

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 1st quarter and first 3 months
of 2008

Currency	Thousand kroons
Start of reporting period	1 January 2008
End of reporting period	31 March 2008
Address	Tallinn, Ädala 10
Chairman of the Management Board	Roch Jean Guy Antoine Cheroux
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

	Page
MANAGEMENT REPORT	3
MANAGEMENT CONFIRMATION	10
BALANCE SHEETS	11
INCOME STATEMENTS	12
CASH FLOW STATEMENTS	13
STATEMENTS OF CHANGES IN EQUITY	14
NOTES TO THE ACCOUNTS	
NOTE 1. ACCOUNTING PRINCIPLES	15
NOTE 2. CASH AND CASH EQUIVALENTS	15
NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS	16
NOTE 4. NET SALES	17
NOTE 5. PERSONNEL EXPENSES	17
NOTE 6. COSTS AND EXPENSES	18
NOTE 7. FINANCIAL INCOME AND EXPENSES	19
NOTE 8. DIVIDENDS	19
NOTE 9. EARNINGS AND DIVIDENDS PER SHARE	19
NOTE 10. RELATED PARTIES	20
NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS	21

MANAGEMENT REPORT
RESULTS OF OPERATIONS - FOR THE 1st QUARTER 2008

Overview

In the 1st quarter of 2008 the Company's total sales increased, year on year, by 2.9% to 211.2 mln EEK. Total water and sewerage services sale volumes increased by 0.4%. Within the service area sales to residential customers increased by 9.5% year on year, sales to commercial customers increased by 10.0% year on year, and sales to customers outside of the service area increased by 43.0% year on year, reaching 0.8 mln m³ or 6.2 mln EEK. The Company's profit before taxes was 89.5 mln EEK, which is a 6.1% decrease compared to 2007. Eliminating the one-off nitrogen provision release in the 1st quarter of 2007, profit before tax increased by 9.1%. The Company invested 32.4 mln EEK, of which 13.4 mln EEK was invested in network extension and developments.

<i>mln EEK</i>	Q 1 2008	Q 1 2007	Change	Q 1 2008	Q 1 2007 underlying	Change
Sales	211,2	205,4	2,9%	211,2	205,4	2,9%
Main operating activities	180,9	161,1	12,3%	180,9	161,1	12,3%
Other operating activities	30,4	44,2	-31,4%	30,4	44,2	-31,4%
Gross profit	118,2	120,8	-2,2%	118,2	107,5	9,9%
Gross profit margin %	56,0%	58,8%	-4,9%	56,0%	52,4%	6,9%
Operating profit	100,2	105,8	-5,3%	100,2	92,5	8,4%
Operating profit margin %	47,4%	51,5%	-7,9%	47,4%	45,0%	5,4%
Profit before taxes	89,5	95,3	-6,1%	89,5	82,0	9,1%
Profit before taxes margin %	42,4%	46,4%	-8,7%	42,4%	39,9%	6,1%
Net profit	89,5	95,3	-6,1%	89,5	82,0	9,1%
ROA %	3,4%	3,8%	-9,0%	3,4%	3,2%	5,8%
Debt to total capital employed	49,3%	50,7%	-2,7%	49,3%	50,7%	-2,7%

Gross profit margin – Gross profit / Net sales

Operating profit margin – Operating profit / Net sales

Profit before taxes margin – Profit before taxes / Net sales

ROA – Net profit / Total Assets

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

Profit and Loss Statement

1st quarter 2008

Sales

In the 1st quarter of 2008 the Company's total sales increased, year on year, by 2.9% to 211.2 mln EEK. Sales from the Company's main operating activities were 180.9 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 stormwater system.

Sales of water and wastewater services were 168.5 mln EEK, a 12.1% increase compared to the 1st quarter of 2007, resulting from the 11.7% increase in tariffs from 1 January 2007 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 9.5% to 88.8 mln EEK. Sales to commercial customers increased by 10.0% to 69.9 mln EEK. Sales to customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 43.0% reaching 832 thousand m³ or 6.2 mln EEK. Over pollution fees received were 2.2 mln EEK higher than in the 1st quarter of 2007.

In the 1st quarter of 2008, the volumes sold to residential customers dropped 1.9% or 143 thousand m³. In our opinion this is partly explainable by the mild winter and people moving to the surrounding areas of Tallinn. The Company has billed more properties than in the 1st quarter of 2007, but a combination of the factors described above has led to the slight reduction in this group.

