

AS TALLINNA VESI

*Annual report
for the financial year ended
31 December 2009*

(Translation of the Estonian original)

AS TALLINNA VESI

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

(thousand EEK)

Beginning of the financial year	1 January 2009
End of the financial year	31 December 2009
Name of the Company	AS TALLINNA VESI
Legal form of the Company	Public limited company
Commercial register number	10257326
Address	Ädala St.10, Tallinn, Estonia
Chairman of the Board	Ian John Alexander Plenderleith
Telephone	+ 372 6 262 211
Fax	+372 6 262 300
E-mail	tvesi@tvesi.ee
Web-page	www.tallinnavesi.ee
Field of activity	Production, treatment and distribution of water; storm and wastewater disposal and treatment
Auditors	AS PricewaterhouseCoopers
Documents attached to the Annual Report	Independent auditor's report

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MANAGEMENT REPORT

CHAIRMAN'S STATEMENT

This has been a year of extraordinary volatility for the Estonian economy. This has challenged our business, as well as many of our customers, to adapt to these unprecedented levels of economic uncertainty.

Despite this, I am pleased to report that AS Tallinna Vesi has performed well. We have kept a strong focus on our main business priority, to deliver a high quality service to our customers, and this is reflected in the improvement of many of our key performance indicators.

Furthermore, we have continued to be recognized as one of the leading companies in Estonia and the Baltics, winning awards from CSR Forum for our CSR performance, Enterprise Estonia for our competitiveness and from the NASDAQ OMX Baltic Stock Exchange for the quality of our investor relations and the transparency of our reporting.

Operations & Customer Service – Delivering Excellence to our customers

As a company we have always focused on meeting or exceeding the services contract we have with the City of Tallinn. This services contract requires us to maintain a high standard of service to our customers across a range of over 90 levels of service, ensuring that we deliver a service to our customers that is second to none. We entered 2009 having fully complied with all these levels of service and throughout the year we have endeavoured to continue to improve on last year's performance.

We invested over 250 mln kroons in 2009, in our networks, treatment plants and catchment area to help deliver an improved service for the people of Tallinn. It gives me great pleasure to report that in 2009, in almost all indicators, we have improved our operational performance. The highlights being: **Drinking water quality compliance at the customer's tap has improved to over 99%**, which is well above the EU standard and close to the highest standards in Western Europe. The targeted investments we made into our networks and working practices has helped deliver an excellent performance for our two key performance indicators for our below ground assets. **Firstly, leakage level of less than 17%**, which is well below our contractual target and reflects our commitment to ensure the water resource, is used as sustainably as possible. Since privatisation we have halved our leakage levels which equates to a saving equivalent to a daily production volume of the City of Tartu. **Secondly**, our customers have benefited from a much more secure supply of water, we have **reduced the number of interruptions to supply from 761 per annum to 732 per annum and the average length of interruptions has reduced to three and a half hours per interruption.**

I was disappointed to see that our customer satisfaction rating declined once again in 2009. On the positive side our customers were pleased with the quality of our products and services but we will need to substantially improve our performance when our customers contact us or have a reason to complain. Our annual customer satisfaction survey clearly demonstrates this; if our customers have not needed to contact us, our rating was over 75 (TRIM Index), however when they have had to communicate with the company, our rating falls to under 50 (TRIM Index). This is where we need to improve and where we will focus our efforts in 2010.

Access to our sewerage system

In November 2007 we agreed a partnership with the City of Tallinn to finance and deliver almost 4,000 new sewerage connections and to date we have delivered over 2,650 connection points. To deliver this project on time required us to raise additional long term finance. During late 2008 and early 2009 the macroeconomic environment was extremely uncertain and access to debt finance on competitive terms was extremely challenging. However thanks to the quality and the transparency of our financial reporting and our company structure we were able to secure the necessary finance from the market. If we had not been able to achieve this refinancing this extremely important environmental project would have been in doubt.

Financial performance

Our financial performance continues to be robust. Our turnover from our main business activity, sales of water and wastewater increased by 7.5% to 707.4 mln kroons and our operating profit from these activities increased by 9.8% to 414.4 mln kroons. However, whilst we have increased main business profits this year, the uncertainties in the economy mean future growth cannot be guaranteed. The impact of the worldwide financial crisis has had a significant impact on our sales volumes to both domestic and commercial customers. In 2009 we have been able to offset these reductions with cost savings, but in the future we will need to be more flexible in how we work and find new revenue streams to mitigate this ongoing risk.

Growth

Our excellent operational performance leaves us well placed to expand our service offering across the Baltics. We already provide a very high quality service and we should be able to utilize this strength to increase revenues from activities outside of the City of Tallinn. Although 2009 was a quiet year for new growth opportunities, we did commence a 30-year operations and maintenance contract in the City of Maardu from 1 July 2009. This is a landmark contract and is a business model we feel we can use to expand across Estonia. In 2010 we will give additional focus to our growth agenda as we recognize this is a key component of our long term strategy to increase returns for our investors.

People

Achieving our long term goals will not be possible without motivating and engaging with our people. We believe clearly communicated objectives, reward systems and good leadership are fundamental in helping to achieve this. These messages were delivered to the management as a result of our annual employee opinion survey and in 2009 we have focused on improving our performance in these areas, and will continue to do so in 2010.

Furthermore, the current working environment is extremely challenging and demands that we are more flexible in our ways of working and our thinking. In addition the age profile of our people means we will have to implement structured succession and development plans if we are to continue to be successful in the medium and long term. Therefore in 2010 we will continue with our leadership and project manager training programmes, and will introduce two new development programmes, one aimed at developing our operational staff and the other aimed at developing our future technical and business managers.

Outlook

We recognise that the continuing economic uncertainty demands that we emphasise improvements in the efficiency and flexibility of our operations, especially if we are to continue to improve our performance. Additionally, with cash and access to capital being scarce for ourselves and our customers we will need to be even more focused on maximising value for our customers from the delivery of our capital programme.

Finally, I would like to thank my colleagues in Tallinna Vesi, and all our suppliers and business partners for all their energy, commitment, and support in serving our customers in this challenging and uncertain year. Their efforts have ensured we remain in a strong position, and are able to look to the future with confidence.

AS TALLINNA VESI**ANNUAL REPORT****FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009***(thousand EEK)***RESULTS OF OPERATIONS - FOR THE YEAR 2009***Main economic indicators*

million kroons	2009	2008	2007	2006	2005
Sales	772,4	719,9	648,3	589,2	549,9
Gross profit	488,4	447,2	431,7	368,6	347,9
Gross profit margin %	63,2	62,1	66,6	62,6	63,3
Operating profit	461,9	405,4	377,4	337,9	282,6
Operating profit - main business	414,4	377,4	363,1	331,0	278,8
Operating profit margin %	59,8	56,3	58,2	48,7	47,7
Profit before taxes	401,1	362,2	333,1	294,9	209,7
Profit before taxes margin %	51,9	50,3	51,4	42,5	35,4
Net profit	339,9	296,0	277,8	248,0	174,4
Net profit margin %	44,0	41,1	42,9	42,1	31,7
ROA %	12,7	11,6	10,9	10,0	7,3
Debt to total capital employed	48,1	49,9	51,8	53,4	55,3
ROE%	24,4	23,1	22,5	21,5	16,4
Current ratio	4,3	1,8	1,9	2,2	1,9
Number of employees	336	327	312	318	334
Share capital	200	200	200	200	200

*Gross profit margin – Gross profit / Net sales**Operating profit margin – Operating profit / Net sales**Profit before taxes margin – Profit before taxes / Net sales**Net profit margin – Net profit / Net sales**ROA – Net profit / Total assets**Debt to Total capital employed – Total liabilities / Total capital employed**ROE – Net profit / Shareholders' equity**Current ratio – Current assets / Current liabilities***Profit and Loss Statement***Sales*

In 2009 AS Tallinna Vesi's (hereinafter referred to as 'the Company') total sales increased, year on year, by 7.3% to 772.4 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 operating and maintenance contract signed with the city of Maardu. There is no considerable seasonality in the Company's operation.

Sales of water and wastewater services were 707.4 mln EEK, a 7.5% increase compared to 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 9.4% to 379.3 mln EEK. Sales to commercial customers increased by 0.8% to 273.3 mln EEK. Sales to customers outside of the service area increased by 51.5% to 40.0

mln EEK, mainly due to the implementation of the Maardu's operating contract. Over pollution fees received were 14.7 mln EEK, a 6.6% increase compared to 2008.

In 2009, the volumes sold to residential customers dropped 3.0%. 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 10.7% 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 2.4% to 50.0 mln EEK in 2009 compared to last year. 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 284.1 mln EEK in 2009, an increase of 11.3 mln EEK or 4.1% from the equivalent period in 2008.

In 2009 the Company achieved the beneficial 0.5 coefficient for pollution tax in 1st and 4th quarters, and the amount of pollution tax payable was 16.9 mln EEK compared to 17.0 mln EEK in 2008. In the 2nd and 4th quarters of 2008 Company did not achieve 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 20.1 mln EEK, representing a 12.1% 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 3.7 mln EEK or 12.3% in 2009 compared to 2008 due to higher electricity prices.

Salary expenses increased in 2009, year on year, by 6.8 mln EEK or 10.6% mainly due to the take over of 23 employees from Maardu Vesi.

Depreciation charges decreased in 2009 by 1.1 mln EEK or 1.3% year on year.

Transport costs decreased by 2.3 mln EEK, or 11.5% 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 6.4 mln EEK, or 23.7% 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 2009 was 488.4 mln EEK, which is an increase of 41.2 mln EEK, or 9.2%, compared to the gross profit of 447.2 mln EEK for 2008.

Operating Costs and Operating Margin

Marketing expenses decreased by 1.1 mln EEK to 11.2 mln EEK during 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 2009 the General administration expenses decreased by 1.1 mln EEK to 53.5 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

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 totalled a net income of 47.5 mln EEK, in 2009 compared to a net income of 27.9 mln EEK in 2008. This was primarily due to the significant increase in the number of connections finalized.

The rest of the other income/expenses totalled an expense of 9.2 mln EEK in 2009 compared to an expense of 2.9 mln EEK in 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 main and other activities for 2009 was 461.9 mln EEK, an increase of 56.6 mln EEK compared to an operating profit of 405.4 mln EEK achieved in 2008. Year on year the operating profit has increased 14.0%.

Financial expenses

Net Financial expenses were 60.9 mln EEK in 2009, which is an increase of 17.7 mln EEK or 40.9% compared to 2008. The Company's interest costs have decreased by 38.0% compared to 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 and June 2009 concluded 3 interest swap agreements, each with a principal value of 15 mln EUR. All contracts had forward start dates, for contracts with a notional amount of 30 mln EUR the forward start date became on 28 November 2009, and for a contract with a notional amount of 15 mln EUR the forward start date begins on 28 May 2010. At this point in time the fair value of these swap contracts is negative, therefore the provisions related to the Swap fair value in the amount of 16.1 mln EEK partly offset the interest costs savings and the increase in financial income earned during 2009.

