AS Tallinna Vesi

Results of operations – for the 1st quarter of 2014

Currency	Thousand euros
Start of reporting period	1 January 2014
End of reporting period	31 March 2014
Address	Tallinn, Ädala 10
Chairman of the Management Board	Ian John Alexander Plenderleith
Commercial register number	10 257 326
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Web page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Contractual Highlights

- AS Tallinna Vesi tariffs continue to be on the same level based on temporary injunction granted by the Court for the period of court proceedings to protect the Company from the unilateral breach of privatization agreement by Estonian Authorities.

- AS Tallinna Vesi would like all its shareholders to be fully aware of the facts that the Company was privatised in 2001 with the full support and knowledge of the Estonian national government, with written confirmations from the Prime Minister, the Minister of Finance, and the Competition Authority itself regarding the key terms of the agreements, and utilising the expertise and guidance of the European Bank for Reconstruction and Development (EBRD).

- At the end of May 2012 the District Court ruled that AS Tallinna Vesi's Services Agreement, that was part of the international privatisation, is a public law contract. AS Tallinna Vesi firmly believes that the terms and conditions of the international privatisation contract that has been deemed a public law contract should not be broken simply by transferring the duties of the regulator from one state institution (the City of Tallinn) to a different state institution (the Competition Authority). A public law contract should enjoy the protection of the Estonian legal system, should the contract not be honoured, then the company will have a claim against the Estonian state.

- In February 2014 and March 2014 both AS Tallinna Vesi and EVEL (the Estonian Water Association) submitted proposals to Parliament to supplement the existing law to enable public law contracts signed prior to November 2011 to be honoured. This proposal was not discussed or adopted by Parliament, however Parliament did state that it would like to meet with both AS Tallinna Vesi and the Competition Authority to further discuss the proposal. Due to the change in government these meetings have not yet taken place.

- The date of the next court hearing is not set.

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

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

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

Financial highlights of 1st quarter 2014

During the 1st quarter 2014 the sales have gone up compared to the same period in 2013, increasing 4.8% to 13.31 mln euros.

The gross profit in 1st quarter has decreased 3.5% or 0.26 mln euros, mainly due to increased pollution tax costs. The effluent discharged to the sea continues to comply with all requirements, except for the concentration of zinc and copper. Namely, under the water abstraction permit issued by the Environmental Board at the end of December 2013, the former limit concentrations of heavy metals in treated effluent were reduced 400 times. At the moment the wastewater process, not only the one used in Paljassaare wastewater treatment plant, but in general, is capable removing around 70% of heavy metals from the wastewater. Therefore the Company is currently not technically able to meet the limit values. New limits cause confusion and problems across water sector in Estonia.

Due to the decrease of the allowed concentration the Company has recognised pollution tax on a prudent principle and hence extra pollution tax expenses of 0.80 mln euros was faced.

The administrative expenses are up by 21.1% or 0.24 mln euros mainly by increased legal costs related to tariff dispute.

Without the additional pollution tax the operating profit from main operations would have been 5.4% higher than in the 1st quarter in 2013 amounting to 6.5 mln euros.

Financial income and expenses without the impact of the change in the fair value of swap contracts are down by 0.04 mln euros due to the lower interest income.

The net profit for the 1st quarter without the increased pollution tax and swap costs impact was 3.1% or 0.2 mln euros higher than in the comparative period last year.

mln €	**1 Q 2012**	**1 Q 2013**	**1 Q 2014**	**Change 14/13**
Sales	12,99	12,69	13,31	4,8%
Gross profit	8,18	7,52	7,26	-3,5%
Gross profit margin %	62,99	59,28	54,59	-7,9%
Operating profit	6,95	6,16	5,68	-7,7%
Operating profit - main business	6,87	6,16	5,68	-7,7%
Operating profit margin %	53,48	48,50	42,71	-11,9%
Profit before taxes	6,31	6,21	5,06	-18,6%
Net profit	6,31	6,21	5,06	-18,6%
Net profit margin %	48,53	48,96	38,03	-22,3%
ROA %	3,18	3,01	2,42	-19,5%
Debt to total capital employed	57,03	55,94	55,81	-0,2%
ROE %	7,40	6,84	5,49	-19,8%
Current ratio	5,53	5,42	4,60	-15,2%

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

RESULTS OF OPERATIONS - FOR THE 1st QUARTER 2014

Profit and Loss Statement

1st quarter 2014

Sales

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

In the 1st quarter of 2013 the Company's total sales increased, year on year, by 4.8% to 13.31 mln euros. 90.5% of sales comprise of sales of water and treatment of wastewater to domestic and commercial customers within and outside of the service area, 7.4% of sales are the the fees received from the City of Tallinn for operating and maintaining the storm water system and fire hydrants and 2.1% from other works and services.

Sales of water and wastewater services were 12.04 mln euros, a 2.7% increase compared to the 1st quarter of 2013, resulting from the changes in sales volumes as described below.

