the Company and has participated in the development and implementation of several strategic decisions. Aleksandr Timofejev holds a master's degree from Tallinn University of Technology in environmental technology, specialising in water technology. He does not own any shares in AS Tallinna Vesi.

UNITED UTILITIES REPRESENTATIVES:



Robert John Gallienne
Chairman of the Supervisory Council

Nominated by the United Utilities Group and elected at the AGM of May 23rd 2006 to the Supervisory Council of AS Tallinna Vesi from July 2nd 2006 and has been re-elected for several consecutive terms in office, lately on May 18th 2010. Robert Gallienne has served as the CEO and Chairman of the Management Board of AS Tallinna Vesi between April 2002 and June 2006. Prior to this Mr Gallienne held the position of Managing Director in Sofyiska Voda and Group Customer Services Director of Manila Water in the Philippines. He has over 26 years' experience in senior management positions in the water industry in both, England and overseas. Robert John Gallienne does not own any shares in AS Tallinna Vesi.



Ilona Nurmela
General Counsel

Ilona Nurmela has a diverse background - she has worked as an attorney-in-law in Estonia, taught at the University of Tartu, worked at a London management consultancy firm and from 2013 she is on the Board of Baltic Institute of Corporate Governance as well as an accredited CEDR mediator. Ms. Nurmela is a member of the Estonian Bar Association and the founding member of Estonian Moot Court Society. Ilona Nurmela holds a PhD in law from the University of Cambridge. As General Counsel and member of AS Tallinna Vesi's Management Board, Ms. Nurmela is responsible of overseeing compliance and corporate governance. She does not own any shares in AS Tallinna Vesi.



Simon Roger Gardiner
Member of the Supervisory Council

Nominated by the United Utilities Group and elected at the AGM of December 14th 2010. Simon Gardiner is the General Counsel and Company Secretary of United Utilities Group PLC. He was previously Head of Legal Group Legal Manager at United Utilities Group PLC and in 1994-1999 he was an Associate at Law Office Osborne Clarke Solicitors. Mr Gardiner is a solicitor as of 1996. Simon Roger Gardiner does not own any shares in AS Tallinna Vesi.

TALLINN CITY REPRESENTATIVES:



Steven Richard Fraser
Member of the Supervisory Council

Appointed by the United Utilities Group to the Supervisory Council of AS Tallinna Vesi on January 21st 2012. Steven Fraser is the Managing Director of United Utilities. He has previously worked for Ryan Utility Services Ltd and Bethell Power Services before joining United Utilities in 2005 in an Operations Director's role. Mr Fraser holds a MSC in Engineering Project Management and a BA (with honors) in Business Management. Steven Richard Fraser does not own any shares in AS Tallinna Vesi.



Rein Ratas
Member of the Supervisory Council

Nominated by the City of Tallinn and elected at the EGM of November 22nd 2005 and has been re-elected for several consecutive times in office, lately on May 18th 2010. Rein Ratas is the environmental councillor and certificated expert. He has a PhD in the field of ecology from the University of Tartu. He is teaching environmental subjects at the Euroacademy in Tallinn. He is the member of Tallinn City Council. Rein Ratas does not own any shares in AS Tallinna Vesi.



Brendan Francis Murphy
Member of the Supervisory Council

Appointed by the United Utilities Group to the Supervisory Council of AS Tallinna Vesi on October 27th 2011. Brendan Murphy is the Head of Treasury at United Utilities Group PLC, responsible for managing all aspects of the group's treasury activities. As an experienced treasury professional he has strong technical skills across all aspects of treasury activities including: financing and capital structure strategies; extensive knowledge of debt capital markets; management of corporate financial risks and associated hedging; transaction execution management; and financial analysis skills. Mr Murphy qualified as an Associate of the Chartered Institute of Bankers in England and Wales with Barclays prior to joining United Utilities and is a qualified member of the Association of Corporate Treasurers. Brendan Francis Murphy does not own any shares in AS Tallinna Vesi.



Toivo Tootsen
Member of the Supervisory Council

Appointed to the Supervisory Council of AS Tallinna Vesi by the City of Tallinn from April 7th 2011. Toivo Tootsen is a member of Tallinn City Council and a former member of parliament. He has graduated from Tartu University with a degree in Estonian literature and holds a degree in stage production from Tallinn Pedagogical Institute. Toivo Tootsen does not own any shares in AS Tallinna Vesi.

INDEPENDENT MEMBERS:



Priit Lello
Member of the Supervisory Council

Appointed to the Supervisory Council of AS Tallinna Vesi by the City of Tallinn from November 16th 2011. Priit Lello is the Legal Director of the City of Tallinn, managing the legal services of and coordinating the legal issues of the City of Tallinn. Mr Lello has extensive experience in public law, in various sectors of private law, including law of obligations, judicial proceedings, including matters related to constitutional review. Since 1997, Mr Lello has been working as a lawyer, holding various positions within the City of Tallinn and has been providing legal consultations both to City Government as well as to City offices, organising the legal regulation of areas of importance to the City of Tallinn. Priit Lello is also a Member of the Industrial Property Committee. Priit Lello does not own any shares in AS Tallinna Vesi.



Mart Mägi
Member of the Supervisory Council

Mart Mägi was elected as the independent member of the Supervisory Council at the EGM of November 23rd 2007 and has been re-elected for several consecutive times in office, lately on May 18th 2010. Since 2008 Mart Mägi has been working as the Managing Director of the Amserv Grupp AS. Mart Mägi has extensive knowledge and experience in finance and business. He has an MBA degree in Insurance and Banking from the University of Insurance and Banking in Warsaw and in Banking and Finance from the University of Tartu. Mart Mägi does not own any shares in AS Tallinna Vesi.



Valdur Laid

Member of the Supervisory Council

Valdur Laid was elected as the independent member of the Supervisory Council at the EGM of November 22nd 2005 and has been re-elected for several consecutive times in office, lately on May 18th 2010. As of 2012 Mr Laid holds the position of Head BU Finland, Broadband Services at TeliaSonera. Since 2004 to 2012 Valdur Laid held the position of CEO in Elion, the largest telecom company in Estonia. He joined Elion in 2002 as the CFO and Member of the Management Board. Prior to Elion, Valdur Laid was employed by the Bank of Estonia, holding different managerial positions for 9 years. In 1999 – 2000 he served as an Executive Director and Member of the Management Board of the Bank of Estonia. Valdur Laid has an MBA degree from the International Institute of Management Development in Lausanne, Switzerland. Valdur Laid does not own any shares in AS Tallinna Vesi.

AS Tallinna Vesi's dividend policy is to deliver the real increase in dividends y-o-y.

ADDITIONAL INFORMATION TO THE SHAREHOLDERS:

Riina Käi
Chief Financial Officer
Ädala 10, Tallinn 10614
Phone: 62 62 200
Fax: 62 62 300
E-mail: riina.kai@tvesi.ee

