AS Tallinna Vesi

Results of operations – for the 3rd quarter of 2011

Currency	Thousand euros
Start of reporting period	1 January 2011
End of reporting period	30 September 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

During the 3rd quarter and the early part of October 2010 the Company's share price has been further impacted by the claims of the Competition Authority (CA) that the privatization contract did not comply with the Public Water and Sewerage Act (PWSSA) at the time of privatization.

Our shareholders will be aware that in June 2011 the company lodged an official complaint to the Estonian Administrative court due to the CA's refusal to consider the privatization contract and approve the contractually agreed tariffs. On 29 August the CA responded to the courts disputing all point made in our claims. Regrettably the CA has decided not to wait for the court ruling regarding the legality of the privatization contract and on 10 October the CA sent a prescription to the company asking it to reduce its current tariffs by 29%.

AS Tallinna Vesi does not believe that the prescription or the non approval of the 2011 tariffs have ever been economically or legally justified and as such will contest both these decisions in court.

The Company would like to highlight that it has fulfilled all aspects of the privatization contract, including a significant improvement in the quality requirements, as determined by the Tallinn City Government in 2001 (see the report about the Operational Performance[1]).

Furthermore, in the interests of an open and professional dialogue to demonstrate that its return on invested capital has not been excessive the international economic consulting group Oxera has independently verified that the average real return on capital invested at the time of privatization is 6.2%, that is slightly lower than the expected 6.5% return in 2011 as the privatization contract designed the returns to be lower in early years of contract. Both, the average and the annual return on capital invested are in accordance with the returns allowed by Ofwat the UK regulator over this same period[2], and the return permitted by the Dutch Energy regulator Energiekamer, which allowed a real rate of return of 6% in its regulatory determination of September 2010.

The Company has continuously stated its belief in fully transparent regulation that takes into account the privatization contract signed in 2001.

RESULTS OF OPERATIONS - FOR THE 3rd QUARTER 2011

Overview of the financial statements

In the 3rd quarter 2011 the Company completed an extremely important environmental project, the construction of the Biofilter, which enables the Company to fulfill all the European Union requirements to the nitrogen removal from the waste water, and has made a significant contribution to reduce the cost of goods sold, as discussed later on in the report. Otherwise the Company's underlying performance is good and stable, continuously focused on improvement of operational performance and customer service.

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1 https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=475004&messageId=579973
2 http://www.ofwat.gov.uk/regulating/reporting/rpt_fpr_2007-08.pdf , page 15

During the 3rd quarter of 2011 the sales increased by 3.7% due to the slight increase in sales volumes mainly due to increase in tourism sector. As result of excellent operational performance and related efficiencies the gross profit increased by 7.1% in the 3rd quarter of 2011 and the operating profit increased by 8.5% during the same period. Still the profit before taxes decreased by 26.7% in the 3rd quarter of 2011, being impacted by non-cash negative movement in fair value of financial instruments.

mln €	**3 Q 2011**	**3 Q 2010**	**Change**	**9 months 2011**	**9 months 2010**	**Change**
Sales	13,0	12,5	3,7%	38,2	37,2	2,5%
Gross profit	7,8	7,2	7,1%	23,1	22,2	4,4%
Gross profit margin %	59,8	57,9	3,3%	60,6	59,6	1,8%
Operating profit	7,0	6,5	8,5%	20,8	20,4	2,3%
Operating profit - main business	6,5	6,1	5,8%	19,7	18,7	5,6%
Operating profit margin %	54,2	51,9	4,6%	54,6	54,7	-0,2%
Profit before taxes	4,4	5,9	-26,7%	18,1	17,0	6,6%
Net profit	4,4	5,9	-26,7%	13,8	8,5	63,2%
Net profit margin %	33,6	47,5	-29,3%	36,2	22,8	59,2%
ROA %	2,4	3,4	-29,6%	7,5	4,8	56,7%
Debt to total capital employed	61,3	62,9	-2,6%	61,3	62,9	-2,6%

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

3rd quarter 2011

Sales

In the 3rd quarter of 2011 the Company's total sales increased, year on year, by 3.7% to 13.0 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 11.6 mln EUR, a 3.9% increase compared to the 3rd quarter of 2010, resulting from the slight rise in sales volumes as described below.