The volumes sold to commercial customers inside the service area decreased 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, attracted by cheaper real estate prices. In addition the sales in 1st quarter of 2008 compared to the 1st quarter of 2007 were impacted by the fact that one of the Company's biggest industrial customers moved its facilities out of our area at the end of 2007, this resulted in a volume loss of 69 thousand m³ in the 1st quarter of 2008. 1st quarter includes also an exceptional sales totaling 43 thousand m³ for a particular customer who historically has used its own well.

The real estate market seems to have reached a point of stagnation. Even though the number of new apartments and business buildings constructed in Tallinn has continued to increase, a large share of new buildings 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 43.0% 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 stormwater and firehydrant system increased by 9.8% to 9.9 mln EEK in the 1st quarter of 2008 compared to the same period in 2007. This is in accordance with the terms and conditions of the contract whereby the stormwater and fire hydrant costs are invoiced based on actual costs and volumes treated. This is contractually agreed up to 2020.

Sales revenues from other operating activities, mainly connections and stormwater construction, totaled 30.4 mln EEK which is 13.8 mln EEK less than in the 1st quarter of 2007. In this line the revenue is recorded when it is probable that the revenues will flow to the company. According to the new contract concluded with the City of Tallinn on 30th November 2007, the revenue flow will be more even throughout the year. Before 2008 a considerable amount of works and revenues were confirmed in the first quarter. Starting from March 2008 the revenue in this line is mainly calculated using the service area domestic water sales volumes and fixed development rate per cubic meter.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 66.1 mln EEK in the 1st quarter of 2008, an increase of 21.3 mln EEK or 47.4% from the equivalent period in 2007. Still the underlying costs increased only by 7.9 mln EEK or 13.5% compared to 1st quarter of 2007, as the 2007 1st quarter results were impacted by release of the pollution tax accrual which reduced the costs by 13.3 mln EEK.

In the 1st quarter of 2008 the Company has for the fifth successive quarter recorded zero failures in all pollution measures taken, and as a result the amount of pollution tax payable reduced by 2.9 mln EEK. This is offset by an increase in tax rates year on year of 20%. As the pollution level of the incoming sewerage does vary and the company does not have full control over stormwater outlets regarding the pollution, we cannot guarantee the achievement will be repeated in all following quarters of 2008.

The chemical costs were 4.5 mln EEK, this represents an 11.7% decrease compared to the corresponding period in 2007. This result is the combination of volumes treated and chemicals dosed, whilst chemical prices stay high, an increase in this cost line can be expected later in the year.

Electricity costs increased by 0.3 mln EEK or 3.7% in the 1st quarter of 2008 compared to the 1st quarter of 2007 due to higher electricity prices combined with volumes treated.

Salary expenses increased by 3.7 mln EEK or 28.5% due to 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. Eliminating these structural changes would give us 18.6% increase in salaries. This is in line with the increase in average salaries in the Estonian market, which according to the latest statistics has increased around 20% year on year.

Other cost of goods sold in the main operating activity increased by 2.3 mln EEK, or 23.7% year on year. This was due to higher costs on a number of support service contracts, such as transport, security services, maintenance cost, reflecting the significant increase in labour and services costs in Tallinn. The Company has taken advantage of the fall in the construction market and eliminated part of this cost inflation by signing new framework contract at more competitive prices by end of the quarter. The specific impact to costs increase was around 0.8 mln EEK in 1st quarter 2008, but we do not assume to repeat it during the following quarters.

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

As a result of all of the above the Company's gross profit for the 1st quarter of 2008 was 118.2 mln EEK, which is a decrease of 2.6 mln EEK, or 2.2%, compared to the gross profit of 120.8 mln EEK for the 1st quarter of 2007. Comparing 1st quarter gross profit for 2008 to underlying gross profit of the 1st quarter of 2007 there was an increase of 9.9% or 10.7 mln EEK.

Operating Costs and Operating Margin

Marketing expenses increased by 0.2 mln EEK to 3.4 mln EEK during the 1st quarter of 2008 compared to the corresponding period in 2007. This is partly the result of the overall salary

increase, supplemented by the increase in depreciation charges due to the Customer Information and Billing system (KLIF).

General administration expenses increased by 0.2 mln EEK to 14.5 mln EEK in the 1st quarter of 2008 as a consequence of an increase in salaries due to the overall salaries inflation and redundancy packages accounted to 1st quarter of 2008.