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

(thousand EEK)

Profit Before Tax

The Company's profit before taxes for 2009 was 401.1 mln EEK, which is 38.9 mln EEK higher than the profit before taxes of 362.2 mln EEK for 2008.

The Company's net profit for the 2009 was 339.9 mln EEK, which is 44.0 mln EEK higher than the net profit of 296.0 mln EEK in the equivalent period in 2008.

Balance sheet

During the twelve months of 2009 the Company invested 251.6 mln EEK into fixed assets. Non-current assets were 2,193.3 mln EEK at 31 December 2009. Current assets increased by 141.4 mln EEK to 488.8 mln EEK in the twelve months of the year, with customer receivables increasing by 78.7 mln EEK and cash at bank increasing by 62.6 mln EEK.

Current liabilities decreased by 77.3 mln EEK to 115.1 mln EEK in the twelve 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 and replacement of the EBRD loan in May 2009, a 10.6 mln EEK increase in Trade payables, and a decrease in Customer prepayments of 8.1 mln EEK.

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 1,175.8 mln EEK 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 Company intends to draw down the 20 mln EUR balance in May 2010. 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 426.9 mln EEK of cash flows from operating activities, a decrease of 4.2 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 prepayment of the EBRD loan. 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 72.8 mln EEK, which is 8.0 mln EEK more than in 2008. This is mainly because of lower CAPEX due to lower construction prices and savings on the program, balanced by number of connections finalized. In 2009 the Company invested 251.6 mln EEK – 208.7 mln EEK on networks (including 144.1 mln EEK on extension and developments), 17.4 mln EEK at Paljassaare wastewater treatment plant and sludge treatment, 6.4 mln EEK on water quality (Ülemiste water treatment plant and raw water), 18.6 mln EEK for other investments (IT, capital maintenance, meters, etc) and 0.5 mln EEK outside the Services area in the municipality of Maardu.

The cash outflows from financing activities were 291.5 mln EEK during the twelve months of 2009 compared to a cash outflow of 314.9 mln EEK 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 62.6 mln EEK compared to a cash inflow of 51.4 mln EEK in the twelve months of 2008. Cash and cash equivalents stood at 292.5 mln EEK as at 31 December 2009.

Employees

At the end of 2009, the total number of employees was 336 compared to 326 at the end 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. The total salary cost was 95.2 mln EEK, including 3.2 mln EEK paid to the Management and Supervisory Council members. The off balance sheet potential salary liability would be up to 0.7 mln EEK if the Council would want to replace the Management Board member.

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.

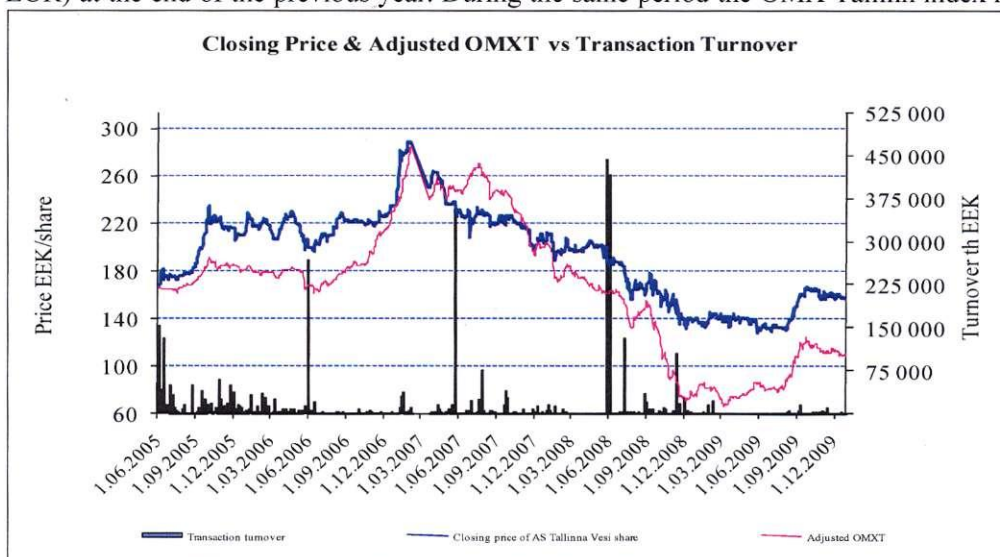
AS Tallinna Vesi is listed on OMX Main Baltic Market with trading code TVEAT and ISIN EE3100026436.

As of 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 year, 31 December 2009, the closing price of the AS Tallinna Vesi share was 156.47 EEK (10.00 EUR), which is an 11.2% increase compared to the closing price of 140.66 EEK (8.99 EUR) at the end of the previous year. During the same period the OMX Tallinn index rose by 47.2%.



Share price statistics after listing

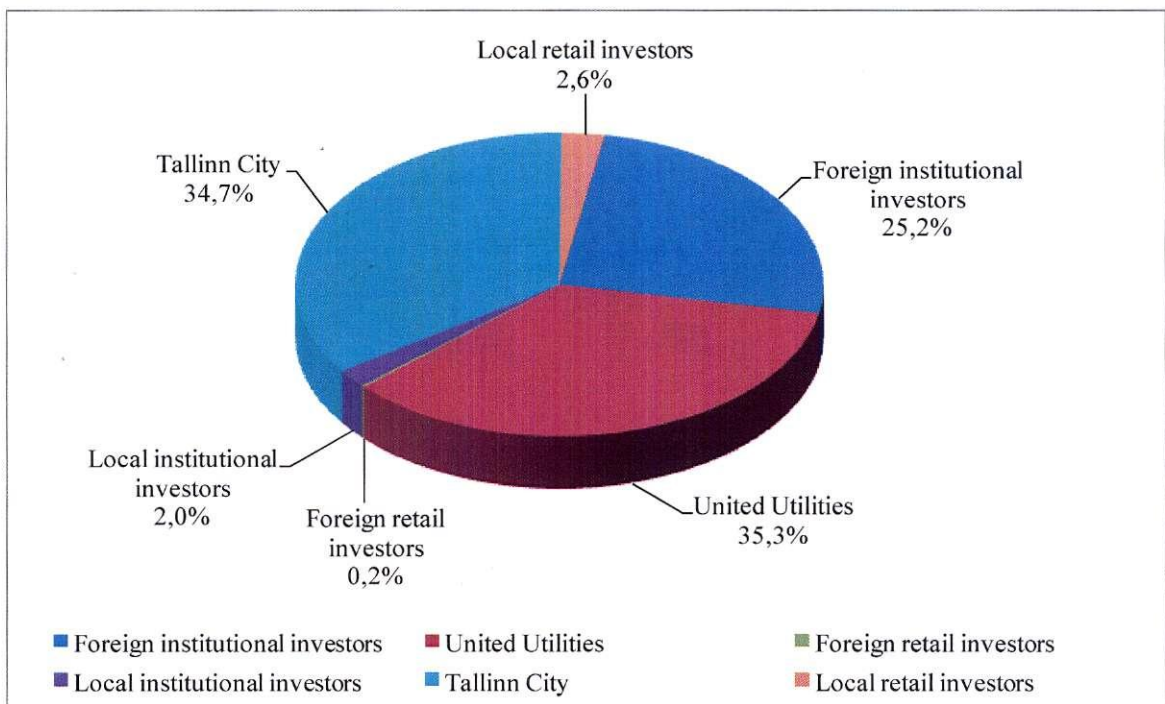
EEK	2009	2008	2007	2006	2005
Share price, open	140,82	207,32	234,70	211,23	155,53
Share price, at the end of the year	156,47	140,66	202,78	234,86	210,92
Share price, low	128,30	131,59	195,58	195,11	155,53
Share price, high	167,26	212,79	290,87	234,86	235,48
Share price, average	145,19	178,09	232,20	217,49	197,46
Traded volume	1 547 108	7 958 820	5 462 916	4 274 094	7 993 844
Turnover, million	226,6	1 453,1	1 295,9	913,2	1 509,9
Capitalisation, million	3 129	2 813	4 056	4 697	4 218
Earnings per share	17,00	14,80	13,89	12,40	8,72
Dividend per share	n/a	11,50	12,45	9,80	7,85
Dividend / net profit	n/a	78%	90%	79%	90%
P/E	9,20	9,50	14,60	18,94	24,19
P/BV	2,2	2,2	3,3	4,1	4,0

P/E = share price at the end of the year / earnings per share

P/BV = share price at the end of the year / book value per share

In 2005 the listing price was 144.70 EEK, equal to the 9.25 EUR

Shareholders by type as of 31.12.2009



Distribution of share capital by size of share ownership as of 31.12.2009

	Shareholders	Shareholders %	No. of shares	% of share capital
1 - 100	621	32,6%	31 738	0,2%
101 - 200	480	25,2%	72 383	0,4%
201 - 300	220	11,5%	57 088	0,3%
301 - 500	200	10,5%	83 761	0,4%
501 - 1 000	170	8,9%	130 678	0,7%
1 001 - 5 000	162	8,5%	346 582	1,7%
5 001 - 10 000	17	0,9%	126 240	0,6%
10 001 - 50 000	18	0,9%	360 090	1,8%
50 000 +	19	1,0%	18 791 440	94,0%
TOTAL	1907	100,0%	20 000 000	100,0%

More detailed information about the structure of the equity and the preference share, giving the special control rights, is disclosed in note 16.

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE
RECOMMENDATIONS REPORT

Corporate governance constitutes a system of principles for the management of the company. Generally these principles are regulated by law, the Articles of Association and the internal rules of the company. Since 01.01.2006 the companies listed on the Estonian stock exchange are recommended to follow the "Corporate Governance Recommendations" issued by the Financial Supervision Authority. Throughout 2009 the management of the Company was following these regulations and principles. An Annual General Meeting of Shareholders was convened to approve the annual report, distribution of dividends, recalling of auditors and recalling/electing of Supervisory Board members. Changes in the Articles of Association and management of the Company (incl. the election and recall of the members of the management board) are made according to Part VII of the Commercial Code.

The Company is committed to high standards of corporate governance for which the Management Board and Supervisory Board are accountable to shareholders. The Company endeavours to be transparent in its ways of operating, corporate disclosures and relations with shareholders. The Company has been recognized several times for this – in 2008 and 2009 the IR Magazine ranked the Company to be the best in investor relations in Estonia. In 2009 the NASDAQ OMX Baltic awarded the Company for the Best Annual Report in NASDAQ OMX Baltic and for the Best Investor Relations in NASDAQ OMX Tallinn.

