

Tallinna Vesi



AS Tallinna Vesi
Results of operations – for the 3rd quarter and first 9 months
of 2008

Currency	Thousand kroons
Start of reporting period	1 January 2008
End of reporting period	30 September 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

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MANAGEMENT REPORT

RESULTS OF OPERATIONS - FOR THE 3rd QUARTER 2008

Overview

In the 1st nine months of 2008 the Company's total sales increased, year on year, by 21.8% to 670.4 mln EEK. Total water and sewerage services sale volumes increased in the 1st nine months of 2008 by 0.5% compared to the same nine months of 2007, respective sales increased by 10.4%. Within the service area sales to residential customers increased by 9.0% year on year, sales to commercial customers increased by 8.3% year on year, and sales to customers outside of the service area increased by 52.6% year on year, reaching 2.7 mln m³ or 19.5 mln EEK. The Company's profit before taxes was 269.3 mln EEK, which is a 7.2% increase compared to the same nine months of 2007. Eliminating the one-off nitrogen provision release in the 1st quarter of 2007, profit before tax in the 1st nine months of 2008 increased by 13.2%. The Company invested 201.0 mln EEK, of which 174.2 mln EEK was invested in network extension and rehabilitation.

<i>mln EEK</i>	3 Q 2008	3 Q 2007	Change	9 months 2008	9 months 2007	Change
Sales	225,3	168,7	33,6%	670,4	550,4	21,8%
Main operating activities	174,0	157,1	10,7%	537,2	482,6	11,3%
Other operating activities	51,3	11,5	344,5%	133,2	67,8	96,5%
Gross profit	115,1	104,8	9,9%	352,2	334,3	5,3%
Gross profit margin %	51,1	62,1	-17,7%	52,5	60,7	-13,5%
Operating profit	99,4	88,5	12,4%	301,4	284,0	6,1%
Operating profit margin %	44,1	52,4	-15,8%	45,0	51,6	-12,9%
Profit before taxes	89,2	76,7	16,3%	269,3	251,2	7,2%
Profit before taxes margin %	39,6	45,5	-12,9%	40,2	45,6	-12,0%
Net profit	88,4	76,7	15,3%	203,1	195,9	3,7%
ROA %	3,6	3,1	15,3%	8,3	8,0	3,7%
Debt to total capital employed	53,1%	52,9%	0,3%	53,1%	52,9%	0,3%

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

3rd quarter 2008

Sales

In the 3rd quarter of 2008 the Company's total sales increased, year on year, by 33.6% to 225.3 mln EEK. Sales from the Company's main operating activities were 174.0 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 159.4 mln EEK, a 10.2% increase compared to the 3rd 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 8.2% to 83.8 mln EEK. Sales to commercial customers increased by 8.5% to 65.0 mln EEK. Sales to customers outside of the service area – primarily bulk volumes of wastewater treatment services provided to the surrounding municipalities – increased by 62.3% reaching 1.04 mln m³ or 7.3 mln EEK. Over pollution fees received were 3.2 mln EEK, 20.5% increase compared to the 3rd quarter of 2007.

In the 3rd quarter of 2008, the volumes sold to residential customers dropped 3.1% or 224 thousand m³. We believe that this is mainly related to the fact that people are moving to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 2.9% 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 stays relatively unchanged from last year. Although slightly lower than in 2007, the number of new apartments and business buildings being constructed this year in Tallinn remains 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 62.3% in the 3rd 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 10.7% to 11.4 mln EEK in the 3rd 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.

Sales revenues from other operating activities, mainly connections and storm water construction, totaled 51.3 mln EEK which is 39.8 mln EEK more than in the 3rd quarter of 2007. Before 2008 a considerable amount of works and revenues were confirmed and recorded in the first quarter. According to the new contract concluded with the City of Tallinn on 30th November 2007, the revenue flow is more even throughout the year. Starting from March 2008 the revenue in this line is mainly calculated using the Tallinn domestic water sales volumes and fixed development rate per cubic meter, supplemented by the fee payable for the storm water constructions. This revenue line goes in pairs with the Cost of goods sold from other operating activities, where the respective costs of the constructions are recorded.

Cost of Goods Sold and Gross Margin

The cost of goods sold for the main operating activity was 64.4 mln EEK in the 3rd quarter of 2008, an increase of 9.2 mln EEK or 16.6% from the equivalent period in 2007.