Within the service area, sales to residential customers were at 6.05 mln euros, showing a 1.9% increase year on year, as revenues from apartment blocks form the biggest share of our residential sales, the biggest increase came also from this client group. Sales to commercial customers increased by 1.0% to 4.65 mln euros, mainly coming from the sales in industrial sector. Sales to customers outside of the main service area increased by 14.3% to 1.14 mln euros in the 1st quarter of 2014. It was mostly affected by wastewater as sales of water was stable. Over pollution fees received were 0.19 mln euros, an 8.4% increase compared to the 1st quarter of 2013.

	Quarter 1			Variance 14/13	
Revenues from main operating activities	**2014**	**2013**	**2012**	**€**	**%**
Private clients, incl:	6 047	5 932	6 054	115	1,9%
Water supply service	3 327	3 264	3 330	63	1,9%
Wastewater disposal service	2 720	2 668	2 724	52	1,9%
Corporate clients, incl:	4 654	4 606	4 569	48	1,0%
Water supply service	2 580	2 509	2 464	71	2,8%
Wastewater disposal service	2 074	2 097	2 105	-23	-1,1%
Outside service area clients, incl:	1 145	1 002	1 097	143	14,3%
Water supply service	255	253	255	2	0,8%
Wastewater disposal service	756	661	662	95	14,4%
Storm water disposal service	134	88	180	46	52,3%
Over pollution fee	194	179	175	15	8,4%
Storm water treatment and disposal service and fire hydrant service	991	726	879	265	36,5%
Construction service and design	130	98	64	32	32,7%
Other works and services	146	150	155	-4	-2,7%

Outside service area sales volumes were 0.26 mln m^3 or 19.2% higher than in the 1st quarter of 2013. As already mentioned before the main factor in this increase was an increase in wastewater and storm water volumes.

The sales from the operation and maintenance of the storm water and fire-hydrant system in the main service area have increased by 36.5% to 0.99 mln euros in the 1st quarter of 2014 due to higher volumes compared to the same period in 2013. According to the terms and conditions of the contract revenues reflect actual volumes treated and costs for treating the storm water, therefore this cost pass through has no impact on profits.

The sales of construction activities and design services have increased by 32.7% to 0.13 mln euros in the 1st quarter of 2014 compared to 1st quarter in 2013, partly due to mild winter of 2014 allowing construction works to be started earlier.

Cost of Goods Sold and Gross profit

The cost of goods sold for the main operating activity was 6.04 mln euros in the 1st quarter of 2014, showing 0.87 mln euros or 16.9% increase compared to the equivalent period in 2013. The cost increase is mainly influenced by the pollution tax increase in the 1st quarter of 2014.

Cost of goods sold	Quarter 1			Variance 14/13	
	2014	**2013**	**2012**	**€**	**%**
Water abstraction charges	-264	-246	-240	-18	7,3%
Chemicals	-412	-420	-365	8	-1,9%
Electricity	-837	-935	-932	98	-10,5%
Pollution tax	-1 076	-216	214	-860	398,1%
Total direct production costs	**-2 589**	**-1 817**	**-1 323**	**-772**	**42,5%**
Staff costs	-1 228	-1 216	-1 123	-12	1,0%
Depreciation and amortization	-1 298	-1 299	-1 282	1	-0,1%
Construction service and design	-87	-86	-50	-1	1,2%
Other costs of goods sold	-841	-751	-1 031	-90	12,0%
Other costs of goods sold total	**-3 454**	**-3 352**	**-3 486**	**-102**	**3,0%**
Total cost of goods sold	**-6 043**	**-5 169**	**-4 809**	**-874**	**16,9%**

Total direct production costs (water abstraction charges, chemicals, electricity and pollution taxes) increased by 0.77 mln euros or 42.5% year on year. Biggest increase came from the increase in pollution tax. Other changes came from a combination of increase in prices and tax rates and movements in treatment volumes that affected the costs of goods sold together with the following additional factors:

- Water abstraction charges increased only by 0.02 mln euros or 7.3% to 0.26 mln euros in the 1st quarter of 2014, driven mainly by 5% raise in tax rates (worth 0.01 mln euros) and raw water volumes (worth 0.01 mln euros).
- Total chemical costs remained broadly flat, decreasing 1.9% to 0.41 mln euros. Costs change was mainly influenced by the increase in chemicals price, which was balanced by decrease in volumes used due to less dosage in sewage treated and in water treatment.
- Electricity costs decreased by 0.10 mln euros or 10.5% in the 1st quarter of 2014 compared to the 1st quarter of 2013. Lower electricity costs are mostly derived from the decrease in electricity price and used unit costs, worth 0.16 mln euros. Positive effects are reduced slightly by increased electricity volumes worth 0.06 mln euros.
- In the 1st quarter of 2014 the pollution tax expense increased by 0.86 mln euros or 398.1%. Main reason for this comes from the change in the allowed concentration of heavy metals in treated effluent which had been reduced up to 400 times. Currently the wastewater treatment process allows not only in Paljassaare but also in Although Paljassaare wastewater treatment plant is removing 70-80% of zinc and copper from the wastewater, which is a modern wastewater treatment process capability, we are currently not technically able to meet the limit. Due to non-compliance with the amounts allowed the Company accounted for excessive pollution tax costs. The Company has declared and accounted for the pollution tax based on the prudent principles. The Company has recognised losing 0.5 coefficient and accounted for 100 times penalties for heavy metals concentration and associated tax. The Company is trying to solve the non-compliance favourably, still it is possible that the elevated pollution tax costs might also occur in the future quarters. Due to the change in the concentrations the Company recognised extra pollution tax expenses for 0.8 mln euros.