Included within all the above cost categories are staff costs. These totaled 23.6 mln EEK in the 1st quarter of 2008, which is a 4.9 mln EEK increase compared to the same period in 2007, as mentioned earlier this was due to the wide revision of salaries at the beginning of 2008, supplemented by extra salary cost due to new activities and redundancy costs totaling 1.2 mln EEK. Without these items the salary increase would have been 3.6 mln EEK or slightly above 19%.

Other net income/expenses totaled an expense of 0.1 mln EEK in the 1st quarter of 2008 compared to an income of 2.4 mln EEK in the 1st quarter of 2007 – in 1st quarter of 2007 there was a 2.4 mln EEK recovery of doubtful debt.

As a result of all of the above the Company's operating profit for the 1st quarter of 2008 was 100.2 mln EEK, a decrease of 5.6 mln EEK compared to an operating profit of 105.8 mln EEK achieved in the 1st quarter of 2007. Compared to the underlying operating profit in the 1st quarter of 2007, the operating profit has increased 8.4% or 7.7 mln EEK in 1st quarter of 2008.

Financial expenses

Net Financial expenses were 10.7 mln EEK in the 1st quarter of 2008, which is an increase of 0.3 mln EEK or 2.4% compared to the 1st quarter of 2007. The Company's interest costs have increased by 12.2% compared to the 1st quarter of 2007. This is due to the fact that half of the Company's loans are connected to the 6 month Euribor rate, which was 4.686% in the 1st quarter of 2008 compared to 3.736% in the 1st quarter of 2007. The increase in interest expenses is partially offset by an increase in financial income earned during the 1st 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 1st quarter of 2008 was 89.5 mln EEK, which is 5.8 mln EEK lower than the profit before taxes of 95.3 mln EEK for the 1st quarter of 2007. Looking at the underlying profit for the 1st quarter of 2007 compared to same period of 2008 there has been an increase of 9.1% or 7.5 mln EEK.

Balance sheet

During the three months of 2008 the Company invested 32.4 mln EEK into fixed assets. Non-current assets were 2,167 mln EEK at 31 March 2008. Current assets increased by 70.9 mln EEK to 444.5 mln EEK in the three months of the year, including cash at bank which increased by 148.7 mln EEK.

Current liabilities decreased by 36.8 mln EEK to 162.4 mln EEK in the three months of the year. This was mainly due to decrease in Trade and other payables compared to 2007 year end, as a result of payment of 2007 end capital investments invoices in 1st quarter of 2008.

The company continues to maintain its leverage level within its target range of around 50% with total liabilities to total capital employed of 49.3% as at 31 March 2008. Long-term liabilities stood at 1,125.6 mln EEK at the end of March 2008, consisting almost entirely of the outstanding balance on the two long-term bank loans.

Cash flow

During 1st quarter of 2008, the Company generated 122.8 mln EEK of cash flows from operating activities, an increase of 36.7 mln EEK compared to the corresponding period in 2007. Underlying operating profit continues to be the main driver for growth, supplemented by debt collection in 1st quarter of 2008.

In the 1st quarter of 2008 net cash inflows from investing activities were 25.8 mln EEK, which is 61.0 mln EEK more than in 2007. This was mainly due to some large construction revenue invoices that were due and paid in the 1st quarter 2008, offset by increased investment payments. In the 1st quarter the company invested 32.4 mln EEK – 23.7 mln EEK networks extension and rehabilitation, 4.9 mln EEK Paljassaare wastewater treatment plant and sludge treatment, 0.9 mln EEK water quality (Ülemiste water treatment plant and raw water) and 2.9 mln EEK other investments (IT, capital maintenance, meters, etc).

There were no cash outflows from financing activities during 1st quarter compared to cash outflow of 0.3 mln EEK during the 1st quarter of 2007.

As a result of all of the above factors, the total cash inflow in the 1st quarter of 2008 was 148.7 mln EEK compared to a cash inflow of 50.7 mln EEK in the three months of 2007. Cash and cash equivalents stood at 327.1 mln EEK as at 31 March 2008.

Employees

At the end of the 1st quarter of 2008, the number of employees was 317, compared to 313 at the end of the 1st quarter of 2007.