In the 3rd quarter of 2008 the Company did not record any non-compliant wastewater samples and as a result of this achieved the beneficial 0.5 coefficient for pollution tax. The pollution tax payable for the 3rd quarter of 2008 was 2.0 mln EEK compared to 1.7 mln EEK in 3rd quarter of 2007. This increase in pollution tax is due to the combination of the beneficial coefficient and increase in tax rates year on year by 20%, supplemented by 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 fourth quarter of 2008.

The chemical costs were 6.6 mln EEK, this represents an 19.9% 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 1.2 mln EEK or 18.0% in the 3rd quarter of 2008 compared to the 3rd quarter of 2007 due to higher electricity prices combined with volumes treated.

Salary expenses increased in the 3rd quarter of 2008, year on year, by 2.9 mln EEK or 27.3% 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 an other. Eliminating these structural changes would give us 19.0% increase in salaries. This is in line with the increase in average salaries in the Estonian market.

Depreciation charges increased in the 3rd quarter of 2008 by 2.3 mln EEK or 13.1% 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 1.2 mln EEK, or 11.6% 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. But on the other hand it reflects Company's achievements to reduce costs by optimizing operations.

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 3rd quarter of 2008 was 115.1 mln EEK, which is an increase of 10.3 mln EEK, or 9.9%, compared to the gross profit of 104.8 mln EEK for the 3rd quarter of 2007.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.4 mln EEK to 2.8 mln EEK during the 3rd 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.

General administration expenses decreased by 0.2 mln EEK to 11.9 mln EEK in the 3rd quarter of 2008 year on year, mainly as a consequence of structural changes.

Included within all the above cost categories are staff costs. These totaled 18.7 mln EEK in the 3rd quarter of 2008, which is a 3.1 mln EEK or 19.6% increase compared to the same period in 2007. As mentioned earlier this was mainly due to the wide revision of salaries at the beginning of 2008.

Other net income/expenses totaled an expense of 1.0 mln EEK in the 3rd quarter of 2008 compared to an expense of 1.1 mln EEK in the 3rd quarter of 2007.

As a result of all of the above the Company's operating profit for the 3rd quarter of 2008 was 99.4 mln EEK, an increase of 10.9 mln EEK compared to an operating profit of 88.5 mln EEK achieved in the 3rd quarter of 2007. Compared to the operating profit in the 3rd quarter of 2007, the operating profit has increased 12.4%.

Financial expenses

Net Financial expenses were 10.2 mln EEK in the 3rd quarter of 2008, which is a decrease of 1.5 mln EEK or 12.9% compared to the 3rd quarter of 2007. The Company's interest costs have increased by 7.6% compared to the 3rd 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 3rd quarter of 2008, as a result of a more favourable cash position and increasing interest rates. Also favorable interest SWAP position had a positive effect of 1.6 mln EEK in the 3rd quarter of 2008.

Profit Before Tax

The Company's profit before taxes for the 3rd quarter of 2008 was 89.2 mln EEK, which is 12.5 mln EEK higher than the profit before taxes of 76.7 mln EEK for the 3rd quarter of 2007.

Results for the 1st nine months of 2008

During the 1st nine months of 2008 the Company's total sales increased, year on year, by 21.8% to 670.4 mln EEK. Sales from the Company's main operating activities were 537.2 mln EEK. Sales of water and wastewater treatment were 494.4 mln EEK, a 10.4% increase compared to the 1st nine months of 2007.

The Company's profit before taxes for the 1st nine months of 2008 was 269.3 mln EEK, which is 18.1 mln EEK higher than the profit before taxes of 251.2 mln EEK in the relevant period in 2007. The results for the 1st nine 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 13.3 mln EEK for environmental taxes. Looking at the underlying profit before taxes for the 1st nine months of 2007, it shows a 31.4 mln EEK or 13.2% increase in 2008 for the same period.

Balance sheet

During the 1st nine months of 2008 the Company invested 201.0 mln EEK into fixed assets. Non-current assets were 2,199 mln EEK at 30 September 2008. Current assets decreased by 38.9 mln

EEK to 334.7 mln EEK in the nine months of the year, customer receivables decreased by 72.0 mln EEK. During the 1st nine months of 2008 cash at bank increased by 32.7 mln EEK.

Current liabilities increased by 61.0 mln EEK to 260.3 mln EEK in the nine months of the year. This was mainly due to increases in Current portion of long-term borrowings by 41.5 mln EEK, as result of the reclassification of the loan based on repayment schedule.