The Company has regular dialogue with major shareholders and potential investors with presentations made generally at least bi-annually - timetable of such meetings and the list of presentations are available on the Company's website. To keep the Company's shareholders informed Meetings of Shareholders are kept where shareholders have the opportunity to ask questions from the Management Board and Supervisory Board.

The Company is a public limited company, the management bodies of which are the General Meeting of shareholders, the Supervisory Board and the Management Board. The General Meeting of shareholders is the Company's highest directing body.

The Supervisory Board and Audit

The Supervisory Board plans the activities of the Company, organises its management and supervises the activities of the Management Board. Pursuant to the Articles of Association, the Supervisory Board consists of nine members the term of whose authority is two years. In 2009 five Supervisory Board meetings were held. The Supervisory Board approved the 2009 annual report presented at the Annual General Meeting, and approved the 2010 budget.

The members of the Company's Supervisory Board during the composition of this report were as follows: Robert John Gallienne – Chairman of the Supervisory Board, Leslie Anthony Bell, Andrew James Prescott, Matti Hyyrynen, Mart Mägi, Valdur Laid, Elmar Sepp, Rein Ratas, Deniss Boroditš.

At each meeting, an internal audit report was presented to the Supervisory Board. The internal auditor of the Company reports directly to Robert John Gallienne, Supervisory Board Member responsible for auditing function.

Regular internal audits are conducted in the company in the field of compliance, performance, and finance etc. in order to check that:

- 1.1 the risks have been identified, assessed and managed in the required way;
- 1.2 the relevant financial, managerial and operating information is accurate, reliable and available for prompt usage;
- 1.3 the employees' activities are compliant with the organizational policy, internal regulations, and applicable acts and regulations;
- 1.4 the resources required for operation are acquired cost-effectively, applied efficiently and adequately protected by required means;
- 1.5 the organizational programmes, plans and objectives are achieved;
- 1.6 the internal control system within the organization provides the requisite level of protection and supports the continuous improvement of quality;
- 1.7 reporting is reliable and presented in due time;
- 1.8 protection and preservation of organizational assets is guaranteed.

Pursuant to the Articles of Association of the Company, an external auditor shall be elected by the General Meeting of shareholders for conducting the annual audit. Remuneration of the auditor shall proceed pursuant to the contract; the Management Board has the right of conclusion thereof.

The Management Board

The Management Board is a management body that represents and manages the day-to-day activities of the Company according to law and the Articles of Association. The Management Board is obliged to act in the most economically efficient manner. The Management Board is composed of four members, three of them seconded by United Utilities International Ltd, all of them appointed by the Supervisory Board.

The duties of the Chairman of the Management Board Ian Plenderleith were, amongst other duties, to fulfil the everyday obligations of the Chief Executive Officer of the Company by leading and representing the company, organizing the activities of the Management Board, preparing the strategies and ensuring their implementation.

The duties of the member of the Management Board David Hetherington were, amongst other duties, to fulfil the everyday obligations of the Chief Operating Officer of the Company by managing and being responsible for the operating activities.

Until 30 November 2009 the duties of the member of the Management Board Siiri Lahe were, amongst other duties, to fulfil the everyday obligations of the Chief Financial Officer of the Company by managing and being responsible for the accounting and financial activities of the Company. As of 30 November 2009 Stephen Benjamin Howard took over the role of the Chief Financial Officer and he was appointed as a member of the Management Board. Siiri Lahe continues to be a member of the Management Board during her maternity leave period.

According to the Company's statute the Chairman of the Management Board can represent the Company single-handedly; other Management Board members can represent the company only with the joint approval of the other. In order to make daily decisions the Management Board has validated a framework of principles, according to which certain management team members are authorized to conclude transactions for small amounts.

Conformity to Tallinn Stock Exchange Corporate Governance Recommendations

Starting from January 1, 2006 the companies whose shares have been admitted to trading on the regulated market operating in Estonia shall describe, in accordance with the 'Comply or Explain' principle, their management practices in a Corporate Governance report and confirm their compliance or not with the Corporate Governance recommendations. If the issuer does not comply with the Corporate Governance Recommendations, it shall explain in the report the reasons for its non-compliance.

Declaration of Conformity by AS Tallinna Vesi

AS Tallinna Vesi complies with the vast majority of the Corporate Governance principles. However it does not comply with some principles, which are listed below, together with the reasons for current non-compliance:

'2.2.3. The basis for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the basis for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by evaluation of the work of the Management Board members. Upon evaluation of the work the Management Board members, the Supervisory Board shall above all take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.'

The arrangements concluded in connection with the privatisation of the Company in 2001 provided that, in return for certain fees, United Utilities International Ltd would provide the Company with certain technical and asset management services and would make certain of its personnel available to the Company in connection with its operation and management.

According to the agreement, the working hours, rates of compensation, manner of performance, and all other matters relating to the employment of the individuals appointed by United Utilities International Ltd are to be determined solely by United Utilities International Ltd, the Supervisory Board does not regularly review the principles of those Management Board members remuneration.

'2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.'

The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore.'

The Company does disclose the overall management board remuneration in the report appendix 26, but considers that individual remuneration is sensitive and private information and disclosing it would bring no benefit to the shareholders.

'3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.'

Pursuant to the Articles of Association, the Supervisory Board consists of nine members. Under the Shareholders' Agreement, United Utilities (Tallinn) B.V. (hereinafter UUTBV) and the City of Tallinn have agreed that the division of seats in the Supervisory Board shall be such that UUTBV shall have four seats, the City of Tallinn shall have three seats and two seats shall be for independent members of the Supervisory Board as described by the Tallinn Stock Exchange.

Information Disclosure

'2.2.2. The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board in company belonging to same group as the Issuer.'

Ian Plenderleith, CEO, is a member of the Management Board of the following companies belonging to United Utilities group: United Utilities Pacific Holdings B.V., United Utilities Australia Holdings BV, United Utilities B.V., Birchpoint No 1, Halkyn District Mines Drainage Company Limited, United Utilities Europe Holdings B.V., United Utilities (Sofia) Limited, United Utilities (Sofia) B.V., United Utilities (Poland) BV, Aqua Spolka Akcyjna, United Utilities (Tallinn) B.V.

Siiri Lahe, Stephen Benjamin Howard, CFO, and David Hetherington, COO, are not in the Management Boards and Supervisory Boards of other companies.

3.2.5. The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).

According to the decision of the General Meeting of shareholders the payments for Supervisory Board members is set at 100,000 kroons per year. The fee is paid to six members. The fee is subject to deduction and payment of taxes set out by laws and would be payable monthly. The Supervisory Board members are not paid any additional benefits.

AS TALLINNA VESI

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

(thousand EEK)

3.2.6. If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.

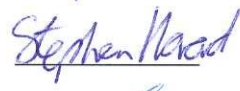
In 2009 five Supervisory Board meetings were held (29 January 2009, 26 March 2009, 30 April 2009, 16 July 2009 and 22 October 2009).

Chairman of the Supervisory Board (Robert John Gallienne) and most of the members of the Supervisory Board (Matti Hyyrynen, Mart Mägi, Elmar Sepp, Rein Ratas, Deniss Boroditš, Valdur Laid) have attended more than 50% of the meetings during the time held office.

As members of the Supervisory Board have changed during the year the following Supervisory Board members have attended less than half of the meetings held during the year.

- Kevin Starling attended all the Supervisory Board meetings (3), until being recalled from Board on 16.06.2009. He attended on 29.01.2009, 26.03.2009 and 30.04.2009 respectively.
- Steven Richard Fraser attended two Supervisory Board meetings, until being recalled from Board on 16.06.2009. He attended on 29.01.2009 and 26.03.2009 respectively.
- Leslie Anthony Bell attended all the Supervisory Board meetings (2) since his nomination on 16.06.2009. He attended on 16.07.2009 and 22.10.2009 respectively.
- Andrew James Prescott attended one Supervisory Board meeting since his nomination on 16.06.2009. He attended on 16.07.2009.

The previous sections, Chairman's statement, Results of operations – for the year 2009, Corporate Governance and Corporate Governance Recommendations Report from the Management Report are an integral part of the annual report of AS Tallinna Vesi for the financial year ended 31 December 2009. The Management Report gives a true and fair view of the trends and results of operations, main risks and doubts of the Company.

Name	Position	Signature	Date
Ian John Alexander Plenderleith	Chairman of the Management Board		<u>25/2/10</u>
David Nigel Hetherington	Member of the Management Board		<u>25/2/10</u>
Stephen Benjamin Howard	Member of the Management Board		<u>25/2/2010</u>
Siiri Lahe	Member of the Management Board		<u>25.02.2010</u>

FINANCIAL STATEMENTS**MANAGEMENT CONFIRMATION**


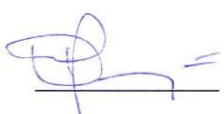
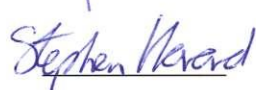

The Management Board of AS Tallinna Vesi hereby declares its responsibility for the preparation of the financial statements for the financial year ended 31 December 2009 on pages 17 to 52.

The financial statements have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of AS Tallinna Vesi.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Company's assets and liabilities as at 31 December 2009, and of income and expenses during the financial year. These estimates are based on current information about the Company and consider all plans and risks as at 31 December 2009. The actual results of these business transactions recorded may differ from such estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements on 25 February 2010 have been considered in preparing the financial statements.

The Management Board considers AS Tallinna Vesi to be a going concern entity.