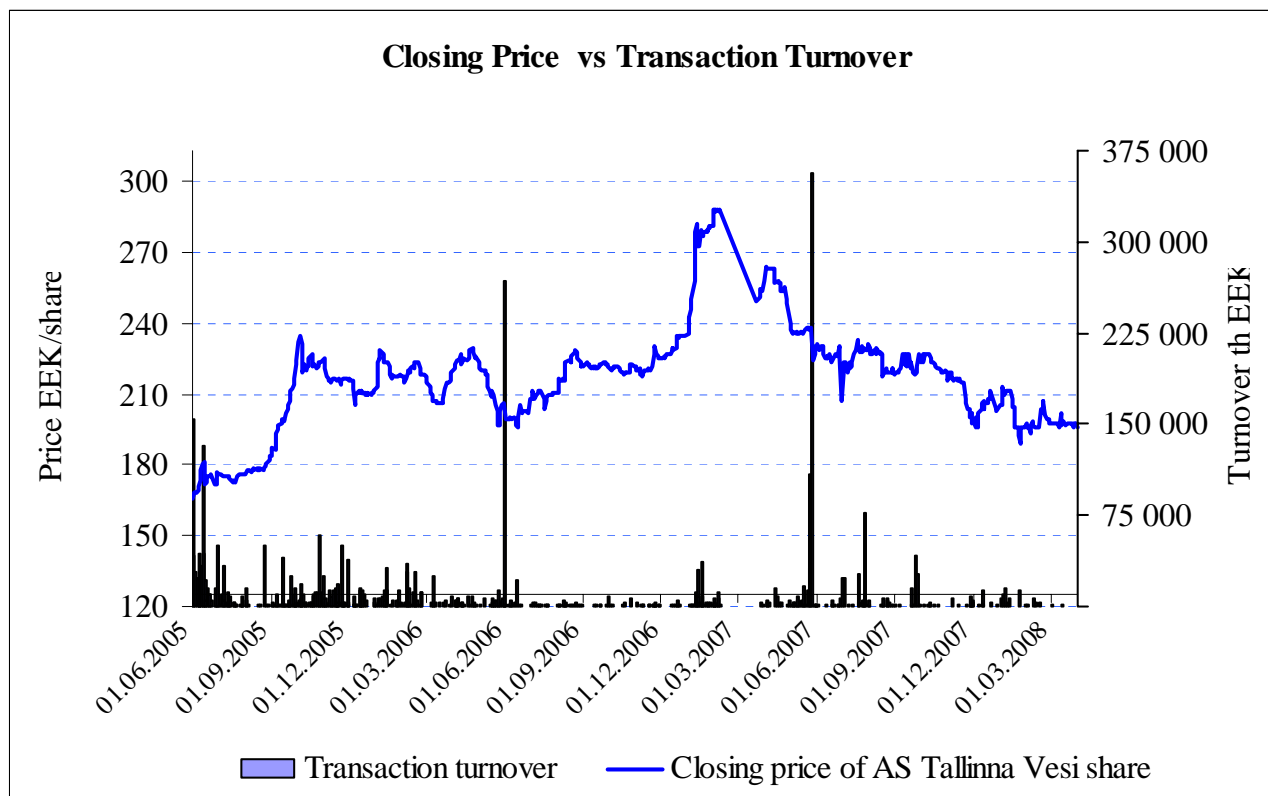
Dividends and share performance

Based on the results of the 2007 financial year, the Management Board of the company proposed to pay 249,010,000 EEK of dividends. Of this 10,000 EEK will be paid to the owner of the B-share and 249,000,000 EEK, i.e. 12.45 EEK per share to the owners of the A-shares. Management Board proposed to pay the dividends on 13 June 2008, based on the list of shareholders, which will be fixed at 23.59 on 30 May 2008.

As of 31 March 2008 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

United Utilities (Tallinn) BV	35.3%
City of Tallinn	34.7%
Nordea Bank Finland Plc clients account trading	8.78%
Morgan Stanley + Co International Equity client account	6.81%

At the end of the quarter, 31 March 2008, the closing price of the AS Tallinna Vesi share was 195.58 EEK (12.50 EUR), which is a 3.6% decrease compared to the closing price of 202.78 EEK (12.96 EUR) at the beginning of quarter, significantly outperforming the market as the OMX Tallinn index dropped by 14.0% during the quarter.



Operational highlights in the 1st quarter of 2008

- The company implemented the development component in 1st quarter 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 main services area domestic water tariff starting from 1 March 2008 to the end of 2017 and the City of Tallinn will compensate the stormwater constructions every month 4.4 mln EEK 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 (9.00 kroons per m³ until 31 December 2011 and 6.10 kroons per m³ in years 2012 to 2017).
- From the beginning of the year water and wastewater tariffs increased as approved by the City Council in 2007. The tariff increase was 11.7% in the main service area and was similar outside the main service area, depending on individual contracts within the municipalities.
- The wastewater treatment performance with all outfall effluent samples at all locations was in the 1st quarter compliant with requirements and as a consequence the environmental

charges for the quarter attracted a 50% reduction. As a result of the excellent treatment results the company saved 2.8 mln EEK from environmental taxes in 1st quarter of 2008.

- The usage of the web based self service has increased by 4 times compared to the 31 March 2007, more than 10% of invoices were issued via web.
- We are pleased to report the compliance with all requirements of the Levels of Services established by the contract concluded with the City of Tallinn.

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 period ended 31 March 2008. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the period ended 31 March 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 occurred during the first three months of the financial year and of their effect to the condensed financial statements, and 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 nine 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 14 April 2008 have been assessed as part of this review.

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



Roch Jean Guy Antoine Chérourx
Chairman of the Management Board
Chief Executive Officer



Siiri Lahe
Member of the Management Board
Chief Financial Officer



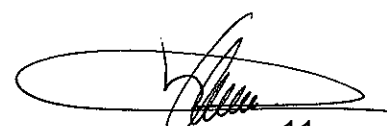
David Nigel Hetherington
Member of the Management Board
Chief Operating Officer

14 April 2008

BALANCE SHEETS AT 31 MARCH 2008 AND 2007, AND AT 31 DECEMBER 2007

(thousand EEK)

ASSETS	Note	31 March		31 December
		2008	2007	2007
CURRENT ASSETS				
Cash at bank and in hand	2	327 136	290 256	178 420
Commercial paper	2	0	9 866	0
Customer receivables		107 145	115 793	185 223
Accrued income and prepaid expenses		5 219	4 278	5 179
Inventories		3 917	3 139	3 645
Assets for sale		1 114	1 517	1 120
TOTAL CURRENT ASSETS		444 531	424 849	373 587
NON-CURRENT ASSETS				
Tangible assets	3	2 014 048	1 906 280	1 992 978
Intangible assets	3	47 485	50 829	49 137
Unfinished assets - non connections	3	27 532	63 788	48 034
Unfinished pipelines - new connections	3	75 104	82 200	90 057
Prepayments for fixed assets	3	3 166	3 222	5 399
TOTAL NON-CURRENT ASSETS		2 167 335	2 106 319	2 185 605
TOTAL ASSETS		2 611 866	2 531 168	2 559 192
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term borrowings		41 699	167	41 486
Trade and other payables, incl. dividends		54 633	63 302	86 966
Taxes payable		23 672	19 853	26 486
Short-term provisions		2 487	770	2 231
Deferred income		39 948	32 864	42 099
TOTAL CURRENT LIABILITIES		162 439	116 956	199 268
NON-CURRENT LIABILITIES				
Finance lease		0	0	0
Bank loans		1 125 499	1 166 318	1 125 491
Other payables		113	100	113
TOTAL NON-CURRENT LIABILITIES		1 125 612	1 166 418	1 125 604
TOTAL LIABILITIES		1 288 051	1 283 374	1 324 872
EQUITY CAPITAL				
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
Accumulated profit		627 319	545 489	349 479
Net profit for the period		89 495	95 304	277 840
TOTAL EQUITY CAPITAL		1 323 815	1 247 794	1 234 320
TOTAL LIABILITIES AND EQUITY CAPITAL		2 611 866	2 531 168	2 559 192



Chairman of the Management Board: 11

AS TALLINNA VESI

INCOME STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007

(thousand EEK)

		3 months		Year ended 31 December
	Note	2008	2007	2007
Sales from main operating activities	4	180 886	161 133	648 335
Revenues from other operating activities	4	30 355	44 241	172 437
Net sales		211 241	205 374	820 772
Costs of goods sold (main operating activities)	5,6	-66 151	-44 885	-216 677
Costs of goods sold (other operating activities)	6	-26 887	-39 662	-158 187
GROSS PROFIT		118 203	120 827	445 908
Marketing expenses	5,6	-3 374	-3 162	-13 547
General administration expenses	5,6	-14 526	-14 279	-56 849
Other income/ expenses (-)	6	-77	2 398	1 850
OPERATING PROFIT		100 226	105 784	377 362
Financial income / expenses (-)	7	-10 731	-10 480	-44 237
PROFIT BEFORE TAXES		89 495	95 304	333 125
Income tax on dividends	8	0	0	-55 285
NET PROFIT FOR THE PERIOD		89 495	95 304	277 840
Attributable to:				
Equity holders of A-shares		89 485	95 294	277 830
B-share holder		10	10	10
Earnings per share in kroons	8	4,47	4,76	13,89