The company continues to maintain its leverage level within its target range above 50% with total liabilities to total capital employed of 53.1% as of 30 September 2008. Long-term liabilities stood at 1,084.8 mln EEK at the end of September 2008, consisting almost entirely of the outstanding balance on the two long-term bank loans.

Cash flow

During the 1st nine months of 2008, the Company generated 323.0 mln EEK of cash flows from operating activities, an increase of 52.8 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 nine months of 2008.

In the nine months of 2008 net cash inflows from investing activities were 24.8 mln EEK, which is 123.4 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 nine months the company invested 201.0 mln EEK – 174.2 mln EEK on networks (including 119.4 mln EEK on extension and developments), 11.9 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 6.0 mln EEK on water quality (Ülemiste water treatment plant and raw water) and 8.9 mln EEK for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 315.2 mln EEK during the 1st nine months of 2008 compared to cash outflow of 251.8 mln EEK during the same nine months of 2007, representing the payouts of the dividend and the income tax on dividends of respective years.

As a result of all of the above factors, the total cash inflow in the nine months of 2008 was 32.7 mln EEK compared to a cash outflow of 80.2 mln EEK in the nine months of 2007. Cash and cash equivalents stood at 211.1 mln EEK as at 30 September 2008.

Employees

At the end of the 3rd quarter of 2008, the number of employees was 323, compared to 316 at the end of the 3rd quarter of 2007.

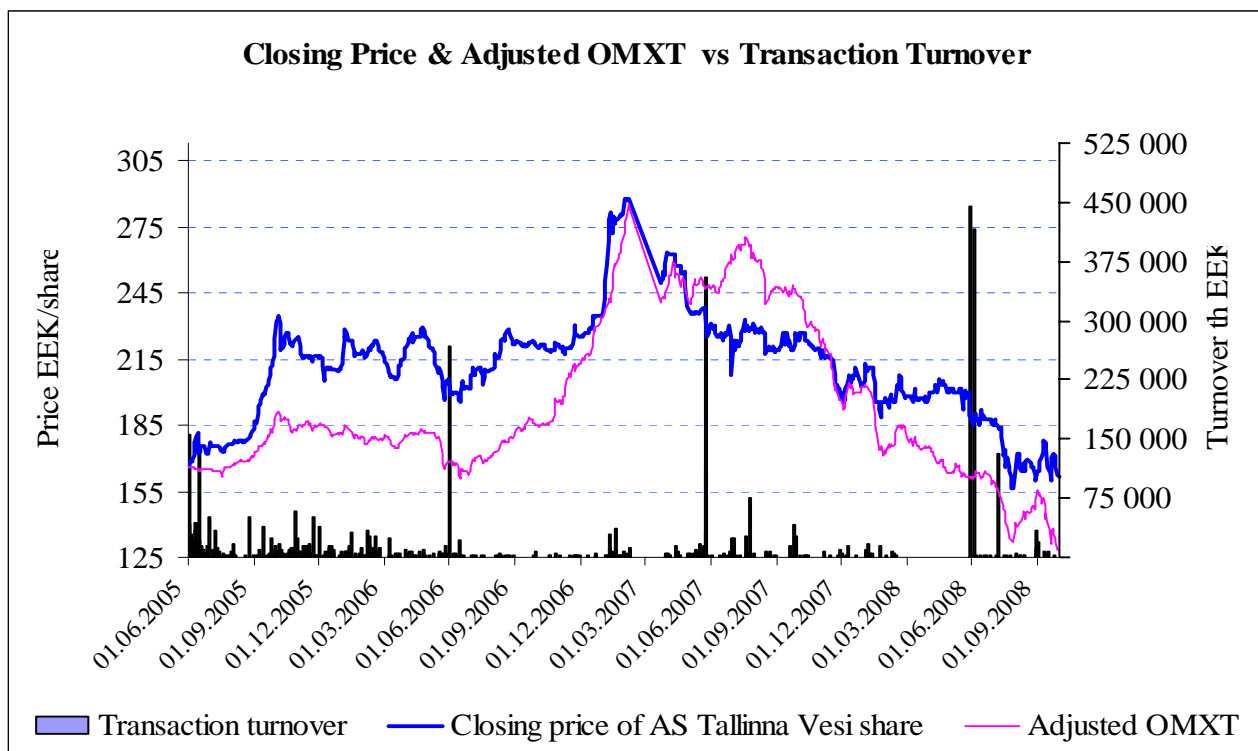
Dividends and share performance

Based on the results of the 2007 financial year, the company paid 249,010,000 EEK of dividends. Of this 10,000 EEK was 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. The dividends were paid out on 13 June 2008, based on the list of shareholders, which was fixed on 30 May 2008.