Name	Position	Signature	Date
Ian John Alexander Plenderleith	Chairman of the Management Board		25/2/10
David Nigel Hetherington	Member of the Management Board		25/2/10
Stephen Benjamin Howard	Member of the Management Board		25/2/2010
Siiri Lahe	Member of the Management Board		25.02.2010

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AS TALLINNA VESI

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

(thousand EEK)

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	as of 31 December	
		2009	2008
CURRENT ASSETS			
Cash and equivalents	6	292 474	229 860
Customer receivables, accrued income and prepaid expenses	7,8	191 317	112 638
Inventories		3 819	3 760
Non-current assets held for sale		1 209	1 140
TOTAL CURRENT ASSETS		488 819	347 398
NON-CURRENT ASSETS			
Property, plant and equipment	9	2 152 952	2 168 225
Intangible assets	9	40 319	43 428
TOTAL NON-CURRENT ASSETS		2 193 271	2 211 653
TOTAL ASSETS		2 682 090	2 559 051
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term borrowings	10	1 936	82 843
Trade and other payables	11, 12	97 866	87 270
Short-term provisions		3 570	2 486
Prepayments and deferred income	15	11 687	19 797
TOTAL CURRENT LIABILITIES		115 059	192 396
NON-CURRENT LIABILITIES			
Borrowings	10	1 174 034	1 084 642
Other payables	11	1 795	735
TOTAL NON-CURRENT LIABILITIES		1 175 829	1 085 377
TOTAL LIABILITIES		1 290 888	1 277 773
EQUITY			
Share capital	16	200 001	200 001
Share premium		387 000	387 000
Statutory legal reserve		20 000	20 000
Retained earnings		784 201	674 277
TOTAL EQUITY		1 391 202	1 281 278
TOTAL LIABILITIES AND EQUITY		2 682 090	2 559 051

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

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STATEMENT OF COMPREHENSIVE INCOME

	Note	for the year ended 31 December	
		2009	2008
Revenue	17	772 446	719 923
Costs of goods sold	19	-284 064	-272 752
GROSS PROFIT		488 382	447 171
Marketing expenses	19	-11 213	-12 310
General administration expenses	19	-53 493	-54 546
Other income/ expenses (-)	20	38 264	25 045
OPERATING PROFIT		461 940	405 360
Financial income	21	25 267	15 606
Financial expenses	21	-86 131	-58 805
PROFIT BEFORE TAXES		401 076	362 161
Income tax on dividends	22	-61 142	-66 193
NET PROFIT		339 934	295 968
TOTAL COMPREHENSIVE INCOME		339 934	295 968
Attributable to:			
Equity holders of A-shares		339 924	295 958
B-share holder		10	10
Earnings per A share (in kroons)	23	17,00	14,80
Earnings per B share (in kroons)	23	10 000	10 000

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

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CASH FLOW STATEMENT

for the year ended 31 December

	Note	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		461 940	405 360
Adjustment for depreciation/amortisation	9, 19	89 153	89 669
Adjustment for profit from government grants and connection fees	20	-47 512	-27 921
Other finance expenses	21	-29 203	-1 614
Profit from sale of property, plant and equipment, and intangible assets		-150	-455
Expensed property, plant and equipment		0	-19
Change in current assets involved in operating activities	24B	-14 675	22 781
Change in liabilities involved in operating activities	24B	6160	906
Interest paid		-38 793	-57 569
Total cash flow from operating activities		426 920	431 138
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment, and intangible assets	24C	-243 906	-332 407
Compensations received for construction of pipelines	24A	155 772	250 190
Proceeds from sale of property, plant and equipment, and intangible assets		238	480
Interest received		15 077	16 906
Total cash flow used in investing activities		-72 819	-64 831
CASH FLOWS FROM FINANCING ACTIVITIES			
Received loans	10	700 968	42 246
Repayment of loans	10	-701 303	-41 910
Dividends paid	22	-230 010	-249 010
Income tax on dividends	22	-61 142	-66 193
Total cash flow used in financing activities		-291 487	-314 867
Change in cash and cash equivalents		62 614	51 440
CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD		229 860	178 420
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	6	292 474	229 860

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
31 December 2007	200 001	387 000	20 000	627 319	1 234 320
Dividends (Note 22)	0	0	0	-249 010	-249 010
Net profit of the financial year (Note 23)	0	0	0	295 968	295 968
31 December 2008	200 001	387 000	20 000	674 277	1 281 278
Dividends (Note 22)	0	0	0	-230 010	-230 010
Net profit of the financial year (Note 23)	0	0	0	339 934	339 934
31 December 2009	200 001	387 000	20 000	784 201	1 391 202

Information about share capital is disclosed in note 16.

Notes to the financial statements on pages 21 to 52 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

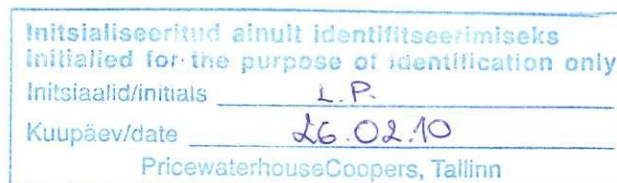
NOTE 1. GENERAL INFORMATION

AS Tallinna Vesi (hereinafter referred to as 'the Company') is the largest water utility in Estonia providing drinking water and wastewater disposal services to over 400 000 people in Tallinn and in several neighbouring municipalities of Tallinn. The Company has the exclusive right to provide water and sewerage services in Tallinn's main service area until the year 2020.

The Company's shareholders having a significant influence are, United Utilities Tallinn B.V. with 35.3% and the City of Tallinn with 34.7%, the balance of 30% of shares is free floating on the Tallinn Stock Exchange, in which the Company listed on 1 June 2005.

Company's Contacts:

Commercial register number 10257326
 VAT identification number EE100060979
 Address Ädala 10, 10614 Tallinn
 Telephone 62 62 200
 Fax 62 62 300
 E-mail tvesi@tvesi.ee



NOTE 2. ACCOUNTING POLICES

The significant accounting policies applied when preparing the financial statements (hereinafter referred to as 'financial statements') of the Company have been set out below. The accounts have been prepared on the basis of the principle of sustainability and comparability; the nature of changes in methodology and their impact have been described in respective notes. In case the presentation of the entries of the accounts or the method of classification has been amended, then the comparable figures of the previous period have also been adjusted. Accounting policies have been applied consistently for all the periods presented in the accounts.

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union (EU).

The financial statements have been prepared under the historical cost convention, as modified by the accounting policy for derivatives, measured at fair value through profit and loss, as disclosed in the accounting policies below.

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board, being the chief operating decision-maker. The Management Board, who is responsible for allocating resources and assessing performance of the operating segments, reports to the Supervisory Board which has been identified as the steering committee that makes strategic decisions.

The preparation of the accounts in compliance with IFRS requires the use of certain critical accounting estimates. Also the management board must make decisions in the process of implementing the accounting principles of the Company. The Company provides estimates and makes assumptions regarding the future. Accounting estimates do not often match with the subsequent actual events. Estimates and decisions are constantly reviewed and based on previous experiences and other factors, including expectations regarding future events that are considered justified while taking into consideration the known circumstances.

Adopted new standards, amendments and interpretations to existing standards which became mandatory for the Company from 1 January 2009

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, issued in March 2009 effective for annual periods beginning on or after 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IAS 1, Presentation of Financial Statements, revised in September 2007 effective for annual periods beginning on or after 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is

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in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IAS 23, Borrowing Costs, revised in March 2007 effective for annual periods beginning on or after 1 January 2009. In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company previously recognized all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. The Company has capitalized borrowing costs relating to the most important projects based on their value the total of which formed at least 80 % of the total of unfinished construction projects accounted at the end of the month.

IFRS 8, Operating Segments effective for annual periods beginning on or after 1 January 2009. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Company's financial statements do not include the segment reporting as the Management Board has not distinguished business or geographical segments clearly related to the activities of the Company.

The following amendments and interpretations to existing standards became mandatory for the Company from 1 January 2009 but are not relevant to the Company's operations or did not have a material effect on Company's financial reporting.

IFRIC 11, IFRS 2 - Group and Treasury Share Transaction as adopted by the EU is effective for annual periods beginning on or after 1 March 2008, early adoption permitted.

IFRIC 12, Service Concession Arrangements as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, early adoption permitted.

IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction as adopted by the EU is effective for annual periods beginning on or after 31 December 2008, early adoption permitted.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment is effective for annual periods beginning on or after 1 January 2009.

Vesting Conditions and Cancellations—Amendment to IFRS 2 is effective for annual periods beginning on or after 1 January 2009.

IFRIC 13, Customer Loyalty Programmes effective for annual periods beginning on or after 1 July 2008, IFRIC 13 as adopted by the EU is effective for annual periods beginning after 31 December 2008; early adoption permitted.

IFRIC 15, Agreements for the Construction of Real Estate effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment is effective for annual periods beginning on or after 1 January 2009.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009 is effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, early adoption permitted.

Improvements to International Financial Reporting Standards, issued in May 2008 effective for annual periods beginning on or after 1 January 2009.

New standards, amendments and interpretations to existing standards that are not yet effective and have earlier adopted by the Company.

IFRIC 18, Transfers of Assets from Customers effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted.

The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have significant impact on the Company's financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement, issued in November 2009 effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU.

IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Company is considering the implications of the standard, the impact on the company and the timing of its adoption by the Company.

New standards, amendments and interpretations to standards that are not yet effective and are not expected to have a material effect on the Company's financial reporting.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, early adoption permitted.

IFRIC 17, Distributions of Non-Cash Assets to Owners effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, early adoption permitted.

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009 effective for annual periods beginning on or after 1 February 2010.

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008 effective for annual periods beginning on or after 1 July 2009.

IFRS 3, Business Combinations, revised in January 2008 effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1) effective for annual periods beginning on or after 1 July 2009.

Eligible Hedged Items—Amendment to IAS 39 is effective with retrospective application for annual periods beginning on or after 1 July 2009.

IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008 effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, early adoption permitted.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1 is effective for annual periods beginning on or after 1 January 2010; not yet adopted by the EU.

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 effective for annual periods beginning on or after 1 January 2011.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU.

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Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU.

Improvements to International Financial Reporting Standards, issued in April 2009 amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU.

Functional currency

The functional currency of the Company is Estonian kroon. Estonian kroon is pegged to the Euro at the fixed exchange rate of 15.6466 kroons per 1 Euro.

Presentation currency

For the convenience of the users, these financial statements have been presented in Estonian kroons, rounded to the nearest thousand, unless stated otherwise.

Foreign currency transactions

Foreign currency transactions are translated into Estonian kroons using the official exchange rates of the Bank of Estonia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been converted into Estonian kroons based on foreign currency exchange rates valid at the balance sheet date. Gains and losses from exchange rate changes are aggregated and shown in the income statement as "other income (-expense)" on net basis.

Current and non-current distinction of assets and liabilities

Assets and liabilities are classified in the balance sheet as current or non-current. Assets expected to be disposed of in the next financial year or during the normal operating cycle of the Company are considered as current. Liabilities whose due date is in the next 12 months or that is expected to be settled in the next financial year or during the normal operating cycle of the Company are considered as current. All other assets and liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet and the cash flow statement comprise of cash on hand, cash in bank accounts and short-term, risk free, highly liquid bank deposits with original maturities of three months or less.

Financial assets

Financial assets are cash, trade receivables, accrued income, other current and long-term receivables including the derivatives with positive value.

Financial assets are recorded in balance sheet at value date (i.e. are recognised when the Company becomes the owner of the financial assets and are derecognised when the Company has transferred substantially all risk and rewards incidental to ownership).

According to the purpose of acquisition and management intentions the financial assets are divided into the following groups:

- Financial assets at fair value through profit or loss

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- Receivables and loans
- Investments held-to-maturity
- Financial assets available-for-sale

As at 31 December 2009 and 2008 the Company did not have any investments held-to-maturity and financial assets available-for-sale.

