

Tallinna Vesi



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

Currency	Thousand euros
Start of reporting period	1 January 2008
End of reporting period	30 September 2008
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Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment

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MANAGEMENT REPORT
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 42.8 mln EUR. 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 1.2 mln EUR. The Company's profit before taxes was 17.2 mln EUR, 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 12.8 mln EUR, of which 11.1 mln EUR was invested in network extension and rehabilitation.

<i>mln EUR</i>	3 Q 2008	3 Q 2007	Change	9 months 2008	9 months 2007	Change
Sales	14,4	10,8	33,6%	42,8	35,2	21,8%
Main operating activities	11,1	10,0	10,7%	34,3	30,8	11,3%
Other operating activities	3,3	0,7	344,5%	8,5	4,3	96,5%
Gross profit	7,4	6,7	9,9%	22,5	21,4	5,3%
Gross profit margin %	51,1	62,1	-17,7%	52,5	60,7	-13,5%
Operating profit	6,4	5,7	12,4%	19,3	18,1	6,1%
Operating profit margin %	44,1	52,4	-15,8%	45,0	51,6	-12,9%
Profit before taxes	5,7	4,9	16,3%	17,2	16,1	7,2%
Profit before taxes margin	39,6	45,5	-12,9%	40,2	45,6	-12,0%
Net profit	5,7	4,9	15,3%	13,0	12,5	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 14.4 mln EUR. Sales from the Company's main operating activities were 11.1 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 10.2 mln EUR, 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 5.4 mln EUR. Sales to commercial customers increased by 8.5% 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 62.3% reaching 1.04 mln m³ or 0.47 mln EUR. Over pollution fees received were 0.20 mln EUR, 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 0.73 mln EUR 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 3.3 mln EUR which is 2.5 mln EUR 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 4.1 mln EUR in the 3rd quarter of 2008, an increase of 0.59 mln EUR 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 0.13 mln EUR compared to 0.11 mln EUR 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 0.42 mln EUR, 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 0.08 mln EUR 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 0.19 mln EUR 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 0.15 mln EUR 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 0.08 mln EUR, 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 7.4 mln EUR, which is an increase of 0.66 mln EUR, or 9.9%, compared to the gross profit of 6.7 mln EUR for the 3rd quarter of 2007.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.03 mln EUR to 0.18 mln EUR 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 0.01 mln EUR to 0.76 mln EUR 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 1.2 mln EUR in the 3rd quarter of 2008, which is a 0.20 mln EUR 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 0.06 mln EUR in the 3rd quarter of 2008 compared to an expense of 0.07 mln EUR 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 6.4 mln EUR, an increase of 0.70 mln EUR compared to an operating profit of 5.7 mln EUR 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 0.65 mln EUR in the 3rd quarter of 2008, which is a decrease of 0.10 mln EUR 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 0.10 mln EUR in the 3rd quarter of 2008.

Profit Before Tax

The Company's profit before taxes for the 3rd quarter of 2008 was 5.7 mln EUR, which is 0.80 mln EUR higher than the profit before taxes of 4.9 mln EUR 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 42.8 mln EUR. Sales from the Company's main operating activities were 34.3 mln EUR. Sales of water and wastewater treatment were 31.6 mln EUR, 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 17.2 mln EUR, which is 1.2 mln EUR higher than the profit before taxes of 16.1 mln EUR 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 0.85 mln EUR for environmental taxes. Looking at the underlying profit before taxes for the 1st nine months of 2007, it shows a 2.0 mln EUR or 13.2% increase in 2008 for the same period.

Balance sheet

During the 1st nine months of 2008 the Company invested 12.8 mln EUR into fixed assets. Non-current assets were 140.5 mln EUR at 30 September 2008. Current assets decreased by 2.5 mln

EUR to 21.4 mln EUR in the nine months of the year, customer receivables decreased by 4.6 mln EUR. During the 1st nine months of 2008 cash at bank increased by 2.1 mln EUR.

Current liabilities increased by 3.9 mln EUR to 16.6 mln EUR in the nine 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.

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 69.3 mln EUR 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 20.6 mln EUR of cash flows from operating activities, an increase of 3.4 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 nine months of 2008.

In the nine months of 2008 net cash inflows from investing activities were 1.6 mln EUR, which is 7.9 mln EUR 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 12.8 mln EUR – 11.1 mln EUR on networks (including 7.6 mln EUR on extension and developments), 0.76 mln EUR at Paljassaare wastewater treatment plant and sludge treatment, 0.38 mln EUR on water quality (Ülemiste water treatment plant and raw water) and 0.57 mln EUR for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 20.1 mln EUR during the 1st nine months of 2008 compared to cash outflow of 16.1 mln EUR 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 2.1 mln EUR compared to a cash outflow of 5.1 mln EUR in the nine months of 2007. Cash and cash equivalents stood at 13.5 mln EUR 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.

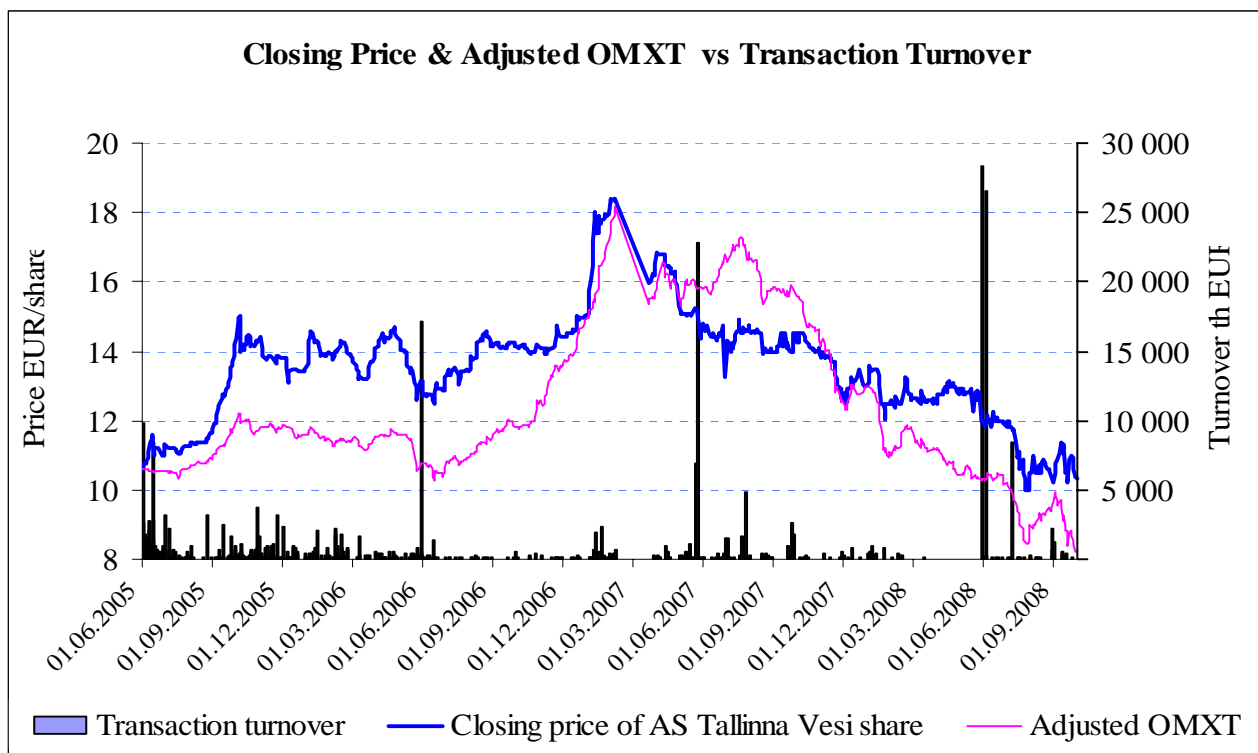
Dividends and share performance

Based on the results of the 2007 financial year, the company paid 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 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 10.31 EUR, which is a 12.7% decrease compared to the closing price of 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 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 euros per m³ until 31 December 2011 and 0.39 euros 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 0.12 mln EUR 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 1.3 mln EUR annually. The financing commitment of AS Tallinna Vesi is 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 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

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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.

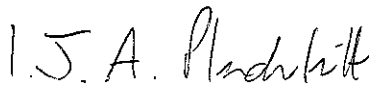
The condensed financial statements for the nine months period of financial year 2008 ended 30 September 2008 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed 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 EUR)

ASSETS	Note	2008	30 September 2007	31 December 2007
CURRENT ASSETS				
Cash at bank and in hand	2	13 490	10 817	11 403
Customer receivables		7 234	5 216	11 838
Accrued income and prepaid expenses		354	357	331
Inventories		243	193	233
Assets for sale		71	107	72
TOTAL CURRENT ASSETS		21 392	16 690	23 877
NON-CURRENT ASSETS				
Tangible assets	3	128 123	122 664	127 375
Intangible assets	3	2 694	3 085	3 140
Unfinished assets - non connections	3	3 935	5 784	3 070
Unfinished pipelines - new connections	3	5 660	7 981	5 756
Prepayments for fixed assets	3	118	198	345
TOTAL NON-CURRENT ASSETS		140 530	139 711	139 686
TOTAL ASSETS		161 921	156 402	163 562
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term borrowings		5 301	0	2 651
Trade and other payables		6 506	4 185	5 558
Taxes payable		1 149	904	1 693
Short-term provisions		159	143	143
Deferred income		3 519	2 944	2 691
TOTAL CURRENT LIABILITIES		16 634	8 176	12 736
NON-CURRENT LIABILITIES				
Bank loans		69 325	74 569	71 932
Other payables		8	7	7
TOTAL NON-CURRENT LIABILITIES		69 332	74 577	71 939
TOTAL LIABILITIES		85 966	82 752	84 675
EQUITY CAPITAL				
Share capital		12 782	12 782	12 782
Share premium		24 734	24 734	24 734
Statutory legal reserve		1 278	1 278	1 278
Accumulated profit		24 178	22 336	22 336
Net profit for the period		12 982	12 519	17 757
TOTAL EQUITY CAPITAL		75 955	73 649	78 887
TOTAL LIABILITIES AND EQUITY CAPITAL		161 921	156 402	163 562

AS TALLINNA VESI

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

CONDENSED INCOME STATEMENTS

(thousand EUR)

	Note	Quarter 3		9 months		Year ended 31
		2008	2007	2008	2007	December
		2008	2007	2008	2007	2007
Sales from main operating activities	4	11 119	10 042	34 334	30 845	41 436
Revenues from other operating activities	4	3 278	738	8 513	4 333	11 021
Net sales		14 397	10 780	42 846	35 178	52 457
Costs of goods sold (main operating activities)	5,6	-4 115	-3 528	-12 704	-10 047	-13 848
Costs of goods sold (other operating activities)	6	-2 923	-557	-7 634	-3 762	-10 110
GROSS PROFIT		7 359	6 695	22 509	21 369	28 499
Marketing expenses	5,6	-179	-203	-590	-621	-866
General administration expenses	5,6	-759	-771	-2 595	-2 657	-3 633
Other income/ expenses (-)	6	-66	-68	-65	58	118
OPERATING PROFIT		6 355	5 653	19 260	18 149	24 118
Financial income / expenses (-)	7	-653	-750	-2 047	-2 097	-2 827
PROFIT BEFORE TAXES		5 702	4 903	17 213	16 052	21 291
Income tax on dividends	8	0	0	-4 231	-3 533	-3 533
NET PROFIT FOR THE PERIOD		5 702	4 903	12 982	12 519	17 757
Attributable to:						
Equity holders of A-shares		5 701	4 902	12 982	12 518	17 757
B-share holder		0,64	0,64	0,64	0,64	0,64
Earnings per share in euros	9	0,29	0,25	0,65	0,63	0,89


 Chairman of the Management Board:

AS TALLINNA VESIUnaudited Interim Condensed Financial Statements
for the nine months period of the financial year 2008**CONDENSED CASH FLOW STATEMENTS**

(thousand EUR)

	9 months		Year ended 31 December
	2008	2007	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit	19 260	18 149	24 118
Adjustment for depreciation	4 255	3 789	5 064
Adjustment for income and expenses from constructions	-879	-571	-911
Other financial income and expenses	-17	-16	-101
Profit from sale of fixed assets	-8	1	-155
Expensed fixed assets	0	0	30
Capitalization of operating expenses	-1 127	-921	-1 263
Movement in current assets involved in operating activities	1 011	-359	-2 049
Movement in liabilities involved in operating activities	-43	-1 150	-21
Interest paid	-1 807	-1 652	-3 386
Total cash flow from operating activities	20 645	17 270	21 326
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of fixed assets (incl pipelines construction)	-12 152	-11 540	-16 997
Proceeds from pipelines financed by construction income	12 933	4 772	6 509
Proceeds from sale of and prepayments received for fixed assets	9	1	25
Proceeds from sale of assets and real estate investments	0	15	15
Interest received	797	449	676
Total cash flow from investing activities	1 587	-6 303	-9 773
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments	0	-30	-30
Dividends paid	-15 915	-12 527	-12 527
Income tax on dividends	-4 231	-3 533	-3 533
Total cash flow from financing activities	-20 145	-16 091	-16 091
Change in cash and bank accounts	2 087	-5 123	-4 537
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD	11 403	15 940	15 940
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	13 490	10 817	11 403

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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 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
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 period	0	0	0	0	12 519	12 519
30 September 2007	12 782	24 734	1 278	22 336	12 519	73 649
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	12 982	12 982
30 September 2008	12 782	24 734	1 278	24 178	12 982	75 955

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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

(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.

NOTE 2. CASH AND CASH EQUIVALENTS

	9 months		Year ended 31 December
	2008	2007	2007
Cash at bank and in hand	151	2 368	2 418
Short term deposits	13 340	8 450	8 985
	13 490	10 817	11 403

Chairman of the Management Board: 

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(thousand EUR)

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	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
Reclassification to expenses	0	0	0	0	-29	0	0	0	0	-29
Expensed pipelines	0	0	0	0	0	-10 110	0	0	0	-10 110
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	5 219	7 629	0	0	0	12 848
Sale of fixed assets	0	0	-14	0	0	0	0	0	0	-14
Write-off of fixed assets	-4	-20	-312	-1	0	0	0	0	-6	-343
Reclassification within balance sheet	0	0	0	0	-20	-91	-5	0	0	-116
Expensed pipelines	0	0	0	0	0	-7 634	0	0	0	-7 634
Reclassification from assets in progress	251	3 162	1 033	49	-4 334	0	-222	0	60	0
30.09.2008	23 523	139 591	36 908	1 180	3 935	5 660	118	1 215	4 325	216 454
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	203	1 818	1 668	59	0	0	0	100	407	4 255
Depreciation of fixed assets sold and written-off (-)	-4	-20	-326	-1	0	0	0	0	-6	-357
30.09.2008	4 251	44 834	23 201	794	0	0	0	930	1 916	75 925
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
30.09.2008	19 272	94 758	13 707	386	3 935	5 660	118	285	2 409	140 530

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.

AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(thousand EUR)

NOTE 4. NET SALES	Quarter 3		9 months		Year ended 31 December
	2008	2007	2008	2007	2007
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	10 186	9 240	31 599	28 621	38 322
<u>Domestic clients, incl:</u>	<u>5 356</u>	<u>4 950</u>	<u>16 604</u>	<u>15 233</u>	<u>20 385</u>
Water supply service	2 994	2 772	9 275	8 522	11 405
Waste water disposal service	2 362	2 178	7 329	6 711	8 980
<u>Corporate clients, incl:</u>	<u>4 154</u>	<u>3 830</u>	<u>13 090</u>	<u>12 083</u>	<u>16 148</u>
Water supply service	2 323	2 142	7 296	6 626	8 864
Waste water disposal service	1 831	1 688	5 794	5 457	7 284
<u>Outside area clients, incl:</u>	<u>468</u>	<u>288</u>	<u>1 246</u>	<u>817</u>	<u>1 130</u>
Water supply service	39	25	103	72	98
Waste water disposal service	429	263	1 143	745	1 031
<u>Overpollution</u>	<u>207</u>	<u>172</u>	<u>659</u>	<u>487</u>	<u>659</u>
Stormwater treatment and disposal service	688	621	2 044	1 708	2 392
Fire hydrants service	38	35	113	105	151
Other works and services	208	147	577	412	571
Total revenues from main operating activities	11 119	10 042	34 334	30 845	41 436
Revenues from other operating activities					
Water, sewerage and storm water connections construction income	3 278	738	8 513	4 333	11 021
TOTAL NET SALES	14 397	10 780	42 846	35 178	52 457

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 December
	2008	2007	2008	2007	2007
Salaries and wages	-897	-750	-3 083	-2 562	-3 686
Social security taxation	-299	-250	-1 027	-854	-1 227
Staff costs total	-1 196	-1 000	-4 109	-3 416	-4 913
Number of employees at the end of reporting period			323	316	312

Chairman of the Management Board: 

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM ACCOUNTS

(thousand EUR)

NOTE 6. COSTS AND EXPENSES

Cost of goods sold (main operating activities)	Quarter 3		9 months		Year ended 31
	2008	2007	2008	2007	December
Tax on special use of water	-169	-167	-516	-503	-671
Chemicals	-421	-351	-1 125	-1 011	-1 341
Electricity	-498	-415	-1 383	-1 270	-1 686
Pollution tax	-127	-107	-638	507	397
Staff costs	-874	-687	-2 951	-2 325	-3 299
Research and development	0	-1	-2	-4	-6
Depreciation and amortization	-1 296	-1 147	-3 891	-3 480	-4 653
Other costs of goods sold	-729	-653	-2 198	-1 962	-2 589
Total cost of goods sold (main operating activities)	-4 115	-3 528	-12 704	-10 047	-13 848
Cost of goods sold (other operating activities)					
Water, sewerage and storm water connections construction cost	-2 923	-557	-7 634	-3 762	-10 110
Marketing Expenses					
Staff costs	-68	-82	-255	-268	-390
Depreciation and amortization	-82	-57	-241	-169	-227
Other marketing expenses	-29	-64	-94	-183	-248
Total cost of marketing expenses	-179	-203	-590	-621	-866
General Administration Expenses					
Staff costs	-254	-231	-903	-823	-1 224
Depreciation and amortization	-39	-45	-122	-139	-184
Other general administration expenses	-466	-494	-1 569	-1 695	-2 225
Total cost of general administration expenses	-759	-771	-2 595	-2 657	-3 633

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:

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AS TALLINNA VESI

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NOTES TO THE INTERIM ACCOUNTS

(thousand EUR)

NOTE 7. FINANCIAL INCOME AND EXPENSES	9 months		Year ended 31
	2008	2007	December 2007
Interest income	721	453	694
Interest expense	-2 752	-2 534	-3 420
Other financial income / expenses (-)	-17	-16	-101
Total financial income / expenses	-2 047	-2 097	-2 827

NOTE 8. DIVIDENDS	9 months		Year ended 31
	2008	2007	December 2007
Dividends declared during the period	15 915	12 527	12 527
Dividends paid during the period	15 915	12 527	12 527
Income tax on dividends declared	-4 231	-3 533	-3 533
Income tax accounted	-4 231	-3 533	-3 533

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

NOTE 9. EARNINGS AND DIVIDENDS PER SHARE

	9 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)	12 982	12 518	17 757
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 euros	0,65	0,63	0,89
Dividends per A-share in euros	0,80	0,63	0,63
Dividends per B-share in euros	639,12	639,12	639,12

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.

Chairman of the Management Board:

AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements
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NOTES TO THE INTERIM ACCOUNTS

(thousand EUR)

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

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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	1 620	0
Accounts payable - short-term trade and other payables	0	693
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	181
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	10 621	0
General administration expenses	0	793
2007 for 9 months		
Transactions recorded in Working Capital on the Balance Sheet of AS Tallinna Vesi		
Customer receivables	115	0
Deferred income	98	0
Accounts payable - short-term trade and other payables	0	125
Transactions recorded to other accounts on the Balance Sheet of AS Tallinna Vesi		
Non-current assets incl unfinished assets and new connections	0	261
Transactions recorded to the Income Statement of AS Tallinna Vesi		
Net sales	4 545	0
General administration expenses	0	922

	2008	9 months 2007	Year ended 31 December 2007
Management Board fees excluding social tax	108	95	135
Supervisory Board fees excluding social tax	29	27	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 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.

Chairman of the Management Board: 

AS TALLINNA VESI

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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

On 4 July 2008 United Utilities (Tallinn) B.V. recalled David Leonard Fuller from the Supervisory Board and appointed Steven Richard Fraser as the new member of the Supervisory Board.