As of 30 September 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	12.24%
Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C Prime Brokerage Clients	5.76%

At the end of the quarter, 30 September 2008, the closing price of the AS Tallinna Vesi share was 161.32 EEK (10.31 EUR), which is a 12.7% decrease compared to the closing price of 184.79 EEK (11.81 EUR) at the beginning of quarter, this is still outperforming the market as the OMX Tallinn index dropped by 19.3% during the quarter.



Operational highlights in the nine months of 2008

- 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 4.4 mln EEK 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 (9.00 kroons per m³ until 31 December 2011 and 6.10 kroons per m³ in years 2012 to 2017).

- 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, around 9% 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 with City of Tallinn.
- In the 3rd quarter we met again all the norms for the pollutants in the waste water and as result of this the payable pollution tax decreased by 50% compared to the regular rate, giving 1.9 mln EEK positive impact to the P&L and cash flows of the company.
- We are pleased to report that on 5th August the company concluded an operating agreement with Maardu City and Maardu Vesi. When the operating contract comes into force from 1st January 2009, 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 approximately 20 mln EEK annually. The financing commitment of AS Tallinna Vesi is up to a total of 80 mln EEK 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 area 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. Tallinna Vesi shall start to operate the assets and provide full service at the latest from 1 January 2009 after the preparation period during which the assets are taken over. AS Maardu Vesi shall still remain the owner of all assets.

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 nine months period of financial year 2008 ended 30 September 2008. The interim accounts have not been reviewed by the auditors.

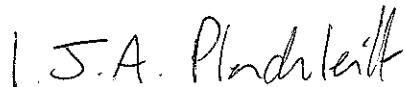
The condensed financial statements for the nine months period of financial year 2008 ended 30 September 2008 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed 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 occurred during the first nine 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 three 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 13 October 2008 have been assessed as part of this review.

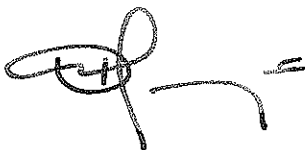
The company is carrying on its activities as a going concern.



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

13 October 2008

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the nine months period of the financial year 2008

CONDENSED BALANCE SHEETS

(thousand EEK)

ASSETS	Note	2008	30 September 2007	31 December 2007
CURRENT ASSETS				
Cash at bank and in hand	2	211 080	169 252	178 420
Customer receivables		113 193	81 618	185 223
Accrued income and prepaid expenses		5 533	5 581	5 179
Inventories		3 800	3 015	3 645
Assets for sale		1 104	1 680	1 120
TOTAL CURRENT ASSETS		334 710	261 146	373 587
NON-CURRENT ASSETS				
Tangible assets	3	2 004 682	1 919 273	1 992 978
Intangible assets	3	42 145	48 266	49 137
Unfinished assets - non connections	3	61 567	90 495	48 034
Unfinished pipelines - new connections	3	88 561	124 873	90 057
Prepayments for fixed assets	3	1 854	3 099	5 399
TOTAL NON-CURRENT ASSETS		2 198 809	2 186 006	2 185 605
TOTAL ASSETS		2 533 519	2 447 152	2 559 192
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term borrowings		82 942	0	41 486
Trade and other payables		101 796	65 478	86 966
Taxes payable		17 981	14 143	26 486
Short-term provisions		2 487	2 231	2 231
Deferred income		55 060	46 070	42 099
TOTAL CURRENT LIABILITIES		260 266	127 922	199 268
NON-CURRENT LIABILITIES				
Bank loans		1 084 694	1 166 758	1 125 491
Other payables		121	113	113
TOTAL NON-CURRENT LIABILITIES		1 084 815	1 166 871	1 125 604
TOTAL LIABILITIES		1 345 081	1 294 793	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		378 309	349 479	349 479
Net profit for the period		203 128	195 879	277 840
TOTAL EQUITY CAPITAL		1 188 438	1 152 359	1 234 320
TOTAL LIABILITIES AND EQUITY CAPITAL		2 533 519	2 447 152	2 559 192

I. J. A. Pindl

Chairman of the Management Board: ¹¹

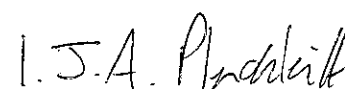
AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the nine months period of the financial year 2008

CONDENSED INCOME STATEMENTS

(thousand EEK)

	Note	Quarter 3		9 months		Year ended 31
		2008	2007	2008	2007	December
		2008	2007	2008	2007	2007
Sales from main operating activities	4	173 975	157 128	537 206	482 623	648 335
Revenues from other operating activities	4	51 294	11 541	133 193	67 798	172 437
Net sales		225 269	168 669	670 399	550 421	820 772
Costs of goods sold (main operating activities)	5,6	-64 392	-55 202	-198 768	-157 207	-216 677
Costs of goods sold (other operating activities)	6	-45 729	-8 709	-119 440	-58 867	-158 187
GROSS PROFIT		115 148	104 758	352 191	334 347	445 908
Marketing expenses	5,6	-2 797	-3 182	-9 231	-9 709	-13 547
General administration expenses	5,6	-11 875	-12 061	-40 597	-41 571	-56 849
Other income/ expenses (-)	6	-1 039	-1 064	-1 012	908	1 850
OPERATING PROFIT		99 437	88 451	301 351	283 975	377 362
Financial income / expenses (-)	7	-10 219	-11 738	-32 030	-32 811	-44 237
PROFIT BEFORE TAXES		89 218	76 713	269 321	251 164	333 125
Income tax on dividends	8	0	0	-66 193	-55 285	-55 285
NET PROFIT FOR THE PERIOD		89 218	76 713	203 128	195 879	277 840
Attributable to:						
Equity holders of A-shares		89 208	76 703	203 118	195 869	277 830
B-share holder		10	10	10	10	10
Earnings per share in kroons	9	4,46	3,84	10,16	9,79	13,89



Chairman of the Management Board:

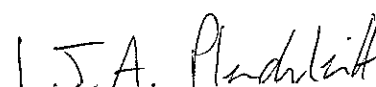
AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the nine months period of the financial year 2008

CONDENSED CASH FLOW STATEMENTS

(thousand EEK)

	9 months		Year ended 31
	2008	2007	December 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	301 351	283 975	377 362
Adjustment for depreciation	66 571	59 284	79 241
Adjustment for income and expenses from constructions	-13 753	-8 931	-14 250
Other financial income and expenses	-262	-247	-1 585
Profit(-) / loss(+) from sale of fixed assets	-132	12	-2 422
Expensed fixed assets	0	0	476
Capitalization of operating expenses	-17 634	-14 406	-19 764
Movement in current assets involved in operating activities	15 826	-5 619	-32 062
Movement in liabilities involved in operating activities	-665	-17 999	-327
Interest paid	-28 275	-25 849	-52 986
Total cash flow from operating activities	323 027	270 220	333 683
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	-190 141	-180 561	-265 951
Proceeds from pipelines financed by construction income	202 361	74 671	101 840
Proceeds from sale of and prepayments received for fixed assets	145	17	390
Proceeds from sale of assets and real estate investments	0	233	242
Interest received	12 471	7 027	10 571
Total cash flow from investing activities	24 836	-98 613	-152 908
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments	0	-473	-473
Dividends paid	-249 010	-196 010	-196 010
Income tax on dividends	-66 193	-55 285	-55 285
Total cash flow from financing activities	-315 203	-251 768	-251 768
Change in cash and bank accounts	32 660	-80 161	-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	211 080	169 252	178 420



Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the nine months period of the financial year 2008

CONDENSED STATEMENTS OF CHANGES IN EQUITY

(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
Dividends	0	0	0	-196 010	0	-196 010
Net profit of the financial period	0	0	0	0	195 879	195 879
30 September 2007	200 001	387 000	20 000	349 479	195 879	1 152 359
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
Dividends	0	0	0	-249 010	0	-249 010
Net profit of the financial period	0	0	0	0	203 128	203 128
30 September 2008	200 001	387 000	20 000	378 309	203 128	1 188 438

I. J. A. Raudkivi
Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM ACCOUNTS

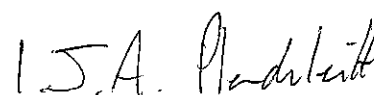
(thousand EEK)

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

	9 months		Year ended 31 December
	2008	2007	2007
Cash at bank and in hand	2 361	37 044	37 838
Short term deposits	208 719	132 208	140 582
	211 080	169 252	178 420



Chairman of the Management Board:

AS TALLINNA VESI
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NOTES TO THE INTERIM ACCOUNTS

(thousand EEK)

NOTE 3. TANGIBLE AND INTANGIBLE NON-CURRENT ASSETS

	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	345 074	2 016 934	534 627	17 532	91 676	117 162	2 795	17 543	63 731	3 207 074
Acquisition	0	0	0	0	148 257	135 085	2 611	0	0	285 953
Sale of fixed assets	-1 506	0	-1 505	0	0	0	0	0	0	-3 011
Write-off of fixed assets	-34	-1 319	-13 772	-482	0	0	0	-346	-623	-16 576
Reclassification within balance sheet	0	0	0	0	-170	-2 029	-7	0	0	-2 206
Reclassification to expenses	0	0	0	0	-460	0	0	0	0	-460
Expensed pipelines	0	0	0	0	0	-158 187	0	0	0	-158 187
Reclassification from assets in progress	20 654	119 355	47 058	658	-191 269	-1 974	0	1 809	3 709	0
31.12.2007	364 188	2 134 970	566 408	17 708	48 034	90 057	5 399	19 006	66 817	3 312 587
Acquisition	0	0	0	0	81 666	119 367	0	0	0	201 033
Sale of fixed assets	0	0	-218	0	0	0	0	0	0	-218
Write-off of fixed assets	-63	-318	-4 880	-17	0	0	0	0	-91	-5 369
Reclassification within balance sheet	0	0	0	0	-317	-1 423	-77	0	0	-1 817
Expensed pipelines	0	0	0	0	0	-119 440	0	0	0	-119 440
Reclassification from assets in progress	3 927	49 478	16 167	770	-67 816	0	-3 468	0	942	0
30.09.2008	368 052	2 184 130	577 477	18 461	61 567	88 561	1 854	19 006	67 668	3 386 776
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	3 176	28 441	26 094	926	0	0	0	1 569	6 365	66 571
Depreciation of fixed assets sold and written-off (-)	-63	-318	-5 097	-17	0	0	0	0	-91	-5 586
30.09.2008	66 506	701 496	363 013	12 423	0	0	0	14 549	29 980	1 187 967
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
30.09.2008	301 546	1 482 634	214 464	6 038	61 567	88 561	1 854	4 457	37 688	2 198 809

Fixed assets are written off if the condition of the asset does not enable further usage for production purposes.
As of 30 September 2008 and 2007 there was no finance lease contract.

J. S. A. Pindak

Chairman of the Management Board:

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(thousand EEK)

NOTE 4. NET SALES	Quarter 3		9 months		Year ended 31
	2008	2007	2008	2007	December 2007
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	159 373	144 578	494 420	447 814	599 612
<u>Domestic clients, incl:</u>	<u>83 805</u>	<u>77 453</u>	<u>259 801</u>	<u>238 348</u>	<u>318 963</u>
Water supply service	46 853	43 380	145 127	133 338	178 452
Waste water disposal service	36 952	34 073	114 674	105 010	140 511
<u>Corporate clients, incl:</u>	<u>65 002</u>	<u>59 924</u>	<u>204 814</u>	<u>189 062</u>	<u>252 658</u>
Water supply service	36 346	33 515	114 150	103 675	138 693
Waste water disposal service	28 656	26 409	90 664	85 387	113 965
<u>Outside service area clients, incl:</u>	<u>7 322</u>	<u>4 510</u>	<u>19 501</u>	<u>12 780</u>	<u>17 676</u>
Water supply service	608	391	1 614	1 125	1 541
Waste water disposal service	6 714	4 119	17 887	11 655	16 135
<u>Overpollution</u>	<u>3 244</u>	<u>2 691</u>	<u>10 304</u>	<u>7 624</u>	<u>10 315</u>
Stormwater treatment and disposal service	10 765	9 712	31 984	26 729	37 426
Fire hydrants service	590	541	1 775	1 641	2 361
Other works and services	3 247	2 297	9 027	6 439	8 936
Total revenues from main operating activities	173 975	157 128	537 206	482 623	648 335
Revenues from other operating activities					
Water, sewerage and storm water connections construction income	51 294	11 541	133 193	67 798	172 437
TOTAL NET SALES	225 269	168 669	670 399	550 421	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	Quarter 3		9 months		Year ended 31
	2008	2007	2008	2007	December 2007
Salaries and wages	-14 036	-11 738	-48 231	-40 092	-57 666
Social security taxation	-4 675	-3 909	-16 065	-13 356	-19 203
Staff costs total	-18 711	-15 647	-64 296	-53 448	-76 869
Number of employees at the end of reporting period			323	316	312

