



2013



*Dear reader,*

*This book provides an overview of the our activities and performance in 2013. More detailed information is available in the environmental report attached to this book in an electronic form. To find out more about what we do, please visit our homepage [www.tallinnavesi.ee](http://www.tallinnavesi.ee)*

*The Annual Report is illustrated with the photographs of our staff, who pass on our shared values and activities.*

## 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	<i>We work with passion, doing the maximum to achieve the objectives.</i>
CUSTOMER FOCUS	<i>Our actions help our customers and colleagues to find solutions.</i>
TEAMWORK	<i>We all form one team whose success depends on me and my colleague's contribution.</i>
CREATIVITY	<i>We have the courage and the energy to seek for new opportunities and achieve better solutions.</i>
PROACTIVITY	<i>Act today for a better tomorrow.</i>

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



## ANNUAL REPORT

General facts	6
Chairman's statement	8
Highlights of 2013	10
Aasta 2013 numbrites	14
Delivery of 2013 objectives	16
Objectives for 2014	17
Management system	18
Drinking water	19
Wastewater treatment	22
Our customers	24
Our team	28
Our community	31
Our environment	33
Our compliance	34
Watercom and business development	36
Annual accounts	38



*Urmas Muinasmaa*  
Head of Laboratories

We provide services to more than

**22 000**  
customers and

**400 000**  
end users.



The surface water catchment area of ca

**1800 km<sup>2</sup>**

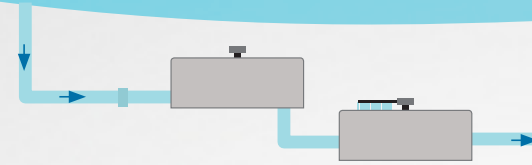
is located in Harju and Järva counties.



Our water laboratories  
carry out almost

**140 000**

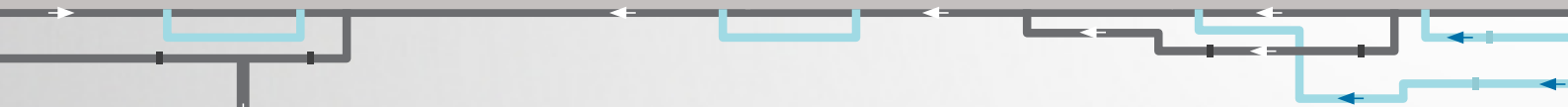
analyses each year.



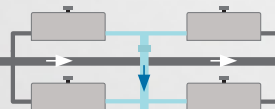
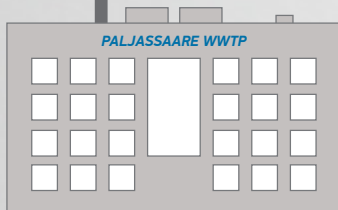
The public water supply  
network consists of over

**1100 km-s**

of water pipelines.



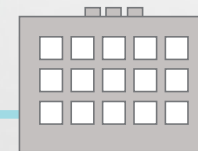
We treat wastewater using  
**environmentally friendly**  
and modern technologies.



Our **shares** are listed on  
the main list of Tallinn  
Stock Exchange.



**Effluent gone through a thorough  
treatment process is pumped**  
into Tallinn Bay through deep-sea  
outlet at 3 km-s from the coastline.



Approximately **90%** of drinking water is produced from surface water.

Almost  
**60 000 m<sup>3</sup>**  
of water is treated in the  
water treatment plant in a  
twenty-four hour period.

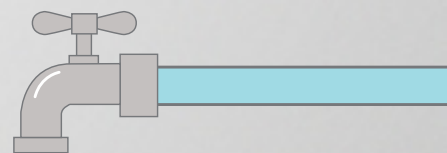
Our consumer uses almost  
**95 litres of water**  
in a twenty-four hour period.

Our team  
consists of a  
little more than  
**300**  
employees.



The public sewerage system consists of  
almost **1 100 km**  
of wastewater pipelines and  
**450 km**  
of storm water network.

Our subsidiary company  
**OÜ Watercom** provides services  
related with water supply and  
sewerage system.



The quality of drinking  
water complies  
with all requirements.  
**Tap water  
IS drinking  
water.**



*In 2013, the challenge we set for ourselves was to continue to deliver improvements from the “best in Baltics” standards we were already achieving. I am very proud to state that in most areas we have managed to improve our performance levels still further. This is due to efforts of our people and teams who have once again delivered an excellent standard of service across the entire water and wastewater value chain.*

## *Operations performance – best ever water quality*

*It is imperative that we meet or exceed the levels of services in the contract we signed with the City of Tallinn in 2001. 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.*

*We are especially proud of our water quality compliance. In 2013 we achieved our best ever standards for water quality, with 99.7% of all samples being compliant with EU standards. To put this into context, during the year we took 2965 samples at the customers' tap, and of these only 9 did not meet the required standards.*

*This high quality product and service has been recognised by our customers. From the results of our 2013 customer satisfaction survey 75% of respondents said they regularly drank tap water, compared with only 48% in 2011. Thanks to the quality of our product and the quality of our commu-*

*nications, more and more of our customers trust the quality of the service we are providing.*

## *Excellent customer service – one of Europe's best performing utilities for service performance*

*This year we achieved a customer satisfaction rating of 79, as measured by the TR\*M index. Whilst this is down on last year's record high of 85 it is still significantly above the average for European Utilities and is very close to the top 10% for all European manufacturing companies. This is an excellent outcome and is a good reflection of the hard work we have done to improve all aspects of our service.*

*In addition to the improvements in the quality of our water and wastewater, we continue to reduce the customer risks related to potential flooding and pollution by making preventative improvements in the performance of our networks. For example in 2013 the number of sewer blockages decreased by 20% compared to the average of the last four years. The level of leakages is decreasing year-on-year due to our investments and preventative actions. In the water network, compared to the period prior to privatisation in 2001 we are saving approximately 13 000 m<sup>3</sup> of treated drinking water a day. Finally we have supplemented this improving operational performance with improved customer communications, in 2013 97% of all clients were informed prior to an interruption to supply.*

## *Our people and teams*

*The key to any company's success are the people. Our teams have worked “hard and smart” in order to deliver the highest levels of service to our customers. I would very much like to thank all of our people for their dedication and flexibility during the year.*

*A committed, capable and motivated workforce is central to delivering our objectives and we remain fully focused on maintaining high levels of employee development and engagement. We are always looking to develop our people and teams. In 2013 we commenced work a programme of activities to enable our managers to collaborate more effectively and develop themselves personally.*

*We strive to continuously improve our safety culture. 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 2013, 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 the future.*

## *Responsible company*

*We acknowledge that by providing a service compliant with all requirements, we influence the quality of life of the citizens of Tallinn, neighboring municipalities as*

well as the wider environment in and around the Baltic Sea. This means that our management practices take into account the impact we have on our living environment, and our associations with different stakeholder interests. Our responsibility to all our stakeholder groups, including the environment is a key reason for our ongoing business improvement.

Not only do we aim to do the right things for our stakeholders, we also want to manage our business in the right way by operating to the highest standards of corporate governance. In 2013, we were awarded the Best Investor Relations of all the companies on the NASDAQ OMX Exchanges in all three Baltic Countries. This is the first time an Estonian company has won this award, which is a great honour for ourselves and Estonia. I would like to take this opportunity to thank the NASDAQ OMX in Tallinn and the bank analysts who have worked with us to help improve the quality of our interactions with the investment community.

### *Still attractive for shareholders*

We believe our operational and financial performance still makes us an attractive investment for current and future shareholders. We will continue to work hard in our court dispute to ensure that the privatisation contract is respected. Beyond this we will continue to invest in our people and systems to ensure we are well placed to grow across the region if and when the opportunity arises.

For the 2013 financial year our total revenues increased slightly by 0.3% year on year to 53.1m Euros, mainly due to an increase in non-regulated revenues from our subsidiary business Watercom OÜ. However our EPS reduced by 12% year on year to 1.00 Euro per share primarily due to the finishing of the sewerage extension programme that caused a significant reduction in the profit from government grants.

In June 2013 we paid a dividend of 0.87 cents per share, an increase of 3.6% year on year. This is in accordance with our dividend policy, which is to increase dividends by a minimum of CPI each year. We are committed to delivering this dividend policy across the lifetime of the contract, while making further improvements for our customers and the environment.

### *Outlook*

Given the lack of progress in our court cases, and the lack of transparent regulatory practice, the outlook for the company remains very uncertain. The Estonian authorities have been unwilling to enter into any meaningful discussions over the privatisation contracts, therefore it appears that the company will be engaged in a long court process that could last a number of years. This ongoing dispute and the unstable regulatory environment severely limit our growth opportunities. As such our primary focus in 2014 will be to improve performance and efficiency in

our main services area in Tallinn. We are committed to retain our place as the leading water and wastewater company in the Baltic region, and we fully understand that we can only keep this position by not resting on past performance and achievements.

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 during the past year. It is because of all your efforts that we are able to report a level of operating and service performance that is second to none. I look forward to our continuing success in the year ahead.

*Ian Plenderleith*  
Chief Executive Officer







*Nasdaq OMX awarded AS Tallinna Vesi as the best company for Investor Relations in the Baltic states. This is the first time an Estonian company has won such a reputable award.*

*The quality of tap water continues to be on the level of Western-Europe countries and people are safe to drink it. In 2013, the quality of tap water was better than ever before. 99.7% of water samples taken at the customers' taps throughout the year complied with the legal quality requirements.*



*The Responsible Business Forum awarded the Company with the silver mark for a responsible and socially as well as environmentally sustainable business in 2013.*



*The people living in Maardu are also supplied with a good quality drinking water – 99.3% of the water samples taken in Maardu complied with all requirements. Before connecting to the Tallinn water network, the drinking water in Maardu was only 33% compliant with the quality standards.*

*We continued to work on improving the awareness of the population on the quality of tap water also in 2013 by carrying out the campaign "Tap water IS drinking water". In 2013, 75% of the residents used tap water for drinking. Two years ago, in 2011, only 48% trusted the quality of tap water.*



*We consistently focus on ensuring a pure marine environment. The quality of treated effluent complied with all quality parameters also in 2013.*

*We deem it important to be a good employer to our staff. In 2013, the commitment and satisfaction of our employees was higher than the Estonian and European average of manufacturing and service companies.*





*Our focus continues to lie on the risks related to potential flooding and pollution. In 2013, there were 20% less sewer blockages than the average of the last four years.*

*It is essential to ensure the availability of services for the population 24h. Therefore we focus on increasing the security of supply. For example, the number of customer inquiries related to pressure has reduced by almost 30% over a year and the number of complaints has also decreased. This shows that our customers can rely on us.*



*Our customer relationships continue to be strong in all segments. Compared to the other European utility companies the quality of our customer relationship can continue to be rated as very good.*

*2013 attracted approximately 3000 visitors to the water treatment plant and wastewater treatment plant.*







*In order to explain water circulation and the need for environmental protection to children we continued our cooperation with educational institutions. In 2013, environmental knowledge was shared with over 2000 children in kindergartens and schools.*

*Leakage level has been reducing year-on-year. In 2013, the level of leakages was at 16.98%. Around 10 years ago the leakage level was over 32% meaning that over 13,000 m<sup>3</sup> of treated drinking water is currently saved on a daily basis.*



*Det Norske Veritas confirmed the compliance of the management systems of AS Tallinna Vesi and our subsidiary OÜ Watercom with ISO 9001, ISO 14000 and OHSAS 18001 standards.*

*Compliance with the EMAS (Eco-Management Audit Scheme) requirements was confirmed as well.*

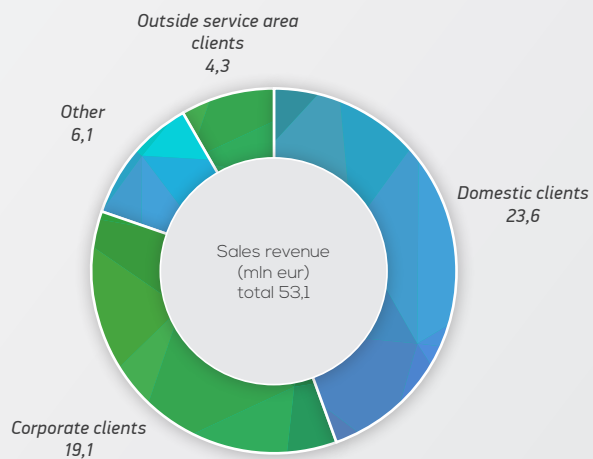


## OPERATIONAL RESULTS

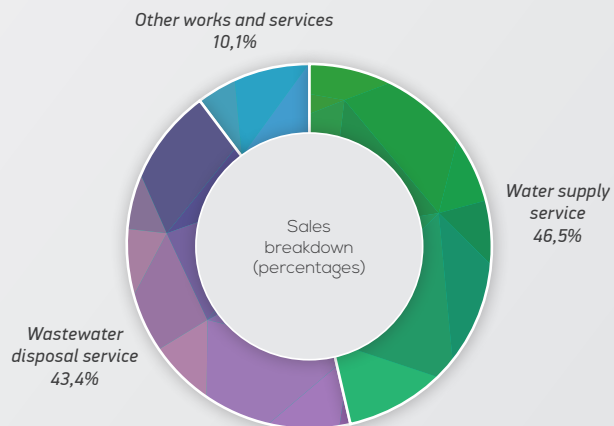
Indicator	2001	2009	2012	2013
<b>Drinking water</b>				
Compliance of water quality at the customers tap	63,3	99,3	99,55 %	99,70 %
Water loss in the water distribution network	32,4	17,25	15,86%	16,98 %
Keskmine veekatkestuse kestvus kinnistu kohta tundides	5,0	3,8	3,42 h	3,46 h
<b>Wastewater</b>				
Number of sewer blockages	2080	1089	715	762
Number of sewer bursts	144	188	120	139
Number of customer contacts regarding blockages and storm water	-	3772	1651	1405
Wastewater treatment compliance with environmental standards, %	-	100	100	100
<b>Customer service</b>				
Number of written complaints	-	280	152	118
Number of customer contacts regarding water quality	-	424	239	252
Number of customer contacts regarding water pressure	-	1239	736	576
Responding written customer contacts within at least 2 work days, %	-	-	98,5	99,1
Number of failed promises	-	-	19	117
Notification of unplanned water interruptions at least 1 h before the interruption, %	-	-	89	96,9

## FINANCIAL RESULTS

Million euros	2007	2012	2013
Sales	41,4	52,9	53,1
Gross profit	27,6	32,6	30,6
Operating profit	24,1	28,8	24,8
Profit before taxes	21,3	27,1	24,6
Net profit	17,8	22,6	19,9
Gross profit margin %	66,6	61,6	57,6
Operating profit margin %	58,2	54,4	46,6
Profit before taxes margin %	51,4	51,1	46,3
ROA %	10,9	11,3	9,8
ROE %	22,5	26,7	22,9
Return on invested capital (real) %	6,6	6,6	5,7



## SALES REVENUE



	2013 results	Objective in 2013	Current situation compared to objective
<b>Customer service</b>			
Customer satisfaction with service in the results of external services TRI*M is 10% higher than EMI	79	68	achieved
Customer satisfaction of ASTV problem solving in the results of internal services to be higher than 3,2 points out of 4	3,42	>3,2	achieved
The number of written customer complaints is less than 135 (i.e. reduction of 10%)	118	<135	achieved
To reduce the number of responses with ranking of 1 on questions asked during the Customer Satisfaction Survey to be less than 7,5%	6%	<7,5%	achieved
<b>Operational performance</b>			
0 non-compliances resulting from LoS (except WS7), environmental and health requirements, as well as legislation	1	0	not achieved
Reduced number of customer contacts related to water quality 10%	252	<215	not achieved
Reduced number of customer contacts related to floodings/blockages 9%	1405	<1500	achieved
Reduced number of customer contacts related to water interruptions and pressure 10%	3289	<3000	not achieved
<b>People</b>			
Employee recommendation index $\geq 3,6$	3,4	>3,6	not achieved
EOS survey results is 10 points above the Estonian average	66	73	not achieved
0 work accidents that the Employer is liable for	0	0	achieved
Number of days of short term sickness	609	<1200	achieved
<b>Financial performance</b>			
Achieve water production cost per m <sup>3</sup> as budgeted	0,202	0,211	achieved
Reduce the cost per m <sup>3</sup> for wastewater treated by 1% compared to budget	0,28	0,231	not achieved
External revenues higher than 3,3 m €	3,28 m €	>3,3 m €	not achieved
Other fixed costs, excluding WTP and WWTP fixed costs, to be kept at the budgeted level	11 110 th €	9 685 th €	not achieved



## CUSTOMER SERVICE

*Customer satisfaction with our service is higher than the European average*  
(measure: TRI\*M is 10% higher than the EMI).