Financial assets held for trading are classified as financial assets at fair value through profit or loss (asset is acquired for the purpose of selling in the near term). Financial assets at fair value through profit or loss are initially recorded at fair value, transaction costs are recorded in the income statement. Financial assets of this category are subsequently carried at fair value and gains/losses from changes in fair value are recorded in income statement of the period. The quoted market price in balance date is their basis for establishing the fair value of financial assets at fair value through profit or loss.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date.

Loans and receivables are initially recognised at a fair value together with the transaction costs. Loans and receivables are subsequently carried at amortised cost, using effective interest rate method (less any impairment allowances).

Receivables

Trade receivables comprise of short term receivables generated in normal operations. Trade receivables are recorded using the amortised cost method.

Allowance for receivables is recorded if there is objective evidence that the Company is not able to collect all amounts due according to the original terms of the agreement. Impairment of individually material receivables is evaluated separately for each customer, considering the present value estimated future cash flows. For receivables which are not individually significant and for which there is no direct information that their value has been decreased, the allowance is evaluated collectively using previous years experience on impairment of receivables. The amount of the allowance for doubtful receivables is the difference between their carrying amount and present value of future cash flows, using effective interest rate method. The carrying amount of receivables is reduced by the impairment loss and impairment loss is recorded in the income statement on the row „Other income/ expenses“. Subsequent recoveries of doubtful receivables are recorded as a decrease of impairment loss.

Inventories

Inventories are initially recorded at cost including purchase costs, non-refundable taxes and transportation and other costs directly connected with the acquisition, less allowances and discounts.

The weighted-average cost method has been used to expense inventories. Inventories are carried in the balance sheet at the lower of the cost and net realizable value. Net realizable value is the net selling price less estimated costs necessary to make the sale.

Non-current assets held for sale

Non-current assets held for sale are the property, plant and equipment items that are most probably sold within next 12 months and for which the management has begun sales activity and the assets are offered for sale for a reasonable price compared to their fair value.

Non-current assets held for sale are classified in the balance sheet as current assets and depreciation ended at the moment of reclassification. Non-current assets held for sale are carried in the balance sheet at the lower of at book value and fair value less costs to sell.

Property, plant and equipment and intangible assets

Property, plant and equipment are tangible assets used in operating activities of the Company with an expected useful life of over one year. Property, plant and equipment are carried in the balance sheet at historical cost less accumulated depreciation and any impairment losses.

Intangible assets are recognised in the balance sheet only if the following conditions are met:

- the asset is controlled by the Company;
- it is probable that the future economic benefits that are attributable to the asset will flow to the Company;
- the cost of the asset can be measured reliably.

Development Costs

Development costs are costs that are incurred for at the application of research findings for developing, forming or testing new specific products, services, processes or systems. Development costs are capitalized in case there are technical and financial possibilities and positive intention for the implementation of the project, the Company is able to use or sell the assets and the amount of the development costs and the economic benefit emerging from intangible assets in the future can be measured reliably.

Software

Acquired computer software that is not an integral part of the related hardware is recognised as an intangible asset. Development costs of computer software are recognised as intangible assets if these are directly related to the development of such software objects that are identifiable, controllable by the Company and that are expected to generate economic benefits beyond one year. Capitalizable development costs of computer software include staff costs and other expenses directly related to the development. Costs related to the day-to-day maintenance of computer software are recognised as expenses in the income statement. Costs of computer software shall be depreciated over the estimated useful lifetime, the duration of which is up to 5 years.

Other intangible assets

Expenses for acquiring patents, trademarks, licences and certificates are capitalized if it is possible to estimate the future economic benefits attributable to these assets. Other intangible assets are amortised on a straight line basis over the estimated useful lifetime, the duration of which does not exceed 5 years.

The cost of purchased property, plant and equipment and intangible assets comprises the purchase price, transportation costs, installation, and other direct expenses (incl. internal labour costs) related to the acquisition or implementation. Labour costs are capitalised with employee's hourly index applied to working hours which are needed for taking the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management. Hourly rate is calculated individually for each employee and includes other direct expenses connected with the employee in addition to salary expense.

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

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In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Subsequent expenditures are added to the carrying amount of the item of property, plant and equipment or are recognised as a separate asset only when it is probable that future economic benefits related to the assets will flow to the Company and the cost of the asset can be measured reliably. A replaced component or proportion of the replaced item of property, plant and equipment is derecognised. Costs related to ongoing maintenance and repairs are charged to the income statement.

Land is not depreciated. Depreciation of other property, plant and equipment is calculated on a straight-line basis on cost over the estimated useful life of the asset.

Applicable depreciation/amortization rates:

- buildings 1,25-2,0 % per annum;
- facilities 1,0-8,33 % per annum;
- machinery and equipment 3,33-50 % per annum;
- instruments and other equipment etc. 10-20 % per annum;
- development costs 20 % per annum;
- licenses and other intangible assets 10-33 % per annum.

In exceptional circumstances rates may differ from the above rates if it is evident that the estimated useful life of the asset varies materially from the rate assigned to the respective category.

The expected useful lives of items of property, plant and equipment are reviewed during the annual stocktaking, in recognising subsequent expenditures and in case of significant changes in development plans. When the estimated useful life of an asset differs significantly from the previous estimate it is treated as a change in the accounting estimate and the remaining useful life of the asset is changed as a result of which the depreciation charge of the following periods also changes. Assets are written down to their recoverable amount when the recoverable amount is less than the carrying amount. To determine profits and losses from the sale of property, plant and equipment the book value of the sold assets is subtracted from the proceeds. The respective profits and losses are reported in the income statement items "Other income / expenses".

Impairment of assets

Assets that are subject to depreciation/amortisation and property, plant and equipment with unlimited useful lives (land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable value of intangible assets in progress is tested annually, by comparing their recoverable amount with the carrying amount.

Assets are written down to their recoverable amount in case the latter is lower than the carrying amount. The recoverable amount of the assets is the higher of the:

- fair value less costs to sell and
- value in use.

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In case it is not possible to determine the fair value of assets less costs to sell, the asset's value in use is considered to be its recoverable value. The value in use is calculated as the present value of the estimated future cash flows generated by the assets.

The impairment of assets may be assessed either for an individual asset or a group of assets (cash-generating unit). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment loss is immediately recognised in the income statement. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

If based on the results of the assessment it appears that the recoverable amount of an asset or a group of assets (cash-generating unit) has increased, the earlier impairment is reversed up to the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. The reversal of impairment loss is recorded in the income statement of the period as a decrease in impairment loss.

Financial liabilities

Financial liabilities include trade payables, accrued expenses, loans payable and other short term and long term financial liabilities. Financial liabilities are initially recognised at fair value net of transaction cost. Subsequently financial liabilities are carried using the amortised cost method.

Amortised cost of short term financial liabilities is usually equal to their nominal value, thus they are carried on balance sheet at the amount payable. For calculating the amortised cost of long-term financial liabilities these are initially recognized at fair value of amount received (less transaction costs), interest expenses calculated from the liability using effective interest rate method subsequently.

Liabilities are classified as current liabilities, unless the Company has an unconditional right to defer the settlement of the liability for at least 12 month after the balance sheet date.

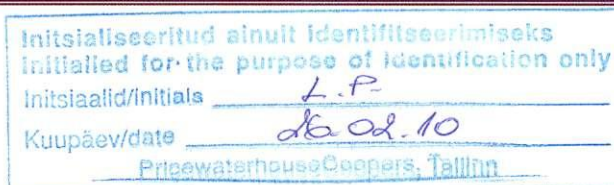
Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise.

Income tax on dividends in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to tax, as tax is charged only on dividend distributions. Pursuant to the Income Tax Act, resident legal entities are liable to income tax on all dividends paid and other profit distributions irrespective of the recipient. The rate is 21/79 on the amount of the dividends payable (2008: 21/79).

The contingent tax liability that would occur if all distributable retained earnings were paid out as dividends is not recognized in the balance sheet. The income tax due on dividend distribution is recorded as a liability and as a tax expense in the income statement during the same period as the dividend is declared regardless of the actual payment date or the period for which dividends are declared. Income tax liability is due on the 10th date of the month following the dividend payment.



Employee benefits*Employee short-term benefits*

Employee short-term benefits include wages and salaries as well as social security taxes, benefits related to the temporary halting of the employment contract (holiday pay or other similar pay) when it is assumed that the temporary halting of the employment contract will occur during 12 months after the end of the period in which the employee worked, and other benefits payable within 12 months after the end of the period during which the employee worked.

Termination benefits

Termination benefits are benefits which are payable after the Company decides to terminate the employment relationship with the employee before the normal retirement date or when the employee decides to leave voluntarily or when the employee and employer have an agreement, in exchange for the benefits outlined. The Company recognises termination benefits as liabilities and expenses only when the Company is obliged to offer termination benefits in order to encourage voluntary leaving.

Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

The amount of servitudes likely payable that henceforth must be paid to the owners of private land resulting from the restrictions related to land use in case the Company's pipes are located on their land, are recorded as provisions. On the balance sheet the liability is classified as short-term, because it can be realized to full extent within 12 months from the balance date.

Provisions have been recognised based on of the best estimates of the Company's Management Board and the actual costs of these transactions can differ from the provided estimates.

Commitments and other possible and existing liabilities, the realization of which is unlikely or the amount of accompanying costs cannot be assessed with sufficient reliability but which can become liabilities on certain terms in the future, are disclosed as contingent liabilities in the notes to the financial statements.

Share capital

Shares are recorded within the equity capital. Pursuant to the Company's Articles of Association, the Company has two classes of shares: the A-Shares, with a nominal value of 10 kroons each and a single preference share B-Share, with a nominal value of 1 000 kroons.

Statutory reserve capital

Pursuant to the requirements of the Commercial Code the statutory reserve capital is set up comprising of the allocations from net profits. The annual allocation must be at least 5% of the net profit of the accounting year until the reserve capital is equal to 10% of paid-up share capital. As the Company's reserve capital has reached the required level, the reserve capital is no longer increased from net profit. At the decision of the General Meeting of the Shareholders the reserve capital can be used for the covering of loss in case it is not possible to cover it from the Company's available shareholders'

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equity, also for increasing the Company's share capital. The reserve capital cannot be distributed to the shareholders.

Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series payments the right to use an asset for an agreed period of time. Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

The Company as the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance lease liability is reduced by principal payments. The finance charge is recognised as an interest expense in the income statement. The finance lease liability is recognised either within short or long-term borrowing in the balance sheet.

Payments made under operating leases are charged to the income statement over the lease term on a linear basis.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Government grants received for expenses incurred in previous periods or which do not include additional conditions for future compliance are recognised as income in the period when government grant was received. Government grants are not recognised as income before there exists sufficient confidence that Company complies with the conditions relating to government grants and the grants will be received.

Government grants received as compensations for the construction of water pipelines shall be deducted from the book value of the pipeline constructed and any amounts exceeding the construction cost of pipeline shall be recognized as income upon completion of construction works as "Other income/expenses".