Chairman of the Management Board:

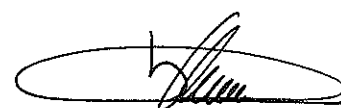
AS TALLINNA VESI

CASH FLOW STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007

(thousand EEK)

	2008	3 months 2007	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	100 226	105 784	377 362
Adjustment for depreciation	22 145	19 695	79 241
Adjustment for income and expenses from constructions	-3 468	-4 579	-14 250
Other financial income and expenses	-412	-229	-1 585
Profit from sale of fixed assets	-5	19	-2 422
Expensed fixed assets	0	0	476
Capitalization of operating expenses	-5 636	-4 647	-19 764
Movement in current assets involved in operating activities	13 225	-15 322	-32 062
Movement in liabilities involved in operating activities	-3 223	-14 531	-327
Interest paid	0	-9	-52 986
Total cash flow from operating activities	122 852	86 181	333 683
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	-72 303	-52 061	-265 951
Proceeds from pipelines financed by construction income	94 167	14 612	101 840
Proceeds from sale of and prepayments received for fixed assets	6	11	390
Proceeds from sale of assets and real estate investments	0	0	242
Interest received	3 994	2 272	10 571
Total cash flow from investing activities	25 864	-35 166	-152 908
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments	0	-306	-473
Dividends paid	0	0	-196 010
Income tax on dividends	0	0	-55 285
Total cash flow from financing activities	0	-306	-251 768
Change in cash and bank accounts	148 716	50 709	-70 993
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	178 420	249 413	249 413
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	327 136	300 122	178 420



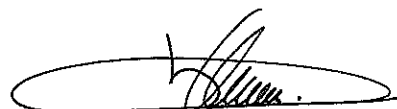
Chairman of the Management Board:

AS TALLINNA VESI

**STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007**

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	Net profit	Total equity
31 December 2006	200 001	387 000	20 000	297 443	248 046	1 152 490
Transfer of financial year profit to the accumulated profit	0	0	0	248 046	-248 046	0
Dividends	0	0	0	-196 010	0	-196 010
Net profit of the financial year	0	0	0	0	277 840	277 840
31 December 2007	200 001	387 000	20 000	349 479	277 840	1 234 320
31 December 2006	200 001	387 000	20 000	297 443	248 046	1 152 490
Transfer of financial year profit to the accumulated profit	0	0	0	248 046	-248 046	0
Net profit of the financial period	0	0	0	0	95 304	95 304
31 March 2007	200 001	387 000	20 000	545 489	95 304	1 247 794
31 December 2007	200 001	387 000	20 000	349 479	277 840	1 234 320
Transfer of financial year profit to the accumulated profit	0	0	0	277 840	-277 840	0
Net profit of the financial period	0	0	0	0	89 495	89 495
31 March 2008	200 001	387 000	20 000	627 319	89 495	1 323 815



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007

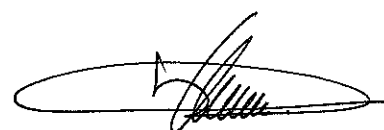
(thousand EEK)

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

	3 months		Year ended 31 December
	2 008	2 007	2007
Cash at bank and in hand	77 628	68 519	37 838
Short term deposits	249 508	221 737	140 582
Commercial paper	0	9 866	0
	<u>327 136</u>	<u>300 122</u>	<u>178 420</u>



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007

NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

(thousand EEK)