*Number of complaints is decreased*  
(measure: the number of complaints is less than 120).



## OPERATIONAL PERFORMANCE

*The Company's daily operation is in compliance with the high LoS requirements*  
(measure: 0 non-compliances, except LoS WS7).

*The main operational results are under control and objectives achieved*  
(measure: % of leakages does not exceed 17,5%;  
compliance with the WWTP's output requirements is 100%;  
drinking water's quality is at least 99,31%.)



## PEOPLE

*Employee commitment is high*  
(measure: minimum 64 points, i.e. 5 points higher than the European average).

*No work accidents*  
(measure: 0 work accidents that the Employer is liable for).



## FINANCIAL PERFORMANCE

*Increase in earnings before interest and taxes*  
(measure: business profit is 26 304 000 EUR).



**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

**CHECK**

- Monitoring and measuring of activities
- Carrying out internal audits

**IMPROVE**

- Improving plans and activities
- Preventing problems
- Solving problems

We have integrated the requirements from various management system standards into our management system, 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.



Helen Innos  
Accountant

# Drinking water

Water is definitely one of the most precious natural resources. The availability of pure drinking water is of critical importance for people. We understand our responsibility in supplying good quality drinking water to the population and give our best to protect the surrounding natural 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-European countries for several years already. 2013 was not different from the earlier years in terms of quality. So far the best ever result of 99.70% of all water samples being compliant means that we detected non-compliances only in 9 samples of the total of 2 965 samples taken from consumers' taps in 2013. Non-compliances were mostly related to higher turbidity and concentration of iron due to the conditions of the water network. We immediately reacted on all non-compliances.

Since 2013, Maardu population is also supplied with drinking water from Lake Ülemiste. The samples taken in Maardu complied with the standards by 99.31%. Before the connection with the Tallinn water network the drinking water supplied to the residents in Maardu only complied 33% with the quality standards.

## Strict quality control

The quality of drinking water is subject to strict legal requirements and we have

also agreed additional quality standards in the levels of service within the Services Agreement concluded with the City of Tallinn. In terms of water quality 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 including kindergartens, schools and other 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 water 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 con-

sists 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 largest 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 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 the treatment scheme widely used worldwide. 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

THE COMPLIANCE OF DRINKING WATER HAS SIGNIFICANTLY IMPROVED OVER A DECADE

2001	2010	2011	2012	2013
63.3%	99.6%	99.7%	99.6%	99.7%

safe for human health, but extremely effective for protecting water against bacteria during its journey through the network up to the consumer's tap.

Surface water quality

Lake Ülemiste is the drinking water source for more than 400,000 people living in Tallinn and its nearest surroundings. Almost 90% of our consumers in Tallinn (City Centre, Lasnamäe, Mustamäe, Northern-Tallinn, Kristiine, Haabersti), City of Maardu and Pirita settlement are supplied with drinking water produced out of 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 analyse 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 2013. The areas supplied with ground water are Nõmme, Laagri, Merivälja, Pirita and Tiskre. Also Harku Rural Municipality as well as the City of Saue, 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 drinking 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.

Security of supply and quality

It is essential for the residents to have a good quality service available 24/7. We focus on the continuous improvement of the security of our supply and service.

Water quality at the consumer's tap is not impacted solely by the age of the network. The water network must be properly maintained in a timely manner and repaired if it has been deemed necessary. We reconstructed 5.3 km of water network in 2013. We are constantly carrying out maintenance and renewal works on the networks in order to maintain and improve drinking water quality. We clean and flush the network regularly to ensure the supply of high quality drinking water to our consumers. This way sediments get removed from the inner surface of pipes, which is one of the most important methods of improving water quality in the distribution network. In 2013, we carried out air scouring on 140 km of the water network.

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. Compared to the situation ten years ago we save almost 13,000 m³ of treated drinking water a day.

LEVEL OF LEAKAGES IN THE YEARS 2009 – 2013

2001	2010	2011	2012	2013
63.3%	99.6%	99.7%	99.6%	99.7%





Anne Tamm  
Logistics Manager, OÜ Watercom

### *Treatment of wastewater*

We provide the service of wastewater discharge to almost 1/3 of Estonian population. In order to ensure compliance with environmental requirements and cleanliness of the Baltic Sea and the Gulf of Finland, Paljassaare wastewater treatment plant removes more and more pollutants from wastewater each year. The wastewater treatment plant uses environmentally friendly and modern technologies to treat wastewater collected from Tallinn and its surrounding areas. Similarly to the previous years, the quality of treated effluent was in compliance with all the set requirements in 2013.

*Endel Kiivramees  
Driver*

As a result of investments made in Paljassaare wastewater treatment plant, Tallinn was removed from the list of environmentally hazardous cities determined by the environmental agreement of the Baltic Marine Environment Protection Commission (HELCOM). In 2013, our wastewater treatment indicators were in compliance with the requirements established by HELCOM as well as with those arising from the legislation. Thanks to our good day-to-day operation, efficient dosing of chemicals and additional treatment stage launched in 2011, biofilter, we achieved full compliance of the quality of effluent disposed from the wastewater treatment plant with legislative requirements in all four quarters of 2013. We continue to invest in the assets of the wastewater treatment plant in order to improve the quality of effluent which has gone through the treatment process and is disposed to the Gulf of Finland.

As by-product of wastewater treatment, residual sludge is generated, the entire volume of which is re-used. Residual sludge is processed into soil conditioner which is used in landscaping and horticulture.

### Cleaner living environment

Our focus continues to lie on prevention and reduction of risks related to potential floodings and pollution. The number of blockages is the main indicator for the condition of the sewerage network. Blockages are mainly caused by sediment which accumulates in sewage pipes. Water consumption has been continually decreasing during the past years, as a result of which the flow volumes and speed have decreased as well. This, in turn, increases the risk of blockages. Furthermore, the general number of blockages is also influenced by the continuous extension of the sewerage network.

Although in 2013, our customers experienced slightly more problems with blockages in the network and wastewater discharge service than before, the long-term trend still shows a continuous reduction of network blockages. This has been achieved by numerous preventive activities such as increasing the efficiency of jet washing. In order to carry out jet washing, high-speed water flow is generated in the network, which washes all the accumulated sediment out into the nearest cesspool.

After that, the sediment is collected into jet washing vehicles and transported to Paljassaare wastewater treatment plant. Flushing of pipelines is carried out by our subsidiary company OÜ Watercom whose jet washing vehicles with re-use cycle enable to re-utilise the water necessary for flushing.

### Reconstruction and extension of sewerage network

Investments in the replacement of depreciated sewerage pipelines as well as in the construction of new pipelines have enabled us to continuously improve the provision of environmentally friendly services. In 2013, we reconstructed a total of 5.4 km and constructed 0.1 km of sewerage network. In accordance with the agreement with the City of Tallinn and as per the requirement of the EU directive on wastewater collection, we have completed the extension plan of the public water supply and sewerage network. Due to that, we did not build any more new stormwater system facilities in 2013 and neither did we carry out sewerage network extension works in such large volume. The network extension plan considerably helped to improve the quality of life of the residents and provided almost 3500 households with an opportunity to connect with the sewerage network.

BLOCKAGES IN YEARS 2009 – 2013

2009	2010	2011	2012	2013
1 089	1 152	982	749	789

More information on the Company's water and wastewater treatment is available in the 2013 electronic environmental report.





*Natalja Tarassova*  
*Senior Customer Administrator*



*Meelis Tepponen*  
*Work Planning and  
Control Manager*

We provide water supply and sewerage services to almost one third of the Estonian population and to more than 22.000 contractual customers.

We understand how important our service is for people and therefore, our principal aim is to provide premium quality services without interruptions to the supply. In our work, we concentrate on maintaining and improving the quality and reliability of our services. In 2013, our main focus was on enhancing the customers' awareness. We also made efforts to increase the speed of resolving customer contacts and improve the performance thereof, which, in turn, would reduce the customers' need for repeated contacts.

### Feedback from our customers

In order to objectively assess our activities and understand both our strengths and problematic issues which require more attention in the future, we deem important to continually ask for feedback from our customers. Each year, an independent market research company TNS Emor carries out a survey among our customers as well as end users. Satisfaction is 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;

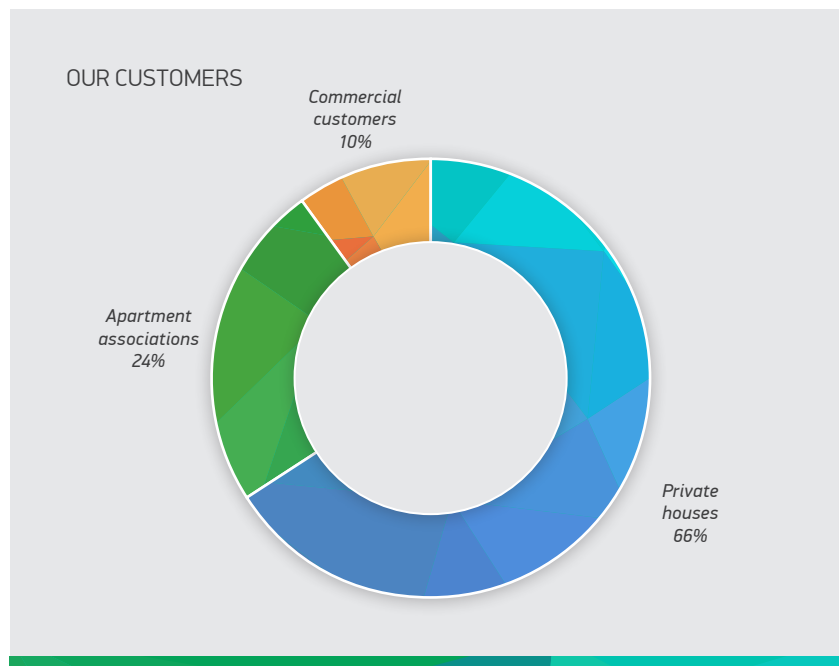
- TRI\*M typology of customer relationships, describing the satisfaction and loyalty of customers;
- TRI\*M grid analysis to highlight the strengths and weaknesses of a company.

### Customer service in 2013

The customer's satisfaction with our services and products has remained at a constantly high level. Regardless of that, our aim is to keep on developing our customer services based on feedback from custom-

ers. It is important for us to focus, above all, on issues related to problem solving. Taking into account the results of the annual feedback survey, the Company carried out various activities in 2013 to improve our customer relations.

- We renewed the system of Our Promises uniquely used in Estonia, according to which we automatically pay compensation to the customer when we are not able to comply with our internal service standards. In order to show our continuous dedication to further improve our service provision, we have added such activities to Our Promises' list which most influence the customers' everyday life.



- As a result of improved inter-departmental cooperation, in more than 90% of the cases the customers who had turned to us via phone knew when the Company was going to take actions for solving the problems raised by them.
- In cooperation with several restaurants, we continued with the campaign “Ask for tap water” and it was the third year to carry out the campaign “Tap water = drinking water” in order to raise consumers’ awareness about the very good quality of tap water.
- In order to reduce inconveniences experienced by residents due to interruptions to water supply, we notified most of our customers of emergency water interruptions at least one hour in advance.
- We asked for feedback from our customers on a monthly basis. This provides us with immediate feedback on the last month’s customer contacts and allows us to react instantly if a customer is not satisfied or has questions. In 2013, our customers’ rating on our work was 3.42 points on a scale of 4.
- We have redesigned our self-service so that it would be more comfortable to use. As of now, all customers can comfortably fill in the application form in self-service and send it to us immediately.
- At the end of 2013 we moved over to a new geographical information system which enables us to inform customers in a more operative manner than before.

SATISFACTION OF THE COMPANY’S CUSTOMERS AND END USERS IN 2009 – 2013

	2009	2010	2011	2012	2013
End users	74	71	72	79	80
Average of customer groups	73	74	72	85	79

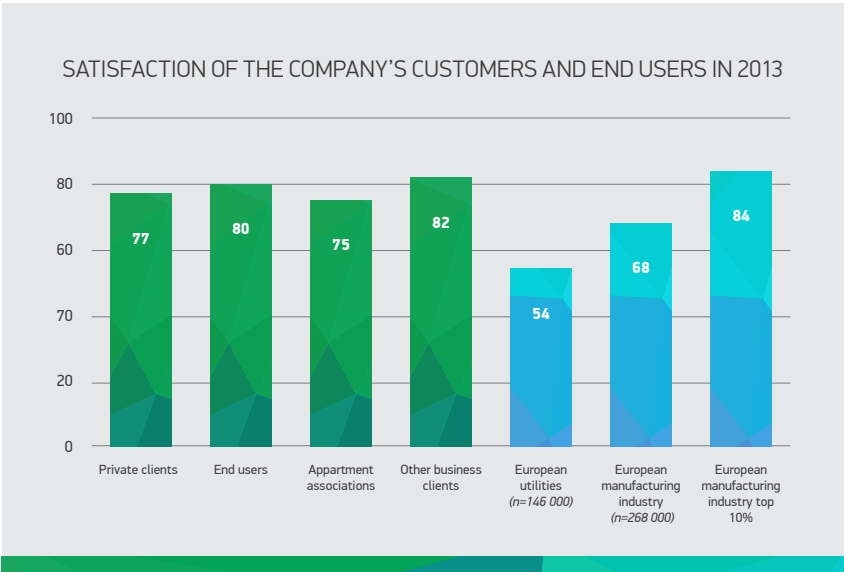
Customers’ satisfaction with the last year

The survey carried out in 2013 gives us encouragement with very good results in terms of customer satisfaction, but also set us a challenge to strengthen the emotional side of our customer relations. Compared with customer satisfaction in European utility and manufacturing sector, the feedback to our work has been excellent. Despite of that we will try to maintain the high level achieved and continue to improve customer service also in 2014.

