AS Tallinna Vesi

Results of operations – for the 1st half-year of 2011

Currency	Thousand euros
Start of reporting period	1 January 2011
End of reporting period	30 June 2011
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT

Privatization Contract and Regulation Overview

The Company's tariffs are still frozen due to the ongoing debate with the Competition Authority (CA). The Company applied for a contractual 3.5% tariff increase on 9th November 2010. The Competition Authority rejected the tariff application without any analysis of the privatization contract and the Company's performance during the contractual period. The Company's tariff mechanism and stable regulatory regime has enabled the delivery of all the objectives required by the privatization without giving excessive returns to shareholders of the Company. The Company would like its shareholders to note that the Company has a contract until 2020 and that the financial performance of the company should be evaluated over this period of time and not on a single year basis. The privatization contracts signed in 2001 were structured to produce lower returns in the early years, increasing over the lifetime of the contract to give a real (net of inflation) rate of return on invested capital of 7.0% over the contract period.

The Company believes in best practice operating performance on behalf of its customers, and this includes providing that the financial terms and conditions of the fully legal privatization contract deliver rates of return that are consistent with the degree of risk being taken and benchmarking this against other regulatory determinations. The Company has chosen the average real return on invested capital[1] (ARRIC) calculation in order to prove its returns since 2001, which is the classical formula used for verifying utility profits.

The ARRIC is expected to remain on a level of 6.2% throughout 2011. The annual return is expected to increase in 2011 to 6.5% from 6.4% in 2010. The average return is still lower than the annual return due to the much lower returns earned in the early years of the contract.

ARRIC calculation uses the capital paid for the 50.4% of the shares at privatization to calculate the Regulatory Asset 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 Appendix 5 of the tariff application[2].

Using such a well-established methodology gives clarity and enables investors to independently verify the financial performance of the Company using the principles applied in internationally accepted regulatory regimes that have already been subject to a significant level of economic analysis and challenge. Furthermore, in accordance with good governance and to ensure the Company's results are evidence based the Company has had its financial performance independently verified by the international economics consulting company Oxera. Oxera completed its analysis of the Company's financial performance in November 2010 and a copy of this report can be found as Appendix 1[3] to the tariff application.

Our shareholders will be aware that the Competition Authority is stating that the profitability is too high, and insisting that their methodology must be used. With such approach the CA fully disregards the fully legal privatization contract and the tariff regulation (CPI +/- k) chosen by the earlier regulator in 2001.

[1] ARRIC – EBIT from regulated services/regulatory asset base during the contract period from 2001

[2] http://www.tallinnavesi.ee/static/files/932.AS Tallinna Vesi Tariff Application for 2011-2015.pdf

[3] http://www.tallinnavesi.ee/static/files/729.2010-11-09 to CA tariff application Annex 1 Annex 4 Eng.pdf

Estonian Authorities have claimed that the amendments to the PWSSA enforced in 2010 did not change anything regarding the justified profitability calculations and that only the regulator has changed. The Company has explained via Stock Exchange announcements that in August 2010 a restriction was included to the law about the body who has made the investment limiting it only to the investment made by the water undertaking itself. During the privatization and until August 2010 the wording of the law enabled to earn a reasonable return on capital invested by the investors.

According to the Company's best knowledge the new regulator stepping into existing valid contract is required to consider the privatization contract and the regulatory regime chosen by the earlier regulator unless they can prove that the contract was illegal.

The CA is only able to claim the excessive profitability by doing the following:

1) From a contractual perspective
    a. Disregarding all aspects of the fully legal privatization contract
    b. Assigning zero value to the service improvements made as a result of the privatization
    c. Without ever analyzing the financial performance of the contract from 2001 to 2011

2) And secondly from a regulatory perspective
    a. Ignoring the privatization value of the company, thus denying investors the opportunity to earn a return on the full amount of capital invested at privatization. This is also in complete contradiction with the CA's own references[4] to the World Bank Guidelines[5] used in its analyses of the Company's tariffs and also in its methodology for energy sector[6].
    b. Applying the inconsistent treatment of inflation within its calculations. The CA ignores the World Bank recommendation to index the asset value of the company by inflation and declares the usage of nominal WACC, but despite of repeated enquiries[7] from the Company has not proved the inclusion of the inflation to the nominal WACC calculation.

The Company continues to try to engage with the authorities to have a professional dialogue regarding the fully legal privatization contract and best practice regulation.

RESULTS OF OPERATIONS - FOR THE 1st HALF-YEAR 2011

Overview of the financial statements

During the 2nd quarter of 2011 the sales increased by 2.3%, mainly due to the slight increase in sales volumes. As result of excellent operational performance and related efficiencies the gross profit increased by 7.1%. Still the operating profit decreased by 4.0% and the profit before taxes decreased by 1.3%, being impacted by slimmer profits from non-related activities and negative movement in fair value of financial instruments, both with no cash impacts.

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[4] http://www.konkurentsiamet.ee/?id=14642, pages 30 and 36.
[5] http://books.google.com/books?id=VYEcSJCWbBUC&lpg=PP1&ots=eri8Xz-21P&dq=martin%20pardina&pg=PR1#v=onepage&q&f=false (Green, Richard; Pardina, Martin Rodriguez (1999). Resetting Price Controls for Privatized Utilities. A Manual for Regulators. Washington, D.C.: The World Bank)
[6] http://www.konkurentsiamet.ee/file.php?18565, page 3
[7] http://www.tallinnavesi.ee/static/files/821.2011-04-07 response4 to CA re their WACC and inflation Eng.pdf

mln €	2 Q 2011	2 Q 2010	Change	6 months 2011	6 months 2010	Change
Sales	12,8	12,5	2,3%	25,2	24,7	1,8%
Gross profit	7,8	7,3	7,1%	15,4	14,9	2,9%
Gross profit margin %	61,4	58,6	4,7%	61,0	60,4	1,1%
Operating profit	6,9	7,2	-4,0%	13,8	13,9	-0,7%
Operating profit - main business	6,7	6,1	8,5%	13,2	12,6	5,4%
Operating profit margin %	54,0	57,5	-6,1%	54,8	56,2	-2,4%
Profit before taxes	5,7	5,8	-1,3%	13,7	11,1	24,3%
Net profit	1,5	-2,7	-155,7%	9,5	2,6	270,9%
Net profit margin %	11,7	-21,4	-154,5%	37,6	10,3	264,3%
ROA %	0,8	-1,5	-155,0%	5,3	1,4	266,1%
Debt to total capital employed	62,9	66,5	-5,5%	62,9	66,5	-5,5%

Gross profit margin – Gross profit / Net sales
Operating profit margin – Operating profit / Net sales
Net Profit margin – Net Profit / Net sales
ROA – Net profit /Total Assets
Debt to Total capital employed – Total Liabilities / Total capital employed
Main business – water and wastewater activities, excl. connections profit and government grants

Profit and Loss Statement

2nd quarter 2011

Sales

In the 2nd quarter of 2011 the Company's total sales increased, year on year, by 2.3% to 12.8 mln EUR. 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.

Sales of water and wastewater services were 11.7 mln EUR, a 2.6% increase compared to the 2nd quarter of 2010, resulting from the slight rise in sales volumes as described below.

Within the service area, sales to residential customers increased by 0.2% to 5.9 mln EUR. Sales to commercial customers increased by 6.7% to 4.6 mln EUR. Sales to customers outside of the service area increased by 0.7% to 0.92 mln EUR in the 2nd quarter of 2011. Over pollution fees received were 0.23 mln EUR, a 6.7% decrease compared to the 2nd quarter of 2010.

In the 2nd quarter of 2011, the volumes sold to residential customers increased by 0.6% year on year, compared to decrease we faced in 1st quarter of 2011 and previous quarters of 2010.

The volumes sold to commercial customers inside the service area have risen, reflecting a 7.3% increase compared to the same period in 2010. The sales volumes increased mainly due to improvement in leisure sector and related industrial services as result of pick up in tourism sector.

The volume increase exceeds the sales increase due to the proportionally higher increase in waste water services which tariffs are a bit lower compared to the water tariffs.

Outside service area sales volumes were 4.3% lower than in the 2nd quarter of 2010. The main factor in this decrease was lower storm water volumes in the 2nd quarter of 2011 compared to 2010, resulting in sales increase year on year as storm water tariffs are considerably lower as sewage tariffs.

The sales from the operation and maintenance of the storm water and fire-hydrant system decreased by 2.8% to 0.78 mln EUR in the 2nd quarter of 2011 compared to the same period in 2010. 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 4.9 mln EUR in the 2nd quarter of 2011, a decrease of 0.24 mln EUR or 4.5% from the equivalent period in 2010.

The cost reduction was mainly the result of nitrogen removal from the waste water and related reduction in pollution tax. The pollution tax calculation depends on waste water treatment results and concentration of different waste components in treated waste water. In the 2nd quarter of 2011 the Company was successful to remove all pollutants below the level required for the application of the beneficial coefficient. Thereby the Company achieved in the 2nd quarter of 2011 the beneficial 0.5 tax coefficient in contrary to the 2nd quarter of 2010 with coefficient 1.0, and thereby the amount of pollution tax payable was 0.32 mln EUR compared to 0.70 mln EUR in the 2nd quarter of 2010. The decrease in volumes treated in 2nd quarter of 2011 also contributed to lower pollution tax payable, partly balanced by the increase in tax rates year on year by 14.8%. To mitigate the nitrogen treatment and tax risks discussed throughout the 2010, we are continuing with the investment into an additional stage of waste water treatment and according to the construction schedule the works should be completed in the beginning of the 3rd quarter of 2011.

Chemical costs were 0.31 mln EUR, representing a 6.2% decrease compared to the corresponding period in 2010 despite of the slight increase in rates. The need to dose chemicals was lower in combination of the volumes, concentration of pollutants and water temperature.

Electricity costs increased by 0.02 mln EUR or 2.5% in the 2nd quarter of 2011 compared to the 2nd quarter of 2010, mainly due to higher electricity prices as result of the purchase from the open market.

Salary expenses within costs of goods sold increased in the 2nd quarter of 2011, year on year, by 0.07 mln EUR or 6.6% in combination of redundancy payments, performance related pay accrual and small increase in basic salaries. Other salary lines had similar impact.

Other cost of goods sold in the main operating activity increased 0.09 mln EUR, or 9.0% year on year, mainly due to increased asphalting cost compared to 2nd quarter of 2010.

As a result of all of the above the Company's gross profit for the 2nd quarter of 2011 was 7.8 mln EUR, which is an increase of 0.50 mln EUR, or 7.1%, compared to the gross profit of 7.3 mln EUR for the 2nd quarter of 2010.

Operating Costs and Operating Margin

Marketing expenses increased by 0.002 mln EUR to 0.18 mln EUR during the 2nd quarter of 2011 compared to the corresponding period in 2010. This is mainly the result of a discussed increase in salaries expenses, partly balanced by savings in other items.

In the 2nd quarter of 2011 the General administration expenses increased by 0.32 mln EUR year on year to 1.2 mln EUR. Within this group the salary costs increase was partly related to the transfer of management services to the salary line. Still the increase in legal consultancies acquired in the process of tariff dispute exceeded the transfer of cost within other costs.

Other net 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 program and the connections activity in Tallinn. Income and expenses from constructions and government grants totaled a net income of 0.25 mln EUR in the 2nd quarter of 2011 compared to a net income of 1.1 mln EUR in the 2nd quarter of 2010, this line varies throughout the year depending on construction volumes and estimates to the profit margins on projects completed. 2011 2nd quarter profits from government grants profits were influenced mainly by delays in construction and the shortage will be compensated in forthcoming quarters during the construction program.

The rest of the other income/expenses totaled an income of 0.20 mln EUR in the 2nd quarter of 2011 compared to an expense of 0.13 mln EUR in the 2nd quarter of 2010. This line was mainly impacted by the excellent debt collection and related decrease in bad debt accrual in the 2nd quarter of 2011.

As a result the Company's underlying operating profit from sales of water and wastewater for the 2nd quarter of 2011 totaled 6.7 mln EUR compared to 6.1 mln EUR in the corresponding quarter in 2010. In total the Company's operating profit for all activities for the 2nd quarter of 2011 was 6.9 mln EUR, a decrease of 0.30 mln EUR compared to an operating profit of 7.2 mln EUR achieved in the 2nd quarter of 2010. Year on year the operating profit for the 2nd quarter has decreased by 4.0%.

Financial expenses

Net Financial revenues/expenses were 1.2 mln EUR in the 2nd quarter of 2011, which is a positive variance of 0.21 mln EUR or 15.5% compared to the net expenses in the 2nd quarter of 2010. In both years the financial costs had adverse impact from the non-cash revaluation of the fair value of swap agreements, the related cost increase was still lower in the 2nd quarter of 2011.

The Company has mitigated majority of the long term floating interest risk with 5 interest swap agreements, each with a principal value of 15 mln EUR. At this point in time the estimated fair value of these swap contracts is still negative, totaling 1.5 mln EUR, with a negative revaluation in the 2nd quarter 2011 in the amount of 0.77 mln EUR.

Profit Before Tax

The Company's profit before taxes for the 2nd quarter of 2011 was 5.7 mln EUR, which is 0.10 mln EUR lower than the profit before taxes of 5.8 mln EUR for the 2nd quarter of 2010.

Results for the six months of 2011

During the six months of 2011 the Company's total sales increased, year on year, by 1.8% to 25.2 mln EUR. Sales of water and wastewater treatment were 23.1 mln EUR, a 1.8% increase compared to the six months of 2010.

The underlying operating profit from the Company's main business activity, sales of water and wastewater, for the six months of 2011 increased by 5.4% to 13.2 mln EUR compared to the six months of 2010.

The Company's profit before taxes for the six months of 2011 was 13.7 mln EUR, which is a 24.3% increase compared to the relevant period in 2010.

The Company's net profit for the six months of 2011 was 9.5 mln EUR, which is 6.9 mln EUR higher than the net profit of 2.6 mln EUR in the equivalent period in 2010.

Balance sheet

During the six months of 2011 the Company invested 6.6 mln EUR into fixed assets. Non-current assets were 153.5 mln EUR at 30 June 2011. Current assets decreased by 7.3 mln EUR to 26.4 mln EUR in the six months of the year, with customer receivables decreasing by 4.9 mln EUR due to payment of long term debts by the customers and cash at bank decreasing by 2.4 mln EUR as result of dividend payment in June 2011.

Current liabilities decreased by 4.5 mln EUR to 11.4 mln EUR in the six months of the year. This was mainly due to a 7.6 mln EUR reclassification of Current portion of long-term borrowings to Non-current liabilities after renewal of the loan agreement, balanced by increase in Trade payables by 2.9 mln EUR.

The Equity has decreased by 6.5 mln EUR reflecting the dividend payment partly balanced by the profit generated during the six months of the year.

The Company has a leverage level as expected of 62.9%, as usually at end of the 2nd quarter slightly above the target range of 60%, reflecting the temporary decrease in Equity. Long-term liabilities stood at 101.7 mln EUR at the end of June 2011, consisting almost entirely of the outstanding balance of three long-term bank loans. As of 30 June 2011 the total 95 mln EUR 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%.

Cash flow

During the six months of 2011, the Company generated 15.7 mln EUR of cash flows from operating activities, an increase of 1.3 mln EUR compared to the corresponding period in 2010. 2011 operating cash flows were above 2010 cash flows mainly due to the payments of overdue debts in 2011. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the six months of 2011 net cash outflows from investing activities were 2.1 mln EUR, which is 1.7 mln EUR more than in 2010. Within the group the increased compensations received for the construction of pipelines is partly balancing increase in capital expenditures. In 2011 the Company has given the 1.4 mln EUR loan to Maardu according to the Operating agreement signed in 2008. The total 20 year loan depends on construction cost and will remain below the total agreed loan facility of 5.1 mln EUR. At the end of 2nd quarter of 2011 the cash outflows related to the fixed asset investments were 7.8 mln EUR.

The cash outflows from financing activities were 16.0 mln EUR during the six months of 2011 compared to a cash outflow of 12.0 mln EUR during the same six months of 2010, representing the payouts of the dividends in both years and loans received in 2010.

As a result of all of the above factors, the total cash outflow in the six months of 2011 was 2.4 mln EUR compared to a cash inflow of 2.0 mln EUR in the six months of 2010. Cash and cash equivalents stood at 10.8 mln EUR as at 30 June 2011 which is 9.9 mln EUR lower than at the corresponding period of 2010.

Employees

At the end of the 2nd quarter of 2011, the total number of employees was 311 compared to 319 at the end of the 2nd quarter of 2010. The full time equivalent (FTE) was respectively 297 in 2011 compared to the 303 in 2010. The management is looking actively for the efficiencies in processes to balance the increase in individual salaries with more productive company structure.

Corporate structure

At the end of the quarter, 30 June 2011, 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.

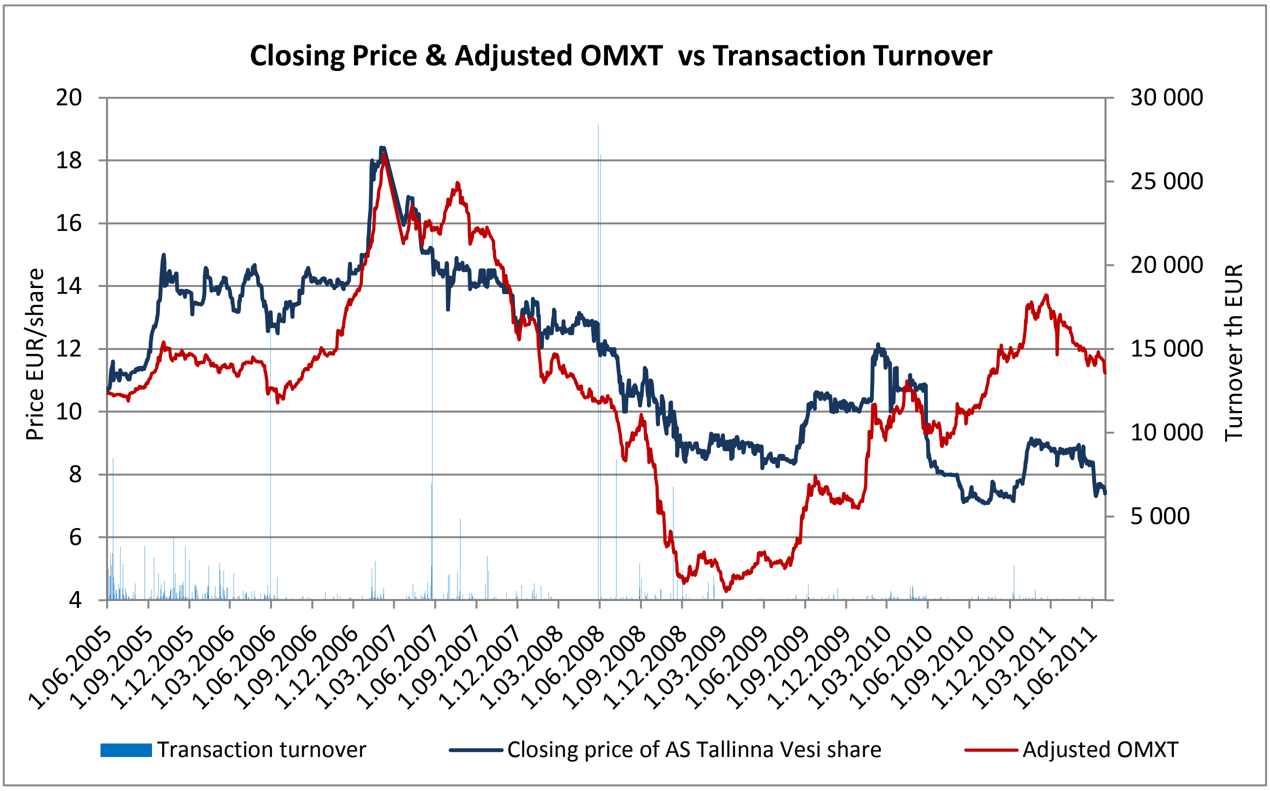
Share performance

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

As of 30 June 2011 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

Parvus Asset Management has informed the Company that they own in total 8.96% of the shares of the Company.
At the end of the quarter, 30 June 2011, the closing price of the AS Tallinna Vesi share was 7.40 EUR, which is a 14.99% decrease compared to the closing price of 8.705 EUR at the beginning of the quarter. During the same period the OMX Tallinn index dropped by 12.61%.



Operational highlights in 2011

- Company's overall operating performance is continuously good, most of the quality aspects exceeding the level of 2010. As result of excellent nitrogen removal from the waste water we received the beneficial coefficient and reduction in the amount of pollution tax.

- Total number of unplanned customer interruptions has decreased by 5 times and also the average time of interruptions has decreased by 12%.

- The leakage level was by 1.55% less than in 2010.

- As a very important development for the customers, the Company has updated its promises to the customers, according to which AS Tallinna Vesi would compensate any discomfort to its contractual customers based on the promises plan if the Company has failed to deliver against one of its own customer service pledges. AS Tallinna Vesi's promises are part of an on-going commitment to continuously improve service on behalf of our customers. These promises require the Company to achieve a standard of service that is much higher than that required by the contract with the City of Tallinn, and is the only customer focused scheme of its type within the utilities sector in the Baltics.

- The Company signed the changes to the Nordea's loan agreement on 27 of April 2011. The original loan agreement for the amount of 37.5 mln EUR was signed in 2005. The repayment term was changed and instead of the semiannual repayments from May 2011 the whole loan amount shall be repaid at the end of 2015. As result of the change the weighted average interest margin will increase to 0.82%.

- In the 2nd quarter the Company renewed all its ISO, environmental and safety certificates. According to the Company's knowledge we are the only water company in Estonia whose operational and environmental performance indicators are independently verified.

Key contractual events

- Tariffs are still frozen on the 2010 level despite of 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 privatized utilities, such as that favoured by Ofwat in the UK and recommended by the World Bank for privatized utilities.

  On 2nd May the Competition Authority (CA) informed the Company about the rejection of the tariff application. The CA completely ignored the privatization contract and did not perform any analysis of the contractual and financial performance of the Company during the period after privatization. The CA is arguing that the Company's profitability is too high using their own unverified methodology that is not in accordance with the World Bank guidelines for privatized 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 economics consulting company, Oxera.

  The Company and its investors cannot accept such unilateral breach of the privatization terms and contract by Estonian Authorities and the Company submitted an appeal to the court on 2 June 2011. The CA should comment their position to the court before the end of August.

  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).

  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 did respond to the Commission in early June.

  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. Still, at this point in time the Company is unable to say what next year's tariffs will be 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.

Additional information:
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MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of consolidated condensed financial statements for the 1st half-year of financial year 2011 ended 30 June 2011. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 June 2011 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 management report gives a true and fair view of the main events that occured during the 6 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 6 months of the financial year.

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

All material subsequent events that occurred by the interim accounts preparation date of 28 July 2011 have been assessed as part of this review.

The company is carrying on its activities as a going concern.

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

Robert Thomas Yuille
Member of the Management Board
Chief Operating Officer

Siiri Lahe
Member of the Management Board
Chief Financial Officer

28 July 2011

Introduction and photos of the Management Board members are published in 2010 Yearbook and at www.tallinnavesi.ee

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousand EUR)

		as of 30 June		as of 31 December
ASSETS	**Note**	**2011**	**2010**	**2010**
CURRENT ASSETS				
Cash and equivalents	2	10 830	20 687	13 235
Customer receivables, accrued income and prepaid expenses		15 183	11 439	20 088
Inventories		327	262	306
Non-current assets held for sale		76	77	76
TOTAL CURRENT ASSETS		**26 416**	**32 465**	**33 705**
NON-CURRENT ASSETS				
Long-term investment assets		1 362	0	0
Property, plant and equipment	3	150 439	142 866	148 179
Intangible assets	3	1 731	2 275	1 972
Derivatives		0	0	0
TOTAL NON-CURRENT ASSETS		**153 532**	**145 141**	**150 151**
TOTAL ASSETS		**179 948**	**177 606**	**183 856**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		0	3 860	7 624
Trade and other payables		9 257	13 264	6 367
Derivatives		791	773	963
Short-term provisions		114	171	117
Prepayments and deferred income		1 250	843	810
TOTAL CURRENT LIABILITIES		**11 412**	**18 911**	**15 881**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		5 901	5 390	5 765
Borrowings		94 930	91 183	87 428
Derivatives		751	2 494	1 304
Other payables		115	115	115
TOTAL NON-CURRENT LIABILITIES		**101 697**	**99 182**	**94 612**
TOTAL LIABILITIES		**113 109**	**118 093**	**110 493**
EQUITY				
Share capital		12 000	12 782	12 782
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Retained earnings		28 827	20 719	34 569
TOTAL EQUITY		**66 839**	**59 513**	**73 363**
TOTAL LIABILITIES AND EQUITY		**179 948**	**177 606**	**183 856**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 2		6 months		for the year ended 31 December
	Note	2011	2010	2011	2010	2010
Revenue	4	12 781	12 499	25 186	24 734	49 680
Costs of goods sold	6	-4 937	-5 172	-9 820	-9 801	-20 684
GROSS PROFIT		**7 844**	**7 327**	**15 366**	**14 933**	**28 996**
Marketing expenses	6	-181	-179	-381	-383	-787
General administration expenses	6	-1 214	-894	-2 088	-1 711	-3 651
Other income/ expenses (-)	7	448	928	912	1 062	2 906
OPERATING PROFIT		**6 897**	**7 182**	**13 809**	**13 901**	**27 464**
Financial income	8	362	224	1 345	463	1 060
Net financial expenses	8	-1 515	-1 588	-1 424	-3 314	-3 624
PROFIT BEFORE TAXES		**5 744**	**5 818**	**13 730**	**11 050**	**24 900**
Income tax on dividends	9	-4 253	-8 495	-4 253	-8 495	-8 495
NET PROFIT FOR THE PERIOD		**1 491**	**-2 677**	**9 477**	**2 555**	**16 405**
COMPREHENSIVE INCOME FOR THE PERIOD		**1 491**	**-2 677**	**9 477**	**2 555**	**16 405**
Attributable profit to:						
Equity holders of A-shares		1 490	0	9 476	2 554	16 404
B-share holder		0,64	0,00	0,64	0,64	0,64
Earnings per A share (in euros)	10	0,07	0,00	0,47	0,13	0,82
Earnings per B share (in euros)	10	639	0	639	639	639

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

CONSOLIDATED CASH FLOW STATEMENTS

(thousand EUR)

	Note	6 months 2011	6 months 2010	for the year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		13 809	13 901	27 464
Adjustment for depreciation/amortisation	6	2 777	2 817	5 620
Adjustment for profit from government grants and connection fees		-560	-1 335	-3 312
Other finance expenses	8	-1	-29	-14
Profit from sale of property, plant and equipment, and intangible assets		-1	0	-3
Expensed property, plant and equipment		0	5	70
Change in current assets involved in operating activities		1 090	-680	-8 894
Change in liabilities involved in operating activities		47	859	6 297
Interest paid		-1 418	-1 090	-2 443
Total cash flow from operating activities		**15 743**	**14 448**	**24 785**
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted		-1 362	0	0
Acquisition of property, plant and equipment, and intangible assets		-7 793	-4 100	-17 055
Compensations received for construction of pipelines		6 285	3 327	6 139
Proceeds from sale of property, plant and equipment, and		2	1	16
Interest received		721	275	1 109
Total cash flow used in investing activities		**-2 147**	**-497**	**-9 791**
CASH FLOWS FROM FINANCING ACTIVITIES				
Received loans		0	20 000	20 000
Dividends paid	9	-16 001	-31 956	-31 956
Income tax on dividends	9	0	0	-8 495
Total cash flow used in financing activities		**-16 001**	**-11 956**	**-20 451**
Change in cash and cash equivalents		**-2 405**	**1 995**	**-5 457**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**13 235**	**18 692**	**18 692**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**10 830**	**20 687**	**13 235**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2009	**12 782**	**24 734**	**1 278**	**50 120**	**88 914**
Dividends	0	0	0	-31 956	-31 956
Net profit of the financial year	0	0	0	16 405	16 405
as of 31 December 2010	**12 782**	**24 734**	**1 278**	**34 569**	**73 363**
as of 31 December 2009	**12 782**	**24 734**	**1 278**	**50 120**	**88 914**
Dividends	0	0	0	-31 956	-31 956
Net profit of the financial period	0	0	0	2 555	2 555
as of 30 June 2010	**12 782**	**24 734**	**1 278**	**20 719**	**59 513**
as of 31 December 2010	**12 782**	**24 734**	**1 278**	**34 569**	**73 363**
Reduction of the share capital	-782	0	0	782	0
Dividends	0	0	0	-16 001	-16 001
Net profit of the financial period	0	0	0	9 477	9 477
as of 30 June 2011	**12 000**	**24 734**	**1 278**	**28 827**	**66 839**

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

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.

On the 1st January 2011 Estonia joined the Eurozone and Estonian kroon (EEK) was replaced by euro (EUR). As a result of that, since that day the Group converted its accounting into euros and the financial statements of 2011 and further years is compiled in euros. Comparative data is converted by an official exchange rate for transition of 15.6466 EEK/EUR.

NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 June		as of 31 December
	2011	**2010**	**2010**
Cash in hand and in bank	308	215	651
Short-term deposits	10 522	20 472	12 584
Total cash and cash equivalents	**10 830**	**20 687**	**13 235**

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENT

(thousand EUR)

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

	Property, plant and equipment				Assets in progress				Intangible assets		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
as of 31 December 2009											
Acquisition cost	23 913	150 807	38 419	1 179	2 469	3 885	92	95	889	4 752	226 500
Accumulated depreciation	-4 566	-47 723	-24 774	-737	0	0	0	0	-612	-2 547	-80 959
Book value	**19 347**	**103 084**	**13 645**	**442**	**2 469**	**3 885**	**92**	**95**	**277**	**2 205**	**145 541**
Transactions in the period 01.01.2010 - 31.12.2010											
Acquisition in book value	0	0	0	0	6 738	10 734	0	62	0	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	0	0	-15
Compensated by government grants	0	0	0	0	0	-7 080	0	0	0	0	-7 080
Reclassification	155	4 928	1 890	54	-7 058	-77	-25	-38	4	32	-135
Depreciation	-272	-2 593	-2 081	-82	0	0	0	0	-180	-486	-5 694
Total transactions in the period 01.01.2010 - 31.12.2010	**-119**	**2 335**	**-195**	**-37**	**-320**	**3 577**	**-25**	**24**	**-176**	**-454**	**4 610**
as of 31 December 2010											
Acquisition cost	24 067	155 727	39 570	1 157	2 148	7 462	68	119	714	4 518	235 550
Accumulated depreciation	-4 838	-50 307	-26 120	-755	0	0	0	0	-612	-2 767	-85 399
Book value	**19 229**	**105 420**	**13 450**	**402**	**2 148**	**7 462**	**68**	**119**	**102**	**1 751**	**150 151**
Transactions in the period 01.01.2011 - 30.06.2011											
Acquisition in book value	0	0	0	0	5 659	824	0	76	0	0	6 559
Compensated by government grants	0	0	0	0	0	-1 762	0	0	0	0	-1 762
Reclassification	18	727	233	23	2 627	-3 591	0	-2	82	-80	37
Depreciation	-136	-1 307	-1 016	-38	0	0	0	0	-38	-279	-2 814
Total transactions in the period 01.01.2011 - 30.06.2011	**-118**	**-580**	**-784**	**-15**	**8 286**	**-4 529**	**0**	**74**	**44**	**-359**	**2 019**
as of 30 June 2011											
Acquisition cost	24 085	156 448	39 653	1 180	10 434	2 933	68	193	714	4 520	240 228
Accumulated depreciation	-4 974	-51 608	-26 987	-793	0	0	0	0	-568	-3 128	-88 058
Book value	**19 111**	**104 840**	**12 666**	**387**	**10 434**	**2 933**	**68**	**193**	**146**	**1 392**	**152 170**

Property, plant and equipment and intangible assets are written off if the conditions of the asset do not enable further usage for production purposes.
As of 30 June 2011 there were no finance lease contracts. As of 31 December 2010 the net balance sheet value of finance leases was 257 thousand euros.

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

NOTE 4. REVENUE	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2011	**2010**	**2011**	**2010**	**2010**
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	11 713	11 417	23 084	22 672	45 167
Private clients, incl:	5 934	5 921	11 906	11 934	23 797
Water supply service	3 271	3 293	6 561	6 637	13 232
Waste water disposal service	2 663	2 628	5 345	5 297	10 565
Corporate clients, incl:	4 634	4 342	9 006	8 502	17 108
Water supply service	2 541	2 396	4 854	4 683	9 441
Waste water disposal service	2 093	1 946	4 152	3 819	7 667
Outside service area clients, incl:	920	913	1 744	1 778	3 415
Water supply service	216	212	421	423	840
Waste water disposal service	704	701	1 323	1 355	2 575
Overpollution fee	225	241	428	458	847
Stormwater treatment and disposal service	726	749	1 529	1 498	3 286
Fire hydrants service	48	48	96	96	193
Other works and services	294	285	477	468	1 034
Total revenue	**12 781**	**12 499**	**25 186**	**24 734**	**49 680**

100 % of AS Tallinna Vesi revenue was generated within the Estonian Republic.
Code of Estonian Classification of Economic Activities (EMTAK) is 36001.

NOTE 5. STAFF COSTS	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2011	**2010**	**2011**	**2010**	**2010**
Salaries and wages	-1 148	-1 053	-2 333	-2 105	-4 340
Social security and unemployment insurance taxation	-383	-350	-778	-700	-1 445
Staff costs total	**-1 531**	**-1 403**	**-3 111**	**-2 805**	**-5 785**
Number of employees at the end of reporting period			**311**	**319**	**319**

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

NOTE 6. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATIONS EXPENSES

	Quarter 2		6 months		for the year ended 31 December
Cost of goods sold	**2011**	**2010**	**2011**	**2010**	**2010**
Tax on special use of water	-231	-213	-457	-433	-847
Chemicals	-311	-332	-559	-660	-1 433
Electricity	-705	-688	-1 382	-1 271	-2 704
Pollution tax	-324	-701	-603	-937	-2 290
Staff costs	-1 050	-985	-2 167	-1 984	-4 030
Development	0	0	-8	0	-8
Depreciation and amortization	-1 253	-1 278	-2 519	-2 555	-5 092
Other costs of goods sold	-1 063	-975	-2 125	-1 961	-4 280
Total cost of goods sold	**-4 937**	**-5 172**	**-9 820**	**-9 801**	**-20 684**
Marketing expenses					
Staff costs	-81	-68	-171	-150	-320
Depreciation and amortization	-81	-84	-163	-168	-334
Other marketing expenses	-19	-27	-47	-65	-133
Total cost of marketing expenses	**-181**	**-179**	**-381**	**-383**	**-787**
General administration expenses					
Staff costs	-400	-350	-773	-671	-1 435
Depreciation and amortization	-48	-48	-95	-94	-194
Other general administration expenses	-766	-496	-1 220	-946	-2 022
Total cost of general administration expenses	**-1 214**	**-894**	**-2 088**	**-1 711**	**-3 651**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 2		6 months		for the year ended 31 December
	2011	**2010**	**2011**	**2010**	**2010**
Profit from government grant	246	1 053	561	1 335	3 310
Other income / expenses (-)	202	-125	351	-273	-404
Total other income / expenses	**448**	**928**	**912**	**1 062**	**2 906**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2011	**2010**	**2011**	**2010**	**2010**
Interest income	361	224	621	463	1 060
Interest expense, incl swap interests	-748	-586	-1 423	-1 047	-2 372
Swap fair value	-767	-995	724	-2 238	-1 238
Other financial expenses	1	-7	-1	-29	-14
Total financial income / expenses	**-1 153**	**-1 364**	**-79**	**-2 851**	**-2 564**

NOTE 9. DIVIDENDS	**Quarter 2**		**6 months**		**for the year ended 31 December**
	2011	**2010**	**2011**	**2010**	**2010**
Dividends declared during the period	16 001	31 956	16 001	31 956	31 956
Dividends paid during the period	16 001	31 956	16 001	31 956	31 956
Income tax on dividends paid	-4 253	-8 495	-4 253	-8 495	-8 495
Income tax accounted for	**-4 253**	**-8 495**	**-4 253**	**-8 495**	**-8 495**
Paid-up dividends per shares:					
Dividends per A-share (in euros)	0,80	1,60	0,80	1,60	1,60
Dividends per B-share (in euros)	639	639	639	639	639

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

NOTE 10. EARNINGS PER SHARE

	Quarter 2		**6 months**		**for the year ended 31 December**
	2011	**2010**	**2011**	**2010**	**2010**
Net profit minus B-share preference rights	1 490	0	9 476	2 554	16 404
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	20 000 000	20 000 000
Earnings per A share (in euros)	0,07	0	0,47	0,13	0,82
Earnings per B share (in euros)	639	0	639	639	639

Diluted earnings per share for the periods ended 30 June 2011 and 2010 and 31 December 2010 do not vary significantly from the earnings per share figures stated above.

NOTES TO THE CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMEN (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

	as of 30 June		as of 31 December
Balances recorded in working capital on the statement of financial position of the Group	**2011**	**2010**	**2010**
Accounts receivable	4 533	2 904	7 194
Accrued income	4 883	2 834	7 256
Accounts payable - short-term trade and other payables	182	424	200

	Quarter 2		6 months		for the year ended 31 December
	2011	**2010**	**2011**	**2010**	**2010**
Transactions with the related parties					
Sales services	765	787	1 606	1 574	3 440
Compensation receivable from the local governments for constructing new pipelines	281	1 018	2 285	1 565	10 390
Purchase of administrative and consulting services	252	282	480	575	1 032
Financial income	278	115	498	220	732
Management Board fees excluding social tax	58	38	121	76	199
Supervisory Board fees excluding social tax	10	10	20	19	38

The fees disclosed above are contractual payments made by the Company to the management board members. In addition to this the board members have also received direct compensations from the companies belonging to the group of United Utilities (Tallinn) B.V. as overseas secondees.

The market prices were implemented in transactions with related parties.

Company shares belonging to the Management Board and Supervisory Board members
As at report generation date Siiri Lahe owned 700 AS Tallinna Vesi shares.

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Leslie Anthony Bell	Member of the Supervisory Board
Simon Gardiner	Member of the Supervisory Board
Philip Anthony Aspin	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
Valdur Laid	Member of the Supervisory Board
Deniss Boroditš	Member of the Supervisory Board

Introduction and photos of the Management Board members are published in 2010 Yearbook and at www.tallinnavesi.ee