	Tangible assets in use				Assets in progress			Intangible assets		Total tangible and intangible non-current 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	
Acquisition cost at										
31.12.2006										
Acquisition	345 074	2 016 934	534 627	17 532	91 676	117 162	2 795	17 543	63 731	3 207 074
Sale of fixed assets	0	0	0	0	148 257	135 085	2 611	0	0	285 953
Write-off of fixed assets	-1 506	0	-1 505	0	0	0	0	0	0	-3 011
Reclassification within balance sheet	-34	-1 319	-13 772	-482	0	0	0	-346	-623	-16 576
Reclassification to expenses	0	0	0	0	-170	-2 029	-7	0	0	-2 206
Expensed pipelines	0	0	0	0	-460	0	0	0	0	-460
Reclassification from assets in progress	20 654	119 355	47 058	658	-191 269	-1 974	0	1 809	3 709	-158 187
31.12.2007										
Acquisition	366 751	2 168 325	569 155	17 708	48 034	90 057	5 399	19 006	66 817	3 312 587
Sale of fixed assets	0	0	0	0	19 082	13 264	56	0	0	32 402
Write-off of fixed assets	0	0	-9	0	0	0	0	0	0	-9
Reclassification within balance sheet	-63	-66	-1 271	0	0	0	0	0	0	-1 400
Expensed pipelines	0	0	0	0	-309	-1 330	0	0	0	-1 639
Reclassification from assets in progress	2 626	33 421	4 027	548	-39 275	-26 887	0	0	0	-26 887
31.03.2008										
Accumulated depreciation										
31.12.2006	59 475	641 049	325 644	10 894	0	0	0	11 408	17 271	1 065 741
Depreciation	3 952	33 642	31 569	1 102	0	0	0	1 918	7 058	79 241
Depreciation of fixed assets sold and written-off (-)	-34	-1 318	-15 197	-482	0	0	0	-346	-623	-18 000
31.12.2007	63 393	673 373	342 016	11 514	0	0	0	12 980	23 706	1 126 982
Depreciation	1 079	9 429	8 735	308	0	0	0	523	2 071	22 145
Depreciation of fixed assets sold and written-off (-)	-63	-66	-1 279	0	0	0	0	0	0	-1 408
31.03.2008										
Net book value										
31.12.2006	285 599	1 375 885	208 983	6 638	91 676	117 162	2 795	6 135	46 460	2 141 333
31.12.2007	300 795	1 461 597	224 392	6 194	48 034	90 057	5 399	6 026	43 111	2 185 605
31.03.2008										
302 342	1 485 589	219 683	6 434	27 532	75 104	3 166	5 503	41 982	2 167 335	

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.
For the period ended 31 March the net balance sheet value of finance leases was 2 269 thousand kroons for 2007.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007

(thousand EEK)

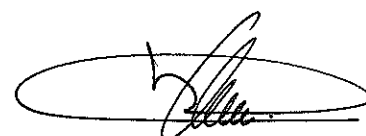
NOTE 4. NET SALES

	2008	2007	2007
Revenues from main operating activities			
Total water supply and waste water disposal service, incl:	168 486	150 336	599 612
<u>Domestic clients, incl:</u>	<u>88 815</u>	<u>81 075</u>	<u>318 963</u>
Water supply service	49 615	45 337	178 452
Waste water disposal service	39 200	35 738	140 511
<u>Corporate clients, incl:</u>	<u>69 950</u>	<u>63 600</u>	<u>252 658</u>
Water supply service	38 603	33 909	138 693
Waste water disposal service	31 347	29 691	113 965
<u>Outside service area clients, incl:</u>	<u>6 244</u>	<u>4 365</u>	<u>17 676</u>
Water supply service	498	353	1 541
Waste water disposal service	5 746	4 012	16 135
<u>Overpollution</u>	<u>3 477</u>	<u>1 296</u>	<u>10 315</u>
Stormwater treatment and disposal service	9 357	8 508	37 426
Fire hydrants service	590	551	2 361
Other works and services	2 453	1 738	8 936
Total revenues from main operating activities	180 886	161 133	648 335
Revenues from other operating activities			
Water, sewerage and storm water connections construction income	30 355	44 241	172 437
TOTAL NET SALES	211 241	205 374	820 772

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

NOTE 5. PERSONNEL EXPENSES

	2008	2007	2007
Salaries and wages	-17 708	-14 005	-57 666
Social security taxation	-5 898	-4 664	-19 203
Staff costs total	-23 606	-18 669	-76 869
Number of employees at the end of reporting period	317	313	312



Chairman of the Management Board:

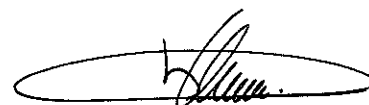
**NOTES TO THE INTERIM ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007**

(thousand EEK)

