AS Tallinna Vesi
Results of operations – for the 4th quarter and 12 months of 2008

Currency	Thousand euros
Start of reporting period	1 January 2008
End of reporting period	31 December 2008
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

CONTENTS

MANAGEMENT REPORT
RESULTS OF OPERATIONS - FOR THE 4th QUARTER 2008

Overview

During the twelve months of 2008 the Company's total sales increased, year on year, by 11.0% to 46.0 mln EUR. Total water and sewerage services sale volumes increased in the twelve months of 2008 by 0.3% compared to the same twelve months of 2007, respective sales increased by 9.8%. Within the service area sales to residential customers increased by 8.7% year on year, sales to commercial customers increased by 7.4% year on year, and sales to customers outside of the service area increased by 49.4% year on year, reaching 3.8 mln m^3 or 1.7 mln EUR. The Company's profit before taxes was 23.1 mln EUR, which is an 8.7% increase compared to the same twelve months of 2007. Eliminating the one-off nitrogen provision release in the 1st quarter of 2007, profit before tax in the twelve months of 2008 increased by 13.2%. In 2008 the Company invested 19.6 mln EUR, of which 16.9 mln EUR was invested in network extension and rehabilitation.

mln EUR	**4 Q 2008**	**4 Q 2007**	**Change**	**12 months 2008**	**12 months 2007**	**Change**
Sales	11,7	10,6	10,3%	46,0	41,4	11,0%
Gross profit	6,9	6,8	2,3%	28,6	27,6	3,6%
Gross profit margin %	59,5	64,1	-7,2%	62,1	66,6	-6,7%
Operating profit	6,6	6,0	11,4%	25,9	24,1	7,4%
Operating profit margin %	56,9	56,4	1,0%	56,3	58,2	-3,3%
Profit before taxes	5,9	5,2	13,3%	23,1	21,3	8,7%
Net profit	5,9	5,2	13,3%	18,9	17,8	6,5%
Net profit margin %	50,8	49,5	2,7%	41,1	42,9	-4,1%
ROA %	3,6	3,2	13,3%	11,6	10,9	6,5%
Debt to total capital employed	49,9	51,8	-3,5%	49,9	51,8	-3,5%

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

Profit and Loss Statement

4th quarter 2008

Sales

In the 4th quarter of 2008 the Company's total sales increased, year on year, by 10.3% to 11.7 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 10.5 mln EUR, an 8.0% increase compared to the 4th quarter of 2007, resulting from the 11.7% increase in tariffs from 1 January 2008 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following increases by sector: within the service area sales to residential customers increased by 8.0% to 5.6 mln EUR. Sales to commercial customers increased by 4.4% to 4.2 mln EUR. Sales to customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 40.9% reaching 1.1 mln m^3 or 0.44 mln EUR. Over pollution fees received were 0.22 mln EUR, 31.3% increase compared to the 4th quarter of 2007.

In the 4th quarter of 2008, the volumes sold to residential customers dropped 3.3%. We believe that this is mainly related to the fact that people have moved to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 6.4% compared to the relevant period in 2007 due to several factors combined. Part of the reduction in sales volumes in Tallinn is due to companies moving to the surrounding municipalities, supplemented by companies implementing different efficiency measures or reducing their production.

The real estate market has changed considerably compared to last year. Although the number of new apartments and business buildings being constructed in Tallinn in 2008 remained high, a large share of new buildings still remain vacant as commercial customers as well as people in need of space are moving to surrounding areas due to more affordable real estate prices.

This trend is also reflected in the Company's sales to surrounding areas, which has increased by 40.9% in the 4th quarter of 2008 compared to the same period last year. This reflects the success of the Company's strategy to re-capture customers leaving Tallinn. The Company is actively looking for the further expansion opportunities into the neighboring municipalities.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 32.2% to 1.0 mln EUR in the 4th quarter of 2008 compared to the same period in 2007. 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. This is contractually agreed up to 2020.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 4.7 mln EUR in the 4th quarter of 2008, an increase of 0.93 mln EUR or 24.4% from the equivalent period in 2007.

In the 4th quarter of 2008 the Company did not achieve the beneficial 0.5 coefficient for pollution tax, and as a result the amount of pollution tax payable was 0.45 mln EUR compared to 0.11 mln EUR in 4th quarter of 2007. This increase in pollution tax is due to the combination of the coefficient and increase in tax rates year on year by 20%, supplemented by increased volume and pollution impact. Despite the fact that the pollution level of the incoming sewerage does vary and the Company does not have full control over storm water outlets regarding the pollution, we are working hard to use the optimum level of chemicals to achieve the 0.5 coefficient in the following quarters.