Within the service area, sales to residential customers decreased by 0.9% to 5.8 mln EUR. Sales to commercial customers increased by 8.9% to 4.7 mln EUR. Sales to customers outside of the service area increased by 17.0% to 0.95 mln EUR in the 3rd quarter of 2011. Over pollution fees received were 0.18 mln EUR, a 13.9% decrease compared to the 3rd quarter of 2010.

In the 3rd quarter of 2011, the volumes sold to residential customers decreased by 0.6% year on year, reducing the cumulative positive variance after six months to -0.1% after nine months of 2011. Eliminating the minor impact of revenues reclassification from inside area to the outside area the domestic consumption is flat.

The volumes sold to commercial customers inside the service area have risen, reflecting a 9.5% increase compared to the same period in 2010, eliminating a one-off impact the increase is 7.3%. 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 25.7% higher than in the 3rd quarter of 2010. The main factor in this increase was higher storm water volumes in the 3rd quarter of 2011 compared to 2010, resulting in sales increase year on year by 17.0%, as storm water tariffs are considerably lower than sewage tariffs.

The sales from the operation and maintenance of the storm water and fire-hydrant system decreased by 4.9% to 1.0 mln EUR in the 3rd 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 5.2 mln EUR in the 3rd quarter of 2011, a decrease of 0.05 mln EUR or 1.0% 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.

To mitigate the nitrogen treatment and tax risks discussed throughout the 2010, we finished the construction and implemented the additional stage in sewage treatment process in the beginning of the 3rd quarter of 2011. In spite the increase in volumes treated in 3rd quarter of 2011 and the increase in tax rates year on year by 14.8%, the treatment results were excellent and resulted in reduced pollution tax payment. The pollution tax calculation depends on waste water treatment results and concentration of different waste components in treated waste water. In the 3rd 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 3rd quarter of 2011 the beneficial 0.5 tax coefficient in contrary to the 3rd quarter of 2010 with coefficient 1.0, and thereby the amount of pollution tax payable was 0.14 mln EUR compared to 0.61 mln EUR in the 3rd quarter of 2010.

Chemical costs were 0.44 mln EUR, a 10.8% increase compared to the corresponding period in 2010 representing the increase in rates, mainly in methanol price.

Electricity costs increased by 0.07 mln EUR or 9.5% in the 3rd quarter of 2011 compared to the 3rd quarter of 2010 due to higher electricity prices as result of the purchase from the open market, but also having adverse impact from regulated networks fees.

Salary expenses within costs of goods sold increased in the 3rd quarter of 2011, year on year, by 0.23 mln EUR or 26.5% in combination of redundancy payments and performance related pay accrual. Underlying individual salaries have increased by CPI only, but the cost impact is broadly balanced by reduction in headcount. Other salary lines had similar impact.

Other cost of goods sold in the main operating activity increased 0.03 mln EUR, or 2.6% year on year, broadly reflecting overall impact to the costs compared to 3rd quarter of 2010.

As a result of all of the above the Company's gross profit for the 3rd quarter of 2011 was 7.8 mln EUR, which is an increase of 0.52 mln EUR, or 7.1%, compared to the gross profit of 7.2 mln EUR for the 3rd quarter of 2010.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.01 mln EUR to 0.18 mln EUR during the 3rd quarter of 2011 compared to the corresponding period in 2010. This is mainly the result of a discussed increase in salaries expenses, more than balanced by savings in other items.