In 2013, a total of 900 customers and end users were surveyed by EMOR to map changes in our customer relations’ strength and factors influencing it as well as to receive feedback on our activities’ success.

High level of satisfaction

Although the satisfaction of end users has somewhat decreased in 2013, our customer relationships continue to be strong in all segments, being at a uniform high level of 75-82 points in the TRI\*M index.



Compared to other utility companies in Europe, our Company's customer relationships can continually be considered to be very good. It is obvious that the strength of customer relationships is also influenced by the fact that the service we provide is vital.

### Tap water is drinking water

The last four years have seen a considerable increase in the percentage of tap water drinkers - from almost half of users to  $\frac{3}{4}$ . The work done for raising the people's awareness has definitely played an important role in the change of consumption

habits and increased trust. The campaign "Ask for tap water" was also the most noticed media message among both the customers and end users.

### Improved problem solving

Concerning the service, an important win is progress in solving commercial customers' problems. The percentage of commercial customers who have turned to us with complaints during the year has decreased and their ratings of solution's appropriateness and operating process have increased. Private customers have had slightly more problems compared with the

last year, mainly in relation to connections to water supply and sewerage system.

Last year we outperformed the promises made to private customers in resolving customer issues. Regardless of that, fixing the problems in the manner most suitable for them still continues to be of utmost importance for our customers. In this regard, ratings remained at the level of 2012. Ratings on price and quality have also remained at the last year's level. We realise that the price continues to be an important topic for all customer segments and bringing that into focus might change customer relations considerably.

## CUSTOMER SATISFACTION WITH DIFFERENT ASPECTS OF SERVICES IN 2012-2013

On a scale of 5	Commercial customers		Private customers	
	2012	2013	2012	2013
Taste of water	4,0	3,9	4,1	4,0
Odour of water	4,1	4,0	4,2	4,1
Clarity of water	4,1	4,1	4,1	4,1
Stable water pressure	3,9	4,0	4,0	3,9
Low number of emergencies and interruptions	4,1	4,1	4,2	4,1
Price/quality relationship	3,1	3,2	3,2	3,2
Accuracy and clarity of invoices	4,5	4,4	4,3	4,2
Customer Information line	4,0	4,0	4,1	3,9
Communication by e-mail	4,2	4,1	4,1	4,1
Self-service	4,1	4,0	4,0	4,0



*In case of providing a vital service, teamwork and staff's contribution are of utmost importance. It is the people who carry the company forward. However, prerequisite to achieving good results and enjoying the work is first and foremost, a supportive work environment.*

*Last year our team, including the subsidiary company, consisted of 311 people working for us under employment contract entered into for an unspecified term. The number of employees has been quite stable during the previous years.*

Kristiina Soovik  
Groundwater Specialist



### *Involving the employees*

*We consider important that our staff is involved in the activities of the Company and is aware of important topics. We organise regular staff meetings with the management in order to encourage an immediate and open dialogue and involve our employees in joint activities both in the Company and in the community. Internal information channels such as internal newsletter and intranet provide an opportunity to reflect upon staff, different aspects of work, up-to-date issues, the Company's future directions, but also upon joint activities and many other topics. We encourage the employees to actively take part in joint activities and raise topics that are important to them.*

*Involvement and doing things jointly are important factors which also influence the quality of service and efficiency of the Company. For example, we continued insourcing services from our subsidiary company OÜ Watercom last year, as this enables us to be more transparent and flexible in our activities.*

### *Commitment in the team*

*The commitment and satisfaction of our employees in 2013 were higher compared to both Estonian and European average in industry and service sector. At the same time, the employees' ratings were somewhat more critical than they were a year ago. We deem it important to take the feedback into account and in 2014 bring our attention to those areas which our staff*

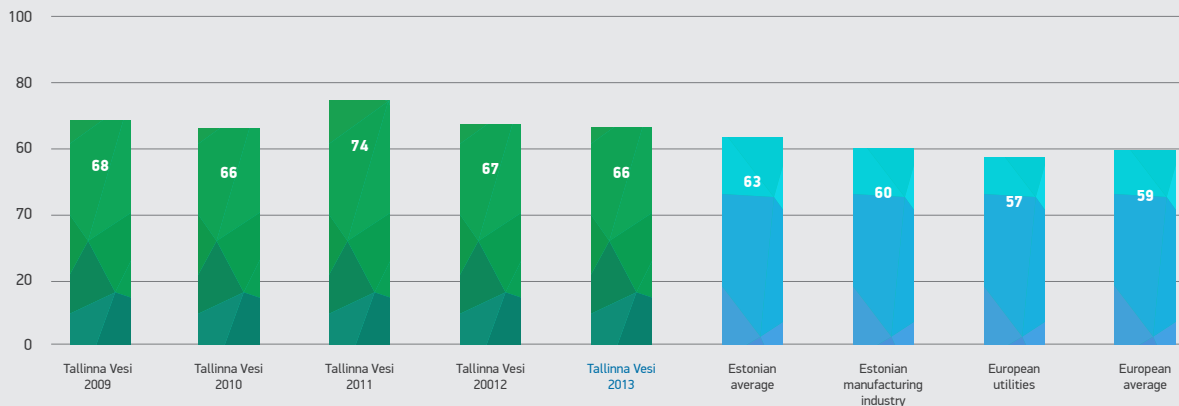
*pointed out in the satisfaction survey.*

### *Development of employees*

*Characteristically for a stable manufacturing enterprise, the average age of the staff both in AS Tallinna Vesi and its subsidiary is relatively high, 47.3 and 40.9 years respectively. Therefore, it is of critical importance for us to support the managers in order to successfully cope with the change of staff expected to occur in the coming years. It is important to maintain the high level of operational as well as service performance.*

*We encourage our employees to continuously learn and develop and try to offer respective opportunities, taking into account both the needs of the employees themselves and those of the Company.*

EMPLOYEE COMMITMENT



We believe that sharing of knowledge and experience is very important from the perspective of staff development. Therefore, there has been a significant increase during the past years in in-house guidance as well as in involvement of mentors from outside of the Company. This means that knowledge has been transferred from one colleague to another or from mentor to mentee. We also encourage development and movements between our teams. In 2013, a total of 23 employees changed their jobs within the Company.

### Occupational health and safety

Occupational safety is an inseparable part of our business, being central to everything we do. No work duty is worth getting injured for. Therefore, we are committed to ensuring a safe work environment and guarantee that our employees have work equipment which is in accordance with the requirements and needs.

Our Company's work environment performance is in compliance with the requirements of national legislation and international occupational health and safety management system standard OHSAS 18001.

Work environment management system is based on the assessment of risks and execution of activities aimed at preventing or reducing dangerous situations. Workplaces are under constant internal monitoring. Furthermore, internal as well as external

audits of the management system are carried out regularly.

### Together towards occupational safety

Key issue in creating and maintaining a safe work environment is definitely the awareness of the employees themselves. We involve the staff in activities related to work environment through various systematic activities and channels. Campaigns such as „Wear a helmet!“ and „Report the nearmisses!“ (nearmiss is an “almost occupational accident”), also thematic leaflets etc. and relevant activities have made the staff pay closer attention to the work environment and thereby, care about it more. We carry out work environment trainings for different specialists on a regular basis. During these trainings, various topics are addressed, e.g. training and in-service training in first aid, training on work involving an open flame, chlorine safety training at the water treatment plant, oil cleaning training in the catchment area and trainings on several other topics which are important in our work.

### Continuous improvement of work environment

Occupational health and safety is central to everything we do, and we absolutely do not compromise on it. Therefore, despite of the good results achieved so far, it is important not to rest on our laurels, but to carry on channeling our time and energy

into maintaining a safe work environment and making further improvements thereof. In 2013, several supporting activities were carried out at the treatment plants, water and sewerage networks, laboratories and offices, e.g. renewal of risk analysis, elimination of work environment deficiencies as a result of the work of internal audit, regular activities related with fire safety installations of buildings and vehicles, and activities related with the creation and promotion of an ergonomic work environment.

In 2014, we will focus on promoting a healthy life style among our staff. For example our employees have the opportunity to use our own gyms, take yoga classes and with the help of our partners restore their energy in different sports facilities in Tallinn for special rates. Our employees can have affordable meals in our canteens, we participate in the health promotion weeks across the town and our health cabinet is there for our employees to make the measurements that are essential for physical health.

All of the above initiatives as well as several other actions help us to gradually make our work environment safer and more comfortable. All this is part of the work environment supporting each and every one in our staff.



## Our community



Being Estonia's largest water company, our activity affects almost one third of Estonia's population. We realise that by offering conforming services to our customers we influence the quality of life of Tallinners, surrounding municipalities and all people living next to the Baltic Sea. We provide pure drinking water to customers and collect and treat wastewater and stormwater. Using environmentally safe and modern technologies, the discharged wastewater is treated and directed back to the nature.

We understand the impact of our business on the surrounding natural habitat and therefore deem it important that our activities engage with the interests of different stakeholders. We give our best 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.

### Teamwork

We deem it important to be a good neighbour in the community, therefore we support and encourage our employees to actively participate in the community activities. Also, in addition to their daily work our employees have an important responsibility to live our values through a voluntary participation in various community projects. Our employees also appear on the photos of the Company's various data carrying media.

Our employees volunteer to organise group conversations in kindergartens to

talk about the sustainable usage of environment, participate in the events of cleaning up some areas, assist the Food Bank and help organising open doors days and other events. For example together with the employees of *Coca-Cola Hellenic* and the *Embassy of the United States of America* we cleaned the *Patarei Prison area* within the cleaning up event "Let's do it" for the local community to be able to enjoy the scenic cultural park of interesting history. Over 100 volunteers participated to contribute. In cooperation with the Estonian Forest Association we organised a joint **forest planting training and cleaning up day**. To support the children of large families at the risk of poverty, also our employees were disguised as the so-called "office rats" to participate in the charity event called Rat Race.

### Improved environmental awareness of consumers

We value the natural environment we operate in and therefore use natural resources sparingly and continuously seek new ways for a more sustainable consumption. In order to help shape an environmentally conscious way of thinking in the society, we encourage and support others accordingly.

- We continue contributing to environmental awareness of youth who would value environment. Our employees organise **group conversations in kindergartens and schools**. In 2013, over 2000 children could increase their environmental knowledge.

- We organised **water-related information days for the teachers of primary school and nature studies** to introduce different options for the use of study materials for nature studies “Blue classroom” published in 2012. A total of almost 40 Tallinn’s school teachers participated in the two-day seminar.
- We also keep on working hard to encourage the citizen’s environmental thinking. We draw their attention to the very good quality of tap water with our campaign **“Tap water is drinking water”**. We also continued our co-operation with restaurants in the form of campaign “Ask for tap water” so that the customers would have the courage and awareness to ask for tap water when they eat outside. **In the end of 2013, 75% of people regularly drank tap water compared with only 48% in 2011.**
- Besides our main responsibilities – production of drinking water and treatment of wastewater – our **treatment plants also have an important role to play in increasing the population’s awareness**. Each year we introduce the plants’ work to more and more people. In 2013, a total of almost 300 visitors took guided tours in the treatment plants.
- We carried out an essay contest **“Role of phosphorus in the pollution of the Baltic Sea”** among the bachelor students of environmental technology, with a broader aim of investigating possibilities of implementing A2O biological phosphorus removal in Tallinn waste-

water treatment plant.

- In order to further encourage youth to protect and save the surrounding natural environment we participated in the **“Back to school”** project and discussed sustainable development with them. Within the **“Tours of Wisdom”** project we invited children to visit our treatment plants - almost **20 schools from all over Estonia** took an interest in our treatment plants.
- The traditional **open doors day at Ülemiste water treatment plant** in the end of August brought together over **300 people** in addition to sports enthusiasts, who were introduced with the plant’s work. After a guided tour in the plant the visitors were offered delicious water cocktails made on site.

### Cooperation and attention

We wish to contribute and provide positive impressions also to the people, who need more assistance and attention in the society.

- We wish people to be able to enjoy more of the classical music and in 2013 we started cooperation with the Pille Lill Music Fund.
- We have supported the disabled people through the nursery “Õunake” and the Estonian Union of Sports for the Disabled, also the children with learning difficulties in Ristiku Basic School for years. In spring 2013, we organised a meeting of Ristiku

Basic School children with the Pille Lill Music Fund and before Christmas we invited our employees as well as the children of Õunake and Ristiku Basic School together with their families to a joint Christmas concert in Kaarli Church.

- Last year the Responsible Business Forum awarded the Company with the silver mark of sustainable business index. This index helps us to consistently analyse, how to act in a socially responsible manner and design a sustainable business model.
- In cooperation with the city district governments we gave planting soil for free to everybody, who were interested in it to make our city look more fresh and green.
- High quality drinking water was provided at numerous sports and health promotion events. We also provide water for the Flower Festival and ice skating rinks in winter.
- To avoid accidents that may be caused by stolen metal manhole covers we joined up with the Police and Border Guard Board, the owners of infrastructure and the collectors of scrap metal in the project of marking the metal. This cooperation is aimed at preventing and stopping the stealing of metal.
- We help to make one of the largest Estonian cultural events happen, **Dark Nights Film Festival**. Last year the festival had a record number of visitors - **77,500 people**.



*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 unfavourable 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.*



In order to ensure the fulfilment of minimum environmental requirements set for water companies, we are required to comply with EU, national as well as local governments' environmental legislative acts. On the EU level, this means above all the compliance with the Water Framework Directive nr 2000/60/EC of EU Council. On the 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 the Company has to abide by various guidelines and regulations established by the local government in Tallinn and neighbouring municipalities.

We strive to do more than we are expected by the legislative and contractual requirements. To do that we focus on dialogue and cooperation both within our team and with various partners. Changes in applicable legislation are constantly monitored and communicated to the relevant managers, whom those changes concern. On the other hand, we also value preventive cooperation and we actively participate in the development and amending of legal acts primarily via the Estonian Waterworks Association. We also cooperate with several quality-conscious and environmentally aware companies to promote doing business in an ethical and responsible way. For example, we are a member of the Estonian Association for Quality since 2002, a member of the Estonian Association for Environmental Management

since 2003 and one of the founders of the Responsible Business Forum.

We are the most regulated water company in Estonia. To ensure the best quality of service for our customers, in addition to the legislative requirements, we are contractually required to comply with **97 levels of service**. This responsibility stems from a tripartite Services Agreement we concluded with the City of Tallinn and the investor in 2001. Our performance and the levels of service are reviewed annually by an independent monitoring unit - the Supervisory Foundation for the Water Companies in Tallinn - to whom we submit annual Levels of Service reports.

In 2013, we complied with and in many cases outperformed the 95 contractual levels of service out of 97. We acknowledged non-compliance with two levels of service, one of which was one interruption to water supply that lasted longer than 12 hours, and the other was a failure to notify customers in writing of a planned interruption to water supply at least 5 days in advance.

Natalja Tarassova  
Senior Customer Administrator



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

- Since 2001 - ISO 17025 Quality Management System of Laboratories;
- Since 2002 - ISO 9001 Quality Management System;
- Since 2003 - ISO 14001 Environmental Management System.

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

- Since 2005 - EU EMAS the European Eco-Management and Audit Scheme;
- Since 2007 - OHSAS 18001 Occupational Health and Safety Management System.

*In 2013, the activity of the company (including its subsidiary OÜ Watercom) and its management system have fully complied with all applicable quality, environmental, occupational safety and work environment standards and systems as well as legal requirements.*

*Such compliance is regularly monitored via internal audits and has been confirmed by way of an external audit undertaken by Det Norske Veritas on the Eco- Management and Audit Scheme EMAS established by the European Union. During the 2013 audit, the auditors made positive observations about the thoroughness of setting objectives, very good*

*financial performance in 2013 and an increase in reporting near-misses in our company. Our participation in the area of social responsibility was also noted as a positive aspect. The next recertification audit has been planned to take place this year, i.e. in 2014.*

*We are also required to comply with the conditions of the environmental permits. In 2013, we complied with all the requirements set in our environmental permits. As of 31.12.2013 we have been issued the following environmental permits:*

- 4 water extraction permits;
- 2 waste permits;
- 2 ambient air pollution permits.

*More detailed information about the environmental permits and environmental performance is available in our 2013 environmental report (EMAS) available on our webpage: [www.tallinnavesi.ee](http://www.tallinnavesi.ee) - About us – Environment – Environmental Reports.*

*We also require our suppliers to confirm already at the bid stage that their practices meet all quality, environmental, work environment and occupational safety requirements. We monitor all construction sites as well as the sites of our sub-contractors to ensure that occupational safety and environmental protection measures are followed. To improve the quality of the feedback on the works done and services provided including the compliance with environmental, work environment*

*and occupational safety requirements, in 2013 we decided to change the assessment system used so far. According to the new system, the individual agreement or the performer thereof is not assessed anymore. The assessment is carried out by the breakdown of the agreements of the same type or cost group. Such an assessment enables to compare the outcome to understand the correlation between the results and performance. It also provides a more up to date and relevant information about the necessities for changes and input improvements. The assessment involves all key users and contact persons, whom an agreement concerns. Depending on the nature of an agreement or cost the assessment is done within a suitable period of time (on a quarterly or annual basis).*

*We strive to be a trustworthy partner to our customers, investors, employees and representatives of the community, therefore we regularly disclose information on our activity, financial standing and performance. Regular cooperation with the Trade Union and the Work Environment Council as well as analysing the results of annual employee satisfaction survey helps us to better take into account the wishes of our employees.*

### *Construction of network*

*The construction of water and wastewater networks for developers, companies and private persons turned out to be the main activity of the Company in 2013. Watercom holds a construction unit called Veemees for these activities. Similar to the previous years, Veemees continued to focus on carrying out large construction projects and building the street networks in Tallinn and other places in Estonia.*

*The objective for 2014 will be to continue focusing more on the extensive projects of water and sewerage network construction and investing in implementing new technologies.*

### *Supervision and project management*

*The other business branch of Watercom is to provide project management and owner supervision services. Due to a long-term work practice, the staff has significant knowledge and experience in this field. In 2013, 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 engineers and strong references provided the Company with an opportunity to actively participate in the tenders of the respective field across Estonia in 2013, which*

*resulted in concluding several contracts for managing and performing owner supervision on large-scale water service projects of water companies and local governments. In 2013, a large-scale supervision project continued 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 2014.*

### *Transport services and road construction*

*In 2013, we continued to provide transport services for the water and sewerage construction sites. We have made considerable investments in heavy machinery that enabled the Company to focus more than before on larger construction sites and offer machinery rental services also to other companies.*

*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](http://www.watercom.eu)*







Meelis Tepponen  
Work Planning and Control Manager

# ANNUAL ACCOUNTS



39	Results of operations - for the year 2013
49	Corporate governance and corporate governance recommendations report
56	Management confirmation
57	Consolidated statement of financial position
58	Consolidated statement of comprehensive income
59	Consolidated statement of cash flow
60	Consolidated statement of changes in equity
61	Notes to the consolidated financial statements
61	Note 1. General information
61	Note 2. Accounting policies
68	Note 3. Contingent liability regarding the tariff risk
69	Note 4. Critical accounting estimates
69	Note 5. Financial risk management
74	Note 6. Cash and cash equivalents
74	Note 7. Trade receivables, accrued income and prepaid expenses
74	Note 8. Other long-term receivables
75	Note 9. Property, plant and equipment and intangible assets
76	Note 10. Borrowings
77	Note 11. Trade and other payables
77	Note 12. Derivatives
78	Note 13. Government grants
78	Note 14. Other contingent liabilities
78	Note 15. Prepayments
78	Note 16. Share capital
79	Note 17. Revenue
79	Note 18. Staff costs
79	Note 19. Cost of goods sold, marketing and administrative expenses
80	Note 20. Other income / expenses
80	Note 21. Financial income and expenses
80	Note 22. Dividends
80	Note 23. Earnings per share
81	Note 24. Operating lease
81	Note 25. Related parties
82	Note 26. Subsidiaries
82	Note 27. Supplementary disclosures on the parent company of the group
86	Confirmation of the management and supervisory boards
87	Independent auditor's report
88	AS Tallinna Vesi management board and supervisory council 2013
92	Additional information

*In 2013 the Group continuously focused on the improvement of customer services.*

*The sales of the Group in 2013 have been flat compared to the same period in 2012, increasing 0.3% to 53.09 mln euros. The decreased sales from stormwater services within and outside the main service area by 20% to 3.6 mln euros was compensated with higher construction revenues, which increased by 226.5% to 1.1 mln euros.*

*The gross profit in 2013 decreased 6.2% or 2.01 mln euros mainly due to increased pollution tax expenses and increased ex-*

*penses for repair and maintenance works in 2013. Increase in repair and maintenance works is related to different type of sites needed to be repaired but also mild winter allowed to do more works.*

*The operating profit from the Group's main business activity decreased by 7.4% to 24.75 mln euros during the twelve months of 2013 compared to the twelve months of 2012. As revenues have been relatively flat, increasing only 0.3% or 0.16 mln euros, then the main reason for a decline comes from the rise in pollution tax expenses (1.53 mln euros year on year), further influenced by the drop in*

*government grant profits (2.04 mln euros year on year). Excluding the pollution tax one off negative impact of 1.13 mln euros in 2013 and positive impact of 0.47 mln euros in 2012, extra construction profit of 0.2 mln euros in 2013 and 0.1 mln euros in 2012 and government grant impact in the amount of 2.0 mln euros in 2012, the operating profit was 1.9% or 0.50 mln euros lower amounting to 25.68 mln euros compared to 26.19 mln euros in 2012.*

## OTHER MAIN ECONOMIC INDICATORS

million euros	2013	2012	2011	2010	2009	
Sales	53,1	52,9	51,2	49,7	49,4	
Gross profit	30,6	32,6	30,3	29,0	31,2	Gross profit margin – Gross profit / Net sales
Operating profit	24,8	28,8	28,9	27,5	29,5	Operating profit margin – Operating profit / Net sales
Operating profit - main business	24,8	26,7	25,4	24,2	26,9	
Profit before taxes	24,6	27,1	25,8	24,9	25,6	Profit before taxes margin – Profit before taxes / Net sales
Net profit	19,9	22,6	21,5	16,4	21,7	Net profit margin – Net profit / Net sales
Gross profit margin %	57,6	61,6	59,2	58,4	63,2	
Operating profit margin %	46,6	54,4	56,4	55,3	59,8	
Profit before taxes margin %	46,3	51,1	50,3	50,1	51,9	
Net profit margin %	37,6	42,7	42,0	33,0	44,0	ROA – Net profit / Total assets
ROA %	9,8	11,3	11,2	8,9	12,3	
Debt to total capital employed	57,0	57,8	58,9	60,1	49,7	Debt to Total capital employed – Total liabilities / Total capital employed
ROE%	22,9	26,7	27,3	22,4	24,4	
Current ratio	4,2	4,3	4,1	2,1	4,2	ROE – Net profit / Shareholders' equity
Number of full-time equivalent employees	292	301	299	305	322	
Share capital	12,0	12,0	12,0	12,8	12,8	Current ratio – Current assets / Current liabilities

## Statement of comprehensive income

### Sales

As the company's tariffs are frozen at the 2010 tariff level, the changes in the revenues from main activities ie from sales of water and wastewater services is fully driven by consumption.

In 2013 the Group's total sales increased year on year by 0.3% to 53.09 mln euros. Lower sales from stormwater services within and outside the main service area by 20% to 3.6 mln euros was compensated with higher construction revenues, which increased by 226.5% to 1.1 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 47.74 mln euros, a 0.4% decrease compared to 2012, resulting from the drop in sales volumes as described below.

Within the service area, sales to residential customers decreased by 0.6% to 23.64 mln euros, mainly influenced by the sales

to apartment blocks. Sales to commercial customers increased by 1.5% to 19.05 mln euros. Sales to customers outside of the service area decreased by 4.8% to 4.31 mln euros compared to 2012. It was mostly affected by storm water as sales of water and wastewater increased slightly by 3.1% or 0.12 mln euros. Over pollution fees received were 0.73 mln euros, an 11.8% decrease compared to 2012.

Volumes sold to outside service area were 14.7% lower than in 2012. The main factor in this decrease was lower storm water volumes in 2013 compared to 2012, influenced by lower rainfall.

The sales from operation and maintenance

Revenues from main operating activities (th EUR)	Year ended 31.12.			Variance 13/12	
	2013	2012	2011	€	%
Private clients, incl:	23 642	23 789	23 711	-147	-0,6%
Water supply service	13 022	13 096	13 072	-74	-0,6%
Wastewater disposal service	10 620	10 693	10 639	-73	-0,7%
Corporate clients, incl:	19 053	18 767	18 234	286	1,5%
Water supply service	10 585	10 248	9 881	337	3,3%
Wastewater disposal service	8 468	8 519	8 353	-51	-0,6%
Outside service area clients, incl:	4 308	4 524	3 789	-216	-4,8%
Water supply service	1 095	1 028	901	67	6,5%
Wastewater disposal service	2 730	2 684	2 450	46	1,7%
Storm water disposal service	483	812	438	-329	-40,5%
Over pollution fee	734	832	758	-98	-11,8%
Storm water treatment and disposal service	3 137	3 713	3 351	-576	-15,5%
Fire hydrants service	287	202	221	85	42,1%
Construction service and design	1 146	351	447	795	226,5%
Other works and services	780	746	729	34	4,6%

of storm water and fire-hydrant system in the main service area decreased by 12.5% to 3.42 mln euros in 2013 compared to last year. According to the terms and conditions of the contract revenues reflect actual volumes treated and costs for treating the storm water, therefore this cost pass through has no impact on profits.

The sales of construction activities and design services have increased by 226.5% to 1.15 mln euros in 2013 compared to 2012, partly due to mild winter of 2013 allowing construction works.

#### Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 22.51 mln euros in 2013, an increase of 2.17 mln euros or 10.7% from the equivalent period in 2012. The cost increase is mainly the result of

increased pollution tax expenses (1.53 mln euros), additional construction works services and extra emergency and repair works carried out in 2013.

Total direct production costs increased by 1.39 mln euros or 21.0%. Increased pollution tax expense, the reasons for which are explained below has the major impact on the increased direct production costs. Other changes came from a 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 0.06 mln euros or 6.3% to 1.00 mln euros in 2013, driven mainly by 5% raise in tax rates and raw water volumes.

- Total chemical costs increased by 0.10 mln euros or 6.3% to 1.73 mln euros. Costs increase was mainly the result of an increase in chemicals price, which was balanced by decrease in volumes used due to less sewage treated.
- Electricity costs in total decreased by 0.30 mln euros or 8.2% in 2013 compared to 2012. Lower electricity costs are mostly derived from the decrease in treatment volumes and used unit costs, worth 0.34 mln euros. Positive effects are reduced slightly by increased electricity price worth 0.04 mln euros.
- Pollution tax increased by 1.53 mln euros or 439.5% in 2013. The pollution tax cost was largely impacted by the incident in the wastewater treatment

Cost of goods sold (th EUR)	Year ended 31.12.			Variance 13/12	
	2013	2012	2011	€	%
Water abstraction charges	-997	-937	-897	-60	6,4%
Chemicals	-1 734	-1 631	-1 433	-103	6,3%
Electricity	-3 392	-3 695	-2 972	303	-8,2%
Pollution tax	-1 872	-347	-1 409	-1 525	439,5%
<b>Total direct production costs</b>	<b>-7 995</b>	<b>-6 610</b>	<b>-6 711</b>	<b>-1 385</b>	<b>21,0%</b>
Staff costs	-4 833	-4 750	-4 390	-83	1,7%
Depreciation and amortization	-5 115	-5 167	-5 182	52	-1,0%
Construction service and design	-947	-277	-375	-670	241,9%
Other costs of goods sold	-3 615	-3 533	-4 269	-82	2,3%
<b>Other costs of goods sold total</b>	<b>-14 510</b>	<b>-13 727</b>	<b>-14 216</b>	<b>-783</b>	<b>5,7%</b>
<b>Total cost of goods sold</b>	<b>-22 505</b>	<b>-20 337</b>	<b>-20 927</b>	<b>-2 168</b>	<b>10,7%</b>



plant in the beginning of the year. Also by the fact that the Group released a one-off provision related to storm water outlet in 2012 and in the 4th quarter of 2013 the Group was paid an insurance compensation worth 0.15 mln euros. Eliminating the aforementioned one-off effects the pollution tax would have decreased by 0.08 mln euros or 9.3%. The pollution tax increase due to the increase in pollutants concentration (worth 0.01 mln euros) and overall increase in tax rates by 15% (worth 0.09 mln euros) was balanced by the decrease in volumes (worth 0.18 mln euros).