Other cost of goods sold (staff costs, depreciation, construction services and other cost of goods sold) in the main operating activity increased by 0.10 mln euros or 3.0%. Most of the increase in costs came from increased costs in repair and maintenance carried out in the 1st quarter of 2014. Some of the maintenance costs had been carried out earlier than last year due to the mild winter.

As a result of all of the above the Company's gross profit for the 1st quarter of 2014 was 7.26 mln euros, which is a decrease of 0.26 mln euros, or 3.5%, compared to the gross profit of 7.52 mln euros for the 1st quarter of 2013.

Other Operating Costs

General administration expenses increased in total 0.24 mln euros or 21.1%, mainly because of higher consultation and legal fees.

Other net income/expenses

Other net income decreased to a net expenses of 0.05 mln euros, compared to 0.02 mln euros net expenses in the 1st quarter of 2013. The decline in government grants revenues has been the main contributor to Other net income becoming solely an expense.

Operating profit

As a result of above factors the Company's operating profit from main services for the 1st quarter of 2014 totalled 5.68 mln euros compared to 6.16 mln euros in the corresponding quarter in 2013, which shows a decrease of 0.48 mln euros or 7.7%. Total operating profit for the 1st quarter of 2014 decreased 0.48 mln euros. Year on year the operating profit for the 1st quarter has decreased by 7.7%. Removing the impact of pollution tax the Company's operating profit had been 5.4% or 0.3 mln euros higher.

Financial expenses

The company's net financial expenses amounted to 0.62 mln euros in the 1st quarter of 2014, which is a negative change of 0.68 mln euros compared to 0.06 mln euros financial income in the 1st quarter of 2013 The major reason for the decline comes from difference of the change of the fair value of the swap contracts as described below.

The standalone swap agreements have been signed to mitigate the majority of the long term floating interest risk, the interest swap agreements are signed for 75 mln euros and 20 mln euros are still with floating interest rate. At this point in time the estimated fair value of the swap contracts is negative, totalling 2.34 mln euros. Effective interest rate (incl. swap interests) in the 1st quarter of 2014 was 3.07%, amounting in the interest costs of 0.73 mln euros, compared to the effective interest rate of 3.28% and the interest costs of 0.78 mln euros into the 1st quarter of 2013.

Other influences for change in financial expenses has been decrease in interest income by 0.15 mln euros or 52.8%.

Profit Before and After Tax

The Company's profit before taxes for the 1st quarter of 2014 was 5.06 mln euros, which is 1.15 mln euros lower than the profit before taxes of 6.21 mln euros for the 1st quarter of 2013, resulting mainly from the increased pollution tax costs and professional fees as described above and also due to the impact of the change of the fair value of the swap contracts. The profit before taxes for the 1st quarter without the increased pollution tax and swap costs impact was 3.1% or 0.2 mln euros higher than in the comparative period last year.

As the dividends will be paid out in June 2014, there is no income tax in the 1st quarter and the Company's profit after taxes equals to the profit before taxes amount.

Balance sheet

In the three months of 2014 the Company invested 1.55 mln euros into fixed assets. As of 31 March 2014 non-current fixed assets amounted to 152.41 mln euros and total non-current assets amounted to 153.41 mln euros. (2013: 148.91 mln euros and 155.66 mln euros respectively).

The reduction in long-term receivables compared to year end by 2.18 mln euros to 0.04 mln euros is mainly related to the reclassification of long term receivable to short term.

The increase of current assets in the amount if 6.10 mln euros is mainly related to collection of receivables.

Current liabilities have increased by 0.84 mln euros to 12.05 mln euros in the three months. The movement is mainly related to increased tax liabilities in the amount of 1.12 mln euros and balanced by the decrease in Accrued expenses in the amount of 0.29 mln euros.

The Company has a Total debt/Total assets level as expected of 55.8%, in range of 55%-65%, reflecting the Company's equity profile. This level is consistent with the same period in 2013 when the total debt/total assets ratio was 55.9%.

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

Biggest share of the rest of the long term liabilities is deferred income from connection fees amounting to 10.35 mln euros (2013: 8.29 mln euros).

In the 4th quarter of 2011 the Company recorded and noted an exceptional contingent liability, which could cause an outflow of economic benefits of up to 36.0 mln euros. In the 3rd quarter of 2013 the Company re-evaluated the liability, which now stands at 34.0 mln euros, as per note 13 to the accounts.

Cash flow

As of 31 March 2013 the cash position of the Company is strong. The cash flows of the Company has continued to be rather stable, during three months of 2014 cash balance has increased by 6.40 mln euros (2013: 8.58 mln euros). At the end of March 2014 the cash balance of the Company stood at 38.19 mln euros, which is 18.3% of the total assets (2013: 32.51 mln, which is 15.8% of the total assets).

The biggest contribution to the cash flows comes from main operations. During the three months of 2014, the Company generated 6.97 mln euros of cash flows from operating activities, a decrease of 1.35 mln euros compared to the corresponding period in 2013.

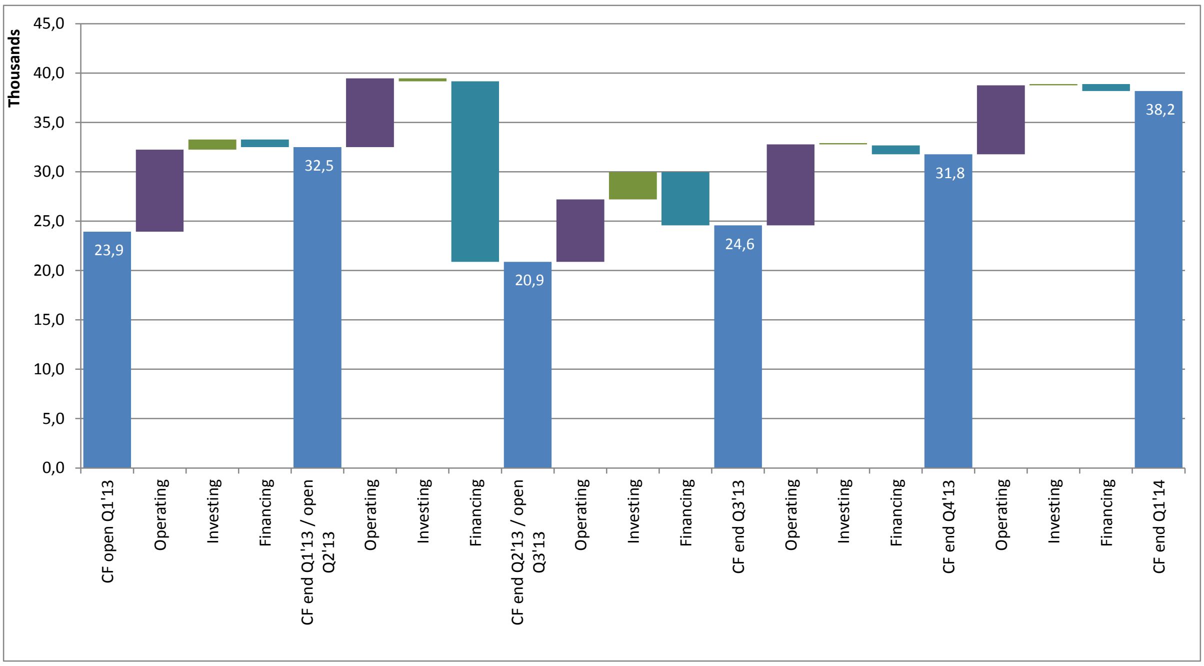
2014 operating cash flows were below 2013 cash flows due to a change in trade receivables and also due to the lower operating profit. Underlying operating profit still continues to be the main contributor to operating cash flows.

The Company's cash flows from investing activities have also been positive for past two years. In the three months of 2014 net cash flows from investing activities resulted in a cash inflow of 0.14 mln euros, a decrease of 0.88 mln euros compared to an inflow of 1.02 mln euros in the three months of 2013. This is made up as follows:

In the three months of 2014 the investments in fixed assets had decreased 0.12 mln euros compared to 2013 amounting to 1.51 mln euros.

The compensations received for the construction of pipelines were 1.52 mln euros in the three months of 2014, a decrease of 0.82 mln euros compared to same period in 2013. Most of the cash collected for pipes is related to the sewage network extension program which was ended in 2012. The collections will still continue till March 2015.

In the three months of 2014, cash outflow from financing amounted to 0.71 mln euros, which is 0.05 mln euros less than in the same period of 2013, almost entirely due to lower interest and financing costs.



Employees

At the end of the 1st quarter of 2014, the total number of employees was 304 compared to 309 at the end of the 1st quarter of 2013. The full time equivalent (FTE) was respectively 291 in 2014 compared to the 295 in 2013. The management continues to work actively for the efficiencies in processes to balance the increase in individual salaries and cost pressure from the market with more productive company structure.

Dividends

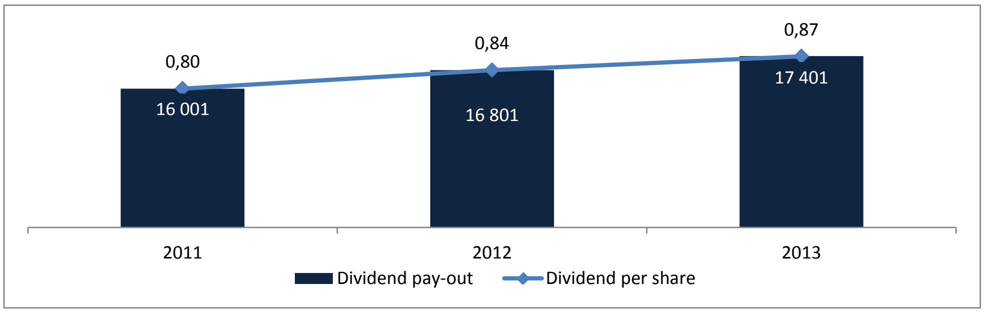
Dividend allocation to the shareholders is recorded as the liability in the financial statement of the Company at the time when the profit allocation and dividend payment is confirmed by the annual general meeting of shareholders.

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

On the annual general meeting of shareholders on 20th May 2014 the matter of dividend pay-out will be voted on. It will be in accordance with the Company's dividend policy.

Dividends will be paid out in June 2014.

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



Share performance

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

As of 31 March 2014 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

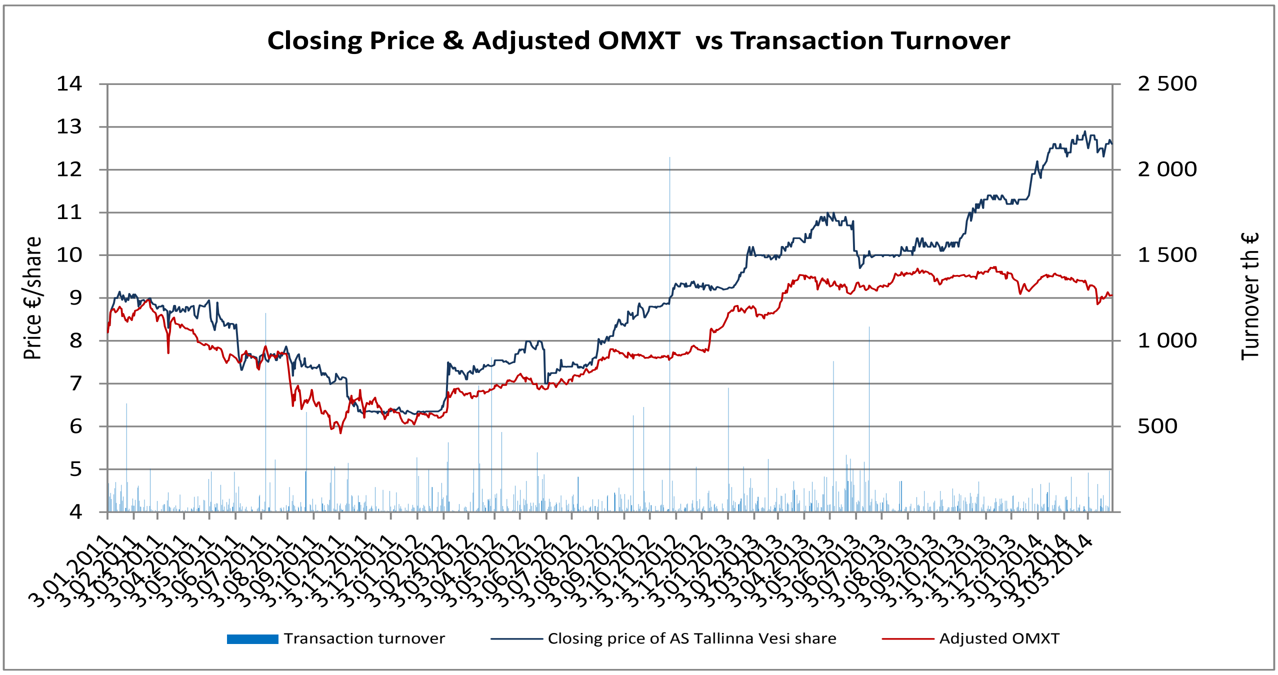
United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%

Pension funds have continued to hold the share in their portfolios during the 1st quarter of 2014, owning 2.58% of the total shares compared to 2.33% at the end of 1st quarter 2013.

As of 31 March 2014, the closing price of the AS Tallinna Vesi share was 12.60 euros, which is a 5.9% (2013: 13.0%) increase compared to the closing price of 11.90 euros at the beginning of the quarter. During the same period the OMX Tallinn index decreased by -2.6% (2013: +14.2%).

In the three months of 2014 1 255 deals with the Company's shares were concluded (2013: 1 457 deals) during which 263 thousand shares or 1.3% exchanged their owners (2013: 517 thousand shares or 2.6%).

The turnover of the transactions was 1 806 thousand euros higher than in 2013 amounting to 3 272 thousand euros. The share price has shown an increase despite of the on-going contractual debate.



Operational performance

Similarly to previous years, the first quarter of 2014 can be characterized by stability Above all, it gives security to our consumers that they are provided with a high-quality drinking water, stable water supply and service of wastewater discharge. In addition to the quality of service, we also concentrate on being a good partner for our customers. The feedback from our customers has become more positive, but despite that we aim to continue making efforts to fulfil customers' expectations. Operational indicators for the 1st quarter of 2014:

Indicator	**2013 Q1**	**2014 Q1**
Drinking water		
Compliance of water quality at the customers tap	99.86%	100%
Water loss in the water distribution network	17%	17.73%
Average duration of water interruptions per property	3.13 h	2.29 h
Wastewater		
Number of sewer blockages	251	231
Number of sewer bursts	125	118
Number of customer contacts regarding floodings, blockages and storm water	420	268
Wastewater treatment compliance with environmental standards	100%	100% (excl. Zn and Cu)
Customer Service		
Number of written complaints	37	15
Number of customer contacts regarding water quality	29	27
Number of customer contacts regarding water pressure	113	72
Responding written customer contacts within at least 2 work days	99.7%	99.4%
Number of failed promises	3	4
Notification of unplanned water interruptions at least 1h before the interruption	96%	97.40%

Corporate structure

At the end of the quarter, 31 March 2014, the Group consisted of 2 companies. The subsidiary Watercom OÜ is wholly owned by AS Tallinna Vesi and consolidated to the results of the Company.

Corporate Governance

Supervisory Council

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

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

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

Management Board

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

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

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

Starting from 20th March 2014 there are 4 members of the Management Board of AS Tallinna Vesi: Ian Plenderleith (Chairman of the Board), Karl Heino Brookes, Aleksandr Timofejev and Riina Käi.

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

Future actions & risks

Complaint to European Commission

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

Disclosure of relevant papers and perspectives

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

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

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

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

MANAGEMENT CONFIRMATION

The Management Board has prepared AS Tallinna Vesi (the Company) and its subsidiary company OÜ Watercom (together Group) consolidated interim accounts in the form of consolidated condensed financial statements for the 3 months period of financial year 2014 ended 31 March 2014. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 2014 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim report gives a true and fair view of the main events that occurred during the 3 months of the financial year and of their effect to the condensed financial statements. It includes the description of the main risks and unclear aspects that can, based on the sensible judgement of the Management Board, have an impact on the company during the remaining 9 months of the financial year.

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

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the consolidated financial statements on 24 April 2014 have been considered in preparing the financial statements.

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

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

Karl Heino Brookes
Member of the Management Board

Aleksandr Timofejev
Member of the Management Board
Asset Operations Director

Riina Käi
Member of the Management Board
Chief Financial Officer

24 April 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousand EUR)

		as of 31 March		as of 31 December
ASSETS	**Note**	**2014**	**2013**	**2013**
CURRENT ASSETS				
Cash and cash equivalents	2	38 185	32 511	31 786
Trade receivables, accrued income and prepaid expenses		16 853	17 748	15 010
Inventories		371	362	429
TOTAL CURRENT ASSETS		**55 409**	**50 621**	**47 225**
NON-CURRENT ASSETS				
Other long-term receivables		36	5 647	2 213
Property, plant and equipment	3	152 410	148 913	152 246
Intangible assets	3	964	1 102	1 037
TOTAL NON-CURRENT ASSETS		**153 410**	**155 662**	**155 496**
TOTAL ASSETS		**208 819**	**206 283**	**202 721**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		2 146	118	2 146
Trade and other payables		5 545	5 272	4 761
Derivatives		1 793	1 949	1 816
Prepayments		2 566	1 994	2 490
TOTAL CURRENT LIABILITIES		**12 050**	**9 333**	**11 213**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		10 345	8 285	10 143
Borrowings		93 584	95 692	93 618
Derivatives		551	2 066	507
Other payables		20	20	32
TOTAL NON-CURRENT LIABILITIES		**104 500**	**106 063**	**104 300**
TOTAL LIABILITIES		**116 550**	**115 396**	**115 513**
EQUITY				
Share capital		12 000	12 000	12 000
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		54 257	52 875	49 196
TOTAL EQUITY		**92 269**	**90 887**	**87 208**
TOTAL LIABILITIES AND EQUITY		**208 819**	**206 283**	**202 721**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 1		for the year ended 31 December
	Note	**2014**	**2013**	**2013**
Revenue	4	13 307	12 693	53 087
Costs of goods sold	6	-6 043	-5 169	-22 505
GROSS PROFIT		**7 264**	**7 524**	**30 582**
Marketing expenses	6	-167	-223	-690
General administration expenses	6	-1 365	-1 127	-5 060
Other income (+)/ expenses (-)	7	-49	-18	-75
OPERATING PROFIT		**5 683**	**6 156**	**24 757**
Financial income	8	134	846	681
Financial expenses	8	-756	-788	-877
PROFIT BEFORE TAXES		**5 061**	**6 214**	**24 561**
Income tax on dividends	9	0	0	-4 625
NET PROFIT FOR THE PERIOD		**5 061**	**6 214**	**19 936**
COMPREHENSIVE INCOME FOR THE PERIOD		**5 061**	**6 214**	**19 936**
Attributable profit to:				
Equity holders of A-shares		5 060	6 213	19 935
B-share holder		0,60	0,60	0,60
Earnings per A share (in euros)	10	0,25	0,31	1,00
Earnings per B share (in euros)	10	600	600	600

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

CONSOLIDATED CASH FLOW STATEMENT

(thousand EUR)

	Note	3 months 2014	3 months 2013	for the year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		5 683	6 156	24 757
Adjustment for depreciation/amortisation	6	1 454	1 487	5 809
Adjustment for profit from government grants and revenues from connection fees		-35	-2	-117
Other non-cash adjustments		0	-20	11
Profit/loss(+) from sale and write off of property, plant and equipment, and intangible assets		3	-20	-138
Change in current assets involved in operating activities		-813	350	-433
Change in liabilities involved in operating activities		679	369	-92
Total cash flow from operating activities		**6 971**	**8 320**	**29 797**
CASH FLOWS FROM INVESTING ACTIVITIES				
Repayment of loan		0	0	3 814
Acquisition of property, plant and equipment, and intangible assets		-1 511	-1 634	-9 187
Compensations received for construction of pipelines		1 522	2 350	7 885
Proceeds from sale of property, plant and equipment, and intangible assets		0	20	165
Interest received		127	281	693
Total cash flow used in investing activities		**138**	**1 017**	**3 370**
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid and loan financing costs, incl swap interests		-671	-731	-3 154
Repayment of finance lease		-39	-30	-136
Dividends paid	9	0	0	-17 401
Income tax on dividends	9	0	0	-4 625
Total cash flow used in financing activities		**-710**	**-761**	**-25 316**
Change in cash and cash equivalents		**6 399**	**8 576**	**7 851**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**31 786**	**23 935**	**23 935**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2	**38 185**	**32 511**	**31 786**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 661**	**84 673**
Dividends	0	0	0	-17 401	-17 401
Comprehensive income for the period	0	0	0	19 936	19 936
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 196**	**87 208**
as of 31 December 2012	**12 000**	**24 734**	**1 278**	**46 661**	**84 673**
Comprehensive income for the period	0	0	0	6 214	6 214
as of 31 March 2013	**12 000**	**24 734**	**1 278**	**52 875**	**90 887**
as of 31 December 2013	**12 000**	**24 734**	**1 278**	**49 196**	**87 208**
Comprehensive income for the period	0	0	0	5 061	5 061
as of 31 March 2014	**12 000**	**24 734**	**1 278**	**54 257**	**92 269**

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

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

NOTE 1. ACCOUNTING PRINCIPLES

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

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 31 March		as of 31 December
	2014	**2013**	**2013**
Cash in hand and in bank	861	1 934	3 295
Short-term deposits	37 324	30 577	28 491
Total cash and cash equivalents	**38 185**	**32 511**	**31 786**

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS

(thousand EUR)

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

	Property, plant and equipment				Assets in progress			Intangible assets	Total property, plant and equipment and intangible assets
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Unfinished intangible assets	Acquired licenses and other intangible assets	
as of 31 December 2012									
Acquisition cost	24 793	167 389	44 018	1 302	2 258	1 040	25	5 899	246 724
Accumulated depreciation	-5 384	-55 543	-29 611	-862	0	0	0	-4 770	-96 170
Net book value	**19 409**	**111 846**	**14 407**	**440**	**2 258**	**1 040**	**25**	**1 129**	**150 554**
Transactions in the period 01 January 2013 - 31 December 2013									
Acquisition in book value	0	0	0	0	6 127	2 103	421	0	8 651
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	-7	-8	0	-99	0	1	-113
Reclassification	58	7 724	2 030	52	-7 808	-2 056	-419	419	0
Depreciation	-278	-2 717	-2 195	-80	0	0	0	-539	-5 809
as of 31 December 2013									
Acquisition cost	24 851	175 032	44 874	1 321	577	988	27	5 517	253 187
Accumulated depreciation	-5 662	-58 179	-30 639	-917	0	0	0	-4 507	-99 904
Net book value	**19 189**	**116 853**	**14 235**	**404**	**577**	**988**	**27**	**1 010**	**153 283**
Transactions in the period 01 January 2014 - 31 March 2014									
Acquisition in book value	0	0	0	0	1 285	214	49	0	1 548
Write off and sale of property, plant and equipment, and intangible assets in residual value	0	0	0	0	0	-3	0	0	-3
Reclassification	0	471	126	4	-394	-207	-57	57	0
Depreciation	-70	-683	-559	-20	0	0	0	-122	-1 454
as of 31 March 2013									
Acquisition cost	24 851	175 503	45 000	1 326	1 467	991	19	5 574	254 731
Accumulated depreciation	-5 731	-58 862	-31 199	-936	0	0	0	-4 629	-101 357
Net book value	**19 120**	**116 641**	**13 801**	**390**	**1 467**	**991**	**19**	**945**	**153 374**

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

As of 31 March 2014 the book value of the assets (Machinery and equipment) leased under financial lease is 831 thousand euros (31 December 2013: 861 thousand euros).

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

NOTE 4. REVENUE

Revenues from main operating activities	Quarter 1 2014	Quarter 1 2013	for the year ended 31 December 2013
Total water supply and waste water disposal service, incl:	12 040	11 719	47 737
Private clients, incl:	6 047	5 932	23 642
Water supply service	3 327	3 264	13 022
Wastewater disposal service	2 720	2 668	10 620
Corporate clients, incl:	4 654	4 606	19 053
Water supply service	2 580	2 509	10 585
Wastewater disposal service	2 074	2 097	8 468
Outside service area clients, incl:	1 145	1 002	4 308
Water supply service	255	253	1 095
Wastewater disposal service	756	661	2 730
Storm water disposal service	134	88	483
Over pollution fee	194	179	734
		0	0
Storm water treatment and disposal service and fire hydrants service	991	726	3 424
Construction service and design	130	98	1 146
Other works and services	146	150	780
Total revenue	**13 307**	**12 693**	**53 087**

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

NOTE 5. STAFF COSTS

	Quarter 1 2014	Quarter 1 2013	for the year ended 31 December 2013
Salaries and wages	-1 347	-1 338	-5 233
Social security and unemployment insurance taxation	-461	-458	-1 744
Staff costs total	**-1 808**	**-1 796**	**-6 977**
Number of employees at the end of reporting period	**304**	**309**	**304**

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

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

	Quarter 1		for the year ended 31 December
Cost of goods sold	**2014**	**2013**	**2013**
Water abstraction charges	-264	-246	-997
Chemicals	-412	-420	-1 734
Electricity	-837	-935	-3 392
Pollution tax	-1 076	-216	-1 872
Staff costs	-1 228	-1 216	-4 833
Depreciation and amortization	-1 298	-1 299	-5 115
Construction service and design	-87	-86	-947
Other costs of goods sold	-841	-751	-3 615
Total cost of goods sold	**-6 043**	**-5 169**	**-22 505**
Marketing expenses			
Staff costs	-103	-116	-375
Depreciation and amortization	-41	-81	-244
Other marketing expenses	-23	-26	-71
Total marketing expenses	**-167**	**-223**	**-690**
Administrative expenses			
Staff costs	-477	-464	-1 769
Depreciation and amortization	-81	-81	-339
Other general administration expenses	-807	-582	-2 952
Total administrative expenses	**-1 365**	**-1 127**	**-5 060**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 1		for the year ended 31 December
	2014	**2013**	**2013**
Connection fees	35	28	117
Depreciation of single connections	-34	-26	-111
Doubtful receivables expenses (-) / expense reduction (+)	8	-1	45
Other income / expenses (-)	-58	-19	-126
Total other income / expenses	**-49**	**-18**	**-75**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Quarter 1		for the year ended 31 December
	2014	**2013**	**2013**
Interest income	134	284	681
Interest expense, loan	-291	-274	-1 087
Interest expense, swap	-440	-505	-2 024
Increase (+) /decrease (-) of fair value of swap	-22	561	2 255
Other financial income (+)/ expenses (-)	-3	-8	-21
Total financial income / expenses	**-622**	**58**	**-196**

NOTE 9. DIVIDENDS

	for the year ended 31 December
	2013
Dividends declared during the period	17 401
Dividends paid during the period	17 401
Income tax on dividends paid	-4 625
Income tax accounted for	**-4 625**
Paid-up dividends per shares:	
Dividends per A-share (in euros)	0,87
Dividends per B-share (in euros)	600

Income tax rates in 2014 and 2013 were 21/79.

NOTE 10. EARNINGS PER SHARE

	Quarter 1		for the year ended 31 December
	2014	**2013**	**2013**
Net profit minus B-share preferred dividend rights	5 060	6 213	19 935
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000
Earnings per A share (in euros)	0,25	0,31	1,00
Earnings per B share (in euros)	600	600	600

Diluted earnings per share for the periods ended 31 March 2014 and 2013 and 31 December 2013 are equal to earnings per share figures stated above.

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

NOTE 11. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded in working capital on the statement of financial position of the Group	**as of 31 March**		**as of 31 December**
	2014	**2013**	**2013**
Accounts receivable	1 397	1 902	550
Accrued income	8 536	9 578	8 154
Other long-term receivables	0	1 859	2 161
Trade and other payables	229	182	197

Transactions	**Quarter 1**		**for the year ended 31 December**
	2014	**2013**	**2013**
Revenue	840	726	3 424
Purchase of administrative and consulting services	256	244	1 020
Financial income	100	191	434
Fees for Management Board (excluding social tax)	94	71	294
Supervisory Board fees (excluding social tax)	10	10	40

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

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

38 thousand euros were paid to the Management Board members as termination fees in the first quarters of 2014 (in the first quarters of 2013: 0 euros and in the year that ended on 31 December 2013: 18 thousand euros). The off balance sheet potential salary liability would be up to 82 thousand euros (excluding social tax) if the Supervisory Board would want to replace all Management Board members.

Company shares belonging to the Management Board and Supervisory Board members

As of 31 March 2014 from all Supervisory Council and Management Board members Riina Käi owned 100 shares (as of 31 March 2013: Leho Võrk owned 179 and Riina Käi owned 100 shares). As of 31 December 2013 Riina Käi owned 100 shares.

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

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

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

NOTE 13. CONTINGENT LIABILITY REGARDING THE TARIFF RISK

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

The management has evaluated the potential claims against the Company, if the Court ruling would support the CA's position. As result of this, it is possible that the Company could potentially suffer an outflow of economic benefits of up to 34 mln euros – the part that CA considers to be excessively charged from the clients going back three years from time of the final judgment.