

*Tallinna Vesi*



AS Tallinna Vesi  
Results of operations – for the 3<sup>rd</sup> quarter of 2009

Currency	Thousand kroons
Start of reporting period	1 January 2009
End of reporting period	30 September 2009
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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 3<sup>rd</sup> QUARTER 2009**

**Overview**

During the first nine months of 2009 the Company's total sales increased, year on year, by 6.2% to 570.7 mln EEK. The Company's profit before taxes was 275.5 mln EEK, which is a 2.3% increase compared to the same nine months of 2008. In 2009 the Company invested 149.9 mln EEK, of which 118.5 mln EEK was invested in network extension and rehabilitation.

<i>mln EEK</i>	<b>3 Q 2009</b>	<b>3 Q 2008</b>	<b>Change</b>	<b>9 months 2009</b>	<b>9 months 2008</b>	<b>Change</b>
Sales	189,0	174,0	8,6%	570,7	537,2	6,2%
Gross profit	119,2	109,6	8,7%	366,0	338,4	8,1%
Gross profit margin %	63,1	63,0	0,1%	64,1	63,0	1,8%
Operating profit	109,8	99,4	10,4%	327,7	301,4	8,7%
Operating profit margin %	58,1	57,2	1,7%	57,4	56,1	2,4%
Profit before taxes	102,6	89,2	15,0%	275,5	269,3	2,3%
Net profit	102,6	89,2	15,0%	214,4	203,1	5,5%
Net profit margin %	54,3	51,3	5,9%	37,6	37,8	-0,6%
ROA %	4,0	3,5	13,6%	8,4	8,0	4,2%
Debt to total capital employed	50,7	53,1	-4,6%	50,7	53,1	-4,6%

*Gross profit margin – Gross profit / Net sales*

*Operating profit margin – Operating profit / Net sales*

*Net Profit margin – Net Profit / Net sales*

*ROA – Net profit / Total Assets*

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

**Profit and Loss Statement**

3<sup>rd</sup> quarter 2009

*Sales*

In the 3<sup>rd</sup> quarter of 2009 the Company's total sales increased, year on year, by 8.6% to 189.0 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. Starting from 1 July 2009 the sales to the outside service area includes sales from a 30 year O&M contract signed with the city of Maardu.

Sales of water and wastewater services were 174.1 mln EEK, a 9.2% increase compared to the 3<sup>rd</sup> quarter of 2008, resulting from the 12.8% increase in tariffs from 1 January 2009 for the Company's residential and commercial customers combined with the factors described below.

Included within this amount were the following changes by sectors. Within the service area, sales to residential customers increased by 9.1% to 91.4 mln EEK. Sales to commercial customers increased by 1.3% to 65.9 mln EEK. Sales to customers outside of the service area increased by 72.0% to 12.6 mln EEK, mainly due to the implementation of the Maardu's operating contract. Over pollution fees received were 4.2 mln EEK, a 28.7% increase compared to the 3<sup>rd</sup> quarter of 2008.

In the 3<sup>rd</sup> quarter of 2009, the volumes sold to residential customers dropped 3.3%. We believe that this is due to the combination of the economic recession and the fact that people have continued to move to the surrounding areas of Tallinn.

The volumes sold to commercial customers inside the service area decreased by 10.2% compared to the relevant period in 2008. The majority of the reduction in sales volumes in Tallinn is a result of the macroeconomic impact of companies reducing their production volumes and implementing efficiency measures, supplemented by companies moving to surrounding municipalities.

The sales from the operation and maintenance of the storm water and fire-hydrant system increased by 0.1% to 11.4 mln EEK in the 3<sup>rd</sup> quarter of 2009 compared to the same period in 2008. This is in accordance with the terms and conditions of the contract whereby the storm water and fire hydrant costs are invoiced based on actual costs and volumes treated.

#### *Cost of Goods Sold and Gross Margin*

The cost of goods sold for the main operating activity was 69.8 mln EEK in the 3<sup>rd</sup> quarter of 2009, an increase of 5.4 mln EEK or 8.4% from the equivalent period in 2008.

In the 3<sup>rd</sup> quarter of 2009 the Company did not achieve the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 4.7 mln EEK compared to 2.0 mln EEK in 3<sup>rd</sup> quarter of 2008. In the 3<sup>rd</sup> quarter of 2008 we achieved the 0.5 coefficient, but the increase in pollution tax payable is also impacted by the increase in tax rates year on year by 20%, partly offset by the reduction in treatment volumes. As the pollution level of the incoming sewage has continued to increase the Company has analyzed a range of alternatives to improve the waste water treatment processes and to use the optimum level of chemicals to achieve the 0.5 coefficient in the forthcoming quarters. In the 3<sup>rd</sup> quarter of 2009 an investment into an additional stage of waste water treatment was approved, which will enable the increasing pollution load to be treated to the levels required to achieve these standards.

Chemical costs were 5.7 mln EEK, representing a 12.8% decrease compared to the corresponding period in 2008. This result is the combination of volumes treated, chemicals dosed and the particularly favorable price impact.

Electricity costs increased by 0.3 mln EEK or 4.1% in the 3<sup>rd</sup> quarter of 2009 compared to the 3<sup>rd</sup> quarter of 2008 due to higher electricity prices.

Salary expenses increased in the 3<sup>rd</sup> quarter of 2009, year on year, by 1.5 mln EEK or 11.0% mainly due to the take over of 23 employees from Maardu Vesi.

Depreciation charges decreased in the 3<sup>rd</sup> quarter of 2009 by 0.01 mln EEK or 0.3% year on year.

Transport costs decreased by 0.7 mln EEK, or 13.1% year on year, due to the combination of the reduction in fuel prices and reduced rates for rented machines.

Other cost of goods sold in the main operating activity increased 2.2 mln EEK, or 34.3% year on year, due to the costs of operating in Maardu.

As a result of all of the above the Company's gross profit for the 3<sup>rd</sup> quarter of 2009 was 119.2 mln EEK, which is an increase of 9.6 mln EEK, or 8.7%, compared to the gross profit of 109.6 mln EEK for the 3<sup>rd</sup> quarter of 2008.

#### *Operating Costs and Operating Margin*

Marketing expenses decreased by 0.3 mln EEK to 2.5 mln EEK during the 3<sup>rd</sup> quarter of 2009 compared to the corresponding period in 2008. This is mainly the result of the efficiency program, which via the implementation of a new structure, reallocated part of the costs to the cost of goods sold and general administration expenses in 2009.

In the 3<sup>rd</sup> quarter of 2009 the General administration expenses increased by 0.4 mln EEK to 12.3 mln EEK year on year.

Via successful negotiation of a range of outsourced service contracts new, beneficial rates have been achieved for most of the cost items. The management's target is to achieve further efficiencies through a thorough review of processes and work organization.

#### *Other net income/expenses*

Income/expenses from constructions and government grants totaled a net income of 5.6 mln EEK, in the 3<sup>rd</sup> quarter of 2009 compared to a net income of 5.6 mln EEK in the 3<sup>rd</sup> quarter of 2008. The rest of the other income/expenses totaled an expense of 0.2 mln EEK in the 3<sup>rd</sup> quarter of 2009 compared to an expense of 1.0 mln EEK in the 3<sup>rd</sup> quarter of 2008, from a combination of slightly worsened debt collection balanced by received penalties in 2009. It should be noted however that, more than 99% of debt is collected in a timely manner.

As a result of all of the above the Company's operating profit for the 3<sup>rd</sup> quarter of 2009 was 109.8 mln EEK, an increase of 10.4 mln EEK compared to an operating profit of 99.4 mln EEK achieved in the 3<sup>rd</sup> quarter of 2008. Year on year the operating profit has increased 10.4%.

#### *Financial expenses*

Net Financial expenses were 7.2 mln EEK in the 3<sup>rd</sup> quarter of 2009, which is a decrease of 3.0 mln EEK or 29.5% compared to the 3<sup>rd</sup> quarter of 2008. The Company's interest costs have decreased by 58.9% compared to the 3<sup>rd</sup> quarter of 2008 as a result of the reduction in Euribor rates and the replacement of the loan with a fixed interest rate (4.19% + Euribor rate), by loans with floating interest rates. The Company has still decided to mitigate the floating interest risk in the long term and in May 2009 we concluded 3 interest swap agreements, each with a principal value of 15 mln EUR. All contracts have forward start dates, for a base amount of 30 mln EUR, the forward start date begins on 28 November 2009, and for a base amount of 15 mln EUR the forward start date begins on 28 May 2010. At this point in time the estimated fair value of these swap contracts is negative, therefore the provisions related to the Swap fair value partly offset the interest costs savings and the increase in financial income earned during the 3<sup>rd</sup> quarter of 2009.

### *Profit Before Tax*

The Company's profit before taxes for the 3<sup>rd</sup> quarter of 2009 was 102.6 mln EEK, which is 13.4 mln EEK higher than the profit before taxes of 89.2 mln EEK for the 3<sup>rd</sup> quarter of 2008.

### **Results for the 1<sup>st</sup> nine months of 2009**

During the first nine months of 2009 the Company's total sales increased, year on year, by 6.2% to 570.7 mln EEK. Sales of water and wastewater treatment were 525.1 mln EEK, a 6.2% increase compared to the first nine months of 2008.

The Company's profit before taxes for the first nine months of 2009 was 275.5 mln EEK, which is 6.2 mln EEK higher than the profit before taxes of 269.3 mln EEK in the relevant period in 2008.

The Company's net profit for the first nine months of 2009 was 214.4 mln EEK, which is 11.3 mln EEK higher than the net profit of 203.1 mln EEK in the equivalent period in 2008.

### **Balance sheet**

During the first nine months of 2009 the Company invested 149.9 mln EEK into fixed assets. Non-current assets were 2,199.1 mln EEK at 30 September 2009. Current assets increased by 19.1 mln EEK to 366.5 mln EEK in the first nine months of the year, with customer receivables decreasing by 2.3 mln EEK and cash at bank increasing by 22.0 mln EEK.

Current liabilities decreased by 67.4 mln EEK to 125.0 mln EEK in the first nine months of the year. This was mainly due to decreases in the Current portion of long-term borrowings by 81.2 mln EEK, as a result of the repayment of the EBRD loan in May 2009, a 5.9 mln EEK decrease in Trade payables, and an increase in Customer prepayments of 16.9 mln EEK.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 50.7% as of 30 September 2009. Long-term liabilities stood at 1,175.0 mln EEK at the end of September 2009, consisting almost entirely of the outstanding balance of three long-term bank loans. The current total available loan facility is 95 mln EUR, from which we have drawn down 75 mln EUR. The current weighted average interest margin is 0.55%, for the total available facility the margin is 0.67%.

### **Cash flow**

During the first nine months of 2009, the Company generated 301.7 mln EEK of cash flows from operating activities, a decrease of 39.0 mln EEK compared to the corresponding period in 2008. The reduction in operating cash flows is due to the payment of the one off financial costs of 27 mln EEK related to the repayment of the EBRD loan as discussed in the 2<sup>nd</sup> quarter report. In addition the first quarter of 2008 was positively impacted by proceeds of some big services invoices issued at end of 2007. Underlying operating profit still continues to be the main driver for growth in operating cash flows.

In the first nine months of 2009 net cash inflows from investing activities were 14.1 mln EEK, which is 6.9 mln EEK more than in 2008. This is mainly due to the lower construction prices and

timing of constructions. In 2009 the Company invested 149.9 mln EEK – 118.5 mln EEK on networks (including 75.9 mln EEK on extension and developments), 12.8 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 4.4 mln EEK on water quality (Ülemiste water treatment plant and raw water) and 14.2 mln EEK for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 293.8 mln EEK during the first nine months of 2009 compared to a cash outflow of 315.2 mln EEK during the same nine months of 2008, representing the payouts of the dividend and associated taxes. The Company repaid and fully refinanced the loan of EBRD due to the need to finance the extensive network extension program and related investment outflows until 2011.

As a result of all of the above factors, the total cash inflow in the nine months of 2009 was 22.0 mln EEK compared to a cash inflow of 32.7 mln EEK in the nine months of 2008. Cash and cash equivalents stood at 251.8 mln EEK as at 30 September 2009.

## Employees

At the end of the 3<sup>rd</sup> quarter of 2009, the total number of employees was 349 compared to 323 at the end of the 3<sup>rd</sup> quarter of 2008. The full time equivalent (FTE) was respectively 336 in 2009 compared to the 310 in 2008. The increase in FTE is primarily due to Maardu.

## Dividends and share performance

Based on the results of the 2008 financial year, the Company paid 230,010,000 EEK of dividends. Of this 10,000 EEK was paid to the owner of the B-share and 230,000,000 EEK, i.e. 11.50 EEK per share to the owners of the A-shares. The dividends were paid out on 12 June 2009, based on the list of shareholders, which was fixed on 01 June 2009.

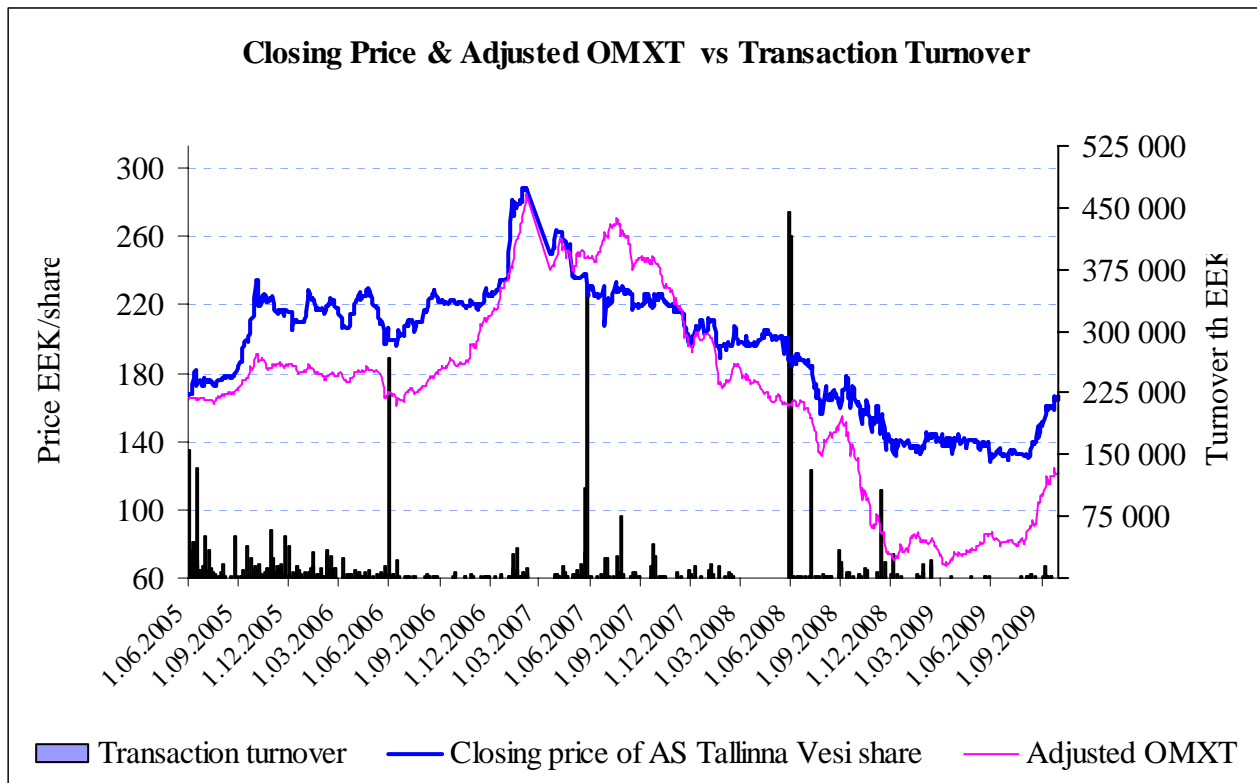
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 30 September 2009 AS Tallinna Vesi shareholders, with a direct holding over 5%, were:

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

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

At the end of the quarter, 30 September 2009, the closing price of the AS Tallinna Vesi share was 164.29 EEK (10.50 EUR), which is a 25.0% increase compared to the closing price of 131.43 EEK (8.40 EUR) at the beginning of quarter. During the same period the OMX Tallinn index rose by 48.8%.



### Operational highlights in the nine months of 2009

- The Company started operations in Maardu from 1<sup>st</sup> July 2009, to provide water, wastewater and operations and maintenance. This will provide the citizens of Maardu with an access to Tallinna Vesi's EU compliant water and wastewater. This contract is the first of its kind and demonstrates the willingness of other cities and municipalities to partner with Tallinna Vesi for the benefit of their communities.
- In the 3<sup>rd</sup> quarter the company was nominated for the most competitive service company in Estonia and in September 2009 we won the award issued by the Enterprise Estonia foundation and Estonian Chamber of Commerce and Industry.
- Due to fall in sales volumes it has been a challenging nine months for the Company. We are still pleased to report that the cost efficiency programs we have initiated and successful contract negotiations have enabled us to compensate the fall in revenues.
- The Company submitted the application for the tariff change from 1<sup>st</sup> January 2010 in the 3<sup>rd</sup> quarter. The City Government approved the -0.9% tariff decrease for water and wastewater services on 30 September 2009. The tariff change is applicable from 1<sup>st</sup> January 2010 and consists of -0.9% of CPI decrease, 0% of k-coefficient and 0% of change of law. The -0.9% tariff change is applicable in the main service area and is similar outside the main service area, depending still on individual contracts with the municipalities.
- On 16<sup>th</sup> September the Company signed an amendment to the Services Agreement with the City of Tallinn. This amendment reflects the reduction in construction prices, the current macroeconomic situation and the good cooperation between the parties. As a result of the reduction in construction prices incurred by the Company the compensation payable by the City of Tallinn for sewerage extensions will reduce, the City will now pay a development component of 0.0 EEK per m<sup>3</sup> in November and December 2009 and 8.75 EEK per m<sup>3</sup> thereafter instead of current 9.0 EEK per m<sup>3</sup>. As a consequence of this reduction the parties have agreed to shorten the compensation period by 3.5 years to June 2014. AS Tallinna Vesi has also agreed to a change in the payment profile for storm water constructions. Initially



the City paid 53 mln EEK each year based on the construction costs of the program during 2008-2011, whereas now they will pay based on a four year payment plan until the end of 2012. Compared to the original contract signed in November 2007 the impact of all these changes is not material on the financial results of the Company. None of this will affect the construction of the sewerage system, which is still planned to be completed by 2011.

- In the 3<sup>rd</sup> quarter the Company approved based on initial design and cost benefit analysis the investment into Biofilter. Over the next two years AS Tallinna Vesi intends to invest almost 200 mln EEK at its Paljassaare Wastewater Treatment Plant. The investments in 2010-2011 include the renewal of the screening equipment, replacement of electrical substations and major investment in an additional treatment stage to further improve the effluent quality and remove more nitrogen from the wastewater. The project is an investment into improved efficiency and towards a more sustainable environment, as the more effective removal of nitrogen from the wastewater improves the cleanliness of the Gulf of Finland and the Baltic Sea. A biofilter has been selected as the additional treatment stage and the first treatment modules of the biofilter should be ready in the 1<sup>st</sup> half of 2011. The biofilter is a block of modules added as an additional treatment stage, where intensive wastewater treatment is achieved using microorganisms to clean the wastewater flowing through it. The main function of the biofilter is to remove nitrogen from the wastewater and the microorganisms use methanol to achieve this. The design is for 8 of these modules to be constructed, future increase in loads could be treated by adding additional modules.

Additional information:

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## AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 9 months period of financial year 2009 ended 30 September 2009

### MANAGEMENT CONFIRMATION

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The Management Board of AS Tallinna Vesi (hereinafter the company) has prepared the interim accounts in the form of condensed financial statements for the 9 months period of financial year 2009 ended 30 September 2009. The interim accounts have not been reviewed by the auditors.

The condensed financial statements for the 9 months period of financial year 2009 ended 30 September 2009 have been prepared following the accounting policies and the manner of presenting the information in line with the International Financial Reporting Standards as adopted by the EU. The condensed financial statements provide a true and fair view of the assets, liabilities, financial position and profit of the company. During the preparation of condensed financial statements, the Management has made no changes in critical estimates that would have cast a significant impact on the results.

The interim management report gives a true and fair view of the main events that occurred during the first 9 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 3 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 22 October 2009 have been assessed as part of this review.

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

**Ian John Alexander Plenderleith**  
Chairman of the Management Board  
Chief Executive Officer

**Siiri Lahe**  
Member of the Management Board  
Chief Financial Officer

**David Nigel Hetherington**  
Member of the Management Board  
Chief Operating Officer

22 October 2009

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 9 months period of financial year 2009 ended 30 September 2009

**CONDENSED STATEMENTS OF FINANCIAL POSITION**

(thousand EEK)

ASSETS	Note	as of 30 September		as of 31 December
		2009	2008	2008
<b>CURRENT ASSETS</b>				
Cash and equivalents	2	251 826	211 080	229 860
Customer receivables, accrued income and prepaid expenses		110 303	118 726	112 638
Inventories		3 331	3 800	3 760
Non-current assets held for sale		1 052	1 104	1 140
<b>TOTAL CURRENT ASSETS</b>		<b>366 512</b>	<b>334 710</b>	<b>347 398</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	3	2 156 580	2 155 722	2 168 225
Intangible assets	3	42 565	43 087	43 428
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2 199 145</b>	<b>2 198 809</b>	<b>2 211 653</b>
<b>TOTAL ASSETS</b>		<b>2 565 657</b>	<b>2 533 519</b>	<b>2 559 051</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term borrowings		1 671	82 942	82 843
Trade and other payables		81 386	119 777	87 270
Short-term provisions		5 298	2 487	2 486
Prepayments and deferred income		36 671	55 060	19 797
<b>TOTAL CURRENT LIABILITIES</b>		<b>125 026</b>	<b>260 266</b>	<b>192 396</b>
<b>NON-CURRENT LIABILITIES</b>				
Borrowings		1 174 230	1 084 694	1 084 642
Other payables		735	121	735
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1 174 965</b>	<b>1 084 815</b>	<b>1 085 377</b>
<b>TOTAL LIABILITIES</b>		<b>1 299 991</b>	<b>1 345 081</b>	<b>1 277 773</b>
<b>EQUITY</b>				
Share capital		200 001	200 001	200 001
Share premium		387 000	387 000	387 000
Statutory legal reserve		20 000	20 000	20 000
Retained earnings		658 665	581 437	674 277
<b>TOTAL EQUITY</b>		<b>1 265 666</b>	<b>1 188 438</b>	<b>1 281 278</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2 565 657</b>	<b>2 533 519</b>	<b>2 559 051</b>

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

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 9 months period of financial year 2009 ended 30 September 2009

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

(thousand EEK)

		Quarter 3		9 months		for the year ended
	Note	2009	2008	2009	2008	31 December
						2008
Revenue	4	188 960	173 975	570 678	537 206	719 923
Costs of goods sold	6	-69 790	-64 392	-204 698	-198 768	-272 752
<b>GROSS PROFIT</b>		<b>119 170</b>	<b>109 583</b>	<b>365 980</b>	<b>338 438</b>	<b>447 171</b>
Marketing expenses	6	-2 452	-2 797	-8 430	-9 231	-12 310
General administration expenses	6	-12 265	-11 875	-38 973	-40 597	-54 546
Other income/ expenses (-)	7	5 372	4 528	9 118	12 741	25 045
<b>OPERATING PROFIT</b>		<b>109 825</b>	<b>99 439</b>	<b>327 695</b>	<b>301 351</b>	<b>405 360</b>
Financial income	8	4 270	3 054	16 187	12 252	15 606
Financial expenses	8	-11 479	-13 275	-68 342	-44 282	-58 805
<b>PROFIT BEFORE TAXES</b>		<b>102 616</b>	<b>89 218</b>	<b>275 540</b>	<b>269 321</b>	<b>362 161</b>
Income tax on dividends	9	0	0	-61 142	-66 193	-66 193
<b>NET PROFIT FOR THE PERIOD</b>		<b>102 616</b>	<b>89 218</b>	<b>214 398</b>	<b>203 128</b>	<b>295 968</b>
Attributable to:						
Equity holders of A-shares		102 606	89 208	214 388	203 118	295 958
B-share holder		10	10	10	10	10
Earnings per A share (in kroons)	10	5,13	4,46	10,72	10,16	14,80
Earnings per B share (in kroons)	10	10 000	10 000	10 000	10 000	10 000

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

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 9 months period of financial year 2009 ended 30 September 2009

**CONDENSED CASH FLOW STATEMENTS**

(thousand EEK)

	Note	9 months		for the year ended 31 December
		2009	2008	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating profit		327 695	301 351	405 360
Adjustment for depreciation/amortisation	3	67 208	66 571	89 669
Adjustment for profit from government grants and connection fees		-14 241	-13 753	-27 920
Other finance expenses	8	-34 338	-262	-1 614
Profit from sale of property, plant and equipment, and intangible assets		-140	-132	-455
Expensed property, plant and equipment		0	0	-19
Change in current assets involved in operating activities		-18 989	15 826	22 780
Change in liabilities involved in operating activities		774	-665	906
Interest paid		-26 283	-28 275	-57 569
<b>Total cash flow from operating activities</b>		<b>301 686</b>	<b>340 661</b>	<b>431 138</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment, and intangible assets		-154 448	-207 775	-332 407
Compensations received for construction of pipelines		152 151	202 361	250 190
Proceeds from sale of property, plant and equipment, and intangible assets		129	145	480
Interest received		16 220	12 471	16 906
<b>Total cash flow used in investing activities</b>		<b>14 052</b>	<b>7 202</b>	<b>-64 831</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Received short-term loans		156 466	0	0
Repayment of short-term loans		-156 466	0	0
Received long-term loans		544 502	0	42 246
Repayment of long-term loans		-544 837	0	-41 910
Finance lease payments		-2 285	0	0
Dividends paid	9	-230 010	-249 010	-249 010
Income tax on dividends	9	-61 142	-66 193	-66 193
<b>Total cash flow used in financing activities</b>		<b>-293 772</b>	<b>-315 203</b>	<b>-314 867</b>
<b>Change in cash and cash equivalents</b>		<b>21 966</b>	<b>32 660</b>	<b>51 440</b>
<b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>229 860</b>	<b>178 420</b>	<b>178 420</b>
<b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	2	<b>251 826</b>	<b>211 080</b>	<b>229 860</b>

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

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 9 months period of financial year 2009 ended 30 September 2009

**CONDENSED STATEMENTS OF CHANGES IN EQUITY**

(thousand EEK)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
<b>as of 31 December 2007</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>627 319</b>	<b>1 234 320</b>
Dividends	0	0	0	-249 010	-249 010
Net profit of the financial year	0	0	0	295 968	295 968
<b>as of 31 December 2008</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>674 277</b>	<b>1 281 278</b>
<b>as of 31 December 2007</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>627 319</b>	<b>1 234 320</b>
Dividends	0	0	0	-249 010	-249 010
Net profit of the financial period	0	0	0	203 128	203 128
<b>as of 30 September 2008</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>581 437</b>	<b>1 188 438</b>
<b>as of 31 December 2008</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>674 277</b>	<b>1 281 278</b>
Dividends	0	0	0	-230 010	-230 010
Net profit of the financial period	0	0	0	214 398	214 398
<b>as of 30 September 2009</b>	<b>200 001</b>	<b>387 000</b>	<b>20 000</b>	<b>658 665</b>	<b>1 265 666</b>

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

## AS TALLINNA VESI

Unaudited Interim Condensed Financial Statements

for the 9 months period of financial year 2009 ended 30 September 2009

### NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EEK)

#### NOTE 1. ACCOUNTING PRINCIPLES

The interim accounts have been prepared according to International Financial Reporting Standards as adopted by the EU. The same accounting policies are followed in the interim financial statements as in the most recent annual financial statements. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting.

#### NOTE 2. CASH AND CASH EQUIVALENTS

	as of 30 September		as of 31 December
	2009	2008	2008
Cash in hand and in bank	1 117	2 361	1 551
Short-term deposits	250 709	208 719	228 309
<b>Total cash and cash equivalents</b>	<b>251 826</b>	<b>211 080</b>	<b>229 860</b>

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2009 ended 30 September 2009

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

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

	Property, plant and equipment				Assets in progress			Intangible assets		Total property, plant and equipment and intangible assets	
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs		Acquired licenses and other intangible assets
<b>as of 31 December 2007</b>											
Acquisition cost	364 188	2 134 970	566 408	17 708	45 253	90 057	5 399	2 781	19 006	66 817	3 312 587
Accumulated depreciation	-63 393	-673 373	-342 016	-11 514	0	0	0	0	-12 980	-23 706	-1 126 982
Book value	<b>300 795</b>	<b>1 461 597</b>	<b>224 392</b>	<b>6 194</b>	<b>45 253</b>	<b>90 057</b>	<b>5 399</b>	<b>2 781</b>	<b>6 026</b>	<b>43 111</b>	<b>2 185 605</b>
<b>Transactions in the period 01.01.2008 - 31.12.2008</b>											
Acquisition in book value	0	0	0	0	113 524	189 651	0	3 082	0	0	306 257
Write off and sale of property, plant and equipment, and intangible assets in book value	283	12	-19	0	0	0	0	0	0	0	276
Compensated by government grants	0	0	0	0	0	-186 282	0	0	0	0	-186 282
Reclassification	3 925	100 384	31 701	1 149	-136 695	-1 452	-3 546	-3 137	5 873	-2 736	-4 534
Depreciation	-4 221	-38 023	-34 635	-1 218	0	0	0	0	-8 931	-2 641	-89 669
<b>Total transactions in the period 01.01.2008 - 31.12.2008</b>	<b>-13</b>	<b>62 373</b>	<b>-2 953</b>	<b>-69</b>	<b>-23 171</b>	<b>1 917</b>	<b>-3 546</b>	<b>-55</b>	<b>-3 058</b>	<b>-5 377</b>	<b>26 048</b>
<b>as of 31 December 2008</b>											
Acquisition cost	368 045	2 234 538	585 674	18 373	22 082	91 974	1 853	2 726	17 742	62 372	3 405 379
Accumulated depreciation	-67 263	-710 568	-364 236	-12 247	0	0	0	0	-14 774	-24 638	-1 193 726
Book value	<b>300 782</b>	<b>1 523 970</b>	<b>221 438</b>	<b>6 126</b>	<b>22 082</b>	<b>91 974</b>	<b>1 853</b>	<b>2 726</b>	<b>2 968</b>	<b>37 734</b>	<b>2 211 653</b>
<b>Transactions in the period 01.01.2009 - 30.09.2009</b>											
Acquisition in book value	0	0	0	0	66 731	75 949	0	7 171	0	0	149 851
Write off and sale of property, plant and equipment, and intangible assets in book value	0	0	3	-3	0	0	0	0	0	0	0
Compensated by government grants	0	0	0	0	0	-94 291	0	0	0	0	-94 291
Reclassification	3 563	14 379	14 486	149	-32 605	-483	-348	-8 281	1 816	6 465	-859
Depreciation	-3 147	-29 097	-26 049	-881	0	0	0	0	-1 652	-6 382	-67 208
<b>Total transactions in the period 01.01.2009 - 30.09.2009</b>	<b>416</b>	<b>-14 718</b>	<b>-11 560</b>	<b>-735</b>	<b>34 126</b>	<b>-18 825</b>	<b>-348</b>	<b>-1 110</b>	<b>164</b>	<b>83</b>	<b>-12 507</b>
<b>as of 30 September 2009</b>											
Acquisition cost	371 610	2 248 832	596 465	17 614	56 206	73 149	1 505	1 616	15 076	72 539	3 454 612
Accumulated depreciation	-70 409	-739 577	-386 588	-12 224	0	0	0	0	-9 029	-37 639	-1 255 466
Book value	<b>301 198</b>	<b>1 509 252</b>	<b>209 878</b>	<b>5 391</b>	<b>56 208</b>	<b>73 149</b>	<b>1 505</b>	<b>1 616</b>	<b>3 132</b>	<b>37 817</b>	<b>2 199 146</b>

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Property, plant and equipment and intangible assets are written off if the conditions of the asset do not enable further usage for production purposes.  
As of 31 December 2008 there were no contracts for financial lease.

As of 30 September the net balance sheet value of finance leases was 5 497 thousand kroons.



**AS TALLINNA VESI**

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for the 9 months period of financial year 2009 ended 30 September 2009

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

NOTE 4. REVENUE	Quarter 3		9 months		for the year ended
	2009	2008	2009	2008	31 December
<b>Revenues from main operating activities</b>					<b>2008</b>
Total water supply and waste water disposal service, incl:	174 227	159 373	525 253	494 420	658 305
<u>Private clients, incl:</u>	<u>91 442</u>	<u>83 805</u>	<u>283 035</u>	<u>259 801</u>	<u>346 836</u>
Water supply service	51 007	46 853	157 795	145 127	193 688
Waste water disposal service	40 435	36 952	125 240	114 674	153 148
<u>Corporate clients, incl:</u>	<u>65 867</u>	<u>65 002</u>	<u>204 805</u>	<u>204 814</u>	<u>271 231</u>
Water supply service	36 882	36 346	114 589	114 150	150 669
Waste water disposal service	28 985	28 656	90 216	90 664	120 562
<u>Outside service area clients, incl:</u>	<u>12 742</u>	<u>7 322</u>	<u>25 643</u>	<u>19 501</u>	<u>26 401</u>
Water supply service	3 326	608	4 608	1 614	2 160
Waste water disposal service	9 416	6 714	21 035	17 887	24 241
<u>Overpollution fee</u>	<u>4 176</u>	<u>3 244</u>	<u>11 770</u>	<u>10 304</u>	<u>13 837</u>
Stormwater treatment and disposal service	10 540	10 765	32 619	31 984	46 158
Fire hydrants service	672	590	2 015	1 775	2 687
Other works and services	3 521	3 247	10 791	9 027	12 773
<b>Total revenue</b>	<b>188 960</b>	<b>173 975</b>	<b>570 678</b>	<b>537 206</b>	<b>719 923</b>

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

NOTE 5. STAFF COSTS	Quarter 3		9 months		for the year ended
	2009	2008	2009	2008	31 December
Salaries and wages	-14 912	-14 036	-48 933	-48 231	-66 330
Social security and unemployment insurance taxation	-4 967	-4 675	-16 298	-16 065	-22 093
<b>Staff costs total</b>	<b>-19 879</b>	<b>-18 711</b>	<b>-65 231</b>	<b>-64 296</b>	<b>-88 423</b>
<b>Number of employees at the end of reporting period</b>			<b>349</b>	<b>323</b>	<b>327</b>

**AS TALLINNA VESI**

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**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

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

	Quarter 3		9 months		for the year ended
	2009	2008	2009	2008	31 December
					2008
<b>Cost of goods sold</b>					
Tax on special use of water	-2 903	-2 647	-8 467	-8 071	-10 804
Chemicals	-5 749	-6 591	-14 860	-17 608	-22 841
Electricity	-8 113	-7 790	-24 176	-21 641	-29 759
Pollution tax	-4 719	-1 994	-13 757	-9 977	-17 010
Staff costs	-15 183	-13 677	-47 720	-46 166	-63 516
Development	-3	0	-26	-24	-26
Depreciation and amortization	-20 217	-20 284	-61 092	-60 885	-82 081
Transport	-4 435	-5 104	-12 845	-14 652	-19 693
Other costs of goods sold	-8 468	-6 305	-21 755	-19 744	-27 022
<b>Total cost of goods sold</b>	<b>-69 790</b>	<b>-64 392</b>	<b>-204 698</b>	<b>-198 768</b>	<b>-272 752</b>
<b>Marketing expenses</b>					
Staff costs	-822	-1 058	-3 311	-3 994	-5 417
Depreciation and amortization	-1 302	-1 286	-3 905	-3 774	-5 065
Other marketing expenses	-328	-453	-1 214	-1 463	-1 828
<b>Total cost of marketing expenses</b>	<b>-2 452</b>	<b>-2 797</b>	<b>-8 430</b>	<b>-9 231</b>	<b>-12 310</b>
<b>General administration expenses</b>					
Staff costs	-3 874	-3 976	-14 200	-14 136	-19 490
Depreciation and amortization	-856	-608	-2 211	-1 912	-2 523
Other general administration expenses	-7 535	-7 291	-22 562	-24 549	-32 533
<b>Total cost of general administration expenses</b>	<b>-12 265</b>	<b>-11 875</b>	<b>-38 973</b>	<b>-40 597</b>	<b>-54 546</b>

**NOTE 7. OTHER INCOME / EXPENSES**

	Quarter 3		9 months		for the year ended
	2009	2008	2009	2008	31 December
					2008
Profit from connection fees	937	1 489	2 879	3 449	4 430
Profit from government grant	4 624	4 076	11 362	10 304	23 490
Other income / expenses (-)	-189	-1 037	-5 123	-1 012	-2 875
<b>Total other income / expenses</b>	<b>5 372</b>	<b>4 528</b>	<b>9 118</b>	<b>12 741</b>	<b>25 045</b>

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements  
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**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

NOTE 8. FINANCE INCOME AND EXPENSES	Quarter 3		9 months		for the year ended 31 December
	2009	2008	2009	2008	2008
Interest income	4 270	3 051	16 187	11 285	15 606
Interest expense	-10 758	-12 845	-34 004	-43 053	-57 191
Other financial expenses	-721	-427	-34 338	-262	-1 614
<b>Total finance income / expenses</b>	<b>-7 209</b>	<b>-10 221</b>	<b>-52 155</b>	<b>-32 030</b>	<b>-43 199</b>

NOTE 9. DIVIDENDS	9 months		Year ended 31 December
	2009	2008	2008
Dividends declared during the period	230 010	249 010	249 010
Dividends paid during the period	230 010	249 010	249 010
Income tax on dividends paid	-61 142	-66 193	-66 193
<b>Income tax accounted for</b>	<b>-61 142</b>	<b>-66 193</b>	<b>-66 193</b>
<i>Paid-up dividends per shares:</i>			
Dividends per A-share (in kroons)	11,50	12,45	12,45
Dividends per B-share (in kroons)	10 000	10 000	10 000

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

**NOTE 10. EARNINGS PER SHARE**

Earnings per share:	Quarter 3		9 months		for the year ended 31 December
	2009	2008	2009	2008	2008
Net profit for the period ended 31.12 minus B-share preference rights (in kroons)	102 606	89 208	214 388	203 118	295 958
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Earnings per A share (in kroons)	5,13	4,46	10,72	10,16	14,80
Earnings per B share (in kroons)	10 000	10 000	10 000	10 000	10 000

Diluted earnings per share for the periods ended 30 September 2009 and 2008 and 31 December 2008 do not vary significantly from the earnings per share figures stated above.

**AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements  
for the 9 months period of financial year 2009 ended 30 September 2009

**NOTES TO THE INTERIM FINANCIAL STATEMENT**

(thousand EEK)

**NOTE 11. RELATED PARTIES**

Transactions with related parties are considered to be transactions with members of the Supervisory Board and Management Board, their relatives and the companies in which they hold majority interest and transactions with shareholder having the significant influence. Dividend payments are indicated in the Statement of Changes in Equity.

**Shareholders having the significant influence**

<b>Balances recorded in working capital on the balance sheet of the Company</b>	<b>as of 30 September</b>		<b>as of 31 December</b>
	<b>2009</b>	<b>2008</b>	<b>2008</b>
Accounts receivable	0	25 344	24 935
Accrued income	10 733	0	0
Prepayments and deferred income	10 244	0	0
Accounts payable - short-term trade and other payables	3 703	1 042	3 972

	<b>Quarter 3</b>		<b>9 months</b>		<b>for the year ended</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>31 December</b>
					<b>2008</b>
<b>Transactions with the related parties</b>					
Sales services	11 211	11 355	34 634	33 759	48 845
Compensations received from the local governments for constructing new pipelines	18 860	44 520	98 750	113 926	159 310
Purchase of administrative and consulting services	5 035	4 487	14 178	15 184	20 585
Financial income	1 497	0	4 038	0	0
<b>Management Board fees excluding social tax</b>	<b>645</b>	<b>556</b>	<b>1 935</b>	<b>1 683</b>	<b>2 295</b>
<b>Supervisory Board fees excluding social tax</b>	<b>150</b>	<b>150</b>	<b>450</b>	<b>450</b>	<b>500</b>

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

The market prices were implemented in transactions with related parties.

**Company shares belonging to the Management Board members**

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

## **AS TALLINNA VESI**

Unaudited Interim Condensed Financial Statements

for the 9 months period of financial year 2009 ended 30 September 2009

### **NOTES TO THE INTERIM FINANCIAL STATEMENT**

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#### **NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS**

Robert John Gallienne	Chairman of the Supervisory Board
Leslie Anthony Bell	Member of the Supervisory Board
Matti Hyrynen	Member of the Supervisory Board
Andrew James Prescott	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