Other cost of goods sold (staff costs, depreciation, construction services and other cost of goods sold) in the main operating activity increased by 0.78 mln euros or 5.7%. 0.67 mln euros or 85.8% of the increase in fixed costs is related to construction services and design, which relates to increased revenues from pipeline construction as mentioned above. The remaining increase is related to higher repair and maintenance carried out in 2013. Increase in repair and maintenance works is related to different type of sites needed to be repaired but also mild winter allowed to do more works

As a result of all of the above the Group's gross profit for 2013 was 30.58 mln euros, which is a decrease of 2.01 mln euros, or 6.2%, compared to the gross profit of 32.59 mln euros for the 2012. Excluding the pollution tax one off negative impact of 1.13

mln euros in 2013 and positive impact of 0.47 mln euros in 2012, extra construction profit of 0.2 mln euros in 2013 and 0.1 mln euros in underlying the gross profit was 1.7% or 0.50 mln euros lower amounting to 31.51 mln euros compared to 32.04 mln euros in 2012.

#### **Other Operating Costs**

In 2012 the General administration expenses increased in total 0.32 mln euros or 6.8% year on year to 5.06 mln euros, mainly due to higher consultation and legal fees related to the ongoing tariff dispute.

#### **Other income/expenses**

Other net expense decreased to a net expense of 0.08 mln euros, compared to 1.70 mln euros net income in 2012. The decline in profit from government grants revenues was the main contributor to Other net income decrease in 2013. The sewage network extension program for which the government grant income was earned was finished at the end of 2012. As the payment terms are longer, the collection of the receivables for the program can be seen also in 2014 in the cash flow statement.

#### **Operating profit**

As a result of above factors the Group's operating profit from main services for 2013 totalled 24.75 mln euros compared to 26.73 mln euros in 2012, which shows a decrease of 1.98 mln euros or 7.4%. To-

tal operating profit for 2013 was 24.76 mln euros, a decrease of 4.01 mln euros. Year on year the operating profit for 2013 has decreased by 14.0%.

As already mentioned before the underlying operating profit from main services without the impact of increased pollution tax, construction profit and government grants for 2013 was 25.68 mln euros, a 0.50 mln euros or 1.9% decrease compared to 2012. Main reason for decrease comes from the increased consultancy and legal costs related to the tariff dispute.

#### **Financial expenses**

The Group's net financial expenses amounted to 0.20 mln euros in 2013, which is a positive change of 1.51 mln euros compared to 1.71 mln euros financial expenses in 2012.

Main influence being increase in non-monetary impact of the change in the fair value of the swap contracts the Group has entered. The positive non-monetary impact in 2013 expenses is 2.34 mln euros compared to 2012. Other contributor to financial expenses was decreased interest income by 0.91 mln euros or 57.2% caused by the decrease in the interest bearing receivables.

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 90 mln euros, with one 15 mln euros contract

becoming effective in November, what means 20 mln euros are still with floating interest rate. At the end of the year the estimated fair value of the swap contracts is negative, totalling 2.32 mln euros.

Effective interest rate (incl. swap interests) of Group's loans in 2013 was 3.23%, amounting in the interest costs of 3.11 mln euros, compared to the effective interest rate of 3.32% and the interest costs of 3.21 mln euros in 2012.

#### **Profit Before and After Tax**

The Group's profit before taxes for 2013 was 24.56 mln euros, which is 2.50 mln euros lower than the profit before taxes of 27.07 mln euros for 2012, resulting mainly from the decreased government grant revenues and increased professional services fees as described above.

The Group's profit after taxes for the 2013 was 19.94 mln euros, which is 2.66 mln euros lower than the profit after taxes of 22.60 mln euros for 2012.

#### **Statement of financial position**

In the twelve months of 2013 the Group invested 8.65 mln euros into fixed assets. As of 31 December 2013 non-current fixed assets amounted to 152.25 mln euros and total non-current assets amounted to 155.50 mln euros. (2012: 149.40 mln euros and 158.11 mln euros respectively).

The reduction in long-term receivables

compared to year end by 5.35 mln euros to 2.21 mln euros is mainly related to the repayment of AS Maardu Vesi's loan to the Group in May in the amount of 3.81 mln euros.

The increase of current assets in the amount of 4.61 mln euros is mainly related to collection of receivables and repayment of AS Maardu Vesi long-term loan.

Current liabilities have increased by 1.32 mln euros to 11.21 mln euros in the twelve months. The increase is related to the fact that in November 2014, there is scheduled the first repayment of the loan in the amount of 2 mln euros. Other movements are related to decreased payments to suppliers in the amount of 0.72 mln euros and change in derivatives by 0.22 mln euros, balanced by the increase in Customer prepayments in the amount of 0.24 mln euros.

The Group has a Total debt/Total assets level as expected of 57.0%, in the agreed range of 55%-65%, reflecting the year end equity profile. This level is consistent with the same period in 2012 when the total debt/total assets ratio was 57.8%.

The Group's loan balance has remained stable at 95 mln euros, of which long term loan amounts to 93 mln euros and short term 2 million euros. The weighted average interest margin for the total loan facility is 0.96%.

Biggest share of the rest of the long term liabilities is deferred income from connec-

tion fees amounting to 10.14 mln euros (2012: 7.89 mln euros).

In the 4th quarter of 2011 the Group recorded and noted an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros. In the 3rd quarter of 2013 the Group re-evaluated the liability, which now stands at 34.0 mln euros, as per note 3 to the accounts.

#### **Cash flow**

As of 31 December 2013 the cash position of the Group is strong. The cash flows of the Group has continued to be rather stable, during twelve months of 2013 cash balance has increased by 7.85 mln euros (2012: 9.16 mln euros). At the end of 2013 the cash balance of the Group stood at 31.8 mln euros, which is 15.7% of the total assets (2012: 23.9 mln, which is 11.9% of the total assets).

The biggest contributor to the cash flows is the main operations. During the twelve months of 2013, the Group generated 29.78 mln euros of cash flows from operating activities, a decrease of 1.92 mln euros compared to the corresponding period in 2012.

2013 operating cash flows were below 2012 cash flows mainly due to lower operating profit as underlying operating profit continues to be the main contributor to operating cash flows.

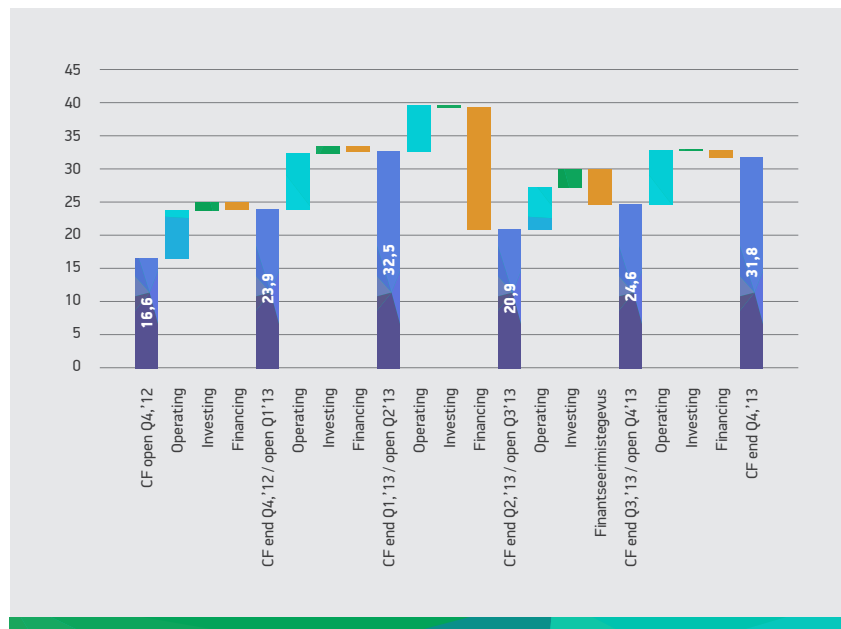
The Group's cash flows from investing activities have been positive for past two years. In the twelve months of 2013 net cash flows from investing activities resulted in a cash inflow of 3.37 mln euros, an increase of 1.33 mln euros compared to an inflow of 2.05 mln euros in the twelve months of 2012. This is made up as follows:

In 2013 AS Maardu Vesi repaid their loan in full in the amount of 3.81 mln euros. In 2013 the Group did not grant any additional loans (in 2012: 0.77 mln euros was granted to AS Maardu Vesi).

In the twelve months of 2013 the investments in fixed assets had decreased 0.82 mln euros compared to 2012 amounting to 9.19 mln euros.

The compensations received for the construction of pipelines were 7.89 mln euros in the twelve months of 2013, a decrease of 3.31 mln euros compared to same period in 2012.

In the twelve months of 2013, cash outflow from financing amounted to 25.32 mln euros, which is 0.72 mln euros more than in the same period of 2012, almost entirely due to higher dividends.



## Employees

At the end of 2013, the total number of employees was 304 compared to 313 at the end of 2012. The full time equivalent (FTE) was respectively 292 in 2013 compared to the 301 in 2012. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure.

The total salary cost was 6.98 mln euros, including 0.33 mln euros paid to the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.09 mln euros if the Council would want to replace the Management Board members.

## Corporate structure

At the end of the year, as of 31 December 2013, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

## Dividends

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

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

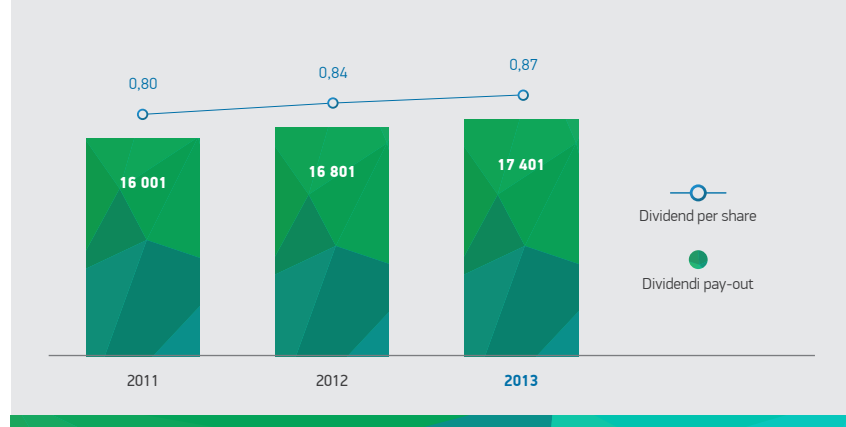
On the annual general meeting of shareholders held on 21st May 2013, 87 cents dividends per share and the total dividend pay-out from the profit of 2012 net income in the amount of 17.4 mln euros was approved. It is in accordance with the Company's dividend policy. Compared to 2012 dividends of 84 cents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

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

## Share performance

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

DIVIDEND PAY-OUTS IN LAST THREE YEARS HAVE BEEN AS FOLLOWS:



As of 31 December 2013, the shareholders of AS Tallinna Vesi, with a direct holding over 5%, were:

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

Pension funds have continued to increase their portfolios during 2013, owning 2.56% of the total shares compared to 1.57% at the end of 1st quarter 2012.

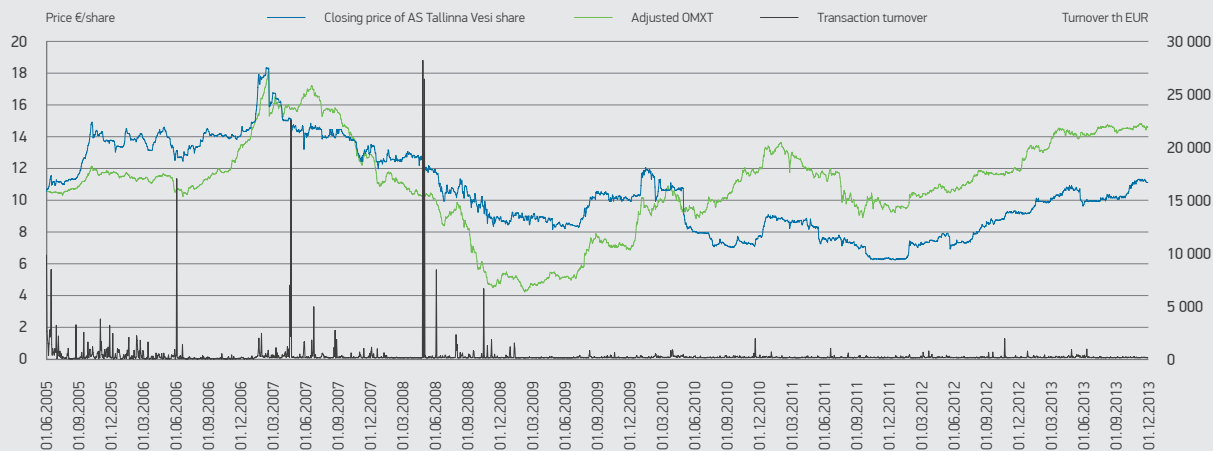
As of 31 December 2013, the closing price of the AS Tallinna Vesi share was 11.90 euros, which is a 29.3% increase (in 2012: 46.3%) compared to the closing price of

9.20 euros at the beginning of the year. During the same period the OMX Tallinn index increased by 11.4% (2012: 38.2%).

In 2013 5 469 deals with the Company's shares were concluded (2012: 4 427 deals) during which 1 853 thousand shares or 9.3% exchanged their owners (2012: 2 376 thousand shares or 11.9%).

The turnover of the transactions was 552 thousand euros higher than in 2012 amounting to 19 139 thousand euros. The share price has shown an increase despite of the on-going contractual debate.