The chemical costs were 0.33 mln EUR, representing a 1.3% increase compared to the corresponding period in 2007. This result is the combination of volumes treated, chemicals dosed and the price inflation.

Electricity costs increased by 0.10 mln EUR or 24.6% in the 4th quarter of 2008 compared to the 4th quarter of 2007 due to higher electricity prices combined with volumes treated.

Salary expenses increased in the 4th quarter of 2008, year on year, by 0.13 mln EUR or 13.9% due to a number of factors. Firstly, increased headcount from the new services launched. Secondly, a highly competitive labour market has led to significant salary inflation. Finally in the 1st quarter of 2008 the Company restructured and combined departments which resulted in transferring cost from one line to another.

Depreciation charges increased in the 4th quarter of 2008 by 0.18 mln EUR or 15.5% year on year due to new sludge treatment building commissioned in the end of 2007. Also in the beginning of 2008 the depreciation rates were revised to correspond with the useful life of assets.

Other cost of goods sold in the main operating activity increased by 0.16 mln EUR, or 25.4% year on year. This was due to higher costs on a number of support services and maintenance and repair contracts, reflecting the increase in labour and services costs, but also the tightening of warranty requirements regarding the emergency repair works in Tallinn.

The cost pressure sets the challenge to the management to identify the further efficiency opportunities through review of processes, procedures and procurements.

As a result of all of the above the Company's gross profit for the 4th quarter of 2008 was 6.9 mln EUR, which is an increase of 0.16 mln EUR, or 2.3%, compared to the gross profit of 6.8 mln EUR for the 4th quarter of 2007.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.05 mln EUR to 0.20 mln EUR during the 4th quarter of 2008 compared to the corresponding period in 2007. This is partly the result of the structural changes, balanced by the increase in depreciation charges.

Mainly as a consequence of structural changes the General administration expenses decreased by 0.08 mln EUR to 0.89 mln EUR in the 4th quarter of 2008 year on year.

Other net income/expenses

In order to more appropriately reflect the substance of different types of compensations received, the accounting policy for constructions was changed in 2008. In accordance with the new policy, any compensation received from the local governments are treated as government grants in accordance with IAS 20 and are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate. Accordingly, such compensations are deducted from the carrying amount of the pipeline assets constructed; any excess of the compensation receivable compared to the related construction cost that the compensation is intended to compensate is recognized in income once the construction is completed. The net effect of these transactions can be seen from other income/expenses and the change in the accounting policy is accounted retrospectively.

Until 2007 and also during the first 3 quarters of 2008, the Company accounted for any compensations received from customers and local governments for constructing new pipelines as income once the construction was completed and receipt of the compensation was probable. Compensations were presented in the income statement as "Revenues from other operating activities" and the related construction costs were presented as "Costs of goods sold (other operating activities)".

Income/expenses from constructions totaled a net income of 0.91 mln EUR in the 4th quarter of 2008 compared to a net income of 0.34 mln EUR in the 4th quarter of 2007. The rest of the other income/expenses totaled an expense of 0.12 mln EUR in the 4th quarter of 2008 compared to an income of 0.06 mln EUR in the 4th quarter of 2007.

As a result of all of the above the Company's operating profit for the 4th quarter of 2008 was 6.6 mln EUR, an increase of 0.68 mln EUR compared to an operating profit of 6.0 mln EUR achieved in the 4th quarter of 2007. Compared to the operating profit in the 4th quarter of 2007, the operating profit has increased 11.4%.

Financial expenses

Net Financial expenses were 0.72 mln EUR in the 4th quarter of 2008, which is a decrease of 0.02 mln EUR or 2.2% compared to the 4th quarter of 2007. The Company's interest costs have increased by 2.0% compared to the 4th quarter of 2007. This is due to the increase in the 6 month Euribor rate. The increase in interest expenses is partially offset by an increase in financial income earned during the 4th quarter of 2008, as a result of a more favourable cash position and increasing interest rates.

Profit Before Tax

The Company's profit before taxes for the 4th quarter of 2008 was 5.9 mln EUR, which is 0.69 mln EUR higher than the profit before taxes of 5.2 mln EUR for the 4th quarter of 2007.

<u>Results for the twelve months of 2008</u>

During the twelve months of 2008 the Company's total sales increased, year on year, by 11.0% to 46.0 mln EUR. Sales from the Company's main operating activities were 46.0 mln EUR. Sales of water and wastewater treatment were 42.1 mln EUR, a 9.8% increase compared to the twelve months of 2007.

The Company's profit before taxes for the twelve months of 2008 was 23.1 mln EUR, which is 1.9 mln EUR higher than the profit before taxes of 21.3 mln EUR in the relevant period in 2007. The results for the twelve months of 2007 were impacted by the fact that the Ministry of Environment gave final approval to the success of the nitrogen project, which resulted in the release of a provision worth 0.85 mln EUR for environmental taxes. Looking at the underlying profit before taxes for the twelve months of 2007, it shows a 2.7 mln EUR or 13.2% increase in 2008 for the same period.

Balance sheet

During the twelve months of 2008 the Company invested 19.6 mln EUR into fixed assets. Non-current assets were 141.4 mln EUR at 31 December 2008. Current assets decreased by 1.7 mln EUR to 22.2 mln EUR in the twelve months of the year, customer receivables increased by 0.24 mln EUR. During the twelve months of 2008 cash at bank increased by 3.3 mln EUR.

Current liabilities decreased by 0.45 mln EUR to 12.3 mln EUR in the twelve months of the year. This was mainly due to increases in Current portion of long-term borrowings by 2.7 mln EUR, as result of the reclassification of the loan based on repayment schedule and decrease in Trade payables.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 49.9% as of 31 December 2008. Long-term liabilities stood at 69.4 mln EUR at the end of December 2008, consisting almost entirely of the outstanding balance on the two long-term bank loans.

Cash flow

During the twelve months of 2008, the Company generated 25.1 mln EUR of cash flows from operating activities, an increase of 3.8 mln EUR compared to the corresponding period in 2007. Underlying operating profit continues to be the main driver for growth, supplemented by debt collection in twelve months of 2008.

In the twelve months of 2008 net cash outflows from investing activities were 1.7 mln EUR, which is 8.1 mln EUR less than in 2007. 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 2008 the Company received the compensation for 2007 constructions. In 2008 the Company invested 19.6 mln EUR – 16.9 mln EUR on networks (including 12.1 mln EUR on extension and developments), 1.1 mln EUR at Paljassaare wastewater treatment plant and sludge treatment, 0.63 mln EUR on water quality (Ülemiste water treatment plant and raw water) and 0.88 mln EUR for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 20.1 mln EUR during the twelve months of 2008 compared to cash outflow of 16.1 mln EUR during the same twelve months of 2007, representing the payouts of the dividend and the income tax on dividends of respective years. The Company made its first scheduled repayment to EBRD. Considering the extensive network extension program and related investment outflows until 2011, the Company does not intend to reduce the loan capital and therefore the repayment amount was replaced with a new loan drawdown from Nordea. The Company signed the new loan agreement with Nordea in November 2008. The total loan facility is 37.5 mln EUR and the interest margin applicable to the 6 month Euribor is 115 bps.

As a result of all of the above factors, the total cash inflow in the twelve months of 2008 was 3.3 mln EUR compared to a cash outflow of 4.5 mln EUR in the twelve months of 2007. Cash and cash equivalents stood at 14.7 mln EUR as at 31 December 2008.

Employees

At the end of the 4th quarter of 2008, the number of employees was 327, compared to 312 at the end of the 4th quarter of 2007.

Dividends and share performance

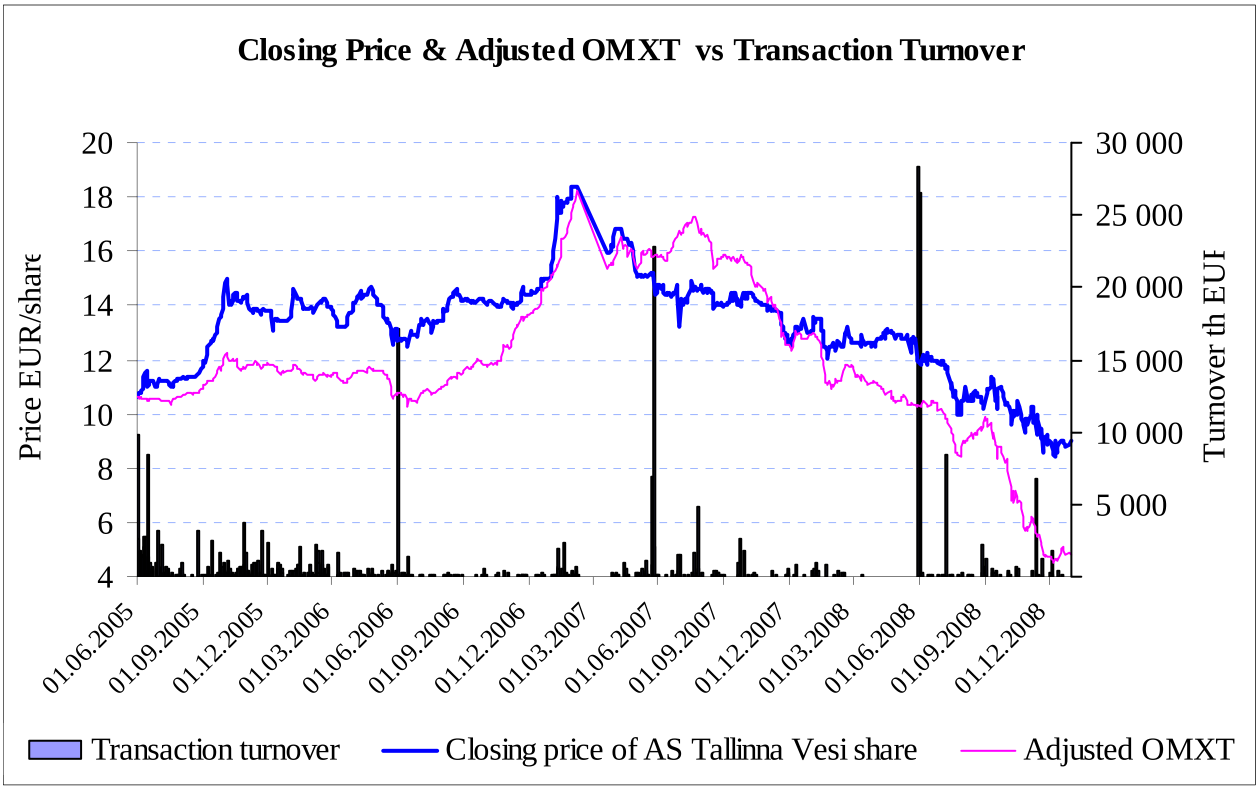
Based on the results of the 2007 financial year, the Company paid 15,914,640 EUR of dividends. Of this 639 EUR was paid to the owner of the B-share and 15,914,000 EUR, i.e. 0.80 EUR per share to the owners of the A-shares. The dividends were paid out on 13 June 2008, based on the list of shareholders, which was fixed on 30 May 2008.

As of 31 December 2008 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 December 2008, the closing price of the AS Tallinna Vesi share was 8.99 EUR, which is a 12.8% decrease compared to the closing price of 10.31 EUR at the beginning of quarter, this is still outperforming the market as the OMX Tallinn index dropped by 41.7% during the quarter.



Operational highlights in the twelve months of 2008

- In 2008 the water quality as measured at the customer's taps again showed improvement with over 98% of the samples taken fully compliant with European standards against a requirement of 95%. We are pleased to report for 2008 the compliance with all requirements of the Levels of Services established by the contract with City of Tallinn. Annual compliance at the waste water treatment plant was also achieved.
- 2008 was the first year of the three year network extension programme and the Company delivered the planned lengths in 2008. In total over 34 km of wastewater pipe, 14.4 km of storm water pipe and 2.9 km of water pipe were constructed, thus providing the opportunity for over 1300 customers to connect to the wastewater network. The programme continues in 2009 with many of the designs already complete and construction contracts being awarded. During the 2008 network extension programme the Company also took the opportunity to replace over 16 km of water pipe to further improve the water quality and pressure regimes in the targeted areas.
- Installation of more valves on the water network, replacing connection pipes and also responding to leakages faster, saw the leakage level reduced to 17.25%, a further improvement on the 19.2% achieved in 2007.
- 2008 was a wet year and the Company was very diligent ensuring the cleaning and proper function of the street gullies and storm water system and this resulted in less flooding issues in the City. The Company also pressure washed over 165 km of wastewater pipe, 65 km more than in 2007, and as a consequence the number of blockages was reduced by more than 6%.
- The Company implemented the development component in the 1st quarter of 2008 according to the Services Agreement Amendment, which was signed with the City of Tallinn on 30 November 2007. The Services Agreement is extended until 2020 and the k-coefficient is also fixed until 2020 – 2% in years 2009 to 2010 and 0% in years 2011 to 2020. No extra capital expenditures (in addition to maintenance capex and extensions program agreed in the contract) can be imposed on the Company until 2020. According to the agreement the network extension constructions must be completed by March 2011. To compensate the Company for the construction and financing costs, a specific development component is included into the Tallinn domestic water tariff starting from 1 March 2008 to the end of 2017, and the City of Tallinn will compensate 0.28 mln EUR every month for the storm water constructions until the end of 2011. The development component shall be compensated to the customers with direct payment to the Company by the City of Tallinn. The component is bigger during the construction period (0.58 kroons per m3 until 31 December 2011 and 0.39 kroons per m3 in years 2012 to 2017).
- On the 5th of August the Company concluded an operating agreement with Maardu City and Maardu Vesi. When the operating contract comes into force, AS Tallinna Vesi shall help AS Maardu Vesi to finance the self-financing part required within the European Union Assistance Project during the period 2009-2012 with up to a total of 5.1 mln EUR over the period. The Company shall get the investment back through the capital component to be included in the tariff within 20 years. On the basis of the cooperation of the companies and the subsidies of the European Union the problems regarding the water quality in Maardu shall be solved in the forthcoming years and in a longer perspective Maardu shall be supplied with drinking water from Ülemiste Water Treatment Plant. Administrating the infrastructure of AS Maardu Vesi enables AS Tallinna Vesi to increase its customer portfolio and to grow turnover. In addition to the required self-financing AS Tallinna Vesi shall provide the customers of AS Maardu Vesi with a modern service of operating the assets with a good-quality customer service. There are about 20 000 residents living in the operating area of AS Maardu Vesi. The operating contract has been planned for the duration

of 30 years. Initially the contract was planned to commence from 1 January 2009, assuming the EU funding confirmation in 2008. In January 2009 Maardu Vesi received the positive confirmation for their application to use the EU funding. Tallinna Vesi shall start to operate the assets and provide full service at the latest from 1 April 2009 after the preparation period during which the assets are taken over. AS Maardu Vesi shall still remain the owner of all assets.

- The Company submitted the application for the tariff increase from 1st January 2009 in the 3rd quarter. The City Government approved the 12.8% tariff increase for water and wastewater services on 1 October 2008. The tariff increase is applicable from 1st January 2009 and consists of 11.4% of CPI increase, 2% of k-coefficient and –0.6% of change of law. The 12.8% tariff increase is applicable in the main service area and is similar outside the main service area, depending still on individual contracts with the municipalities.
- The usage of the web based self service has increased by more than 2 times compared to 2007, 9.7% of invoices were issued via web.

Additional information:
Siiri Lahe
Chief Financial Officer
+372 6262 262
siiri.lahe@tvesi.ee

AS TALLINNA VESI

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 12 months period of financial year 2008 ended 31 December 2008. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the 12 months period of financial year 2008 ended 31 December 2008 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 occured during the 12 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.

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 16 January 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

16 January 2009

CONDENSED BALANCE SHEETS

(thousand EUR)

ASSETS	Note	31 December 2008	31 December 2007
CURRENT ASSETS			
Cash at bank and in hand	2	14 691	11 403
Customer receivables		6 915	6 679
Accrued income and prepaid expenses		283	5 490
Inventories		240	233
Assets for sale		73	72
TOTAL CURRENT ASSETS		**22 203**	**23 877**
NON-CURRENT ASSETS			
Tangible assets	3	131 167	127 375
Intangible assets	3	2 601	3 140
Unfinished assets - non connections	3	1 586	3 070
Unfinished pipelines - new connections	3	5 878	5 756
Prepayments for fixed assets	3	118	345
TOTAL NON-CURRENT ASSETS		**141 350**	**139 686**
TOTAL ASSETS		**163 553**	**163 562**
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term borrowings		5 285	2 651
Trade and other payables		4 067	5 558
Taxes payable		1 510	1 693
Short-term provisions		159	143
Deferred income		1 265	2 691
TOTAL CURRENT LIABILITIES		**12 287**	**12 736**
NON-CURRENT LIABILITIES			
Bank loans		69 331	71 932
Other payables		47	7
TOTAL NON-CURRENT LIABILITIES		**69 378**	**71 939**
TOTAL LIABILITIES		**81 665**	**84 675**
EQUITY CAPITAL			
Share capital		12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Accumulated profit		24 178	22 336
Net profit for the period		18 916	17 757
TOTAL EQUITY CAPITAL		**81 889**	**78 887**
TOTAL LIABILITIES AND EQUITY CAPITAL		**163 553**	**163 562**

Chairman of the Management Board:

CONDENSED INCOME STATEMENTS

(thousand EUR)

	Note	Quarter 4		Year ended 31 December	Year ended 31 December
		2008	2007	2008	2007
Sales from main operating activities	4	11 678	10 591	46 011	41 436
Costs of goods sold (main operating activities)	6	-4 728	-3 801	-17 432	-13 848
GROSS PROFIT		**6 949**	**6 790**	**28 579**	**27 588**
Marketing expenses	6	-197	-245	-787	-866
General administration expenses	6	-892	-976	-3 486	-3 633
Other income/ expenses (-)	7	786	400	1 601	1 029
OPERATING PROFIT		**6 647**	**5 968**	**25 907**	**24 118**
Financial income / expenses (-)	8	-714	-730	-2 761	-2 827
PROFIT BEFORE TAXES		**5 933**	**5 238**	**23 146**	**21 291**
Income tax on dividends	9	0	0	-4 231	-3 533
NET PROFIT FOR THE PERIOD		**5 933**	**5 238**	**18 916**	**17 757**
Attributable to:					
Equity holders of A-shares		5 933	5 238	18 915	17 757
B-share holder		0,64	0,64	0,64	0,64
Earnings per share in euros	10	**0,30**	**0,26**	**0,95**	**0,89**

Chairman of the Management Board:

CONDENSED CASH FLOW STATEMENTS

(thousand EUR)

	Note	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		25 907	24 118
Adjustment for depreciation		5 731	5 064
Adjustment for income and expenses from constructions		-1 784	-911
Other financial income and expenses	8	-57	-101
Profit from sale of fixed assets		-29	-155
Expensed fixed assets		-1	30
Capitalization of operating expenses		-1 611	-1 263
Movement in current assets involved in operating activities		601	-2 049
Movement in liabilities involved in operating activities		48	-21
Interest paid		-3 679	-3 386
Total cash flow from operating activities		**25 126**	**21 326**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)		-19 633	-16 997
Proceeds from pipelines financed by construction income		16 808	6 509
Proceeds from sale of and prepayments received for fixed assets		31	25
Proceeds from sale of assets and real estate investments		0	15
Interest received		1 080	676
Total cash flow from investing activities		**-1 714**	**-9 773**
CASH FLOWS FROM FINANCING ACTIVITIES			
Received long-term loans		2 700	0
Repayment of long-term loans		-2 679	0
Finance lease payments		0	-30
Dividends paid	9	-15 915	-12 527
Income tax on dividends		-4 231	-3 533
Total cash flow from financing activities		**-20 124**	**-16 091**
Change in cash and bank accounts		**3 288**	**-4 537**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**11 403**	**15 940**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**14 691**	**11 403**

Chairman of the Management Board:

CONDENSED STATEMENTS OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2006	**12 782**	**24 734**	**1 278**	**19 010**	**15 853**	**73 658**
Transfer of financial year profit to the accumulated profit	0	0	0	15 853	-15 853	0
Dividends	0	0	0	-12 527	0	-12 527
Net profit of the financial year	0	0	0	0	17 757	17 757
31 December 2007	**12 782**	**24 734**	**1 278**	**22 336**	**17 757**	**78 887**
Transfer of financial year profit to the accumulated profit	0	0	0	17 757	-17 757	0
Dividends	0	0	0	-15 915	0	-15 915
Net profit of the financial period	0	0	0	0	18 916	18 916
31 December 2008	**12 782**	**24 734**	**1 278**	**24 178**	**18 916**	**81 889**

Chairman of the Management Board:

NOTES TO THE INTERIM ACCOUNTS (thousand EUR)

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.

The interim report in euros is converted using the exchange rate 15.6466 EEK per EUR from the interim report prepared in thousands kroons for the same period.

Change in accounting policy

Until 2007, the Group accounted for any compensations received from the customers and local governments for constructing new pipelines (including connection fees) as income once the construction was completed and the receipt of the compensation was probable. Compensations were presented in the income statement as "Revenues from other operating activities" and the related construction costs were presented as "Costs of goods sold (other operating activities)".

In order to more appropriately reflect the substance of different types of compensations received, the accounting policy was changed in 2008. In accordance with the new policy, any compensations received from the local governments are treated as government grants in accordance with IAS 20 and are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Accordingly, such compensations are deducted from the carrying amount of the pipeline assets constructed; any excess of the compensation receivable compared to the related construction cost that the compensation is intended to compensate is recognised in income once the construction is completed.

Any compensations received from the customers are recognised as income in accordance with IAS 18 "Revenue" over the expected life of the client relationship.

