

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 1st quarter of 2009

| | |
|----------------------------------|---|
| Currency | Thousand kroons |
| Start of reporting period | 1 January 2009 |
| End of reporting period | 31 March 2009 |
| Address | Tallinn, Ädala 10 |
| Chairman of the Management Board | Ian John Alexander Plenderleith |
| Commercial register number | 10 257 326 |
| Telephone | +372 62 62 202 |
| Telefax | +372 62 62 300 |
| E-mail | tvesi@tvesi.ee |
| Web page | www.tallinnavesi.ee |
| Field of activity | Production, treatment and distribution of water; storm and wastewater disposal and treatment |

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MANAGEMENT REPORT

RESULTS OF OPERATIONS - FOR THE 1st QUARTER 2009

Overview

During the first three months of 2009 the Company's total sales increased, year on year, by 6.6% to 192.8 mln EEK. Total water and sewerage services sales volumes decreased in the three months of 2009 by 5.2% compared to the same three months of 2008, respective sales increased by 5.1%. Within the service area sales to residential customers increased by 9.0% year on year, sales to commercial customers increased by 0.1% year on year, and sales to customers outside of the service area increased by 1.4% year on year. The Company's profit before taxes was 98.4 mln EEK, which is a 9.9% increase compared to the same three months of 2008. In 2009 the Company invested 41.7 mln EEK, of which 32.3 mln EEK was invested in network extension and rehabilitation.

| <i>mln EEK</i> | 1 Q 2009 | 1 Q 2008 | Change | 3 months 2009 | 3 months 2008 | Change |
|--------------------------------|---------------------|---------------------|---------------|--------------------------|--------------------------|---------------|
| Sales | 192,8 | 180,9 | 6,6% | 192,8 | 180,9 | 6,6% |
| Gross profit | 126,1 | 114,7 | 9,9% | 126,1 | 114,7 | 9,9% |
| Gross profit margin % | 65,4 | 63,4 | 3,1% | 65,4 | 63,4 | 3,1% |
| Operating profit | 110,8 | 100,2 | 10,6% | 110,8 | 100,2 | 10,6% |
| Operating profit margin % | 57,5 | 55,4 | 3,8% | 57,5 | 55,4 | 3,8% |
| Profit before taxes | 98,4 | 89,5 | 9,9% | 98,4 | 89,5 | 9,9% |
| Net profit | 98,4 | 89,5 | 9,9% | 98,4 | 89,5 | 9,9% |
| Net profit margin % | 51,0 | 49,5 | 3,2% | 51,0 | 49,5 | 3,2% |
| ROA % | 3,7 | 3,4 | 7,7% | 3,7 | 3,4 | 7,7% |
| Debt to total capital employed | 48,2 | 49,3 | -2,2% | 48,2 | 49,3 | -2,2% |

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Net Profit margin – Net Profit / Net sales

ROA – Net profit / Total Assets

Debt to Total capital employed – Total Liabilities / Total capital employed

Profit and Loss Statement

1st quarter 2009

Sales

In the 1st quarter of 2009 the Company's total sales increased, year on year, by 6.6% to 192.8 mln EEK. 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 177.0 mln EEK, a 5.1% increase compared to the 1st quarter of 2008, resulting from the 12.8% increase in tariffs from 1 January 2009 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following increases by sectors: within the service area, sales to residential customers increased by 9.0% to 96.8 mln EEK. Sales to commercial customers increased by 0.1% to 70.0 mln EEK. Sales to customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 1.4% reaching 0.8 mln m³ or 6.3 mln EEK. Over pollution fees received were 3.8 mln EEK, a 10.0% increase compared to the 1st quarter of 2008.

In the 1st quarter of 2009, the volumes sold to residential customers dropped 3.4%. We believe that this is due to the combination of the economic recession and the fact that people have continued to move to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 11.5% compared to the relevant period in 2008 due to several factors combined. Most of the reduction in sales volumes in Tallinn is a result of the macroeconomic impact of companies reducing their production volumes and implementing efficiency measures, supplemented by companies moving to surrounding municipalities.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 22.8% to 12.2 mln EEK in the 1st quarter of 2009 compared to the same period in 2008. 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 66.7 mln EEK in the 1st quarter of 2009, an increase of 0.5 mln EEK or 0.8% from the equivalent period in 2008.

In the 1st quarter of 2009 the Company achieved the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 3.3 mln EEK compared to 2.9 mln EEK in 1st quarter of 2008. This increase in pollution tax was mainly due to the increase in tax rates year on year by 20%, partly offset by the reduction in treatment volumes. Despite the fact that the pollution level of the incoming sewerage has increased and the Company does not have full control over storm water outlets regarding pollution, we are working hard to use the optimum level of chemicals to achieve the 0.5 coefficient in the forthcoming quarters.

Chemical costs were 3.7 mln EEK, representing a 16.7% decrease compared to the corresponding period in 2008. This result is the combination of volumes treated, chemicals dosed and the favorable price impact.

Electricity costs increased by 0.7 mln EEK or 9.1% in the 1st quarter of 2009 compared to the 1st quarter of 2008 due to higher electricity prices offset by lower volumes treated.

Salary expenses increased in the 1st quarter of 2009, year on year, by 0.6 mln EEK or 3.7% due to the increase in headcount required to manage the increased construction supervision need during the networks extension program. There is also some impact from the company's performance management system where individual salaries were revised based on personal achievements.

Depreciation charges increased in the 1st quarter of 2009 by 0.2 mln EEK or 1.1% year on year.

Transport costs decreased by 0.3 mln EEK, or 7.0% year on year, due to the combination of the reduction in fuel prices and reduced rates for rental machines.

Other cost of goods sold in the main operating activity decreased by 0.4 mln EEK, or 5.8% year on year. As result of the successful negotiation of long term contracts the applicable unit rates were reduced for a number of support services and maintenance contracts.

The management's target is to achieve further efficiencies through review of processes, work organization and procurements.

As a result of all of the above the Company's gross profit for the 1st quarter of 2009 was 126.1 mln EEK, which is an increase of 11.4 mln EEK, or 9.9%, compared to the gross profit of 114.7 mln EEK for the 1st quarter of 2008.

Operating Costs and Operating Margin

Marketing expenses increased by 0.04 mln EEK to 3.4 mln EEK during the 1st quarter of 2009 compared to the corresponding period in 2008. This is partly the result of the cost savings, balanced by the minor increase in depreciation charges.

Mainly as a consequence of lower services costs the General administration expenses decreased by 0.4 mln EEK to 14.1 mln EEK in the 1st quarter of 2009 year on year.

Other net income/expenses

Income/expenses from constructions and government grants totaled a net income of 3.5 mln EEK, in the 1st quarter of 2009 compared to a net income of 3.5 mln EEK in the 1st quarter of 2008. The rest of the other income/expenses totaled an expense of 1.1 mln EEK in the 1st quarter of 2009 compared to an expense of 0.1 mln EEK in the 1st quarter of 2008 due to slightly worsened debt collection.

As a result of all of the above the Company's operating profit for the 1st quarter of 2009 was 110.8 mln EEK, an increase of 10.6 mln EEK compared to an operating profit of 100.2 mln EEK achieved in the 1st quarter of 2008. Compared to the operating profit in the 1st quarter of 2008, the operating profit has increased 10.6%.

Financial expenses

Net Financial expenses were 12.4 mln EEK in the 1st quarter of 2009, which is an increase of 1.7 mln EEK or 16.0% compared to the 1st quarter of 2008. The Company's interest costs have decreased by 10.5% compared to the 1st quarter of 2008. This is due to the decrease in the 6 month Euribor rate. Financial expenses have increased due to loan costs which were capitalized earlier but were expensed in amount of 5.3 mln EEK in the 1st quarter of 2009. The new capex loan agreement triggers the full repayment of the EBRD loan on next interest payment date in May 2009. The EBRD loan is hedged with a fixed interest rate, therefore we will incur some unwinding costs related to the early repayment as a result of the low Euribor rates. The increase is partially offset by an increase in financial income earned during the 1st quarter of 2009, as a result of a more favourable cash position and higher deposit rates.

Profit Before Tax

The Company's profit before taxes for the 1st quarter of 2009 was 98.4 mln EEK, which is 8.9 mln EEK higher than the profit before taxes of 89.5 mln EEK for the 1st quarter of 2008.

Balance sheet

During the three months of 2009 the Company invested 41.7 mln EEK into fixed assets. Non-current assets were 2,192.5 mln EEK at 31 March 2009. Current assets increased by 125.9 mln EEK to 473.3 mln EEK in the three months of the year, customer receivables increased by 19.0 mln EEK. During the three months of 2009 cash at bank increased by 107.1 mln EEK.

Current liabilities increased by 3.6 mln EEK to 196.0 mln EEK in the three months of the year. This was mainly due to increases in the Current portion of long-term borrowings by 0.8 mln EEK, as a result of the reclassification of the loan based on the repayment schedule, a decrease in Trade payables by 1.1 mln EEK, and an increase in Customer prepayments by 3.6 mln EEK.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 48.2% as of 31 March 2009. Long-term liabilities stood at 1,090.2 mln EEK at the end of March 2009, consisting almost entirely of the outstanding balance on the three long-term bank loans.

Cash flow

During the three months of 2009, the Company generated 114.1 mln EEK of cash flows from operating activities, a decrease of 8.9 mln EEK compared to the corresponding period in 2008. Underlying operating profit continues to be the main driver for growth.

In the three months of 2009 net cash outflows from investing activities were 7.0 mln EEK, which is 32.8 mln EEK more than in 2008. This was mainly due to the change in constructions compensation mechanism as result of the 30 November 2007 agreement with the local municipality. In the 1st quarter of 2008 the Company received the compensation for 2007 constructions. In 2009 the Company invested 41.7 mln EEK – 32.3 mln EEK on networks (including 23.3 mln EEK on extension and developments), 5.0 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 0.6 mln EEK on water quality (Ülemiste water treatment plant and raw water) and 3.8 mln EEK for other investments (IT, capital maintenance, meters, etc).

There were no cash flows related to the financing activities in 1st quarters of 2009 and 2008.

As a result of all of the above factors, the total cash inflow in the three months of 2009 was 107.1 mln EEK compared to a cash inflow of 148.7 mln EEK in the three months of 2008. Cash and cash equivalents stood at 337.0 mln EEK as at 31 March 2009.

Employees

At the end of the 1st quarter of 2009, the total number of employees was 331 compared to 315 at the end of the 1st quarter of 2008. The full time equivalent was respectively 316 in 2009 compared to the 303 in 2008.

Dividends and share performance

Based on the results of the 2008 financial year, the Company intends to pay 230,010,000 EEK of dividends. Of this 10,000 EEK will be paid to the owner of the B-share and 230,000,000 EEK, i.e. 11.50 EEK per share to the owners of the A-shares. The Annual Meeting of the Shareholders will vote to approve the dividend payment on 19th May 2009.

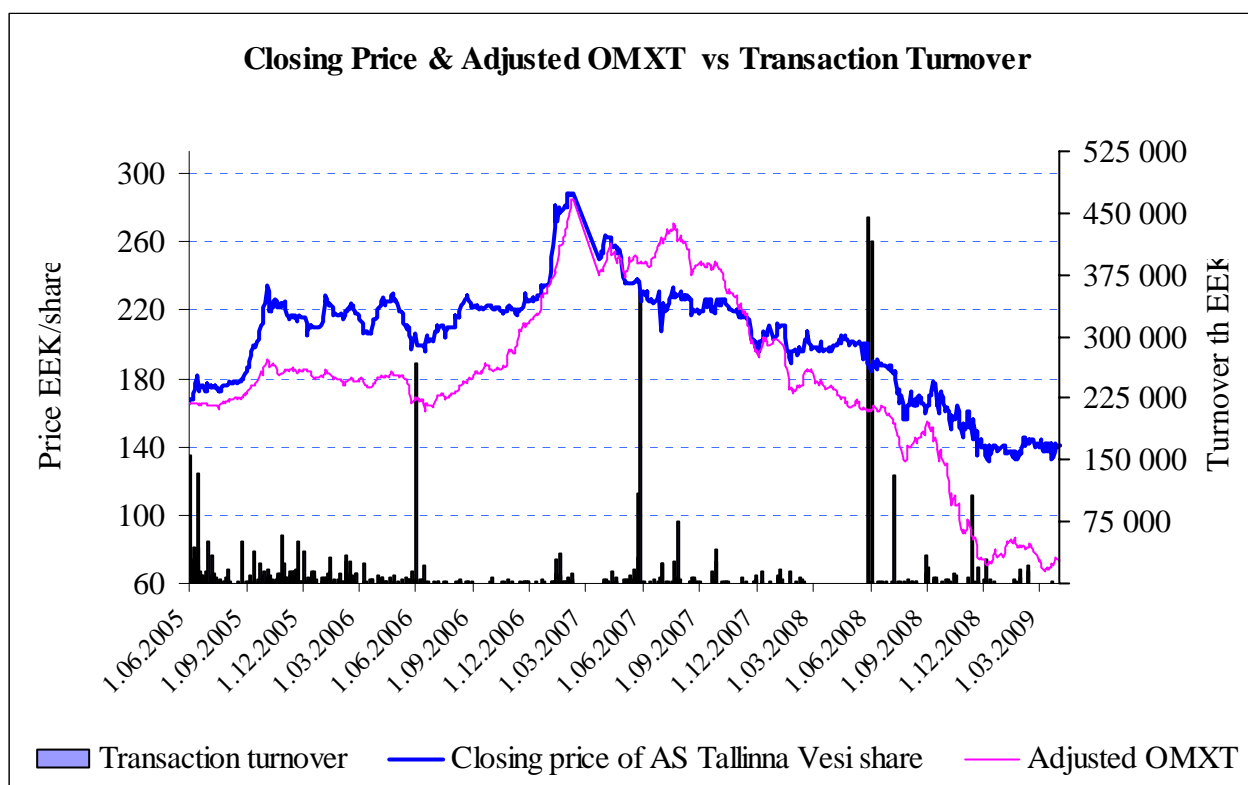
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31 March 2009 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

| | |
|---|-------|
| United Utilities (Tallinn) BV | 35.3% |
| City of Tallinn | 34.7% |
| Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C Prime Brokerage Clients | 5.76% |
| HSBC Bank Plc Re Parvus European Absolute Opportunities Master Fund | 5.46% |

Parvus AM has declared that their shareholding in the clients' accounts exceeds 10% and AKO Capital has declared their indirect ownership above 5% of the share capital.

At the end of the quarter, 31 March 2009, the closing price of the AS Tallinna Vesi share was 140.82 EEK (9.00 EUR), which is a 0.11% increase compared to the closing price of 140.66 EEK (8.99 EUR) at the beginning of quarter, this is still outperforming the market as the OMX Tallinn index dropped by 2.41% during the quarter.



Operational highlights in the three months of 2009

- The Company finalised the loan negotiations and concluded a 313 mln EEK (equal to 20 mln EUR), 10-year maturity loan agreement with the Nordic Investment Bank on the 9th of April. The necessity for this additional loan resource was triggered by the extensive 3-year network expansion program, the costs of which will be compensated to the Company over a period of ten years.
- Due to fall in sales volumes it has been a challenging quarter for the Company. We are still pleased to report that the cost efficiency programs we have initiated and successful contract negotiations have enabled us to deliver the increase in profits.

Additional information:

Siiri Lahe

Chief Financial Officer

+372 6262 262

siiri.lahe@tvesi.ee

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 3 months period of financial year 2009 ended 31 March 2009

MANAGEMENT CONFIRMATION

The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of condensed financial statements for the 3 months period of financial year 2009 ended 31 March 2009. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 2009 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.

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

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

All material subsequent events that occurred by the interim accounts preparation date of 30 April 2009 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

Siiri Lahe
Member of the Management Board
Chief Financial Officer

David Nigel Hetherington
Member of the Management Board
Chief Operating Officer

30 April 2009

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 3 months period of financial year 2009 ended 31 March 2009

CONDENSED BALANCE SHEETS

(thousand EEK)

| ASSETS | Note | as of 31 March | | as of 31 December |
|---|------|------------------|------------------|-------------------|
| | | 2009 | 2008 | 2008 |
| CURRENT ASSETS | | | | |
| Cash and equivalents | 2 | 336 966 | 327 136 | 229 860 |
| Customer receivables, accrued income and prepaid expenses | | 131 604 | 112 364 | 112 638 |
| Inventories | | 3 568 | 3 917 | 3 760 |
| Non-current assets held for sale | | 1 134 | 1 114 | 1 140 |
| TOTAL CURRENT ASSETS | | 473 272 | 444 531 | 347 398 |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 3 | 2 150 994 | 2 118 538 | 2 168 225 |
| Intangible assets | 3 | 41 516 | 48 797 | 43 428 |
| TOTAL NON-CURRENT ASSETS | | 2 192 510 | 2 167 335 | 2 211 653 |
| TOTAL ASSETS | | 2 665 782 | 2 611 866 | 2 559 051 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Current portion of long-term borrowings | | 83 673 | 41 699 | 82 843 |
| Trade and other payables | | 86 144 | 78 306 | 87 270 |
| Short-term provisions | | 2 693 | 2 486 | 2 486 |
| Prepayments and deferred income | | 23 443 | 39 948 | 19 797 |
| TOTAL CURRENT LIABILITIES | | 195 953 | 162 439 | 192 396 |
| NON-CURRENT LIABILITIES | | | | |
| Borrowings | | 1 089 419 | 1 125 499 | 1 084 642 |
| Other payables | | 735 | 113 | 735 |
| TOTAL NON-CURRENT LIABILITIES | | 1 090 154 | 1 125 612 | 1 085 377 |
| TOTAL LIABILITIES | | 1 286 107 | 1 288 051 | 1 277 773 |
| EQUITY | | | | |
| Share capital | | 200 001 | 200 001 | 200 001 |
| Share premium | | 387 000 | 387 000 | 387 000 |
| Statutory legal reserve | | 20 000 | 20 000 | 20 000 |
| Retained earnings | | 772 674 | 716 814 | 674 277 |
| TOTAL EQUITY | | 1 379 675 | 1 323 815 | 1 281 278 |
| TOTAL LIABILITIES AND EQUITY | | 2 665 782 | 2 611 866 | 2 559 051 |

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2009 ended 31 March 2009

CONDENSED INCOME STATEMENTS

(thousand EEK)

| | | for the 3 months period ended 31 March | | for the year ended 31 December |
|----------------------------------|------|---|----------------|-----------------------------------|
| | Note | 2009 | 2008 | 2008 |
| Revenue | 4 | 192 759 | 180 886 | 719 923 |
| Costs of goods sold | 6 | -66 682 | -66 153 | -272 752 |
| GROSS PROFIT | | 126 077 | 114 733 | 447 171 |
| Marketing expenses | 6 | -3 414 | -3 373 | -12 310 |
| General administration expenses | 6 | -14 140 | -14 526 | -54 546 |
| Other income/ expenses (-) | 7 | 2 322 | 3 392 | 25 045 |
| OPERATING PROFIT | | 110 845 | 100 226 | 405 360 |
| Financial income | 8 | 5 932 | 3 819 | 15 606 |
| Financial expenses | 8 | -18 380 | -14 550 | -58 805 |
| PROFIT BEFORE TAXES | | 98 397 | 89 495 | 362 161 |
| Income tax on dividends | 9 | 0 | 0 | -66 193 |
| NET PROFIT FOR THE PERIOD | | 98 397 | 89 495 | 295 968 |
| Attributable to: | | | | |
| Equity holders of A-shares | | 98 387 | 89 485 | 295 958 |
| B-share holder | | 10 | 10 | 10 |
| Earnings per A share (in kroons) | 10 | 4,92 | 4,47 | 14,80 |
| Earnings per B share (in kroons) | 10 | 10 000 | 10 000 | 10 000 |

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 3 months period of financial year 2009 ended 31 March 2009

CONDENSED CASH FLOW STATEMENTS

(thousand EEK)

| | Note | for the 3 months period ended 31 March | | for the year ended 31 December |
|--|------|---|----------------|-----------------------------------|
| | | 2009 | 2008 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Operating profit | | 110 845 | 100 226 | 405 360 |
| Adjustment for depreciation/amortisation | 7 | 22 471 | 22 145 | 89 669 |
| Adjustment for profit from government grants and connection fees | | -3 462 | -3 469 | -27 921 |
| Other finance expenses | 8 | -5 715 | -412 | -1 614 |
| Profit from sale of property, plant and equipment, and intangible assets | | -116 | -5 | -455 |
| Expensed property, plant and equipment | | 0 | 0 | -19 |
| Change in current assets involved in operating activities | | -11 258 | -5 636 | 22 781 |
| Change in liabilities involved in operating activities | | 1 306 | 13 226 | 906 |
| Interest paid | | 0 | -3 223 | -57 569 |
| Total cash flow from operating activities | | 114 071 | 122 852 | 431 138 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisition of property, plant and equipment, and intangible assets | | -50 937 | -72 303 | -332 407 |
| Compensations received for construction of pipelines | | 38 252 | 94 167 | 250 190 |
| Proceeds from sale of property, plant and equipment, and intangible assets | | 116 | 6 | 480 |
| Interest received | | 5 604 | 3 994 | 16 906 |
| Total cash flow used in investing activities | | -6 965 | 25 864 | -64 831 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Received long-term loans | | 0 | 0 | 42 246 |
| Repayment of long-term loans | | 0 | 0 | -41 910 |
| Dividends paid | 9 | 0 | 0 | -249 010 |
| Income tax on dividends | 9 | 0 | 0 | -66 193 |
| Total cash flow used in financing activities | | 0 | 0 | -314 867 |
| Change in cash and cash equivalents | | 107 106 | 148 716 | 51 440 |
| CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | 229 860 | 178 420 | 178 420 |
| CASH AND EQUIVALENTS AT THE END OF THE PERIOD | 2 | 336 966 | 327 136 | 229 860 |

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 3 months period of financial year 2009 ended 31 March 2009

CONDENSED STATEMENTS OF CHANGES IN EQUITY

(thousand EEK)

| | Share capital | Share premium | Statutory legal reserve | Retained earnings | Total equity |
|----------------------------------|----------------|----------------|----------------------------|-------------------|------------------|
| as of 31 December 2007 | 200 001 | 387 000 | 20 000 | 627 319 | 1 234 320 |
| Dividends | 0 | 0 | 0 | -249 010 | -249 010 |
| Net profit of the financial year | 0 | 0 | 0 | 295 968 | 295 968 |
| as of 31 December 2008 | 200 001 | 387 000 | 20 000 | 674 277 | 1 281 278 |
| as of 31 December 2007 | 200 001 | 387 000 | 20 000 | 627 319 | 1 234 320 |
| Net profit of the financial year | 0 | 0 | 0 | 89 495 | 89 495 |
| as of 31 March 2008 | 200 001 | 387 000 | 20 000 | 716 814 | 1 323 815 |
| as of 31 December 2008 | 200 001 | 387 000 | 20 000 | 674 277 | 1 281 278 |
| Net profit of the financial year | 0 | 0 | 0 | 98 397 | 98 397 |
| as of 31 March 2009 | 200 001 | 387 000 | 20 000 | 772 674 | 1 379 675 |

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

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 3 months period of financial year 2009 ended 31 March 2009

NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

NOTE 2. CASH AND CASH EQUIVALENTS

| | as of 31 March | | as of 31 December |
|--|----------------|----------------|-------------------|
| | 2009 | 2008 | 2008 |
| Cash in hand and in bank | 5 444 | 77 628 | 1 551 |
| Short-term deposits | 331 522 | 249 508 | 228 309 |
| Total cash and cash equivalents | 336 966 | 327 136 | 229 860 |

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the 3 months period of financial year 2009 ended 31 March 2009

NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

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

| | Property, plant and equipment | | | | Assets in progress | | | Intangible assets | | | Total property, plant and equipment and intangible assets |
|--|-------------------------------|------------------|-------------------------|-----------------|--|-----------------------------|------------------------------|-------------------|---|--|---|
| | Land and buildings | Facilities | Machinery and equipment | Other equipment | Construction in progress - unfinished pipelines* | Prepayment for fixed assets | Unfinished intangible assets | Development costs | Acquired licenses and other intangible assets | | |
| as of 31 December 2007 | | | | | | | | | | | |
| Acquisition cost | 364 188 | 2 134 970 | 566 408 | 17 708 | 45 253 | 90 057 | 2 781 | 19 006 | 66 817 | | 3 312 587 |
| Accumulated depreciation | -63 393 | -673 373 | -342 016 | -11 514 | 0 | 0 | 0 | -12 980 | -23 706 | | -1 126 982 |
| Book value | 300 795 | 1 461 597 | 224 392 | 6 194 | 45 253 | 90 057 | 2 781 | 6 026 | 43 111 | | 2 185 605 |
| Transactions in the period 01.01.2008 - 31.12.2008 | | | | | | | | | | | |
| Acquisition in book value | 0 | 0 | 0 | 0 | 113 524 | 189 651 | 3 082 | 0 | 0 | | 306 257 |
| Write off and sale of property, plant and equipment, and intangible assets in book value | 283 | 12 | -19 | 0 | 0 | 0 | 0 | 0 | 0 | | 276 |
| Compensated by government grants | 0 | 0 | 0 | 0 | 0 | -186 282 | 0 | 0 | 0 | | -186 282 |
| Reclassification | 3 925 | 100 384 | 31 701 | 1 149 | -136 695 | -1 452 | -3 137 | 5 873 | -2 736 | | -4 534 |
| Depreciation | -4 221 | -38 023 | -34 635 | -1 218 | 0 | 0 | 0 | -8 931 | -2 641 | | -89 669 |
| Total transactions in the period 01.01.2008 - 31.12.2008 | -13 | 62 373 | -2 953 | -69 | -23 171 | 1 917 | -55 | -3 058 | -5 377 | | 26 048 |
| as of 31 December 2008 | | | | | | | | | | | |
| Acquisition cost | 368 045 | 2 234 538 | 585 674 | 18 373 | 22 082 | 91 974 | 2 726 | 17 742 | 62 372 | | 3 405 379 |
| Accumulated depreciation | -67 263 | -710 568 | -364 236 | -12 247 | 0 | 0 | 0 | -14 774 | -24 638 | | -1 193 726 |
| Book value | 300 782 | 1 523 970 | 221 438 | 6 126 | 22 082 | 91 974 | 2 726 | 2 968 | 37 734 | | 2 211 653 |
| Transactions in the period 01.01.2009 - 31.03.2009 | | | | | | | | | | | |
| Acquisition in book value | 0 | 0 | 0 | 0 | 17 736 | 23 274 | 644 | 0 | 0 | | 41 654 |
| Compensated by government grants | 0 | 0 | 0 | 0 | 0 | -38 255 | 0 | 0 | 0 | | -38 255 |
| Reclassification | 1 100 | 5 970 | 2 915 | 50 | -10 034 | -72 | -1 974 | 1 536 | 438 | | -71 |
| Depreciation | -1 049 | -9 746 | -8 823 | -297 | 0 | 0 | 0 | -549 | -2 007 | | -22 471 |
| Total transactions in the period 01.01.2009 - 31.03.2009 | 51 | -3 776 | -5 908 | -247 | 7 702 | -15 053 | -1 330 | 987 | -1 569 | | -19 143 |
| as of 31 March 2009 | | | | | | | | | | | |
| Acquisition cost | 369 147 | 2 240 485 | 586 490 | 17 518 | 29 782 | 76 921 | 1 396 | 14 796 | 66 512 | | 3 404 900 |
| Accumulated depreciation | -68 311 | -720 289 | -370 961 | -11 640 | 0 | 0 | 0 | -7 925 | -33 264 | | -1 212 390 |
| Book value | 300 833 | 1 520 194 | 215 530 | 5 879 | 29 784 | 76 921 | 1 396 | 3 955 | 36 165 | | 2 192 510 |

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 31 December 2008 and 31 March 2009 there were no contracts for financial lease.

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NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

| NOTE 4. REVENUE | for the 3 months period ended 31 March | | for the year ended 31 December |
|--|---|-----------------------|---|
| | 2009 | 2008 | 2008 |
| Revenues from main operating activities | | | |
| Total water supply and waste water disposal service, incl: | 177 007 | 168 486 | 658 305 |
| <u>Private clients, incl:</u> | <u>96 838</u> | <u>88 815</u> | <u>346 836</u> |
| Water supply service | 53 943 | 49 615 | 193 688 |
| Waste water disposal service | 42 895 | 39 200 | 153 148 |
| <u>Corporate clients, incl:</u> | <u>70 014</u> | <u>69 950</u> | <u>271 231</u> |
| Water supply service | 38 807 | 38 603 | 150 669 |
| Waste water disposal service | 31 207 | 31 347 | 120 562 |
| <u>Outside service area clients, incl:</u> | <u>6 331</u> | <u>6 244</u> | <u>26 401</u> |
| Water supply service | 614 | 498 | 2 160 |
| Waste water disposal service | 5 717 | 5 746 | 24 241 |
| <u>Overpollution fee</u> | <u>3 824</u> | <u>3 477</u> | <u>13 837</u> |
| Stormwater treatment and disposal service | 11 539 | 9 357 | 46 158 |
| Fire hydrants service | 672 | 590 | 2 687 |
| Other works and services | 3 541 | 2 453 | 12 773 |
| Total revenue | <u>192 759</u> | <u>180 886</u> | <u>719 923</u> |

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

| NOTE 5. STAFF COSTS | for the 3 months period ended 31 March | | for the year ended 31 December |
|---|---|-----------------------|---|
| | 2009 | 2008 | 2008 |
| Salaries and wages | -18 258 | -17 708 | -66 330 |
| Social security and unemployment insurance taxation | -6 081 | -5 898 | -22 093 |
| Staff costs total | <u>-24 339</u> | <u>-23 606</u> | <u>-88 423</u> |
| Number of employees at the end of reporting period | 331 | 315 | 327 |

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(thousand EEK)

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

| | for the 3 months period ended 31 March | | for the year ended 31 December |
|--|---|----------------|-----------------------------------|
| | 2009 | 2008 | 2008 |
| Cost of goods sold | | | |
| Tax on special use of water | -2 765 | -2 709 | -10 804 |
| Chemicals | -3 710 | -4 456 | -22 841 |
| Electricity | -8 154 | -7 475 | -29 759 |
| Pollution tax | -3 304 | -2 871 | -17 010 |
| Staff costs | -17 170 | -16 557 | -63 516 |
| Development | -23 | -22 | -26 |
| Depreciation and amortization | -20 508 | -20 280 | -82 081 |
| Transport | -4 317 | -4 640 | -19 693 |
| Other costs of goods sold | -6 731 | -7 143 | -27 022 |
| Total cost of goods sold | -66 682 | -66 153 | -272 752 |
| Marketing expenses | | | |
| Staff costs | -1 510 | -1 547 | -5 417 |
| Depreciation and amortization | -1 302 | -1 203 | -5 065 |
| Other marketing expenses | -602 | -623 | -1 828 |
| Total cost of marketing expenses | -3 414 | -3 373 | -12 310 |
| General administration expenses | | | |
| Staff costs | -5 659 | -5 502 | -19 490 |
| Depreciation and amortization | -661 | -662 | -2 523 |
| Other general administration expenses | -7 820 | -8 362 | -32 533 |
| Total cost of general administration expenses | -14 140 | -14 526 | -54 546 |

NOTE 7. OTHER INCOME / EXPENSES

| | for the 3 months period ended 31 March | | for the year ended 31 December |
|--------------------------------------|---|--------------|-----------------------------------|
| | 2009 | 2008 | 2008 |
| Profit from connection fees | 1 574 | 1 244 | 4 430 |
| Profit from government grant | 1 888 | 2 225 | 23 491 |
| Other income / expenses (-) | -1 140 | -77 | -2 874 |
| Total other income / expenses | 2 322 | 3 392 | 25 047 |

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NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

| NOTE 8. FINANCE INCOME AND EXPENSES | for the 3 months period ended 31 March | | for the year ended 31 December |
|--|---|----------------|---|
| | 2009 | 2008 | 2008 |
| Interest income | 5 924 | 3 819 | 15 606 |
| Interest expense | -12 657 | -14 138 | -57 191 |
| Other financial expenses | -5 715 | -412 | -1 614 |
| Total finance income / expenses | -12 448 | -10 731 | -43 199 |

| NOTE 9. DIVIDENDS | for the 3 months period ended 31 March | | Year ended 31 December |
|--------------------------------------|---|-------------|-----------------------------------|
| | 2009 | 2008 | 2008 |
| Dividends declared during the period | 0 | 0 | 249 010 |
| Dividends paid during the period | 0 | 0 | 249 010 |
| Income tax on dividends paid | 0 | 0 | -66 193 |
| Income tax accounted for | 0 | 0 | -66 193 |
| <i>Paid-up dividends per shares:</i> | | | |
| Dividends per A-share (in kroons) | 0 | 0 | 12,45 |
| Dividends per B-share (in kroons) | 0 | 0 | 10 000 |

The income tax rates were 21/79 in 2009 and 2008.

NOTE 10. EARNINGS PER SHARE

| | for the 3 months period ended 31 March | | for the year ended 31 December |
|---|---|-------------|---|
| | 2009 | 2008 | 2008 |
| Earnings per share: | | | |
| Net profit for the period ended 31.12 minus B-share preference rights (in kroons) | 98 387 | 89 485 | 295 958 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces) | 20 000 000 | 20 000 000 | 20 000 000 |
| Earnings per A share (in kroons) | 4,92 | 4,47 | 14,80 |
| Earnings per B share (in kroons) | 10 000 | 10 000 | 10 000 |

Diluted earnings per share for the periods ended 31 March 2009 and 2008 and 31 December 2008 do not vary significantly from the earnings per share figures stated above.

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NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

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 hold majority interest and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

Shareholders having the significant influence

| | as of 31 March | | as of 31 December |
|--|--|--------|--------------------------------|
| | 2009 | 2008 | 2008 |
| Balances recorded in working capital on the balance sheet of the Company | | | |
| Accounts receivable | 35 303 | 26 580 | 24 935 |
| Prepayments and deferred income | 3 832 | 0 | 0 |
| Accounts payable - short-term trade and other payables | 4 175 | 4 590 | 3 972 |
| | | | |
| | for the 3 months period ended 31 March | | for the year ended 31 December |
| | 2009 | 2008 | 2008 |
| Transactions with the related parties | | | |
| Sales services | 12 211 | 9 946 | 48 845 |
| Compensations received from the local governments for constructing new pipelines | 39 129 | 24 435 | 159 310 |
| Purchase of administrative and consulting services | 5 174 | 5 584 | 20 585 |
| | | | |
| Management Board fees excluding social tax | 781 | 603 | 2 295 |
| Supervisory Board fees excluding social tax | 150 | 150 | 500 |

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 members

As at report generation date Siiri Lahe owned 700 AS Tallinna Vesi shares.

AS TALLINNA VESI

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NOTES TO THE INTERIM FINANCIAL STATEMENT

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

| | |
|-----------------------|-----------------------------------|
| Robert John Gallienne | Chairman of the Supervisory Board |
| Kevin Starling | Member of the Supervisory Board |
| Matti Hyrynen | Member of the Supervisory Board |
| Steven Richard Fraser | Member of the Supervisory Board |
| Elmar Sepp | 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 |