## CLOSING PRICE &amp; ADJUSTED OMXT VS TRANSACTION TURNOVER

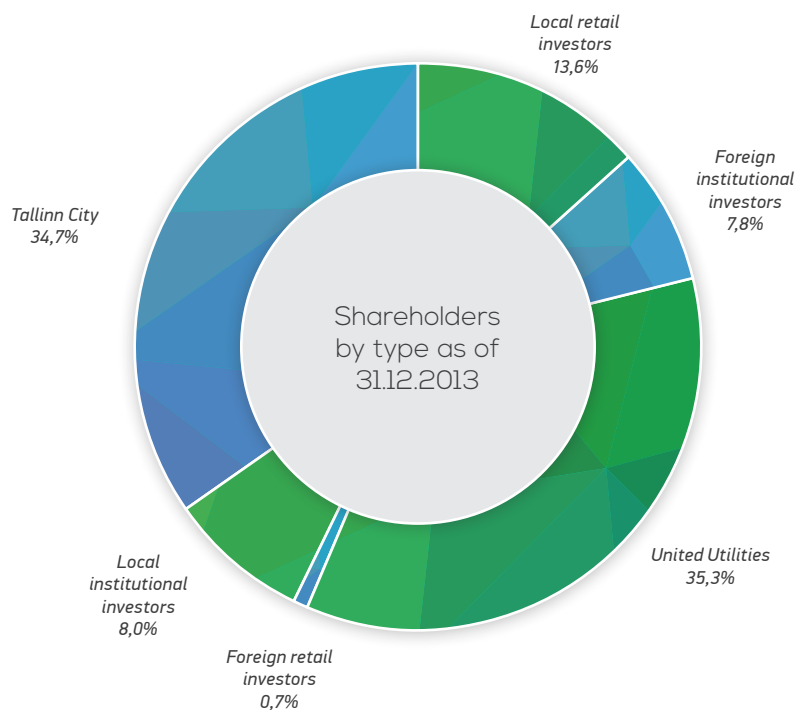


## SHARE PRICE STATISTICS

euros	2013	2012	2011	2010	2009
Share price, open	9,25	6,30	7,90	10,18	9,00
Share price, at the end of the year	11,90	9,20	6,29	7,89	10,00
Share price, low	9,20	6,30	6,29	7,00	8,20
Share price, high	12,00	9,40	9,29	12,25	10,69
Share price, average	10,42	7,91	7,76	8,95	9,28
Traded volume	1 852 865	2 375 967	1 927 386	2 879 132	1 547 108
Turnover, million	19,1	18,6	14,9	25,6	14,5
Capitalisation, million	238,0	184,0	125,8	157,8	200,0
Earnings per share	1,00	1,13	1,08	0,82	1,09
Dividend per share	n/a	0,87	0,84	0,80	1,60
Dividend / net profit	n/a	77%	78%	98%	147%
P/E	11,90	8,14	5,82	9,62	9,20
P/BV	2,7	2,2	1,6	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





## DISTRIBUTION OF SHARE CAPITAL BY SIZE OF SHARE OWNERSHIP AS OF 31.12.2013

	Shareholders	Shareholders %	No. of shares	% of share capital
1 - 100	858	25,8%	45 712	0,2%
101 - 200	583	17,5%	90 177	0,5%
201 - 300	366	11,0%	95 441	0,5%
301 - 500	424	12,7%	179 609	0,9%
501 - 1 000	441	13,2%	336 971	1,7%
1 001 - 5 000	492	14,8%	1 091 322	5,5%
5 001 - 10 000	79	2,4%	568 174	2,8%
10 001 - 50 000	65	2,0%	1 274 947	6,4%
50 000 +	23	0,7%	16 317 647	81,6%
<b>Total</b>	<b>3 331</b>	<b>100,0%</b>	<b>20 000 000</b>	<b>100,0%</b>

### *Future actions and risks*

#### **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](http://www.tallinnavesi.ee) -> Investor -> Regulation) and to the Tallinn Stock Exchange and will keep its investors informed of all future developments regarding the further key developments regarding the processing of the tariff application.*

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

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



## 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 2013 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' webpage was highlighted amongst the equal top five and the Annual Accounts were awarded the second place on all the Baltic Stock Exchanges in 2012. In 2013, NASDAQ OMX Tallinn AS awarded AS Tallinna Vesi with the second place for Best Investor Relations in the Baltics. Furthermore, the Company was awarded with the second place for its investors' webpage and Annual Report on all the Baltic Stock Exchanges.

## Investor Relations and Disclosure of Information

At the end of the calendar year, AS Tallinna Vesi discloses the next year's 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 homepage. All information disclosed via the Tallinn Stock Exchange is also subsequently disclosed on AS Tallinna Vesi's homepage.

In addition, AS Tallinna Vesi discloses the following information on its website before AGM is held:

- AGM notice,
- background information about the agenda, including annual report subject to approval and the Supervisory Board's report and auditor's report;
- information about the Supervisory Board member to be elected and auditor candidate;

- the total number of voting rights and number of voting rights by share type;
- procedure for adding items to the agenda and presenting draft resolutions;
- procedure for inquiring about ASTV's activities from the Management Board, and
- list of identification documents required for attending the general meeting, including the form of the power of attorney.

Resolutions of the General Meetings are published on AS Tallinna Vesi's homepage after seven days have passed from the date of the General Meeting.

After the General Meeting, the following is disclosed on the company's homepage: 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.

AS Tallinna Vesi has a regular dialogue with its major shareholders and potential investors. Presentation materials are disclosed on AS Tallinna Vesi's homepage. 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.

Starting from the end of Q3 2013, AS Tallinna Vesi is organising an interactive webinar through Tallinn Stock Exchange

for presenting the Company's financial results. All interested parties can take part of webinar, it is an internet-based environment. All webinar recordings are disclosed on Tallinn Stock Exchange webpage. Previously, AS Tallinna Vesi used to hold a conference call at the end of each quarter, where the Company's financial results were presented.

### *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.

In accordance with the Commercial Code and the Corporate Governance Recommendations, AS Tallinna Vesi convenes its General Meetings, both Annual General Meetings and Extraordinary General Meetings (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 homepage. Voting rights are explained to the shareholders on AS Tallinna Vesi's homepage as well as at the beginning of each General Meeting.

On 21 May 2013, AS Tallinna Vesi held an Annual General Meeting (AGM) of its Shareholders to approve the 2012 annual report and distribution of profit, recall the Supervisory Board member and elect the Supervisory Board member, as well as to elect the auditor. The Management Board also made a presentation on the privatisation contract dispute to update the shareholders.

No questions were asked regarding the 2013 AGM agenda. Neither were any additional agenda item proposals made in 2013. The chairman of any AGM and EGM is an independent person. In 2013, 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 in charge participated at the AGM in 2013. When a Supervisory Board member or auditor in charge stands for election at the general meeting, the candidate for the respective position usually also participates in the meeting. Therefore, the Supervisory Board member candidate Mr Allar Jõks and candidate for the position of auditor in charge Mr Ago Vilu also participated at the 2013 AGM, among others. The Company does not disclose the amount of the audit fee because its non-disclosure does not affect the reliability of the audit services provided by the auditor.

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 24 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 2013, five regular and no extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2012 annual report presented to the Annual General Meeting for approval, and reviewed AS Tallinna Vesi's 2014 budget.

At the time of compilation of this report, AS Tallinna Vesi's Supervisory Board consisted of the following members:

- Mr Robert John Gallienne (United Utilities (Tallinn) B.V.), Supervisory Board member until 22 May 2014;
- Mr Steven Richard Fraser (United

Utilities (Tallinn) B.V.), Supervisory Board member until 21 January 2016;

- Mr Simon Gardiner (United Utilities (Tallinn) B.V.), Supervisory Board member until 22 May 2014;
- Mr Brendan Francis Murphy (United Utilities (Tallinn) B.V.), Supervisory Board member until 27 October 2015;
- Mr Priit Lello (Tallinn City), Supervisory Board member until 16 November 2015;
- Mr Rein Ratas (Tallinn City), Supervisory Board member until 22 May 2014;
- Mr Toivo Tootsen (Tallinn City), Supervisory Board member until 7 April 2015;
- Mr Mart Mägi (independent) Supervisory Board member until 22 May 2014;
- Mr Allar Jõks (independent) Supervisory Board member until 21 May 2015.

AS Tallinna Vesi has not made any transactions with the members of the Supervisory Board nor their related parties.

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 effectiveness of risk management and internal controls;
- to monitor and analyse the audit processes regarding the consolidated annual accounts;
- to monitor and analyse independence of 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.
- to monitor independence of external auditor

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 2013, 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 to conduct 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. Proposals are taken only from internationally respected, high quality audit companies. AS Tallinna Vesi signs up to 3-year audit contract with a clause that requires the re-appointment of the auditor in charge each year and follows the Financial Supervision Authority guidelines of 1 November 2013 "Rotation of the auditors of certain subjects of financial supervision by the state" with regard to the requirement to rotate the auditor in charge after every 5 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 2013, the Nomination and Remuneration Committee continued to advise the

Supervisory Board on management remuneration issues and Management Board nominations. Until 21 May 2013, Mr. Valdur Laid was the Chairman of the Nomination and Remuneration Committee; since 22 August 2013, the Chairman of the Nomination and Remuneration Committee is Mr Robert John Gallienne. The other member of the Committee is Mr Mart Mägi.

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 short- and long-term objectives of the Company, taking into account the financial performance of the company and legitimate interests of investors. 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. If the annual results are worse than expected it can be decided that no PRP is paid.

### *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 was the Chairman of the Corporate Governance Committee until 23 October 2013 and Mr Valdur Laid (until 21 May 2013) and Mr Ian John Alexander Plenderleith were other members of the Corporate Governance Committee. Since 23 October 2013, the Chairman of the Corporate Governance Committee is Mr Allar Jõks and other members of the Committee are Mr Robert John Gallienne and Mr Ian John Alexander Plenderleith.

### *The Management Board*

The Management Board is a management body that represents and manages the day-to-day activities of AS Tallinna Vesi 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 two 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 is considered 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 who are aware of AS Tallinna Vesi's insider rules and together with their related persons are listed in AS Tallinna Vesi's insider list. Until 31 May 2013 the Management Board consisted of five members; starting from 1 June 2013 onwards the number of members has been four. The responsibilities of all Management Board members are specified below. All Management Board members are appointed by the Supervisory Board of AS Tallinna Vesi. At the time of compilation of this report, since 1 February 2014, the number of the Management Board members has been three. The members are as follows:

- Mr Ian John Alexander Plenderleith, with the powers of the Management Board member until 1 October 2014;
- Ms Riina Käi, with the powers of the Management Board member until 29 October 2015;
- Mr Aleksandr Timofejev, with the powers of the Management Board member until 29 October 2015.

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 contracts

and the law, organizing the activities of the Management Board, coordinating preparation the strategies and ensuring their implementation.

Until his leaving on 31 May 2013, the duties of the member of the Management Board, Mr. Leho Võrk, were, amongst others, to fulfil the obligations of the Customer Operations Director of AS Tallinna Vesi, including management of water and sewerage networks' everyday operation. He was also responsible for customer services and relations as well as relations established 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. Since 1 June 2013, management of AS Tallinna Vesi's water and sewerage networks' everyday operation is one of the duties of the Management Board member Mr Aleksandr Timofejev.

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 AS Tallinna Vesi.

Until her leaving on 31 January 2014, the duties of the member of the Management

Board, Ms. Ilona Nurmela were, amongst others, to fulfil the role of AS Tallinna Vesi's General Counsel and act as the head of legal and compliance.

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 approved 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 operating 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 2013, AS Tallinna Vesi has complied with the vast majority of the Corporate Governance Recommendations. However, AS Tallinna Vesi did not comply with certain recommendations, 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 management 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 additional disclosure 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.*

*'3.2.2. 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 2013, there were no other transactions between AS Tallinna Vesi and either any member of the Management Board or any persons or companies related to them.*

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

*ble taxes and is payable monthly. The Supervisory Board members were not paid any additional benefits in 2013.*

*'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 2013, five Supervisory Board meetings were held (24 January 2013, 21 March 2013, 25 April 2013, 1 August 2013 and 23 October 2013).*

*The following members of the Supervisory Board attended more than 50% of the meetings during the time they were appointed or elected in 2013: 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 2013.*

*Management Report which consists of Chairman's statement, Results of operations – for the year 2013, Corporate Governance and Corporate Governance Recommendations Report is an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2013. 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 Plenderleit**  
Chairman of the Management Board  
20.02.2014

**Aleksandr Timofejev**  
Member of the Management Board  
20.02.2014

**Riina Käi**  
Member of the Management Board  
20.02.2014

*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 2013 on pages 57 to 85.*

*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 2013, 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 2013. 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 20 February 2014 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 Plenderleit**  
Chairman of the Management Board  
20.02.2014

**Aleksandr Timofejev**  
Member of the Management Board  
20.02.2014

**Riina Käi**  
Member of the Management Board  
20.02.2014



as of 31 December (th EUR)	Note	2013	2012
<b>Assets</b>			
<i>Current assets</i>			
Cash and cash equivalents	6	31 786	23 935
Trade receivables, accrued income and prepaid expenses	7	15 010	18 323
Inventories		429	356
<b>Total current assets</b>		<b>47 225</b>	<b>42 614</b>
<i>Non-current assets</i>			
Other long-term receivables	8	2 213	7 560
Property, plant and equipment	9	152 246	149 400
Intangible assets	9	1 037	1 154
<b>Total non-current assets</b>		<b>155 496</b>	<b>158 114</b>
<b>Total assets</b>		<b>202 721</b>	<b>200 728</b>
<b>Liabilities and equity</b>			
<i>Current liabilities</i>			
Current portion of long-term borrowings	10	2 146	115
Trade and other payables	11	4 761	5 482
Derivatives	12	1 816	2 039
Prepayments	15	2 490	2 252
<b>Total current liabilities</b>		<b>11 213</b>	<b>9 888</b>
<i>Non-current liabilities</i>			
Deferred income from connection fees		10 143	7 892
Borrowings	10	93 618	95 717
Derivatives	12	507	2 538
Other payables		32	20
<b>Total non-current liabilities</b>		<b>104 300</b>	<b>106 167</b>
<b>Total liabilities</b>		<b>115 513</b>	<b>116 055</b>
<i>Equity</i>			
Share capital	16	12 000	12 000
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		49 196	46 661
<b>Total equity</b>		<b>87 208</b>	<b>84 673</b>
<b>Total liabilities and equity</b>		<b>202 721</b>	<b>200 728</b>

Notes to the financial statements on pages 30 to 60 form an integral part of the financial statements.

(th EUR)	Note	2013	2012
Revenue	17	53 087	52 924
Costs of goods sold	19	-22 505	-20 337
<b>Gross profit</b>		<b>30 582</b>	<b>32 587</b>
Marketing expenses	19	-690	-772
General administration expenses	19	-5 060	-4 740
Other income(+)/ expenses(-)	20	-75	1 696
<b>Operating profit</b>		<b>24 757</b>	<b>28 771</b>
Financial income	21	681	1 591
Financial expenses	21	-877	-3 297
<b>Profit before taxes</b>		<b>24 561</b>	<b>27 065</b>
Income tax on dividends	22	-4 625	-4 466
<b>Net profit for the period</b>		<b>19 936</b>	<b>22 599</b>
<b>Comprehensive income for the period</b>		<b>19 936</b>	<b>22 599</b>
<b>Attributable profit to:</b>			
Equity holders of A-shares		19 935	22 598
B-share holder		0.60	0.60
Earnings per A share (in euros)	23	1.00	1.13
Earnings per B share (in euros)	23	600	600

Notes to the financial statements on pages 61 to 85 form an integral part of the financial statements.

for the year ended 31 December (th EUR)	Note	2013	2012
<b>Cash flows from operating activities</b>			
Operating profit		24 757	28 771
Adjustment for depreciation/amortisation	9, 19	5 809	5 879
Adjustment for income from government grants and revenue from connection fees	20	-117	-2 043
Other non-cash adjustments		11	-153
Profit(-)/loss(+) from sale and write off of property, plant and equipment, and intangible assets		-138	-6
Change in current assets involved in operating activities		-433	-160
Change in liabilities involved in operating activities		-92	-568
<b>Total cash flow from operating activities</b>		<b>29 797</b>	<b>31 720</b>
<b>Cash flows from investing activities</b>			
Loans granted	8	0	-765
Repayment of loan	8	3 814	0
Acquisition of property, plant and equipment, and intangible assets		-9 187	-10 011
Compensations received for construction of pipelines		7 885	11 198
Proceeds from sale of property, plant and equipment, and intangible assets		165	38
Interest received		693	1 585
<b>Total cash flow used in investing activities</b>		<b>3 370</b>	<b>2 045</b>
<b>Cash flows from financing activities</b>			
Interest paid and loan financing costs, incl swap interests	21	-3 154	-3 272
Repayment of finance lease		-136	-61
Dividends paid	22	-17 401	-16 801
Income tax on dividends	22	-4 625	-4 466
<b>Total cash flow used in financing activities</b>		<b>-25 316</b>	<b>-24 600</b>
<b>Change in cash and cash equivalents</b>		<b>7 851</b>	<b>9 165</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>23 935</b>	<b>14 770</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>6</b>	<b>31 786</b>	<b>23 935</b>

Notes to the financial statements on pages 61 to 85 form an integral part of the financial statements.