The change in the accounting policy is accounted for retrospectively and the comparatives have been changed as follows:

Accounting before changing the accounting policy:

Line of Income Statement	9 months 2008	9 months 2007	Year ended 31 December 2007
Revenues from other operating activities	8 513	4 333	11 021
Costs of goods sold (other operating activities)	-7 634	-3 762	-10 110

Accounting before changing the accounting policy:

Line of Income Statement	9 months 2008	9 months 2007	Year ended 31 December 2007
Other income / expenses (-) from constructions	879	571	911

NOTE 2. CASH AND CASH EQUIVALENTS

	Year ended 31 December 2008	Year ended 31 December 2007
Cash at bank and in hand	99	2 418
Short term deposits	14 592	8 985
Total cash and cash equivalents	**14 691**	**11 403**

Chairman of the Management Board:

NOTES TO THE INTERIM ACCOUNTS

(thousand EUR)

NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

	Tangible assets in use				Assets in progress			Intangible assets		
	Land and buildings	**Facilities**	**Machinery and equipment**	**Other equipment**	**Unfinished assets - non connections**	**Unfinished pipelines - new connections**	**Prepayment for fixed assets**	**Development costs**	**Acquired licenses and other intangible assets**	**Total tangible and intangible non-current assets**
Acquisition cost at										
31.12.2006	**22 054**	**128 906**	**34 169**	**1 120**	**5 859**	**7 488**	**179**	**1 121**	**4 073**	**204 969**
Acquisition	0	0	0	0	9 475	8 634	167	0	0	18 276
Sale of fixed assets	-96	0	-96	0	0	0	0	0	0	-192
Write-off of fixed assets	-2	-84	-880	-31	0	0	0	-22	-40	-1 059
Reclassification within balance sheet	0	0	0	0	-11	-130	0	0	0	-141
Expensed assets	0	0	0	0	-29	-10 110	0	0	0	-10 139
Reclassification from assets in progress	1 320	7 628	3 008	42	-12 224	-126	0	116	237	0
31.12.2007	**23 276**	**136 449**	**36 200**	**1 132**	**3 070**	**5 756**	**345**	**1 215**	**4 270**	**211 713**
Acquisition	0	0	0	0	7 452	12 121	0	0	0	19 573
Sale of fixed assets	0	0	-70	0	0	0	0	0	0	-70
Write-off of fixed assets	-4	-52	-724	-31	0	0	0	-109	-456	-1 377
Reclassification within balance sheet	-34	-1	0	0	-143	-92	-10	0	0	-281
From balance sheet to fixed assets	9	0	0	0	0	0	0	0	0	9
Expensed assets	0	0	0	0	-18	-11 906	0	0	0	-11 924
Reclassification from assets in progress	276	6 417	2 026	73	-8 776	-1	-217	28	172	0
31.12.2008	**23 522**	**142 813**	**37 431**	**1 174**	**1 586**	**5 878**	**118**	**1 134**	**3 986**	**217 643**
Accumulated depreciation										
31.12.2006	**3 801**	**40 970**	**20 812**	**696**	**0**	**0**	**0**	**729**	**1 104**	**68 113**
Depreciation	253	2 150	2 018	70	0	0	0	123	451	5 064
Depreciation of fixed assets sold and written-off (-)	-2	-84	-971	-31	0	0	0	-22	-40	-1 150
31.12.2007	**4 052**	**43 036**	**21 859**	**736**	**0**	**0**	**0**	**830**	**1 515**	**72 027**
Depreciation	270	2 430	2 214	78	0	0	0	571	169	5 731
Depreciation of fixed assets sold and written-off (-)	-22	-53	-793	-31	0	0	0	-456	-109	-1 465
31.12.2008	**4 299**	**45 414**	**23 279**	**783**	**0**	**0**	**0**	**944**	**1 575**	**76 293**
Net book value										
31.12.2006	**18 253**	**87 935**	**13 356**	**424**	**5 859**	**7 488**	**179**	**392**	**2 969**	**136 856**
31.12.2007	**19 224**	**93 413**	**14 341**	**396**	**3 070**	**5 756**	**345**	**385**	**2 755**	**139 686**
31.12.2008	**19 223**	**97 399**	**14 152**	**392**	**1 586**	**5 878**	**118**	**190**	**2 412**	**141 350**

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.
As of 31 December 2008 and 2007 there was no finance lease contract.

Chairman of the Management Board:

NOTES TO THE INTERIM ACCOUNTS (thousand EUR)

NOTE 4. NET SALES	Quarter 4		Year ended 31 December	Year ended 31 December
	2008	2007	2008	2007
Revenues from main operating activities				
Total water supply and waste water disposal service, incl:	10 474	9 702	42 073	38 322
Domestic clients, incl:	5 563	5 152	22 167	20 385
Water supply service	3 104	2 883	12 379	11 405
Waste water disposal service	2 459	2 269	9 788	8 980
Corporate clients, incl:	4 245	4 065	17 335	16 148
Water supply service	2 334	2 238	9 630	8 864
Waste water disposal service	1 911	1 826	7 705	7 284
Outside area clients, incl:	441	313	1 687	1 130
Water supply service	35	27	138	98
Waste water disposal service	406	286	1 549	1 031
Overpollution	226	172	884	659
Stormwater treatment and disposal service	906	684	2 950	2 392
Fire hydrants service	58	46	172	151
Other works and services	239	160	816	571
TOTAL NET SALES	**11 678**	**10 591**	**46 011**	**41 436**

100 % of AS Tallinna Vesi revenue was transacted within the Estonian Republic.
Codes of Estonian Classification of Economic Activities (EMTAK) are 36001 and 37001.

NOTE 5. PERSONNEL EXPENSES	Quarter 4		Year ended 31 December	Year ended 31 December
	2008	2007	2008	2007
Salaries and wages	-1 157	-1 123	-4 239	-3 686
Social security taxation	-385	-374	-1 412	-1 227
Staff costs total	**-1 542**	**-1 497**	**-5 651**	**-4 913**
Number of employees at the end of reporting period			**327**	**312**

Chairman of the Management Board:

NOTES TO THE INTERIM ACCOUNTS (thousand EUR)

NOTE 6. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	**Quarter 4**		**Year ended 31 December**	**Year ended 31 December**
	2008	**2007**	**2008**	**2007**
Tax on special use of water	-175	-168	-691	-671
Chemicals	-335	-330	-1 460	-1 341
Electricity	-519	-416	-1 902	-1 686
Pollution tax	-449	-110	-1 087	397
Staff costs	-1 109	-974	-4 059	-3 299
Research and development	0	-2	-2	-6
Depreciation and amortization	-1 355	-1 173	-5 246	-4 653
Other costs of goods sold	-787	-628	-2 986	-2 589
Total cost of goods sold (main operating activities)	**-4 728**	**-3 801**	**-17 432**	**-13 848**
Marketing Expenses				
Staff costs	-91	-122	-346	-390
Depreciation and amortization	-83	-58	-324	-227
Other marketing expenses	-23	-65	-117	-248
Total cost of marketing expenses	**-197**	**-245**	**-787**	**-866**
General Administration Expenses				
Staff costs	-342	-401	-1 246	-1 224
Depreciation and amortization	-39	-45	-161	-184
Other general administration expenses	-510	-531	-2 079	-2 225
Total cost of general administration expenses	**-892**	**-976**	**-3 486**	**-3 633**

NOTE 7. OTHER INCOME AND EXPENSES

	Quarter 4		**Year ended 31 December**	**Year ended 31 December**
	2008	**2007**	**2008**	**2007**
Income / expenses (-) from constructions	906	340	1 784	911
Other income / expenses (-)	-119	60	-184	118
Total other income / expenses	**786**	**400**	**1 601**	**1 029**

NOTES TO THE INTERIM ACCOUNTS

(thousand EUR)

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	951	694
Interest expense	-3 655	-3 420
Other financial income / expenses (-)	-57	-101
Total financial income / expenses	**-2 761**	**-2 827**

NOTE 9. DIVIDENDS

	Year ended 31 December 2008	Year ended 31 December 2007
Dividends declared during the period	15 915	12 527
Dividends paid during the period	15 915	12 527
Income tax on dividends declared	-4 231	-3 533
Income tax accounted	**-4 231**	**-3 533**

The income tax rates were 21/79 and 22/78 respectively in 2008 and 2007.

NOTE 10. EARNINGS AND DIVIDENDS PER SHARE

	Year ended 31 December 2008	Year ended 31 December 2007
Earnings per share from continuing operations:		
Earnings for the purposes of basic earnings per share (net profit for the period minus B-share preference rights)	18 915	17 757
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000
Earnings per share in euros	0,95	0,89
Dividends per A-share in euros	0,80	0,63
Dividends per B-share in euros	639,12	639,12

Diluted earnings per share for the periods ended 31 December 2008 and 2007 are equal to the earnings per share figures stated above.

NOTES TO THE INTERIM ACCOUNTS (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 hold majority interest and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

The transactions with related parties in 2008 and 2007 and respective balances as of 31.12.2008 and 31.12.2007 are recorded as follows:

The shareholders which have significant control	**Year ended 31 December 2008**	**Year ended 31 December 2007**
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	1 594	1 912
Accrued income and prepaid expenses	0	5 159
Accounts payable - short-term trade and other payables	254	261
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	272	373
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	3 122	2 543
Income / expenses (-) from constructions	1 501	396
General administration expenses	1 047	1 126

	Year ended 31 December 2008	**Year ended 31 December 2007**
Management Board fees excluding social tax	147	135
Supervisory Board fees excluding social tax	32	37

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

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

Chairman of the Management Board:

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Kevin Starling	Member of the Supervisory Board
Matti Hyyrynen	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