Revenue

Revenue is recognised at the fair value of consideration received or receivable, net of VAT and sales discounts. Revenue comprises sales of services.

Sales of water, services of waste water, storm water, fire hydrants and other sales income is recorded in the period when the service has been provided, the amount of the revenue and cost incurred for the transaction can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity.

Revenues received from the sale of assets shall be recognised when all the significant risks and rewards related to the ownership of assets have been transferred to the purchaser, it is probable that economic benefits associated with the transaction will flow to the entity and the cost related to the transaction can be reliably determined.

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Connection fees received from customers are recognized as income during the period of the duration of customer contract. Such income is recorded as "other income/expenses".

Interest income is recognised in case the receipt of income is likely and the amount of income can be determined reliably. Interest income is recognised using the effective interest rate, except when the receipt of interests is uncertain. In this case interest income is recognised on cash basis.

Earnings per share

Earnings per share are calculated by dividing the net profit of the accounting year with the weighted average number of issued shares of the period. When calculating diluted earnings per share, the earnings and the average number of shares are adjusted with potential shares that have a diluting effect on the earnings per share.

NOTE 3. FINANCIAL RISK MANAGEMENT

In its everyday business activities the Company has to take into account different financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk, liquidity risk and equity risk. Because of the Company's position on the market and characteristics of its business activities none of before mentioned risks has significant impact to the Company.

Financial assets

	31.12.2009	31.12.2008
Receivables (incl cash and cash equivalents)	480 928	338 839
Total	480 928	338 839

Financial liabilities

	31.12.2009	31.12.2008
Financial liabilities at amortised cost	1 259 516	1 255 490
Financial liabilities at fair value through profit and loss	16 115	0
Total	1 275 631	1 255 490

According to the Company's risk administration procedures, and instructions from the Management Board the financial risk management is carried out by the financial department.

Market risk

Currency risk

Currency risk is the potential loss due to unfavourable movements in currency exchange rates against Estonian kroon. Sums that have been received, paid or denominated in euros are considered currency risk free because euro's exchange rate to Estonian kroon is fixed.

The Company's currency risk is mainly related to international purchases and sums owed in foreign currencies (excluding euro). Most of Company's international purchases are made in euros and the

proportion of purchases in other currencies in 2009 was less than 0.1% (2008: 1.1%). Because of the small proportion of purchases in other currencies Company considered it unnecessary to undertake special activities to minimize this currency risk.

On 31 December 2009 the Company's banks accounts balances (including deposits) totaled 292 474 thousand kroons (2008: 229 860 thousand kroons) from which less than 1 thousand kroons (2008: 219 thousand kroons) were in other currencies than Estonian kroons or euros. There were no other significant exposures to foreign currencies arising from other financial assets or financial liabilities.

Due to the above, the Management Board considers the Company's currency risk level to be low. To keep this risk also low in the future most of Company's business transactions are planned to be made in Estonian kroons or euros.

Price risk

The Company has no price risk regarding financial instruments because it has no investments into equity instruments.

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows will fluctuate in the future due to changes in market interest rates. Interest rate risk of cash flows is the risk that financial expenses or financial liabilities with floating interest rate will increase when interest rates on the market increase. Fair value interest rate risk is the risk that the fair value of financial liabilities with a fixed interest rate will increase when interest rates on the market decrease.

In essence the Company's operating incomes and expenses are independent from interest rate changes on the market. Interest risk related to financial income arises only from depositing finances to overnight or fixed term deposits and is considered, due to requirements to counterparties, to be low.

The Company's interest rate risk related to financial expenses is related to long term borrowings of which all as of 31 December 2009 had floating interest rates. At the end of 2008 the Company had a loan with a fixed interest rate from the EBRD (European Bank for Reconstruction and Development) but this loan was refunded in May 2009.

To mitigate the interest risk of cash flows the Company concluded in the first half of 2009 three interest rate SWAP contracts to fix its interest payments future cash flows. The interest rate SWAP contracts expose the Company to fair value interest rate risk and are accounted at fair value.

SWAP contracts, 31.12.2009

Contracts trade date	2009 May-June
Contracts start date	2009 Nov - 2010 May
Contracts maturity date	2015 May
Contracts notional amount	704 097
Contracts fair value as of 31.12.2009	-16 116

Company's average interest rate from loans in 2009 was 3.01% (2008: 4.88%). More detailed information about the Company's loans can be seen in Note 10.

If the interest rates of the Company's loans with floating interest rates had been 50 basis points higher or smaller and all other variables were held constant, then the Company's profit before tax for the year ended 31 December 2009 would have decreased or increased by 4 788 thousand kroons (2008: 3 002 thousand kroons).

Credit risk

Credit risk expresses potential loss that can arise if counterparty fails to fulfil its contractual obligations. Cash in bank accounts and deposits, financial assets at fair value through profit and loss, trade and other receivables are exposed to credit risk.

According to the Company's risk management policies the Company's short term available resources can be deposited only in accounts and fixed term deposits opened in credit institutions. For depositing counterparties with at least an A rating are used. On 31.12.2009 100% of Company's cash and deposits were deposited with counterparty with higher rating than A3 by Moody's (2008: 100% higher than A3).

The Company has procedures for co-operation with customers, to ensure that selling of products and services is always in compliance with the Company's internal principles. To reduce the credit risk related to accounts receivable the customer's payment discipline is consistently observed. In case of overdue debts the Company's Credit group sends invoice reminders, makes contact by phone or uses a variety of other measures to collect the overdue debt. Depending on the negotiations with the customer it is possible to agree exceptional payment terms and plans to help customers pay their invoices. The policies regarding the commencement of court proceedings to recover overdue debt have also been defined. As of 31.12.2009 only receivables from Viimsi Vesi AS exceeded 5% of total receivables constituting 6.3% of the total (2008: 3.9%). On 31.12.2008 only receivable from Tallinna Kommunaalamet exceeded the 5% limit. On 31.12.2009 this constituted only 2.3% of total receivables (2008: 23.0%).

Trade receivables, 31.12.2009

	Balance	Not due	Overdue		
			up to 3 months	4-6 months	7-12 months
Commercial entities, incl	42 200	35 330	4 061	1 614	1 195
<i>partially impaired</i>	7 435	1 921	2 705	1 614	1 195
Private persons, incl	52 133	50 318	1 255	60	501
<i>partially impaired</i>	1 264	375	329	60	501
Total	94 333	85 648	5 316	1 674	1 696
<i>Proportion</i>	100%	90,8%	5,6%	1,8%	1,8%

Trade receivables, 31.12.2008

	Balance	Not due	up to 3 months	Overdue	
				4-6 months	7-12 months
Commercial entities, incl	62 566	57 322	5 012	155	77
<i>partially impaired</i>	6 472	2 452	3 788	155	77
Private persons, incl	45 638	43 502	1 886	143	108
<i>partially impaired</i>	603	171	182	143	108
Total	108 204	100 824	6 898	298	185
<i>Proportion</i>	<i>100%</i>	<i>93,2%</i>	<i>6,4%</i>	<i>0,3%</i>	<i>0,2%</i>

The Company's maximum credit risk is equal to the carrying amount of the financial assets. According to the Management Board the overall credit risk is considered low.

Liquidity risk

Liquidity risk is the risk that the Company is unable to fulfil its financial obligations due to insufficient cash funds or inflows. This risk realizes when the Company doesn't have enough funds to serve its loans to, fulfil its working capital needs, to invest and/or to make declared dividend payments.

Financial liabilities in terms of payment
(undiscounted amounts):

31.12.2009	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Non-interest bearing	94 833	1 080	3 889	3 597	134	103 533
Floating interest rate instruments	-	-	16 641	831 714	411 537	1 259 892
Total	94 833	1 080	20 530	835 311	411 671	1 363 425
<i>Proportion</i>	<i>7,0%</i>	<i>0,1%</i>	<i>1,5%</i>	<i>61,3%</i>	<i>30,2%</i>	<i>100,0%</i>
31.12.2008	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Non-interest bearing	85 422	1 006	842	614	121	88 005
Floating interest rate instruments	0	0	32 626	1 202 864	120 753	1 356 243
Fixed interest rate instruments	0	0	108 278	482 712	42 881	633 871
Total	85 422	1 006	141 746	1 686 190	163 755	2 078 119
<i>Proportion</i>	<i>4,1%</i>	<i>0,0%</i>	<i>6,8%</i>	<i>81,1%</i>	<i>7,9%</i>	<i>100,0%</i>

In liquidity risk management the Company has taken a prudent view, maintaining sufficient cash balance and short term deposits to be able to fulfil its financial liabilities at every moment of time. Continuous cash flow forecasting and control are essential tools in the day-to-day liquidity risk management of the Company.

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Equity risk management

The Management Board of the Company ensures the management of the Company's capital structure in accordance with the Business Plan approved by the Supervisory Board. The long-term borrowing contracts limit the equity capital minimum ratio to 35% of the total assets. The Company has been in compliance with the banks requirement for every month in 2009 and in 2008.

Equity ratio:

	31.12.2009	31.12.2008
Equity	1 391 201	1 281 278
Total assets	2 682 090	2 559 051
Equity ratio	51,9%	50,0%

Fair value

Fair values of cash and cash equivalents, accounts receivable, short-term borrowings and accounts payable do not vary significantly from their carrying amount because their realization will take place within 12 months from the date the balance sheet was composed.

At the end of 2009 all Company's long-term borrowings had floating interest rates and because Company's long-term borrowings risk margins were smaller than existing market's risk margin the fair value of its long-term borrowings on 31.12.2009 was 121 106 thousand kroons smaller than their carrying amount (2008: 21 011 thousand kroons smaller).

Smaller interest risk margins compared to market situation means that if the Company would like to refinance its long-term borrowings on existing market conditions it would bring to it higher total loans costs compared to the existing agreements.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES

Management has made an assessment the key assumptions concerning the future and other key sources of uncertainty at the balance sheet date that may have risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year. The most important areas of estimates contained in the financial statements are the following:

- Management has estimated the useful lifetime of property, plant and equipment and intangible assets. The results of the estimates are disclosed in the note 2 in section 'Property, plant and equipment, and intangible assets' and the information about the carrying amounts is disclosed in note 9.
As of 31 December 2009 Company owns property, plant and equipment, and intangible assets with a book value of 2.2 bn kroons (31.12.2008: 2.2 bn kroons) and annual depreciation was 89 mln kroons in 2009 (2008: 89 mln kroons). If the depreciation/amortization rates decreased / increased by 5 %, the depreciation/amortization expense would increase / decrease respectively by 4.5 mln kroons (2008: 4.5 mln kroons).
- The Company has assumed an obligation to construct water and wastewater and storm water pipelines with an estimated construction cost of up to 679 mln kroons in 2008-2012. The construction of pipelines is compensated by local governments with the grants receivable in 2008-2014. Compensations received from local governments are recognised as government grants -

compensations received or receivable are deducted from the book value of the constructed pipeline. Any amount exceeding the construction cost of the pipeline is recognized as income upon the completion of construction works. The part of the compensation that is received after the completion of the construction works is recognized in the balance sheet as a receivable from local government at its present value. Recognition of the above compensations is dependent on several uncertain circumstances and the estimates of the Management Board, in particular those regarding the total cost of the project and the fair value of the compensations receivable. As construction works continue until 2012 and the exact extent thereof can change, there is no certainty regarding the total cost of the construction of the pipelines and the profitability of the project. In recording income from government grants in these financial statements the best knowledge and estimates of the Management Board of the profit rates of the project have served as the basis for calculation. If the actual construction costs differed from these estimates to give a change of 5% in the profit rates of the project it would have an impact to the profit of 2009 by 9 300 thousand kroons (2008: 7 900 thousand kroons).

As compensations for pipelines will be received until June of 2014 and the exact extent of compensations depends on water consumption, the fair value of compensations-receivable is also based on estimates. In the estimates compensations is receivable for 2008-2014 and has been discounted using a rate of 9.4% (2008: 7.0%). If the discount rate would be decreased/increased by 0.5%, the profit of the accounting period would increase/decrease up to 500 thousand kroons (2008: up to 1 000 thousand kroons).

- Accounts receivable - for the evaluation of doubtful debts the individual debts are grouped by age and, based on past experience, the following percentages are applied in the doubtful debt calculation:

61 to 90 days over due date	10%;
91 to 180 days over due date	30%;
181 to 360 days over due date	70%;
over 360 days over due date	100%.

Impairment of individually material receivables can differ from the rates above.

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NOTE 5. IMPACTS OF ECONOMIC CRISIS

Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the “Credit Crunch”) has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporate, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

Impact on liquidity

The volume of financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers

Debtors of the Company may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably determine the effects on the Company's future financial position of any further deterioration in the Company's operating environment as a result of the ongoing crisis. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current circumstances.

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NOTE 6. CASH AND CASH EQUIVALENTS

	as of 31 December	
	2009	2008
Cash in hand and in bank	376	1 551
Short-term deposits	292 098	228 309
Total cash and cash equivalents	292 474	229 860

NOTE 7. CUSTOMER RECEIVABLES

	as of 31 December	
	2009	2008
Accounts receivable	107 819	111 681
Allowance for doubtful receivables	-13 486	-3 477
Total trade receivables	94 333	108 204

<u>Impairment loss of receivables:</u>	for the year ended 31 December	
	2009	2008
Write off of uncollectible receivables	-53	-169
Receipt of receivables previously written off as uncollectible	186	172
Change in allowance for doubtful receivables	-10 009	-16

NOTE 8. ACCRUED INCOME AND PREPAID EXPENSES

	as of 31 December	
	2009	2008
Accrued interest	908	765
Other accrued income	93 213	0
Prepaid expenses	2 863	3 669
Total accrued income and prepaid expenses	96 984	4 434

The Company's current assets (Notes 7, 8) in the amount of 196 345 thousand kroons (2008: 113 878 thousand kroons) have been pledged as a security to the bank loans (Note 10).

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NOTE 9. 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 in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets			
As of 31 December 2007													
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	300 795	1 461 597	224 392	6 194	45 253	90 057	5 399	2 781	6 026	43 111			2 185 605
Transactions in the period													
01.01.2008 - 31.12.2008													
Acquisition in book value (Note 24C)	0	0	0	0	113 524	189 651	0	3 082	0	0	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	0	0	276
Compensated by government grants (Note 24A)	0	0	0	0	0	-186 282	0	0	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 (Note 19)	-4 221	-38 023	-34 635	-1 218	0	0	0	0	-8 931	-2 641			-89 669
Total transactions in the period 01.01.2008 - 31.12.2008	-13	62 373	-2 953	-69	-23 171	1 917	-3 546	-55	-3 058	-5 377			26 048

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	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 in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets		
As of 31 December 2008												
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	300 782	1 523 970	221 438	6 126	22 082	91 974	1 853	2 726	2 968	37 734		2 211 653
Transactions in the period 01.01.2009 - 31.12.2009												
Acquisition in book value (Note 24C)	0	0	0	0	99 293	144 141	0	7 698	0	0	0	251 132
Write off and sale of property, plant and equipment, and intangible assets in book value	-2	0	-44	-54	0	0	0	0	0	0	0	-100
Compensated by government grants (Note 24A)	0	0	0	0	0	-178 646	0	0	0	0	0	-178 646
Reclassification	6 123	43 729	26 302	2 063	-78 323	-1 103	-406	-8 938	4 740	4 198		-1 615
Depreciation (Note 19)	-4 196	-38 733	-34 188	-1 229	0	0	0	0	-2 200	-8 607		-89 153
Total transactions in the period 01.01.2009 - 31.12.2009	1 925	4 996	-7 930	780	20 970	-35 608	-406	-1 240	2 540	-4 409		-18 382

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	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 in progress - unfinished pipelines	Prepayment for fixed assets	Unfinished intangible assets	Development costs	Acquired licenses and other intangible assets	
As of 31 December 2009											
Acquisition cost	374 151	2 275 666	603 762	18 441	43 052	56 366	1 447	1 486	15 083	73 172	3 462 626
Accumulated depreciation	-71 444	-746 700	-390 254	-11 535	0	0	0	0	-9 575	-39 847	-1 269 355
Book value	302 707	1 528 966	213 508	6 906	43 052	56 366	1 447	1 486	5 508	33 325	2 193 271

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 5 203 thousand kroons.

The Company's non-current assets in the amount of 459 534 thousand kroons (2008: 547 887 thousand kroons) have been pledged as a security (Note 10). A mortgage in the amount of 544 713 thousand kroons (2008: 468 790 thousand kroons) serves as a security to the bank loans for the Company's non-current assets (land and buildings)(Note 10).

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NOTE 10. BORROWINGS

	as of 31 December	
	2009	2008
Current borrowings		
Current portion of long-term bank loans	0	82 843
Current portion of long-term finance lease liabilities	1 936	0
Total current borrowings	1 936	82 843
Non-current borrowings		
Long-term bank loans	1 172 098	1 084 642
Long-term finance lease liabilities	1 936	0
Total non-current borrowings	1 174 034	1 084 642

Bank loans at 31 December 2009

Currency EUR (euro)	Balance	Effective interest rate
Borrowings at floating interest rate (based on 6-month Euribor)	1 172 098	6-month Euribor + 0,55%

Bank loans at 31 December 2008

Currency EUR (euro)	Balance	Effective interest rate
Borrowings at floating interest rate (based on 6-month Euribor)	628 219	6-month Euribor + 0,323%
Borrowings at fixed interest rate	539 266	4,95%

Collateral of loans and pledged assets

Type of collateral	Specification and location of collateral	Collateral at book value as of 31 December	
		2009	2008
Commercial pledge	Movables of the Company (Notes 7, 8, 9)	655 879	661 765
Mortgage	Real estates located at Paljassaare põik 14 and Järvevana tee 3, Tallinn, Estonia (Note 9)	544 713	468 790

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NOTE 11. TRADE AND OTHER PAYABLES

Liabilities	as of 31 December				Maturity date
	Balance amount 2009	Balance amount 2008	Short-term portion 2009	Long-term portion 2009	
Trade payables - operating expenditures	16 614	13 966	16 614	0	
Trade payables - capital expenditures	28 738	26 805	28 738	0	
Factoring	0	107	0	0	
Payables to related parties (Note 26)	3 836	3 972	3 836	0	
Payables to employees*	11 421	11 658	9 760	1 661	12.2011
Interest payable	18 780	4 829	18 780	0	
Other accrued expenses	1 390	2 913	1 390	0	
Long-term guarantee deposit**	134	121	0	134	04.2102
Total trade and other payables	80 913	64 371	79 118	1 795	

* Long-term payable includes the performance related pay that will realise in 2011 in case of the successful delivery of the project.

** Long-term deposit is presented at cost.

NOTE 12. TAXES PAYABLE

	as of 31 December		Tax rates
	2009	2008	
Income tax	2 072	1 916	21% (2008: 21%)
VAT	5 505	7 699	01.01.2009 - 30.06.2009 18 %, since 01.07.2009 20% (2008: 18%)
Tax on special use of water	3 012	2 732	0,4 - 0,96 kr/m ³ (2008: 0,38 - 0,88 kr/m ³)
Pollution taxes	3 186	7 052	5 891 - 187 200 kr/t (2008: 4 909 - 156 000 kr/t)
Social security tax	4 194	3 890	33%
Other	779	345	0,3 -21%
Total	18 748	23 634	

NOTE 13. GOVERNMENT GRANTS

Government grants for assets

Government grants received as compensations for constructing pipelines taken into use in the financial year amounted to 186 533 thousand kroons (2008: 159 310 thousand kroons) (Note 24A). Property, plant and equipment have been reduced by the amount received as government grants of 145 160 thousand kroons (2008: 135 820 thousand kroons).

NOTE 14. CONTINGENT LIABILITIES

Tax authority is entitled to check the Company's tax accounting within 6 years after the term for the submission of tax declaration and when mistakes are detected to impose an additional amount of tax, interests and fines. According to the Company's management board there are no circumstances as a result of which tax authority could impose a significant additional amount of tax to the Company.

The Company's distributable retained earnings as at 31 December 2009 amounted to 784 201 thousand kroons (2008: 674 277 thousand kroons). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 208 458 thousand kroons (2008: 179 238 thousand kroons).

NOTE 15. PREPAYMENTS AND DEFERRED INCOME

	as of 31 December	
	2009	2008
Prepayments for water and sewerage services	976	1 073
Prepayments for pipelines (Note 24A and 24B)	10 711	18 724
Total deferred income	11 687	19 797

NOTE 16. SHARE CAPITAL

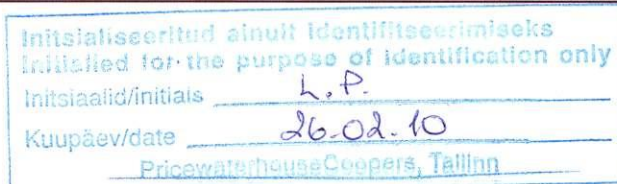
At 31 December 2009 and 2008 the nominal value of the share capital was 200 001 000 (two hundred million one thousand) kroons, composed of 20 000 000 shares with nominal value of 10 kroons per share (A-share) and one preferred share with a nominal value of 1 000 kroons (B-share).

One B-share has been issued giving the right of veto to the shareholder when voting on the following issues: change in the Articles of Association, increase and decrease of share capital, issuance of replacement bonds, termination of the Company's activities, merging, sharing and rearrangements, acquisition of own shares and, on demand of the management or supervisory board, deciding other issues related to the activities of the Company that have not been placed in the sole competence of the General Meeting by law. The B-share grants the holder the preferential right to receive a dividend in an agreed sum of 10 thousand kroons.

General Meeting of Shareholders has the authority to decide the emission and buyback of the shares, following the principles established in the Articles of Association. Management board does not have any respective authorities.

Restrictions on the transfer of shares are disclosed in chapter 'Description of capital stock and corporate governance' of the IPO offering circular of AS Tallinna Vesi shares. The circular is available on the Company's website (www.tallinnavesi.ee).

As of 31 December 2009 and 2008 United Utilities (Tallinn) B.V. owned 7 060 870 (35.3%) A-shares, the City of Tallinn owned 6 939 130 (34.7%) A-shares and one B-share, with 6 000 000 shares in free float.



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As of 31 December 2009 Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C customers 1 134 948 (5.67%) and HSBC Bank PLC RE Parvus European Absolute Opportunities Master Fond customers owned 869 568 (4.35%) shares.

As of 31 December 2008 Credit Suisse Securities (Europe) Ltd Prime Brokerage A/C customers 1 151 948 (5.76%) and HSBC Bank PLC RE Parvus European Absolute Opportunities Master Fond customers owned 1 091 109 (5.46%) shares.

As of 31 December 2009 and 2008 from Supervisory and Management Board members only Siiri Lahe owned 700 shares.

Dividends declared and paid are disclosed in note 22.

Contingent income tax on the dividend payments from retained earnings is described in note 14.

NOTE 17. REVENUE

Revenues from main operating activities	for the year ended 31 December	
	2009	2008
Total water supply and waste water disposal service, incl:	707 408	658 305
<u>Private clients, incl:</u>	<u>379 322</u>	<u>346 836</u>
Water supply service	211 379	193 688
Waste water disposal service	167 943	153 148
<u>Corporate clients, incl:</u>	<u>273 338</u>	<u>271 231</u>
Water supply service	152 092	150 669
Waste water disposal service	121 246	120 562
<u>Outside service area clients, incl:</u>	<u>40 003</u>	<u>26 401</u>
Water supply service	7 841	2 160
Waste water disposal service	32 162	24 241
<u>Over pollution fee</u>	<u>14 745</u>	<u>13 837</u>
Storm water treatment and disposal service	46 957	46 158
Fire hydrants service	3 083	2 687
Other works and services	14 998	12 773
Total revenue	772 446	719 923

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

NOTE 18. STAFF COSTS

	for the year ended 31 December	
	2009	2008
Salaries and wages	-71 400	-66 330
Social security and unemployment insurance taxation	-23 777	-22 093
Staff costs total (Note 19)	-95 177	-88 423
Number of employees at the end of reporting period	336	327

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NOTE 19. COST OF GOODS SOLD, MARKETING AND GENERAL ADMINISTRATION EXPENSES

	for the year ended 31 December	
	2009	2008
Cost of goods sold		
Tax on special use of water	-11 479	-10 804
Chemicals	-20 082	-22 841
Electricity	-33 422	-29 759
Pollution tax	-16 918	-17 010
Staff costs (Note 18)	-70 273	-63 516
Development	-29	-26
Depreciation and amortization (Note 9)	-81 006	-82 079
Transport	-17 427	-19 693
Other costs of goods sold	-33 428	-27 024
Total cost of goods sold	-284 064	-272 752
Marketing expenses		
Staff costs (Note 18)	-4 516	-5 417
Depreciation and amortization (Note 9)	-5 207	-5 065
Other marketing expenses	-1 490	-1 828
Total cost of marketing expenses	-11 213	-12 310
General administration expenses		
Staff costs (Note 18)	-20 388	-19 490
Depreciation and amortization (Note 9)	-2 940	-2 525
Other general administration expenses	-30 165	-32 531
Total cost of general administration expenses	-53 493	-54 546

NOTE 20. OTHER INCOME / EXPENSES

	for the year ended 31 December	
	2009	2008
Profit from connection fees (Note 24A)	6 139	4 430
Profit from government grant (Note 24A)	41 373	23 491
Other income / expenses (-)	-9 248	-2 876
Total other income / expenses	38 264	25 045

NOTE 21. FINANCE INCOME AND EXPENSES

	for the year ended 31 December	
	2009	2008
Interest income	25 267	15 606
Interest expense	-35 241	-57 191
Other financial expenses*	-50 890	-1 614
Total finance income / expenses	-60 864	-43 199

* Other financial expenses mainly include the expenses arising from loan refinancing and changes in the fair value of Swap.

NOTE 22. DIVIDENDS

	for the year ended 31 December	
	2009	2008
Dividends declared during the period	230 010	249 010
Dividends paid during the period	230 010	249 010
Income tax on dividends paid	-61 142	-66 193
Income tax accounted for	-61 142	-66 193

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

Paid-up dividends per shares:

Dividends per A-share (in kroons)	11,50	12,45
Dividends per B-share (in kroons)	10 000	10 000

NOTE 23. EARNINGS PER SHARE

	for the year ended 31 December	
	2009	2008
Net profit for the period ended 31.12 minus B-share preference rights (in kroons)	339 924	295 958
Weighted average number of ordinary shares for the purposes of basic earnings per share (in pieces)	20 000 000	20 000 000
Earnings per A share (in kroons)	17,00	14,80
Earnings per B share (in kroons)	10 000	10 000

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.

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NOTE 24. NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 December

NOTE 24A. COMPENSATIONS RECEIVED FOR
CONSTRUCTION OF PIPELINES

	2009	2008
Income		
Connection fees and government grants received for pipelines taken into use (Note 13 and 20)	226 158	214 203
Increase in prepayments for pipelines (Note 15 and 24B)	-8 013	-22 280
Change in accounts receivable from pipelines (Note 24B)	20 780	58 267
Change in accrued income for government grants	-83 153	0
Proceeds from connection fees	155 772	250 190
Acquisition cost of pipelines taken into use (Note 9 and 20)	-178 646	-186 282

The connection fees from and the acquisition costs of pipelines taken into use are eliminated from "Cash flows of operating activities" as these are recorded within "Cash flows from investing activities". In 2008 the net amount eliminated was -47 512 thousand kroons (2008: -27 921 thousand kroons) (Note 20).

NOTE 24B. CHANGE IN CURRENT ASSETS AND
LIABILITIES

In addition to the changes in the balance sheet, current assets and liabilities have been adjusted as follows:

	2009	2008
Current assets		
Change in balance sheet	-141 421	26 189
<u>Adjustments:</u>		
Change in cash and cash equivalents	62 614	51 440
Movements between non-current and current assets	1 616	4 252
Change in accrued interests	142	-833
Change in accounts receivable from pipelines (Note 24A)	-20 780	-58 267
Change in accrued income for government grants	83 153	0
Total change in current assets	-14 676	22 781
Current liabilities		
Change in balance sheet	-77 337	-6 872
<u>Adjustments:</u>		
Change in non-current borrowings	82 686	-40 659
Change in trade payables – capital expenditures (Note 24C)	-7 226	26 150
Change in prepayments for the sale of property, plant and equipment, and deposits	24	7
Change in prepayments for pipelines (Note 15 and 24A)	8 013	22 280
Total change in current liabilities	6 160	906

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<u>NOTE 24C. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS</u>	for the year ended 31 December	
	2009	2008
Acquisition of property, plant and equipment, and intangible assets (Note 9)	-251 132	-306 257
<i>Adjustments:</i>		
Change in trade payables – capital expenditures (Note 24B)	7 226	-26 150
Total acquisition of property, plant and equipment and intangible assets	-243 906	-332 407

NOTE 25. OPERATING LEASE

Leased assets	for the year ended 31 December	
	2009	2008
Total operating lease expenses for computers and vehicles	7 747	7 970
<u>Following period operating lease payments from the non-cancellable contracts are as follows:</u>		as of 31 December
Less than 1 year	5 010	7 342
1-5 years	4 638	8 010
Total minimum lease payments	9 648	15 352

The underlying currency of all lease contracts is Estonian kroon. Leased assets have not been subleased.

NOTE 26. 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	2 160	24 935
Accrued income (Note 7)	93 200	0
Accounts payable - short-term trade and other payables (Note 11)	3 836	3 972

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	for the year ended 31 December	
Transactions with the related parties	2009	2008
Sales services	49 740	48 845
Compensations from the local governments for constructing new pipelines (Note 13)	186 533	159 310
Purchase of administrative and consulting services	19 357	20 585
Financial income	10 047	0
Management Board fees excluding social tax	2 558	2 295
Supervisory Board fees excluding social tax	600	600

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 seconded.

The market prices were implemented in transactions with related parties.

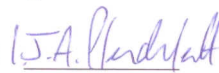
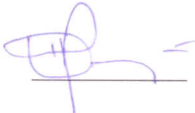
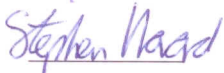


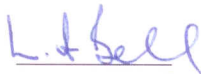



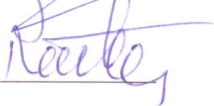



The information about AS Tallinna Vesi shares belonging to the related parties is disclosed in note 16. Paid-up dividends are described in note 22.

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CONFIRMATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

The Management Board has prepared the management report and the financial statements of AS Tallinna Vesi on 25 February 2010. The Supervisory Board of AS Tallinna Vesi has reviewed the annual report, prepared by the Management Board, consisting of Management Report and the financial statements, the Management Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation on the Shareholders' General Meeting.

The annual report has signed by all the members of the Management Board and Supervisory Board.

Name	Position	Signature	Date
Ian John Alexander Plenderleith	Chairman of the Management Board		25/2/10
David Nigel Hetherington	Member of the Management Board		25/2/10
Stephen Benjamin Howard	Member of the Management Board		25/2/2010
Siiri Lahe	Member of the Management Board		25.02.2010
Robert John Gallienne	Chairman of the Supervisory Board		25.03.2010
Leslie Anthony Bell	Member of the Supervisory Board		25/3/2010
Matti Hyyrynen	Member of the Supervisory Board		25.3.2010
Andrew James Prescott	Member of the Supervisory Board		25/3/10
Mart Mägi	Member of the Supervisory Board		25.03.2010
Rein Ratas	Member of the Supervisory Board		25/III 2010
Elmar Sepp	Member of the Supervisory Board		25.03.2010.a.
Deniss Borodits	Member of the Supervisory Board		25.03.2010
Valdur Laid	Member of the Supervisory Board		

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Tallinna Vesi

We have audited the accompanying financial statements of AS Tallinna Vesi (the Company) which comprise the statement of financial position as of 31 December 2009 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Tiit Raimla
AS PricewaterhouseCoopers



Stan Nahkor
Authorised Auditor

26 February 2010

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*