(th EUR)	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2011</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>40 863</b>	<b>78 875</b>
Dividends (Note 22)	0	0	0	-16 801	-16 801
Comprehensive income for the period (Note 23)	0	0	0	22 599	22 599
<b>as of 31 December 2012</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>46 661</b>	<b>84 673</b>
Dividends (Note 22)	0	0	0	-17 401	-17 401
Comprehensive income for the period (Note 23)	0	0	0	19 936	19 936
<b>as of 31 December 2013</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>49 196</b>	<b>87 208</b>

Notes to the financial statements on pages 61 to 85 form an integral part of the 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 2025.

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, construction 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 20 February 2014. 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.

**NOTE 1. GENERAL INFORMATION**

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



### *Adoption of New or Revised Standards and Interpretations*

The following new or revised standards or interpretations became effective for the Group from 1 January 2013:

*IFRS 13, Fair Value Measurement*, effective for annual periods beginning on or after 1 January 2013; 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 standard did not have any significant impact on fair value measurements in the Group's financial statements, but additional information related to the change has been disclosed in the financial statements of the Group.

Other new or revised standards or interpretations that became effective for the Group from 1 January 2013 do not have a material impact to the Group.

There are no new or revised standards or interpretations that are not yet effective that would be expected to have a material impact to 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 2013 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 of 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 2013 and 2012 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). Financial 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 2013 the Company had given no loans (31 December 2012: 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-refunda-

ble 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 de-

preciation 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 capi-

talized 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-generating 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 transac-

tion 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 (2012: 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 liability 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 peri-

od 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 resources and assessing performance of the operating segments, reports to the Supervisory Board which has been identified as the steering committee that makes strate-

gic 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 2013 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 34 mln euros (31 December 2012: 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 2013 Group owns property, plant and equipment, and intangible assets with a book value of 153.3 mln euros (31 December 2012: 150.6 mln euros) and annual depreciation was 5.8 mln euros (2012: 5.9 mln euros). If the depreciation/amortization rates decreased/increased by 5 %, the depreciation/amortization expense would increase/decrease respectively by

290 thousand euros (2012: 295 thousand euros).

- The Group had an obligation to construct water and wastewater and storm water pipelines with construction costs of 41 mln euros (2012: 41 mln euros) in 2008-2012. The construction of pipelines is compensated by local government with the grants receivable in 2008 – 2015 (2012: 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.

As payment of government grant for pipelines will be received until March of 2015 (2012: June of 2014) and the exact extent of compensation depends on water consumption, the value of compensation receivable is also based on estimates. In the estimates compensation is receivable for 2014-2015 and has been discounted using a rate of 3.5% (2012: 7%). If the discount rate would be decreased/increased by 50 basis points, the profit of the accounting period would increase/decrease up to 36 thousand euros (2012: up to 81 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.

The Group's financial risks are managed under the control and supervision of the Management Board by the financial department. Financial department identifies, evaluates and manages financial risks in cooperation 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 2013 was less than 2.0% (2012: 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 2013 the Group's bank accounts balances (including deposits) totalled 31 786 thousand euros (31 December 2012: 23 935 thousand euros) from which no sums were in foreign currencies (31 December 2012: 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 6 (2012: 5) floating-to-fixed interest rate swap contracts (Note 12). As of 31 December 2013 the interest rate swap contracts have the notional amount of 90 mln euros (31 December 2012: 75 mln euros), with one contract becoming effective in November 2015, therefore only borrowings in the amount of 19.9 mln euros from total of 94.9 mln euros (31 December 2012: 19.9 mln euros from total of 94.9 mln euros) remain exposed to the cash flow interest rate risk.

As of 31 December 2013, if the interest rates of the Group's borrowings, that are exposed to the cash flow interest rate risk, had been 50 basis points (31 December 2012: 50 basis points) higher/lower with all other variables held constant,

profit for the year would have been EUR 101 thousand (2012: EUR 101 thousand) lower/higher.

Overnight and fixed term deposits 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 Baa1 rating (by Moody's) is used. As of 31 December 2013 85% of Group's fixed term deposits were deposited with counterparty with higher rating than A3 and 15% with counterparty with rating Baa1 (31 December 2012: 100% higher than A3). 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 ob-

served. In the case of overdue debt the clients are contacted by billing group. At the end of December 2013 only one client's (31 December 2012: one client's) receivables (Note 25) exceeded 5% of total trade receivables constituting 8.4% of it (31 December 2012: 47.0%).

## FINANCIAL ASSETS

as of 31 December 2013 (th EUR)	Balance	Not due	Overdue		
			Not impaired (up to 2 months)	Impaired	Impairment
Cash and cash equivalents (Note 6)	31 786	31 786	0	0	0
Trade receivables (Note 7)	6 495	6 271	184	408	-368
Commercial entities	3 321	3 147	143	362	-331
Private persons	3 174	3 124	41	46	-37
Accrued income (Note 7)	9	9	0	0	0
Loan to co-partner and other long-term account receivables (Note 7, 8)	52	52	0	0	0
Government grant receivable (Note 7, 8, 25)	10 315	10 315	0	0	0
<b>Total</b>	<b>48 657</b>	<b>48 433</b>	<b>184</b>	<b>408</b>	<b>-368</b>

as of 31 December 2012 (th EUR)	Balance	Not due	Overdue		
			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 and other receivables (Note 7, 8)	3 916	3 916	0	0	0
Government grant receivable (Note 7, 8, 25)	10 868	10 868	0	0	0
<b>Total</b>	<b>49 210</b>	<b>49 093</b>	<b>83</b>	<b>533</b>	<b>-499</b>

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 does not have enough funds to serve its loans, to fulfil its working capital needs, to in-

vest 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 2013 (th EUR)	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Trade and other payables	2 003	38	0	0	10	2 051
Derivatives	1 816	0	0	507	0	2 323
Borrowings (incl finance lease)	87	187	3 039	94 929	2 010	100 252
<b>Total</b>	<b>3 906</b>	<b>225</b>	<b>3 039</b>	<b>95 436</b>	<b>2 020</b>	<b>104 626</b>

as of 31 December 2012 (th EUR)	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
<b>Total</b>	<b>4 980</b>	<b>206</b>	<b>953</b>	<b>58 414</b>	<b>44 047</b>	<b>108 600</b>

## 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.

## 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. The fair values of the government grant receivables have been measured using unobservable inputs (level 3) (Note 4).

At the end of 2013 all Group's long-term borrowings had floating interest rates. The fair values of long-term borrowings are based on discounted cash flows using the borrowing rate of 1.66% - 1.84% (2012: 1.53% - 1.74%) and are within level 3 of the fair value hierarchy. 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 2013 was 948 thousand euros smaller than their carrying amount (31 December 2012: 1 240 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 determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The fair value of interest rate swap contracts is calculated as the present of estimated future cash flows based on observable yield curves.

## 5.2 CAPITAL MANAGEMENT

as of 31 December (th EUR)	2013	2012
Borrowings	95 764	95 832
Cash	-31 786	-23 935
<b>Net debt</b>	<b>63 978</b>	<b>71 897</b>
<b>Equity</b>	<b>87 208</b>	<b>84 673</b>
<b>Total capital</b>	<b>151 186</b>	<b>156 570</b>
Net debt and total capital ratio	42,3%	45,9%
Total assets	202 721	200 728
Proportion of equity to total assets	43,0%	42,2%

**NOTE 6.****Cash and cash equivalents**

as of 31 December (th EUR)	2013	2012
Cash in hand and in bank	3 295	1 859
Short-term deposits	28 491	22 076
<b>Total cash and cash equivalents</b>	<b>31 786</b>	<b>23 935</b>

**NOTE 7.****Trade receivables, accrued income and prepaid expenses**

as of 31 December (th EUR)	2013	2012
Accounts receivable	6 863	10 969
Allowance for doubtful receivables	-368	-499
<b>Total trade receivables</b>	<b>6 495</b>	<b>10 470</b>
<b>Allowance for doubtful receivables at the beginning of the period</b>	<b>-499</b>	<b>-514</b>
Proceeds from doubtful receivables during the period	211	150
Allowance for doubtful receivables recognised during the period	-166	-319
Receivables written off balance sheet during the period	86	184
<b>Allowance for doubtful receivables at the end of the period</b>	<b>-368</b>	<b>-499</b>

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 (th EUR)	2013	2012
Accrued interest	9	21
Government grant receivables	8 154	7 123
Prepaid expenses	351	709
<b>Total accrued income and prepaid expenses</b>	<b>8 514</b>	<b>7 853</b>
<b>Total trade receivables, accrued income and prepaid expenses</b>	<b>15 010</b>	<b>18 323</b>

The Company's current assets (incl. trade receivables, accruals and inventory) in the amount of 15 439 thousand euros (31 December 2012: 18 679 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 (th EUR)	2013	2012
Government grant receivables	2 161	3 746
Long-term accounts receivables	52	0
Loan to co-partner	0	3 814
<b>Total other long-term receivables</b>	<b>2 213</b>	<b>7 560</b>

The loan to co-partner was repaid in full in 2013. The Company's long term receivables in the amount of 2 213 thousand euros (31 December 2012: 3 746 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

(th EUR)	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	
<i>as of 31 December 2011</i>									
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
<b>Book value</b>	<b>19 137</b>	<b>109 186</b>	<b>12 757</b>	<b>367</b>	<b>2 849</b>	<b>1 677</b>	<b>222</b>	<b>1 355</b>	<b>147 550</b>
<i>Transactions in the period 01 January 2012 - 31 December 2012</i>									
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
<i>as of 31 December 2012</i>									
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
<b>Book value</b>	<b>19 409</b>	<b>111 846</b>	<b>14 407</b>	<b>440</b>	<b>2 258</b>	<b>1 040</b>	<b>25</b>	<b>1 129</b>	<b>150 554</b>
<i>Transactions in the period 01 January 2013 - 31 December 2013</i>									
Acquisition in book value	0	0	0	0	6 127	2 103	421	0	8 651
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	-7	-8	0	-99	0	1	-113
Reclassification	58	7 724	2 030	52	-7 808	-2 056	-419	419	0
Depreciation (Note 19)	-278	-2 717	-2 195	-80	0	0	0	-539	-5 809
<i>as of 31 December 2013</i>									
Acquisition cost	24 851	175 032	44 874	1 321	577	988	27	5 517	253 187
Accumulated depreciation	-5 662	-58 179	-30 639	-917	0	0	0	-4 507	-99 904
<b>Book value</b>	<b>19 189</b>	<b>116 853</b>	<b>14 235</b>	<b>404</b>	<b>577</b>	<b>988</b>	<b>27</b>	<b>1 010</b>	<b>153 283</b>

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 2013 the book value of the assets (Machinery and equipment) leased under financial lease is 861 thousand euros (31 December 2012: 886 thousand euros).

The Group's non-current assets in the amount of 14 287 thousand euros (31 December 2012: 14 573 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 32 147 thousand euros (31 December 2012: 32 766 thousand euros) serves as a security to the bank loans (Note 10).

During the year, the Group has capitalised borrowing costs amounting to 31 thousand euros (2012: 57 thousand euros) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 1.13% (2012: 1.39%).

## NOTE 10.

### Borrowings

as of 31 December (th EUR)	2013	2012
<b>Current borrowings</b>		
Current portion of long-term bank loans	2 000	0
Current portion of long-term finance lease liabilities	146	115
<b>Total current borrowings</b>	<b>2 146</b>	<b>115</b>
<b>Non-current borrowings</b>		
Long-term bank loans	92 934	94 919
Long-term finance lease liabilities	684	798
<b>Total non-current borrowings</b>	<b>93 618</b>	<b>95 717</b>

#### Bank loans at 31 December 2013

Currency EUR (euro)	Balance	Effective interest rate
Borrowings at floating interest rate (based on 1- and 6-month Euribor)	94 934	0.93%-1.66%
Finance lease liabilities	830	2.27%-3.05%

#### 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%

Company's loan agreements mature in November 2015 (31 December 2012: November 2015) in the sum of 37 500 thousand euros and in November 2018 (31 December 2012: November 2018) in the sum of 37 500 thousand euros. Third loan agreement in the sum of 20 000 thousand euros will be repaid in ten equal semi-annual repayments from November 2014 to May 2019 (31 December 2012: November 2014 to May 2019).

#### Collateral of loans and pledged assets

Collateral at book value as of 31 December (th EUR)

Type of collateral	Specification and location of collateral	2013	2012
Commercial pledge	Movables of the Company (Notes 7, 8, 9)	31 939	36 998
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	32 147	32 776



## NOTE 11.

## Trade and other payables

for the year ended 31 December (th EUR)	2013	2012
Trade payables - operating expenditures	1 564	1 743
Trade payables - capital expenditures	214	834
Payables to related parties (Note 25)	197	187
Payables to employees	900	869
Interest payable	33	50
Other accrued expenses	65	135
Guarantee deposit	26	28
Taxes payable incl:		
Income tax	141	142
VAT	823	744
Water abstraction charges	257	236
Pollution taxes	209	181
Social security tax	283	284
Other	49	49
<b>Total trade and other payables</b>	<b>4 761</b>	<b>5 482</b>

## NOTE 12.

## Derivatives

Liabilities (th EUR)	Balance amount	Short-term portion	Long-term portion
<b>as of 31 December 2013</b>			
SWAP contracts	2 323	1 816	507
<b>as of 31 December 2012</b>			
SWAP contracts	4 577	2 039	2 538

as of 31 December 2012 (th EUR)	2013	2012
Contracts start date	May 2010 – November 2015	May 2010 – November 2011
Contracts maturity date	May 2015 – November 2018	November 2013 – November 2015
Contracts notional amount	90 000	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 0 euros (2012: 4 429 thousand euros) (Note 25). The book value of property, plant and equipment compensated by the government grant was decreased by 0 euros (2012: 2 392 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 5 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 2013 amounted to 49 196 thousand euros (2012: 46 661 thousand euros). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 13 077 thousand euros (2012: 12 404 thousand euros).

**NOTE 15.****Prepayments**

as of 31 December (th EUR)	2013	2012
Prepayments for water and sewerage services	55	76
Prepayments for connection fee	2 435	2 176
<b>Total prepayments</b>	<b>2 490</b>	<b>2 252</b>

**NOTE 16.****Share capital**

At 31 December 2013 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 2013 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 2013 and 2012 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 2013 and 2012.

As of 31 December 2013 from all Supervisory Board and Management Board members Riina Käi owned 100 shares (2012: Riina Käi 100 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 (th EUR)	2013	2012
<b>Revenues from main operating activities</b>		
Total water supply and waste water disposal service, incl:	47 737	47 912
Private clients, incl:	23 642	23 789
Water supply service	13 022	13 096
Waste water disposal service	10 620	10 693
Corporate clients, incl:	19 053	18 767
Water supply service	10 585	10 248
Waste water disposal service	8 468	8 519
Outside service area clients, incl:	4 308	4 524
Water supply service	1 095	1 028
Waste water disposal service	2 730	2 684
Storm water disposal service	483	812
Over pollution fee	734	832
Storm water treatment and disposal service	3 137	3 713
Fire hydrants service	287	202
Construction service and design	1 146	351
Other works and services	780	746
<b>Total revenues</b>	<b>53 087</b>	<b>52 924</b>

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

## NOTE 18.

## Staff costs

for the year ended 31 December (th EUR)	2013	2012
Salaries and wages	-5 233	-5 150
Social security and unemployment insurance taxation	-1 744	-1 718
<b>Total staff costs</b>	<b>-6 977</b>	<b>-6 868</b>
<b>Number of employees at the end of reporting period</b>	<b>304</b>	<b>313</b>

## NOTE 19.

## Cost of goods sold, marketing and administrative expenses

for the year ended 31 December (th EUR)	2013	2012
<b>Cost of goods sold</b>		
Water abstraction charges	-997	-937
Chemicals	-1 734	-1 631
Electricity	-3 392	-3 695
Pollution tax	-1 872	-347
Staff costs (Note 18)	-4 833	-4 750
Depreciation and amortization	-5 115	-5 167
Construction service and design	-947	-277
Other costs of goods sold	-3 615	-3 533
<b>Total cost of goods sold</b>	<b>-22 505</b>	<b>-20 337</b>
<b>Marketing expenses</b>		
Staff costs (Note 18)	-375	-373
Depreciation and amortization	-244	-326
Other marketing expenses	-71	-73
<b>Total marketing expenses</b>	<b>-690</b>	<b>-772</b>
<b>Administrative expenses</b>		
Staff costs (Note 18)	-1 769	-1 745
Depreciation and amortization	-339	-295
Other general administration expenses	-2 952	-2 700
<b>Total administrative expenses</b>	<b>-5 060</b>	<b>-4 740</b>

## NOTE 20.

## Other income / expenses

for the year ended 31 December (th EUR)	2013	2012
Profit from government grant	0	2 037
Connection fees	117	96
Depreciation of single connections	-111	-91
Doubtful receivables expenses (-)/expense reduction (+)	45	-169
Other income (+)/expenses (-)	-126	-177
<b>Total other income / expenses</b>	<b>-75</b>	<b>1 696</b>

## NOTE 21.

## Financial income and expenses

for the year ended 31 December (th EUR)	2013	2012
Interest income	681	1 591
Interest expense, loan	-1 087	-1 358
Interest expense, swap	-2 024	-1 851
Increase/decrease of fair value of swap	2 255	-89
Other financial income(+)/expenses(-)	-21	1
<b>Total financial income / expenses</b>	<b>-196</b>	<b>-1 706</b>

## NOTE 22.

## Dividends

for the year ended 31 December (th EUR)	2013	2012
Dividends declared during the period	17 401	16 801
Dividends paid during the period	17 401	16 801
Income tax on dividends paid	-4 625	-4 466
Income tax accounted for	-4 625	-4 466

***Paid-up dividends per shares:***

Dividends per A-share (in euros)	0.87	0.84
Dividends per B-share (in euros)	600	600

*Income tax rates in 2013 and 2012 were 21/79.*

## NOTE 23.

## Earnings per share

for the year ended 31 December (th EUR)	2013	2012
Net profit minus B-share preferred dividend rights	19 935	22 598
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)	1.00	1.13
Earnings per B share (in euros)	600	600

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

## NOTE 24.

## Operating lease

for the year ended 31 December (th EUR)	2013	2012
<b>Leased assets</b>		
Total operating lease expenses for computers and vehicles	415	319
Operating lease (compensated by customers)	808	770

*Following periods operating lease payments from the non-cancellable contracts are as follows:*

as of 31 December (th EUR)	2013	2012
Less than 1 year	199	255
1-5 years	224	296
<b>Total minimum lease payments</b>	<b>423</b>	<b>551</b>

*The underlying currency of all lease contracts is euro. Leased assets have not been subleased.*

## 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 (th EUR)	2013	2012
<b>Balances recorded in on the statement of financial position of the Group</b>		
Accounts receivable (Note 7)	550	4 919
Government grant receivables (Note 7)	8 154	7 123
Long-term government grant receivables (Note 8)	2 161	3 746
Trade and other payables	197	187
<b>for the year ended 31 December (th EUR)</b>		
<b>Transactions</b>		
Revenue	3 424	3 877
Government grant receivable accrued for constructing new pipelines	0	4 429
Purchase of administrative and consulting services	1 020	998
Financial income	434	1 226
<b>Short-term employee benefits to Management Board (excluding social tax)</b>	<b>294</b>	<b>326</b>
<b>Supervisory Board fees (excluding social tax)</b>	<b>40</b>	<b>40</b>

*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".*

*18 thousand euros were paid to the Management Board members as termination fees in the year that ended on 31 December 2013 (in the year that ended on 31 December 2012: 45 thousand euros). The off balance sheet potential salary liability would be up to 93 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.*

*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			2013	2012
Subsidiary	Location	Activity	Holding (%)	Holding (%)
Watercom OÜ	Tallinn, Estonia	Provision of non-core services related to water business	100	100

AS Tallinna Vesi registered 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 (th EUR)	2013	2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	29 879	23 354
Trade receivables, accrued income and prepaid expenses	14 579	18 246
Receivables from subsidiary	39	35
Inventories	424	353
<b>Total current assets</b>	<b>44 921</b>	<b>41 988</b>
<b>Non-current assets</b>		
Other long-term receivables	2 212	7 559
Investment in subsidiary	527	527
Property, plant and equipment	153 305	149 133
Intangible assets	1 003	1 087
<b>Total non-current assets</b>	<b>157 047</b>	<b>158 306</b>
<b>Total assets</b>	<b>201 968</b>	<b>200 294</b>



## STATEMENT OF FINANCIAL POSITION

as of 31 December (th EUR)	2013	2012
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Current portion of long-term borrowings	2 042	19
Trade and other payables	4 080	4 486
Derivatives	1 816	2 039
Payables to subsidiary	743	1 369
Prepayments and deferred income	2 488	2 221
<b>Total current liabilities</b>	<b>11 169</b>	<b>10 134</b>
<b>Non-current liabilities</b>		
Deferred income from connection fees	10 144	7 892
Borrowings	92 959	94 953
Derivatives	507	2 538
Other payables	9	9
<b>Total non-current liabilities</b>	<b>103 619</b>	<b>105 395</b>
<b>Total liabilities</b>	<b>114 788</b>	<b>115 526</b>
<b>Equity</b>		
Share capital	12 000	12 000
Share premium	24 734	24 734
Statutory legal reserve	1 278	1 278
Retained earnings	49 168	46 756
<b>Total equity</b>	<b>87 180</b>	<b>84 768</b>
<b>Total liabilities and equity</b>	<b>201 968</b>	<b>200 294</b>

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December (th EUR)	2013	2012
Revenue	51 693	52 437
Costs of goods sold	-21 578	-20 014
<b>Gross profit</b>	<b>30 115</b>	<b>32 423</b>
Marketing expenses	-690	-731
General administration expenses	-4 734	-4 553
Other income(+)/ expenses (-)	-76	1 291
<b>Operating profit</b>	<b>24 615</b>	<b>28 430</b>
Financial income	2 932	1 587
Net financial expenses	-3 109	-3 285
<b>Profit before taxes</b>	<b>24 438</b>	<b>26 732</b>
Income tax on dividends	-4 625	-4 466
<b>Net profit for the period</b>	<b>19 813</b>	<b>22 266</b>
<b>Comprehensive income for the period</b>	<b>19 813</b>	<b>22 266</b>
<b>Attributable profit to:</b>		
Equity holders of A-shares	19 812	22 265
B-share holder	0.60	0.60
Earnings per A share (in euros)	0.99	1.11
Earnings per B share (in euros)	600	600

## CASH FLOW STATEMENT

for the year ended 31 December (th EUR)	2013	2012
<b><i>Cash flows from operating activities</i></b>		
Operating profit	24 614	28 431
Adjustment for depreciation/amortisation	5 660	5 786
Adjustment for income from government grants and connection fees	-117	-2 043
Other non-cash adjustments	27	7
Profit (-)/loss(+) from sale and write off of property, plant and equipment, and intangible assets	-134	30
Change in current assets involved in operating activities	-210	-262
Change in liabilities involved in operating activities	-383	-10
<b><i>Total cash flow from operating activities</i></b>	<b>29 457</b>	<b>31 939</b>
<b><i>Cash flows from investing activities</i></b>		
Loans granted	0	-765
Repayment of loan	3 814	0
Acquisition of property, plant and equipment, and intangible assets	-10 284	-10 530
Compensations received for construction of pipelines	7 884	11 198
Proceeds from sale of property, plant and equipment, and intangible assets	159	2
Interest received	690	1 581
<b><i>Total cash flow used in investing activities</i></b>	<b>2 264</b>	<b>1 486</b>
<b><i>Cash flows from financing activities</i></b>		
Interest paid and loan financing costs	-3 130	-3 242
Repayment of finance lease	-40	-4
Dividends paid	-17 401	-16 801
Income tax on dividends	-4 625	-4 466
<b><i>Total cash flow used in financing activities</i></b>	<b>-25 196</b>	<b>-24 513</b>
<b><i>Change in cash and cash equivalents</i></b>	<b>6 525</b>	<b>8 912</b>
<b><i>Cash and equivalents at the beginning of the period</i></b>	<b>23 354</b>	<b>14 442</b>
<b><i>Cash and equivalents at the end of the period</i></b>	<b>29 879</b>	<b>23 354</b>

## STATEMENT OF CHANGES IN EQUITY

(th EUR)	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2011</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>41 291</b>	<b>79 303</b>
Dividends	0	0	0	-16 801	-16 801
Comprehensive income for the period	0	0	0	22 266	22 266
<b>as of 31 December 2012</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>46 756</b>	<b>84 768</b>
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
<b>as of 31 December 2012</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>46 756</b>	<b>84 768</b>
Dividends	0	0	0	-17 401	-17 401
Comprehensive income for the period	0	0	0	19 813	19 813
<b>as of 31 December 2013</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>49 168</b>	<b>87 180</b>
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	555
<b>Adjusted unconsolidated equity as of 31 December 2013</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>49 168</b>	<b>87 208</b>

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 20 February 2014. 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  
20.02.2014



**Aleksandr Timofejev**  
Member of the Management Board  
20.02.2014



**Riina Käi**  
Member of the Management Board  
20.02.2014



**Robert John Gallienne**  
Chairman of the Supervisory Board  
20.03.2014



**Steven Richard Fraser**  
Member of the Supervisory Board  
19.03.2014



**Simon Gardiner**  
Member of the Supervisory Board  
19.03.2014



**Brendan Francis Murphy**  
Member of the Supervisory Board  
19.03.2014



**Mart Mägi**  
Member of the Supervisory Board  
19.03.2014



**Rein Ratas**  
Member of the Supervisory Board  
19.03.2014



**Toivo Tootsen**  
Member of the Supervisory Board  
19.03.2014



**Allar Jõks**  
Member of the Supervisory Board  
19.03.2014



**Priit Lello**  
Member of the Supervisory Board  
19.03.2014

## 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 2013 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 appro-

priateness 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 2013, 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 describe 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.



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Ago Vilu  
Auditor's Certificate No.235  
25.02.2014

Stan Nahkor  
Auditor's Certificate No.508  
25.02.2014

\* 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.



**Ian Plenderleith**

*Chairman of the Management Board*

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.



**Aleksandr Timofejev**

*Member of the Management Board*

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.



**Riina Käi**

*Member of the Management Board*

Riina Käi 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 and as a chief accountant in different companies. Riina holds bachelors degree (specialisation to Financial accounting and –management) as well as Master'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.





**Robert John Gallienne**  
Chairman of the Supervisory Board

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. Does not own any shares in AS Tallinna Vesi.



**Steven Richard Fraser**  
Member of the Supervisory Board

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 D.J. Ryan & Sons Limited 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. Does not own any shares in AS Tallinna Vesi.



**Simon Gardiner**  
Member of the Supervisory Board

Nominated by the United Utilities Group and elected at the AGM of December 14th 2010. Simon Gardiner is the Head of Legal Department of United Utilities Group PLC. He was previously 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. Does not own any shares in AS Tallinna Vesi.



**Brendan Francis Murphy**  
Member of the Supervisory Board

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. Does not own any shares in AS Tallinna Vesi.



**Mart Mägi**  
Member of the Supervisory Board

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 Amserve 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. Does not own any shares in AS Tallinna Vesi.



**Rein Ratas**  
Member of the Supervisory Board

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. Since 1999 Mr Ratas has been employed by AS Tallmac as the Head of Environmental Department and an environmental expert. Simultaneously, Rein Ratas has been teaching at Environmental Protection Institute of the Estonian Agricultural University. Prior to that Mr Ratas was the Secretary General in the Environmental Ministry for 7 years. Rein Ratas has a PhD in the field of biology from the University of Tartu. Does not own any shares in AS Tallinna Vesi.



**Toivo Tootsen**

*Member of the Supervisory Board*

*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. Does not own any shares in AS Tallinna Vesi.*



**Allar Jõks**

*Member of the Supervisory Board*

*Allar Jõks was elected as the independent member of the Supervisory Council at the AGM of May 21st 2013. Allar Jõks is an attorney-at-law and partner at the law firm Sorainen. Previously has worked as a judge at the county court and district court, as well as been the Legal Chancellor of the Republic of Estonia. Allar Jõks has the BA and MA in law from the University of Tartu. Allar Jõks is an acknowledged expert in constitutional and administrative law. Does not own any shares in the AS Tallinna Vesi.*



**Priit Lello**

*Member of the Supervisory Board*

*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. Does not own any shares in AS Tallinna Vesi.*

*Additional information to the shareholders:*

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