AS Tallinna Vesi

Results of operations – for the 4th quarter of 2009

Currency	Thousand euros
Start of reporting period	1 January 2009
End of reporting period	31 December 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 4th QUARTER 2009

Overview

During the twelve months of 2009 the Company's total sales increased, year on year, by 7.3% to 49.4 mln EUR. The Company's underlying operating profit for twelve months of 2009, from water and wastewater related activities, increased by 9.8% to 26.5 mln EUR compared to the twelve months of 2008. Profits from other activities (mainly construction and developments) increased by 70.2% to 3.0 mln EUR compared to the twelve months of 2008. The Company's profit before taxes was 25.6 mln EUR, which is a 10.7% increase compared to the same twelve months of 2008. In 2009 the Company invested 16.1 mln EUR.

mln EUR	**4 Q 2009**	**4 Q 2008**	**Change**	**12 months 2009**	**12 months 2008**	**Change**
Sales	12,9	11,7	10,4%	49,4	46,0	7,3%
Gross profit	7,8	6,9	12,6%	31,2	28,6	9,2%
Gross profit margin %	60,7	59,5	1,9%	63,2	62,1	1,8%
Operating profit	8,6	6,6	29,1%	29,5	25,9	14,0%
Operating profit - main business	6,5	5,7	12,4%	26,5	24,1	9,8%
Operating profit margin %	66,5	56,9	16,9%	59,8	56,3	6,2%
Profit before taxes	8,0	5,9	35,2%	25,6	23,1	10,7%
Net profit	8,0	5,9	35,2%	21,7	18,9	14,9%
Net profit margin %	62,2	50,8	22,5%	44,0	41,1	7,0%
ROA %	4,7	3,6	29,0%	12,7	11,6	9,6%
Debt to total capital employed	48,1	49,9	-3,6%	48,1	49,9	-3,6%

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
Main business – water and wastewater activities, excl. connections profit and government grants

Profit and Loss Statement

4th quarter 2009

Sales

In the 4th quarter of 2009 the Company's total sales increased, year on year, by 10.4% to 12.9 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 11.7 mln EUR, an 11.2% increase compared to the 4th 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 10.6% to 6.2 mln EUR. Sales to commercial customers increased by 3.2% to 4.4 mln EUR. Sales to customers outside of the service area increased by 110.3% to 0.93 mln EUR, mainly due to the implementation of the Maardu's operating contract. Over pollution fees received were 0.19 mln EUR, a 15.8% decrease compared to the 4th quarter of 2008.

In the 4th quarter of 2009, the volumes sold to residential customers dropped 1.9%. 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 8.5% 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 1.1% to 0.98 mln EUR in the 4th 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 5.1 mln EUR in the 4th quarter of 2009, an increase of 0.35 mln EUR or 7.3% from the equivalent period in 2008.

In the 4th quarter of 2009 the Company achieved the beneficial 0.5 coefficient for pollution tax, and the amount of pollution tax payable was 0.20 mln EUR compared to 0.45 mln EUR in 4th quarter of 2008. In the 4th quarter of 2008 we did not achieved the 0.5 coefficient. 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 0.33 mln EUR, representing a 0.2% 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 0.07 mln EUR or 13.9% in the 4th quarter of 2009 compared to the 4th quarter of 2008 due to higher electricity prices.

Salary expenses increased in the 4th quarter of 2009, year on year, by 0.33 mln EUR or 30.0% mainly due to the take over of 23 employees from Maardu Vesi.

Depreciation charges decreased in the 4th quarter of 2009 by 0.12 mln EUR or 6.0% year on year.

Transport costs decreased by 0.03 mln EUR, or 9.1% 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 0.28 mln EUR, or 60.4% 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 4th quarter of 2009 was 7.8 mln EUR, which is an increase of 0.88 mln EUR, or 12.6%, compared to the gross profit of 6.9 mln EUR for the 4th quarter of 2008.

Operating Costs and Operating Margin

Marketing expenses decreased by 0.02 mln EUR to 0.18 mln EUR during the 4th 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 4th quarter of 2009 the General administration expenses increased by 0.04 mln EUR to 0.93 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

The majority of the income in Other net income/expenses relates to constructions and government grants. This driver for this income stream is the connections activity in Tallinn. Income/expenses from constructions and government grants totaled a net income of 2.1 mln EUR, in the 4th quarter of 2009 compared to a net income of 0.91 mln EUR in the 4th quarter of 2008. This was primarily due to the significant increase in the number of connections finalized.

The rest of the other income/expenses totaled an expense of 0.26 mln EUR in the 4th quarter of 2009 compared to an expense of 0.12 mln EUR in the 4th 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 the Company's underlying operating profit from sales of water and wastewater for the 4th quarter of 2009 totaled 6.5 mln EUR compared to 5.7 mln EUR in the corresponding quarter in 2008. As a result of all of the above the Company's operating profit for main and other activities for the 4th quarter of 2009 was 8.6 mln EUR, an increase of 1.9 mln EUR compared to an operating profit of 6.6 mln EUR achieved in the 4th quarter of 2008. Year on year the operating profit has increased 29.1%.

Financial expenses

Net Financial expenses were 0.56 mln EUR in the 4th quarter of 2009, which is a decrease of 0.16 mln EUR or 22.0% compared to the 4th quarter of 2008. The Company's interest costs have decreased by 60.7% compared to the 4th 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% + risk margin), by loans with floating interest rates. The Company decided to mitigate the long term floating interest risk and in May 2009 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 4th quarter of 2009.

Profit Before Tax

The Company's profit before taxes for the 4th quarter of 2009 was 8.0 mln EUR, which is 2.1 mln EUR higher than the profit before taxes of 5.9 mln EUR for the 4th quarter of 2008.

<u>Results for the twelve months of 2009</u>

During the twelve months of 2009 the Company's total sales increased, year on year, by 7.3% to 49.4 mln EUR. Sales of water and wastewater treatment were 45.2 mln EUR, a 7.5% increase compared to the twelve months of 2008.

The underlying operating profit from the Company's main business activity, sales of water and wastewater, for the twelve months of 2009 increased by 9.8% to 26.5 mln EUR compared to the twelve months of 2008.

The Company's profit before taxes for the twelve months of 2009 was 25.6 mln EUR, which is 2.5 mln EUR higher than the profit before taxes of 23.1 mln EUR in the relevant period in 2008.

The Company's net profit for the twelve months of 2009 was 21.7 mln EUR, which is 2.8 mln EUR higher than the net profit of 18.9 mln EUR in the equivalent period in 2008.

Balance sheet

During the twelve months of 2009 the Company invested 16.1 mln EUR into fixed assets. Non-current assets were 140.2 mln EUR at 31 December 2009. Current assets increased by 9.0 mln EUR to 31.2 mln EUR in the twelve months of the year, with customer receivables increasing by 5.0 mln EUR and cash at bank increasing by 4.0 mln EUR.

Current liabilities decreased by 5.0 mln EUR to 7.3 mln EUR in the twelve 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 and replacement of the EBRD loan in May 2009, a 0.68 mln EUR increase in Trade payables, and a decrease in Customer prepayments of 0.52 mln EUR.

The Company continues to maintain its leverage level within its target range of 50% with total liabilities to total capital employed of 48.1% as of 31 December 2009. Long-term liabilities stood at 75.2 mln EUR at the end of December 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 twelve months of 2009, the Company generated 26.3 mln EUR of cash flows from operating activities, a decrease of 1.3 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 twelve months of 2009 net cash outflows from investing activities were 3.5 mln EUR, which is 0.66 mln EUR less than in 2008. This is mainly due to the lower construction prices. In 2009 the Company invested 16.1 mln EUR – 13.3 mln EUR on networks (including 9.2 mln EUR on extension and developments), 1.1 mln EUR at Paljassaare wastewater treatment plant and sludge treatment, 0.41 mln EUR on water quality (Ülemiste water treatment plant and raw water), 1.2 mln EUR for other investments (IT, capital maintenance, meters, etc) and 0.03 mln EUR outside the Services area in the municipality of Maardu.

The cash outflows from financing activities were 18.8 mln EUR during the twelve months of 2009 compared to a cash outflow of 20.1 mln EUR during the same twelve months of 2008, representing the payouts of the dividend and associated taxes. The Company repaid and fully refinanced the loan from the EBRD in May 2009 due to the need to finance and construct the extensive network extension program and related investment outflows by 2011.

As a result of all of the above factors, the total cash inflow in the twelve months of 2009 was 4.0 mln EUR compared to a cash inflow of 3.3 mln EUR in the twelve months of 2008. Cash and cash equivalents stood at 18.7 mln EUR as at 31 December 2009.

Employees

At the end of the 4th quarter of 2009, the total number of employees was 336 compared to 326 at the end of the 4th quarter of 2008. The full time equivalent (FTE) was respectively 322 in 2009 compared to the 317 in 2008. The increase in FTE is primarily due to taking on staff from Maardu Vesi when Company commenced operations in July.

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.

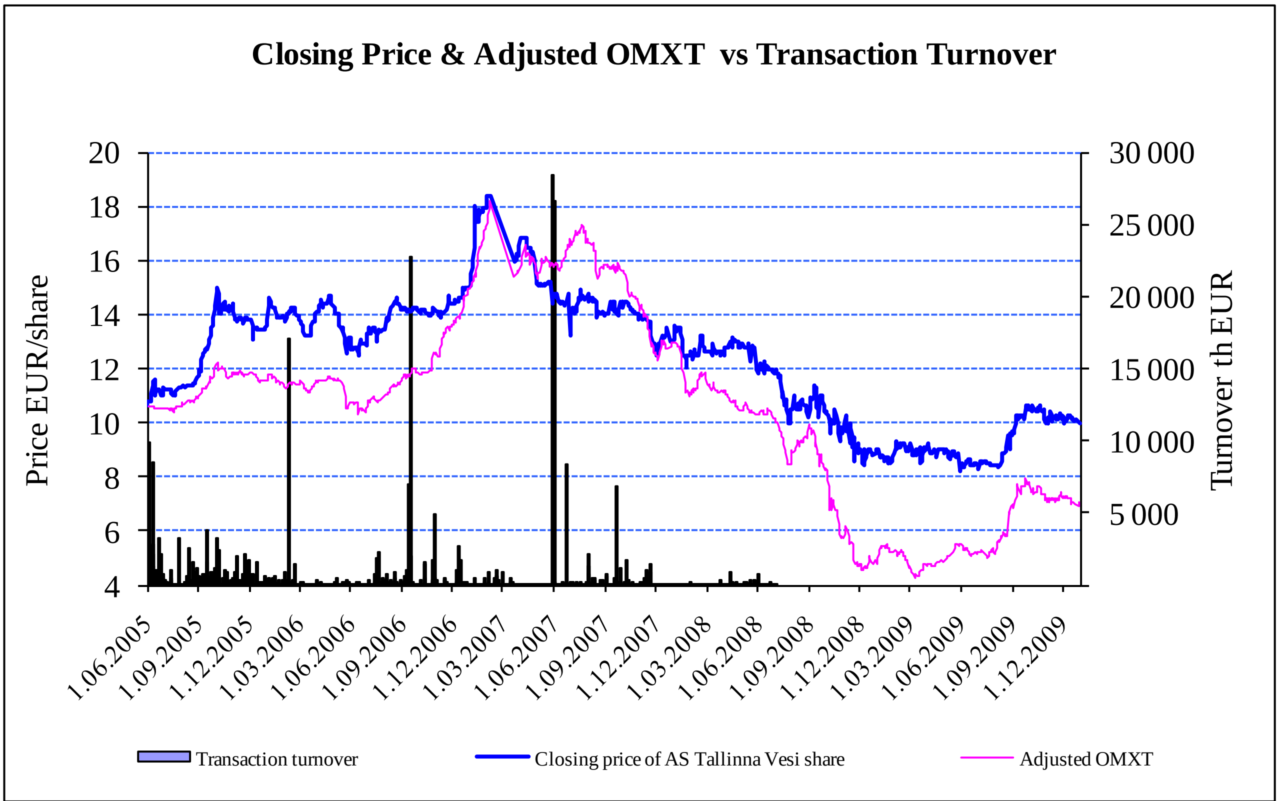
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 31 December 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	5.67%

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, 31 December 2009, the closing price of the AS Tallinna Vesi share was 10.00 EUR, which is a 4.76% decrease compared to the closing price of 10.50 EUR at the beginning of quarter. During the same period the OMX Tallinn index dropped by 9.2%.



Operational highlights in the twelve months of 2009

AS Tallinna Vesi's operating indicators were very good in 2009 and the company has consistently exceeded the product and service quality standards it committed to in 2001. The company achieved its all time highest water quality compliance level and witnessed improvements across the full range of performance indicators.

99.3 per cent of water samples taken from the taps of the customers of AS Tallinna Vesi were compliant with the requirements, demonstrating an increase of 1.3 per cent over 2008.
The quality of drinking water provided to Tallinners is nearly on the same level as in Western Europe. Although there is no comparative quality data available for other cities in Estonia, the Company is convinced that the water quality in Tallinn is the best in the Baltics.

The number of unplanned interruptions is reducing and the duration of these is also reducing, the water supply to the Company's customers is more stable and AS Tallinna Vesi resolves any interruptions faster ensuring any interruptions are minimized.
The number of unplanned interruptions in 2009 decreased by four per cent compared to 2008, while the number of properties affected by these interruptions decreased by 17 per cent. The total length of interruptions decreased from over 40.000 hours to less than 30.000 hours.
Our customers expect to have access to high quality drinking water at the right pressure and waste water removal 24 hours a day and 365 days a year. The number of customer contacts and complaints regarding water pressure decreased significantly in 2009 compared to 2008, respectively to 1223 from 1568 and to 10 from 21.

The way the Company manages its network and monitors its performance together with the speed of response to leakages and bursts have helped AS Tallinna Vesi to keep the leakage levels low and decrease it further over the last 3 years. In 2001 the leakage rate was over 32 per cent and because of the Company's efforts the resource is being managed now in a much more sustainable manner with far less waste.
The level of water leakages has decreased to 16,6 per cent, this means a save of 40 swimming pools of clean drinking water per day compared to 2008. Altogether 24 kilometers of water pipes and 6.4 kilometers of sewerage pipes were reconstructed last year.
The customers are experiencing less issues with blocked pipes and drains and the potential flooding and pollution problems that they can cause. This reduction is due to the targeted jet washing of sewers that AS Tallinna Vesi undertakes and the improvements that have been made to the sewer network over the years. The increased level of remote monitoring allows the Company to react faster to any events and prevent them developing into problems. The number of sewer collapses has remained the same over the period and demonstrates that the sewer pipes are in a stable condition.
The wastewater treatment plant at Paljassaare is each year removing more and more pollution load in order to meet the environmental requirements and ensure the future health of the Baltic Sea and Tallinn Bay for all to enjoy. To keep delivering the outputs the company has recognized that in the near future an additional treatment stage is required to help remove these increasing amounts of pollution. Design for this additional treatment stage is complete and construction will start soon.
Sludge is produced as a byproduct of wastewater treatment and the business converts this to soil conditioner that is then used for landscaping. All the sludge produced is recycled and no sludge in the last 3 years has been taken to landfill.
Based on these indicators it is clear that that AS Tallinna Vesi's impact on surrounding environment has improved significantly during past years and this will continue to be a top priority for the Company in coming years as well.

Not all customers in Tallinn are connected to the public water and wastewater supply system. In 2008 to 2010 the company is constructing over 150 km of new pipes that will provide over 3000 connection opportunities to our customers. Enabling more to connect to the network to have their wastewater taken away in a more sustainable manner and reduce local pollution problems.
The Company laid 4.6 kilometers of new water pipes in 2009 instead of the planned 3.3 kilometers and 43 kilometers of new sewerage pipes instead of the planned 39 kilometers. Additionally 5.9 kilometers of sewerage pipes planned for 2010 were laid as well. Over 2500 properties and 9000 people now have access to modern and environmentally sustainable public sewerage networks.

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 12 months period of financial year 2009 ended 31 December 2009. The interim accounts have not been reviewed by the auditors.

The condensed financial statementsfor the financial year ended 31 December 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 12 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.

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 28 January 2010 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

Stephen Howard

Stephen Benjamin Howard
Member of the Management Board
Chief Financial Officer

David Nigel Hetherington
Member of the Management Board
Chief Operating Officer

Siiri Lahe
Member of the Management Board

28 January 2010

CONDENSED STATEMENTS OF FINANCIAL POSITION

(thousand EUR)

		as of 31 December	
ASSETS	**Note**	**2009**	**2008**
CURRENT ASSETS			
Cash and equivalents	2	18 692	14 691
Customer receivables, accrued income and prepaid expenses		12 227	7 199
Inventories		244	240
Non-current assets held for sale		77	73
TOTAL CURRENT ASSETS		**31 241**	**22 203**
NON-CURRENT ASSETS			
Property, plant and equipment	3	137 599	138 575
Intangible assets	3	2 577	2 776
TOTAL NON-CURRENT ASSETS		**140 176**	**141 350**
TOTAL ASSETS		**171 417**	**163 553**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings		106	5 295
Trade and other payables		6 255	5 578
Short-term provisions		228	159
Prepayments and deferred income		747	1 265
TOTAL CURRENT LIABILITIES		**7 336**	**12 296**
NON-CURRENT LIABILITIES			
Borrowings		75 052	69 321
Other payables		115	47
TOTAL NON-CURRENT LIABILITIES		**75 167**	**69 368**
TOTAL LIABILITIES		**82 503**	**81 665**
EQUITY			
Share capital		12 782	12 782
Share premium		24 734	24 734
Statutory legal reserve		1 278	1 278
Retained earnings		50 120	43 094
TOTAL EQUITY		**88 914**	**81 889**
TOTAL LIABILITIES AND EQUITY		**171 417**	**163 553**

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

AS TALLINNA VESI
Unaudited Interim Condensed Financial Statements
for the 12 months period of financial year 2009 ended 31 December 2009

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(thousand EUR)

		Quarter 4		for the year ended 31 December	
	Note	**2009**	**2008**	**2009**	**2008**
Revenue	4	12 895	11 678	49 368	46 011
Costs of goods sold	6	-5 072	-4 728	-18 155	-17 432
GROSS PROFIT		**7 823**	**6 949**	**31 213**	**28 579**
Marketing expenses	6	-178	-197	-717	-787
General administration expenses	6	-928	-892	-3 419	-3 486
Other income/ expenses (-)	7	1 863	786	2 446	1 601
OPERATING PROFIT		**8 580**	**6 647**	**29 523**	**25 907**
Financial income	8	580	214	1 615	997
Financial expenses	8	-1 137	-928	-5 505	-3 758
PROFIT BEFORE TAXES		**8 023**	**5 933**	**25 633**	**23 146**
Income tax on dividends	9	0	0	-3 908	-4 231
NET PROFIT FOR THE PERIOD		**8 023**	**5 933**	**21 726**	**18 916**
Attributable to:					
Equity holders of A-shares		8 023	5 933	21 725	18 915
B-share holder		0,64	0,64	0,64	0,64
Earnings per A share (in euros)	10	0,40	0,30	1,09	0,95
Earnings per B share (in euros)	10	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	for the year ended 31 December 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		29 523	25 907
Adjustment for depreciation/amortisation	3	5 698	5 731
Adjustment for profit from government grants and connection fees		-3 037	-1 784
Other finance expenses	8	-2 222	-103
Profit from sale of property, plant and equipment, and intangible assets		-10	-29
Expensed property, plant and equipment		0	-1
Change in current assets involved in operating activities		-2 271	1 456
Change in liabilities involved in operating activities		1 051	58
Interest paid		-2 479	-3 679
Total cash flow from operating activities		**26 253**	**27 555**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets		-15 960	-21 245
Compensations received for construction of pipelines		11 505	15 990
Proceeds from sale of property, plant and equipment, and intangible assets		15	31
Interest received		964	1 080
Total cash flow used in investing activities		**-3 476**	**-4 143**
CASH FLOWS FROM FINANCING ACTIVITIES			
Received short-term loans		10 000	0
Repayment of short-term loans		-10 000	0
Received long-term loans		34 800	2 700
Repayment of long-term loans		-34 821	-2 679
Finance lease payments		-146	0
Dividends paid	9	-14 700	-15 915
Income tax on dividends	9	-3 908	-4 231
Total cash flow used in financing activities		**-18 775**	**-20 124**
Change in cash and cash equivalents		**4 002**	**3 288**
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**14 691**	**11 403**
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	2	**18 692**	**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**
Dividends	0	0	0	-14 700	-14 700
Net profit of the financial period	0	0	0	21 726	21 726
as of 31 December 2009	**12 782**	**24 734**	**1 278**	**50 120**	**88 914**

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 31 December	
	2009	**2008**
Cash in hand and in bank	24	99
Short-term deposits	18 668	14 592
Total cash and cash equivalents	**18 692**	**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 - 31.12.2009											
Acquisition in book value	0	0	0	0	6 346	9 212	0	492	0	0	16 050
Compensated by government grants	0	0	0	0	0	-11 418	0	0	0	0	-11 418
Reclassification	391	2 795	1 681	132	-5 006	-70	-26	-571	303	268	-103
Depreciation	-268	-2 475	-2 185	-79	0	0	0	0	-141	-550	-5 698
Total transactions in the period 01.01.2009 - 31.12.2009	**123**	**319**	**-507**	**50**	**1 340**	**-2 276**	**-26**	**-79**	**162**	**-282**	**-1 175**
as of 31 December 2009											
Acquisition cost	23 913	145 442	38 587	1 179	2 752	3 602	92	95	964	4 677	221 302
Accumulated depreciation	-4 566	-47 723	-24 942	-737	0	0	0	0	-612	-2 547	-81 127
Book value	**19 347**	**97 719**	**13 646**	**441**	**2 752**	**3 602**	**92**	**95**	**352**	**2 130**	**140 176**

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 31 December 2009 the net balance sheet value of finance leases was 333 thousand euros.

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

NOTE 4. REVENUE	**Quarter 4**		**for the year ended 31 December**	
	2009	**2008**	**2009**	**2008**
Revenues from main operating activities				
Total water supply and waste water disposal service, incl:	11 651	10 474	45 212	42 073
Private clients, incl:	6 154	5 563	24 243	22 167
Water supply service	3 425	3 104	13 510	12 379
Waste water disposal service	2 729	2 459	10 734	9 788
Corporate clients, incl:	4 380	4 245	17 469	17 335
Water supply service	2 397	2 334	9 720	9 630
Waste water disposal service	1 983	1 911	7 749	7 705
Outside service area clients, incl:	927	441	2 557	1 687
Water supply service	207	35	501	138
Waste water disposal service	721	406	2 056	1 549
Overpollution fee	190	226	942	884
Stormwater treatment and disposal service	907	906	3 001	2 950
Fire hydrants service	68	58	197	172
Other works and services	269	239	959	816
Total revenue	**12 895**	**11 678**	**49 368**	**46 011**

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

NOTE 5. STAFF COSTS	**Quarter 4**		**for the year ended 31 December**	
	2009	**2008**	**2009**	**2008**
Salaries and wages	-1 436	-1 157	-4 563	-4 239
Social security and unemployment insurance taxation	-478	-385	-1 520	-1 412
Staff costs total	**-1 914**	**-1 542**	**-6 083**	**-5 651**
Number of employees at the end of reporting period			**336**	**327**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

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

	Quarter 4		for the year ended 31 December	
	2009	**2008**	**2009**	**2008**
Cost of goods sold				
Tax on special use of water	-193	-175	-734	-691
Chemicals	-334	-335	-1 283	-1 460
Electricity	-591	-519	-2 136	-1 902
Pollution tax	-202	-449	-1 081	-1 087
Staff costs	-1 441	-1 109	-4 491	-4 059
Development	0	0	-2	-2
Depreciation and amortization	-1 273	-1 355	-5 177	-5 246
Transport	-293	-322	-1 114	-1 259
Other costs of goods sold	-746	-465	-2 136	-1 727
Total cost of goods sold	**-5 072**	**-4 728**	**-18 155**	**-17 432**
Marketing expenses				
Staff costs	-77	-91	-289	-346
Depreciation and amortization	-83	-83	-333	-324
Other marketing expenses	-18	-23	-95	-117
Total cost of marketing expenses	**-178**	**-197**	**-717**	**-787**
General administration expenses				
Staff costs	-395	-342	-1 303	-1 246
Depreciation and amortization	-47	-39	-188	-161
Other general administration expenses	-486	-510	-1 928	-2 079
Total cost of general administration expenses	**-928**	**-892**	**-3 419**	**-3 486**

NOTE 7. OTHER INCOME / EXPENSES

	Quarter 4		for the year ended 31 December	
	2009	**2008**	**2009**	**2008**
Profit from connection fees	208	63	392	283
Profit from government grant	1 918	843	2 644	1 501
Other income / expenses (-)	-264	-119	-591	-184
Total other income / expenses	**1 863**	**786**	**2 446**	**1 601**

NOTES TO THE INTERIM FINANCIAL STATEMENT (thousand EUR)

NOTE 8. FINANCIAL INCOME AND EXPENSES

	Quarter 4		for the year ended 31 December	
	2009	**2008**	**2009**	**2008**
Interest income	580	214	1 615	997
Interest expense	-1 109	-904	-3 282	-3 655
Other financial expenses	-28	-25	-2 222	-103
Total finane income / expenses	**-557**	**-714**	**-3 890**	**-2 761**

NOTE 9. DIVIDENDS

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

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

NOTE 10. EARNINGS PER SHARE

	Quarter 4		for the year ended 31 December	
	2009	**2008**	**2009**	**2008**
Net profit for the period ended 31.12 minus B-share preference rights (in euros)	8 023	5 933	21 725	18 915
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
Earnings per A share (in euros)	0,40	0,30	1,09	0,95
Earnings per B share (in euros)	639	639	639	639

Diluted earnings per share for the periods ended 31 December 2009 and 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

	as of 31 December	
Balances recorded in working capital on the balance sheet of the Company	**2009**	**2008**
Accounts receivable	138	1 594
Accrued income	5 957	0
Accounts payable - short-term trade and other payables	245	254

	Quarter 4		for the year ended 31 December	
	2009	**2008**	**2009**	**2008**
Transactions with the related parties				
Sales services	965	964	3 179	3 122
Compensations received from the local governments for constructing new pipelines	5 610	905	11 922	10 182
Purchase of administrative and consulting services	331	345	1 237	1 316
Financial income	384	0	642	0
Management Board fees excluding social tax	40	39	163	147
Supervisory Board fees excluding social tax	10	10	38	38

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 and Supervisory 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