

Dear shareholder,

I am writing to you to update you on several recent Company developments and also to personally invite you to join us for our Annual General Meeting of Shareholders on 24 May in Tallinn. By being united and together, we can continue to grow AS Tallinna Vesi throughout 2011 and into the future.

Firstly I am pleased to share with you the Company's 1st quarter Operations and Financial results we published last week. Compared to the 1st quarter of 2010, our operating performance has improved in almost every single category in spite of the very difficult winter. Most significantly, water quality at the customers' tap was 100% compliant with all requirements, and the total duration of interruptions to water supply was over 50% lower than in the 1st quarter of 2010.

Whilst it is important to share this good news, the Management Board of AS Tallinna Vesi also wanted to take this opportunity to update you on an important regulatory matter that could have a material impact on your investment. We do this to inform and empower you as shareholders in the Company.

In November 2010, AS Tallinna Vesi submitted its tariff application to the Competition Authority in accordance with our Services Agreement supplemented by international best-practice regulatory principles. As you may be aware, the Competition Authority became our new regulator from November 2010 as a result of changes in the law made in August 2010, and during this three month period the Competition Authority established a new methodology for calculating tariffs in the Water industry. Sadly, this decision and the new methodology were implemented without taking into account the views of AS Tallinna Vesi, its owners or the water sector in general.

Unfortunately, an analysis of the methodology of the Competition Authority using World Bank guidelines for tariff setting for privatised utilities exposes fundamental flaws in the application of this new regulation for determining tariffs.

AS Tallinna Vesi is still awaiting the final decision of the Competition Authority on our 2011 tariff application. However, in whatever way the Estonian Authorities decide to apply the methodology, they will be forcing a unilateral breaking of the contract entered into with AS Tallinna Vesi and its owners, which contained a pre-established tariff change mechanism. Essentially, this is asking long-term investors such as yourselves who bought shares during the IPO and the period after to put at risk up to half the value of their investment. Such an attitude is also inconsistent with EU Law and principles protecting cross-border investments in view of ensuring freedom of establishment and free movement of capital in the EU Internal Market.

The Management Board of AS Tallinna Vesi wants to inform you that we are already taking preventative actions to protect the Company and your investment in it. However whilst the Company is fully committed to legal certainty and fully transparent economic and quality regulation, we do not believe in the negligent destruction of existing legal contracts.

Please know that we remain vigilant in our resolve to quickly find an agreeable solution to this matter. We also urge you, however, to voice your own concern over this matter as a shareholder that would be materially impacted by the actions of the Estonian Authorities. We encourage you to do so by coordinating and contacting, in Estonian or any other official EU language, **the European Commission's Directorate-General for Internal Market and Services (DG MARKT), namely Directorate F – Free movement of capital, company law and corporate governance and Directorate E – Services, that are already reviewing the case** http://ec.europa.eu/dgs/internal_market/index_en.htm.

I want you to be aware that we will employ all means available to defend the legitimate interests of AS Tallinna Vesi and you, its shareholders. Together I believe we can bring this issue to a successful resolution.

The Annual General Meeting of the shareholders of AS Tallinn Vesi shall be held on 24 May 2011 at the Radisson Blu Hotel Olümpia (Liivalaia 33, 10118 Tallinn), starting from 09.00. Together we will discuss our plans to protect the rights of the Company and its investors, and ensure we continue to deliver a strong operational and service performance for our customers throughout the remainder of the year.

An AGM notice with the agenda and proposed resolutions was disclosed on our webpage on 2 May 2011.

I look forward to meeting with you on 24 May.

Yours Sincerely,



Ian Plenderleith
Chairman of the Management Board