I. J. A. Pundelint
Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM ACCOUNTS

(thousand EEK)

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

Cost of goods sold (main operating activities)	Quarter 3		9 months		Year ended 31 December
	2008	2007	2008	2007	2007
Tax on special use of water	-2 647	-2 606	-8 071	-7 865	-10 493
Chemicals	-6 591	-5 498	-17 608	-15 811	-20 979
Electricity	-7 790	-6 500	-21 641	-19 868	-26 382
Pollution tax	-1 994	-1 678	-9 977	7 930	6 207
Staff costs	-13 677	-10 747	-46 166	-36 375	-51 611
Research and development	0	-10	-24	-69	-99
Depreciation and amortization	-20 284	-17 942	-60 885	-54 456	-72 806
Other costs of goods sold	-11 409	-10 221	-34 396	-30 693	-40 514
Total cost of goods sold (main operating activities)	-64 392	-55 202	-198 768	-157 207	-216 677
Cost of goods sold (other operating activities)					
Water, sewerage and storm water connections construction cost	-45 729	-8 709	-119 440	-58 867	-158 187
Marketing Expenses					
Staff costs	-1 058	-1 284	-3 994	-4 199	-6 107
Depreciation and amortization	-1 286	-896	-3 774	-2 646	-3 553
Other marketing expenses	-453	-1 002	-1 463	-2 864	-3 887
Total cost of marketing expenses	-2 797	-3 182	-9 231	-9 709	-13 547
General Administration Expenses					
Staff costs	-3 976	-3 616	-14 136	-12 874	-19 151
Depreciation and amortization	-608	-709	-1 912	-2 182	-2 882
Other general administration expenses	-7 291	-7 736	-24 549	-26 515	-34 816
Total cost of general administration expenses	-11 875	-12 061	-40 597	-41 571	-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.

I. J. A. Pindl
Chairman of the Management Board:

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(thousand EEK)

NOTE 7. FINANCIAL INCOME AND EXPENSES	2008	9 months 2007	Year ended 31 December 2007
Interest income	11 285	7 088	10 861
Interest expenses	-43 053	-39 653	-53 513
Other financial income / expenses (-)	-262	-246	-1 585
Total financial income / expenses	-32 030	-32 811	-44 237

NOTE 8. DIVIDENDS	2008	9 months 2007	Year ended 31 December 2007
Dividends declared during the period	249 010	196 010	196 010
Dividends paid during the period	249 010	196 010	196 010
Income tax on dividends declared	-66 193	-55 285	-55 285
Income tax accounted	-66 193	-55 285	-55 285

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

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	2008	9 months 2007	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)	203 118	195 869	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	10,16	9,79	13,89
Dividends per A-share in kroons	12,45	9,80	9,80
Dividends per B-share in kroons	10 000,00	10 000,00	10 000,00

Diluted earnings per share for the periods ended 30 September 2008 and 2007, and 31 December 2007 are equal to the earnings per share figures stated above.

J. A. Mandelst
Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM ACCOUNTS

(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 30.09.2008 and 30.09.2007 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 9 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	25 344	0
Accounts payable - short-term trade and other payables	0	10 842
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	2 834
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	166 177	0
General administration expenses	0	12 403
2007 for 9 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	1 804	0
Deferred income	1 528	0
Accounts payable - short-term trade and other payables	0	1 957
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	4 083
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	71 108	0
General administration expenses	0	14 431
	9 months	Year ended 31 December
	2008	2007
Management Board fees excluding social tax	1 683	1 483
Supervisory Board fees excluding social tax	450	428
		2 118
		578

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 owned Siiri Lahe 700 AS Tallinna Vesi shares.

Roch Jean Guy Antoine Chéroux was Chairman of the Management Board until 30.09.2008 and as at report generation date he owned 1 000 AS Tallinna Vesi shares.

L. J. A. Chéroux
Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
for the nine months period of the financial year 2008

NOTES TO THE INTERIM ACCOUNTS

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: