



Tallinna Vesi ~ Annual Report 2011



*Dear Reader,*

*This book provides an overview of the performance and highlights of AS Tallinna Vesi in 2011.  
More detailed information is available in the environmental report attached to this book in an electronic form.  
For more information about the Company please visit [www.tallinnavesi.ee](http://www.tallinnavesi.ee).*

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

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





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# MISSION

*We create better life with pure water.*

# VISION

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

# OUR VALUES

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

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

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

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

**PROACTIVITY** *Act today for a better tomorrow.*







## General facts

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- AS Tallinna Vesi is the largest water utility company in Estonia, providing drinking water and wastewater disposal services to approximately 1/3 of Estonia's population.
- The Company provides water and wastewater disposal services to over 22,000 customers and 430,000 end consumers in Tallinn and its surrounding areas.
- The Company has the exclusive right to provide water and sewerage services in the Tallinn service area until the year 2020.
- A services agreement with 97 quality levels of service has been concluded between the city of Tallinn and the Company for providing the services.
- The Company has two main treatment plants: Ülemiste water treatment plant (WTP) and Paljassaare wastewater treatment plant (WWTP).
- Water has been treated at Ülemiste since 1927. A new water treatment plant was built in 1979.
- The water treatment plant produces an average of 60,000 m<sup>3</sup> of water per day.
- Almost 90% of drinking water is produced from surface water. Lake Ülemiste is the main source of drinking water for the residents of Tallinn and, therefore, the lake is not a public water body. 10% of the consumers use regional ground water.
- Average water consumption in 2011 was 94 litres per inhabitant (95 litres in 2010).
- Paljassaare WWTP started operating in 1980.
- The wastewater treatment plant treats on an average 120,000 m<sup>3</sup>/day.
- The Company has an accredited water labora-

tory and an accredited wastewater laboratory, which together conducted approximately 129,000 analyses in 2011.

- The public water supply system comprises almost 954 km of water networks, 17 water pumping stations and 64 ground water borehole pumping stations with 93 boreholes.
- The public sewerage system comprises 921 km of wastewater networks, 414 km of storm water networks and over 146 sewerage pumping stations across the service area.
- AS Tallinna Vesi founded its 100% owned subsidiary, Watercom in 2010, to diversify the Company product offering and pursue business development and growth.
- In 2011, the Company and its subsidiary employed a total of 311 employees. On an average the Company employed 299 people in 2011.
- The Company shares are listed on the main list of Tallinn Stock Exchange.

### OPERATIONAL SITES

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

## Highlights 2011

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- The quality of drinking water supplied by the Company to its customers was better than ever before. 99.66% of water samples taken at the taps of the Company's customers complied with all legal quality requirements set for drinking water, keeping the quality level comparable to Western-Europe countries.
- The quality of treated effluent complied with all quality parameters throughout the year 2011. The main focus was on making the work more efficient in all treatment stages, in order to achieve maximum treatment results in the conditions where pollution loads exceed process capacities.
- The construction of the third stage of wastewater treatment process – biofilter – was completed and commenced in the beginning of the third quarter. It is a unique project in the entire Baltics enabling a significant reduction in the level of nitrogen going to the Bay of Tallinn and an improvement in wastewater quality. The efficiency of nitrogen removal has increased to 85% thanks to the biofilter.
- All of the sludge went through an environmentally-friendly re-utilisation process, no sludge was taken to the landfill.
- In 2011, the Company invested 16.5 million euros, focusing mainly on upgrading the wastewater treatment plant. The investments enable to achieve the best ever results in terms of water quality, wastewater treatment and the work of networks unit.
- The Company achieved 96 out of the 97 levels of service agreed upon in the Services Agreement.
- The Company renewed over 5.1 km of water network and over 5.6 km of wastewater network outperforming the standards set out in the Services Agreement.
- Thanks to the preventive maintenance and reconstruction of the wastewater network, the Company achieved the lowest number of sewer blockages during the last decade. In 2011 there were only 944 sewer blockages, which is the lowest number since 1999, when there were 2444 sewer blockages.
- In order to reduce the inconvenience caused by interruptions to water supply, the Company pre-notified approximately 98% of its customers of emergency water cuts.
- Customer satisfaction stayed on a high level. The Company scored 72 points among both its customers and end users on a scale of 100 in the final TRI\*M index of the customer satisfaction survey carried out by a research company EMOR.
- NASDAQ OMX awarded AS Tallinna Vesi as the best company for Investor Relations on the Tallinn Stock Exchange and the second best in the Baltic states. In addition to that the homepage of the Company's investors was recognised among the best five and the Annual Report of the Company came second in all listed companies in the Baltics. In total AS Tallinna Vesi scored a record of achieving 97.8 points of 100.
- An awareness campaign was carried out "Cheers to Nature – Drink Tap Water", in order to draw attention to the excellent quality of drinking water and to make people think about the global crises of pure water. The campaign included the installation of drinking taps in Tallinn Old Town to provide people with opportunity to refresh themselves for free and to become convinced of its good quality. Also, cooperation was initiated with some restaurants in Tallinn "Cheers to Nature – Drink Tap Water" in order to encourage people to choose tap water with their meal instead of bottled water.
- In cooperation with kindergartens, the Company started a project „Water Day in Kindergarten“ with an aim to explain to 4-7 year old children the need and opportunities to save pure drinking water. 3012 children participated in the project in 2011.
- Annual Open Door Days at the treatment plants attracted visitors to learn about the work of the plants also in 2011. In June approximately 250 people attended Paljassaare Wastewater Treatment Plant. In August approximately 400 people attended Ülemiste Water Treatment Plant.
- Det Norske Veritas confirmed the compliance of the management systems of the Company and its subsidiary OÜ Watercom with ISO 9001, ISO 1400 and OHSAS 18001 standards. The Company's compliance with the EMAS (Eco-Management Audit Scheme) requirements was confirmed as well.





Aleksandr Kivojenko  
Operator

## Key performance indicators

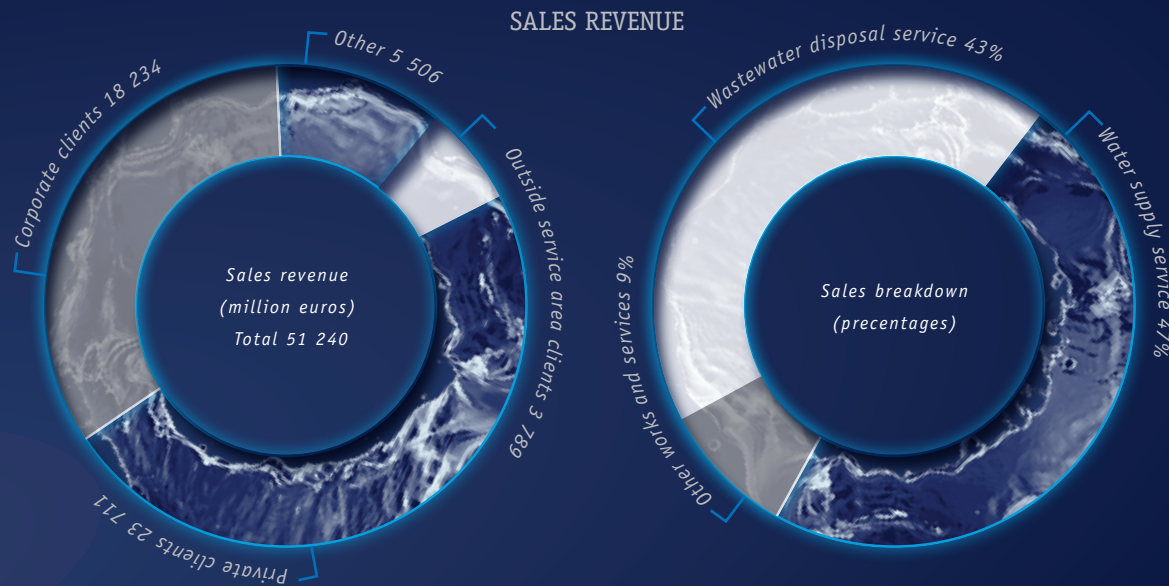
### OPERATION PERFORMANCE

	2001	2009	2010	2011
Drinking water				
Compliance of water quality at the customers tap, %	63,3	99,31	99,59	<b>99,66</b>
Water loss in the water distribution network, %	32,4	17,25	21,39	<b>17,73</b>
Wastewater				
Number of sewer blockages	2080	1089	1152	<b>944</b>
Number of sewer collapses	144	117	138	
Wastewater treatment compliance with environmental standards, %	-	100	Compliance achieved regarding all parameters, except total nitrogen.	<b>100</b>
Customer service				
Responding written customer contacts within at least 2 work days, %	-	-	82	<b>95,9</b>
Number of written contacts	683	272	9940	<b>9406</b>

### FINANCIAL RESULTS

<i>million euros</i>	2007	2008	2009	2010	2011
Sales	41,4	46,0	49,4	49,7	<b>51,2</b>
Gross profit	27,6	28,6	31,2	29,0	<b>30,3</b>
Operating profit	24,1	25,9	29,5	27,5	<b>28,9</b>
Profit before taxes	21,3	23,1	25,6	24,9	<b>25,8</b>
Net profit	17,8	18,9	21,7	16,4	<b>21,5</b>
Percentages					
Gross profit margin %	66,6	62,1	63,2	58,4	<b>59,2</b>
Operating profit margin %	58,2	56,3	59,8	55,3	<b>56,4</b>
Profit before taxes margin %	51,4	50,3	51,9	50,1	<b>50,3</b>
ROA %	10,9	11,6	12,3	8,9	<b>11,2</b>
ROE %	22,5	23,1	24,4	22,4	<b>27,3</b>
Return on invested capital (real) %	6,6	6,4	6,6	5,5	<b>6,5</b>

## Management system



## INVESTMENTS IN DIFFERENT FIELDS



### IMPROVE

- Improving plans and activities
- Preventing problems
- Solving problems

### CHECK

- Monitoring and measuring of activities
- Carrying out internal audits

### PLAN

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

### DO

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

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



2001 - ISO 17025 LABORATORIES QUALITY MANAGEMENT SYSTEM\*

2002 - ISO 9001 QUALITY MANAGEMENT SYSTEM\*

2003 - ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM\*

2005 - EU EMAS ENVIRONMENTAL MANAGEMENT SYSTEM

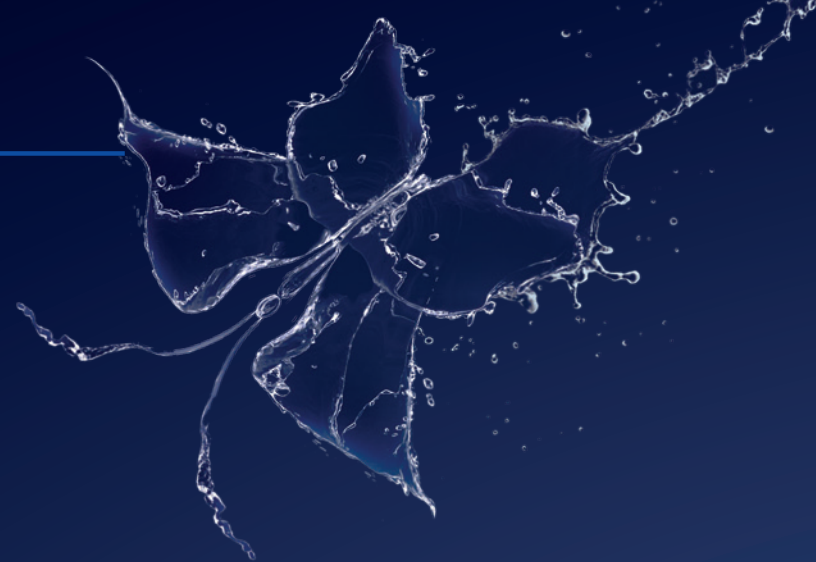
2007 - OHSAS 18001 OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

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



# Delivery of Company objectives in 2011

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## CUSTOMER SERVICE

- ☒ To reduce the number of service failures >>> Potential commitment for non-compliance with our promises 15 000 euro
- ☒ To improve the speed of responding to customers >>> At least 90% of written contacts answered within 2 working days
- ☒ To improve our proactive communications with customers >>> On at least 95% of occasions operations have notified customer service about unplanned interruptions in working day/hours and customers are informed at least 1 hr in advance
- ☐ To improve the quality of Customer Service phone responses >>> On first phone call 90% of customers will know what will happen and by when and we'll keep our word

## OPERATIONAL PERFORMANCE

- ☒ To improve water quality >>> Water quality is 99.31% compliant
- ☒ To reduce the leakage level >>> Level of water loss in network less than 19.00%
- ☒ To reduce the number of interruptions to water supply >>> Reduction in the maximum hours of interruptions to less than 60 000 hours
- ☐ To reduce floodings/blockages caused by public sewerage network on customers' properties >>> 90% of blockages and flooding events responded to within 2 hours
- ☒ To improve wastewater treatment >>> Compliance of pollution parameters in effluent at the WwTP in at least 3 quarters

## FINANCIAL PERFORMANCE

- ☒ Additional revenues from non-core activities >>> Revenue increase from non-regulated activities by 225 000 euros
- ☐ Saving on fixed costs >>> Fixed costs reduction by 450 000 euros compared to the budget

## PEOPLE

- ☒ Employee commitment and satisfaction with the company is considerably higher than Estonian average >>> ASTV TRIM index 10 points higher than Estonian average
- ☒ Inter-departmental cooperation is better than in 2010 >>> In 2011 ESS the score for inter-departmental cooperation is better than in 2010
- ☐ Employees' feedback regarding management is better than in 2010 >>> 0 work accidents that the employer is liable for
- ☒ To reduce the number of short-term sick leave days >>> Less than 1200 short term sick leave day's
- ☒ Employees' feedback regarding management is better than in 2010 >>> Employee feedback to management is better than in 2010



# Company objectives in 2012

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## CUSTOMER SERVICE

- Potential commitment for non-compliance with our promises is below 750.
- At least 95% of written contacts are answered within 2 working days.
- In at least 80% of cases customers are informed about unplanned interruptions 1 hr in advance.
- On first phone call 90% of customers will know what will happen and by when and we'll keep our word.
- Customer satisfaction with the service has improved as a result of regular surveys.

## OPERATIONAL PERFORMANCE

- Compliance of water quality at customer taps with the requirements is at least 99.31%.
- Level of water loss in network is less than 19%.
- Average length of customer interruption is less than 3,5 hr and maximal interruption is not more than 12 hours.
- Total number of blockages in sewerage system in Tallinn is below 1000.
- Compliance of pollution parameters in effluent at the WwTP and at the storm water outlets in at least 4 quarters.

## FINANCIAL PERFORMANCE

- Revenue increase from external non-regulated activities by 250,000 EUR
- Total costs reduction compared to budget by 500,000 EUR
- Minimum of 95% of CAPEX budget is completed, and with 5% savings compared to budget (435,000 EUR)

## PEOPLE

- Employees recommend the company as an employer (recommendation index is at least 3,6 according to the EOS)
- Inter-departmental cooperation is better than in 2011 (based on the internal customer satisfaction survey)
- Employee feedback to management is better than in 2010/2011 (according to the EOS)
- 0 work accidents that the employer is liable for and short-term sick leave days are below 1200

## Chairman's statement

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In 2011 AS Tallinna Vesi has demonstrated an extremely high level of resilience. Our company's privatisation contract, business model and operational standards have been questioned, and many declared illegal, by the new "price checker" the Competition Authority. Since taking over the "price checking" function from the City of Tallinn the Competition Authority has refused to engage with any aspect of our privatisation contract preferring to ignore the outstanding operational performance of the company, whilst declaring our privatisation contract "illegal".

During 2011 the Competition Authority refused to accept our tariff application for 3.5% tariff increase. We would like to highlight that our tariff application was made solely on the basis of the privatisation contracts that were approved by the City of Tallinn and the Estonian Government in 2001. Furthermore, in order to assist the Competition Authority with this tariff application we asked the international consultancy company Oxera to make an independent review of the company's economic performance and profits since privatisation in 2001. This review revealed that the profits made by the Company were not excessive, and that this could be proved by benchmarking against the profits allowed by the UK and Dutch regulators. A further benefit of obtaining an independent perspective is that it enables the company and the Competition Authority to have a professional and meaningful discussion based on the evidence presented, however in spite of our best efforts, to date we have not been able to engage in such discussions.

Unfortunately the Competition Authority refused to review any aspect of our application preferring to insist on the use of its own unverified internal guidelines. As



Ian John Alexander Plenderleith  
Chairman of the Management Board



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a consequence in June 2011 we were forced to make a complaint to the courts to try to have the contractual rights upheld. To date, no court date has been set.

In October 2011, preferring to circumvent due legal process the Competition Authority used a ministerial decree in order to issue a prescription to ASTV demanding that we reduce our tariffs by 29%. This is in spite of the fact that these tariffs had been set in accordance with the privatisation contract and had been approved by the previous regulator the City of Tallinn. To prevent this we have issued a further complaint to the courts asking for an injunction to stop the 29% tariff cut at least until the courts have ruled on the legality of the terms and conditions of the privatisation contracts. On 6 February 2012 the courts gave a positive reply to the Company's injunction request. The Competition Authority appealed against this ruling on 17 February 2012. The Company is awaiting the Tallinn District Court's ruling on the matter, which should indicate whether the tariffs will be frozen until the court makes its final judgement on the legality of the privatisation agreements.

We do not believe that AS Tallinna Vesi, its owners, its employees, its customers and its business partners should be forced to defend itself in court for following the terms and conditions of the privatisation contract that were set by the Estonian authorities themselves. As a consequence, without the prospect of meaningful dialogue ASTV is faced with no option but to use all available legal means to protect its contractual rights.

In spite of all these political and contractual discussions I am delighted to report that in 2011 our operational and service performance has been the best ever. In August

2011 the biofilter, the new treatment stage at the WWTP (Wastewater treatment plant), came into operation. This improvement to the plant has significantly improved the quality of treated effluent discharged into the Baltic Sea, reducing the amount of nitrogen discharged by over 10%, and makes a significant contribution to Estonia's strategy for a cleaner Baltic Sea. In addition, in late 2010 we made some important changes to our structure and processes, and during this current year the results of these changes can clearly be seen in our performance. This improvement is a testimony to the attitude and commitment of our staff who have worked tirelessly to provide a better service for our clients. For this, on behalf of the Management Board, Supervisory Council and owners of the company, I would like to say thank you.

It is very pleasing to see that the quality of our governance and the transparency of our work has been recognised externally. At the NASDAQ OMX Baltic Stock Exchange awards for 2011 we once again won the award for the company with the best Investor Relations in Estonia and 2nd place in all three Baltic countries. These awards are clear demonstrations of the company's commitment to transparent reporting and high quality corporate governance, both of which are pre-requisites for any responsible utility company.

#### OPERATIONS PERFORMANCE – BEST EVER ACROSS ALL BUSINESS AREAS

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

We invested 16.5 mln euros in 2011, with the main focus being our improvements into the wastewater treatment plants. In 2011, these investments and changes in working practices enabled us to improve our performance across all areas of our value chain, achieving the highest standards ever for water quality, wastewater treatment, and the performance of our networks. The standards of water produced and wastewater treated will stand comparison with the very best in Western Europe, and of this we are rightly very proud!

#### GOOD CUSTOMER SERVICE BUT WITH ROOM FOR IMPROVEMENT.

This year our customer satisfaction rating declined from a TRI\*M index high of 78 in 2010 to 72 points at the end of 2011. Whilst this rating is well above the European average for utility companies it is disappointing for our company to see that our customers think we have not performed as well as in the previous year. Although our operational results demonstrate the excellent progress we have made across all our main performance indicators in 2011 these improvements have not been recognised by our customers.

In 2012 we will of course carry on focussing on continuous improvement across all business areas. We understand that the provision of a high quality product and service 365 days a year, 24 hours a day is fundamental for all our customers. However, based on our 2011 results we can see that we must do more if we want to give the very best service to our customers. Therefore, during 2012 we will supplement performance improvement with better customer feedback, which will help us to understand what is important to our customers. In addition, we will look externally into the service environ-

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ment in Estonia and across Europe to see where we can learn from our other utilities and service providing companies.

#### DEVELOPING OPPORTUNITIES FOR OUR PEOPLE AND TEAMS

In 2011 the commitment of our workers was once again exemplary. Our staff have met the challenges of higher service standards and a new organisational structure and have delivered a world class service. The recognition of these successes can be seen in the results of our employee opinion survey. In 2011 employee satisfaction rose from 66 to 74, reflecting the increased motivation our staff feel as a result of working in meaningful and successful jobs.

We strive to give our staff the opportunity to develop within the company, and during the past year we have seen a number of our talented people rise into management and Board positions. In early 2012 we made some changes at Management Board level and as a result two of ASTV's senior managers were promoted to Management Board positions. By promoting from within we are sharing our success with our staff and demonstrating that significant career opportunities exist in AS Tallinna Vesi. We remain committed to the personal and professional development of our staff as we believe it will make the company an attractive employer for the brightest and the best.

#### STABLE REVENUES, RETURNS IN ACCORDANCE WITH OTHER PRIVATISED UTILITIES

We are a financially robust and resilient business. Our turnover from our main business activity, sales of water and wastewater increased by 3.0% to 46.5 mln eu-

ros and our operating profit from these activities increased by 5.2 % to 25.4 mln euros. The real return (net of inflation) on invested capital in our main business was 6.5% in 2011 and 7.0% over the five year period from 2007 to 2011, which is in accordance with the rates of return made by other privatised water utilities.

#### LIMITED GROWTH POTENTIAL AT THIS POINT IN TIME

Our excellent operational performance leaves us well placed to expand our service offering across the Baltic's. We already provide a very high quality service and we should be able to utilize this operational strength to increase revenues from activities outside of the City of Tallinn whilst bringing a better quality service to other municipalities at a lower cost. Unfortunately the new regulatory regime implemented in late 2010 lacks transparency which means that growth opportunities within Estonia are extremely limited. We will however continue to work with the various ministries and regulatory authorities to demonstrate the benefits that outsourcing in the water sector can bring for both customers and the environment.

#### OUTLOOK

In the current political and regulatory environment the outlook for the company is very uncertain. Given that the Estonian authorities are unwilling to enter into any meaningful discussions over the privatisation contracts it appears that the company will be engaged in a long court process, which could last a number of years. It is apparent that the significant improvements in service count for very little within the new system of regulation. I would however like to

ensure all our stakeholder groups, as a 100% professional organisation we are committed to delivering the best, and incomparable in Estonia, level of service to all our direct customers and service users.

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

Ian John Alexander Plenderleith  
Chairman of the Management Board



## Drinking water

### 2011 OBJECTIVES

- Water quality at least 99.31% compliant with the regulation in all operating areas (except Maardu)
- Level of water losses below 19.00% in all operating areas (incl. Maardu)
- Maximum duration of interruptions to water supply less than 60,000 hours (total for all affected customers)

### 2012 OBJECTIVES

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

### QUALITY OF DRINKING WATER AT THE CUSTOMER'S TAP

In 2011, the quality of drinking water supplied to our customers was the best ever, keeping the quality level comparable to Western-Europe countries. 99.66% of water samples taken at the customer taps complied with legal quality requirements set for drinking water. This is an outstanding achievement exceeding both the 2010 performance and the obligation of the Services Agreement signed with the City of Tallinn under which 95% of the drinking water samples are required to comply with the quality standards.

*Compliance of drinking water quality with the requirements of the Regulation No. 82 issued by the Minister of Social Affairs, 2006-2011*

2006	2007	2008	2009	2010	2011
96,67 %	97,53 %	98,02 %	99,31 %	99,59 %	99,66%



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The Company follows detailed regional drinking water sources and drinking water monitoring programmes approved by the Health Board. The programmes include quality control requirements set for surface water, water treatment plant, ground water system and water network in the city. These programmes also specify the sampling frequency and the parameters to be checked by the Company's laboratories.

The structure of the Company includes a laboratory unit, which has been accredited by the Estonian Accreditation Centre since 2001. Accreditation needs to be renewed every 5 years. In 2011, the laboratory unit passed the renewal successfully already for the third time. The current scope of accreditation includes 52 methods of analysis with more than 80 parameters in total. Laboratory unit consists of a water laboratory and a microbiology laboratory at Ülemiste water treatment plant and a wastewater laboratory at Paljassaare wastewater treatment plant. In 2011, the laboratories received 37,300 samples and performed over 129,000 tests in total. Two thirds of them were dealing with drinking water and one third with wastewater.

Availability of up-to-date technologies and professional specialists enable the laboratories to offer a wide variety of services to external customers as well. The volume of services provided to external customers has increased each year. In 2011, the services provided to external customers formed 7% of all services provided by laboratories. Most of the customers are building companies, other water companies, food establishments and private consumers.

In 2011, the laboratories of the Company actively par-

ticipated in comparative testing between laboratories. 70 of the total of 220 test results were submitted within international schemes.

High level of professionalism of the staff is also demonstrated by the fact that three Laboratory Specialists serve as the Assessors of the Estonian Accreditation Centre (EAC) and participate regularly in the EAC's team assessing other laboratories.

### **SURFACE WATER QUALITY**

The excellent water quality results have been achieved as a result of joint efforts and work of different teams. The Company deems it extremely important to ensure the supply of high quality water to all consumers.

Despite difficult weather conditions such as long winter with high amounts of snow, the Company managed to ensure an uninterrupted operation of surface water catchment and related facilities in 2011. Our proactive approach prevented floodings during snow melting period. The Company also managed to ensure sufficient water stock for the entire period.

Long winter caused a significant decrease in oxygen levels and generation of anaerobic processes in Lake Ülemiste. The situation returned to normal shortly after the ice melted. Hot weather in summer made the water temperature in the lake rise to 25 degrees, fostering the blooming of the lake. The extraordinary rise in the level of zoo- and phytoplankton constituted an additional burden for the treatment facilities.

In order to ensure higher safety of raw water a new fence was built at Lake Ülemiste along the determined

sanitary protection zone, the servicing roads as well as the dam in Kurna wetland area were reconstructed. Also the drainage system of the dam in Soodla reservoir was checked and repaired and the reconstruction of flow limiting channel was planned.

### **GROUND WATER QUALITY**

Approximately 10% of the population in Tallinn were supplied with drinking water extracted from Cambrian-Vendian and Ordovician-Cambrian aquifers in 2011. The areas supplied with ground water are Nõmme, Laagri, Merivälja, Tiskre, Pillado, Harku small town as well as the city of Saue and Muuga and Kallavere settlements in the city of Maardu. In the end of 2011, Kallavere settlement and Pärnamäe area were transferred to surface water supply from Ülemiste. According to the drinking water source monitoring programme all ground water quality parameters are monitored and if necessary, ground water is treated. Pressure filters installed in the ground water pumping stations for removing excess iron and manganese have ensured the water supply to meet the quality standards. Water tests show that treatment significantly reduces turbidity, ammonium, iron and manganese content in water, also the colour and stability index of water improve and oxygen content increases.

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



## IMPROVING THE WATER TREATMENT PROCESS

In 2011, several investments were made to refine and improve the water treatment process.

The high content of plankton in the lake water increased the work load of treatment facilities – first of all ozonation and filters. The filters' work cycle reduced and pressure loss increased, quality of the filtrate started to drop. Number of filter flushings and the volume of flush water increased. In the beginning of the summer in 2011 we started with the maintenance of filters, the filter sands and coal were washed, the nozzles were cleaned in one filter and gravel layers were replaced. Process continues further. In case of water treatment facilities the main focus was on the optimisation of clarifiers, water meters on the clarifiers of the B-building were started to be replaced, the procedure of washing the clarifiers was upgraded. In order to improve the security of energy supply and bring it into compliance with the requirements, the substations for high and low tension lines of the microfilter building were reconstructed, the worn out frequency converter of the filter washing pump was replaced. For the purpose of chemical safety, the secondary chlorination equipment that has been in use for years was replaced and upgraded in both treatment plants.

## WATER NETWORKS MAINTENANCE AND INVESTMENTS

Preventive works such as networks flushing and water supply network renovation are carried out to maintain and improve the quality of drinking water supplied to customers. Cleaning and washing the water network removes the sediments inside the pipes and creates the necessary conditions for preserving water quality in the network. In 2011, 154 km of water pipes were cleaned using pressure washing method in order to ensure a stable supply of good quality drinking water at the customer tap.

*Cleaned water network, 2007-2011*

2007	2008	2009	2010	2011
227 km	229 km	232 km	165 km	154 km

Investments into replacing old water pipes and network extensions have facilitated improvement in water quality and more efficient usage of water resources. 5.1 kilometres of water pipes were reconstructed in 2011, ensuring the good conditions of networks.

*Water network reconstruction, 2007-2011*

km	2007	2008	2009	2010	2011
Reconstruction	6,9	16,7	23,8	16,7*	5,1

## LEAKAGES AND INTERRUPTIONS TO WATER SUPPLY

In 2011, the investments into leakage detection and remote reading equipment were continued and a new correlator was purchased for detecting leakages. As a result of constant monitoring, upgrading the equipment, quick detection and elimination of leakages, the leakage level in water network was reduced from 21.39% in 2010 to 17.73% in 2011.

*Leakage level and leakages on water network, 2007-2011*

	2007	2008	2009	2010	2011
Leakage level %	19,58	17,25	17,51	21,39	17,73

It is important for customers to have 24hour access to water of excellent quality and right pressure. The likelihood of water interruptions cannot entirely be excluded. Although it is not possible to fully avoid interruptions to water supply, it is possible to reduce the number and duration of interruptions and notify the customers in advance. Although it is the Company's objective to notify the customers of each potential interruption to water supply, we do not always manage to do it on time in case of unplanned interruptions.

The total number and duration of unplanned interruptions to water supply reduced in 2011. The average duration of interruption per customer decreased in 2010 from 4.26 hours to 3.56 hours. Reduction in interruptions to water supply was a result of better planning of emergency works. Well-considered planning casted a positive effect also on the work of the network teams and the speed of eliminating emergencies.

## TEMPORARY WATER SUPPLY DURING INTERRUPTIONS:

Since the beginning of 2011, a water tank is taken to almost every emergency site, even if the interruption lasts less than 5 hours. Small water tanks enable to quickly provide temporary water supply to customers. Additionally the Company uses five big 5m<sup>3</sup> water tanks and a water tank truck. In case of closing water connection of sensitive customers, temporary water connections are built in the water metering point if needed and temporary supply is created with hydrophore. Water tank truck provides possibility to supply water to customers in narrow streets, where parking a water tank may cause problems.

The objective of the Company is to notify the customers of all interruptions to water supply by phone in advance. In 2011 the customers were informed of over 97% of emergency interruptions that occurred during work days.

# Wastewater treatment

## 2011 OBJECTIVES

- 90% or more of blockages and flooding events are responded to within 2 hours
- Compliance of pollution parameters in effluent at the WwTP in at least 3 quarters

## 2012 OBJECTIVES

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

## MAINTENANCE OF THE SEWERAGE NETWORK

Collection and discharge of wastewater is secured primarily by preventive flushing of sewerage pipes as well as by reconstruction and extension of sewerage and stormwater networks. Additionally the concentration level of wastewater is monitored on regular basis in order to prevent any failures in the treatment process. The number of blockages is the main indicator for the condition of the sewerage network and this number has mostly decreased over the years. The Company uses annual pressure washing to prevent blockages and to increase the capacity of sewerage pipes.

Blockages are mainly caused by sediments settling in wastewater pipes, but also by decreased volumes and low flow rates caused by lower water consumption. In addition, extension of the sewerage network should also be taken into account when assessing the total number of blockages. Despite the constant extension of the service area, the Company has managed to keep the number of blockages lower than the pre-determined requirement. Systematic work with the databases and increasing of pressure wash volumes as well as analysis following the blockages in order to identify the reasons and elimination thereof have allowed the total number of blockages to decrease remarkably over time. In 2011, there were 944 blockages which is the lowest number of blockages since 1999.

*Number of blockages during the period of 2007-2011*

2007	2008	2009	2010	2011
1435	1336	1089	1 152	944

*Flushed sewerage pipeline during the period of 2007-2011*

2007	2008	2009	2010	2011
99 km	165 km	180 km	147 km	183 km

## RECONSTRUCTION AND EXTENSION OF THE SEWERAGE NETWORK

In 2011, up to 5,7 km of the existent sewerage pipelines were renewed.

*Reconstruction of the sewerage and stormwater network during the period of 2007-2011*

2007	2008	2009	2010	2011
5,2 km	5,9 km	5,5 km	5,7 km	5,7 km





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## WASTEWATER TREATMENT

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

Paljassaare Wastewater Treatment Plant uses environmentally-friendly and modern technologies to treat the wastewater collected from Tallinn and its surrounding areas. In 2011, the quality of treated effluent in Paljassaare Wastewater Treatment Plant was in compliance with all the set parameters.

The Company continues to invest in the assets of the wastewater treatment plant in order to increase the efficiency of nitrogen removal and improve the quality of the treated effluent disposed to the Gulf of Finland. In 2011, the Company continued with the reconstruction of the mechanical treatment stage by replacing mechanical wires and installing sand washers as well as screening waste washers/presses. In 2011, the construction of the 3rd treatment stage – biofilter – was completed. The biofilter was started at the beginning of the 3rd quarter. The aim of the biofilter is to make the process of denitrification more effective by decreasing the number of nitrate ( $\text{NO}_3$ ) in the wastewater treatment's outlet. The applied process allows to decrease the pollution of total nitrogen in the Baltic Sea on the expense of nitrate component annually by 350 tonnes and increase the effectiveness of nitrogen removal to over 85%.

Sludge is a by-product of wastewater treatment and the Company processes the sludge into soil conditioner that is used in landscaping and horticulture. All of the sludge is re-used.

More information on the Company's water and wastewater treatment is available in the 2011 electronic environmental report.

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Andres Kärbo  
Waterworks Technician



## Our customers

### 2011 OBJECTIVES

- Potential sum to be paid to the customers for not keeping our promises is 15,000 EUR;
- We respond to 90 % of written customer requests within two business days;
- In 95% of the cases the operational units inform Customer Service of unplanned interruptions to water supply during business days/-hours and customers are informed of the interruption 1 hour in advance
- At least 90% of the customers know by the end of the first phone call with the Company what and when we will be doing and we keep our word

### 2012 OBJECTIVES

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



In 2011, the Company provided water supply and sewerage services to a little less than 22,000 customers and 430,000 end users in Tallinn and its surrounding areas. The strategic objective of the Company is to offer the best water service in the Baltic states, so that anyone would wish to be our customer, employee and partner.

### ANNUAL CUSTOMER SATISFACTION SURVEY

In 2011 the Company made its best efforts to maintain the very good quality of drinking water and to further improve the service reliability. We also made efforts to enhance resolving customer contacts. The main focus was both on the speed of resolving the issues but also on improving the customer awareness of the Company's actions. Although the customer satisfaction survey results indicate satisfaction with the quality of our services, they also refer to some room for development in terms of problem solving. Customer satisfaction has remained on a more or less same level compared to the previous year. In comparison with the European utility and public sector, the satisfaction of the Company's customer is above the average. However, the Company is going to focus on the improvement of customer service also in 2012.

An independent market research company TNS Emor carried out a customer satisfaction survey, conducting phone interviews with 901 customers and end users regarding their satisfaction with the customer service of the Company in 2011. Satisfaction was measured on the basis of the TRI\*M method developed by the research company to characterise the strength of customer relationships and to allow comparison with other companies. This model focuses on three elements:

- TRI\*M index, which measures the strength of customer relationships and comprises further four elements –


general satisfaction, recommendation, repeated use and usefulness/necessity of services products;

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

The Company scored an average of 72 points among its customers and end users in the final TRI\*M index of the customer satisfaction survey on a scale of 100. Thus the satisfaction of end users and customers has levelled off compared to 2010. The results of the survey show that the customer relationships continue to be strong in all customer segments in the Company, being at a uniform high level of 70-75 points in the TRI\*M index.



Low customer satisfaction ..... High customer satisfaction.



Compared to other utility companies in Europe, the Company's customer relationships can continuously be considered to be very good. This means that customers are more satisfied with their service provider. The strength of customer relationships and customer satisfaction are first and foremost influenced by the quality of services, primarily the quality of drinking water, stability of service, the condition of infrastructure, the price of the service, and reputation of the Company, as well as the handling of problems and customer communications. The strength of customer relationship is also affected by the necessity of the service. Generally, customer satisfaction has remained on a more or less same level compared to 2010. Positive movements can be highlighted in single areas. At the same time, dissatisfaction of the customers living in private houses with the handling of problems has grown. Water quality and stability of service can be pointed out as the main strengths. The price/quality relationship continues to require further attention in the eyes of both private and commercial customers. The results of the survey give grounds to set more challenging objectives to the speed of eliminating emergencies and prevention of leakages.

*Customer satisfaction with different aspects of services 2010-2011*

	Commercial customers		Private customers	
	2010	2011	2010	2011
Taste of water	3,8	3,8	3,9	4,1
Odour of water	3,9	4,0	4,0	4,2
Clarity of water	3,9	4,0	3,9	4,2
Stable water pressure	3,8	4,0	3,8	3,9
Low number of emergencies and interruptions	4,0	4,1	4,1	4,1
Price/quality relationship	2,7	2,8	2,8	3,0
Accuracy and clarity of invoices	4,2	4,3	4,2	4,3
Customer Information line	3,8	3,9	4,0	4,0
Communication by e-mail	4,1	4,2	4,0	4,1
Web-self-service	3,8	3,8	3,9	3,8

*On a scale of 5*

Customers of the Company are satisfied with different service channels, the use of which, mainly the web-self-service but also the other electronic channels, follows a growing trend. The survey also shows that customers' satisfaction with the Company's contribution to the saving of natural environment and increasing consumer awareness continues to grow year on year.

#### DEVELOPMENT OF CUSTOMER SERVICE

The Company considers it extremely important to continue focusing on the issues associated with the handling of problems. As per the results of the survey there are deficiencies in the speed of problem solving, suitability of solution, carrying out what has been promised and keeping the customer posted about the course of actions. Acting on the basis of the 2010.a customer satisfaction survey results, the Company contributed to continuous improvement also during the last year. The main activities in 2011 were as follows:

- Since August 2011, the Company automatically pays a compensation to customers upon failing a promise;
- In March, the Company amended the process of responding to written customer contacts. As a result of that above 95% of written requests are resolved within two working days and the average speed of responding to information requests was less than one working day.
- In order to ensure that the customers get informed of the time of Company's actions, inter-departmental cooperation was reorganised. This enabled to increase the proportion of informed customers significantly.
- The Company started a campaign "Cheers to nature – ask for tap water" together with several restaurants in Tallinn with the aim to encourage people to drink tap water with their meal.
- In order to reduce inconveniences experienced by customers due to interruptions to water supply, the Company notified the most of its customers of emergency water interruptions that took place during working days and -time.

Maris Raudsepp  
Microbiologist



## Our employees

### 2011 OBJECTIVES

- *Commitment and satisfaction with the Company among the employees is significantly above the average level in Estonian businesses*
- *Inter-departmental co-operation is better than in 2010*
- *Employee feedback on management is better than in 2010*
- *No occupational accidents resulting from any factors that depend on the Employer and the number of short-term sickness days is lower than in 2010*

### 2012 OBJECTIVES

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

During the second part of 2011, the departments in operations division went through significant rearrangements both in terms of the responsibilities of managers and work allocation. Company's Management Team deems the involvement of employees in the decision making process, regular informing and equal treatment of staff very important. For that purpose, Management Board had meetings with the staff at least once a quarter and monthly newsletter was issued to provide an update on the delivery of objectives and results.

At the end of 2011, the Company and its Subsidiary employed a total of 311 employees under permanent employment contracts. This number has reduced by 2.5% compared to the end of previous year when it was 319. The average number of full-time employees was 299 in 2011 and 303,3 in 2010. Reduction in staff resulted mainly from the reorgani-

zation of the operations division where the number of middle-level managers decreased compared to previous years.

Employee commitment and satisfaction was considerably higher in comparison to both Estonian and European average in industry and service sector in 2011. Satisfaction has significantly increased compared to 2010.



Low commitment ..... High commitment.

### DEVELOPMENT OF EMPLOYEES

The sufficient number of committed employees with necessary qualification is still one of the most important priorities for the Company. The average age of the staff in the

Company and the Subsidiary is high (46,5 and 45,11 years respectively) and in bigger operational units a considerable number of employees are over 50 years old. Thus a significant number of staff is going to be in a retirement age in the next few years. The delivery of the Company's business objectives, maintaining the know-how and developing a new generation of operational specialists are the key priorities for the Company.

The Company has launched several employee development programmes aimed at providing all employees with such will and readiness, with an opportunity to develop themselves in their speciality as well as professionally. The Management of the Company deems it the most important method for growing a new generation of specialists, supporting the organisation in adapting to changes and maintaining the high commitment of employees. Emphasis is also on expanding multi-functionality and flexibility of the workforce instead of specializing on a narrow area as this enables the employees to rotate smoothly onto new positions. Development of the staff forms a part of the remuneration and recognition system of the Company and is a key for planning a career in the Company.

In 2011, 635 training days amounted to an average of approximately two training days per employee. Although the number of training days has decreased almost by one-third compared to 2010, the change occurred primarily in the methodology and approach. There was a significant increase in involvement of in-house guidance and mentors (incl. outside of the company) in which case the sharing of knowledge has been from one colleague to another or then from mentor to mentee. Almost 20% of the Company's employees participated in various long-term development programmes.

## OCCUPATIONAL HEALTH AND SAFETY

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

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

In 2011, special focus was on the improvement in following work safety requirements at the excavation sites of both the Company and subcontractors as well as on internal and external occupational health and safety trainings, development of methods that increase the knowledge of safety requirements and constant improvement of work environment in accordance with the rules of OHSAS 18001:2007.

In 2011, 5 occupational accidents occurred, 4 of which were in AS Tallinna Vesi and 1 in its Subsidiary OÜ Watercom. The number of lost days due to occupational accidents decreased in from 159 working days in 2010 to 91. The causes of all occupational accidents were thoroughly analysed by the Work Environment Council. Action plans to prevent any further occupational accidents of a similar type were put together and the timely delivery of those action plans is constantly monitored by the Work Environment Council. For better staff involvement and improvement of occupational safety awareness, the Company organized internally an occupational health and safety slogan competition. The best slogans are planned to be used on work cars, personal protection equipment, work clothes, posters and calendars.

The Company focused on the development of new awareness methods. Terve Tilgu" traffic sign was set up reflecting the achievement of the Company's occupational health objectives on a weekly basis. During the Company's summer days a quiz on occupational health and safety was carried out, a crossword on occupational health and safety was published in the Company's newsletter, occupational safety posters with photos of employees under a topic „Will you help your colleague out of trouble?“ were issued, occupational safety data on displays was updated on regular basis, also thematic information materials were distributed.

## WORK ENVIRONMENT TRAININGS

The implementation and results of work environment related actions are largely dependent on the employees' awareness and, therefore, much attention is paid to work environment training, information materials and other actions as well as channels to raise awareness of the issues related to work environment. In 2011 the following training events on occupational safety were carried out:

- theoretical chlorine safety training in the Water Treatment Plant in co-operation with G4S and a joint training with airport in order to carry out rescue works at lake Ülemiste. As a result a new access to the lake and a place for flight rescue service to let a boat into water was established;
- regular trainings on pressure equipment;
- first-aid training and in-service training;
- ergonomics and occupational hygiene training;
- training on the ergonomics of workplaces;
- training on temporary traffic reorganisation (marking road works) in realistic conditions and briefing on the new Traffic Act;
- training on the usage of trench support and trainings for building site's co-ordinator;
- fire, electrical, chemical and gas work safety trainings.

Martin Reose  
System Mechanic



#### CONTINUOUS IMPROVEMENT IN THE FIELD OF OCCUPATIONAL SAFETY

Several actions for improving the work environment were carried out in 2011 at the treatment plants, water and sewerage networks, laboratories, and offices. Among the most important works were:

- renewal of the Company's work environment risk analysis, amongst other things an additional questionnaire to assess the psychological risk factors in all departments was carried out. In accordance to the risk analysis and the questionnaire's results, action plans for the improvement of work environment for 2012 has been started;
- during the cold winter period, temperature was measured in various rooms of the building on a regular basis and heating was regulated accordingly. If necessary, electric convectors were added to rooms;
- several substations were reconstructed and internal as well as external lightening was repaired;
- ventilation survey in various buildings was carried out and as a result the system was reconstructed, put in order or regulated; conditioners were installed into some rooms;
- trainings introducing HAZOP (Hazard and operability study) methodology that were followed by relevant analyses in various parts of the treatment plants' operational processes. This activity continues in 2012;
- improvement of the ergonomics of computer workstations.

#### PROMOTING OCCUPATIONAL HEALTH

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

The Company organises various sports activities for its employees to promote a healthy lifestyle. Employees of the Company have the opportunity to use two gyms, as well as squash and ball courts, and also take part in the Company's sports events. In order to raise awareness on health-related matters among the employees, then in co-operation with Extra Comfort Eesti OÜ a foot sole computer check or foot sole computer diagnostics was carried out in the Company's medical office. During the period of 17.-24. April, a Heart Week took place all over Estonia and within this event, the Company organized various activities in order to raise the awareness of health-related issues: heart-healthy meals at the canteen, fire safety training followed by a stimulating exercise schedule in the gathering point, and calculating of body mass index (BMI) and fat percentage in the medical office. The employees also had an opportunity to read materials promoting healthy lifestyle that were issued by National Institute for Health Development. In addition to the activities organized within the Company, also other activities taking place within the Heart Week were promoted.

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





## Community

back to the nature takes lot of efforts and arduous contribution of our highly professional staff.

In 2011, the Company's target was to contribute to the promotion of environmental activities and raising awareness. Community and environmental projects are part of the Company's day-to-day operations and the Company continues to focus on promotion of environmentally-conscious and sustainable mindset.

### CO-OPERATION AND INVOLVEMENT

The Company sees its employees as the biggest asset which is why significant attention is paid to activities connected to work environment and raising awareness of health-related issues among the staff. Also, the Company supports the employees' voluntary participation in community projects in order to give its contribution for the well-being of the community.

- The Company renewed its co-operation contract with the no 1 Estonian decathlete Mikk Pahapill as well as with the Sports Union of Tallinn University of Technology. In 2011, Mikk Pahapill was also the campaign face of „Drink tap water“ and participated in various events aimed for the staff.
- The Company continued co-operation with the Estonian Union of Sports for the Disabled. AS Tallinna Vesi supports the trainings of the swimming team and their preparation for 2011 European Championship and 2012 London Paralympic Games.
- The Company became a godparent to a polar bear mother Vaida living in Tallinn Zoo.
- During the over-Estonia cleaning up event „Let's get it done“, Pikakari's beach on Paljassaare peninsula was cleaned up. In addition to the Company's employees and their family members, also the employees of Coca-Cola HBC Eesti AS and the Embassy of the United States as well as

the local residents of Paljassaare participated in the cleaning event. Around 150 volunteers contributed to cleaning up the beach area.

- The Company continued supporting various outdoor and sports events by providing pure drinking water. During the Athletics Championships that took place in summer, the Company offered clean and refreshing drinking water to athletes as well as spectators. Tap water was also provided for an office rat race charity event, Stamina health run and walk series, the Flower Festival and Tallinn Student Days. The Company was also the main sponsor for organizing the unique opera „Parsifal“, an open-air concert „Freedom Song“ and a film festival „Ideals Matter“ that is focusing on raising environmental consciousness among people.
- In 2011, the Company's „Good deed projects“ attracted a participation of over 40 employees who contributed voluntarily into the community's development. The Company's employees participated in the Estonian Food Bank's food collecting campaign „Notice an empty stomach“ by forwarding relevant information as well as collecting food products. Collecting, transporting and distributing necessary food products to families in need was carried out in co-operation with a non-profit association Nõmme Child Welfare Organization. The Company's employees also visited a kindergarten „Õunake“ that is a nursery for children with special needs and where the employees baked ginger breads together with the kids. Traditionally, the Company used the creation of „Õunake“ kindergarten children for its environment-friendly Christmas card design.
- 2011 was the year of the European voluntary action. Within that was established in co-operation with non-governmental organisations and ministries a pilot programme with an aim to create in Estonia voluntary actions plan for supporting environment. In addition to establishing the programme's content, the Company's specialists also assisted a non-profit association Kodukant Läänemaa with training as well as legal consultation.

### 2011 OBJECTIVES

- To support the activities of environmental, ecological and educational areas, to involve staff in organising public events and projects as well as carrying out environmental educational programmes directed to children and the youth.
- To increase consumer awareness of our products and services.

### 2012 OBJECTIVES

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

Being Estonia's largest water company, our activity affects the quality of life of almost one third of Estonia's residents and its surrounding natural habitat. Supplying good quality drinking water to the population as well as the disposal and treatment of wastewater and stormwater, and leading it



## ACTIVITIES AIMED TOWARDS CITIZENS

The Company wishes to develop an environment-friendly mindset and increase the awareness of the Company's activities among its consumers. In addition to the investments that allow offering constantly improving services to consumers, AS Tallinna Vesi also supports a variety of water-related endeavours. Putting into practice a socially responsible action plan requires consistent work aimed at combining the existent environmental and community projects with day-to-day activities.

- Traditional Open Door Days at Paljassaare Wastewater Treatment Plant on the 4th of June 2011 brought together approximately 250 visitors who all came to see the plant. Open was also the children area where Pipi Longstocking and the Company's mascot Tilgu introduced to children environmental-friendly water consumption via a variety of playful activities.
- Open Door Days at Ülemiste Water Treatment Plant took place on the 27th of August 2011. During the Open Door Days, the Company's employees took the visitors on excursions and introduced the functioning of the treatment processes to them. The Ülemiste Open Door Days coincided with the running competition around Lake Ülemiste and Lotte Children's Run that attracted many old and young sports lovers. The run around Ülemiste is popular among Tallinn citizens, partially due to the fact that under usual circumstances the naturally picturesque territory surrounding the lake is closed to the public. The event was attended by approximately 1500 participants, of which around 400 also came to see the water treatment processes. The Company's children's tent where children of each age group could draw and play water-related games proved to be especially popular.
- In spring, the Company organized a social campaign „Cheers to nature - drink tap water“ in order to draw attention to tap water's good quality and help people to acknowledge the global crises related to the lack of pure water.
- The Company started to co-operate with Tallinn eating

places in order to encourage people to drink tap water with their meal. The Company sees in that venture a possibility to change people's mindset and also raise awareness of environment- as well as health-related issues among them.

- At the beginning of summer, the Company installed drinking water taps in Tallinn Old Town, Tammsaare park and Tallinn Zoo so that during warm summer days people would have an opportunity to refresh themselves with tap water that is free of charge. The main objective was to get people drinking tap water by giving them a chance to be convinced of its quality by trying it out themselves. Installation of taps was part of the „Cheers to nature - drink tap water“ campaign that draws people's attention to a responsible usage of environment and encourages people to drink tap water.

## CHILDREN AND EDUCATION

Water is one of the most valuable natural resources upon which depends the activity of all living organisms. AS Tallinna Vesi's activity affects environment as well as almost one third of Estonia's population's quality of life which is why the Company considers it important to contribute to the population's environmental and community education. In 2011, at the Enterprising Day, the Company was awarded with the most children- and youth-friendly company's title in Tallinn. This acknowledgement was possible due to employees who, besides their main job, also contributed into raising the environmental awareness. The Company continues carrying out distribution of information and co-operational work on environmental education for various age groups.

- In 2011, a thorough renewal in the external look of the Company's website was carried out. In the process was established a site for children and teachers that focuses on environmental education. This site contains all information and materials to do with the Company's educational programme. A relevant theme site is also included to the Company's web campaign: [www.jookraanivett.eu](http://www.jookraanivett.eu)

- Within the environmental education programme, the Company's specialists organize water-related discussions in kindergartens. Children are explained how natural water circulation and water treatment process work. Also tips are given on how to save water, experiments are made, a movie is watched and water-related games are played. In 2011, the Company's employees visited nearly 50 Tallinn kindergartens and with this activity they promoted environmental awareness among more than 3000 children.

- In addition to visiting kindergartens, the Company's employees participate almost every year also in a „Back to School“ programme during which they distribute relevant information and experience in school lessons as well as in various fields of business. The Company wishes to establish interest for a more environment-friendly and sustainable development among the youth, but also in general public, through having an open discussion which is why educating future clients as well as consumers is considered of high importance.

- In order to celebrate the World Water Day, in co-operation with Lasteevib OÜ a cartoon was made in an internet portal [www.lastekas.ee](http://www.lastekas.ee) where Bunny Jussi introduces Ülemiste water treatment plant. The aim of this animation movie was to raise environmental awareness among children in a playful and violence-free manner. This channel directed specially for children allowed reaching most kindergarten and also a large number of first level school children. In 2011, a colour book of the same subject on how Bunny Juss and his friends discover their way to pure drinking water, was created.

- Besides our main assignments - production of drinking water and treating of wastewater - the Company's plants fulfil also an important role in raising the population's awareness. Excursions in Ülemiste water treatment plant as well as in Paljassaare wastewater treatment plant are still carried out in order to introduce to the interested people the treatment process as well as the lab work. In 2011, the Company's plants were visited by altogether approx. 2300 people from schools and other companies.



## Environment

The quality and environment policies approved by the Company's Executive Team express the Company's principles about managing corporate responsibility and environmental activities.

The Company's activity has a significant impact on the surrounding natural environment. The objective of the Company is to cause as little environmental damage as possible from its day-to-day operations. The Company systematically monitors its impact on the environment, the quality of life of the population as well as its business activities by identifying and keeping in check existing and potential negative and positive consequences. Implementing the environmental management system also means the Company agrees activities for improved environmental performance as part of setting the Company's annual objectives and individual performance objectives of our unit managers and employees. Any performance improvements also have to follow established legal requirements and restrictions.

The Company has implemented a quality and management system to improve customersatisfaction and the effectiveness of its environmental activities. The environmental management system is a part of the Company's management system aimed at minimizing or where possible, avoiding polluting the environment, through the integration of environmental management systems in the Company's daily operations.

The Company's 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 Company has identified the operational aspects that are most likely to cause significant changes to surrounding environment and has established necessary control mechanisms to avoid or mitigate any unfavorable environmental impact.

At the same time there are several positive aspects related to the Company's operations, which allow to improve the environment either directly or indirectly – one of the most important of these is raising consumer awareness about the environment and also promoting the optimal and efficient use of water as an important natural resource. Additional information about the Company's environmental activities can be found in the electronic Environment Report attached to this annual yearbook and on the Company's website.

Reet Orm  
Chemist







Sandro Mägi  
System Mechanic

# Watercom & business development

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

## Objectives in 2011

- *Turnover from non-regulated business other than Tallinn contract 450 000 EUR;*
- *Expansion of Watercom service area in Estonia by 5000 new human equivalents;*
- *Increased customer satisfaction with Watercom services*

In 2012 Watercom will be focusing on the following markets and services:

## NETWORKS CONSTRUCTION

The construction of water and wastewater networks for developers, companies and private persons turned out to be the main activity of the Company in 2011. For these activities the Company holds a construction unit called Veemees, which provides construction, but also maintenance and emergency services for real estate developers, construction companies, water companies and apartment associations. If in 2010, Veemees was mostly dealing with the construction of connection points and network inside the property, then in 2011 new specialists joined the team of Veemees and the Company purchased new machinery. Veemees started to focus more on carrying out large construction projects and building the street networks.

The Company holds a good technical base allowing the provision of air scouring services for network and

large-scale camera works on network both in Tallinn and across Estonia.

The objective for 2012 will be to continue focusing on extensive projects of water and sewerage network construction.

## SUPERVISION AND PROJECT MANAGEMENT

The other business branch of the Company is to provide project management and owner supervision services. Due to a long-term work practice, the Company's staff has significant knowledge and experience in this area. In 2011 supervision was performed on several big sites. For example the Company performed supervision on general construction of biofilter at the Paljassaare Wastewater Treatment Plant, which was successfully completed in September 2011. The Company also performed owner supervision on large-scale road maintenance projects as well as on water and sewerage facilities in Tallinn.

The long-term work experience of the Company's engineers and strong references provided the Company with an opportunity to actively participate in the tenders of the respective field across Estonia, which resulted in signing several contracts for managing and performing owner supervision on large-scale water service projects. The Company aims to actively participate in different tenders across Estonia and grow its portfolio of contracts in 2012.

## WATER AND WASTEWATER SERVICES TO MUNICIPALITIES

The long-term strategic objective of the Company has been the provision of water supply and sewerage services to the local governments across Estonia

through long-term service and operating contracts. In 2011, the opportunities in this field were limited due to the changes made in the law and tariff methodology. As a result of the amendments, all water companies the licensed territory of which is situated in the waste water collection area with pollution load of 2000 population equivalent or more, shall from 01.11.2010 onwards obtain approval to their tariffs from the Competition Authority. The mentioned amendments have caused uncertainty in the entire water sector and it is not clear whether it is practical to provide the partial or full utility operating services in the conditions of amended regulation. The Company hopes that the role of the Competition Authority in the water sector becomes more transparent in 2012 and this expands opportunities to find new operating areas.

## DEVELOPING NEW SERVICES

In 2011, the Company thoroughly analysed different opportunities for expanding the activities in water and sewerage sector and decided to start providing several new services in 2012. With the aim to offer transport services on the water and sewerage network construction sites, the Company supplements its technical base with new heavy machinery dumpers and excavators. This enables the Company to focus more than before on bigger construction sites and offer machinery rental services also to other companies.

For more information about Watercom and Veemees unit please click on [www.watercom.eu](http://www.watercom.eu).



# Compliance

## 2011 OBJECTIVE

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

## 2012 OBJECTIVE

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

The Company is required to comply with the following standards and systems:

- 2001 - ISO 17025 Laboratories Quality Management System\*
- 2002 - ISO 9001 Quality Management System\*
- 2003 - ISO 14001 Environmental Management System\*
- 2005 - EU EMAS Environmental Management System\*\*
- 2007 - OHSAS 18001 Occupational Health and Safety Management System
- EU, national as well as local self-governments' legislative acts – to ensure compliance with minimum environmental requirements
- Environmental permits issued to the Company
- Any prescriptions issued by authorities
- 97 contractual Levels of Service agreed with the City of Tallinn - to provide a better quality service than the minimum required by the legal acts

\* required by the Services Agreement concluded between the City of Tallinn and the Company on 12th January 2001.

\*\* EMAS – voluntary environmental management and auditing system stipulated by 25.11.2009 Regulation nr 1221/2009 of the European Parliament and Council

## IN FULL COMPLIANCE WITH QUALITY STANDARDS

The Company's and its management system's compliance with the environmental, work environment, occupational safety, quality and other legislative requirements is also monitored in the course of internal and external audits.

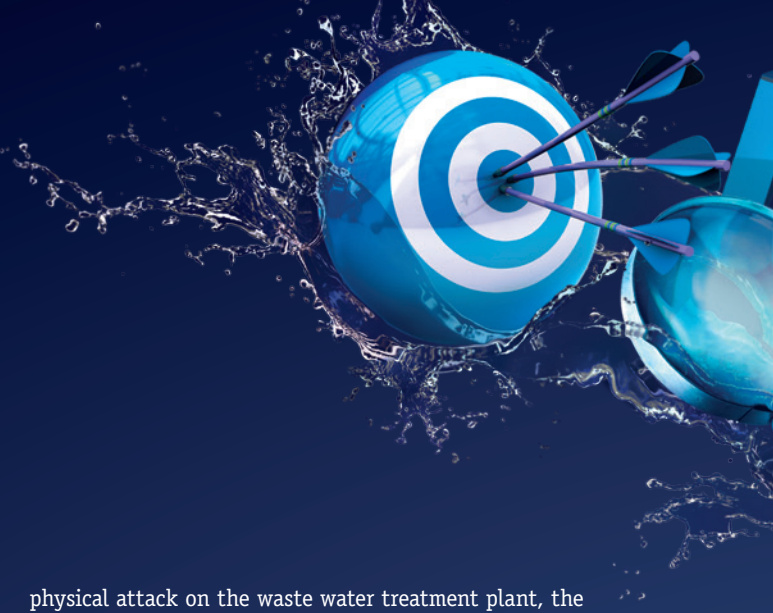
In the course of internal audits carried out in 2011, the internal auditors presented a total of 43 non-conformities and 64 proposals, which form a good source for the managers to improve the management system's functionality and prepare for the external audits.

During the re-certification external audit Det Norske Veritas confirmed the compliance of the Company's integrated management system with the quality management system ISO 9001, environmental management system ISO 14001 and health and safety system OHSAS 18001 standards, and issued new respective certificates for the period of the next three years. The Company's subsidiary, OÜ Watercom was separately audited and issued new and separate relevant ISO 9001, ISO 14001 and OHSAS 18001 certificates for the period of the next three years.

During the 2011 external audit, Det Norske Veritas also confirmed the compliance of the Company's 2010 Environmental Report with the requirements of the EMAS 1221/2009 Regulation, which was subsequently certified by the EMAS authority, the Estonian Environmental Information Centre. The Company's 2011 environmental report is available to all interested parties at the Company's webpage [www.tallinnavesi.ee](http://www.tallinnavesi.ee).

No non-conformities were found during the audit, just like in 2010. This is an excellent and rare result. 8 observations were made, which were related to the potential

physical attack on the waste water treatment plant, the uncertainty as to the smoker's corners, to small inconsistencies in the activities of the waste water laboratory and to a tenant of the waste water treatment plant remaining on the premises when the emergency signal sounded. 3 improvement opportunities were suggested – when reviewing the health and safety actions plan of the networks to fix the cause for changes, also to properly mark the beam near the 1st floor elevator in the methane tank at the waste water treatment plant as hangs too low and is potentially dangerous, as well as to compile a methodology for how to receive verified data from the waste water discharge companies regarding their discharge activities. The auditors also noted several positive achievements regarding the activities of the Company. Amongst other things, as a positive, it was noted that the Company had achieved its best ever level of compliance with water quality requirements, how the Company involves the employees in performing health and safety audits as well as the existence of a comprehensive system for monitoring environmental objectives. Observations made during the audit of the management system have been analysed by responsible managers and corrective actions have been implemented, where necessary.





The Company's laboratories have implemented the ISO 17 025 quality management system, which is accredited by the Estonian Accreditation Centre. The laboratories were successfully accredited (re-certified) separately in May 2011. In the course of the audit no non-compliances were recorded and the newly issued accreditation certificate is valid until 11th May 2016.

The Company's activities related to work environment are in compliance with the requirements of the legislation as well as international occupational health and safety management system standard OHSAS 18001.

The Company also has to ensure that the actions of its suppliers would meet quality, environmental, work environment and occupational safety requirements. The Company has established quality, environmental, work environment and occupational safety criteria for the qualification of suppliers in its procurement procedures. A relevant confirmation from suppliers is insisted on already at the bid stage. All construction sites are monitored by the Company specialist as well as supervision specialists of the subsidiary, Watercom OÜ, to ensure occupational safety and environmental protection measures are followed. Compliance of suppliers is assessed after the completion of works and the contract and in 2011, the average assessment to environmental activities of the Company's suppliers was "very good".

The Company is required to comply with EU, national as well as local self-governments' environmental legislative acts. On the EU level, this means compliance with the EU Council Water Framework Directive nr 2000/60/EC. On national level, the Company is required to com-

ply with the Water Act, Public Water Supply and Sewerage Act, Waste Act, Chemicals Act, Ambient Air Protection Act and any regulations adopted on the basis thereof. On the local level, since the Company operates in Tallinn as well as its neighbouring municipalities, then the Company has to abide by various instructions and regulations for connections processes, usage and price of service enacted within various territories. Changes in applicable regulation are monitored and communicated monthly to relevant managers in charge of implementing the changes.

In 2011, the Company has actively participated in coordination rounds regarding those new legislative acts that affect the water industry and the environment primarily via the Estonian Water Companies Association (EVEL) by providing opinions on draft acts and made proposals for their amendments. Together with EVEL, the Company has participated in working groups that drafted the legal acts regarding the water industry and the environment and also submitted its opinions regarding the draft legislative acts directly to the public bodies processing them (Ministry of Environment or MoE, Ministry of Justice, Ministry of Economy and Communications). In 2011, the Company actively participated in helping the preliminary drafting of the following draft bills: the draft amendment of the public water and sewerage supply act (PWSSA), the MoE regulation regarding the purification of sewerage "The Order of Discharging Effluent into a Water Body or into the Ground" and the draft amendment of the Metrology act.

The Company is required to operate in accordance with the environmental permits issued to the Com-

Uku Uusmees  
Technical Operator



pany. The main authorising body licencing the Company is the Harju-Järva-Rapla region department of the Environmental Board, which, as at 31.12.2011 has issued the following environmental permits to the Company:

- 4 permits for the special use of water;
- 2 waste permits;
- 2 ambient air pollution permits.

More information about the environmental permits issued to the Company is available in the 2011 electronic environmental report.

#### IN FULL COMPLIANCE WITH LAW

In 2011, the Company operated according to all the requirements set in applicable environmental permits. Issues related to environmental permits were resolved in cooperation with Environmental Inspectorate and the Harju Environmental Board. Also, in 2011 the level of manganese rose in the raw water of Lake Ülemiste. Since the water treatment process has not been designed specifically for discharging manganese, then its level may rise above indicative parameters due to exceptional weather conditions. As a result of implemented measures, the content of manganese in the water treatment process was significantly reduced, the level of manganese content was constantly monitored, when the ice was melting the water was enriched with oxygen and the level of manganese was quickly back to normal. Because the content value of the manganese has been established as an indicative value and it has no consequences for human health, then the Company informed the Health Board of the situation, explained the measures implemented and requested to continue the supply of water. The Health Board granted this permission with their 2nd May 2011 letter no 9.2-3/3885. The Company has no outstanding obligations before the state stemming from the issues described above.

#### IN COMPLIANCE WITH SERVICES AGREEMENT

In 2011, the Company objective was to ensure the compliance with LoS A1, ISO 9001, ISO 14001, OHSAS 18001 and EMAS requirements. Since 2001, when the Company and the City of Tallinn signed a Services Agreement to provide public water and sewerage services, the Company has agreed to meet 97 Levels of Services. These levels of service determine the quality standards the Company must guarantee to its customers, including water quality, environmental requirements and service interruptions. This makes the Company the most regulated water company in Estonia.

In 2011, the Company achieved 96 out of 97 levels of service, exceeding several agreed levels of service, i.e. performing better than the minimum required by law and also perform better than the contract. The only level that the Company was not able to meet in 2011 was the one requiring that any and all service interruptions do not last longer than 12 hours. In 2011, the Company had 525 unplanned interruptions to supply and in case of 1 incident the cause of the leak or interruption took longer than 12 hours to establish. The average duration of interruptions to water supply per client/hour has decreased from 4,62 in 2010 to 3,14. The decrease in the duration of interruptions to water supply was due to better planning of emergency works. Good planning influenced the efficiency of the emergency teams and the speed of eliminating the emergencies. From the beginning of 2011 the Company also affords a small water tank to practically every emergency location even if the water interruption does not exceed 5 hours. The Company has aimed to inform its clients about all the interruptions to water supply beforehand by phone. In 2011, on workdays the clients have been informed in 97% of emergency interruptions to water supply. The acceptable level of leakages, which is not regulated by law, has been contractually agreed as 26% and in 2011 the Company achieved the level of

17,73%. In 2011, the Company reconstructed a total of 10,7 km of water and waste water pipes, which is more than the contractually agreed reconstruction or replacement of 5 km of water pipes and 5 km of sewerage pipes annually. Overall in 2011, the quality of the treated waste water in the Paljassaare Wastewater Treatment plant was in compliance with all the required parameters. In the previous year, work continued on the efficiencies of all the stages of the treatment process to achieve maximum purification results in the conditions of wasteloads exceeding the process capacity (especially regarding the nitrogen compounds). In August the third purification stage was implemented – the biofilter – due to which the efficiency of nitrogen discharge has risen to above 85%. The Company submits an annual thorough report on compliance with the previous year's Levels of Service to the City of Tallinn, as well as to the Supervisory Foundation for the Water Companies in Tallinn.

The Company wishes to be a reliable partner for its customers, investors, employees and the community by regularly publishing information on its activities, financial standing and results. Regular cooperation with the trade union and the work environment council helps the Company to better take into account the wishes of its employees.

The Company has been a member of the Estonian Quality Association from 2002 and a member of the Estonian Environmental Management Association (EKJA) from 2003, which enables the Company to promote cooperation with other quality-conscious and environmentally aware businesses. For more details on the environmental activities of the Company, please see the 2011 electronic environmental report.



ANNUAL ACCOUNTS

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# Results of operations - for the year 2011

## RETURN ON INVESTED CAPITAL

The real return on capital invested at the time of privatisation was 6.5% in 2011, which is slightly higher than the 6.2% average real return on capital invested over the contract period starting from 2001, as the privatisation contract designed the returns to be lower in early years of contract. The Company has chosen the average real return on invested capital<sup>1</sup> (ARRIC) calculation in order to prove its returns since 2001, which is the classical formula used for verifying utility profits. ARRIC calculation uses the capital paid for the 50.4% of the shares at privatization to calculate the Regulatory As-

set Base (RAB). This calculation is recommended by the World Bank for tariff setting for privatized utilities. For further information on the RAB calculation please see paragraph 3.2 and the tables 4 and 5 of Note 5 of the tariff application<sup>2</sup>.

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

Both, the average and the annual return on capital invested are in accordance with the returns allowed by Ofwat, the UK regulator over this same period<sup>3</sup>, and the return permitted by the Dutch Energy regulator Energiekamer, which allowed a real rate of return of 6.0% in its regulatory determination of September 2010.

<sup>1</sup> ARRIC – EBIT from regulated services/regulatory asset base during the contract period from 2001.

<sup>2</sup> [www.tallinnavesi.ee/static/files/932.AS Tallinna Vesi Tariff Application for 2011-2015.pdf](http://www.tallinnavesi.ee/static/files/932.AS_Tallinna_Vesi_Tariff_Application_for_2011-2015.pdf)

<sup>3</sup> [www.ofwat.gov.uk/regulating/reporting/rpt\\_fpr\\_2007-08.pdf](http://www.ofwat.gov.uk/regulating/reporting/rpt_fpr_2007-08.pdf), page 15.

## OTHER MAIN ECONOMIC INDICATORS

million euros	2011	2010	2009	2008	2007	
Sales	51,2	49,7	49,4	46,0	41,4	
Gross profit	30,3	29,0	31,2	28,6	27,6	Gross profit margin – Gross profit / Net sales
Operating profit	28,9	27,5	29,5	25,9	24,1	Operating profit margin – Operating profit / Net sales
Operating profit - main business	25,4	24,2	26,9	24,1	23,2	
Profit before taxes	25,8	24,9	25,6	23,1	21,3	Profit before taxes margin – Profit before taxes / Net sales
Net profit	21,5	16,4	21,7	18,9	17,8	Net profit margin – Net profit / Net sales
Gross profit margin %	59,2	58,4	63,2	62,1	66,6	
Operating profit margin %	56,4	55,3	59,8	56,3	58,2	
Profit before taxes margin %	50,3	50,1	51,9	50,3	51,4	ROA – Net profit / Total assets
Net profit margin %	42,0	33,0	44,0	41,1	42,9	Debt to Total capital employed – Total liabilities / Total capital employed
ROA %	11,2	8,9	12,3	11,6	10,9	
Debt to total capital employed	58,9	60,1	49,7	49,9	51,8	ROE – Net profit / Shareholders' equity
ROE%	27,3	22,4	24,4	23,1	22,5	
Current ratio	4,9	2,1	4,2	1,8	1,9	Current ratio – Current assets / Current liabilities
Number of full-time equivalent employees	299	305	322	317	303	
Share capital	12,0	12,8	12,8	12,8	12,8	

## STATEMENT OF COMPREHENSIVE INCOME

### SALES

In 2011 the Company's total sales increased, year on year, by 3.1% to 51.2 mln euros. Sales in the main operating activity principally comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, and fees received from the City of Tallinn for operating and maintaining the storm water system. There is no considerable seasonality in the Company's operation.

Sales of water and wastewater services were 46.5 mln euros, a 3.0% increase compared to 2010, resulting from the slight rise in sales volumes as described below.

Within the service area, sales to residential customers decreased by 0.4% to 23.7 mln euros. Sales to commercial customers increased by 6.6% to 18.2 mln euros. Sales to customers outside of the service area increased by 10.9% to 3.8 mln euros compared to 2010. Over pollution fees received were 0.77 mln euros, an 8.7% decrease compared to 2010.

In 2011, the volumes sold to residential customers remained broadly at 2010 level, with 0.1% reduction year on year. Eliminating the minor impact of revenues reclassification from inside area to the outside area the domestic consumption is flat.

The volumes sold to commercial customers inside the service area increased by 7.2% compared to the respective period in 2010. The sales volumes increased mainly due to improvement in leisure sector and related indus-

trial and transportation services as result of pick up in tourism sector. The volume increase exceeds the sales increase due to the proportionally higher increase in wastewater services with the tariffs of the respective service being a bit lower compared to the water tariffs.

Volumes sold to outside service area were 9.9% higher than in 2010. The main factor in this increase was higher storm water volume in 2011 compared to 2010, resulting in sales increase of 10.9% year on year.

The sales from operation and maintenance of storm water and fire-hydrant system increased by 2.7% to 3.6 mln euros in 2011 compared to last year. This is in accordance with the terms and conditions of the contract whereby the storm water and fire-hydrant costs are invoiced based on actual costs and volumes treated.

### COST OF GOODS SOLD AND GROSS MARGIN

The cost of goods sold for the main operating activity was 20.9 mln euros in 2011, an increase of 0.24 mln euros or 1.2% from the equivalent period in 2010. The cost increase was mainly the result of increased treatment volumes by 6.3% that affected all variable costs, balancing the savings related to the operational outperformance described below.

To mitigate the nitrogen treatment and tax risks discussed throughout the 2010, we completed the construction and implemented the additional stage in sewage treatment process in the beginning of the 3rd quarter of 2011. In spite of the increase in volumes treated in 2011 and the increase in tax rates year on year by 14.8%, the treatment results were excellent and

resulted in reduced pollution tax payment. The pollution tax calculation depends on wastewater treatment results and concentration of different waste components in treated wastewater. In 2011 the Company was successful to remove all pollutants below the level required for the application of the beneficial coefficient in all quarters. Thereby the Company achieved in 2011 the beneficial 0.5 tax coefficient in contrary to 2010 with coefficient 1.0 in three quarters, and thereby the amount of pollution tax payable was 1.4 mln euros compared to 2.3 mln euros in 2010. We still have to note that the Company accounted for a one-off provision for pollution tax in Maardu related to storm water outlet not fully in control of the Company. Eliminating the 0.44 mln euros provision the pollution tax would have been 57.7% lower than in 2010.

Electricity costs increased by 0.27 mln euros or 9.9% in 2011 compared to 2010 having adverse impact from higher electricity prices as result of the purchase from the open market, but also from regulated networks fees. Chemical costs were 1.4 mln euros, no change in total cost compared to the corresponding period in 2010.

Salary expenses within costs of goods sold increased in 2011, year on year, by 0.36 mln euros or 8.9% mainly due to higher redundancy payments and performance related pay accrual. CPI (Consumer Price Index) increase in underlying individual salaries was broadly balanced by efficiencies resulted in reduction in headcount.

Other cost of goods sold in the main operating activity increased 0.50 mln euros, or 4.8% year on year, mainly due to the increase in asphaltting cost related to the networks emergency works reflecting increase in rates of raw



materials but also increased volumes. Other increases in rates were broadly balanced by internal efficiencies.

As a result of all of the above the Company's gross profit for 2011 was 30.3 mln euros, which is an increase of 1.3 mln euros, or 4.5%, compared to the gross profit of 29.0 mln euros for 2010.

#### OPERATING COSTS AND OPERATING MARGIN

Marketing expenses decreased by 0.04 mln euros to 0.75 mln euros during 2011 compared to the corresponding period in 2010. This is mainly the result of targeted efficiencies in number of other items.

In 2011 the General administration expenses increased by 0.64 mln euros year on year to 4.3 mln euros, mainly due to the increase in legal consultancies acquired in the process of tariff dispute. Within this group the salary costs increase was partly related to the transfer of management services to the salary line.

#### OTHER INCOME/EXPENSES

The majority of the income in Other net income/expenses relates to constructions and government grants. The drivers for this income stream are the networks extension programme and the connections activity in Tallinn. Income and expenses from constructions and government grants totalled a net income of 3.5 mln euros in 2011 compared to a net income of 3.3 mln euros in 2010. Variance in this line depends on construction volumes and estimates to the profit margins on projects completed. The extensive construction programme is expected to be completed in the 1st half of 2012.

The rest of the other income/expenses totalled an income of 0.14 mln euros in 2011 compared to an expense of 0.40 mln euros in 2010. The variance was mainly the result of one-off collection of long term overdue debt in the beginning of 2011.

As a result the Company's operating profit from main services for 2011 totalled 25.4 mln euros compared to 24.2 mln euros in 2010. In total the Company's operating profit for all activities for 2011 was 28.9 mln euros, an increase of 1.4 mln euros compared to an operating profit of 27.5 mln euros achieved in 2010. Year on year the operating profit for 2011 has increased by 5.2%.

#### FINANCIAL EXPENSES

Net Financial income/expenses were 3.1 mln euros in 2011, which is a negative variance of 0.56 mln euros or 21.8% compared to the net expenses in 2010. In both years the financial costs were impacted from the non-cash revaluation of the fair value of swap agreements, in 2010 the impact was negative by 1.2 mln euros and in 2011 the impact was negative by 2.2 mln euros.

The Company has mitigated the majority of the long term floating interest risk with 5 interest swap agreements, each with a principal value of 15 mln euros. At this point in time the estimated fair value of these swap contracts is still negative, totalling 4.5 mln euros, with a negative revaluation in 2011 in the amount of 2.2 mln euros.

The adverse impact from financial costs was partly balanced by increased financial income, mainly related to the interest income calculated on financing of long term construction project.

#### PROFIT BEFORE TAX

The Company's profit before taxes for 2011 was 25.8 mln euros, which is 0.87 mln euros higher than the profit before taxes of 24.9 mln euros for 2010.

The Company's net profit for 2011 was 21.5 mln euros, which is 5.1 mln euros higher than the net profit of 16.4 mln euros in the equivalent period in 2010 mainly due to the lower dividend payment and related income tax paid on dividends in 2011.

#### STATEMENT OF FINANCIAL POSITION

During the twelve months of 2011 the Company invested 16.5 mln euros into fixed assets. Non-current assets were 150.7 mln euros as of 31 December 2011.

Current assets increased by 7.7 mln euros to 41.4 mln euros in the twelve months of the year. Customer receivables increased by 6.2 mln euros as result of the increase in accrued income related to long term construction projects and payment schedules, and the cash at bank increased by 1.5 mln euros.

Current liabilities decreased by 7.4 mln euros to 8.5 mln euros in the twelve months of the year. This was mainly due to a 7.6 mln euros reclassification of Current portion of long-term borrowings to Non-current liabilities after renewal of the loan agreement.

The Company has a leverage level as expected of 58.9%, in the target range of 60%, reflecting the increase in Equity of 5.5 mln euros as a result of the higher profit generation compared to the dividend payment in 2011.

Long-term liabilities stood at 104.7 mln euros at the end of December 2011, consisting mainly of the outstanding balance of three long term bank loans. As of 30 April 2011 the total 95 mln euros loan capital was recorded within long term liabilities in accordance with the signed loan agreements. In April 2011 the Company renewed its loan agreement and according to the loan agreements the first repayment of loans or refinancing should take place in 2013. The weighted average interest margin for the total available facility is 0.82%.

It has to be noted that in the 4th quarter of 2011 the Company disclosed an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros, as per note 3 to the accounts.

## CASH FLOW

During the twelve months of 2011, the Company generated 30.2 mln euros of cash flows from operating activities, an increase of 5.4 mln euros compared to the corresponding period in 2010. 2011 operating cash flows were above 2010 cash flows mainly due to the working capital movement and particularly related to the payments of overdue debts in 2011. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the twelve months of 2011 net cash outflows from investing activities were 8.4 mln euros, which is 1.4 mln euros less than in 2010. In 2011 the cash outflows related to the fixed asset investments were 18.5 mln euros. Within the group the increased compensations received for the construction of pipelines is balancing the

increase in capital expenditures. In 2011 the Company has also given a loan of 3.2 mln euros to AS Maardu Vesi according to the Operating agreement signed in 2008.

The cash outflows from financing activities were 20.3 mln euros during the twelve months of 2011 compared to cash outflows of 20.5 mln euros during the same twelve months of 2010, representing the payouts of the dividends and income tax in both years and loans received in 2010.

As a result of all of the above factors, the total cash inflow in the twelve months of 2011 was 1.5 mln euros compared to a cash outflow of 5.5 mln euros in the twelve months of 2010. Cash and cash equivalents stood at 14.8 mln euros as at 31 December 2011 which is 1.5 mln euros higher than in the corresponding period of 2010.

## EMPLOYEES

At the end of 2011, the total number of employees was 311 compared to 319 at the end of 2010. The full time equivalent (FTE) was respectively 299 in 2011 compared to the 305 in 2010. The total salary cost was 6.4 mln euros, including 0.29 mln euros paid to the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.04 mln euros if the Council would want to replace the Management Board member.

## CORPORATE STRUCTURE

At the end of the year, as of 31 December 2011, the Group consisted of 2 companies. The subsidiary Water-

com OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

## DIVIDENDS AND SHARE PERFORMANCE

Based on the results of the 2010 financial year, the Company paid 16,000,639 euros of dividends. Of this, 639 euros was paid to the owner of the B-share and 16,000,000 euros, i.e. 0.80 euros per share to the owners of the A-shares. The dividends were paid out on 15 June 2011, based on the list of shareholders, which was fixed on 08 June 2011.

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

As of 31 December 2011, the shareholders of AS Tallinna Vesi, with a direct holding over 5%, were:

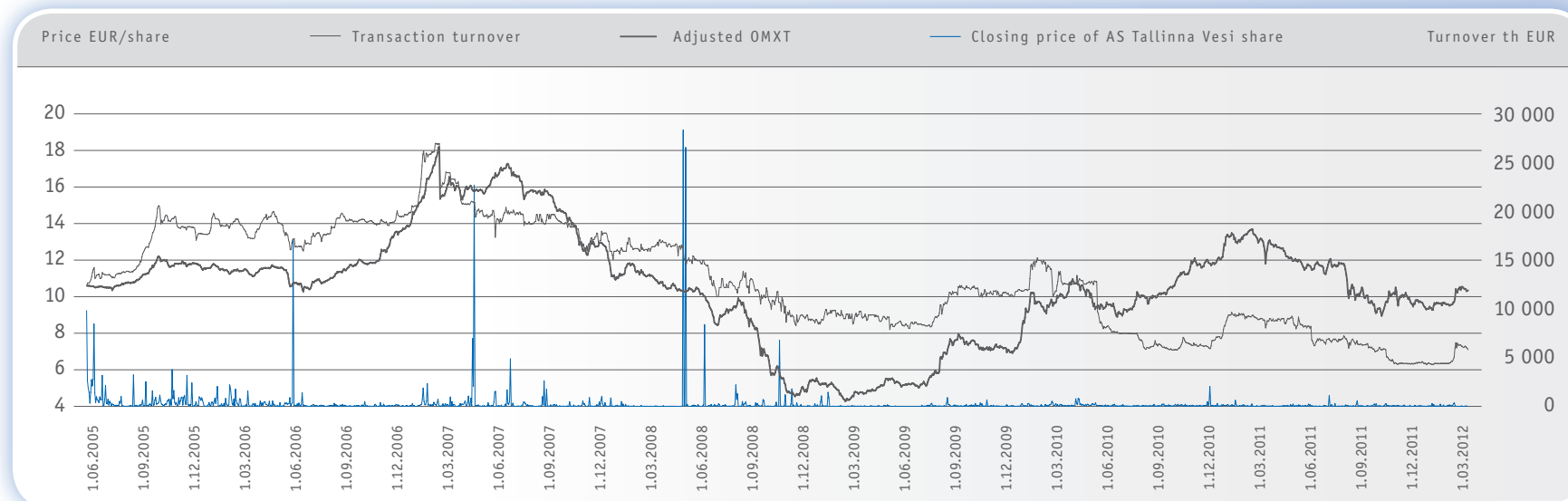
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

Parvus Asset Management owned in total 7.79% of the shares of the Company as per Company's best information as of 31 December 2011.

At the end of the year, as of 31 December 2011, the closing price of the share of AS Tallinna Vesi was 6.29 euros, which is a decrease of 20.28% compared to the closing price of 7.89 euros at the beginning of the year. During the same period the OMX Tallinn index decreased by 23.94%.



## CLOSING PRICE &amp; ADJUSTED OMXT TRANSACTION TURNOVER



## SHARE PRICE STATISTICS

EUR	2011	2010	2009	2008	2007
Share price, open	7,90	10,18	9,00	13,25	15,00
Share price, at the end of the year	6,29	7,89	10,00	8,99	12,96
Share price, low	6,29	7,00	8,20	8,41	12,50
Share price, high	9,29	12,25	10,69	13,60	18,59
Share price, average	7,76	8,95	9,28	11,38	14,84
Traded volume	1 927 386	2 879 132	1 547 108	7 958 820	5 462 916
Turnover, million	14,9	25,6	14,5	92,9	82,8
Capitalisation, million	125,8	157,8	200,0	179,8	259,2
Earnings per share	1,08	0,82	1,09	0,95	0,89
Dividend per share	n/a	0,80	1,60	0,73	0,80
Dividend / net profit	n/a	98%	147%	78%	90%
P/E	5,82	9,62	9,20	9,50	14,60
P/BV	1,6	2,2	2,2	2,2	3,3

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

Tallinn City 34,7%

Local retail investors 9,5%

Foreign institutional  
investors 15,7%

**DISTRIBUTION OF SHARE CAPITAL  
BY SIZE OF SHARE OWNERSHIP AS OF 31.12.2011**

	Shareholders	Shareholders %	No. of shares	% of share capital
1 - 100	764	26,5%	40 059	0,2%
101 - 200	578	20,0%	89 295	0,4%
201 - 300	324	11,2%	85 243	0,4%
301 - 500	336	11,6%	140 507	0,7%
501 - 1 000	362	12,5%	273 448	1,4%
1 001 - 5 000	400	13,9%	845 834	4,2%
5 001 - 10 000	58	2,0%	394 852	2,0%
10 001 - 50 000	40	1,4%	798 487	4,0%
50 000 +	25	0,9%	17 332 275	86,7%
<b>TOTAL</b>	<b>2887</b>	<b>100,0%</b>	<b>20 000 000</b>	<b>100,0%</b>

*More detailed information about the structure of the equity and the preference share,  
giving the special control rights, is disclosed in note 16.*

United Utilities 35,3%

**SHAREHOLDERS BY TYPE  
AS OF 31.12.2011**

Local institutional investors 4,4%

Foreign retain investors 0,4%



# Key contractual events

## CONTRACTUAL TARIFF APPLICATION

Tariffs are still frozen on the 2010 level despite the fact that on 9 November 2010 the Company submitted its contract based tariff application to the new regulator. The tariff application is fully in accordance with the law and the best practice regulation for privatised utilities, such as that favoured by Ofwat in the UK and recommended by the World Bank for privatised utilities.

On 2 May 2011 the Competition Authority (CA) informed the Company about the rejection of the tariff application. The CA completely ignored the privatisation contract and did not perform any analysis of the contractual and financial performance of the Company during the period after privatisation. The CA is arguing that the Company's profitability is too high using their own unverified methodology that is not in accordance with the World Bank guidelines for privatised utilities. The Company has calculated that the average real return on invested capital from 2001 till 2011 has been 6.2% and the Company has also had these returns independently verified by the international economic consulting group, Oxera.

The Company and its investors cannot accept such unilateral breach of the terms and conditions of the privatisation contract by Estonian Authorities and the Company submitted an appeal to the court on 2 June 2011. The outcome and lengths of the Court proceedings is outside the control of the Company.

## COMPLAINT TO EUROPEAN COMMISSION

In parallel, on 10 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 privatisation 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).

As a consequence of this complaint, on 22 February 2011 the European Commission sent a Request For Information to the Estonian authorities regarding the points raised by AS Tallinna Vesi in its complaint. The Estonian authorities were due to respond in early May, however requested and were granted a 30 day extension. The Estonian authorities responded to the Commission by the end of June. In October the Commission sent further questions to the Company for the commentaries. The process is ongoing.

## PRESCRIPTION TO REDUCE THE TARIFFS

On 10 October 2011 the Company received a prescription from the Competition Authority to lower the current tariffs by 29%. In addition and in support of its decision the Competition Authority has taken the extreme action of declaring the privatisation contract signed in 2001 to be illegal. To quote *"the CA, having familiarised itself with ASTV's claim regarding privatisation, is of the opinion that in the part concerning the price of water services, conducting the privatisation with the alleged aim of achieving the lowest possible tariff increase was not in accordance with the law."*

The Company wishes to make it absolutely clear to all its shareholders that it completely disagrees with the position taken by the CA. The Company believes that by declaring the privatisation illegal and using a Ministerial decree to attempt to force down ASTV's tariffs the CA as an agency representing the Estonian state and national government has shown an absolute disregard for legal due process. Furthermore, for the Company to have to defend itself in court for honouring all the terms

and conditions of its contract, including most importantly the improved service obligations that were contractually required by the Government of the City of Tallinn in 2001, goes against all the internationally acceptable norms of business conduct and public governance in long term privatisation contracts.

Therefore the Company lodged another claim against the CA regarding the prescription and asked for the temporary injunction from the Estonian Administrative Court. On 06 February the Tallinn Administrative Court informed the Company that it had agreed to the Company's request for an interim injunction and is suspending the fulfilment of the Competition Authority's prescription until the Court delivers a final judgement. The Competition Authority appealed against this ruling on 17 February 2012. The appeal is pending in the Tallinn District Court, which should decide whether the tariffs will be frozen until the court makes its final judgement on the legality of the privatisation agreements. The court also joined both, the current 2010 tariffs and the 2011 tariff application cases, so the prescription is suspended until both complaints are resolved. This means that tariffs for all customer categories will be maintained at current levels until the courts have made their final judgement. The outcome and lengths of the Court proceedings is outside the control of the Company.

## 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)) 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. Still, at this point in time the Company is unable to say what is going to happen to the tariffs as it is unclear at the moment how the CA intends to respond to the Court and what would be the next steps by the European Commission.

# Corporate governance and corporate governance recommendations report

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## 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 01.01.2006, the companies listed on the Tallinn Stock Exchange are recommended to follow the “Corporate Governance Recommendations” issued by the Financial Supervision Authority. Throughout 2011 the management of AS Tallinna Vesi has followed those regulations and principles.

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

## INVESTOR RELATIONS AND DISCLOSURE OF INFORMATION

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

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

One question was asked regarding the 2011. AGM agenda – a shareholder requested a copy of the presentation of the last item on the agenda before the meeting, but in the interests of safeguarding the requirement of informing all of the shareholders at the same time it was decided not to extend a copy of the presentation, the more so that this agenda item was purely informative (did not entail decisions) and shareholders and their representative were presented the relevant information simultaneously at the general meeting. No additional agenda item proposals were submitted for the 2011 AGM.

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



## THE GENERAL MEETING OF SHAREHOLDERS

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

On 24th May, 2011, AS Tallinna Vesi held an Annual General Meeting (AGM) of its Shareholders to approve the 2010 annual report, distribution of profit via dividends, due to transition to the Euro currency to amend its Articles of Association and decrease the nominal value of shares and the total value of share capital as well as to elect auditors. The Management Board also made a presentation on the change in regulation and its impact on the long term privatisation contract to update the shareholders.

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

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

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

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

The chairman of any AGMs and EGMs is an independent person. In 2011, the AGM was chaired by Mr. Raino Paron, who introduced the procedure for conducting the General Meeting, including the procedure for inquiring about the company's activities from the Management Board.

All members of the Management Board, the Chairman of the Supervisory Board and the auditor participated at the AGM in 2011. When Supervisory Board members stand for election at general meetings, the candidates for these positions also participate.

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

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

As per the Articles of Association of AS Tallinna Vesi amended on 24th May 2011, the company has issued

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

## THE SUPERVISORY BOARD

The Supervisory Board plans the activities of AS Tallinna Vesi, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association of AS Tallinna Vesi, the Supervisory Board consists of nine members with the term of two years. In 2011, five regular and no extraordinary Supervisory Board meetings were held. The Supervisory Board pre-approved the 2010 annual report presented to the Annual General Meeting for approval, and reviewed AS Tallinna Vesi's preliminary 2012 budget.

At the time of compilation of this report, AS Tallinna Vesi's Supervisory Board consisted of the following members: Messrs Robert John Gallienne (United Utilities), Steven Richard Fraser (United Utilities), Simon Gardiner

(United Utilities), Brendan Francis Murphy (United Utilities), Priit Lello (Tallinn City), Rein Ratas (Tallinn City), Toivo Tootsen (Tallinn City), Mart Mägi (independent) and Valdur Laid (independent).

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

### THE AUDIT COMMITTEE AND INTERNAL AUDIT

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

The main tasks of the Audit Committee are:

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

The appointed external auditor and any member of the external audit team cannot provide any service outside the scope of annual audits without prior approval from the Audit Committee. In 2011, the external auditor did not provide any services to AS Tallinna Vesi outside the scope of the annual audit.

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

### NOMINATION AND REMUNERATION COMMITTEE

In 2011 the Supervisory Board renamed the Remuneration Committee as Nomination and Remuneration Committee, which continues to advise the Supervisory Board

on management remuneration issues and now also advises the Supervisory Board on Management Board nominations. Mr. Valdur Laid is the Chairman of the Nomination and Remuneration Committee and Mr. Robert John Gallienne and Mr. Mart Mägi are the members of the Nomination and Remuneration Committee.

Supervisory Council 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 Council and the requirements of the Securities Market Act are being followed.

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

### CORPORATE GOVERNANCE COMMITTEE

In addition, the Supervisory Board has formed a Corporate Governance Committee to improve corporate governance of AS Tallinna Vesi for the benefit of its Supervi-



sory Council and shareholders. Mr. Robert John Gallienne is the Chairman of the Corporate Governance Committee and Messrs Laid and Plenderleith are the other members of the Corporate Governance Committee.

## THE MANAGEMENT BOARD

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

Both, the Management Board and Supervisory Board members are deemed to be insiders, have signed respective insider agreements, are aware of AS Tallinna Vesi's insider rules and together with their related persons are listed in AS Tallinna Vesi's insider list. In 2011 the Management Board consisted of three members, but at the time of compilation of this report the Management Board consisted of four members, both responsibilities are specified below. The Chairman of the Management Board is seconded from United Utilities International Ltd, all Management Board members are appointed by the Supervisory Board of AS Tallinna Vesi.

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

The duties of the member of the Management Board, Mr. Leho Võrk, are, amongst others, to fulfil the everyday obligations of the Chief Operating Officer (COO) of AS Tallinna Vesi by managing and being responsible for the operating activities of the company. Mr. Võrk was appointed to the Management Board from 1 February 2012. Throughout 2011 and until 31 January 2012 Mr. Robert Thomas Yuille was appointed to the role of COO.

The duties of the member of the Management Board, Ms. Siiri Lahe, were, amongst others, to fulfil the everyday obligations of the Chief Financial Officer (CFO) of AS Tallinna Vesi by managing and being responsible for the accounting and financial activities of the company.

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

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

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

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

## CONFORMITY WITH TALLINN STOCK EXCHANGE CORPORATE GOVERNANCE RECOMMENDATIONS

Starting from 1st January 2006, the companies whose shares have been admitted for trading on the regulated market 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 2011, AS Tallinna Vesi has complied with the vast majority of the Corporate Governance principles. However, AS Tallinna Vesi did not comply with certain principles, which are listed below together with the reasons for such non-compliance:

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

The arrangements undertaken in connection with the privatisation of AS Tallinna Vesi in 2001 provided that, in return for certain fees, United Utilities International Ltd. would provide AS Tallinna Vesi with technical and asset 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 the disclosure thereof would bring no benefit to the shareholders.

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

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

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

## INFORMATION DISCLOSURE

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

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

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

The Supervisory Board approves the remuneration principles of the Management Board. In 2011, there were no other transactions between AS Tallinna Vesi and any member of the Management Board.



*'3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating 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 applicable taxes and is payable monthly. The Supervisory Board members were not paid any additional benefits in 2011.

*'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 2011, five Supervisory Board meetings were held (27th January 2011, 24th March 2011, 28th April 2011, 28th July 2011 and 27th October 2011).'

The following members of the Supervisory Board attended more than 50% of the meetings during the time they were appointed or elected in 2011: Messrs Robert John Gallienne, Leslie Anthony Bell, Simon Gardiner, Andrew James Prescott, Rein Ratas, Deniss Boroditš, Ardo Ojasalu, Brendan Francis Murphy, Toivo Tootsen, Mart Mägi and Valdur Laid.

Only Mr. Philip Anthony Aspin did not attend any Supervisory Board meetings during the period when his powers as the Board member were valid. Mr. Priit Lello did not attend any of the Supervisory Board meetings as no Supervisory Board meetings were held after his election on 16.11.2011.

*'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 2011.

The previous sections, Chairman's statement, Results of operations – for the year 2011, Corporate Governance and Corporate Governance Recommendations Report from the Management Report are an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2011. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of AS Tallinna Vesi.



Ian John Alexander Plenderleith  
Chairman of the Management Board  
27.02.2012



Leho Vörk  
Member of the Management Board  
27.02.2012



Siiri Lahe  
Member of the Management Board  
27.02.2012



Ilona Nurmela  
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27.02.2012

## Management confirmation

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The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements of AS Tallinna Vesi (Parent Company) and its subsidiary (together referred as Group) for the financial year ended 31 December 2011 on pages 49 to 79.

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 2011, 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 2011. 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 27 February 2012 have been considered in preparing the financial statements.

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



Ian John Alexander Plenderleith  
Chairman of the Management Board  
27.02.2012



Leho Vörk  
Member of the Management Board  
27.02.2012



Siiri Lahe  
Member of the Management Board  
27.02.2012



Ilona Nurmela  
juhatuse liige  
27.02.2012



## Consolidated statement of financial position

as of 31 December	Note	2011	2010
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and equivalents	6	14 770	13 235
Trade receivables, accrued income and prepaid expenses	7	19 845	20 088
Inventories		248	306
Non-current assets held for sale		73	76
<b>TOTAL CURRENT ASSETS</b>		<b>34 936</b>	<b>33 705</b>
<b>NON-CURRENT ASSETS</b>			
Other long-term receivables	8	9 583	0
Property, plant and equipment	9	145 973	148 179
Intangible assets	9	1 577	1 972
<b>TOTAL NON-CURRENT ASSETS</b>		<b>157 133</b>	<b>150 151</b>
<b>TOTAL ASSETS</b>		<b>192 069</b>	<b>183 856</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of long-term borrowings	10	0	7 624
Trade and other payables	11	5 789	6 367
Derivatives	12	1 552	963
Provisions		0	117
Prepayments	15	1 146	810
<b>TOTAL CURRENT LIABILITIES</b>		<b>8 487</b>	<b>15 881</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income from connection fees		6 824	5 765
Borrowings	10	94 938	87 428
Derivatives	12	2 936	1 304
Other payables	11	9	115
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>104 707</b>	<b>94 612</b>
<b>TOTAL LIABILITIES</b>		<b>113 194</b>	<b>110 493</b>
<b>EQUITY</b>			
Share capital	16	12 000	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		40 863	34 569
<b>TOTAL EQUITY</b>		<b>78 875</b>	<b>73 363</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>192 069</b>	<b>183 856</b>

Notes to the financial statements on pages 53 to 79 form an integral part of the financial statements.

## Consolidated statement of comprehensive income

for the year ended 31 December	Note	2011	2010
Revenue	17	51 240	49 680
Costs of goods sold	19	-20 927	-20 684
<b>GROSS PROFIT</b>		<b>30 313</b>	<b>28 996</b>
Marketing expenses	19	-748	-787
General administration expenses	19	-4 294	-3 651
Other income(+)/ expenses(-)	20	3 619	2 906
<b>OPERATING PROFIT</b>		<b>28 890</b>	<b>27 464</b>
Financial income	21	1 947	1 060
Financial expenses	21	-5 071	-3 624
<b>PROFIT BEFORE TAXES</b>		<b>25 766</b>	<b>24 900</b>
Income tax on dividends	22	-4 253	-8 495
<b>NET PROFIT FOR THE PERIOD</b>		<b>21 513</b>	<b>16 405</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>21 513</b>	<b>16 405</b>
<b>ATTRIBUTABLE PROFIT TO:</b>			
Equity holders of A-shares		21 512	16 404
B-share holder		0,60	0,64
Earnings per A share (in euros)	23	1,08	0,82
Earnings per B share (in euros)	23	600	639

Notes to the financial statements on pages 53 to 79 form an integral part of the financial statements.

## Consolidated statement of cash flow

for the year ended 31 December	Note	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit		28 890	27 464
Adjustment for depreciation/amortisation	9, 19	5 729	5 620
Adjustment for income from government grants and connection fees	20	-3 484	-3 312
Other finance income(+)/expenses(-)	21	35	-14
Profit(-)/loss(+) from sale of property, plant and equipment, and intangible assets		55	-3
Expensed property, plant and equipment		10	70
Change in current assets involved in operating activities		720	-8 894
Change in liabilities involved in operating activities		1 306	6 297
Interest paid		-3 051	-2 443
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>30 210</b>	<b>24 785</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Loans granted	8	-3 151	0
Acquisition of property, plant and equipment, and intangible assets		-18 506	-17 055
Compensations received for construction of pipelines		11 284	6 139
Proceeds from sale of property, plant and equipment, and intangible assets		13	16
Interest received		1 939	1 109
<b>TOTAL CASH FLOW USED IN INVESTING ACTIVITIES</b>		<b>-8 421</b>	<b>-9 791</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Received loans	10	0	20 000
Dividends paid	22	-16 001	-31 956
Income tax on dividends	22	-4 253	-8 495
<b>TOTAL CASH FLOW USED IN FINANCING ACTIVITIES</b>		<b>-20 254</b>	<b>-20 451</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>1 535</b>	<b>-5 457</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>13 235</b>	<b>18 692</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	6	<b>14 770</b>	<b>13 235</b>

Notes to the financial statements on pages 53 to 79 form an integral part of the financial statements.



## Consolidated statement of changes in equity

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>AS OF 31 DECEMBER 2009</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>50 120</b>	<b>88 914</b>
Dividends (Note 22)	0	0	0	-31 956	-31 956
Comprehensive income for the period (Note 23)	0	0	0	16 405	16 405
<b>AS OF 31 DECEMBER 2010</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>34 569</b>	<b>73 363</b>
Reduction of the share capital (Note 16)	-782	0	0	782	0
Dividends (Note 22)	0	0	0	-16 001	-16 001
Comprehensive income for the period (Note 23)	0	0	0	21 513	21 513
<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>

*Notes to the financial statements on pages 53 to 79 form an integral part of the financial statements.*

# Notes to the consolidated financial statements

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## NOTE 1. GENERAL INFORMATION

AS Tallinna Vesi is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 400 000 people in Tallinn and in several neighbouring municipalities of Tallinn. AS Tallinna Vesi has the exclusive right to provide water and sewerage services in Tallinn's main service area until the year 2020.

Shareholders of AS Tallinna Vesi having a significant influence are, United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Tallinn Stock Exchange, in which AS Tallinna Vesi listed on 1 June 2005.

### CONTACTS OF AS TALLINNA VESI:

Commercial register number:	10257326
VAT identification number:	EE100060979
Address:	Ädala 10, 10614 Tallinn
Telephone:	62 62 200
Fax:	62 62 300
E-mail:	tvesi@tvesi.ee

## 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 27 February 2012. 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.

## 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 strategic decisions. The Management Board has determined that the activities of the Group form a single operating segment. The internal reporting reviewed by the Supervisory Board and the Management Board is prepared using the same accounting principles and format of statement of financial position and statement of comprehensive income as provided in these consolidated financial statements.

## ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new or revised standards and interpretations became effective for the Group from 1 January 2011:

**Amendment to IAS 24, Related Party Disclosures.** The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. As a result of the revised standard, the Group provided disclosures of only individually significant transactions with government-related entities.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact to the Group.

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted:

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

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

## PRINCIPLES OF CONSOLIDATION, ACCOUNTING FOR BUSINESS COMBINATIONS AND SUBSIDIARIES

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

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

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

## FOREIGN CURRENCY

### FUNCTIONAL AND PRESENTATION CURRENCY

On 1 January 2011, the Republic of Estonia joined the Euro area and adopted the Euro as its national currency, replacing the Estonian kroon. Consequently, the functional currency of the Parent company and the subsidiary since 1 January 2011 is Euro. Change in the functional currency has been accounted for prospectively. The parent company and its subsidiary have translated the balances on their accounts as of 1 January 2011 by applying the currency rate of 15,6466 kroon/euro.

2011 consolidated financial statements have been presented in euros. Comparative figures presented in the financial statements have been translated from Estonian kroons to euros using the conversion rate of 15.6466 kroon/euro. As the exchange rate has been the same during previous periods, no differences in currency arose in translation.

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 (Estonian kroon until 31 December 2010)) 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 (until 31 December 2010 the currency exchange rates of the Bank of Estonia). 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 (until 31 December 2010 the currency exchange rates of the Bank of Estonia) prevailing on the balance sheet date. Foreign exchange gains and losses are recognised in the statement of comprehensive income as income or expenses of that period.

## CURRENT AND NON-CURRENT DISTINCTION OF ASSETS AND LIABILITIES

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



of the Group are considered as current. All other assets and liabilities are classified as non-current.

## CASH AND CASH EQUIVALENTS

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

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

## FINANCIAL ASSETS

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

Financial assets are recorded in statement of financial position at value date (i.e. are recognised when the Group becomes the owner of the financial assets and are derecognised when the Group has transferred substantially all risk and rewards incidental to ownership).

According to the purpose of acquisition and management intentions the financial assets are divided into the following groups:

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

As of 31 December 2011 and 2010 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 2011 and 2010 the parent company had given one loan.