NOTE 6. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	3 months		Year ended 31 December
	2008	2007	2007
Tax on special use of water	-2 709	-2 664	-10 493
Chemicals	-4 456	-5 044	-20 979
Electricity	-7 475	-7 209	-26 382
Pollution tax	-2 871	10 548	6 207
Staff costs	-16 557	-12 887	-51 611
Research and development	-22	0	-99
Depreciation and amortization	-20 280	-18 104	-72 806
Other costs of goods sold	-11 781	-9 525	-40 514
Total cost of goods sold (main operating activities)	-66 151	-44 885	-216 677
Cost of goods sold (other operating activities)			
Water, sewerage and storm water connections construction cost	-26 887	-39 662	-158 187
Marketing Expenses			
Staff costs	-1 547	-1 316	-6 107
Depreciation and amortization	-1 203	-855	-3 553
Other marketing expenses	-624	-991	-3 887
Total cost of marketing expenses	-3 374	-3 162	-13 547
General Administration Expenses			
Staff costs	-5 502	-4 466	-19 151
Depreciation and amortization	-662	-736	-2 882
Other general administration expenses	-8 362	-9 077	-34 816
Total cost of general administration expenses	-14 526	-14 279	-56 849

Other income/expenses - In both 2008 and 2007 other income/expenses includes, the profits recognised on the sale of fixed assets during the period, the movement of the bad debt provision during the year and provisions recognised and released throughout the financial period. It also includes income and costs generated from a consultancy project in the Republic of Tajikistan in 2007.



Chairman of the Management Board:

AS TALLINNA VESI

NOTES TO THE INTERIM ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007

(thousand EEK)

NOTE 7. FINANCIAL INCOME AND EXPENSES	3 months		Year ended 31
	2008	2007	December 2007
Interest income	3 819	2 505	10 861
Interest expense	-14 138	-12 598	-53 513
Other financial income / expenses (-)	-412	-387	-1 585
Total financial income / expenses	-10 731	-10 480	-44 237


NOTE 8. DIVIDENDS	3 months		Year ended 31
	2008	2007	December 2007
Dividends declared during the period	0	0	196 010
Dividends paid during the period	0	0	196 010
Income tax on dividends declared	0	0	-55 285
Income tax accounted	0	0	-55 285

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

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	3 months		Year ended 31
	2008	2007	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)	89 485	95 294	277 830
Weighted average number of ordinary shares for the purposes of basic earnings per share	20 000 000	20 000 000	20 000 000
Earnings per share in kroons	4,47	4,76	13,89
Dividends per A-share in kroons	0	0	9,80
Dividends per B-share in kroons	0	0	10 000,00

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


 Chairman of the Management Board:

**NOTES TO THE INTERIM ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007**

(thousand EEK)

NOTE 10. 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 significant transactions with the shareholders. Dividend payments are indicated in the Statement of Changes in Equity.

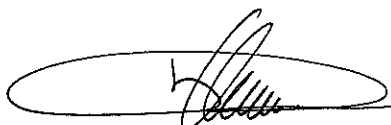
The transactions with related parties in 2008 and 2007 and respective balances as of 31.03.2008 and 31.03.2007 are recorded as follows:

	Tallinn City Government and related boards	The companies belonging to the same group with the United Utilities (Tallinn) B.V.	
2008 for 3 months			
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi			
Customer receivables	26 580	0	
Accrued income and prepaid expenses	385	0	
Accounts payable - short-term trade and other payables, incl. dividends	0	4 590	
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi			
Non-current assets incl unfinished assets and new connections	0	1 027	
Transactions recorded to the Income Statement of AS Tallinna Vesi			
Net sales	34 381	0	
General administration expenses	0	4 556	
2007 for 3 months			
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi			
Customer receivables	35 514	0	
Accounts payable - short-term trade and other payables, incl. dividends	0	2 392	
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi			
Non-current assets incl unfinished assets and new connections	0	1 558	
Transactions recorded to the Income Statement of AS Tallinna Vesi			
Net sales	40 380	0	
General administration expenses	0	4 726	
	2008	3 months	Year ended 31 December
Management Board fees excluding social tax	603	2007	2 118
Supervisory Board fees excluding social tax	150	150	578

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 Roch Jean Guy Antoine Chérout owned 1 000 and Siiri Lahe 700 AS Tallinna Vesi shares.



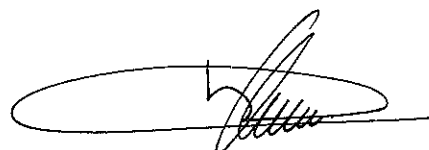
Chairman of the Management Board:

AS TALLINNA VESI

**NOTES TO THE INTERIM ACCOUNTS
FOR THE PERIOD ENDED 31 MARCH 2008 AND 2007**

NOTE 11. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Ian John Alexander Plenderleith	Member of the Supervisory Board
Henry Emanuel Russell	Member of the Supervisory Board
David Leonard Fuller	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



Chairman of the Management Board: