AS Tallinna Vesi

Results of operations – for the 3rd quarter of 2009

Currency	Thousand euros
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 3rd QUARTER 2009

Overview

During the first nine months of 2009 the Company's total sales increased, year on year, by 6.2% to 36.5 mln EUR. The Company's profit before taxes was 17.6 mln EUR, which is a 2.3% increase compared to the same nine months of 2008. In 2009 the Company invested 9.6 mln EUR, of which 7.6 mln EUR was invested in network extension and rehabilitation.

mln EUR	**3 Q 2009**	**3 Q 2008**	**Change**	**9 months 2009**	**9 months 2008**	**Change**
Sales	12,1	11,1	8,6%	36,5	34,3	6,2%
Gross profit	7,6	7,0	8,7%	23,4	21,6	8,1%
Gross profit margin %	63,1	63,0	0,1%	64,1	63,0	1,8%
Operating profit	7,0	6,4	10,4%	20,9	19,3	8,7%
Operating profit margin %	58,1	57,2	1,7%	57,4	56,1	2,4%
Profit before taxes	6,6	5,7	15,0%	17,6	17,2	2,3%
Net profit	6,6	5,7	15,0%	13,7	13,0	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

3rd quarter 2009

Sales

In the 3rd quarter of 2009 the Company's total sales increased, year on year, by 8.6% to 12.1 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. 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 11.1 mln EUR, a 9.2% increase compared to the 3rd 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 5.8 mln EUR. Sales to commercial customers increased by 1.3% to 4.2 mln EUR. Sales to customers outside of the service area increased by 72.0% to 0.81 mln EUR, mainly due to the implementation of the Maardu's operating contract. Over pollution fees received were 0.27 mln EUR, a 28.7% increase compared to the 3rd quarter of 2008.

In the 3rd 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 0.73 mln EUR in the 3rd 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 4.5 mln EUR in the 3rd quarter of 2009, an increase of 0.35 mln EUR or 8.4% from the equivalent period in 2008.

In the 3rd quarter of 2009 the Company did not achieve the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 0.30 mln EUR compared to 0.13 mln EUR in 3rd quarter of 2008. In the 3rd 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 3rd 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 0.36 mln EUR, 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 0.02 mln EUR or 4.1% in the 3rd quarter of 2009 compared to the 3rd quarter of 2008 due to higher electricity prices.

Salary expenses increased in the 3rd quarter of 2009, year on year, by 0.10 mln EUR or 11.0% mainly due to the take over of 23 employees from Maardu Vesi.

Depreciation charges decreased in the 3rd quarter of 2009 by 0.001 mln EUR or 0.3% year on year.

Transport costs decreased by 0.04 mln EUR, 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 0.14 mln EUR, 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 3rd quarter of 2009 was 7.6 mln EUR, which is an increase of 0.61 mln EUR, or 8.7%, compared to the gross profit of 7.0 mln EUR for the 3rd quarter of 2008.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.02 mln EUR to 0.16 mln EUR during the 3rd 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 3rd quarter of 2009 the General administration expenses increased by 0.03 mln EUR to 0.79 mln EUR 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 0.36 mln EUR, in the 3rd quarter of 2009 compared to a net income of 0.36 mln EUR in the 3rd quarter of 2008. The rest of the other income/expenses totaled an expense of 0.01 mln EUR in the 3rd quarter of 2009 compared to an expense of 0.06 mln EUR in the 3rd 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 3rd quarter of 2009 was 7.0 mln EUR, an increase of 0.66 mln EUR compared to an operating profit of 6.4 mln EUR achieved in the 3rd quarter of 2008. Year on year the operating profit has increased 10.4%.

Financial expenses

Net Financial expenses were 0.46 mln EUR in the 3rd quarter of 2009, which is a decrease of 0.19 mln EUR or 29.5% compared to the 3rd quarter of 2008. The Company’s interest costs have decreased by 58.9% compared to the 3rd 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 3rd quarter of 2009.

Profit Before Tax

The Company's profit before taxes for the 3rd quarter of 2009 was 6.6 mln EUR, which is 0.86 mln EUR higher than the profit before taxes of 5.7 mln EUR for the 3rd quarter of 2008.

<u>Results for the 1st nine months of 2009</u>

During the first nine months of 2009 the Company's total sales increased, year on year, by 6.2% to 36.5 mln EUR. Sales of water and wastewater treatment were 33.6 mln EUR, 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 17.6 mln EUR, which is 0.40 mln EUR higher than the profit before taxes of 17.2 mln EUR in the relevant period in 2008.

The Company's net profit for the first nine months of 2009 was 13.7 mln EUR, which is 0.72 mln EUR higher than the net profit of 13.0 mln EUR in the equivalent period in 2008.

Balance sheet

During the first nine months of 2009 the Company invested 9.6 mln EUR into fixed assets. Non-current assets were 140.5 mln EUR at 30 September 2009. Current assets increased by 1.2 mln EUR to 23.4 mln EUR in the first nine months of the year, with customer receivables decreasing by 0.15 mln EUR and cash at bank increasing by 1.4 mln EUR.

Current liabilities decreased by 4.3 mln EUR to 8.0 mln EUR in the first nine months of the year. This was mainly due to decreases in the Current portion of long-term borrowings by 5.2 mln EUR, as a result of the repayment of the EBRD loan in May 2009, a 0.38 mln EUR decrease in Trade payables, and an increase in Customer prepayments of 1.1 mln EUR.

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 75.1 mln EUR 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 19.3 mln EUR of cash flows from operating activities, a decrease of 2.5 mln EUR 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 1.7 mln EUR related to the repayment of the EBRD loan as discussed in the 2nd 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 0.90 mln EUR, which is 0.44 mln EUR more than in 2008. This is mainly due to the lower construction prices and timing of constructions. In 2009 the Company invested 9.6 mln EUR – 7.6 mln EUR on networks (including 4.9 mln EUR on extension and developments), 0.82 mln EUR at Paljassaare wastewater treatment plant and sludge treatment, 0.28 mln EUR on water quality (Ülemiste water treatment plant and raw water) and 0.91 mln EUR for other investments (IT, capital maintenance, meters, etc).

The cash outflows from financing activities were 18.8 mln EUR during the first nine months of 2009 compared to a cash outflow of 20.1 mln EUR 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 1.4 mln EUR compared to a cash inflow of 2.1 mln EUR in the nine months of 2008. Cash and cash equivalents stood at 16.1 mln EUR as at 30 September 2009.

Employees

At the end of the 3rd quarter of 2009, the total number of employees was 349 compared to 323 at the end of the 3rd 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 14,700,318 EUR of dividends. Of this 639 EUR was paid to the owner of the B-share and 14,699,679 EUR, i.e. 0.73 EUR 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.

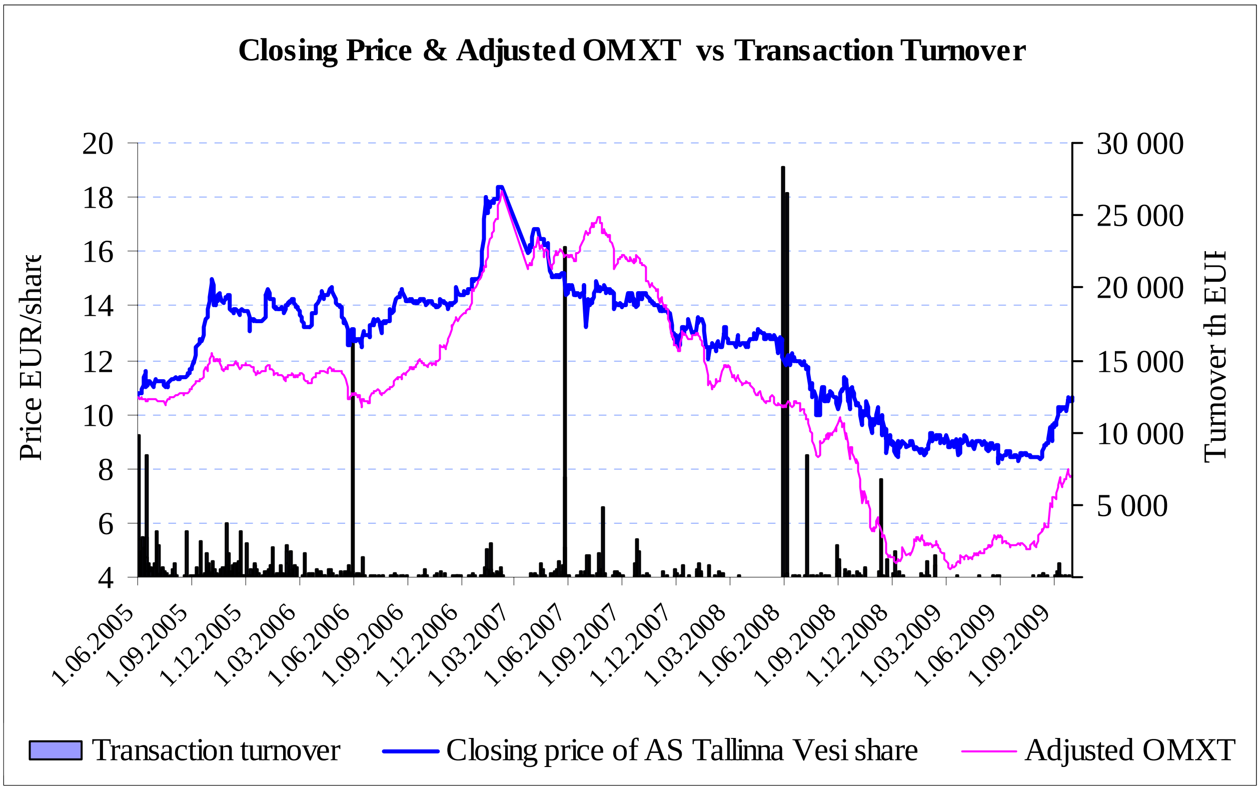
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

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 10.50 EUR, which is a 25.0% increase compared to the closing price of 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 1st 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 3rd 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 1st January 2010 in the 3rd 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 1st 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 16th 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 EUR per m^3 in November and December 2009 and 0.56 EUR per m^3 thereafter instead of current 0.58 EUR per m^3. 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 3.4 mln EUR 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 3rd 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 12.8 mln EUR 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 1st 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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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 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 occured 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.

I.J.A. Plenderleith

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

CONDENSED STATEMENTS OF FINANCIAL POSITION

(thousand EUR)

		as of 30 September		as of 31 December
ASSETS	**Note**	**2009**	**2008**	**2008**
CURRENT ASSETS				
Cash and equivalents	2	16 095	13 490	14 691
Customer receivables, accrued income and prepaid expenses		7 050	7 588	7 199
Inventories		213	243	240
Non-current assets held for sale		67	71	73
TOTAL CURRENT ASSETS		**23 424**	**21 392**	**22 203**
NON-CURRENT ASSETS				
Property, plant and equipment	3	137 831	137 776	138 575
Intangible assets	3	2 720	2 754	2 776
TOTAL NON-CURRENT ASSETS		**140 551**	**140 530**	**141 350**
TOTAL ASSETS		**163 975**	**161 921**	**163 553**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Current portion of long-term borrowings		107	5 301	5 295
Trade and other payables		5 202	7 655	5 578
Short-term provisions		339	159	159
Prepayments and deferred income		2 344	3 519	1 265
TOTAL CURRENT LIABILITIES		**7 991**	**16 634**	**12 296**
NON-CURRENT LIABILITIES				
Borrowings		75 047	69 325	69 321
Other payables		47	8	47
TOTAL NON-CURRENT LIABILITIES		**75 094**	**69 332**	**69 368**
TOTAL LIABILITIES		**83 085**	**85 966**	**81 665**
EQUITY				
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
Retained earnings		42 096	37 161	43 094
TOTAL EQUITY		**80 891**	**75 955**	**81 889**
TOTAL LIABILITIES AND EQUITY		**163 975**	**161 921**	**163 553**

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

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (thousand EUR)

		Quarter 3		9 months		for the year ended 31 December
	Note	**2009**	**2008**	**2009**	**2008**	**2008**
Revenue	4	12 077	11 119	36 473	34 334	46 011
Costs of goods sold	6	-4 460	-4 115	-13 083	-12 704	-17 432
GROSS PROFIT		**7 616**	**7 004**	**23 390**	**21 630**	**28 579**
Marketing expenses	6	-157	-179	-539	-590	-787
General administration expenses	6	-784	-759	-2 491	-2 595	-3 486
Other income/ expenses (-)	7	343	289	583	814	1 601
OPERATING PROFIT		**7 019**	**6 355**	**20 944**	**19 260**	**25 907**
Financial income	8	273	195	1 035	783	997
Financial expenses	8	-734	-848	-4 368	-2 830	-3 758
PROFIT BEFORE TAXES		**6 558**	**5 702**	**17 610**	**17 213**	**23 146**
Income tax on dividends	9	0	0	-3 908	-4 231	-4 231
NET PROFIT FOR THE PERIOD		**6 558**	**5 702**	**13 703**	**12 982**	**18 916**
Attributable to:						
Equity holders of A-shares		6 548	5 692	13 693	12 972	18 906
B-share holder		0,64	0,64	0,64	0,64	0,64
Earnings per A share (in euros)	10	0,33	0,29	0,69	0,65	0,95
Earnings per B share (in euros)	10	639	639	639	639	639

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

CONDENSED CASH FLOW STATEMENTS (thousand EUR)

	Note	9 months 2009	9 months 2008	for the year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit		20 944	19 260	25 907
Adjustment for depreciation/amortisation	3	4 295	4 255	5 731
Adjustment for profit from government grants and connection fees		-910	-879	-1 784
Other finance expenses	8	-2 195	-17	-103
Profit from sale of property, plant and equipment, and intangible assets		-9	-8	-29
Expensed property, plant and equipment		0	0	-1
Change in current assets involved in operating activities		-1 214	1 011	1 456
Change in liabilities involved in operating activities		49	-43	58
Interest paid		-1 680	-1 807	-3 679
Total cash flow from operating activities		**19 281**	**21 772**	**27 555**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment, and intangible assets		-9 871	-13 279	-21 245
Compensations received for construction of pipelines		9 724	12 933	15 990
Proceeds from sale of property, plant and equipment, and intangible assets		8	9	31
Interest received		1 037	797	1 080
Total cash flow used in investing activities		**898**	**460**	**-4 143**
CASH FLOWS FROM FINANCING ACTIVITIES				
Received short-term loans		10 000	0	0
Repayment of short-term loans		-10 000	0	0
Received long-term loans		34 800	0	2 700
Repayment of long-term loans		-34 821	0	-2 679
Finance lease payments		-146	0	0
Dividends paid	9	-14 700	-15 915	-15 915
Income tax on dividends	9	-3 908	-4 231	-4 231
Total cash flow used in financing activities		**-18 775**	**-20 145**	**-20 124**
Change in cash and cash equivalents		**1 404**	**2 087**	**3 288**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**14 691**	**11 403**	**11 403**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**16 095**	**13 490**	**14 691**

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

CONDENSED STATEMENTS OF CHANGES IN EQUITY

(thousand EUR)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
as of 31 December 2007	**12 782**	**24 734**	**1 278**	**40 093**	**78 887**
Dividends	0	0	0	-15 915	-15 915
Net profit of the financial year	0	0	0	18 916	18 916
as of 31 December 2008	**12 782**	**24 734**	**1 278**	**43 094**	**81 889**
as of 31 December 2007	**12 782**	**24 734**	**1 278**	**40 093**	**78 887**
Dividends	0	0	0	-15 915	-15 915
Net profit of the financial period	0	0	0	12 982	12 982
as of 30 September 2008	**12 782**	**24 734**	**1 278**	**37 161**	**75 955**
as of 31 December 2008	**12 782**	**24 734**	**1 278**	**43 094**	**81 889**
Dividends	0	0	0	-14 700	-14 700
Net profit of the financial period	0	0	0	13 703	13 703
as of 30 September 2009	**12 782**	**24 734**	**1 278**	**42 096**	**80 891**

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

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.

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

	as of 30 September		as of 31 December
	2009	**2008**	**2008**
Cash in hand and in bank	71	151	99
Short-term deposits	16 023	13 340	14 592
Total cash and cash equivalents	**16 095**	**13 490**	**14 691**

NOTES TO THE INTERIM FINANCIAL STATEMENT

(thousand EUR)

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

	Property, plant and equipment				Assets in progress				Intangible assets		
	Land and buildings	Facilities	Machinery and equipment	Other equipment	Construction in progress	Construction in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	Total property, plant and equipment and intangible assets
as of 31 December 2007											
Acquisition cost	23 276	136 449	36 200	1 132	2 892	5 756	345	178	1 215	4 270	211 713
Accumulated depreciation	-4 052	-43 036	-21 859	-736	0	0	0	0	-830	-1 515	-72 027
Book value	**19 224**	**93 413**	**14 341**	**396**	**2 892**	**5 756**	**345**	**178**	**385**	**2 755**	**139 686**
Transactions in the period 01.01.2008 - 31.12.2008											
Acquisition in book value	0	0	0	0	7 256	12 121	0	197	0	0	19 573
Write off and sale of property, plant and equipment, and intangible assets in book value	18	1	-1	0	0	0	0	0	0	0	18
Compensated by government grants	0	0	0	0	0	-11 906	0	0	0	0	-11 906
Reclassification	251	6 416	2 026	73	-8 736	-93	-227	-200	375	-175	-290
Depreciation	-270	-2 430	-2 214	-78	0	0	0	0	-571	-169	-5 731
Total transactions in the period 01.01.2008 - 31.12.2008	**-1**	**3 986**	**-189**	**-4**	**-1 481**	**123**	**-227**	**-4**	**-195**	**-344**	**1 665**
as of 31 December 2008											
Acquisition cost	23 522	142 813	37 431	1 174	1 411	5 878	118	174	1 134	3 986	217 643
Accumulated depreciation	-4 299	-45 414	-23 279	-783	0	0	0	0	-944	-1 575	-76 293
Book value	**19 223**	**97 399**	**14 152**	**392**	**1 411**	**5 878**	**118**	**174**	**190**	**2 412**	**141 350**
Transactions in the period 01.01.2009 - 30.09.2009											
Acquisition in book value	0	0	0	0	4 265	4 854	0	458	0	0	9 577
Compensated by government grants	0	0	0	0	0	-6 026	0	0	0	0	-6 026
Reclassification	228	919	926	10	-2 084	-31	-22	-529	116	413	-55
Depreciation	-201	-1 860	-1 665	-56	0	0	0	0	-106	-408	-4 295
Total transactions in the period 01.01.2009 - 30.09.2009	**27**	**-941**	**-739**	**-47**	**2 181**	**-1 203**	**-22**	**-71**	**10**	**5**	**-799**
as of 30 September 2009											
Acquisition cost	23 750	143 727	38 121	1 126	3 592	4 675	96	103	964	4 636	220 790
Accumulated depreciation	-4 500	-47 268	-24 707	-781	0	0	0	0	-577	-2 406	-80 239
Book value	**19 250**	**96 459**	**13 414**	**345**	**3 592**	**4 675**	**96**	**103**	**200**	**2 417**	**140 551**

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 351 thousand euros.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

NOTE 4. REVENUE

	Quarter 3		9 months		for the year ended 31 December
	2009	**2008**	**2009**	**2008**	**2008**
Revenues from main operating activities					
Total water supply and waste water disposal service, incl:	11 135	10 186	33 570	31 599	42 073
Private clients, incl:	5 844	5 356	18 089	16 604	22 167
Water supply service	3 260	2 994	10 085	9 275	12 379
Waste water disposal service	2 584	2 362	8 004	7 329	9 788
Corporate clients, incl:	4 210	4 154	13 089	13 090	17 335
Water supply service	2 357	2 323	7 324	7 296	9 630
Waste water disposal service	1 852	1 831	5 766	5 794	7 705
Outside service area clients, incl:	814	468	1 639	1 246	1 687
Water supply service	213	39	295	103	138
Waste water disposal service	602	429	1 344	1 143	1 549
Overpollution fee	267	207	752	659	884
Stormwater treatment and disposal service	674	688	2 085	2 044	2 950
Fire hydrants service	43	38	129	113	172
Other works and services	225	208	690	577	816
Total revenue	**12 077**	**11 119**	**36 473**	**34 334**	**46 011**

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

NOTE 5. STAFF COSTS

	Quarter 3		9 months		for the year ended 31 December
	2009	**2008**	**2009**	**2008**	**2008**
Salaries and wages	-953	-897	-3 127	-3 083	-4 239
Social security and unemployment insurance taxation	-317	-299	-1 042	-1 027	-1 412
Staff costs total	**-1 270**	**-1 196**	**-4 169**	**-4 109**	**-5 651**
Number of employees at the end of reporting period			**349**	**323**	**327**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

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

	Quarter 3		9 months		for the year ended 31 December
	2009	**2008**	**2009**	**2008**	**2008**
Cost of goods sold					
Tax on special use of water	-186	-169	-541	-516	-691
Chemicals	-367	-421	-950	-1 125	-1 460
Electricity	-519	-498	-1 545	-1 383	-1 902
Pollution tax	-302	-127	-879	-638	-1 087
Staff costs	-970	-874	-3 050	-2 951	-4 059
Development	0	0	-2	-2	-2
Depreciation and amortization	-1 292	-1 296	-3 904	-3 891	-5 246
Transport	-283	-326	-821	-936	-1 259
Other costs of goods sold	-541	-403	-1 390	-1 262	-1 727
Total cost of goods sold	**-4 460**	**-4 115**	**-13 083**	**-12 704**	**-17 432**
Marketing expenses					
Staff costs	-53	-68	-212	-255	-346
Depreciation and amortization	-83	-82	-250	-241	-324
Other marketing expenses	-21	-29	-78	-94	-117
Total cost of marketing expenses	**-157**	**-179**	**-539**	**-590**	**-787**
General administration expenses					
Staff costs	-248	-254	-908	-903	-1 246
Depreciation and amortization	-55	-39	-141	-122	-161
Other general administration expenses	-482	-466	-1 442	-1 569	-2 079
Total cost of general administration expenses	**-784**	**-759**	**-2 491**	**-2 595**	**-3 486**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 3		9 months		for the year ended 31 December
	2009	**2008**	**2009**	**2008**	**2008**
Profit from connection fees	60	95	184	220	283
Profit from government grant	296	261	726	659	1 501
Other income / expenses (-)	-12	-66	-327	-65	-184
Total other income / expenses	**343**	**289**	**583**	**814**	**1 601**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

NOTE 8. FINANCE INCOME AND EXPENSES	**Quarter 3**		**9 months**		**for the year ended 31 December**
	2009	**2008**	**2009**	**2008**	**2008**
Interest income	273	195	1 035	721	997
Interest expense	-688	-821	-2 173	-2 752	-3 655
Other financial expenses	-46	-27	-2 195	-17	-103
Total finane income / expenses	**-461**	**-653**	**-3 333**	**-2 047**	**-2 761**

NOTE 9. DIVIDENDS	**9 months**		**Year ended 31 December**
	2009	**2008**	**2008**
Dividends declared during the period	14 700	15 915	15 915
Dividends paid during the period	14 700	15 915	15 915
Income tax on dividends paid	-3 908	-4 231	-4 231
Income tax accounted for	**-3 908**	**-4 231**	**-4 231**
Paid-up dividends per shares:			
Dividends per A-share (in euros)	0,73	0,80	0,80
Dividends per B-share (in euros)	639	639	639

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

NOTE 10. EARNINGS PER SHARE

	Quarter 3		**9 months**		**for the year ended 31 December**
	2009	**2008**	**2009**	**2008**	**2008**
Earnings per share:					
Net profit for the period ended 31.12 minus B-share preference rights (in euros)	6 548	5 692	13 693	12 972	18 906
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 euros)	0,33	0,28	0,68	0,65	0,95
Earnings per B share (in euros)	639	639	639	639	639

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.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

NOTE 11. RELATED PARTIES

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

Shareholders having the significant influence

Balances recorded in working capital on the balance sheet of the Company	as of 30 September 2009	as of 30 September 2008	as of 31 December 2008
Accounts receivable	0	1 620	1 594
Accrued income	686	0	0
Prepayments and deferred income	655	0	0
Accounts payable - short-term trade and other payables	237	67	254

	Quarter 3 2009	Quarter 3 2008	9 months 2009	9 months 2008	for the year ended 31 December 2008
Transactions with the related parties					
Sales services	717	726	2 214	2 158	3 122
Compensations received from the local governments for constructing new pipelines	1 205	2 845	6 311	7 281	10 182
Purchase of administrative and consulting services	322	287	906	970	1 316
Financial income	96	0	258	0	0
Management Board fees excluding social tax	41	36	124	108	147
Supervisory Board fees excluding social tax	10	10	29	29	32

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.

NOTE 12. LIST OF SUPERVISORY BOARD MEMBERS

Robert John Gallienne	Chairman of the Supervisory Board
Leslie Anthony Bell	Member of the Supervisory Board
Matti Hyyrynen	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