In the 3rd quarter of 2011 the General administration expenses increased by 0.08 mln EUR year on year to 1.0 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 0.45 mln EUR in the 3rd quarter of 2011 compared to a net income of 0.35 mln EUR in the 3rd quarter of 2010, this line varies throughout the year depending on construction volumes and estimates to the profit margins on projects completed. 2011 3rd quarter profits from government grants profits were influenced mainly by delays in construction in previous quarters which was partly compensated in 3rd quarter and will be compensated during the construction program that will be completed in 1st half of 2012.

The rest of the other income/expenses totaled an expense of 0.11 mln EUR in the 3rd quarter of 2011 compared to an expense of 0.02 mln EUR in the 3rd quarter of 2010. This line was impacted by the sale of vehicles that are not needed for operating purposes any more.

As a result the Company's operating profit from main services for the 3rd quarter of 2011 totaled 6.5 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 3rd quarter of 2011 was 7.0 mln EUR, an increase of 0.55 mln EUR compared to an operating profit of 6.5 mln EUR achieved in the 3rd quarter of 2010. Year on year the operating profit for the 3rd quarter has increased by 8.5%.

Financial expenses

Net Financial revenues/expenses were 2.7 mln EUR in the 3rd quarter of 2011, which is a negative variance of 2.1 mln EUR or 387.8% compared to the net expenses in the 3rd quarter of 2010. In both years the financial costs had adverse impact from the non-cash revaluation of the fair value of swap agreements, but the related cost increase was considerably higher in the 3rd 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 3.8 mln EUR, with a negative revaluation in the 3rd quarter 2011 in the amount of 2.3 mln EUR.

Profit Before Tax

The Company's profit before taxes for the 3rd quarter of 2011 was 4.4 mln EUR, which is 1.5 mln EUR lower than the profit before taxes of 5.9 mln EUR for the 3rd quarter of 2010.

<u>Results for the nine months of 2011</u>

During the nine months of 2011 the Company's total sales increased, year on year, by 2.5% to 38.2 mln EUR. Sales of water and wastewater treatment were 34.7 mln EUR, a 2.5% increase compared to the nine months of 2010.

The operating profit from the Company's main business activity increased by 5.6% to 19.7 mln EUR during the nine months of 2011 compared to the nine months of 2010.

The Company's profit before taxes for the nine months of 2011 was 18.1 mln EUR, which is a 6.6% increase compared to the relevant period in 2010.

The Company's net profit for the nine months of 2011 was 13.8 mln EUR, which is 5.3 mln EUR higher than the net profit of 8.5 mln EUR in the equivalent period in 2010. Increase in net profit is mainly due to the decreased income tax from 8.5 mln EUR to 4.3 mln EUR as result of lower dividends paid to the shareholders in 2011 compared to 2010.

Balance sheet

During the nine months of 2011 the Company invested 11.9 mln EUR into fixed assets. Non-current assets were 156.5 mln EUR at 30 September 2011.

Current assets decreased by 6.4 mln EUR to 27.3 mln EUR in the nine months of the year. Customer receivables decreased by 4.4 mln EUR as result of the payment of long term debts by the customers, still the cash at bank decreased by 1.9 mln EUR being impacted by dividend payment in June 2011.

Current liabilities decreased by 7.0 mln EUR to 8.8 mln EUR in the nine 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.

The Company has a leverage level as expected of 61.3%, as usually at end of the 3rd quarter slightly above the target range of 60%, reflecting the temporary decrease in Equity of 2.2 mln EUR as a result of the difference in dividend payment and profit generation during the nine months of the year.

Long-term liabilities stood at 103.9 mln EUR at the end of September 2011, consisting almost entirely of the outstanding balance of three long-term bank loans. As of 30 April 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 nine months of 2011, the Company generated 23.0 mln EUR of cash flows from operating activities, an increase of 2.6 mln EUR compared to the corresponding period in 2010. 2011 operating cash flows were above 2010 cash flows mainly due to the working capital movement and particularly related to the payments of overdue debts in 2011. Underlying operating profit still continues to be the main contributor to operating cash flows.

In the nine months of 2011 net cash outflows from investing activities were 4.7 mln EUR, which is 1.9 mln EUR more than in 2010. At the end of 3rd quarter of 2011 the cash outflows related to the fixed asset investments were 12.8 mln EUR. Within the group the increased compensations received for the construction of pipelines is balancing the increase in capital expenditures. In 2011 the Company has also given the 2.2 mln EUR loan to Maardu according to the Operating agreement signed in 2008.

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

As a result of all of the above factors, the total cash outflow in the nine months of 2011 was 1.9 mln EUR compared to a cash outflow of 2.7 mln EUR in the nine months of 2010. Cash and cash equivalents stood at 11.3 mln EUR as at 30 September 2011 which is 4.6 mln EUR lower than at the corresponding period of 2010.

Employees

At the end of the 3rd quarter of 2011, the total number of employees was 310 compared to 319 at the end of the 3rd quarter of 2010. The full time equivalent (FTE) was respectively 298 in 2011 compared to the 305 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 September 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

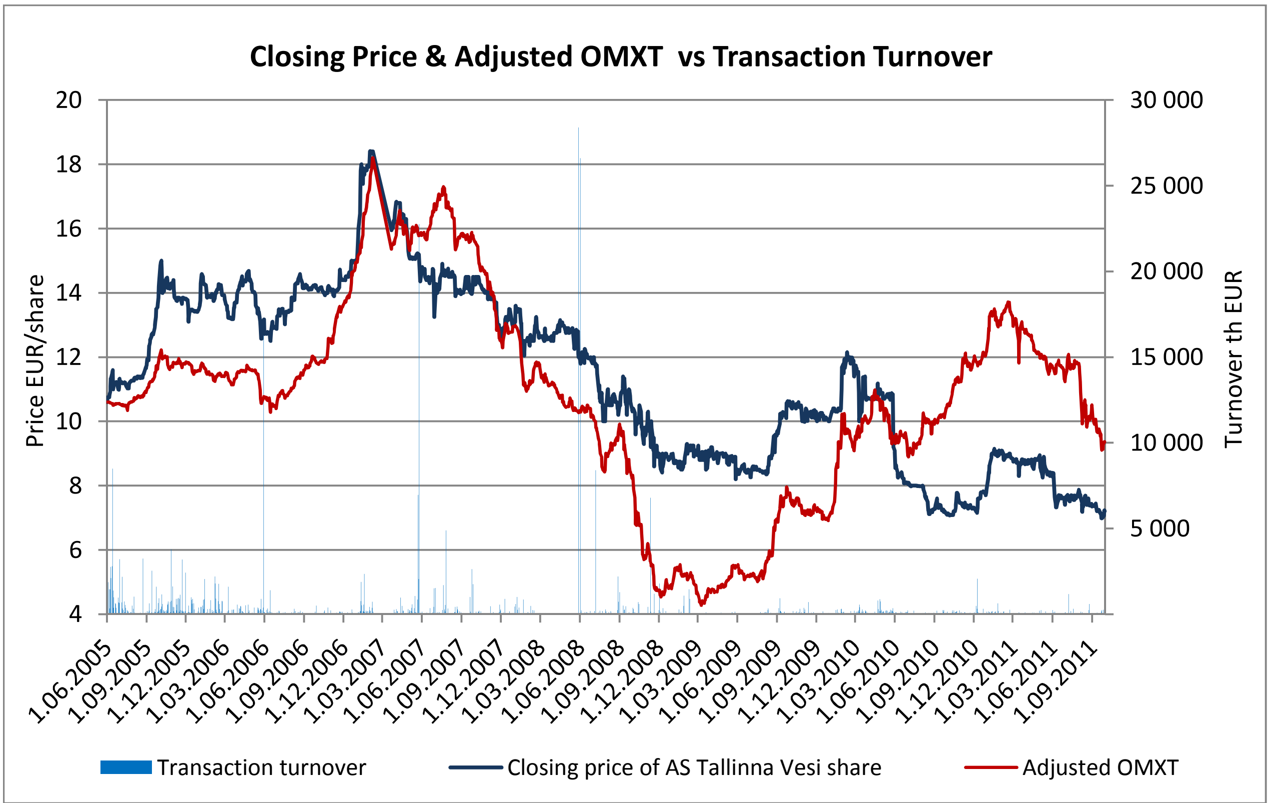
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 30 September 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 owned in total 8.32% of the shares of the Company as per Company's best information as of 30 September 2011.

At the end of the quarter, 30 September 2011, the closing price of the AS Tallinna Vesi share was 7.20 EUR, which is a 2.70% decrease compared to the closing price of 7.40 EUR at the beginning of the quarter. During the same period the OMX Tallinn index dropped by 16.69%.



Operational highlights in 2011

- The Company completed the construction of the Biofilter in 3rd quarter of 2011. This was an extremely important environmental project adding a next stage to the treatment process to ensure the further degree of removal of nitrogen from the waste water. The Company was already in 2007 recognized for its responsibility for the environment when Tallinn was removed from the HELCOM's hotspots list after the construction of the previous stage of the nitrogen removal process. The construction of the Biofilter will benefit to the local bay, neighboring beach areas and forests and ensure full accordance to the first class requirements of European Union today and in the future.

- As a result of excellent nitrogen removal from the waste water we received the beneficial coefficient and reduction in the amount of pollution tax.

- Company's overall operating performance is continuously good, most of the quality aspects exceeding the levels of 2010, increasing the customer service standards and operational efficiency. For example:

- The quality indicators for water quality have so far been on the highest level ever, from taken samples 66.64% were fully in accordance with the norms, outperforming considerably the required 95% level.
- Total number of sewage blockages has decreased by 19.6%.
- Average time of interruptions has decreased by 12.2%.
- The leakage level was by 11.5% less than in 2010 reaching a level below 19%.

- 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. Starting from September 2011 we pay the penalty for the failures to the customers without expecting for the customer to request it.

- The Company was nominated for the social responsibility award in Tallinn and we received special recognition for being the most child and youth friendly company in Tallinn.

Key contractual events

<u>Contractual tariff application</u>

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 commented their position to the court on 29th August debating the legality of the Services Agreement. The court has not announced further proceedings yet.

<u>Complaint to European Commission</u>

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 responded to the Commission by the end of June. In October the Commission sent further questions to the Company for the commentaries.

Prescription to reduce the tariffs

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

The Company wishes to make it absolutely clear to all its shareholders that it completely disagrees with the position taken by the CA, and will seek an interim injunction from the Estonian Courts to block this action within 30 days after receipt of the prescription. The Company believes that by declaring the privatisation illegal and using a Ministerial decree to attempt to force down ASTV's tariffs the CA as an agency representing the Estonian state and national government has shown an absolute disregard for legal due process. Furthermore for the Company to have to defend itself in court for honouring all the terms and conditions of its contract, including most importantly the improved service obligations that were contractually required by the Government of the City of Tallinn in 2001, goes against all the internationally acceptable norms of business conduct and public governance in long term privatisation contracts.

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

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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 9 months period of financial year 2011 ended 30 September 2011. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 30 September 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 9 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 3 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 27 October 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

27 October 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 September		as of 31 December
ASSETS	**Note**	**2011**	**2010**	**2010**
CURRENT ASSETS				
Cash and equivalents	2	11 323	15 949	13 235
Customer receivables, accrued income and prepaid expenses		15 656	12 476	20 088
Inventories		287	246	306
Non-current assets held for sale		83	77	76
TOTAL CURRENT ASSETS		**27 349**	**28 748**	**33 705**
NON-CURRENT ASSETS				
Long-term investment assets		2 217	0	0
Property, plant and equipment	3	152 631	145 685	148 179
Intangible assets	3	1 693	2 112	1 972
TOTAL NON-CURRENT ASSETS		**156 541**	**147 797**	**150 151**
TOTAL ASSETS		**183 890**	**176 545**	**183 856**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		0	3 856	7 624
Trade and other payables		6 282	6 017	6 367
Derivatives		1 140	1 157	963
Short-term provisions		0	168	117
Prepayments and deferred income		1 416	873	810
TOTAL CURRENT LIABILITIES		**8 838**	**12 071**	**15 881**
NON-CURRENT LIABILITIES				
Deferred income from connection fees		6 128	5 518	5 765
Borrowings		94 934	91 191	87 428
Derivatives		2 682	2 217	1 304
Other payables		115	115	115
TOTAL NON-CURRENT LIABILITIES		**103 859**	**99 041**	**94 612**
TOTAL LIABILITIES		**112 697**	**111 112**	**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		33 181	26 639	34 569
TOTAL EQUITY		**71 193**	**65 433**	**73 363**
TOTAL LIABILITIES AND EQUITY		**183 890**	**176 545**	**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 3		9 months		for the year ended 31 December
	Note	**2011**	**2010**	**2011**	**2010**	**2010**
Revenue	4	12 975	12 512	38 161	37 215	49 680
Costs of goods sold	6	-5 212	-5 264	-15 031	-15 052	-20 684
GROSS PROFIT		**7 763**	**7 248**	**23 130**	**22 163**	**28 996**
Marketing expenses	6	-177	-190	-559	-573	-787
General administration expenses	6	-1 002	-923	-3 090	-2 634	-3 651
Other income/ expenses (-)	7	453	353	1 365	1 415	2 906
OPERATING PROFIT		**7 037**	**6 488**	**20 846**	**20 371**	**27 464**
Financial income	8	433	210	1 053	672	1 060
Net financial expenses	8	-3 116	-760	-3 815	-4 073	-3 624
PROFIT BEFORE TAXES		**4 354**	**5 938**	**18 084**	**16 970**	**24 900**
Income tax on dividends	9	0	0	-4 253	-8 495	-8 495
NET PROFIT FOR THE PERIOD		**4 354**	**5 938**	**13 831**	**8 475**	**16 405**
COMPREHENSIVE INCOME FOR THE PERIOD		**4 354**	**5 938**	**13 831**	**8 475**	**16 405**
Attributable profit to:						
Equity holders of A-shares		4 353	5 937	13 830	8 474	16 404
B-share holder		0,64	0,64	0,64	0,64	0,64
Earnings per A share (in euros)	10	0,22	0,30	0,69	0,42	0,82
Earnings per B share (in euros)	10	639	639	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)

		9 months		for the year ended 31 December
	Note	**2011**	**2010**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		20 846	20 371	27 464
Adjustment for depreciation/amortisation	6	4 236	4 215	5 620
Adjustment for profit from government grants and connection fees		-1 125	-1 708	-3 312
Other finance income/expenses(-)	8	16	-27	-14
Profit/loss(+) from sale of property, plant and equipment, and intangible assets		55	0	-3
Expensed property, plant and equipment		6	173	70
Change in current assets involved in operating activities		404	-1 208	-8 894
Change in liabilities involved in operating activities		343	15	6 297
Interest paid		-1 779	-1 405	-2 443
Total cash flow from operating activities		**23 002**	**20 426**	**24 785**
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted		-2 217	0	0
Acquisition of property, plant and equipment, and intangible assets		-12 811	-7 740	-17 055
Compensations received for construction of pipelines		9 320	4 298	6 139
Proceeds from sale of property, plant and equipment, and		11	1	16
Interest received		1 037	723	1 109
Total cash flow used in investing activities		**-4 660**	**-2 718**	**-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	-4 253	-8 495	-8 495
Total cash flow used in financing activities		**-20 254**	**-20 451**	**-20 451**
Change in cash and cash equivalents		**-1 912**	**-2 743**	**-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	**11 323**	**15 949**	**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	8 475	8 475
as of 30 September 2010	**12 782**	**24 734**	**1 278**	**26 639**	**65 433**
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	13 831	13 831
as of 30 September 2011	**12 000**	**24 734**	**1 278**	**33 181**	**71 193**

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 September		as of 31 December
	2011	**2010**	**2010**
Cash in hand and in bank	328	188	651
Short-term deposits	10 995	15 761	12 584
Total cash and cash equivalents	**11 323**	**15 949**	**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 - 30.09.2011											
Acquisition in book value	0	0	0	0	4 969	6 755	0	193	0	0	11 917
Write off and sale of property, plant and equipment, and intangible assets in book value	-1	0	-64	0	0	0	0	0	0	0	-65
Compensated by government grants	0	0	0	0	0	-3 443	0	0	0	0	-3 443
Reclassification	176	1 618	344	36	-2 202	98	-15	-11	82	-70	56
Depreciation	-205	-1 970	-1 585	-59	0	0	0	0	-55	-418	-4 292
Total transactions in the period 01.01.2011 - 30.09.2011	**-30**	**-352**	**-1 305**	**-23**	**2 767**	**3 410**	**-15**	**182**	**27**	**-488**	**4 173**
as of 30 September 2011											
Acquisition cost	24 242	157 336	39 512	1 179	4 915	10 872	53	301	714	4 530	243 654
Accumulated depreciation	-5 043	-52 268	-27 367	-800	0	0	0	0	-585	-3 267	-89 330
Book value	**19 199**	**105 068**	**12 145**	**379**	**4 915**	**10 872**	**53**	**301**	**129**	**1 263**	**154 324**

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 September 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 STATE (thousand EUR)

NOTE 4. REVENUE	**Quarter 3**		**9 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:	11 556	11 134	34 639	33 805	45 167
Private clients, incl:	5 786	5 838	17 692	17 771	23 797
Water supply service	3 191	3 244	9 752	9 880	13 232
Waste water disposal service	2 595	2 594	7 940	7 891	10 565
Corporate clients, incl:	4 654	4 273	13 660	12 775	17 108
Water supply service	2 564	2 383	7 418	7 066	9 441
Waste water disposal service	2 090	1 890	6 242	5 709	7 667
Outside service area clients, incl:	949	811	2 692	2 589	3 415
Water supply service	227	209	647	632	840
Waste water disposal service	722	602	2 045	1 957	2 575
Overpollution fee	167	212	595	670	847
Stormwater treatment and disposal service	982	1 036	2 511	2 534	3 286
Fire hydrants service	48	48	145	143	193
Other works and services	389	294	866	733	1 034
Total revenue	**12 975**	**12 512**	**38 161**	**37 215**	**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 3**		**9 months**		**for the year ended 31 December**
	2011	**2010**	**2011**	**2010**	**2010**
Salaries and wages	-1 170	-918	-3 504	-3 027	-4 340
Social security and unemployment insurance taxation	-390	-305	-1 168	-1 001	-1 445
Staff costs total	**-1 560**	**-1 223**	**-4 672**	**-4 028**	**-5 785**
Number of employees at the end of reporting period			**310**	**319**	**319**