## RECEIVABLES

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

Allowance for receivables is recorded if there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the agreement. Impairment of individually material receivables is evaluated separately for each customer, considering the present value estimated future cash flows. For receivables which are not individually significant and for which there is no direct information that their value has been decreased, the allowance is evaluated collectively using previous years experience on impairment of receivables. The amount of the allowance for doubtful receivables is the difference between their carrying amount and present value of future cash flows, using effective interest rate method. The carrying amount of receivables is reduced by the impairment loss and impairment loss is recorded in the statement of comprehensive income on the row „Other income/ expenses“. Subsequent recoveries of doubtful receivables are recorded as a decrease of impairment loss.

## INVENTORIES

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

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

## NON-CURRENT ASSETS HELD FOR SALE

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

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

## PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

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

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

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

## ACQUIRED LICENSES

Acquired computer software that is not an integral part of the related hardware is recognised as an intangible

asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Group and that are expected to generate economic benefits beyond one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the statement of comprehensive income. Costs of computer software shall be depreciated over the estimated useful lifetime, the duration of which is up to 10 years.

## OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

Applicable depreciation/amortization rates:

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

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

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

## IMPAIRMENT OF ASSETS

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

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

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

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

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

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

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

## DERIVATIVES

With regard to derivatives, the Group uses interest rate swap contracts, in order to mitigate risks related to fluctuations in interest rates. Such derivatives are initially recognised at their fair value at the date of entering into the contract and are subsequently carried at fair value with changes recognised in profit or loss. If fair value is positive, the derivative is recognised as an asset, if negative, as a liability. Derivatives are classified as a current asset or liability if expected to be settled within 12 months; otherwise, they are classified as non-current.

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



## CORPORATE INCOME TAX

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

### INCOME TAX ON DIVIDENDS IN ESTONIA

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The rate is 21/79 on the amount of the dividends payable (2010: 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 lessor 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 completion of construction works within "Other income/expenses" as income from government grants.

## REVENUE

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

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

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

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.

### 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 con-

tract 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 31.12.2011 arising from the potential claims against the Company if the Court ruling would support the CA's position. As result of this, the outflow of economic benefits could be up to 36 mln euros that could be claimed within 10 years of the final judgement of the courts.

#### NOTE 4. CRITICAL ACCOUNTING ESTIMATES

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment 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 2011 Group owns property, plant and equipment, and intangible assets with a book value of 147.6 mln euros (31.12.2010: 150.1 mln euros) and annual depreciation was 5.8 mln euros

in 2011 (2010: 5.7 mln euros). If the depreciation/amortization rates decreased / increased by 5 %, the depreciation/amortization expense would increase / decrease respectively by 286 thousand euros (2010: 288 thousand euros).

- The Group has assumed an obligation to construct water and wastewater and storm water pipelines with an estimated construction cost of up to 41 mln euros (2010: 41 mln euros) in 2008-2012. The construction of pipelines is compensated by local government with the grants receivable in 2008-2014. Compensations received from local government are recognised as government grants - compensations received or receivable are deducted from the book value of the constructed pipeline. Any amount exceeding the construction cost of the pipeline is recognized as income upon the completion of construction works. The part of the compensation that is received after the completion of the construction works is recognized in the statement of financial position as a receivable from local government at its present value. Recognition of the above compensations is dependent on several uncertain circumstances and the estimates of the Management Board, in particular those regarding the total cost of the project and the fair value of the compensations receivable. In recording income from government grants (Note 20) in these financial statements the best knowledge and estimates of the Management Board of the profit rates of the project have served as the basis for calculation. If the actual construction costs increased compared to these estimates by 5%, the profit of 2011 would decreased by 60 thousand euros (2010: 297 thousand euros).

As payment of government grant for pipelines will be received until June of 2014 and the exact extent of compensation depends on water consumption, the fair value of compensation receivable is also based on estimates. In the estimates compensation is receivable for 2008-2014 and has been discounted using a rate of 7% (2010: 9.4%). If the discount rate would be decreased/increased by 50 basis points, the profit of the accounting period would increase/decrease up to 198 thousand euros (2010: up to 64 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

In its everyday business activities the Group has to take into account different financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk, liquidity risk and equity risk. Because of the Group's position on the market and characteristics of its business activities none of before mentioned risks has significant impact to the Group.

The risk management of the Group is based on the requirements established by the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, generally accepted accounting standards and good practice, and the internal regulations and policies of the Group. According to the Group's risk administration procedures the financial risk management is carried out by the financial department.

as of 31 December	2011	2010
<b>FINANCIAL ASSETS</b>		
Loans and receivables (including cash and cash equivalents)	44 060	33 173
<b>TOTAL</b>	<b>44 060</b>	<b>33 173</b>
as of 31 December	2011	2010
<b>FINANCIAL LIABILITIES</b>		
Financial liabilities at amortised cost	97 818	99 083
Financial liabilities at fair value through profit and loss	4 488	2 267
<b>TOTAL</b>	<b>102 307</b>	<b>101 350</b>

## MARKET RISK

## CURRENCY RISK

Currency risk is the potential loss due to unfavourable movements in currency exchange rates against euro. The Group's currency 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 2011 was less than 0.5% (2010: less than 0.5%). Because of the small proportion of transactions in other currencies the Group has not taken any special activities to reduce this risk.

On 31 December 2011 the Group's bank accounts balances (including deposits) totalled 14 770 thousand euros (2010: 13 235 thousand euros) from which no sums were in other currencies than euros (2010: less than 0.06 thousand euros in other currencies than Estonian kroon or euros). There were no other significant exposures to foreign currencies arising from 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 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 interest rate risk, the Group has concluded 5 (2010: 5) floating-to-fixed interest rate swap contracts (Note 12). As of 31.12.2011 the interest rate swap contracts have the notional amount of 75 mln euros (2010: 75 mln euros), therefore only borrowings in the amount of 19.9 mln euros (2010: 19.9 mln euros) remain exposed to the cash flow interest rate risk.

As at 31.12.2011, if the interest rates of the Group's borrowings and interest rate swap contracts had been 50 basis points (2010: 50 basis points) higher/lower with all other variables held constant, profit for the year would have been EUR 698 thousand (2010: EUR 1 017

thousand) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings and fair value change of interest rate swaps.

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

## CREDIT RISK

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

According to the Group's risk management policies the Group's short term resources can be deposited only in accounts, overnight deposits and fixed term deposits opened in credit institutions. For depositing counterparties with at least a long term A rating (by Moody's) are used. As of 31.12.2011 100% of Group's cash and deposits were deposited with counterparty with higher rating than A3 (2010: 100% higher than A3). Starting from Jan 2012 the Group is also monitoring European Banking Authority's recommendations regarding banks' recapitalization needs and depositing is done only in banks with no capitalization shortfall.

The selling of Group's products and services is done in compliance with internal procedures. To reduce credit risk related to accounts receivable the customers' payment discipline is consistently observed. In the case of overdue debt the clients are contacted by Group's Credit group. At the end of December 2011 only one client's (2010: one client's) receivables (Note 25) exceeded 5% of total trade receivables constituting 46.2% of it (2010: 57.1%).

as of 31 December 2011

Overdue

<b>FINANCIAL ASSETS</b>	<b>Balance</b>	Not due	Not impaired (up to 2 months)	Impaired	Impairment
Trade receivables (Note 7)	10 808	10 625	150	548	-514
Commercial entities	7 460	7 348	92	401	-381
Private persons	3 348	3 277	58	147	-133
Accrued income (Note 7)	16	16	0	0	0
Loan to co-partner (Note 8)	3 151	3 151	0	0	0
Government grant (Note 7, 8, 25)	15 310	15 310	0	0	0
<b>TOTAL</b>	<b>29 285</b>	<b>29 102</b>	<b>150</b>	<b>548</b>	<b>-514</b>

as of 31 December 2010

Overdue

<b>FINANCIAL ASSETS</b>	<b>Balance</b>	Not due	Not impaired (up to 2 months)	Impaired	Impairment
Trade receivables (Note 7)	12 672	7 179	3 449	3 196	-1 152
Commercial entities	9 453	4 049	3 376	2 489	-461
Private persons	3 219	3 130	73	707	-691
Accrued income (Note 7)	9	9	0	0	0
Loan to co-partner (Note 8)	0	0	0	0	0
Government grant (Note 7, 8, 25)	7 256	7 256	0	0	0
<b>TOTAL</b>	<b>19 937</b>	<b>14 444</b>	<b>3 449</b>	<b>3 196</b>	<b>-1 152</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 doesn't have enough funds to serve its loans, to fulfil its working

capital needs, to invest and/or to make declared dividend payments. In liquidity risk management the Group has taken a prudent view, maintaining sufficient cash balance and short term deposits to be able to fulfil its

financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Group.

## FINANCIAL LIABILITIES IN TERMS OF PAYMENT (undiscounted amounts):

as of 31 December 2011	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Trade and other payables	2 761	34	0	0	9	2 804
Derivatives	1 552	0	0	2 936	0	4 488
Borrowings	150	301	1 427	84 810	14 628	101 316
<b>TOTAL</b>	<b>4 464</b>	<b>335</b>	<b>1 427</b>	<b>87 746</b>	<b>14 637</b>	<b>108 608</b>
as of 31 December 2010	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Trade and other payables	3 661	30	192	106	9	3 998
Derivatives	963	0	0	1 304	0	2 267
Borrowings	29	67	8 966	77 516	14 529	101 107
<b>TOTAL</b>	<b>4 653</b>	<b>97</b>	<b>9 158</b>	<b>78 926</b>	<b>14 538</b>	<b>107 372</b>

## CAPITAL MANAGEMENT

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

as of 31 December	2011	2010
Equity	78 874	73 363
Total assets	192 069	183 856
<b>EQUITY RATIO</b>	<b>41,1%</b>	<b>39,9%</b>

## FAIR VALUE

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

At the end of 2011 all Group's long-term borrowings had floating interest rates. Because Group's contractual long-term borrowings risk margins were smaller, than market's risk margin currently applicable to the Group, the fair value of its long-term borrowings on 31.12.2011 was 2 167 thousand euros smaller than their carrying amount (2010: 2 856 thousand euros smaller).

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

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

## NOTE 6. CASH AND CASH EQUIVALENTS

as of 31 December	2011	2010
Cash in hand and in bank	1 456	651
Short-term deposits	13 314	12 584
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>14 770</b>	<b>13 235</b>

**NOTE 7. TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES**

as of 31 December	2011	2010
Accounts receivable	11 322	13 825
Allowance for doubtful receivables	-514	-1 152
<b>TOTAL TRADE RECEIVABLES</b>	<b>10 808</b>	<b>12 673</b>
<b>IMPAIRMENT LOSS OF RECEIVABLES:</b>		
for the year ended 31 December	2011	2010
Write off of uncollectible receivables	-224	-12
Increase of allowance for doubtful receivables	-648	-290
as of 31 December	2011	2010
Accrued interest	16	9
Government grant receivables	8 878	7 255
Prepaid expenses	143	151
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>9 037</b>	<b>7 415</b>
<b>TOTAL TRADE RECEIVABLES, ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>19 845</b>	<b>20 088</b>

The Group's current assets (incl. trade receivables, accruals and inventory) in the amount of 20 166 thousand euros (2010: 20 470 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	2011	2010
Government grant receivables	6 432	0
Loan to co-partner	3 151	0
<b>TOTAL OTHER LONG-TERM RECEIVABLES</b>	<b>9 583</b>	<b>0</b>

The Group's long term receivables in the amount of 6 432 thousand euros (2010: 0 euros) have been pledged as a security to the bank loans (Note 10), as a part of commercial pledge.



NOTE 9. **PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

	Property, plant and equipment				Assets in progress			Intangible assets	Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Unfinished pipelines	Unfinished intangible assets	Acquired licenses and other intangible assets	
AS OF 31 DECEMBER 2009									
Acquisition cost	23 913	150 807	38 419	1 179	2 561	3 885	95	5 641	226 500
Accumulated depreciation	-4 566	-47 723	-24 774	-737	0	0	0	-3 159	-80 959
BOOK VALUE	19 347	103 084	13 645	442	2 561	3 885	95	2 482	145 541
TRANSACTIONS IN THE PERIOD 01.01.2010 - 31.12.2010									
Acquisition in book value	0	0	0	0	6 738	10 734	62	0	17 534
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-4	-9	0	0	0	0	-15
Compensated by government grants (Note 13)	0	0	0	0	0	-7 080	0	0	-7 080
Reclassification	156	4 929	1 890	51	-7 083	-77	-38	37	-135
Depreciation (Note 19)	-272	-2 593	-2 081	-82	0	0	0	-666	-5 694
AS OF 31 DECEMBER 2010									
Acquisition cost	24 067	155 727	39 570	1 157	2 216	7 462	119	5 232	235 550
Accumulated depreciation	-4 838	-50 307	-26 120	-755	0	0	0	-3 379	-85 399
BOOK VALUE	19 229	105 420	13 450	402	2 216	7 462	119	1 853	150 151
TRANSACTIONS IN THE PERIOD 01.01.2011 - 31.12.2011									
Acquisition in book value	0	0	0	0	5 178	11 126	234	0	16 538
Write off and sale of property, plant and equipment, and intangible assets in book value	-1	0	-65	0	0	0	0	0	-66
Compensated by government grants (Note 13)	0	0	0	0	0	-13 270	0	0	-13 270
Reclassification	182	6 412	1 553	43	-4 545	-3 641	-131	131	4
Depreciation (Note 19)	-273	-2 646	-2 181	-78	0	0	0	-629	-5 807
AS OF 31 DECEMBER 2011									
Acquisition cost	24 247	162 106	40 594	1 175	2 849	1 677	222	5 363	238 233
Accumulated depreciation	-5 110	-52 920	-27 837	-808	0	0	0	-4 008	-90 683
BOOK VALUE	19 137	109 186	12 757	367	2 849	1 677	222	1 335	147 550

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 2011 there were no finance lease contracts. As of 31 December 2010 the book value of the assets leased under financial lease 257 thousand euros.

The Group's non-current assets in the amount of 13 939 thousand euros (2010: 35 246 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 32 558 thousand euros (2010: 33 221 thousand euros) serves as a security to the bank loans (Note 10).

During the year, the Group has capitalised borrowing costs amounting to 86 thousand euros (2010: 59 thousand euros) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 2.13% (2010: 1.58%).

NOTE 10. **BORROWINGS**

as of 31 December		2011	2010
<b>CURRENT BORROWINGS</b>			
Current portion of long-term bank loans*		0	7 482
Current portion of long-term finance lease liabilities		0	124
<b>TOTAL CURRENT BORROWINGS</b>		<b>0</b>	<b>7 606</b>
<b>NON-CURRENT BORROWINGS</b>			
Long-term bank loans		94 938	87 446
<b>TOTAL NON-CURRENT BORROWINGS</b>		<b>94 938</b>	<b>87 446</b>
* - in 2011 one loan agreement was amended and therefore short-term loan payment is reclassified as long term.			
<b>BANK LOANS AT 31 DECEMBER 2011</b>			
Currency EUR (euro)		<b>Balance</b>	Effective interest rate
Borrowings at floating interest rate (based on 1- and 6-month Euribor)		94 938	1,64%-2,24%
<b>BANK LOANS AT 31 DECEMBER 2010</b>			
Currency EUR (euro)		<b>Balance</b>	Effective interest rate
Borrowings at floating interest rate (based on 1- and 6-month Euribor)		94 928	1,03%-2,20%
<b>COLLATERAL OF LOANS AND PLEDGED ASSETS</b>			
		Collateral at book value as of 31 December	
Type of collateral	Specification and location of collateral	2011	2010
Commercial pledge	Movables of the Company (Notes 7, 8, 9)	40 537	55 716
Mortgage	Real Estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	32 558	33 221

NOTE 11. **TRADE AND OTHER PAYABLES**

	Balance amount	Short-term portion	Long-term portion	
<b>AS OF 31 DECEMBER 2011</b>				
Trade payables - operating expenditures	1 860	1 860	0	
Trade payables - capital expenditures	568	568	0	
Payables to related parties (Note 25)	194	194	0	
Payables to employees	849	849	0	
Interest payable	76	76	0	
Other accrued expenses	172	172	0	
Long-term guarantee deposit	9	0	9	
Taxes payable incl:				Tax rates
Income tax	136	136	0	21%
VAT	733	733	0	20%
Tax on special use of water	219	219	0	0,0309 - 0,0743 euros/m <sup>3</sup>
Pollution taxes	665	665	0	453 - 14 447 euros/t
Social security tax	273	273	0	33%
Other	44	44	0	0,3 - 21%
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>5 798</b>	<b>5 789</b>	<b>9</b>	
<b>AS OF 31 DECEMBER 2010</b>				
Trade payables - operating expenditures	1 120	1 120	0	
Trade payables - capital expenditures	2 276	2 276	0	
Payables to related parties (Note 25)	200	200	0	
Payables to employees	773	667	106	
Interest payable	157	157	0	
Other accrued expenses	163	163	0	
Long-term guarantee deposit	9	0	9	
Taxes payable incl:				Tax rates
Income tax	125	125	0	21%
VAT	408	408	0	20%
Tax on special use of water	208	208	0	0,0281 - 0,0675 euros/m <sup>3</sup>
Pollution taxes	748	748	0	414 - 13 759 euros/t
Social security tax	230	230	0	33%
Other	65	65	0	0,3 - 21%
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>6 482</b>	<b>6 367</b>	<b>115</b>	



## NOTE 12. DERIVATIVES

Liabilities	Balance amount	Short-term portion	Long-term portion
<b>AS OF 31 DECEMBER 2011</b>			
SWAP contracts	4 488	1 552	2 936
<b>AS OF 31 DECEMBER 2010</b>			
SWAP contracts	2 267	963	1 304
as of 31 December	<b>2011</b>	2010	
Contracts start date	2010.05 - 2011.11	2009.11 - 2011.05	
Contracts maturity date	2013.11 - 2015.11	2013.11 - 2015.11	
Contracts notional amount	75 000	75 000	

## NOTE 13. GOVERNMENT GRANTS

## GOVERNMENT GRANTS FOR ASSETS

Government grants receivable accrued during the financial year for completed constructions of pipelines amounted to 16 749 thousand euros (2010: 10 390 thousand euros). Property, plant and equipment compensated by the government grant amounted to 13 270 thousand euros (2010: 7 080 thousand euros) (Note 9). The remainder of the compensation is recognised in the statement of comprehensive income (Note 20).

## NOTE 14. OTHER CONTINGENT LIABILITIES

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

The Company's distributable retained earnings as at 31 December 2011 amounted to 40 863 thousand euros (2010: 34 569 thousand euros). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 10 863 thousand euros (2010: 9 189 thousand euros).

## NOTE 15. PREPAYMENTS

as of 31 December	<b>2011</b>	2010
Prepayments for water and sewerage services	143	53
Prepayments for pipelines	1 003	757
<b>TOTAL PREPAYMENTS</b>	<b>1 146</b>	<b>810</b>

**NOTE 16. SHARE CAPITAL**

At 31 December 2010 the nominal value of the share capital was 200 001 000 (two hundred million and one thousand) kroons (12 782 394 euros), composed of 20 000 000 (twenty million) A-shares with the nominal value of 10 (ten) kroons (0.6 euros) per share and 1 (one) preferred B-share with a nominal value of 1 000 (one thousand) kroons (63.9 euros).

At 31 December 2011 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 share capital was reduced with the decision of the 24.05.2011 ordinary meeting of shareholders of AS Tallinna Vesi in connection with the requirement to convert share capital from kroons to euros - the share capital of the Company was reduced by 782 333,62 euros (seven hundred and eighty two thousand three hundred and thirty three euros and sixty two euro cents) by way of reducing the nominal value of the A-share to 0.60 euros (sixty euro cents) and by way of

reducing the nominal value of B-share to 60 (sixty) euros, whereas the value of the share capital was reduced without making any disbursements, with the new value of share capital being 12 000 060 (twelve million and sixty) euros. The rounding of the result of the conversion of the nominal value of shares has no legal consequences.

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 Council have put to the vote of the General Meeting. In 2010, the B-share granted the holder the preferential right to receive a dividend in an agreed sum of 10 000 (ten thousand) kroons (639 euros). As a result of the amendment of AS Tallinna Vesi's Articles of Association at the 2011 General Meeting, the B-share now grants its

holder the preferential right is to 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 2011 and 2010 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 owned less than 5% of the shares as of 31 December 2011 and 2010.

As of 31 December 2011 and 2010 from Supervisory Council and Management Board members Siiri Lahe owned 700 and Leho Võrk 179 shares.

Dividends declared and paid are disclosed in note 22.

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

NOTE 17. **REVENUE**

for the year ended 31 December	2011	2010
<b>REVENUES FROM MAIN OPERATING ACTIVITIES</b>		
Total water supply and waste water disposal service, incl:	46 492	45 167
Private clients, incl:	23 711	23 797
Water supply service	13 072	13 232
Waste water disposal service	10 639	10 565
Corporate clients, incl:	18 234	17 108
Water supply service	9 881	9 441
Waste water disposal service	8 353	7 667
Outside service area clients, incl:	3 789	3 415
Water supply service	901	840
Waste water disposal service	2 888	2 575
Overpollution fee	758	847
Stormwater treatment and disposal service	3 351	3 286
Fire hydrants service	221	193
Other works and services	1 176	1 034
<b>TOTAL REVENUE</b>	<b>51 240</b>	<b>49 680</b>

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

NOTE 18. **STAFF COSTS**

for the year ended 31 December	2011	2010
Salaries and wages	-4 801	-4 340
Social security and unemployment insurance taxation	-1 602	-1 445
<b>TOTAL STAFF COSTS</b>	<b>-6 403</b>	<b>-5 785</b>
<b>NUMBER OF EMPLOYEES AT THE END OF REPORTING PERIOD</b>	<b>311</b>	<b>319</b>



NOTE 19. **COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATION EXPENSES**

for the year ended 31 December	2011	2010
<b>COST OF GOODS SOLD</b>		
Tax on special use of water	-897	-847
Chemicals	-1 433	-1 433
Electricity	-2 972	-2 704
Pollution tax	-1 409	-2 290
Staff costs	-4 390	-4 030
Depreciation and amortization	-5 182	-5 092
Other costs of goods sold	-4 644	-4 288
<b>TOTAL COST OF GOODS SOLD</b>	<b>-20 927</b>	<b>-20 684</b>
<b>MARKETING EXPENSES</b>		
Staff costs	-349	-320
Depreciation and amortization	-325	-334
Other marketing expenses	-74	-133
<b>TOTAL MARKETING EXPENSES</b>	<b>-748</b>	<b>-787</b>
<b>GENERAL ADMINISTRATION EXPENSES</b>		
Staff costs	-1 664	-1 435
Depreciation and amortization	-222	-194
Other general administration expenses	-2 408	-2 022
<b>TOTAL GENERAL ADMINISTRATION EXPENSES</b>	<b>-4 294</b>	<b>-3 651</b>

NOTE 20. **OTHER INCOME / EXPENSES**

for the year ended 31 December	2011	2010
Income from government grant	3 479	3 310
Other income / expenses (-)	140	-404
<b>TOTAL OTHER INCOME / EXPENSES</b>	<b>3 619</b>	<b>2 906</b>

NOTE 21. **FINANCIAL INCOME AND EXPENSES**

for the year ended 31 December	2011	2010
Interest income	1 947	1 060
Interest expense	-2 885	-2 372
Decrease of fair value of swap	-2 221	-1 238
Other financial income(+)/ expenses(-)	35	-14
<b>TOTAL FINANCIAL INCOME / EXPENSES</b>	<b>-3 124</b>	<b>-2 564</b>

NOTE 22. **DIVIDENDS**

for the year ended 31 December	2011	2010
Dividends declared during the period	16 001	31 956
Dividends paid during the period	16 001	31 956
Income tax on dividends paid	-4 253	-8 495
<b>INCOME TAX ACCOUNTED FOR*</b>	<b>-4 253</b>	<b>-8 495</b>
<b>PAID-UP DIVIDENDS PER SHARES:</b>		
Dividends per A-share (in euros)	0,80	1,60
Dividends per B-share (in euros)	600	639

\*The income tax rates were 21/79 in 2011 and 2010.

NOTE 23. **EARNINGS PER SHARE**

for the year ended 31 December	2011	2010
Net profit minus B-share preference rights	21 512	16 404
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)	1,08	0,82
Earnings per B share (in euros)	600	639

Diluted earnings per share for the periods ended 31 December 2011 and 2010 are equal to earnings per share figures stated above.

NOTE 24. **OPERATING LEASE**

for the year ended 31 December	2011	2010
<b>LEASED ASSETS</b>		
Total operating lease expenses for computers and vehicles	339	393
Operating lease (compensated by customers)	667	631
<b>FOLLOWING PERIOD OPERATING LEASE PAYMENTS FROM THE NON-CANCELLABLE CONTRACTS ARE AS FOLLOWS:</b>		
as of 31 December	2011	2010
Less than 1 year	230	236
1-5 years	239	261
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<b>469</b>	<b>497</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	2011	2010
<b>BALANCES RECORDED IN WORKING CAPITAL ON THE STATEMENT OF FINANCIAL POSITION OF THE GROUP</b>		
Accounts receivable	4 977	7 194
Accrued income	15 310	7 256
Accounts payable - short-term trade and other payables	194	200
for the year ended 31 December	2011	2010
<b>TRANSACTIONS WITH THE RELATED PARTIES</b>		
Revenue	3 535	3 440
Compensation receivable from the local governments for constructing new pipelines	16 750	10 390
Purchase of administrative and consulting services	1 001	1 032
Financial income	1 624	732
Management Board short-term employee benefits (excluding social tax)	246	199
Supervisory Board fees (excluding social tax)	39	38

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".

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

The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 16.

Paid-up dividends are described in note 22.

**NOTE 26. TÜTARETTEVÕTTED JA ÄRIÜHENDUSED**

Subsidiary	Location	Activity	Holding (%) at 31.12.2011	Holding (%) at 31.12.2010
Watercom OÜ	Tallinn, Estonia	Provision of non-core services related to water business	100	100

AS Tallinna Vesi registered its subsidiary Watercom OÜ on 25.05.2010.



## 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	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	14 442	13 093
Trade receivables, accrued income and prepaid expenses	19 702	20 029
Receivables from subsidiary	98	18
Inventories	248	305
Non-current assets held for sale	73	77
<b>TOTAL CURRENT ASSETS</b>	<b>34 563</b>	<b>33 522</b>
<b>NON-CURRENT ASSETS</b>		
Long-term investment assets	9 583	524
Investment in subsidiary	527	3
Property, plant and equipment	146 255	147 892
Intangible assets	1 577	1 972
<b>TOTAL NON-CURRENT ASSETS</b>	<b>157 942</b>	<b>150 391</b>
<b>TOTAL ASSETS</b>	<b>192 505</b>	<b>183 913</b>

## STATEMENT OF FINANCIAL POSITION

as of 31 December	2011	2010
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term borrowings	0	7 624
Trade and other payables	5 238	6 310
Derivatives	1 552	963
Payables to subsidiary	622	8
Short-term provisions	0	117
Prepayments and deferred income	1 082	810
<b>TOTAL CURRENT LIABILITIES</b>	<b>8 494</b>	<b>15 832</b>
<b>NON-CURRENT LIABILITIES</b>		
Deferred income from connection fees	6 824	5 765
Borrowings	94 939	87 428
Derivatives	2 936	1 304
Other payables	9	115
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>104 708</b>	<b>94 612</b>
<b>TOTAL LIABILITIES</b>	<b>113 202</b>	<b>110 444</b>
<b>EQUITY</b>		
Share capital	12 000	12 782
Share premium	24 734	24 734
Statutory legal reserve	1 278	1 278
Retained earnings	41 291	34 675
<b>TOTAL EQUITY</b>	<b>79 303</b>	<b>73 469</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>192 505</b>	<b>183 913</b>

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December	2011	2010
Revenue	50 669	49 434
Costs of goods sold	-20 196	-20 404
<b>GROSS PROFIT</b>	<b>30 473</b>	<b>29 030</b>
Marketing expenses	-673	-729
General administration expenses	-4 186	-3 646
Other income(+)/ expenses (-)	3 593	2 917
<b>OPERATING PROFIT</b>	<b>29 207</b>	<b>27 572</b>
Financial income	1 986	1 059
Net financial expenses	-5 106	-3 624
<b>PROFIT BEFORE TAXES</b>	<b>26 087</b>	<b>25 007</b>
Income tax on dividends	-4 253	-8 495
<b>NET PROFIT FOR THE PERIOD</b>	<b>21 834</b>	<b>16 512</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>21 834</b>	<b>16 512</b>
<b>ATTRIBUTABLE PROFIT TO:</b>		
Equity holders of A-shares	21 833	16 512
B-share holder	0,60	0,64
Earnings per A share (in euros)	1,09	0,82
Earnings per B share (in euros)	600	639

## CASH FLOW STATEMENT

for the year ended 31 December	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit	29 207	27 571
Adjustment for depreciation/amortisation	5 675	5 599
Adjustment for income from government grants and connection fees	-3 432	-3 312
Other finance income/expenses(-)	35	-14
Profit/loss(+) from sale of property, plant and equipment, and intangible assets	56	-3
Expensed property, plant and equipment	10	86
Change in current assets involved in operating activities	671	-8 809
Change in liabilities involved in operating activities	1 354	6 201
Interest paid	-3 051	-2 443
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>30 525</b>	<b>24 876</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans granted	-3 151	-524
Acquisition of property, plant and equipment, and intangible assets	-19 010	-17 174
Compensations received for construction of pipelines	11 284	6 139
Proceeds from sale of property, plant and equipment, and intangible assets	12	425
Interest received	1 943	1 109
<b>TOTAL CASH FLOW USED IN INVESTING ACTIVITIES</b>	<b>-8 922</b>	<b>-10 025</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Received loans	0	20 000
Dividends paid	-16 001	-31 956
Income tax on dividends	-4 253	-8 495
<b>TOTAL CASH FLOW USED IN FINANCING ACTIVITIES</b>	<b>-20 254</b>	<b>-20 451</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>1 349</b>	<b>-5 600</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>13 093</b>	<b>18 693</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>14 442</b>	<b>13 093</b>



## STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>AS OF 31 DECEMBER 2009</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>50 120</b>	<b>88 914</b>
Dividends	0	0	0	-31 956	-31 956
Comprehensive income for the period	0	0	0	16 512	16 512
<b>AS OF 31 DECEMBER 2010</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>34 676</b>	<b>73 470</b>
Carrying amount of investments under control and significant influence	0	0	0	0	-3
Value of investments under control and significant influence using the equity method	0	0	0	0	-104
<b>ADJUSTED UNCONSOLIDATED EQUITY AT 31.12.2010</b>	<b>12 782</b>	<b>24 734</b>	<b>1 278</b>	<b>34 676</b>	<b>73 363</b>
Reduction of the share capital	-782	0	0	782	0
Dividends	0	0	0	-16 001	-16 001
Comprehensive income for the period	0	0	0	21 834	21 834
<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>
Carrying amount of investments under control and significant influence	0	0	0	0	-527
Value of investments under control and significant influence using the equity method	0	0	0	0	99
<b>ADJUSTED UNCONSOLIDATED EQUITY AT 31.12.2011</b>	<b>12 000</b>	<b>24 734</b>	<b>1 278</b>	<b>41 291</b>	<b>78 875</b>

## Confirmation of the management and supervisory boards

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The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 22 February 2012. 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  
27.12.2012



Leho Vörk  
Member of the Management Board  
27.12.2012



Siiri Lahe  
Member of the Management Board  
27.12.2012



Ilona Nurmela  
Member of the Management Board  
27.12.2012



Steven Richard Fraser  
Member of the Supervisory Board  
22.03.2012



Simon Gardiner  
Member of the Supervisory Board  
22.03.2012



Brendan Francis Murphy  
Member of the Supervisory Board  
22.03.2012



Mart Mägi  
Member of the Supervisory Board  
22.03.2012



Robert John Gallienne  
Chairman of the Supervisory Board  
22.03.2012



Rein Ratas  
Member of the Supervisory Board  
22.03.2012



Toivo Tootsen  
Member of the Supervisory Board  
22.03.2012



Valdur Laid  
Member of the Supervisory Board  
29.03.2012



Priit Lello  
Member of the Supervisory Board  
22.03.2012

# Independent auditors' report

Translation of the Estonian original \*

## TO THE SHAREHOLDERS OF AS TALLINNA VESI

We have audited the accompanying consolidated financial statements of AS Tallinna Vesi and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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 true 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 true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating

the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Tallinna Vesi and its subsidiary as of 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## EMPHASIS OF MATTER

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



Tiit Raimla

Auditor's Certificate No.287

27.02.2012



Stan Nahkor

Auditor's Certificate No.508

27.02.2012



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



## AS Tallinna Vesi management board and supervisory council 2011

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**Ian John Alexander Plenderleith**

Chairman of the Management Board  
Chief Executive Officer

Chief Executive Officer and the Chairman of the Management Board of the Company from 1 October 2008. He worked for AS Tallinna Vesi as Chief Financial 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 of experience in a variety of financial roles within the utilities sector in both, the United Kingdom and internationally. He is a member of the Chartered Institute of Management Accountants. **Ian Plenderleith does not own any shares in AS Tallinna Vesi.**



**Siiri Lahe**

Member of the Management Board  
Chief Financial Officer

Siiri Lahe joined the company in November 1994. She has more than 17 years of experience in a variety of financial roles within AS Tallinna Vesi and extensive managerial skills. She has also been a member of the Executive Team of the company for two years. From August 2007 she is the Chief Financial Officer of the company and a member of the Management Board. She holds a bachelor's degree in Economics (specialisation to Management Accounting) and a Master's degree in Public Administration from the Tallinn University of Technology. **Siiri Lahe owns 700 shares in AS Tallinna Vesi.**



**Leho Võrk**

Member of the Management Board  
Chief Operating Officer

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



**Ilona Nurmela**

Member of the Management Board  
General Counsel

Ilona Nurmela has a diverse background - she has worked as an attorney-in-law in Estonia, taught at the University of Tartu and as a junior consultant was part of sales and negotiators team in a London management consultancy firm. Ms. Nurmela is a member of the Estonian Bar Association. Ilona Nurmela holds a PhD in law from the University of Cambridge. As General Counsel and member of AS Tallinna Vesi's Management Board, Ms. Nurmela is responsible of overseeing compliance and corporate governance. **Ilona Nurmela does not own any shares in AS Tallinna Vesi.**

## UNITED UTILITIES REPRESENTATIVES:

**Robert John Gallienne**

Chairman of the Supervisory Council

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

**Brendan Francis Murphy**

Member of the Supervisory Council

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

**Steven Richard Fraser**

Member of the Supervisory Council

Appointed by the United Utilities Group to the Supervisory Council of AS Tallinna Vesi on January 21st 2012. Steven Fraser is the Managing Director of United Utilities. He has previously worked for 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. **Steven Richard Fraser does not own any shares in AS Tallinna Vesi.**

**Simon Roger Gardiner**

Member of the Supervisory Council

Nominated by the United Utilities Group and elected at the AGM of December 14th 2010. Simon Gardiner is the 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. **Simon Roger Gardiner does not own any shares in AS Tallinna Vesi.**

#### TALLINN CITY REPRESENTATIVES:



**Priit Lello**

Member of the Supervisory Council

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



**Toivo Tootsen**

Member of the Supervisory Council

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



**Rein Ratas**

Member of the Supervisory Council

Nominated by the City of Tallinn and elected at the EGM of November 22nd 2005 and has been re-elected for several consecutive times in office, lately on May 18th 2010. 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. **Rein Ratas does not own any shares in AS Tallinna Vesi.**



## INDEPENDENT MEMBERS:

**Valdur Laid**

Member of the Supervisory Council

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

**Mart Mägi**

Member of the Supervisory Council

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

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#### ADDITIONAL INFORMATION TO THE SHAREHOLDERS:

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