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

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

	Quarter 3		9 months		for the year ended 31 December
Cost of goods sold	**2011**	**2010**	**2011**	**2010**	**2010**
Tax on special use of water	-222	-206	-678	-639	-847
Chemicals	-442	-399	-1 001	-1 059	-1 433
Electricity	-772	-705	-2 153	-1 976	-2 704
Pollution tax	-141	-612	-744	-1 549	-2 290
Staff costs	-1 092	-863	-3 259	-2 847	-4 030
Development	0	0	-8	0	-8
Depreciation and amortization	-1 299	-1 267	-3 818	-3 822	-5 092
Other costs of goods sold	-1 244	-1 212	-3 370	-3 160	-4 280
Total cost of goods sold	**-5 212**	**-5 264**	**-15 031**	**-15 052**	**-20 684**
Marketing expenses					
Staff costs	-80	-74	-252	-224	-320
Depreciation and amortization	-81	-84	-244	-251	-334
Other marketing expenses	-16	-32	-63	-98	-133
Total cost of marketing expenses	**-177**	**-190**	**-559**	**-573**	**-787**
General administration expenses					
Staff costs	-388	-286	-1 161	-957	-1 435
Depreciation and amortization	-79	-47	-174	-142	-194
Other general administration expenses	-535	-590	-1 755	-1 535	-2 022
Total cost of general administration expenses	**-1 002**	**-923**	**-3 090**	**-2 634**	**-3 651**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 3		9 months		for the year ended 31 December
	2011	**2010**	**2011**	**2010**	**2010**
Profit from government grant	567	372	1 128	1 707	3 310
Other income / expenses (-)	-114	-19	237	-292	-404
Total other income / expenses	**453**	**353**	**1 365**	**1 415**	**2 906**

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

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Quarter 3		9 months		for the year ended 31 December
	2011	**2010**	**2011**	**2010**	**2010**
Interest income	416	210	1 037	673	1 060
Interest expense, incl swap interests	-837	-656	-2 260	-1 703	-2 372
Swap fair value	-2 279	-106	-1 555	-2 344	-1 238
Other financial expenses	17	2	16	-27	-14
Total financial income / expenses	**-2 683**	**-550**	**-2 762**	**-3 401**	**-2 564**

NOTE 9. DIVIDENDS

	Quarter 3		9 months		for the year ended 31 December
	2011	**2010**	**2011**	**2010**	**2010**
Dividends declared during the period	0	0	16 001	31 956	31 956
Dividends paid during the period	0	0	16 001	31 956	31 956
Income tax on dividends paid	0	0	-4 253	-8 495	-8 495
Income tax accounted for	**0**	**0**	**-4 253**	**-8 495**	**-8 495**
Paid-up dividends per shares:					
Dividends per A-share (in euros)	0	0	0,80	1,60	1,60
Dividends per B-share (in euros)	0	0	639	639	639

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

NOTE 10. EARNINGS PER SHARE

	Quarter 3		9 months		for the year ended 31 December
	2011	**2010**	**2011**	**2010**	**2010**
Net profit minus B-share preference rights	4 353	5 937	13 830	8 474	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)	0,22	0,30	0,69	0,42	0,82
Earnings per B share (in euros)	639	639	639	639	639

Diluted earnings per share for the periods ended 30 September 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 STATEME (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 September		as of 31 December
Balances recorded in working capital on the statement of financial position of the Group	**2011**	**2010**	**2010**
Accounts receivable	4 664	3 930	7 194
Accrued income	4 926	2 347	7 256
Accounts payable - short-term trade and other payables	207	240	200

	Quarter 3		9 months		for the year ended 31 December
	2011	**2010**	**2011**	**2010**	**2010**
Transactions with the related parties					
Sales services	1 021	1 074	2 627	2 648	3 440
Compensation receivable from the local governments for constructing new pipelines	2 226	1 752	4 510	3 317	10 390
Purchase of administrative and consulting services	247	227	727	802	1 032
Financial income	339	168	837	387	732
Management Board fees excluding social tax	67	47	188	123	199
Supervisory Board fees excluding social tax	10	10	30	29	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

As of 30 September 2011 the City of Tallinn has not exercised its right to appoint a Supervisory Council member instead of Deniss Boroditš, whose powers expired on 19.09.2011.

On 26 October 2011 Philip Anthony Aspin will be recalled from the Supervisory Council and Brendan Francis Murphy will be appointed as a Supervisory Council member.

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